Investing for Peace

Feasibility Study

Federal Foreign Office

STABILISATION PLATFORM

LION'S HEAD
global partners

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Abbreviations

AAAA	Addis Ababa Action Agenda
AfDB	African Development Bank
ARIA	Africa Resilience Investment Accelerator
AU	African Union
CASA	Conflict-Affected States in Africa
DCED	Donor Committee for Enterprise Development
DD	due diligence
DFI	development finance institution
DRC	Democratic Republic of the Congo
EIB	European Investment Bank
ESG	Environmental, Social and Governance
EU	European Union
FCDO	Foreign, Commonwealth & Development Office
FDI	foreign direct investment
I4P	Investing for Peace
IC	Investment Committee
IFC	International Finance Corporation
IFFEd	International Finance Facility for Education
IFI	international financial institution
IsDB	Islamic Development Bank
FCS	fragile and conflict-affected situations
FCV	fragility, conflict and violence
FMO	Dutch Entrepreneurial Development Bank
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
LLC	limited liability company
MDB	multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
MSME	micro-, small and medium-sized enterprises
OECD	Organisation for Economic Co-operation and Development
ODA	official development assistance
PBF	United Nation's Peacebuilding Fund
PBSO	United Nation's Peacebuilding Support Office
PSD	private sector development
PSI	private sector instruments
SDG	Sustainable Development Goals
Sida	Swedish International Development Cooperation Agency
SIFA	Stability Impact Fund Africa
SME	small and medium-sized enterprises
SPF	Stabilisation Platform
SSA	Sub-Saharan Africa
TA	technical assistance
TAF	Technical Assistance Facility
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States dollar

Executive Summary

Introduction

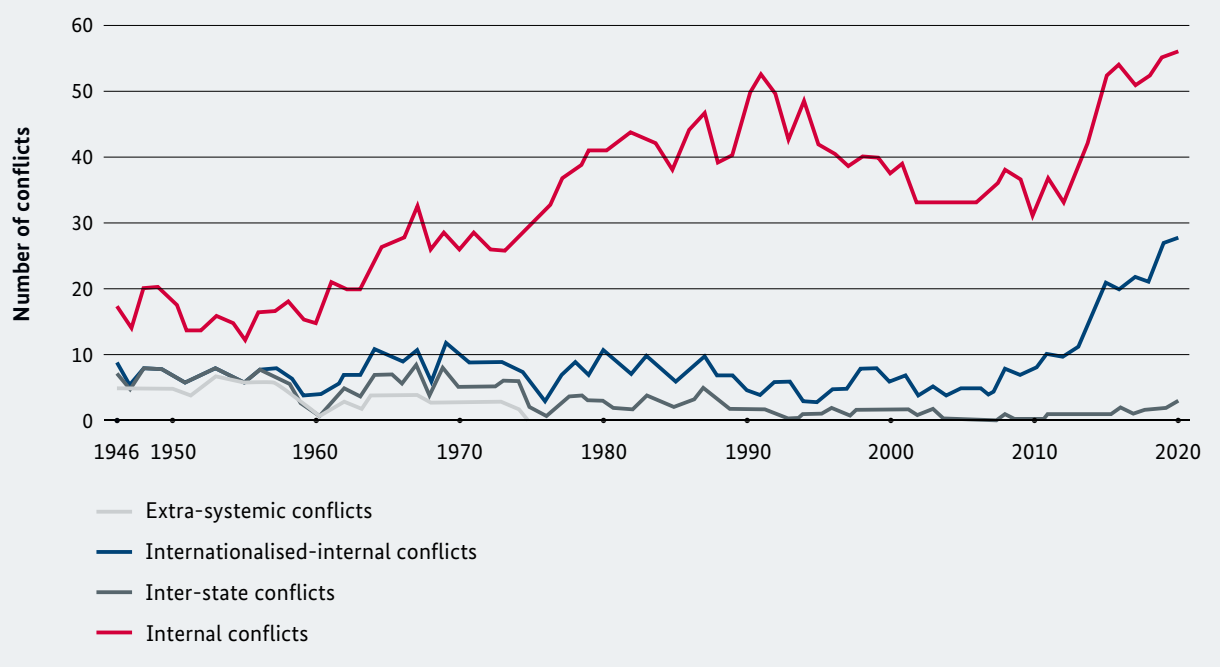
There were more active conflicts in 2020 than at any time since 1945.[1]

The flagship Uppsala Conflict Data Program recorded 56 conflicts worldwide in 2020, eight of which led to more than one thousand battle-related deaths. Estimates from 2017 suggest that approximately 265 million women and 368 million children – one in every twelve people globally – lived within 50 km of armed conflict.[2] Violence drove almost ten million new internal displacements in 2020 and contributed to a doubling of the total number of people forcibly displaced over the preceding decade.[3] Accelerating conflict incidence and related displacements helped push UN-coordinated humanitarian response appeals to a record USD 38.6 billion in 2020.[4]

In parallel to accelerating conflict incidence, global poverty is increasingly concentrated in fragile and conflict-affected situations (FCS).[6]

More than three-quarters of the world's 800 million people without access to electricity live in

Figure E1: **Global Conflict Trends, 1946 – 2020**[5]



1 https://www.iiss.org/blogs/analysis/2021/09/acs-2021-the-long-aftermath-of-armed-conflicts
2 https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(21)00131-8/fulltext
3 https://www.unhcr.org/flagship-reports/globaltrends/
4 https://fts.unocha.org/appeals/overview/2020
5 https://www.iiss.org/blogs/analysis/2021/09/acs-2021-the-long-aftermath-of-armed-conflicts
6 The terms 'peacebuilding contexts', 'fragile states', 'conflict-affected countries' and 'fragile and conflict-affected situations' are interconnected concepts. In this study, we use the terms 'peacebuilding contexts' and 'conflict-affected countries' to mean those contexts and countries that have a recent history of violent conflict, are at elevated risk of violent conflict, or are in the throes of active conflict. We recognise that this is not a linear process, so do not refer to 'stages' of a conflict or 'post-conflict environments.

FCS.[7] Children born near a conflict are more likely to experience stunting[8] and to underperform in school.[9] Prevalence of anxiety disorders and major depression among conflict-affected populations is two to four times as high as global estimates.[10] By 2030, FCS will be home to two-thirds of people living in extreme poverty.[11] If global efforts to achieve the SDGs are to make real progress by the 2030 target date, more development finance institutions (DFIs) and impact investors aligned with the Sustainable Development Goals (SDGs) must be able to address these challenges and markets.

Accelerating need has not been matched by additional investment in peacebuilding, including funding for key mechanisms like the UN Peacebuilding Fund (PBF).

Official development assistance (ODA) to conflict-affected countries declined in absolute terms in 2019 and the share of ODA in conflict-affected countries directed to peacebuilding activities[12] fell by almost one third between 2012 and 2019. This challenge is well understood and captured in the 2018 Report on Peacebuilding and Sustaining Peace, in which the UN Secretary-General called for "adequate, predictable and sustained" financing for peacebuilding and for a "quantum leap" in contributions to the PBF.[13] In addition to proposals for increased voluntary contributions and other sources for multilateral peacebuilding funding, the Secretary-General also called for consideration of 'innovative financing' measures that contribute to achieving peacebuilding objectives and benefit conflict-affected countries directly.

In response to this call, 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.

The I4P initiative explores whether investment in private businesses in conflict-affected contexts can contribute to peacebuilding objectives and, if so, how flows of such 'peace positive' investment can be enhanced in scale and impact. The present feasibility study builds on an earlier scoping study that identified the potential for DFIs, multilateral development banks (MDBs) and private impact investors to help achieve UN peacebuilding objectives.[14]

I4P holds potential not just to crowd in additional resources, but also to add new elements to the peacebuilding toolkit, in particular for UN practitioners and Member States. DFIs and impact investors tend to invest for five to ten years or more, offering substantially longer-term financing than traditional peacebuilding grants. Their pursuit of financial returns also encourages investment in truly viable businesses and projects, whereas grant-funded livelihoods and economic development initiatives can lack incentives for sustainability. Perhaps most importantly, aligning additional resources – financial and human – to peacebuilding objectives allows scarce grants to be prioritised where they are needed most acutely. In this sense, the I4P initiative is focused on ensuring its additionality relative to existing peacebuilding funding and capabilities.

Through desk review, key informant interviews, country case studies, original data analysis, and vehicle design and structuring, this feasibility study seeks to answer three core questions:

7 https://www.theigc.org/blog/powering-up-energy-investments-in-fragile-states/
8 https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(21)00131-8/fulltext#seccestitle70
9 https://www.epdc.org/sites/default/files/documents/Omoeva%20Moussa%20Hatch%20(2018)%20-%20Impacts%20of%20conflict%20on%20education.pdf
10 https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(21)00131-8/fulltext#seccestitle70
11 https://www.worldbank.org/en/topic/fragilityconflictviolence/overview#1
12 The peacebuilding-related categories of ODA flows are based on the 2009 Secretary-General's report (A/63/881-S/2009/304) which highlighted several recurring peacebuilding needs. The high-level categories include basic safety and security; inclusive political processes; core government functions; and human rights and rule of law. https://www.un.org/peacebuilding/sites/www.un.org.peacebuilding/files/documents/bn.oda_.snapshot.190823.pdf
13 https://www.un.org/press/en/2018/sc13316.doc.htm
14 https://financing4peace.de/wp-content/uploads/GFFO-Discussion-Paper-Options-for-Innovative-Funding-in-Support-of-of-UN-Peacebulding.pdf

- What makes an investment peace positive?
- What constrains the flow of DFI capital into peace-positive investments in private businesses?
- How can the flow of capital into investments in private businesses in conflict settings be enhanced, including through blended finance structures, in a way that contributes to peace?

Given the nascence and complexity of this work, we do not presume to present final answers; rather, we share insights that have shaped our present approach as well as recommendations for the next phase of learning to test and refine the approaches we set out below through an I4P pilot.

The feasibility study is generously funded by the German Federal Foreign Office through the Stabilisation Platform (SPF) and has been delivered in close collaboration with a Steering Committee comprising the German Federal Foreign Office, the SPF, UN PBSO, and two authors of the original scoping study.

Lion's Head Global Partners is enormously grateful to the Steering Committee for their guidance and support. All perspectives and any errors in this report are our own and the report does not necessarily reflect the views of the Steering Committee. Recommendations from the feasibility study and the wider I4P initiative will contribute to the UN debate on peacebuilding financing, including in the context of the High-Level Meeting of the General Assembly on Peacebuilding Financing[15], and, we hope, will be taken forward by Member States and the development finance community thereafter.

Key Insights

Research and analysis conducted for this feasibility study have generated important insights on a complex topic. To highlight insights that may be more relevant to particular stakeholders, this section summarises key findings by audience.

Insights for governments

1. **National governments and their subnational and multilateral partners have a critical opportunity to unlock DFI financing for peace impact.**

   As violent conflict becomes a predominant driver of extreme poverty,[16] national and international peacebuilding and development finance partners are increasingly serving the same communities, provinces and countries. This trend calls for complementary skillsets and resources to be deployed behind ever more aligned objectives. We have identified encouraging case studies from conflict settings, such as local mediators advising multinational companies on community engagement; a renewable energy firm attempting to measure the peace impact of its solar installations;[17] a private sector education provider teaching children their country's history, to avoid a repeat of its civil war;[18] and development donors investing in local economies, to ensure that gains from major development finance infrastructure investments are inclusive.[19] We see genuine opportunities to invest for peace, bringing new resources, tools, and expertise to the peacebuilding coalition.

2. **Increasing the volume of investment in peacebuilding contexts – and its peace impact – requires intent and coherent policy, programming, and financing.**

   National governments have a wide range of powerful levers at their disposal to encourage peace-positive investment – as policymakers and regulators in conflict-affected markets, as Member States of key UN and multilateral institutions, as shareholders of multilateral,

15 https://www.un.org/peacebuilding/content/high-level-meeting-general-assembly-financing-peacebuilding
16 https://www.worldbank.org/en/topic/poverty/publication/fragility-conflict-on-the-front-lines-fight-against-poverty
17 https://www.energypeacepartners.com/
18 https://www.risingacademies.com/
19 https://devtracker.fcdo.gov.uk/projects/GB-GOV-1-300650/summary

bilateral, and national development banks/DFIs and, for some, as donor partners. Given the nascence of the technical and policy discourse around peace-positive investing, we find that these levers are rarely aligned to maximise peace impact from the private sector. We also identify numerous instances of peacebuilding and development arms of the same institution inadvertently working at cross-purposes. Greater coherence is critical to accelerate learning around investing for peace and improved operations, and, ultimately, to achieve the greatest peace impact from the scarce resources available to the community.

3. **Intent and policy coherence must go beyond strategic commitments, to include improved operations and implementation.**

   National, UN, and international peacebuilding and development strategies often recognise the potential for private sector development to contribute to peace and mitigate conflict risk; however, this strategic commitment only rarely translates into purpose-built operations and financing. We assess that this is because no national, regional, or international entity has the specific mandate or capabilities to invest for peace. Despite sincere and impressive attempts at adding such a mandate to the strategies of existing institutions, none has yet emerged with specialist operational capabilities in peace-positive investing, beyond increasing attention to the 'doing no harm' principle. It is important to transition from strategic commitment to operational learning, real-world investment, and peace impact.

Insights for the peacebuilding community

1. **Peace-positive private sector investments can complement and enhance existing approaches to peacebuilding, generating new possibilities for peace impact at scale.**

   Throughout this study we have read and heard about high-impact public sector and civil society peacebuilding projects and initiatives that could not have been delivered or financed by the private sector. These efforts must continue, and they must continue to be funded. However, our research has also shown that complementary and additional peace-positive investment in the private sector could be transformative, offering a potential scale and internal sustainability that are challenging to deliver with grants alone. It will be critical to ensure coherence to generate the greatest possible peace impact with available grant, concessional, and commercial finance.

2. **Some development finance actors may require additional expert support and guidance as they expand their work to new contexts, applying peacebuilding concepts and methods.**

   While the peacebuilding community must continue to hold investors in conflict-affected situations to account for the risks and impact associated with their investments, there is also a need for constructive collaboration. Throughout the study, we heard genuine frustration among development finance actors who felt that they had done everything feasible to mitigate risks of doing harm from their investments, and yet had received criticism from peacebuilding counterparts. This reveals both shortcomings in conflict-sensitivity approaches deployed by development finance actors, but also a tendency among some peacebuilding experts to default to ex post critique over ex ante collaboration. Such collaboration will be even more vital and productive as the I4P initiative seeks to transition from conflict-sensitive 'do no harm' approaches, to the pursuit of positive peace impact. Peacebuilding experts and practitioners have an enormous amount of value to add throughout the I4P initiative and should be integrated and resourced accordingly. A new partnership approach that can facilitate this type of ex ante collaboration will require initiative and good will on both sides.

3. **The discourse needs to move beyond the impact of 'the private sector' on conflict dynamics, to understanding and amplifying the multiple nuanced ways in which private businesses can contribute to peace.**

   The evidence is clear that investment in conflict settings can exacerbate conflict as well as contribute to peace. We are inspired by those

in the academic and practitioner communities who go further, to ask how private sector development interacts with prospects for peace, and how investment in different types of private business can have a positive peace impact. The attempt to understand these dynamics lies at the core of the draft Peace Impact Framework for Investment presented in this feasibility study. We contend that it is presents a more productive avenue for research and operational collaboration than abstract or absolute arguments over whether the private sector is 'good' or 'bad'. We believe that examples of how investment makes a peace impact is an integral part of moving discourse and practice forward.

4. **Despite the risks, important structural drivers of conflict risk cannot be mitigated at scale without peace-positive private sector development.**

   Across our desk review, key informant interviews, and case studies we heard how (1) a lack of inclusive economic opportunity and aspiration, especially among marginalised young people, was a major structural driver of conflict risk; and (2) how limited tax revenues undermined the effectiveness, legitimacy, and accountability of state institutions. In even the most aid-dependent and public sector driven economies, private capital flows and private sector activity are the predominant contributors to formal and informal employment and to domestic government revenues. The peacebuilding community can have outsize influence by helping to enhance the peace impact of private sector activity, relative to a sole focus on public sector or direct delivery.

