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Innovative Finance to Sustain Peace: Mapping Ideas

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About the Author

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Abbreviations

AI	Artificial intelligence
AMC	Advance market commitment
ARC	African Risk Capacity
CGD	Center for Global Development
GAVI	The Vaccine Alliance
GCFF	Global Concessional Financing Facility
HBR	Harvard Business Review
ICRC	International Committee of the Red Cross
IDA	International Development Association
IFC	International Finance Corporation
IFFIm	International Finance Facility for Immunization
IPSI	International Peace and Security Institute
ODA	Overseas Development Assistance
OECD	Organization for Economic Co-operation and Development
PBF	Peacebuilding Fund
PBSO	Peacebuilding Support Office
RDF	Rural Displacement Fund
SDGs	Sustainable Development Goals
SIBs	Social impact bonds
SMEs	Small and medium-sized enterprises
WEF	World Economic Forum

Introduction

In a previous briefing exploring innovative finance for sustaining peace, I identified key terms and tools that could be utilized in relation to alternative financing for peacebuilding, with examples of applications in conflict-affected settings when available. I also raised some challenges and unanswered questions regarding the use of innovative finance tools in these environments.

This article continues the effort to examine innovative finance from a peacebuilding perspective by describing important related conversations in the humanitarian and peacebuilding sectors, and efforts and tools in finance that could be utilized for sustaining peace. I also look at a few "gamechangers"—not specific tools themselves, but rather technologies or methods that have the potential to radically shift the way in which these tools are employed. I end with challenges and next steps for those trying to connect the tools of innovative finance with peacebuilding to consider.

I should begin by offering a working definition of both innovative finance and peacebuilding—concepts that are often hard to describe with precision.

In *An Agenda for Peace*, the United Nations defined peacebuilding as a process that i) focuses on transformational change to facilitate the establishment of long-lasting and durable peace and ii) tries to prevent the recurrence of violence by addressing root causes of conflict. Peacebuilding can involve a wide range of activities including reconciliation, institution building, and political and economic transformation. Although peacebuilding is often thought to come after peacekeeping and mediation/negotiation processes, there is a deeper recognition today—particularly through the concept of sustaining peace—that the cyclical and protracted nature of conflict requires continuous attention to risk factors.

Innovative finance does not seem to have a precise definition though it has several key signatures: adapting existing financing tools to make them more effective; addressing a gap in funding, particularly through leveraging more flexible funding (not project-specific resources); integrating new tools into existing funding approaches; providing funding more efficiently at the national level in a way that enables countries to establish their own priorities; and financing innovation.

In the multilateral world, the idea of "innovative finance" evolved from the recognition that additional resources were required in order to achieve the Millennium Development Goals. This conversation has been spurred more recently by the World Bank's "billions to trillions" campaign, which focuses on addressing the shortfall in financing for the Sustainable Development Goals (SDGs) by turning billions of dollars of official Overseas Development Assistance (ODA) into trillions through utilization of private financing. While there is consensus that exponentially more resources are needed to achieve the SDGs, the billions to trillions concept has been the subject of criticism. In a 2018 publication, Burgess, Scholz, Wood, and Selian note that resources alone will not "solve" the SDGs, but also that the multitude of actors working on them must address "a combination of ineffective systems design and intransigent human behavior driven by short-termism, fragmentation, and counterproductive incentives."

Such critiques—discussed more fully in the "Challenges" section below—can be extended to the use of innovative finance. These discussions highlight that the potential enthusiasm around innovative finance risks obscuring some fundamental challenges with development assistance. Central among them is the responsibility of states, and particularly the role of developed economies, in tackling pernicious issues such as meeting ODA commitments, stemming illicit financial flows that end up benefitting high-income countries, and, as discussed below, supporting a debt relief scheme. There is also an established literature on the tensions between development (and development financing in general) and conflict prevention. The field of business and human rights, including instruments like the UN Global Compact and tools such as human rights impact assessments, arose in reaction to many of these grave concerns, though these tensions are always worth bearing in mind. Ultimately, the tools of innovative finance may not be well suited to address deeply structural issues with the global system. Overreliance on them may feed factors that have and continue to drive conflict, including diversion of wealth from less developed countries to more developed ones.

There are (at least) two conversations related to innovative finance happening simultaneously but in isolation: one in the development finance community, which focuses on the strategic use of public/foundation funds to "crowd in" private capital, for instance through de-risking or blending; and one in the peacebuilding and humanitarian spheres, which focuses on how to finance global public goods (such as conflict prevention and refugee care) that are currently underfunded. The former is more developed than the latter, and the diverse communities struggle to understand one another's points of reference and lexicon.

Below, I have described some considerations within two main discussions: one in the humanitarian sphere, focused on addressing refugees and forced migration, and another in applying innovative finance to peacebuilding. A third, related discussion includes work on how to utilize private sector models to support civil society, particularly in increasingly authoritarian contexts. This discussion is out of the scope of this paper, though it is related because it focuses on the capacity of NGOs to operate and how the international community can support national and local actors in a responsible and sustainable way—which often includes those working on issues related to peace and conflict (see work by Shannon Green and Edwin Rekosh).

Humanitarian assistance

The utilization of innovative finance tools to address humanitarian concerns was in part catalyzed by the European refugee crisis of 2015. This phenomenon highlighted the reality that current policy and funding mechanisms are insufficient to address the problem of forced displacement. According to UNHCR, as of April 2018 funding shortfalls for the Syrian crisis alone totaled $4.1 billion USD. However, as Leah Zamore has argued in various fora, the issues related to financing and humanitarian crises go back decades and were shaped by the global economic policies adopted by donors and international financial institutions in the late 1970s and early 1980s. These policies encouraged developing countries to deregulate their economies and reduce public spending in ways that imposed disproportionate hardships on vulnerable communities, refugees included.

