Finance for Peace

The Peace Finance Impact Framework

A Comprehensive Guide for Investors to Achieve Peace Impact and Additionality

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This Peace Finance Impact Framework has been developed by Finance for Peace, a multi-stakeholder initiative that seeks to systemically change how investment impacts peace.

The Peace Finance Impact Framework (PFIF) is an investment framework that is designed to enable impact investors to support peace. It helps both public and private investors to plan, report and realise peace impacts, and work with partners to do so, while simultaneously reducing investment risks for themselves and for communities that live in these investment areas.

The PFIF is complemented by the new Peace Finance Standard (PFS), which is composed of a Peace Bond Standard and a Peace Equity Standard. They label nascent debt and equity investments aligned to peace. The two standards support the design, structuring and management of two new finance instruments for impact investing: Peace Bonds and Peace Equity investments, which have the ability to generate positive peace impacts alongside financial returns.

The PFIF has been developed on the basis of feedback and inputs from a broad array of stakeholders, including potential direct or indirect users or partners. Relevant stakeholders include government donors; multilateral organisations; development finance institutions (DFIs) and multilateral development banks (MDBs); private asset managers and banks; private enterprises operating in fragile and emerging markets; norm-setting organisations in the financial sector; verification providers; organisations that deliver development and peacebuilding aid; and civil society and communities.

This PFIF version updates the initial version developed in September 2022. It takes into account further feedback from experts and scholars in sustainable investment, finance, peacebuilding and development.

About the Finance for Peace initiative

Finance for Peace works with partners to catalyse a market for peace-positive investment. It works collectively to create standards, market intelligence and partnerships across sectors to build trust, share knowledge and establish networks.

Through leveraging and creating new partnerships of community engagement and political support, Finance for Peace aims to scale "Peace Finance" – investment that has an intentional and positive impact on peace while promoting economic development, job creation and better livelihoods. Peace-positive investment generates mutual benefits of reduced risks for investors and communities and can achieve both bankable and peaceful outcomes.

Peace-positive investment encompasses different asset classes such as Peace Bonds or Peace Equity and similar structures, across a range of sectors. In order for Peace Bond and Peace Equity structures to take flight, we need commonly agreed standards and guidance that the market can trust and use, as well as new partnerships and knowledge.

Finance for Peace brings together investors, private sector actors, development finance institutions and other development actors, governments, peacebuilders, civil society and communities, to identify innovative solutions that can bring true additionality to investors, as well as more inclusive development.

Finance for Peace is supported by the German Federal Foreign Office (GFFO) and builds on feasibility research supported by the UK Foreign and Commonwealth Development Office (FCDO) on a new sustainable investment category called Peace Bonds.

Finance for Peace has been incubated by Interpeace, an international peacebuilding organisation that has worked on conflict resolution and peacebuilding throughout Africa, the Middle East, Asia, Europe and Latin America for 30 years. For more information, please visit: https://financeforpeace.org/ and https://www.interpeace.org/.

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Citation guide

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Federal Foreign Office

Contents

Terms and definitions used in this report

AAAQ approach. AAAQ stands for Availability, Accessibility, Acceptability and Quality. The approach seeks to address and overcome obstacles to the fulfilment of social, economic and cultural rights. A certain good is available when it is in a sufficient quantity. A product or service is accessible when it is economically affordable and physically accessible without discrimination, and when relevant information on the product or service can also be obtained. Goods and services are acceptable when their form and delivery are ethically and culturally appropriate. A good or service is of good quality when it is safe and meets internationally recognised standards that are scientifically approved.

Conflict dynamics. Conflict dynamics can be described as the resulting interaction between the conflict context (the political, economic and socio-cultural context), the actors and the causes of conflict. Understanding conflict dynamics will help to identify windows of opportunity.

Conflict sensitivity. The term evolved in the aid sector. It refers to practices that enable organisations to understand how aid interacts with conflict in a particular context, mitigate unintended negative effects of their humanitarian, development or peacebuilding interventions, and influence conflict positively wherever possible. It is now seen as a minimum standard for all actors operating in conflict-affected settings.

Do no harm. Do-no-harm (DNH) is both a principle and a framework. It has been used for decades in the humanitarian, development and peacebuilding sectors to help ensure that external actors, especially when they operate in fragile and conflict-affected places, consider and mitigate the potentially negative effects of their assistance. In relation to peace, DNH can be defined as any approach that does not have any unintended consequences in the short-, medium- or long-term, and does not exacerbate conflict dynamics. An assessment of DNH can only be made on the basis of a rigorous and systemic understanding of context and of peace and conflict dynamics.

Social peace. Social peace is the presence of social cohesion and trust between the state and people, between different social and identity groups (based on caste, tribe, race, ethnicity, religion, class, gender, etc.), and within institutions, thereby enabling people to resolve their grievances in non-violent ways. Social peace actions are any inputs, outputs or outcomes that result in people transforming conflictual relationships between groups and between the state and society.

Political peace. Political peace interventions relate to political or largely formal solutions to violent conflicts and may be supported or reinforced by a formal legal architecture such as a peace agreement, legal change at national level, or legal interventions at regional or international level, such as a UN Security Council decision.

Negative peace. Negative peace is commonly understood to be the absence of forms of direct physical violence or fear of physical violence. The Peace Finance Impact Framework (PFIF) taxonomy uses the term ‘safety and security’, which is analogous to negative peace, as one of its key three peace dimensions.

Peace-enhancing mechanisms. Peace-enhancing mechanisms are peace actions embedded in financial structures and investment approaches that seek alignment with the PFIF. They are implemented by partners of investors (Peace Partners), and may cover a broad array of actions specific to a given investment context. Specific peace finance actions, and the qualities required of Peace Partners, are described in this report.

Peace Partners. Peace Partners are local, national or international partners who possess capacities, skills, networks and knowledge that are relevant to the local investment context. In many cases, Peace Partners are local organisations with expertise in international humanitarian, developmental aid and peacebuilding work. They may also be intermediary organisations that can map actors and build bridges with different local actors who possess useful skill sets and capacities. The PFIF gives examples of Peace Partners, and describes their roles in the framework.

'Peace-positive'. The term 'peace-positive' is informally but widely used in the development and peace literature to refer to actions that have good or positive impacts on peace dynamics, in the form of negative peace or forms of social or political peace. It is not to be confused with 'positive peace' which, formally and conceptually, has a more precise meaning.

Peace-supporting. In this report the term 'peace-supporting' refers to any activities, inputs and associated outcomes that intend, or are verified to result in, positive outcomes for social peace or political peace.

Peace responsiveness. Peace responsiveness builds on conflict sensitivity. It refers to practices that enable actors who operate in conflict-affected and fragile contexts to be conflict-sensitive and do no harm but also act in ways that more intentionally contribute to peace through their programming. Peace responsive programming is likely to be adaptive, to enhance collective impact, to support inclusive, gender-responsive, locally led change, and to strengthen societal resilience to conflict and violence.

Positive peace. Positive peace occurs when an ongoing process of transformation forms attitudes, institutions and norms, at multiple levels, that enable societies to resolve grievances in non-violent ways that people perceive as just.[1] Progress that qualifies to be described as positive peace transforms and remedies grievances in ways that are non-violent and perceived to be just, and directly addresses issues of safety, social justice, equality, mutual trust, and wellbeing.

1 In general, definitions of positive peace are diverse, and more contested.

Executive Summary

The Peace Finance Impact Framework (PFIF) provides benchmarks for guiding and defining how public and private investors can impact peace. It sets out best practices for labelling Peace Bonds and Peace Equity investments, and a Certification Scheme, guided by the Peace Finance Standard (PFS), assists investors to structure, manage, and verify investments, with the assistance of Peace Finance verifiers.

The PFIF outlines exclusionary criteria, best practice processes and partnership models for planning, implementing, measuring and verifying peace impacts, and includes a logic for generating investor additionality and improved community outcomes. The PFS, which has been developed separately, provides detailed Peace Bond and Peace Equity Standards that provide asset-specific investment guidance. Compliance with the PFS will help lower risks for communities and investors by promoting peace and investment strategies that are sensitive to political and social risks and build trust and certainty through inclusive investment approaches.

New incentives for financing approaches that support peace are needed urgently. The facts are well known: some 1.9 billion people, almost a quarter of the world's population, live in the world's 60 fragile and conflict-affected settings where, because of ongoing violence and conflict, the UN Sustainable Development Goals (SDGs) are not being met. Foreign Direct Investment (FDI) and private investment to these places is at a ten-year low and existing blended finance approaches are currently not bridging the gap. Poor market perceptions and systemic mispricing of risk further depress the supply of scaled up, bankable investments. At the same time, there is considerable evidence that many private and public investments exacerbate conflict dynamics and fail to mitigate the risks for investees and communities. Underpinning all this, public and private investors lack fit-for-purpose market frameworks, guidance and incentives to help them proactively operate in and properly mitigate the risks they confront in fragile and conflict-affected settings.

New frameworks, partnerships, and standards are urgently needed to realign investor incentives towards peace impact and risk mitigation. First, despite the proliferation of environmental, social, governance (ESG) and impact investment frameworks, no global benchmark defines 'peace impact' across different asset classes and investments.

Because most frameworks lack guidance on peace and conflict dynamics, investors do not have benchmarks or a taxonomy that enable them to plan, monitor or report peace impacts. Yet the impacts of conflict and political dynamics generate significant investment risks in fragile markets. Investors need reliable, fit-for-purpose benchmarks to plan, monitor, and report peace impacts effectively and sustain trust in, and the transparency of, their financial projects.

The Green Bond market's experience, notably of 'greenwashing', has shown that a rigorous, validated framework, which is transparent and measurable, is crucial to sustain market trust. In the absence of a clear and robust peace framework, 'peacewashing' evidently poses a similar risk to self-labelled peace investments.

