Finance for Peace

The Peace Finance Impact Framework

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

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June 2023

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About this report

The Peace Finance Impact Framework has been developed 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 conceived 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 is complemented by two additional documents that contain the new Peace Finance Standard (PFS), composed of a Peace Bond Standard and a Peace Equity Standard to label nascent debt and equity investment aligned to peace. The two Standards support the design, structuring and management of two new finance instruments for impact investing, namely Peace Bonds and Peace Equity investments with the ability to generate positive peace impact alongside financial returns.

The PFIF has 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.

This PFIF is version 2 and is an update from version 1 which was developed in September 2022 after several rounds of feedback and consultation with experts in sustainable investment, finance, peacebuilding, development and academia.

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.

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Citation guide

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Federal Foreign Office

Contents

Important terms and definitions used in this report

Defining Social Peace: Social Peace is the presence of social cohesion and trust between the state and people, between different social and identity groups (e.g. caste, tribe, race, ethnicity, religion, class, gender) and within institutions whereby people can resolve their grievances in non-violent ways. Social Peace actions are any inputs, outputs or outcomes that result in people transforming conflictual relationships between groups and between state and society.

Defining Political Peace: 'Political Peace' interventions relate to political and/or largely formal solutions to violent conflicts and may be supported or reinforced by a formal legal architecture such as a peace agreement, legal change at the national level, or at the regional or international level, such as a UN Security Council decision.

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

Other terminology or phraseology

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

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

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

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

Conflict Sensitivity: Conflict sensitivity is a term that evolved out of the aid sector, referring to the practice of understanding how aid interacts with conflict in a particular context, to mitigate unintended negative effects, and to influence conflict positively wherever possible, through humanitarian, development and/or peacebuilding interventions. It is now seen as a minimum standard for all actors operating in conflict-affected settings.

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

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

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

Peace Partners: Peace Partners are local, national or international partners that would bring a mixture of capacities, skills, networks and knowledge related to the context of investment interest. In many cases Peace Partners are local organisations with exposure to approaches familiar in international humanitarian, developmental aid and peacebuilding work. They may also be intermediary organisations that can map multiple actors and build bridges between different diverse local actors with different skills sets and capacities. Examples of Peace Partners and their roles in the Peace Finance Impact Framework are listed in this report.

AAAQ approach: The aim of an AAAQ (Availability, Accessibility, Acceptability, Quality) approach is to address all possible obstacles to the fulfilment of social, economic and cultural rights and to find ways to overcome these obstacles. Availability suggests that a certain good is available in a sufficient quantity. Accessibility means that a product or service is economically affordable and physically accessible without any discrimination, and that related information about this product or service is also provided. Acceptability means that the provision of goods and services should be ethically and culturally appropriate. Quality means that the good or service is safe and that it meets internationally recognised quality standards that are scientifically approved.

Executive Summary

This Peace Finance Impact Framework (PFIF) provides a benchmark for guiding and defining how public and private investors can impact peace. It details international best practice for labelling Peace Bonds and Peace Equity investments through a certification scheme guided by the Peace Finance Standard (PFS) that helps investors structure, manage, and verify their investments alongside Second Party Opinion (SPO) providers. The PFIF describes basic exclusionary criteria, a best practice process and partnership model of how investors can plan, implement, measure and verify peace impacts as well as some of the intervention logic of how they may generate additionality for investors and better outcomes for communities. The PFS, which has been developed separately, details a Peace Bond Standard and Peace Equity Standard for asset specific investment guidance. The PFIF and the compliance with the robust Standard help investors lower risks for both communities and investees by implementing peace and investment strategies that are better sensitised to political and social risks while also building greater trust, buy-in and certainty through more inclusive investment approaches.

New incentives for financing approaches that support peace are needed urgently. The facts are well known - 1.8 billion people, almost a quarter of the world's population, live in 57 fragile and conflict affected countries where, because of ongoing violence and conflict, the SDGs are not being met. Foreign Direct Investment (FDI) and private investment to these places is at a ten-year low and existing blended finance approaches are currently not bridging the gap. Feeding into this are poor market perceptions and evidence of systemic mispricing of risks which suppress the supply of scaled and bankable investments. At the same time, there is wide evidence of private and public investment exacerbating conflict dynamics and failing to mitigate risks for investees and communities. Underpinning all this is a significant lack of fit-for-purpose market frameworks, guidance and incentives for public and private investors to help them proactively engage and properly mitigate risks in fragile and conflict affected settings.