The aid community registered alarm at these policies beginning several decades ago and changed strategies to focus on longer-term livelihood creation activities; yet funding these micro-level interventions has not resulted in a significant shift in the macro-level dynamic in which states often do not have the resources or the policy space to invest in education, health care, justice sector initiatives, and institutions and functions of the state.

Any intervention focused on raising capital through the tools of private finance that are becoming fashionable—social impact bonds, blended capital, etc.—must be understood in concert with these macro-level economic challenges. Significant reform is required in order to create the structural conditions that will enable low-income countries to emerge from poverty and successfully address the needs of their own populations as well as refugees. Zamore has placed particular emphasis on, among other things: debt-forgiveness as a public good for hosting refugees; abolition of excessive corporate tax exemptions and a redoubled effort to curb capital flight and tax evasion in fragile settings; a focus on funding the small and medium-sized enterprises (SMEs), which account for roughly 90 percent of the workforce in host states; and abandoning tied-aid policies that tend to serve foreign investors and multinational corporations rather than stimulate local development.

That being said, the current framework for addressing forced displacement has generated a re-thinking of these policies and approaches, including a focus on utilizing "new" tools to address the funding shortfall. For example, the International Rescue Committee has clearly identified a problem—the fact that ODA takes too long to distribute in crisis and displacement situations—and has proposed a solution, displacement risk insurance, to address this (insurance for disasters is discussed in the following section).

Before we begin our discussion of specific tools, a note on the inclusion of the various mechanisms discussed here: none are offered as a panacea, and each could undoubtedly be the subject of its own paper. There are well documented critiques of disaster risk insurance, impact investing and public-private partnerships, to name just a few. The intent of this paper is to introduce these tools to the peacebuilding and humanitarian community and foster dialogue with finance experts. Extensive debates about the merits of each approach is out of its scope; however, this overview is offered in the hopes of stimulating incisive future consideration of their merits and challenges specifically applied to conflict-affected countries.

Innovative tools related to the humanitarian sector

Global Concessional Financing Facility (GCCF). Created by the World Bank with the UN and the Islamic Development Bank to bridge the humanitarian-development divide regarding displaced refugees, "The GCFF provides development support on concessional terms to middle-income countries impacted by refugee crises across the world." The goal of this support is to help bridge the gap between short-term humanitarian relief and longer-term development assistance, acknowledging that the length of time people are displaced due to conflict continues to grow and, thus, host countries need to adapt institutions and systems in order to serve the needs of these populations. Donor countries provide contributions to the GCFF to enable these goals. The GCFF has several unique features; for example, the mechanism calculates lending to recipient countries so as to reduce borrowing rates and not increase the debt burden on refugee host countries and results reporting and programming are focused on the impact on both refugees and the host communities.

Social impact bonds (SIBs). Though not really bonds, but a "placement," as they are not issued by governments, SIBs have gotten a lot of attention as well, and there are some interesting approaches including the Kois Investment-developed ICRC bond mentioned in my previous policy briefing. Kois is also in the process of developing a new SIB to address refugee livelihoods in countries hosting Syrian refugees. In examples of public-private partnerships, Citibank and the IRC announced a $2 million initiative last fall to generate income for refugee youth in Greece, Jordan, and Nigeria. There are many interesting new applications of technology to refugee settings, some mentioned in the "gamechangers" section below.

Peacebuilding

Discussions of how to utilize innovative finance tools to sustain peace have lagged behind conversations and action in the humanitarian and development sector. This is a largely undefined space. Peacebuilding and conflict prevention interventions are also grossly underfunded and there is keen interest in better understanding how programming can achieve the most return on investment, but there is little concrete sense of how to actually do that. Prevalent thus far seems to be a focus on generating additional revenue for existing platforms or programs, or an emphasis on particular tools (e.g., SIBs, cause marketing), though often without a rigorous and systematic effort to articulate conceptually which processes within the domain of peacebuilding are best suited to these tools. Some central initiatives to connect peacebuilding and innovative finance include:

Innovative finance for sustaining peace

Multilateral institutions. The UN Peacebuilding Support Office is exploring financing opportunities related to cause marketing and peace bonds (among others), while the World Bank/International Finance Corporation are looking at ways to increase private sector investment in conflict affected countries.

Venture Peacebuilding. An initiative by the International Peace and Security Institute (IPSI) to advance arguments that investment in peace can be a profitable cause.

Colombia: an innovative finance lab. A case study worthy of analysis for innovative finance approaches that serve both humanitarian approaches and sustaining peace:

- First developing country to develop Social Impact Bonds to promote skills training and employment
- Other efforts include a variety of actors and strategies such as public-private partnerships and the forfeiture of seized assets to fund victim repatriation programs
- However, the myriad of efforts are disconnected and may not be sustainable

Multilateral institutions. The United Nations is taking innovative finance seriously, and there are worthy proposals to grow the resources for the Peacebuilding Fund (PBF). As Paige Arthur has detailed elsewhere, the proposals to expand this mechanism range from asking member states to allocate the equivalent of $100 million or 1 percent of the annual peacekeeping budget from assessed contributions to the PBF, to allocating unspent, end-of-year balances from peacekeeping missions to the PBF. Arthur notes that these proposals are about how to raise the funds required to make a substantial investment in PBF—however, the question remains what to do with them. Similarly, PBSO is exploring how they can support options such as peace bonds and cause marketing campaigns.

