A systemic analysis of the role that climate, natural resource and food systems plays for conflict and peace is key to designing and implementing interventions addressing and preventing conflict. This document is one part of the 6-policy note outputs from the CGIAR Climate Security Webinar Series. These notes summarise the key messages made during the webinar panel discussion.

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The Need for Sustainable Finance

The Sustainable Development Goals, resulting from the 2015 Paris agreement, had set up ambitious goals to end poverty, hunger and provide a strategic framework for a transition towards peace and prosperity by 2030. Five years after their adoption, funding resources are falling remarkably short – with an enormous gap of 2.5 trillion dollars annually to sufficiently fund the development of green infrastructure, energy, food security, agriculture, rural livelihoods, climate change adaptation and mitigation, health and education[1]. Realizing these shortfalls, the international community has been increasingly engaging with the private sector to mobilise and drive investments. Indeed, if we were to align just a proportion of the capital invested daily in capital markets, including resources from institutional investors, retail investors, etc., this would catalyse significant progress towards achieving the SDGs. It is worth highlighting that the volume of private sector investment that integrates environmental, social and governance (ESG) factors has increased dramatically, reaching a total of over US$22.8 trillion. .

Flows of sustainable finance can be leveraged for establishing the conditions for peace. Most conflict-affected populations currently reside in climate-vulnerable regions exposed to increasing levels of rainfall variability and climate shocks, such as droughts and floods. This threatens food security and income generation activities for those residing in these fragile regions. These factors, coupled with increasing economic pressures and institutional fragility, aggravates community tensions and instability within these complex environments. In these situations, addressing essential securities and basic needs are priorities to establish strong foundations for economic recovery, sustainable livelihoods and peace. To address this, one possible pathway is to coordinate collaborations across from different perspectives, leading to effective designing of interventions that generate net gains across economic, environmental, social and governance outcomes.

During CGIAR's Climate Security Webinar on Sustainable Finance for Peace, experts representing bilateral donors, global climate funds directors, impact finance advisors, blended finance experts and sustainable finance advisors for agricultural development came together to analyse this situation. The distinguished panel included:

- Adhiti Gupta, Manager, *Market Acceleration & Design Funding,* Convergence Blended Finance
- Ania Maria Wanda Grobicki, *Deputy Director for Adaptation*, The Green Climate Fund

[1] United Nations Conference on Trade and Development. SDG Investment Trends Monitor, 2019.

- Giovanni Grandi, *Senior Officer*, *Private Partnerships and Finance for Development*, Italian Agency for Development Cooperation
- Serena Guarnaschelli, *Partner and Innovative Finance Advisory*, KOIS
- Alberto Millan *Sustainable Finance Advisor,* CGIAR Research Programme on Climate Change and Food Security (CCAFS)

Jointly, they explored two key questions:

(1) What is the current state of funding and collaboration between the public and private sectors on humanitarian, development, and peace initiatives?

(2) What necessary actions are needed to further this private-public collaboration?

The current state of private financing for humanitarian, development and peace work

Usually, collaboration between public and private finance for development uses structured blended finance approaches[2] to address development challenges in specific geographical and socio-economic contexts. Initially, catalytic capital[3] is utilised to reduce investment risks and enhance return potentials. This sets the required conditions for the private sector to invest in a wide range of activities and businesses. While these interventions have been widely available within the context of developing country contexts, they have not been fully operationalised in less developed fragile countries and conflict-hit. In fact, of the USD 153.9 billion mobilised in blended private finance, approximately USD 9.3 billion went to least developed countries[4]. To fill this private financing gap, recent initiatives, boasting more innovative financing structures, such as the ICRC's Humanitarian Impact Bond[5], has encouraged the private sector to enter these complex environments.

[2] Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.

