Peace Finance Impact Framework

Introducing a comprehensive framework to help investors align for peace impact and additionality

Working Draft for Feedback

Finance for Peace

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About this report
This report has been developed by Finance for Peace, an initiative seeded by Interpeace, an international organisation for peacebuilding headquartered in Geneva. The report describes the rationale, scope and key features of a comprehensive investment alignment framework – called the Peace Finance Impact Framework (PFIF) to help public and private investors plan, partner, report and ultimately realise peace impacts that reduce risks for investors and communities.

The PFIF is intended for wide feedback and input from a broad array of key stakeholders who may be direct or indirect users and/or partners in its potential further use. These 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, second party opinion providers and organisations operating in development and peacebuilding aid sectors as well as civil society and communities.

The main section of this report explains the draft outline of the proposed Peace Finance Impact Framework for wider input, consultation and iteration over time. The preface to this report with the introduction to the rationale for peace finance and a detailed mapping of existing ESG, Impact and DFI/MDB frameworks related to investment in fragile and emerging markets has been published as a separate document by the Finance for Peace initiative.

About the Finance for Peace Initiative
Finance for Peace is an independent initiative that seeks systemic change in how private and public investment supports peace in the world's developing and fragile contexts. It aims to create multistakeholder approaches that can co-develop the critical market frameworks, networks of political support, partnerships and knowledge required to scale what we call peace finance - investment that has an intentional and positive impact on peace. By doing so, it is possible to realise mutual benefits of reduced risks for investors and communities and achieve both bankable and peaceful outcomes.

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 over 27 years. The governance and administration of the Initiative is supported by Interpeace from Geneva, Switzerland. It is financially supported by the German Federal Foreign Office and part of its Investing for Peace (I4P) Initiative.

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The report drafting team has been Daniel Hyslop, Riccardo Vinci, Marcel Smits and Ian Wadley with support from Elena Maffioletti Arratia. The research process has benefitted from input research from Tommaso Sonno and Davide Zufacchi on the '*Peace Impact of Private Investments*' and from consultations with a wide number of nascent peace finance actors who are cited throughout this report.

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The views expressed do not necessarily reflect the German Government's official policies.

Federal Foreign Office

Important terms and definitions used in this report

Defining Social Peace: Social Peace is the presence of social cohesion and trust between the state and people, between different groups and within institutions whereby people can 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 state and society.

Defining Political Peace: 'Political Peace' interventions relate to political and/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 the national level, or at the regional or international level, such as a UN Security Council decision.

Defining Negative Peace: Negative peace is commonly understood to be the absence of forms of direct physical violence or fear of physical violence. This PFIF taxonomy uses the 'safety and security' as one of its key three peace dimensions which is analogous to negative peace.

Other terminology or phraseology

'Peace-Positive': Peace-positive is a phrase that is informally but widely used in the development and peace literature to simply refer to actions that have good or positive impacts on peace dynamics whether they relate to negative peace and or forms of social or political peace. It is not to be confused with 'Positive-Peace' which has a more formal and conceptual basis for its understanding.

Peace-supporting: Peace-supporting is a phrase used in this report to refer to any activities, inputs and the associated outcomes that intend, or are verified to result in, positive results for peace, whether social peace or political peace.

Do-no Harm: Do No Harm (DNH) is both a principle and framework that has been used extensively in humanitarian, development and peacebuilding aid work for decades to help ensure external actors engaging in humanitarian, developing and or fragile and conflict affected places consider and mitigate the potential negative effects of their aid. In relation to peace, DNH can be defined as any approach that does not have any short, medium or long term unintended consequences and does not exacerbate conflict dynamics. Any understanding of DNH can only be situated once there is a rigorous and systemic understanding of the context and the peace and conflict dynamics.

Positive Peace: Positive peace is an ongoing process of transformation where attitudes, institutions and norms at multiple levels enable societies to resolve grievances in non-violent ways that people perceive as just.[1] Progress in positive peace would mean grievances are transformed and remedied in ways that are non-violent and perceived to be just, directly addressing issues of safety, social justice, equality, mutual trust and well-being.

Conflict Sensitivity: Conflict sensitivity is a term that evolved out of the aid sector, referring to the practice of understanding how aid interacts with conflict in a particular context, to mitigate

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

unintended negative effects, and to influence conflict positively wherever possible, through humanitarian, development and/or peacebuilding interventions. It is now seen as a minimum standard for all actors operating in conflict-affected settings.

Peace Responsiveness: Peace responsiveness builds on conflict sensitivity and refers to the practise of actors operating in conflict-affected or fragile contexts to be both conflict-sensitive, ensuring DNH but to more intentionally contribute to peace through their programming – in a way that is adaptive, enhances collective impact, supports inclusive, gender-responsive, locally led change, and strengthens societal resilience to conflict and violence.

Peace-Enhancing Mechanisms (PEMs): Peace Enhancing Mechanisms (PEMs) are peace actions embedded into financial structures and investment approaches that are seeking alignment with the Peace Finance Impact Framework (PFIF). They are implemented by partners to investors, dubbed PEM partners, and may cover a broad array of actions specific to a given investment context. Specific PEM actions and the types of organisations suitable to be PEM partners are described in this report.

Contents

Executive Summary

This report presents the outline of a draft Peace Finance Impact Framework (PFIF) that provides a benchmark for defining what 'Peace Impact' means for public and private investors. It further describes basic exclusionary criteria, a proposed process and partnership model of how investors can plan, implement, measure and verify peace impacts as well as some of the intervention logic of how they may generate additionality for investors and better outcomes for communities. The PFIF helps investors lower risk for both communities and investees by implementing peace and investment strategies that are better sensitised to political and social risks while also building greater trust, buy-in and certainty through more inclusive investment approaches.

New incentives for financing approaches that support peace are needed urgently. The facts are well known - 1.8 billion people, almost a quarter of the world's population, live in 57 fragile and conflict affected countries where, because of ongoing violence and conflict, the 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. Feeding into this are poor market perceptions and evidence of systemic mispricing of risks which suppress the supply of scaled and bankable investments. At the same time, there is wide evidence of private and public investment exacerbating conflict dynamics and failing to mitigate risks for investees and communities. Underpinning all this is a significant lack of fit-for-purpose market frameworks, guidance and incentives for public and private investors to help them proactively engage and properly mitigate risks in fragile and conflict affected settings.

New frameworks, partnerships, guidance and standards to change investor incentives to impact peace and mitigate risks are badly needed for a host of reasons. Firstly, despite the proliferation of ESG and Impact frameworks which this report has comprehensively mapped and reviewed, there is no globally recognised benchmark or framework that defines what 'peace impact' means for various asset classes and categories of investment. Further, most entirely lack prescriptive requirements for investors to understand peace and conflict dynamics and properly map the impacts of their investment on the context. This is true even though the consequences of investment on peace and vice-versa - conflict and political dynamics upon the investment - are perhaps both the most important impact question as well as financially material risk factor for investors operating in fragile and emerging markets. Without such a benchmark or taxonomy, peace impacts cannot be planned, monitored or reported upon to the market in ways that are trustworthy, transparent and fit-for-purpose. As the experience of the development of the Green Bond market and phenomenon of 'greenwashing' has shown, a rigorous and widely validated framework that can be transparently defined and measured is critical to wider market trust and uptake. Without such a framework to guide and define peace, there is significant risk of 'peacewashing' especially with newly self-labelled peace investments that are either being planned or will soon be entering the market.

Nonetheless, much can be drawn from the evolving universe of ESG and Impact tools, principles and frameworks which the proposed PFIF has built upon. Various frameworks including the new EU draft Social Taxonomy have sought to apply more rigorous concepts of dual materiality whereby the investor must consider and report on both risks to the company/investor as well as society. This also involves shifting the focus from a narrow or minimal 'do no harm' posture to more intentional

emphasis on ‘doing good’. Various DFI, blended finance and impact frameworks and standards are increasingly emphasising the need for greater focus on stakeholder consultation to properly understand local needs, inclusion, engagement and participation in investments. Meanwhile, wider calls in the ESG investing space for greater transparency and accountability further signal clear positive trends in the normative environment for socially impactful investment.

However, it must be acknowledged that better frameworks and standards are not enough to redress some of the systemic challenges of scaling more peace supporting investment in fragile and emerging markets. Years of hard learned practise, whether from the business and human rights fields or within ‘corporate peace’ literature has shown efforts at voluntary regulation and or accountability advocacy have only been able to minimally impact the systemic nature of business activity in developing countries. Many investors see existing due diligence and or impact alignment frameworks and processes as ‘yet-another’ transaction cost and disincentive – they can often be seen as too cumbersome, complex and costly to implement. As a consequence, many good principles and practises have either gone unused, ignored and or remain unknown to the vast number of investors. For this reason, any proposed peace finance impact framework should be able to clearly demonstrate the material additionality that alignment can have so it is seen as a more central part of the investment strategy and investment approach. Otherwise, such a proposed framework risks becoming seen as a due diligence ‘check box’ and thus piecemeal in its uptake and implementation.

As many actors have identified in the process of inputting into this research, there are fundamental asymmetries in information, skills and capacities between ‘outside’ investors and ‘local’ consumers, communities and implementors in developing countries. Fundamentally, many investors do not have the local contextual knowledge, networks and track record to guide and structure their investments in ways that better navigate the often complex local political and social risks that intersect with their investment. For this reason, the PFIF seeks to provide a framework to help investors bridge these gaps by creating new incentives for partnerships with more locally situated actors. This can enable them to work in accompaniment with investors to implement peace actions that can help gain greater community buy-in and distribute benefits more inclusively so they lower risk for both communities and investors.

In contrast to most existing approaches to risk transfer mechanisms in developing places which focus predominately on forms of financial de-risking,[2] the PFIF seeks to help investors make socially material impacts on risks at the level of their investment and/or asset. This addresses the potential moral hazard created by typical DFI or MDB financial risk sharing mechanisms which may lower risks for investors but not for communities on projects that exacerbate conflict dynamics. In order to de-risk at the level of an investment or asset, the PFIF proposes a series of actions dubbed Peace Enhancement Mechanisms (PEMs) that can be implemented by partners in accompaniment with investors. The size, scope, approach and detail of peace actions or PEMs related to a project would depend on the peace strategy that is developed as part of the peace alignment process and would be highly context and investment specific. Such a model would build peace actions into a peace and investment strategy so the investment approach is more likely to be locally inclusive and trusted by a

[2] Such as securitisation, co-lending or tranching between lenders (first-loss), guarantees or syndicated loans as well as political risk insurance

broader array of local stakeholders. By enabling transaction structures that can build the financing of such PEMs into the capital or operational expenditure of an investment, PFIF aligned investments are more likely to make intentional and deliberate impacts as well as more effectively mitigate harms and risks.

How the financial materiality of such asset/investment level de-risking would manifest will likely be highly context and transaction specific. However, as a feasibility study by Interpeace and SEB[3] on a potential Peace Bond structure has shown, such a model can have substantial positive benefits on Net Present Values and risk-adjusted return on capital metrics for capital intensive projects involving large upfront borrowing. This is especially important in fragile and emerging markets where high country risk premiums result in very high debt costs that undermine bankability and project feasibility. Further, in contexts where hybrid forms of governance prevail, conflict sensitive large-scale investment is very difficult to achieve without the kind of more locally situated, inclusive, participatory and process-oriented approaches and investment strategies the PFIF seeks to help investors develop. This is one way peace finance approaches can create real additionality.

Finally, it is important to note the significant opportunity for scaling peace finance. Today's developing and emerging markets are both some of the fastest growing and socially fragile in the world. It is estimated by 2025[4], they will account for nearly 50 per cent of the world's consumers[5] and also have enormous infrastructure investment needs.[6] At the same time, demand for socially responsible investment has significantly grown. Today, a third of all assets under management (AUM) globally are ESG labelled, with Social Bond issuance reaching nearly USD $400 Billion of issuance in 2021 alone, now occupying almost a quarter of the USD1.6 Trillion global sustainable debt market in the same year. These developments reflect the large growth in demand from investees and investors for more environmentally and socially risk-aware investments. Further, regulatory developments in the US and EU regarding green disclosures and potential legislation regarding human rights due diligence has significant legal implications for companies operating in developing and emerging markets. Combined, these developments powerfully demonstrate the multiplicity of emerging incentives for positive change and potential uptake of peace finance.

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[3] Interpeace and SEB, 'Peace Bonds - Feasibility study. Assessing the potential of a new asset class that can lower risk and enhance peace' (Edition 1, 2022).

[4] R Dobbs, J Reemes, J Manyika, C Roxburgh, S Smit and F Schaer, "Urban world: Cities and the rise of the consuming class" (McKinsey & Company 2012).
<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] C Chandler and C Johnson (eds), "Winning the $30 trillion decathlon: Going for gold in emerging markets" (McKinsey & Company 2013) <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> p. 7

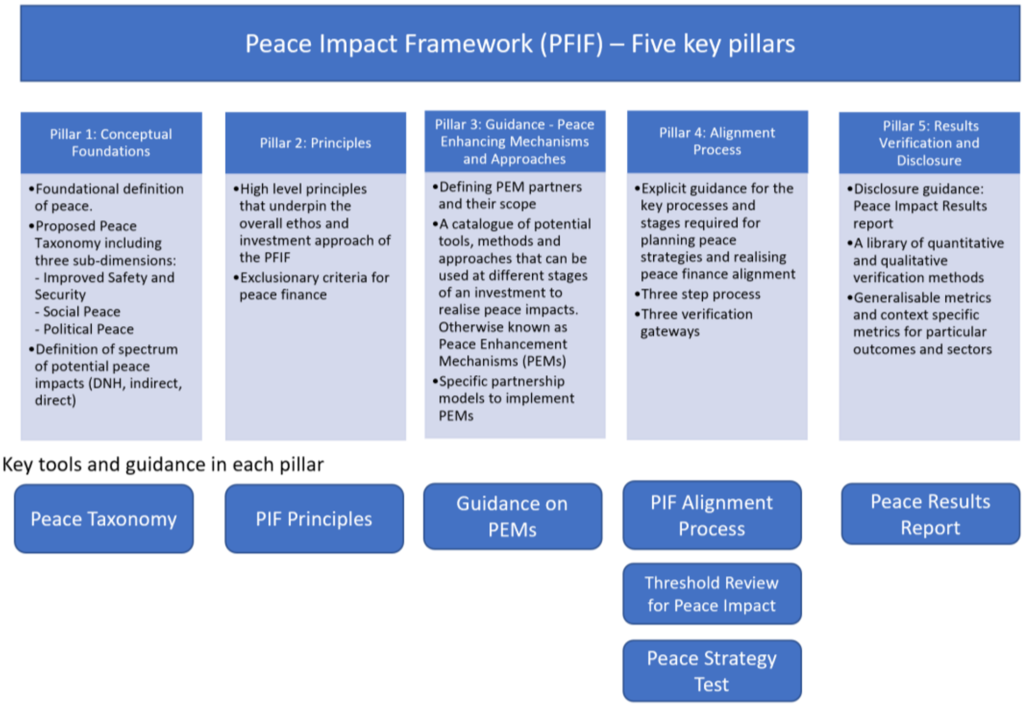
[6] Global Infrastructure Outlook, 'Forecasting infrastructure investment needs and gaps', (World Bank 2022) <https://outlook.gihub.org/>.

Summary of the Draft Peace Finance Impact Framework (PFIF)

The proposed PFIF is composed of five key pillars so key stakeholders can structure their feedback and input clearly and appropriately. These are as follows:

- **Pillar 1: Conceptual Foundations**
- **Pillar 2: Principles**
- **Pillar 3: Guidance - Peace Enhancing Mechanisms (PEMs) and Approaches**
- **Pillar 4: Alignment Process**
- **Pillar 5: Results Verification and Disclosure**

Figure 1: Peace Finance Impact Framework – Five key pillars

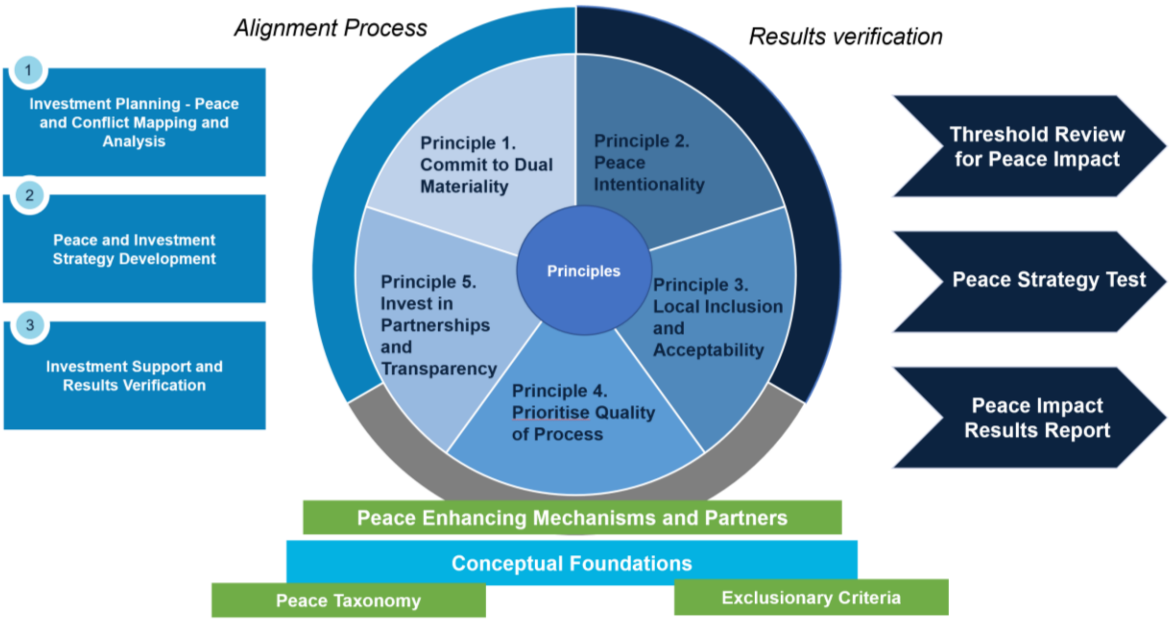


Each of the Pillars of the Peace Finance Impact Framework (PFIF) include key tools, guidance and principles:

- **Pillar 1: Conceptual Foundations, describing:**
  - Foundational definitions and concepts of peace.
  - Outline of a proposed Peace Taxonomy, detailing key dimensions of peace and sub-dimensions that investors, companies and prospective advisers and arrangers could target for impact.
  - A spectrum of potential peace impacts from do-no-harm, indirect to direct in each of the dimensions of peace so investors can situate their scale of ambition.
- **Pillar 2: Principles, describing:**
  - Simple high-level principles for private investors, DFIs, banks and industry to underpin the ethos and investment approach of PFIF aligned investment:
    - *Principle 1. Commit to Dual Materiality*
    - *Principle 2. Be Peace Intentional*
    - *Principle 3. Design for Local Inclusion and Acceptability*

- Principle 4. Prioritise Quality of Process
            - Principle 5. Invest in Partnerships and Transparency
    - Outlining draft exclusionary criteria for peace finance
- **Pillar 3: Guidance - Peace Enhancing Mechanisms (PEMs) and Approaches, describing:**
    - A basic catalogue of potential tools, methods and approaches that can be used at different stages of an investment to realise peace impacts. Otherwise known as Peace Enhancement Mechanisms (PEMs)
    - The nature of partnerships required for investors to align, plan and scale their peace impact and risks mitigation activities, with PEM partners.
- **Pillar 4: Alignment Process, describing:**
    - Guidance for the key processes and stages required for planning peace strategies and realising PFIF alignment
    - Three key steps in the investment process
        - 1. Investment Planning Peace and Conflict Mapping and Analysis
        - 2. Peace and Investment Strategy Development
        - 3. Investment Support and Results Verification
    - Then connected to this, three verification gateways which investors would pass to proceed and maintain their alignment to the PFIF:
        - 1. Threshold Review for Peace Impact
        - 2. A Peace Strategy Test
        - 3. Peace Impact Results Report
- **Pillar 5: Results Verification and Disclosure**
    - Disclosure Guidance for investors

Figure 2: Summary Visualization of the draft v.1 PFIF



PROPOSING A COMPREHENSIVE PEACE FINANCE IMPACT FRAMEWORK (PFIF)

As a separate document introducing the rationale for the Peace Finance Impact Framework has established, there is a wide interpretation of what a constitutes an 'impact framework', and there have been several existing attempts by various actors to define nascent peace impact principles, processes, methods, tools and results verification approaches. Evidently, there is also a significant number of standards and principles investing frameworks for broader sustainable, social and ESG investing that are used by various actors that a proposed Peace Finance Impact Framework could draw upon.