Insights for investors and investees

1. **Even with the best intentions, not all investment in conflict contexts is peace positive and some investments do harm.**

   There has been a general tendency, including among development finance actors, to assume that investments in conflict-affected contexts would inevitably contribute to peace. A typical theory of change assumes that investment in a conflict context leads in a linear fashion to job creation and in turn to peace. However, the evidence is clear that investment in conflict contexts can also undermine prospects for peace – including by triggering land disputes, exacerbating horizontal inequalities, financing war economies and entrenching incentives to fight, and by fuelling corruption and political impunity. These risks may be greatest in capital- and land-intensive investments of the kind that, for commercial reasons, may be most accessible to foreign investors. These negative impacts are not inevitable, but risks cannot be ignored, and positive peace impact must not be assumed.

2. **Peace is different to other impact investing themes and requires a tailored approach to impact management – moving from 'do no harm' to intentional positive 'peace impact'.**

   Specifically: (1) the relationship between investment and prospects for peace is complex, with multiple reinforcing, counteracting, and circular causal connections; (2) these causal connections are context-specific, meaning that a given investment or sector could be peace positive in one setting and could do harm in another; (3) perceptions matter, meaning that building 'inter-subjective' consensus that an investment is peace positive is central to making it so; and (4) peace impact is dynamic, can take time and be influenced by stakeholder action, for better or worse. These characteristics mean that effective peace impact management is much more than an ex-ante quantitative assessment against universal metrics. Indeed, it will require concerted partnership between investors, investees, affected communities, and other stakeholders throughout the investment lifecycle, such that an ex-post assessment yields positive results. At its core, effective peace impact management for investment must be anchored in a deep appreciation of local conflict dynamics and the interaction between peace and private sector development.

3. **In addition to external barriers to investing in conflict-affected markets, DFIs face important internal constraints to making peace-positive investments.**

   Our desk review and key informant interviews identified the full range of macroeconomic, business environment, political, labour market, and execution risks that, combined with weak pipeline, prevent DFIs from deploying more capital in conflict-affected markets. These challenges must not be underestimated, and policy, regulatory, and market-led solutions must continue at pace. However, our analysis also identified barriers to investment that were created by the breadth of DFIs' mandates, meaning their internal operating models and incentive structures were geared, understandably, to larger, more stable markets. This is reflected in larger minimum ticket sizes than is feasible in smaller conflict-affected country contexts; limited in-country presence where network and relationships matter most; a transaction-by-transaction origination model, missing opportunities to maximise portfolio returns through a more coherent, strategic investment approach; and investment officers' remuneration structures and professional development incentives that encourage larger, swifter and more certain investments than conflict contexts allow.

4. **Concessional resources can do harm, but blended finance structures could be transformative if used to enhance operational effectiveness, back pioneering investment managers, and maximise peace impact.**

   Analyses of conflict-affected economies drowned in subsidy demonstrate the risks of blended and blunt grant finance in terms of directly supporting private businesses. These models distort entire sectors and economies and elevate expectations unsustainably. This approach can expose millions of people, dependent on beneficiary businesses and industries, to aid reversals, thus undermining prospects for sustained peace and development. However, recent research on public goods that are created by pioneering firms in conflict settings[20] is compelling; the very existence of such companies generates important information and signals for other businesses and investors to follow. We also argue that peace impact may be the ultimate positive externality from private sector activity in conflict settings. In other words, absent policy or regulatory action, careful blending could help fix an important market failure that presently leads to inadequate investment from a societal perspective.

5. **Momentum is building.**

   Key informant interviews with development finance actors demonstrate a growing commitment to invest more in conflict contexts and intentionally consider peace impact. In the bilateral DFI community, the DFI Fragility Forum and the G7 DFIs' Africa Resilience Investment Accelerator (ARIA) build on increasing commitment to invest more and better in conflict settings. At the UN, there is a widening debate on how innovative approaches to peacebuilding financing could be deployed to bolster and enhance the UN's peacebuilding work. Several UN entities – including the UN PBF, UNDP and UNCDF – have already begun implementing 'blended finance' approaches in conflict-affected settings. There is also a growing set of initiatives to develop vehicles that can practically channel capital with the aim of generating a positive impact into conflict settings, of which I4P is just one. Each initiative has its own motivations, strengths, and shortcomings, thereby creating fertile ground for collective learning. Perhaps most importantly, there is an inspiring network of investment officers within DFIs, as well as investment managers and investee businesses working every day in conflict-affected communities. Many such actors have generously engaged with the I4P initiative and we should continue to take our lead from them and the communities they serve.

20 https://www.bsg.ox.ac.uk/sites/default/files/2019-04/BSG-WP-2019-028.pdf

Recommendations

Building on the above insights, this summary paper presents two primary recommendations from our feasibility study. These recommendations are intended to accelerate practical learning about how best to increase the flow of peace-positive investment into private businesses operating in conflict settings.

Recommendation 1 – A coalition of DFIs, national governments, UN agencies, and peacebuilding actors should establish a Specialised Investment Vehicle to pilot peace-positive investing in two to three conflict contexts. Financing for this Vehicle needs to be additional **to existing UN peacebuilding resources, and it must be structured to add value relative to existing DFI programmes and strategies.**

We use the generic term Specialised Investment Vehicle in lieu of a proper noun, which should be defined during the pilot phase. By 'investment vehicle' we mean an entity that can raise and invest capital with the expectation of some financial return; by 'specialised' we mean a vehicle that would be expert in making investments that contribute positively to prospects for peace. In practice, the Vehicle would:

1. **Provide financing to established pioneering investment managers in peacebuilding contexts**. The investment managers interviewed in this study offered insights into their complex markets, sectors, and investees. Instead of replicating those, the Vehicle would build on existing capabilities and provide local investment managers with anchor capital for peace-positive investment strategies defined in terms of the draft impact framework presented below, and technical assistance to implement the impact framework. Underlying investments may be in any sector but would typically include small and medium enterprises reaching customers, employees, or suppliers affected by conflict.

2. **Invest in incubating new investment managers in peacebuilding contexts**, subject to the availability of grant funding. This pillar of the Vehicle's investment strategy would aim to build a pipeline of investment managers in these markets who are experienced in and willing to apply peace-positive investment strategies and with whom DFIs can transact directly in the future.

3. **Invest in larger ticket direct investments, with the potential of crowding in incremental capital from DFIs or private investors**. The co-investment model would be deployed initially when the Vehicle is the originator, though over time the Vehicle may be invited to participate as a specialist in conflict risk and in peace impact investing.

Prototype investment strategies identified through our case studies include investment in private sector education providers with peace-positive curricula in Sierra Leone; investment in agribusiness and renewable energy to stimulate demand and productivity for young people participating in a local disarmament, demobilisation, and reintegration strategy in the Democratic Republic of the Congo; and investment in supply chains around a major port in Somaliland to ensure its gains are felt locally and equitably in contested regions at the border with neighbouring Puntland. Each of these strategies would have to be refined throughout a potential I4P pilot phase, in partnership with local investment managers, civil society, and other relevant local stakeholders in each market.

To tackle the internal organisational barriers to investment in the conflict settings identified above, the Vehicle should be built from the ground up with peace impact in its DNA. This means combining a clear peace impact strategy with rigorous commercial discipline; a deeply specialised, impact-incentivised team, comprising both investment and peacebuilding experts; pioneering 'peace diligence' as standard practice, ensuring investees are mission-aligned; purpose-built governance, with the Vehicle under the ownership of a charitable trust while operated as a return-seeking enterprise; and a blended finance structure that corrects rather than creates distortions.

Financing by a coalition of donors, potentially channelled through the UN PBF, as well as DFIs will be critical. This will ensure that the Vehicle (1) combines a clear and protected peacebuilding

impact mandate with commercial discipline that aims to break-even over ten years; (2) capitalises on economies of scale from fixed setup costs and minimises duplication in expertise across partners; (3) brings to bear a diverse package of finance, with each donor and DFI contributing its unique products; (4) reduces the financial risks of investing in peacebuilding contexts to a level compatible with DFIs' risk limitations; and (5) shares reputational risk across committed parties.

The Vehicle would have access to concessional capital. Concessional resources would focus on upstream support to build the pipeline of pioneering investment managers and firms and for enhanced peace impact management. Concessional resources would also fund peace impact management activities, beyond efforts that are financially additional for investor and investee. The Vehicle should serve as an I4P centre of expertise, sharing cross-country learning with in-market investment managers and connecting them via a peer network.

The Vehicle should be piloted initially in two, or at most three, priority peacebuilding contexts, potentially including those that were analysed throughout this feasibility study. In each context we have identified committed investment managers, national government counterparts, peacebuilding actors, and international partners with whom the Vehicle can collaborate and learn. Only as the model is refined and proven should it be expanded into other markets.

As part of our report, we have developed a term sheet that presents the Vehicle's indicative principal terms. This term sheet is for information and discussion purposes only and should be refined further in collaboration with potential investors and the donor community.

Recommendation 2 – DFIs and other investors should work with the UN, peacebuilding experts, civil society, and others to further develop the draft Peace Impact Framework for Investment presented in this study. The Specialised Investment Vehicle should subsequently pilot the draft framework and contribute to the peace impact management community of practice.

Reflecting the challenges associated with peace impact management discussed above, in this study we present a four-step Peace Impact Framework for Investment. The framework aims to identify investments that have potential for peace impact in a given conflict (which may be international or subnational), and to maximise their contribution through concerted and continuous impact management (see Figure E2). Critically, we go beyond negative 'do no harm' screens to focus on positive peace impact in the context of national and UN peacebuilding strategies. Expanding on the direction set out in the OECD-UNDP Impact Standards for Financing Sustainable Development, the framework avoids universal quantitative metrics to integrate impact strategy, impact management, transparency and accountability, and governance more thoroughly.

Figure E2: **Peace Impact Framework for Investment**

This framework builds on the growing evidence base surrounding the relationship between private sector investment and prospects for peace and learns from interactions with peer initiatives. We hope that the framework provides a helpful contribution to the community of actors developing the theory and practice of appraising, monitoring, evaluating, and maximising peace impact from investment.

It is critical that the peace impact community learns from experience with climate and gender impact management and develops a longer-term vision of convergence around one or two peace impact management frameworks fit for their intended purpose. In this sense, we must support original thinking during these early stages while avoiding the proliferation of impact frameworks that has plagued other impact themes. More concretely, we support recent proposals to establish a Peace Impact Lab with a mandate to generate and coordinate learning in relation to peace impact measurement and management.

1. Introduction

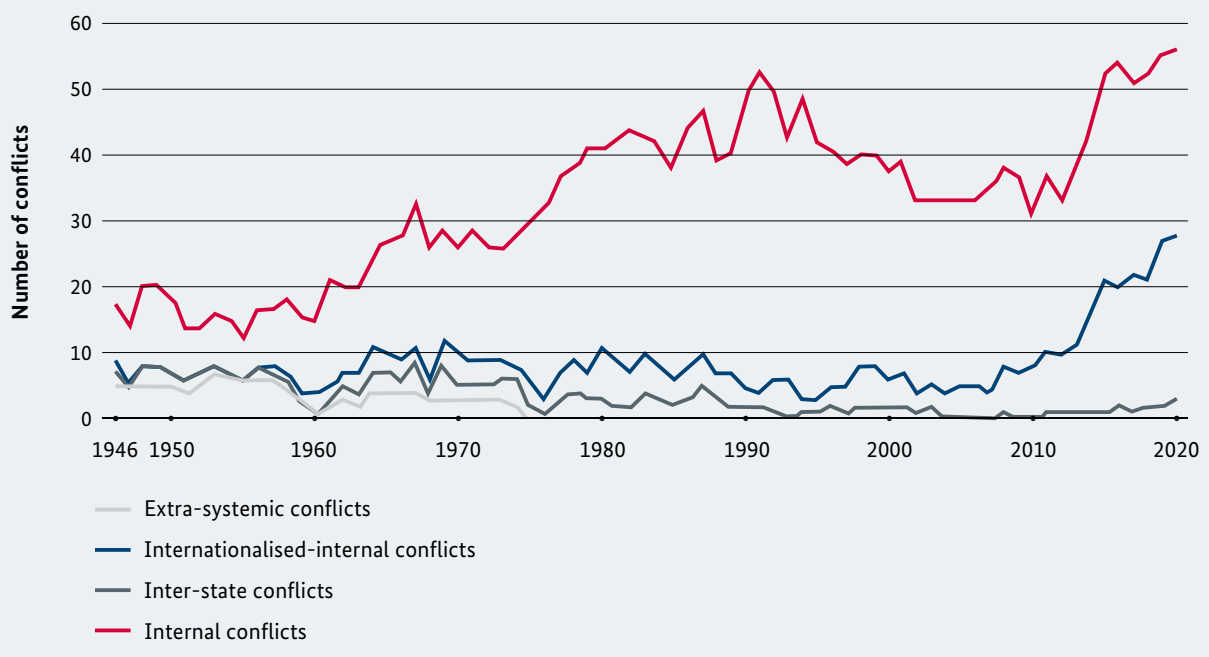
1.1 Problem Statement

There were more active conflicts in 2020 than at any time since 1945.[21]

The flagship Uppsala Conflict Data Program recorded 56 conflicts worldwide in 2020, eight of which led to more than one thousand battle-related deaths. Estimates from 2017 suggest that approximately 265 million women and 368 million children – one in every twelve people globally – lived within 50km of armed conflict.[22] Violent conflict drove almost ten million new internal displacements in 2020 and contributed to a doubling in the total number of people forcibly displaced over the preceding decade.[23] Accelerating conflict incidence and related displacements helped push UN-coordinated humanitarian response appeals to a record USD 38.6 billion in 2020.[24][25]

Accelerating need has not been matched by additional investment in peacebuilding, including funding for key mechanisms like the UN Peacebuilding Fund (PBF).

Figure 1: **Global Conflict Trends, 1946 – 2020**[25]



21 https://www.iiss.org/blogs/analysis/2021/09/acs-2021-the-long-aftermath-of-armed-conflicts
22 https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(21)00131-8/fulltext
23 https://www.unhcr.org/flagship-reports/globaltrends/
24 https://fts.unocha.org/appeals/overview/2020
25 https://www.iiss.org/blogs/analysis/2021/09/acs-2021-the-long-aftermath-of-armed-conflicts

Official development assistance (ODA) to conflict-affected countries[26] declined in absolute terms in 2019; and the share of ODA in conflict-affected countries directed to peacebuilding activities fell by almost one third between 2012 and 2019. Despite a considerable expansion over its previous strategy period, funding targets for the PBF's 2020–24 strategy seem ambitious.[27] This challenge is well understood and captured in the 2018 Report of the Secretary-General on Peacebuilding and Sustaining Peace, which called for "adequate, predictable and sustained" financing for peacebuilding, and in particular a "quantum leap" in contributions to the PBF.[28]

1.2 Aims and Approach

In response to this call, the German Federal Foreign Office, in partnership with the UN Peacebuilding Support Office (PBSO), launched the Investing for Peace (I4P) initiative.

The I4P initiative explores whether investment in private businesses in conflict-affected contexts can incrementally contribute to peacebuilding objectives; and if so, how flows of such peace-positive investment can be enhanced in scale and impact. The present feasibility study builds on an earlier scoping study that identified the potential for development finance institutions (DFIs) and private impact investors to contribute to a subset of peacebuilding objectives.[29]

I4P holds potential not just to crowd in additional resources, but also to add new tools to the peacebuilding toolkit. DFIs and impact investors tend to invest for 5–10 years or more, offering substantially longer-term financing than traditional peacebuilding grants. Their pursuit of financial returns also encourages investment in truly viable businesses and projects, where grant-funded livelihoods and economic development initiatives can lack incentives for sustainability. Perhaps most importantly, aligning additional resources – financial and human – to peacebuilding objectives allows scarce grants to be prioritised where they are needed most acutely. In this sense, the I4P initiative is focused on ensuring its additionality relative to existing peacebuilding funds and capabilities.

Through desk review, key informant interviews, country case studies, original data analysis, and vehicle design and structuring this feasibility study seeks to answer three core questions:

- What makes an investment peace positive?
- What constrains the flow of DFI capital into peace-positive investments in private businesses?
- How can the flow of capital into investments in private businesses in conflict settings be enhanced, including through blended finance structures, in a way that contributes to peace?

