Finance for Peace

Draft Peace Equity Standard

Introducing international best practice for Peace Equity investment certification

Version: 2.0 – Interim Copy
June 2023

Draft Peace Equity Standard

About this report

The Draft Peace Equity Standard should be considered international best practice for labelling Peace Equity investments. The Standard sets out the minimum requirements to be met for equity issuers initiating and being awarded certification of a Peace Equity investment. It provides the guidance for the structuring, management, and verification of peace impact investments.

The Draft Peace Equity 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.

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.

Citation guide

Draft Peace Equity Standard (2023), Version: 2.0 June, Finance for Peace, Geneva, Switzerland.

This report has been funded by the German Federal Foreign Office.

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

Federal Foreign Office

Contents

A New Peace Finance Standard (PFS) and Certification Scheme

The Peace Finance Standard (PFS) and Certification Scheme should be considered international best practice for labelling Peace Bonds[1] 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.

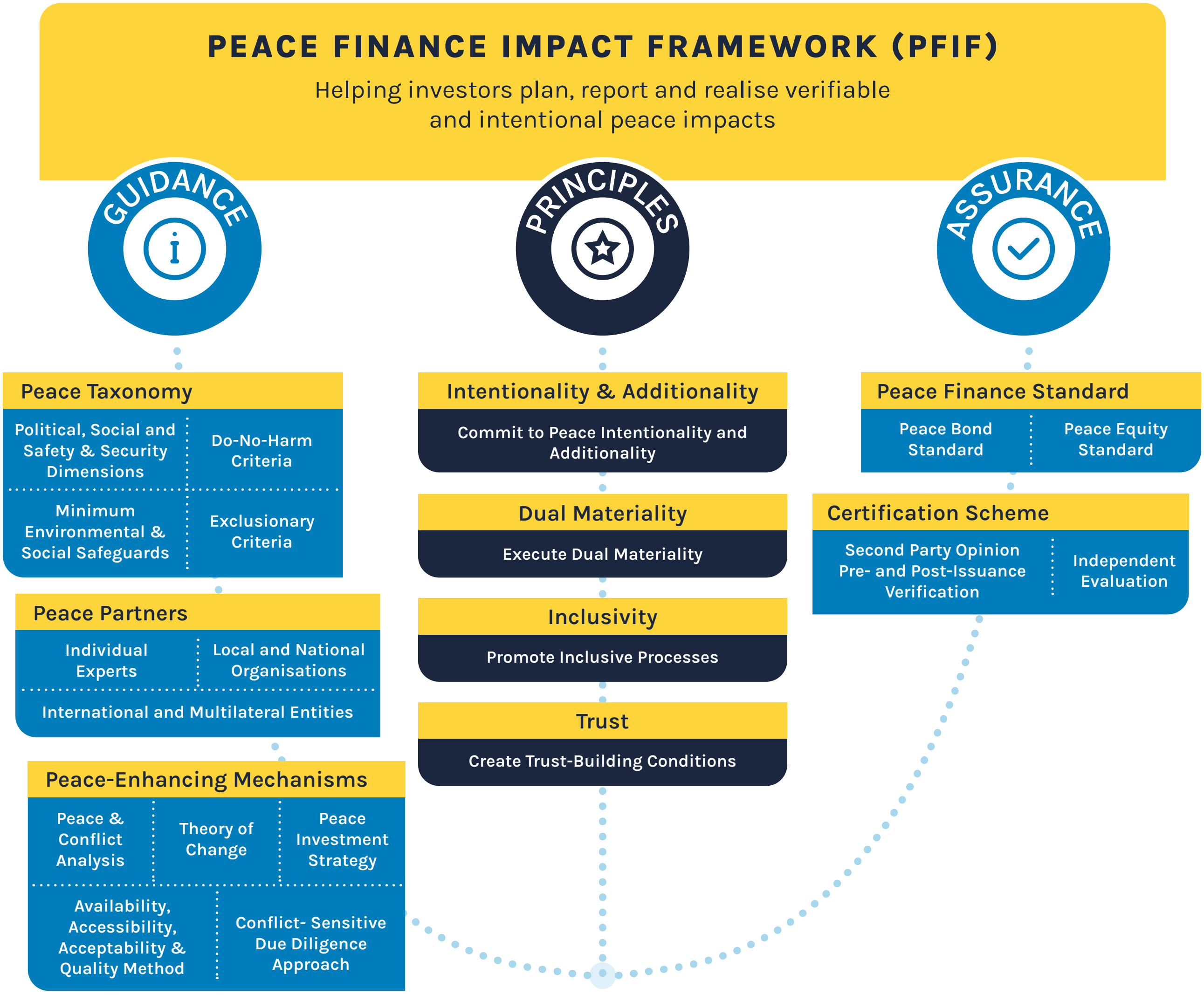
The proposed PFS is part of the three main components of the Peace Finance Impact Framework (PFIF). In the case of the Draft Peace Equity Standard, which is introduced in this document, the proposed PFS builds on the 9 Impact Principles[2] and follows the five stages of the OPIM impact management process.

