Finance for Peace

Peace Bond Standard

A Component of the Peace Finance Standard – Rigorous Criteria for Certification and Impact Accountability

Version: 3.0
June 2024

Peace Bond Standard

The Peace Bond Standard sets a global benchmark for the certification of Peace Bonds,[1] defining excellence in investment practices that foster peace. The Standard establishes rigorous criteria for bond issuers to achieve certification, and guides them during the structuring, management and verification of meaningful peace impact investments.

The Peace Bond Standard is one of the key components of the Peace Finance Impact Framework (PFIF).[2] The PFIF encourages investors to engage deeply with peacebuilding efforts, and offers a structured approach to planning, reporting and achieving peace impacts, and working with partners to do so, while mitigating investors' own risks and the risks to communities in the area of investment.

Influenced by advice from government agencies, development finance institutions, private sector entities and civil society, the Peace Bond Standard and the PFIF are the result of a collaborative effort and reflect a broad consensus that peace concerns need to be integrated in financial investments.

They underscore a commitment to inclusivity and the value of diverse perspectives in shaping a more peaceful world through finance.

1 Types of Peace Bond include sovereign, supra or corporate debt, and municipal or revenue bonds.

2 See Finance for Peace (2024), 'The Peace Finance Impact Framework: A Comprehensive Guide for Investors to Achieve Peace Impact and Additionality'.

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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Federal Foreign Office

Contents

A New Peace Finance Standard (PFS) and Certification Scheme

The Peace Finance Standard (PFS) and its accompanying Certification Scheme are poised to set a new global benchmark for the labelling of Peace Bonds[3] and Peace Equity investments. The PFS sets out rigorous requirements that bond or equity issuers must meet to attain certification. It provides guidance for structuring, managing and verifying Peace Bonds and Peace Equity investments. Its innovative financial instruments are designed to generate positive peace impacts in tandem with financial returns, marking a significant advance in impact investing.