New frameworks, partnerships, guidance and standards to change investor incentives to impact peace and mitigate risks are badly needed for a host of reasons. Firstly, despite the proliferation of Environmental, Social, Governance (ESG) and Impact investment frameworks which have been comprehensively reviewed in a separate report, there is no globally recognised benchmark or framework that defines what 'peace impact' means for various asset classes and categories of investment. Further, most entirely lack prescriptive requirements for investors to understand peace and conflict dynamics and properly map the impacts of their investment on the context. This is true even though the consequences of investment on peace and vice-versa - conflict and political dynamics upon the investment - are perhaps both the most important impact question as well as financially material risk factor for investors operating in fragile and emerging markets. Without such a benchmark or taxonomy, peace impacts cannot be planned, monitored or reported upon to the market in ways that are trustworthy, transparent and fit-for-purpose.

As the experience of the development of the Green Bond market and phenomenon of 'greenwashing' has shown, a rigorous and widely validated framework that can be transparently defined and measured is critical to wider market trust and uptake. Without such a framework to guide and define peace, there is significant risk of 'peacewashing' especially with newly self-labelled peace investments that are either being planned or will soon be entering the market.

Nonetheless, much can be drawn from the evolving universe of ESG and Impact investment tools, principles and frameworks which the PFIF has built upon. Various frameworks including the proposed EU draft Social Taxonomy have sought to apply more rigorous concepts of dual materiality whereby the investor must consider and report on both risks to the company/investor as well as society. This also involves shifting the focus from a narrow or minimal 'do no harm' posture to more intentional emphasis on 'doing good'. Various Development Finance Institutions (DFIs), blended finance and impact frameworks and standards are increasingly emphasising the need for greater focus on stakeholder consultation to properly understand local needs, inclusion, engagement and participation in investments. Meanwhile, wider calls in the ESG investing space for greater transparency and accountability further signal clear positive trends in the normative environment for socially impactful investment.

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

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

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

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

Finally, it is important to note the significant opportunity for scaling peace finance. Today's developing and emerging markets are both some of the fastest growing and socially fragile in the world. It is estimated that by 2025[4] they will account for nearly 50 per cent of the world's consumers,[5] and will have enormous infrastructure investment needs.[6] At the same time, demand for socially responsible investment has significantly grown.

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

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

4 R Dobbs, J Reemes, J Manyika, C Roxburgh, S Smit and F Schaer, "Urban world: Cities and the rise of the consuming class" (McKinsey & Company 2012) <https://www.mckinsey.com/~/media/mckinsey/business%20functions/operations/our%20insights/urban%20world%20cities%20and%20the%20rise%20of%20the%20consuming%20class/mgi_urban_world_rise_of_the_consuming_class_full_report.pdf>

5 C Chandler and C Johnson (eds), "Winning the $30 trillion decathlon: Going for gold in emerging markets" (McKinsey & Company 2013). <https://www.mckinsey.com/~/media/mckinsey/business%20functions/strategy%20and%20corporate%20finance/our%20insights/winning%20the%2030%20trillion%20decathlon%20going%20for%20gold%20in%20emerging%20markets/emc_decathlon.pdf> p. 7

