Finance for Peace

Mapping Investment Guidance for Peace

A comprehensive review of existing ESG, impact and sustainable finance principles and guidance for peace

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About this Report

This mapping study is an in-depth analysis of the international frameworks and standards used by development finance institutions, multilateral development banks, asset managers, and responsible investment owners to invest in developing contexts. The report highlights the need to incorporate peace-positive investment objectives in fragile settings and emerging markets, as the existing frameworks tend to lack conflict sensitivity, resulting in a failure to respect the Do No Harm principle. The study identifies ten key gaps in existing and nascent peace impact frameworks and concepts, which have provided critical input into the Peace Finance Impact Framework (PFIF) and Peace Finance Standard (PFS) that has been developed via a multistakeholder process.

The PFIF and PFS are available separately and aim to help investors make a positive contribution towards peace in a manner that minimizes risk. These frameworks enable intentional peace-positive impacts and validate the additionality of peace investment strategies.

About the Finance for Peace Initiative

Finance for Peace (F4P) is a multistakeholder initiative that seeks to systemically change how private and public investment supports peace in developing and fragile contexts. It aims to create networked approaches that can co-develop the market frameworks, standards, political support networks, partnerships and knowledge required to scale up "peace finance" – investments that intentionally seek to improve conditions for peace.

F4P brings together investors, industry, norm setting entities, Development Finance Institutions (DFIs), governments, peacebuilding and development actors, civil society and local communities to further peace-positive investments. By building/enabling the creation of a market for peace enhancing finance, it aims to reduce risks for both investors and communities and achieve outcomes that are bankable and advance peace. By identifying critical frameworks and developing standards and principles, as well as key knowledge and innovative solutions, the initiative will help to create true additionality to investors, as well as more inclusive development.

Working with partners, Finance for Peace will develop an iterative peace impact framework and connected set of peace standards for various categories of investment that can be used by the market to guide, measure and validate peace positive investment.

Finance for Peace is supported by the German Federal Foreign Office (GFFO) and builds on feasibility research supported by the UK Foreign and Commonwealth Development Office (FCDO) on a new sustainable investment category called peace bonds. Finance for Peace has been incubated by Interpeace, an international peacebuilding organisation that has worked on conflict resolution and peacebuilding throughout Africa, the Middle East, Asia, Europe and Latin America for 29 years.

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Glossary

AAAQ	Availability, accessibility, acceptability and quality
ACET	African Center for Economic Transformation
ADB	Asian Development Bank
Akwé Kon Guidelines	Guidelines for conducting cultural, environmental and social impact assessments for developments that may impact indigenous and local communities
BCB	Business and Conflict Barometer
CAO	Compliance Advisor or Ombudsman
CAS	Country Assistance Strategy
CASA	Conflict Affected States in Africa
CBI	Climate Bonds Initiative
CBS	Climate Bond Standard
CCVRI	Conflict, Crime and Violence Results Initiative
CDSB	Climate Disclosure Standards Board
CSO	Civil society organisation
DAC	Development Assistance Committee
DFI	Development finance institution
DMCs	Developing Member Country
DNSH	Do No Significant Harm
ECDPM	European Centre for Development Policy Management
EDFI	European development finance institution
EHS	Environmental, health, and safety
EMIA	Emerging Markets Investors Alliance
EPFI	Equator Principles financial institution
EPs	Equator Principles
ESF	Environmental and social framework
ESG	Environmental, social, and governance
ESIA	Environmental and social impact assessment
ESMA	European Securities Markets Authority
ESRS	Environmental and social review summary
ESS	Environmental and social standard
EU	European Union
EUGBS	European Union Green Bond Standard
FAO	Food and Agriculture Organisation
FCAS	Fragile and conflict affected situation
FCV	Fragility, conflict and violence
FDFA	Swiss Federal Department for Foreign Affairs
FPIC	Free, prior and informed consent
G20	Group of Twenty
GBPs	Green Bond Principles
GBV	Gender-based violence
GEF	Global Environment Facility
GFFO	German Federal Foreign Office
GIIN	Global Impact Investing Network
GPEDC	Global Partnership for Effective Development Co-operation
GSS	Green, social and sustainability

HCV	High conservation value
HDP	Humanitarian-development-peace nexus
HIPSO	Harmonised indicators for private sector operations
HSBP	Human Security Business Partnership
I4P	Investing for Peace
IAM	Independent accountability mechanism
IBRD	International Bank for Reconstruction and Development
ICMA	International Capital Markets Association
ICRC	International Committee of the Red Cross
IDA	International Development Association
IDD	Integrity due diligence
IEA	International Energy Agency
IFC	International Finance Corporation
IFI	International financial institution
IFRS	International financial reporting standard
ILO	International Labour Organization
IPCC	Intergovernmental Panel on Climate Change
IPF	Investment project financing
IRIS+	Impact reporting and investment standards
IS-FSD	Impact standards for financing sustainable development
ISSB	International Sustainability Standards Board
JII	Joint impact indicators
KPIs	Key performance indicators
LSE IDEAS	London School of Economics International Affairs Diplomacy and Strategy
MDB	Multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
NCP	National contact point
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
OECD MNE	OECD Guidelines for Multinational Enterprises
OHCHR	Office of the High Commissioner for Human Rights
OPIM	Operating Principles for Impact Management
PAI	Principal adverse impacts
PBBC	Peace-building business criteria
PDI	Peace Dividend Initiative
PEM	Peace enhancing mechanism
PFIF	Peace Finance Impact Framework
PFS	Peace finance standard
PPT	de Pury Pictet Turrettini
PSE	Private sector engagement
RAPTA	Resilience, adaptation pathways and transformation assessment
RBC	Responsible business conduct
RBM	Results-based management
RI	Responsible investment
RTS	Regulatory technical standards
SASB	Sustainability Accounting Standards Board
SBGs	Sustainability Bond Guidelines
SBPs	Social Bond Principles
SBWG	ICMA's Social Bond Working Group
SDG	Sustainable Development Goal
SFDR	Sustainability Finance Disclosure Regime

SIDS	Small Island Developing State
SLBPs	Sustainability-Linked Bond Principles
SMEs	Small and medium-sized enterprises
SPTs	Sustainability performance targets
SRCF	Syrian Revolving Credit Fund
STAP	Scientific and technical advisory panel
THK	Tri Hita Karana
ToC	Theory of change
UK	United Kingdom
UN	United Nations
UN PRI	UN Principles for Responsible Investment
UNDP	United Nations Development Programme
UNEP-FI	United Nations Environment Programme - Finance Initiative
UNGPs	United Nations Guiding Principles on Business and Human Rights
WWF	World Wildlife Fund

Executive Summary

This mapping study examines international frameworks and standards used by development finance institutions (DFIs), multilateral development banks (MDBs), asset managers, and owners of responsible investments. The mapping shows that existing frameworks tend to lack conflict sensitivity, resulting in a failure to respect the Do No Harm principle. None adequately enhance due diligence standards to ensure peace-positive business practices.

Additionally, the study analyses existing and nascent peace impact frameworks and concepts to identify links between responsible investments and peace-positive investment objectives in fragile settings and emerging markets. The study identifies ten key gaps and provides guiding rationale for the Peace Finance Impact Framework (PFIF) and Peace Finance Standard (PFS) that have been developed to assist investors in contributing to peace in a manner that reduces risk. The PFIF and PFS enable intentional peace-positive impacts and validate the additionality of peace investment strategies. These frameworks and guidance are crucial for creating a market for peace-enhancing finance that ensures investments have a positive impact on peace and sustainability.

Ten common gaps with respect to peace in current frameworks

1. Environmental, social and governance, and impact and blended finance frameworks are largely silent on peace and conflict concerns.
2. The application of double materiality is inconsistent and should shift from Do No Harm to creating positive impact ('doing good').
3. Holistic, forward-looking, and adaptive approaches are needed to assess value and risks as they materialise over time.
4. Design and planning processes for impact need to become less ad-hoc and more intentional.
5. Risk assessments related to peace and conflict need to become more context specific.
6. Understanding of local needs, inclusion, engagement and participation is often limited or superficial, which weakens due diligence, additionality, risk mitigation and sustainability.
7. The views of beneficiaries are rarely required or collected, hindering transparency and accountability.
8. Many frameworks lack specific and actionable guidance so often remain unimplemented.
9. Impact management and measurement systems need to connect better to disclosure mechanisms.
10. Many complaint and grievance mechanisms are unfit for emerging and fragile contexts.

The study reviews over 25 different principle-based frameworks, certifications, standards, impact investment approaches with specific overview of how each addresses key social and political factors salient for peace.

Approach and Methodology

To retrieve information, the researchers principally used Google and Google Scholar searches. They applied a review protocol based on query terms and on geographical location (fragile and conflict affected settings, DAC and low-income developing countries) in combination with essential concepts, such as 'socially responsible investment', 'environmental, social and governance', 'impact investment', 'SDG' and 'peace impact'.

The research team reviewed and analysed the major responsible/sustainable/social investing principles/frameworks and taxonomies listed below.

All are currently used by major international (financial) institutions and impact investors to manage and measure the impact of their financial investments. They apply high level principles, guided by processes and instruments. Some are supported by implementation standards. The research team reviewed lessons learned and best practices, using a conflict sensitive and peace impact lens based on elements of selected peace impact frameworks and business and peace concepts.

The team mapped principles and guidance, standards and certification, frameworks and regulatory proposals, in terms of their potential application in fragile and conflict affected settings, focusing particularly on Do No Harm, enhanced due diligence, conflict sensitivity, and peace positive impact. Where they are available, exclusion lists have been included in the impact management mapping; most concern industries that are often subject to forms of exclusion by investors.

Principles and guidance

- Principles for Responsible Investing (PRI)
- Equator Principles (EPs)
- OEDC-DAC Blended Finance Principles
- Kampala Principles
- THK Checklist for Impact Assessment on the Poor
- OECD Guidelines for responsible business conduct (RBC)
- Principles for Responsible Banking (UNEP-FI)
- DFI Enhanced Blended Finance Principles
- EDFI Principles for Responsible Financing of Sustainable Development and the EDFI Exclusion list
- Operating Principles for Impact Management (OPIM)
- ICMA Green, Social and Sustainable-(Linked) Bond Principles and Guidelines
- The Emerging Markets Investors Alliance (EMIA) Enhanced Labelled Bond Principles

Standards, certification and ratings

- The IFC Environmental and Social Performance Standards and the IFC Exclusion list
- Environmental and Social Performance Standards of the World Bank Multilateral Investment Guarantee Agency (MIGA) and the MIGA Exclusion list
- World Bank Environmental and Social Standards (ESS)
- Global Environment Facility (GEF) Environmental and Social Safeguards or Minimum Standards
- OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD)
- The SDG Impact Standards
- Climate Bond Standard (CBS)
- The Climate Bond Standard and the EU Green Bond Standard
- Sustainability Accounting Standards Board (SASB) and International Sustainability Standards Board (ISSB) Standards

Frameworks and regulations

- The EU Social Taxonomy proposal and exclusionary criteria
- Sustainability Finance Disclosure Regime (SFDR) and the Principal Adverse Impacts (PAI)
- World Bank Environmental and Social Framework (ESF)
- UN Global Compact 'SDG 16 Business Framework: Transformational Governance'

Peace impact frameworks and business and peace concepts

- Cadmos Peace Investment Fund and the Peace-Building Business Criteria (PBBC)
- The Peace Dividend Initiative, "+P" framework
- I4P Peace Impact Framework
- Interpeace feasibility study on peace bonds and 'marking the market for peace' research
- The Blue Peace initiative investment framework
- Business against violence assessment framework (Katsos and Forrer)
- Human Security and Business Partnership framework (LSE-Ideas and the United Nations Trust Fund for Human Security)

Why demand for ethical, environmental and social standards and minimum safeguards in fragile and conflict affected settings is increasing

Although green, social and sustainability bonds are gaining traction as tools to mobilise finance for the SDGs, frontier markets and more fragile areas have not yet benefited. Blended finance investments are being made in such contexts, but it is not clear whether they are conflict-sensitive or have a positive effect on peace and stability. This section briefly explores the demand for ethical standards and better guidance, the limits of current international standards and guidance, and some missed opportunities, where more impact could have been made in frontier markets without doing harm.

Demand for higher standards and better measurement tools

Societies are demanding that finance and business practices, and economic growth in general, should be governed by higher ethical standards. This has sparked the production of tools that can measure and benchmark business practices. The UN Global Compact identified ten principles covering human rights, labour, corruption, and the environment.[1] The UN Guiding Principles on Business and Human Rights (UNGPs) have become a global standard for businesses and investors whose operations generate risks to human rights.[2] They declare that businesses must exercise due diligence, establish grievance mechanisms, and provide remedies when their operations contribute to human rights violations. A report by the UN Working Group on Business and Human Rights (2021) stated that "despite progress, human rights are still rarely addressed in a systematic or principled way among the institutional investor community. The vast majority of investors have yet to meaningfully engage with their human rights responsibilities."[3]

Enhanced human rights due diligence challenges

The OECD Guidelines for Multinational Enterprises[4] and the OECD's Responsible Business Conduct for Institutional Investors[5] were designed to help operating companies and investors contribute to economic, environmental and social progress, notably by minimising the harmful impacts of their operations, supply chains and other business relationships. The OECD Guidelines for Multinational Enterprises and the UN Global Compact principles both advise donors on how to select blended finance partners who meet high standards of responsible business conduct. To help implement the OECD guidelines, the OECD developed the OECD Due Diligence Guidance for Responsible Business Conduct.[6] Several DFIs have adopted stronger human rights criteria in their economic and social standards. These include commitments to remedy, and disclose more information about the economic and social performance of individual investments.

However, these enhanced due diligence guidance tools require appropriate mechanisms for implementation and protection, including formal access to remedies and institutional or governance structures. In many conflict and crisis-affected settings, such structures do not exist and, because vulnerable people have no influence, due diligence is often a unilateral exercise by company managers who focus on compliance. Second, while human rights due diligence processes can identify potential abuses and opportunities to prevent them, they do not prevent generalised insecurity, build social resilience, or improve the business and social environment.[7]

Environmental, social and governance criteria have a broader and longer vision of social impact, but risks to human rights often remain the starting point and the main focus of environmental, social and governance reporting. Human rights due diligence seeks to minimise the harmful impacts of business activity on human rights but does not address sustainability. Environmental, social and governance due diligence approaches aim to *set standards* against which companies can be evaluated for their sustainability.

1 <https://www.unglobalcompact.org/what-is-gc/mission/principles>.
2 <https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf>.
3 UN Working Group on Business and Human Rights (2021), 'Taking stock of investor implementation of the UN Guiding Principles on Business and Human Rights', <https://www.ohchr.org/EN/Issues/Business/ Pages/WGHRandtransnationalcorporationsandotherbusiness.aspx>.
4 <https://www.oecd.org/corporate/mne/>.
5 <https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf>.
6 <https://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm>.
7 <https://www.lse.ac.uk/ideas/Assets/Documents/reports/2018-02-07-PeopleProfitsPeace-WEB.pdf>.

Current human rights due diligence processes focus narrowly on matters that relate directly to the company. They put company risk at the centre of the process and do not provide specific metrics for ascertaining long-term positive or negative social impacts on communities. Nor do human rights measures to reduce risk show whether a company's activities have improved the human security of those affected by them.[8] Because they do not use a single fundamental unit of measurement, human rights evaluation frameworks always deliver a proxy rather than absolute assessment of a company's human rights performance.

Lack of commitment to conflict sensitive approaches by DFIs

The international environmental, social and governance safeguards most commonly used by blended finance vehicles are the IFC Performance Standards,[9] the Principles for Responsible Investing (PRI),[10] the Equator Principles (EPs),[11] and the OECD DAC Blended Finance Principles.[12] Many environmental and social standards (for example the IFC Performance Standards and the EPs) expect investors to recruit independent consultants to monitor the implementation of action plans or run stakeholder consultations; however, none demand specific peacebuilding or conflict-sensitivity expertise. This reveals both that development finance investors are insufficiently aware of conflict-sensitive approaches[13] and that they do not understand the degree to which conflict analysis can address a wide range of environmental, social and governance risks and reveal the links between them.

In a recent review of over two hundred relevant publications, TrustWorks and NIRAS showed that many DFIs do not attach high importance to conflict sensitivity.[14] The report highlighted certain minimum standards in its recommendations to actors that invest in fragile and conflict affected settings. In particular, it advised investors to: (1) use frameworks that address impact, investment return, Do No Harm outcomes, and conflict-sensitivity; (2) give attention to context analysis; and (3) conduct nuanced and enhanced due diligence on the context, widening the range of stakeholders consulted. In summary, the report argued that DFIs need to tailor their approaches to the specific environments in which they invest.

Some DFIs have already recognised that most standards do not adequately address the risks in fragile and conflict affected settings. To guide the support it provides to its most vulnerable developing member countries (DMCs), for example, in 2021 the Asian Development Bank (ADB) launched a new 'Fragile and Conflict affected Situations (FCAS) and Small Island Developing States (SIDS) Approach'.[15] The ADB guide emphasises that fragile and conflict affected situations and small island developing states need to develop methodology and performance standards at country, programme, and project level to improve risk-based country partnership strategies. ADB's initiative was a response to ADB's portfolio performance, which showed that FCAS and SIDS development outcomes were lower than ADB's average.[16]

Material environmental, social and governance risks are overlooked, probably increasing negative and decreasing positive impacts

Material environmental, social and governance risks have a different weight in conflict affected and fragile societies; this tends to be overlooked by the investment community. Social and environmental risks are frequently associated with deep-rooted structural inequalities that in many circumstances can easily trigger violence. In such situations, if companies apply environmental, social and governance standards that are insensitive to the local and national context, they may widen social and economic fault lines, increasing risks they intended to reduce. The concept of double materiality can help to 'conflict-proof' such standards. Companies that apply double materiality consider the material impacts of the context on their activities, but also the material impacts of their activities on the social and environmental context.

The EU's Non-Financial Reporting Directive already requires larger companies to apply double materiality. Following this development, the concept of 'dynamic materiality' is also gaining traction.[17] This recognises that environmental, social, and governance impacts evolve over time, under the influence, for example, of stakeholder activism, new regulations, the

8 <https://www.lse.ac.uk/ideas/Assets/Documents/project-docs/un-at-lse/Discussion-Paper-New-Approaches-to-Assessing-the-Impact-of-Business-in-Fragile-States-final-version-July-2020.pdf>.
9 <https://www.ifc.org/wps/wcm/connect/24e6bfc3-5de3-444d-be9b-226188c95454/PS_English_2012_Full-Document.pdf?MOD=AJPERES&CVID=jkV-X6h>.
10 <https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment>.
11 <https://equator-principles.com/app/uploads/The-Equator-Principles_EP4_July2020.pdf.
12 <https://www.oecd.org/dac/financing-sustainable-development/blended-finances-principles/>.
13 Lion's Head Global Partners (2020), 'Investing for Peace Feasibility Study', final report.
14 TrustWorks and NIRAS (2021), 'Conditions for successful investments in fragile and conflict affected societies', prepared for the Dutch Entrepreneurial Development Bank (FMO), <Investing in Fragile States TWG NIRAS Public version (Report).pdf>.
15 <https://www.adb.org/sites/default/files/institutional-document/794556/fragile-conflict affected-sids-approach.pdf>.
16 Ibid.
17 <https://www.bsr.org/en/our-insights/blog-view/dynamic-materiality-how-companies-can-future-proof-materiality-assessments>.

spread of disease, economic shocks, or violent conflicts, and that investors and stakeholders need to anticipate changes and respond to them appropriately and swiftly. Responsiveness is critical to a business, its partners and its value chain.

Many of the principles and standards that are designed to identify and address environmental, social and governance risks focus on the Do No Harm principle. This does not maximise development additionality, especially in conflict affected and fragile settings, which require a more positive and ambitious approach. In their current form, standards do not enable investments to assess whether they improve conditions for peace enhancement.[18] Although it has been widely acknowledged that peace and development are two sides of the same coin, surprisingly little effort has been made to describe the characteristics of a development impact framework that includes peace-enhancing investment strategies.

18 <https://www.cdacollaborative.org/wp-content/uploads/2020/12/Helpdesk-Response-31-CSA-and-IFC-Performance-Standards-FINAL-1208131.pdf>.

Mapping current environmental, social and governance, SDG and impact frameworks

This section describes the results of a review of thirty-three major responsible/sustainable/social investing frameworks and taxonomies for impact management that major international (financial) institutions and other organisations currently use for their financial investment operations. The table below lists the principles, standards, frameworks, and exclusion lists for impact management, as well as the metrics for impact measurement, that were reviewed.

Category	Principles and guidance	Standards, certification and ratings	Exclusion lists	Frameworks and regulations	Metrics and indicators
Impact management	Principles for Responsible Investing (PRI)	The IFC Environmental and Social Performance Standards	IFC exclusion list	EU Environmental and Social Taxonomy proposal	
	Equator Principles (EPs)	E&S Performance Standards of the World Bank Multilateral Investment Guarantee Agency (MIGA)	MIGA exclusion list	Sustainability Finance Disclosure Regime (SFDR) and the principal adverse impacts (PAI)	
	OEDC-DAC Blended Finance Principles	World Bank Environmental & Social Standards (ESS)	EDFI exclusion list	World Bank Environmental and Social Framework (ESF)	
	THK Checklist	Global Environment Facility (GEF) Environmental and Social Safeguards or Minimum Standards	EU social taxonomy: proposed exclusion criteria	UN Global Compact SDG 16 business framework: transformational governance	
	Kampala Principles	OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD)			
	DFI Enhanced Blended Finance Principles	The SDG Impact Standards			
	EDFI Principles for Responsible Financing of Sustainable Development	Climate Bond Standard (CBS)			
	Principles for Responsible Banking (UNEP-FI)	Climate Bond Standard and the EU Green Bond Standard			
	OECD Guidelines for RBC	SASB and ISSB Standards			
	Operating Principles for Impact Management (OPIM)				
	ICMA Green, Social and Sustainable-(linked) Bond Principles				
	The Emerging Markets Investors Alliance (EMIA) Enhanced Labelled Bond Principles				

Category	Principles and guidance	Standards, certification and ratings	Exclusion lists	Frameworks and regulations	Metrics and indicators
Impact measurement					Joint impact indicators (JII)
					Harmonized indicators for private sector operations (HIPSO)
					Social indicators of the ICMA Harmonized Framework for Impact Reporting for social bonds
					Principal adverse impacts (PAI) indicators

The research team mapped these frameworks, principles and standards according to their potential application in fragile and conflict affected settings, focusing especially on the effect on their outcomes of the Do No Harm principle, enhanced due diligence, conflict sensitivity, and peace positive impacts. The mapping included exclusion lists, most of which affect industries that are often subject to forms of exclusion. The team identified ten principal gaps, which are considered in the proposed PFIF and associated taxonomy. Where relevant, areas of complementarity that can add value to a PFIF have been highlighted.

Principles and guidance

1. The Principles for Responsible Investing initiative (PRI)

The six principles for responsible investing (PRI) were launched at the New York Stock Exchange in April 2006 with support from the UN. They offer a menu of possible actions to incorporate environmental, social and governance (ESG) issues in investment practice. Drafted for asset owners and asset managers, they provide a global framework that promotes responsible corporate citizenship in the financial sector by inspiring institutional investors to voluntarily support the incorporation of environmental, social and governance principles in their investment strategies and decisions. Over 4,900 signatories have undertaken to support the principles:[19]

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the principles in the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the principles.
- Principle 6: We will each report on our activities and progress towards implementing the principles.

