

**Finance for Peace**

# **Draft Peace Bond Standard**

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**Introducing international best practice for Peace Bond investment certification**

Version: 2.0 – Interim Copy  
June 2023

## Draft Peace Bond Standard

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### About this report

The Draft Peace Bond Standard should be considered international best practice for labelling Peace Bonds<sup>1</sup>. The Standard sets out the minimum requirements to be met for bond issuers initiating and being awarded certification of a Peace Bond investment. It provides the guidance for the structuring, management, and verification of peace impact investments.

The Draft Peace Bond Standard is one of the key components of the Peace Finance Impact Framework, which is detailed in a separate document by Finance for Peace, a multistakeholder initiative that seeks systemic change in how investment impacts peace. The Peace Finance Impact Framework (PFIF) is an investment framework with the goal of inspiring impact investors to support peace. The PFIF helps public and private investors plan, partner, report and ultimately realise peace impacts and reduce risks for themselves and for the communities in the area of investment.

The PFIF and the Peace Finance Standard have been developed based on wide feedback and input from a broad array of key stakeholders who may be direct or indirect users and/or partners in its potential further use. These include government donors, multilateral organisations, development finance institutions (DFIs) and multilateral development banks (MDBs), private asset managers and banks, private enterprises operating in fragile and emerging markets, norm setting organisations in the financial sector, second party opinion providers and organisations operating in development and peacebuilding aid sectors as well as civil society and communities.

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1 Type of Bonds: Sovereign, Supra or Corporate Debt; Municipal Bond/Revenue Bond

## About the Finance for Peace Initiative

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

Finance for Peace has been incubated by Interpeace, an international peacebuilding organisation that has worked on conflict resolution and peacebuilding throughout Africa, the Middle East, Asia, Europe and Latin America for 29 years. The governance and administration of the initiative is supported by Interpeace from Geneva, Switzerland. It is financially supported by the German Federal Foreign Office.

## Acknowledgements

We would like to thank the 52 organisations and many individuals that participated in the consultation processes that fed into the development of the PFIF and the Peace Finance Standard.

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Federal Foreign Office

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# A New Peace Finance Standard (PFS) and Certification Scheme

The Peace Finance Standard (PFS) and Certification Scheme should be considered an international best practice for labelling Peace Bonds<sup>2</sup> and Peace Equity investments. The PFS sets out the minimum requirements to be met for bond or equity issuers initiating and being awarded certification of a Peace Bond or Peace Equity investment. It provides the guidance for the structuring, management, and verification of two new finance instruments for impact investing, namely Peace Bonds and Peace Equity investments that generate positive peace impact alongside financial returns.

The proposed PFS is part of the three main components of the Peace Finance Impact Framework (PFIF). In the case of the Draft Peace Bond Standard, which is introduced in this document, the proposed PFS builds on the widely used ICMA Social Bond Principles and Sustainability Guidelines with its four core components: Use of proceeds; Process for project evaluation and selection; Management of proceeds; and Reporting. The criteria are separated into a pre-Issuance criteria and post-Issuance criteria for issuing Peace Bonds and have been dubbed Peace Bond Standard.

On the other hand, a similar standard that has been developed in a separate document for Peace Equity investments utilises the 9 Impact Principles<sup>3</sup> and follows the five stages of the OPIM impact management process. Both standards point to the Peace Taxonomy described in the Peace Finance Impact Framework, accounting for relevant exclusionary and DNH criteria. They also reflect on the key gaps highlighted from the mapping that was conducted separately by Finance for Peace.<sup>4</sup>