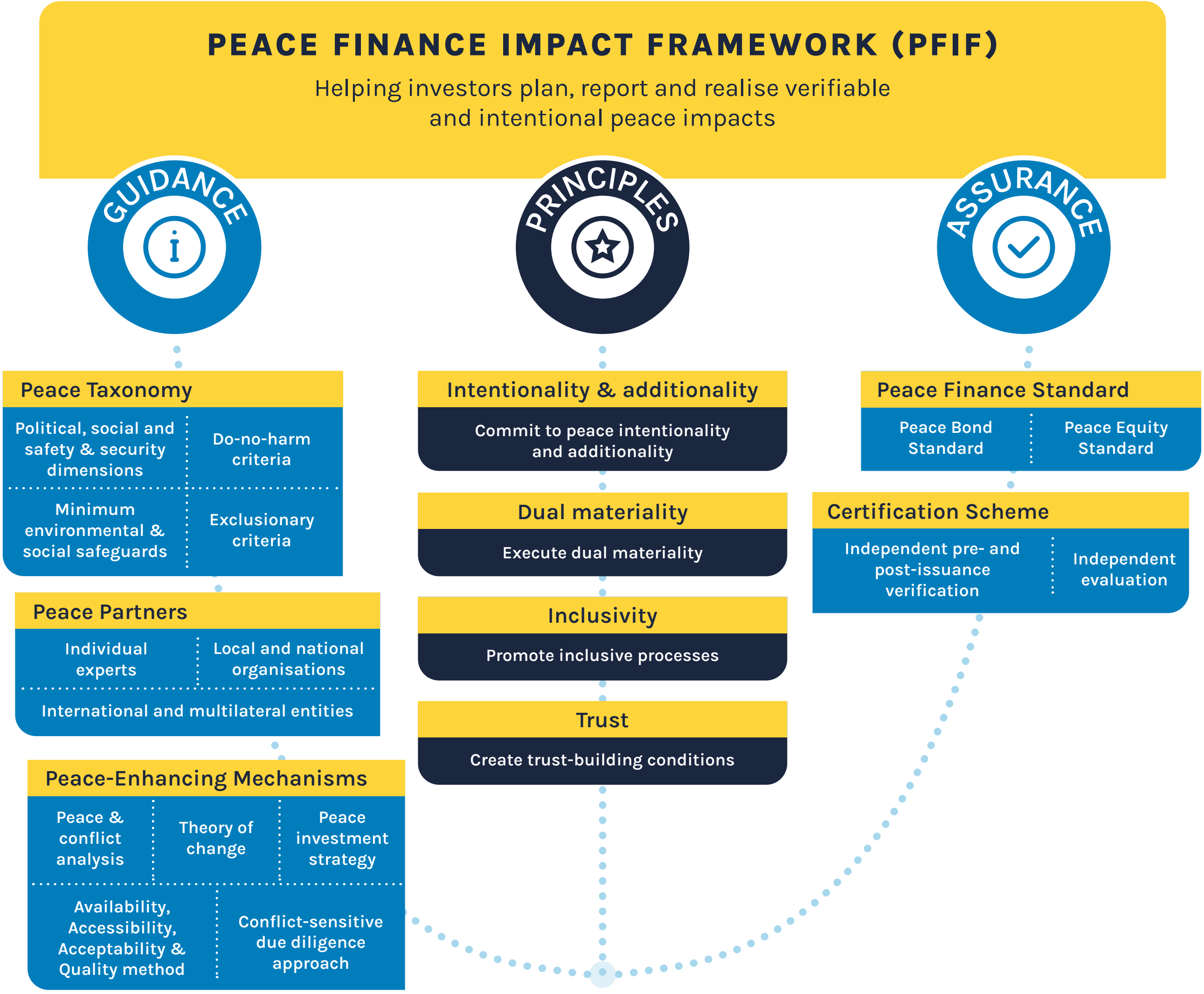
The PFS is a central element of the PFIF. Drawing inspiration from the ICMA Social Bond Principles and Sustainability Guidelines, it incorporates four core components (Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting), which are divided, specifically for Peace Bonds, into pre-issuance and post-issuance requirements. This is the core structure of the Peace Bond Standard. In parallel, a separate document sets out a corresponding standard for Peace Equity investments. The Peace Bond Standard aligns with the 9 Impact Principles[4] and five stages set out in the Operating Principles for Impact Management (OPIM)[5] process. Both the Peace Bond Standard and the Peace Equity Standard are anchored in the PFIF's Peace Taxonomy, which includes essential exclusionary and do-no-harm criteria and addresses gaps that Finance for Peace identified during a comprehensive mapping exercise that it has outlined in a separate report.[6]

3 Types of Peace Bond include sovereign, supra or corporate debt, and municipal bonds or revenue bonds.

4 Operating Principles for Impact Management (OPIM), 'The 9 Impact Principles', <https://www.impactprinciples.org/>.

5 *Ibid.*

6 Finance for Peace (2023), 'Mapping Investment Guidance for Peace: A comprehensive review of existing ESG, impact and sustainable finance principles and guidance for peace', <https://financeforpeace.org/resources/mapping-investment-guidance-for-peace-2023/>.