Since 2018 signatories must meet three minimum requirements, which relate to a company's responsible investment (RI) policy, senior level oversight, and implementation of RI by staff. Delisting is a last resort if a signatory does not meet these requirements. The PRI provides signatories with one-on-one sessions, action plans and guidance over a two-year period to help them implement the changes required to meet the minimum standards. In 2018, 165 signatories did not meet the requirements. Of these, five were delisted at the end of the two-year support period.[20]

In response to signatory demands, the PRI has focused increasingly on social issues, notably human rights. In 2020, it released a report titled 'Why and How Investors should act on Human Rights',[21] which set out clear expectations of investors based on global human rights standards and provided recommendations on integrating human rights in investment

19 <https://www.unpri.org/signatories>.
20 <https://www.unpri.org/reporting-and-assessment/signatories-delisted-for-not-meeting-the-minimum-requirements/6480.article>.
21 <https://www.unpri.org/human-rights>.

practices. The report recommended that investors should commit to respect human rights, establish a due diligence process to manage potential harmful outcomes, and provide remedies for people affected by such outcomes. It stated that investors have a responsibility if they contribute to or cause negative outcomes, and that they should "lend with strings attached", improve communication, and scale up their engagement with sovereign issuers. In September 2022, the PRI launched a new stewardship initiative, initially focusing on metals, mining and renewables, under which institutional investors will act together on human rights and social issues.[22] Investors will use their collective influence with companies and other decision-makers to secure positive outcomes for workers, communities and society.[23]

In 2020, the PRI also proposed a five part framework for investors that will clarify the real world outcomes of their investments, and align those outcomes with the SDGs by establishing a framework for action.[24] The framework will shape SDG outcomes by broadening the individual investees' analysis of financially material environmental, social and governance issues, and provide in parallel a systemic analysis of the most important social and environmental outcomes.[25]

Gaps and areas of complementarity

The promotion of human rights and the SDGs has encouraged some PRI signatories to distinguish between financial products that aim to 'do no harm' (that take environmental, social and governance factors into consideration but do not make them a primary driver of decision-making) and products that seek to 'do better' or 'do good', or apply a 'best in class' approach, and adopt solutions that drive positive real-world outcomes.[26]

Even though the UN Guiding Principles on Business and Human Rights (UNGPs) clarify links between business and human rights that PRI signatories are advised to address, investors do not clearly understand how human rights are defined, what makes them relevant to environmental, social and governance decisions, or what meaningful human rights due diligence looks like.[27] This means that investors must often make judgement calls on where to place capital. The same is true of signatories that want to address issues of conflict; many treat conflict as a subtheme of human rights.

In 2010, the United Nations Global Compact Office and the PRI developed 'Guidance on Responsible Business in conflict affected and high-risk areas: a resource for companies and investors'. This document encouraged companies to take a number of actions. For example, it called on them to make reasonable efforts to assess all public information resources when engaging companies, to act collectively with other investors where appropriate, and to improve communications between environmental, social and governance analysts and fund managers when companies discussed conflict-related issues.[28]

2. The Equator Principles

The Equator Principles (EPs) were designed to be a baseline risk management framework, adopted by Equator Principles financial institutions (EPFIs), to determine, assess and manage environmental and social risks in projects. The primary aim was to provide a minimum standard of due diligence and support responsible risk decision-making. The ten principles apply globally, to all industry sectors and to four financial products: (1) project finance advisory; (2) project finance; (3) project-related corporate loans; and (4) bridge loans. The principles have been adopted by 134 financial institutions in 38 countries.[29] The EPs apply IFC Performance Standards that need to be met as part of the risk management process.

Gaps and areas of complementarity

Since coming into effect on 1 October 2020, the Equator Principles 4 (EP4)[30] have enabled investors and companies to assess human rights, biodiversity and climate change more broadly. EP4 has strengthened and enhanced human rights impact assessments of projects, compared to previous EPs, by mandating that a human rights risk assessment must align with the UNGPs, according to the risk categorisation of the project.

Principle 2 (environmental and social assessment) requires the client to assess a project's economic and social risks (especially for Category A projects[31]), including the risks to affected communities, through objective evaluation and special-

22 <https://www.unpri.org/investment-tools/stewardship/collaborative-stewardship-initiative-on-social-issues-and-human-rights>.
23 <https://collaborate.unpri.org/group/8876/about>.
24 <https://www.unpri.org/download?ac=10795>.
25 Ibid.
26 <https://www.kempen.com/en/news-and-knowledge/esg-newsletter/march-2020>.
27 <https://www.ohchr.org/sites/default/files/Documents/Issues/Business/UNGPs10/Stocktaking-investor-implementation.pdf>.
28 <https://www.unpri.org/download?ac=1724>.
29 <https://equator-principles.com/>.
30 <https://equator-principles.com/app/uploads/The-Equator-Principles_EP4_July2020.pdf>.
31 Category A: projects with potential significant adverse environmental and social risks or impacts that are diverse, irreversible or unprecedented.

ised studies. Environmental and social impact assessments (ESIAs) are expected to review potential adverse human rights impacts and climate change risks for Category A and, where appropriate, Category B projects.[32]

A review of the assessment process establishes whether a project complies overall with applicable IFC Performance Standards (Principle 3). The latter are minimum standards required by the EPFIs. In addition to applying IFC Performance Standards, the EPFIs require clients to develop an action plan (Principle 4) for all category A and B projects and in situations where the EPFIs determine that applicable standards have not been met. Principle 5 (stakeholder engagement) requires the client to show that stakeholders have been involved effectively and in a structured and culturally appropriate manner. Where projects may have significant adverse effects on affected communities, the client has a duty to consult and involve those communities. This duty includes a responsibility to make evaluation materials available to affected communities and disclose adverse impacts promptly in the course of assessments and subsequently.

Principle 5 also requires investors to comply with IFC Performance Standard 7 on consulting indigenous peoples. They must make sure that affected indigenous communities give their free, prior and informed consent (FPIC),[33] to demonstrate that the consent of affected communities has been obtained, or, where consent has not been obtained, to put appropriate plans in place to mitigate and remedy potential adverse impacts.[34] An independent environmental and social consultant or a similarly qualified independent expert is expected to evaluate the consultation process.

Currently, no definition of FPIC has been universally accepted. There is no agreement on what an FPIC process requires, and the practical meaning of 'consent' is unclear. Guidance suggests that consent and associated processes should be determined locally, which implies that affected populations must have some level of ownership and have exercised agency. In many fragile and conflict affected settings, however, marginalised groups may lack both agency and power to influence. Companies can obtain the consent of such groups relatively easily; this does not make the process legitimate or imply the affected groups have autonomy. Current FPIC processes do not consider underlying causes of marginalisation or whether affected groups are able to voice their true needs or defend their rights. The failure to analyse conflict dynamics matters most in societies where power is spread unequally and patronage drives decision-making. These factors are also critical in situations where the host government assumes responsibility for stakeholder engagement and requires an EPFI client to collaborate with its representatives when it plans, implements and monitors activities under Principle 5.

In all Category A projects and relevant Category B projects, the EPFI requires the client to establish effective grievance mechanisms (Principle 6). These should enable affected communities to communicate and resolve concerns and grievances concerning a project's environmental and social impacts. Clients are also expected (under Principle 7) to complete an independent review of all Category A projects and relevant Category B projects, to evaluate their due diligence processes and determine their compliance with the EPs. Under Principle 9, the client must appoint an independent environmental and social consultant to monitor and report on all Category A and relevant Category B projects.

3. The OECD DAC Blended Finance Principles and detailed guidance notes

At a DAC High Level Meeting on 31 October 2017, DAC members adopted five OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the SDGs. Reflecting the DAC's development mandate, the principles are policy targets that seek to ensure that blended finance is deployed in the most effective way to finance sustainable development needs, by mobilising additional commercial capital and enhancing its impact.[35] The OECD DAC principles are intended for all providers of development finance: donor governments, multilateral donors, development cooperation agencies, philanthropic institutions, and other stakeholders. They have been embedded in the international development architecture as de facto standards of good practice in blended finance. The five principles are:

- Principle 1: Anchor blended finance use in a development rationale.
- Principle 2: Design blended finance to increase the mobilisation of commercial finance.
- Principle 3: Tailor blended finance to the local context.
- Principle 4: Focus on effective partnering.

32 Category B: projects with potential limited adverse environmental and social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed by mitigation measures.

33 No definition of FPIC has been universally accepted. Based on good faith negotiation between the client and affected indigenous communities, FPIC builds on and extends informed consultation and participation to ensure that indigenous peoples meaningfully participate in decisions that affect them. It focuses on achieving agreement. FPIC does not require unanimity, does not confer veto rights to individuals or sub-groups, and does not require the client to agree to actions or matters over which it has no control. IFC Performance Standard 7 delineates the process for achieving FPIC.

34 <https://equator-principles.com/app/uploads/The-Equator-Principles_EP4_July2020.pdf>.

35 OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the SDGs (gihub.org)

- Principle 5: Monitor blended finance for transparency and results.

Core guidance notes build on more detailed notes drafted for each principle. It is planned to update the guidance periodically to incorporate new research work, evaluations, reports and other changes in blended finance.[36]

Gaps and areas of complementarity

Sub-principle 1A: use development finance to maximise the development outcomes and impacts of blended finance.

This sub-principle recommends that investors implement a robust theory of change (ToC) to ensure that their interventions target specific SDGs. It asserts that, before entering a blended finance operation, all actors should make clear how a particular investment will lead to specified outputs, outcomes and eventually development impacts. This recognises that, if the links between investments and development objectives are untracked, any negative effects of an investment are likely to be overlooked, violating the OECD's Do No Harm principle. As the next section describes, a strong theory of change is also necessary to implement and report peace impact investments.

According to the detailed guidance notes, intended development outcomes of blended finance investments should align with the national development objectives of the country of investment and with SDG targets that support them. This criterion is particularly important in fragile and conflict affected settings and in low income developing countries, where external investments can be particularly destabilising. In such contexts, blended finance providers should consult in advance, to make sure that differences of interest are heard, to avoid giving excessive weight to private commercial interests, and in the long term to foster ownership by local actors.[37]

According to the guidance notes for this sub-principle, all actors involved in blended finance should also implement the DAC recommendation on the humanitarian-development-peace (HDP) nexus,[38] in accordance with the Do No Harm principle. This DAC recommendation puts people at the centre and calls on actors in countries affected by conflict to analyse collectively the drivers of conflict and positive factors of resilience across the nexus.[39] They also encourage actors to engage politically, use other tools for conflict prevention and peace building that are available, and improve financing across the nexus (see Figure 1).

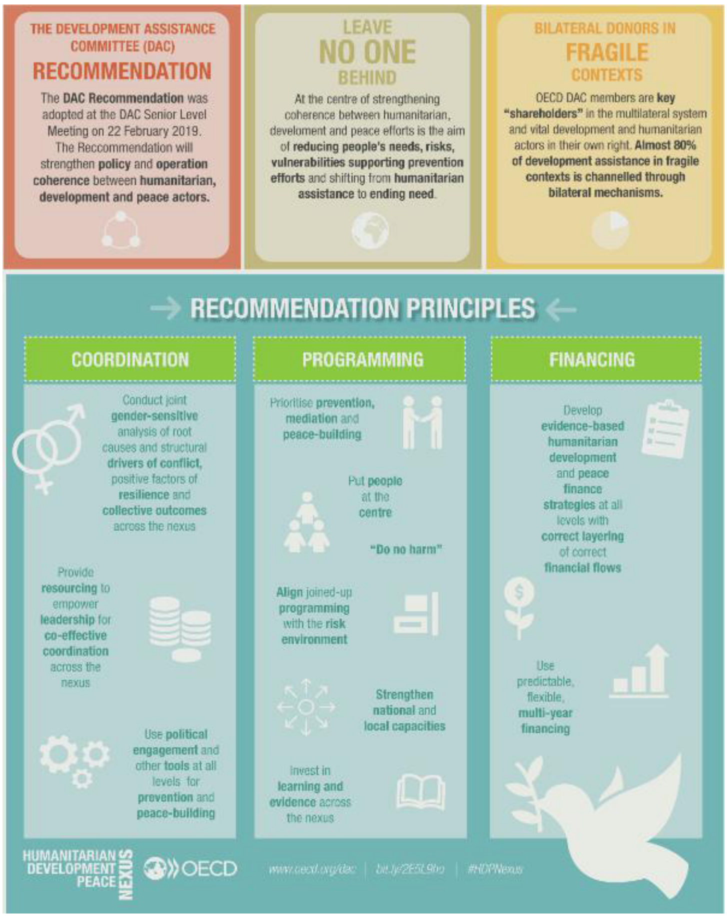
36 Ibid.

37 Basile, I., Neunuebel, C. (2019), 'Blended finance in fragile contexts: Opportunities and risks', OECD Development Co-operation Working Paper 62, <https://ideas.repec.org/p/oec/dcdaaa/62-en.html>.

38 'Nexus' refers to the intersection of humanitarian, development and peace actions. The approach capitalises on the comparative advantages of each pillar (insofar as they are relevant to the context) in order to reduce overall vulnerability and unmet needs, strengthen risk management capacities, and address root causes of conflict. <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-5019.

39 https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-5019>.

Figure 1. OECD DAC Recommendation Principles



The guidance notes further advise blended finance providers to consider prioritising SDGs that can catalyse positive development outcomes and protect the population and the planet. They suggest that prioritising and sequencing SDGs properly can accelerate progress towards sustainable development by realising positive spillovers and limiting the impact of negative trade-offs. Blended finance providers should therefore work with local actors to identify sectors that are underfinanced, where private sector involvement may be particularly needed or may bring new solutions or expertise. Although local ownership supports inclusive development, the guidance notes refer primarily to local government: local business associations, trade unions and local communities are also affected by investment decisions, but the guidance notes do not refer to them.

Sub-principle 1C: demonstrate a commitment to high quality.

This sub-principle encourages actors to use environmental, social and governance risk factors to screen potential partners and investments, both to exclude partners and investments that underperform and to assess their potential to improve. Investors apply criteria to exclude certain industries (see exclusionary criteria below), as well as projects and companies, from partnerships for development, for instance on grounds of corruption, fraud, or criminal activity. Methodologies for evaluating sustainability and environmental, social and governance factors must be clear and transparent, and align with the EU's taxonomy.[40]

Sub-principle 2A: make sure commercial finance generates additionality.

Sub-principle 2A lays out a two dimensional understanding of additionality in blended finance:

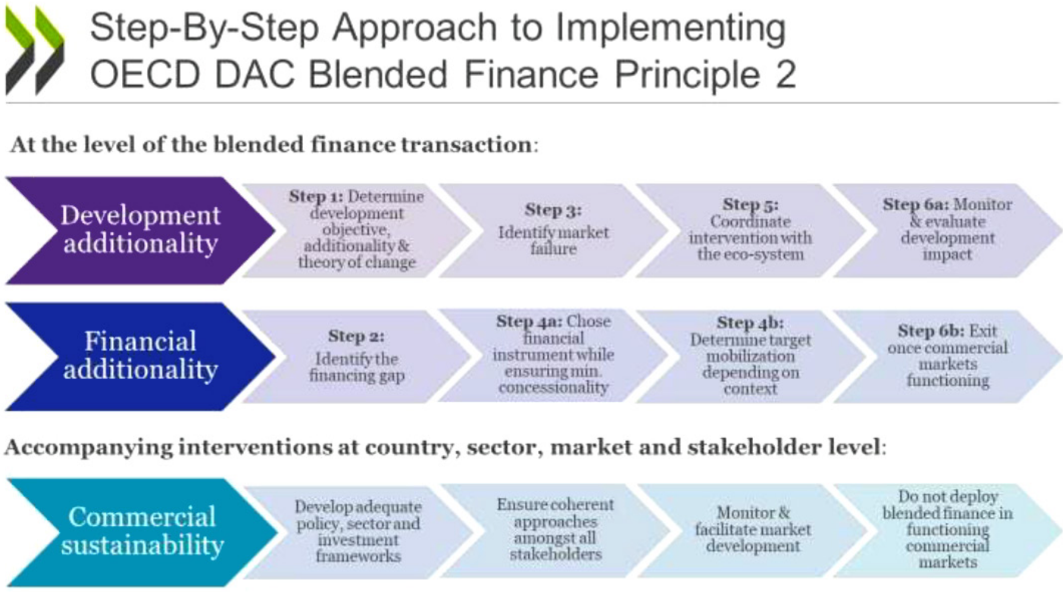
(a) Blended finance projects should ensure additionality by deploying commercial financing only where it is not currently available for development objectives, especially if it involves concessionality.

(b) Projects should focus explicitly on opportunities to bring commercial financing into transactions that have a development impact.

40 <http://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-1/Principle_1_Guidance_Note_and_Background.pdf>.

The guidance note for Principle 2 (see Figure 2) provides a step-by-step approach that determines development additionality by asking questions.[41] For example, does this blended finance transaction create development outcomes in high-risk countries? Do these outcomes meet the needs of under-served population groups (such as women, youth, and indigenous peoples)?[42]

Figure 2.



Sub-principle 3A: support local development priorities.

Sub-principle 3A discusses why blended finance deals benefit from in-depth and systematic consultation with local stakeholders.[43] The guidance note states that consultation should be inclusive and bottom-up to increase the range of partners involved at community level, in line with the Kampala principles.[44] In practice, however, concerns have been raised that blended projects do not consult local stakeholders sufficiently, not least because investors perceive that consultations involve extra cost and effort.[45]

The guidance note mentions that blended finance projects must particularly listen to, and include in decision-making, individuals and groups that are at high risk of marginalisation, in accordance with the UNGPs. Donors are also expected to integrate human rights risks in all blended finance due diligence processes, as recommended by the OHCHR,[46] and to ensure that private sector participants can identify, prevent, mitigate and account for potential negative impacts of projects they co-finance.

Blended finance projects should base their efforts to prevent adverse impacts on meaningful local stakeholder engagement and consultation. Local engagement may also support the long-term sustainability of projects. (The G20 has acknowledged this, noting that "engagement with local communities helps DFIs to identify and mitigate risks, as well as improve investment results".[47])

The guidance note refers to a study by the African Centre for Economic Transformation, the European Centre for Development Policy Management (ECDPM) and the OECD, titled 'Fostering the Local Dimension of Blended Finance', for the G20 Compact with Africa. It showed that blended finance projects are often formed by external institutions or follow standard forms that do not adequately consider the local context or local dynamics; and that they are often client-driven, and involve little consultation with local stakeholders.[48]

41 <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-2/Principle_2_Guidance_Note_and_Background.pdf>.
42 Ibid.
43 <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-3/P3_Guidance_Note.pdf>.
44 GPEDC (2019), 'Kampala Principles', <https://effectivecooperation.org/system/files/2019-07/Kampala%20Principles%20-%20final.pdf>
45 Pereira, J. (2017), 'Blended finance - What it is, how it works and how it is used', <https://eurodad.org/ files/pdf/58a1e294657ab.pdf>.
46 OHCHR (2023), 'Benchmarking Study of Development Finance Institutions' Safeguard Policies', < https://www.ohchr.org/sites/default/files/documents/issues/development/dfi/OHCHR_Benchmarking_Study_HRDD.pdf>.
47 G20 (2018), 'Scaling Development Finance for Our Common Future', <https://t20argentina.org/wpcontent/uploads/2018/06/TF9-9.2-T-20-Brief-GDP-Center-DFIs-1-1.pdf>.
48 ACET (2019), 'Strengthening the Local Dimensions of Blended Finance', <Strengthening the Local Dimension of Blended Finance - ACET

Stakeholder consultation is a challenge because the priorities of donors and of beneficiary countries do not always align, and government priorities may not fully align with the needs of the people. This is especially true of authoritarian regimes and blended finance arrangement must take this into account at the outset. Civil society organisations (CSOs) have regularly criticised international financial institutions for engaging with regimes rather than local populations.[49]

Sub-principle 3A encourages development finance providers to ensure that blended transactions respect national ownership and national development strategies, and involve national actors at all stages. It affirms that a comprehensive local context assessment is necessary, for example to determine what level of concessional finance is appropriate to enhance the risk/return ratio. A sound understanding of local needs and conditions has proved crucial to the design and implementation of projects that achieve high financial and development additionality. The challenge (mentioned by the guidance note) is that there is currently no standard way to conceptualise and measure development additionality.

On-the-ground representation and effective communication help actors to identify opportunities, support project preparation, and establish partnerships with financial, national and local actors. Representation can take many forms, including local offices, frequent site visits by investment officers, and partnership with local organisations.

Sub-principle 4B: allocate risks in a targeted, balanced and sustainable manner.

According to Sub-principle 4B, different methodologies for risk assessment are relevant at each level of blending, depending on the degree to which risks are disaggregated. The guidance note argues that, whenever possible, local partners should be involved during the operating phase. Blended assets can benefit not only from financing in local currencies but from local understanding of risk. As a result, projects that have local participation manage local regulatory, political and markets risks better.[50] Blended finance actors are advised to intensify local communications and build their capacity to assess risk to ensure balanced, unbiased and sustainable risk management.

Sub-principle 5A: agree performance and result metrics from the start.

Before entering a blended finance operation, all actors should clearly understand and articulate how an investment will create its anticipated outputs, outcomes, and development impacts. Sub-principle 5A notes that many financial intermediaries currently fail to establish a clear theory of change that allows them to causally link their investment to its development objectives. An ideal theory of change would describe the causal links, mechanisms and assumptions at play. Financial intermediaries would also agree on key concepts, such as development additionality and impact. At present, wide variations in definition and approach make comparison difficult and raise doubts about the impacts that are reported.[51]

Emerging evidence suggests DFIs can and should measure impact more broadly, across multiple dimensions, particularly with regard to the SDGs; they should step beyond traditional measures to look at employment effects, government revenue impacts, consumer reach, and environmental impact.[52] The guidance note states that many public and private blended finance providers lack credible and practical tools for identifying whether poor beneficiaries benefit or lose from investments that affect them. Even where communities benefit, projects cannot show the extent to which they have reduced poverty. To address this challenge, the Tri Hita Karana (THK) Transparency and Impact Working Group of the THP Blended Finance Platform[53] has developed a checklist for assessing the impact of blended finance on the poor.[54]

Sub-principle 5B: track financial flows, commercial performance, and development results.

The guidance note for sub-principle 5B notes a potential obstacle to enhancing the transparency of blended finance transactions: claims, especially by private actors, that commercial information is confidential. Transparency can be increased without compromising commercial confidentiality if projects or investment actors share data and information on impact without disclosing information that is commercially sensitive.

(acetforafrica.org)>.

49 Bilal, S. (2019), 'Fostering the local dimension of blended finance: From principles to practice', <https://ecdpm.org/publications/fostering-local-dimension-blended-finance-principles-practice>.

50 <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-4/Principle_4_Guidance_Note_and_Background.pdf>.

51 Basile, I., Bellesi, V. Singh, V. (2020), 'Blended Finance Funds and Facilities - 2018 Survey Results Part II: Development Performance', OECD Development Co-operation Working Paper No. 67, <https://dx.doi.org/10.1787/7c194ce5-en>.

52 <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-5/Principle_5_Guidance_Note_and_Background.pdf>.

53 The THK Blended Finance Platform is a neutral, multi-stakeholder platform that engages and connects alternative viewpoints and facilitates a comprehensive approach to disseminating best practices across the blended finance ecosystem, <https://thkblendedfinance.org/about-us/>.

54 <https://www.thkforum.org/project/a-checklist-for-assessing-the-impact-of-blended-finance-on-the-poor/>.

Sub-principle 5C: dedicate appropriate resources to monitoring and evaluation.

The Tri Hita Kirana (THK) paper noted that resource constraints inhibit transparency in blended finance operations.[55] The guidance note highlights this, alongside the importance of impartiality in monitoring and evaluation. To reduce bias in findings and analysis, the note recommends that operations should include local actors in their design and implementation, as well as monitoring and evaluation processes. Affected people should have a say in what is being measured and how.[56]

Sub-principle 5D: ensure public transparency and accountability on blended finance operations.

The guidance note for this principle observes that blended finance operations generally lack transparency.[57] This is largely due to the numerous legal and organisational obligations of actors involved in blended finance; some organisations also lack the capacity to collect data and measure impact. The OECD Blended Finance Funds and Facilities Survey (2018) revealed a specific issue relating to data collection. Although most blended finance actors have adopted impact indicators, they tend to gather insufficient development performance data post facto and do not listen enough to beneficiaries. The survey also noted that many financial intermediaries assess and communicate their impact rather loosely.[58] For instance, annual progress reports may generically refer to "lives impacted" without explaining what this means or how it was calculated.

4. Check List of the Tri Hita Karana (THK) Impact Working Group

The THK Blended Finance Roadmap[59] was launched on the sidelines of the 2018 World Bank annual meeting in Bali. It set out a list of shared values that should underpin blended finance operations. It declared, for example, that blended finance activities should support developing countries to achieve inclusive, social, economic and environmentally sustainable development that benefits women and girls equally by blending finance into the SDGs. Blended finance should also assume a pathfinder role by bringing commercial capital into sectors and areas, such as low income developing countries, where financing needs are most acute; and should be accountable and transparent with respect to operations and impact. The THK Platform for Blended Finance members started work in May 2021 on three workstreams: transparency and impact; blended finance in developing countries post COVID-19; and green, social and sustainability (GSS) bonds and biodiversity.[60]

Responding to the need for comprehensive impact measurement frameworks that include specific indicators of impact on the poor, the Working Group designed a comprehensive checklist of questions that blended finance providers should ask.[61] They included: (a) questions in advance to clarify the expected impact of their investment on the poor; (b) questions in advance to identify and reduce harms a project may create for the poor; and (c) questions to clarify what can and should be measured after a project ends, to assess its impacts in each relevant area. The checklist covers a range of issues: (1) access to the investment's benefits for poor producers and consumers; (2) changes in costs for poor consumers and producers; (3) income and wealth effects on the poor; (4) basic needs and vulnerability; (5) empowerment of the poor and capacity building; (6) standards to protect producers and consumers; and (7) building and financing markets serving the poor.