On the other hand, a similar standard that has been developed in a separate document for Peace Bond investments builds on 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. 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.[3]

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

2 https://www.impactprinciples.org/

3 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/>.

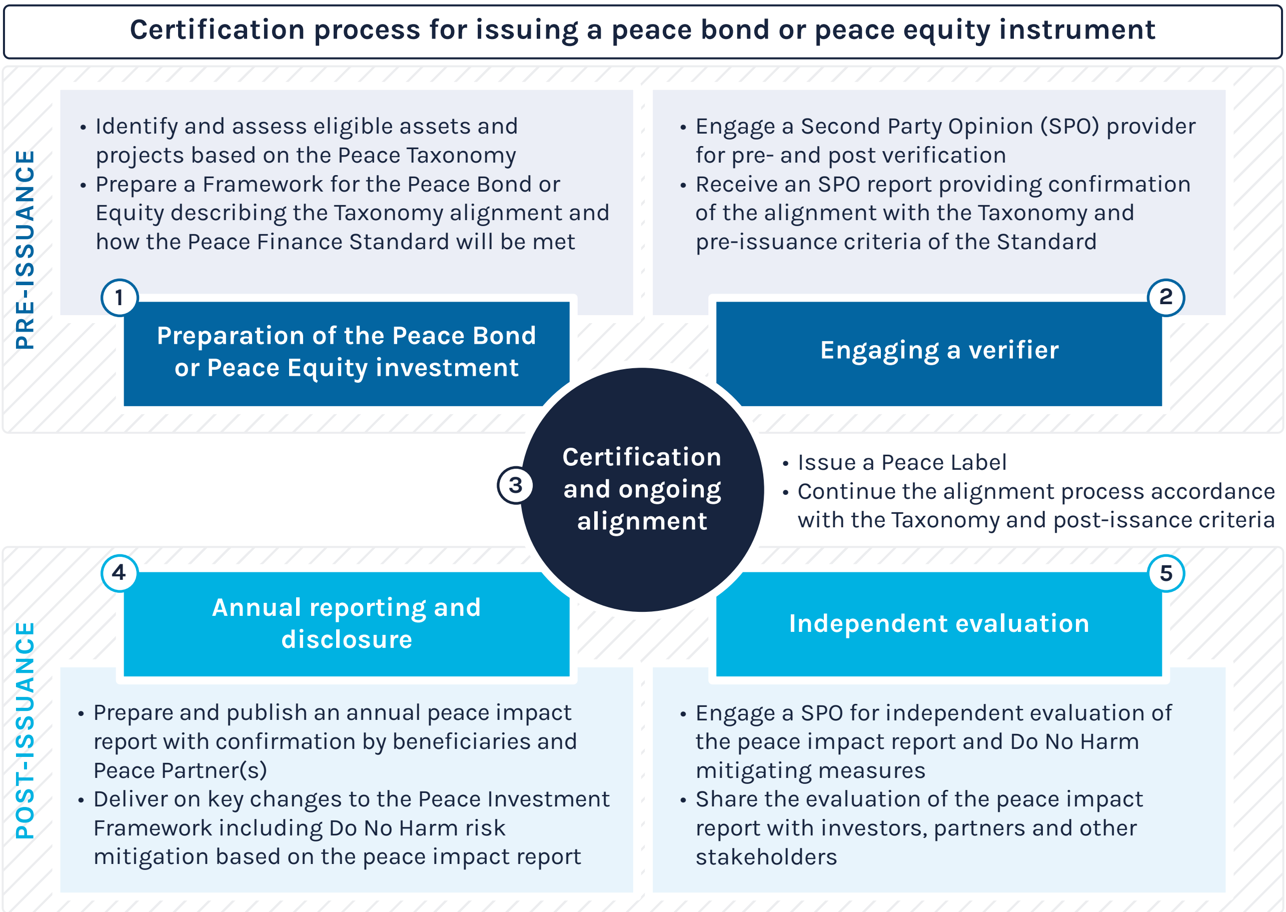


Certification under a Peace Bond or Draft Peace Equity Standard confirms that a Peace Bond or Peace Equity instrument is:

a. Fully aligned with the Peace Finance Principles and Taxonomy
b. Consistent with achieving relevant SDGs and supports national development objectives
c. 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

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For the purpose of issuing Peace Equity, Issuers can lean on the five key building blocks with the 9 Principles of the OPIM framework. Within each of the five elements of the process: strategy, origination and structuring, portfolio management, exit, and independent verification, the Draft Peace Equity Standard can be applied to ensure that peace and conflict sensitive impact considerations are fully integrated throughout the investment life cycle, thus also during the management of Peace Equity funds or portfolios. The Draft Peace Equity Standard and Guidance notes serve to support the impact management and measurement process providing the assurance to the process for certification. At the heart of the process, is the design of a Peace Equity Framework that ought to be structured in accordance with Section 4 of the Guidance notes, hence address the following four questions:

- How does the Issuer's overall strategy align with the peace-enhancing objectives of the Peace Equity investment?
- How do the Peace equity projects and assets align with the pre-issuance criteria?
- How is the impact managed at the portfolio/fund level ?
- How and what does the Issuer need to report and what approach is adopted for verification and evaluation?