Nonetheless, much can be learned from the evolving universe of ESG and from the impact investment tools, principles and frameworks that the PFIF draws upon. A number of frameworks, including the EU Social Taxonomy, have sought to apply more rigorous concepts of dual materiality, under which an investor must consider and report on risks to both the company/investor and to society. Dual materiality shifts the focus from a narrow do-no-harm posture to a more intentional emphasis on 'doing good'. DFIs as well as blended finance and impact frameworks and standards, increasingly emphasise that investors need to focus more on stakeholder consultation in order to properly understand local needs and achieve inclusion, engagement and participation in their investments. Wider calls in the ESG space for more transparency and accountability also signal trends in the normative environment for socially impactful investment.

However, these frameworks and standards are not enough to redress some of the systemic challenges of scaling up peace-supporting investment in fragile and emerging markets. Years of hard learned practice, in the business and human rights fields and in 'corporate peace' literature, have shown that advocacy in favour of voluntary regulation and accountability has only minimally influenced business activity in developing countries. Many investors think that current due diligence and impact alignment frameworks and processes are just another transaction cost and disincentive; they are seen to be too cumbersome, complex and costly to implement. As a result, numerous good principles and practices have been unused, ignored or remained unknown to the bulk of investors.

For this reason, the PFIF clearly demonstrates the material additionality that alignment can have, so that it becomes more central to the investment and the investment strategy and approach. If this does not happen, the proposed framework is likely to be perceived as a due diligence 'check box' and its uptake and implementation will be patchy.

Many of those who have helped to develop the new PFIF noted the presence of fundamental asymmetries in information, skills and capacities between 'outside' investors and 'local' consumers, communities and implementers in developing countries. Many investors lack the local knowledge, networks and experience that they need to navigate complex local political and social risks. The PFIF addresses this by offering a framework that ultimately reduces risks for both communities and investors by encouraging partnerships with local actors, fostering inclusive peace actions, and promoting community engagement.

Most existing risk transfer mechanisms in developing countries focus on forms of financial de-risking.[2] In contrast, the PFIF helps investors to make socially material impacts on risk at the level of their investment or asset. This approach addresses the moral hazard often seen in traditional DFI or MDB financial risk-sharing mechanisms, which might reduce investor risks but they tend to overlook community risks, and as a result often worsen conflict dynamics. To meet this problem, the PFIF introduces 'peace-enhancing mechanisms', actions that partners and investors implement to de-risk investments or assets. Investors are asked to develop a context-specific peace strategy during the peace-alignment process, which determines the specific scale, scope, and focus of these mechanisms. By integrating peace actions in a peace and investment strategy, the PFIF approach ensures that investments are more likely to be locally inclusive and trusted by a broader array of local stakeholders. Because their transaction structures allow the cost of peace-enhancing mechanisms to be included in the capital or operational expenditure of an investment, PFIF-aligned investments are also more likely to make intentional and deliberate impacts and effectively mitigate harms and risks.

2 These include securitisation, co-lending or tranching between lenders (first-loss), and guarantees or syndicated loans, as well as political risk insurance.

The degree to which de-risking at asset or investment level is financially significant depends directly on the context and the transaction. However, a feasibility study by Interpeace and SEB[3] showed that a Peace Bond model has the potential to positively influence the net present values and risk-adjusted returns of capital-intensive projects. This outcome is especially important in fragile and emerging markets where high debt costs, due to country risk premiums, can impede a project's viability. In areas with hybrid systems of governance, successful conflict-sensitive investment requires locally focused, inclusive and participatory strategies, which the PFIF also encourages. There is evidence, therefore, that Peace Finance can yield genuine additionality.

Finally, it is important to note the significant opportunity for scaling up Peace Finance. Today's developing and emerging markets are growing extremely fast but are socially exceptionally fragile. It is estimated that by 2025[4] they will account for nearly half of the world's consumers[5] and will have enormous infrastructure investment needs.[6] At the same time, demand for socially responsible investments is rising.

A summary document of the full Peace Finance Impact Framework is also available.[7]

3 Interpeace and SEB (2022), 'Peace Bonds - Feasibility study: Assessing the potential of a new asset class that can lower risk and enhance peace', Edition 1, <https://www.financeforpeace.org/resources/case-study-peace-bonds-bankable-structures-that-can-lower-risk-and-enhance-peace/>.

4 Dobbs, R., Reemes, J., Manyika, J., Roxburgh, C., Smit S., Schaer, F. (2012), 'Urban World: Cities and the rise of the consuming class' McKinsey & Company, <https://www.mckinsey.com/~/media/mckinsey/business%20functions/operations/ our%20insights/ urban%20world%20cities%20and%20the%20rise%20of%20the%20consuming%20class/mgi_urban_world_rise_of_the_consuming_class_full_report.pdf>.

5 Chandler C., Johnson C. (eds) (2013), 'Winning the $30 trillion decathlon: Going for gold in emerging markets', McKinsey & Company, p.7., <https://www.mckinsey.com/~/media/mckinsey/business%20functions/strategy%20and%20corporate%20finance/ our%20insights/ winning%20the%2030%20trillion%20decathlon%20going%20for%20gold%20in%20emerging%20markets/emc_decathlon.pdf>.

6 Global Infrastructure Outlook (2022), 'Forecasting infrastructure investment needs and gaps', World Bank, <https://outlook.gihub.org/>.

7 https://www.financeforpeace.org/resources/peace-finance-impact-framework-summary/

Figure 1. Peace Finance Impact Framework

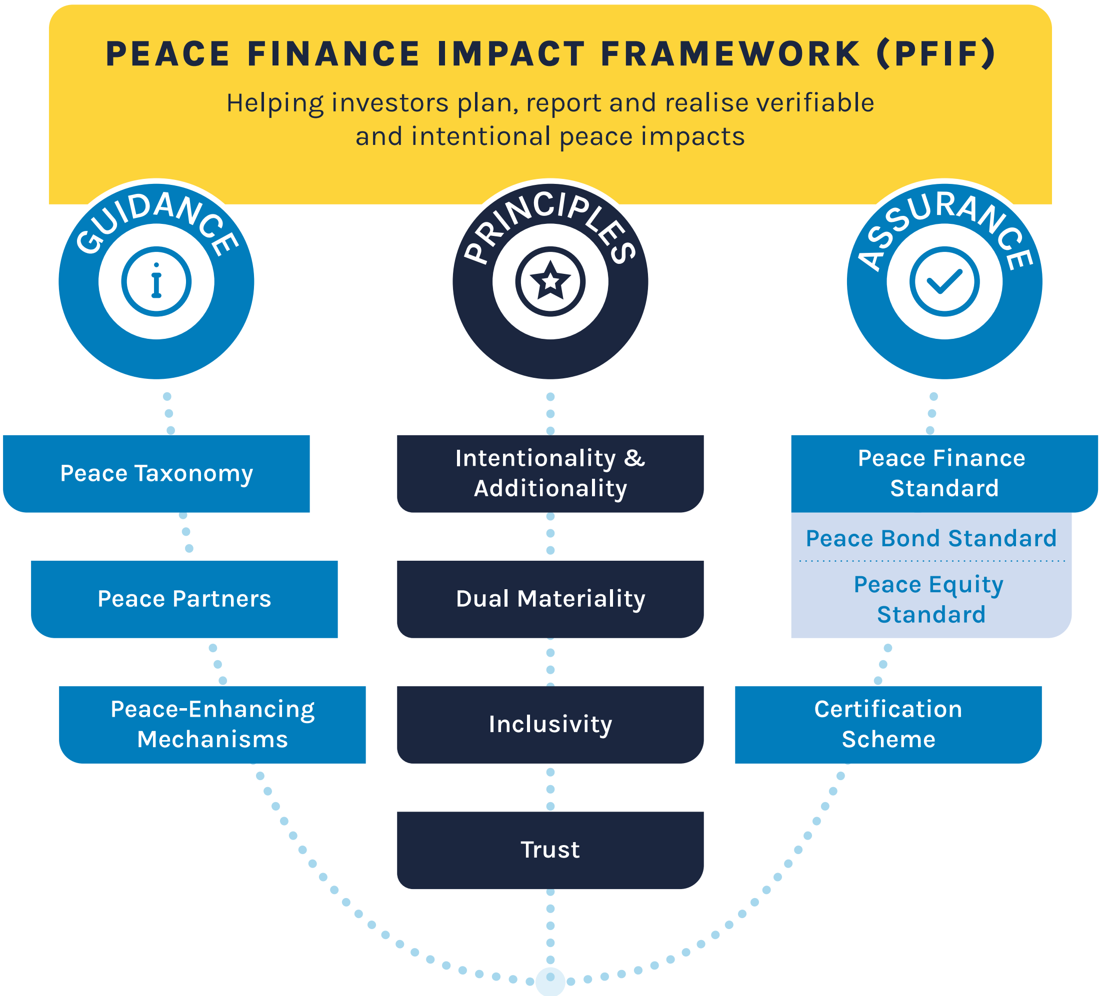
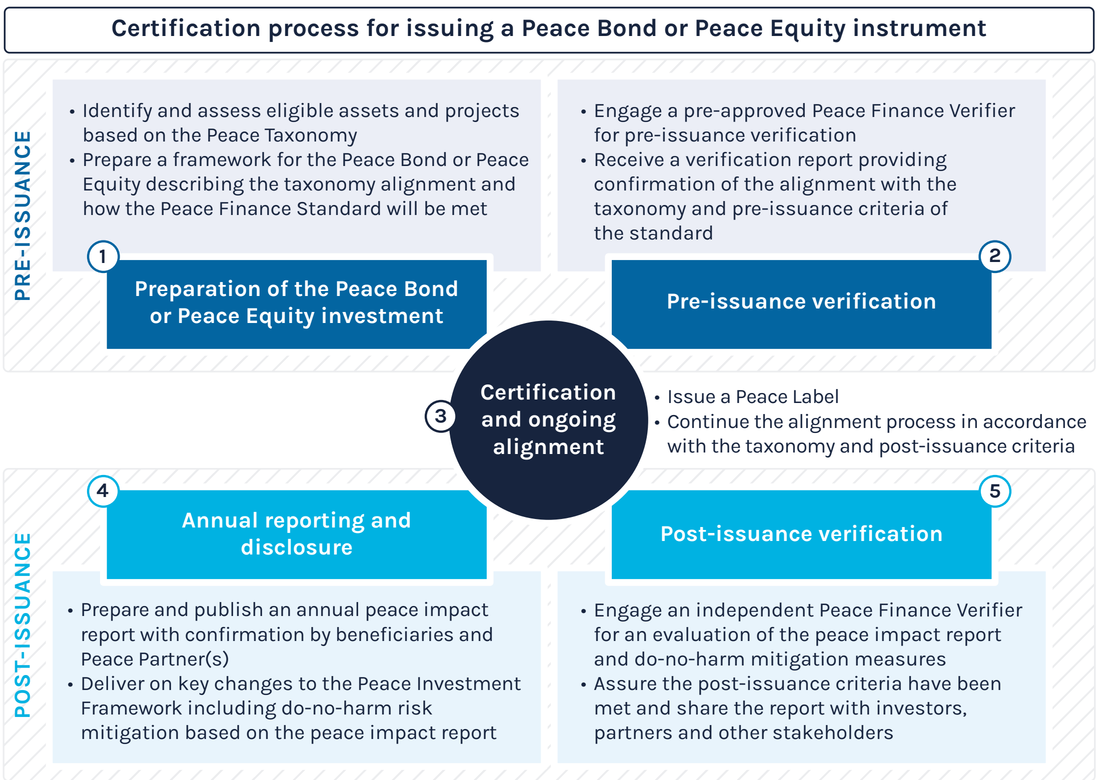