Gaps and areas of complementarity

The checklist's main strength is that it focuses on benefits for the poor. It does not define 'the poor', leaving that question for blended finance providers to decide. Poverty may be based on income or can be established by national authorities or multilateral institutions: what matters is that investors are transparent about how they define the poor.

The questions force investors to consider whether people affected by a project will really benefit from it, and will see improvements in wellbeing. The checklist adopts a human security perspective, focusing on areas that can improve poor people's income, health, food security, education and access to services and economic participation. Importantly, it describes what needs to be measured to assess impact in these areas. However, it does not say how impact can be measured or provide metrics.

55 THK Transparency Working Group (2020), 'Promoting Transparency in Blended Finance', <https://assets.ctfassets.net/4cgqlwde6qy0/3ePrF9LNWIPwl16wxxlQeC/f580fe16c1488b4f5636>.
56 GPEDC (2019), 'Kampala Principles on effective private sector engagement in development cooperation', Global Partnership for Effective Development Co-operation, <https://www.effectivecooperation.org/ system/files/2019-07/Kampala%20Principles%20-%20final.pdf>.
57 <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-5/Principle_5_Guidance_Note_and_Background.pdf>.
58 Basile, I., Bellesi, V. Singh, V. (2020), 'Blended Finance Funds and Facilities - 2018 Survey Results Part II: Development Performance', OECD Development Co-operation Working Paper No. 67, <https://dx.doi.org/10.1787/7c194ce5-en>.
59 <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/_THK%20Roadmap%20booklet%20A5.pdf>.
60 <https://thkblendedfinance.org/our-work/>.
61 <https://www.thkforum.org/wp-content/uploads/2020/06/THK_Impact_checklist.pdf>.

The checklist incorporates internationally recognised standards for protecting the poor, including IFC, ILO and UN standards. A risk assessment is included to ensure that unintended side effects do not occur. For instance, investors are expected to answer questions about issues that could impede the access of affected populations to basic services or increase their living expenses. The risk assessment also requires investors to consider inequality and whether the poor may be exposed to potential physical or financial harm.

Last, investors are asked whether the investment will undermine the host country's poverty reduction strategy or weaken the impact of development cooperation programmes. Such questions are germane to conflict sensitivity. By encouraging conflict and social analysis, they can help to reduce the risk that projects will inadvertently promote conflict.

5. The Kampala Principles

The Kampala Principles took form following a review of 919 private sector engagement (PSE) projects in 2018.[62] The review concluded that investors should improve local ownership, focus on sustainable development results, create more inclusive partnerships, strengthen transparency and accountability, and manage risk. In particular, it argued that investors needed to manage private sector risks and also reach the furthest behind first. [63]

After extensive consultation, led by a multi-stakeholder working group that included governments, businesses, civil society, trades unions and other actors, the Global Partnership for Effective Development Co-operation (GPEDC) formulated principles designed to make private sector partnerships for development cooperation more effective.[64] The five Kampala Principles, which build on the Busan Principles,[65] provide normative guidance and encourage inclusive dialogue.

- Principle 1: Strengthen inclusive country ownership through coordination, alignment and capacity building at country level.
- Principle 2: Achieve results and targeted impact by realising sustainable development outcomes that bring mutual benefit.
- Principle 3: Ensure partnerships are inclusive by fostering trust through inclusive dialogue and consultation.
- Principle 4: Secure transparency and accountability by measuring and disseminating sustainable development results that enable learning and scaling up.
- Principle 5: Leave no one behind by recognising, sharing and mitigating risks for all partners.

Gaps and areas of complementarity

Principle 1 complements the principles for effective development cooperation and the frameworks for blended finance and the UNGPs. In addition, however, the Kampala principles focus on managing risks to those furthest behind and, moving beyond minimum environmental, social and governance standards, prioritise positive contributions.

Principle 2 highlights the value of partnerships based on mutuality and compliance with agreed international standards, including ILO labour standards, the UNGPs, and the OECD guidelines for multinational enterprises. Due diligence processes should identify environmental, social and governance risks as part of the partnership process; and partners should establish plans to monitor and address risk over a project's life cycle and allocate responsibilities for implementing them. Partners are expected to prioritise investments and engagement opportunities that maximise the benefits of groups most in need. Poor rural households and those living in urban poverty, women and young people are mentioned as examples of such groups.

Principle 3 further underlines the importance of inclusive dialogue processes and partnerships in which private sector actors use their convening power to build trust between stakeholders. Social dialogue not only builds trust; it can enable parties to set shared priorities. Inclusion implies making efforts to involve stakeholders with limited capacity, such as micro, small and medium-sized enterprises. Community beneficiaries are not directly included in this bottom-up consultative approach to partnership. Instead, their interests are articulated by civil society actors and business associations that

62 The Global Partnership examined 919 blended projects in four countries (Bangladesh, Egypt, El Salvador and Uganda) in 2017-18. A broad range of stakeholders in the four countries discussed the findings.

63 <https://www.effectivecooperation.org/system/files/2019-07/Kampala%20Principles%20-%20final.pdf>.

64 GPEDC is a multistakeholder vehicle for driving development effectiveness, designed to maximise the effectiveness of all forms of cooperation for development for the shared benefit of people, the planet, prosperity and peace.

65 The Busan principles affirm: ownership of development priorities by developing countries; a focus on results; inclusive partnerships for sustainable development; transparency; and mutual accountability.

represent them.[66] Principle 4 affirms that all stakeholders should agree on independent evaluation, how they will measure results, and the distribution of responsibility for data collection.

Principle 5 states that, where private sector engagement through development cooperation is the best approach, realistic sustainable development objectives that target specific populations or sectors should be agreed. Targeted support needs to reduce risks, incentivise investment, and ensure sustainability. It is assumed that trying to reach those left behind will increase market risk, and that these risks need to be assessed jointly as part of due diligence processes.

Although the Kampala Principles build on the Busan Principles, they do not refer explicitly to fragile and conflict affected settings. Nor do they refer to peacebuilding or tackling conflict and corruption (key goals of the Busan Partnership for effective development). They do not underline the urgency of development in conflict affected and fragile societies.

6. The DFI Enhanced Blended Finance Principles (DFI Working Group on Blended Concessional Finance)

In cooperation with donors and other development partners, multilateral development banks and development finance institutions (DFIs) use blended concessional finance[67] for private sector projects to implement the Addis Ababa Action Agenda,[68] address the SDGs, and mobilise private capital.

In October 2017, the heads of the Multilateral Development Bank (MDB) and European development finance institutions (EDFIs) approved the DFI Enhanced Principles.[69] The enhanced principles strengthened the DFI's 'Guidance for Using Investment Concessional Finance in Private Sector Operations' (2013),[70] and remain relevant to concessional financing and mobilisation of private capital. Since 2017, DFIs have focused on implementing the enhanced principles in their operations and sharing best practices for implementation, by publishing guidelines for each of the five principles, accompanied by explanations and examples**.** The enhanced blended finance principles are:

- *Principle 1: Rationale for using blended concessional finance.* DFI support for the private sector should make an additional contribution (beyond what is available), or a contribution that is otherwise absent from the market, and should not crowd out the private sector. Blended concessional finance should address market failures.
- *Principle 2: Crowding-in and minimum concessionality.* DFI support for the private sector should as far as possible help to catalyse market development, mobilise private sector resources, and minimise the use of concessional resources.
- *Principle 3: Commercial sustainability.* DFI support for the private sector and the impacts achieved by each operation should be sustainable. DFI support must contribute to the commercial viability of clients. The level of concessionality in a sector should be revisited over time.
- *Principle 4: Reinforcing markets.* DFI support for the private sector should be organised to effectively and efficiently address market failures, and should minimise the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants.
- *Principle 5: Promoting high standards.* DFI private sector operations should promote adherence to high standards of conduct in their clients, including in the areas of corporate governance, environmental impact, social inclusion, transparency, integrity, and disclosure.

Gaps and areas of complementarity

The DFI Enhanced Principles for Blended Finance aim to help address the SDGs and implement the Addis Ababa Action Agenda (2015). The Addis Ababa Agenda called for alignment with sustainable development and national priorities, country ownership, and the participation of local communities in decisions that affect them, as well as respect for other principles of effective development cooperation, including Do No Harm and conflict sensitivity: the enhanced blended finance principles do not make these commitments. Where they refer to risks, they refer solely to financial, market or reputational risks for investors.

66 <https://www.effectivecooperation.org/system/files/2019-07/Kampala%20Principles%20-%20final.pdf>.
67 The DFI Working Group on Blended Concessional Finance for Private Sector Projects defined blended concessional finance for private sector operations of DFIs as follows: "Combining concessional finance from donors or third parties alongside DFIs' normal own-account finance and/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources".
68 <https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf>.
69 <https://www.ifc.org/wps/wcm/connect/6923bcfa-36cd-4d76-889c-229ae373e175/202112-DFI-BCF-Joint-Report.pdf?MOD=AJPERES&CVID=n.xxCH0>.
70 Private Sector Development Institutions Roundtable (2013), 'DFI Guidance for Using Investment Concessional Finance in Private Sector Operations', <https://www.ebrd.com/downloads/ news/roundtable.pdf>.

Principle 5 (Promote high standards) is the most relevant principle for conflict affected and fragile societies. It highlights social inclusion, which is a key pathway for achieving social cohesion in a society and an essential component of peace-building. However, the DFI Working Group's annual reports do not say how social inclusion is to be achieved.[71] Its implementation relies on unspecified best practice industry standards and donor guidance. In some of the cases the reports describe, local communities are called 'target groups' (because they are isolated, rural, women, youth, etc.). However, their involvement in decision-making is not discussed.

7. The European Development Finance Institutions (EDFI) Principles for Responsible Financing of Sustainable Development

The EDFI is an association of 15 European bilateral development finance institutions. Members include British International Investment (formerly CDC), KFW DEG (Germany), FMO (Netherlands), and Swedfund (Sweden). EDFI invests to progress the SDGs and the Paris Climate Agreement. EDFI member institutions have endorsed commitments to responsible financing of sustainable development that include responsible financing, impact management, and transparency.[72] The commitments are set out in the EDFI Principles for Responsible Financing of Sustainable Development.

EDFI exclusion list

EDFI members have also agreed an exclusion list. They will not finance activities that resemble those on the IFC exclusion list,[73] and in addition exclude investments that will damage areas that have high conservation value (HCV), identified using the HCV approach.[74] HCV areas are defined as natural habitats of outstanding significance the protection of which is of critical importance. The HCV applies a certification process, whose safeguards include compliance with national law, protection of endangered species, and respect for indigenous peoples' traditional tenure and use rights.[75]

Gaps and areas for complementarity

The key commitments of the EDFI include to: mitigate risks to local communities; foster the compliance of their supply chains and contractors with international norms and standards; and encourage investee companies to dialogue with their stakeholders about the environmental and social impacts of their business activities. On impact management, the EDFI undertakes to support investee companies to track key impacts on the SDGs, specifically Gender Equality (SDG 5), Decent Work and Economic Growth (SDG 8), Reduced Inequality (SDG 10), and Climate Action (SDG 13). All these SDGs are relevant to fragile and conflict affected settings and link to SDG 16 on conflict and peace (especially SDG 5 and SDG 10 that address horizontal inequalities).

To determine HCV areas, a 20-year methodology is applied that identifies and protects HCVs from the impacts of changes in land use. The approach is applicable globally and works across a wide range of scales (large landscapes or jurisdictions, farms, plantations, management units, smallholdings), including ecosystems (forests, grasslands, aquatic systems) and zones of production.[76] In addition, it considers connections between the ecological landscape and the wider social context and involves local stakeholders, such as indigenous groups, in identifying and co-managing HCVs.

8. The Principles for Responsible Banking (UNEP FI)

The Principles for Responsible Banking were officially launched at the UN General Assembly by 132 founding banks and the UN Secretary-General António Guterres in September 2019. Currently, 290 banks have signed up.

The principles are based on UNEP FI's Principles for Positive Impact Finance (2017).[77] The framework aligns the strategy and practice of signatory banks with the vision of the SDGs and with the Paris Climate Agreement. Its six principles are designed to bring purpose, vision and ambition to sustainable finance. Signatory banks commit to embedding the principles in their strategy, portfolio and transactions across all business areas. A guidance document supports their implementation.[78] The six principles are:

- *Principle 1: Alignment*. Signatories agree to design their business strategy to contribute to and be consistent with indi-

71 <https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/bf/bf-resources/bf-dfi-ifc-annual-reports>.
72 <https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2017/09/EDFI-Responsible-Financing-SDG_Principles_final_190515-1.pdf>.
73 <https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2021/02/EDFI-Exclusion-List_-September-2011.pdf>.
74 <https://www.hcvnetwork.org/hcv-approach>.
75 <https://www.proforest.net/fileadmin/uploads/proforest/Documents/Publications/hcv-20good-20practice_final.pdf>.
76 <https://www.hcvnetwork.org/hcv-approach>.
77 <https://www.unepfi.org/wordpress/wp-content/uploads/2017/01/POSITIVE-IMPACT-PRINCIPLES-AW-WEB.pdf>.
78 <https://www.unepfi.org/wordpress/wp-content/uploads/2022/04/PRB-Guidance-Document-Jan-2022-D3.pdf>.

viduals' needs and society's goals, as expressed in the SDGs, the Paris Climate Agreement, and relevant national and regional frameworks.

- *Principle 2: Impact and target setting*. Signatories agree to continuously increase the positive impacts of their activities, products or services, to reduce their negative impacts, and to manage the risks they cause to people and the environment. To this end, signatories are called to set and publish targets showing where they expect to have the most significant impacts.

- *Principle 3: Clients and customers*. Signatories undertake to work responsibly with their clients and customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

- *Principle 4: Stakeholders*. Signatories undertake to proactively and responsibly consult, engage and partner with relevant stakeholders to achieve the SDGs and the goals of the Paris Climate Agreement.

- *Principle 5: Governance and culture*. Signatories undertake to implement the Principles by applying effective governance and a culture of responsible banking.

- *Principle 6: Transparency and accountability*. Signatories commit to periodically review their individual and collective implementation of the principles and to be transparent about as well as accountable for their positive and negative impacts and their contributions to the SDGs and the Paris Climate Agreement.

A three step process guides signatories as they implement their commitments:[79]

1. *Impact analysis*. This identifies the most significant impacts of products and services on the societies, economies and environments that the bank operates in.

2. *Target-setting and implementation*. This sets and achieves measurable targets in the bank's areas of most significant impact.

3. *Public reporting*. Banks publicly report on their progress in implementing the principles, and are transparent about impacts and contributions.

Gaps and areas of complementarity

Key features of the principles for responsible banking are that they address all levels of a bank's business (strategy, portfolio, and transactions) and are strongly aligned with the SDGs. More important still, they require banks to continuously increase positive impact and reduce negative impact, and expect signatory banks to set clear targets with respect to their most significant negative and positive impacts. In addition, banks must proactively consult and engage with stakeholders, including civil society actors. This implies publicly accounting for issues that arise and explaining what the bank has done to address them.

The Impact Radar, launched in July 2022, supports impact analysis.[80] The Radar is a tool that private finance companies and businesses can use to understand and manage their positive and negative impacts. It covers a range of topics in three impact areas: social (impacts on individuals); economic (impacts on societies and economies); and environmental (impacts on the natural environment).

The UNEP FI's Impact Mappings[81] adopt the same impact areas and range of topics. The system identifies positive and negative impacts and relates them to sustainability needs and priorities on the ground.

- A Sector Impact Map shows the positive and negative links of different sectors and activities to impact areas and topics.

- An Asset Impact Map shows the positive and negative links of different asset classes and types to impact areas and topics (based on the asset classification of the Principles for Responsible Investment). It builds on resources such as the IFC's Environmental Health and Safety Guidelines[82] and UNEP FI's Risk Briefings.[83]

79 <https://www.unepfi.org/banking/bankingprinciples/resources-for-implementation/>.
80 <https://www.unepfi.org/wordpress/wp-content/uploads/2022/07/PI-Impact-Radar-2022-final.pdf>.
81 <https://www.unepfi.org/wordpress/wp-content/uploads/2022/07/PI-Impact-Radar-2022-final.pdf>.
82 <https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines>.
83 <https://www.unepfi.org/extranet/resources/member-tools/environmental-and-social-risk-briefings/>.

- A Needs and Priorities Map provides data on needs and priorities at global and country level, relative to the impact areas and topics. It draws on a range of statistical and policy resources.

These maps feed directly into UNEP FI's holistic impact tools, which include a Portfolio Impact Analysis Tool for Banks,[84] an Investment Portfolio Impact Analysis Tool,[85] and a Corporate Impact Analysis Tool.[86]

The impact areas and topics are based on internationally recognised standards and definitions, including the SDGs. Companies can use a dedicated column to explore the links between impact areas and topics. The system also indicates the potentially positive and negative effects in other impact areas of an intervention in one impact area or topic. To illustrate, the Radar might indicate that the impact topic 'rule of law' in the impact area 'Strong Institutions, peace and stability' has positive links to the topic 'healthy economics' in the impact area 'Integrity and security of persons'. Similarly, the impact area 'Integrity and security of persons' includes human rights impact topics such as 'modern slavery', 'child labour', and also 'conflict'. Although the Radar treats conflict as an active factor, the impact of conflict on employment and the "availability, accessibility and affordability of resources and services" is highly dependent on the circumstances: higher levels of conflict tend to depress access to resources and to employment, while lower levels of conflict improve access and employment. The Radar makes clear that human rights are relevant to all the impact areas and topics (as they are to all the SDGs) and therefore cannot be a standalone impact area or topic.

The effort to link social, economic and environmental impact areas, following the parameters of the SDGs, makes sense. It is accepted that the SDGs are interconnected and influence each other. It can be argued that conflict/peace should be treated as a cross-cutting theme like human rights. However, although conflict and peace link tightly to many development impact areas, evidence for saying that all the impact topics are linked is currently lacking. Significantly, although the guidance document for implementing the principles contains numerous links to many relevant frameworks and international standards, it does not reference peace or conflict sensitivity. This said, the interactive guidance for impact analysis and target setting,[87] and the new analytical tool for banks,[88] have included 'peace and conflict' among the impact areas linked to SDG16.

9. Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises (OECD Responsible Business Conduct for institutional investors)

The OECD Guidelines for Multinational Enterprises (2011) address all major areas of business ethics, including information disclosure, human rights, employment and labour, responsible supply chains, environment, and anti-corruption. They are voluntary for companies, but governments have a duty to promote their implementation and companies are expected to comply.

The OECD guidelines apply to all industries and sectors of the economy but do not refer specifically to the financial sector. Recognising this, the OECD Responsible Business Conduct for institutional investors prepared 'Key considerations for due diligence'[89] under the OECD Guidelines for Multinational Enterprises to assist investors to implement the guidelines.

Gaps and areas of complementarity

The OECD guidelines do not set specific standards for conflict affected and fragile environments. However, they give prominence to due diligence; companies are expected to assess risks as part of their human rights due diligence, and to act on the findings. If they operate in conflict areas, or co-operate with businesses that are linked to conflict areas, they must conduct enhanced due diligence. A risk awareness tool has been designed to complement the OECD guidelines and help businesses to implement them when they operate in 'weak governance zones', including conflict affected areas.[90] Responsible businesses that manage risks promptly prevent risks from having financially material impacts. The 'key considerations' found that both investors and regulators increasingly recognise this.

The complaint/grievance mechanism of the OECD guidelines can be effective in contexts where governments lack the capacity or the will to ensure that international and national standards are respected, for example on matters of human rights and corruption. Complaints about a company's activities can be filed with National Contact Points (NCPs) in the country where the business is domiciled or in the country in which the alleged violation occurred, provided that country

84 <https://www.unepfi.org/impact/unep-fi-impact-analysis-tools/portfolio-tool/>.
85 <https://www.unepfi.org/publications/investment-portfolio-impact-analysis-tool/#>.
86 <https://www.unepfi.org/publications/corporate-impact-tool/>.
87 <https://www.unepfi.org/wordpress/wp-content/uploads/2022/09/Impact-and-Target-Process-V-1.4-14.09.2022.pdf>.
88 <https://www.unepfi.org/impact/unep-fi-impact-analysis-tools/portfolio-tool/>.
89 < https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf>.
90 <https://www.oecd.org/daf/inv/investmentfordevelopment/36885821.pdf>.

adheres to the guidelines. NCPs received 54 complaints in 2020, raising the number of cases handled by NCPs since 2000 to over 575. Half of the 2020 cases were submitted by individuals; relative to previous years, the share of cases submitted by NGOs or trade unions fell. NCPs also closed 38 cases in 2020, a proportion comparable to previous years.[91] In its 2021 state of remedy analysis, however, OECD Watch concluded that the NCP complaint system did not provide satisfaction to most complainants.[92] Its findings confirmed many of the problems with NCP processes and decisions that OECD Watch has consistently observed and documented. In particular, they are not accessible or effective. OECD Watch has argued that these problems are essentially due to governments' lack of will, and also the text of the guidelines, which do not provide precise guidance or instructions to NCPs.[93]

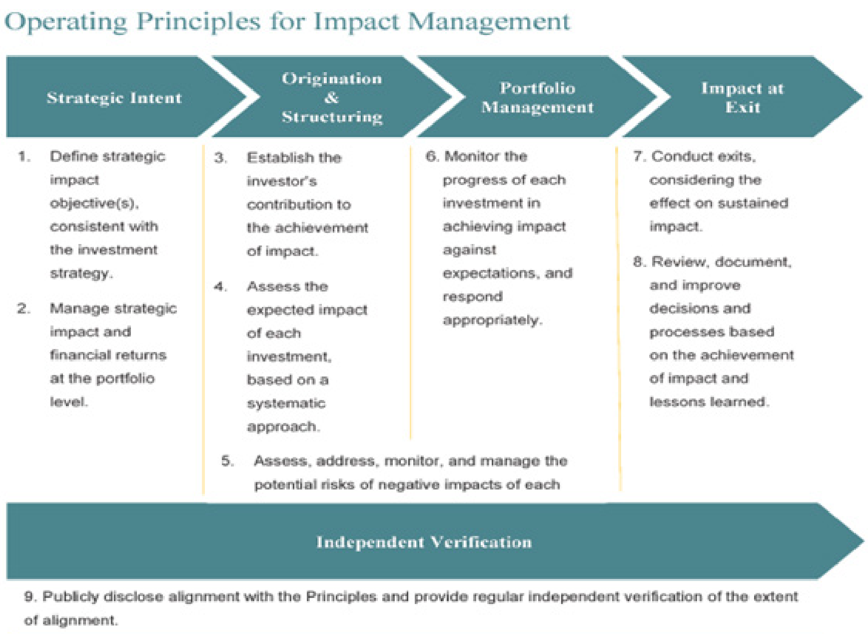
The 'key considerations' advised institutional investors to collaborate with parties that raise concerns about adverse impacts that are the responsibility of investors, either at operational level or through external grievance mechanisms. To support remediation, both asset owners and investment managers can establish facilities that enable complainants to bring allegations to their attention, in line with practices the 'key considerations' describe.

10. The Operating Principles for Impact Management (OPIM)

Numerous asset managers, asset owners, multilateral development banks and DFIs, among others, measure the impact of their investments because they want to make a positive social or environmental contribution as well as achieve financial returns. In many cases, they use the Operating Principles for Impact Management (OPIM, the Impact Principles),[94] because these principles can accommodate investment portfolios of varying size, as well as different asset types, sectors and geographies.[95]

To develop the Impact Principles, the IFC drew on best practice in a range of public and private investment institutions. The principles was originally inspired by the 'Roadmap for the Future of Impact Investing' produced by the Global Impact Investing Network (GIIN) in March 2018.[96] They describe the essential features of investment funds that seek positive social or environmental impacts alongside financial returns. They go further than forms of asset selection that align investment portfolios with impact goals (for example, the SDGs) because they require companies to produce a credible plan that shows how its investment will achieve a positive impact. The impact assessment process has five key elements: its strategic intent; its origin and structuring; portfolio management; an exit plan; and independent verification. The impact management system applies nine principles to these five main elements (see Figure 3).

Figure 3. The nine impact principles.



