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Discussion Paper

Options for Innovative Funding in Support of United Nations Peacebuilding

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Executive Summary

The 75th Anniversary of the United Nations takes place not just against the backdrop of COVID-19 but of record levels of forced displacement and of armed conflicts worldwide. Conflict prevention and sustaining peace remains a key priority for the United Nations and its Member States. The UN Secretary General has called for a "quantum leap" in peacebuilding investment. He stressed in particular the need for increased funding for the UN Peacebuilding Fund (PBF) through both additional contributions from Member States and innovative funding partnerships.

In support of this effort, the German Federal Foreign Office commissioned the present scoping study to look into funding options that have been discussed on several occasions but not explored in depth. The objective is to develop specific recommendations on the most promising avenues for the PBF and the Peace Building Support Office (PBSO) to pursue with the support of Member States. The project team consulted relevant documents and expert literature and conducted interviews with representatives of the UN, including PBSO, Member States, and experts with experience in each of the funding options under review.

The report reviews the status quo funding situation for the PBF, including the scope for additional funding from its current major donors, and then appraises the following options: assessed contributions from UN Member-States; voluntary contributions from additional ("non-traditional") donors; blended finance partnerships including with International Financial Institutions (IFIs) and Development Finance Institutions (DFIs); philanthropic funding; private donations; special-purpose taxes; impact bonds; and diaspora remittances.

The assessment of each of these options is based on three criteria for strategic fit: Potential for alignment with peacebuilding priorities; likely ease of implementation; and a credible path to scale, which we consider to mean the potential to reach USD 100 million per annum globally.

The key findings are as follows:

First, in the current economic environment achievement of the Secretary General's ambition to substantially scale up voluntary contributions from Member States is highly unlikely.

Even prior to COVID-19, there was a clear sense amongst the PBF's traditional donors that the growth achieved under the Fund's previous strategy (2017-2019) could not be maintained, let alone accelerated.

Through no fault of those involved, the growth targets in the 2020-24 strategy now appear to be in disconnect with a period when aid budgets for multilateral organisations may shrink significantly, and in the context of acute competition with other global public goods such as post-COVID economic recovery, climate adaptation and mitigation, humanitarian aid and public health.

Second, the PBF and PBSO should place increased emphasis on its unique mandate of catalysing funding for peacebuilding, and it should explore how this could evolve into different kinds of partnerships.

The most promising identified option, although not without challenges, is that of partnering with IFIs and DFIs to establish one or more intermediaries to enable them to deploy more of their significant capital to invest in PBF priority countries. The objective of such investment would be to support the PBF's focus areas of delivering peace dividends and re-establishing basic services, including through employment generation, economic inclusion, and equitable access to social services.

Strengthened partnership with IFIs and DFIs in this area would build on significant momentum within the World Bank/IFC and some European and regional DFIs to increase investment in fragile states. It would bring together for a common purpose the significant local presence and political expertise of the United Nations and the investment skills and capital base of IFIs/DFIs. The design and operations of such an intermediary for investment in peacebuilding are outlined in the report.

In essence, however, it will likely involve a number of key elements: a) pooling of capital from DFIs/IFIs and blending it with grant funding from donors (i.e. first loss facilities or guarantees) to reduce financial risk of investment (alongside political risk insurance) and to support high operating costs; b) establishment of a core team of investment professionals dedicated to, incentivised, and experienced in investing in fragile states (thereby overcoming some of the internal challenges faced by IFIs and DFIs); c) support for and scaling up of existing private sector investment teams already operating in peacebuilding priority countries; d) political economy analyses and strategic plans for each country or sub-region to ensure investment is targeted as far as possible at peacebuilding priorities. Over time, such an initiative could also help catalyse funding from impact investors and potentially from the private sector.

Such an initiative would not be without a number of challenges. Not all financial investment is "peace positive" and a focus on profitable opportunities can even "do harm" by simply reinforcing existing economic and political inequalities. There will be complex trade-offs regarding the places and thematic areas of investment, taking into account both priorities for peacebuilding and the requirements of financially successful investment. In the end this may exclude some of the PBF's focus areas, and geographic priority countries, but nonetheless holds the prospect of freeing up scarce untied funding for its most urgent purposes, and of mobilising potentially significant flows of appropriate peacebuilding goals.

In addition to partnering with IFIs and DFIs, PBF/PBSO could examine whether a sustained, professional campaign for private donations, another option explored in this report, is likely to generate sufficient incremental funding to warrant the financial costs and organisational focus that would be involved.

Third, other options that have been raised over the last few years, including development of impact bonds, engagement with philanthropic funding institutions, micro-taxes, and engagement with diasporas should be de-prioritised by the PBF.

While these avenues may, at some point, yield practical opportunities to fund peacebuilding-related initiatives, they are too-early stage or hypothetical and, in some cases, are too poorly aligned with the PBF's objectives and modus operandi to warrant focused attention at this stage.

Fourth, and despite the challenging state of public sector finance: given the urgent and persistent need for funding, the PBF and PBSO should continue to make the case for increased grant contributions from Member States. In support of that effort, the PBSO should undertake a detailed market assessment of Member States, with a focus on those on the UN Security Council and Members of the UN Peacebuilding Commission and with a view to identifying new donors. In parallel, it should consider appointing a Special Representative to spearhead funding advocacy with those targeted Member States at senior levels.

To strengthen the case for funding the PBF and PBSO should also start investing in rigorous evidence generation and, based on that evidence, develop a strategic communications plan that speaks to the Fund's concrete impact and value add in a way that resonates with Member States that are not yet 'Friends of Peacebuilding'.

Next steps

To enable PBF and PBSO to pursue the report's recommendations, the offices should seek support from Member States to fund the following:

a. **development of a detailed implementation plan** for all or some of the options outlined here, notably how to enhance the partnership with IFIs and DFIs.
b. a sustained three to five-year effort **to build and sustain a small, dedicated team within PBSO** with relevant skill set that provides leadership for the option or options selected;
c. the establishment of, and support for, **a senior level advisory group** with development finance experience and relationships outside the UN system;
d. **detailed implementation planning** will also identify and quantify requirements for start-up funding for a peacebuilding investment intermediary and to unlock financing from IFIs/DFIs by providing risk mitigation through first-loss facilities/guarantees and grant support.

The present report is being circulated among relevant stakeholders and experts to solicit feedback; and to generate interest from potential funding partners to support the PBF in exploring the options outlined here in greater depth.

1. Introduction

The 75th Anniversary of the United Nations takes place not just against the backdrop of COVID-19 but of record levels of forced displacement and, on some measures, a record number of armed conflicts worldwide.

Conflict prevention and sustaining peace remains a key priority for the United Nations and its Member States. The UN Secretary General has made it a central focus of his tenure, and the 2018 Report on Peacebuilding and Sustaining Peace specifically stressed the “indispensable” role of financial support for peacebuilding. It called on Member States to support “adequate, predictable and sustained financing” for peacebuilding in general, and set out a number of potential pathways to achieve this. The report went on to ask specifically for a “quantum leap” in contributions to the UN Peacebuilding Fund (PBF), which has duly been reflected in ambitious growth targets in the fund’s strategic frameworks for 2017-19 and 2020-24.

Against this background, the 2020 review of the UN peacebuilding architecture by a group of Independent Eminent Persons concluded that, broadly, “Member States have not responded to the multiple financing options” outlined in the 2018 Sustaining Peace report, and that contributions to the PBF “have fallen far short of a quantum leap”. They went on to encourage continued consultations with Member States, alongside exploration of “innovative options” beyond the PBF’s historical reliance on voluntary contributions from governments.

The German Federal Foreign Office commissioned the present scoping study in June 2020 to help support this effort. Its objective is to provide a succinct and realistic appraisal of the prospects for a range of funding options that have been discussed on a number of occasions, but which for the most part have not been explored in depth.

These include: funding from new government donors; mobilising blended finance including from development finance institutions and impact investors; funding from philanthropic institutions; and funding from private donors (both businesses and individuals). The report also briefly considers other options that have been suggested in the past but for reasons outlined below require less analysis for the purposes of the PBF, namely tax-based models, impact bonds and diaspora bonds.

To assess these options, the report first summarises key background on the PBF’s goals, current resource base, and plans for growth (section 2). With this in mind the report goes on to outline specific criteria for evaluating “strategic fit” (section 3). These include alignment with the specific objectives and requirements of multilateral peacebuilding; the ease (or difficulty) of implementation; and the potential for relevant scale. This framework is then used to assess individual options throughout section 4; and then to draw conclusions and make recommendations in section 5.

The report draws on interviews with UN offices and specialised entities, a range of potential partner institutions, and a sample of UN Member States. In general, these conversations were not for attribution, and the report does not identify specific sources for opinions noted below. A full list of interviews is included in Annex 1. The report also draws from selected research and policy literature, both from the peacebuilding sector and bearing upon each of the options that are discussed. References are noted in the text and listed in Annex 2.

2. Background and context

2.1 Objectives of the UN Peacebuilding Fund

The UN Peacebuilding Fund was established in 2006, along with the Peacebuilding Support Office (PBSO, which manages the Fund), and the Peacebuilding Commission (an inter-governmental advisory body). The overall goal for the Fund was defined as "addressing critical gaps" in peacebuilding processes, "in particular in areas for which no other funding mechanism is available". A 2015 review of a High-Level Advisory Group confirmed that funding for peacebuilding remained "scarce, inconsistent and unpredictable", and affirmed the PBF's mandate as a "risk-taking investor of first resort".