Based on the mapping conducted by the Finance for Peace initiative, a comprehensive Peace Finance Impact Framework can be described as composed of five key elements or pillars. These can be described as:

- **Pillar 1: Conceptual Foundations**
- **Pillar 2: Principles**
- **Pillar 3: Guidance - Peace Enhancing Mechanisms (PEMs) and Approaches**
- **Pillar 4: Alignment Process**
- **Pillar 5: Results Verification and Disclosure**

Each of these core pillars would provide complementary and foundational concepts and guidance for investors to plan, partner, implement and report on potential peace impacts. Each pillar would provide critical component in an inter-related framework and provide an overarching framework for relevant actors to feedback into, develop and refine over time.

- **Pillar 1: Conceptual Foundations, describing:**
  - Foundational definitions and concepts of peace.
  - Outline a proposed Peace Taxonomy, detailing key dimensions of peace and sub-dimensions that investors, companies and prospective advisers and arrangers could target for impact.
  - Provide a spectrum of potential peace impacts from do-no-harm, indirect to direct in each of the dimensions of peace so investors can situate their scale of ambition.
  - Outline key inclusionary sectors.
- **Pillar 2: Principles, describing:**
  - Simple high-level principles for private investors, DFIs, banks and industry to underpin the ethos and investment approach of PFIF aligned investment
  - Outlining draft exclusionary criteria for peace finance.
- **Pillar 3: Guidance - Peace Enhancing Mechanisms (PEMs) and Approaches, describing:**
  - A basic catalogue of potential tools, methods and approaches that can be used at different stages of an investment to realise peace impacts. Otherwise known as Peace Enhancement Mechanisms (PEMs).
  - The nature of partnerships required for investors to align, plan and scale their peace impact and risks mitigation activities, with PEM partners.

- **Pillar 4: Alignment Process, describing:**
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        - 1. Threshold Review for Peace Impact
        - 2. A Peace Strategy Test
        - 3. Peace Impact Results Report
- **Pillar 5: Results Verification and Disclosure**
    - Disclosure Guidance for investors

Figure 6: Peace Finance Impact Framework – Five key pillars

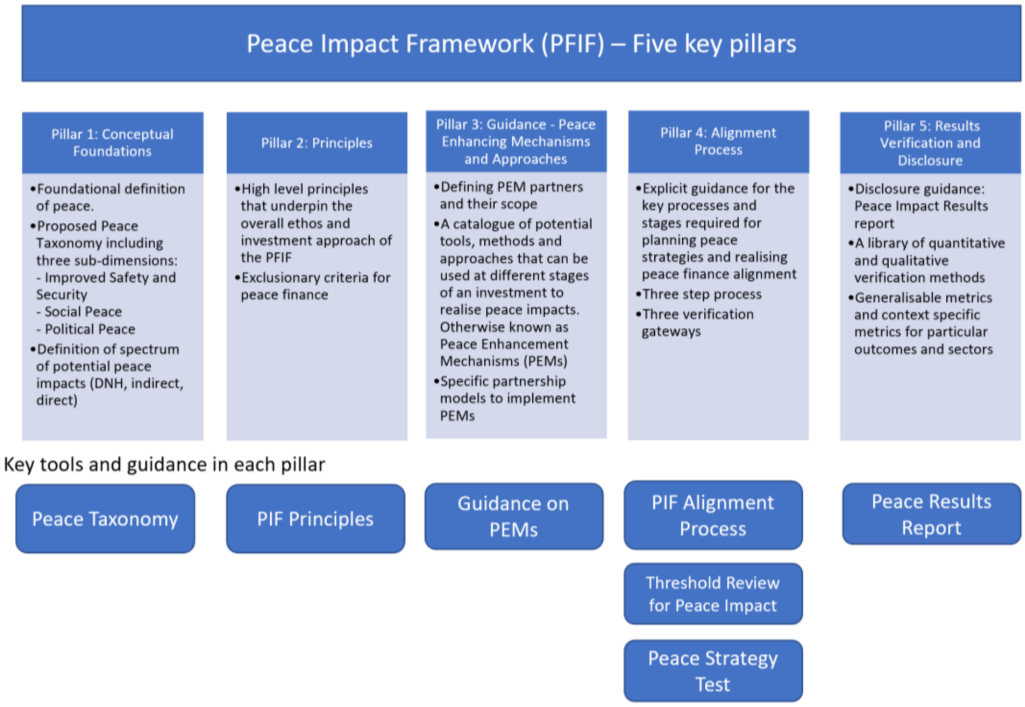
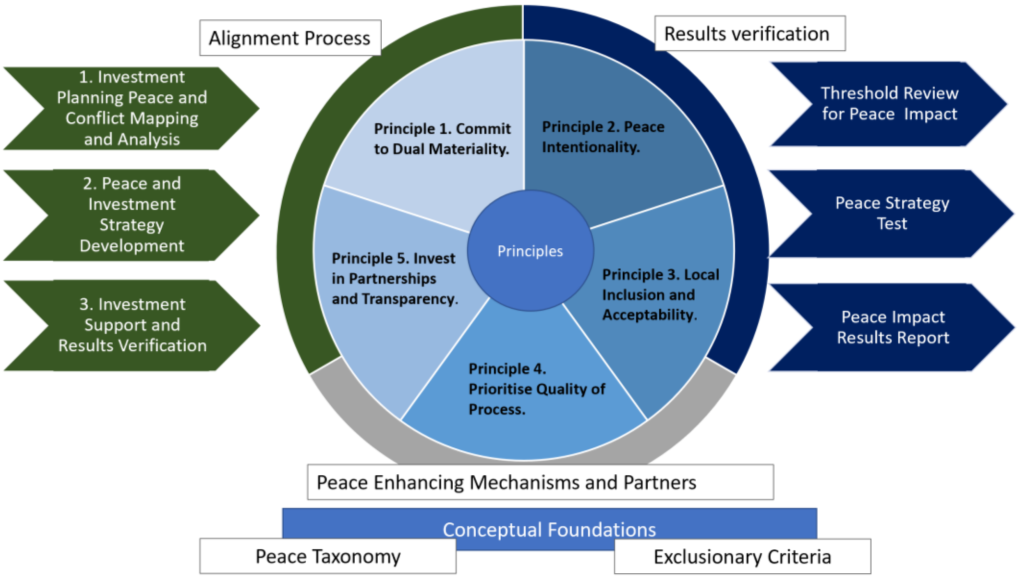


Figure 7: Summary visualisation of draft Peace Finance Impact Framework, v.1



Pillar 1: Peace Finance Impact Framework (PFIF) Conceptual Foundations

Understanding and Defining Peace and Peace Impacts

Individuals, organizations and sectors define and understanding peace in a number of ways. The most accepted definition distinguishes negative peace from positive peace.[7] 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.[8] Progress in positive peace would mean grievances are transformed and remedied in ways that are non-violent and perceived to be just, directly addressing issues of safety, social justice, equality, mutual trust and well-being. Positive peace cannot be separated from the objectives of other development frameworks, such as the SDGs, which attach weight to sustainability, inclusiveness, equality and especially gender equity. Positive peace is not singularly achieved by the elimination of conflict: it is better understood as a process through which conflicts and grievances are resolved in peaceful, just and fair ways.

Individuals, organizations and interventions can contribute to peace in many ways. One simple but commonly used distinction, often made by international humanitarian and development actors, separates out 'capital P' and 'lower-case p' peace initiatives[9] or conversely as 'Political Peace'

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[7] Galtung J, 'Violence, Peace and Peace Research', (1969) 6/3 Journal of Peace Research <https://www.jstor.org/stable/422690>.
[8] In general, definitions of positive peace are also diverse, and more contested.
[9] Inter-Agency Standing Committee (IASC), 'Exploring Peace within the Humanitarian-Development-Peace Nexus (HDPN). IASC Results Group 4 on Humanitarian-Development Collaboration' (Issue Paper, IASC 2020) <https://interagencystandingcommittee.org/system/files/2020-10/Issue%20paper%20-%20Exploring%20peace%20within%20the%20Humanitarian-Development-Peace%20Nexus%20%28HDPN%29.pdf>.

outcomes versus 'Social Peace' outcomes. 'Political Peace' interventions seek macro political and/or formal solutions to violent conflicts and may be supported by a formal legal architecture such as a peace agreement, legal change at the national level, or via a UN Security Council mandate.[10] They are inherently political, generally visible, high-profile in nature, and might include support to implement a peace agreement. 'Social Peace' actions work to transform relationships, increase the capacity to sustain peace in institutions and broader society, and support trust and social cohesion both between groups and between state and society. Both 'Political Peace' and 'Social Peace' actions and impacts are equally necessary; both are required if peace is to be durable and sustained. Yet, often, when invoking the word 'Peace' in fragile settings, many tend to think of 'Political Peace' solutions over and above those related to 'Social Peace', despite the fact they cannot be separated and that by-definition almost all political peace outcomes are founded on a bedrock of social peace.

When peace is understood in this way, it is clear that a variety of actors, including private sector actors, can contribute to realising peace outcomes. In addition, because peace is a multidimensional process, the product of many different economic, socio-cultural, political, environmental and psycho-social inputs, it requires many actors in a society to make cumulative and reinforcing contributions. Thus, it is appropriate to consider the realisation of peace impacts as the product of many contributions and not a binary outcome nor one formed by singular actors, actions on or one timeframe. As a consequence, all actors seeking to make intentional contributions ought to conceptualise their impacts within a wider system or context and remain focused about the extent of contribution to potential wider change.

Understanding Peace Impact Causality

Many impact and ESG frameworks consider 'impact' in socio-economic domains in a material or output sense. This means the relationship between public and private sector activity and peace is often understood and measured in terms of its impact on jobs provided, goods or services provided, levels of access to resources and other material results or outputs. Material gains are evidently fundamental building blocks for development and peace; but, as grant-making international development organizations have discovered from years of hard-learned experience, peace is not singularly determined by society's stock of material goods and services. *How* goods, services, resources and capital are deployed, developed and circulated, and *how* communities engage, use and have access to such goods and services and *who* benefits, *when* - matter enormously to the maintenance of the social contract and to cohesion between groups and between the population and authorities.

Development and investment in areas such as water, health, education or say, infrastructure can be measured in terms of material changes they provide for people, i.e. water or food provided, electricity delivered, vaccines administered, health services made available, schooling hours provided – and so on. These material impacts evidently can also have peace impacts – increasing available of resources or services can increase trust in the state, they can transform the availability of resources, mitigating resource competition, they can make social hierarchies more equal, they can positively transform patterns of social behaviour and change incentive structures for conflict and violence. But at the same

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

time, said material impacts can also do the opposite – they can reinforce conflict dynamics, be insensitive to cultural conditions, feed the unequal existing distribution of resources exacerbating grievances between groups and/or be delivered in low quality ways, undermining trust and trustworthiness in various institutions. In many cases, there is nothing intrinsically peace-promotional about specific investments in sectors and their outputs/outcomes – rather, their peace impact is determined qualitatively through their relational character - *how* those outputs are delivered, for *whom* and *where* as well as how communities *perceive* who the beneficiaries actually are. Thus, to assess peace impacts requires actors consider *how* communities and populations engage with each, *how* resources will be used, by *whom*, as well as *what* their interventions deliver, further identifying the actual as well as the perceived beneficiaries of said interventions. Also, the timing of benefits will also be important depending on the wider context and timing of key events (such as elections, for instance).

A particular development intervention or investment can be consequential for peace in at least two ways;

(1) the relevance of the outputs/outcomes of the investment to conflict dynamics within the context,

(2) the quality of process and how the investment addresses the transversal social and political determinants of peace within the context.

Whereas the relevance of the investment to the conflict dynamics is almost always entirely context dependent, the principles and approaches underpinning the quality of the process governing the planning, delivery and implementation of different investments should be more constant. While a particular investment thematic, say food storage may be hyper relevant to one context driven significantly by resource competition over food resources, in another context it may be a far less prevalent factor. Nonetheless, in either case the quality of the process governing how food storage is delivered remains critical.

Key definitions

- **Defining Social Peace:** Social Peace is the presence of social cohesion and trust between the state and people, between different groups and within institutions whereby people can 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 state and society.
- **Defining Political Peace:** 'Political Peace' interventions relate to political and/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 the national, regional or international level, such as a UN Security Council decision.
- **Defining Negative Peace:** Negative peace is commonly understood to be the absence of forms of direct physical violence or fear of physical violence. This PFIF taxonomy uses 'safety and security' as one of its key three peace dimensions which is analogous to negative peace.

Identifying a Peace Taxonomy

A Peace Taxonomy is required in order to help investors and businesses be specific about the types of changes they seek to make, provide definitional clarity as to what peace means (and what it does not mean). Based on the definitional categories provided above, the proposed PFIF peace taxonomy seeks to provide three simple categories for investors to align and identify peace impacts of their potential investments. This can be seen as similar to the EU Social Taxonomy objectives (decent work, adequate living standards and wellbeing for end-users, inclusive and sustainable communities and societies).

The PFIF presents three draft peace impact dimensions, these are:

- Peace Dimension 1: Support to Improved Safety and Security
- Peace Dimension 2: Support to Social Peace
- Peace Dimension 3: Support to Political Peace

Within these dimensions, or objectives, sub-objectives or sub-dimensions can be identified further specifying the objective the investor would seek to achieve.

Peace Dimension 1: Support to Improved Safety and Security

A positive impact on safety and security would principally seek to reduce the level of violence and conflict or fear of violence and conflict – otherwise defined as negative peace. Forms of direct physical violence can be categorised in a number of ways reflecting the different typologies of violence identified in other frameworks such as the SDG 16 targets.

Peace dimension 1, sub-objectives:

1.1. Contribution to mitigation of direct interpersonal violence in the community.
1.2. Contribution to mitigation of sexual and gender-based violence (SGBV) in the community or household.
1.3. Contribution to the mitigation of abuse and all forms of violence against children.
1.4. Contribution to mitigation of collective and intercommunal violence.
1.5. Contribution to cessation of Armed conflict, State-sponsored violence, or violence by non-State actors.
1.6. Contribution to lower fear of violence in above categories.

In many cases, these forms of violence are redressed in the immediate term in highly direct ways, through policing and law enforcement, peacekeeping, diplomacy, community enforcement and neighbourhood watch, and/or in ceasefire mediation, to cite a few examples. In the great majority of these cases, private sector investments will have an indirect contribution to the mitigation of these aforementioned negative peace categories. Although, in some instances, direct impacts could be sought and accounted for. For instance, in the categories of sexual and gender-based violence (SGBV) in the community or household – companies may adopt particular gender responsive/transformative employment policies and/or staff training that may direct mitigate this type of violence in both the workplace and household. They may also adopt particular approaches in and around the assets where their investments are located that directly seek to mitigate such forms of violence which would also be related to reputational risks. This has been prominently seen in the case of textile workers in Bangladesh where civil society campaigns have highlighted significant rates of gender-based violence in fast fashion factories which has exposed several major fashion brands to major reputational and operational risk.[11]

Some sectors, especially those engaged in highly labour intensive production will also be consequential for various forms of collective and intercommunal violence, especially if employment practises are not considerate of local community inequalities and marginalised populations. In such cases, risks in these areas will not be separable from minimum safeguards and do-no-harm requirements and companies and investors will likely already other due diligence or safeguard strategies to control risk related to this. However, in many cases, do no harm approaches or minimum safeguard approaches may be inadequate and require more intentional direct and indirect contribution strategies that can realise intentional impacts in other parts of the peace taxonomy – especially related to social peace.

Measurement of these categories can be through direct observation of violence or conflict events, experiential or survey data on exposure to violence and contribution substantiated through embedded measurement approaches built into the Peace and Investment Strategy and reported on via disclosure requirements further elaborated in the PFIF.

Peace Dimension 2: Support to Social Peace Objectives

Social Peace impacts are broader and more multi-systemic than the Safety and Security dimension. Because of their potential breath, relevance and relationship to operational, reputational and other forms of risk, they are perhaps the most fundamental peace dimension for investors to make both direct and indirect contributions. While social peace can be said to be composed and determined by many more factors than is shown here, this taxonomy presents what are thought to be minimum criteria for investors planning peace aligned investment. Combined with dimension one, these seek to cover the key targets and indicators of SDG16.

Peace Dimension 2, sub-objectives:

- **2.1. Contribution to Vertical Social Cohesion (State and Society Trust)**
- **2.2. Contribution to Horizontal Social Cohesion (Trust between groups)**
- **2.3. Contribution to equitable access of resources and basic services, income and goods (education, health, housing, work, etc.)**
- **2.4. Contribution to gender and intergenerational equity**
- **2.5. Contribution to better governance of public services and more trustworthy delivery of basic services.**
- **2.6. Contribution to redress of patterns of economic exclusion for marginalised or excluded communities or groups**

[11] J Chowdhury, '#MeToo Bangladesh: the textile workers uniting against harassment' (The Guardian, 10 September 2019) <https://www.theguardian.com/global-development/2019/sep/10/metoo-bangladesh-the-textile-workers-uniting-against-harassment>.

2.7. Contribution to the free flow of information, greater transparency, accountability and reduced corruption in public and private institutions.

Each of these dimensions have a qualitative aspect that require further definition and elaboration, as seen below:

2.1. Contribution to Vertical Social Cohesion (State and Society Trust): Vertical social cohesion can be understood as the extent of trust between state and society and the relationship between the state or formal institutions and the people it governs. It is a qualitative state where people trust decisions made by authorities and the state even if they are not direct beneficiaries of those decisions. Vertical social cohesion is a critical indicator of the health of the social contract in a society and is often a key determinant of peace. Private sector activity in a number of domains can directly and indirectly improve vertical social cohesion by improving equality and quality of access to services chiefly provided by the state, such as health, education or law enforcement.

2.2. Contribution to Horizontal Social Cohesion (Trust between groups): Horizontal social cohesion refers to the levels of trust, inclusion and peaceful co-existence between different groups in society. It is present when different group identities in society can cooperate together, recognize each other and be protected. Groups may be intersectional in nature, representing different ethnicities, linguistic groups, reflect geographic difference along urban/rural lines and/or be along class, gender, age and disability. Private sector activity always has impacts on horizontal social cohesion and intentional peace enhancing efforts in various domains can have positive direct and indirect impacts.

2.3. Contribution to equitable access of resources and basic services, income and goods (education, health, housing, work, etc.): In many developing and fragile settings, conflict and peace dynamics are shaped by the quality, degree and equality of access to resources and basic services. Intentional private sector efforts to contribute to more equal distribution of resources can directly contribute to peace impacts. Making direct contributions to this sub dimension of Social Peace is ambitious and can significantly contribute to building local trust of a particular project or investment. Indirect contributions in types of basic services, goods and resources may be achieved as downstream consequences of one particular type of catalytic service or good. Most basic services have this characteristic and the articulation of indirect impacts can help an investor further account for the extent of their peace impact.

2.4. Contribution to gender and intergenerational equity. While gender and age are key determinants of horizontal social cohesion, they are particularly critical intersections in society that need to be further disaggregated. How private investments impact gender and intergenerational trust, equality and access can be highly consequential for peace. In many of the world's fragile and developing settings, young people under the age of 35 constitute a great majority of the population and yet are often excluded from key development, political and social opportunities. Similarly, gender divides in such contexts are key to long term peace. It is important private investors identify at a minimum DNH approaches for gender and age. Several existing ESG frameworks identify gender criteria for companies to adopt in their internal operations but in alignment with the PFIF dual materiality principle, it is important investors also identify the external impacts of their operations on gender and age dynamics.

2.5. **Contribution to better governance of public services and more trustworthy delivery of basic services.** The quality of governance of public services is closely tied to the reliability, quality and trustworthiness of their delivery. Governance of public services is defined by the extent of their accountability to the populations they serve as well as their responsiveness to community needs. PFIF aligned finance and investment especially publicly financed investment has an important direct contribution to make to this sub-dimension. It can be directly contributed to via more participatory community engagement, more transparent reporting of budgeting, procurement and management processes as well as more effective and efficient outcomes and delivery and better user experience.