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

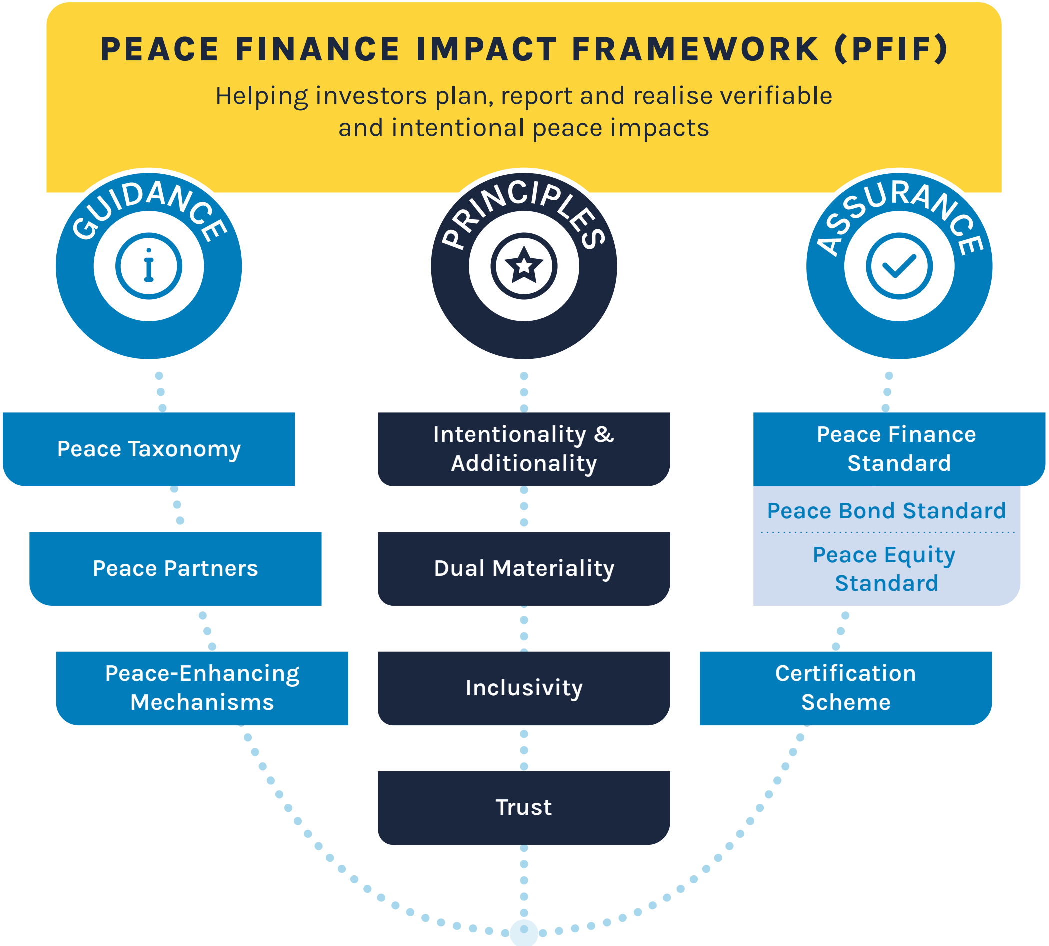
Today, a third of all assets under management (AUM) globally are ESG labelled, with Social Bond issuance reaching nearly USD $400 Billion in 2021 alone, now occupying almost a quarter of the USD1.6 Trillion global sustainable debt market in the same year. These developments reflect the large growth in demand from investees and investors for more environmentally and socially risk-aware investments. Further, regulatory developments in the US and EU regarding green disclosures and potential legislation regarding human rights due diligence has significant legal implications for companies operating in developing and emerging markets. Combined, these developments powerfully demonstrate the multiplicity of emerging incentives for positive change and potential uptake of peace finance.

Summary of the Peace Finance Impact Framework (PFIF)

The PFIF is composed of three main components:

> **Principles**　　> **Guidance**　　> **Assurance**

Figure 1. Peace Finance Impact Framework



The first component of the PFIF consists of four key Peace Finance Principles, the second part offers Guidance in the form of a Peace Taxonomy, Peace Enhancing Mechanisms and Partnerships. The last part constitutes the Peace Finance Standard and Certification scheme that guides the labelling process of the new Peace Bond and Peace Equity finance instruments:

The Principles, describing:

- Four high-level Peace Finance Principles for private investors, DFIs, banks and industry to underpin the ethos and investment approach of PFIF aligned investment:

  1. Commit to peace intentionality and additionality
  2. Execute dual materiality
  3. Promote inclusive processes
  4. Create trust building conditions