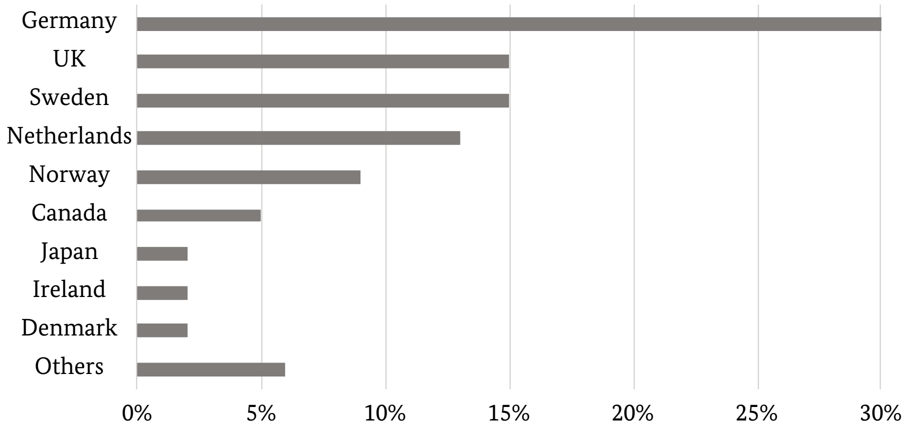
The PBF's 2020-24 strategy aims to "significantly scale up to support an increasing range of countries and regions before, during and after an escalation of violent conflict", with emphasis on three priority "windows": Supporting cross-border and regional approaches; facilitating complex transitions; and fostering inclusion through women and youth empowerment. Thematically there are four focus areas: (a) implementing and sustaining peace agreements; (b) dialogue and peaceful co-existence; (c) peace dividends; and (d) re-establishing basic services.

2.2 Current funding base

The PBF depends upon voluntary contributions from Member States, typically made on an annual basis but in a few cases for multiple years. A modality also exists for private donors to contribute, but donations have not been material to date.

Figure 1 summarises the total of voluntary contributions from 2017-19, the period of the previous strategic plan (Multi-Partner Trust Fund Office 2020). It shows that there is a small group of core donors over this period, with the "top 5" accounting for 80% of contributions, and the "top 10" for 94%.

Figure 1: Donor share of funding to the PBF (2017 – 19)



This is a narrow donor base. Within the UN system, the most recent available data for UNDP indicates the comparison figures of 39% (top 5) and 54% (top 10); and for UNICEF these figures were 35% (top 5) and 53% (top 10).

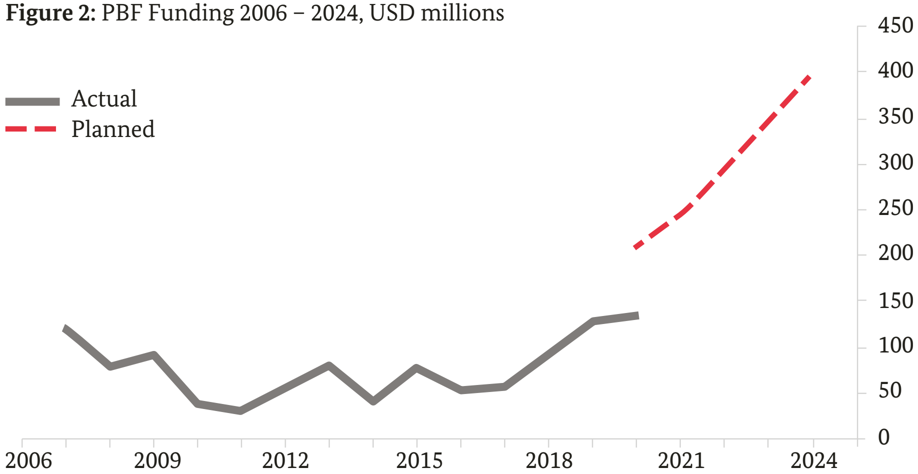
The PBF's donor base resembles more that of general overseas development assistance (ODA) for peacebuilding which is also spread across a relatively small number of donor countries, and there is a narrower donor base than is the case for the development and humanitarian sectors. One recent estimate found that the top 5 countries account for 55% of total peacebuilding ODA, and the top 10 for 92% (ECDPM 2018).

"Traditional" donor countries for peacebuilding are for the most part already supporters of the PBF and captured in Figure 1, with the main notable exceptions being the United States and EU institutions.

2.3 Planned growth for 2020-24

The PBF's 2020-24 strategy sets a funding target of USD 1.5bn over five years. This is an ambitious growth agenda, and particularly so with regard to the historical size of the Fund (see Figure 2). The 2017-19 strategy (USD 356m) represented substantial growth (88%) over the preceding three-year period (USD 189m). The current strategy aims to accelerate this growth even further, reflecting the Secretary-General's ambition for a "quantum leap". The targets for 2020-24 imply growth of 150% in average annual contributions over the 2017-19 strategy period.

Figure 2: PBF Funding 2006 – 2024, USD millions



In order to achieve this growth, the 2020-24 strategy sets out four pathways:

- increase voluntary contributions from existing donors;
- increase contributions from Member States who are not yet PBF donors (e.g. linked to membership of the Peacebuilding Commission, or drawdown of peace operations);
- access some part of assessed contributions to the UN's general or peacekeeping budgets (which are mandatory for relevant Member States); and/or
- explore innovative funding partnerships, including private donations.

These options have been discussed among Member States and within the UN Secretariat for a number of years. They were highlighted in one form or other during the review of the Advisory Group of Experts in 2015; in the 2018 Report of the Secretary-General on Sustaining Peace; and in the upcoming reports of both the Secretary-General and Independent Eminent Persons group. There have also been several expert consultations and accompanying think pieces by institutions including the Centre on International Cooperation and the International Peace Institute (Kantowitz 2017; Arthur and Braude 2018; IPI 2020).

2.4 Major donor funding in the current global context

The starting point for this report was an assessment of whether rapid growth in voluntary contributions from the PBF's core donors was a realistic option to achieve its growth targets. There was consensus amongst the interlocutors that the team consulted, including several of the PBF's major donors, that the growth trajectory of 2017-19 was unlikely to be sustained, let alone accelerated. To paraphrase one bilateral agency "it would be a major achievement if these levels were even maintained in the current global environment".

Two main reasons were cited for this. The first and more obvious is the impact of the Covid-19 pandemic, including both immediate reductions in aid budgets for 2020-21, in some cases linked to reductions in GDP, and likely long-term effects on aid priorities. Several of the PBF's key donors indicated that multilateral funding for peacebuilding was unlikely to be a priority in their respective domestic political environments. The second reason is the relatively fixed (or even declining) share of aid budgets available for multilateral institutions, with the PBF in competition with other institutions within and outside the UN system that seek to deliver global public goods. This includes most notably humanitarian appeals (currently at an all-time high), global health (enjoying new prominence), and mitigation/adaptation for climate change.

It was also repeatedly emphasized that awareness about the PBF's activities was limited, and that it was difficult to articulate its results to domestic political constituencies (and by association to differentiate PBF from other parts of the UN system). This feedback is consistent with wider analyses of the sector. A recent study with four of the biggest ODA donors for peacebuilding, including three of the PBF's top five donors (Sherriff et al 2018), asserted that peacebuilding "has not had popular or consistent top-level political support" and commented that:

"The emphasis has been on engagement at the expert technical level, where there is a willing audience speaking the same language and sharing a common commitment to the principle of constructive engagement. The effort has been in improving the technical dimensions of peacebuilding without ensuring this is accompanied by backing of adequate political weight".

A 2020 study of attitudes to peacebuilding amongst the general public in the United States found equally that "the specific practices, programs and institutions that comprise peacebuilding are simply not part of people's existing understanding", and that participants "lacked basic information" about relevant conflicts (Lindland et al 2020).

Several Member States and experts also emphasised that "bigger is not necessarily better". They noted that the PBF was not intended as the primary vehicle for funding peacebuilding, but rather as playing a specialised role. They indicated that they viewed the success of the Fund in terms of its ability to catalyse new kinds of engagement, act faster and more flexibly than other funders, and to fill gaps. They were consequently more interested in setting growth targets for these more specific objectives, than for absolute levels of funding.

3. Criteria for "strategic fit"

In order to assess innovative funding options for peacebuilding in a way that enables prioritisation this report asks three questions: Is the assessed option compatible with the priorities and requirements of peacebuilding? How difficult would it be to realise and implement the option, having regard to the objectives and operating models of potential funding partners? And is there a realistic path to scale that is commensurate with the challenges and intended role of the PBF?

3.1 Alignment with peacebuilding priorities

For actors other than peacebuilding experts, it may be tempting to view any funding or investment in conflict affected countries as a material contribution to peacebuilding. All available evidence indicates that this is not the case.

At the same time, attempting to articulate in what context or under what circumstances a particular project or investment is "peace positive" means entering into a contested debate. There are dozens of competing conflict analysis and programming frameworks belonging to bilateral and multilateral aid agencies, NGOs, and private foundations. In many cases the terminology itself competes with overlapping goals for human security, crisis prevention, stabilisation, and resilience.