2.6. **Contribution to redress of patterns of economic exclusion for marginalised or excluded communities or groups.** In all societies, including developing and fragile settings, grievances exist which depending on the social peace of that society may or may not be violent in nature. Often, grievances exist or are exacerbated when access to economic, political or cultural institutions and opportunities is denied to certain marginalised or excluded groups. In all cases it is critical investment does not inadvertently exacerbate these grievances in domains where it can have direct or indirect consequences. This is especially the case in economic domains, whether it be in terms of access to employment, livelihoods, technology, services, goods or resources. In many cases, private actors can make important direct contributions to patterns of grievance by redressing one or some aspect of economic exclusion for particular marginalised groups or communities. This can especially be the case in cases of urban/rural inequity where private development in rural areas can be a common driver of state-society conflict and feature of conflict dynamics in many emerging markets and fragile settings.

2.7. **Contribution to the free flow of information, greater transparency, accountability and reduced corruption in public and private institutions.** The free flow of information in society is linked to the transparency, accountability and levels of corruption in public and private institutions and is a critical determinant of peace. Private investment in particular sectors related to telecommunications, technology and fintech can make important direct contributions to this sub-dimension of social peace, but nonetheless require intentional design and peace enhancing approaches to do so. Investments in both the public and private domain may also have indirect impacts by modelling best practise in governance, openness and participatory engagement that can showcase the need for change and create incentives and norms that expand best practise elsewhere. Corruption and bribery is a core feature of many existing ESG frameworks and DNH guidance in this area is critical to ensuring investments do no unintended harm but also mitigate reputational and operational risk.

Peace Dimension 3: Support to Political Peace Objectives

While all peace outcomes are in a sense, ‘political’, the state of relationships between social elites, between states and non-state political groups, between states themselves and the trusted functioning of formal and informal dispute resolution mechanisms are especially visible and consequential determinants of peace. The PFIF taxonomy defines such highly visible, consequential and prominent issues as in their own category of Political Peace. Political Peace interventions tend to relate to mediation processes, high level diplomatic negotiations seeking macro political and/or formal solutions to violent conflicts. Often such processes are supported by a formal legal architecture such as a peace agreement, legal change at the national level, or via a UN Security Council mandate.[12] Political peace can also be determined by formal legal instruments, including outcomes in the formal protection of human rights, whether economic, political, civil, cultural or social.

Peace processes in these areas are inherently political, with a complex combination of both discreet and public channels, high-profile in nature, and often required or present in situations of open conflict between a state and non-state parties, between states and or in highly fragile settings characterised by high levels of intercommunal or intergroup violence. Perhaps paradoxically, because they may have short-term orientation focused on ceasefire or cessation of hostilities, they are not always in alignment with the social peace requirements of a given peace and conflict situation. This short-term focus may however provide more immediate signs of progress than can be found in the longer-term multi-generational efforts related aspects of 'social peace', such as truth and reconciliation processes, for instance.

Based on this definition, many investors, especially private ones (as opposed to public DFI or Government investors) may not see an appropriate role for themselves in impacting either directly or indirectly Political Peace. While it is likely that few private investors will seek to identify direct or indirect impacts in the relevant sub-dimensions of political peace, it is critical investments in conflict affected settings where Political Peace is a salient issue do not exacerbate conflict dynamics and make hostilities worse.

Peace Dimension 3, sub-objectives:

3.1. Contribution to improved diplomatic relations between State and non-State conflict actors.
3.2. Contribution to development of infrastructure or provision of goods and services that support a formal peace process either defined in a peace agreement and/or a recognised part of a peace process.
3.3. Contribution to improvement of dispute resolution mechanisms, whether formal or informal, and improved justice and human rights mechanisms.

Each of these dimensions have a qualitative aspect that requires further definition and elaboration, as seen below:

3.1. Contribution to improved diplomatic relations between States, and non-State conflict actors.
Confidence building measures, diplomatic or unofficial *rapprochements* between parties, and unilateral gestures in support of peace can demonstrate significant improvements in the relationships

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

between both state and non-state actors in a conflict-affected environment. A PFIF-aligned investment can help provide the platform for political dialogue or high-level talks that lead to these kinds of outcomes.

For example, where political talks have stalled, or the resolution of political or territorial issues have become intractable, a fresh conversation between conflict actor representatives regarding the commercial, industrial, or trade related aspects of a prospective investment may create an acceptable reason for government officials and non-state representatives to speak, without appearing to compromise on previous refusals to talk about more contentious issues.

In addition to these 'instrumental' contributions towards political peace processes, the PFIF proposed here also anticipates that a peace-supporting enterprise may create economic incentives in favour of improved relations between both state and non-state neighbours. The presence or prospect of a PFIF-aligned investment may raise the opportunity-cost of conflict for decision-makers, while also creating new positive incentives for all players, which would not exist in the absence of the investment and its economic impacts. In order to access these benefits, and avoid these costs, the conflict actors may be willing to engage in dialogue, and to improve the relations between their respective political wings, even if the military forces remain on an active conflict footing.

In such a stylised example, any resulting improved diplomatic relations between State and non-State actors may significantly reduce the conflict-related risk of the peace-supporting investment, as the conflict parties begin to develop formal and informal channels of communication that can be readily used to de-escalate conflict risk, introduce de-confliction mechanisms, and to manage or avoid unintended escalations.

3.2. Contribution to development of infrastructure or provision of goods and services that support a formal peace process either defined in a peace agreement and/or a recognised part of a peace process.

The resumption of trade across a line of conflict is a major step towards the reduction of conflict risk, often accompanied by the physical and technological infrastructure required for the improvement and continuity of trade and commerce. Many peace agreements feature economic commitments that parties may sign on to and private actors may have a role in supporting such commitments. An investment that is aligned with the PFIF may be deliberately designed to construct, repair, or improve upon essential infrastructure to enable greater connectivity between markets and community separated by conflict. In a very concrete sense, this might include infrastructure such as ports, bridges, or rail lines, but it may also include less tangible improvements regarding communication, rationalisation of border controls, or efforts to translate illicit economy activity such as smuggling and illegal fishing/forestry, into the regulated and acceptable market.

These developments in the provision of goods and services for the provision of essential infrastructure may be explicitly linked to commitments or agreements in a peace dialogue process, or they can be implemented through close corporation between a PEM (peace-enhancing mechanism) partner who is active in the conflict environment, and an investor seeking to support prospects for peace, to help rapidly demonstrate the benefits of peace to the local populations and their political leaders.

These improvements in the commercial and trade-related environment of a conflict setting represent the physical and tangible outworking of improvements in the relationships between the conflict parties, and help to cement the reduction in conflict risk that directly benefits the peace-supporting investment itself. It is envisaged DFI guaranteed or backed investments may more commonly fall into this category, whereby DFIs have both a government backed and internationally recognised mandate to support investments that reinforce a particular peace process. These peace-supporting impacts may also derive from investments carried out by social impact venture funds or visionary philanthropic investors.

An example of an impact investment aligned with a Political Peace outcome – The Peace Dividend Initiative (PDI)

The Swiss-based Peace Dividend Initiative (PDI) established in 2021 provides an example of tangible peace-supporting impacts resulting from investments carried out via a peace impact venture fund model. PDI was incubated by the Centre for Humanitarian Dialogue and then established as an independent foundation in response to demand from the peacemaking and peacebuilding sectors for an impartial mechanism properly equipped to design and launch business ventures that would support peace. While the details of PDI projects remain confidential, information provided during the course of this report identified a number of projects in which PDI investment created a direct peace impact, including objectives related to both social peace (e.g. reconciliation, inter-communal cooperation, sustainable and peaceful livelihoods, improved participation of vulnerable groups) and political peace (e.g. creating a platform for future political dialogue, protecting gains in existing political peace processes) . In one example, local entrepreneurs envisaged a peace-supporting business that would harness locally productive assets to create livelihoods for former combatants, while also bringing together community members formerly separated by violence. An iterative and agile design process resulted in a sustainable and locally owned business venture, connected to global markets through trusted intermediaries, demonstrating the benefits of peace to local populations, while also providing a mechanism for local collaboration and reconciliation.

3.3 Contribution to improvement of dispute resolution mechanisms, whether formal or informal and improved perception of justice and human rights issues.

Progress in the improvement of diplomatic relationships and related steps to create improved infrastructure for sustainable value chains across conflict lines are also likely to be accompanied by increased appeals for justice, accountability, and locally adapted methods of dealing with the past and truth-seeking in order to secure a more peaceful future. As communities emerge from violence, the need to address questions of justice, accountability and reconciliation is starkly apparent. A peace-supporting investment aligned with this PFIF may contribute to the development of improved dispute resolution mechanisms, both formal and informal and, leading to improved perceptions and marks local communities in the leaders regarding human rights and justice issues.

A peace-supporting investment is well-placed to identify local opportunities for addressing past and ongoing injustices, and methods to improve the treatment of human rights issues connected with the investment, thanks to close collaboration with the accompanying PEM peace enhancing mechanism partners. As the PFIF-aligned investment demonstrates best practice in dealing with human rights and justice issues, local populations will derive locally adapted models, practices, and expectations for resolving disputes, and for strengthening political discourse on justice issues.

By helping to improve locally grounded methods of dispute resolution and enhancing the protection of human rights, a PFIF-aligned investment significantly reduces the reputational and legal risk associated with neglected human rights and justice issues. At the level of do-no-harm, this sub-objective could also play an important dual role for helping investors conduct aspects of human rights due diligence which will potentially become regulation as per the EU corporate social responsibility directive and connected human rights due diligence legislation.

Table 1: Peace Taxonomy, dimensions and sub-objectives

Peace Dimension 1: Support to Improved Safety and Security		**Peace Dimension 2: Support to Social Peace**		**Peace Dimension 3: Support to Political Peace**	
1.1	Contribution to mitigation of direct interpersonal violence in the community.	2.1	Contribution to Vertical Social Cohesion (State and Society Trust)	3.1	Contribution to improved diplomatic relations between States, and non-State actors.
1.2	Contribution to mitigation of sexual and gender-based violence (SGBV) in the community or household.	2.2	Contribution to Horizontal Social Cohesion (Trust between groups)	3.2	Contribution to development of infrastructure or provision of goods and services that support a formal peace process either defined in a peace agreement and/or a recognised part of a peace process.
1.3	Contribution to the mitigation of abuse and all forms of violence against children.	2.3	Contribution to equitable access of resources and basic services, income and goods (education, health, housing, work, etc.)	3.3	Contribution to improvement of dispute resolution mechanisms, whether formal or informal and improved perception of justice and human rights issues.
1.4	Contribution to mitigation of collective and intercommunal violence.	2.4	Contribution to gender and intergenerational equity		
1.5	Contribution to cessation of Armed conflict, State-sponsored violence, or violence by non-State actors.	2.5	Contribution to better governance of public services and more trustworthy delivery of basic services.		
1.6	Contribution to lower fear of violence in above categories.	2.6	Contribution to redress of patterns of economic exclusion for marginalised or excluded communities or groups		
		2.7	Contribution to the free flow of information, greater transparency, accountability and reduced corruption in public and private institutions.		

Transversal Peace Drivers

The proposed PFIF taxonomy identifies outcome and impact level peace impacts which can be distinguished from the concept of more transversal 'peace drivers' which are commonly identified in the peace and business literature. The Lionshead Peace Finance Impact Framework identifies five broad peace drivers that could be identified at a portfolio level and below as:

- **Inclusion** – investments can help mitigate horizontal inequalities that can fuel inter-group grievances.
- **Access** – investments can alleviate competition over unaffordable and scarce products, services, and resources, such as fertile land and water.
- **Mitigating concentration** – investments can help mitigate vertical inequalities and erode the centralisation of economic and even political power, which can be an important source of grievance even absent horizontal inequalities.
- **Accountability** – investments can enhance businesses' accountability to their stakeholders, and activist businesses can enhance governments' accountability to their citizens, particularly when acting in coalition.
- **Incentivising leaders** – investments can enhance the economic return to peace for leaders who benefit from embedded conflict, even if at the margin.

Defining Extent of Contribution

In order to further define the extent of ambition and intention within each of the key peace dimensions, the proposed Peace Taxonomy identifies three types of substantial contribution. These are shown in table 2 following a spectrum of contribution from a 'Passive' contribution that satisfies the 'Do No Harm' threshold test, to Indirect Positive Contributions and Direct Positive Contributions.

Table 2: Peace Taxonomy Contribution Spectrum

Type of Contribution	**Definition**
Passive Contribution ('Do No Harm')	An approach that does not have any short, medium or long term unintended negative consequences and does not exacerbate conflict dynamics.
Indirect Positive Contribution	Indirect positive contributions occur through process driven approaches and outputs where those impacts are secondary to the direct outputs of the business, but nonetheless contribute to mitigating conflict drivers or improving peace drivers.
Direct Positive Contribution	Direct positive contributions occur when the business outputs of the proposed investment directly contribute to mitigating an identified key conflict driver or improve the capacity of a peace driver.

Passive Contributions ('Do No Harm')

Do No Harm (DNH) is both a principle and framework that has been used extensively in humanitarian, development and peacebuilding aid work for decades to help ensure external actors engaging in humanitarian, developing and or fragile and conflict affected places consider and mitigate the potential negative effects of their aid. While the phrase is self-explanatory, commonly used DNH frameworks like that developed by CDA[13] also provide a detailed framework[14] for helping actors operate in ways that minimises the potential for unintended consequences. Such frameworks go beyond typical pro-active risk mitigation efforts and require actors to have a more holistic understanding of the context in order to minimise unintended consequences of a given project or investments.

The proposed EU Social Taxonomy Do No Serious Harm (DNSM) criteria is a further signal of the shift toward more expansive understanding of DNH and as something more than a minimum safeguard. There, the DHSH criteria gives weight to European Pillar of Social Rights (EPSR) which is a multidimensional framework that implies more transformative social improvement, further recognising the need for progress in one domain to not undermine another.

In relation to peace, DNH can be defined as any approach that does not have any short, medium or long term unintended consequences and does not exacerbate conflict dynamics. Any understanding of DNH can only be situated once there is a rigorous and systemic understanding of the context and the peace and conflict dynamics.

The purpose of DNH contribution category in the proposed PFIF would be for the investor or adviser to intentionally identify key conflict and peace dynamics that are present in the proposed investment context and ensure their proposed peace strategy has an approach to ensure DNH is achieved in the given sub-dimension. This recognises that a proposed PFIF aligned project may not be able to positively impact all dimensions of a context's conflict and peace dynamics but ensure key potential risks are acknowledged and monitored by the project. In this sense, the DNH contribution should also function as a more sophisticated risk monitoring and assessment tool, where the investor elaborates potential risks, even those that may appear quite tangential to the investment itself.

While it is a misnomer to describe the presence of any project or investment as 'neutral', the DNH contribution would in theory help investors or advisers articulate key peace and conflict factors they understand they may not be able to positively impact either directly or indirectly, but clarify how they seek to do no unintended harm. This would be important for ongoing disclosure requirements and incentivise a more recurrent and adaptive risk monitoring approach which will bring both intrinsic and extrinsic benefits to a given aligned investment.

How DNH relates to established minimum safeguards requires further consideration, but clearly investments that violate fundamental human rights, workers rights, governance principles around

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

corruption or bribery or International Humanitarian Law (IHL) could not pass proposed Peace Impact tests and/or peace alignment processes established in disclosure requirements.

Direct and Indirect Positive Contributions

Once an investor or adviser part of a PFIF alignment process establishes a comprehensive understanding of the peace and conflict dynamics they will be able to identify the extent of their positive contribution in the three dimensions of Safety and Security, Social Peace and Political Peace.

All investments, projects or developments planned by investors will provide new goods, services or capital stock that will confer some kind of direct benefit in terms of the stock of goods, the availability of services, the increase of productive capacity and so on and so forth. These investments will usually have a primary business objective. Dependent on the context and relevant peace and conflict analysis, these primary business objectives will have direct and indirect impacts on the peace and conflict dynamics.

Business outputs of an investment will improve the accessibility of products and services for basic human needs such as:

- Food production and storage
- Housing and shelter
- Water
- Healthcare
- Education

Furthermore, they may improve accessibility to basic economic infrastructure including and not limited to:

- Clean electricity
- Transportation infrastructure
- Telecommunication and internet infrastructure
- Financial technology
- Wastewater and sanitation management

Dependant on the context, such business outputs will be directly or indirectly related to peace and conflict dynamics. Only in some cases is the nature of business output or sector of investment intrinsically related to direct forms of peace contribution – most of the time, a combination of the context alongside the investor's peace and investment strategy will determine whether the business or investment will make a direct or indirect contribution.

This can be better understood by way of stylistic example:

- **In a context (Context A) characterized by resource competition and conflict over land and food, the peace promotional provision of food storage facilities that reduces food loss and increases food availability, inclusion and equality may directly reduce related resource**

competition. This business output can be directly attributed to a very specific peace outcomes in Safety and Security and Social Peace through reducing resource-based violence and increasing horizontal social cohesion and trust between different groups competing over resources.

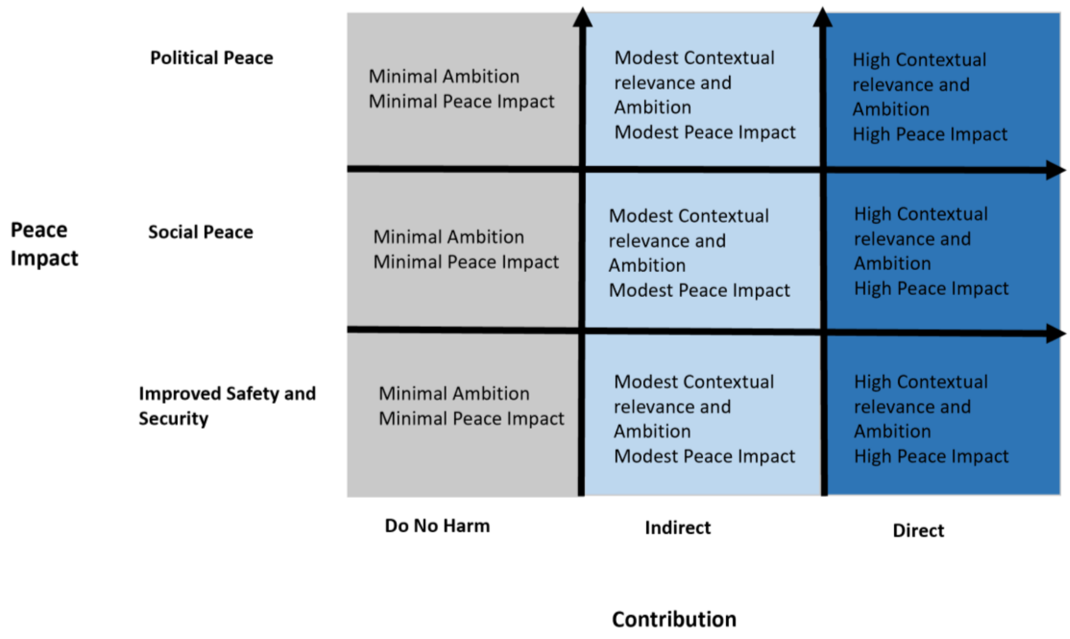
- **In another context (Context B) where resource competition is not a prevalent conflict driver, the same type of business output related to food storage may not make any direct contribution to Safety and Security or Social Peace.** Conversely it may make direct and indirect contributions to other Social Peace sub-dimensions through engaging communities in more participatory ways in the planning phase of the investment in such a way that contributes to increased greater community cooperation and intra-group trust between groups that were suspicious of each other.

Thus, direct positive contributions occur when the business outputs of the proposed investment ***directly contribute*** to mitigating a key conflict driver or improve the capacity of a peace driver.

Indirect positive contributions occur through process driven approaches and outputs where those impacts are secondary to the direct outputs of the business, but nonetheless contribute to mitigating conflict drivers or improving peace drivers. Two factors are thus key in shaping whether something is direct and/or indirect: **(1) Context, and; (2) Ambition**. Context relates to the peace and conflict dynamics and how the business outputs relate to it and ambition relates to the degree of intentionality the investor and partners may have regarding dual materiality and especially the impact for communities.

In many cases, it is anticipated that many peace aligned projects and investments will predominantly have indirect contributions to peace which are realised in more process driven approaches, at a lower level of ambition and risk vis-à-vis peace. This relationship between the dimensionality of peace impact and the extent of contribution further provides a framework to consider the degree of ambition and extent of peace impact as well as a minimum level of ambition for PFIF alignment. It can be seen in figure 8. The three peace dimensions and three contribution levels provide a nine part matrix, whereby an investment would need to articulate in its peace impact taxonomy at least some modest level of ambition vis-à-vis peace impact in order to pass a proposed peace impact test (further elaborated later in this report).