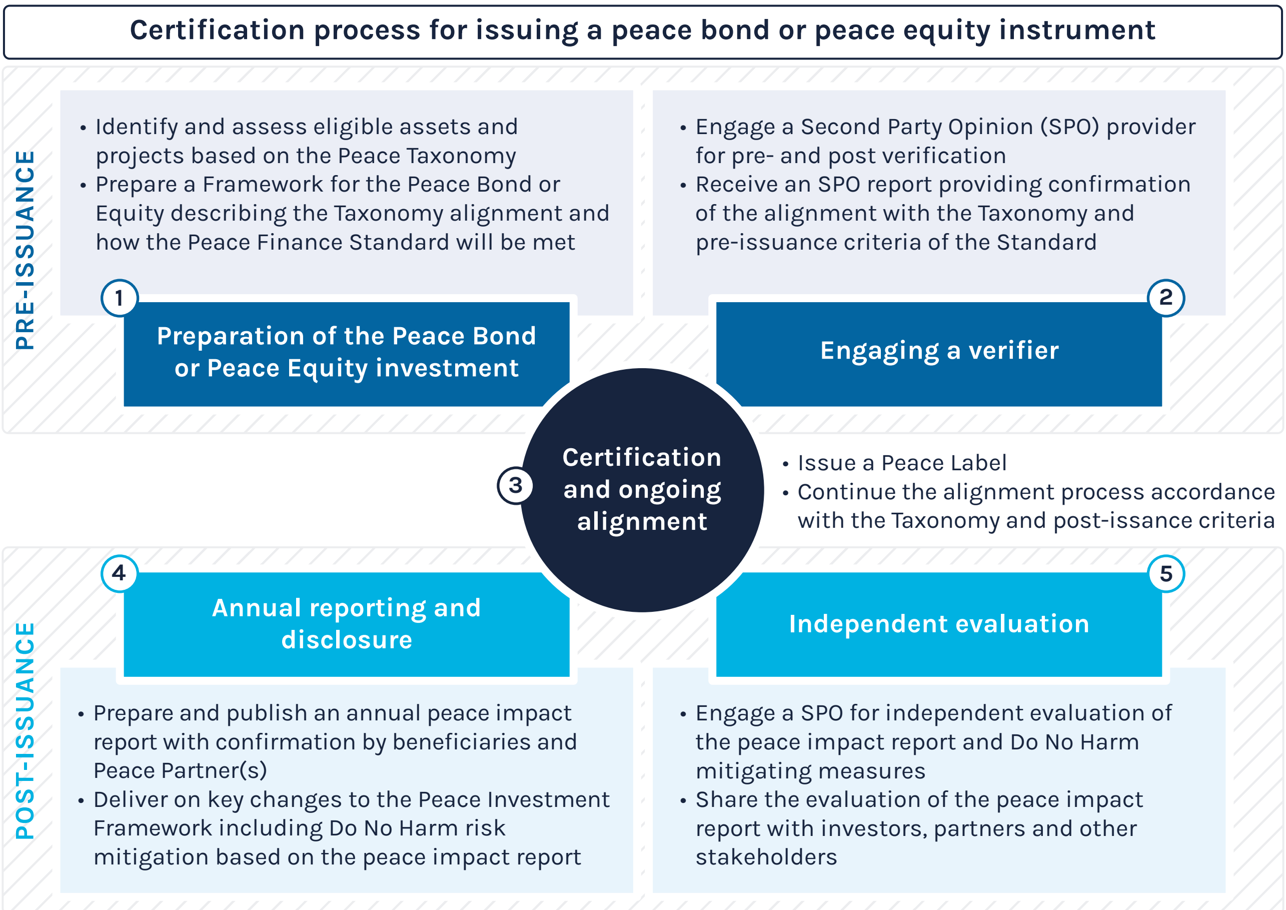
Guidance, describing:

- An indicative Peace Taxonomy demonstrating three main peace dimensions, namely the Political, Social and Safety/security dimensions that can be used to categorise the intended peace impacts, in addition to exclusionary criteria and minimum environmental and social safeguards.
- Other tools, methods and approaches that can be used at different stages of an investment (also referred to as Peace Enhancing Mechanisms) to realise intended peace impacts, as well as Peace Partners required for investors to align, plan and scale their peace impact and risks mitigation activities.

An Assurance component, describing:

- A Peace Finance Standard that sets out the pre-and post-issuance requirements to be met for Peace Bond or Peace Equity issuers. It provides the guidance for the structuring, management and verification of Peace bonds or Equity investments.
- The certification scheme is an international best practice for labelling Peace Bonds and Peace Equity investments that allows investors, governments and other stakeholders to identify and prioritise conflict resilient and peace-positive investments and avoid peace, social and green washing.