It is nevertheless important to draw conceptual and practical boundaries. As a 2013 meta-evaluation for the PBF observed, "the potential impact of a relatively small fund like the PBF is hindered when virtually anything can be defined as peacebuilding" (van Beijnum 2013). This applies with particular force when working with institutions that do not themselves have a mandate for peacebuilding, and do not normally assess their impact in this light.

With this in mind the report suggests four practical criteria for where funding / financing options can support the specific needs of peacebuilding, and which are applied in the sections that follow.

(i) Target context-specific risks

The 2018 research synthesis Pathways for Peace developed jointly by the United Nations and the World Bank Group found "overwhelming evidence" that conflict prevention requires "sustained and targeted attention and <u>action on conflict risks</u>" (emphasis added). It urged international actors to cooperate to identify those specific risks that matter in context, which can be located at the junction of two lines of analysis: one, *what people fight over*: high-stakes domains of social / political life such as land (and associated resources), security, political governance, and public services; and two, *why people fight*: including issues like inequality (of outcomes), exclusion (from decision-making), and injustice (relative to core values). Once risks are identified, the goal of engagement is to support opportunities to mitigate and reduce them. In short, to "actively and directly target grievances and exclusion across key areas of risk".

Importantly, the idea that a "rising tide lifts all boats", or that general improvements in economic and social conditions will automatically the propensity to conflict, is not supported by evidence.

This has been researched in detail for basic services, macro-economic policy and local economic recovery, among a range of other issues (McCullough et al 2020; OECD 2010; Parks et al 2013). In many cases, in fact, poorly targeted development and private investment can easily “do harm” by reinforcing existing economic and political inequalities.

Turning to the PBF specifically, its 2020-24 strategy articulates four overarching focus areas (Table 1 below). Financial contributions to the Fund are normally untied, meaning that this represents a menu of possibilities. Grants to country-level programs are then based upon demonstration of peacebuilding relevance in a specific context. Funding for peacebuilding more generally, to the extent that it is deployed or catalysed by the PBF from innovative sources, should arguably focus on the same areas of priority.

Table 1: PBF focus areas (2020-24)

Implement and sustain peace agreements	Political dialogue Rule of law and transitional justice Security sector reform Disarmament, demobilisation and reintegration
Dialogue and peaceful co-existence	National reconciliation Conflict prevention and management Democratic governance
Peace dividends	Employment generation / economic inclusion Equitable access to social services
Re-establishing basic services	Strengthening of essential national state capacity Extension of state authority / local administration Governance of peacebuilding resources

(ii) Use a different “yardstick” for engaging

The PBF is specifically mandated to provide timely and risk-tolerant support to peacebuilding opportunities and as such is likely to support initiatives and operate in a way that is appropriate for a peacebuilding context. When the Fund partners with institutions or funders whose primary mandates are broader than peacebuilding, misalignment of objectives and approaches can arise.

This is particularly true for International Financial Institutions (IFIs) and Development Finance Institutions (DFIs).[1] IFIs and DFIs are mandated to provide financing for private companies in developing countries and to support economic development. They hold themselves to high standards of responsible investment and have developed detailed tools and metrics, including the IFC's Environmental and Social Performance Standards. Yet some of the same criteria that ensure responsible use of public finance in some contexts limit the extent to which such finance can be applied in a peacebuilding context.

The World Bank's Strategy for Fragility, Conflict, and Violence (2020-2025) goes some way to-addressing this issue and envisages the development of specific operational guidelines for working in fragile contexts. In practice, the issue may be even more nuanced as the 2018 Commission on State Fragility, Growth & Development pointed out. Controversially, from a DFI perspective, the Commission suggested that private sector investment in fragile and conflict-affected contexts cannot expect to meet the same performance criteria that are applied in more developed countries. It recommended in particular that "DFIs should drop conventional environmental, social, and governance (ESG) requirements in fragile states, replacing them with simple and pertinent yardsticks", based on context-specific goal of reducing fragility.

Mobilising innovative funding for conflict affected environments will therefore likely require careful balancing and trade-offs. Funders, including IFIs and DFIs, may have to accept not just higher financial risk but higher reputational risk and performance that compares unfavourably with "core" activities on metrics that were designed to respond to their broader mandates. They will also likely have to find ways for investments to start small and to be allowed to grow to scale over a longer period, as discussed further in Section 3.3 below.

The PBF/PBSO, on the other hand, will likely have to accept the risks that come with the fact that investment, even when done in a conflict sensitive way, may not always be able to be as targeted or timely as would be considered ideal from a peacebuilding perspective. Each trade-off and balancing act will likely have to be made in a specific local context involving experts who can identify common ground between peacebuilding and investment priorities.

[1] The term IFI is used in this report to refer to multilateral development finance institutions that have been established by more than one country to finance projects or companies in support of private sector economic development. They include the African Development Bank (AFDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), International Finance Corporation (IFC), and the Islamic Development Bank (ISDB). By contrast, the term DFI refers to bilateral development finance institutions such as AFD/Proparco (France), BIO (Belgium), BMI-SBI (Belgium), CDC Group plc (United Kingdom), CDP/SIMEST (Italy), COFIDES (Spain), DFC (formerly OPIC, United States), FinDev Canada (Canada), Finnfund (Finland), FMO (Netherlands), IFU (Denmark), KfW/DEG (Germany), Norfund (Norway), OeEB (Austria), SOFID (Portugal), SIFEM (Switzerland) and Swedfund (Sweden).

(iii) Link to a legitimate political process

The 2011 World Development Report conceptualised peacebuilding support as a virtuous cycle of two reinforcing and interdependent actions: (i) building confidence of parties to take action, and (ii) transforming the institutional and structural conditions that create risks of conflict.

Absent a broadly legitimate direction of travel, interventions to generate employment or strengthen state institutions can easily do harm, because they will simply reinforce existing problems. And absent observable changes in institutions, and in the realities that people confront day-to-day, efforts at peaceful dialogue will eventually falter and fail (Bell 2015; Cheng et al 2018; IPTI 2018).

An important specific implication is that "government ownership" -- sign-off from those holding the relevant offices of state -- is not a sufficient condition for broad legitimacy. Situations of heightened conflict are precisely the moment at which the legitimacy of these mechanisms for collective decision-making come under active challenge. This necessitates active steps to engage the perspectives of women, and marginalised groups (United Nations 2018; World Bank 2020; OECD 2020).

For its part, the PBF identifies inclusiveness and national ownership as core principles. As a funding agency it relies upon the UN team in-country to translate principles into operations, and what this looks like is highly context-specific. In some cases, there is a formal, high-level political process (e.g. a peace process or transition of government); in others there may be project-specific stakeholder engagement based on the best-available conflict analysis. While this is acknowledged among the public sector/Government/UN/NGO peacebuilding practitioners and policy makers, it is not always a criterion for DFIs or private sector actors.

(iv) Work in areas of high risk

All three of the issues discussed above have a geographic dimension. It is a common conflict feature for a particular region, or a demographic group concentrated in particular regions, to hold grievances regarding national political institutions and structural conditions. In other cases, conflict is best understood at a sub-national level, through analysis of the institutions and structural conditions of a locality, state or province. Still another common category concerns "borderlands" spaces which are not best understood through analysis of any single country.

The practical implication is that local contextual challenges are often substantially different to those indicated for the "host" country as a whole. These will include differences in:

- the presence of viable partner institutions, having regard to criteria such as size, governance and financial management;
- operational risks and costs: e.g. related to energy supply; logistical infrastructure; and the regulatory environment.

For the PBF/PBSO it is a key operating principle to be "demand driven", i.e. to operate in geographies where conflict situations need to be addressed. For 2020-24, it is targeting ca. 40 countries with a mix of conditions requiring preventive, in-conflict and post-conflict action. This is made possible by working with recipient UN organisations that have operational presence in all but the most extreme operating environments and that are configured accordingly.

The same may not be true for potential sources of innovative funding who may well see "demand for peacebuilding" as a source of risk to the success of their initiatives – and be tempted to try and avoid it by focusing on "easier", less risky countries at the expense of those that are in greatest need for support. This is true not just at a country level, e.g. having to choose between operating in Columbia and the Central African Republic. It also applies to a sub-national level where peacebuilding requires engagement in higher risk regions, say northern Nigeria, whereas funding partners may prefer to operate in the more prosperous South.

Mobilising funding for peacebuilding from new sources will thus require nuanced trade-offs between potentially competing objectives and choices about acceptable levels of risk.

3.2 Ease of implementation

Even the most suitable source of funding is of little use to the PBF, or peacebuilding in general, if such funding cannot be legally or operationally mobilised, or this can happen only at disproportionate levels of effort and cost. It is thus important to understand the requirements and operating models of potential funding partners, and how these relate to the requirements and operating model of the PBF.

It is obviously difficult to generalise here as the funding options covered in this paper relate to a heterogenous set of institutions with varying legal structures, operating practices and strategic objectives. In conversations with expert practitioners, the following were consistently identified as the main factors to consider.

(i) Financial returns

A key distinction between the different sources of funding identified in the current debate is the presence or absence of a requirement for financial return. The frequently used expression "financing for peacebuilding" obscures the fact that most peacebuilding activities cannot provide financial returns for investors (nor should they, in many cases).