91 <http://mneguidelines.oecd.org/2020-Annual-Report-MNE-Guidelines-EN.pdf>.
92 <https://www.oecdwatch.org/oecd-watchs-annual-state-of-remedy-report-finds-ncps-still-largely-failing-to-facilitate-effective-remedy-outcomes-in-2021/>.
93 Ibid.
94 <https://www.impactprinciples.org/resource-library/impact-principles-english>.
95 <https://www.impactprinciples.org/9-principles>.
96 <Roadmap for the Future of Impact Investing: Reshaping Financial Markets | The GIIN>

The OPIM are managed by an independent secretariat, which is responsible to the signatories and operates at arm's length from the host. It maintains its own website. The Secretariat moved to GIIN (from the IFC) at the start of 2023.

Gaps and areas of complementarity

Both DFIs and private sector investors are increasingly adhering to the OPIM principles, which have helped to integrate impact and environmental, social and governance concerns into the investment process systematically. Their non-prescriptive nature may have favoured their rapid adoption. Investors can use the principles to screen impact investment opportunities or to assure investors that impact funds are managed in a robust fashion. Investors can equally decide to apply them to specific funds or finance instruments, including bonds, but not apply them to all their assets.

The Impact Principles are designed to be a reference point when designing and implementing impact management systems and are frequently used in combination with the GIIN' IRIS+ indicators,[97] the Impact Management Project's categories of impact.[98] They do not prescribe specific tools or specific impact measurement frameworks.

The principles require investors to issue a disclosure statement and periodically conduct an external verification of compliance,[99] but leave the market to decide who performs external verification and how it is done. Concerns have been expressed that some private sector actors have developed non-transparent ('black-box') proprietary methodologies of verification that do not provide grounds for comparison.[100]

11. The ICMA Green and Social Bond Principles, Sustainability Bond Guidelines, and the Sustainability-Linked Bond Principles

The Green Bond Principles (GBPs) and the Social Bond Principles (SBPs) are a set of voluntary guidelines designed by key market participants and coordinated by the International Capital Market Association (ICMA). Among procedures that define the process for issuing a green, social or sustainable bond, ICMA's are the most widely accepted.

GBPs are voluntary guidelines that provide bond issuers with guidance for launching a green bond investment. GBPs have four core components: (1) use of proceeds; (2) project evaluation and selection; (3) management of proceeds; (4) reporting. They do not describe what is and is not 'green', however. Definitions of 'green' are for the issuer to determine. This said, GBPs do offer an indicative list that captures most of the categories of project that a typical green bond is likely to support. They range from renewable energy to management of land and water resources.

SBPs aim to promote integrity, transparency and disclosure and to assist issuers to finance socially sound and sustainable projects that achieve social benefits.[101] They can aid investors to evaluate the positive impacts of their social bonds. An SBP follows the same process as a GBP: it has the same four components and is relevant to many social project categories, including basic infrastructures and services (such as clean drinking water, sanitation, energy, education, healthcare, and financial credit), food security, employment, and socio-economic empowerment of specific groups.

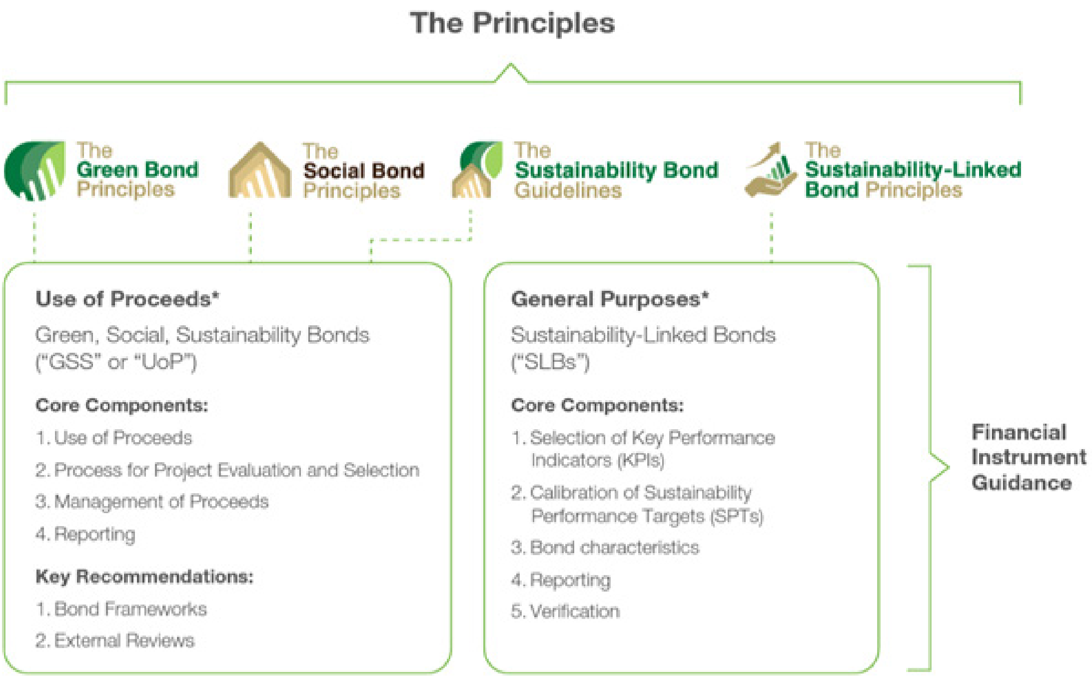
Sustainability bonds adopt the four core components of the GBP and SBP, and their bond frameworks (including the use of external review). Sustainability bonds are a mix of green and social bonds: their characteristics and terms of issue are described in Sustainability Bond Guidelines (SBGs).

The Sustainability-Linked Bond Principles (SLBPs) are part of a different voluntary process that supports sustainability-*linked* bonds (SLBs). An SLB allows an issuer to set more general, overarching sustainability goals, rather than being tied to financing specific projects such as solar power plants or green buildings. The SLBPs contain five key components: (1) selection of performance indicators (KPIs); (2) calibration of sustainability performance targets (SPTs); (3) bond characteristics; (4) reporting; and (5) verification. The guidance advises issuers to publicly communicate their rationale for selecting particular KPIs (on grounds of relevance and materiality, for instance), their level of ambition, potential change and trigger events for change, their intended reporting process, and independent verification process.

The GBPs, SBPs and SBGs stipulate that an amount equal to the net bond proceeds should be allocated to financing eligible projects (i.e., use of proceeds bonds). In contrast, an issuer applies SLBP proceeds primarily for general purposes in pursuit of identified KPIs. If a bond combines SLB and Use of Proceeds features it needs to apply the guidance for both types of bonds. See Figure 4 below for an overview of ICMA bond principles.

97 GIIN, IRIS+, <https://iris.thegiin.org/>.
98 Impact Management Platform, 'Welcome to IRIS+ System | the generally accepted system for impact investors to measure, manage, and optimize their impact (thegiin.org)'.
99 <unleashing-impact-development-finance.pdf (oecd.org)>.
100 Ibid.
101 <Social-Bond-Principles_June-2022v3-020822.pdf (icmagroup.org)>.

Figure 4. ICMA principles: overview



Gaps and areas of complementarity

The first component (use of proceeds) is key because it describes how the proceeds of a green, social or sustainable bond are allocated and used. Claims that a bond is green, social or sustainable must be supported by legal documentation that demonstrates clear environmental and/or social benefits. Although ICMA's system does not define 'green' or 'social', it includes indicative project categories. Each bond issued must provide clear objectives, a decision-making process for identification, eligibility criteria as well as exclusion criteria, and a list of potentially material risks associated with the project in question. Transparency is critical. Issuers are expected to be transparent about how they will monitor management of the proceeds, how the bond will align with the four components, how they will report achieved impacts, and how they will verify those impacts through an external review. Although it is not made compulsory, ICMA recommends that issuers should appoint independent external reviewers for verification.

Any mapping to the SDGs is in addition to the four core components of a green, social or sustainability bond. An issuer will need to identify key SDGs (and related sub-targets) that would be advanced by the capital deployed and select relevant indicators that help to track and report material results. For instance, an issuer can use the social bond framework to describe how a bond will address particular SDGs and then include data related to performance against selected indicators as part of its impact reporting. When a project applies eligibility and exclusion criteria (or other policies or processes) to identify, manage or mitigate social and environmental risks associated with a bond, it must take SDG-linked externalities into account. For instance, a project may have a positive impact on one SDG (for example SDG 13 on climate action) but a negative impact on another (for example SDG 1 on poverty).

12. The Emerging Markets Investors Alliance (EMIA) Enhanced Labelled Bond Principles

The Emerging Markets Investors Alliance (EMIA) was founded in 2015 to enable institutional investors in emerging markets to support good governance, promote sustainable development, and improve the investment performance of the governments and companies in which they invest. It holds educational events for investors and produces materials on topics relating to transparency and corruption, the environment, human rights, animal welfare, and corporate governance. EMIA's Enhanced Labelled Bond Principles offer guidance to issuers of emerging market labelled bonds. They promote the development of a labelled bond market that can meaningfully improve environmental, social, and governance outcomes. The enhanced principles for labelled bond issuance aim to inhibit greenwashing, promote standardisation and transparency, encourage the development of a labelled bond market, and support sustainability efforts.

Gaps and areas of complementarity

The Enhanced Labelled Bond Principles provide more prescriptive guidance with respect to the institutions, practices and processes that must be in place if a bond is to qualify as green, social, sustainable and sustainable. Among others, they require project and expenditure selection committees to have independent oversight and ask issuers to provide annual impact reports on the projects they have financed and the expenditures they have made; impact reports must be publicly available. They also require issuers to develop a use-of-proceeds framework that includes a "well-articulated, inclusive process that details community/grassroot-level involvement". In addition, issuers must comprehensively analyse a project's intended and unintended environmental, social and governance impacts, over an extended period. In the case of sovereign sustainability-linked bonds, they must also explain why the selected KPIs are relevant to the project's socio-economic and environmental objectives. Unlike ICMA bond principles, EMIA's enhanced principles require issuers to engage a pre- and post-issuance verifier.

Standards, certification and ratings

13. IFC Environmental and Social Performance Standards

The International Finance Corporation (IFC) applies a comprehensive set of environmental and social performance standards to all its projects.[102] These influenced the Equator Principles, which most global banks follow. The IFC's eight performance standards are widely accepted and used by many other companies and investors. They are:

- Performance Standard 1: Assessment and management of environmental and social risks and impacts.
- Performance Standard 2: Labour and working conditions.
- Performance Standard 3: Resource efficiency and pollution prevention.
- Performance Standard 4: Community health, safety, and security.
- Performance Standard 5: Land acquisition and involuntary resettlement.
- Performance Standard 6: Biodiversity conservation and sustainable management of living natural resources.
- Performance Standard 7: Indigenous peoples.
- Performance Standard 8: Cultural heritage.

Performance Standard 1 aims to identify all the environmental and social impact risks and opportunities of a project. It includes community engagement: projects are expected to disclose project-related information to communities and to consult them on matters that directly affect them. In addition, the standard states that projects should establish effective grievance mechanisms that provide early warning of risks as well as remedies for persons who are harmed by a project's operations.

Performance Standards 2-8 set out what must be done to avoid and minimise impacts on affected communities and the environment. Whereas Standard 1 affirms that all relevant environmental and social risks and potential impacts should be considered in an overall assessment, Performance Standards 2 to 8 describe specific environmental and social risks and impacts that require attention. Cross-cutting topics (such as climate change, gender, human rights, and water) are addressed by several performance standards.

A number of good practice notes, good practice handbooks, and tip sheets have been created (most since 2012) to assist clients to improve their performance and apply the sustainability framework and performance standards.[103] With respect to land disputes (Performance Standard 5), for example, a guidance note advises clients to be aware that acquisition of project-related land may add to the usual challenges associated with land acquisition and involuntary resettlement, and may exacerbate pre-existing land conflicts. In such cases, it advises clients to apply the UNGPs. Where community grievances arise in connection with land acquisition, the standard refers clients to the guidance for addressing grievances of affected communities.[104]

Performance Standard 7 affirms that IFC clients should consult and involve indigenous peoples who are affected by projects. This performance standard applies to indigenous groups or communities who, by virtue of their economic, social, and legal status or their institutions, customs, culture or language, may be characterised as distinct from mainstream society

102 <https://www.ifc.org/wps/wcm/connect/24e6bfc3-5de3-444d-be9b-226188c95454/PS_English_2012_Full-Document.pdf?MOD=AJPERES&CVID=jkV-X6h>.
103 International Finance Corporation's Guidance Notes: Performance Standards on Environmental and Social Sustainability (ifc.org).
104 International Finance Corporation, Good Practice Note on "Addressing Grievances from Project-Affected Communities" (2009), <https://www.scribd.com/fullscreen/21356198?access_key=key-d387qdvel3wbc9nnmxk>.

and may be disadvantaged as a result of their identity. Where land may be acquired, investors should ensure that such groups give free, prior and informed consent (FPIC) to any transaction. A general requirement is that a client must identify, through an economic and social risks and impact assessment process, all indigenous communities within a project's area of influence who may be affected by project operations, and the nature and extent of expected direct and indirect economic, social, cultural and environmental impacts on them.[105]

It is recognised that there is no universally accepted definition of FPIC and that the definition and practice of FPIC are evolving. The guidance notes say that, for the purposes of the performance standard, FPIC requires (inter alia) informed consultations, good faith negotiations, willingness to engage, and use of acceptable procedures. The outcome should be in the form of an agreement and should include evidence that FPIC criteria have been satisfied. A risks and impacts identification process is expected to include all the steps and methods necessary to screen, identify, analyse, measure, and assess (as far as possible in quantitative terms) the potential risks and adverse impacts associated with the projects that are to be financed. These should include environmental, social, health, safety, labour, and security risks and impacts.

IFC exclusion list

IFC does not finance projects that involve certain products and activities, including: activities that are deemed illegal; the production or trade of weapons, alcohol, tobacco, radio-active materials, and asbestos; gambling; and drift net fishing. All financial intermediaries must also exclude from consideration projects that are associated with: forced or child labour, and commercial logging in tropical forests. With respect to microfinance activities, investment in activities that produce hazardous materials and in activities that impinge on lands owned or claimed by Indigenous peoples (without documented FPIC) are similarly excluded. For the full exclusion list, see IFC Exclusion List.

Gaps and areas of complementarity

Overall, the IFC Performance Standards focus on typical negative effects that the Do No Harm principle addresses. The Standards expect clients to apply methods and assessment tools, consistent with good international and industry practices, that are appropriate and relevant to the type of project they are financing. The methods include (but are not limited to): (i) full-scale environmental and social impact assessments (ESIAs); (ii) limited or focused environmental or social assessments; (iii) the application of environmental siting standards, pollution standards, design criteria, or construction standards; (iv) targeted environmental and social studies, such as health impact assessments or risk/hazard studies for certain activities; and (v) environmental and social due diligence and audits.[106]

The IFC has also developed a good practice note, titled 'Addressing the Social Dimensions of Private Sector Projects', that gives further guidance on mitigating social impacts.[107] Detailed guidance can also be found in the 'Akwé: Kon Guidelines', which explain how to conduct cultural, environmental and social impact assessments for developments that will take place in, or may impact, sacred sites and lands and waters traditionally occupied or used by indigenous and local communities; these guidelines are voluntary.[108]

IFC's investment process in fragile and conflict affected settings includes several approaches that are particularly pertinent, according to a study that draws on academic research and IFC's own experience to derive lessons on how to foster growth, job creation, and stability through private investment in such countries.[109] These lessons include: (1) Engage early on critical fragility issues, such as integrity, environmental and social issues, conflict analysis, and government, macroeconomic, and security assessments; (2) do extensive preparatory work, including on policy issues, and improve private sector and government capacity; (3) identify viable sponsors and where necessary bring in new ones; and (4) recognise the need for blended finance. Surprisingly, the IFC applies the same environmental and social performance standards in fragile and conflict affected settings as elsewhere, even though it recognises that operating conditions are more challenging.

The World Bank Group's 'Strategy for Fragility, Conflict, and Violence, 2020-2025' highlights this gap in IFC standards. It notes that "ESG risks are heightened in these settings because many of the contextual risks are systemic—for example, security, gender-based violence, and land rights—while others are outside the control of private sector actors".[110] A report by the Conflict, Crime and Violence Results Initiative (CCVRI) helpdesk, prepared at the request of the UK Department for

105 International Finance Corporation's Guidance Notes: Performance Standards on Environmental and Social Sustainability (ifc.org).
106 <https://www.ifc.org/wps/wcm/connect/6df1de8f-2a00-4d11-a07c-c09b038f947b/GN1_English_06142021_FINAL.pdf?MOD=AJPERES&CVID=nXqn5Ts>.
107 <https://www.scribd.com/fullscreen/16901257?access_key=key-5c8yyysyrlfs6r9cxbd
108 <https://www.cbd.int/doc/publications/akwe-brochure-en.pdf>.
109 <https://www.ifc.org/wps/wcm/connect/07cb32dd-d775-4577-9d5f-d254cc52b61a/201902-IFC-FCS-Study.pdf?MOD=AJPERES&CVID=mzeJewf>.
110 <https://documents1.worldbank.org/curated/en/844591582815510521/pdf/World-Bank-Group-Strategy-for-Fragility-Conflict-and-Violence-2020-2025.pd>.

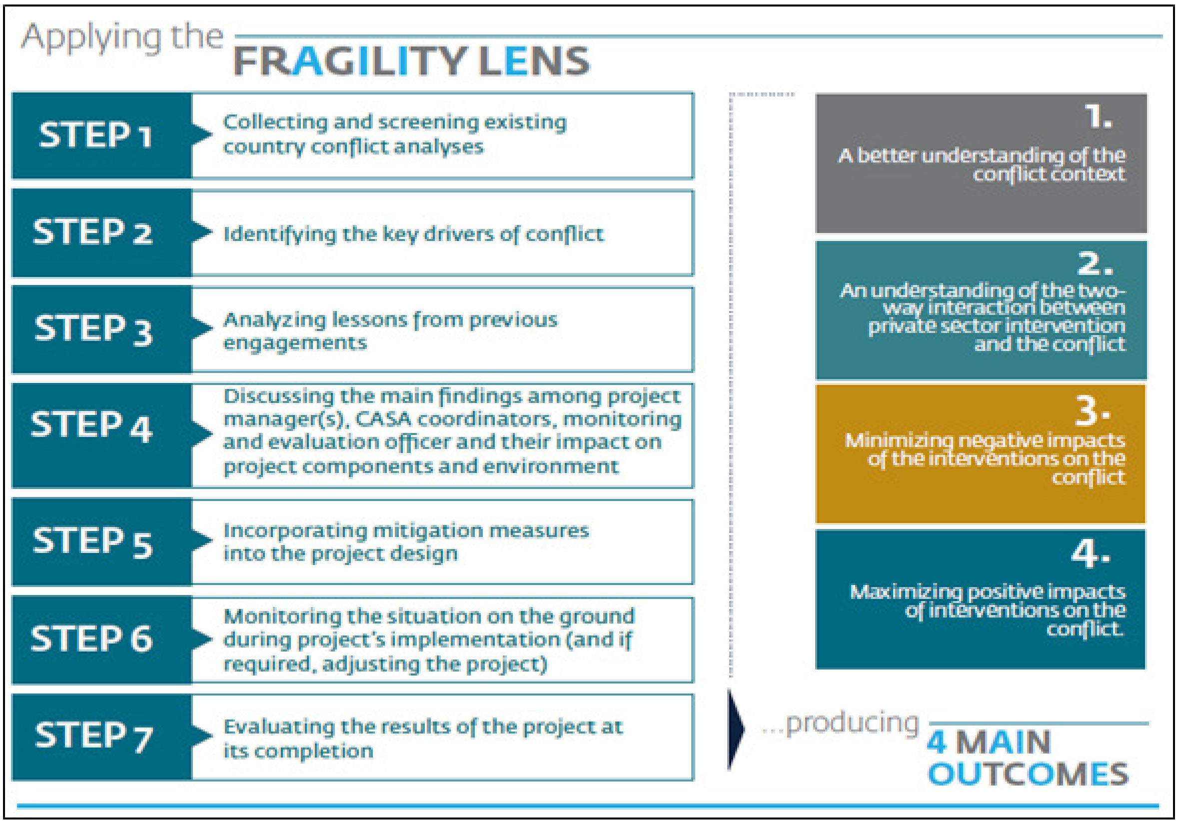
International Development, also critiqued the IFS Sustainability Framework and Performance Standards:

> The standards focus on the direct impact of operations (e.g., people displaced by the project). The extent to which the standards consider impacts of company interventions on broader drivers of conflict is limited. Focus on the project area means that analyses may not take into account regional and national-level drivers of conflict.[111]

Currently, the IFC is preparing new tools and guidance for conflict sensitive analysis, in association with the Multilateral Investment Guarantee Agency (MIGA).[112] To help firms improve their corporate governance and implement the IFC performance standards in fragile and conflict affected settings, IFC has also been developing a new environmental, social and governance advisory programme that will help IFC clients to identify and solve complex challenges involving environmental, social, and corporate governance risks and identify opportunities to add value to their business operations.

In 2008, the IFC developed a 'fragility lens' as part of its CASA initiative.[113] The lens is considered to be a conflict-sensitive approach to working in countries recovering from conflict (see Figure 5).[114] It analyses the political risks associated with implementing an advisory project in fragile and conflict affected environments, and also the harmful effects that a project might have on the social environment. When the fragility lens is applied, investors must address the following questions during the implementation, supervision, and completion of projects: (1) What is the conflict context in which the project operates? (2) What is the two-way interaction between the project and its context? (3) What can the project do to minimise its negative effects and maximise its positive effects on conflict? The IFC's Fragile and Conflict Affected Situations in Africa programme (2014) drew on the experience of the CASA Initiative. However, while the fragility lens supports the standards and is consistent with a conflict-sensitive approach, it still needs to be translated into deliberate and specific steps on the ground; this means that IFC clients must be conflict sensitive operationally.

Figure 5. The CASA fragility lens.



111 <https://www.cdacollaborative.org/wp-content/uploads/2020/12/Helpdesk-Response-31-CSA-and-IFC-Performance-Standards-FINAL-1208131.pdf>.
112 <https://documents1.worldbank.org/curated/en/844591582815510521/pdf/World-Bank-Group-Strategy-for-Fragility-Conflict-and-Violence-2020-2025.pd>.
113 <https://www.ifc.org/wps/wcm/connect/6e7b7bf2-d599-4a42-9e16-b9a0ebf1c99f/ IFC+CASA+Fragility+Fact+Sheets.pdf?MOD=AJPERES&CVID=lITujIG>.
114 <https://www.ifc.org/wps/wcm/connect/07cb32dd-d775-4577-9d5f-d254cc52b61a/201902-IFC-FCS-Study.pdf?MOD=AJPERES&CVID=mzeJewf>.

14. The Environmental and Social Performance Standards of the World Bank Multilateral Investment Guarantee Agency (MIGA)

MIGA is a member of the World Bank Group. Its mandate is to promote cross-border investment in developing countries by providing guarantees (political risk insurance and credit enhancement) to investors and lenders. MIGA's sustainability framework is composed of MIGA's Policy and Performance Standards on Environmental and Social Sustainability, and MIGA's Access to Information Policy.[115]

MIGA's policy on environmental and social sustainability sets out MIGA's commitments, roles, and responsibilities on environmental and social sustainability and includes eight performance standards.[116] These resemble the IFC Performance Standards although they are less detailed and more flexible. Under its policy on environmental and social sustainability, when MIGA reviews environmental and social risks and the impacts of a proposed guarantee, it uses environmental and social categories to calculate the magnitude of risks and impacts. The investment category also specifies MIGA's institutional requirements for disclosure, in accordance with MIGA's Access to Information Policy. The categories are:

- Category A. The investment may have significant adverse social or environmental impacts that are diverse, irreversible, or unprecedented.
- Category B: the investment may have limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible, and readily addressed by mitigation measures.
- Category C: the investment will have minimal or no adverse social or environmental impacts, and financial intermediary projects will have minimal or no adverse risks.
- Category FI: this category is assigned to business activities undertaken by financial intermediaries and delivery mechanisms that involve financial intermediation.

MIGA also adheres to the World Bank Group's environmental, health, and safety guidelines (EHS Guidelines).[117] The EHS guidelines contain performance levels and measures. Their application must be adapted to the hazards and risks established for each project, which are derived from an environmental assessment. The health and safety measures call for community involvement and participation.