Figure 2. Certification



Introducing a Comprehensive Peace Finance Impact Framework (PFIF)

Investment guidance literature has not agreed on the content or meaning of 'impact framework'. Various organisations have attempted to define impact principles, processes, methods, tools, and result verification approaches, in ways indirectly related to peace. However, mapping and extensive stakeholder engagement have shown that a substantial gap exists between impact guidance and standards specific to peace. This gap poses a fundamental obstacle to achieving the SDGs, particularly considering that 80% of global poverty is concentrated in fragile and conflict-affected settings.

In the broader industry of impact investing, ESG, and sustainable investment, numerous investors apply standards and principle-based frameworks. The PFIF has incorporated insights from these.

The PFIF has three key components: principles, guidance and assurance.

PEACE FINANCE IMPACT FRAMEWORK (PFIF)

Helping investors plan, report and realise verifiable and intentional peace impacts

The Peace Finance Principles set out:

> Four simple high-level peace finance principles for private investors, DFIs, banks and industry. They underpin the ethos and investment approach of a peace- aligned investment:

1. *Commit to peace intentionality and additionality.*
2. *Execute dual materiality.*
3. *Promote inclusive processes.*
4. *Create conditions that build trust.*

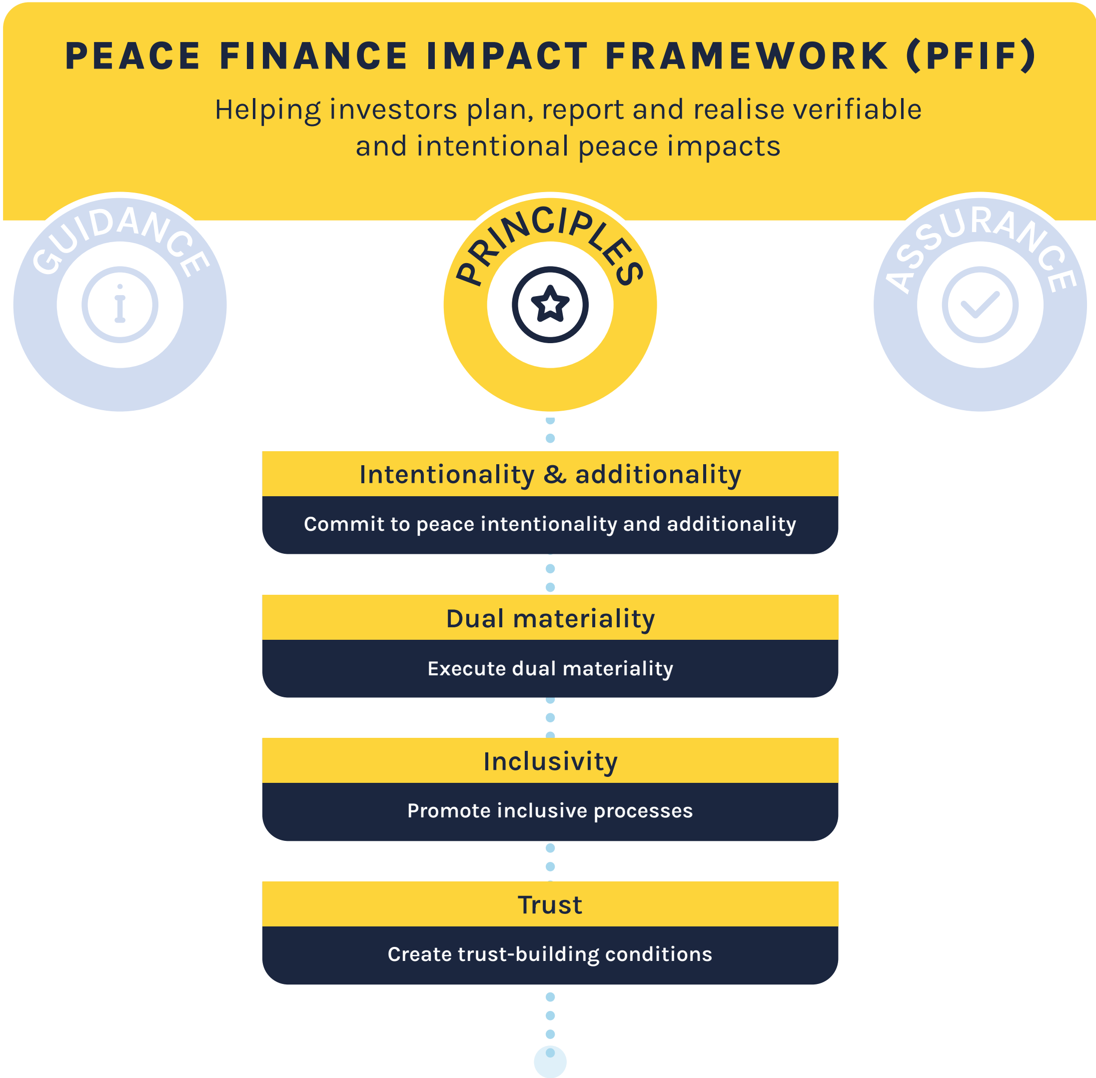
Guidance describes:

- The tools, methods and approaches that can be used at different stages of an investment:
  - ***Peace Taxonomy.*** *The taxonomy has three main dimensions (political, social, and safety/security), sub-dimensions for aligning investments and categorising peace impacts, exclusionary criteria, and environmental/social safeguards.*
  - ***Peace Partners.*** *Peace Partners play an essential role in assisting investors to align, plan and scale up their peace impacts and risk mitigation activities.*
  - ***Peace-enhancing mechanisms.*** *These realise intended peace impacts.*

The assurance component describes:

- **The Peace Finance Standard (PFS).** The PFS is a robust high-quality standard that outlines the pre-and post- issuance requirements that Peace Bond or Peace Equity issuers must meet. The PFS governs the structuring, management and verification of peace impact investments and is composed of a Peace Bond Standard and a Peace Equity Standard.
- **The certification scheme.** A vital component of the PFIF, the Certification Scheme follows international best practice in labelling Peace Bonds and Peace Equity investments. It enables investors, governments and other stakeholders to recognise and prioritise conflict-sensitive and peace-positive investments while preventing peace-, social- and green-washing.

Principles



Numerous sources provide guidance that might be relevant to a principle-based PFIF. Many are cited in the mapping component of this research, which is published separately.[8]

Key principle-based investment frameworks relevant to investment in fragile and emerging market economies include (but are not limited to):

- The Principles for Responsible Investing initiative (PRI)
- The Equator Principles
- The Kampala Principles
- The Check List for Impact Assessment on the Poor, by the Tri Hita Karana (THK) Impact Working Group
- The OECD DAC Blended Finance Principles and Detailed Guidance Notes
- The EDFI Principles for Responsible Financing of Sustainable Development
- Operating Principles for Impact Management (OPIM)
- The ICMA Green, Social and Sustainable(-linked) Bond Principles
- The EMIA Enhanced Labelled Bond Principles

8 https://financeforpeace.org/resources/mapping-investment-guidance-for-peace-2023/.

In contrast to performance- or standards-based frameworks, the frameworks listed above tend to articulate general normative guidance for investors; they provide principles that underpin the ethos, approach and key features of proposed investment initiatives in developing areas. Some blend a normative approach with prescriptive guidance. For example, the Equator Principles give investors specific guidance. The frameworks vary in scope, and address a range of asset classes and potential end-users. Some, such as the EDFI principles and the OECD DAC Blended Finance Principles, are more relevant to development finance institutions (DFIs) or public concessional finance.

The PFIF sets out new and refined principles to complement existing principle-based frameworks to serve better investors who seek to reach more intentional peace-positive impacts through their investments with the PFIF.

Four key principles are foundational norms of the PFIF. They offer explicit operational guidance for investors and issuers.

- **Principle 1.** Commit to peace intentionality and additionality.
- **Principle 2.** Execute dual materiality.
- **Principle 3.** Promote inclusive processes.
- **Principle 4.** Create conditions that build trust.