This is evident from even a rapid scan of the PBF's focus areas in Table 1, which relate mostly to public goods (in an economic sense) and largely do not involve activities that could generate a financial return. The first two focus areas, "Implement and sustain peace agreements" and "Dialogue and peaceful co-existence" are largely incompatible with the requirement of financial return. “Peace dividends” and “Reestablishing basic services” and the related objectives of employment generation / economic inclusion and equitable access to social services, can often be furthered by private sector actors and could conceivably generate returns. But even in these areas, there are situations where a peacebuilding approach would prioritise support to excluded groups which are precisely those with a limited ability to pay, or which can be served only at prohibitive cost. This is in clear tension with the incentives of institutions which target financial returns, and who will normally operate where opportunities are most promising.

The ability of the PBF to mobilise funding, or investment, for peacebuilding from sources that require a financial return on their investments will thus depend on the extent to which a reasonable balance can be struck between the ideal target of such investments from a peacebuilding perspective and what is “bankable” commercially or could become “bankable” with the right support.

(ii) Non-financial conditions

Most potential funding or financing institutions have legal and policy requirements for where and how they can use their resources. Depending upon the circumstances, these can include:

- “Must-haves” around process. Common examples in the philanthropic world include requirements that interventions be evidence-backed or have the potential to grow to large “systemic” scale and impact. In fact, these are core principles of the so-called effective philanthropy movement.
- Restricted purposes based upon sector of work, demographic groups, or geographic targeting. The UN experience with corporate partnerships, for example, is that they tend to be linked closely to the sector, and specific countries, in which the partner is active.
- “Must-nots”, or red lines, around reputational or security risks, or in some cases ruling out overt involvement in political debates.

Some or all of these requirements may be in tension with the PBF’s current model of raising un-earmarked funding that can be used flexibly across thematic issues and geographic target areas. Mobilising funding from new sources will likely require highly specific identification of areas where peacebuilding requirements and non-financial conditions of funders overlap.

(iii) Governance & risk management

All potential funding / financing partners have their own authorising environment, and in many cases this is not consistent with contributions to a pooled fund like the PBF. Many institutions control risk at portfolio level through close appraisal of individual projects; or mitigation measures like a stake in equity, or third-party monitoring. In other cases, decisions are controlled by politically responsible officials who require oversight of the exact purposes for which funding will be used.

(iv) Operating model

If potential funding institutions cannot use the implementing architecture of the PBF itself, and many cannot, it becomes essential to understand whether there are other implementing partners that the PBF can work with, or establish, that would be fundable / investible. The implication is that successful mobilisation of financing for peacebuilding may well involve establishing an intermediary institution as is articulated later in this report. This is an obvious constraint for development finance institutions that depend upon a formal private sector, or credible intermediaries, as counterparts for investment. Another example are social impact bonds which depend upon high-capability implementing partners that can meet rigorous requirements for design, planning, and evaluation.

3.3 Potential for scale

At a basic level, potential for scale is the requirement that a source of funding is large enough, in financial terms, to potentially make a material difference to the levels of funding or investment that go into peacebuilding. But beyond this there are three common fallacies that need to be avoided in considering scale.

First, references to the total size of "the private sector", the scale of annual private donations or of remittances, or the assets under management of IFIs and DFIs are of little relevance without consideration of what proportion can actually be mobilised for peacebuilding and can potentially be aligned with peacebuilding goals (in the sense discussed in section 3.1). That proportion is obviously much smaller.

Second, in an effort to attract funding for important causes it is tempting to calculate the ask, or funding target, in the billions or hundreds of billions. If a potential funding source is not likely to generate such funding it can easily be dismissed even if, in a more local context, or relative to other available options, it could in fact make a material contribution.

Finally, in the context of peacebuilding, a requirement for scale can also be counterproductive in that it can rule out options that should start small but could get to significant scale over time. Absolute potential scale thus needs to be weighed against the time, and effort, it would likely take the PBF to achieve scale.

In practical terms, based broadly on the goals of the PBF discussed in Section 2, this report considers funding options to have sufficient scale if, over time, they can potentially reach USD 100 million per annum globally.

4. Assessment of potential options

Building on the framework discussed above, this section discusses five potential opportunities for increased peacebuilding funding: assessed contributions from Member States, voluntary contributions from "non-traditional" donors; blended finance (including from IFIs and DFIs as well as impact investors); philanthropic funding; and private donations. The section also briefly considers several other options that have been raised in the literature but, for reasons given below, do not appear to be worth further exploration at this stage.

4.1 Assessed contributions from Member States

A number of options have been suggested with respect to the assessed (i.e. mandatory) contributions made by Member States to the UN's regular and peacekeeping budgets.

(i) Assessed contributions within the UN regular budget

In 2015, the Advisory Group of Experts suggested that core funding of $100 million or 1% of the value of the total United Nations budgets for peace operations (whichever was higher) could be earmarked for the PBF annually from the UN Regular Budget.

(ii) Assessed contributions within the peacekeeping budget

The 2018 Report of the Secretary-General on Sustaining Peace posited that where there is a decline in the peacekeeping budget from one year to the next, 15% of the variance could be assessed for the PBF.

(iii) Voluntary contributions linked to the peacekeeping budget

The Report on Sustaining Peace also proposed two options that would not involve a mandatory assessment but would be linked to the peacekeeping budget. The first is that where there is an underspend on the approved budget in a given calendar year, contributors to the peacekeeping budget could re-commit the refunds that they receive. The second is that where an individual peace operation draws down, Member States could commit 15% of that operation's full-year budget for the two years following closure.

Alignment with peacebuilding goals

From the PBF's point of view, proposal (iii) would involve additional funding through existing channels and require relatively few changes to its operating model

Proposals (i) and (ii) pose significantly more difficulties insofar as they would be subject to budgetary oversight by the relevant organs of the General Assembly. In principle this does not preclude flexibility to address specific conflict issues, and specific target countries, but in practice these oversight bodies have very little experience with "unearmarked" budget allocations, and to the contrary have shown a strong preference for prescriptive results-based budgets. A lengthy annual budgeting process could also constrain the PBF's ability to address smaller and emerging issues, due to the timeframes and transaction costs involved.

Ease of implementation

It is also necessary to ask, for all three proposals, whether there is a realistic prospect of success. Proposals (i) and (ii) have so far not been greeted with enthusiasm by Member States. Neither has been endorsed by the General Assembly; and there was no indication of new momentum in this regard in the interviews conducted by the review team. Several Member States also observed practical problems with such an approach:

- Direct competition with a parallel agenda to increase the programmatic funding available to UN peace operations, which is also acknowledged as a UN system priority;
- General resistance to growing either the regular or peacekeeping budgets, and the extreme complexity of building a sufficient political coalition to do so.

Proposal (iii), using voluntary contributions linked to the peacekeeping budget, is potentially more feasible insofar as it depends upon the interest of individual Member States, and not a "critical mass" of interest amongst the wider General Assembly. It also does not change the fundamentals of the PBF's budgeting and allocation processes. Perhaps most importantly there is already a precedent as Belgium has re-committed USD 300,000 that had been refunded from its contributions to the peacekeeping budget.

However, this may not be widely replicable. Several of the team's interlocutors noted that there are domestic legal restrictions, and inter-departmental budgeting challenges, that make this a complicated proposition. One representative comment was that it would be a "hard sell" for them to undertake a good deal of political work for something that would likely be perceived as "doubledipping" and that would more appropriately be addressed through management of the aid budget.

Potential scale

The other major consideration is the probable scale of this approach. The 2018 Report on Sustaining Peace noted an underspend for peacekeeping of USD 279m in 2015/16, but this is not necessarily the norm. The corresponding figure in 2018-19 was about USD 10m (ACABQ 2020), and experience suggests that there is substantial impetus within missions to avoid large underspends precisely because of the pressure it creates to re-allocate budgets elsewhere.

It should also be underlined that the assessment scale for the UN peacekeeping budget is heavily weighted to the permanent members of the Security Council ("Level A" contributors, 55%), and wealthier countries (Level B, 40%). The success of this approach, in other words, depends upon convincing four countries that have historically not supported the PBF significantly (France, China, Russia, and the United States); and mobilising relatively small number of level "B" member states that are not already major donors to the PBF.

On balance, this option is not expected to result in a substantial amount of additional funding to the PBF. There may, however, be broader policy reasons for pursuing it, in particular to emphasize the importance of sustainable transitions at the end of peace operations.

4.2 Voluntary contributions from additional Member States

Alignment with peacebuilding goals

For the PBF, additional ODA funding is by far the simplest option discussed in this paper. It flexibly supports the Fund's existing strategic goals; it involves the same kind of partnership strategy and the same internal skill sets and capabilities. It has also been noted that it is politically important for the PBF to have broad-based support amongst other reasons to close the gap between the Peacebuilding Commission, as an inter-governmental advisory body, and the PBF as supported by a small group of "traditional" donor countries.

In line with such arguments, a central finding of the 2020 Independent Eminent Persons group was that the Secretary-General should push for an "appropriate focus" on strategic peacebuilding priorities amongst aid donors, and specifically to spend "an increased and dedicated share of their development assistance" on peacebuilding.