Given the nascence and complexity of this work, we do not presume to present final answers; rather, we share insights that have shaped our present approach as well as recommendations for the next phase of learning to test and refine the approaches we set out below through an I4P pilot.

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27 https://www.un.org/peacebuilding/sites/www.un.org.peacebuilding/files/documents/pbf_strategy_2020-2024_final.pdf

28 https://www.un.org/press/en/2018/sc13316.doc.htm

29 https://financing4peace.de/wp-content/uploads/GFFO-Discussion-Paper-Options-for-Innovative-Funding-in-Support-of-of-UN-Peacebulding.pdf

this report are our own and the report does not necessarily reflect the views of the Steering Committee. Recommendations from the feasibility study and the wider I4P initiative will contribute to the UN debate on peacebuilding financing, including in the context of the High-Level Meeting of the General Assembly on Peacebuilding Financing[30], and, we hope, will be taken forward by Member States and the development finance community thereafter.

1.3 Paper Overview

The remainder of this summary paper is structured as follows:

- Section 2 provides a mapping of the normative and policy context.
- Section 3 analyses constraints to investment in peacebuilding contexts and the potential role for blended finance.
- Section 4 discusses a draft Peace Impact Framework for Investment.
- Section 5 provides more detailed structuring of our proposed Specialised Investment Vehicle and discusses how it would operate in practice.
- Section 6 offers our conclusions and proposed way forward.

30 https://www.un.org/peacebuilding/content/high-level-meeting-general-assembly-financing-peacebuilding

2. Normative and policy context

In parallel to accelerating conflict incidence, global poverty is increasingly concentrated in fragile and conflict-affected situations (FCS).

More than three-quarters of the world's 800 million people without access to electricity live in FCS.[31] Children born near a conflict are more likely to experience stunting[32] and to underperform in school.[33] Prevalence of anxiety disorders and major depression among conflict-affected populations is two- to four-times as high as global estimates.[34] By 2030, FCS will be home to two-thirds of people living in extreme poverty.[35] If global efforts to achieve the SDGs are to make real progress by the target date of 2030, more DFIs and SDG-aligned impact investors must be able to address these challenges and markets.

2.1 Normative frameworks for investment in FCS

National governments and the international development community have responded to these challenges with a range of normative frameworks and policy initiatives.

On coordination and development partnership, the New Deal for Engagement in Fragile States ("The New Deal"), agreed in 2011 by the International Dialogue on Peacebuilding and Statebuilding – of which the g7+ group of fragile states is a critical constituent – is perhaps the most prominent call for a 'step-change' in international assistance to countries affected by conflict and fragility.[36] The New Deal seeks more context-sensitive and country-led approaches to development, and aims to ensure mutual accountability between governments, civil society, donors and other international actors.

Similarly, the African Union's (AU) Agenda 2063 envisages inclusive growth, national responsibility for financing development, and a "transformative" ten-year goal for 10% of development financing to come from national capital markets. In addition, the Agenda includes aspiration towards a 'peaceful and secure' continent by 2020, resulting in the Union's Silencing the Guns initiative, which has been extended until 2030.[37]

On financing, the Addis Ababa Action Agenda (AAAA) was endorsed by the Third International Conference on Financing for Development in 2015 and included a focus on financing to promote peaceful and inclusive societies. The Agenda presents a policy framework that seeks to realign financial flows with public goals. ODA remains crucial, particularly for countries most in need. The AAAA recognises, however, that aid alone will not be sufficient, and instead addresses all sources of finance: public and private, domestic and international. The AAAA highlights the importance of blended finance to achieving the SDGs, including public-private partnerships which may serve to lower investment-specific risks and mobilise private sector finance across key sectors. Signatories pledged explicitly to increase efforts to assist countries in accessing financing for peacebuilding and development in post-conflict contexts.[38] Similar ambitions are reflected in Goal 17 of the SDGs on partnerships, which specifically includes indicators for investment in least developed countries and progress

31 https://www.theigc.org/blog/powering-up-energy-investments-in-fragile-states/
32 https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(21)00131-8/fulltext#seccestitle70
33 https://www.epdc.org/sites/default/files/documents/Omoeva%20Moussa%20Hatch%20(2018)%20-%20Impacts%20of%20conflict%20on%20education.pdf
34 https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(21)00131-8/fulltext#seccestitle70
35 https://www.worldbank.org/en/topic/fragilityconflictviolence/overview#1
36 https://g7plus.org/
37 See the Second Continental Report on the Implementation of the Agenda 2063: https://www.nepad.org/file-download/download/public/133828
38 https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

towards mobilising resources from multiple sources.

UN-supported initiatives to enhance responsible business practices offer important reference frameworks on private sector development and issues affecting conflict contexts. In June 2021, the UN Global Compact launched the 'SDG 16 Business Framework: Transformational Governance', a new tool to provide companies with guidance on strengthening business culture, ethics and performance, and supporting public institutions, laws, and systems. The UN Guiding Principles on Business and Human Rights are similarly a set of guidelines for states and companies to prevent, address and remedy human rights abuses committed in business operations. The Principles for Responsible Investing initiative is a UN-supported network of investors working to (1) understand the investment implications of environmental, social and governance (ESG) factors, and (2) incorporate these factors into their investment and ownership decisions.[39]

2.2 Donor support to the private sector

Most development donor institutions support private sector development (PSD) and recognise the potential of this support in FCS. However, current portfolios and experiences in these settings are relatively limited, and evidence around the contribution of PSD programming to peace remains scarce.

The 2011 World Development Report famously asserted that "security, justice, and jobs" were the keys to breaking cycles of violence.[40] Over the intervening decade this has been reflected in an increasing emphasis on PSD in development agencies' strategies for FCS and – to a lesser extent – increased emphasis on FCS in strategies for PSD. The Donor Committee for Enterprise Development (DCED), a membership agency that encompasses most donors active in this area, has argued that there are four contributions for PSD in conflict-affected contexts: building security, safety and trust; fostering good economic governance; soft and hard infrastructure; and inclusive economic development.[41]

At the programmatic level, support has historically been divided between the enabling environment (or investment climate) for business, and direct support to enterprises. Until recently the former dominated ODA, and in 2015 this was estimated at about 5.7% of total ODA (then USD 10 billion), or roughly as much as was spent on education. The same survey found that spending was roughly similar across middle-income, least developed and fragile contexts, although funding for fragile contexts was concentrated among a small number of donors and in a small number of target countries.[42]

Direct support to enterprises has increased significantly over the last few years, with ODA for Private Sector Instruments (PSIs) reaching 2.2% of ODA (then USD 4.6 billion) in 2019. However multiple analyses have found that PSIs are heavily skewed towards middle-income contexts, with less than 6% going to least-developed countries in 2018 and less than 2% in 2019.[43],[44] This was supported by our discussions with individual donor institutions who commented that they were aware of relatively few examples in FCS. It has also been widely noted that evidence for the effectiveness of PSD interventions in contributing to peacebuilding is anecdotal and requires significant attention and investment.[45],[46],[47]

There has nonetheless been a modest increase in mechanisms with the potential, at least, to target FCS. Examples that we encountered include:

39 https://www.unpri.org/
40 https://openknowledge.worldbank.org/handle/10986/4389
41 https://www.enterprise-development.org/wp-content/uploads/PSDinCAE_KeyResourcesforPractitioners_Final.pdf
42 https://devinit.org/wp-content/uploads/2018/03/the-enabling-environment-for-private-sector-development_discussion-paper.pdf
43 https://www.eurodad.org/time_for_action
44 https://www.oecd.org/dac/blended-finance-in-the-least-developed-countries-57620d04-en.htm
45 https://openknowledge.worldbank.org/handle/10986/28497
46 https://www.enterprise-development.org/wp-content/uploads/GIZ-CFAE-PSD-in-Open-Sustained-Violence.pdf
47 https://esoc.princeton.edu/publications/private-sector-development-conflict-affected-states

- Guarantees: for example, the Swiss Development Cooperation (SDC) has provided a USD 15 million guarantee to the Swiss Investment Fund for Emerging Markets to specifically enable investment in SMEs in least-developed countries. It has used a broader guarantee instrument for several specific enterprises in some conflict contexts.

- Grants to support impact-linked financing: this includes organisations like the Dutch-based ILFF (education, SMEs in East Africa), Impact Water, and Root Capital. These initiatives support payments for social outcomes that cannot directly generate a market return.

- Platform models: for example, USAID's Catalyze project aims to build relationships among market actors – financing institutions, intermediaries, and demand-side forms – through a range of information support, incubation and transaction support activities.

Among UN agencies, UNDP spends over half of its budget each year in FCS. In February 2021, UNDP Crisis Bureau Director Asako Okai declared that the Programme would prioritise partnerships with other agencies and international financial institutions (IFIs) to design and finance conflict-sensitive programmes in FCS, to (1) help restore market functions quickly; (2) support the creation of a basic enabling environment for businesses and value chains; (3) build the resilience of the private sector against shocks and design innovative private sector finance solutions to reduce risk; and (4) engage the local private sector in crisis prevention, preparedness, response, and recovery efforts.[48]

The Strategic Framework 2022–2025 of the UN Capital Development Fund (UNCDF) states that the Fund will 'build on its experience in fragile and conflict-affected settings by actively deploying locally-led, people-centred initiatives and capacity development, strengthening financial services and providing access to sustainable investment solutions that address the humanitarian-development-peace nexus.'[49] UNCDF is developing a blended finance model, leveraging its concessional resources to unlock additional private capital. The ability to provide capital financing and the project preparation expertise makes its mandate a useful complement to the mandates of other UN agencies and of the DFI and impact investing community.

2.3 Engagement of development finance institutions

Major development finance actors have also made important strategic commitments to invest more in conflict settings.

Among the multilaterals, the African Development Bank (AfDB) was a first mover and has since 2001 been committed to addressing fragility and building resilience across the continent. Their new Strategy for Addressing Fragility and Building Resilience in Africa 2022–2026 is the latest manifestation of this commitment and the AfDB's thought leadership.[50] The European Investment Bank (EIB) has similarly been providing conflict-sensitivity training and advice to its investment officers for almost a decade, while the Islamic Development Bank's (IsDB) 2019 Fragility and Resilience Policy affirmed the Bank's commitment to SDG 16 and to taking a leading role in addressing fragility and conflict.

Building on its landmark Pathways for Peace report with the UN, the World Bank Group's first Fragility, Conflict, and Violence (FCV) Strategy was published in 2020, committing IFC and MIGA to grow their portfolios in FCS. These are the latest commitments in a substantial progression since IFC launched its Conflict-Affected States in Africa (CASA) initiative in 2008, in partnership with Ireland, the Netherlands, and Norway. It also builds on IFC's experience enhancing financial intermediation under the SME Ventures initiative, an innovative programme that provided risk capital alongside technical assistance to entrepreneurs

48 https://www.undp.org/speeches/undp-support-conflict-affected-countries
49 https://digitallibrary.un.org/record/3952317
50 https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-group-approves-new-strategy-addressing-fragility-and-building-resilience-africa-2022-2026-50231

and fund managers in FCS. A 2018 SME Ventures evaluation concluded that achieving fully commercial risk-adjusted returns may take several iterations to achieve, and that supporting such funds provides an accountable, cost-effective, results-oriented, and inherently sustainable alternative to the purely grant-based initiatives that tend to dominate interventions in conflict settings.[51]

Many bilateral DFIs are similarly committed to enhancing their operations in FCS. For example, the DFI Forum on Private Investment in Fragile Environments has convened DFIs annually since 2019 for action-oriented discussion to improve the effectiveness of job-creating private investment in FCS. The University of Oxford developed the Forum in partnership with IFC, The International Growth Centre (IGC), CDC Group, and the AfDB. As a partner of the DFI Fragility Forum, the IGC has made vital contributions to the evidence base concerning the importance of pioneering firms in FCS, as well as the role that DFIs ought to play in supporting them (see Box 1).[52] In 2021, the G7 DFIs and multilateral development finance partners launched a complementary initiative in the Africa Resilience Investment Accelerator (ARIA). ARIA seeks to engage more proactively in conflict contexts to improve investment readiness – both a country's readiness to benefit from DFI investment and DFIs' abilities to invest in these economies. In parallel to the present feasibility study, FMO had also commissioned a complementary study, to analyse 'Conditions for successful investments in fragile and conflict-affected states'.[53]

2.4 Shortfalls in resources for peacebuilding

Peacebuilding grants and development finance in peacebuilding contexts have not kept pace with accelerating funding needs.

Despite a considerable expansion over its previous strategy period, Figure 2 shows that funding targets for the UN Peacebuilding Fund's 2020–24 Strategy period appear challenging. The structure and drivers of the Fund's budget constraints are discussed in detail in the I4P scoping study.[55] Despite repeated calls for additional Member State contributions to the PBF and for peacebuilding more generally,[56,57] there is growing recognition, including from the Secretary-General, that additional and innovative sources of finance will be required to match growing need.

While landmark commitments have been made, publicly available data suggest that DFI investment has not yet stepped up in peacebuilding contexts.

Publicly available data from nine DFIs[58] suggests that during 2016–2021, USD 10.4 billion was invested in the 24 countries eligible for funding from the UN PBF in 2021.[59] The total number of transactions has remained relatively stable, but the volume invested has fallen by a quarter since 2019. Moreover, Figure 3 shows that 58% of this DFI capital was deployed in three middle-income countries; namely, Colombia (USD 3.04 billion), El Salvador (USD 1.72 billion), and Guatemala (USD 1.31 billion). Just 0.02% reached the three

51 https://www.ifc.org/wps/wcm/connect/f5f909e5-6e89-4b5b-a6f4-f3b335530119/IFC+SME+Ventures+Summary.pdf?MOD=AJPERES&CVID=mtUKTd0

52 https://www.theigc.org/publication/strengthening-development-finance-in-fragile-contexts/

53 Josie Lianna Kaye, Jihed Hannachi, Marc Jacquand (forthcoming): Conditions for successful investments in fragile and conflict-affected states: A TrustWorks-led project in partnership with NIRAS for the Dutch Entrepreneurial Development Bank (FMO).

54 Box 1 summarises arguments relating to pioneering firms presented in Collier, Gregory, and Ragoussis (2019), available online at: https://www.bsg.ox.ac.uk/sites/default/files/2019-04/BSG-WP-2019-028.pdf. Discussion of pioneering investment managers is our own.

55 https://financing4peace.de/wp-content/uploads/GFFO-Discussion-Paper-Options-for-Innovative-Funding-in-Support-of-of-UN-Peacebulding.pdf

56 UN General Assembly and UN Security Council, 18 January 2018, Peacebuilding and sustaining peace: Report of the Secretary-General. A/72/707–S/2018/43.https://undocs.org/A/72/707

57 UN General Assembly and UN Security Council (note 13), p. 16.

58 These include: Norfund, Finnfund, Proparco, Investment Fund for Developing Countries (IFU), the Entrepreneurial Development Bank (FMO), the US International Development Finance Corporation (DFC), the Belgian Investment Company for Developing Countries (BIO), the International Finance Corporation (IFC) and the European Investment Bank (EIB).

59 Various institutions such as the OECD, World Bank and individual DFIs have produced other lists of conflict-affected states, fragile situations, or countries transitioning out of conflict. However, the general feature of all such lists is clear: smaller conflict-affected states receive minimal investment.

Box 1: **Investment Managers as Pioneering Firms**[60]

What is a pioneering firm?

Pioneering firms are the first firms to produce a new product, introduce a new process, or enter a new market. They can be in any sector of economic activity, and of any size, age, or origin.

Why do they matter?

- Knowledge production: Pioneering firms can generate information about the markets where they work, which provides market signals that were previously either missing or unreliable, thereby reducing uncertainty.
- Investment spill overs: Pioneers make essential investments which lead to direct and indirect productivity gains for existing firms in the country, as well as for successive firms working in that market. These include investments such as enhancing skills, establishing consumer markets and supply chains, and supporting public authorities who develop legal and regulatory frameworks.

How can they be supported?