Peace Equity: Pre- and Post-Investment criteria

Strategic Intent

1. **Defining strategic impact consistent with the strategy**

1.1. The Manager[4] shall define the strategic objectives for the Peace Equity portfolio or fund as part of the construction of a Peace Investment Framework (hereafter dubbed the "Framework") to achieve one or more direct or indirect peace impacts in connection with the indicative Peace Taxonomy demonstrating the peace-enhancing character of the portfolio or fund. The Manager shall clarify the alignment of the Framework with the OPIM principles and the Peace Finance Principles.

1.2. The Manager shall ensure that the strategic objectives for the portfolio or fund are supported by a peace enhancing and conflict sensitive peace investment strategy that must be developed in accordance with the five steps for certification and be supported by leading investment practices and industry standards. The objectives must be mapped to key SDGs and related sub-targets that support national development objectives. The Manager is encouraged to show both the positive and negative SDG-related impacts.

4 Managers are asset managers, fund general partners, and institutions.

1.3. Based on a co-constructed peace and conflict analysis and actor mapping, the Manager shall facilitate the articulation of a Peace Strategy and a credible Theory of Change (ToC) that offer a solid basis for achieving the peace impact objectives of the portfolio or fund and for managing potential double materiality risks. The ToC must demonstrate that the intended peace impact is in proportion to the size of the investment portfolio or fund. Each individual investment must also support the ToC and show how it contributes to the intended peace benefits for a specified target group or population.

2. Manage strategic impact on a portfolio basis

2.1. The Manager shall establish a collaborative stakeholder process to manage the peace impact on a portfolio basis. The monitoring of and evaluation of the progress made shall take place according to a set of pre-identified and commonly agreed Key Performance Indicators (KPIs) measuring impact performance as part of the overall ToC. The KPI's shall measure direct or indirect peace impact contributions that address basic human needs and economic infrastructure, and they must be specified according to output, outcome and impact.

2.2. The Manager shall involve credible local actors, partners, eligible PEMs and the targeted groups in the design of a robust ToC leading to a common understanding on the peace-related outcomes sought as well as the establishment of a collective agreement on the methods for verifying the anticipated peace impacts. The ToC shall contain KPI's that can be validated by the Peace Partners and other stakeholders.

Origination & Structuring

3. Establish the Manager's contribution to the achievement of the impact

3.1. The Manager shall pro-actively and systematically involve the local population or targeted group for consultations focusing on local needs, interests, and ownership in an effort to increase transparency, build trust and prevent risks from materialising.

3.2. The Manager is encouraged to support the impact management including local community engagement processes with relevant capacity development activities that provide guidance for the effective implementation of the PFS. Evidence of such active support by the Manager shall be provided according to the KPIs.

3.3. The Manager shall aim for a high level of transparency and clearly communicate to investors, the targeted population or groups the intention and ambition of the portfolio or fund as well as the process and PEMs by which the Manager has identified and will manage the intended direct or indirect positive and negative impacts.

3.4. The Manager must ensure that the Peace Strategy has been co-constructed with or validated by the Peace Partners. The Manager should only involve Peace Partners that comply with the Peace Partner requirements set out in the Guidance notes.

4. Assess the expected impact of each investment, based on a systematic approach

4.1. The Manager shall assess the expected peace impact deriving from the investment and its likelihood based on the feedback on the ToC from the investees, local actors and Peace Partners. The ToC must clearly state the rationale behind the peace investment strategy and why a specific group or community is being targeted with the investment. The ToC answers four fundamental questions: (1) What is the intended peace impact? (2) Who experiences the intended peace impact? (3) How significant is the intended peace impact? and (4) What data on the impact will be collected and how?

4.2. The Manager is encouraged to collaborate with conflict sensitivity experts and peace practitioners to assess how the peace enhancing benefits intended to accrue from the peace investment strategy can be best captured for the reporting. The Manager shall identify and use both qualitative and quantitative KPIs which, to the extent possible, must be aligned with industry standards and follow best practices.

4.3. The Manager shall conduct a baseline assessment on the socio-economic conditions facing affected targeted and non-targeted groups or population and track progress in partnership with the Peace Partners by collecting contextual data that includes the voices of the beneficiaries in addition to other indicators that are used as part of best practices and industry standards.

