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Innovative Financing to Sustain Peace

An Explainer

By Riva Kantowitz

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About the Author

Riva Kantowitz is a Visiting Fellow at the Center on International Cooperation

There is a staggering investment deficit in the *prevention* of violent conflict. Mercy Corps notes that 10 years ago, 80 percent of humanitarian assistance went to responding to natural disasters. Today, that same percentage goes toward responding to (but not preventing) situations of violent conflict. This is a marked shift, and yet governments worldwide spend less than 1 percent of Official Development Assistance (ODA) on programming geared towards preventing violent conflict and building peace. Private donors spend less than 1 percent of the nearly $26 billion in global giving on peace and security writ large, including peacebuilding and prevention. Reflecting this deficit, the UN-World Bank report, *Pathways for Peace*, notes that targeting resources toward just four countries at high risk of conflict each year could prevent $34 billion in losses. In comparison, spending on responses to violent conflict through peacekeeping and humanitarian operations in 2016 was $8.2 billion and $22.1 billion, respectively.

The international community is focused on achieving the Sustainable Development Goals (or 2030 Agenda). As Sarah Cliffe and David Steven note, this requires clarity on what conflict and crisis prevention means and an integrated approach to these issues. The need for an urgent shift in priorities toward preventing rather than responding to crises is gaining recognition, in part buoyed by the "sustaining peace" agenda put forward by UN Secretary-General António Guterres. Defined in two UN resolutions as "a goal and a process to build a common vision of a society…which encompasses activities aimed at preventing the outbreak, escalation, continuation and recurrence of conflict," the term sustaining peace was highlighted in the UN's 2015 review of the UN peacebuilding architecture. As Dylan Matthews, CEO of Peace Direct, notes: "Peace and stability is the necessary precondition for all other social good initiatives. We cannot solve the big problems of our time such as climate change, poverty, and disease if countries are being torn apart by war."

Financing the sustaining peace agenda, the SDGs, and the prevention of conflict requires innovative thinking about new methods of generating resources. This is a nascent conversation—although gaining momentum—that necessitates translation and greater collaboration between the government, NGOs, and the private sector. While calls are increasingly being made across sectors for new ways of funding prevention and peacebuilding, there is not yet a clear strategy on how to do so, as the UN-World Bank report notes.

In this and a subsequent article, I will consider the various options available for increasing effective and innovative financing for peace and suggest next steps to turn these calls into reality. This post identifies key terms and tools that could be utilized in relation to alternative financing for sustaining peace with examples of applications in conflict-affected settings when available, as well as some challenges. In the second post, I will identify several lines of effort now underway that are related to financing for sustaining peace and provide specific recommendations.

Terms

Impact investing: The Global Impact Investing Network defines **impact investments** as those "made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return." Fundamental characteristics of impact investing they highlight include: 1) intentionality, or the explicit goal of having a positive social impact; 2) return expectation or the expectation that the investment will generate at a minimum return on investment and hopefully a financial gain; 3) "range of return and asset classes," meaning investments can generate returns that may be below-market or risk-adjusted across asset classes (e.g., cash, fixed income, venture capital, and private equity); and 4) measurement of social and environmental progress as a way of understanding success and contributing to the growth of the impact investing field. There have been various attempts to utilize impact investing as a tool for peacebuilding. These efforts tend to focus on economic development as a key to eliminating one of conflict's driving factors, though they are not easily categorized and are political. An October 2017 Financial Times article describes several impact investing examples in Israel and Palestine, including an IT development center in Ramallah created with the intention of bringing Israelis and Palestinians together. The article states that some working in this context understand impact investing broadly, sometimes grouping it under corporate social responsibility, while others even include job creation, and note the political sensitivities in trying to determine where to locate efforts and how to engage potential employees or beneficiaries.

Social impact bonds (SIBs): SIBs are a type of public-private partnership first utilized in the UK in 2010, aimed at generating public resources to improve social outcomes through private investment. Unlike traditional bonds, SIBs do not give returns according to a specified time period; rather, investors receive financial returns based on the accomplishment of a certain set of predetermined social outcomes. The amount of the return is not set at a specific percentage but is meant to be in keeping with the level of success with regard to the issue of concern. In concept, this type of contract between the government and private investors enables governments to funnel resources to more effective service-providers who utilize private investment to develop, expand and coordinate social programming. In July 2016, the Social Finance Global Network launched its first white paper examining the state of the social impact bond market. This paper reviewed the 60 social impact bonds that have been launched across 15 countries since 2010. Collectively, SIBs have raised more than $200 million in financing for social programs and there are some preliminary signs of efficacy: as of the writing of the report, based on performance data, 21 out of 22 projects indicate positive social outcomes, and four projects had repaid investors in full with a return on their investment.