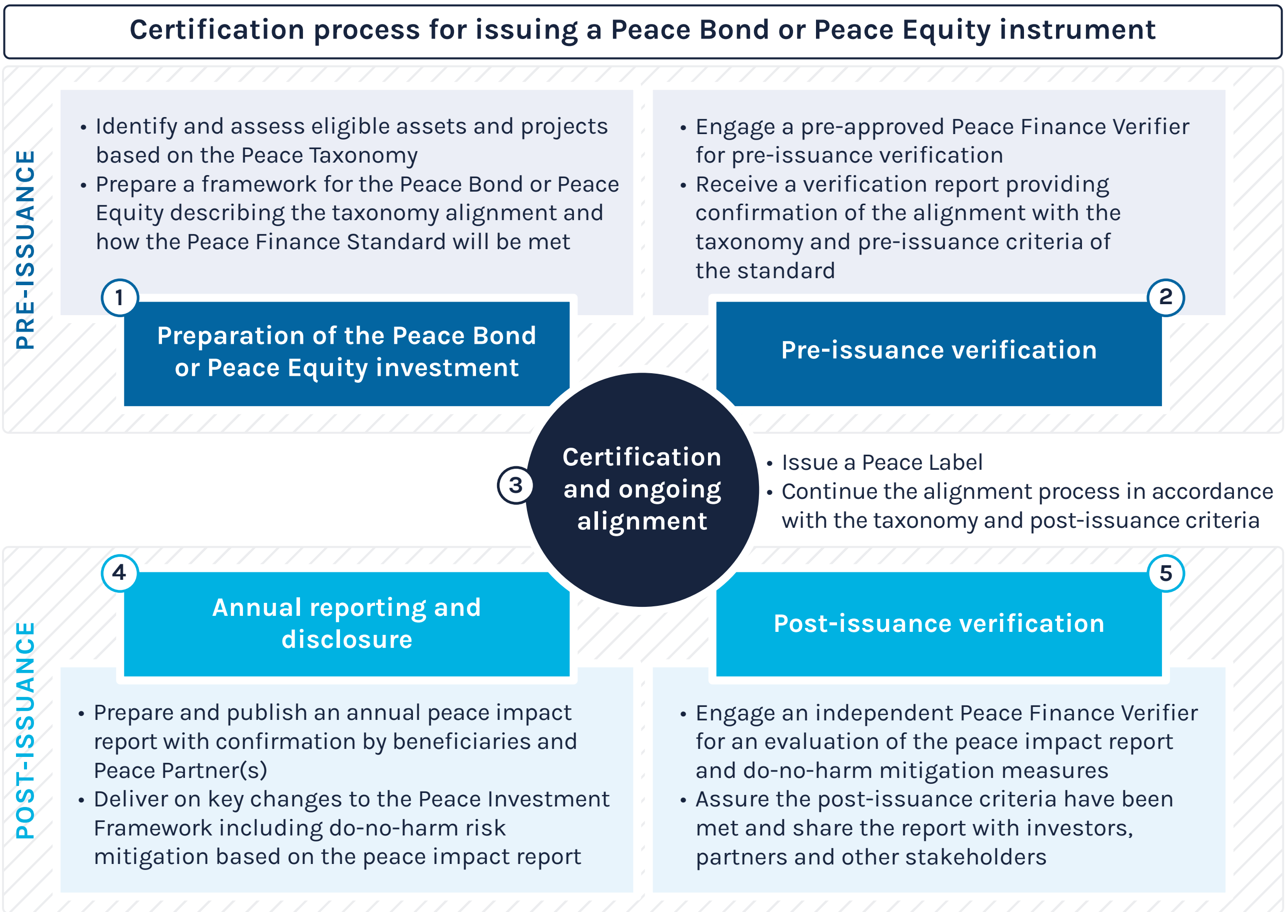


Certification under the Peace Finance Standard ensures that a Peace Bond or Peace Equity instrument:

a. Is fully aligned with the Peace Finance Principles and the PFIF Taxonomy.
b. Consistently contributes to achieving relevant SDGs and supports national development objectives.
c. Adheres to market best practices based on the ICMA Social Bond Principles, Sustainability Bond Guidelines and the Impact Principles.

Figure 1 shows the certification process for Peace Bonds and Peace Equity investments. The process is designed to ensure alignment with the highest standards. The process has five stages which take an investment through initial assessment leading to certification, then through reporting, monitoring and evaluation. The process seeks to maximise peace-positive outcomes alongside financial returns. There are dynamic feedback loops between each stage to ensure that investments remain responsive to any need to change and to changes in their environment.

Figure 1. Certification process for issuing a Peace Bond or Peace Equity instrument



Eligible assets and expenditures for peace impact investments

Certified peace impact investments identifiable as Peace Bonds or Peace Equity investments may include:

- **Physical or financial assets.** Such assets may include (but are not limited to) micro-credits and loans. These are often tangible, though intangible assets may be considered under certain conditions.
- **Operating expenditures.** These expenses are directly related to the sustainability and operational efficiency of assets. Eligible expenditures include necessary public expenditures and subsidies that contribute to an asset's enduring impact.

Peace Bond Standard

Under the Peace Bonds Standard, issuers must meet specific pre-issuance requirements before obtaining certification for Peace Bonds. These criteria are designed to ensure that the issuer's proposed Peace Bond framework (the framework) for nominated projects and assets aligns with the goals of the Peace Bond Standard and is supported by robust internal processes. Post-issuance requirements need to be met by issuers who seek continued certification after Peace Bonds have been issued.