DFIs have a particularly important role to play in supporting pioneering firms, leveraging their capacity to use public funding and to de-risk investments, their ability to coordinate efforts across development finance actors, and their expertise, networks and influence to mobilise collaborative approaches to both upstream work and project co-investment. DFIs can:

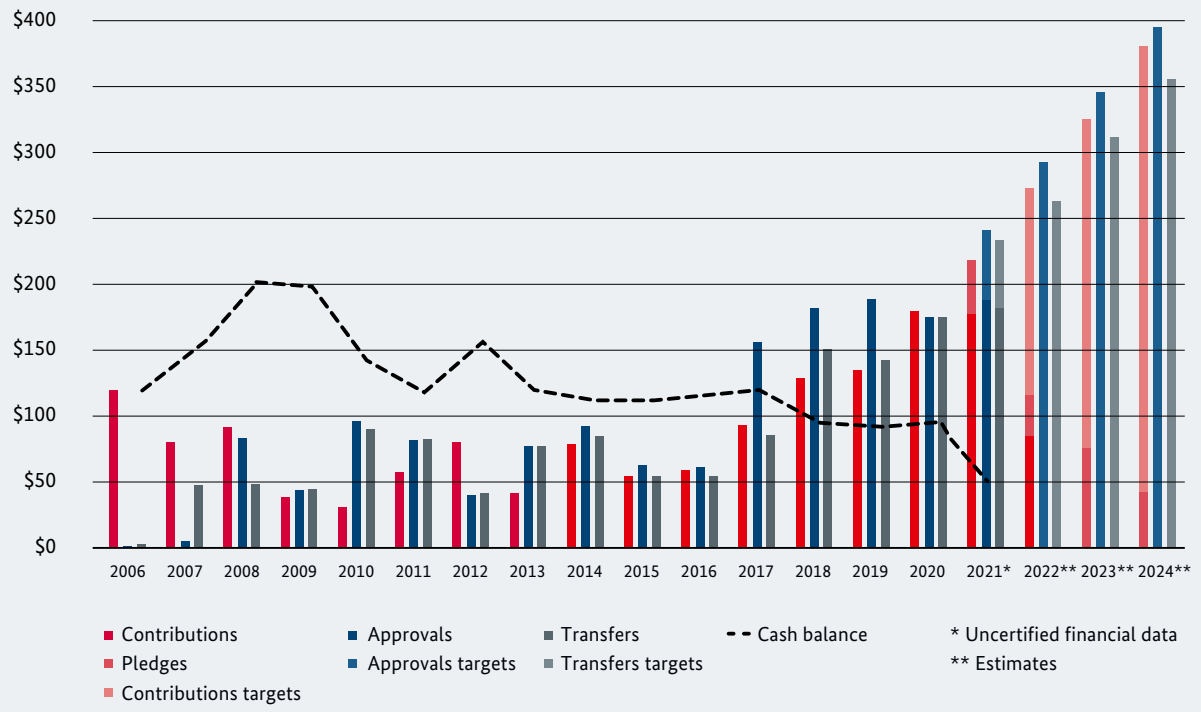
- Develop subsidy mechanisms that defray some of the initial entry costs, thus correcting for externalities.
- Provide technical assistance and capacity-building for market creation activities.
- Confront the radical uncertainty of pioneering investments in these markets and invest in pioneer firms despite the uncertain risk profile of the activity.

Investment managers as pioneering firms

In each of the three markets we have reviewed in detail, we have identified fund managers and holding companies that have tailored investment strategies, operating models, and approaches to portfolio management to thrive in their context. Throughout this report, we emphasise the opportunity to strengthen the work of existing managers and to build a pipeline of new stakeholders, providing an avenue for investors to contribute to peace impact.

60 Box 1 summarises arguments relating to pioneering firms presented in Collier, Gregory, and Ragoussis (2019), available online at: https://www.bsg.ox.ac.uk/sites/default/files/2019-04/BSG-WP-2019-028.pdf. Discussion of pioneering investment managers is our own.

Figure 2: **PBF Fund Status and Cash Balance 2006-2024, USD millions**[60]



countries with the least investment: South Sudan (USD 0), Sudan (USD 0), and the Solomon Islands (USD 1.8 million). While 63% (USD 6.56 billion) of this capital was deployed in five countries across Latin America and the Caribbean, just 36% (USD 3.78 billion) was dispersed among sixteen African countries.

2.5 Understanding the relationship between private sector investment and prospects for peace

While commitments have been made to increase the flow of capital into businesses in fragile and conflict-affected settings, far less progress has been made in articulating and demonstrating the peace impact of this investment.

The IFC Environmental and Social Performance Standards are an international benchmark for environmental and social risk management.

While there is a strong focus in the Performance Standards on risks common to conflict settings[62], as well as reference to cross-cutting issues such as community consultation and complaint/grievance mechanisms, the Standards primarily offer a negative screen intended to avoid doing harm. In this sense, they do not offer a framework to assess whether and how an investment, company, or organisation contributes positively to prospects for peace.[63] Further, the Standards and many DFI in-house business integrity and ESG frameworks focus on the direct impact of a company's or organisation's operations and are not well-suited to supporting peace-positive investment strategy at a portfolio level.

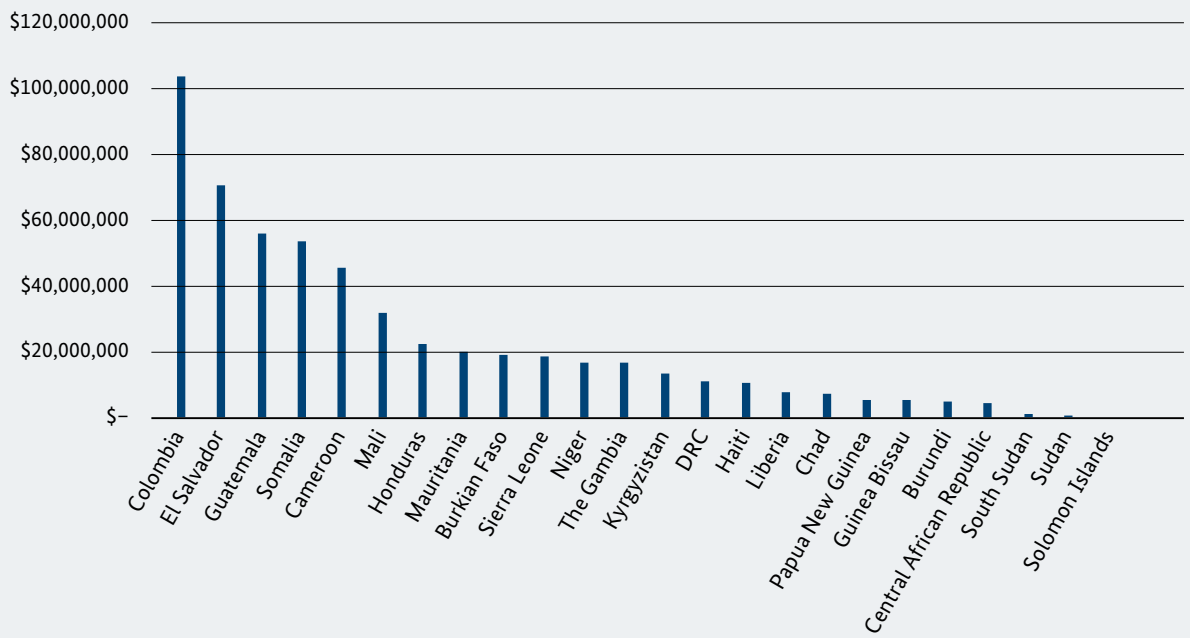
While no global benchmark has yet emerged as a recognised framework to monitor and maximise peace impact from investment in private businesses, causal evidence on the relationship between investment and peace is maturing.

61 Fund Status Overview, UN Secretary-General's Peacebuilding Fund, February 2022.

62 These issues include security, land tenure and resettlement, community health, indigenous rights, biodiversity and environmental impact, and safety.

63 https://www.cdacollaborative.org/wp-content/uploads/2020/12/Helpdesk-Response-31-CSA-and-IFC-Performance-Standards-FINAL-1208131.pdf

Figure 3: **Average annual DFI investment in UN PBF Priority Countries 2016-2021, USDs**



The landmark UN-World Bank Pathways for Peace study emphasised that prevention must be sustained over time to address structural issues and adapt incentives for in-country actors to manage conflict without violence. It went on to note that the private sector plays an important role in fostering economic inclusion, social cohesion, and access to public services.[64] In the right circumstances, private sector actors can also be critical contributors to pro-peace coalitions, for example driving transparency over tax administration and natural resource management.[65] Subnational investment strategies can be particularly effective in bringing power to marginalised communities and regions, mitigating perceptions of inequity.[66] At a macro-level, major investments can, at least in theory, also help to shift incentives for leaders of groups engaged in violent conflict by enhancing economic returns to inter-group cooperation and peace, relative to continued violence.[67]

However, a substantial and growing body of evidence demonstrates the potential for private sector activity and investment to exacerbate conflict risk and undermine prospects for peace.[68] Investment can drive changes in relative living standards of otherwise comparable social and economic groups, with consequent 'horizontal inequalities' associated with elevated conflict risk.[69] Further, early thinking about the 'resource curse' and 'resource wars' has evolved over time to identify specific situations that drive grievances, for example where extractive industries are concentrated in "exclusionary spatial enclaves" that reproduce and deepen inequalities.[70] It is also often the case that prolonged violent conflict increases

64 https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_crisis/documents/publication/wcms_633429.pdf
65 https://openknowledge.worldbank.org/handle/10986/28337
66 https://openknowledge.worldbank.org/handle/10986/28337
67 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/765973/Supporting_Elite_Bargains_to_Reduce_Violent_Conflict_-_Summary.pdf
68 https://www.cdacollaborative.org/wp-content/uploads/2020/11/FriEnt-Business-Peace-Publication.pdf
69 https://pages.nyu.edu/debraj/Papers/EstebanRayAnnReviews.pdf
70 Ferguson, J., 2006. Global Shadows: Africa in the Neoliberal World Order. Durham, NC: Duke University Press; Berman, N et al., 2017. This mine is mine! How minerals fuel conflicts in Africa. American Economic Review 107 (6); Caselli, F., 2015. The geography of interstate resource wars. Quarterly Journal of Economics 130 (1).

dependence on resource extraction, as economic activities in other sectors are disrupted. In this way, war economies, particularly those dependent on a single sector, can increase insecurity, be a source of human rights abuses, and represent a significant loss of transparency in public resource management, further deepening grievances and conflict risk.[71]

While there are risk pathways across all sectors, the nexus between conflict and the private sector is particularly well-documented in agribusiness and other land-intensive industries. For example, Sonno and colleagues investigated the impact of FDI on localised conflict across Africa, and find that investments in land-intensive sectors, such as forestry, are particularly likely to trigger disputes that turn violent.[72] The private sector may be complicit in land grabbing, unregulated extraction of natural resources, competition over land use, environmental and social damage, and exploitative landlordism, all of which can fuel conflict as a result of marginalisation, including of minority ethnic groups, women and young people. Case study evidence also demonstrates that private sector actors may have incentives to support illegal and corrupt business practices, undermining the rule of law and heightening grievances. On the side of international actors, this is often facilitated by asymmetries of information and process failures in consultation during the deal-making process.[73]

Critically, these positive and negative contributions of investment to peace and security generate important externalities. That is, investments that affect peace or conflict dynamics create benefits and costs beyond those involved in the investment. Peace and conflict impacts also have characteristics of public goods or 'bads', such that people cannot fully be prevented from benefitting or suffering, and the extent to which one person benefits or suffers does not necessarily reduce the extent to which others benefit or suffer. Externalities and public goods are textbook examples of so-called market failure and offer a strong rationale for government intervention and, if needed, blended finance to improve societal outcomes.[74] Where these impacts cross borders, regional or even global cooperation and financing are required not only to enhance fairness, but also to improve societal outcomes in aggregate.

Investments, prospects for peace, and the causal links between them also change over time, including due to changing perceptions. For example, key informant interviews for our Sierra Leone case study demonstrated that with intentional and prolonged mediation, communities initially disrupted by a major agribusiness investment had gone some way from rejecting to accepting and supporting the investment decision. As one expert summarised in correspondence:

"An even bigger mindset shift is from understanding private sector development (PSD) and peace as an objective process (are we doing the right thing?) to an inter-subjective one (do parties come to agree with each other that we're doing the right thing?), in which PSD is only peace positive if it results in a more robust socio-economic settlement. This is why, in my estimation, PSD will only ever be peace positive in fragile contexts if it is a mediated process."

Assessing and maximising peace impact is not, therefore, a one-off exercise in ex ante appraisal. Instead, it is a continuous, intentional process of engagement, mediation, and consensus-building among and between private sector businesses and stakeholders affected by their actions that yields a measurable ex post effect. Where, how, and by whom investments are made matters at least as much as what investments are made.[75]

71 De Brier, Guillaume, 2021. Conflict analysis and stakeholder mapping in South Kivu and Ituri.
72 Sonno, Tommaso, 2021. Globalization and Conflicts: The Good, the Bad, and the Ugly of the Corporations in Africa; Sonno, Prarolo, and Mendola, 2021. Curse or Blessing? Multinational Corporations and Labour Supply in Africa.
73 Olivier de Schutter, 2016. Tainted Lands: Corruption in Large-Scale Land Deals.
74 https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/bf/bf-details/bf-dfi
75 Ganson and Wennmann, 2015. Responses to conflict that work, Adelphi Series.

3. What is preventing more DFI capital from flowing into peace-building contexts? How could blended finance structures facilitate more investment?

3.1 Market constraints to investing in peacebuilding contexts

There are significant external barriers to DFI investment in conflict-affected markets, in some cases driving risk-adjusted returns below investors' hurdle rates.

Violent conflict has ramifications far beyond destruction of physical assets.[76] Our key informant interviews with professionals from the DFI community and in-market investment managers confirm findings from comparable analyses, including the World Bank's Independent Evaluation Group's review of the Group's Engagement in Situations of Conflict,[77] and IFC's 2019 study, Generating Private Investment in Fragile and Conflict-Affected Areas.[78]

In summary, violence accelerates human capital flight and undermines long-term investment in health and education; mitigates macroeconomic stability and elevates foreign exchange risk; destroys critical infrastructure, including soft infrastructure and data systems; undermines trust in any transaction; is associated with myopic corruption and predation, threatening reputations; increases transaction costs and stifles scale; and, above all, increases uncertainty.

In a context of few opportunities that pass minimum scale requirements, international investors often cannot justify fronting the high fixed costs associated with market entry and with maintaining an active origination strategy. This includes costs associated with assessing the investment climate, understanding macroeconomic policy direction, conducting market studies, creating common legal templates and business development processes, and building a quality network.

Doing business once established is also typically more challenging in conflict settings.[79] An unpredictable legislative environment, in which firms and investors must adapt to erratic and unforeseen changes in the regulatory landscape, makes portfolio management challenging.[80] Perhaps more pernicious is the unequal application of policy and regulation across firms. Our key informant interviews echo Lant Pritchett and Eric Werker's cross-country findings,[81] with firms and investment managers in conflict settings reporting inequitable, even predatory, application of

76 For an overview, see IFC, WBG, 2017, Private Enterprises in Conflict-related Situations.
77 https://openknowledge.worldbank.org/handle/10986/36493
78 https://www.ifc.org/wps/wcm/connect/07cb32dd-d775-4577-9d5f-d254cc52b61a/201902-IFC-FCS-Study.pdf?MOD=AJPERES&CVID=mzeJewf
79 https://www.ifc.org/wps/wcm/connect/07cb32dd-d775-4577-9d5f-d254cc52b61a/201902-IFC-FCS-Study.pdf?MOD=AJPERES&CVID=mzeJewf
80 IFC WBG, 2017, Private Enterprises in Conflict-related Situations.
81 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2386617

competition policy, tax administration, and wider business environment regulations.

Inconsistent enforcement is often facilitated by high levels of corruption in conflict settings, representing a major and continuous portfolio risk for DFIs and their investees. Transparency International note that conflict-affected countries typically rank at the bottom of their annual Corruptions Perceptions Index, because "conflict and corruption can each cause and exacerbate the other".[82] Seven of the countries in the bottom ten of the 2021 Index were identified by the World Bank as FCS.[83]

Among the numerous domains of investment climate policy and regulation, property rights, and in particular land rights, were by some margin the most frequently cited challenge among investors in conflict settings and peacebuilding experts consulted for this study. Wade Channell discusses the distinction between the existence and the legitimacy of formal land rights in conflict settings, noting that documenting land rights does not inevitably mitigate contest over legitimate usage or ownership.[84] Testimony during our Sierra Leone case study underscored that resolving land disputes over even well-documented lots can take years, proving enormously costly for firms, investors, communities, and other stakeholders.