There is a discussion within the World Bank/International Finance Corporation (IFC) community about a mandated increase in private sector investments in conflict-affected countries, but the strategies for how these funds will be spent are as yet unclear. The Center for Global Development (CGD) notes that in exchange for a $5.5 billion USD increase in paid-in capital by its shareholders, the IFC has committed to increase funding to International Development Association (IDA) countries and fragile and conflict-affected states by 40 percent. According to CGD, these commitments translate to the IFC having to expand its portfolio by a factor of eight in low-income and even more in fragile and conflict-affected countries. This requires identifying a huge number of projects that are worth investment in challenging operating environments for private capital—and it remains to be seen whether this can be done well within a system that is heavily geared towards investment in middle-income countries.

Venture Peacebuilding. This is an initiative led by the International Peace and Security Institute (IPSI), a division of Creative Learning, aimed at making the case for why investment in peace is not only a moral imperative but also a financially profitable one. Venture Peacebuilding was launched through a January 2017 symposium. According to the conference's executive summary, key takeaways include: the need for business models that do not make the case for investment in peace solely within a corporate social responsibility (e.g., moral responsibility) framework but can demonstrate clear positive cost-benefit results for social causes; more communication across peacebuilding, social entrepreneur, and impact investing fields, including crafting a shared language; and new metrics that reflect the impact of investments on peacefulness. Next steps include growing the Venture Peacebuilding network and designing a "peace investment impact matrix."

Colombia: an innovative finance "lab." Colombia has become a fertile ground for innovative finance approaches, developing tools that could be framed as serving both humanitarian purposes and sustaining peace. This context is also an important "test" case for private sector investors and the corporate world in general. Colombia developed the first SIB to promote skills training and employment in three Colombian cities (Bogotá, Cali, and Pereira). The Rural Displacement Fund (RDF) aims to assist Colombia in addressing the needs of more than 7 million internally displaced persons, the largest in the world. The Rockefeller Foundation, one of the architects of the RDF, notes that the aim of this mechanism is to help small farmers access land and restart their livelihoods—an essential process in a country where 87 percent of the displacement occurred in rural areas and the distribution of property is the most unequal in Latin America with one percent of the population owning 81 percent of the arable land. The RDF raises capital to purchase unused fertile land, parcels it into smaller productive units and leases the units to families wanting to return to these properties (whether the financialization of land reform is a good idea is a relevant question). Another partner, TerraBlanca, assists the farmers with production and access to markets to ensure that families can meet their lease payments.

Other efforts range from leveraging public-private partnerships to raise funds to train youth in financial literacy and employment skills in post-conflict areas to the forfeiture of seized assets to fund victim reparation programs. The latter was reported earlier this year to include more than 650 billion pesos ($234 million USD). The 2018 Concordia Americas Summit (July 16–17, Bogotá) focused on regional financing challenges with the goal of helping Colombia raise the $2.5 trillion funding gap needed to achieve the United Nations' Global 2030 Agenda and the estimated $60 billion to implement the peace accord. The Summit included the launch of the Concordia Innovative Finance Coalition and articulated several takeaways, some of which mirror the conclusions from the Venture Peacebuilding symposium: the need for clearer articulation of the relationship between positive impact and bottom-line profits; nationwide impact metrics that signal to potential financiers what can (or should) be expected from their investment from a social standpoint; shifting focus to managing versus avoiding risks; and more co-lending, collaboration, and collective action, which would reduce duplication of aid instruments and fragmentation of efforts and impact (See: Concordia Americas, Issue Brief: Innovative Finance, August 2018).

Despite these attempts, critics note that the impact investing landscape in Colombia contains a myriad of disconnected efforts that are not sustainable. The Government of Colombia should raise its efforts to put forward new models that would attract sustainable finance and create more incentives and mechanisms for collaboration that can facilitate effective, efficient, and scalable solutions (personal communication, February 7, 2018).

Interesting examples of innovative finance tools

The below examples were selected because of their potential applicability to conflict-affected settings. This is not meant to be an inclusive list of tools, and some emerging areas such as Islamic financing are not discussed. Interesting work is being produced around innovation constantly; for example, a new report was just launched by the United Nations Development Programme with data from more than 25 countries examining how innovation can be used to make development more impactful, which will likely have implications for sustaining peace. The tools below are interesting to consider, either because they have been "tested" or are related to conflict, or because they have been utilized to address social outcomes in sectors such as public health but could potentially be adapted.

Specific to conflict-affected settings

Mutualization of risk/risks insurance. The mutualization of risk refers to divvying up exposure to potential financial losses among different stakeholders, including insurance policyholders, investors, businesses, organizations, people or governments, thereby lowering the financial losses for any one entity. This concept has been adopted by the African Union which has created a specialized agency, the African Risk Capacity (ARC), to help member states improve their resilience to natural disasters. The ARC Insurance Company pools together hundreds of millions of dollars collected from participating African country members that is distributed quickly and efficiently to member states in need during natural disasters when a quick response is paramount. This eliminates the time-sensitive issues that arise from afflicted states needing to wait for emergency international aid to arrive. As the ARC states: "By merging the traditional approaches of disaster relief and quantification with the concepts of risk pooling and risk transfer, ARC will help create a pan-African disaster response system that meets the needs of those affected in a timelier and more efficient way and provides an important step forward in creating a sustainable African-led strategy for managing extreme climate risks."