A. Peace Bond pre-issuance requirements

The framework must be developed in accordance with Part 4 of the Peace Finance Impact Framework Guidance Notes and should address the following questions:

- How does the issuer's overall strategy align with the peace-enhancing objectives of the Peace Bond?
- How do the projects and assets meet the pre-issuance requirements set by the standard for Peace Bonds?
- What approach has been adopted to independently verify the pre-issuance requirements?
- How and what does the issuer report and what approach to evaluation has been adopted?

The framework should be informed by the four Peace Finance Principles and should include credible Peace Partners and peace-enhancing mechanisms. Additionally, the framework must be included in the legal documentation (the Prospectus or Final Terms) of the issuer. These requirements are designed not to replace but to complement and enhance existing standards and processes, to ensure that their influence on investments in emerging markets is more relevant and robust.

A.1. Use of proceeds

A.1.1. **Documentation and registry.** Issuers must document and maintain a dynamic list of nominated projects and assets, to ensure transparency and enable continuous alignment with peace objectives. This registry should be readily accessible and regularly revised to reflect changes and updates in projects' status or scope.

A.1.2. **Peace benefits and eligibility.** For a project or asset to be deemed eligible, it must contribute tangible peace benefits, which should be clearly defined and, where possible, quantified. To ensure that potential impacts are robustly evaluated, projects must adopt a credible theory of change and align themselves with the Peace Taxonomy; eligibility assessments must take both into account.

A.1.3. **Strategic alignment.** The Peace Bond framework must be consistent with ICMA Social Bond Principles, the Sustainability Bond Guidelines and the issuer's sustainability strategies. It should describe how the projects contribute to relevant SDGs, and it should note potential positive impacts and any negative implications. It should provide a holistic review of each investment's net contribution to peace and development.

A.1.4. Intentional peace and additionality. The framework should set out intentional results that can generate (direct and indirect) peace additionality. It should do so by formulating a peace strategy, grounded in a comprehensive understanding of the local context. Collaboration with pre-approved Peace Partners, who conduct thorough peace and conflict analyses and actor mapping, should be an essential element of the strategy. These activities provide the foundation for a project's peace strategy and theory of change and generate a sound understanding of its potential peace additionality impacts on specific populations or groups.

A.1.5. Eligibility criteria for products and services. Issuers must ensure that products and services that are expected to meet basic human needs or improve economic infrastructures satisfy AAAQ tests[7] and meet do-no-harm criteria. Doing so will ensure that contributions address effectively the social, safety and political concerns of groups or populations affected by the project's activities.

A.1.6. Conflict sensitivity. Issuers must adopt a conflict sensitivity lens. They must ensure that, when it designs and delivers products and services, a project identifies, considers and mitigates any potential sources of conflict. To achieve this end, peace and conflict analyses must apply the dual materiality principle.[8]

A.2. Process for evaluating and selecting projects and assets

A.2.1. Communication of intent and impact management. Issuers must clearly communicate to investors and targeted groups the Peace Bond's objectives and their additionality ambitions, and must describe the process they will follow, including the peace-enhancing mechanisms they will use, to manage positive and negative impacts.

A.2.2. Rationale for target selection. Issuers must set out a clear rationale for targeting specific populations or groups, based on a comprehensive peace and conflict analysis and mapping, prepared in collaboration with Peace Partners.

A.2.3. Application of exclusionary and do-no-harm criteria. Issuers must adhere to the Peace Taxonomy's exclusionary and do-no-harm criteria, and minimum social and environmental safeguards, when they assess investment eligibility and determine whether an investment requires additional due diligence screening to ensure its compliance.

A.2.4. Pre-Issuance due diligence. Issuers must ensure that Peace Bond peace strategies are co-created or validated by Peace Partners who meet the established requirements. Strategies must emphasise collaborative design and validation.

A.2.5. Involvement in theory of change design. Issuers must involve credible local Peace Partners and other partners, and targeted populations and groups,

7 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.

8 Dual materiality shifts the focus from a narrow do-no-harm posture to a more intentional emphasis on 'doing good'. 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.

to design a conflict-sensitive theory of change. Agreement should be reached with them on a project's intended direct and indirect peace impacts, how these will be monitored, evaluated and verified, and how do-no-harm criteria will applied.