Ease of implementation

Interviewees generally agreed that there needs to be a focus on developing the "pipeline" of potential new donors o the PBF, and for outreach and communication strategies that are better adapted to these audiences. Some Member States outside the group of major donors suggested that high-level principal-to-principal appeals could potentially unlock additional funding. This could be particularly promising where special circumstances, such as a Member State's term on the Security Council, create a window of opportunity to unlock funding.

Within such a pipeline, the categories of member states to be targeted could include (i) the small group of donors who make substantial contributions to UN agencies, funds and programmes, but give much less to the PBF; (ii) elected and permanent members of the Security Council; and (iii) members of the Peacebuilding Commission.

It is hard to generalise about expectations, or estimate potential scale, because this is an extremely heterogeneous group. As a first step, it would be necessary to undertake a "market assessment" to identify the specific needs and expectations of all potential partners. In the team's consultations it was emphasised that this would involve more explicit connection to the foreign policy priorities of potential partners. Examples of these priorities include interests in their geo-political "neighbourhood"; a wider role in multilateral institutions (such as an elected seat on the Security Council); or region-specific investment and market development goals. It was also emphasised that partnerships tend to be supported by strong bilateral relationships, often executive-to-executive, rather than the working-level engagement favoured by multilateral institutions.

The obvious trade-off is that funding that is more politically attractive, and visible for the contributor, may need to be tied to specific geographic priorities. It is also likely to require involvement in clearly defined issue areas, rather than flexible response to emerging risks and opportunities. This would potentially constrain the PBF's ability to operate along the lines discussed in Section 3.1. (the dilemma is familiar for any multi-lateral agency or other organisation that must juggle tied and untied funding.)

Overall, despite some potentially promising leads, this review suggests that adding new donors is unlikely to achieve the "quantum leap" called for by the Secretary General. There would also likely need to be significant adjustments in the PBF's partnership model, and in its grant-making / operational approach.

Nevertheless, for the benefits outlined above, the PBF team should continue to explore attracting more donors to the Fund. Specific demarches could continue to be made with the 5-10 most promising donors to assess in greater detail their specific requirements, how the Fund could enhance and tailor its value proposition, and the levels of funding that could be expected. The advisory team of Eminent Persons, and potentially major current donors, could be approached for advocacy support.

4.3 Blended finance

Blended finance is "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries", according to the OECD. More specifically, it refers to the blending of concessional funds, including grants and financing that does not seek commercial levels of return, with finance that requires a higher level of return. (For the purposes of this report, political risk insurance such as that provided by development finance institutions, is considered as part of the arsenal of blended finance tools.) Blended finance is widely seen as a powerful way to help mobilise larger pools of capital, ideally from the private sector, to bridge the investment gap for the achievement of public good objectives such as the Sustainable Development Goals or mitigation/adaptation for climate change[2].

[2] See or example the Climate Finance Leadership Initiative which was convened by Michael Bloomberg at the request of the UN Secretary General in 2019 and which brings together leading corporations and Development Finance Institutions.

Potential scale

In the discussion around innovative finance for peacebuilding, blended finance is often linked to the engagement of IFIs and DFIs as well as impact investors and, ultimately, private commercial investors. Inevitably, these are linked, and to an extent sequential, and they are thus considered here together.

IFIs in particular have in the past been suggested to the PBF as potential partners. For example, the review by the Group of Independent Eminent Persons suggested that peacebuilding donors "should also seek to interact more strategically with international financial institutions, to ensure that their respective support in crisis contexts is mutually reinforcing and has a long-term perspective".

In absolute terms, there is no doubt that these institutions direct a large pool of resources. In 2017 alone, DFIs committed USD 87 billion in non-sovereign, private sector development, including in countries that are a priority for UN peacebuilding (Centre for Strategic and International Studies 2019). As of 2019, impact investment organisations had USD 715 billion of assets under management, according to GIIN, the global impact investor network (Annual Impact Investor Survey 2020). The equivalent in the broader private sector, foreign direct investment, is an order of magnitude larger at an estimated USD 1 trillion in 2020, despite a forecast 40% decline in 2020 (World Investment Report, UNCTAD 2020).

In recent years, investment in fragile and conflict affected states has been identified as a priority for some IFIs and DFIs. A recent report by the World Bank highlights that on the current trajectory, by 2030 up to two-thirds of the world's extreme poor will live in fragile and conflict-affected countries. 500 million people currently live in fragile and conflict-affected situations (FCS), and the number of people living in proximity to conflict has nearly doubled since 2007 (World Bank 2020). In turn, the IFC has committed to deliver 40% of its program in IDA countries and fragile states by 2030 (Independent Evaluations Group/World Bank 2019). For reasons articulated below it is unclear whether this target is achievable without a significant change of approach.

To date only a very small proportion of IFI and DFI investment goes into peacebuilding priority countries. For example, the IFC's investment volume in FCS is modest and has not shown an increasing trend over the last decade according to an independent evaluation. In FY10–19, IFC's long-term commitments for its own account in FCS averaged USD 420 million per year, or 4.5 percent of its total commitments. This amounts to a total of USD 5.5 billion across 307 projects. Such investments also tend to be highly concentrated in a small number of larger fragile states. In the case of CDC, the UK's development finance institution, 95% of its portfolio in fragile states, as of 31 March 2017, was in ten of 33 countries classified as fragile by DFID, while 80% was concentrated in just five of them – Nigeria, Kenya, Pakistan, Côte d'Ivoire and Cameroon – including some of the least poor and fragile of the countries on DFID's list (ICAI 2019).

For foreign direct investment (FDI) the picture is even starker. FDI in fragile and conflict-affected situations represents just one percent of global flows, according to the World Bank's latest estimates. Despite increasing tenfold over the last two decades, the World Bank's analysis shows, FDI is still concentrated in a handful of fragile countries, all middle-income or resource-rich or both. Furthermore, differences in FDI potential and dependence within the FCS group are also stark: FDI inflows as a share of gross national income (GNI) ranges from more than 40 percent in Liberia to virtually zero in South Sudan (Global Investment Competitiveness Report 2017/2018).

Alignment with peacebuilding priorities

Whether blended finance can materially contribute to peacebuilding goals in general, and the priorities of the PBF specifically, is a question that requires a nuanced answer. The fundamental limitation of blended finance, from a peacebuilding perspective, is that ultimately the institutions concerned require a financial return on their investment. This limits the use of blended finance to projects that can generate such a return and, conversely, excludes activities that depend wholly upon grant funding.

In terms of the specific focus areas targeted by the PBF (see Table 1 above), this excludes all activities in two out of four areas, namely to "implement and sustain peace agreements" and activities relating to "dialogue and peaceful co-existence". There may, however, be opportunities under the remaining two focus areas of generating "peace dividends" and "re-establishing basic services". Blended finance, alongside investment by IFIs and DFIs, or in the form of political risk insurance and guarantees, can potentially unlock financing for businesses across a range of relevant sectors of these economies, from power plants to banks, from agribusiness and manufacturing to private education and healthcare.

The importance of strengthening the private sector in peacebuilding priority countries is widely recognised. The Pathways for Peace report highlighted how "small and medium sized companies… have the flexibility to provide services and jobs to the population and can be collectively powerful in shaping peace incentives in local communities". It also recognizes that "the large domestic and multinational firms… can drive major progress".

Even in those areas where there is an apparent overlap between the priorities of peacebuilding and the objectives and return requirements of various providers of blended finance there are important limitations. As stated earlier, general improvements in economic and social conditions will not automatically reduce the propensity to conflict, or as some of the team's interlocutors have put it, not all investment is "peace positive". A focus on profitable market opportunities can even "do harm" by simply reinforcing existing economic and political inequalities.

There are other obvious tensions between the criteria for peacebuilding interventions, as outlined in Section 3.1, and the criteria applied for investment decisions. This includes most notably the focus on high-risk geographic areas that will often (though not always) have unfavourable cost structures and market prospects, even in comparison with other areas of the same country. The imperative to engage early, and grasp small emerging opportunities, can also be at odds with investor needs around minimum "deal size", and threshold criteria for the regulatory and business environment (such as formal environmental, social and governance standards).

Ease of implementation

The PBF is not itself an investment organisation, and it does not have the expertise or legal mandate to manage blended finance. Mobilising blended finance into the PBF itself is therefore not a viable option. However, the PBF/PBSO can potentially play a role in catalysing greater volumes of finance into peacebuilding priority countries and to help ensure that such investment is made in a conflict sensitive, and ideally peace positive, way. To articulate how the PBF can potentially play such a role one needs to understand the factors that constrain investment from IFIs/DFIS, impact investors and FDI into peacebuilding priority countries (often despite their stated ambitions).

There is considerable experience here on which to draw. IFIs and DFIs have made important investments in fragile states. They range from major infrastructure projects in power plants, fibre optic cables and mobile phone networks to investments in SMEs through innovative structures. CDC, for example, is piloting some innovative financial instruments that it hopes will increase its ability to operate in more challenging markets—including platform investments, through which a single investment can support multiple businesses; permanent capital vehicles, which are a means of making longer-term equity investments; risk-sharing facilities, designed to increase small business access to commercial finance; and a new grant facility (ICAI 2019). Practical examples of investments in innovative funds and permanent capital vehicles made by DFIs include inFrontier in Afghanistan, African Rivers Fund in the DRC, One2Watch in Nepal, Solon Capital in Sierra Leone, Shuraako in Somaliland, Kinyeti in South Sudan, or Takura in Zimbabwe.