5. Assess, address, and manage potential negative impacts of each investment

5.1 The Manager in partnership with the Peace Partners and investees must assure that all investments in the portfolio or fund meet all the Eligibility & Exclusionary and DNH criteria (see section D below) before labelling the fund or portfolio as peace-enhancing. As part of its due diligence, all investees must comply with global Human Rights standards and adhere to widely accepted minimum environmental and social safeguards.

5.2. The Manager shall aim to 'deliver better financing' by monitoring the ESG and DNH risks and performance of the investees according to a set of commonly agreed screening indicators and engage with the investees on any relevant material risks or other issues affecting local communities that come up. As part of the ESG risk due diligence processes, the Manager shall encourage the use of a conflict sensitive and AAAQ approach among the investees. Where needed, the Manager shall involve the investees in capacity development initiatives to improve their ESG, conflict sensitive and AAAQ performance.

5.3. The Manager shall use regular and open consultations with the investees, Peace Partners, local beneficiaries and other local stakeholders as part of due diligence processes to assess the likelihood of the expected impact and identify (emerging) material risks as well as any opportunities to enhance the peace additionality of the investment. Moreover, in partnership with Peace Partners, the Manager 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.

Portfolio Management

6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately

6.1. During the Pre-Investment stage, the Manager shall in advance confirm the ToC with the investees, Peace Partners and beneficiaries outlining the type of data collection for tracking and measuring impact and how frequent data will be collected as well as the methods and responsibilities for data collection.

6.2. The Manager shall ensure that the impact management and measurement process is guided by the four Peace Finance Principles, hence disclose the expectations and interests of all stakeholders, how they will be involved in the impact management process and when impact performance data will be shared.

6.3. As part of the Pre-investment stage, the Manager shall establish an independent and accessible grievance and accountability mechanism for affected groups adequately resourced to regular monitor and report material risks and take (remedial) action to prevent or mitigate negative impacts.

6.4. The Manager shall seek annual post-investment impact confirmation from the targeted population or other stakeholders whose lives have been impacted by the investments. Any divergences between ex-ante and ex-post assessments must be highlighted in the annual Peace Impact report.

6.5. During the Post-investment stage, the Manager shares the performance data with the investees at least on an annual basis and how this data has been collected as well as any emerging risks and possible remedial actions needed or taken based on the Peace Impact report. In order to capture and report on the full peace enhancing benefits, negative impacts and/or emerging risks, it is highly recommended that the Manager collaborates with peace and conflict sensitivity experts.

Impact at Exit

7. Conduct exits considering the effects of sustained impact

7.1. The Manager is expected to disclose the conditions and processes for a possible responsible and sustainable exit during the pre-investment stage providing clear exit criteria for the independent evaluator to evaluate.

7.2. Before conducting a 'Do No Harm' exit, the Manager must provide evidence of the effectiveness and sustainability of the peace investment strategy, thus seek confirmation of the intended peace impacts from the beneficiaries.

7.3. The Manager must consider the effects of the timing, structure and process of the exit on the sustainability of the impact as part of a 'Do No Harm' exiting process.

8. Review, document and improve decisions based in the achievement of impact and lessons learned

8.1. The disclosure reporting by the Manager must apply qualitative and quantitative indicators capturing both the intended and the actual outcomes. Any variance between ex-ante and ex-post assessments will need to be explained so that the ToC and the Peace Strategy can be adjusted accordingly. A possible adjustment to the ToC and Peace Strategy shall require consultations with the stakeholders.

Independent Verification

9. Publicly disclose alignment with the Principles and provide regular independent verification of the alignment

9.1. During the Pre-investment stage, the Manager shall publicly disclose the Framework and appoint an independent specialised pre-approved external verifier (i.e. SPO) who shall assess the fund or portfolio to verifies its alignment with the PFS and OPIM. The SPO report must show conformance with the PFS and OPIM in order to issue a Peace label. In the case these criteria have not been met, the Manager shall make the necessary adjustments and reengage the verifier to provide an updated report giving assurance that all requirements have been met. The independent verification report must be publicly disclosed.

9.2. The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the OPIM and Peace Finance Standard. As part of the Post-investment stage, the Manager shall engage an independent SPO for evaluation of this alignment every 24 months and disclose the evaluation to investees, Peace Partners, and other stakeholders. Any issues that emerge from the evaluation standing in the way of continuing certification shall be used to make adjustments to the Peace Strategy.

9.3. Throughout the investment life cycle, the Manager shall engage the investees, Peace Partners, local beneficiaries and other stakeholders on a regular basis for shared decision-making and to follow up on any commitments made as well as to allow the internal impact management systems and the results reported by the Manager to be validated.

References

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/>.

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