Finally, the limited availability and quality of critical infrastructure is a further barrier to portfolio management in conflict-affected markets, increasing operating costs and requiring firms to make 'off grid' investments for anything from energy to education and health facilities for workers to water purification. Infrastructure investments can contribute substantially to peace impact, for example by enhancing the equitable delivery of essential public services; however, non-inclusive infrastructure can exacerbate group-based grievances and pre-existing inequities.[85]

While a challenging business environment hampers effective portfolio management, John Luiz and colleagues highlight risks associated with blunt, linear attempts at improving the business environment through policy and regulatory reform. Their analysis shows that business environment reform has material consequences for peace and security in conflict contexts, and that the relationship is better understood as "a negotiated settlement of economic conflicts – rather than a set of market-defining rules".[86] In this sense, business environment reform should have the additional, intentional objective of decreasing horizontal inequality and otherwise mitigating conflict risk, particularly in economies dominated by the informal sector.

3.2 Investor constraints to investing in peacebuilding contexts

Less well documented, but no less important, are the internal, institutional constraints faced by development finance actors investing in peacebuilding settings (summarised in Box 2).

DFIs' broad development mandate requires that they invest across a diverse range of markets. They have, understandably, not evolved to specialise in conflict settings. DFIs must deploy large volumes of capital each year with constrained administrative and human resource budgets. Therefore, investment teams tend to focus on larger tickets (often in excess of USD 20–30 million) that can be executed efficiently with limited operational resources. In turn, this creates a focus on larger and better regulated markets, meaning most DFIs have thin networks, no physical presence, and a limited track record in smaller conflict-affected economies where tickets are smaller and relationships and lived experience matter most.

DFIs' limited experience, track record, and physical presence in most peacebuilding settings also hampers portfolio management, their ability to

82 https://www.transparency.org/en/news/conflict-at-the-bottom
83 https://www.transparency.org/en/cpi/2021
84 https://www.enterprise-development.org/wp-content/uploads/IntlAlert_PracticeNote_BER_March2010.pdf
85 https://www.un.org/peacebuilding/sites/www.un.org.peacebuilding/files/unops.infrastructure_for_peace.thematic_paper.200921.layout.for_web.pdf
86 http://sro.sussex.ac.uk/id/eprint/84661/1/FCAS%20Art%2013%20SRO.pdf

Box 2: **Investor Institutional Constraints**

- **Minimum investment sizes** – DFIs focus on larger tickets that can be executed efficiently with limited administrative and human resources, which are relatively scarce in conflict-affected countries.
- **Lack of concessional resources to support local participation and post-investment support** – DFIs often lack the concessional resources vital for 'hands-on management' required in conflict contexts, including upstream technical assistance and network building and post-investment portfolio management.
- **Lack of local offices** – Most DFIs do not have a physical presence in smaller conflict-affected countries as a result of limited operational resources, which hampers effective portfolio management.
- **Misalignment of incentives for investment staff** – Volume incentives impede DFI investment officers from pursuing smaller, more complex, and more time-intensive investments that are common in high-risk conflict settings.
- **Lack of specialised expertise regarding the link between private sector activity and conflict** – DFIs have not evolved to specialise in conflict settings, given their broad development mandate to invest across a diverse range of markets.
- **Reputational risk** – Elevated latent risk is compounded by what is often perceived to be inaccurate scrutiny from NGOs and civil society, further reducing willingness by DFIs to carry out difficult investments in these contexts.

provide post-investment support, and the effectiveness of accountability and grievance redress. DFI representatives interviewed for this study discussed the additional 'hands-on management' required in conflict contexts, a view confirmed by their intermediaries. For instance, three out of four investment managers interviewed in Sierra Leone had opted for 'owner-operator' holding company structures over more traditional fund structures because they assessed that this was the only way to exert requisite control over portfolio companies. Equity investments were assessed as being particularly hard to manage without an on-the-ground presence and deep local knowledge. Lack of a physical presence due to weak deal-flow suggests a self-reinforcing cycle.

Finally, DFIs' deal-driven approach within commercial sector themes means they can miss opportunities to build strategic portfolios that deliver more than the sum of their parts. In investment contexts characterised by multiple market and government failures, we heard through our case studies that effective risk management may not simply mean diversification across many small deals. Instead, risk may in net be managed more effectively by building a portfolio of investments that positively reinforce one another's economics by tackling multiple failures in a value chain or a geographic area. DFIs interviewed for this study tended not to systematically consider such an active approach to portfolio construction and management. However, in other settings investment managers have managed risk effectively through a more conventional diversified portfolio of loans and mezzanine deals across sectors. The optimal model depends on the match between the investment manager's expertise, their investors' objectives and risk appetite, and the characteristics of each specific market.

DFI staff incentives and operating models in part reflect their shareholders' fiduciary requirements. While shareholding countries have increasingly called for more DFI investment in fragile and conflict contexts, many still expect such investments to meet rigid and unrealistic investment requirements. DFIs are often required to maintain AAA credit ratings, invest on commercial terms, and avoid losses. Many DFIs also face capital markets regulation. These criteria generally apply with the same stringency across global investment portfolios,

regardless of context. This impedes DFIs from pursuing investments in conflict settings where risk is systematically higher; and in particular in Africa, where returns have historically been weaker.[87]

Investing in conflict settings also exposes DFI shareholders to greater reputational risks than in non-fragile environments because of complex local conditions, limited transparency over logistics and supply chains, elevated levels of corruption, and challenging social, economic, and political dynamics. The experience of key informants suggested that elevated latent risk was compounded by what was often perceived to be inaccurate scrutiny from non-governmental and civil society organisations, further reducing the willingness of DFIs to carry out difficult investments in conflict-affected environments.[88]

Development donors have faced analogous difficulties in supporting the private sector in conflict settings.

We noted in Section 2 that ODA support to PSD is skewed towards middle-income countries, particularly at the level of support to individual enterprises. In this context there have been a number of meta-reviews that have summarised the particular challenges that institutions have faced in expanding this line of work in conflict-affected contexts.

The most fundamental challenge is that PSD is measured against overarching objectives that are rarely defined with reference to peacebuilding outcomes. A 2020 review of practice by the Donor Committee on Enterprise Development found that support to the business environment was concentrated on "strategic sectors" rather than using specific criteria around vulnerable or marginalised groups. The committee went on to note that for many donor institutions this was an organising principle, i.e. "that targeted approaches create additional biases and market distortions and are not consistent with a systemic approach to business environment reform that improves the system for everyone".[89] This sentiment was reflected in our own conversations, where several institutions identified a basic requirement to avoid market distortions.

A related challenge is that support at the enterprise level faces a "micro-macro" or external validity problem, whereby it is usually difficult to demonstrate the impact of individual-level transactions on higher-level development outcomes.[90],[91] This is, in a sense, the counterpart of the "deal-by-deal" problem described above, in that it is difficult to articulate a business case where the relevant criteria relate to high-level development (or peacebuilding) indicators.

Those donors who have engaged in PSD in fragile contexts have also reported management and cost difficulties that pushed them 'outside their comfort zone' and resembled in many ways the challenges identified above for DFIs. These include lack of physical presence and implementation capacities; difficulties with compliance procedures (including reputational risk); the need for flexible and adaptive management of individual grants; and overall cost levels per transaction.[92],[93] One specific example that was shared with the team was the need for actuarial pricing of risk by the host country's national debt office in order to issue a guarantee. This posed substantial practical difficulties in active conflict contexts, where the risks were not addressable with standard methodologies.

3.3 The capacity of blended finance to mitigate investment constraints

Blended finance structures can help mitigate these constraints, enhancing the flow of capital into conflict-affected contexts.

87 https://www.theigc.org/publication/strengthening-development-finance-in-fragile-contexts/
88 https://www.theigc.org/publication/strengthening-development-finance-in-fragile-contexts/
89 https://www.enterprise-development.org/wp-content/uploads/BEWG-FCAS-Discussion-Paper-2020.pdf
90 https://esoc.princeton.edu/publications/private-sector-development-conflict-affected-states
91 http://web.undp.org/evaluation/evaluations/thematic/conflict.shtml
92 https://www.enterprise-development.org/wp-content/uploads/GIZ-CFAE-PSD-in-Open-Sustained-Violence.pdf
93 https://openknowledge.worldbank.org/handle/10986/19906?locale-attribute=en

In Section 2.3, we discuss the public goods created by pioneering firms and investment managers and in Section 2.5, we discuss the externalities and public goods created associated with peace-positive impact. For these reasons, we see a strong rationale for the deployment of concessional resources to support peace-positive investing in alignment with the DFI Enhanced Blended Concessional Finance Principles for Private Sector Projects (summarised in Box 3).

It is critical to note that our analysis of constraints to peace-positive investment above suggests that, in isolation, concessional finance is unlikely to be sufficient. Blending will be vital, particularly in the short term; however, without complementary operational measures concessionality cannot mitigate the institutional challenges that presently constrain the flow and peace impact of investment in peacebuilding contexts.

During our key informant interviews and country visits, we asked investees, investment managers, and DFIs whether, and more importantly how, concessional finance and blended structures could add value without becoming distortionary. The responses we received can be summarised as follows:

- **Funding specialist expertise** in conflict risk and peacebuilding impact to complement DFIs' existing specialisation in financial structuring and specific sectors. This includes expertise regarding the following: economic and political risk in each peacebuilding context; financial and reputational risks created by conflict; commercially viable sectors and strategies; and opportunities to contribute and demonstrate peace impact in the context of local conflict dynamics. Such expertise was seen as critical for effective due diligence and accountability in peacebuilding contexts, where business integrity and ESG governance were hard to assess through routine database searches and remote interviews.

- **Providing financial risk mitigation** to compensate investors, investment managers, and investees for additional risk associated with delivering peace impact in conflict-affected contexts. For example, several firms identified challenges raising finance for research and development of new product offerings and strategies, particularly where there was high potential but as yet unproven effective demand. Financial risk mitigation could be provided through conventional first-loss or more tailored products for specific

Box 3: **Enhanced Blended Concessional Finance Principles for Private Sector Projects**

The DFI Working Group on Blended Concessional Finance brought together more than 20 DFIs to develop a set of guidelines to maximise impact and minimise potential market distortions through the use of concessional resources. The updated and enhanced principles include:

1. **Rationale for blended concessional finance** – Contribution that is beyond what is available, otherwise absent from the market, and should not crowd out the private sector.

2. **Crowding-in and minimum concessionality** – Contribute to catalysing market development and mobilisation of private sector resources, with concessionality not greater than necessary.

3. **Commercial sustainability** – Impact achieved by each operation should aim to be sustainable and contribute towards commercial viability.

4. **Reinforcing markets** – Addresses market failures effectively and efficiently minimises the risk of market distortion or crowding out private finance.

5. **Promoting high standards** – Promote adherence to high standards, including in areas of corporate governance, environmental impact, integrity, transparency, and disclosure.

sectors or strategies, such as offtake guarantees to stimulate renewable energy investment or agricultural value chains.

- **Upstream technical assistance** to enhance commercial viability and investment readiness, particularly among pioneering investment managers. This could be anything from investment in business administration processes and capabilities to investor outreach to business integrity and compliance, and so forth. This, in a sense, represents a medium- to long-term de-risking intervention, helping to create the right business environment for investment to happen in a sustainable manner.[94]

- **Network building across markets**, bringing together pioneering firms and, in particular, investment managers to learn from one another. These networks can help companies access the information, local insights, and capital needed to expand their operations. Likewise, this could mean funding local investment managers to share their knowledge of local systems, operating environments and market actors, with other investors looking to enter the market. There was particular interest from earlier stage teams in learning from more mature peers about fundraising from DFIs – although we assess that peer learning could be valuable in numerous dimensions.

- **Impact management** over and above measures that enhance risk-adjusted returns for investor and investee. Partnerships with peacebuilding actors were seen as critical to both enhance peace impact and manage reputational risks to investors.

- **Data and market intelligence,** as a public good in markets characterised by informational asymmetries. Gathering data, finding experts in the field, and ensuring the reliability of the information represent significant barriers to investment in peacebuilding contexts. Concessional support for conflict analysis targeting specific sectors or value chains, likely carried out by specialist peacebuilding/conflict experts, was deemed to have particularly high potential.

- **Non-financial capacity building,** including training on systems thinking and values-based investing. Systems thinking was an interesting suggestion, given that each of the investment strategies identified through our case studies requires complementary and interdependent portfolios of transactions, all operating within complex and dynamic political, social, and economic environments.

3.4 Investment vehicle options

Alternative structures have relative strengths and shortcomings, including potential to manage elevated market risk and operational constraints to peace-positive investing.

Drawing on the findings of our literature review, consultation with DFIs, donors, and those involved in our case studies, we identified three types of blended finance structure with potential to increase investment by DFIs and private investors in conflict-affected settings. Critically, our appraisal of these options considers the extent to which each mechanism can mitigate both market barriers to investment – such as elevated country risk, small market size, challenging business environment – and internal organisational barriers. In line with the DFI Working Group on Blended Finance's principles, concessional finance in each structure is targeted to fix market imperfections, enabling investors to overcome external and internal barriers to investment while minimising additional distortions.

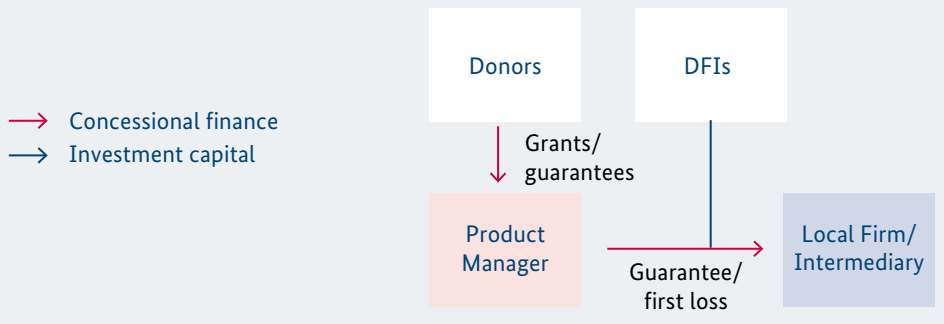
The **first option is a guarantee or first-loss product** to offset the elevated financial risk due to external, market factors in peacebuilding contexts. We recognise that relevant products are already offered by MIGA, DFC, IFC, the EU, and Sida, among others. DFIs would only be able to access the facility for coverage of peace-positive

94 https://www.ifc.org/wps/wcm/connect/1decef29-1fe6-43c3-86c7-842d11398859/IFC-BlendedFinance-FIN_092021.pdf?MOD=AJPERES&CVID=nL5RB-2

investments. The terms of coverage could be tailored depending on the nature and scale of peace impact, and the severity of conflict risk in the investment context. This structure is summarised in Figure 4.

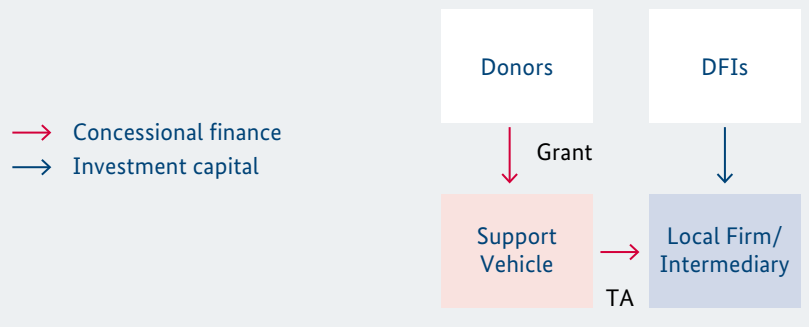
The **second option is a support mechanism** to provide grants and/or concessional finance for upstream and post-investment support activities, which increase the flow and impact of peace-positive deals available to DFIs. The support vehicle would not itself make investments. We recognise that USAID, FCDO, IFC, and others offer relevant technical assistance facilities although none focus specifically on maximising peace impact. This structure is summarised in Figure 5.