Figure 8: Peace Impact versus contribution and degree of ambition and peace impact



Insights from the emerging practice of peace supporting investment[15] demonstrate how an investment may be designed and implemented to have a direct impact on peace and violence. This kind of direct impact may occur when the investment itself is designed as an instrument in support of existing or future peacebuilding or peacemaking efforts. For example, peace mediators may find that it is impossible to begin dialogue with conflict actors on politically sensitive issues such as deconfliction mechanisms, withdrawal of forces, temporary ceasefires, or even humanitarian access to conflict areas. However, even in the most politically fraught situations, discussions between local entrepreneurs about value-chains and feasible business models are less likely to be seen as contested.

In situations where it is impossible to convene leaders across conflict lines, peacemaking actors are eager to create additional entry points and platforms for dialogue around economic or business themes. Having established this kind of access on a neutral and relatively apolitical investment subject, peacemakers can then begin exploring prospects for future political dialogue, on topics which are amenable to resolution, and which may then serve as a confidence building measure for future talks on more difficult issues.[16] This scenario would result in a direct contribution towards a political peace impact.

In relation to social peace impact, investors can make a direct impact by targeting investment towards projects that trusted partners indicate are likely to help communities envisage a collaborative project and cooperation for their mutual benefit in the future. For example, communities that have been driven apart by violence may find a pathway towards reconciliation through an investment project that seeks to realise the production of a culturally significant and shared local product. In other emerging peace investment practice, peace-impact investing has seen the creation of local enterprises

[15] For example, prototype and pilot projects completed by PDI in 2020-2022. See Peace Dividend Foundation, 'Our Origins (2022) <https://www.peacedividends.org/about/our-origins/>.
[16] This example drawn from confidential real-world case provided by PDI. Peace Dividend Foundation, 'Our Strategy' (2022) <https://www.peacedividends.org/our-strategy/> accessed 16 September 2022.

bringing together participants from across the conflict divide to produce goods that affirm a shared local identity and shared peaceful future. In some cases, peace investment actors have designed and launched sustainable enterprises which provide meaningful livelihoods to demobilised combatants, thereby harnessing a strong economic incentive in favour of peace, and creating opportunities for collaboration and cooperation between former combatants and the communities which they may have at one stage threatened. Other peace investment projects have been deliberately designed to address social divides between urban and rural demographics, which replicated ethnic divisions fuelling longstanding conflict in the country.[17] These kinds of projects result in a direct contribution towards a social peace impact.

In other cases, a peace-investment strategy may seek to simply ensure that an investment in a conflict affected area provides a profitable rate of return, without exacerbating existing conflict dynamics. This alone is a significant achievement, and can be seen in cases where an investor uses locally grounded conflict analyses and insights to avoid creating a perception that some ethnic or tribal groups are profiting from an investment, to the exclusion of neighbouring groups. In this case, the investor would do-no-harm to the conflict situation but indirectly and directly impact other impact and development metrics.

Sector selection and relevance

Mimicking the EU Social Taxonomy, a proposed Peace Financing Standard could align a sector specific methodology and use the NACE[18] industrial classification system for a future sector specific framework. Like the EU Environmental and Social Taxonomy, priority sectors can be identified from the 21 sector specific codes. From these sectors it is apparent which ones have either existing peace-oriented investments and/or are highly consequential for investment in fragile and conflict affected settings, including:

- Agriculture, Forestry and Fishing
- Mining and Quarrying
- Electricity, Gas, Steam and Air Conditioning Supply
- Water Supply; Sewerage, Waste Management and Remediation Activities
- Transportation and Storage
- Construction
- Information and Communication
- Financial and Insurance Activities
- Real Estate Activities
- Public Administration and Defence
- Education

[17] These examples are also drawn from confidential real-world peace impact investment projects executed by PDI. Peace Dividend Foundation, 'Our Strategy' (2022) <https://www.peacedividends.org/our-strategy/> accessed 16 September 2022.
[18] European Commission, 'List of NACE codes' (2010) <https://ec.europa.eu/competition/mergers/cases/index/nace_all.html>.

Clarifying relevant geographies for Peace Impact Projects and Investments

It should be clear to prospective investors, pioneer investment managers and companies interested to peace impact alignment that a PFIF aligned project could in practise occur in any geographic setting in the world. Peace impacts are transversal across all societies and all eligible (non-excluded industries and sectors according to to-be-determined exclusionary criteria) projects and sectors of business investment could in theory realise peace impacts. While the strategic intent behind the PFIF is especially on catalysing investment in emerging markets and fragile, conflict affected and developing states, there is no reason why PFIF aligned investment and additionality benefits could be identified in middle income and developed settings where there are salient peace issues.

While the nature of peace issues in such developed and relatively stable, non-fragile settings are less likely to be related to 'Political Peace', there are many examples, cases and situations where 'Social Peace' issues are highly related to the risk profile of a potential investment. Especially in forms of investment that are land intensive, disruptive of key resources such as food, water, market concentration of market competition, peace issues can arise in all contexts and settings and undermine the investment. Here, the social peace components of the framework can be seen as supplementary and/or complementary criteria to other social impact frameworks.

Exclusionary criteria for Peace Finance

Peace-supporting investments aligned with the proposed PFIF will predominately take place in fragile and conflict-affected environments (although in concept not exclusively). These contexts therefore place additional emphasis on those exclusionary criteria related to compliance with international humanitarian law, violations of human rights, the production of weapons, and the participation of children in conflict.

Proposed PFIF exclusionary criteria provide a safeguard for investors and communities by ensuring that investments claiming to be aligned with this framework are not in fact engaging in activities which would run counter to its primary peace objectives. Rather than attempting to modify or adapt unwanted activities, these exclusionary criteria allow investors and partners to completely eliminate certain categories of activity from peace-supporting investments that are deemed socially harmful consistent with other normative frameworks.

The ESG and SDG frameworks summarised in a separate document titled "The Rationale for the Peace Finance Impact Framework" provide a number of analogous exclusionary principles on which this framework draws. Some of these are sector-specific, such as the ban on certain mining practices considered permanently harmful to the environment. Some are subject-specific, such as those in the EU taxonomy regarding sustainable finance, which exclude certain so-called 'green' activities which may nevertheless have a significant deleterious environmental impact, this is where DNSH is important to define: '*... Substantial Contribution to an environmental objective should not come at the cost of significantly harming another one'.* [19]

[19] See summary in International Capital Market Association (ICMA), 'Overview and Recommendations for Sustainable Finance Taxonomies' (ICMA 2021) https://www.icmagroup.org/assets/documents/Sustainable-finance/ICMA-Overview-and-Recommendations-for-Sustainable-Finance-Taxonomies-May-2021-180521.pdf>, p. 7.

Other exclusionary criteria in analogous investment frameworks cross thematic boundaries between environmental, social, governance and issue-specific concerns, by examining the 'character' of the entity claiming a sustainable investment activity. These include, for example, the minimum safeguards documented in the EU Platform on Sustainable Finance 'Final report on Social Taxonomy' (2021): '*in order to prevent a situation whereby certain activities are categorised as sustainable even though the entity which carries out these activities violates: (i) fundamental human rights; (ii) workers' rights; or (iii) principles of good governance like anti-bribery measurements or non-aggressive tax planning.*'[20]

Drawing on these analogous frameworks, an indicative PFIF list of exclusionary criteria by sector and by character would be composed at a minimum of the following:

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 of labour standards, 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, other).

Exclusionary investments by sector will by nature be relevant a-priori whereas exclusionary criteria by character will often, although not always, be determined after the investment is made. Clearly, sectoral exclusionary criteria will be more specific once the PFIF is further developed, drawing upon existing sectoral frameworks where particular production and/or operational practises are deemed particularly harmful socially and or environmentally – such as driftnet fishing and mountain top mining (MTM) for instance.

[20] Platform on Sustainable Finance, 'Final Report on Social Taxonomy' (European Commission 2022) <https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf>, p.45; OECD, 'OECD Guidelines for Multinational Enterprises' (OECD Publishing 2011) <https://www.oecd.org/daf/inv/mne/48004323.pdf>; and Office of the High Commissioner of Human Rights, 'Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy "Framework' (United Nations 2011) <https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf>.

Investments aligned with this framework must therefore take particular care during preparatory due diligence phases to bear in mind these considerations. Sometimes investors will need to obtain expert advice and assessments in these domains, drawing on external capabilities for assessing the human rights and humanitarian law impact of activities in conflict areas. Assessments related to links with criminal activities, possible effects on corrupt practices along the value chain, sectarian attributes, or conditions of employment amounting to slavery could be ascertained from local partners identified as part of the alignment process.

Adapting to unforeseen changes in investment alignment due to exclusionary criteria

On some occasions, even well-established relationships between investments and exclusionary criteria may change as a result of radical shift in the operating environment of an investment. An example of this can be seen in the rapidly shifting attitudes towards coal-fired power production in Western Europe, following the disruption of gas supply from Russia to Western Europe during the Russian invasion of Ukraine in 2022. Prior to this unforeseen disruption in energy supply, Western European states were confident that it would no longer be necessary to rely on coal for the provision of essential power supply to critical infrastructure, for domestic heating, or for essential industries such as steel production. In practice, this turned out not to be the case following the radical disruption in gas-powered energy supply from Russia.

This radical change required a rethink of the proposed EU Social Impact taxonomy published in February 2022, which prior to the Russian invasion of Ukraine had ambitiously proposed to import all the requirements of analogous environmental sustainability frameworks into the social impact taxonomy under discussion: "…activities which are described as always harmful in one taxonomy (such as coal-fired power generation in the environmental taxonomy) will also be excluded from the other [i.e. social] taxonomy." (see EU Platform on Sustainable Finance, 'Final Report on Social Taxonomy', February 2022, at p.71).

Considering other exclusionary criteria potentially related to peace

Exclusionary criteria that are part of other existing principles guiding responsible investments tend to exclude financing projects that involve products and activities that are deemed to be illegal and/or socially harmful. These includes the production or trade of weapons, alcohol, tobacco, radio-active materials, asbestos, or those investments involving gambling or drift net fishing. Financial intermediaries commonly apply exclusions in connection with forced or child labour, commercial logging in tropical forests as well as those activities that impinge on the lands owned or claimed by Indigenous peoples without their full documented consent.

In addition, the European DFI Principles for Responsible Financing of Sustainable Development also consider the destruction of High Conservation Value (HCV) areas, defined as natural habitats, as part of its exclusion criteria.[21] HCVs criteria cover the importance of natural resources to local communities and consider connections between the ecological landscape and the wider social context. A specific process for identification and protection of HCV areas demand specific data, expertise and consultation requirements. For instance, large scale operations require more data and greater

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

expertise and stronger justification of decisions. [22] Such criteria may be beneficial in the context of conflict sensitive investments. This underlines how exclusionary criteria for peace should consider the importance of natural resources to local communities and demand more specific data, relevant expertise and consultations to understand and identify areas where strong cultural and political-economic connections between the ecological landscape and the social context exist.

[22] C Stewart; P George, T Rayden and R Nussbaum, 'Good practice guidelines for High Conservation Assessments: A practical guide for practitioners and auditors' (ProForest 2008) <https://www.proforest.net/fileadmin/uploads/proforest/Documents/Publications/hcv-20good-20practice_final.pdf>.

Pillar 2: Proposed Peace Finance Impact Framework (PFIF) Principles

There is significant existing guidance to inform principle-based frameworks that could apply and guide peace finance. Many of these have been cited in the mapping component of this research. Key principle-based investment frameworks that relate to investment in fragile and emerging market economies include, and are not limited to;

- The Principles for Responsible Investing initiative (PRI)
- The Equator Principles
- Kampala Principles
- Check List for Impact Assessment on the Poor by the Tri Hita Karana (THK) Impact Working Group
- The OECD DAC Blended Finance Principles and the Detailed Guidance Notes
- EDFI Principles for Responsible Financing of Sustainable Development
- The AAAQ (Availability, Accessibility, Acceptability and Quality) Method

As opposed to more standard-based or performance-based frameworks, these tend to articulate more general normative guidance for investors to follow, providing principles that underpin the ethos, approach and key features of proposed investment approaches in developing places. Some do blend aspects of the normative-based approach with prescriptive guidance, like the Equator Principles which detail quite specific guidance for investors. Evidently, while this is a non-exhaustive list of principle frameworks, they apply differently in terms of their scope and related asset classes and in terms of the potential end users, several of which may more specifically apply to DFIs or public concessional finance, like the EDFI principles and or OECD DAC Blended Finance Principles, for instance.

In reviewing the extensive mapping conducted by the research informing this report, several common features can be identified from existing principles, including, and not limited to, them calling for:

- Increase transparency, commitment to disclosure, reporting and measurement.
- Greater intentionality to incorporate social and or environmental issues into decision-making.
- A commitment to continuous improvement and social and environmental impact more broadly.
- Better stakeholder engagement and country ownership.
- More inclusivity and understanding of the contexts that are being invested in.
- The importance of partnerships.

Many of these can be seen as highly relevant and important principles and norms relevant to effective operation in fragile and developing places and highly salient for realising peace outcomes. However, as the mapping process has identified, they often are missing explicit reference to broader peace outcomes and often are underpinned by very broad and sometimes vague definitional constructs of 'social impact'. It could well be argued that currently, well-meaning investors seeking to impact peace would not intentionally do so by following such existing principles. Thus, the principles articulated here can be seen as complementary to existing principle-based frameworks and a foundation for describing the wider ethos and investment approach of investors seeking to align with the Peace Finance Impact Framework.

Based on this, five basic principles have been identified which seek to be more normative and heuristic based in nature. They are designed to complement the PFIF alignment and verification process which provides more explicit and proscriptive guidance for investors to follow.

- **Principle 1. Commit to Dual Materiality**
- **Principle 2. Be Peace Intentional**
- **Principle 3. Design for Local Inclusion and Acceptability**
- **Principle 4. Prioritise Quality of Process**
- **Principle 5. Invest in Partnerships and Transparency**

These are further elaborated, below:

Principle 1. Commit to Dual Materiality. A commitment to dual materiality means the investor is explicitly committed to reporting on reducing risks to the company/investment but also to people and the environment in the context of the investment. This seeks to ensure that the company/investor actively draws the connection between the risks of their operations on the context and vice-versa. By committing to dual or double materiality, the investor will in principle better understand the context, the risks of their investment upon it and the dynamic interplay between those risks. A key principle for Peace Finance is that especially in fragile and emerging markets, the link between reputational, operational and business risks can be highly intertwined with peace and conflict risks for communities. By identifying the material risks on either side, an investor will be better positioned and incentivized to realize the financial material opportunities to be gained by proactively mitigating risks to communities where their investment resides and or impacts.

Principle 2. Peace Intentionality. Peace intentionality means the investor is committed to understanding of the definition and meaning of peace impacts as defined in the PFIF and has a clear intention to impact peace in either direct and/or indirect ways and following the alignment process of the PFIF. More specifically, this means the investor intends to align their investment with the PFIF peace taxonomy and develop theories of change through partnerships with other peace enhancement mechanism partners. The concept of peace intentionality is important to distinguish between investment approaches that may realise incidental development impacts that are erroneously described as related to peace, from those that are deliberate, intentional and supported by rigorous evidence.

Principle 3. Local Inclusion and Acceptability. Throughout any peace aligned investment, the principle of local inclusion and acceptability is critical. Peace impact depends on how the investment approach has sought to include people and their context in the proposed approaches and how such approaches have been validated and ultimately accepted. The concept of local inclusion refers to both how accessible the process of designing aspects of the investment has been for communities, but also whether products or services consequent from the investment are accessible in terms of their affordability as well as physical accessibility. The concept of acceptability can be seen as analogous to the concept of local ownership which are often used in developmental aid and peacebuilding literature to describe the degree of community engagement, inclusion and participation in the processes of outside supported aid initiatives. Acceptability is built by proactively building trust with local communities and key stakeholders. Peace enhancing mechanisms are important to help investors work intersectionally and gender responsively so they understand and situate their investment within the political and social context. Acceptability further requires the approach ensures the means of provision of goods and services, as well as the ends are seen by affected communities as ethically and culturally appropriate.

Principle 4. Prioritise Quality of Process. In order to navigate the relational, cultural and political dynamics of different contexts, investors and their partners need to prioritise the quality of process of how they engage key stakeholders and communities throughout the life-span of a PFIF aligned investment. The PFIF is a highly process driven framework that recognises peace impact occurs in complex social systems and is highly dependent on the qualitative nature of how goods and services are delivered. This is important because many outside approaches, whether they are investments and/or development interventions tend to approach communities with an over-focus on the instrumental or material outcomes of an intervention or investment. This can run counter to the highly relational determinants of how peace impacts are realised. Thus, focus on quality of process is important for ensuring investors and partners take the appropriate actions to plan, sensitise, validate and implement approaches that avoid unintended harm and achieve their intended peace impacts and risk mitigation. There is also an important learning heuristic to emphasising process – process can be controlled and improved whereas outcomes and context cannot.

Principle 5. Invest in Partnerships and Transparency. Investors need to invest in partnerships at multiple levels to be successful in creating peace impacts in complex environments. Partly connected to this, they should commit to transparency through disclosure, reporting and measurement which can further reduce risks at the level of the investment but also 'impact-washing risks' increasingly emergent in the market. Many investment failures caused by a failure to mitigate risks and or properly situate the business case to local markets are determined by a lack of the right information, capacities and skills. Often, no single actor has the right information, capacities and skills – thus, investors need to prioritise and invest in partnerships that can help them implement actions that will creates success by de-risking their investments and realising additionality for them and communities. Partners can work with investors to provide support to make investments more transparent which is important for accountability, ongoing learning and iterative improvement.

Pillar 3: The pre-requisite for peace-impact success: Peace Enhancing Mechanisms and Partnerships

The principles of the PFIF relating to dual materiality (impact for both the company and communities), intentionality and local inclusion and acceptability require investors and companies to engage differently when operating in emerging markets and fragile settings. For many investors, even for public investors such as DFIs looking to structure potential PFIF aligned investments and deals – there is a unique set of skills, capacities, networks, domain knowledge and praxis that will be required to implement PFIF aligned investment. These skills underpin a series of key activities that relate to a number of critical steps for the verification and disclosure process, involving peace and conflict analysis, participatory stakeholder engagement, community dialogue and peacebuilding design processes applied to particular investments and projects – just to name a few. These have been referred to as Peace-Enhancing Mechanisms (PEMs). As has been shown in emergent peace finance projects and feasibility work, for investments to be truly additional in both material financial and peace terms – they must go beyond business-as-usual approaches that investors normally take and which may be adequate in developed contexts. Thus, in order to implement PEMs, new partnerships are required between companies and investors.

An effective Peace-Enhancing Mechanism (PEM) partner not only may implement and accompany peacebuilding activities in developing and fragile settings, it also may bring critical networks and contextual knowledge related to the country or specific communities. This may require the PEM partner to be in close proximity to local actors and communities and be able to navigate trusted local networks within the area of the investment. PEM partners may also function as intermediaries and 'bridge builders' between the local communities and investors who tend to be from outside the context. They may also play facilitative role akin to advisory function in traditional deal structuring where they provide a holistic service offering focused on helping the investor best achieve peace alignment and additionality.

By working with a PEM partner, the investor should be able to ascertain and report on the ways in which the proposed business activity is in fact peace-supporting, or not. A close partnership with the PEM partner provides confidence to the investor in modifying business plans or launching new initiatives to maintain the peace-alignment status of the investment. The scope of the partnership between the PEM partner and investor will depend on the transaction and the scope of capacity of the PEM partner. In some cases, an investor may require multiple PEM partners on the basis of deal advisers versed in the peace alignment requirements of the specific transaction. Generally, the relationship could be both financial and service oriented and analogous to a donor-recipient relationship seen international aid projects although with a shared mission driven ethos regarding the principles underpinning the PFIF. The quality of the relationship between investor and PEM partner would be important at both the pre-investment and post-investment phase and key for the investor's approach to risk mitigation and realisation of financial and peace additionality.

How would PEM partners be identified and selected?

The PFIF envisages that appropriate disclosure requirements will enable an observer to determine whether a PEM and the associated PEM partner is authentically pursuing peace, or whether it is simply positioning itself in the context using an inauthentic "peace" banner. It is not envisaged at the early stage of a PFIF that there would be a definitive list of 'approved organisations' which may be considered as authentic PEM partners. Suitable PEM partners will be identified by investors themselves during the first phase of a peace-aligned investment, and disclosure requirements will allow the market to identify and recognise the track record of PEM partners analogous to how second party opinion providers on sustainability investment and or deal advisers may be recognised for their track record.