MIGA's business model in the International Development Association (IDA) and in fragile and conflict affected settings is set out in the World Bank Group's strategy for fragility, conflict and violence.[118] It focuses among other things on "enhancing conflict sensitivity analysis".[119] The strategy states that "IFC and MIGA will explore systematic approaches to conflict sensitivity in projects and develop new analytical-strategic tools and training, including detailed conflict assessments and pre-emptive Integrity Due Diligence (IDD) screening of potential lead investors (sponsors)".

MIGA's due diligence process[120] involves the following steps:

- The client receives copies of MIGA's performance standards, relevant World Bank Group environmental, health and safety (EHS) guidelines, and other supporting documents that are relevant to an application for a MIGA guarantee.
- The client must submit essential information on the investment project, including how it will manage environmental and social risks and impacts, and its mitigation standards.
- MIGA assesses the above against the performance standards and EHS guidelines.
- MIGA meets the enterprise and other stakeholders to discuss environmental and social issues; it visits the investment project.
- MIGA produces an Environmental and Social Review Summary (ESRS) and, if needed, an Action Plan. These set out commitments that the project enterprise is expected to undertake. The client is asked to review the summary and action plan before it is approved and disclosed.
- The investment project engages and consults with affected communities (defined in MIGA performance standards) to

115 <MIGA Performance Standards (Oct 2013).pdf>.
116 Multilateral Investment Guarantee Agency (2013), 'Policy on Environmental and Social Sustainability', <Cover Sheet (miga.org)>.
117 <https://documents1.worldbank.org/curated/en/157871484635724258/pdf/112110-WP-Final-General-EHS-Guidelines.pdf>.
118 <http://documents1.worldbank.org/curated/en/844591582815510521/pdf/World-Bank-Group-Strategy-for-Fragility-Conflict-and-Violence-2020-2025.pdf>.
119 <https://www.miga.org/sites/default/files/2020-07/MIGA%20FY21-23%20Strategy%20%26%20Business%20Outlook.pdf>.
120 <https://www.miga.org/sites/default/files/2018-06/Understanding_MIGA_ES_Due_Diligence_Process.pdf>.

ensure they are aware of the project, and to lay the foundation for a constructive relationship. The client must disclose to affected communities the project's impacts and measures it proposes to take to mitigate them.

- Where an investment project may have significant adverse impacts on affected communities, or affect indigenous communities (defined in MIGA's performance standards), MIGA determines the degree to which local communities support the project.
- MIGA's monitoring occurs on two levels: site visits by MIGA's environment and social staff, and submission of regular monitoring reports.
- The compliance advisor or ombudsman (CAO) is an independent office that impartially responds to environmental and social concerns of affected communities, and works to enhance MIGA's accountability and outcomes. The CAO may also provide additional oversight.

MIGA exclusion list

The MIGA exclusion list defines the types of project that MIGA does not guarantee. It applies the same conditions as the IFC.[121]

Gaps and areas of complementarity

According to its own account, many clients and reinsurers consider that MIGA's high environmental, social, and integrity standards provide accreditation for projects. Compliance with them also reduces a project's political risks.[122] They consist of well-developed governance mechanisms that provide a high level of transparency and accountability, and include a sophisticated and responsive grievance mechanism (the CAO). However, while the IFC/MIGA performance standards (notably Performance Standard 1 on environmental and social management systems) require investors to establish stakeholder engagement processes, as well as project-level grievance mechanisms wherever projects affect communities, the IFC and MIGA currently have very limited capacity either to conduct due diligence or supervise grievance mechanisms. According to a 2020 external review of IFC/MIGA environmental and social accountability that included the CAO, neither IFC nor MIGA wish to commit resources to remedying harms because they consider this is solely the responsibility of the client.[123] As a result, in several situations IFC/MIGA have demonstrably contributed to harm as a result of non-compliance with environmental and social standards and procedures, and resources have not been available to provide remedy.[124]

It has been suggested that the IFC and MIGA should systematically support clients, to enable them to implement their environmental and social obligations, interact appropriately with affected communities, conduct appraisal and supervision visits, manage complaints (in association with the CAO), and generally build their capacity for community engagement.[125] The IFC and the CAO have produced several guidance documents on project-level grievance mechanisms. However, these do not specify how the IFC verifies whether clients have adequately informed communities about the existence of grievance mechanisms, guarantee external reviews by IFC/MIGA accountability mechanisms, or affirm the role of the CAO.[126] In communities in which power is unequally distributed, using local leaders to disseminate information (a frequently used and ostensibly reliable approach) may lead to the exclusion of certain groups. The external review recommended that IFC/MIGA should increase supervision to ensure that clients communicate across all groups in affected communities, make grievance mechanisms accessible, and explain the work of CAO.[127] A new policy has emerged in response to these recommendations and the CAO is expected to become more proactive.[128]

In general, the effectiveness of independent accountability mechanisms (IAMs) has been much discussed. It is widely understood that their role is to help ensure (in this case through action by the IFI and the borrower) that non-compliance and related harms are remedied. IAMs naturally tend to focus on negating potential harm. However, this means that positive environmental and social outcomes may not be picked up or verified, and that, in the absence of an independent verification mechanism, investors cannot properly assess the intentional social and environmental impacts of their investments.

121 <https://www.miga.org/our-process#:~:text=MIGA%20does%20not%20underwrite%20the%20 following% 20projects%3A&text=Production%20 or%20trade%20in%20alcoholic,or%20trade%20in%20 radioactive%20materials>.
122 <https://www.miga.org/sites/default/files/2020-07/MIGA%20FY21-23%20Strategy%20%26%20Business%20Outlook.pdf>.
123 <https://thedocs.worldbank.org/en/doc/578881597160949764-0330022020/original/ExternalReviewofIFCMIGAESAccountabilitydisclosure.pdf>.
124 Ibid.
125 <https://thedocs.worldbank.org/en/doc/578881597160949764-0330022020/original/ExternalReviewofIFCMIGAESAccountabilitydisclosure.pdf>.
126 Ibid.
127 <https://www.worldbank.org/en/about/leadership/brief/external-review-of-ifc-miga-es-accountability>.
128 <https://www.ifc.org/wps/wcm/connect/d3e7f1c4-fd6b-40fd-ae76-fb028916611d/IFC-MIGA-Independent-Accountability-Mechanism-CAO-Policy.pdf?MOD=AJPERES&CVID=nFDGwP2>.

15. The World Bank's Environmental and Social Standards (ESS)

The World Bank published its Environmental and Social Framework (ESF) in October 2018. It enhances the World Bank's commitment to sustainable development by setting ten environmental and social standards (ESS) that help borrowers to manage environmental and social risks.[129] The ten ESS are:

- ESS 1: Assessment and management of environmental and social risks and impacts.
- ESS 2: Labour and working conditions.
- ESS 3: Resource efficiency and pollution prevention and management.
- ESS4: Community health and safety.
- ESS 5: Land acquisition, restrictions on land use and involuntary resettlement.
- ESS 6: Biodiversity conservation and sustainable management of living natural resources.
- ESS 7: Indigenous peoples/sub-Saharan African historically underserved traditional local communities.
- ESS 8: Cultural heritage.
- ESS 9: Financial intermediaries.
- ESS 10: Stakeholder engagement and information disclosure.

The ten ESS are designed to help borrowers to manage the risks and impacts of a project, and improve their environmental and social performance by applying a risk-and-outcomes approach. The desired outcomes for the project are described in the objectives of each ESS, followed by specific requirements to help borrowers achieve them by means that are appropriate to the nature and scale of the project and proportionate to the level of environmental and social risks and impacts. The Bank has four categories of environmental and social risk: high, substantial, moderate, and low. When it determines the category of a project, the Bank take into account the type, location, sensitivity, and scale of the project; the nature and magnitude of the potential environmental and social risks and impacts; and the capacity and commitment of the borrower (and associated entities) to manage the environmental and social risks and impacts in a manner consistent with the ESS.[130]

Gaps and areas of complementarity

All ten ESS are relevant in fragile and conflict affected settings, but the most relevant are ESS 1, ESS 5, ESS 7, and ESS 10.

ESS 1 focuses on identifying and managing the environmental and social risks of a project, by anticipating and avoiding risks and impacts, and minimising, reducing and possibly compensating for significant impacts. Investors must conduct an environmental and social assessment to evaluate a project's environmental and social risks and impacts throughout its life cycle. To do this, environmental and social baseline data are also necessary. The guidance notes for ESS 1[131] underline the importance of recruiting independent specialists to carry out the environmental and social assessment. In the case of high risk and substantial risk projects, borrowers must supply to the Bank, before the project is appraised, documentation that describes its environmental and social risks and impacts. A social and conflict analysis may be required but the borrower chooses its methodology and tools.[132] The borrower must also prepare and implement an environmental and social commitment plan, which states what the project will do to achieve compliance with the ESS over a specified timeframe.

ESS 5 recognises that project-related land acquisition and restrictions on land use can have harmful effects on communities and individuals. The standard's objectives are to avoid involuntary resettlement and forced evictions and mitigate unavoidable impacts of land acquisition, including by providing compensation for loss of assets. It can be very challenging to meet the demands of this guideline in fragile and conflict affected settings, where land use is often based on customary law and local (indigenous) communities may adopt land practices in the knowledge that they are not recognised by national law. Cultural attachments that local groups may have to the land, in terms of their heritage and identity, may have a deep impact on the survival of such groups and can easily be overlooked. ESS 5 does not guarantee development additionality

129 <https://www.worldbank.org/en/projects-operations/environmental-and-social-framework>.
130 <https://thedocs.worldbank.org/en/doc/360141554756701078-0290022019/original/WorldBankEnvironmentalandSocialPolicyforInvestmentProjectFinancing.pdf>.
131 <https://documents1.worldbank.org/curated/en/142691530216729197/ESF-Guidance-Note-1-Assessment-and-Management-of-Environmental-and-Social-Risks-and-Impacts-English.pdf>.
132 <https://thedocs.worldbank.org/en/doc/837721522762050108-0290022018/original/ESFFramework.pdf>.

for local communities. Community benefits depend on the nature and objectives of a particular project and whether it creates beneficial opportunities for (displaced) communities.[133]

World Bank projects have the potential to increase access to markets, clinics, schools and other services that may improve the lives of vulnerable groups. ESS 7, which addresses FPIC processes, indicates how such benefits should be assessed when they have an impact on local beliefs and practices that are essential to a community's identity. The challenges associated with FPIC have been described in an earlier section of this mapping. It is particularly important to understand and manage the distorting effects on participation and consent that power inequalities can have.

ESS 10 addresses stakeholder engagement and information disclosure. It emphasises the importance of engaging stakeholders throughout the life of a project, especially stakeholders who are disadvantaged or vulnerable. A stakeholder analysis during the project's inception stage can identify such groups and individuals. ESS 10 states that engagement is most effective when a sound foundation of cooperation is established at the project's start.

ESS 10 defines 'stakeholders': they are groups and individuals who are affected by a project and others who have an interest in it. Borrowers are expected to run a stakeholder analysis. The scope and extent of such analyses is particularly relevant in fragile and conflict affected environments. To run a comprehensive stakeholder analysis, investors need to review the interests, goals, positions, capacities and relationships of all relevant actors and should specifically examine power relations, access to economic resources, information and networks and political ties, as well as potential spoilers that may increase the project's risks. Peace impact frameworks stress in addition that analyses can mitigate conflict and other risks. This implies working with civil society actors, traditional leaders and other local mechanisms to resolve and mitigate conflict.

The guidance note for ESS 10 also states that engagement with local individuals and communities relies on a project's relations with community representatives. It notes that borrowers will need to make "reasonable efforts" to verify that such representatives do in fact represent the views of other individuals and their communities.[134] This too can be challenging in fragile and conflict affected settings, where vulnerable people lack voice and agency. Without a process of trust building and empowerment of vulnerable groups, elite power structures can easily seize control of a company's community relationships.

The borrower is expected to set up an effective and accessible grievance mechanism. Project-affected parties should be able to submit complaints about a World Bank-financed project to this grievance mechanism; but other options may also be used, for example a different local grievance mechanism (identified during the stakeholder analysis), or the World Bank's own corporate Grievance Redress Service.[135]

16. The Environmental and Social Safeguards or Minimum Standards of the Global Environment Facility (GEF)

The Global Environment Facility (GEF) is the largest multilateral trust fund mandated to enable developing countries to invest in nature. It supports the implementation of major international environmental conventions on biodiversity, climate change, chemicals, and desertification, among others. Projects funded by GEF are managed by eighteen GEF agencies that include a range of multilateral banks and institutions (for example, the Asian and African Development Banks, FAO, UNDP, UNEP) and other international organisations (such as the World Wildlife Fund).

The GEF Policy on Environmental and Social Safeguards sets out nine minimum standards, covering policies, procedures, systems and capabilities relevant to environmental and social risks and impacts of projects and programmes.[136]

- Minimum Standard 1: Environmental and social assessment, management and monitoring.
- Minimum Standard 2: Accountability, grievance and conflict resolution.
- Minimum Standard 3: Biodiversity conservation and the sustainable management of living natural resources.
- Minimum Standard 4: Restrictions on land use and involuntary resettlement.
- Minimum Standard 5: Indigenous peoples.

133 <https://thedocs.worldbank.org/en/doc/837721522762050108-0290022018/original/ESFFramework.pdf>.
134 <https://thedocs.worldbank.org/en/doc/837721522762050108-0290022018/original/ ESFFramework.pdf>.
135 <https://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>.
136 <Guidelines on GEF Policy on Environmental and Social Safeguards (thegef.org)>.

- Minimum Standard 6: Cultural heritage.
- Minimum Standard 7: Resource efficiency and pollution prevention.
- Minimum Standard 8: Labour and working conditions.
- Minimum Standard 9: Community health, safety and security.

Under Minimum Standard 1, agencies are expected to assess, design and implement their projects and programmes in a manner that anticipates environmental and social risks and potential adverse environmental and social impacts and take action to avoid or prevent them (where feasible) and to minimise, mitigate and manage them where required. As a last resort, where prevention or mitigation are not feasible, agencies are expected to offset or compensate for residual impacts. They are advised to use independent experts (or a local community or others) to monitor and audit project implementation. Disadvantaged or vulnerable groups that may be affected by a project should be identified as early as possible. Agencies are expected to assess and mitigate risks and potential impacts in accordance with the standard, ensure that they do not fall disproportionately on vulnerable groups and that vulnerable groups do not face discrimination when they access project benefits.

Minimum Standard 2 requires agencies to establish culturally appropriate and accessible grievance and conflict resolution systems. A GEF Conflict Resolution Commissioner is available to receive complaints as well. In cases of involuntary resettlement (Minimum Standard 4), borrowers must prepare a resettlement action plan, with an adequate budget, and make a baseline assessment of the socio-economic conditions of affected people as well as their legal tenure and rights. In fragile and conflict affected settings these tests may be very difficult to accomplish, because land administration may be weak, land records may be missing, and customary land rights may be in tension with formal legal systems. Where poor land governance is a driver of violent conflict, borrowers must apply Minimum Standard 9.

In accordance with Minimum Standard 5, borrowers must prepare mitigation and compensation plans in meaningful consultations with affected indigenous communities. These must be gender and inter-generationally inclusive, involve their representative bodies and organisations, allow them sufficient time to deliberate, and enable affected indigenous communities to participate effectively in the design of mitigation measures and the provision or sharing of benefits.

Minimum Standard 6 addresses cultural heritage, which must be appropriately preserved throughout the lifetime of a project. Borrowers must take measures to minimise adverse impacts on cultural heritage in meaningful consultations with stakeholders and local authorities. Separate policies and guidelines cover this issue: for example, the 'Policy for Stakeholder Engagement'[137] and the 'Principles and Guidelines for Engagement with Indigenous Peoples'.[138]

Gaps and areas of complementarity

Many GEF projects are located in fragile and conflict affected settings; total investment exceeds USD 4.0 billion, 29% of GEF's portfolio. According to a 2020 evaluation by the Independent Evaluation Office of the GEF, the GEF does not have conflict-sensitive safeguards, policies, and guidance that enable it to manage systematically the risks and effects of conflict and fragility on GEF projects.[139] The same evaluation concluded that risks related to conflict and fragility, as well as the ways in which GEF projects respond to those risks, lower project effectiveness, efficiency, timings and sustainability, and increase project cancellations; violent conflicts have caused deaths in affected communities as a result.[140] The evaluation also noted that a small but growing number of GEF projects had reduced their risks dramatically by proactively embracing (environmental) peacebuilding opportunities. The projects in question had adopted a range of methods, including promoting political commitment, rebuilding livelihoods, and reintegrating ex-combatants and displaced persons in communities. The evaluation concluded that, where projects applied such peacebuilding practices to address conflict drivers, they were likely to be more sustainable.[141] The evaluation referred to work by the Environmental Law Institute that highlighted the links between environmental peacebuilding and the SDGs: it showed that environmental peacebuilding in projects affected 70% of SDG 16 targets.[142]

The GEF safeguards include numerous provisions on grievance and conflict resolution. These are important but tend to

137 <https://www.thegef.org/sites/default/files/documents/Stakeholder_Engagement_Policy_0.pdf>.
138 <https://www.thegef.org/sites/default/files/publications/Indigenous_Peoples_Principle_EN.pdf>.
139 <https://www.gefieo.org/sites/default/files/documents/learnings/fragility-2020-learnings.pdf>.
140 <https://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.E_C59_01_ Evaluation_of_GEF_Support_in_Fragile_and_Conflict affected_Situations_Nov_2020_0.pdf>.
141 Ibid.
142 Annex J, 'Evaluation of GEF Support in Fragile and Conflict affected Situations', <https://www.gefieo.org/sites/default/files/documents/council-documents/c-59-e-01.pdf>.

focus on conflicts that are directly associated with a project, rather than the conflict context in which projects are located. The evaluation recommended to GEF that it should extend the current environmental and social safeguards to cover general issues of conflict-sensitivity.[143] Conflict context is currently mentioned just once, in Minimum Standard 9 on community health, safety, and security. The reference includes no procedures for identifying, evaluating, or deciding how to manage the risks in a conflict or post-conflict context, and sets no standards for management of conflict-related risks. The safeguard seems to apply only during the design stage, whereas situations affected by conflict and fragility are dynamic and can change rapidly, so that projects need to be conflict sensitive throughout their life cycle.[144] The evaluation found that the safeguards would be strengthened if borrowers were instructed to analyse: conflict- and fragility-related threats to natural resources on which communities depend; the political economy of natural resource economies related to the project; competition for or conflict over natural resources; and the access (or lack of access) of marginalised communities to natural resources in and near the project area.

GEF's Scientific and Technical Advisory Panel (STAP) conducted an earlier evaluation in 2018. Titled 'Environmental Security: Dimensions and Priorities', it recommended that GEF should: "(1) Explicitly address environmental security in project and program design … ; (2) Assess conflict risk routinely among investment risks beyond the scope of GEF interventions … ; (3) Strengthen analysis of factors linking environmental change and vulnerability within GEF interventions through the use of tools such as the Resilience, Adaptation Pathways and Transformation Assessment (RAPTA) framework … ; [and] (4) Contribute to conflict prevention through environmental cooperation, among others by building capacity of civil society".

The GEF standards and guidelines on environmental, social and governance risks illustrate how a good set of standards that seek to protect vulnerable groups can still have a negative material impact on investments and people in the absence of conflict-sensitive mechanisms. The GEF evaluation found that the Minimum Standards lack conflict-sensitive safeguards and that as a result GEF investment projects could not manage systematically the risks they encountered during implementation. It also noted that some GEF projects had taken peacebuilding measures that decreased their risks and other harmful outcomes and increased their effectiveness and sustainability.

17. The OECD and UNDP Impact Standards for Financing Sustainable Development (IS-FSD)

Recognising that a growing number of investors and corporations wish to couple financial returns with positive social, economic and environmental impacts and that no decision-making framework was available, the OECD and UNDP jointly developed the Impact Standards for Financing Sustainable Development (IS-FSD).[145] Drafted in consultation with DFIs, they were adopted by the OECD in 2021.

The IS-FSD is essentially a guidance tool that fills the gap between high-level principles and the impact measurement and management frameworks that organisations choose independently.[146] The standards give donors, DFIs and private investors a best practice and self-assessment instrument that they can use to integrate impact management in their investment practices and decision-making. According to the OECD and UNDP, development finance actors that align with the standards can demonstrate their intention to contribute to the SDGs and also assess the positive and negative effects of their projets on people and the planet. The IS-FSD is also meant to be used as a common framework for dialogue between donors, investors and DFIs. The standards are constructed round four connected and interdependent themes: impact strategy; impact management approach; transparency and accountability; and governance.[147]

- *Standard 1: Impact strategy*. The partner sets its development impact objectives, framed in terms of the SDGs, paying particular attention to the overarching commitment to "leave no one behind".[148] Objectives are aligned with donor and partner priorities and are embedded in an impact-focused investment strategy.
- *Standard 2: Impact management approach*. The partner adopts an impact management approach that integrates development impact, human rights safeguards, the SDGs, and economic, social and governance values in the design and management of its operations.
- *Standard 3: Transparency and accountability*. The partner discloses to donors and beneficiaries how it manages and mea-

143 Ibid.
144 <https://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.E_C59_01_ Evaluation_of_GEF_Support_in_Fragile_and_Conflict affected_Situations_Nov_2020_0.pdf>.
145 <https://www.oecd-ilibrary.org/docserver/744f982e-en.pdf?expires=1657200852&id=id&accname=guest&checksum=EFF7B03FC9D9D1B66F9D7D49B8F22CD2>.
146 <https://www.oecd-ilibrary.org/docserver/744f982e-en.pdf?expires=1657796555&id=id&accname=guest&checksum=001C9884C894F955A13A44306FE8BEB2>.
147 The OECD is currently preparing detailed guidance notes for each of the four OECD-UNDP standards.
148 A 'partner' is any organisation that deploys public/private capital for investments that contribute to the SDGs via debt, equity or mezzanine instruments, guarantees or other unfunded contingent liabilities.

sures the development impact of private sector operations that deploy public resources, their contribution to the SDGs, and how their development impact is integrated in management and governance practices.

- *Standard 4: Governance*. The partner undertakes to contribute positively to the SDGs and shows how this commitment is reflected in its governance practices and arrangements.

Gaps and areas of complementarity

The Standards are a best practice instrument that aims to facilitate transparency in investment reporting and reduce "impact washing" (which occurs when investors claim to align with and contribute to development objectives but do not provide meaningful evidence to support their claim). The standards emphasise that investors need to consult and involve stakeholders, both to improve understanding of needs and to target solutions better. For instance, Standard 2 requires a partner to comply with responsible business conduct standards, prepare a plan for stakeholder engagement (ex-ante and ex-post), and allocate sufficient resources for monitoring and evaluation. Monitoring and evaluation should enable the partner to assess progress against impact targets and portfolio impact goals, quantify the partner's contribution, and identify areas for improvement.

A roadmap has been developed to assess what would be required to implement the OECD-UNDP impact standards by 2030.[149] It indicates the gaps that need to be filled, and also the potential of the standards in several key areas. According to the roadmap, the standards will need to address the following:

- *The transparency gap*. Are investments through DFIs reaching the poorest countries and beneficiaries, and addressing some of the donors' frustrations?

- *Evidence*. Not enough comparable impact data are available, and it is currently not possible to assess the true impact of investments on poverty and inequality. Too many impact assessments are done by consultants or private parties who do not sufficiently understand the local context.

- *Consultation with affected communities*. Consultation is still limited. More must be done to improve accountability and transparency, and to inform local populations about how projects are funded and implemented and about their impacts on society. Currently, it remains difficult for affected stakeholders to file a complaint.

- *Transparency, governance and exit practices*. These are considered to be key gaps in DFI compliance with the IS-FSD.

- *Policy*. There is room to improve the feedback loops between DFI data collection and policy making.

- *Harmonisation*. There is potential to harmonise impact measurement, management, and the environmental, social and governance practices of DFIs, MDBs and private asset managers, to align their practices with the needs of developing countries and the efforts of donor governments to close the SDG financing gap.

18. The UNDP SDG Impact Standards

SDG Impact (an initiative of UNDP) developed the SDG Impact Standards to help bond issuers, private equity funds and enterprises to operate more sustainably and contribute positively to sustainable development and the SDGs. The standards filled a need for clear guidance on how organisations can translate intent and SDG alignment into action.

The standards focus on decision-making rather than performance or reporting. Designed to complement other principles, frameworks and tools,[150] they are organised round four interconnected themes: strategy; management approach; transparency; and governance (see Figure 6). Each theme helps to integrate sustainability in organisational systems and decision making, and so contributes positively to the SDGs.[151]

149 <https://one.oecd.org/document/DCD(2022)25/en/pdf>.
150 <https://sdgimpact.undp.org/assets/About-the-SDG-Impact-Standards.pdf>.
151 <https://sdgimpact.undp.org/assets/About-the-SDG-Impact-Standards.pdf>.