Figure 4: **Risk Mitigation Product Structure**



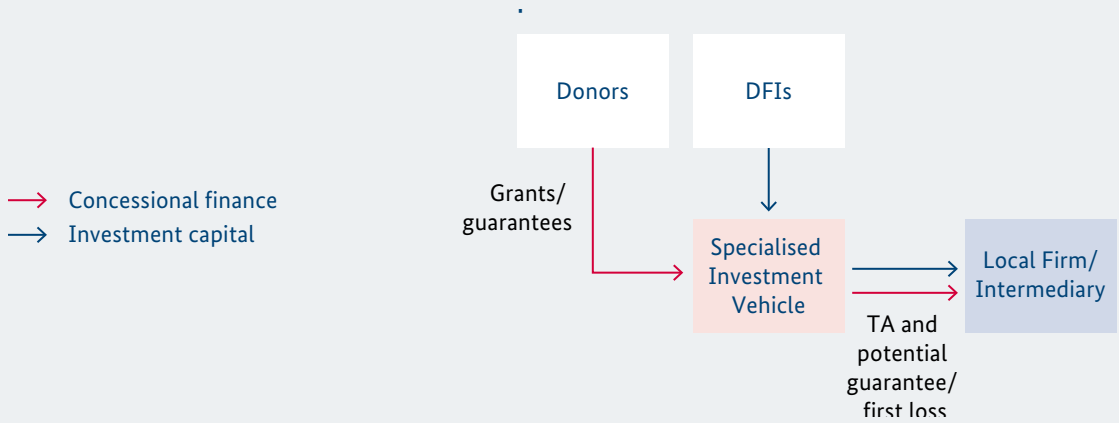
The International Finance Facility for Education (IFFEd) may be viewed as a comparator to this structure. IFFEd uses a combination of catalytic grants and contingent financing (guarantees) to multiply scarce donor resources in order to help close the significant education financing gap in low- and middle-income countries. Donors provide IFFEd with 15% of commitments in an up-front cash payment, with the remaining 85% of the commitment being provided in the form of a guarantee, in order to convert commitments into cash if needed to maintain the facility's financial stability.

Figure 5: **Support/Preparation Mechanism Structure**



The &Green Fund Technical Assistance Facility (TAF) may be viewed as a comparator to this structure. The &Green Fund is a blended finance debt fund investing in commercial projects in agricultural production value chains. The &Green TAF can co-fund activities to support projects that are being considered by &Green for investment, as well as

Figure 6: **Specialised Investment Vehicle Structure**



projects that have been invested in by &Green. The TAF offers concessional funding to cover:

- Pre-investment stage project design support, to support potential investees to overcome specific investment bottlenecks and enable a strong and balanced portfolio of bankable projects for &Green.
- Post-investment assistance to projects in the implementation phase so that project developers have greater capacity to implement projects to a higher technical standard and/or with increased positive social and environmental impacts.
- Impact monitoring support, to enable investees and the &Green Fund to better monitor social and environmental impacts and practice adaptive management more effectively.
- Learning and knowledge sharing of successful models for sustainable land management investment, beyond &Green and its projects.

The **third option** under consideration is a **stand-alone, specialist investment vehicle** purpose-built to absorb key risks and invest in peace-positive deals, primarily through country-specialist investment managers/platforms. This structure is summarised in Figure 6.

The Stability Impact Fund Africa (SIFA) may be viewed as a comparator to this structure. SIFA, managed by Cordaid Investment Management, seeks to create jobs and generate income by providing inclusive financial and business development services to MSMEs, with special attention to women and youth in fragile contexts. SIFA invests in MSMEs in FCS either directly or through local financial intermediaries.

3.5 Options appraisal

Our analysis suggests that a Specialised Investment Vehicle has the greatest potential to tackle both external and internal barriers that presently constrain DFI investment in conflict settings.

A guarantee or first loss product could help to shift deal economics, increasing the percentage of potential investments in FCS that reach DFIs' hurdle rates. However, this model does not mitigate the internal factors summarised in Table 1, and so is unlikely to enhance the flow, sophistication, and operational management of investments in conflict settings. Moreover, comparable DFI facilities already exist. Therefore, we assess that an additional guarantee or first loss product would have at best a modest impact on the flow of capital into conflict settings.

A support vehicle would do little to shift the economics of most transactions, but could help to build investment-ready pipeline, enhance impact management, manage reputational risk, and ensure investment decisions are informed by a deeper understanding of peace and economic risks and opportunities in each market. However, as we have seen with other support vehicles, ab-

sent a stake in subsequent transactions, technical advisers can lack incentives to source and support deals with capacity for long-term viability.

A Specialised Investment Vehicle, purpose-built to invest in conflict settings, is the only option considered that has potential to tackle both **internal and external constraints, and to mute financial and non-financial risks.** We assess that establishing such a vehicle with fit-for-purpose governance, return requirements, expertise, incentives, impact thesis, instruments, and stakeholder engagement strategy could help shift the I4P paradigm. Rather than debating whether investment creates or mitigates conflict in the abstract, we would have an entity empowered and held accountable to originate, diligence, structure, execute, and manage a portfolio of impactful investments. Central to this approach will be maximising additionality relative to existing investment managers in conflict settings, several of whom have already attracted DFI resources.

Table 1: **Evaluation of vehicles' ability to address investment hurdles**

Hurdles	Risk Mitigation Product	Support Vehicle	Specialised Investment Vehicle
Market Factors			
Smaller Average Ticket Sizes			
Lack of information		✓	✓
Long lead times			
Lack of investees' familiarity		✓	✓
Lack of infrastructure and logistical difficulties			
Weak rule of law and corruption	✓	✓	✓
Conflict and political risk	✓		✓
Macroeconomic and currency risk	✓		✓
Entrepreneurs' lack of collateral	✓		✓
Investor Institutional Factors			
Reputational risk		✓	✓
Minimum investment sizes			✓
Lack of concessional resources to support local participation and post-investment support	✓	✓	✓
Lack of local offices		✓	✓
Misalignment of incentives for investment staff			✓
Lack of specialised investment officers			✓
Lack of specialist expertise in private sector and conflict			✓
Total	**5**	**6**	**13**

4. How can we be sure that additional investment will contribute positively to prospects for peace?

Even if constraints to investment in conflict settings were overcome, there is no guarantee that additional investment would be peace positive.

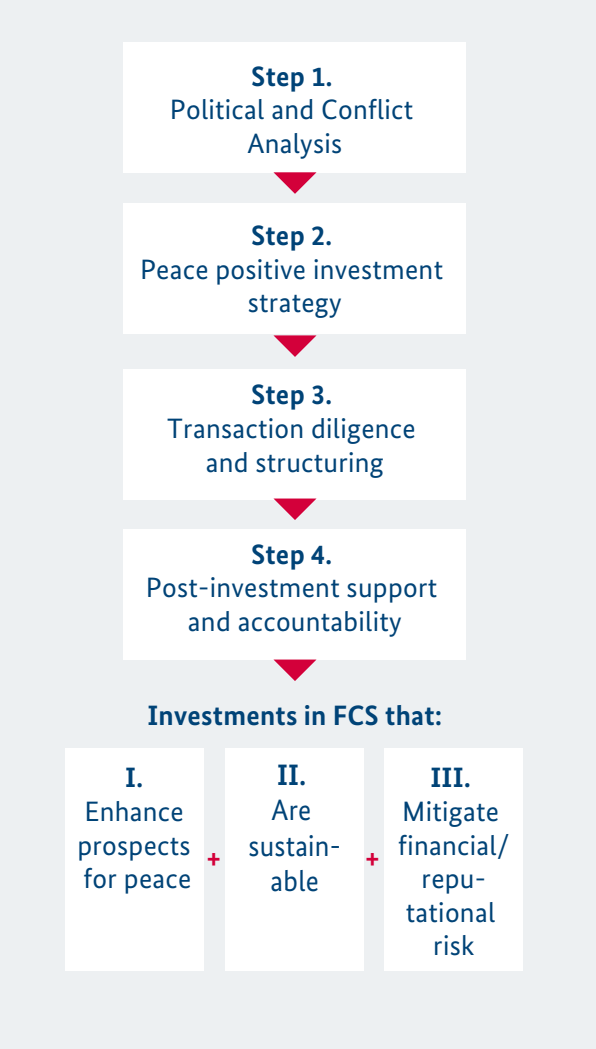
In a study commissioned by FMO, TrustWorks Global and NIRAS find that only three DFIs appear to explicitly incorporate conflict-sensitivity into their work, and even then, only after a decision to invest has been made. As a result, the authors note a substantial risk that DFI investments can exacerbate rather than address the drivers of conflict.[95] Moreover, through our desk review and expert consultation we were unable to identify a purpose-built framework to appraise, monitor, and maximise the positive impact of investment in private businesses on prospects for peace.

4.1 Overview of the Framework

Based on our reading of the causal evidence regarding the relationship between private sector development and peace – and through consultation with academics, peacebuilding practitioners, and investment officers – we have prepared a draft Peace Impact Framework for Investment to help fill this gap.

This framework is summarised in Figure 7, discussed in detail in this section, and presented in full in Figure 13 below. We hope that this framework will provide a helpful contribution to the rapidly growing body of research and policy work in this space. We have begun to test and refine the framework through three case studies, and present learning from this process below. However, the framework remains in draft and should be tested further through 'live' investments in the next phase of the I4P initiative.

Figure 7: **Peace Impact Framework for Investment**

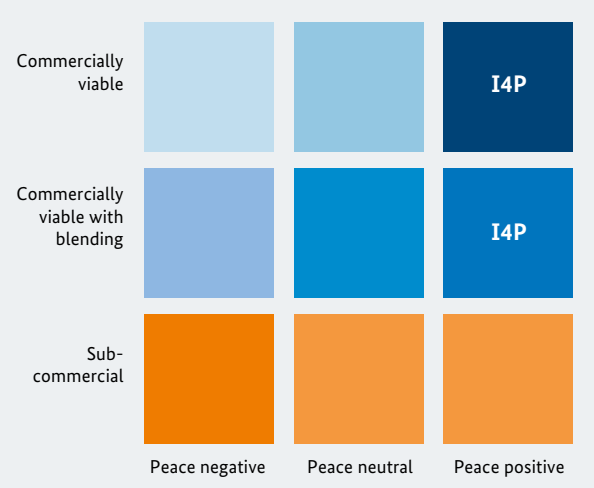


Our point of departure in designing the impact framework was that not all investment in conflict settings contributes positively to peace and stability, but that all investments in conflict

95 Josie Lianna Kaye, Jihed Hannachi, Marc Jacquand, forthcoming, Conditions for successful investments in fragile and conflict-affected states: A TrustWorks-led project in partnership with NIRAS for the Dutch Entrepreneurial Development Bank (FMO).

contexts interact with conflict dynamics to some extent. Figure 8 segments the universe of potential investments in conflict contexts in terms of their peace impact and their commercial viability. Our feasibility study is concerned with identifying and increasing the number of investments in the top-right quadrants, which are peace positive and offer adequate financial returns.

Figure 8: **Impact-Commercial Viability Matrix**



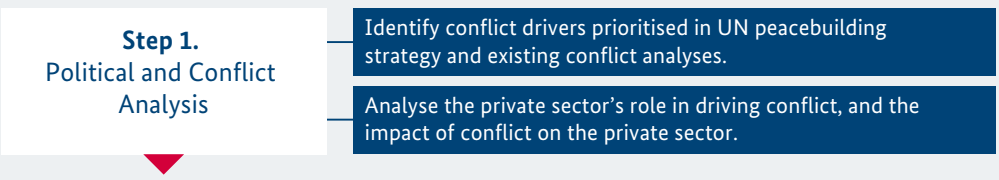
On this basis, and in collaboration with experts and practitioners, DFIs, and firms and fund managers investing in conflict settings, we have developed a four-step framework to analyse and maximise the (positive) impact of private sector investment on prospects for peace. This framework has been developed in such a way as to be applicable equally in the context of regional, national, and subnational conflicts.

Building on guidance set out in the OECD-UNDP Impact Standards for Financing Sustainable Development, the framework attempts to strike a balance between being adequately general to be applicable across contexts and adequately specific to be practically useful in each one. In this regard, we have learned from experience with the 2X Challenge – Financing for Women impact criteria.[96] Our framework, however, moves beyond quantitative metrics to integrate impact strategy, impact management, transparency and accountability, and governance more fully. We see this approach as complementary to the focus on financial materiality in the IFRS International Sustainability Standards Board's prototype disclosure frameworks, though our scope is not limited to social and environmental impacts that "could reasonably be expected to affect...future cash flows".[97]

It is important to note that generating any peace-positive impact through investment would be a process of co-creation requiring active involvement by numerous stakeholders, not least affected communities. This includes the involvement of people who may benefit from an investment as well as those who do not benefit and as a result are relatively worse-off than their peers. Developing peace-positive investments, and applying this framework, would need to be undertaken as a productive partnership, involving various local, national, and international constituents from the outset in the identification, implementation, and monitoring and evaluation of any investment, including by means of community engagement, mediation, and grievance redress mechanisms.

The first step in our draft Peace Impact Framework for Investment is a political, conflict, and private sector analysis to understand the role of the private sector in a given conflict context. Interactions between gender and these factors

Figure 9: **Peace Impact Framework for Investment - Step 1**



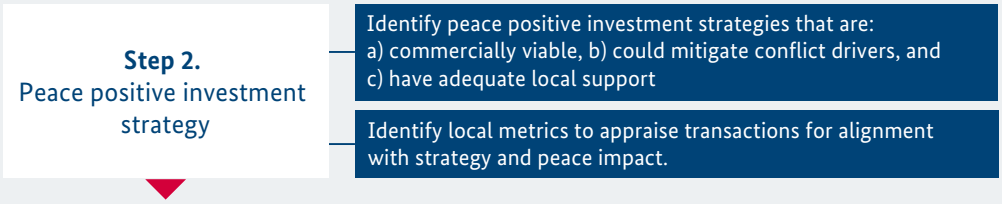
96 https://www.2xchallenge.org/criteria
97 https://www.ifrs.org/groups/technical-readiness-working-group/#resources

should be investigated as a priority throughout. This initial assessment, anchored in a comprehensive review of existing analyses, key informant interviews, and original data analysis, should consider:

- **The sectors and geographic regions in a conflict-affected setting that hold promise for viable investment**, taking into account existing national development strategies, UN peacebuilding strategies and existing interventions, growth diagnostics, private sector diagnostics, analyses from IFIs, analysis from local and international universities, and so forth.
- **The relationship between private businesses in specific high potential sectors/geographies and conflict drivers**, including analysis of economic power within these sectors/geographies relative to the grievances and divides identified above; interlinkages between economic and political or social power; lobbying power of private sector actors to influence parties to a conflict; and opportunities for intra- or inter-business contact to mitigate distance between groups engaged in violence.

Building on the analysis in Step 1, the second step in our draft Peace Impact Framework is to define

Figure 10: **Peace Impact Framework for Investment - Step 2**



- **The drivers of violent conflict and political violence, and opportunities for peace.** This analysis should seek to identify who is engaged in and affected by conflict, and how; why conflict parties are fighting; over what they are fighting;[98] and potential pathways to peace. A central piece of this analysis is an understanding of horizontal inequalities across key divides, such as along rural/urban, gender, regional, ethnic, age, or religious lines. Besides key informant interviews and original data collection, sources can include existing national and UN peacebuilding strategies and their conflict analyses; conflict analyses conducted by local and international peacebuilding and humanitarian organisations, including local women's organisations and women peacebuilders; trends in conflict data from ACLED[99] and UCDP;[100] analysis of media reporting; and a horizon scan to identify potential future flashpoints.

a proactive peace-positive investment strategy, which directly targets priority peace and conflict drivers. This is an important intermediate step relative to existing DFI practice, which tends to move from analysis directly to origination.

Developing an intentional peace-positive investment strategy requires a clear impact thesis, which articulates qualitatively how the investor's portfolio as a whole intends to contribute to prospects for peace. This means defining the specific peace and conflict drivers that may be amenable, and how associated risks of doing harm could be mitigated. This strategy should be developed in close coordination or alignment with stakeholders on the ground, including relevant UN Agencies, government, and civil society representatives. The goal would be to support and contribute to existing national and local peacebuilding efforts in order to harness synergies and maximise peace impact.