Figure 2. Certification Scheme



Certification under the Peace Finance Standard confirms 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 and the Impact Principles

Introducing a Comprehensive Peace Finance Impact Framework (PFIF)

As highlighted in a related study, The Rationale for Peace Finance Impact Framework,[7] there is a wide interpretation across the investment guidance literature what constitutes an 'impact framework', and there have been several attempts by various organisations to define impact principles, processes, methods, tools and results verification approaches indirectly related to peace. Yet, as mapping and wide stakeholder engagement has revealed, there is a significant gap in impact guidance and standards specific to peace which remains a fundamental blockage to the attainment of the SDGs as 80% of the global poverty remains in fragile and conflict affected settings.

In the wider impact investing, ESG and sustainable investment space there is also a significant number of pre-existing standards and principle-based investing frameworks that are used by industry that the Peace Finance Impact Framework (PFIF) has drawn upon.

The comprehensive PFIF described in this report is comprised of three key components: Principles, Guidance, Assurance.

The Principles, describing:

- Four simple high-level Peace Finance Principles for private investors, DFIs, banks and industry to underpin the ethos and investment approach of a peace-aligned investment:

  1. Commit to peace intentionality and additionality
  2. Execute dual materiality
  3. Promote inclusive processes
  4. Create trust building conditions

7 The Rationale for Peace Finance Impact Framework, (2023) A comprehensive analysis, scoping and mapping to show why a new framework, standards and guidance are needed to change how private and public investment supports peace, Finance for Peace, January, Geneva. Available at: https://financeforpeace.org/resources/the-rationale-for-a-peace-finance-impact-framework/

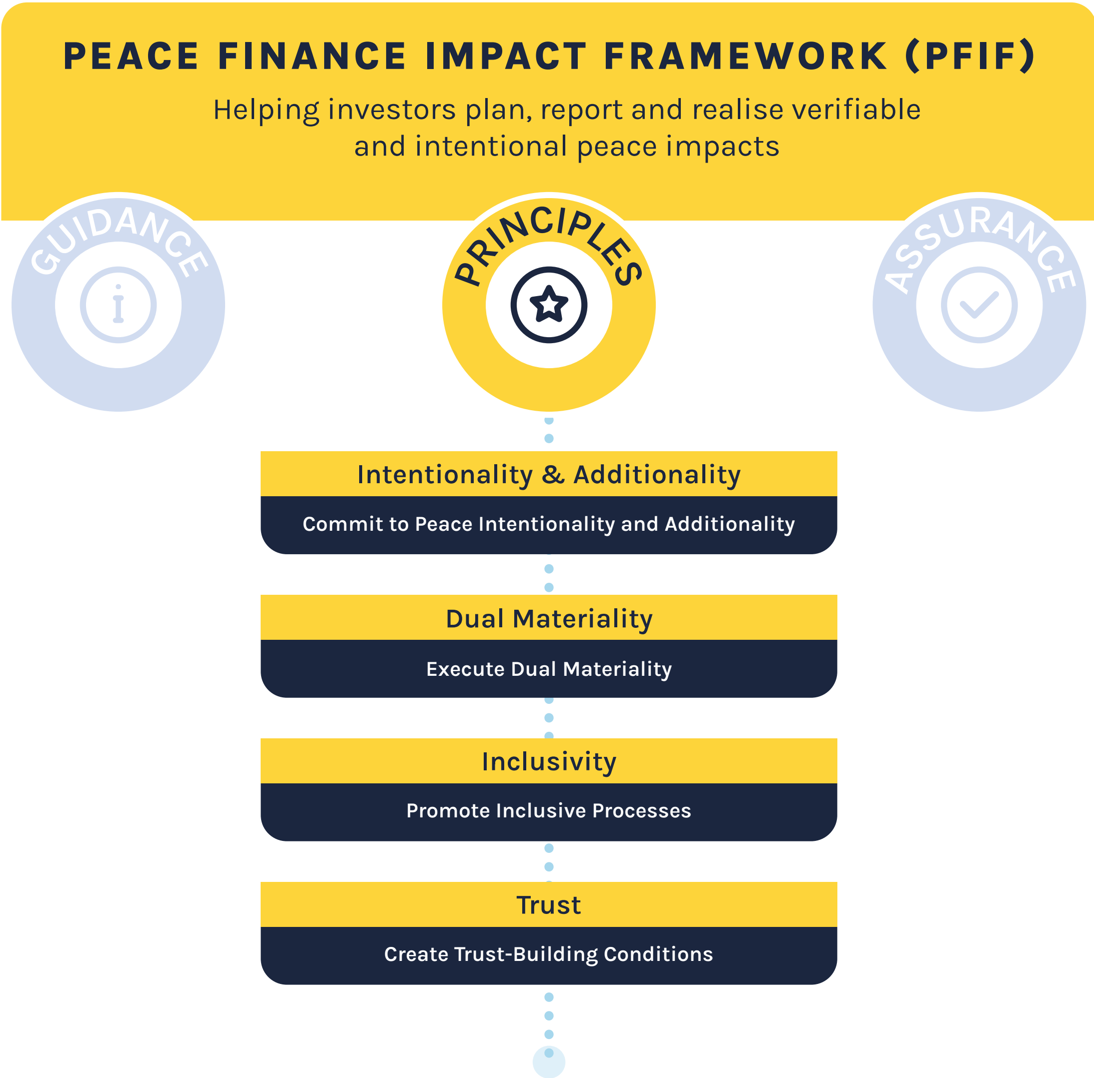
Guidance, describing:

