



# UNEP **Finance Initiative**

Innovative financing for sustainability

## **Investing in Peace**

**Conflict Risk, Markets and the Bottom-Line**

<http://unepfi.net>

**IISD**

The International Institute for Sustainable Development

# A Unique Partnership

Between the United Nations Environment Programme and 238 financial institutions worldwide

## Our Mission

To realize best environmental and sustainability practice at all levels of financial institution operations.

# What we do

## **Networking:**

2001-02 Global Outreach: Manila, Santiago, Midrand, Budapest.  
Annual Global Roundtables, Expert Workshops

## **Working Groups:**

Working Groups on Climate Change, Asset Management, Environmental Management and Reporting and Performance Indicators; North American, African, Latin American and Central and Eastern European Regional Task Forces

## **Outreach:**

0.618... newsletter; monthly e-bulletin; unepfi.net (relaunch in August 04).





# Investing in Stability

## Conflict Risk, Markets and the Bottom-Line

**A project to understand the links between finance and conflict**

A collaboration between UNEP Finance Initiatives and the International Institute for Sustainable Development (IISD)

funded by the  
German Ministry of the Environment  
(BMU)



Bundesministerium  
für Umwelt, Naturschutz  
und Reaktorsicherheit



UNEP **Finance Initiative**  
Innovative financing for sustainability



**IISD**

The International Institute for Sustainable Development



# Process

## Literature Review and Interviews

July and August 2003, Geneva

## Expert Workshop on Finance and Conflict

September 5, 2003, London, UK

## Loccum Workshop on Business, Environment & Conflict

October 3-5, 2003, Loccum, Germany

## Tokyo Global Roundtable on Finance and Sustainability

October 20-21, 2003, Tokyo, Japan



# Outline

- Modern conflicts – their environmental, social and economic dimension
- Linkages between finance and conflict
- Why should financial institutions be concerned?
  - Risks and opportunities for competitive advantage – the business case
  - Win-wins for finance and peace
  - Moving forward:
    - information needs
    - a conflict sensitive business approach,
    - public private partnerships

# Conflict and Sustainable Development

## Changing nature of security?

International to Intranational

Military threats to 'Non traditional' threats

National Security to Human Security

## Consequence of globalization?

**Weak international governance** of flows in  
finance, people, ideas, arms, epidemics

**Weak or competing local governance** of resource  
rights, economic diversification, education

Increasing resource demand/scarcity

**No Development Without Security**



# What Lessons from Study of Conflict ?

## *When does violence emerge?*

**rapid change** with competition over **resources, identity, ideology or power**

## *Under what conditions is violence likely?*

a lack of **adaptive capacity** and **dispute resolution mechanisms; poverty** and unemployed youth; **weak governance institutions;**

natural resources play a role in combination with these other factors

**we can reduce the probability of violence by targeting contributing factors**



# Links Between Finance and Conflict

## Negative linkages

Project finance

Financial transfers that support illegal activities

Contribution to macroeconomic instability

## Positive linkages

**Core Business:** conditions on finance,  
investment, services, tax revenues

**Social Investment:** humanitarian relief,  
community needs, social capital

**Policy Dialogue**





## Why should financial institutions be concerned about conflict?

- Ignorance of conflict-finance interlinkages can be expensive.
- Conflict is an opportunity cost.
- Far-away conflicts can create local threats.
  - Staying out is not an option.
  - Remaining neutral is an illusion.
  - Conflict is high on the regulatory agenda.
    - Conflict complicity is an emerging litigation risk.
    - Conflict capacity could be a new source of competitive advantage.

# The Business Case

- Identify risks posed by conflict-business interlinkages.
- Be better positioned to respond to emerging trends.
- Identify opportunities for gaining a competitive advantage.



# Opportunities for Competitive Advantage

- Improved Risk Assessment
- New Identifiers of High-Performance Investments
- New Markets
- New Products and Services





# Working with the Financial Sector in the Pursuit of Peace

The financial sector could be a vital actor in the prevention of conflict and the pursuit of peace.

## **Lack of concrete guidance towards:**

- Appropriate behaviour when the context of an investment changes from peace to conflict;
- Engagement with companies operating in conflict zones;
- Investment in post-conflict reconstruction.



# Guidelines and Principles

- UN Global Compact Conflict Dialogue
- OECD Guidelines for Multinational Enterprises
- OECD Orientations for External Partners
- UK-US Voluntary Principles on Security and Human Rights

# Entry Points for Positive Action in the Finance Sector at Different Stages of a Conflict Cycle

## Conflict-prone

- Conflict indicators;
- Understanding how financial services can help enhance social stability;
- Standards of “appropriate” behaviour

## During Conflict

- Standards of “appropriate” behaviour
- Good practice in controlling flows of finance into and out of conflict zones

## Post-Conflict

- Innovative financing for reconstruction;
- Establishing public private frameworks for investment (e.g. export credits/ guarantees, tax credits)



# Elements of a Conflict Sensitive Business Approach

## Banking

- Conflict impact assessment
- Conflict indicators;
- Conditions on finance;
- Disclosure rules;
- Providing banking services in a way that enhances social stability;
- Stakeholder consultation and engagement in policy dialogue

## Asset Management

- Conflict assessment;
- Investment conditions;
- Disclosure rules;
- Engagement with companies present in a conflict zone (shareholder pressure)
- Encourage revenue transparency;
- Stakeholder consultation and engagement in policy dialogue

## Insurance

- Conflict impact assessment with guidelines commonly established across Export Credit Agencies;
- Conflict indicators;
- Enhancing risk-reward ratio (public-private collaboration);
- Stakeholder consultation and engagement in policy dialogue



# The Public Private Interface

- **Public Private Partnerships**

Recognised in policy statements, challenge of implementation

- **Export Credit Agencies**

Vital actors in promoting investments with a peace dividend and establishing benchmarks for good practice.

# Questions

- What areas are of greatest concern or opportunity?
  - Conflict Prone, During, Post Conflict
  - Assessment, Monitoring and Indicators
  - Guidelines/Best Practice, New Business
- What are the respective roles of governments, private sector and civil society?





# UNEP **Finance Initiative**

Innovative financing for sustainability

## Investing in Peace

Conflict Risk, Markets and the Bottom-Line

<http://unepfi.net>

**IISD**

The International Institute for Sustainable Development