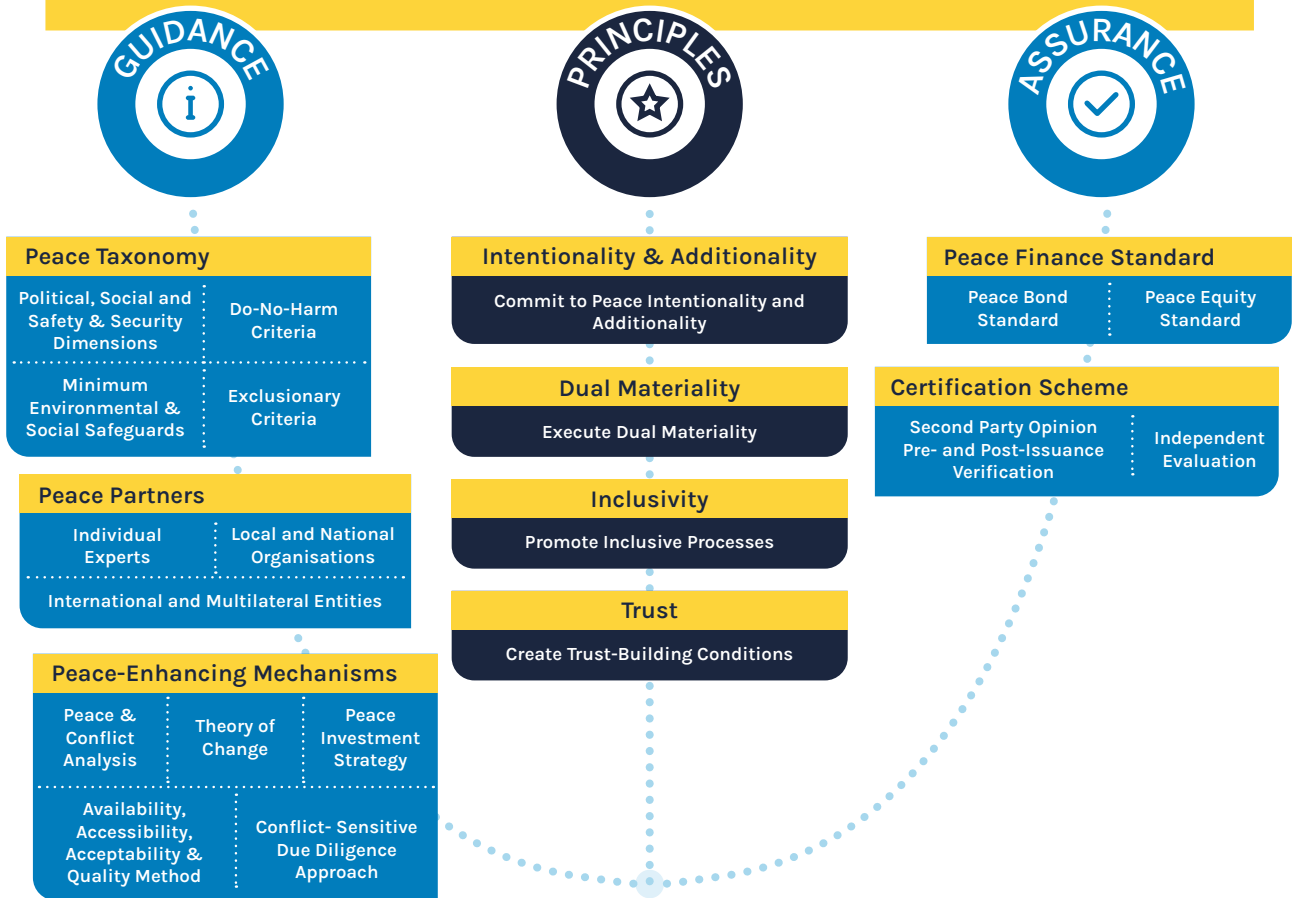
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2 Type of Bonds: Sovereign, Supra or Corporate Debt; Municipal Bond/Revenue Bond