Principle 1. Commit to peace intentionality and additionality

An investor who commits to peace intentionality aims to achieve a peace-positive impact that aligns with the PFIF's Peace Taxonomy. There must be a clear intention to impact peace in either direct or indirect ways by adhering to the Peace Finance Standard. More specifically, the investor should develop a theory of change and a peace investment strategy in partnership with Peace Partners. This strategy should show outcomes that the investor aims to achieve that would not occur in the absence of the investment: such results are called 'peace additionality'. The concept of peace intentionality is important because it distinguishes investment approaches that might accidentally generate positive peace outcomes from approaches whose outcomes are deliberate, intentional, and substantiated by robust evidence. The concept of AAAQ (Availability, Accessibility, Acceptability and Quality) can establish criteria for enhancing and evaluating peace-positive impacts and help to accomplish peace additionality objectives.

Principle 2. Execute dual materiality

Investors and issuers who commit to dual materiality seek to reduce risks to their company or investment but also to reduce risks to people and environments affected by their investments, now and in the future. This forward-looking material approach aims to ensure that companies and investors acknowledge the interconnectedness of their operations with the local environment and people, and vice versa. By executing dual or double materiality, investors gain a deeper understanding of the context in which they operate, the risks their investments create in that context, and the dynamic interplay between those risks over time. Peace impact investors presume and understand that, especially in fragile and emerging markets, reputational, operational and business risks can be(come) highly entwined with peace and conflict risks for communities. Investors who identify the material risks for both sides will be better positioned, and have more incentive, to proactively mitigate risks to the communities impacted by their investments, and thereby capitalise on financial opportunities.

In summary, investors who prevent harmful side effects not only reduce their financial risks: they also enhance the sustainability of their investments and create opportunities to advance the wellbeing of communities their investments affect, as well as their investment interests.

Principle 3. Promote processes that drive inclusion

For any peace-aligned investment, the principle of local inclusion is critical.

Investments that do not take account of the perspectives of local communities or gain their acceptance are unlikely to achieve peace-positive impacts. To achieve local inclusion, investment designs need to be accessible to communities, and products or services resulting from the investment must also be affordable and physically accessible (AAAQ compliant).

Actors who promote inclusion need to navigate the relational, cultural and political dynamics of the contexts in which they operate. Investors should therefore work closely with local and external partners who have expertise in implementing peace-enhancing approaches, actions, and methods. Peace Partners facilitate intersectional and gender-responsive work, and enable investors to comprehend and contextualise their investment in its political and social environment. Partnerships should help to ensure that investments are grounded in reality and reflect the expectations of those who will be affected by them. For this reason, partners, investees and investment beneficiaries should be able to contribute actively to joint material risk assessments, the drafting of theories of change and the design of peace strategies. Collaborative and partner-oriented processes underpin trust.

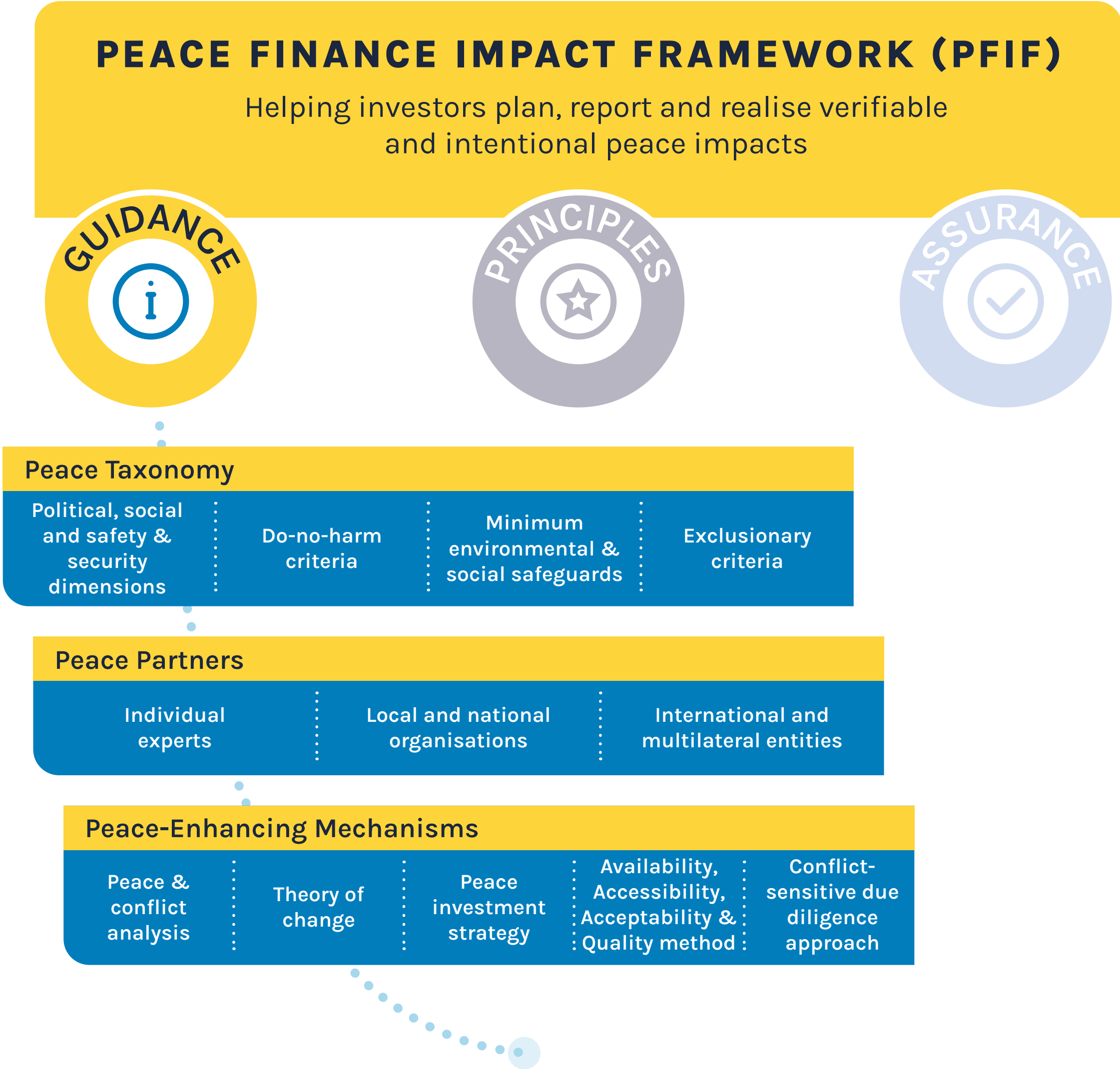
Principle 4. Create conditions that build trust

The PFIF recognises that peace impacts occur within complex social systems and that they depend on the qualitative nature of how goods and services are delivered. This is important because many outside approaches, by development actors as well as investors, emphasise the instrumental or material outcomes of their interventions in communities. These may be detached from the highly relational nature of peace impacts. To achieve intended peace impacts and mitigate risk, investors and partners need to focus on the quality of processes as they plan, validate and implement their approaches, and must throughout create trust and avoid unintended harm. A highly cooperative, consultative and adaptive process is vital to ensure acceptability.

Acceptability is achieved by proactively building trust with local communities and key stakeholders. Transparency in impact management and measurement is one means of achieving this trust. Proper disclosure and reporting help to reduce risks and also address ‘impact-washing risks’ that can erode investors’ and investees’ trust. Information asymmetry, weak capacity and lack of skills are factors that can undermine risk mitigation, harm investments and misalign them with local markets. When no single actor has the right information, capacities and skills, investors need to prioritise and invest in multiple partnerships that can help them act with confidence to realise intended outcomes for both investors and communities.

Local partners can work with investors to enhance transparency, foster accountability and increase iterative learning and improvement. Indeed, transparency is a key ingredient during both the pre-investment and post-investment stages, because it clarifies the roles of stakeholders in the investment process and encourages them to work together to develop a shared agenda. For stakeholders committed to collective accountability, trust is a continuous building process.

Guidance



Understanding and defining peace and peace impacts

Individuals, organisations and sectors define and understand peace in various ways. The most accepted definition distinguishes negative peace from positive peace.[9] Negative peace is commonly understood to be the absence of violent conflict or fear of violence. Positive peace is defined much more broadly to include attitudes, institutions and norms that create and sustain peaceful societies.[10] Positive peace can be said to progress when grievances are transformed and remedied in ways that are non-violent and perceived to be just, and issues of safety, social justice, equality, mutual trust and wellbeing are directly addressed. Positive peace cannot be separated from the objectives of other development frameworks, such as the SDGs, which attach weight to sustainability, inclusiveness, equality and gender equity. Positive peace is not achieved simply by eliminating conflict: it is better understood as a process through which conflicts and grievances are resolved in peaceful, just and fair ways.

9 Galtung, J. (1969), 'Violence, Peace and Peace Research', Journal of Peace Research, 6/3, <https://www.jstor.org/stable/422690>.

10 In general, definitions of positive peace are diverse, and more contested.

Many impact and ESG frameworks consider 'impact' in socio-economic domains in terms of material inputs and outputs. As a result, the relationship between public and private sector activity and peace is often understood and measured in terms of jobs created, goods and services provided, access to resources, and other material measures. Material gains are evidently fundamental building blocks of development and peace but peace is not determined by society's stock of material goods and services. It matters how goods, services, resources and capital are deployed, developed and circulated; how communities engage with, use and have access to such goods and services; and who benefits. Relational perceptions underpin the social contract between a population and its authorities and the cohesion between groups in society.

A particular development intervention or investment can have significant impact on peace in at least two ways:

1. The relevance of the outputs or outcomes of the investment to local conflict dynamics.
2. The quality of the process and how an investment addresses cross-cutting social and political factors that influence peace in the context.

Introducing a Peace Taxonomy

An indicative Peace Taxonomy (hereafter 'taxonomy') is a valuable guidance tool which helps investors and businesses to specify the types of changes they aim to achieve and clarify the peace additionality they seek.

Based on the definitional categories provided above, the taxonomy offers three straightforward objectives with which investors can align their intended peace impacts.