98 https://openknowledge.worldbank.org/handle/10986/28337
99 https://acleddata.com/
100 https://ucdp.uu.se/

Our literature review and consultation with experts[101] and practitioners suggests five broad potential 'peace drivers', or ways in which investments could contribute positively to prospects for peace:

- **Inclusion** – investments can help mitigate horizontal inequalities that can fuel inter-group grievances.
- **Access** – investments can alleviate competition over unaffordable and scarce products, services, and resources, such as fertile land and water.
- **Mitigating concentration** – investments can help mitigate vertical inequalities and erode the centralisation of economic and even political power, which can be an important source of grievance even absent horizontal inequalities.
- **Accountability** – investments can enhance businesses' accountability to their stakeholders, and activist businesses can enhance governments' accountability to their citizens, particularly when acting in coalition.
- **Incentivising leaders** – investments can enhance the economic return to peace for leaders who benefit from embedded conflict, even if at the margin.

These peace drivers manifest differently across contexts, and some will be more relevant than others in a given context. However, we assess that as a framework they offer a number of impact theses that can be tailored and prioritised by practitioners developing peace-positive investment strategies.

Building on such an impact thesis, the investment strategy should articulate geographic focus, including subnational and cross-border; identify key value chains and ticket size; and prioritise instruments as well as identify key entry points relevant to the context. Given the complexity of economic and conflict systems, we recommend viewing one's portfolio as more than the sum of its parts, intentionally maximising complementarities and synergies.

Finally, the investment strategy should identify metrics and protocols for measuring peace impact ex ante during origination and due diligence, and ex post once investments are made. These metrics should be tailored to the local conflict and economic context and should capture direct contributions from each investment and higher-order consequences from the portfolio as a whole.

Critical here will be working with and learning from UN, civil society, local investors and other partners about their experience with the private sector and potential for peace-positive investments. Again, this should be a process of co-creation, not only to enhance the technical quality of an investment strategy, but also build buy-in among potential target businesses, communities, and other affected stakeholders.

Based on one's investment strategy and appraisal framework, the next step is to identify (and if necessary, build) a pipeline of investments aligned with the peace impact thesis defined in Step 2. In parallel to routine financial due diligence and 'do no harm' business integrity and ESG screening (including in line with the IFC Performance Standards), we recommend a specific 'peace diligence', designed to capture whether and how an investment contributes to prospects for peace.

Given the nature of peace impact discussed above, we suggest that **an investment is peace positive if it**:

- **is aligned with a peace-positive investment strategy**, which targets specific conflict drivers; AND,

101 In developing the Framework, we have drawn particularly on works by (and conversations with) Professor Brian Ganson, Professor and Head of the Africa Centre for Dispute Settlement (ACDS) at the University of Stellenbosch Business School, and Herbert McLeod at the IGC. Notable publications include: https://www.usb.ac.za/wp-content/uploads/2018/02/Brian-Ganson-A-Seat-at-the-Table_FINAL-010819-Web.pdf , https://issafrica.s3.amazonaws.com/site/uploads/PB-164-2.pdf , https://www.cambridge.org/core/journals/business-and-politics/article/private-sector-development-and-the-persistence-of-fragility-in-sierra-leone/BCA224B812C6C5CCCC81B1A7879D6B63

Figure 11: **Peace Impact Framework for Investment - Step 3**

- **contributes to at least one peace driver** (see list above), prioritised in a given context.

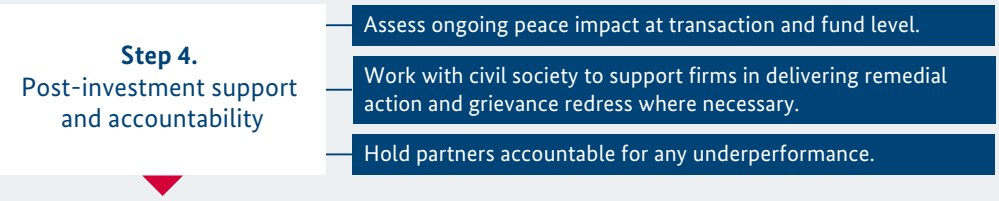
As peace impact evolves over time, it is also important at this stage to identify conditions precedent, ex post performance indicators, and inclusive, locally legitimate community engagement, mediation, and grievance redress mechanisms that can be used to monitor and maximise peace impact. This means that no investment should be seen as inherently peace positive or peace negative: investments with risks of doing harm can become peace positive with intentional, effective action anchored in a deep understanding of local conflict drivers.

As noted above, the specific economic circumstances in many conflict settings mean that upstream pipeline development activities may be particularly important. Identifying the extent to which concessional capital is necessary and desirable should be considered on a transaction-by-transaction basis, although consistent, rules-based decision-making on the amount and nature of any support is critical to avoid risks of perceived bias or collusion.

As with earlier steps, it will be critical for investors to work with partners to identify and appraise transactions in a transparent and consultative way to establish mechanisms that can address potential grievances or conflicts during the lifespan of the investment. One option would be to build the resilience of the relationship between a target company and its stakeholders before an investment is made. This approach acknowledges that over the course of an investment some degree of dispute or grievance is inevitable, and perhaps even desirable. What matters is whether such disruptions can be addressed in a constructive way that helps to avoid any negative impact of the investment overall and ideally contributes to positive outcomes. Strengthening a firm's ties with its stakeholders before capital deployment raises the stakes could substantially enhance prospects not only for successful execution of the investment, but also for its potential to contribute to peace in a given context.

Given the dynamic relationship between investment and peace, we see a central role for enhanced post-investment support and accountability over and above that which would typically

Figure 12: **Peace Impact Framework for Investment - Step 4**



be provided or expected in non-conflict contexts. Measures could include continuous community engagement and community monitoring to maximise portfolio peace impact and manage risk and disputes productively.

Demonstrating peace impact will require complementary investment in monitoring at the deal level and impact evaluation at the portfolio level. To the extent that monitoring and evaluation contribute to smoother operations, investees and investors should share the cost. However, there is clearly a public good created by the data and learning generated, suggesting an additional role for concessional resources, as noted above.

The exact approach would need to respond to the peace-positive investment strategy and its underlying impact thesis. CDA Collaborative[102] identifies five ways in which private sector peace impact can be monitored and evaluated at the portfolio level:

- Results in the creation or reform of political institutions to handle grievances in situations where such grievances genuinely drive the conflict.
- Contributes to a momentum for peace by causing participants and communities to develop their own peace initiatives in relation to critical elements of context analysis.
- Prompts people increasingly to resist violence and provocations to violence.
- Results in an increase in people's security and in their sense of security.
- Results in meaningful improvement in inter-group relations.

Civil society, public sector, academic institutions, and other partners will be critical throughout this post-investment phase. Identifying actors with adequate independence, expertise, and credibility with parties to the transaction will be critical to enable trusted mediation, legitimate assessment of peace impact, and, ultimately, effective accountability. We believe that this can be done with mainstream approaches to peacebuilding evaluation, working with relevant institutions with the right track record.

Taken together, a Specialised Investment Vehicle mandated to test, refine, and implement the draft Peace Impact Framework for Investment would have potential to increase the flow of capital into investments in conflict settings that:

- Enhance prospects for peace;
- Are sustainable because they are financially viable; and,
- Mitigate financial and reputational risk for investors and businesses.

102 https://www.cdacollaborative.org/cdaproject/business-and-peace/

Figure 13: **Detailed Peace Impact Framework for Investment**

The impact challenge

Peace is different to other impact themes:

- The precise relationship between investment and peace is **complex and context-specific**.
- Perceptions matter. Building **consensus** that an investment is peace positive is central to making it so.
- Peace impact can be enhanced or undermined by investor and investee actions, creating an important role for strong **conditions precedent (CPs) and covenants**.

Step 1. Political and conflict analysis	Identify conflict drivers prioritised in UN peacebuilding strategy and existing conflict analyses. Analyse the private sector's role in driving conflict, and the impact of conflict on the private sector. *Potential UN and civil society role.*
Step 2. Peace positive investment strategy	Identify peace positive investment strategies that are: (a) commercially viable, (b) could mitigate conflict drivers, and (c) have adequate local support. Identify local metrics to appraise transactions for alignment with strategy and peace impact. *Investor lead with UN and civil society support.*
Step 3. Transaction diligence and structuring	To be peace positive, an investment must: • Comply with routine financial DD and 'do no harm' ESG/ business integrity DD, including IFC Performance Standards. • Pass a **Peace Diligence** (see box to right). • Identify appropriate CPs and further *ex post* KPIs and covenants to monitor and maximise impact. • Agree appropriate blended finance structure for the transaction, adhering to best practice and DFI guidelines.
Step 4. Post-investment support and accountability	Assess ongoing peace impact at transaction and fund levels. Work with civil society to support firms in delivering remedial action and grievance redress where necessary. Hold partners accountable for any underperformance. *Potential UN and civil society role.*

Peace Diligence

To be assessed *ex ante* as peace positive, an investment must: (a) be aligned with a peace positive investment strategy (step 2), and (b) contribute to at least one of the following peace drivers in the local context:

- ✓ **Inclusion**: Does the investment support marginalised communities and increase positive contact between opposing groups?
- ✓ **Access to markets and resources**: Does the investment mitigate contest over scarce resources (including land), goods, services?
- ✓ **Mitigating concentration**: Does the investment lead to widespread benefit, including in the informal sector?
- ✓ **Accountability**: Is there a robust grievance redress mechanism at the firm or project level? Is the investor held accountable to affected parties?
- ✓ **Incentivising leaders**: Does the investment shift incentives among decision-makers in conflicting parties in favour of sustainable peace?

The assessment could be conducted by an independent specialised entity, and should prioritise relevant quantitative and qualitative metrics in the local context. Potential UN and civil society role.

OUTCOME

Investments in FCS that:

I	Generate adequate return	AND	II	Manage financial and reputational risk	AND	III	Improve peace impact, beyond 'do no harm'

5. How would the I4P Specialised Investment Vehicle work in practice?

5.1 Mandate and Strategy

The proposed structure and mandate of the Vehicle is well considered, but remains a discussion starter only, which we expect and hope will be refined in collaboration with all concerned stakeholders.103

The I4P Vehicle would be structured as a private limited liability company (LLC) with the unique mandate to make peace-positive private sector investments in peacebuilding contexts.

The Vehicle would test and refine the draft Peace Impact Framework for Investment presented above to deliver an investment strategy comprising three pillars:

- **The Vehicle would invest a majority of its capital through established investment managers in multiple peacebuilding contexts** (see Box 1). The Vehicle would therefore provide local investment managers with anchor capital for peace-positive investment strategies defined in terms of the draft peace impact framework presented above, and technical assistance to implement the framework, in collaboration with relevant partners. Underlying investments may be in any sector but would typically include small and medium enterprises reaching customers, employees, or suppliers affected by conflict.

- In markets lacking a pipeline of appropriate investment managers willing and able to manage peace-positive strategies, and subject to the availability of grant funding, **the Vehicle would invest in incubating new investment managers in peacebuilding contexts**. This pillar of the Vehicle's investment strategy would aim specifically to build a pipeline of investment managers in these markets, experienced with peace-positive investment, with which DFIs or other investors could transact directly in the future.

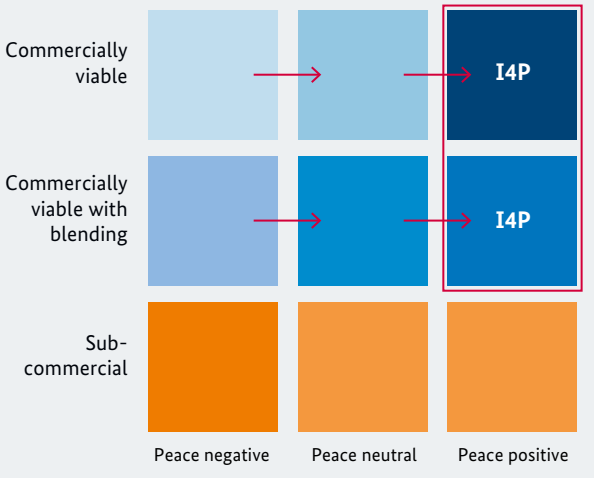
- **The Vehicle would invest a minority of its capital into larger ticket direct investments, with the potential to crowd in incremental investment from DFIs or private investors**. The co-investment model would be deployed initially when the Vehicle is the originator, although over time the Vehicle may be invited to participate as a specialist in conflict risk and peace impact investing. Once this specialisation is demonstrated, the Vehicle's participation may help manage reputational risk for co-investing DFIs without additional and duplicative screening. To the extent that the Vehicle's participation and expertise add substantive and reputational value to their partners, it could charge investment and impact management fees to its co-investors in these larger ticket transactions.

The components of this investment strategy are summarised in Figure 14, which segments the universe of investment opportunities in peacebuilding contexts in terms of peace impact and commercial viability. Pillar 1 of the strategy focuses on the top-right quadrants of the Figure, by financing local investment managers to originate and manage a portfolio of peace-positive investments. Pillar 2 of the strategy seeks to grow these top-right quadrants by building a pipeline of investments and investment managers with whom the DFI community can transact in the future. Pillar 3 of the strategy seeks to shift commercially viable larger ticket investments in the direction of enhancing their peace impact and minimising risks of doing harm.

103 As part of this study, we have also developed a I4P Vehicle Indicative Term Sheet, which can be provided upon request.

We recognise that any substantial injection of resources flowing into a highly fragile or conflict-affected context will have some impact on conflict dynamics, for better or worse, and ultimately on prospects for peace and security. Therefore, it is likely that there may be very few 'peace neutral' investments. In addition, it is also important to highlight that blending will only be used to correct for market failures as discussed above and will not be used to subsidise otherwise unviable or unproductive enterprises over the long-term.

Figure 14: **I4P Vehicle Strategy**



As noted above, no single sector or structure is inherently peace positive.

Our case study analysis in Sierra Leone, the Democratic Republic of the Congo (DRC), and Somalia/Somaliland demonstrates the need for versatility in investment strategy and impact management. From private sector education providers with peace-positive curricula in Sierra Leone to rural renewable energy and surrounding agribusiness in the DRC to supply chain and area-based investments surrounding a major port and freezone in Somaliland/Somalia, there is no single I4P strategy. In line with the Peace Impact Framework, the Vehicle would collaborate with local investment managers to build tailored strategies for each of the markets where it is active. This ensures that the Vehicle's investment process remains globally applicable and locally relevant and can scale across markets over time.

The Vehicle would only invest where it adds value relative to existing DFI offers and would tailor its presence to the context. This means that its investments in locally active investment managers would be structured and timed with the specific intention of building a pipeline of more mature intermediaries for direct DFI investment in later fundraises. When coinvesting in larger tickets alongside DFIs, the Vehicle would take only minority positions, providing confidence and expertise to others that conflict risk is being minimised and peace impact maximised.