3 <https://www.impactprinciples.org/>

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

# PEACE FINANCE IMPACT FRAMEWORK (PFIF)

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

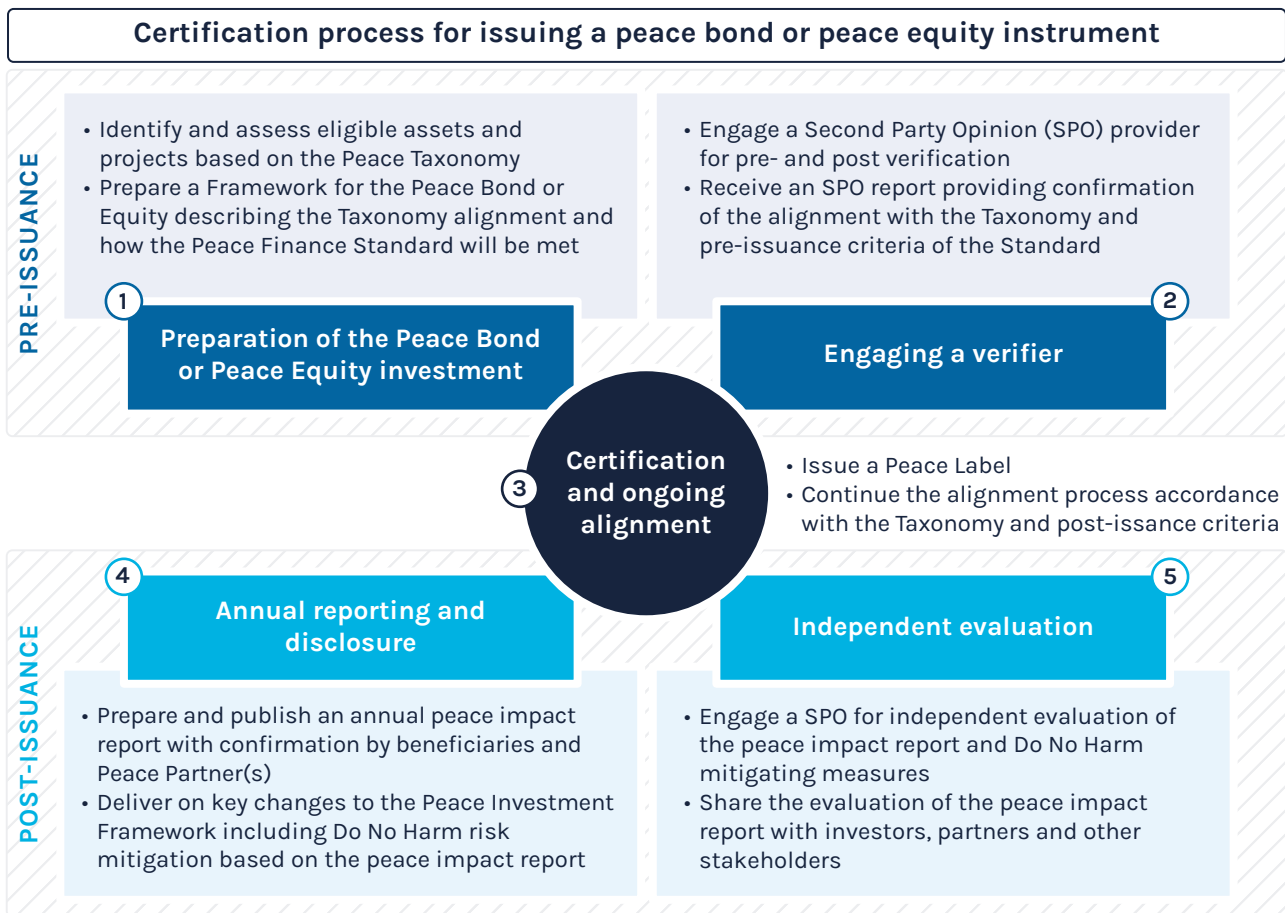


Certification under a Peace Bond or Draft Peace Equity Standard confirm that a Peace Bond or Peace Equity instrument is:

- Fully aligned with the Peace Finance Principles and Taxonomy
- Consistent with achieving relevant SDGs and supports national development objectives
- Using market best practices that are based on the ICMA Social Bond Principles, Sustainability Bond Guidelines (in the case of Peace Bonds) and the Impact Principles (in the case of Peace Equity).