Taken as a whole, however, the IFI and DFI experience indicates that they face well-known external barriers to investment: security risk, political risk, environmental, social and governance standards below their minimum requirement and a general lack of investible / bankable projects. Addressing these barriers requires measures familiar to peacebuilding practitioners and can be articulated from a IFI/DFI perspective as establishing security and reducing conflict, building legitimate government, generating effective state capacity, promoting private sector development, and building resilience to shocks (Commission on State Fragility, Growth and Development, 2018). The World Bank, many bilateral donors and increasingly IFIs and DFIs are taking steps to address these issues, and the World Bank developed a detailed "Group Strategy for Fragility, Conflict, and Violence 2020–2025" (World Bank 2020).

IFIs and DFIs also face numerous internal barriers to investment in peacebuilding priority countries. They rarely have the local offices and investment teams that would be required to manage investments in the smaller, often early-stage companies that represent the bulk of demand in these economies. The minimum investment size for DFIs and IFIs often exceeds $10m for which there are generally few targets, especially in smaller fragile states. There is also debate as to whether the main instruments available to IFIs/DFIs to invest in SMEs, namely Private Equity Funds, are suitable for the specific conditions of fragile states.

Just as importantly, some argue that DFIs have developed cultures, systems and expertise to deliver on their broader development mandate, and which inevitably lead to a focus on larger developing economies. The experience, skillset and mindset required to invest successfully in fragile states is often different,and include making commercial judgements in the absence of reliable data; developing trusted networks and relationships in target markets; a more operational than analytic mindset; and a willingness and aptitude to take time for developing opportunities when they are not quite ready for investment. Retaining people who have the ability to invest in fragile states in the same organisation as those that are focused on investing in more developed markets creates complex challenges that IFIs and DFIs have struggled to overcome.

It is also important to underline the operational challenge of alignment with (legitimate) politics. The team's interlocutors could identify no obvious examples of direct linkage with a peace or transition process, outside of some support to decentralised development planning in Colombia. At the operational level, equally, the authors' experience is that the interface between investment actors and more politically-minded institutions is limited, and often plagued by differences in expectations and vocabulary.

To catalyse financing from IFIs and DFIs, the PBF/PBSO would have to find ways to partner with others to overcome these barriers. The PBF is potentially well-placed to help play such a role—in contrast to IFIs and DFIs its entire focus is on working on conflict; and as a part of the UN system it potentially has the ability to mobilize local UN expertise and relationships in these markets to ensure that investments are conflict sensitive and supported by the right kinds of stakeholder engagement.

One option to explore would be for the PBF/PBSO, with the necessary support from Member States, to partner with an IFI or DFI to establish an intermediary investment vehicle with an explicit focus on investing in support of peacebuilding. Exploring this option is one of the central recommendations of this report and was discussed in some detail with several of the team's interlocutors.

Such an intermediary, between IFIs and DFIs on the one hand and private sector partners in fragile states on the other, would have to overcome some of the internal barriers for investment that those institutions face. Designing such an intermediary is a difficult undertaking but based on the team's experience and discussions with key interlocutors it will likely include the following elements:

a. pooling of capital from DFIs/IFIs and blending it with grant funding from donors (i.e. first loss facilities or guarantees) to reduce financial risk of investment (potentially alongside political risk insurance) and to support the high operating costs of working in fragile states;
b. establishment of a core team of investment professionals dedicated to, incentivised, and experienced in investing in conflict-affected environments;
c. support for, and scaling up of, existing private sector investment teams already operating in peacebuilding priority countries, including in the areas of investment structuring, environmental and social standards (E&S), business integrity and impact reporting;
d. development of right-fit standards standards and processes, including in the area of E&S, that reflect an appropriate balance between reputational risk for participating institutions and the realities in target countries;
e. political economy analysis and, potentially, strategic plans for target countries and sub-regions to ensure investment is targeted as far as possible at peace-building priorities.

Over time, such an initiative may be able to catalyse funding from impact investors and potentially from the private sector. How exactly such a vehicle would operate would require additional analysis and active engagement between PBSO and a small group of IFIs or DFIs.

4.4 Philanthropic funding

Philanthropic funding is taken here to mean grant funding from philanthropic foundations. This report treats it separately from charitable private donations, which are considered below, due to their different decision-making criteria and processes for allocating funding.

On the face of it, philanthropic funding looks like a material source of funding for peacebuilding. In 2017, for example, one survey of the 1,000 largest foundations found that total grants amounted to USD 32.7bn. Alongside this there has been some success, though not overwhelming, in attracting philanthropic support into the UN system. In 2018 UNICEF raised USD 215m from foundations (about 3% of total fundraising) and UNDP about USD 50m.

Alignment with peacebuilding priorities

On closer examination, the picture is much less appealing. On the same 2017 data, peace and security-related grants accounted for less than 1 percent of total philanthropic grants (Candid / Peace and Security Funders Group 2019). A recent follow-up survey of 823 organisations concluded that out of all thematic priorities, peacebuilding was the least-prioritised (Knight et al 2020). A further important data point was that only one-third of the organisations that were surveyed thought of themselves as working in conflict-affected areas, suggesting there is limited geographic overlap.

With this important qualification of the overall "market size" in the background, is philanthropic funding otherwise well suited to support peacebuilding activities? It is certainly true that many of the institutions concerned are set up for smaller targeted interventions in under-served areas and communities, and have ample experience with complex stakeholder engagement.

However, there are also some obvious incompatibilities with the way that the PBF actually operates. One interlocutor with direct experience in relevant foundations emphasized that it is "extremely rare" to see untied grants for a pooled vehicle like the PBF that can be used flexibly across wideranging priority areas. He noted that this approach directly contradicted the operating model of philanthropic institutions which seek to add value at the points of intervention design and impact assessment. Other interlocutors underlined that the PBF's work is inherently difficult to prioritise for institutions which put emphasis on "evidence-backed or evidence-generating" interventions, or who insist on pathways to significant scale. This suggests that there may be an important threshold challenge of creating interest and willingness to fund and identifying intersections with strategic objectives that are not necessarily defined around peacebuilding.

As a general observation, there is little available evidence of the external validity of specific peacebuilding interventions (Rohner 2018). In this regard, peacebuilding as a field significantly lags development, which has made substantial progress over the last two decades, including by a turn towards a more experimental approach to field research (Royal Swedish Academy of Sciences 2019). It is worth noting though that more recently efforts have been made to strengthen the conceptual clarity and evidence for impact measurement in peacebuilding (3IE 2020). A stronger focus on impact assessment and external validity, based on rigorous field experiments, should make peacebuilding as a field more attractive, not only for philanthropic organisations, but also for member states and individual donors.

Ease of implementation

With rare exceptions, philanthropic grant-making is highly fragmented. On the 2017 data mentioned above, 330 foundations made 2,162 peace and security grants totalling $435.4 million, an average of $1.3m per foundation or $200,000 per grant. This is consistent with the funding profile of the specialist peacebuilding organisations reviewed for this report, e.g. the Centre for Humanitarian Dialogue and Search for Common Ground. The implication is that raising material funding from these sources would involve substantial transaction costs, require specialist staff and would need to be considered on a return-on investment basis. For most philanthropic institutions, funding would likely also be at the project level. This would require the PBSO to strengthen its position in "crowding-in" philanthropic involvement with project-specific opportunities at the country-level, rather than necessarily drawing contributions into the Fund itself.

Given that there is only a small number of major foundations active in the peacebuilding space it is possible to assess at limited cost, through a number of high-level meetings, whether partnerships could be developed that can overcome the limitations outlined above.

4.5 Private donations

The 2020-24 strategy for the PBF specifically mentions private donations as a prospective source of funding. This covers a wide range of actors, ranging from individuals making small donations to private corporations and billionaire philanthropists. There are also numerous approaches to raising funding from private donors (see table 2 below) which create cannot be exhaustively considered within the limits of this scoping report.

Table 2: Selected sources and approaches for attracting private donations

From individuals	Hybrid	From businesses
Direct appeals Branded retail operations	Transaction-linked donations Cause marketing Postcode lotteries Matched employee contributions	Direct donations Co-branded projects

Potential scale

The theoretical funding pool from private donations is large. In the United States alone, they amounted to almost USD 450 billion in 2019, including over USD 300 billion from individuals and over USD 21 billion from corporations. Almost 23 billion, or 5% of this amount, went to "international affairs" (Giving USA 2020). There is some evidence within the UN system that material levels of funding can be raised. In 2019 UNICEF raised 23% of its overall funding from private sources in 2019 (USD 1.46bn), and UNHCR raised 10% (USD 400m). Two commonly cited examples for private donations are Ted Turner's 1998 pledge to donate $1bn to the UN (leading to the establishment of the UN Foundation) and PRODUCT (RED), which supports the Global Fund in its work on HIV/AIDS in eight African countries. The latter generated initial revenues of $12.5m in 2006 rising to a peak of $69.3m in 2008 before plateauing at an average of $26.7m over the period of 2010-15 (The Lancet 2017).