It is apparent that market enabling infrastructure is required to support investors identify suitable PEM partners for specific investments and transactions. A suitable entity or organisation could host this function and help connect relevant actors as PFIF alignment grows over time.

Examples of Peace-enhancing mechanism (PEM) Partners

Effective PEM partners would have access to a mixture of capacities, skills, networks and knowledge related to the context of investment interest. In many cases they would be local organisations with exposure to approaches familiar in international humanitarian, developmental aid and peacebuilding work. They may also be intermediary organisations that can map multiple actors and build bridges between different diverse local actors with different skills sets and capacities. The specific identity of the PEM partner and the PEMs used or recommended by the partner will naturally differ depending on the nature of the investment and the peace and conflict dynamics and political economy in each case. They may be singular or a combination of individual experts, private entities, civil society organisations, local business networks, international development and or peacebuilding organisations and other multilateral or UN agencies. To illustrate the breadth of partners and methods that might potentially qualify as PEM partner this would include:

Non- exhaustive list of potential PEM partners:

- Local civil society organisations and or networks
- Field-based individual academic researchers, experts or analysts
- Political risk and international aid consulting firms
- Independent peacemaking or peacebuilding organisations
- Multilateral agencies and UN agencies and associated entities
- Local business networks, employer and employee organisations

Potential PEM methods and approaches

PEMs themselves are simply tools, approaches, methods and programming praxis that would be applied to implement peace strategies part of the theory of change process of peace alignment. They would be highly context specific and related to the peace and conflict analysis linked to the investment. Basic examples of PEM methods and approaches can be drawn from developmental aid and peacebuilding programming experience. In relation to bankable investment projects, key PEM tools mostly relate to engagement and dialogue tools to engage communities which can be distinguished from highly intentional interventions that are commonly the domain of dedicated peacebuilding actors.

Transversal PEM tools in the field:

- 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 policy-making
- Benefit sharing mechanisms
- Multi-track engagement and dialogue platforms
- Community led-procurement
- Civic education
- Integrated Multisystemic resilience analysis

These can be distinguished from specific, highly 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)
- Dealing with the Past and Transitional Justice Initiatives
- Participatory and Inclusive Governance approaches
- Zones of Peace[23]
- 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

[23] Zones of Peace or Sanctuaries are physical zones whose inhabitants are generally held to be inviolate against attack

- Deconstructing Stereotypes
- Youth Development, Mentoring, Empowerment, and Inclusion
- Civic Engagement and Volunteerism

Pillar 4: Proposed Peace Finance Impact Framework Alignment Process

The PFIF describes a process for investors who are voluntarily seeking to plan their investment activity to generate peace and risk reduction outcomes for investors and communities. It includes three main steps of alignment, three corresponding gateway steps, and provides guidance for investors to realise such outcomes through collaborative partnerships with trusted peace-enhancing mechanism (PEM) partners.

The alignment and verification process described below is intended to apply at all stages of the investment life-cycle, including the pre-investment stage and post-investment. It is further envisaged that the PFIF alignment process would need to be further tailored to depending on the asset class, whether for issuing and verifying peace bonds or structuring peace funds. The process reflects the fundamental principles of adaptive and agile management, assuming a rapid cycle of implementation, assessment, and adaptation throughout the life cycle of an investment, and the capability to make rapid changes in response to feedback. The disclosure requirements of this framework are designed to promote this kind of adaptation, while also providing greater levels of transparency and accountability. The importance of the close collaboration with the PEM partners must be emphasised, as the implementation of the PFIF significantly depends on partnerships with PEM partners who can provide locally-grounded insights, expert guidance and implementation capacity in accompaniment with the investor. The PEM partner must be able to provide accurate and timely feedback to the investor regarding the changing context dynamics on the ground, and the potential positive and negative impacts of the investment activity, while the investor or investment vehicle must be highly responsive to this feedback.

Overview of Alignment Steps, Gateways, and Supporting PEM Partnerships

The alignment and verification process of the proposed PFIF would consist of three steps and three corresponding verification gateways. A full description of the alignment process is further shown in figure 9 whereby an investor would go through three major steps and have a series of recommended actions to follow as preparation for passing subsequent verification gateways, which are described in more detail in figure 10.

Figure 9: The PFIF Alignment Process

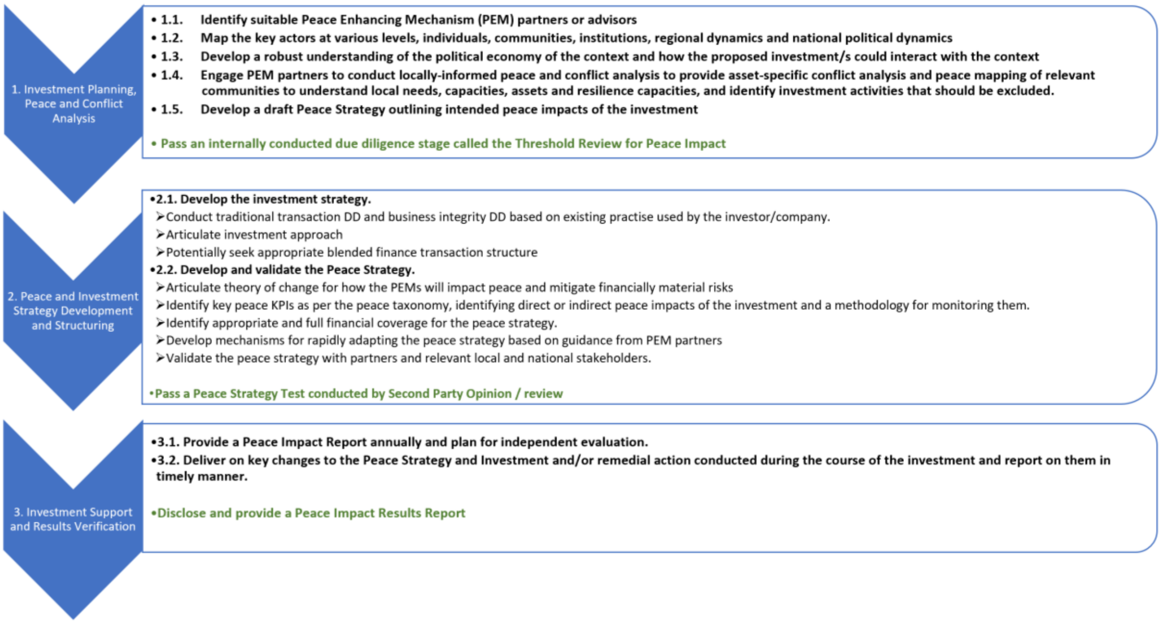
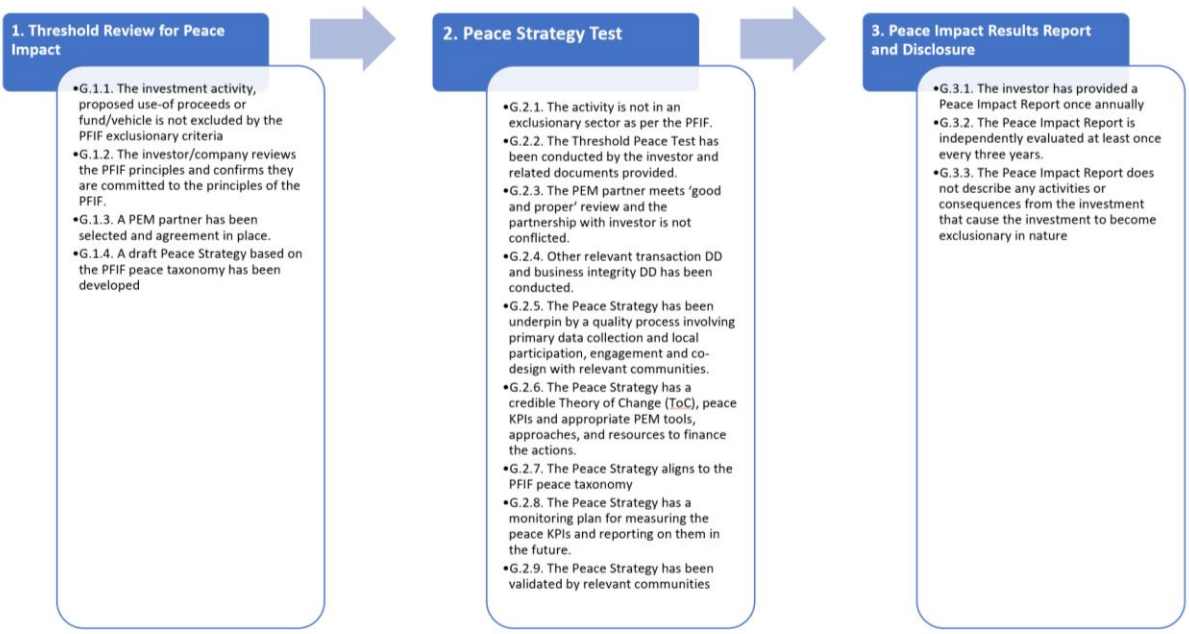
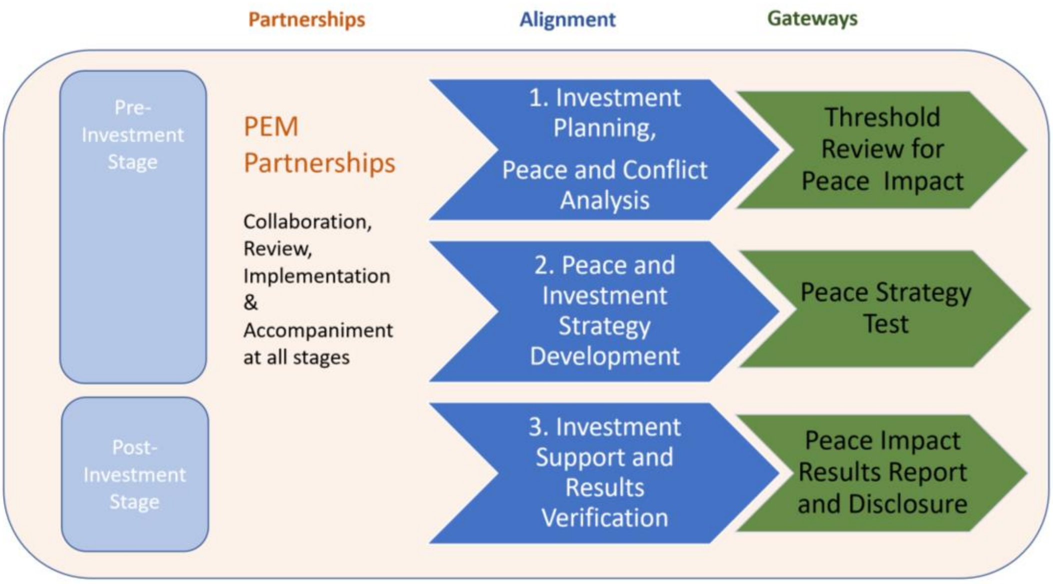


Figure 10: The PFIF Verification Gateways



An overview combining the alignment process and the verification gateways with the underpinning PEM partnerships is visualised in figure 11.

Figure 11: Peace Finance Impact Framework Alignment Partnerships, Process and Gateways

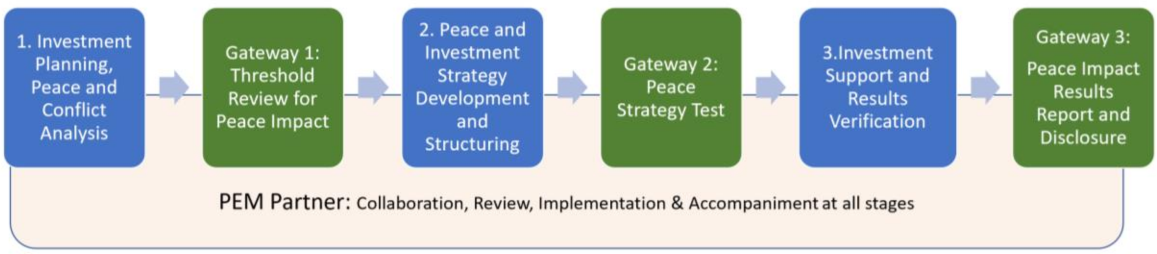


The PFIF alignment and verification pathway

The PFIF alignment and verification process is designed to provide greater measures of confidence and guidance for investors throughout the investment process, from design to due diligence and implementation, and continuing until potential exit. The purpose of the process is to ensure that investors follow good process and practise in designing, structuring and implementing their investment in ways that positively impact peace and also has positive impacts on the risk related to the investment.

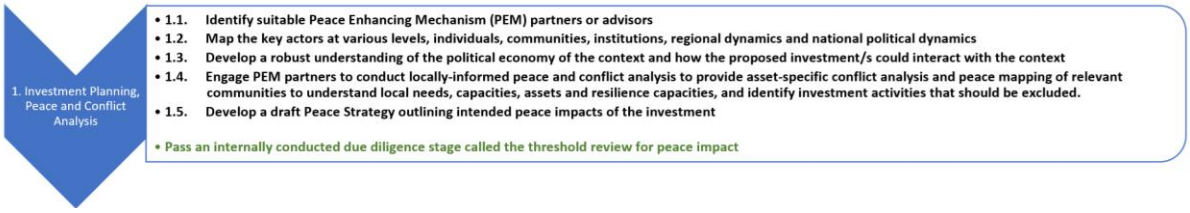
The basic process envisaged in shown in figure 12, whereby there are three key alignment steps followed by three key decision gateways where the investor can verify both internally and with Second Party Opinion (SPO) whether the investment has observed the recommended alignment process described in the PFIF.

Figure 12: Peace Finance Impact Framework alignment and verification gateways in sequence



Investors should only proceed to the next step in the alignment and verification process if the criteria at each gateway are satisfied. This requirement, along with reporting obligations, will help ensure that investments do not claim spurious peace impacts, and that the market is well informed regarding the performance of funds and investment vehicles against peace-supporting criteria. The alignment actions proposed are recommended actions, whereas the two pre-investment verification steps (the Threshold Review for Peace Impact and Peace Strategy Test) are more prescriptive criteria that an investor would have to satisfy in order to proceed and use a related PFIF 'Peace' label. The final verification step relates to disclosure an investor would have to follow to maintain its PFIF alignment.

Alignment Step One. Investment Planning, Peace and Conflict Mapping and Analysis



<u>Step 1: Key Recommended Alignment Actions an Investor should take:</u>

1.1. Identify suitable Peace Enhancing Mechanism (PEM) partners or advisors
1.2. Map the key actors at various levels, individuals, communities, institutions, regional dynamics and national political dynamics
1.3. Develop a robust understanding of the political economy of the context and how the proposed investment/s could interact with the context
1.4. Engage PEM partners to conduct locally informed peace and conflict analysis to provide asset-specific conflict analysis and peace mapping of relevant communities to understand local needs, capacities, assets and resilience capacities, and identify investment activities that should be excluded.
1.5. Develop a draft Peace Strategy outlining intended peace impacts of the investment

The steps detailed in the first stage of the peace alignment process can be seen as additional steps an investor would take beyond the traditional activities related to investment planning (such as ESIA) which is the core of what a prospective investor and or company would normally do. For DFIs, they may be seen as modular additions and/or complementarities to existing processes such as the IFC performance standards and/or contextual risk analysis.

1.1. Identify and Engage a Peace Enhancing Mechanism (PEM) partner or advisor.

The first recommended step in ensuring the alignment of a peace-supporting investment is the identification of a peace-enhancing mechanism partner or advisor. This requires the investor to conduct a brief survey of available PEM partners[24] at the local and national level, employing existing networks or expert advisors from among the investors network. Investors should generally seek to work with partners which are engaged in the investment area, as closest possible to the relevant assets for sites of operation for the proposed investment. In particular, investors should direct attention to whether the partner possesses their own direct networks and trusted relationships with local actors, or whether they rely on third parties. As a general rule, the more direct the connection, the more likely that the PEM partner will be able to provide useful insight, reducing investment risk during the life cycle of the investment.

[24] Key PEM partners include: Field-based individual academic researchers or analysts, political risk and international aid consulting firms, independent peacemaking or peacebuilding organisations, Multilateral agencies and UN agencies and associated entities, local civil society organisations and or networks, local business networks, employer and employee organisations

The role of the PEM partner is to identify potential PEM approaches, tools and methods that can be adopted by the company to realise peace-impacts. The PEM partner would work in accompaniment with the investor or company to carry out key activities in the first step of the alignment process, including peace and conflict analysis, actor mapping and political economic analysis of the context. In order to do this at the right level of detail and context specificity, the investor would need to have preliminary understanding of what it intends to do in a potential area. Conversely, a PEM partner may engage a prospective investor or company as an arranger and or originator in order to develop a peace-aligned investment.

How investors identify PEM partners and conduct due diligence on the PEM partner itself is an area requiring further articulated guidance. The types of organisations and individuals that could be suitable PEM partners is detailed in pillar 3 of this report, on page 39. Clearly, the impartiality, incentives and independence of the PEM partner are potentially highly salient to their ability to be a principled partner with the investor and contribute positively to the risk, peace alignment and ultimate additionality of the proposed investment.

While more detailed guidance for investors can be developed over time, investor Due Diligence of the partner should involve careful review the statement of values of the proposed PEM partner, the track record of the partner, whether they have been involved in other activities in the context of interest and whether they have potential conflicts of interest. Evidently, being a PEM partner is a voluntary exercise and PEM partners themselves would be expected to engage with the PFIF principles as well. Depending on the nature of the PEM partner, they would be expected to work closely with the investor, have a contractual relationship and agree to clear terms of reference that specify the scope and objectives of the partnership.

The 'accompaniment' role played by a competent PEM partner is essential to the success of any investment which intends to have a positive impact for peace. While it can be envisaged that some pioneer investors in peace finance and peace impact aligned projects may be able to develop unique capacities to implement PEMs over time, especially in highly focused asset classes or investment thematics, it is envisaged that PEM partners will be an important component of the PFIF alignment process and critical to realising peace impacts.

1.2. Map the key actors at various levels, individuals, communities, institutions, regional dynamics and national political dynamics

Having engaged a suitable PEM partner, the investor should embark upon a collaborative exercise in which the investor and the PEM partner together map all relevant actors in the context, including those directly related to the investment, as well as those potentially indirectly related to the investment. Best practise actor mapping should be at multiple levels and seek to identify through participatory methods who is important to consult and engage in the investment. The meaning of actor mapping especially at the local or community level is particularly important. This cannot be comprehensively done in a desktop only mode of research – the PEM partner would be expected to, potentially in accompaniment with a representative of a company, to visit the communities potentially impacted and seek to survey the key decision makers at a local level, key community leaders, the demographic make up of the community etc.

Often, the actor mapping, political economy analysis and peace and conflict analysis will be part of the same interconnected process. In line with the principle of peace intentionality in the PFIF, it is important the actor mapping process is not used to instrumentalise certain individuals or communities or seen narrowly as a tool to circumvent particular interests or concerns.

1.3. Develop a robust understanding of the political economy of the context and how the proposed investment/s could interact with the context

Linked to the actor mapping and peace and conflict analysis is appropriate focus and understanding on the political economy of the context. Being explicit about political economy requires the investor to deeply understand how their investment will affect the patterns of economic activity in the context, the control of particular resources, the impact on competition, the power and political dynamics that are related to that economic activity as well as wider elite politics and potentially cross border political dynamics. Such an analysis complements the more ethnographic, sociological and relational approach that typifies a common peace and conflict analysis.

1.4. Engage PEM partners to conduct locally informed peace and conflict analysis to provide asset-specific conflict analysis and peace mapping of relevant communities to understand local needs, capacities, assets and resilience capacities, and identify investment activities that should be excluded.

Peace and conflict analysis is a widely used tool in international aid and there are many different forms of guidance on how to conduct quality analysis of peace and conflict dynamics. At a basic level, all analysis should assess the drivers and mitigants of conflict and be based at least partly on primary sources collected through participatory engagement, focus group discussions and or household interviews and/or surveys. As a general rule, if the conflict analysis has been completed as a desktop study in a remote location, it is of little additional value in guiding the design of peace-supporting investments. The closer the PEM is to the reality on the ground, the more useful will be the insights generated in reducing investment risks.