There are also new applications of SIBs to conflict settings, particularly focused on meeting the multi-billion-dollar funding shortfall for humanitarian response to complex crises. For example, in 2017 the International Committee of the Red Cross (ICRC) launched the first **Humanitarian Impact Bond**. This program aims to utilize the 26 million CHF raised from private "social investors" to support three new physical rehabilitation centers (in Nigeria, Mali, and DRC) over a five-year period. Another set of investors, called "outcome funders"—the governments of Belgium, Switzerland, Italy, the UK, and la Caixa Foundation—will pay the ICRC at the end of the five-year period based on the results achieved. These funds will in turn be utilized to pay back the social investors partially, in full, or with an additional return, depending on the ICRC's performance as measured by the "efficiency" of the centers.

Social entrepreneurship: An increasingly popular term over the last decade, social entrepreneurship underscores the narrative of brilliant individuals coming up with innovative solutions, products, and services that impact—and often transform—people's lives. Ashoka, a leading social sector organization, defines **social entrepreneurs** as "individuals with innovative solutions to society's most pressing social, cultural, and environmental challenges. They are ambitious and persistent—tackling major issues and offering new ideas for systems-level change." Others, including the Schwab Foundation for Social Entrepreneurship and the Skoll Foundation, have helped to popularize the idea of social entrepreneurship through programs that find and support individuals with "innovative" and usually scalable solutions to pressing social issues. Discussions of how to apply entrepreneurship concepts to fragile and conflict-affected states have been ongoing for years and efforts include creating jobs and fostering economic inclusion, documenting human rights abuses, promoting reliable journalism, and mainstreaming conflict early warning systems.

What exactly defines a "social entrepreneur"? In a 2007 Stanford Innovation Review article, Martin and Osberg note that "entrepreneurs are believed to have an exceptional ability to see and seize upon new opportunities, the commitment and drive required to pursue them, and an unflinching willingness to bear the inherent risk…. Building from this theoretical base, we believe that entrepreneurship describes the combination of a context in which an opportunity is situated, a set of personal characteristics required to identify and pursue this opportunity, and the creation of a particular outcome." However, they also note that the definition and process of what social entrepreneurs do to achieve transformational change is not exactly clear. A decade later, the positive contribution of social entrepreneurship has undeniably transformed the way we live, though this understanding of the process by which transformational change occurs through social entrepreneurship remains opaque.

Cause Marketing/Corporate Partnerships: Cause marketing refers to a partnership between a "cause" and a for-profit organization with the goal of generating revenue, a part of which supports the cause. Well-known brands (e.g., Apple, The Gap, etc.) agree to donate a proportion of their profits from the sale of cause branded products to a specific effort or fund. FEED, founded in 2007 to address global hunger, produces tote-bags and other consumer products each stamped with a number indicating the meals provided with the item's purchase. Other notable examples include the "buy one give one" model of Warby Parker and TOMS shoes: with every pair of glasses Warby Parker sells, they donate a pair to their NGO partners; TOMS donates a pair of shoes to child in need for every pair sold. Perhaps the best-known example of cause marketing is Product (RED), a co-branding initiative launched in 2006 by Bono which utilized profits from the sale of (RED) products to support The Global Fund, which focuses on the fight against AIDS, tuberculosis, and malaria. This effort still continues: Starbucks has regularly partnered with (RED) to support the Global Fund on World AIDS Day. A percentage of purchases—served in Starbuck's signature "red cup"—are donated to the fund, totaling more than $12 million so far. A NY Times article published the year after the initiative's launch characterizes the goal of cause marketing as the combination of "consumerism" and "altruism."

Blended Finance: This term refers to the use of public funds to mobilize additional private investment that is jointly leveraged toward the achievement of a range of social impact goals. The essence of blended finance is to leverage government investment to mitigate risk and utilize public resources in a catalytic manner, to make private sector investment in "emerging" and "frontier markets" more attractive. A small portion of invested assets in banks, pension funds, insurers, multinational corporations, endowments and foundations are leveraged for social sectors, for example to address climate change, food security or advance the SDGs. This type of public-private partnership is intended to free large amounts of capital to increase the scope and impact of development financed programs. In February of 2016 the OECD Development Assistance Committee agreed to develop a framework that would articulate the strategic usage of blended finance as a tool to achieve the SDGs in a transparent and accountable manner, and in February of 2017 produced a document entitled: "Blended Finance for Sustainable Development: Moving the Agenda Forward." This is also a mechanism that shows promise, based on a recent survey by the World Economic Forum and the OECD which identified 74 pooled funds representing $25.4 billion in assets. The International Finance Corporation (IFC) notes that "tapping into the dormant potential of the private sector" in fragile and affected contexts is key to developing flexible and adaptable tools to ending extreme poverty, which is one of a constellation of factors that can lead to conflict. IFC programs funded through a blended finance approach have created jobs and helped to restore basic services (e.g., roads, ports, electricity, etc.) and generate revenue for the government, all of which contribute to stability.