The figure below illustrates the certification process consisting of five stages in the pre- and post-issuance of a Peace Bond or Peace Equity instrument. It contains feedback loops between the stages for ongoing alignment with the Taxonomy.

**Figure 1. Applying the PFIF pillars in the five-step process for certification of a Peace Bond or Peace Equity investment**



**What type of assets and expenditures can be included in a certified peace impact investment?**

Peace impact investments labelled Peace Bonds or Peace Equity investments that contribute to improving or maintain peace can include:

- > Physical or financial assets such as micro-credit and loans. In most cases, they are tangible although not exclusively.
- > Certain operating expenditures related to the assets that increase the sustainability of the assets. Expenditures also include relevant public expenditures and subsidies

## Draft Peace Bond Standard

Under the Peace Bonds Standard, the pre-Issuance criteria (pre-investment stage) need to be met by an Issuer seeking certification prior to issuance while the post-Issuance criteria (post-investment stage) need to be met by Issuers seeking continued certification following the issuance of any Peace Bonds.

### A. Peace Bond Pre-Issuance (Pre-Investment) Criteria

The pre-issuance criteria ensure that an Issuer has provided a new “Peace Bond Framework” (hereafter dubbed “Framework”) for the Nominated Projects & Assets in accordance with the Draft Peace Bond Standard and be controlled by appropriate internal processes.

The Framework should be structured according to Section 4 of the Guidance notes, hence address the following questions:

- > How does the Issuer’s overall strategy align with the peace-enhancing objectives of the Peace Bond?
- > How do the projects and assets meet the pre-issuance criteria set by the Standard for Peace Bonds?
- > What approach has been adopted for independent verification of the pre-issuance criteria?
- > How and what does the Issuer report and what kind of approach is adopted for evaluation?

The Framework is guided by the four Peace Finance Principles and its design involves credible Peace Partners and Peace Enhancing Mechanisms. The Framework for issuing the Peace Bond must have been added to the legal documentation (i.e. Prospectus or the Final Terms) of the Issuer. These criteria and their guidance for implementation do not replace current established criteria but can be seen as modular criteria that can be added to existing processes making the latter more relevant and robust for investing in emerging markets.

#### A.1. Use of Proceeds

**A.1.1.** The Issuer shall document the Nominated Projects & Assets which are proposed to be associated with the Peace Bond and which have been self-assessed as likely to be Eligible Projects & Assets. The Issuer shall establish a list or registry of Nominated Projects & Assets which can be kept up to date during the term of the Peace Bond.

**A.1.2.** All designated eligible Nominated Projects & Assets shall have clearly defined peace benefits (and where feasible quantified) which may accrue from social, green, sustainable or peace-positive projects implemented, demonstrating the peace-enhancing character of the Peace Bond. Eligibility can be assessed through the indicative Peace Taxonomy and its guidance notes and must be further supported by a credible Theory of Change.



**A.1.3.** The Issuer shall clarify the Framework’s alignment with the ICMA Social Bond principles or ICMA Sustainability Bond Guidelines as well as with the Issuer’s own sustainability strategy. The Framework must also be mapped to relevant SDGs and related sub-targets that support national development objectives of the country the investment takes place indicating both positive and potentially negative impacts on specific SDG (sub)targets or national development objectives.

**A.1.4.** The Framework should seek to catalyse intentional peace that can generate (direct and indirect) peace additionality impacts demonstrated through the design of a Peace Strategy that is based on a good understanding of the local context. Through partnerships with pre-selected Peace Partners, a peace and conflict analysis and actor mapping that forms the basis for the Peace Strategy and Theory of Change must be carried out to create the understanding of the peace additionality impacts on the targeted population or groups.