The taxonomy offers three peace impact dimensions:

1. **Safety and security**
2. **Social peace**
3. **Political peace**

Further sub-objectives or sub-dimensions identify more specific impacts that the investor could seek to achieve; these take the form of a non-exhaustive indicative list. The PFIF Guidance Notes, published separately by the Finance for Peace initiative, further develop these sub-dimensions.

Peace impact dimension 1: Safety and security

Investors will achieve a positive impact on safety and security if their investment decreases the prevalence of violence, conflict, or fear of violence and conflict.

Many immediate remedies for violence involve direct methods, such as law enforcement, peacekeeping, diplomacy, community enforcement and neighbourhood watch, or ceasefire mediation, to cite a few. In the vast majority of cases, private sector investments indirectly contribute to mitigating violence by such means.

Very often, however, do-no-harm or minimum safeguarding approaches may not be enough, and companies will be required to take direct and indirect steps to achieve intentional impacts in other areas of the taxonomy, most obviously social peace.

Peace impact dimension 2: Social peace

Social peace impacts are broader and more multi-systemic than the safety and security dimension. Due to their breadth, relevance and links to operational, reputational and other forms of risk, this is perhaps the most fundamental peace dimension, to which investors make both direct and indirect contributions. Combined with impact dimension 1, the criteria seek to support the key targets and indicators of SDG16+.[11]

Peace impact dimension 3: Political peace

While all peace outcomes are in some sense 'political', the state of relationships between social elites, between states and non-state political groups, and between states themselves, as well as trust in the functioning of formal and informal dispute resolution mechanisms, are particularly visible and consequential determinants of peace.

Political peace interventions include mediation processes and high level diplomatic negotiations that seek macro-political or formal solutions to violent conflicts. Often such processes are supported by a formal legal architecture, such as a peace agreement, legal change at national level.[12] Political peace can also be advanced through formal legal instruments, including the outcomes of formal economic, political, civil, cultural or social human rights procedures.

Such peace processes are inherently political, and tend to involve a complex combination of discreet and public channels. In situations of open conflict between a state and non-state parties, or between states, or in highly fragile settings characterised by high levels of intercommunal or intergroup violence, they are often high profile in nature.

Many investors, especially private ones (as opposed to public DFI or government investors), may not believe they have a direct or indirect role to play in securing political peace. While it is likely that few private investors will aim to make peace impacts in the relevant sub-dimensions of political peace, however, where political peace is a salient issue in conflict-affected settings, it is critical to make sure that investments do not exacerbate conflict dynamics or worsen hostilities.

11 In all, 24 targets from seven other Goals (SDGs 1, 4, 5, 8, 10, 11 and 17) directly measure aspects of peace, inclusion or access to justice. These targets together with the 12 targets of SDG 16 are collectively known as 'SDG16+'.

12 Inter-Agency Standing Committee (IASC) (2020)), 'Exploring Peace within the Humanitarian-Development-Peace Nexus (HDPN): IASC Results Group 4 on Humanitarian-Development Collaboration' Issue Paper, <https:// interagencystandingcommittee.org/system/files/ 2020-10/Issue%20paper%20-%20Exploring%20 peace%20 within%20the%20Humanitarian-Development-Peace%20Nexus%20%28HDPN%29.pdf>.

Table 1. Peace Taxonomy: peace impact subdimensions, do-no-harm, exclusionary criteria and minimum safeguards

Peace dimension 1 Safety and security Subdimensions		Peace dimension 2 Social peace Subdimensions		Peace dimension 3 Political peace Subdimensions	
1.1	Impact on direct interpersonal violence in the community.	2.1	Impact on vertical social cohesion (trust between the state and society).	3.1	Impact on diplomatic relations between states and non-state actors.
1.2	Impact on sexual and gender-based violence (SGBV) in the community or household.	2.2	Impact on horizontal social cohesion (trust between groups in society).	3.2	Impact on the development of infrastructure or provision of goods and services that support a formal peace process as defined either by a peace agreement or by at least one recognised element of a peace process.
1.3	Impact on abuse and all forms of violence against children.	2.3	Impact on equitable access to resources and basic services, income and goods (education, health, housing, work, etc.).	3.3	Impact on dispute resolution mechanisms, whether formal or informal, or improved perception of justice and human rights issues.
1.4	Impact on collective and intercommunal violence.	2.4	Impact on gender, intergenerational equity or other group identities, such as caste, class, race, ethnicity, religion, political affiliation.	3.4	Impact on transboundary relations (for example, cross border energy or water projects).
1.5	Impact on armed conflict, State-sponsored violence, or violence by non-State actors.	2.5	Impact on governance of public services and trustworthy delivery of basic services.		
1.6	Impact on conflicts over natural resources.	2.6	Impact on patterns of economic exclusion of marginalised or excluded communities or groups.		
1.7	Impact on fear of violence in any of the above categories.	2.7	Impact on the free flow of information, transparency, accountability, and corruption in public and private institutions.		
		2.8	Impact on climate resilience and access to cleaner sources of energy.		
		2.9	Impact on structural grievances that are sources of violence (such as land rights/titles, or access to natural resources).		
		2.10	Impact on cultural identities and local traditions.		
! No harm to the other dimensions and subdimensions (DNH) !					
! Exclusionary criteria and minimum social and environmental safeguards !					

Exclusionary criteria

Peace-supporting investments aligned with the new taxonomy will be relevant predominantly (though not exclusively) in fragile and conflict-affected environments. In these contexts, certain exclusionary criteria apply, with respect to international humanitarian law, violations of human rights, the production of weapons, and the participation of children in conflict.

The taxonomy's exclusion criteria ensure that investments that claim to align with the taxonomy do not in fact engage in activities that run counter to its primary peace objectives. Rather than attempting to modify or adapt unwanted activities, the criteria allow investors and partners to exclude certain categories of activity, that are deemed to be socially and environmentally harmful, from peace-supporting investments.

Other normative frameworks adopt a similar approach. An indicative taxonomy of exclusionary criteria by sector and by character can be compiled.

Exclusionary criteria by sector:

- Investments that directly support activities involving the manufacture or sale of heavy weapons, ammunition, chemical weapons, mines, or small arms.
- Investments that directly or indirectly support the manufacture of drugs proscribed by legal and international regulatory frameworks.

Investments that directly or indirectly support agricultural or afforestation operations on land designated as primary forest, in high conservation value areas, or in legally protected areas.

Exclusionary criteria by character:

- Investments that breach the requirements of international humanitarian law, in particular the Geneva Conventions and their additional protocols.
- Investments that support activities that directly or indirectly cause violations of human rights, breach labour standards, or cause corruption.
- Investments that support activities that involve or result in slavery, child labour, human trafficking or sexual exploitation.
- Investments that include any companies that have been involved in major criminal activities (environmental, social, governance, or other).

Judgements with respect to excluded sectoral investments will be straightforward a priori, whereas exclusionary criteria on grounds of character will often be triggered after an investment has been made. Combining both will make it possible to apply a comprehensive approach in order to identify and avoid investments that undermine peace and stability. It is important for issuers to rigorously assess their investments against exclusionary criteria to ensure alignment with the taxonomy's peace objectives.

As the taxonomy develops, sectoral exclusions will become more specific, drawing on existing sectoral frameworks where particular production or operational practices are deemed to be socially or environmentally very harmful – such as driftnet fishing and mountain top mining (MTM), for instance. This will enhance the taxonomy's effectiveness in guiding investments toward peace-positive impacts while avoiding harmful activities.

Other exclusion criteria potentially relating to peace

Financial intermediaries commonly exclude investments that are associated with forced or child labour, commercial logging in tropical forests, and activities that impinge on lands owned or claimed by indigenous peoples without their full and documented consent.

In addition, the European DFI Principles for Responsible Financing of Sustainable Development include the destruction of areas of High Conservation Value (HCV), defined as natural habitats in its exclusion criteria.[13] HCV criteria emphasise the significance of natural resources to local communities and consider the connections between the ecological landscape and the broader social context. Such criteria can be beneficial in the context of conflict-sensitive investments. They underscore the importance of natural resources to local communities, and highlight that specific data, relevant expertise, and consultation are all required to understand and identify areas where strong connections exist between societies and the ecological landscape.

Minimum social and environmental safeguards

The taxonomy contains minimum safeguards to guarantee that investments take human rights and governance into account. Currently, the "minimum environmental and social safeguards" with which entities implementing an investment should align are composed of international instruments such as the International Bill of Human Rights, the UN Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights, the International Labour Organisation's Declaration on Fundamental Rights and Principles at Work, the OECD Guidelines for Multinational Enterprises (including the environmental chapter), and the UN Guiding Principles on Business and Human Rights (UNGPs).

The EU Corporate Sustainability Due Diligence Directive[14] will become a minimum safeguard of the taxonomy. It will require large corporations to meet due diligence obligations with respect to human rights and environmental standards. National initiatives, such as the German Supply Chain Due Diligence Act[15] that came into force on 1 January 2023 and the proposed Dutch Responsible and Sustainable International Business Conduct Act,[16] will automatically be added as well.

Do-no-harm to other (sub)dimensions

Do-no-harm is both a principle and a framework that has been used by humanitarian, development and peacebuilding actors for decades. It requires external actors who work in humanitarian aid, development or fragile and conflict-affected settings to consider and mitigate any negative effects of their activities. While 'do no harm' is self-explanatory, commonly used DNH frameworks such as the one developed by CDA[17] provide a detailed framework[18] to help actors operate in ways that minimise the potential of unintended consequences. These frameworks go beyond typical proactive

13 HCV Network, 'HCV Approach', <https://www.hcvnetwork.org/hcv-approach>.

14 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0071.

15 https://www.csr-in-deutschland.de/EN/Business-Human-Rights/Supply-Chain-Act/supply-chain-act.html.

16 https://www.business-humanrights.org/en/latest-news/dutch-bill-on-responsible-and-sustainable-international-business-conduct/.