A.2.6. **Community consultation process.** Working closely with Peace Partners, projects should consult local communities thoroughly to ensure that their objectives and processes align with local needs, interests and ownership. These actions enhance transparency, trust and effective impact management, and should remove or minimise the need for resource-intensive remedial mechanisms at a later date.

A.2.7. **Independent review and verification.** Issuers must work with an independent, specialised Peace Finance Verifier to assess the framework and verify compliance with pre-issuance requirements.[9] The verification process must adhere to the best practices set out in the 2022 ICMA Guidelines for External Reviews.[10] Verification reports should clearly conform with pre-issuance requirements. All standards must be met before a Peace Bond is issued.

A.3. Management of proceeds

A.3.1. **Transparency and accountability.** Issuers must undertake to be highly transparent and accountable in the use of net proceeds of peace impacts. Internal peace impact monitoring and evaluation mechanisms should include specific impact indicators for: (a) validating the theory of change with Peace Partners and targeted populations or groups; (b) verifying the theory of change using independent verifiers.

A.3.2. **Collaborative indicator development.** Issuers must adopt inclusive processes in association with Peace Partners and other stakeholders to reach an agreed set of impact indicators to manage and measure contributions to basic human needs and economic infrastructures.[11] Indicators must be complemented by key performance indicators (KPIs) to measure peace contributions and screen DNH risks. These should be SMART (specific, measurable, achievable, realistic, and time bound). Project-oriented indicators should track alignment with the Peace Finance Principles as defined in the Peace Finance Impact Framework.

A.3.3. **Stakeholder engagement and capacity building.** Issuers must demonstrate that they actively support stakeholder engagement and impact management, by taking steps to strengthen capacity, build trust, and generally empower partners and communities. These actions are fundamental to effective management of the proceeds and successful implementation of the Peace Bond Standard.

9 Under the developed certification regime, Peace Finance Verifiers must be certified (pre-approved), to ensure they meet established standards and can conduct thorough and credible evaluations.

10 https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/External-Review-Guidelines_June-2022-280622.pdf

11 Indicators can be found in ICMA's Harmonised Framework for Impact Reporting for Social Bonds (2022), GIIN IRIS+ metrics, or HIPSO's harmonised indicators aligned with the SDGs.

4. Reporting before Peace Bonds are issued

A.4.1. Peace Bond framework and project list disclosure. Issuers must prepare and publicly disclose the framework and nominated projects and assets associated with the Peace Bond.

A.4.2. Comprehensive framework content. The framework must explain in complete terms the expected contribution(s) that will be made to peace, showing how they align with the indicative Peace Taxonomy, and must describe the peace strategy's theory of change. In doing so, the framework must show that its design process is collaborative, and set out the criteria for selecting Peace Partners and peace-enhancing mechanisms. The framework must address all the requirements from A.1.2. to A.1.6. and all the processes from A.2.1 to A.2.6. Additionally, the framework should clearly outline its procedure for verification by the Peace Finance Verifier, and in particular cover the elements described in the Management of Proceeds sections A.3.1 to A.3.3, ensuring that all are verifiable and transparent.

A.4.3. Expert collaboration. Issuers are encouraged to work with peace and conflict sensitivity experts to refine the identification of peace-enhancing benefits from investments, using both qualitative and quantitative indicators, and provide a sound understanding of the local context and intended impacts.

A.4.4. Transparent impact management. Issuers must disclose how stakeholder expectations and interests will be addressed and how stakeholders will be involved in the impact management process. To build trust and credibility, impact measurement methods and assumptions, and any potential risks, should be identified explicitly.

A.4.5. Refinancing disclosure. If any part of the net proceeds is earmarked for refinancing, issuers must disclose which projects are included in the list of nominated projects and assets or the registry and make clear that the lookback period for eligible refinancing does not exceed 24 months.

B. Peace Bond post-issuance (post-investment) requirements

To maintain certification, issuers must adhere to the following post-issuance requirements:

B.1. Use of proceeds

B.1.1. Allocation and eligibility. Issuers must allocate net proceeds to eligible nominated projects and assets within 12 months of issuance. Issuers must adhere to eligibility categories and criteria and respect annual reporting and validation procedures without overlapping with other labelled bonds or instruments.