- The tools, methods and approaches that can be used at different stages of an investment:
  - An indicative Peace Taxonomy demonstrating three main peace dimensions namely, Political, Social and Safety & Security dimensions that can be used to categorise the intended peace impacts while applying the exclusionary criteria and the minimum do no harm safeguards including any mitigating actions.
  - Peace Partners who are required for investors to align, plan and scale their peace impact and risks mitigation activities.
  - Peace Enhancing Mechanisms to realise intended peace impacts.

An Assurance component, describing:

- A robust high-quality Peace Finance Standard (PFS) that sets out the pre-and post-issuance requirements to be met for Peace Bond or Equity issuers. It structures, manages and verifies impact investments in peace. The PFS is composed of a Peace Bond Standard and a Peace Equity Standard.
- Another key component of the PFIF is the Certification Scheme that can be considered an international best practice for labelling Peace Bonds and Peace Equity investments and allows investors, governments and other stakeholders to identify and prioritise conflict sensitive and peace-positive investments and avoid peace, social and green washing.

The Peace Finance Principles



There is significant existing guidance to inform principle-based frameworks that could apply and guide peace finance. Many of these have been cited in the mapping component of this research, which is published separately.

Key principle-based investment frameworks that relate to investment in fragile and emerging market economies include, and are not limited to:

- The Principles for Responsible Investing initiative (PRI)
- The Equator Principles
- Kampala Principles
- Check List for Impact Assessment on the Poor by the Tri Hita Karana (THK) Impact Working Group
- The OECD DAC Blended Finance Principles and the Detailed Guidance Notes
- EDFI Principles for Responsible Financing of Sustainable Development
- Operating Principles for Impact Management (OPIM)
- ICMA Green, Social and Sustainable-(linked) Bond Principles and the
- EMIA Enhanced Labelled Bond Principles

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

In reviewing the extensive mapping conducted by the research that informs this report[8], several common features can be identified from existing principles, including, and not limited to, calls for:

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

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

Four key principles have been identified which seek to be more normative and heuristic based in nature. They are designed to serve as the foundation of the PFIF and provide explicit operational guidance for investors and issuers to follow.

- **Principle 1.** Commit to Peace Intentionality and Additionality
- **Principle 2.** Execute Dual Materiality
- **Principle 3**. Promote Inclusive Processes
- **Principle 4.** Create Trust-Building Conditions

8 Available at: https://financeforpeace.org/resources/mapping-investment-guidance-for-peace-2023/

These four principles are further elaborated below:

Principle 1. Commit to Peace Intentionality and Additionality

Peace intentionality means the investor is committed to the vision of realising a peace-positive impact alignment of their investments according to the Peace Taxonomy of the PFIF, and has a clear intention to impact peace in either direct and/or indirect ways by working according to the Peace Finance Standard. More specifically, this means the investor should develop a Theory of Change and Peace investment strategy through partnerships with other Peace Partners showing what they plan to achieve that would not occur without the investment (i.e. the peace additionality). The concept of peace intentionality is important to distinguish investment approaches that may realise incidental development impacts that are erroneously described as related to peace from those that are deliberate, intentional and supported by rigorous evidence. The concept of Availability, Accessibility, Acceptability and Quality (AAAQ) can serve as a starting point for developing new criteria for the enhancement of peace-positive impacts and achieving the peace additionality objective.