17 Mary Anderson developed the first DNH frameworks for Humanitarian Action and Collaborative Development Associates (CDA), which has provided much of the foundational guidance and literature on DNH and conflict sensitivity. See CDA (2018), 'Do No Harm: A brief introduction from CDA', <https://www.cdacollaborative.org/wp-content/uploads/2018/01/Do-No-Harm-A-Brief-Introduction-from-CDA.pdf>.

18 Ibid.

risk mitigation and require actors to acquire a more holistic understanding of the context in which they work in order to minimise unintended consequences of their project or investment.

DNSH criteria in the EU Social Taxonomy further expand understanding of DNH. Aiming for more than a minimum safeguard, the criteria recognise the European Pillar of Social Rights (EPSR), which is a multidimensional framework that foresees transformative social improvement. The DNSH test highlights the importance of ensuring that progress in one domain does not cause regression in another.

In the context of peace, DNH can be defined as any approach that avoids short-, medium- or long-term unintended consequences and does not exacerbate conflict dynamics. To assess DNH obligations in a given situation, actors need to acquire a comprehensive and systemic understanding of the context in which they are working, and its peace and conflict dynamics.

The purpose of DNH in the Peace Taxonomy is to reach beyond traditional do-no-harm practices by taking steps to ensure that investment activities achieve intended positive outcomes for specific groups in identified peace (sub)dimensions but do not cause harm to other (sub)dimensions or groups in the process.

The contribution spectrum

To provide a more detailed understanding of the level of ambition of an investment and its intention to achieve peace impacts within each of the key peace dimensions, the Peace Taxonomy defines three types of contribution. These are categorised along a spectrum, which includes 'do-no-harm' contributions, indirect positive contributions, and direct positive contributions (see Table 2).

Table 2. The Peace Taxonomy Spectrum

Type of contribution	Definition
Do-no-harm contribution	An action actively contributes to one or more peace objectives without causing harm to other objectives or violating minimal social and environmental safeguards. This aligns with the principle of dual materiality.
Indirect positive contribution	Indirect positive contributions occur that are secondary to the direct outputs of the business but help to mitigate conflict drivers or enhance peace drivers.
Direct positive contribution	The business outputs of the investment help directly to mitigate an identified key conflict driver or enhance the capacity of a peace driver.

Do-no-harm contributions

Acknowledging that an investment project may not be able to positively impact all dimensions of a context's conflict and peace dynamics, do-no-harm contributions align with the dual materiality principle and focus on recognising and mitigating key risks in dimensions the project does not target. Essentially, DNH acts as a sophisticated risk monitoring and assessment tool, enabling the investor or issuer to identify potential risks, including risks that may seem unrelated to the investment.

Peace Partners

Emerging Peace Finance projects and feasibility work have shown that, to demonstrate real additional value in both financial and peace terms, investments in fragile contexts must go beyond the conventional approaches of typical investors, which may be adequate for developed societies. Companies and investors need to form new partnerships.

Effective Peace Partners are involved in peacebuilding activities in developing and fragile settings, bring crucial networks with them, and possess detailed knowledge of the countries or specific communities in which investments are made. They usually work closely with local actors and communities and have the ability to navigate trusted local networks in the area of investment. Local Peace Partners may also act as intermediaries and 'bridge builders' between local communities and investors, who are often from outside the context. Their facilitative role may be similar to that of advisors in traditional deal structuring; they help issuers, investors and investees to align with the PFIF's taxonomy and to achieve peace additionality.

Partnerships should be grounded in local needs, interests and expectations, and take into account local capacities and resources. Emphasising the "local" is crucial because it can be challenging to involve local partners and communities. In some cases, groups that work with companies may be threatened, particularly if they are marginalised. A strong focus on the local context during all stages of investment is essential both on do-no-harm grounds and to remain conflict-sensitive.

With the assistance of Peace Partners, investors and investees can judge whether a proposed business activity supports peace or not. Close partnerships give investors the confidence to adjust their business plans or take new initiatives to maintain the peace or taxonomy alignment of the investment. The scope of the relationship between Peace Partners and investors or issuers will depend on the transaction and the Peace Partners' capacity.

In many cases, local Peace Partners will be the most suitable choice, although the peace alignment requirements of some investments may require a mix of local Peace Partners and Peace Partners with other forms of expertise. Generally, relationships may have both financial and service-oriented aspects and may resemble the donor-recipient relationships of international aid projects, albeit with a shared mission-driven ethos underpinned by the PFIF's peace finance principles. During both the pre-investment and post-investment phases of a project, it is vital to nourish the quality of the relationships between investors, issuers, investees and Peace Partners, and to respect the high degree of autonomy of Peace Partners when they provide project or investee support. The independence of Peace Partners plays a key role both in risk mitigation and realising financial and peace additionality.

The Peace Finance Standard developed by the Finance for Peace initiative describes in more detail the roles of Peace Partners and their relationship with investors and investees during the pre-investment and post-investment stages.

Identifying and selecting Peace Partners

Identifying and selecting Peace Partners under the PFIF involves several considerations:

1. **Disclosure requirements.** The PFIF has established disclosure requirements that allow observers to assess whether potential Peace Partners are genuinely committed to peace or are using the "peace" label insincerely. These disclosure requirements allow investors and others to evaluate the authenticity of Peace Partners.

2. **Pre-approved list.** The PFIF acknowledges that some level of vetting is necessary to ensure that Peace Partners align with the criteria set out in the Peace Finance Standard. It will therefore maintain a list of approved organisations that are considered authentic Peace Partners.
3. **Issuer responsibility.** Issuers themselves will play a crucial role in identifying suitable Peace Partners in accordance with the Peace Finance Standard and the objectives and plans of the investment. They will need to assess potential partners based on their alignment with peace objectives.
4. **Recognition of track record.** Disclosure requirements will enable the market to consider the track record of Peace Partners, rather as verifiers of sustainability investments or deal advisers are recognised for their past performance and expertise.
5. **Training and collaboration.** In certain projects and situations, Peace Partners may require training to effectively fulfil their role. In many cases, it may be necessary to recruit a team of partners with complementary skills and expertise in order to achieve desired peace outcomes.
6. **Market infrastructure.** An appropriate infrastructure will need to be established to assist issuers to identify suitable Peace Partners for specific investments and transactions. A dedicated Peace Finance Standards committee and interactive online platform will fulfil this function. This mechanism will facilitate connections between relevant actors as use of the PFIF grows over time.

In short, the PFIF recognises the importance of authenticity and past performance when selecting Peace Partners and a vetting process will be set out, facilitated by disclosure requirements. Issuers will take an active role in identifying partners aligned with peace objectives, and a market infrastructure will evolve to support this process as the PFIF is adopted more broadly.

Examples of Peace Partners

Peace Partners play a crucial role in peace impact projects and investments. They possess a range of capacities, skills, networks and contextual knowledge relevant to specific investment areas. Here are some examples of potential Peace Partners:

- Local civil society organisations and networks. These organisations are often deeply rooted in the local community and have experience of humanitarian, developmental and peacebuilding work.
- Field-based individual academic researchers, experts and analysts. Based on deep knowledge of the local context, these experts can provide valuable analysis of, and insights into, an investment's peace impact.
- Political risk and international aid consulting firms. Consulting firms specialising in political risk analysis and international aid have expertise in assessing the impact of investments on peace and conflict dynamics.
- Independent peacemaking or peacebuilding organisations. Organisations dedicated to peacemaking and peacebuilding initiatives have expertise in conflict transformation and peace promotion.
- Multilateral agencies and UN agencies. International organisations, including UN agencies, often have a significant presence and expertise in conflict-affected regions; they are potential partners in peace impact investments.
- Local business networks, employer and employee organisations. These organisations can be involved in promoting economic stability and peace through employment and business development.

It is important to note that the specific identity of a Peace Partner, and the peace-enhancing mechanisms they use, will vary according to the nature of the investment, the peace and conflict dynamics in each setting, and the political economy of the region. Peace Partners can operate alone or as a team of different actors and organisations, including private entities, civil society groups, international development organisations, and others.

A key consideration when selecting Peace Partners is their ability to connect with local beneficiary communities. Building trust with these communities is essential, but it is also important to recognise that Peace Partners may have their own interests and agendas in the local political and economic environment. To fulfil all the Peace Finance Principles, it is important to select an appropriate and balanced mix of Peace Partners.

Peace-enhancing mechanisms

Investing in peace-aligned projects in fragile contexts requires a unique set of skills and capacities, as well as domain knowledge, practical experience and access to networks. These skills are fundamental to the PFIF's verification and disclosure process. The latter involves peace and conflict analysis, participatory stakeholder engagement, community dialogue and peacebuilding design processes that are specific to each investment and project. They are collectively called 'peace-enhancing mechanisms'.

While their specific application may vary, here are some simple examples of potential peace-enhancing mechanisms, drawn from development and peacebuilding experience.

Examples of transversal peace-enhancing mechanisms

- Participatory peace and conflict and political economy analysis
- Community dialogues and mediation
- Participatory action research and learning for action
- Community and beneficiary assessment
- Community-centred development approaches
- Participatory evaluation approaches
- Participatory governance approaches
- Participatory development planning and policymaking
- Benefit sharing mechanisms
- Multi-track engagement and dialogue platforms
- Community-led procurement
- Civic education
- Integrated multisystemic resilience analysis.

These mechanisms generally seek to involve communities in decision-making and foster dialogue and cooperation. They play an important role in ensuring that investments are carried out in a conflict-sensitive manner and do not inadvertently undermine peace efforts.