**A.1.5.** Eligible products and services for improving basic human needs and economic infrastructure for pre-defined targeted groups or population shall apply the AAAQ factors and DNH criteria in order to show their impact on social, safety or political issues faced by the vulnerable groups or population.

**A.1.6.** The Use of Proceeds will need to apply a conflict sensitivity lens which means that the design of products or services shall use the dual materiality principle as part of the peace and conflict analysis.

## **A.2. Process for Evaluation and Selection of Projects and Assets**

**A.2.1.** The Issuer shall clearly communicate to investors, the targeted population or groups the intention and additionality ambition of the Peace Bond as well as the process and PEMs by which the Issuer has identified and will manage the intended direct or indirect positive and negative impacts.

**A.2.2.** As part of its rationale for issuing the Peace Bond, the Issuer shall indicate as to why a specific population or group has been targeted with the Peace Bond. Such rationale forms part of the conclusions from the peace and conflict analysis and mapping carried out by the Issuer and the selected Peace Partners or others involved.

**A.2.3.** The Issuer shall apply the Eligibility & Exclusionary Criteria (addressed under section D), minimum social and environmental safeguards as well as DNH criteria according that are part of the indicative Peace Taxonomy to determine if an investment is eligible for Peace Bond financing, excluded from it or if it requires additional Do No Harm due diligence screening to ensure its compatibility.

**A.2.4.** As part of its Pre-issuing selection due diligence process, the Issuer must ensure that the Peace Strategy has been co-constructed with or validated by the Peace Partners. The Issuer should only involve Peace Partners that comply with the Peace Partner requirements set out in the Guidance notes, to be published separately.

**A.2.5.** The Issuer shall pro-actively involve credible local Peace Partners and other partners as well as the targeted population or groups in the design, Monitoring and Evaluation (M&E) of a robust and conflict-sensitive Theory of Change (ToC) leading to a common understanding on the intended peace-related outcomes and impacts sought in addition to a shared agreement on the M&E process and indicators for verifying the anticipated direct and indirect peace impacts and screening of DNH criteria.

**A.2.6.** The Issuer in partnership with the Peace Partners shall set up a process for systematic local community consultations centred around local needs, interests and ownership in connection with the peace, conflict and sustainability risks and the impact management procedures in a conscious effort to increase transparency, build trust with targeted groups and prevent risks from materialising. Such efforts must aim to reduce the need for future resource-intensive remedial mechanisms that manage negative impacts.

**A.2.7.** The Issuer shall engage an independent specialised external reviewer (i.e. Second Party Opinion) or verifier<sup>5</sup> who assesses the Framework and verifies that the Pre-Issuance criteria of the PFS and Certification have been met in the SPO report. The verifier should also follow best practices set out in the 2022 ICMA Guidelines for External Reviews.<sup>6</sup> The SPO report must show conformance with the Pre-Issuance criteria. In the case, criteria have not been met, the Issuer shall make the necessary adjustments and re-engage the verifier to provide an updated report giving assurance that all requirements have been met before issuing the Peace Bond.

### **A.3. Management of Proceeds**

**A.3.1.** The Issuer must aim for a high level of transparency and accountability on how the Net Proceeds of the Peace Bond impact peace. The internal peace impact M&E mechanisms shall, therefore, include a set of impact indicators that can be disclosed (a) for the validation of the ToC by the Peace Partners and targeted population or groups or (b) for verification of the ToC by the external reviewer or SPO.

**A.3.2** As part of the partnership with Peace Partners and inclusive driven processes with the targeted groups and other stakeholders, a set of commonly agreed impact indicators shall be used for managing and measuring the proceeds that support access to basic human needs and economic infrastructures.<sup>7</sup> Such indicators shall be complemented with Key Performance Indicators measuring peace contributions and screening DNH that are SMART (Specific, Measurable, Achievable, Realistic, Time Bound). Other relevant project-oriented indicators should track the alignment with the Peace Finance Principles.