The previously mentioned IRC-developed displacement risk insurance is a potential application to conflict settings that would have similar benefits: rapid mobilization of funds through bypassing the cumbersome and onerous processes of the international community that can often be ad hoc and subject to political whims. A pooled fund such as this could utilize regional financing in a sustained way to support regional recovery as dictated by a national process and national priorities. An early-warning, early-response conflict fund could function similarly, pooling risk among African or any regional countries for improved conflict prevention and response.

Diaspora bonds. Government bonds specifically geared towards diaspora communities, building on expatriate ties to family and country, to help fund national projects. In a 2016 Guardian article, Ade Daramy Chair of the African Foundation for Development, noted that remittances from diaspora communities were expected to reach $600 billion USD that year, vastly outpacing official development assistance at $144 billion USD for that same year. Israel and India have had tremendous success utilizing diaspora bonds, as of 2010 raising $35 billion USD to pay for government projects. This type of bond could be used to raise financing for conflict-affected countries, though cautions include the fact that countries with weak governance structures and unstable currencies may need capacity building and credit enhancement from the international community. Further, diaspora communities often have very different—and more hardline—political views than those living in their homeland, which could affect funding priorities or decisions about recipients. There is also a risk that governments could become dependent on diaspora financial flows—however, as Daramy notes, diaspora communities are already providing these funds, to support families as well as SMEs, without being asked, and will continue to do so.

Tax on imported goods. The African Union instituted a 0.2 percent tax on select imports to the respective member countries in order to finance the AU's Peace Fund, which endeavors to make the AU self-sufficient for peace and security operations and initiatives in the region.

Taxation of global arms trade. The idea of introducing a tax on the global arms trade has been in discussion for almost 40 years, first coming to international attention when selected as one of the major recommendations for further consideration in the Brandt Report (Independent Commission on International Development 1980), commissioned by the World Bank. The commissioners argued for the "double-dividend" of an arms tax that would presumably both raise additional funds for investment in development and social outcomes and reduce the prevalence of arms due to the higher cost of weapons, thereby limiting the devastation of conflict. Various notable individuals have taken up this call over the years, perhaps most prominently Oscar Arias Sánchez, former President of Costa Rica and the leader of a group of Nobel Laureates who drafted a plan in the mid-1990s to create an arms tax. The goals of such a tax generally focus on four objectives: reducing the volume of the arms trade, which thereby would reduce incidence and cost of wars; reducing spending on arms for military purposes, which would allow for more investment in development; generating resources for an international fund, likely to be managed by the United Nations; and compensating victims of war through the revenue generated from the tax. Proponents of such a tax note the progress that can be made without the burden of military spending which diverts these resources from addressing the root causes of conflict, including issues of poverty, access to education, and better functioning and resourced justice and governance systems.

Concerns related to such a tax include the likely reality that not all governments would participate, thus making it ineffective; the huge challenge of counteracting the strong economic incentives for governments who export arms; even if countries agree to the tax in principal, it is not clear who or what body would enforce the tax, including monitoring compliance and having the authority to sanction non-compliant countries; and taxation is one of the main factors in the growth of shadow economies—given that a significant part of the arms trade is already illicit, a tax would provide further incentives to increase this trade, particularly in small arms and light weapons as these are difficult to track.

Repatriating stolen assets. The OECD defines stolen assets as money, property, or other assets amassed through corrupt acts. Asset recovery—which has also been around for decades and is not necessarily "innovative" but rather untapped—is the process by which these proceeds are traced, frozen, and returned to the country of origin. In the development community, this largely refers to corruption, although there are also significant efforts to recover cultural heritage. There are several international protocols guiding the recovery of stolen assets, and the Stolen Asset Recovery Initiative, a partnership between the World Bank Group and the UN Office on Drugs and Crime, has produced principles and standards and a series of tools and manuals to prevent the laundering of corruption proceeds and promote their return. Despite this relative systematization, the Open Society Justice Initiative notes that there are serious legal impediments to proving the

Innovative finance in conflict-affected settings

Mutualization of risk/risks insurance. This model proposes divvying up exposure to potential financial losses among different stakeholders, lowering financial losses for any one entity

Diaspora bonds. Bonds geared towards diaspora communities:

- To be viable, countries with weak governance structures may require advance help on capacity building and credit enhancement
- Funding decisions and priorities could still be affected by differences in criteria between local populations and diaspora communities

Tax on imported goods. Select imports for financing peace funds

Taxation of global arms trade. A 40-year old idea first included in a World Bank commissioned report that would impact four areas:

- Reduce volume of arms trade
- Reduce spending on arms
- Generate resources for an international aid fund
- Compensation of victims of war

Repatriating stolen assets. The return of assets obtained through illicit means to their governments origin and nature of hidden assets, and rates of return remain low. As of 2011, an estimated $20-40 billion USD were stolen from public treasuries each year in developing countries and of these funds, approximately $5 billion USD had been recovered and returned.