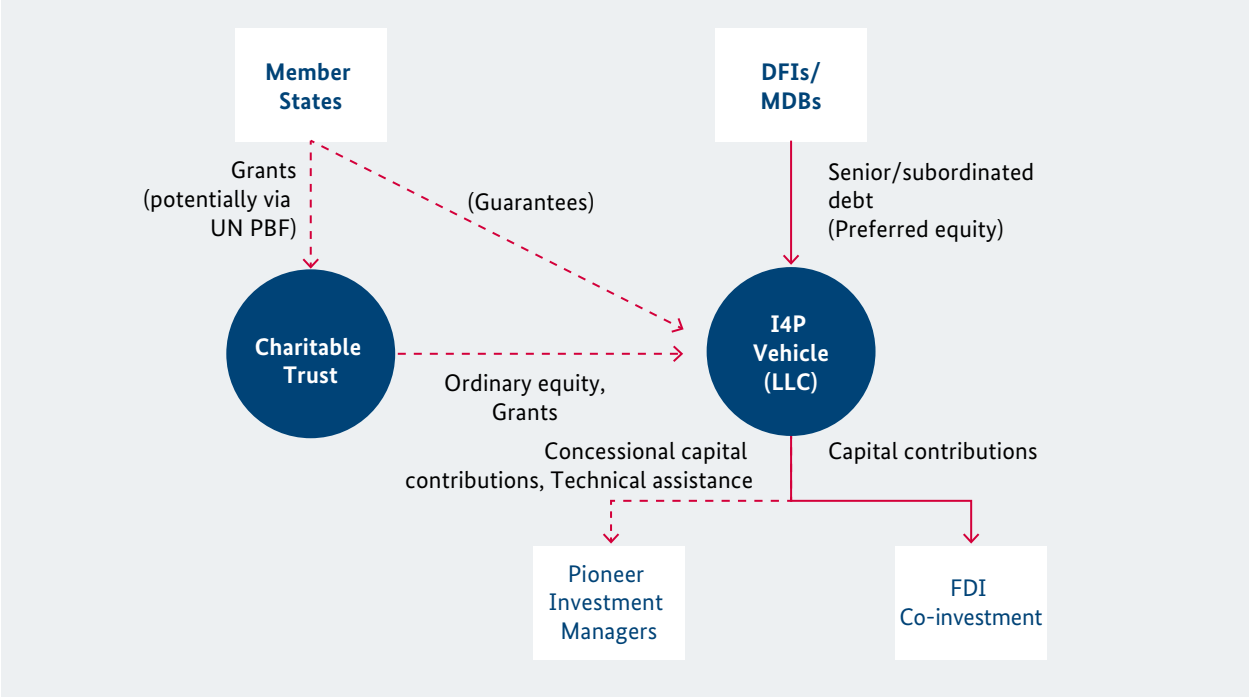
The overall investment ticket sizes could reach up to USD 30 million, depending on the nature of the peace-positive investment strategy, underlying projects/firms, and overarching exposure. Investment ticket sizes into early stage and pioneering investment managers with a peace impact mandate, and co-investment in major FDI projects to enhance their peace impact, might range from USD 10 million to USD 30 million. Smaller ticket sizes would be preserved for exceptional direct investments in firms with genuine growth potential, while micro and small enterprises with no such potential would not be served directly.

5.2 Structure, Team, and Governance

In addition to its unique investment mandate, the Vehicle's team and governance would be key differentiators.

The Vehicle would deploy a hub-and-spoke operating model, with a core team at headquarters and a specialist investment officer residing and working in every market into which the Vehicle invests. The core team would be led by a partner with a deep track record of investing in conflict settings and with deep networks across priority markets. The headquarters team would be completed by a Portfolio Manager; a Peacebuilding Adviser, specialising in the interactions between private sector activity and conflict; an ESG and Business Integrity Manager; a Monitoring and Evaluation Manager; and Analysts/Associates. In-country representatives would lead deal origination and execution and would collaborate closely (even co-locate) with an established UN or peacebuilding entity, to ensure interdisciplinary learning and to minimise overheads. The management team

Figure 15: **I4P Vehicle structure overview**



would have a lean structure that is top heavy and outsources most – if not all – legal, accounting, and administrative functions.

The Vehicle's governance would be tailored not just to its unique mandate, but also to the unique requirements of the markets into which it will invest. The Vehicle must be anchored in its mission to deliver peace impact but operationally independent and nimble and able to take risks, suggesting that housing within a large scale, existing entity would be inadequate. The Vehicle must be committed to its peace impact mandate while maintaining commercial discipline, suggesting that no existing private sector investment manager or grant fund manager would be appropriate.

We therefore recommend that the Vehicle be established as a private LLC, part-owned (at a minimum of 25%) by a charitable trust. The charitable trust would be governed by a board of trustees. Trustees could include representatives appointed by contributing donors and Member States, independent investment professionals with track records in conflict settings, as well as independent peacebuilding experts specialised in the relationship between private sector development and conflict. Figure 15 summarises this structure.

The Vehicle would be operationally independent from the Trust and from Member States. It would be governed by a professional Board, composed of Directors appointed by its shareholders and Independent Directors. The Board will establish and appoint members to an Investment Committee, responsible for all investment decisions made by the Vehicle. Investment Committee members would include at a minimum one member of the Vehicle's senior team and at least one independent peacebuilding expert nominated by the Board of Directors and one independent investment professional with an operational track record in conflict settings nominated by the DFIs. The Board would also appoint a separate and independent Grants Committee ensuring clear and separate governance for grants and investments by the Vehicle.

5.3 Vehicle Value-Added Activities

The Vehicle would strictly invest where it adds value relative to existing DFI offering and its contribution would be tailored to the specific context.

The Vehicle would add value relative to, and would complement, to existing DFI programmes, including in the following respects:

- **Governance** – Peace impact and conflict risk management would be integrated throughout the Vehicle's governance, while retaining commercial discipline.
- **Specialised ESG** – The Vehicle would offer deep expertise in managing risks of environmental, social, and governance harm in conflict settings, including risks of inadvertently exacerbating violence.
- **Peace Impact** – The Vehicle would specialise in peace impact management, including through impact-led and specialised investment strategy, diligence, monitoring, evaluation, community engagement, and grievance redress. It would generate learning for the wider investment and peacebuilding communities on design and management of peace-positive investments.
- **UN Support** – The Vehicle would be supported and endorsed by the UN and Member States globally and in each country/region of operation, providing expertise, impact quality assurance, reputational risk management, and legitimacy.
- **Specialist Board and Investment Committee members** – The Vehicle would maintain a network of experienced senior executives that can act as independent members of the Boards and Investment Committee of local investment managers or investee companies.
- **Tools and Templates** – The Vehicle would develop specialised tools for conflict risk, peace impact management, and investment in conflict settings. These tools could include standardised transaction documents, conflict risk monitoring tools, and peace impact evaluation service agreements.
- **Expert Advisory Services** – The Vehicle would provide peacebuilding and conflict risk management expertise to investment managers and DFI co-investors.

Figure 16: **Vehicle Value-Added Activities**

- **Peer Network** – The Vehicle would serve as a hub to facilitate peer learning and networking among investment managers in conflict settings.

The Vehicle would be financed initially by a coalition of DFIs and donors.

The Vehicle would be capitalised with paid-in ordinary equity and junior capital from the Charitable Trust. The Trust would receive grants from the donor community of UN Member States (possibly channelled, in part, through an appropriate UN entity such as the UN PBF). Donors with such capability could also provide direct guarantees to the Vehicle if further downside risk protection is required. The Vehicle would raise senior and subordinated debt from the DFIs. There is a potential role for preferred equity to be raised from DFIs, which should be discussed in further detail with the DFI community. In addition to any leverage of DFI capital, grant resources from Member States would crowd in local investment from firms in target markets.

The Vehicle would initially offer debt and mezzanine products and would have access to concessional resources. In line with DFI Principles, blending would be minimised to avoid distortions and to maximise additionality. Potential uses of first loss, concessional guarantees, operational cost coverage, and technical assistance are discussed in Section 3.3. Technical support would be offered on the least-concessional basis feasible, including through fee-for-service or returnable grant models.

Financing by a coalition of donors and DFIs is critical.

This will ensure that the Vehicle (1) combines a clear and protected peace impact mandate with commercial discipline; (2) capitalises on economies of scale from fixed setup costs and minimises duplication in expertise; (3) brings to bear a diverse package of finance, with each donor contributing its unique products; and (4) shares reputational risk across committed parties. This structure would enable donors and DFIs to achieve leverage, with each dollar of committed capital driving multiples in investment volume over time.

5.4 Role of the UN

The Vehicle would work closely with relevant UN and national stakeholders to ensure that investment strategies and operations contribute to national and international peacebuilding priorities. The full scope of the role of the UN and other peacebuilding and development partners are yet to be defined but could include acting as sponsor and conduit for donor funding.

In each setting, the Vehicle would collaborate intentionally with national governments, UN stakeholders, civil society, and international partners, throughout the investment cycle. This would include sharing analysis, aligning investment strategy and peacebuilding priorities, where appropriate sharing information to underpin due diligence, and collaborating on post-investment support, monitoring, and accountability. For example, this could include matching separate donor-funded skills training programmes to labour demand from the Vehicle's investees, aligning business environment technical assistance programmes to issues that prevent peace-positive investment from scaling, or aligning conflict resolution and mediation grants to enhancing investee engagement with affected communities.

With its mandate to be catalytic, its high degree of flexibility, and its ability to bring together a diverse range of partners in the implementation of interventions, the UN PBF could potentially play a role in channelling donor funds to the Vehicle, as well as in supporting activities that promote and enable peace-positive investments, especially in settings where private sector and economic development is already a significant part of a national peacebuilding plan. This would ensure that the Vehicle's strategy and operations remain aligned with the UN's peacebuilding mandate.

Similarly, relevant UN Agencies, Funds and Programmes could consider engaging more specifically with the respective proposed investment strategies. Our experience to date suggests that UNDP, UNIDO, and UNCDF colleagues see value in the Vehicle's proposed approach and see its proposed mandate as additional and complementary to their own. These complementarities should be tested, maximised, and formalised, as

required. Testing and refining these models of collaboration should be a priority for the I4P pilot phase.

On a broader policy level, we also see a critical role for UN PBSO, in particular in continuing to coordinate and strengthen the community of practice in peace-responsive investing. Given the growth of initiatives and activities in the innovative financing for peacebuilding space, it would seem that convening member states and relevant stakeholders, with a view to standard setting and achieving sufficient agreement about the cornerstones of a useful peace impact framework for investing would be a critical step forward. It would also benefit all stakeholders seeking to apply innovative financing tools for peacebuilding. We envisage an important role for the UN peacebuilding architecture in this pursuit, though the precise role of the UN vis-à-vis standard setting bodies and the recently proposed Peace Impact Lab should be refined further.

5.5 Vehicle Economics

The Vehicle would be established with the objective of breaking even over a ten-year horizon, though assumptions underpinning this ambition should be tested during the I4P pilot phase.

Given the investment strategy and operating model discussed above, the Vehicle must be established with a strong intention to scale. It will never be economically viable or deliver impact of any meaningful magnitude without such an intention. We recommend targeting an initial fundraising round in the order of USD 100 million to be deployed across 2–3 markets, with additional raises as the Vehicle's value proposition is proven and its footprint expanded.

On this basis, the Vehicle should seek to cover its operating costs in full within a ten-year period. We estimate start-up costs in the region of USD 1 to 1.5 million, annual operating costs for a core headquarters team in the region of USD 2.2 million, and additional annual operating costs for each in-country investment officer of USD 400,000.

5.6 Geography

We recommend careful organic growth, initially with a deep focus on a small number of markets.

One consistent lesson from the pioneering investment managers interviewed for this study was the importance of measured growth. Expanding across markets can offer some diversification but growing too quickly could increase portfolio risk by overstretching into new markets without adequate understanding of context and value addition, and without tacit permission and support from affected stakeholders. These 'markets' could be national, subnational, or international, depending on the nature of the conflict.

We would recommend piloting the Vehicle in markets with the greatest potential for peace-positive investment, rather than focusing on the most acute active conflicts initially. For example, we have identified potential peace-positive investment strategies in Sierra Leone, DRC, and Somaliland/Somalia. We have also conducted an initial mapping of potential for peace-positive investment across other UN PBF-eligible countries, during which we assessed access, pipeline opportunity and 'peace delta', according to the Global Peace Index. This analysis should be deepened through further engagement with in-country investment managers and peacebuilding experts in each case, in parallel with actioning investments in an initial cohort of two or three countries.

6. Conclusion and Next Steps

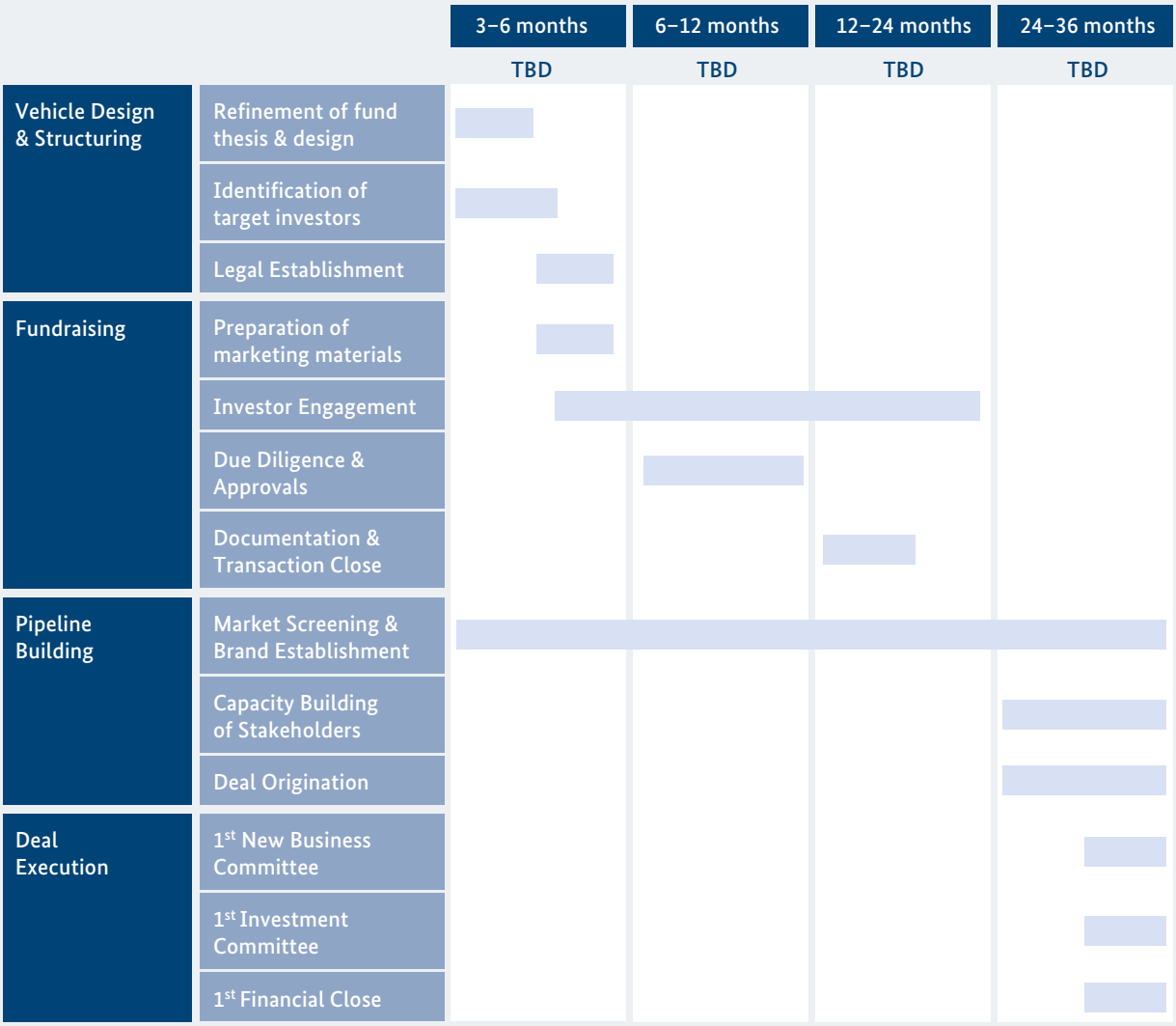
Throughout this study, we have repeatedly heard from DFI champions, pioneer investment managers, and peacebuilding experts that the status quo is not working.

This is not just about funding shortfalls. We see huge opportunities for peacebuilding, development, and developing finance partners to jointly contribute more than the sum of their parts as they increasingly serve the same conflict-affected communities and countries. The recommendations presented in this summary report offer tangible ways in which progress could be made.

As noted throughout this study, the I4P initiative is one among several peers at similarly exploratory stages in understanding and maximising the impact of private sector development and investment. We recommend that the I4P initiative transitions now from feasibility study to in-market piloting of the Specialised Investment Vehicle and draft Peace Impact Framework for Investment. This pilot phase should be organised to intentionally generate learning to assess the Vehicle and the Framework's fitness for purpose, and to test and refine both for broader application and scale.

Piloting should not be an excuse for anything but full commitment to the I4P's mission of achieving peace impact through commercial discipline. It will be critical not to over-inflate operating costs and headcount during these early stages to levels that would be unsustainable over time. Concessional resources must be used sparingly. This formative phase will set intangibles, like organisational culture and professional expectations, which can be challenging to unwind once established. Identifying and incentivising the leadership team carefully will therefore be the key to the success of this next phase.

Figure 17: **I4P Pilot Phase Timeline**



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