5 When a certification regime has been developed the external reviewers and verifier will need to be pre-approved in order to offer certification services.

6 [https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/External-Review-Guidelines\\_June-2022-280622.pdf](https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/External-Review-Guidelines_June-2022-280622.pdf)

7 Indicators can be selected from the ICMA Harmonised Framework for Impact Reporting for Social Bonds, GIIN IRIS+ and the harmonised HIPS0 indicators that are aligned with the SDGs.

**A.3.3.** The Issuer shall demonstrate active support for stakeholder engagement and impact management through, among others, capacity development and empowerment initiatives and other trust-building efforts that can contribute to the proper management of the proceeds and the effective implementation of the PFS.

#### **4. Reporting Prior to Issuance**

**A.4.1.** The Issuer shall prepare a Peace Investment Framework (referred to as “the Framework”) for issuing the Peace Bond as well as the list of the proposed Nominated Projects & Assets associated with the Peace Bond and make them publicly available.

**A.4.2.** The Framework shall include, without limitation, the expected contribution(s) in accordance with the indicative Peace Taxonomy and targeted groups, a Theory of Change as part of the Peace Strategy with information on its collaborative design process specifying the selected Peace Partners and PEMs and the criteria used for selection. Requirements listed under Clauses A.1.2. until A.1.6. must be specified as part of the Framework. Similarly, the processes listed under Clauses A.2.1 until A.2.6 must also be described. Relevant elements for verification by the SPO described under the Management of Proceeds (i.e. Clauses A.3.1. – A.3.3) shall be specified in the Framework.

**A.4.3.** The Issuer is advised to collaborate with peace and conflict sensitivity experts to assess how the peace enhancing benefits intended to accrue from the (project) investment can be best captured. Both qualitative and quantitative indicators should be identified for the reporting which allows for a better understanding of the dynamics of the local context.

**A.4.4.** Disclosure of the impact management processes by the Issuer shall reveal the expectation of the various stakeholders and their interests and how they will be involved potentially. The methods of impact measurements must be transparent, and any assumptions and potential risks will need to be highlighted.

**A.4.5.** In the event that all or a proportion of the Net Proceeds will be used for refinancing, Issuers shall disclose which refinanced projects have been included in the Nominated Projects & Assets list or registry. The expected look-back period for refinancing eligible projects cannot exceed 24 months.

## **B. Peace Bond Post-Issuance (Post-Investment) Criteria**

Issuers seeking continued certification of the Peace Bond that has been issued, will need to meet all Post-Issuance criteria:

### **B.1. Use of Proceeds**

**B.1.1.** The Net Proceeds of the Peace Bond shall be allocated to the Nominated Projects & Assets conforming the eligibility categories and criteria and the verification process. The Issuer shall allocate the Net Proceeds to the Nominated Projects and Assets within 24 months of issuing the Peace Bond. The Nominated Projects & Assets shall not be nominated to other labelled bonds or instruments.

**B.1.2.** The expected peace benefits from the use of proceeds shall be tracked by the Issuer according to the established M&E process in accordance with the ToC (Clause A.2.5.) and the collectively agreed set of indicators (Clauses A.3.1. and A.3.2.).

**B.1.3.** Following the Peace Impact reporting, the Issuer and its Peace Partners shall develop and deliver on PEMs recommendations or DNH actions needed and other emerging risks that can enhance the peace character and the sustainability of the Peace Bond through changes in the Peace Strategy.

### **B.2. Process for Evaluation and Selection of Projects and Assets**

**B.2.1.** The Issuer shall document and maintain a decision-making process to determine the continuing eligibility of the Nominated Projects and Assets. This includes a process to determine whether the projects still meet the eligibility criteria specified under part A.