These processes have a focus on corruption in developing contexts in general, though a 2010 UNDP report highlights the specific challenges for corruption in post-conflict countries: "The correlation between corruption and lower economic growth and the perpetuation of wartime power structures and the unjust distribution of public resources have made it a key challenge to peacebuilding efforts" (p. 9). The authors note that addressing corruption in a post-conflict context requires a specific approach sensitive to the atypical realities of these environments. Indeed, the chaos of war incentivizes behaviors that may be illicit, either out of survival or a more nefarious motive to profit personally from a situation with little oversight and regulation. Natural resources can be a particular touchstone for the perpetuation of conflict and rent-seeking behavior, and these resources are often privatized in a post-conflict period generating fortunes for certain individuals. The balance between business and social welfare interests in a climate where the need to finance reconstruction efforts is a challenge. However, seizing stolen assets has the potential to generate an important revenue stream for supporting peacebuilding activities, at the same time as it sends an important message that corruption will not be tolerated in a new era and can contribute to rebuilding the confidence of citizens in the state.

Development/public health models applicable in a conflict/post-conflict context

Other examples of interesting models that have largely been applied to basic development and public health issues but, with some serious creativity, could be utilized to address humanitarian or peacebuilding concerns include:

The Vaccine Alliance (GAVI). An international organization created in 2002, GAVI is a vaccine alliance based on a public-private partnership with the objective of creating equal access to vaccines for children in the world's poorest countries. While there are significant critiques of GAVI, it is funded through a unique model that pairs direct contributions from governments (76 percent of overall funding) with innovative finance funding streams (24 percent) that include the International Finance Facility for Immunization (IFFIm) and the Advance Market Commitment (AMC). IFFIm was set up in 2006 to utilize pledges from donors to sell "vaccine bonds," which make large amounts of capital available for GAVI programs. This mechanism was the first aid-financing entity in history to attract donor commitments spanning up to 20 years, which then provides the access to resources and stability over the long-term that developing countries need to make sound planning decisions regarding public health and disease eradication. The AMC works by having donors commit funds in advance to guarantee the price of vaccines once they have been developed. This structure supports the pharmaceutical industry's ability and commitment to investing in research and development and expanded manufacturing capacity. In return, companies sign a binding contract to provide vaccines at affordable prices to developing countries.

Dutch Postcode Lottery. This lottery, founded in 1989, contributed over 5.5 billion EUR to charity organizations between 1990 and 2017. According to Novamedia, the Dutch marketing agency that started the mechanism, the Lottery now supports 112 charities around the world with a focus on "people" and "planet," specifically organizations working on poverty alleviation, nature conservancy, human rights, the environment and social cohesion. In 2018, the lottery contributed 357 million EUR to various organizations, and is one of the largest supporters of human rights and humanitarian organizations in the world, providing assistance to Human Rights Watch and for work on the Syrian refugee crisis, among others.

Solidarity tax on airplane tickets. This a surcharge implemented by nine countries in 2005 (Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger, and the Republic of Korea) that is applied to airline tickets that meet a certain set of criteria. As of 2015, the "solidarity contribution" had raised over 1.7 billion EUR, primarily utilized to fund GAVI and UNITAID, organizations working on HIV/AIDS and global health.

The degree to which innovative finance can be used in new and better ways to address needs at multiple levels of intervention will inform the overall success of these new efforts—for example, one best practice is likely designing humanitarian cash transfer programs (i.e., giving people money to assist with survival and recovery needs, a common feature of humanitarian programs in crisis) in coordination with the existing social protection programs in host countries so they can eventually be merged. With regard to ODA, the more it is possible to de-link humanitarian and development arms from political processes (e.g., give development agencies their own endowments), the more stability this is likely to create in funding processes.

Lessons from development and public health models

The Vaccine Alliance (GAVI). A public-private partnership that seeks to create equal access to vaccines for children in need. Its unique model of funding pairs direct contributions from governments with other finance funding streams

Dutch postcode lottery. A lottery system now supporting 112 charities around the world. One of the largest supporters of human rights and humanitarian organizations

Solidarity taxes. A surcharge on certain goods, such as airplane tickets, to fund particular initiatives and projects.

The gamechangers

The innovative piece of "innovative finance" necessarily encompasses frontier technologies—new technology in a new market for a new purpose. Blockchain technology and artificial intelligence (AI) are two of these potential force multipliers in the world of financing, with the capability to shift the entire value proposition of funding to make it safer, more secure, accountable, efficient, equitable and accessible. Similar to the last generation of mobile phone connectivity, which gave anyone with a phone the access to raise capital and connect with investors on a different scale, these technologies could leap frog other slower processes of development.

Gamechangers for Financing Peacebuilding

Breakthroughs in technology allow different sectors of society to re-imagine how to further their missions.

Blockchain. Blockchain technology has the potential to reshape the investment industry, creating significant opportunities to radically change financing for development, humanitarian, and peacebuilding activities. Underlying blockchain technology has the capacity to support a multitude of other applications, from asset registries, including improved documentation of extractive industry and land ownership, to the secure documentation of human rights abuses.

Artificial intelligence (AI). Generally understood as a set of capabilities that can be better performed by machines or that help humans better perform a given function. A key challenge is to shift AI toward the vastly underexplored territory of building peace—for example, helping peacebuilders more effectively analyze social network data or drone imagery to develop early warning early response systems.

Blockchain technology. This is a revolutionary cyber infrastructure system that allows for the cheap and efficient transfer of funds and capital around the world between buyers and sellers. In a 2017 Harvard Business Review (HBR) article, the authors liken the development of blockchain technology to the development of the internet, noting that the latter took decades and involved many successive layers:

> The TCP/IP protocol was used to address and control how packets of data were routed between computers. Cisco built products like network routers, capitalizing on that protocol, and by March 2000 Cisco was the most valuable company in the world. In 1989 Tim Berners-Lee developed HTTP, another open, permission-less protocol, and the web enabled businesses such as eBay, Google, and Amazon.