[3] Catalytic capital: investments that accept disproportionate risk and/or concessionary returns relative to a conventional investment in order to generate positive impact and enable third-party investment that otherwise would not be possible

[4] Organisation for Economic Co-operation and Development, 2019. Blended finance in the least developed countries

[5] Impact Bonds are financial instruments (results-based contracts) in which private investors provide pre-financing for public projects that deliver social and environmental outcomes. Governments, development or other philanthropic funders pay back investors their principal plus a return if, and only if, these projects succeed in delivering social and environmental outcomes

> **We need to think about approaches that are cross-cutting across the SDGs and are not in silos, while at the same time maintaining at the core of the transaction investible.**
>
> **Adhiti Gupta, Convergence Blended Finance**

Despite these emerging opportunities, there are also obstacles deterring effective collaboration between public and private financing. Engaging with private finance to co-address cross-cutting environmental, humanitarian and development objectives poses certain challenges that require institutional realignment. One acute example is balancing the need to generate cash flows from the private sector alongside the goal of reducing poverty in fragile contexts, where cash flows may not yet be generated. Private investors may not be inclined to take high risks in these environments, whereas public actors do not face this challenge, as they expect no profit-return from using public funds. In addition, the sheer complexity in addressing environmental, social and governance factors requires establishing broad collaboration frameworks with appropriate indicators to track long-term progress. Serena Guarnaschelli stressed that the private sector requires these outcome indicators to be straightforward and correlate with clear business-oriented outputs. Thus, this alignment of tracking progress between the two actors may come at odds with each other. Understandably, for the private sector, at the end of the day, maintaining the project investible and profitable needs to remain the main priority. Due to these mismatches, humanitarian and development contexts may not offer clear business entry opportunities for investors. These aforementioned challenges can shed light on why a majority global climate financing today tends to flow towards climate mitigation activities, and specifically renewable energy, infrastructure and transportation. In these areas, profit signals are clearer and the impact is much easier to account for and measure, whereas measuring resilience and generating attractive financial returns is much more difficult. It is worth adding that in this context, private adaptation financing for land use and smallholder agriculture reflects only a very small share of the deployed funds[6].

> **Private sector investors are not yet aware that mechanisms exist, like GCF, that are actively seeking private capital. [These mechanisms] are prepared to do the de-risking to involve them [the private sector] in projects, to provide guarantees, to provide equity, as well as providing loans at concessional rates to make projects attractive and to get the financial structuring of the project that will actually make it viable.**
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> **Ania Grobicki, Green Climate Fund**

[6] Buchner et al. 2019. Global Landscape of Climate Finance 2019. Climate Policy Initiative.

Investment and private sector engagement across SDG sectors vary highly across different national and economic contexts. Both Adhiti Gupta and Giovanni Grandi recognise that only a small amount of financing has gone to Least Developed Countries and Fragile & Conflict States. Traditional public donors continue to dominate in this area mostly financing through the form of Official Development Assistance (ODA) and humanitarian assistance. In these contexts, the high risk and low return prospects fail to attract enough interest for private investments, given weak enabling environments, high risk and underdeveloped markets, limited infrastructure, etc. In fact, more than 70 percent of fragile and conflict-affected countries are found in the bottom quartile of the World Bank Group's Doing Business rankings[7]. This poses a serious challenge for achieving the SDG objectives, since current "business as usual" investment levels from the private sector create a shortfall that would require a nine-fold increase in public sector funding requirements to 2030[8].

The above is glaring evidence that complementarities and coordination are needed. As noted by ODI (Overseas Development Institute), private sector investments can be attracted and leveraged to deliver high levels of impact in more stable settings, in preparing for crises and where there is scope for longer-term and development solutions exists[9]. Consequently, private finance is best placed to deal with the longer-term consequences of crisis and fragility, rather than short-term, acute needs.

Ways forward for Sustainable Finance for Peace

Taking stock of the opportunities and challenges, panellists detailed 3 key points that are vital in order to drive further private financing into the humanitarian-development-peace nexus.

(1) **Recognizing the crucial role of public finance and development assistance to drive and instigate private sector financing**

As highlighted by Serena Guarnaschelli, the strategic use of ODA by donors can be used to reduce highly perceived risks and enhance potential returns, which can help scale up private financing. Within the context of populations residing in climate-vulnerable areas, initial catalytic capital that addresses market and institutional inadequacies can incentivise the engagement of private financing in products that increase the adaptive capacity of communities, such as insurance mechanisms or climate services.