Specific intentional peace interventions

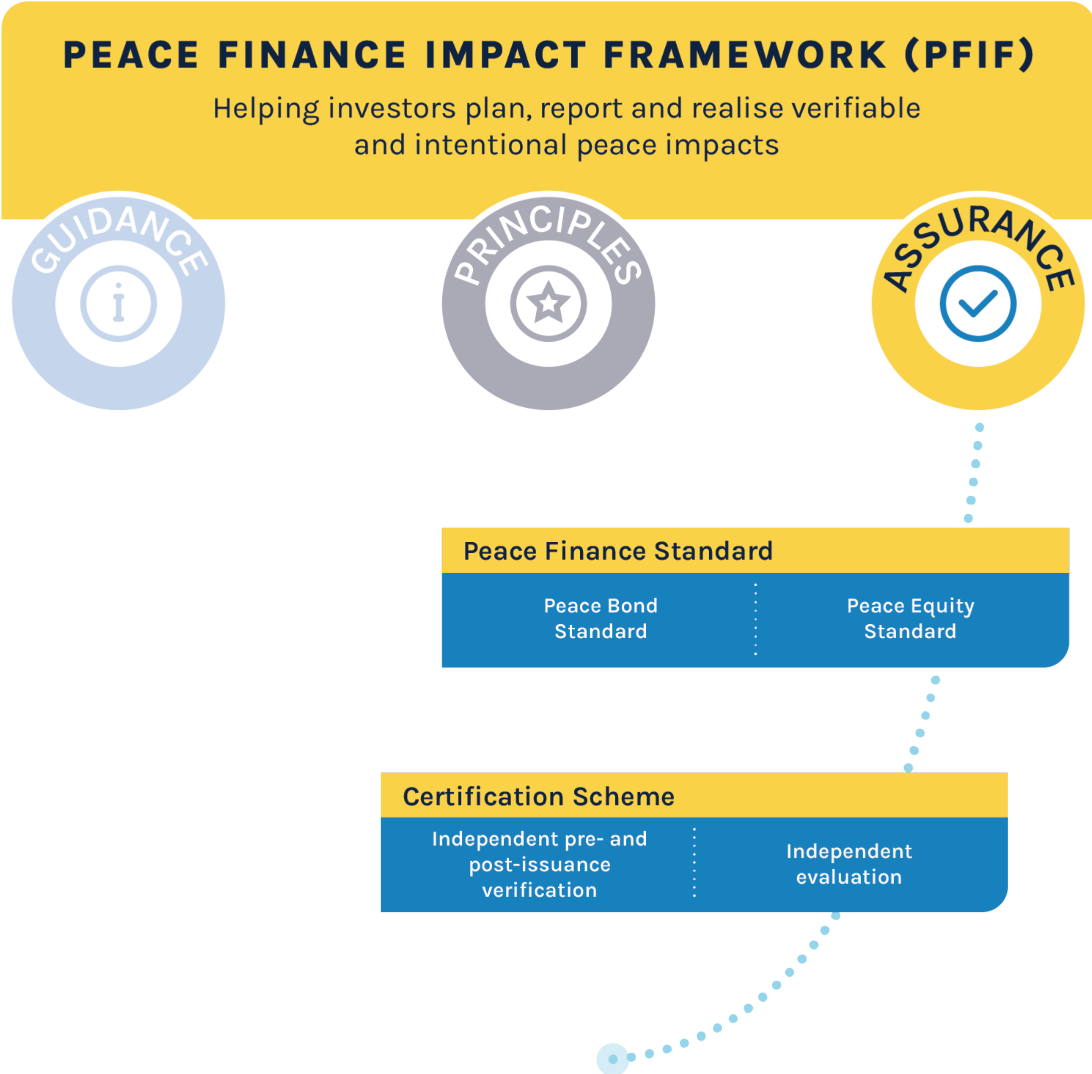
- Inter-religious dialogue
- Formal political mediation between leaders
- Informal mediation and discreet diplomatic channels
- Restorative justice and reconciliation approaches
- Disarmament, demobilisation and reintegration (DDR) programmes
- Dealing with the past and transitional justice initiatives
- Participatory and inclusive governance approaches
- Zones of peace[19]
- Non-violent resistance training
- Community psychoeducation
- Sociotherapy
- Nonviolent communication training
- Socioemotional skills training
- Cognitive-behavioural approaches
- Narrative approaches
- Psychosocial support groups
- Peace negotiations
- Transitional justice
- Human rights protection
- Security sector reform
- Institutional reform
- Emerging leadership frameworks
- Media development
- Gender equality and inclusion and positive masculinities
- Deconstructing stereotypes
- Youth development, mentoring, empowerment, and inclusion
- Civic engagement and volunteerism.

The peacebuilding focus of these interventions is more specific and intentional. They often involve targeted activities that address conflict dynamics and promote peace and reconciliation.

The choice of peace-enhancing mechanisms depends on the investment context and its peace and conflict dynamics. It is essential to select mechanisms that align with the peace intentions of the investment and to implement them in a conflict-sensitive manner that does not exacerbate tensions or conflicts with local authorities and communities. For instance, implementing activities that protect the human rights of local marginalised groups may increase tensions with other groups or with local or national authorities, and could trigger conflict.

19 Zones of peace or sanctuaries are physical zones whose inhabitants are generally held to be safe from attack.

Assurance



The introduction of a new Peace Finance Standard and Certification Scheme, especially one that focuses on emerging and fragile settings, is a significant development in the world of finance.[20] While green and social bonds have been used to invest in such settings, rigorous and trusted labelling schemes relating to peace have been absent.

The new standard sets criteria for issuing and verifying Peace Bonds, in order to establish a framework for investments that promote peace. The Peace Finance Standard has been developed to align with the design and management principles of Peace Equity investments, based on the Operating Principles for Impact Management (OPIM). This comprehensive approach ensures that both bonds and equity investments can contribute to peacebuilding efforts in a transparent and accountable manner. Two separate documents have therefore been published that set out the new Peace Finance Standard for Peace Bonds and for Peace Equity investments respectively. This is a crucial development towards harnessing the power of finance to support peace and stability in regions that face unique challenges and opportunities.

20 In 2016, a study commissioned by the OECD-based Secretariat of the International Dialogue on Peacebuilding and Statebuilding and BNP Paribas investigated innovative finance options, notably social and green bonds. See IDPS (2017), 'How to Scale Up Responsible Investment and Promote Sustainable Peace in Fragile Environments', draft report', <https://www.pbsbdialogue.org/media/ filer_public/8b/27/8b27b529-8fcc-4a2c-8d7b-87aabc55f7f3/final_privatesectorreport.pdf>.

Modelling a Peace Finance Standard for Peace Bonds drawing on the ICMA Bond principles, Climate Bonds Standard and EMIA Enhanced Labelled Bond Principles

The development of a Peace Finance Standard for Peace Bonds draws inspiration from established standards and best practices in the finance industry, including the ICMA Bond Principles, Climate Bonds Standard and the Emerging Markets Investors Alliance (EMIA) Enhanced Labelled Bond Principles. The new standard has been modelled on these existing frameworks in order to enhance the credibility, acceptance and transparency of Peace Bonds, to the benefit of both issuers and investors.

While green bonds have been profitable, challenges related to verification have arisen, which future Peace Bonds should address and avoid. The pressure to demonstrate the "greenness" of projects, and the associated costs of external review and monitoring impact, have deterred some issuers from fulfilling their commitments. This has reduced transparency and accountability in the green bond market.

The section below assesses the four components of the Social Bond Principles (SBPs) and considers the ten common gaps identified by the mapping report, before distilling standards for issuing and verifying Peace Bonds using the "Use of Proceeds" model, ensuring that the new standard aligns with best practices in the financial industry.

1. Use of proceeds

The Use of Proceeds component of a Peace Bond Standard shows how funds raised by the Bond will be used for projects that deliver social benefits aligned with peace-related outcomes. It can be applied, for example, to examine goods and services related to basic human security needs or economic infrastructure (food, water, education, access to housing, healthcare, telecommunications, transport, etc.). To add peace-related outcomes (aligned with the Peace Finance Standard) to social benefits, projects are recommended to apply AAAQ and DNSH tests to verify that the local population benefits as intended. A project's legal documentation should specify the allocation of proceeds to peace-enhancing projects that support peace objectives and reduce violence in line with the Peace Taxonomy.

2. Process for project evaluation and selection

Shortcomings in the implementation of existing frameworks suggest that a robust theory of change (ToC) is necessary, to define peace-enhancing activities and differentiate between social and peace-related outcomes. Eligibility or screening criteria, similar to the Climate Bond Initiative Taxonomy, can be used to assess peace projects. A traffic light system can indicate their level of alignment with the Peace Finance Principles and their compliance with the Peace Finance Standard. Elements to consider include the involvement of local Peace Partners and beneficiaries in the peace investment strategy's design, implementation and monitoring, and its alignment with specific SDGs and national development and violence reduction targets.

A green score would indicate that a bond is fully compatible with the Peace Finance Standard. An orange score would indicate that it is potentially compatible if additional do-no-harm and due diligence screening criteria are met. Meeting these may require expenditure of resources, the collection of more granular baseline data, guidance for complaint or grievance mechanisms, or specific activities to develop the capacity of Peace Partners or enhance stakeholder engagement. A red score would indicate that the current form of the investment, or its design, are incompatible with the Peace Finance Standard, because, for instance, minimum safeguards or DNH criteria have not been met.

Independent external reviewers should assess alignment and conduct conflict sensitivity and peacebuilding assessments. In fact, it is common practice for certified green bond issuers to contract an external party to review documentation, either before bonds are issued (to check alignment against standard) or after they have been issued (to control the alignment of funded projects against eligibility criteria).[21] When evaluating and selecting Peace Bonds for issue, other recommendations were:

- *Use of proceeds frameworks should include a well-articulated and inclusive due diligence process that aligns with EMIA Principles. Local due diligence processes that include local representation and systematic local consultation should focus on local needs, interests and ownership, increase transparency and build trust with communities. Due diligence can prevent risks from materialising and potentially reduce the need for resource-intensive grievance mechanisms later on. Locally determined eligibility criteria are also recommended to address any perceived conflicts of interest.*
- *Investments should inform investors early on of any sustainability risks that may become material over time, based on a contextualised sustainability analysis that considers peace-enhancement targets and human rights responsibilities. To increase the sustainability of investments, local Peace Partners should conduct a risk assessment that is conflict-sensitive, considers intended and unintended impacts, and addresses ESG and peace dimensions. The assessment should review the local, national and regional context.*

3. Management of proceeds

The SBPs encourage a high level of transparency. This suggests that investments will need to make clear how their net proceeds will impact peace and stability.