Similarly, there is not one blockchain but rather successive iterations of code and applications.

The difference between blockchain and cryptocurrencies, particularly Bitcoin and Ethereum, is worth explaining, as these technologies are often conflated. This is in part because cryptocurrencies were the first major wave of open blockchain innovation. However, cryptocurrency is just one application of the underlying blockchain technology: "Like the internet, this technology is designed to be decentralized, with 'layers,' where each layer is defined by an interoperable open protocol on top of which companies, as well as individuals, can build products and services." The HBR authors point out that this, however, is one huge difference between the development of the internet and blockchain technology, arguing that the "killer app" for the internet was email. This is because the internet was developed with government defense funding and the goal of enhancing networks—primarily research institutions and universities. There were initially no commercial players or interests. In contrast, Bitcoin is the "killer app" for blockchain technology. This has led to a significant attention among venture capital investors and created a situation in which interest potentially outpaces the development of the technology. Thus, one challenge is that the development of blockchain technology might not benefit from the same lack of scrutiny and pressure from various interests that the internet benefited from for such a long period.

The underlying blockchain technology has the capacity to support a multitude of other applications, from asset registries, including improved documentation of extractive industry and land ownership, to the secure documentation of human rights abuses. Blockchain technology has the potential to reshape the investment industry, creating significant opportunities to radically change financing for development, humanitarian, and peacebuilding activities. It does so by removing much of the bureaucratic processes and fees associated with banks and middlemen and is supposedly very secure. Blockchain technology could facilitate secure and decentralized transactions, thereby reducing fraud and increasing transparency and efficiency in multi-party transactions. For example, the World Bank notes that the cost of sending remittances in 2017 was seven percent. Even though this had fallen from 10 percent in 2008, utilizing a system with limited transaction fees means the recovery of approximately $4 billion USD that is lost each year.

Blockchain technology could also provide the ability for local actors to leapfrog by allowing more equitable access to donors (though still requiring intermediaries) and easily scalable solutions. Interesting applications of blockchain technology include the work of ToPL, an organization that is building an open-capital infrastructure utilizing blockchain technology tailormade to developing contexts. Their goal is to overcome barriers that hinder investment in emerging and frontier markets by enabling investors and local actors more direct access to each other—thereby helping investors find interesting opportunities and SMEs in these contexts raise needed capital. The World Economic Forum notes that blockchain technology could change the way humanitarian assistance is distributed and directly impact the lives of refugees through: 1) addressing the lack of documentation that affects a majority of refugees by storing important identifying information and digitally authenticated documents on the blockchain ledger; 2) helping to provide for basic needs like food aid through utilizing cryptocurrency so that refugees can purchase goods; and 3) facilitating work through providing and storing work permits and other education and skills-related documentation on a blockchain ledger. This is evidenced in a refugee camp that runs entirely on blockchain technology. For example, refugees are able to buy food by looking into a retinal scanner which connects them to their World Food Programme account, cutting traditional bank transaction fees by 98 percent and eliminating the need for a traditional bank account or identification like passports, which are often destroyed or seized in conflict (though the idea of this digital identification falling into the wrong hands or being used for ill purposes is also alarming and the security issues around the usage of blockchain tech remain paramount).

Artificial intelligence (AI). AI is generally understood as a set of capabilities that can be performed more efficiently by machines, thus replacing humans, or to help humans better perform a given function when tasks are too complex to be performed by machines. AI is difficult to define, in part because we do not have one single definition of intelligence. TechEmergence defines AI as "an entity (or collective set of cooperative entities), able to receive inputs from the environment, interpret and learn from such inputs, and exhibit related and flexible behaviors and actions that help the entity achieve a particular goal or objective over a period of time." There are interesting applications of AI to social issues happening now. The AI for Good Foundation works on the application of AI and machine learning to a range of social issues, from climate change to corruption and good governance to gender equality. The ability to process large amount of data is being used to create better suicide prevention programs and drone technology—which will most likely be controlled by AI in the future—is enabling the delivery of life-saving blood to Rwandan hospitals via a text message. What would self-driving vehicles mean for the provision of humanitarian assistance in dangerous operating environments? These innovations are surely on the horizon.

There are a number of ethical considerations around the usages of AI in relation to conflict and the usage of AI capabilities to support war, in particular the military investment in fully autonomous weapons (sometimes called "killer robots"), and whether these processes should be banned or merely regulated. In 2017, the Basel Peace Forum hosted a workshop on the ways in which AI can prevent global conflicts and build peace. There was consensus on the need to shift from the usage of AI primarily to develop lethal military capabilities to the vastly underexplored territory of building peace. Applications could include helping peacebuilders more effectively analyze social network data or drone imagery to develop early warning early response systems; monitor conflict dynamics; assess the effectiveness of responses; and develop learning tools through simulations of international mediation or other related activities. The direct linkage to innovative finance is as of yet nebulous, though it may be worthwhile to examine AI applications in other areas of finance, particularly in relation to developing or tracking metrics. AI is worth mentioning because the same tools that have the capacity to manage thousands of complex variables to assist peacebuilders in making more effective programming decisions can also help develop metrics and indicators that can be utilized to maximize the effectiveness of innovative finance tools. Further, there remains the question of who will fund this wave of technology? The social sector often lags behind on adopting—and having the resources to adopt—these tools; innovative finance investors may be better attuned, and their goals better aligned, to front the capital for these types of technological advances.

