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PEACE FINANCING

CONTRIBUTORS: GARY MILANTE AND MADELEINE DE GEER (SIPRI)

OVERVIEW

As the sustaining peace agenda pivots towards prevention, new financing will be necessary to underwrite prevention activities. A recent report by the Institute for Economics and Peace (IEP) found that donor-funded peacebuilding makes up a relatively small proportion of global Official Development Assistance (ODA). Only 16 per cent of an indicative set of 31 conflict-affected countries' total ODA allocation (US$ 6.8 billion) was spent on peacebuilding.

Peace financing can take multiple forms—from new resources committed to peacebuilding and prevention to resources previously committed to development or security resources being redirected to peacebuilding. The reprogramming for peace need not be explicit—how a project is designed might make it a peacebuilding project. The Bridge for Peace Project in Nepal, for example, connected several valleys and was crucial for peace building between previously isolated communities. Peace can also be financed through different channels. Donor funding can be directed through bilateral and multilateral aid, while individual donors and foundations can contribute philanthropically—including through crowd-funding.

In this session, participants discussed financing mechanisms for peace—current gaps, what works, what could work and how it might work—to gain insights from the experiences and expertise of the group and inform future policy.

KEY TAKEAWAYS

Although there have been recent improvements in peace financing—as shown by the performance of multi-donor trust funds in Somalia and Afghanistan and the recent replenishment of the UN Peacebuilding fund—many challenges remain.

There is little coherence between donors, and common financing frameworks are required to resolve this incoherence. Innovative financing mechanisms may be useful here. Furthermore, there is a need for agreement on the strategic goal of financing peacebuilding efforts, or development projects with a peacebuilding component, if the funding gap is to be filled. Fragility assessments can help to align donors and recipients around specific objectives.

There is limited capacity at the country level to take ownership of projects, design national plans or transparently report on expenditure. National actors struggle to understand what funding is available, to manage many stakeholders, including uncoordinated donors, and provide direction on the use of finance in peace projects. One discussant noted that, 'the proliferation and complexity of the funding system is a challenge on many levels and for various actors'. If financing is to be scaled-up in such environments, capacity will have to expand to accommodate it.

The financing of peace is neither neutral nor apolitical. Financing affects recipient and donor behaviour, power relations, and decisions and transparency within and between states.

Bridging the peace financing gap through new or redirected resources will require innovation. Discussants considered two specific models—peace bonds and an arms trade tax—not to debate the merits or drawbacks of each, but to focus on how new mechanisms might contribute to problem-solving in the peace-financing space.

Peace and Social Impact Bonds

New financing instruments such as *Payment by Results* are attractive to donors because they link financing to outcomes, which has increased the evidence base on effectiveness. Similarly, social impact bonds (or peace bonds) are mechanisms for funding programmes or projects that yield returns to investors when specific outcomes are delivered. Peace bonds can link those with an interest in peace outcomes (be it financial, reputational or social) directly to the funding and monitoring of an activity. Early piloting of social impact bonds in Chicago and various criminal justice systems show promise regarding their effectiveness in mobilizing local and crowd-sourced financing for peace projects.

The Arms Trade Tax

Arms and arms transfers have negative spillover effects. An arms trade tax could be designed to offset these negative externalities. Arms transfers would thereby become a source of funding for peace. In addition to raising finance, an arms trade tax would increase transparency in arms transfers. It could also positively influence industries to increase responsible production and trade. The discussion centred around whether the tax should fall on exporter nations or producers, or on the importers. The concept was formulated in a background paper that is included with this Forum report.

CONCLUSIONS AND RECOMMENDATIONS

The definitions of peacebuilding and prevention are still evolving, which complicates efforts to identify needs, gaps and new sources of financing for these sectors. Strategic coherence is required on what constitutes peacebuilding in order to better identify whether resources are contributing to peace. Recent successes in Payment by Results, Social Impact Bonds and even direct cash transfers, such as through GiveDirectly, demonstrate the importance of linking not just donors and recipients, but all the stakeholders directly involved in aid activity and those most vested in peaceful outcomes. An arms trade tax is a practical example of how negative externalities can be measured and monetized. Furthermore, if traditional financing models are to be expanded, these models will require innovation to align donors and build absorptive capacity.

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