Figure 6. The SDG Impact Standards

- *Standard 1: Strategy*. This standard embeds sustainability and the SDGs in the organisation's purpose and strategy. It directs attention, focus and resources to what matters most and to where the organisation can make the most positive impact on important outcomes (and also reduce negative impacts.)
- *Standard 2: Management approach*. Organisations that manage for impact and integrate responsible business practices in their organisational systems and decision-making can generate more options and make more informed choices and thereby optimise their contribution to sustainability and the SDGs.
- *Standard 3: Transparency*. Transparency is an important element of accountability to stakeholders. Stakeholders are all interested parties, and include people who are affected or may be affected in the future by an organisation's decisions and activities.
- *Standard 4: Governance*. Governance is what enables an organisation to embed responsible business practices and manage for impact in its decision-making.

Gaps and areas of complementarity

The standards complement work by other industry-led initiatives on impact management and measurement. All the SDG impact standards have the same structure, for enterprises, bond issuers and private equity funds. The standards also align with the structure of the OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD).

The strength of the standards is that they enable an organisation's management to integrate sustainability in its mindset and decision-making. Compared to other high-level principles and frameworks that guide the investment community, the SDG impact standards are also very clear about what types of goal can be achieved and what kinds of approach should be taken. For example, their guidance explains what is important to stakeholders, including underrepresented stakeholders, and offers outside-in ways to involve them.

Their goal-oriented approach will help investors that want to increase sustainability impacts that align with the SDGs. Indeed, the SDG impact standards directly benefit impact investors (both asset owners and asset managers) by proposing specific standards of practice that have been developed for private equity investors and bond issuers. The proposals include: develop impact theses; create investment mandates; conduct due diligence; and establish post-investment impact management. The guidance states that complaint systems should be established to receive complaints from affected groups, that complaints must receive serious consideration, and that remedial actions must be taken when complaints are well-founded. Enterprises, private equity funds and bond issuers should also establish an independent office to receive complaints from people who allege they have been harmed by their enterprise's activities; the independent office must be equipped to provide both dispute resolution and compliance reviews.[152]

To ensure implementation of the standards, the UNDP has set up programmes to train and to develop capacity.[153] It is also

152 <https://sdgimpact.undp.org/practice-standards.html>.
153 <https://www.coursera.org/learn/impact-for-sdgs>.

developing a certification scheme. This will certify that an organisation possesses a robust impact measurement and management process that embeds stakeholder engagement throughout. The certification scheme will benefit enterprises that want their SDG practices to be recognised. The certificate (or seal) is supported by a glossary, guidance, and training by accredited trainers.

In short, the SDG impact standards are internal decision-making standards with an assurance framework and a credible seal. The assurance framework sets out minimum thresholds that bond issuers or private equity funds must pass to carry the SDG Impact Seal. Although the minimum thresholds are based on the practice indicators in the standards, they are set at a lower level to encourage participation and adoption.[154] The training course, independent verification, complaint mechanism, and seal indicate that UNDP recognises that quality control is required to avoid "impact washing".

19. The Sustainability Accounting Standards Board (SASB) Standards, the International Sustainability Standards Board (ISSB)

The SASB standards are designed for industries and sectors. They give guidance to companies on the disclosure of financially material sustainability information to their investors. According to the SASB's own documentation, the SASB standards are alone in providing "market-informed, evidence-based", financially material environmental, social and governance accounting standards for companies.[155] For this reason, they are strongly backed by institutional investors. The SASB standards identify the subset of environmental, social, and governance issues that are most relevant to financial performance in each of 77 industries. Currently, SASB standards address three relevant, financially material issues related to human capital management (in industries where sufficient evidence of financial impact and investor interest has been demonstrated): employee health and safety; employee diversity, inclusion and engagement; and labour practices.[156]

In June 2021, the Value Reporting Foundation (which hosts the Integrated Thinking Principles, the Integrated Reporting Framework, and the SASB Standards) merged with the International Financial Reporting Standard (IFRS) Foundation, which is establishing a new International Sustainability Standards Board (ISSB). The plan is to create a global baseline of high-quality sustainability standards that will meet investors' information needs. The new ISSB standards will include general (e.g., governance), thematic (e.g., climate) and industry-specific requirements. The SASB Standards are the point of departure for the ISSB standards.[157]

In March 2022, the ISSB produced an Exposure Draft General which contained the "Requirements for Disclosure of Sustainability-related Financial Information". It requested comments by 29 July 2022.[158] Under the Exposure Draft's proposed requirements, an entity will need to disclose material information about all significant sustainability-related risks and opportunities to which it is exposed. To identify and disclose information about them, the draft states that:

> "Entities are directed to consider sources that include the disclosure topics in the industry-based SASB Standards, the ISSB non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies."[159]

One purpose of disclosure is to understand the effects of risks on the business model and value chain, on the business strategy, and on an entity's resilience to risks of the same kind. Resilience includes the entity's risk management, and its processes and tools. These can reveal how an entity assesses risk probability, assesses the effects of risks, and manages risks.

Gaps and areas of complementarity

The ISSB Exposure Draft's proposals were designed to enable users to identify enterprise value and to induce an entity to explain the connections between its financial statements and sustainability-related risks and opportunities. They require entities to disclose financial information on sustainability at the same time as their general financial statements. Impor-

154 <https://sdgimpact.undp.org/practice-standards.html>.
155 <https://rightscolab.org/wp-content/uploads/2021/05/Harnessing-Big-Data-Year-1-Summary-Report.pdf>.
156 <https://www.sasb.org/standards/process/active-projects/human-capital/#:~:text=Currently% 2C%20SASB%20standards%20address%20three,and%20engagement%3B%20and%20labor%20practices>.
157 <https://www.sasb.org/wp-content/uploads/2022/03/SASBStandardsandIFRSF-030222.pdf>.
158 <https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf>.
159 <https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf>.

tantly, sustainability information must be broader in scope than financial statements: it addresses the entity's reputation, and describes the effects of its actions on its performance and prospects, for example on its relationships with people, the planet and the economy, and its impacts and dependencies on them.[160]

One significant new proposal considered the relationship between an entity's dependence on resources and its impact on the same resources. For instance, an entity that depends on water as a natural resource is affected by water's availability and quality, etc., while its activities can both reduce the sustainable supply of water and deprive local communities of access to water, resulting in reputational damage. The water consumption of an entity's business partners can have similar effects.

In response to the Exposure Draft, the UN commented that the proposals may not have captured issues of sustainability adequately because they used a narrow definition of enterprise value (and the factors that affect it), and thereby excluded important sustainability risks and opportunities.[161] The UN's commentary underlined the close links between financial materiality and sustainability concerns. As risks materialise over time, governments may develop regulatory measures (such as the new EU taxonomy). To assess the value of an enterprise today, it is therefore critical to consider its ability to respond to change, and manage sustainability issues that may be financially material in the future.[162]

With respect to the ISSB/SASB consultation proposals, the UN recommended that they should:[163]

Include clear guidance on what forms of sustainability analysis and management are appropriate to identify positive and negative impacts.

- Encourage entities to set sustainability targets (for example, aligned to the SDGs).
- Require geographically contextualised disclosure.
- Adopt an explicit long-term time horizon (20+ years).

20. The Climate Bonds Standard and EU Green Bond Standard

As indicated earlier, definitions of 'green', 'social' or 'sustainable impact' have not been universally agreed. This said, a number of initiatives have helped to define what is 'green' in the course of trying to create a credible green bond market that addresses "greenwashing". One is the Climate Bonds Standard (CBS),[164] developed by academic experts under the stewardship of the Climate Bonds Initiative (CBI). To address the issue of greenwashing, the CBI produced a taxonomy of green investments, based on the latest climate science, including research from the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA).[165] The taxonomy is a guide to climate-aligned assets and projects. It can be used by issuers, investors, governments and municipalities to understand what investments will deliver a low carbon economy.

Due to the lack of a uniform green bond standard in the EU, the EU developed its own proposal for a voluntary European Green Bond Standard (EUGBS)[166] as part of the European green deal.[167] The EUGBS sets out four key requirements. Investments must be: (1) aligned to the new EU taxonomy; (2) fully transparent in reporting how bond proceeds are allocated; (c) checked by an external reviewer to ensure compliance; and (d) the external reviewer must be registered and supervised by the European Securities Markets Authority (ESMA). An EU green bond (EUGB) issued by corporate issuers must comply with the EU's definition of environmental sustainability, which means that activities must contribute to at least one of six objectives and Do No Significant Harm to the other five.[168] An EUGB should also comply with the minimum international social standards and technical screening criteria of the EU Commission.

160 Ibid.
161 <https://www.unepfi.org/news/un-responds-to-the-issb-consultation-on-new-standards-with-joint-statement/>.
162 Ibid.
163 <https://www.unepfi.org/news/un-responds-to-the-issb-consultation-on-new-standards-with-joint-statement/#_ftn6>.
164 <https://www.climatebonds.net/files/files/climate-bonds-standard-v3-20191210.pdf>.
165 <https://www.climatebonds.net/files/files/Taxonomy/CBI_Taxonomy_Tables-08A%20%281%29.pdf>.
166 <https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/european-green-bond-standard_en>.
167 <https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en>.
168 The six environmental objectives of the EU taxonomy are: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy; (5) pollution prevention and control; and (6) protection and restoration of biodiversity and ecosystems.

Gaps and areas of complementarity

The CBS taxonomy applies a traffic light system to indicate whether assets and projects are eligible for and compatible with the taxonomy (green signals compatible, orange signals potentially compatible, red signals incompatible), and therefore whether the specific criteria have been met that qualify an investment to be called 'green' or 'climate finance'.

The certification process subjects a proposed climate bond to a detailed sector-based analysis that screens it against specific eligibility criteria.[169] Climate bonds are certified (verified by approved external verifiers) under the more prescriptive Climate Bond Standard (CBS), which has stricter requirements (and therefore fewer users) than the IMCA's voluntary Green Bond Principles (GBP).

Frameworks and Regulations

21. The EU Environmental Taxonomy and the EU Social Taxonomy proposal

Recognising the rapid growth of assets under management that have adopted environmental, social and governance principles, national financial regulators have begun to assess practices associated with forms of sustainable finance. They have focused on environmental, social and governance taxonomies, approaches, and marketing to investors, including the new EU taxonomy that provides companies, investors and policymakers with definitions of economic activity that can be considered environmentally sustainable. The EU's Taxonomy Regulation establishes six environmental objectives: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.[170] To be defined as an 'environmentally sustainable economic activity' economic activities must comply with minimum social safeguards by completing procedures that ensure they align with: the OECD Guidelines for Multinational Enterprises; the UN Guiding Principles on Business and Human Rights; the labour rights set out in the eight fundamental conventions in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work; and the International Bill of Human Rights.

Implementation of these minimum social safeguards must adhere to the principle of Do No Significant Harm and must contribute to sustainability objectives, such as reducing inequality, improving labour relations, or fostering social cohesion. Activities that generate power from solid fossil fuels such as oil and coal are ineligible, because fossil fuels can never be sustainable. However, an oil company that invests in a wind farm can label that investment green as long as the investment does not harm other aims.

Unlike the OECD Guidelines for Multinational Enterprises, the EU taxonomy does not combine climate, environment, and social and human rights requirements. Although standard labour rights and human rights procedures must always be implemented as minimum social safeguards (Article 18 of the taxonomy), it does not describe how organisations carrying out environmentally sustainable economic activities should respect minimum social safeguards. The Taxonomy Regulation has not absorbed the idea that social abuses often accompany environmentally destructive activities, or that environmentally sustainable economic activities may generate harmful social effects.

Having developed the environmental taxonomy, the EU recognised the need for a social taxonomy, despite concerns that social matters are regulated by Member States rather than at EU level.[171] A Social Taxonomy Subgroup was set up to propose a structure, modelled on the environmental taxonomy, that would align with the European Pillar of Social Rights,[172] the European Social Charter,[173] and the European Charter of Fundamental Rights.[174] The subgroup concluded that a social taxonomy would need to distinguish between inherent social benefits (such as job creation) that are generally beneficial to a society, and additional social benefits that directly contribute to the realisation of a human right (for example, access to healthcare). It was proposed that the criteria for a social taxonomy should be based on authoritative international standards rather than science.

The Subgroup recommended that a social taxonomy should address three areas (and three groups of stakeholders): decent work (workers); adequate living standards and wellbeing (citizens and consumers); and inclusive and sustainable communities and societies (communities). Proposed subcategories included dimensions of human security, such as

169 <https://www.climatebonds.net/files/files/climate-bonds-standard-v3-20191210.pdf>.
170 <https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en>.
171 <sf-draft-report-social-taxonomy-july2021_en.pdf (europa.eu)>.
172 <https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights/european-pillar-social-rights-20-principles_en>.
173 <https://www.coe.int/en/web/european-social-charter>.
174 <https://www.echr.coe.int/documents/convention_eng.pdf>.

health, safety, housing, wages, non-discrimination and community livelihoods. Where corporate governance was relevant, it was proposed to include Do No Significant Harm (DNSH) criteria.[175]

The Subgroup further suggested that the same DNSH criteria should be adopted for the social and the environmental taxonomy. It also proposed to include minimum environmental safeguards from the OECD guidelines for multinational enterprises in the social taxonomy. Whatever approach is finally adopted, investors will need to be able to determine the degree to which a fund is in line with the environmental taxonomy, in line with an eventual social taxonomy, or in line with both. The relationship between environmental and social criteria is particularly relevant in fragile and conflict affected settings. Anecdotal evidence suggests that there is a close relationship between climate change and conflict; case studies from around the world indicate that climate change adaptation policies and programmes have also exacerbated conflict.[176]

The Subgroup proposed three types of substantial contribution: enhancing positive impacts; minimising negative impacts; and enabling other activities to provide social benefits. See Figure 7.

Figure 7. Social taxonomy contributions

TYPE OF CONTRIBUTION	DESCRIPTION	RELEVANT SECTORS
1. Enhancing positive impacts	Enhancing the inherent social benefits of activities, products or services that contribute to adequate living conditions (additional benefits).	Goods and services related to basic human needs or economic infrastructures (food, water, education, access to housing, healthcare, transport, telecommunications).
2. Minimising negative impacts	Avoiding and addressing adverse impacts on workers, consumers and communities. For instance: occupational health and safety; training workers for a just transition; paying wages agreed in collective agreements; ensuring a decent life for workers and their families.	High-risk sectors with a documented track record of human rights and labour rights abuses.
3. Enabling other activities to provide additional social benefits	Social auditing services that help to guarantee decent working conditions for value-chain workers.	Economic activities that can substantially reduce risks in other sectors.

“Enhancing positive impact” is the most relevant “substantial contribution” for the purpose of this mapping, especially in connection with the “adequate living standards and wellbeing for end-users” and “inclusive and sustainable communities” objectives of the social taxonomy. Activities that would fall within this category include access to water, food, housing, healthcare and education, because these are prerequisites for adequate living standards and fulfilment of economic, social and cultural rights. In addition to the sectors which directly deliver goods and services that meet basic human security needs, other relevant sectors which provide economic infrastructures that are essential for adequate living conditions include: transport; telecommunications including the internet; financial services; and electricity. These enabling activities also make it possible to maintain the additional benefits of positive impact enhancement.

Exclusion list

The Subgroup’s social taxonomy proposal would exclude harmful activities that cannot be made less harmful. Those include significantly harmful activities that under all circumstances contravene social objectives. It proposed that activities considered harmful by one taxonomy (such as coal-fired power generation in the environmental taxonomy) should be excluded by the other.

Gaps and areas of complementarity

The authors of the proposal have addressed one of the concerns expressed, that it may not be possible for a social taxonomy to define the activities that are socially sustainable or that violate DNSH criteria, because these depend on context. This implies, according to the Subgroup, that those who apply the criteria may need to pay particular attention to local

175 <sf-draft-report-social-taxonomy-july2021_en.pdf (europa.eu)>.
176 <https://www.thegef.org/council-meeting-documents/evaluation-gef-support-fragile-and-conflict affected-situations>.

circumstances (for example, the effect of mining activities on communities in developing countries compared to the effect in EU countries).

If a social taxonomy is to become an effective tool for directing capital flows towards activities and companies that make substantial social contributions, the Subgroup has recognised that criteria must be specific. In particular, they need to include social-economic activities such as social housing, healthcare, and education, and other initiatives that reduce negative and maximise positive outcomes for the three stakeholder groups. This implies, according to the Subgroup, that investments must go beyond risk mitigation and exceed legislative requirements. As a consequence, the examples of criteria for "avoiding and addressing harm" are both specific and ambitious.[177] At the same time, the Subgroup recommended that any social taxonomy should be based on authoritative international norms and principles, such as the OECD Guidelines for Multinational Enterprises, the UNGPs, and other Do No Harm standards. This would limit the application of a future social taxonomy in fragile and conflict affected settings where higher ambition is needed.

The concepts of availability, accessibility, acceptability and quality (AAAQ) offer a possible starting point for developing criteria that would enhance positive impact and achieve the second objective of "adequate living standards and wellbeing for end-users", including in fragile and conflict affected settings. AAAQ would direct capital flows towards environments in which goods and services for basic human needs and basic economic infrastructure: (i) are not met; (ii) are not accessible to certain groups; or (iii) are in danger of not being met in the future. The aim of the AAAQ approach would be to address all possible obstacles to the fulfilment of social, economic and cultural rights and to find ways to overcome many of the obstacles that investors face in fragile and conflict affected settings.

The third proposed objective of a social taxonomy, namely inclusive and sustainable communities, is likely to be the most relevant for the purpose of this mapping. It focuses on respecting and supporting human rights by paying attention to: the impact of activities; people and communities, especially vulnerable groups; and issues such as land rights, indigenous rights, and access to basic economic infrastructure and services (electricity, clean water). However, the proposed list of sub-objectives that promote equality, sustainable livelihoods, and respect for human rights does not (yet) describe the enhanced due diligence practices that are generally required in fragile and conflict affected settings. For instance, efforts to improve the access of disadvantaged groups to electricity or financial services may have little impact if such groups are systematically excluded from economic opportunities, and could even heighten tensions if expectations are raised but remain unmet. Similarly, support for freedom of assembly and expression can increase certain risks in societies where groups have been structurally marginalised or oppressed. In such societies, actors need to provide new opportunities for vulnerable groups and at the same time address structural and cultural factors that have entrenched inequality and underpin their lack of access to services.

Interestingly, the suggested social taxonomy gives DNSH practices a special role. To satisfy the DNSH principle, actors must go beyond typical proactive risk mitigation. According to the Subgroup, Doing No Harm cannot be considered a minimum safeguard: actors need to work for transformative social improvement. The "substantial contribution" criteria for avoiding and addressing negative impact aim to incentivise companies with activities in risk areas. Stepping beyond the UNGPs and OECD MNE guidelines, they give more weight to the European pillar of social rights, especially in relation to equal opportunities, social protection, and inclusion. One proposed criterion, for example, affirms that an economic activity that makes a substantial contribution to living wages and promotes decent work should not harm equal employment opportunities for women or vulnerable groups. The EU already recognises the importance of key international standards for social issues. Article 18 of the Taxonomy Regulation asserts the following minimum safeguards:[178] (i) respect of fundamental human rights; (ii) respect of workers' rights; and (iii) adherence to principles of good governance, including anti-bribery measurements and non-aggressive tax planning.

The EU social taxonomy proposal states a preference for quantitative metrics that can provide clear "outcome-oriented performance benchmarks" for the substantial contribution criteria, rather than "policy- and procedure-level information" that remains a proxy for actual impacts. Critics have argued that endorsing the UNGPs or OECD guidelines as indicators for measuring minimum safeguards, as the proposal has suggested, would fall short of properly ensuring that "basic social criteria are met".[179]

177 <sf-draft-report-social-taxonomy-july2021_en.pdf (europa.eu)>.
178 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>.
179 <https://gsh.cib.natixis.com/our-center-of-expertise/articles/eu-social-taxonomy-proposal-simpler-and-meaningful-but-half-way-through>.

22. The Sustainable Finance Disclosure Regulation (SFDR) and its Principle Adverse Impacts regime

The Sustainable Finance Disclosure Regulation (SFDR) is a regulation issued by the European Union's environmental, social, and governance resources. It requires financial services firms to disclose pre-contractual and contractual information on how they address:

- *Sustainability risks*. These include environmental, social or governance events or conditions that cause a negative material impact on the value of an investment.
- *Principal adverse impacts (PAIs).* A PAI is a negative, material, or potential material effect on sustainability factors that results from, worsens, or is directly related to investment choices or advice by a legal entity. From 30 June 2023, financial market actors will be required to report annually on a set of PAI indicators, aggregated at entity level across its investments as part of a regulatory technical standards (RTS) statement.[180] The adverse sustainability impacts statement will be published and must include the following heads: (a) summary; (b) description of principal adverse sustainability impacts; (c) description of policies to identify and prioritise principal adverse sustainability impacts; (d) engagement policies; and (e) references to international standards.[181]
- *Pre-contractual and periodic sustainable investment disclosures for Article 8 and Article 9 investment products.* Article 8 applies to funds that promote environmental and social objectives and take more than sustainability risks into account. Under Article 9, funds should make a positive impact on society or the environment through sustainable investment and have a non-financial objective at the core of their offering. Both Article 8 and Article 9 funds will be considered aligned to environmental, social and governance standards; Article 9 is targeted at frontrunners in sustainability.

Gaps and areas of complementarity

The SFDR states explicitly that human rights are among the 'sustainability factors' that financial market actors must report on, increasing pressure on companies and stakeholder businesses to tackle the 'social' in 'environmental, social and governance'. the European Commission hopes that, under the new PAI regime, clients and investors will use disclosure to select the firms they wish to buy products or services from, and will prefer firms that do more "sustainability" to firms that do less.

When PAIs are identified, the company or investor responsible needs to explain how it will avoid or reduce their recurrence in the next reference period. In addition, it needs to disclose what measures have been taken to avoid or reduce the PAIs, and the effect of those measures. Institutional investors and asset managers are also required to prepare and disclose an engagement policy. This describes how they integrate shareholder engagement in their investment strategy. They are required to disclose information on their adherence to codes of responsible business conduct and internationally recognised due diligence and reporting standards.

23. The World Bank's new Environmental and Social Framework (ESF)

The approach taken by IFC and MIGA has directly influenced many IFIs and DFIs, including the World Bank Group, composed of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The Bank has adapted and added to the Performance Standards of its Environmental and Social Framework (ESF). Since October 2018, the new ESF has applied to all environmental and social policy projects and all investment project financing (IPF) of the Bank. The ESF enhances the World Bank's commitment to sustainable development through ten environmental and social standards (ESS) that are designed to support borrowers' environmental and social risk management.[182]

Gaps and areas of complementarity

The ESF applies a risk-based approach that increases oversight and resources to projects according to their risk level, and promotes responsiveness to changes in project circumstances through adaptive risk management and stakeholder engagement. Principles of inclusion, social development, participation, and non-discrimination underlie the ESF, which puts a particular emphasis on those who are disadvantaged or vulnerable. IPF policies, which are covered by the ESF, explicitly state that the World Bank's due diligence process should take into account threats to human security that are due to escalating personal, communal, or inter-state conflict, crime, or violence. It highlights potential project impacts on local land use patterns and tenurial arrangements, land access and availability, food security and land values, and risks due to

180 <ESAs provide clarifications on key areas of the RTS under SFDR (europa.eu)>.
181 Ibid.
182 <https://www.worldbank.org/en/projects-operations/environmental-and-social-framework>.

conflict or contestation over land and natural resources.[183]

The ESF requires borrowers to exercise a higher level of environmental and social risk management than the previous safeguard regime. It includes more explicit requirements in certain areas (labour, non-discrimination, stakeholder engagement) and new project documents (an Environmental and Social Commitment Plan,[184] a Labour Management Plan,[185] a Stakeholder Engagement Plan[186]). With respect to implementation, borrowers are expected under the ESF to give more attention to labour and working conditions, non-discrimination, biodiversity, gender-based violence (GBV), and occupational health and safety.