To increase transparency and accountability, it is recommended that projects should collect contextual performance data ex-post facto that include the voices of beneficiaries and integrate local opinions in their impact indicators.

ICMA further recommends that, after a bond has been issued, projects should commission a verifier to track and report on the commitments made to investors. A specialised independent external verifier can help to evaluate the integrity of the project's monitoring method, can assess the project's alignment with PFIF's four Peace Finance Principles, and determine how the proceeds for peace-enhancing activities have been allocated. Developing a theory of change will help to track the causal relationship between an investment and its peace goals, especially if a common set of key performance indicators has been agreed in advance by all the stakeholders involved. Independent oversight through a verification mechanism involving local partners enhances transparency.

21 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021SC0181&from=EN.

Impact indicators to assess the effectiveness of peace projects can be selected from various sources, including the ICMA Harmonised Framework for Impact Reporting for Social Bonds.[22] Other relevant sources include GIIN IRIS+ and harmonised indicators such as HIPSO, which are aligned with the Sustainable Development Goals (SDGs). These indicators are commonly used by development finance institutions to measure essential sectors.

Some of these indicators can be adapted to support Peace Bonds.

4. Reporting

For stakeholders, adequate disclosure mechanisms are essential. The ICMA Harmonised Framework for Impact Reporting for Social Bonds[23] recommends that an annual impact report should describe the anticipated effects or results that are achievable through projects funded by a bond's proceeds. In addition, reporting should make clear how impacts are measured. Issuers are also encouraged to explain why a specific population has been targeted. When issuing Peace Bonds too, issuers will need to explain why a selected community or group is being or has been targeted and how direct or indirect violence against the group will be or has been addressed.

In alignment with principles of reporting for social bonds, and to obtain a deeper and more nuanced understanding of the local context, the Peace Bond Standard should support a mix of quantitative and qualitative reporting. Bond issuers are required to collaborate with experts in peace and conflict sensitivity to obtain this deeper understanding and assess whether the peace-enhancing benefits intended are indeed being achieved.

A comprehensive theory of change will help social impact reports to identify contributions to peace, including outputs, outcomes and their impact on specific targeted groups. In line with ICMA recommendations, it will also help to show any divergences between ex-ante and ex-post assessments. Additionally, investments need to confirm their impact on the target population by collecting data both before and after a Peace Bond has been issued. This data should be collected from individuals whose lives the bond's proceeds are intended to benefit. The purpose of such an impact confirmation process is to assess how effectively proceeds have been used via an inclusive, bottom-up approach that enhances reporting transparency and deters misleading claims of peace impact.[24] However, an inclusive bottom-up approach requires systematic consultation with local actors based on relations of trust. Reporting indicators should include such consultations as output indicators; levels of community trust should be a key outcome indicator used to measure a project's progress.

22 https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds_June-2022-280622.pdf.

23 https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds_June-2022-280622.pdf.

24 Ibid.

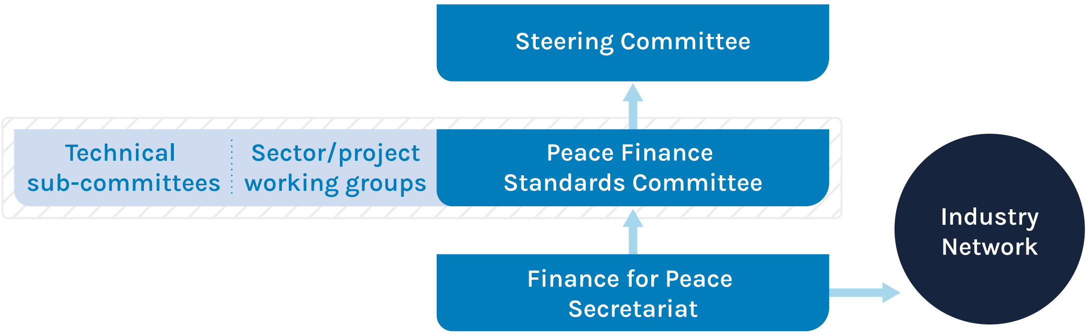
Modelling a Peace Finance Standard for Peace Equity drawing on the Operating Principles for Impact Management

The Operating Principles for Impact Management (OPIM, the Impact Principles) follow a typical investment path and provide a framework for ensuring that impact considerations are intentionally integrated throughout the investment life cycle. These principles can be implemented through purpose-designed systems. Investors are free to choose whether they apply the Impact Principles to specific funds or financial instruments, including bonds, and are not obliged to apply them to all their assets. Importantly, the Impact Principles do not dictate specific tools or impact measurement frameworks. Investors can use the principles to assess impact investment opportunities or to provide assurance to other investors that their impact funds are being managed effectively.

Entities that have signed the OPIM and others who endorse the principles are well-placed to incorporate a Peace Finance Standard for Peace Equity (the Peace Equity Standard) in their investment processes. The Peace Equity Standard can be integrated in their investment lifecycle for the purpose of screening new peace impact investment opportunities or to manage Peace Equity funds or portfolios.

Finance for Peace governance

Figure 3. Governance structure



Peace Finance Steering Committee

The Finance for Peace Steering Committee is a high-level advisory body of the Finance for Peace initiative, responsible for advising Interpeace's Governing Board, Executive Office and the rest of the team. It is a non-executive and interim body that has been established to provide strategic guidance, advice and support for the effective implementation of the Finance for Peace initiative.

- Guides and supports the Peace Finance Standards Committee with strategic advice and oversight.
- Ensures the development and implementation of the Peace Finance Standard (PFS) aligns with the initiative's mission.

Peace Finance Standards Committee

- Develops and refines the Peace Finance Standard, including the Peace Bonds and Peace Equity standards.
- Manages the certification process and pre-approves third-party verifiers and evaluators.
- Approves Peace Partners and reports progress and challenges to the Steering Committee.

Technical sub-committees (to be set up)

- Offer technical advice for standard development on relevant issues to the Standards Committee.
- Make evidence-based recommendations for the development of the Peace Finance Standard.

Sector/project working groups (to be set up)

- Provide sector-specific input regarding the practicalities of specific standards.
- Comment on proposed certification and verification processes to ensure alignment and compliance with the PFS.

Finance for Peace Secretariat

- Assists with coordination and public consultation.
- Carries out administrative, contracting and logistical support duties.
- Provides research assistance necessary for the ongoing development of the Peace Finance Standard.

Through these key functions, the Finance for Peace Secretariat empowers the Standards Committee, enabling it to make informed and effective decisions. This support is vital in order to develop and uphold standards that ensure responsible and impactful Peace Finance.

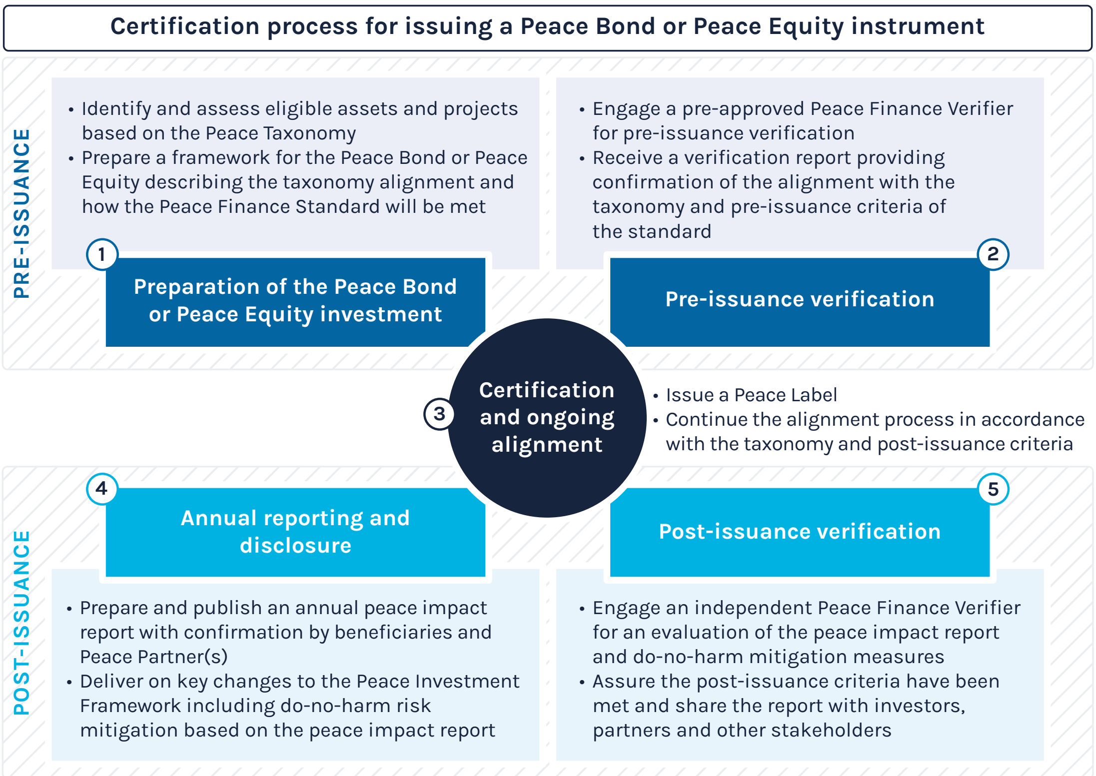
Peace Finance Industry Network

- Serves to champion Peace Finance in bond, equity and investment markets, contributing to the development of a Peace Finance ecosystem.

Certification

The Peace Bond and Peace Equity certification process requires an initial assessment, third-party evaluation and local confirmation, continuous monitoring and comprehensive reporting. The process is described in detail in the below figure.

Figure 4: Certification



Following this process will ensure the Peace Finance instrument achieves significant peace-positive outcomes alongside financial returns.

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