The challenge

The intersection of innovative finance and peacebuilding presents exciting new opportunities to systematically develop conceptual and analytical processes that will help peacebuilders work with finance experts to select, design, and test appropriate tools that can generate more revenue to address war. Utilizing the tools of innovative finance to sustain peace requires a process that educates both peacebuilders and finance experts. Peacebuilders need a better understanding of the profit motive in a market that is not functional. What motivates private sector investors? How do we combine the technical expertise of those who have spent decades working on conflict and are adept at understanding conflict analysis and principles such as “do no harm” (to avoid exacerbating or creating social tensions) with finance experts’ knowledge of tools? How do we develop a common set of rigorous and meaningful indicators on violence prevention and peacebuilding that can be utilized in conjunction with mechanisms that require targets, with the potential to spur more efficiency in programmatic funding and outcomes for peace?

In order to think systematically about how to use innovative finance tools, the peacebuilding field needs a framework that examines such questions as: where the country is in terms of a conflict cycle; what are current systems and infrastructure related to financing and the targeted set of peacebuilding processes; what is the composition of current financing to that country; and what are the root causes of conflict including economic (as well as social and political) drivers.

For example, in Nepal, Haiti, and Kyrgyzstan, almost a third of GDP in 2016 came from remittances. These types of factors are significant in considering the appropriate financial tools (e.g., diaspora bonds might be a good choice in this circumstance). A recognized best practice in the development community is support to SMEs—which in a developing economy can be 80 percent of the private sector. Communities manage to work around the challenges inherent in a conflict-affected environment in agile and innovative ways, and an understanding of these approaches is necessary to understand the economy as a whole. These are preliminary ideas and sets of questions, and a piece of the work that lies ahead is to organize them within a framework. This framework needs to address multiple issues: definition of the problem; tools; feasibility of implementing the tools given a wide range of factors (e.g., type of conflict, drivers, levels of analysis, context including time and economic analysis, and actor); and barriers/challenges.

Part of the challenge for peacebuilding is that it has always encompassed a broad range of pursuits centered around a set of principles, such as structural transformation and eliminating root causes of violence, rather than a finite set of programs or activities. In fact, as I have discussed elsewhere, the field is evolving away from static check lists of conflict drivers to a more dynamic and nuanced understanding of the types of risk factors that create fragile states and their inter-relationships. Last year's joint UN-World Bank report, Pathways for Peace, suggests that conflict is caused by a constellation of dynamics, including patterns of exclusion and inequality that, in the presence of other dynamics within three core pillars (institutions, structural factors like geography, and agency), can trigger violence.

Similarly, researchers in the Advanced Consortium on Cooperation, Conflict, and Complexity at Columbia University's Earth Institute argue that to better determine policy and programmatic intervention points necessary to sustain peace, we need a much better understanding of complex adaptive systems. This includes how local, national, and international situations that involve dozens, if not hundreds, of factors are interconnected and react to each other. Preliminary findings suggest that community-initiated programs are usually more durable, inclusive (of women and youth in particular), and effective at sustaining peace.

Do complex adaptive systems and constellations of interrelated variables lend themselves well to innovative finance tools? The above efforts are all furthering our understanding of what sustains peace; now, more thought into how tools from finance can be applied to complex adaptive systems, rather than siloed development or humanitarian response program activities, is needed. Perhaps the first step is an approach that helps local communities and national actors articulate their principal needs, and then an intermediary with appropriate technical expertise helps package them in an effort to determine which types of financing tools are appropriate. In general, there needs to be more systemization and order in considering different factors and levels of analysis and their relationship to financing tools.

The peacebuilding field could also learn from other disciplines like public health, climate change, and famine prevention, all of which are focused on preventing crises and proving the counterfactual—a central challenge in the peacebuilding field. While subject matter experts can refine the complex systems thinking that will help us sustain peace, the field needs to be better at distilling results into key messages to funders. Yes, social processes are complicated and hard to measure. Public health also involves complex processes, including getting people to change and adopt new behaviors, and yet the field has managed to sell powerful messages that are easily understandable about why their work is life-saving. What is the "disease eradication" equivalent of the peacebuilding world? The ability to translate these messages clearly are central to attracting more funding, private-sector or otherwise.

Finally, it is important to consider that the fields of peacebuilding and finance have fundamentally different assumptions—about the management of risk and who should bear risks, the imperative of profit, who and what types of knowledge are privileged in each of these sectors, and the very idea that private sector markets are a force for good. A hallmark of the peacebuilding field has been the thoughtful consideration of these types of assumptions, and perhaps a contribution of peacebuilders is the extension of this analysis to new tools. Do we really know that the introduction of profit will result in more accountable institutions and effective and impactful interventions? There is already a focus on evaluation within the foreign assistance and development community—will further emphasis on measurability and indicators drive resources in useful ways that are meant to address complex systems and processes such as transforming inequality and marginalization? Or will they merely continue to reduce these processes to measurable outputs with little meaning (e.g., number of participants trained, etc.)? Tools like SIBs are in part successful because they are developed using a rigorous process of feasibility studies—the results generated by SIBs are not necessarily due to the expectation of profit, but rather because the process of developing a SIB contains a significant selection bias. Those issues or outcomes that are not well-suited to that tool never make it past the feasibility phase. Inherent in these fields are also vastly different paradigmatic approaches relating to what counts as evidence, what types of information are legitimate in the world of finance and peacebuilding, who has the authority to produce that information (e.g., economists, social scientists, local communities, etc.) and the resulting potential biases in models and approaches and orientations towards formal versus informal systems.