The ESF does not have a separate procedure for fragile conflict and violence (FCV) situations, and the Bank acknowledges that it can be challenging to implement the ESF in FCV environments, given their low capacity and volatility. The Bank has been developing guidelines for operationalising the ESF. These may be useful in FCV settings, because they will include published good practice notes on gender-based violence, gender, use of security personnel, and third-party monitoring, and non-discrimination with respect to disability, and sexual orientation and gender identity.[187]

If it is considered appropriate in the light of the environmental and social risk assessment, the Bank may insist that a client adopts a social and conflict analysis. A social and conflict analysis assesses the degree to which a project may: (a) exacerbate existing tensions and inequality in society (in communities the project affects and between those communities and others); (b) have a negative effect on stability and human security; or (c) be negatively affected by tensions, conflict and instability in the society, notably war, insurrection or civil unrest.[188]

24. The UN Global Compact's 'SDG 16 Business Framework: Transformational Governance'

Peace, justice, and strong institutions, bound together in SDG 16, are the focus of the UN Global Compact's 'SDG 16 Business Framework'.[189] The Framework was developed by the UN Global Compact Action Platform for Peace, Justice and Strong Institutions,[190] launched in September 2018. It aims to show businesses why and how a focus on the themes of SDG 16 (peace, justice, and strong institutions) can strengthen corporate governance and inform corporate purpose. It provides guidance and examples for each target of SDG 16, and suggests how to advance SDG 16 both internally and externally.

Gaps and areas of complementarity

The transformational governance aspect of the framework encourages a more expansive interpretation of the 'governance' dimension of 'environmental, social and governance', and tries to ensure that financial actors pay more attention to the environmental and social by setting higher standards of corporate and sustainable governance. This is one of the framework's strengths. It calls on businesses to become more accountable, ethical, inclusive and transparent and so encourages responsible conduct, enhances environmental social and governance performance, and strengthens public institutions, laws and systems. The internal guidance covers board/management oversight, culture, strategies, policies, operations, relationships, business integrity, oversight and accountability, risk management, and reporting standards.

The framework also offers businesses ideas for external activities they can explore in their efforts to promote SDG 16 targets. These activities are quite extensive and provide a menu for businesses to choose from. Many of the proposals depend on implementation of current international standards and guidance, most notably the UNGPs (which target SDG 16.1 and SDG 16.3), the Businesses Against Corruption Framework for Action,[191] and the Business for Rule of Law Framework of the UN Global Compact.[192]

The SDG 16 Business Framework explains persuasively what each SDG 16 target means for businesses, recognising that SDG 16 has received less investor attention than any other of the 17 SDGs. This is important because its targets are heavily influenced by other SDGs and vice-versa. For this reason, investors can contribute to SDG 16 by advancing other SDGs, such

183 <https://thedocs.worldbank.org/en/doc/360141554756701078-0290022019/original/WorldBankEnvironmentalandSocialPolicyforInvestmentProjectFinancing.pdf>.
184 <http://documents1.worldbank.org/curated/en/839711552597714559/pdf/Environmental-and-Social-Commitment-Plan-ESCP-Social-Accountability-Subprojects-P167114.pdf>.
185 <https://documents1.worldbank.org/curated/en/842971595366481307/Labor-Management-Plan-Sava-and-Drina-Rivers-Corridors-Integrated-Development-Program-P168862.docx>.
186 <https://pubdocs.worldbank.org/en/909361530209278896/ESF-Template-ESS10-SEP-June-2018.pdf>.
187 <https://documents1.worldbank.org/curated/en/844591582815510521/pdf/World-Bank-Group-Strategy-for-Fragility-Conflict-and-Violence-2020-2025.pdf>.
188 <https://thedocs.worldbank.org/en/doc/837721522762050108-0290022018/original/ ESFFramework.pdf>.
189 <https://sdg16.unglobalcompact.org/>.
190 <https://www.unglobalcompact.org/take-action/action-platforms/justice>.
191 <https://d306pr3pise04h.cloudfront.net/docs/news_events%2F8.1%2Fbac_fin.pdf>.
192 <https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2Frule_of_law%2FB4ROL_Framework.pdf>.

as SDG 10 (inequalities). Meeting the needs of disadvantaged groups, making available key economic resources, supporting social protection measures, or improving equality of opportunity: all these address factors that can be at the heart of conflicts. The UN Global Compact's 'Blueprint for Business Leadership on the SDGs' offers some valuable advice on this subject.[193]

Metrics and indicators

25. The HIPSO indicators

In October 2015, 28 DFIs signed a memorandum of understanding on the harmonisation of 38 indicators.[194] The Harmonized Indicators for Private Sector Operations (HIPSO) provide a set of standard metrics, with definitions and units of measurement, that DFIs and other development partners use widely.

26. The Joint Impact Indicators

The Joint Impact Indicators (JII) are a subset of the HIPSO indicators and the IRIS+ Catalogue of Metrics on common investment topics, including gender, jobs, and climate.[195] IRIS+ is a widely-accepted and standardised impact accounting system that combines performance metrics that impact investors use widely with research, evidence, and practical guidance on implementation. IRIS+ assists investors to report the positive and negative effects of their investments and devise ways to mitigate risks, minimise negative effects and optimise positive impact. The metrics in the IRIS+ system align with more than 50 other frameworks, standards, methodologies, and assessment tools.[196]

27. Social Indicators of the ICMA Harmonized Framework for Impact Reporting for Social Bonds

In the context of its Harmonized Framework for Impact Reporting (2022), ICMA's Social Bond Working Group (SBWG) compiled a non-exhaustive list of indicators that can be used to measure the output, outcome or impact of social bonds.[197] The SBWG has emphasised that, to increase transparency, issuers should align outputs, outcomes and impacts with the stated objectives of projects they finance.

28. Principal Adverse Impact (PAI) indicators

The Principal Adverse Impact regime of the SFDR provides a set of environmental, social and governance indicators and metrics that are relevant to such issues as carbon emissions, water emissions, biodiversity impacts, social violations including human rights violations, corruption and bribery, and board gender parity.

Gaps and areas for complementarity

The HIPSO reporting indicators align with the SDGs and are relevant to a wide range of specific sectors and industries.[198] Cross-cutting indicators include measures such as "Number of people displaced" and "Nature of compensation to be provided to affected communities". Another key indicator measures "Amount of money spent by the client towards activities that benefit local communities during the reporting period".

The JII are considered a major step forward in harmonised impact measurement and reporting. They reduce the reporting burden on investees and increase the availability of comparable impact data, and thereby improve decision-making. However, the majority of the JIIs focus on outputs (for example, the number of female managers or directors or jobs created). This information does not tend to throw light on the effects on people's lives.

ICMA's SBWG encourages quantitative indicators, although the working group has acknowledged that quantitative indicators may not be feasible or may not accurately represent the full extent of social impacts in some cases. The SBWG has advised issuers to test the accuracy of ex-ante assessments by verifying the impact of projects after they finish. The actual social impact of a project may diverge from initial projections if, for example, social, economic, technical, political and legal changes alter the environment in which the project evolves. Setting transparent assumptions will help to make clear the

193 <https://blueprint.unglobalcompact.org/>.
194 <https://indicators.ifipartnership.org/wp-content/uploads/2014/06/harmonization_mou_14pg.pdf>.
195 <https://indicators.ifipartnership.org/wp-content/uploads/2021/03/2021-03-25-JII.pdf>.
196 <https://iris.thegiin.org/standards/>.
197 <https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds_June-2022-280622.pdf>.
198 <https://indicators.ifipartnership.org/indicators/>.

reasons for divergence. The majority of the indicators in the SBWG's sample list are general examples and are not tailored for a specific target population. For this reason, issuers have been advised to disaggregate data and to define impact indicators in terms that take account of the specific social context. For example, if a social bond issuer identifies 'women' as the target population and the social bond aims to expand their access to financial services, the output indicator used might be the "Number of women provided with access to affordable credit" and the corresponding outcome indicator might be "Increase in income received by women".

The PAI statement requires financial actors to publish quantitative data for 14 mandatory PAI indicators. (Nine relate to the environment and five to social factors.) They assess adverse sustainability impacts across a range of environmental, social and governance factors. Additional indicators apply to investments in sovereign and supra-national funds, and investments in real estate assets (4 indicators in all). In addition, financial market actors must choose and report on at least one of 22 optional environmental indicators and one of 24 social indicators. The social indicators address such issues as a company's lack of human rights policies or due diligence processes, or the risks of child labour or forced labour. Financial market participants need to report what share of their investments is in entities that are in violation of the social indicators. Overall, the system has 64 indicators of which just 18 are mandatory. Concerns that data may be unavailable for some of the proposed social indicators have been acknowledged. Several stakeholders have argued that indicators should be held back until the EU's social taxonomy has been developed.[199]

199 <https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds_June-2022-280622.pdf>; <https://www.esma.europa.eu/ sites/default/files/library/jc_2021_03_joint_esas_final_report_on_rts_under_sfdr.pdf>.

Peace-positive criteria in peace impact frameworks

The mapping process reviewed several peace finance investment approaches that already exist or are under development. Those that include peace impact criteria or peace-related frameworks have been considered by the mapping process and fed into the proposed PFIF. They relate to a broad array of asset classes, including bonds, equity, listed equity funds and blended finance.

The Cadmos-Peace European Engagement Fund and the Peace-Building Business Criteria (PBBC).

Swiss assets management firm de Pury Pictet Turrettini (PPT) was the first asset management firm to directly address the issue of peace and stability, when it partnered with the PeaceNexus Foundation to develop the Cadmos Peace Fund in 2018. In 2022, after merging the fund with the flagship Cadmos-Peace European Engagement fund, PPT formed a strategic partnership with TrustWorks Global (TrustWorks) to provide expertise to portfolio companies on how to use a conflict-sensitivity lens to operate responsibly in fragile and conflict affected settings, and advance SDG 16.

An Article 9 SFDR Fund, the Cadmos-Peace European Engagement Fund invests in highly profitable industry leaders that are part of the ongoing paradigm shift driven by digital disruption, demographic shifts and climate change. PPT draws attention to the fact that environmental, social and governance targets and SDG objectives are undermined by the dynamics of fragile and conflict affected settings. It affirms the well-known but often overlooked mantra that there can be no peace without development and no development without peace.

The Fund assumes that armed conflict and fragility represent the greatest sources of systemic risk for companies and investors. They are risks that also provide entry points for companies and investors to contribute to peace and resilience and foster more stable operating environments. This objective is achieved through expertise-driven engagement, embodied in PPT's Buy & Care® investment philosophy, at the heart of which is a commitment to make sure that portfolio companies have access to the expertise they need to be high performing companies with positive externalities.

The Buy & Care® approach involves regular, constructive engagement with companies to identify where their operations and supply and value chains are at risk of inadvertently feeding into conflict dynamics. In partnership with TrustWorks, PPT's objective is to establish dialogue with every company in the Cadmos portfolio within three years, and to identify and implement practical actions that will ensure portfolio companies leverage their economic power for peace and stability objectives.

PPT invests in companies that make a net positive impact to peacebuilding, as measured by PeaceNexus's proprietary Peacebuilding Business Index.[200] This index ranks the 300 most economically significant listed companies in 76 fragile states, according to peace-building business criteria (PBBC).

The PBBC are quite similar to other environmental, social and governance reporting guidelines and criteria. They are built round the following categories: (1) labour (inclusive hiring); (2) sourcing (promoting the local economy); (3) community relations (creating space for dialogue); (4) governance (promoting accountability); (5) products (seeking new business models); (6) security (inclusive security measures); and (7) environment (conflict-sensitive use of natural resources).[201] The main differences between PBBC and standard measures are the focus on the role of suppliers in fragile and conflict affected contexts and the expectation that investees will step beyond compliance and Do No Harm to engage proactively in stakeholder consultations, public policy dialogue and social investment as ways that contribute to peacebuilding, preferably through collective company actions.

The method analyses at three levels: (1) global environmental, social and governance policies that are relevant to peacebuilding; (2) local environmental, social and governance practices; and (3) local peacebuilding practices. First, at corporate level, the analyst assesses a company's policies on corporate social responsibility, human rights, and sustainability. The analysis considers to what extent company policies refer to OECD, UNGP and other global standards and guidelines. Second, the analyst compares the company's global policy statements with data on its local practices. Local media sources are used to identify positive actions that have been taken as well as controversies (with respect to employment, labour

200 PeaceNexus Foundation (2019), 'Peacebuilding Business Index Methodology: Measuring business contributions to peacebuilding in fragile countries', <https://peacenexus.org/wp-content/uploads/2019/06/PBBI-methodology-final_update29.05.2019.pdf>.
201 <https://peacenexus.org/wp-content/uploads/2019/06/PBBI-methodology-final_update29.05.2019.pdf>.

conditions, compliance with environmental standards, human rights, corruption, etc.). The aim is to understand how the company has built relationships with communities that its operations affect. Third, the analyst considers the extent to which an indexed company lives up to PBBC peacebuilding recommendations provided by a team of experts from the PeaceNexus Foundation. [202]

The experts' recommendations concentrate on conflict-specific problems that companies may face. Examples include: How does a company bridge the divide between different ethnic groups in its work force? How conflict sensitive is a company when its builds partnerships with local businesses? How does a company use collaborative approaches with other companies to solve context-specific difficulties (such as corruption, or the absence of public services)?[203] Both the second and third level of analysis rely on news coverage. However, the credibility of news stories depends on the credibility of sources, and in many fragile and conflict affected settings news coverage is not always objective and whistle blowers are often subject to threats.

The strengths of the PBBC lie in its focus on companies as entities, the effort made to assess whether corporate policies and commitments are practised consistently, and the support that conflict sensitive experts provide to help companies implement peacebuilding measures.

The Peace Dividend Initiative, "+P" framework

The Peace Dividend Initiative (PDI) designs conflict-sensitive investments to meet peace-making objectives. Working in partnership with non-profit mediation organisations, it accompanies investments during design and implementation. PDI seeks to bridge the gap between peace mediation and economic actors through dialogue, incubation, and investment.

Headquartered in Geneva, PDI was conceived by the Centre for Humanitarian Dialogue in 2017-2018, further scoped and tested with support from the Swiss Federal Department for Foreign Affairs (FDFA) in 2019-2020, and launched as an independent Swiss Foundation in 2021. It aims to serve the entire peace sector in "harnessing market forces for peace". PDI has connections with peacemakers, international organisations, governments, investors, and entrepreneurs, and bridges the worlds of private investment and peacemaking by working closely with a network of trusted peace mediation organisations.[204]

PDI identifies, incubates, and catalyses opportunities for peace-supporting investment, seeking to address the root causes of conflict by investing long-term while relying on trusted relationships with field-based and global actors. Peace-supporting investments regularly monitor peace at local level and systematically run conflict analyses. PDI investments use blended finance and public-private partnerships moderated by accompaniment mechanisms that are informal in nature and ensure that investments do good, Do No Harm, and evolve rapidly when conflict dynamics change.

Since 2018 PDI has piloted a number of investments in conflict affected areas to demonstrate the potential of its model, and has also incubated two specialised investment vehicles to rapidly deliver peace impact investment at appropriate scale in response to peace-supporting opportunities in conflict affected areas. The first PDI fund to reach the market is expected to launch publicly in 2022-2023: titled the 'Peace Venture Fund', it is described as an early-stage growth fund, focused on 'peace-supporting SMEs' and has been developed with the support of the UK Foreign, Commonwealth and Development Office and the Swiss FDFA. A second fund, the 'Peace Dividend Investment Fund', is expected to follow in 2023-2024: it will "facilitate larger-scale investments, with the potential to develop infrastructure and transform industries".[205]

The strength of PDI's approach lies in its close collaboration with peacemakers, who can help projects to promote peace by providing contextualised conflict analysis and accompaniment on a daily basis. PDI's approach exposes opportunities to 'do good' in places where it is most needed. It allocates capital to meet local needs and does not focus entirely on the financial interests of investors. It is able to identify peace-supporting investment opportunities through conflict analysis, economic dialogue processes, and its networks of trusted peacemaking partners; it then develops them in collaboration with experienced investors, creating a sustainable peace-supporting business model.

Between 2019 and 2022, PDI developed a prototype '+P' peace finance impact framework that includes more than 25 metrics and more than 50 sub-indicators. The framework combines global framework principles such as the PRI and SDGs with contextual understanding, trustworthy data collection, verification mechanisms, and peace-focused criteria.[206] PDI's

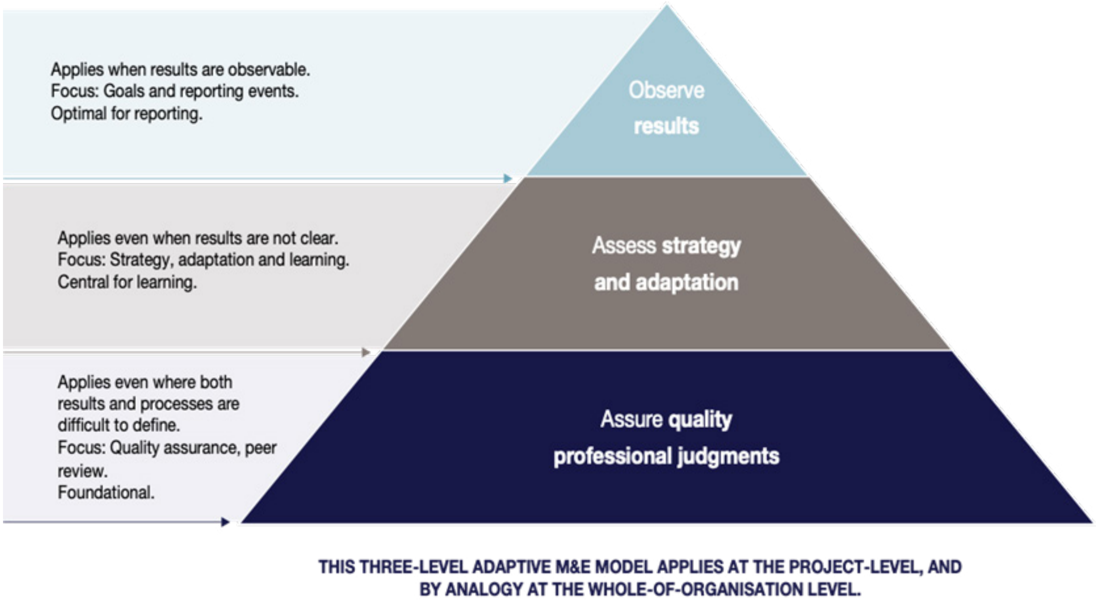
202 PeaceNexus Foundation (2019), 'Peacebuilding Business Index Methodology: Measuring business contributions to peacebuilding in fragile countries', <https://peacenexus.org/wp-content/uploads/2019/06/PBBI-methodology-final_update29.05.2019.pdf>.
203 Ibid.
204 See Peace Dividend Foundation (2022), 'Our Strategy', <https://www.peacedividends.org/our-strategy/>.
205 Ibid.
206 Peace Dividend Initiative (2022), 'Conceptualising the need and structure of the Peace Dividend industry Fund'.

+P impact framework assumes that an investment's contribution to peace can be assessed by examining three core questions:

1. Does the investment meet a '**quality for peace'** standard in its analysis, design and capability, and does it include close accompaniment by a reputable peacemaking or peace-building organisation?
2. Does the investment pursue a sound **peace-supporting strategy**, and adapt it in a timely way to maximise the likelihood of peace-supporting results?
3. Does the investment deliver **results** that are peace-supporting?

This three-level analysis is illustrated by the diagram below, which draws on adaptive impact frameworks applied in the peacemaking sector.[207]

Figure 8. PDI's three-level impact analysis.



The third part of the PDI +P impact framework contains five result areas for peace impact (referred to as PDI Peace-Supporting Investment Standards). These reflect the organisation's core mission to harness market forces for peace using entrepreneurial business dialogue, incubation, and investment.

- PSI Standard 1: Enhanced conflict analysis for peacemakers.
- PSI Standard 2: Enhanced access for peacemakers.
- PSI Standard 3: Increased engagement in dialogue.
- PSI Standard 4: Creation of economic incentives aligned with prospects for peace.
- PSI Standard 5: Contributing to observable peace-making results.

Overall, PDI's +P impact framework specifically targets peace, rather than replicating or building on criteria associated with environmental, social and governance or SDG investment frameworks. The PSI Standards cover the entire conflict and peace spectrum, from conflict prevention (PSI 1), through enhanced mediation (PSIs 2 and 3), to creation of peacemaking outcomes (PSIs 4 and 5). Potential investments rely on mediators; their peace-aligned incentives create capabilities.

The I4P Peace Impact Framework

The Investing for Peace (I4P) Feasibility Study was supported by the German Foreign Office (GFFO). It mapped the barriers to investment in fragile and conflict affected settings, basing its findings on extensive interviews (with donors and DFIs,

207 See, for example, Wadley, I. (2017), 'Valuing Peace: Delivering and Demonstrating Mediation Results', HD Centre, <https://reliefweb.int/report/world/valuing-peace-delivering-and-demonstrating-mediation-results>.

pioneer investment managers, and non-profit organisations such as PDI). The study proposes a draft Peace Finance Impact Framework and sets out the parameters of a specialised investment vehicle that DFIs could apply to scale up peace-supporting investments in fragile and conflict affected settings.

The framework puts post-investment support and accountability at its centre, achieved by continuous community engagement and community monitoring, on the grounds that this model maximises a portfolio's peace impact and manages risk and disputes productively. The study states that demonstrating peace impact will require complementary investment in monitoring (at deal level) and impact evaluation (at portfolio level).[208] It identifies five ways in which private sector peace impact can be monitored at portfolio level:[209]

- The investment results in the creation or reform of political institutions that handle grievances in situations where grievances drive conflict.
- It adds momentum to peace by causing participants and communities to develop their own peace initiatives or address critical issues that drive conflict.
- It prompts people to resist violence and provocations to violence.
- It helps to increase people's security and their sense of security.
- It helps to meaningfully improve inter-group relations.

Ultimately, the I4P study suggests that an intentional peace-positive investment strategy will require a clear theory of change that articulates how, by design, an investor's portfolio will improve conditions for peace. To do so, the study argues, the investor must identify peace and conflict drivers that can be influenced, and show how risks of doing harm can be mitigated. The peace drivers are:

- *Inclusion*. Investments help mitigate horizontal inequalities that fuel inter-group grievances.
- *Access*. Investments alleviate competition for unaffordable and scarce products, services, and resources (such as water and fertile land).
- *Mitigating concentration*. Investments mitigate vertical inequalities and centralised economic, and (perhaps) political power, which can be important sources of grievance even in the absence of horizontal inequalities.
- *Accountability*. Investments enhance the accountability of businesses to stakeholders; particularly in coalition, activist businesses enhance the accountability of government to citizens.
- *Incentivising leaders*. Investments create conditions in which leaders who benefit from embedded conflict are motivated to become economic actors, even at the margin.

An investment is considered peace-positive if

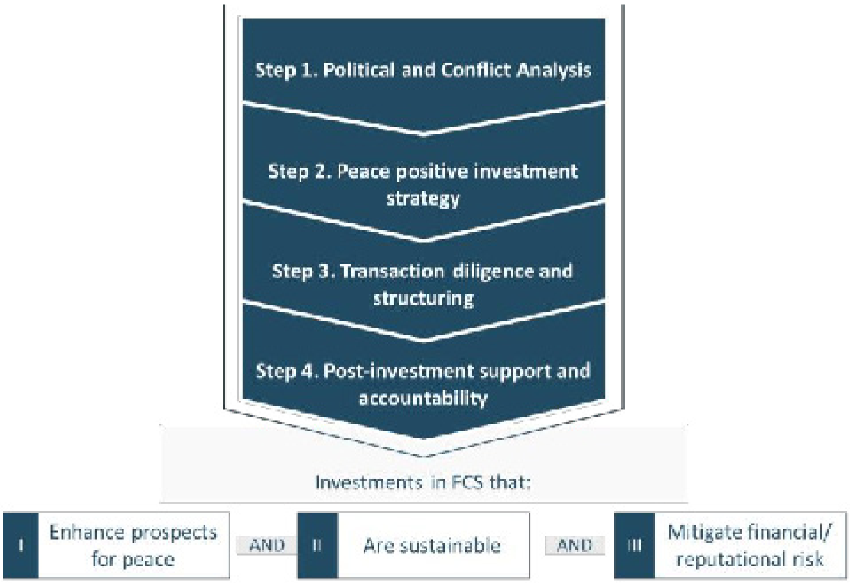
A. It is aligned with a peace-positive investment strategy that targets specific conflict drivers; and

B. It contributes to at least one of the peace drivers, prioritised in a given context by passing the 'peace diligence' test.

The I4P Peace Finance Impact Framework (see Figure 9) suggests four steps for an investor to follow. The schema emphasises the importance of planning and design as well as post investment support.