On the other hand, an agency like the UN Development Programme, arguably closer in its mandate to the PBF than UNICEF or UNHCR, raises less than 1% of its funds from private sources, instead emphasises broader engagement of the private sector in support of the Sustainable Development Goals (UNDP 2016). For the PBF a legal mechanism to raise private donations was established under its previous strategy (2017-19), but to date it has not attracted significant contributions. It is thus unclear whether private donations can be increased to a material level although our analysis below suggests that this is likely to be challenging.

Alignment with peacebuilding priorities

It is easily assumed that peacebuilding is a noble cause, that private donations are generally untied and that there is potentially a good fit between the objectives of donors and the PBF's operating model. But this is not necessarily the case, and there are several apparent tensions with the criteria set out in Section 3.1

Initial discussions with the team's interlocutors suggest that the specific focus areas of the PBF in Table 2 offer less obvious scope for public appeals (for individuals) or "brand alignment" (for businesses) than the mandates of agencies like UNICEF, UNHCR, or the Global Fund. In some cases, there will also be sensitivity around the overtly "political" character of the work supported by the PBF, or simply a lack of name recognition for many of the geographic locations in which the PBF focuses its work. Some interlocutors also warned that matching peacebuilding interventions to marketable causes would create perverse incentives to unhelpfully simplify such interventions into support for "good guys vs. bad guys".

Even in the cases of UNICEF and UNHCR, un-earmarked funding is a minority of the total raised. Experts in this space noted that a high proportion of retail fundraising is linked to specific issues or crises, organised into discrete "appeals". Business fundraising, at least at the larger end, is also typically premised on synergy with a partner's overall mission and market presence. Well-known examples of the latter with UN partners include LEGO (children's play and development); Unilever (adolescent life skills); and AstraZeneca (child health).

All of these factors would clearly narrow the field in terms of the types of issues and the specific places that could be supported through this funding stream. It is also likely that it would be better adapted to large-scale, higher-profile cases rather than flexible early responses.

Ease of implementation

Raising funding from private donors is a specialised and professionalised field. It was noted above that it typically entails a mix of approaches, ranging from "retail" fundraising from individuals, through direct financial contributions from businesses, to one-off major donations from high net worth individuals.

With this in mind, it is important to think about private fundraising with respect to return on investment (dollars raised divided by the dollars spent raising them). For UNICEF and UN-

HCR, this ratio was just over 3:1. One main reason for this is that the cost per transaction is very high relative to government partnerships, with both agencies having only a handful of contributors over $1m. Another is that branding and communications require substantial investment, including tailoring to different donor markets. At a practical level, such a ratio means that both agencies have large specialist divisions for public and private fundraising, with total budgets in the hundreds of millions of dollars. Another reference point is provided by the new private sector strategy for the World Food Programme, which sets a target for 2020-25 of USD 170m from private sources, with accompanying costs / investments of USD 100m.

For the PBSO this raises obvious difficulties. The first is that a material investment in fundraising would substantially change the character of the Office which is located within the UN Secretariat and subject to its budgetary and human resources management procedures. A second and arguably more fundamental point made by our interlocutors is that the PBF is not well-placed to compete in the fundraising market. Its work is highly context specific, and its value proposition (fast/catalytic/risk-tolerant) is highly technical. As noted in section 2.3, it is no exaggeration to say that the PBF's role is difficult to articulate even for specialist audiences in the aid sector, let alone the wider public.

Overall, therefore, raising private donations for the PBF is an approach that would involve significant changes to its operating model, and have uncertain overall prospects. It appears to be an approach that is better left to others with clearer comparative advantages.

4.6 Other options

As mentioned above, various other options for increasing funding for peacebuilding have received some consideration, among them tax-based funding models, impact bonds, diaspora bonds, as well as ideas such as the repatriation of stolen assets, learning from innovations such as advance market commitments of the global alliance for vaccines and immunization (GAVI), or leveraging potential 'game changers' such as blockchain and artificial intelligence (Kantowitz 2019).

A high-level discussion of the first three is provided below, none of which appear to present an achievable path to scale. While the other ideas referred to in the literature may, at some point, yield practical opportunities to fund peacebuilding related initiatives, they are too-early stage or too far from showing applicability to peacebuilding to be considered viable options for the PBF at this stage.

(i) Tax-based funding models

A number of different tax-based funding models have been referenced in the literature. They include taxes on imported goods (e.g. the African Union's 0.2 percent tax on select imports to finance the AU's peace fund), solidarity taxes on airplane tickets, or taxes on the global arms trade (an idea promoted since at least the 1980s by various high-level commissions).

The appeal of such approaches is obvious: it holds the prospect of regular and predictable un-earmarked funding. Theoretically, such models are well-fitted to peacebuilding as they are grant-based and could, in principle, be used by the PBF in line with best practice in the sector. In theory, they could also achieve scale, in the sense that a small percentage tax on any multi-billion US Dollar market would generate significant funding.

However, none of our interlocutors felt that any of these options had a reasonable chance of success. As with any tax, a 'peace tax' requires adoption and enforcement by national governments. As others have pointed out, irrespective of the arguable moral case for such a tax and the link to peace, the political challenges to get governments to support such a tax appear to be insurmountable given the multitude of rival public goods worthy of support and with well-established advocacy campaigns (notably around climate change and global health). The PBF would be entering that market at a major disadvantage.

(ii) Impact bonds

Impact Bonds (IBs) are financing mechanisms under which investors provide upfront finance for the operating costs of projects that generate certain target outcomes. They include Social Impact Bonds (SIBs) and Development Impact Bonds (DIBs). Once the promised outcomes have been generated, and verified, an outcome funder, typically a government or a donor, repays the investors their original investment plus a financial return.

IBs have gained publicity in recent years in part because they hold the promise of mobilising private sector finance for the delivery of public goods. But they have significant limitations in regard to the likely scale of any new funding for peacebuilding and their suitability for funding peacebuilding initiatives.

The global market for IBs is still nascent. Globally, as of August 2020, 194 impact bonds have been contracted with total capital raised over the past decade of $421 million. This includes 17 IBs in developing countries, and 10 in what could be broadly regarded as peacebuilding priority countries (Cameroon, Colombia, Cambodia, DRC, Kenya, Mali, Nigeria, Myanmar, Palestine and Uganda). Growth in developing countries has been slow with just four new projects contracted in 2019 in low- and middle-income countries. These included a DIB for type II diabetes in refugee camps in the West Bank, and another DIB for employment in the West Bank and Gaza; Colombia's second employment SIB; and a DIB for improving access to sanitation in Cambodia (Brookings 2020).

Even if the market for SIBs were to grow significantly, they do not in fact generate additional funding in their own right. Ultimately, they rely on the same set of donors to provide outcome-based payments to the providers of what is essentially interim finance. Any incremental funding can only arise from greater efficiencies in interventions, or as a product of increased interest from these donors, rather than "crowding in" new private sector resources. Incremental funding also needs to be weighed against the substantial transaction costs (in the design of facilities and in the premium that is paid to the financiers) of establishing SIBs, which in a peacebuilding context can take a particularly long time to develop.

SIBs are usually considered most useful where they can create strong incentives for efficiencies and innovation in the delivery of certain public services. To realise this potential, SIBs work best in situations where outcomes are easily measurable, where there are motivated and technically competent implementing partners, and where changes can be clearly attributed to the actions of those partners. In practice this limits the potential scope to a small subset of peacebuilding activities, such as delivery of certain health outcomes which arguably other actors are better placed to explore. The overlap with the PBF's geographic priority areas will also likely be fairly limited.

(iii) Diaspora bonds

A diaspora bond is a debt instrument issued by a country to raise financing from its overseas diaspora. The idea of diaspora bonds, and other approaches to capturing parts of the global market for remittances to developing countries, carries the promise of significant scale. Even considering the expected significant decline during COVID, global remittances are expected to reach almost half a trillion US Dollars in 2020 according to the World Bank (Knomad 2020). India and Israel in particular have been able to raise sizeable diaspora bonds, often at a discount to market rates. According to one leading expert, USD 50 bn per year or even up to USD 100 billion could be raised from diasporas, including through mobilizing diaspora savings, reducing remittance costs, and mobilizing philanthropic contributions from the diaspora (Ratha 2015, 2020).

Our interlocutors raised serious doubts, however, whether diaspora bonds are compatible with or suitable for peacebuilding and whether, in practice, real scale could be achieved. Even proponents of diaspora bonds concede that diaspora bond issuance from countries with weak governance and high sovereign risk, two characteristics usually associated with peacebuilding priority countries, would require support for institutional capacity building and credit enhancement from multilateral or bilateral agencies (Ketkar/Ratha 2010). Initiatives to launch diaspora bonds in such countries, including in Somalia which has an active diaspora community, have not seen much demand.

If there is an opportunity for diaspora bonds, it is likely that they will start in less fragile environments. In any case, it is unlikely that diaspora bonds could be used to raise funding for the PBF directly and it is doubtful whether the PBF would be the natural institution to develop the expertise to facilitate the creation of such bonds. Likewise, other initiatives to increase the flow of diaspora funds to peacebuilding priority countries, e.g. by lowering the cost of remittance transfers, do not appear to fall within the core competencies of the PBF/PBSO.