More sophisticated analysis seeks to further identify the peace dynamics, and positive functioning capacities and sources of resilience in communities. This can provide a more holistic understanding of the context and also highlight potential opportunities for PEMs to capitalise on to realise their peace impacts. Practically, the analysis will inform a risk analysis of the setting, identify levers of change, key issues and provide the foundational context knowledge for the next phases of developing a peace strategy and theory of change for the investment.

In some contexts, a participatory analysis will need to be careful to engage communities in ways that is transparent for the reasons behind the analysis and whom is supporting it. The PEM partner will need to be careful to not unduly increase expectations of communities and or make promises before the true design phase of the investment has commenced. It is important for both PEM partners and investors working with communities to understand such a process is a basic first step in a longer series of engagements.

1.5. Develop a draft Peace Strategy outlining intended peace impacts of the investment

As a result of this mapping and conflict analysis exercise, the investor should gain an improved view of the political economy of the conflict, and how the proposed investment or new investment concepts could interact with the conflict dynamics in support of peace, thus reducing the investment risk. Once this view is obtained, the investor and the PEM partner should map against the PFIF peace impact taxonomy the potential for the investment to make a passive, indirect, or direct contribution to peace, and whether this contribution is likely to relate to: political peace, social peace, or safety and security.

The key output at this stage the investor and or company should develop is a draft peace strategy that details the peace and conflict analysis, political economy analysis, actor mapping in relation to the proposed investment and a draft theory of change for how the investment will make direct and or indirect peace impacts within the sub-dimensions of the peace taxonomy. The strategy could be developed in partnership with the PEM partner and could follow any number of existing approaches partially adopted from good practise in international development and peacebuilding praxis.

Gateway One: Threshold Review for Peace Impact

Having selected a PEM (peace-enhancing mechanism) partner, and completed the preparatory analytical steps in the first alignment step, the investment should then be subjected to its first PFIF gateway test, which is an internally validated due diligence process conducted by the investor themselves. This is called the Threshold Review and is a simple and basic process for the investor to make first cross-check on the prospective alignment of investment/s within the PFIF.

In order to qualify as a peace-supporting investment within the PFIF, the investment must demonstrate that it satisfies the following requirements:

- ✓ G.1.1. The investment activity, proposed use-of proceeds or fund/vehicle is not excluded by the PFIF exclusionary criteria
- ✓ G.1.2. The investor/company reviews the PFIF principles and confirms they are committed to the principles of the PFIF.
- ✓ G.1.3. A PEM partner has been selected and agreement in place.
- ✓ G.1.4. A draft Peace Strategy based on the PFIF peace taxonomy has been developed

G1.1. The investment activity, proposed use-of proceeds or fund/vehicle is not excluded by the PFIF exclusionary principles.

The investor should first verify the proposed investment does not fall into an area deemed exclusionary by the PFIF. Exclusionary investments sectors or areas are determined by the PFIF and cover areas of investment that are deemed socially harmful and which cannot be aligned with the PFIF. At this stage, the investor will self-verify the investment is not in an exclusionary sector as per the PFIF. For example, a proposed investment would not pass the first Gateway test if the enterprise carrying out the investment is also involved in the direct manufacture of weapons and munitions for instance.

The investor will also seek to verify the investment does not have the significant potential to become exclusionary by character, which would be determined during the related due diligence in the first steps of the alignment process. While the purpose of the first step is for the investor to identify their peace strategy which involves articulating do-no-harm strategies and approaches to mitigate these possibilities, there may be certain contexts and/or investments where it is determined despite best efforts, there is no way to carry out the investment without significant risk of it becoming exclusionary by character. For instance, an investment in a geographic context functionally governed by a non-state actor in direct conflict with the state and local population and that regularly breaches basic human rights norms may be exclusionary by character despite best efforts.

G1.2. The investor/company reviews the PFIF principles and confirms they are committed to the principles of the PFIF

Analogous to the signatory process of the PRI, investors would review the PFIF principles and a senior representative would signal committment to them. They would prepare a brief statement of intent that would articulate as part of the peace strategy the commitment to the core principles of the PFIF, which include:

- ✓ **Principle 1. Commit to Dual Materiality** – thus realising benefits for the investor and communities in the area of the investment
- ✓ **Principle 2. Be Peace Intentional** – they are prepared to make intentional efforts in alignment with the PFIF and peace taxonomy
- ✓ **Principle 3. Design for Local Inclusion and Acceptability** – they will seek to prioritise local inclusion as per the PFIF and local validation
- ✓ **Principle 4. Prioritise Quality of Process** – the investor reviews the relevant PFIF standard and framework guidance is prepared to prioritise the process-oriented requirements of the PFIF.
- ✓ **Principle 5. Invest in Partnerships and Transparency** – the investor commits to PEM partnerships and will report and disclose to the market on the progress of its investment as per the PFIF.

The principles are designed to be norm and heuristic based. They would not be required to provide detail of specifics of how the principles would be observed, rather function as normative guidance underpinning the investment ethos and approach. Subsequent phases of the process, especially the peace strategy process would de-facto describe some aspects about how the investment conforms to the principles.

G.1.3. PEM partner selection and agreement

The investor would identify a PEM partner and establish an agreement with the partner detailing the modalities of the partnership, whether through an MOU, contractual agreement and or partnership agreement. The agreement would detail a terms of reference for the partner, clearly describing the key responsibilities of the partner as well as that of other partners working on potential peace enhancement mechanisms. The agreement would follow a standard template that can be provided to investors and clarify important governance issues regarding conflicts-of-interest, independence and impartiality.

The agreement should function as due-diligence on the partner and clarify expectations between the investor and partner. It would help the investor identify if the credentials of the peace enhancing mechanism partner are sound. For example, a PEM partner which has conflicts of interest and or conflicts linked to state actors, non-state political group, and or ethnic groups related to the investment, may lack the required characteristic of impartiality and would not therefore be a suitable partner for the purpose of the PFIF.

The selection process for the PEM partner/s should follow the guidance provided in the PFIF, ensuring they have the capacity and networks to support the planning and analysis phases and/or the PEM implementation phases. Optimally, the PEM partner would accompany the entire process with the investor including the implementation of the PEMs themselves. If the proposed partner is a purely academic actor, or is not present in the affected conflict environment, or is unable to access or influence key conflict actors, this would suggest that the partner may need to be augmented by other locally based actors. Provided that the proposed PEM partner satisfies the criteria listed above, the partner should help accompany the peace supporting nature of the investment, and to help ensure the ongoing reduction of investment risks.

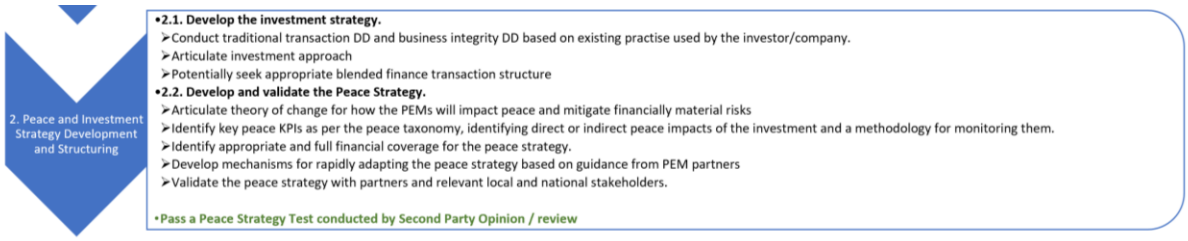
G.1.4. A draft Peace Strategy based on the PFIF peace taxonomy has been developed

The final element of this internally validated test requires the investor and PEM partner to confirm that a positive impact for peace is a reasonably foreseeable result of the investment. This should be answered both at the macro level, and also in detail by mapping against the PFIF peace impact taxonomy the potential for the investment to make a passive (do no harm), indirect, or direct contribution to peace, and whether this contribution is likely to relate to: political peace, social peace, or safety and security.

If a proposed investment is to proceed to the next step, the investor should internally verify and demonstrate the potential, grounded in a thorough conflict analysis, to directly or indirectly contribute to peace *in at least one* or more of the sub-dimensions of peace impact taxonomy designated within this PFIF (see table 1). This is important because the PFIF seeks to catalyse *intentional* peace-supporting investments that can generate additionality and double material outcomes. This can be done by development of a theory of change (ToC) based on common results based management (RBM) principles – detailing the inputs, outputs, outcomes and impacts of the proposed investment on the relevant area of change or peace impact. The ToC should detail risks and detail the assumptions in order to make them explicit, further informing the risk analysis.

This preliminary validation of the likelihood of a peace impact is a precursor for the more thorough and exhaustive assessment at gateway two – called the Peace Strategy Test, in which the strategy for peace is more rigorously assessed by an external party engaged by the investor. At the first gateway stage, it is sufficient for an internal review conducted by the investor and PEM Partner to determine and document that there are reasonable grounds for a well-informed observer to conclude that the proposed investment is likely to make a positive impact for peace. The outcome of this internal review will help to define the scope and the methodology chosen by an external reviewer when assessing the validity of the investment's peace strategy at the Peace Strategy Test (gateway two).

Alignment Step Two: Peace and Investment Strategy Development, Structuring and Validation



Having established that the proposed investment meets the Threshold Review for Peace Impact, the investor should then develop an investment strategy and a Peace Strategy in order to further plan proposed peace impacts, and reduce the risks faced by the investment. This should detail an intentional strategy for positively impacting peace and similar to that described by the I4P Peace Finance Impact Framework, can be seen an 'important intermediate step relative to existing DFI practice, which tends to move from analysis directly to origination.'[25] This second step (of three steps) would encompass all the DD and transaction structuring and planning for the implementation of PEMs and be the last step in the pre-investment phase.

Step 2: Key Recommended Alignment Actions an Investor should take:

2.1. Develop the investment strategy.

- Conduct traditional transaction DD and business integrity DD based on existing practise used by the investor/company.
- Articulate investment approach
- Potentially seek appropriate blended finance transaction structure

2.2. Develop and validate the final Peace Strategy.

- Articulate theory of change for how the PEMs will impact peace and mitigate financially material risks.
- Identify key peace KPIs as per the peace taxonomy, identifying direct or indirect peace impacts of the investment and a methodology for monitoring them.
- Identify appropriate and full financial coverage for the Peace Strategy.
- Develop mechanisms for rapidly adapting the peace strategy based on guidance from PEM partners.
- Validate the Peace Strategy with partners and relevant local and national stakeholders.

2.1. Develop the investment strategy.

As part of normal transaction planning, the investor would identify the commercial viability of the investment, the business implementing partners and suppliers and business requirements regarding

[25] P van Hoeylandt and Lion's Head, 'Investing for Peace Feasibility Study' (2022)

labour and services. Further, the investor will be required to conduct transaction due diligence and business integrity due diligence and also cross check other relevant institutional relevant and/or specific standards and or ESG guidelines. For instance, a DFI seeking alignment with the PFIF may also need to reconcile their investment with the IFC performance standards or ESIA a significant component of which can be cross verified and validated with the actions conducted in the first alignment step of the PFIF. For most investors this will be best derived from their own existing organisational practise and experience.

Part of this process would involve articulation of the investment approach which will vary widely depending on the asset class. The underlying ethos of the investment approach should seek to be consistent with the Peace Strategy. For instance, a fund focused on energy investments in fragile and conflict affected settings seeking to align with the PFIF, may choose to intentionally invest and carry risk in local currency and/or preferentially seek local investors, equity holders and implementors. The fund may also specifically prioritise geographic areas with specific peace and conflict challenges as part of a strategy of developing focused efficacy in particular PEM approaches and peace impacts.

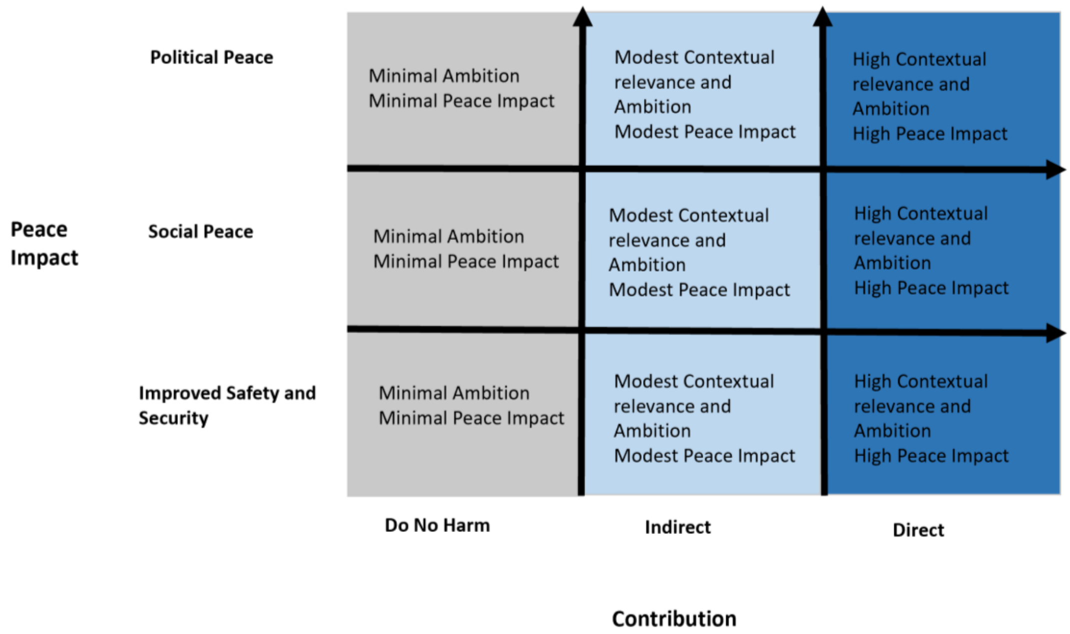
Further, in the nascent phases of PFIF aligned investments, blending with concessional finance would likely be required and this would be an additional step depending on the investor, asset and structure. This may require the transaction to pass additional DD related to the DFI partner. Further research, testing and piloting should occur as to how the processes already adopted in the PFIF process can also provide critical information for other DD processes.

2.2. Develop and validate the final Peace Strategy.

For an investment to gain a proper alignment to the PFIF, the Peace Strategy developed by the investor and the PEM partners must show that it is anchored to the various analytical tools developed in step one (peace and conflict analysis, mapping and political economy analysis). This means that the Peace Strategy should articulate a theory of change (ToC) that either directly or indirectly addresses sources and drivers of peace and conflict in order to positively reduce conflict risk and associated risk to the investment. The Peace Strategy should prioritise peace-supporting objectives as a major way to achieve key financial business objectives. Core to the Peace Strategy is a ToC that describes both how the investment intends to impact peace but also how the PEM can positively impact various risks also detailing the assumptions behind the ToC. The Peace Strategy should also detail adaptive approaches on how to respond to risks identified in the analysis phase such as the influence of spoilers, loss of trust between collaborating entities, or fragmentation and change in key actors and supporters.

When designing the strategy, the investor and PEM partner should carefully identify peace-supporting **objectives** and situate them on the peace impact/contribution matrix that identifies the peace impact of the proposed investment. This matrix is explained in detail above, and allows the investment to articulate intended peace impacts across the spectrum of nine possible combinations as shown in figure 13, below. This can be used at a high level to first understand the general level of ambition in relation to the peace taxonomy.

Figure 13: Peace impact and contribution matrix



What if the conflict analysis identifies a conflict factor or driver that does not fit into the peace taxonomy?
In the event the peace and conflict analysis identifies hyper context specific factors that do not neatly feature in any of the sub-dimensions, the PEM partner and investor could articulate this factor separately in its peace and investment strategy development. Second party opinion on the peace impact test could further verify whether the identified factor is indeed out of the framework and could also provide feedback for the PFIF to make potential future modifications to the peace taxonomy. As the PFIF develops and learns from practise, future iterations to the taxonomy based on consultations with key stakeholders could be added.

As a further next step, and connected to the theory of change, the Peace Strategy will further describe the key peace KPIs, identifying either direct and/or indirect impacts for the investment. These KPIs should conform to the sub-dimensions of the PFIF peace taxonomy but be based on context specific metrics that have been developed by the investor and PEM partner. They should also evidently be relevant to the analysis conducted in the first step. A particularly key requirement for the Peace Strategy is to identify ***at least one direct or indirect impact*** in the sub-dimensions of the peace taxonomy and identify do-no-harm approaches to all of the other sub-dimensions. By comprehensively identifying do-no-harm strategies for all aspects of the peace taxonomy, the investor cannot selectively report and further potential trade-offs in terms of peace actions can be more actively considered. If there are significant gaps in logic in the strategy, or the objectives are not sufficiently concrete or credible, these would be identified in the Peace Strategy Test which would be conducted by a second party.

There is significant importance in the qualitative process of how the Peace Strategy is developed and at what point local communities are engaged in the design phases of the investment. The PEM partner should seek to engage relevant communities at the earliest design and planning phases in order to inform the theory of change as well as the tools, approaches and peacebuilding accompaniment that the investment requires to properly achieve its impacts. This may involve careful consideration of various approaches such as participatory governance approaches, benefit sharing mechanisms, facilitative multi-track dialogue approach between local and national government representatives, cooperative decision-making tools – just to name a few – in order to ensure local participation, inclusion and buy-in which is critical to the success of the investment. Evidently, the type of tools used, the approach adopted and their complexity and scope will entirely depend on the type of investment. For some types of investment, such as SME business development and microfinance, the PEM approach may be more characterised more by modest modifications as to how the proceeds of the investment are allocated compared to how they would have been done otherwise. For instance, this may involve careful consideration of the nature of the recipient businesses, their intersectional characteristics (like ethnic, gender, linguistic, urban/rural patterns of ownership and control) and geographic location and specifically how that may relate to the peace and conflict dynamics of the setting.

Conversely, for forms of large project finance concerning infrastructure and that create unavoidable externalities like large scale land acquisition – the PEM approach may have to be much more scaled up and require more notable resources that can be considered part of the operational expenses in the establishment phase of the investment. As the input research to PFIF by Sonno et. al.[26] has shown, one of the critical drivers of conflict inducing private sector activity is the land intensity of the investment. Such investments may require significantly more in-depth community engagement and participatory decision making to validate with communities the relocation of existing community assets and or housing for instance. While the resources for such PEM actions may be more notable than the status quo, in many cases, existing attempts to conduct such investments without community buy-in and inclusion in the decision making are not only ethically dubious, but will be exposed to a large array of very significant operational and political risk which can be existential for the investment. In such cases, it is likely the PEM actions rather than being seen as 'yet-another-step' are fundamental in creating the additionality and material possibility of the investment. In such situations, scaled up PEM actions will be critical to mitigating other regulatory and due diligence risks which are increasing.

[26] Sonno, T., Zufacchi, D. "Peace Impact of Private Investments: Evidence from Multinationals Investments in Africa" (2022)

What is the cost of PEMs and the Peace Strategy?

The cost of the Peace Strategy and associated PEMs will evidently depend on a combination of the investment and the context. While the cost of these approaches and the time required to conduct them may be notably more than current and common piecemeal approaches to stakeholder engagement that characterizes much private sector engagement today, they are still very low in comparison to the capital investments of much large project finance. It should be noted the average size of a grant in the peacebuilding sector is approximately USD1 Million in comparison to the average size of investment commitments in infrastructure projects with private participation in Emerging Market and Developing Economies (EMDEs) at USD183 million in 2020. Given a PEM seeks to impact the risk profile and influence the Return on risk-adjusted capital (RORAC), even modest changes in the risk profile can and should pay off the investment in PEM and potentially, depending on the situation, several times over. However, good practise should nonetheless involve cost-benefit analysis to properly understand the affordability and efficiency or PEMs and to also incentivise their future use and uptake.

In order to demonstrate acceptable results under the PFIF, it is essential for the investor and the PEM partner to articulate a means of monitoring the attainment of objectives, and how progress against each strand of the strategy will be tracked using key performance indicators or milestones. While there should be a significant degree of flexibility in how investors approach this, best practise would follow learning from developmental aid practice and fund meaningful and representative data collection of baseline data that can be subsequently monitored at different phases of the project and especially to help with disclosure and results reporting.

Having jointly designed peace-supporting objectives and strategies, the investor and the PEM partner must then identify the capabilities and financial resources required by the PEM partner for it to play an effective role during the lifetime of the investment. The strategy should clearly describe a budget connected to the theory of change and also potentially include some flexible funds if known and emergent risks present a sufficiently high probability of emerging. While the duration of the PEM accompaniment will entirely depend on the project and or investment, in some cases PEM actions could take place over three years or more, and for large infrastructure investments, may require resources for long term monitoring of the peace strategy as a way to also monitor key risks.