**B.2.2.** The Issuer shall follow the risk assessment process (developed under A.2.6.) consisting of a localised monitoring mechanism and a contextualised multi-level conflict, actor and sustainability analysis that applies DNH criteria in addition to other (Human Rights) due diligence processes to capture emerging material risks early on.

**B.2.3.** To facilitate the Peace Impact disclosure reporting and in line with the core principles of the ICMA Harmonised Framework for Impact Reporting for Social Bonds<sup>8</sup> and in accordance with the reporting requirements stipulated in the Guidance notes, the Issuer shall document the peace-positive and/or negative impacts as well as any emerging risks on an ongoing basis.

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<sup>8</sup> [https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds\\_June-2022-280622.pdf](https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds_June-2022-280622.pdf)

**B.2.4.** The Issuer shall engage an independent external reviewer/verifier (i.e. an SPO) who evaluates the Peace Impact report and checks and reports on the ongoing alignment of the selected projects against the Eligibility & Exclusionary Criteria and the alignment with the Peace Investment Framework in accordance with the Guidelines for External Reviews by the ICMA.<sup>9</sup> The reviewer or verifier's independent Post-Issuance evaluation report must be submitted within 36 months of issuing the Peace Bond confirming ongoing certification. Any issues that emerge from the evaluation standing in the way of continuing certification shall be used to make adjustments to the Peace Strategy.

### **B.3. Management of Proceeds**

**B.3.1.** The Issuer shall establish an independent and adequately resourced complaints and grievance mechanism for affected communities with regular monitoring and reporting in order to facilitate early indication of material risks and to prompt remediation where needed. The effectiveness of the complaints and grievance mechanisms must be guaranteed by its accessibility for targeted and affected groups and its capacity to develop trust. The mechanism shall be managed by independent specialised experts who shall apply a baseline assessment of the socio-economic conditions of the targeted and other affected people to account for any negative impacts on those conditions.

**B.3.2.** The Issuer shall track progress by collecting contextual data that, among other, includes the voices of the beneficiaries. Issuers are encouraged to disclose the collected data frequently, preferably on an annual basis for inclusion in the Peace Impact report.

**B.3.3.** The Issuer shall deliver on relevant support for stakeholder engagement and impact management through, among others, capacity development and local empowerment initiatives and other community trust-building efforts that can contribute to the proper management of the proceeds and the effective implementation of the PFS.

## **4. Reporting**

**B.4.1.** In the case that the exact peace-enhancing projects and assets were not yet known at the time of the publication of the Framework, the Issuer is obliged to report the precise description of the projects and assets as part of the post-issuance reporting.

**B.4.2.** As part of the annual peace impact reporting, the Issuer shall work together with the Peace Partner(s) to seek impact validation from the targeted population or groups whose lives the Net Proceeds from the Peace Bond have been affected. The purpose of such an inclusive approach is to assess the effectiveness of the Use of Proceeds, mitigate the risk of peace impact washing, build trust with local communities and improve transparency in general.

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<sup>9</sup> [https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/External-Review-Guidelines\\_June-2022-280622.pdf](https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/External-Review-Guidelines_June-2022-280622.pdf)

**B.4.3.** The Issuer shall make an effort to demonstrate the outputs, outcomes and impact on targeted groups and explain any divergences between ex-ante and ex-post assessments as part of the annual reporting. The peace impact report must use qualitative and quantitative indicators illustrating both the intended and the actual outcomes and impacts. In order to capture the full benefits, and any negative impacts as well as emerging risks, it is recommended that the Issuer collaborates with peace and conflict sensitivity experts for the reporting. The peace impact report should include the key elements specified in the Guidance notes. Reporting should apply the core principles of the Harmonised Framework for Impact Reporting for Social Bonds.<sup>10</sup>

**B.4.4.** The Issuer shall disclose the independent post-issuance evaluation report to the partners, investors and other stakeholders.

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10 [https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds\\_June-2022-280622.pdf](https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Social-Bonds_June-2022-280622.pdf)

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