Principle 2. Execute dual materiality

To deliver on dual materiality means the investor and issuer are explicitly committed not only to reporting on reducing risks to the company/investment, but also to people and the environment in the context of the investment, both now and in the future. This forward-looking material approach seeks to ensure that the company/investor actively draws the connection between the risks of their operations on the local environment and people, and vice versa. By executing dual or double materiality, the investor will be able to better understand the context, the risks of their investment upon it and the dynamic interplay between those risks over time. A key principle of peace impact investments is that especially in fragile and emerging markets, the link between reputational, operational and business risks can be(come) highly intertwined with peace and conflict risks for communities. By identifying the material risks on either side, an investor will be better positioned and incentivised to realise the financial material opportunities to be gained by proactively mitigating risks to communities where their investment resides and or impacts. In short, aiming to ensure that no harmful side effects occur not only helps to mitigate the financial risks of harmful impacts and enhance the sustainability of investments, but also serves to capitalise on opportunities.

Principle 3. Promote Inclusive driven processes

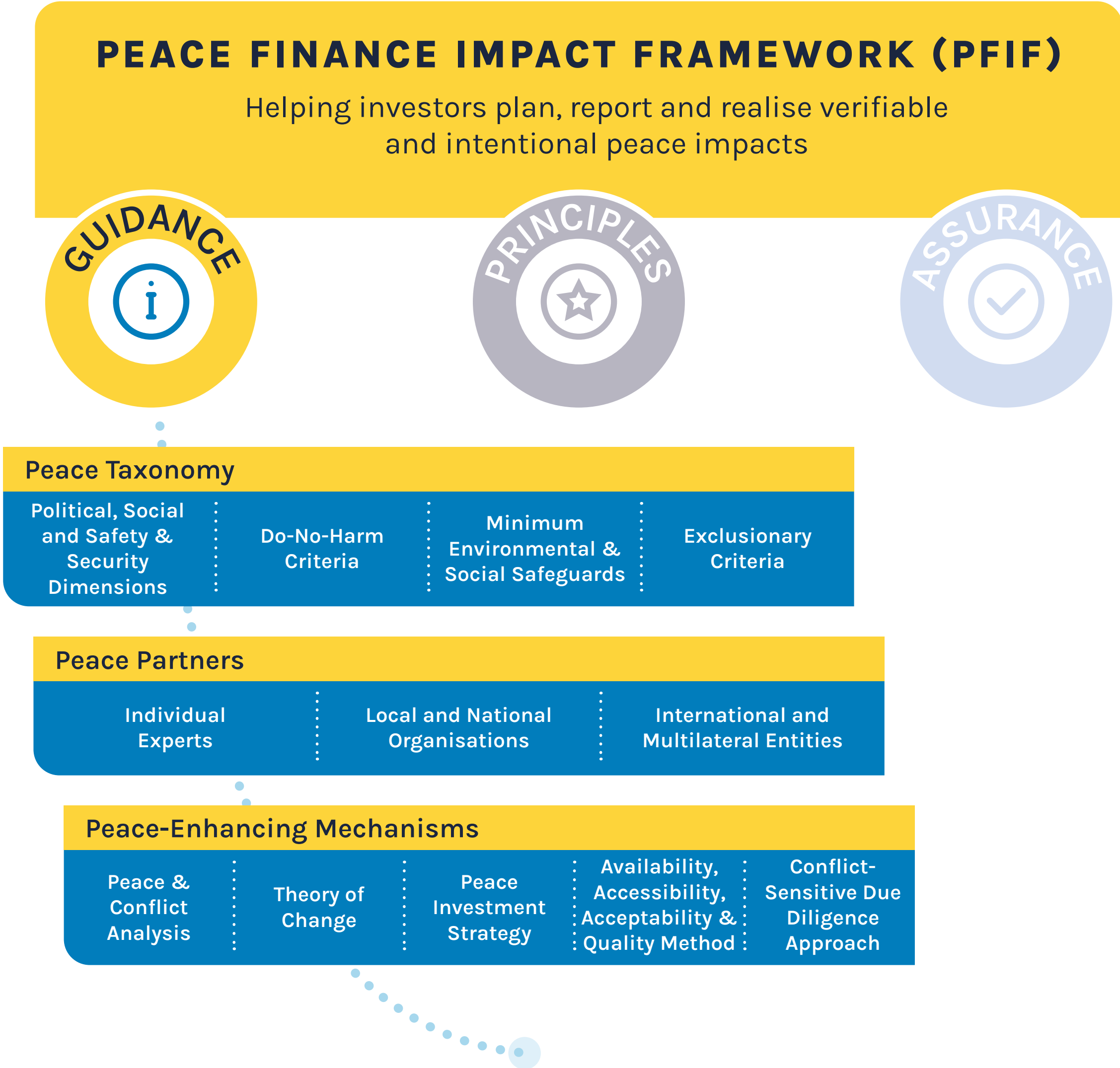
Throughout any peace aligned investment, the principle of local inclusion is critical. Peace-positive impact depends on how the investment approach has sought to include people and their context in the proposed approaches and how such approaches have been validated and ultimately locally accepted. The concept of local inclusion refers to both how accessible the process of designing aspects of the investment has been for communities, but also whether products or services resulting from the investment are accessible in terms of their affordability as well as physical accessibility (encouraged through the AAAQ method). Inclusive driven processes subscribe to the concept of local ownership which is often used in developmental aid and peacebuilding to demonstrate the degree of community engagement, inclusion and participation in the processes of outside supported initiatives.