Further, the strategy design process must anticipate the ongoing agile adaptation of the peace supporting investment and its underpinning strategy, in line with strategic changes made by PEM partners to respond to evolving dynamics of the context. PFIF alignment should not be seen as a 'set-and-forget' risk-management mechanism. If risks related to the context are to be successfully reduced over the lifetime of a venture or project, the Peace Strategy may need to be modified either by the existing PEM partner, or by new PEM partners that the investor can engage in later stages of a project. In order to demonstrate this quality of agility, peace supporting investments must cultivate a close accompaniment with trusted PEM partners capable of responding to emerging spoilers, risks and unforeseen changes in the interests of local actors and communities. Rather than 'subtracting' the effect of these spoiling dynamics from an investment's overall peace impact, this model integrates these risks into the investment's core strategy, allowing the investment to adapt in order to remain authentically peace-supporting.

The final step of the Peace Strategy development must involve a validation process with key local, national and regional stakeholders at levels determined relevant by the analysis phase (whether it be key individuals, community leaders, local or national government authorities, international actors and or informal governance structures). It is particularly important those actors directly impacted or engaged in participatory aspects of the design of the process validate the Peace Strategy as well as the potential peace enhancing mechanisms to be adopted. It should be clarified that while the purpose of such processes is to generate wider consensus between individuals and groups, it should not be narrowly defined as a process to 'make everyone agree'. The validation process should seek to communicate to all actors involved the key features, timetables and impacts on people, land and services in order to attain a level of consensus between relevant actors and people so they can constructively work together, have appropriate expectations and general level of trust in the process governing the delivery of the investment.

Gateway Two: Peace Strategy Test

The key pre-investment gateway of the PFIF is dubbed the Peace Strategy Test. It is envisaged this step will require a second party opinion (SPO) of the Peace Strategy and the process the investor has taken in the first step. This is intended as a key due diligence step for the investor to acquire a prospective PFIF 'Peace' label for their investment. There are nine key criteria in the first draft of the Peace Strategy Test following on from the Threshold Review for Peace Impact.

The Peace Strategy Test would require a SPO provider to verify the investment/project/transaction structure has satisfactorily passed the following key criteria:

- ✓ G.2.1. The activity is not in an exclusionary sector as per the PFIF.
- ✓ G.2.2. The Threshold Review for Peace Impact has been conducted by the investor and related documents provided.
- ✓ G.2.3. The PEM partner meets 'good and proper' review and the partnership with investor is not conflicted.
- ✓ G.2.4. Other relevant transaction DD and business integrity DD has been conducted.
- ✓ G.2.5. The Peace Strategy has been underpin by a quality process involving primary data collection and local participation, engagement and co-design with relevant communities.
- ✓ G.2.6. The Peace Strategy has a credible Theory of Change (ToC), peace KPIs and appropriate PEM tools, approaches, and resources to finance the actions.
- ✓ G.2.7. The Peace Strategy aligns to the PFIF peace taxonomy.
- ✓ G.2.8. The Peace Strategy has a monitoring plan for measuring the peace KPIs and reporting on them in the future.
- ✓ G.2.9. The Peace Strategy has been validated by relevant communities.

It should be noted there is a significant and important qualitative dimension to the Peace Strategy Test where the SPO seeks to evaluate the quality of the processes undertaken. The test itself and process of the alignment process likely require iterative design and development and should, like the rest of the PFIF, be seen as a first draft for further feedback. The spirit of the test should be to balance the tension between an overly permissive regime that enables investors to align to a peace label at a very low threshold, versus one that is overly regulated, restrictive and complicated for investors to align with. An overly permissive regime could lead to 'peacewashing' whereas an overly restrictive and complicated one will simply not be used.

Relationship to the PFIF principles

De facto, if the investment passes the Peace Strategy Test, it should be in alignment with the PFIF principles particularly relevant to the pre-investment stage. This will be because it will describe double material impacts (Principle 1. Dual Materiality), be peace intentional (Principle 2. Peace Intentionality), be locally inclusive and acceptable according to the validation process of the peace and investment strategy (Principle 3. Local Inclusion and Acceptability). The other principles related to process orientation and partnerships/transparency will be more evident over the longer term and from disclosure in post investment phases.

Because of the importance of the qualitative aspects of the Peace Strategy Test, further elaboration is required some of the criteria of the test, whereas others are relatively outcome oriented and self-explanatory. It would be envisaged that the SPO would use such general guidance and would work with the investor/company to seek further clarification on any issues of more qualitative nature.

G.2.1. The activity is not in an exclusionary sector as per the PFIF.

- This is a simple first step, the SPO would simply review and check the investment does not fall into an exclusionary area as per the PFIF principles.
- It should be noted that review of the investment for exclusionary criteria by character could be cross validated via other relevant DD screening used by the investor and the SPO would be expected to review such other screening conducted by the investor.

G.2.2. The Threshold Review for Peace Impact has been conducted by the investor and related documents provided.

- The SPO would check and review the Threshold Review for Peace Impact documentation provided by the arranger, investor and or company seeking alignment. This would confirm that the investor has provided a statement of commitment to the PFIF principles, that they have a PEM partner and agreement in place, as determined by an intention to partner and or memorandum of understanding agreement. It would further confirm the investor developed a draft Peace Strategy at the correct phase (i.e. before key activities like land acquisition).

G.2.3. The PEM partner meets 'good and proper' review and the partnership with investor is not conflicted.

- It is important the SPO reviews whether the PEM partner is qualified and fit to advise the investor in the context, thus conducting a 'good and proper' review of the partnership which would assess:
- The skills, capacities of the PEM partner, seeking to identify they have:
    - ✓ Demonstrated expertise in locally grounded peace and conflict analysis
    - ✓ Demonstrated expertise in developing, advising, evaluating and implementing development and peacebuilding programming
    - ✓ Demonstrated knowledge of the local context or region and local networks.
    - ✓ Sufficient knowledge of the relevant business sector, value-chains, trade, and assets and political economic context.

- Due diligence on the PEM partner and review of the partnership
    - ✓ Verify whether the PEM partner has conducted any activities which would run counter to the principles of the PFIF.
    - ✓ Verify whether the PEM partner has any conflicts of interest in the operational context that may compromise the activities of the investor
    - ✓ Verify the partnership is governed by appropriate legal agreement with a clear terms of reference describing the proposed activities of the PEM partner and financing of those activities.

G.2.4. Other relevant transaction DD and business integrity DD has been conducted.

- The SPO would review other relevant transaction and business integrity DD conducted by the investor and or company to ensure and double check the integrity of the project and to check it is not in evident breach of other screening processes relevant to the investor.
- These other forms of DD would be specific to the investor and company and provide further evidence for the SPO to interpret any other risks related to the project.

G.2.5. The Peace Strategy has been underpin by a quality process involving primary data collection and local participation, engagement and co-design with relevant communities.

- The SPO would review the core materials produced in the planning phase, including the peace and conflict analysis, the actor mapping and political economy analysis, checking they are of required quality. In order to ensure an element of objectivity in the assessment of the quality of the process underpinning the Peace Strategy, certain markers can be observed:
    - There is evidence the investor and PEM partner have benefited from divergent perspectives and viewpoints when formulating the Peace Strategy, as shown by evidence of primary data collection and consultations with local communities that have been conducted. Specifically, this may describe interviews and or focus group discussions (FGD) with the key stakeholders described at various levels including local communities directly impacted by the investment.
    - A mapping and description of other investment activities and development priorities of other partners has been provided.
    - Adequate time has been given to conduct the various processes and there is a clear sequencing local consultations, the strategy development and validation process have occurred in the right order.
    - There is evidence that impacted communities have been engaged at early phases of the planning and have participated in design aspects related to the Peace Strategy.
    - The peace and conflict/actor mapping/political economy analysis clearly describes:
        - The country situation overall as well as the peace and conflict dynamics, risks and opportunities at the geographic level relevant to the asset and/or investment.
        - The relationship between the political economy, peace and conflict dynamics and the proposed business activities, describing the intersectional nature of these relationships.
        - There is analysis of gender, ethnic, intergenerational, urban/rural and traditional/modern governance arrangements of the context.

    - Data collection provides evidence of individual and community needs and grievances.
    - There is some basic scenario analysis of how the proposed investment could interact with the aforementioned dynamics and an analysis of the timing of the investment in a wider political economic context.

G.2.6. The Peace Strategy has a credible Theory of Change (ToC), peace KPI/s and appropriate PEM tools, approaches, and resources to finance the actions.

- The crux of a credible Peace Strategy would be on the rigor of the ToC and connected peace KPIs and PEM actions as well as their proper financing and resourcing.
- The SPO could assess each of these aspects independently, seeking to verify the following, including and not limited to:
    - Is there a logical and relevant link between the ToC and the associated analysis conducted in the planning phase?
    - Are there peace (PEM) actions articulated that describe how changes will occur, with clear logic between key outputs, outcomes and impacts?
    - Are risks and assumptions behind the ToC made explicit in the Peace Strategy and is there contingency planning for those eventualities?
    - Are there relevant, realistic, specific and achievable Peace KPIs that describe outcome or impact level objectives that link to the peace taxonomy and the ToC?
    - Is there a budget for the PEM actions?
- Regarding financing, there are two categories the SPO should seek to verify. Firstly, the SPO should verify whether the PEM partner has adequate resources to conduct the PEM actions over the duration of the PEM actions and whether they are adequate given the degree of ambition and scale described in the ToC. Secondly, in the event the Peace Strategy identifies areas of significant emergent or potential future risk, the SPO should verify whether the Peace Strategy has adequate contingency planning and or planning for such risks.

G.2.7. The Peace Strategy aligns to the PFIF peace taxonomy

- It would be necessary for the Peace Strategy to define its peace impact in relation to the PFIF peace taxonomy which defines key areas of peace impact and the level of contribution the investment would make to each relevant sub-dimension.
- A key part of the overall Peace Strategy Test would require the Peace Strategy to:
    - Identify at least one direct and/or indirect contribution in at least one sub-dimension of the Peace Taxonomy.
    - Articulate do-no-harm rationale for all other sub-dimensions of the peace taxonomy.
- For areas of contribution that describe indirect or direct contributions these would need to be a primary focus on the overall ToC and describe related PEM actions that relate to that area.
- Do-no harm rationale should describe how the ToC and PEM actions mitigate key risks of doing harm in that relevant area and link back to evidence established in the peace and conflict analysis. The SPO should seek to interrogate whether the areas of indirect/direct contribution are appropriate in relation to the peace and conflict analysis. For instance, if the peace and conflict analysis identifies significant intercommunal violence in the investment area but the

investment ToC does not seek to make a contribution to that sub-dimension, then the do-no-harm rationale should be closely examined, alongside the relevance of the ToC.

- It is important all sub-dimensions of the peace taxonomy are addressed by the Peace Strategy to prevent 'selective impact' and/or selective reporting whereby potential trade-off are not acknowledged or planned for.
- Table 14 shows the 16 categories of the draft peace taxonomy that the Peace Strategy would need to identify degree of contribution against.

Table 14: Peace Taxonomy and Contribution levels

Sub-dimension		Degree of Contribution		
Peace Dimension 1: Support to Improved Safety and Security		**Do-no-harm**	**Indirect**	**Direct**
1.1	Contribution to mitigation of direct interpersonal violence in the community.			
1.2	Contribution to mitigation of sexual and gender-based violence (SGBV) in the community or household.			
1.3	Contribution to the mitigation of abuse and all forms of violence against children.			
1.4	Contribution to mitigation of collective and intercommunal violence.			
1.5	Contribution to cessation of Armed conflict, State-sponsored violence, or violence by non-State actors.			
1.6	Contribution to lower fear of violence in above categories.			
Peace Dimension 2: Support to Social Peace		**Do-no-harm**	**Indirect**	**Direct**
2.1	Contribution to Vertical Social Cohesion (State and Society Trust)			
2.2	Contribution to Horizontal Social Cohesion (Trust between groups)			
2.3	Contribution to equitable access of resources and basic services, income and goods (education, health, housing, work, etc.)			
2.4	Contribution to gender and intergenerational equity			
2.5	Contribution to better governance of public services and more trustworthy delivery of basic services.			
2.6	Contribution to redress of patterns of economic exclusion for marginalised or excluded communities or groups			
2.7	Contribution to the free flow of information, greater transparency, accountability and reduced corruption in public and private institutions.			
Peace Dimension 3: Support to Political Peace		**Do-no-harm**	**Indirect**	**Direct**
3.1	Contribution to improved diplomatic relations between States, and non-State actors.			
3.2	Contribution to development of infrastructure or provision of goods and services that support a formal peace process either defined in a peace agreement and/or a recognised part of a peace process.			
3.3	Contribution to improvement of dispute resolution mechanisms, whether formal or informal and improved perception of justice and human rights issues.			

G.2.8. The Peace Strategy has a monitoring plan for measuring the peace KPIs and reporting on them in the future.

- The SPO should verify whether there is a monitoring plan for the Peace Strategy. It should identify a series of indicators for key target/s for the Peace Strategy, otherwise referred to as peace KPIs. The indicators should be SMART in relation to the relevant sub-dimension of the peace taxonomy.

- The peace KPIs are outcome or impact statements linked to the sub-dimensions of the peace taxonomy. For instance, a peace KPI for peace taxonomy sub-dimension 2.1 could be: 'The investment has made a direct contribution to greater levels of trust between local communities and the national government'. The actual measurement of such an indicator may be through local surveys of relevant communities.
- An indicator for a peace KPI would be a context specific measurement developed in partnership with the PEM partner to track the progress over a given time period. Indicators for Peace KPIs should meet basic SMART criteria (Specific, Measurable, Achievable, Realistic, Time Bound).
- The monitoring plan should identify the method/s of data collection at relevant time periods, in line with PFIF disclosure requirements (minimal once annually) for impact reporting.
- The SPO should verify there is a budget for the monitoring plan and that baseline data collection will occur at, or near the inception of the project/investment.

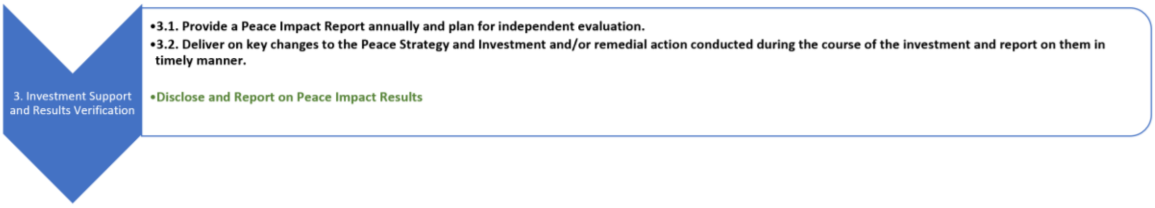
G.2.9. The Peace Strategy has been validated by relevant communities

- Finally, the SPO would verify whether the Peace Strategy has been validated by relevant communities. This would mean the PEM partner has contacted the affected communities and key stakeholders with summary details of the Peace Strategy and final feedback and input has been received and validated. Key stakeholders should understand the overall process and indicative timeframes and understand the validation phase is the final step to commencement of the project/investment.
- The PEM partner would provide evidence of validation in context specific ways, providing documentary evidence of community consultations, meetings and/or online dialogue platforms.
- The Peace Strategy should be made available to communities or key stakeholders in relevant online or physical format in a way that is context specific and conflict sensitive without raising unmet expectations and/or confusing local communities. The SPO would primarily seek to verify whether a validation process has been undertaken and would not evaluate the detail of the validation process unless there is clear missing information in the evidence provided by the Peace Strategy.

Who could be Second Party Opinion (SPO) providers?

Second party opinion (SPO) providers could be certified by an entity or consortium of actors who have contributed to the development of the PFIF. SPOs could be many of the organisations that currently provide such services for other categories of sustainable investment and or independent organisations with development and/or peacebuilding focus, individual consultants and or advisers. At the inception of the PFIF it is envisaged the appointment of an SPO could simply be an independent consultant and/or organisation engaged in the feedback process of developing the PFIF.

Alignment Step Three: Investment Support and Results Verification



The third phase of the alignment process of the PFIF is the post investment phase where the investment or project has commenced on an already PFIF aligned 'Peace label' investment. Following the previous phases, the peace-supporting nature of the business activity can be maintained during the life cycle of the investment by ongoing assessment of peace impact at various levels, with rapid adaptation based on guidance from PEM partners, and remedial action where necessary. This ongoing process ensures that the investment remains aligned with its peace-supporting objective, and avoids the scenario in which peace-supporting investments drift into well-intentioned but ineffective efforts to support peace, perhaps creating harm. This is as much an alignment stage as it is a reporting one, whereby it is expected the investor would seek to maintain a commitment to peace impact and alignment over the course of the investment.

Because a peace aligned project will involve PEM actions that are intended for the duration of the investment, investment support is explicitly defined in the Peace Strategy that is developed in the second phase. This likely will involve ongoing community engagement, monitoring and feedback as to the progress of the investment and ongoing adaptive and mitigation actions as the contextual situation deems necessary.

To enable the alignment of the investment throughout its life cycle, the PFIF envisages ongoing investment support and results verification through two key actions, detailed below.

Step 3: Key Recommended Alignment and Reporting Actions an Investor should take:

- 3.1. Provide a Peace Impact Report annually and plan for independent evaluation.
- 3.2. Deliver on key changes to the Peace Strategy and Investment and/or remedial action conducted during the course of the investment and report on them in timely manner.

3.1. Provide a Peace Impact Report annually and plan for independent evaluation

The primary reporting and disclosure requirement of a PFIF aligned investment would be the mandatory production of a Peace Impact Report due to be published annually. The Peace Impact Report should provide both quantitative and qualitative data to report on the key indicators identified in the Peace Strategy and to report on progress of indicators on the Peace KPIs. At this draft stage of the PFIF framework, prescriptive guidance for the format of the Peace Impact Report is deliberately somewhat open ended, but clearly such a report is fundamental to answering the ultimate question of whether the investment is positively impacting peace and doing what it intended to do while causing no unintended harm or negative consequences.

The Peace Impact Report should be developed by the investor working in partnership with the PEM partner and validated by an independent evaluator hired by the investor/company or transaction structure at least once every three years. While a Peace Impact Report would be required annually, at least once every three years, an independent evaluator would be required to substantiate the Peace Impact of the investment. The evaluation would evaluate the key interim or final results described by the Peace Strategy and be based on independent consultations with key stakeholders. These evaluations could follow best practise in the development and peacebuilding aid sector and be conducted by many of the same existing actors that evaluate aid programming. Peace Impact Reports and related independent evaluations should be made public to other investors and in context sensitive ways to local communities and stakeholders. It is important for prospective investors and fiduciary stakeholders to be able to review timely statements of peace impact as well as independent evaluations that can substantiate the peace supporting character of the investment.

In many cases, Peace KPIs may have a long-term focus and certain quantitative methods of monitoring may not be able to show notable change. In such cases, the Peace Strategy monitoring plan that feeds into the production of the Peace Impact Report may rely on qualitative forms of outcome harvesting to collect narrative detail as to how the investment has made changes to various peace sub-dimensions. Ideally, the Peace Impact Report would be informed by survey data of either a representative sample of affected communities and/or a panel survey of key stakeholders to monitor their perceptions and experience of key indicators. In some cases, the Peace Strategy may detail more timely and regular data collection in order to better monitor key issues and risks and the investor working with the PEM partner may also seek to detail such data in the Peace Impact Report.

Independent Evaluation and Verification of the Peace Impact Report
During the lifetime of the investment, it is essential that the investor continues to communicate with its PEM partners, and to collaborate with local trusted organisations, but this alone is not sufficient to ensure alignment, as the investor risks becoming trapped in a tunnel-vision devoid of important diverging viewpoints. A PFIF investment should therefore conduct independent evaluation of the Peace Impact Report, considering the efficacy of the PEM partner, the steps taken to address any grievances, and the veracity of peace impact claims of the investment activity.

The investor may choose to conduct the independent evaluation in a timelier manner than required by the PFIF (at least every three years). This may help the investor to gain an early view in the event that the signals from partners in the field are not conveying the full extent of the risks on the ground. This can be particularly relevant in complex contexts where there are multiple nationalities, ethnic groups, tribal affiliations, or religious communities, as each of these groups may hold different perspectives and perceptions on the impact of the investment on their own interests.