On a related note, there is keen irony in utilizing the tools from an inequitable system like capitalism to try and solve social challenges, including conflict. In a new book, Anand Giridharadas speaks to the trend of elites who have made a significant amount of wealth in the corporate world turning to tackle social issues. He notes that these initiatives naturally reflect the biases of their architects toward tools related to the private sector versus investing in institutions and policy solutions. The fact that tech companies pay less than half the tax of traditional brick-and-mortar business and yet are often significant voices for innovative finance and other corporate social responsibility measures is an example of this contradiction.

Innovative finance has the potential to incentivize interesting new actors and unlock untapped revenue streams across all sectors, including to sustain peace. However, utilizing these tools also has the risk of creating perverse incentive structures organized around profit. Aspects of peacebuilding are a public good and arguably, should be performed by governments. The advantages of privatizing these functions have been the source of decades of debate; advocates argue that privatization increases efficiency while critics cite risks such as making essential services unaffordable for many. Ideally, the tools of innovative finance would create both profit and social benefits; however, it is also possible that their utilization could result in concentrating economic reward in the hands of those who are already privileged, and not assisting society's most vulnerable. This risk may be more acute in conflict-affected markets that lack regulation and face a particular set of challenges (such as corruption, as discussed previously). As we continue to explore the applicability of innovative finance to peacebuilding, we need to be mindful to articulate these assumptions and potential distortions and the ways in which these tools could reproduce the very systems of inequality that peacebuilding is meant to transform.

Next steps

Many actors are jumping on the innovative finance bandwagon because of the lack of existing resources, the tremendous investment of China in development settings, which may bring human rights and other concerns for some, and the enormous appeal of unlocking vast new revenue streams for humanitarian and peacebuilding concerns. The recommendations below generally relate to the need to develop a framework that articulates more systematic, rigorous, and well-tested conceptual and applied tools that incorporates but is likely not limited to the categories mentioned previously—definition of the problem; tools; feasibility of implementing these tools given contextual and other factors; and barriers/challenges. Potential ways of doing this include:

- Invest in research and development: donors need to take this seriously, being willing to fund feasibility studies that look at that applicability of finance tools in these difficult operating environments (see previous briefing for some of the challenges).

- Work with a set of pilot countries to develop a list of peacebuilding-related issues that they prioritize, and create practical solutions for financing those processes.

- Develop case studies that examine which innovative finance tools are better suited to which environments—for example, SIBs are predicated to some extent on government's ability to mitigate the risks of post-conflict reconstruction. Under what conditions could something like a SIB be utilized successfully in conflict-affected settings? These case studies could also have a thematic focus (e.g., inclusive approaches to governance, gender empowerment, local grievance mechanisms, ensuring that expansion of fiscal space is economically inclusive—equity in distribution of benefits in the expansion of fiscal space), helping to elucidate the most effective intervention points in complex systems, including examining how you know when to invest in what.

- As I have written elsewhere, the development of a common set of indicators around preventing violence at a cumulative level and the collection of primary data to sustain this over the next 10 to 15 years is essential to truly understand collective impact: "When there are 50 organizations working in a community, each is affecting this system, but until we are able to discuss cumulative impact based on a common set of indicators and comparative data, it is not possible to talk about system change. Without such a tool that crosses sectors and silos, we will continue simply to report on individual projects" (p. 31).

These indicators need to more clearly articulate the connection between positive impact and bottom-line profit.

Other general next steps include:

- An exploration of whether and how innovative finance tools can support the type of collective action, coalitions, and movements with a focus on empowering truly grassroots actors (which does not always equate "civil society") that is likely needed to sustain peace. These processes need to link communities to national systems: "The international community needs to make a deep long-term commitment to processes that empower local actors to articulate their own agendas…Such a shift will also require policymakers, donors, and others to ask themselves what successful collective action and movement-building looks like as such measures are unlikely to resemble the objectives and indicators that short-term project log frames have reflected; local actors, [and] seasoned activists…should be leading the way to define what success looks like." (p.33) This relates to shifting the discussion from the avoidance of risk to the proactive management of risk and understanding of who should bear risks, which can best be done through local knowledge of decision-making, networks, key actors, technical abilities, etc.

- A related point is creating a mapping of different tools (CIC has begun to do this with a new online resource), a more coherent approach to different funding mechanisms available and how they are being applied in different contexts (e.g., Colombia) and better sense of who the actors are and their strategic advantages. This is necessary to avoid duplication, better leverage and scale resources, and answer the question about which of these innovative finance tools really has the potential to move the needle in relation to the vast financing needs in conflict-affected countries.

- Clearer articulation and more thorough discussion of some of the fundamental assumptions underlying innovative finance: markets are good; tools like SIBs and public-private partnerships are inherently "better" or more effective because they engage the private sector; vastly different paradigmatic approaches that relate to who is privileged or what counts as evidence; the mismatch between who makes decisions on these issues within the international community, and who has expertise on financial issues; assumptions about risk and risk mitigation; biases towards formal and informal processes; and finally, who holds the authority to articulate all of these issues, i.e., where is the thought leadership on innovative finance and peacebuilding?

- More consistent application of do no harm and conflict-analysis frameworks to ensure that innovative finance interventions are not exacerbating existing or creating new tensions in already complex environments.

- Principles of Responsible Investment—The peacebuilding field needs to articulate a set of principles of responsible investment specific to conflict-affected settings, similar to those of the UN Principles of Responsible Investment.

Cover Photo: Somali shilling notes at a money exchanger's stall in Mogadishu.
UN Photo/Stuart Price

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