For the cases of fragile and least developed countries, where risk-return profiles remain unattractive at first to investors, Adhiti Gupta stressed that fostering the business-enabling environment and creating investable opportunities through ODA remain vital. In these situations, building on the capacity of micro, small and medium enterprises (MSMEs) can create the necessary market conditions to attract private investment, while fostering long-term community development. As MSMEs are intrinsic parts of local communities, they play an important role in generating employment and economic

[7] World Bank Group, 2019. Doing Business 2019.
[8] United Nations Conference on Trade and Development, 2014. World Investment Report 2014.
[9] Willitts-King et al., 2019. New financing partnerships for humanitarian impact. Humanitarian Policy Group.

growth. This places them as natural candidates to catalyse market dynamics addressing economic development needs.

(2) Designing more adequate financial products that drive social and environmental outcomes while generating financial returns

The current funding gap to achieve SDGs requires public-private cooperation, where applicable. Financial markets are proactive in looking for investments that are compliant with environmental, social and governance standards. What is needed is an increased collaboration between public and private sectors to develop adequate and innovative financial mechanisms to attract and deploy the much-needed capital. Design grants, such as those promoted by Convergence Blended Finance, a global network for blended finance, help to develop innovative products that can leverage much larger pools of private capital. Emerging mechanisms, such as the Humanitarian and Development Impact Bonds, or forecast-based financing are re-inventing how businesses and private financing can be involved in improving the adaptive capacity of vulnerable communities. As Giovanni Grandi notes, while these initiatives represent only a small proportion of the traditional development financing available, they are signalling potentially scalable mechanisms where the private sector can deliver impact while making profitable returns.

> **"The tenures, the time to finance, the time to revenue generation currently does not match the risk-return profiles of where most of the capital now sits, which is in institutional investors. They [the revenue] often takes 10-12 years to manifest. It is about adjusting the expectations, there is good money to be made if you have the right expectations and you adjust your tools to be able to actually participate in these investment opportunities."**
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> **Serena Guarnaschelli, KOIS**

(3) **Most importantly, establishing multi-stakeholder platforms to engage with actors among the humanitarian, development, peace, and financing spheres**

These collaboration platforms will help to bridge the different perspectives among stakeholders. It is at this stage that opportunities for co-creation can arise, which can lead to the design of products that fit the needs of all players. As noted by Ania Grobicki, private investors are not very aware of existing public-private collaboration mechanisms. There is still much awareness-raising needed to fully integrate and realise the collaboration between the public and private sector.

Trying to co-create initiatives with the different players and actors is the only way to get to something that is effective for the beneficiaries, donors and investors

Giovanni Grandi, Italian Agency for Development Cooperation

Contributions of the CGIAR

Aligning humanitarian, development and peace objectives requires new partnerships. The CGIAR can play two advisory roles, one as a partner to address the needs of the private sector and attracting financing, and the other as a partner that can provide extensive experience on identifying and scaling climate-smart agri-business models, while building the resilience of local communities to the impacts of climate variability and change.

Regarding the former role, the CGIAR can support the co-design of innovative investment solutions with finance institutions. Leveraging our expertise on the field, we are able to provide advisory services to identify investable opportunities build the capacity of investees and develop science-based ESG frameworks to ensure effective impact monitoring. Where information gaps exist, we can utilize our scientific expertise to conduct cutting-edge research to understand the nexus between humanitarian, development, peace and investment objectives.

On the second role, for smallholder farmers residing in regions prone to or emerging out of conflict, it is critical to establish a basis of self-sufficiency and favourable market condition. Through spatial targeting and adequate assessments of risks (i.e. climate vulnerability, land degradation, financial risks), especially of the business-enabling environment, the CGIAR can identify locations where impacts can be best delivered. Informed by this targeting, the CGIAR is fully capable of acting as a catalyst with the private sector to identify barriers and investment opportunities at farm, landscape, value chain and policy levels. Ideally, these identified business operations can generate financially attractive returns, maintain security objectives, and preserve natural capital.