To effectively conduct independent evaluation, an investor can identify suitably expert and impartial evaluators or advisors to carry out the analysis, drawing upon locally grounded information. It will not be sufficient for the investor to rely on the peace-supporting principles and standards against which the investment was designed and implemented to claim that the investment is in fact peace-supporting. Instead, the investor should actively search for divergent points of view that might indicate an escalation in conflict risk an escalation in business risk associated with changing context dynamics and or risks.

Ongoing accompaniment and post-investment support is built into PEMs and PFIF Alignment.
It should be clear to investors that post-investment support is built into PFIF aligned investments through the Peace Strategy and PEM actions to be delivered by PEM partners. By working in close collaboration with a PEM partner of the course of an investment, a PFIF aligned investment is able to rapidly assess its contribution to peace on an ongoing basis, and receive timely warnings of unintended negative effects or rising risks due to changing context and/or dynamics.

In practice this means that the investor and the PEM partner should arrange frequent consultations, depending on the context and the nature of the risks identified. In situations which are more volatile, and where there are rapid changes in the context, a higher frequency of consultation would be advantageous for the investment. In less complex situations, less frequent consultations may be required. Regardless of the frequency, the essential characteristic of these consultations should be close collaboration and trusted confidential communication between the PEM partner and the investor.

3.2. Deliver on key changes to the Peace Strategy and Investment and/or remedial action conducted during the course of the investment and report on them in timely manner.

It is important to acknowledge that in some cases the context surrounding a peace-supporting investment may change and require the investment and connected Peace Strategy to modify and adapt to changing circumstances. Inability to do so may result in the investment inadvertently doing harm and or having unintended consequences. This may also be because of the presence of the investment itself, once real and/or perceived benefits of the investment to local communities become apparent. In these cases, it will be necessary for the investor, working with the PEM partner to potentially develop adaptations to the Peace Strategy and investment and or plan remedial action. This may involve new PEM actions with existing and/or new local and trusted civil society organisations, government actors, international organisations, and or community/regional leaders, to design and implement remedial action. The nature of these remedial actions may be an extension of the PEMs themselves and or involve entirely new approaches. New actions would require changes to the Peace Strategy which should be disclosed to the market.

In the event of such changes, the scope of remedial action and grievance redress should not be defined too narrowly, as this will be very much dependent on the context, and the nature of the complaints or grievances identified. However, it is essential that in every case the peace- supporting investment demonstrates its willingness and ability to rapidly respond to the “dual materiality” priorities of the investment, valuing the impact of the investment activities on local communities, along with the impact on the investment of the levels of peace and conflict in the context.
By introducing effective and prompt remedial action and grievance redress, working in partnership with locally trusted actors, the peace-supporting investment is more likely to successfully avoid and manage the risk of conflict dynamics, and prevent disruptions to the investment activities.

If the PEM partner identifies a risk of reduced impact for peace, or a possible negative impact on peace, the PEM partner representative should have an open line of communication to the counterpart representative in the investor, and vice versa. If for some reason the PEM partner is unable to communicate concerns to the counterpart within the investor, the PEM partner should have access to another channel of communication with the investor and or company. Once a concern has been raised, or the PEM partner identifies the need for adaptation, the investor should agree in advance which steps are to be taken to ensure a rapid and agile response from the investor.

In practice, this means that the investor will have the benefit of advance warning of escalating risks associated with the context – risks which in the absence of the PEM partnership would typically be identified only when they crystallised in the form of community rejection and/or attacks on assets or staff. It is evidently in the best interests of the investor to respond rapidly to the feedback from the PEM, and thereby avoid or manage these risks. In cases where monitoring and reporting shows the investment is doing harm and the investor is unwilling to make modifications to the Peace Strategy, the investment would lose its peace supporting character and no longer be able to report positive results to maintain its PFIF alignment and peace label.

Gateway Three: Peace Impact Results Disclosure and Reporting

The final gateway in the PFIF requires the investor to conduct ongoing impact disclosure reporting, and demonstrate remedial action has been undertaken where necessary. Mirroring the third alignment step in the process above, this final verification step involves the following elements:

- ✓ G.3.1. The investor has provided a Peace Impact Report once annually
- ✓ G.3.2. The Peace Impact Report is independently evaluated at least once every three years.
- ✓ G.3.3. The Peace Impact Report does not describe any activities or consequences from the investment that cause the investment to become exclusionary in nature

It is envisaged that investors would carry out the final step voluntarily in order to maintain their PFIF alignment and peace label. Potentially, in a future development of the peace aligned market, third parties or independent third party opinion providers may emerge to further assess the peace impact claims of various peace finance structures and investments for investors.

G.3.1. The investor has provided a Peace Impact Report once annually

The ultimate transparency and integrity of a future peace finance market or peace investment category, rests on the ongoing disclosure provided by peace aligned investors regarding the level of impact their investments attain. The primary ongoing reporting requirement would be provision of a Peace Impact Report as detailed in the above alignment step. The Peace Impact Report would need to:

- Detail yearly progress on key Peace KPIs related to areas of direct/indirect contribution in key sub-dimensions of the peace taxonomy.
- Report on progress on all components of the peace taxonomy sub-dimensions.
- Elaborate qualitative reasoning for results whether positive or negative.
- For negative results, establish and describe remedial actions, modifications to the PEM actions and or other actions undertaken and subsequent outcomes.
- Report on evolution of key risks and assumptions detailed in the ToC.

It is anticipated that the market would make a judgement of the fund, structure or investment as to the extent of its peace impact. The investor would be obliged to report remedial action for negative developments which would in turn signal to the market the manner in which the investor is mitigating project and investment risks. In the event the Peace Impact Report describes results that are poor and or results investors determine as sub-optimal, they would in theory incorporate that judgement into the market/business evaluation of the investment. Given it is anticipated peace impacts and financial additionality will often, although not always, be co-linear, these may already be reflected in other financial data already priced into the fundamentals of the investment. Seen in this light, the Peace Impact Report may be seen an opportunity for the investor to demonstrate to the market its proactive approach to mitigating future risks and learning to showcase potential future upside.

Whereby negative consequences have occurred, the investor should disclose adaptation steps, remedial action or grievance redress action taken to maintain the peace supporting nature of the investment and preserve the reduction in risks associated with such actions. Adaptation should in some cases include the selection of additional PEM partners to ground the investment activity in locally relevant insights regarding the conflict context, and potential for the investment to maximise its peace supporting effect. In other cases there may be lines of business activity, or specific assets or other aspects of the investment footprint that should be adapted to ensure that risks are not exacerbated, and the potential for peace supporting investment is maintained all maximised.

G.3.2. The Peace Impact Report is independently evaluated at least once every three years.

As part of PFIF alignment, the investor would be required to finance and publish the results of an independent evaluation to be conducted of the Peace Impact Report at least once every three years. This would involve:

- The independent evaluation must be conducted by an independent evaluation company or individual and evaluation report provided and made public.
- The evaluation should review and substantiate the primary claims of the subsequent Peace Impact Reports and collect independent data to verify claims.
- The evaluation should conform as best as possible to the OECD Standards for Development Evaluation[27] as well as other good guidance such as the Better Evaluation Rainbow Framework.[28]

Best practise evaluation standards would enable investors and PEM partners to provide feedback to the evaluation report, help shape key evaluation questions, provide data and contacts, and any further contextual background relevant to the evaluation. The investor would be entitled to use evaluations to support impact narratives and or positive stories they wish to share with the broader market as well as learn from previous experience.

G.3.3. The Peace Impact Report/s do not describe any activities or consequences from the investment that cause the investment to become exclusionary in nature

In the event a Peace Impact Report describes activities and or consequences from the investment that are exclusionary by nature or character as per the PFIF Principles and/or significant unintended harm or conflict, the investor would no longer be able to use any peace label on the investment and it is would no longer be PFIF aligned. Given the material impacts of such outcomes on reputational, financial and other operational risks, as per standard business procedures, the investor may voluntarily declare this and depending on the asset/investment may seek to exit from such investments and or seek new investors to restructure them.

While a potential certification regime for peace aligned finance may ultimately develop, thus requiring SPOs to certify and review Peace Impact Reports, it is envisaged early stages of market development would likely rely on voluntary reporting and actions in concert with market determinations.

[27] OECD, 'Quality Standards for Development Evaluation' (OECD DAC Guidelines and Reference Series 2010) <https://www.oecd.org/development/evaluation/qualitystandards.pdf>.
[28] Better Evaluation, 'Rainbow Framework' (2014) <https://www.betterevaluation.org/sites/default/files/Rainbow%20Framework.pdf>.

Pillar 5: Results Verification and Disclosure Guidance

The disclosure reporting within this framework rests on the Peace Impact Results report which should provide a simple and clear overview of whether the investment is/has made intended contributions to peace as per the peace strategy. It should also provide qualitative detail describing relevant narrative on why the investment may be contributing to outcomes as well as any other incidental impacts they may be observed by the PEM partner or investor. While the PFIF has sought to be explicit about peace impacts, evidently data collection may also involve or measure other development impacts that can be reported against other SDG domains.

This section provides indicative guidance for what a Peace Impact Report could look like and the types of data that would be provided to the market.

Table 15: Overview of Key Reporting Requirements in the Peace Impact Report, including but not limited to:

Peace Strategy Description	The Peace Impact report should provide a narrative overview of the Peace Strategy, describing the context and dynamics, the intended peace impacts and Theory of Change, the PEM actions, the linkage between them and risk mitigation to the project
Peace Strategy Progress Statement	This is an important summary of the overarching progress and impact of the project based on its intended outcomes, describing observed positive and negative progress that has been measured on Peace KPIs. Results data can be visualised in the optimal format but should clearly describe progress of key Peace KPIs. If negative outcomes have been observed, this should be disclosed and further detailed below.
Theory of Change	The theory of change statement should be provided, describing the basic results logic (If, Then, Because) and key risks and assumptions.
Overview of Business/investment Activity and key sectors	A brief description of the key sector/s the investment and or fund is engaged in and summary of the financial parameters with links to additional information.
Peace Enhancement Mechanism (PEM) Partners and partnership arrangements	A summary of the key partner/s, their key role and responsibilities and the status and nature of the partnership agreement with the PEM partner.
Description of Key Communities, Stakeholders and Beneficiaries	A summary of the key communities, stakeholders, beneficiaries detailing estimated number of people directly and indirectly impacted, their geographic location and intersectional characteristics
Peace KPIs	A summary of the key indicators and targets the Peace Strategy identified

Peace KPI performance summary	A summary of the measured progress on key KPIs, clearly showing whether they are on target or not.
Impacts on other development and social categories and SDGs	A summary of other development and SDG impacts from the investment.
Other Due Diligence and Screening frameworks that have been applied to the project	A summary of other Due Diligence and screening frameworks that have been applied to the investment/project
Peace Taxonomy framework, detailing progress on all sub-dimensions	A summary of the project/investment peace taxonomy table detailing any observed changes to any of the sub-dimensions of the peace taxonomy.
Statement of material impacts of PEMs on relevant risk premium	A summary of the material impacts of the PEM actions and approach on both communities and for the investor, detailing relevant financial metrics.
Unintended consequences monitored and remedial action taken	If unintended consequences have occurred, these should be described and remedial actions taken described.
Summary of key changes to the Peace Strategy, including any additional Peace KPIs and/or targets.	Any changes to the peace strategy, including key PEM partners, actions, timeframes and or additional peace KPIs and or target revisions should be disclosed, clearly stating why they were changed and what they changed from.

A key part of the peace taxonomy reporting could involve reporting on the peace taxonomy sub-dimensions. In a hypothetical example (detailed in table 16 below), a project that has identified three indirect impacts in the Social Peace sub-dimension, as follows:

- 2.1. Contribution to Vertical Social Cohesion (State and Society Trust)
- 2.2. Contribution to Horizontal Social Cohesion (Trust between groups)
- 2.6. Contribution to redress of patterns of economic exclusion for marginalised or excluded communities or groups

The table below provides a simple colour coded system, green indicating outcome achieved, yellow indicating outcome is making positive progress but not yet achieved, red indicating outcome has not been achieved. Grey would indicate the investor did not identify indirect or direct contributions in the relevant sub-dimension in the peace strategy. It can be seen in the table that the investor has reported on all sub-dimensions in the do-no-harm category as required by the PFIF. Green would indicate the monitoring of the project has provided evidence the project has recorded no harm in the respective sub-dimensions. For the sub-dimensions where indirect contributions were sought, the investor would be required to provide more evidence of indirect and or direct contributions. In this case, the investor can show the project has achieved evidence of peace impact in two of the sub-dimensions (vertical social cohesion and horizontal social cohesion) but has not demonstrated progress in contributions to sub-dimension 2.6. (redress of patterns of economic exclusion for marginalised or excluded communities or groups).

Table 16: Example of Peace Taxonomy Reporting

Sub-dimension		Degree of Contribution		
Peace Dimension 1: Support to Improved Safety and Security		**Do-no-harm**	**Indirect**	**Direct**
1.1	Contribution to mitigation of direct interpersonal violence in the community.			
1.2	Contribution to mitigation of sexual and gender-based violence (SGBV) in the community or household.			
1.3	Contribution to the mitigation of abuse and all forms of violence against children.			
1.4	Contribution to mitigation of collective and intercommunal violence.			
1.5	Contribution to cessation of Armed conflict, State-sponsored violence, or violence by non-State actors.			
1.6	Contribution to lower fear of violence in above categories.			
Peace Dimension 2: Support to Social Peace		**Do-no-harm**	**Indirect**	**Direct**
2.1	Contribution to Vertical Social Cohesion (State and Society Trust)			
2.2	Contribution to Horizontal Social Cohesion (Trust between groups)			
2.3	Contribution to equitable access of resources and basic services, income and goods (education, health, housing, work, etc.)			
2.4	Contribution to gender and intergenerational equity			
2.5	Contribution to better governance of public services and more trustworthy delivery of basic services.			
2.6	Contribution to redress of patterns of economic exclusion for marginalised or excluded communities or groups			
2.7	Contribution to the free flow of information, greater transparency, accountability and reduced corruption in public and private institutions.			
Peace Dimension 3: Support to Political Peace		**Do-no-harm**	**Indirect**	**Direct**
3.1	Contribution to improved diplomatic relations between States, and non-State actors.			
3.2	Contribution to development of infrastructure or provision of goods and services that support a formal peace process either defined in a peace agreement and/or a recognised part of a peace process.			
3.3	Contribution to improvement of dispute resolution mechanisms, whether formal or informal and improved perception of justice and human rights issues.			

Verification, Measurement, Evaluation and Assurance methods

The PFIF anticipates a variety of verification and assurance methods will be employed by investors and PEM partners, along with the consultants and advisors engaged to verify the required PFIF disclosure reporting carried out by the investor. Methods of monitoring and evaluation for peacebuilding are widely covered elsewhere, some key examples are provided in the textbox below. It is sufficient here to note that the verification and assurance methods applied within a PFIF should employ some context specific combination of qualitative, quantitative, and participatory methods in order to monitor and evaluate and verify the peace impact of investments seeking to align with this framework.

Qualitative assessments typically rely on the assessments of one or more individuals either individually or collectively, based on an analysis of evidence such as stakeholder feedback, key informant interviews, or survey responses. Quantitative methods provide analysis in which evidence of impact is synthesised and aggregated in quantitative form. The kind of data collected for evaluation should be informed by the peace and conflict and political economy analysis and be relevant, timely, specific depending on the requirements of the evaluation. For instance, this could cover a variety of factors and collection sources, such as statistical collection from a central authority (for say, cross border trade statistics), direct survey collection from beneficiaries (i.e. number of household members with a sustainable peaceful livelihood from baseline to midline), qualitative estimates from community focus groups, or even big data oriented sentiment analysis drawn from social media platforms and local news sources (which can be good to collecting data on violent events and/or protests).

It will be necessary for the PEM partner and investor to develop fit for purpose measurement approaches, but at minimum invest sufficient resources to properly monitor Peace KPIs which have a central role in the Peace Impact Reporting and are most important for proving peace impact. It will be necessary for the monitoring plan to identify context specific indicators that can fit into the peace taxonomy reporting and also be properly measured from some kind of baseline measurement of a representative sample of local community members. Depending on the Peace KPI, the measurement approach may need to emphasize experiential data, collecting individual responses of particular phenomena, here, the PEM partner/s will need to be careful to operate such process in conflict sensitive ways based on best practise. Where such statistical and quantitative measurement is not possible, the PEM partner could use other evaluation techniques such as outcome mapping, contribution analysis and collaborative outcomes reporting of relevant communities which can capture community sentiment and perceptions of positive or negative change (see textbox below for more examples).

Examples of Evaluation methods and approaches, adopted from Better Evaluation

- **Appreciative Inquiry:** A strengths-based approach designed to support ongoing learning and adaptation by identifying and investigating outlier examples of good practice and ways of increasing their frequency.
- **Beneficiary Assessment:** An approach that focuses on assessing the value of an intervention as perceived by the (intended) beneficiaries, thereby aiming to give voice to their priorities and concerns.
- **Case study:** A research design that focuses on understanding a unit (person, site or project) in its context, which can use a combination of qualitative and quantitative data.
- **Causal Link Monitoring:** An approach designed to support ongoing learning and adaptation, which identifies the processes required to achieve desired results, and then observes whether those processes take place, and how.
- **Collaborative Outcomes Reporting:** An impact evaluation approach based on contribution analysis, with the addition of processes for expert review and community review of evidence and conclusions.
- **Contribution Analysis:** An impact evaluation approach that iteratively maps available evidence against a theory of change, then identifies and addresses challenges to causal inference.
- **Critical System Heuristics:** An approach used to surface, elaborate, and critically consider the options and implications of boundary judgments, that is, the ways in which people/groups decide what is relevant to what is being evaluated.
- **Democratic Evaluation:** Various ways of doing evaluation in ways that support democratic decision making, accountability and/or capacity.
- **Developmental Evaluation:** An approach designed to support ongoing learning and adaptation, through iterative, embedded evaluation.
- **Empowerment Evaluation:** A participatory approach designed to provide groups with the tools and knowledge so they can monitor and evaluate their own performance.
- **Horizontal Evaluation:** An approach to learning and improvement that combines self-assessment by local participants and external review by peers.
- **Innovation History:** A particular type of case study used to jointly develop an agreed narrative of how an innovation was developed, including key contributors and processes, to inform future innovation efforts.
- **Institutional Histories:** A particular type of case study used to create a narrative of how institutional arrangements have evolved over time and have created and contributed to more effective ways to achieve project or program goals.
- **Most Significant Change:** Approach primarily intended to clarify differences in values among stakeholders by collecting and collectively analysing personal accounts of change.
- **Outcome Harvesting:** An impact evaluation approach suitable for retrospectively identifying emergent impacts by collecting evidence of what has changed and, then, working backwards, determining whether and how an intervention has contributed to these changes.
- **Outcome Mapping:** An impact evaluation approach which unpacks an initiative's theory of change, provides a framework to collect data on immediate, basic changes that lead to longer, more transformative change, and allows for the plausible assessment of the initiative's contribution to results via 'boundary partners'.
- **Participatory Evaluation:** A range of approaches that engage stakeholders (especially intended beneficiaries) in conducting the evaluation and/or making decisions about the evaluation.
- **Participatory Rural Appraisal (PRA) / Participatory Learning for Action (PLA):** A participatory approach which enables (often farmers) to analyse their own situation and develop a common perspective on natural resource management and agriculture at village level.
- **Positive Deviance:** A strengths-based approach to learning and improvement that involves intended evaluation users in identifying 'outliers' – those with exceptionally good outcomes - and understanding how they have achieved these.
- **Qualitative Impact Assessment Protocol (QUIP):** An impact evaluation approach without a control group that uses narrative causal statements elicited directly from intended project beneficiaries.
- **Randomised Controlled Trials (RCT):** An impact evaluation approach that compares results between a randomly assigned control group and experimental group or groups to produce an estimate of the mean net impact of an intervention.
- **Realist Evaluation:** An approach especially to impact evaluation which examines what works for whom in what circumstances through what causal mechanisms, including changes in the reasoning and resources of participants.
- **Social Return on Investment (SROI):** A participatory approach to value-for-money evaluation that identifies a broad range of social outcomes, not only the direct outcomes for the intended beneficiaries of an intervention.
- **Success Case Method:** An impact evaluation approach based on identifying and investigating the most successful cases and seeing if their results can justify the cost of the intervention (such as a training course).
- **Utilisation-Focused Evaluation:** Uses the intended uses of the evaluation by its primary intended users to guide decisions about how an evaluation should be conducted.

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