208 Lion's Head Global Partners (2020), 'Investing for Peace - Feasibility Study', final report.
209 <https://www.cdacollaborative.org/cdaproject/business-and-peace/>.

Figure 9. The I4P Peace finance impact framework



The five 'peace drivers' add value to existing environmental, social and governance, SDG and other Impact investment standards. They fill some of the gaps noted earlier (such as lack of inclusion and accountability), and propose important steps (notably a comprehensive political and conflict analysis) that would deepen understanding of horizontal inequalities and key social divides (rural/urban, gender, regional, ethnic, age, religious), and how investments can exacerbate these, locally, regionally and nationally.

To make the proposed framework fully peace supportive, investment actors would need to prepare a political and conflict analysis that covered all potential conflict drivers. The framework does not enumerate these, so much depends on what model of peace and conflict analysis the potential investor selects and how the investor conducts the proposed 'peace diligence test'. The latter is not described in detail either and the framework acknowledges that it will require significantly more input.

The five key peace driver areas are nevertheless at the heart of the peace supportive framework. They are all salient, especially the three concepts of inclusion, accessibility and accountability. The other two factors (mitigating concentration and incentivising leaders) are arguably both more ambitious and more contested. Actions that intentionally mitigate concentration of power may be conflict insensitive or may induce conflict, and depend heavily on the political approach and positioning of the potential investment. Similarly, actions that incentivise leaders to play peaceful economic roles may incentivise a short-term (negative) peace but (depending on the political economy and the environment) may undermine long term social peace at the same time.

Other environmental social and governance frameworks must also manage trade-offs and balance contradictory objectives. To some extent, they are unavoidable concerns. However, some argue that the complexity of conflict and peace systems is such that it is unlikely that addressing only one peace driver will ever be sufficient to create sustained positive change in favour of peace, especially if a potential investment fails to contribute to the other worthy peace objectives the framework identifies. For instance, an investment that lacks genuine inclusion but improves accountability may make a contribution in one area but inadvertently contribute to conflict in another.

The Interpeace feasibility study on peace bonds and 'marking the market for peace' research

Interpeace's feasibility study on Peace Bonds builds on a real investment case study. It shows that potential peace bond structures can create new forms of value by lowering the project risks of investments and improving the quality of life of communities living in fragile and conflict affected places. The study's aim was to find new ways to finance investment in fragile and conflict affected settings, through peace bonds that benefit affected communities and lower investment risks at the same time.[210]

210 Interpeace (2022), 'Assessing the potential of a new asset class that can lower risk and enhance peace', peace bonds feasibility study.

The study proposed a peace financing framework aligned with peace bond standards and based on three core principles:

Principle 1: Investors must intend to support (negative and positive[211]) peace; must deploy their resources in a manner that is peace responsive;[212] peace impacts must be verifiable.

Principle 2: Investments must generate bankable returns to sustain market interest and incentives.

Principle 3: Thematic investments must generate synergies between their contributions to economic development and their contributions to peace.

Interpeace's study argued that its peace bond framework can deliver both direct and indirect positive (or negative) peace impacts.[213] Social impacts that address indirect positive peace may have the highest potential impact. For instance, where a bond improves the availability of public goods and services in a manner that addresses the grievances of marginalised groups, but does not trigger the resentment of other groups, it will have a high peace impact. The framework provides exclusion criteria: for example, bonds that are sectarian in nature, result in corruption, or support discriminatory employment practices, could not be described as peace bonds.

Operationally, the framework requires a clear theory of change (ToC) in order to verify the intentional direct or indirect peace impacts that are among a peace bond's objectives. The issuer would first need to describe its ambition and intention, then report its progress publicly through a 'management of proceeds' process supported by contextualised performance data collected after the fact. Potential metrics might include levels of trust, fear of violence, or impacts on marginalisation.

The framework includes peace enhancing mechanisms (PEMs). The feasibility report emphasises that these are key instruments for aligning peace bonds with peace bond principles and standards. Financed by the proceeds of the bonds, PEMs would reduce environmental, social and governance risks and create development and financial additionality. Their effectiveness and quality would depend on comprehensive context analysis that involved communities and national partners in accordance with new peace bond standards. Context analysis would show how a peace bond materially impacted risks at various levels (project, community, regional, national, etc.).

The Blue Peace initiative investment framework

The Blue Peace approach to investment focuses on transboundary, multisectoral joint investment plans that involve water use. By definition, the plans involve multiple countries or municipalities, and may cover a range of sectors: hydro-electric power generation, water for irrigation, water for industrial use, water for human consumption, as well as the infrastructure, data, monitoring and marketing that support such purposes.[214] Using water as the entry point or reason for engagement, Blue Peace's transboundary and multisectoral approach incentivises cooperation and political agreement, thereby reducing social, political and economic conflicts and promoting peace.

Blue Peace investments require a blended finance approach that improves the risk-return profile. To that end, a Blue Peace Trust is being created that will institutionalise multisectoral transboundary investment through two different Blue Peace holdings: (1) transboundary water organisations; and (2) municipalities in different countries. The Blue Peace Trust will support these holdings by: funding assistance to structure and issue Blue Peace bonds; supporting actions taken to de-risk the bonds; attracting global private capital from institutional investors; and providing technical support to enable transboundary water organisations and municipalities to build their capacity to negotiate and design investment plans and raise financial resources at global level without external help, etc.

Blue Peace investments in sectors such as water, energy and food can help to meet many human security needs. In practice, however, water resources can divide as well as unite. The transboundary perspective of Blue Peace helps to promote prosperity and peace between countries that share water resources. Its water basin approach has clear advantages over national approaches. The politics of water-sharing in countries where water is scarce is nevertheless evidently a challenge.

211 Negative peace can be described as the absence of direct personal violence. Positive peace can be described as the absence of indirect structural violence (Johan Galtung, 1964).
212 Peace responsiveness can be defined as 'doing no harm', being conflict sensitive, and increasing peace impact (Interpeace).
213 <https://www.jstor.org/stable/422690>.
214 <https://www.thebluepeace.org/blue-peace-financing.html>.

Business against violence assessment framework (Katsos and Forrer)

The business against violence assessment framework was conceived by the scholars John Katsos and John Forrer. It proposes a three-stage response to the presence of violence and its level of intensity. The framework built on work by other scholars, in particular Oetzel et al. (2009)[215] and the theories of Fort and Schipani (2007),[216] who sought to understand under what conditions businesses could enhance peace in the communities in which they operated. The assessment framework of Katsos and Forrer reoriented research on the subject of 'business for peace' by asking what options are available to businesses that want to reduce violence, and whether they are effective. To measure the business impact on peace, the authors adopted a broad definition that, they argued, is well developed and relatively undisputed: peace is the absence of both direct violence and indirect structural violence.[217]

Direct violence is visible and often associated with political conflict. It is easy to measure in terms of its means, type, and consequences.

According to the two scholars, indirect violence, also known as "structural" violence, is more difficult to measure but in many ways is more relevant for businesses trying to reduce their impacts. A business or an investment can influence all three sub-categories of structural violence in a society: exploitation, social injustice, and inequality. The authors argued that policies that lower structural violence would reduce (avoidable) deaths by a much larger number than the number of people killed by direct violence.[218]

For an investor that wants to alleviate violence in its sphere of influence, the first step is to determine what forms of structural violence are taking place and which groups of people (in terms of ethnicity, religion, politics, gender, etc.) they affect. To measure the structural barriers that groups face, the authors propose comparing the average life expectancy of different groups (based on gender, place, income, race, or ethnicity). Separately, Galtung also argued that a potential true measurement of positive peace would be the number of avoidable deaths.[219]

The proposed framework considered contextual factors that may influence the decisions of businesses to oppose violence. Some industries are in a natural position to exert influence by virtue of their scale; extractive industries are less able to disengage than some other industries; market size and the nature and concentration of violence may attract or deter companies from investing or taking action; the institutional environment has an influence on business decisions, etc.

The Human Security and Business Partnership Framework (LSE-Ideas and the United Nations Trust Fund for Human Security)

The Human Security Business Partnership (HSBP) Framework assists companies and investors to partner with governments, the UN system, and local stakeholders to achieve the SDGs. The model was developed by LSE IDEAS and aligns commercial goals with the SDGs and other normative frameworks and standards that are relevant.

The framework has three pillars: principles, processes and tools. The pillars interconnect and define the ethos of a new type of cooperation between the private sector and local actors. According to the framework's principles, business partnerships are to be:[220]

- *Locally driven.* Partnerships should be based on local needs, interests, and expectations, and organised in accordance with local capacities. They should recognise all relevant resources. The framework emphasises conflict sensitivity in locations where working with companies and public stakeholders can pose threats and difficulties for certain groups and individuals, particularly if they are already marginalised.
- *Inclusive.* Partners should be drawn from every segment of local society, including marginalised groups, in order to counter exclusion.
- *Forward-looking.* Partnership is about building a shared future, doing things differently, and setting goals that will lead to real change and improvement.

215 Oetzel, J., Westermann-Behaylo, M., Koerber, C. et al (2009), 'Business and Peace: Sketching the Terrain', Journal of Business Ethics, 89, <https://link.springer.com/article/10.1007/s10551-010-0411-7>.
216 Fort, T. L., Schipani, C. A. (2017), 'An Action Plan for the Role of Business in Fostering Peace', American Business Law Journal, 44/2, <https://doi.org/10.1111/j.1744-1714.2007.00040.x>.
217 Galtung, J. (1969), 'Violence, Peace and Peace Research', Journal of Peace Research, 6/3, <https://www.jstor.org/stable/422690>.
218 Katsos, J., Forrer, J. (2022), 'Business against violence: assessing how business impacts peace' Multinational Business Review, 30/3, <https://www.safetylit.org/citations/index.php? fuseaction=citations.viewdetails&citationIds[]=citjournalarticle_720689_8>.
219 Galtung, J., Hoivik, T. (1971), 'Structural and Direct Violence: A Note on Operationalization', Journal of Peace Research, 8/1, <https://journals.sagepub.com/doi/10.1177/002234337100800108>.
220 LSE IDEAS (2018), 'People, Profits and Peace: Proposals for a human security approach for the private sector towards the achievement of the Sustainable Development Goals', <https://www.lse.ac.uk/ ideas/Assets/Documents/reports/2018-02-07-PeopleProfitsPeace-WEB.pdf>.

- *Trusting*. Partnership is about creating conditions for long-term cooperation in which partners have confidence in each other. Trust has to be built by accountability, mutual commitment, and transparency. Sustained and structured interaction creates 'good partner' relations rather than merely ad hoc transactions.
- *Sharing*. At the core of the HSBP is the idea that partnership offers incentives and benefits that are spread equitably between different types of partner. The benefits of investment should be shared, interests should be mutualised, and partners should each take responsibility for addressing risks and achieving positive outcomes from their collaboration.

The HSBP does not set standards. Instead, its principles are to be achieved through trust-building processes and management protocols and tools. The human security approach is intended to help bridge human rights, sustainable development, and peace and stability: the HSBP framework focuses on goals that companies and communities share and offers a model for collaboration, trust-building and dialogue that allows partners to formulate their needs. Both businesses and communities must be pro-active, and take preventive measures, to improve the environment. HSBP addresses the challenges of real representation and 'meaningful' rather than token consultation.[221] It aims to address the reality and difficulties of power asymmetry, information disjuncture, and culture that often hinder the transforming application of human rights norms.

Essentially, the HSBP enables companies and investors to go beyond Do No Harm approaches in the search for positive impacts at local level that can reduce non-financial risks. Its processes and tools can guide the selection of indicators to measure corporate social impacts and community engagement. Whereas many conflict sensitive approaches seek to change corporate behaviour by encouraging managements to consider different models of risk analysis and mitigation, HSBP addresses the same challenges by empowering local communities and using partnerships to mobilise companies and other stakeholders into taking collective action.

Other innovative financial mechanisms with potential peace impacts

In addition to those described above, other innovative financial frameworks can potentially have an indirect impact on peace in conflict affected settings. Examples include:

- The ICRC's Humanitarian Impact Bonds.
- The Near East Foundation's Syrian Revolving Credit Fund.

Initiated by the International Committee of the Red Cross in 2017, **Humanitarian Impact Bonds** are a financing instrument created to encourage the private sector to invest in the ICRC's health and rehabilitation programmes. Since 2017, the capital raised has been used to build and run three new physical rehabilitation centres in Nigeria, Mali and the Democratic Republic of Congo.

In December 2020, the Near East Foundation officially launched the **Syrian Revolving Credit Fund (SRCF)**, which aims to support and promote local entrepreneurs in Northeast Syria. In its first phase, the SRCF supported 480 entrepreneurs through three community-based revolving credit funds in Raqqa, Deir Ez-Zor, and Hasakah. In addition to business capital, entrepreneurs were given access to non-financial services that included training in life skills, financial literacy, business development, and coaching and mentoring. These services will empower Syrian entrepreneurs to improve their businesses and livelihoods while creating jobs and promoting local economic activities.

An initiative led by Prof. Brian Ganson from the Stellenbosch Business School is also relevant to peace finance work. The **Business and Conflict Barometer (BCB)** will use an integrated suite of data science tools and analytics to identify conflict-prone private sector development initiatives (making it possible to avoid or address them), as well as peace-positive pathways that can be promoted and implemented (for planning, monitoring, and learning purposes). The thinking is that, by improving insight and analysis, the tool can help to shape private sector projects and initiatives that, particularly in fragile contexts, are often implicated in conflict and violence instead of promoting peaceful development.

221 Wilson, E., Best, S., Blackmore, E., Ospanova, S. (2016), 'Meaningful Community Engagement in the Extractive Industries', International Institute for Environment and Development, <http://pubs.iied.org/pdfs/16047IIED.pdf>.

Common gaps with respect to peace in current frameworks

This mapping has sought to identify gaps, needs and implementation challenges that can inform an emergent Peace Finance Impact Framework and associated taxonomy, and support development of a Peace Finance Standard. It has identified at least ten key common gaps (see below). These are described in more detail in the 'Rationale for the Peace Finance Impact Framework', published separately.

1. Environmental, social and governance, and impact and blended finance frameworks are largely silent on peace and conflict concerns.

Peace is a transversal and contextually determined outcome that is relevant in every society. While the significance of peace and conflict issues will vary in different communities, markets and societies, most environmental, social and governance, and impact and blended finance principles do not define 'peace' or 'conflict' and do not describe them normatively. Conflict is mostly considered as a subset of Human Rights due diligence. Two evident problems arise as a result:

1. Investors in emerging and developing markets lack explicit Do No Harm criteria for peace and conflict. This is problematic for risk mitigation and due diligence frameworks, because violence and conflict are a major material risk both for affected communities and companies. In addition, business operations and investment can often increase the risk of conflict.
2. For those investors who are potentially more focused on impact, development additionality or on 'doing-good', especially in the blended finance space, no normative or principled conceptual framework is available to help investments understand and facilitate peace dynamics and peace outcomes.

2. The application of double materiality is inconsistent and should shift from Do No Harm to creating positive impact ('doing good').

It is clear that frameworks are moving steadily towards forms of accounting and accountability models that seek additionality for communities in accordance with the double materiality concept. Double materiality extends the accounting concept of materiality: companies are expected to account not only for the material impacts of the context on the company, but also for the impacts of the company on the wider social and environmental context.[222] The concept is still nascent, however. Many frameworks remain focused on risks to the company and not on risks the company poses to the environment and society.

Connected to this, companies need to raise their ambitions beyond minimum safeguards (traditional Do No Harm practices): by design, they should organise their economic or development activities to socially improve the societies their investments affect, without doing harm to others. It can be argued that most of the standards that apply the Do No Harm principle inadvertently foreclose opportunities to increase development additionality. Investors that have a low appetite for risk and limited understanding of the society in which they have invested may think that development additionality or double materiality is likely to cause unintended consequences. Precisely because this may be true, especially in fragile and conflict affected settings, efforts to achieve double materiality or development additionality must be accompanied by tools, guidance and partners. This will ensure that the Do No Harm principle does not suppress investment or lead investors to overprice risk.

222 Adapted from M Täger (2021), '"Double materiality": what is it and why does it matter?', LSE Commentary, <https://www.lse.ac.uk/granthaminstitute/news/double-materiality-what-is-it-and-why-does-it-matter/>.

3. Holistic, forward-looking, and adaptive approaches are needed to assess value and risks as they materialise over time.

Many environmental, social and governance frameworks that international investors use to report, as well as those that the International Sustainability Standards Board (ISSB) is currently aggregating into a harmonised framework, adopt a 'building blocks' approach. As the UNEP Finance Initiative and other UN agencies have noted,[223] such frameworks are flawed because they encourage investors to report on the materiality of specific sustainability issues separately, although many are innately connected and cannot be considered in isolation. This issue is germane to several core criticisms of current environmental, social and governance frameworks, including: their inability to calculate or analyse trade-offs between different environmental, social and governance factors; selective reporting and disclosure; and their inability to adapt swiftly to changes in risk as these emerge over time.

4. Design and planning processes for impact need to become less ad-hoc and more intentional.

Investors that want to support peace in fragile and conflict settings need specifically to design a theory of change that shows how their portfolio will intentionally improve prospects for development or peace and reduce material risks. The peacebuilding and development sectors use results-based management (RBM) and theory of change processes to plan, anticipate and make explicit the assumptions and risks of proposed projects or investments. This is particularly relevant for projets that seek peace impacts because they are located in complex and uncertain environments. A robust theory of change can assist investors and companies to clarify in specific terms how an investment is expected to lead to anticipated outputs and outcomes and how it will realise development additionality or promote peace.

5. Risk assessments related to peace and conflict need to become more context specific.

Investors usually detect peace and conflict risks indirectly; and they usually evaluate such risks narrowly, in terms of violence and security and the operational risks they pose to specific assets. Yet peace and conflict risks can have very large financial and material impacts: an upsurge in local conflict can cause ballooning operational and reputational costs that affect far more than a specific asset.

Despite this evident fact, most guidance and most environmental, social and governance frameworks offer little help to investors that want to mitigate such risks, because they apply highly selective criteria and view risk in narrow and generic terms. This is problematic not just because it can cause companies to become risk blind. In addition, most risks associated with conflict are context specific and can only be understood and addressed on the basis of contextualised analysis.

The interviews and desk review for this research showed that many large institutional investors will need to step beyond the frameworks they currently use, if they want to understand in clear terms the conflict risks associated with their investments, especially in fragile or weak governance areas. In this respect, the more specific environmental and social assessment templates that DFIs typically use do not meet investors' needs either, because they show the impact of a proposed investment on the communities it directly affects, but not its interactions with and effects on the broader social context. Spatially and institutionally, investments can have effects at different levels and can involve important trade-offs in terms of power, resources and influence at those levels. To understand effects beyond the immediate footprint of an investment, investors need to consult and involve a wider assortment of stakeholders at the planning stage. This in turn requires actor analysis and mapping, which are central to a peace and conflict analysis.

223 UN Environment Programme Finance Initiative (2022), 'UN responds to the ISSB consultation on new standards with joint statement', <https://www.unepfi.org/news/un-responds-to-the-issb-consultation-on-new-standards-with-joint-statement/>.

6. Understanding of local needs, inclusion, engagement and participation is often limited or superficial, which weakens due diligence, additionality, risk mitigation and sustainability.

Virtually every model of social sustainability and social peace affirms that it is essential to engage local stakeholders, and take account of and be guided by local needs and perspectives. For this reason, most frameworks and guidance emphasise local inclusion, consultation, acceptability and participation. However, what local inclusion, engagement, and participation mean in practice is very context specific. In many cases, the guidance does not define key terms such as 'consultation', 'meaningful inclusion', 'engagement', 'consent', 'local acceptability', or explain how investors can achieve conditions of local engagement and inclusion in specific social locations. In peacebuilding and participatory development work, the quality of local engagement and local participation and the quality of relations with local leaders can be the most important variables for determining success. Before they launch blended investments, public investors that operate in fragile and conflict affected settings have sought to deepen and extend local dialogue, encourage the expression of different interests, curb the influence of private commercial interests, and ultimately empower local actors and their leaders.[224] Tailored, in-depth and systematic consultation with local stakeholders throughout a project's life benefits all types of investment and is a key dimension of risk mitigation and a leverage point for additionality. Nevertheless, the evidence suggests that investors and companies need to strengthen community ownership and empowerment further. In fragile and conflict affected settings, this becomes a key challenge wherever marginalised groups lack voice and agency, are not able to take decisions freely, or cannot engage with the company without putting themselves at risk; and whenever it is logistically or politically difficult for an international actor to engage with them.

7. The views of beneficiaries are rarely required or collected, hindering transparency and accountability.

It has been acknowledged that frameworks that do account for material impacts on communities are not adequately transparent about the benefits they offer to people and communities post investment. This is also true of blended finance projects.[225] While significant amounts of development performance data may be collected at the end of a project's life, especially on outputs, very few impact indicators report the views of beneficiaries, or collect the qualitative, sometimes ethnographic and largely perception-based information they provide, that makes it possible to understand key aspects of social peace.[226] Material outputs supported by quantitative data that is insufficiently disaggregated (in terms of gender, age, ethnicity and geography) do not fully describe the impact of investments, and cannot capture critical relational factors that largely determine social impacts related to inclusion, participation, trust, and perceptions of benefit. This deficit is partly caused by the fact that most frameworks do not require investors to report beneficiaries' views when they design their projects, when they report on them, or when they disclose key performance metrics.

8. Many frameworks lack specific and actionable guidance so often remain unimplemented.

The gap between concept and application is a paradox of current standards and frameworks. Plainly, many principles-based frameworks and performance standards affirm important norms that are highly relevant to peace and sustainability. Yet, just as evidently, numerous investments have failed to realise principles to which they have subscribed. The gap is especially visible in certain high profile DFI blended investments in fragile and conflict affected settings that failed to consult stakeholders adequately, or became entangled in community conflicts over land acquisition. Unintended impacts can occur for many reasons, despite an investor's best intentions, but this review and interviews with a range of public and private investors have confirmed that investors are unable to meet standards they have agreed to abide by because insufficient actionable guidance is available to them. Ultimately, any framework that affirms standards, norms and principles must pay attention to implementation. This implies making available: guidance; capacity development; incentives; and a broader enabling infrastructure, including certification and verification regimes, and disclosure systems that nurture accountability and learning. Any proposed Peace Finance Impact Framework should affirm and disseminate its norms and principles but also address their implementation and uptake.

224 OECD (2020), 'Blended Finance Principles Guidance', <https://www.oecd.org/officialdocuments/ publicdisplaydocumentpdf/?cote=DCD/DAC(2020)42/FINAL&docLanguage=En>.

225 OECD, 'OECD DAC Blended Finance Principle 5: Monitor blended finance for transparency and results', Guidance Note, n.d., <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-5/Principle_5_Guidance_Note_and_Background.pdf>.

226 Ibid.

9. Impact management and measurement systems need to connect better to disclosure mechanisms.

Across the environmental, social and governance landscape, potential gaps exist between general principles and the impact measurement and management frameworks that investors choose independently. A potential Peace Finance Impact Framework will need to remedy this shortcoming by establishing monitoring arrangements whose metrics link intentional (ethical) objectives to (peace) impacts. Several frameworks, notably those that promote dual materiality, have already made impact management and monitoring more central.

10. Many complaint and grievance mechanisms are unfit for emerging and fragile contexts.

Complaint and grievance mechanisms are vital where governments lack the capacity or will to ensure that international or national standards are respected. Complaints about the activities or impact of companies can be filed using complaint and grievance mechanisms that many impact standards recommend. However, reviews of such mechanisms have found that many are not sufficiently accessible or effective, often because they lack guidance or resources.[227] An effective grievance mechanism signals problems rapidly and remedies grievances quickly and effectively: it can help a company or investor to mitigate key risks. To ensure their grievance mechanisms are effective, companies should monitor them regularly, potentially using local partners or independent consultants. Mechanisms should specifically be accessible to vulnerable groups. In principle, grievance mechanisms should provide a complementary form of accountability. An investment should primarily engage with communities through well-embedded community relationships and contextually determined peace-enhancing mechanisms that it establishes from the investment's inception. Grievance mechanisms deal with problems that have already arisen: relationships and peace-enhancing mechanisms are equipped to forestall grievances, deepen trust, and respond swiftly to community and individual concerns as they arise.

227 Booth, K. (2022), 'OECD Watch's annual "State of Remedy" report finds NCPs still largely failing to facilitate effective remedy outcomes in 2021', OECD Watch, 27 June, <https://www.oecdwatch.org/oecd-watchs-annual-state-of-remedy-report-finds-ncps-still-largely-failing-to-facilitate-effective-remedy-outcomes-in-2021/>.

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