5. Recommendations

The PBF's mandate is to be nimble, catalytic, and risk tolerant. With this in mind it can potentially play three different roles in relation to funding or financing for peacebuilding: (a) to receive and allocate additional funding through its current channels; (b) to catalyse funding for peacebuilding to third party actors and intermediaries, and play a direct or indirect role in its allocation; and/or (c) to advocate and stimulate policy development around new sources of funding, without being involved directly in implementation.

The authors understand that option (a) – additional funding directly for the PBF – is the first 'prize'. But as the preceding analysis suggests there is no easy option in this regard, and if there were, it is highly likely that the PBSO would have already recognised and pursued it. This leaves a number of imperfect options, which are summarised in Figure 3 below (for clarity, the less-viable options discussed in Section 4.6. are not included).

Each option is positioned along two dimensions:

- *Ease of implementation:* Does it require changes to the PBF's external relations and fundraising, but retain the existing model of flexible allocations from a pooled fund? Or will it also require changes to the PBF's operating model? How receptive are potential funders?
- *Scale:* What proportion of the overall level of activity of these institutions can potentially be aligned with peacebuilding priorities? And can this, over time, lead to a level of new funding that is material in the context of the PBF's current portfolio, and growth targets for 2020-24?

Figure 3: Evaluation of potential funding options

Scale	Larger	▪ Blended Finance through ▪ DFI/IFI partnerships ▪ Current core donors to PBF ▪ Assessed contributions	N.A.
	Smaller	▪ Private donations ▪ Philanthropic donations	▪ Non-traditional donors ▪ Re-allocation of assessed contributions
		Lower	Higher
		Ease of implementation	

The practical implications of Figure 3 are as follows.

- Larger scale/easier to implement: Based on the team's analysis and supported by the vast majority of its interlocutors, there are currently no options to raise funding for the PBF, or peacebuilding more generally, that are likely to deliver significant scale and would be easy to implement.

- Smaller scale/more difficult: It is clear from the experience of peer institutions that working with private and philanthropic donors requires substantial investment, in the form of dedicated fundraising and external relations teams. It must accordingly be thought of in terms of return on effort. Feedback from interlocutors was generally negative on the positioning of the PBF in the overall marketplace for private and philanthropic contributions, so – subject to further expert advice – the return on effort is unlikely to be high.

- Smaller scale/easier to achieve: These options would require investment in outreach and engagement, but this could be highly targeted to specific Member States, and would be significantly closer to the PBF's existing capabilities. They would depend most of all on leadership and "door opening", including by sympathetic Member States, and this should be an "ask" in the follow-up to the 2020 review by the Group of Independent Eminent Persons.

- Larger scale/but difficult to achieve: The main option here is to cultivate greater engagement of IFIs and DFIs with a view to jointly create a mechanism to invest in peacebuilding priority countries that can overcome the limitations that IFIs and DFIs currently face in investing there. This would require considerable changes in the role of the PBSO and how it approaches its "catalytic" mandat.

Any such efforts need to be closely aligned with wider reform efforts for the UN's peace and & security architecture, and the UN Development System. In this regard, the PBSO's comparative advantage is as a resource provider, relationship-broker for expertise and local representation in the wider UN system, and centre of institutional memory.

Based on the foregoing, the report comes to the following recommendations:

The PBF/PBSO should:

(1) Place increased emphasis on its unique mandate of catalysing funding for peace-building, and partner with IFIs and DFIs (such as the IFC and/or European and regional DFIs) to establish one or several intermediated blended finance vehicles for peacebuilding that can unlock more impact investment into priority countries

for peacebuilding[3]. Such an initiative should specifically focus on (i) the peace-positive nature of their investment within relevant priority areas for the PBF (peace dividends and re-establishing basic services); and (ii) what can be done to address current operational constraints on investment in fragile states.

In support of this recommendation, PBSO should:

a. Build the capabilities within PBSO to pursue such an initiative by establishing a small specialist team (e.g. of initially 2-3 people) with private sector, financial and fundraising expertise that can develop and maintain relevant partnerships; and that can develop, structure, and provide seed and scale-up funding for specific initiatives (for clarity, PBSO staff are not expected to be directly involved in investment decisions).
b. Consider appointing a senior Advisory Group with relevant expertise from outside the UN system and with relationships with IFIs, DFIs, impact investors and foundations that can provide appropriate high-level guidance and introductions.

(2) Consider working with a team of specialist consultants to examine whether a sustained, professional campaign for private donations is likely to generate sufficient incremental funding to warrant the financial costs and organisational focus.

(3) Deprioritise other innovative funding options that have been raised over the last few years, including development of impact bonds, engagement with philanthropic funding institutions, micro-taxes, and engagement with diasporas.

(4) Continue to encourage all Member States to increase their voluntary contributions as well as to allocate unspent contributions to the PBF. In support of that effort, PBSO should

a. undertake a detailed market assessment of Member States, with a focus on members of the Security Council and Peacebuilding Commission, and with a view to identifying new donors to the PBF. In parallel, it should consider appointing a Special Representative or Eminent Person to spearhead funding advocacy with those targeted Member States at senior levels;
b. start investing in rigorous evidence generation and, based on that evidence, develop a strategic communications plan that speaks to the Fund's

[3] The design and operations of such an intermediary for investment in peacebuilding are outlined in the report. In essence, however, it will involve a number of key elements: a) pooling of capital from DFIs/IFIs and blending it with grant funding from donors (i.e. first loss facilities or guarantees) to reduce financial risk of investment and to support high operating costs; b) establishment of a core team of investment professionals dedicated to, incentivised, and experienced in investing in fragile states (thereby overcoming some of the internal challenges faced by IFIs and DFIs); c) support for and scaling up of existing private sector investment teams already operating in peacebuilding priority countries; d) political economy analyses and strategic plans for each country or sub-region to ensure investment is targeted as far as possible at peacebuilding priorities. Over time, such an initiative could also help catalyse funding from impact investors and potentially from the private sector.

concrete impact and value add in a way that resonates with Member States that are not yet 'Friends of Peacebuilding'. (This recommendation is not new, but it is worth reiterating as it was made by virtually all interviewees.)

Member States should:

(5) Continue to prioritise peacebuilding funding, explore opportunities to provide multi-year funding, and actively communicate to Member States that do not currently contribute why they chose to do so.

(6) Provide funding for detailed implementation planning by a team of experts to work with PBSO and a likely partner organisation to develop one or more of the recommendations articulated in this report into investible propositions.

(7) Consider providing funding to the PBF for a 5-year pilot phase to enable PBSO to actively catalyse additional funding for peacebuilding. Funding requirements would be identified and quantified in (6) and will likely involve funding for a central team within PBSO (see point 1a above); more substantial funding that the PBF can direct to third party actors as seed-funding for a peacebuilding investment intermediary; and subsequently grant funding to catalyse investment from IFIs and DFIs.

(8) Consider providing funding to explore in greater detail the possibility of raising private donations for peacebuilding (see (2) above).

Annex 1: Interviews

United Nations

- Markus Bouillon, Chief of Staff, Department of Political and Peacebuilding Affairs
- Henk-Jan Brinkman, Chief of PBSO's policy branch (26 June 2020)
- Simona Santoro, PBSO (26 June 2020)
- Marcus Lenzen, Senior Adviser, Peacebuilding Policy and Programmes, UN DPPA/PBSO (26 June 2020)
- Marc-Andre Franche, Chief, Financing for Peacebuilding, UN DPPA/PBSO (26 June 2020)
- David Malone, Rector, UN University (30 June 2020)
- Christopher Coleman, Deputy Special Representative of the Secretary-General, United Nations Mission in Kosovo (4 August 2020)

Member States

- Lisa Bakels, Dutch Ministry of Foreign Affairs (14 July 2020)
- Axel Gugel, 1st Secretary Political and Peacebuilding at the German Permanent Mission to the UN (29 June 2020)
- Dane McQueen, Senior Advisor, Development and Humanitarian Affairs, Permanent Mission of the United Arab Emirates to the United Nations (13 July 2020)
- Stephane Rey, Swiss Federal Office (16 July 2020)
- Ed Hadley, Policy Lead, Multilaterals; Conflict, Humanitarian and Security Department, UK

Finance Institiutions Development

- Ewan Smith, UK Foreign and Commonwealth Office Blended finance
- Kjell Roland, former CEO of Norfund (3 July 2020)
- Ola Nafstad, Ellen Rasmussen and Ylva Lindberg, Norfund (19 August 2020)
- Soren Andreasen, CEO at EDFI (Association of European Development Finance Institutions) and Chairman at EDFI Management Company (26 August 2020)

Non-profit organisations

- Catherine Howell, Innovative Finance Advisor, ICRC (7 July) Milena Castellnou, Education Outcomes Fund (1 July 2020)
- Sean Hinton, Co-Director of Economic Justice Program at Open Society Foundations & CEO of Soros Economic Development Fund (12 August 2020)

Foundations

- Lukas Haynes, Executive Director, David Rockefeller Fund (8 July 2020)

Thought leaders

- Paige Arthur, Deputy Director, CIC, NYU (23 June 2020)
- Richard Manning, ex Chair of DAC (7 July 2020)
- Professor Stefan Dercon, Oxford University (29 July 2020)

Annex 2: Selected references

The goal of the report is not to provide a comprehensive literature review. The following is a list of works directly referenced in the text.

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