A few key challenges

These are all interesting ideas to leverage much needed resources toward sustaining peace, fulfilling the SDGs, and preventing violence globally. However, they present a few challenges, particularly with regard to conflict-affected settings:

- There is an emerging discussion around lessons learned on how to utilize some of these tools in conflict-affected settings; however, their application to fragile and conflict settings is largely untested. Aside from certain social enterprises, many of these tools are meant to leverage funds to finance large-scale development projects focused on traditional development sectors (e.g., health, education, agriculture, etc.), and in places where it is possible to mitigate the risks for private investors. Achieving the sustaining peace agenda requires focusing on countries that are among the most fragile and thus, have the least developed and functional institutions and infrastructure to utilize some of these tools. Figuring out their application—including managing the realities of risk and investor expectations—in these settings will be an important task.

- It is unclear whether or not aggregate funding generated from all of these tools would really make a "dent" in relation to the financing needs associated with sustaining peace. According to the OECD, the total development aid budget in 2016 was approximately $144 billion, of which (for example) approximately $5.5 billion was directed toward Afghanistan and Syria—much greater than the total $200 million in financing generated through SIBs for social development. Of course, much of this funding is spent responding to a crisis versus preventing it; however, more research is needed to realistically determine the scale of funds that could be made available through these types of mechanisms, and how this amount is best utilized in relation to conflict prevention in fragile and conflict-affected contexts. To take another example, (RED) and its corporate partners have raised $475 million to support the Global Fund since launching the campaign 11 years ago. This may sound significant, yet the Global Fund raises $4 billion annually and as of May 2017 had disbursed $33.8 billion.

- Entrepreneurs and the value and creative ethos of entrepreneurship have unquestionably shifted the status quo and brought important changes to societies around the world, in our daily lives and on social issues from child labor campaigns like GoodWeave International to micro-lending platforms like Kiva. However, the Case Foundation's Myths of the Entrepreneur series highlight some of challenges with the way entrepreneurship is culturally depicted, including the pervasive image of primarily white men having a "stroke of genius while working by themselves in complete isolation" (frequently, it seems, in someone's garage). This is problematic for a number of reasons, including the fact that these stories tend to focus on white men as well as obfuscate the reality that most of the great "disruptive" innovations of our time emerged from teamwork and decades of incremental inventions: "This 'teamwork disguised as individual success' phenomenon is rarely talked about in mainstream entrepreneurship stories. It leads us to idolize the individual instead of analyzing the team and process that made the idea come to fruition." In the peacebuilding field, I worry that the needle could tip too far in favor of over-valuing "disruptors" and an underlying, perhaps unspoken, set of assumptions that complex social issues like violence and conflict can be "fixed" if only someone will have that "light-bulb" moment in the garage and come up with a new app to solve forced migration. As a field, we (and particularly donors) are susceptible to gravitating toward the new "shiny" technology (e.g., anything using the blockchain technology, which has serious potential to address social challenges but is not without its equally serious problems). The narrative of entrepreneurship could exacerbate this tendency. The NY Times notes that a new generation of high net-worth philanthropists tend to support "disruptive new ideas" and particularly those coming from the technology world have in interest in "early stage start-ups." Of course, these breakthrough innovations are important; but we also need institutions and regulatory regimes, and should support equally the people who work hard within them to create change. The real trick is in figuring out how to connect innovative breakthrough ideas with those institutions. This would generate a more holistic understanding of the ecosystem of vulnerabilities that foment violence and how to address them through start-ups doing fascinating and innovative work in addition to more traditional policy, diplomatic and programming efforts.

- There are many critiques of cause marketing worth reflecting on (including one referenced above, which is that the sums generated may not make much of a dent in the overwhelming financial need). One objection relates to the instrumentalization of suffering for marketing purposes. Another to the fundamental tensions that emerge from the fact that such campaigns are not managed by charities, but rather they benefit businesses: issues that can become problematic include the proportion of funds spent on advertising (with the goal of generating more profit) versus the proportion spent on the social cause. There are also critiques of the way in which these funds are disbursed; in the case of the (RED) campaign, the above NY Times article (from 2007) reports that these funds were not distributed to countries with the most need, but rather to those with proven success records.

- These mechanisms—save some work of social entrepreneurs—are generally not geared toward getting resources to grassroots organizations and networks that are often on the frontlines of preventing violence and building peace. Of the already small amount of ODA that is invested in conflict prevention, the largest share goes to governments through bi-lateral assistance, and then likely INGOs. A relatively miniscule amount of funding actually gets to communities and community-based organizations. There are structural reasons why governments and multilateral agencies are not well-positioned to fund grassroots actors. Yet, these individuals, communities and organizations are often those who understand best how to prevent violence and resolve conflict, and research has demonstrated that particularly in extremely complex operating environments, supporting local peacebuilders and communities is often the most constructive (see also Coleman, P., Douglas, F. Liebovitch, L., et. al., "The Science of Sustaining Peace: Ten Preliminary Lessons from the Human Peace Project," Columbia University and UNDP, 2017). Sustaining peace ultimately requires shifting power away from the prescriptions of international actors who will always have their own (often disparate) agendas, and toward local actors—through decision-making, partnership, and resource-allocation, so they are better able to generate, implement, and scale their own ideas and processes. The international community, and particularly private philanthropy, has a tremendous role to play in thinking about creative financing for grassroots groups.

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