B.1.2. Tracking peace benefits. Issuers must continuously monitor the peace benefits from allocated proceeds, following the monitoring and evaluation process outlined in the theory of change (Clause A.2.5.) and using the agreed indicators (Clauses A.3.1. and A.3.2.).

B.1.3. Peace impact reporting and strategy adjustment. In association with Peace Partners, issuers must implement recommendations in annual post-impact reports, such as the introduction of new peace-enhancing mechanisms or do-no-harm actions. All emerging risks that they identify should be addressed to enhance the bond's peace impact and sustainability. Where necessary, the peace strategy should be updated.

B.2. Process for evaluation and selection of projects and assets

B.2.1. Ongoing eligibility verification. Issuers must document and maintain a decision-making process for assessing the ongoing eligibility of nominated projects and assets, making sure that they continue to meet the eligibility criteria set out in part A.

B.2.2. Comprehensive risk assessment. Issuers must adhere to the risk assessment process established in A.1.6. To identify and manage emerging risks, localised monitoring is required, and a multi-level context analysis needs to be prepared, addressing conflict and sustainability, including maps and actors, applying do-no-harm criteria as well as human rights due diligence.

B.2.3. Impact reporting. Consistent with the ICMA Harmonised Framework for Impact Reporting for Social Bonds,[12] issuers must document and report positive and negative peace impacts, being transparent and accountable in accordance with the Finance for Peace guidance notes.

B.2.4. Independent external review. Issuers must commission an independent external verifier to evaluate the continued alignment of projects with the Peace Bond framework and eligibility and exclusionary criteria. The verifier should follow ICMA guidelines for external reviews.[13] A post-issuance evaluation report should be completed within 24 months of bond issuance to confirm ongoing certification. This report should guide any adjustments that need to be made to the peace strategy to satisfy conditions for ongoing certification.

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

13 https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/External-Review-Guidelines_June-2022-280622.pdf

B.3. Management of proceeds

B.3.1. Complaint and grievance mechanisms. Issuers must establish a robust, independent and adequately resourced complaint and grievance mechanism for communities impacted by projects. This mechanism should be able to detect material risks promptly and deliver prompt remediation. It should be accessible, trustable, and managed by independent experts who consider the socio-economic conditions of affected groups.

B.3.2. Tracking and reporting progress. Issuers must continuously collect and track contextual data, making use of beneficiary feedback, to monitor project progress. They should regularly disclose this data, aiming to provide annual updates to enrich their peace impact reports.

B.3.3. Stakeholder engagement and support. Issuers must demonstrate they actively support stakeholder engagement and impact management by taking steps to strengthen capacities, build trust, and generally empower partners and communities. They should ensure that these activities contribute to effective proceeds management and successful implementation of the Peace Bond Standard.

4. Reporting

B.4.1. Detailed project reporting. Where the framework has been published before an exact assessment of peace-enhancing projects and assets becomes available, issuers must provide a precise description of projects and assets in post-issuance reports.

B.4.2. Annual peace impact reporting. In collaboration with Peace Partner(s), issuers must validate annually the impacts of Peace Bond proceeds on the targeted population or groups. The aim is to confirm that proceeds are used effectively, prevent peace impact washing, foster community trust and enhance overall transparency.

B.4.3. Comprehensive impact reporting. In their annual reports, issuers must report the actual outputs and outcomes of their projects and the impacts on targeted groups, clearly explaining any differences between predicted and realised impacts.

Using both qualitative and quantitative measures, the reports should note and describe intended and actual effects, and positive and negative impacts. Issuers are advised to work with experts on peace and conflict sensitivity to ensure thorough and nuanced reporting that adheres to the best practices set out in the Harmonised Framework for Impact Reporting for Social Bonds.[14]

B.4.4. Disclosure of evaluation reports. Issuers must share independent post-issuance evaluation reports with all stakeholders, including partners, investors and other stakeholders, to ensure that the bond's ongoing assessment and impact validation procedures are transparent and accountable.

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

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Harmonised Indicators for Private Sector Operations aligned with the SDGs: <https://indicators.ifipartnership.org/indicators/>.

IRIS Catalog of Metrics, GIIN, <https://iris.thegiin.org/metrics/>.

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