Inclusive processes demand navigation of the relational, cultural and political dynamics of different contexts. Investors, therefore, need to invest in multilevel partners with capabilities to apply peace-enhancing approaches, actions or methods to help them work inter-sectionally and gender-responsively so they understand and situate their investment within the political and social context. Such partnerships need to ensure that investments are grounded in realities and expectations of those who will be impacted locally. For this reason, inclusive-driven processes are also partner-oriented and co-constructive, and structure actions (e.g. joint material risk assessments, theory of change and peace strategy design) by involving partners, investees and investment beneficiaries.

Principle 4. Create Trust-building conditions

The PFIF is a highly process driven framework that recognises peace impact occurs in complex social systems and is highly dependent on the qualitative nature of how goods and services are delivered. This is important because many outside approaches, be they investments and/or development interventions, tend to approach communities with an over-focus on the instrumental or material outcomes of an intervention or investment. This can run counter to the highly relational determinants of how peace impacts are realised. Thus, focus on quality of process is important for ensuring investors and partners take the appropriate actions to plan, sensitise, validate and implement approaches that avoid unintended harm and achieve their intended peace impacts and risk mitigation. This suggest that the process needs to be highly cooperative, consultative and adaptive to ensure acceptability. Acceptability is built by proactively building trust with local communities and key stakeholders. One way to establish this is through a commitment to transparency on impact management and measurement. Proper disclosure and reporting helps to reduce risks at the level of the investment but also addresses 'impact-washing risks' which affect trust levels among investors. Information asymmetry, the lack of capacities and skills are some of the key factors that negatively affect risk mitigation, causing investment shortcomings and a general failure to properly situate the business case to local markets. When no single actor has the right information, capacities and skills, investors need to prioritise and invest in multiple partnerships that can help them build-up confidence to implement actions that will successfully de-risk their investments and realise the intended additionality for them and communities. Local partners can work with investors to make investments more transparent, which is important for accountability, ongoing learning and iterative improvement. In fact, transparency is a key ingredient of both the pre-investment and post-investment stages because it helps to clarify the roles of stakeholders in the investment process. It can contribute to a greater willingness to engage with each other to develop a shared agenda. This can start a trust building process between stakeholders aiming for more collective accountability.

Guidance



Understanding and Defining Peace and Peace Impacts

Individuals, organisations and sectors define and understand peace in a number of ways. The most accepted definition distinguishes negative peace from positive peace.[9] Negative peace is commonly understood to be the absence of violent conflict or fear of violence. Positive peace is defined much more broadly to include attitudes, institutions and norms that create and sustain peaceful societies.[10] Progress in positive peace would mean grievances are transformed and remedied in ways that are non-violent and perceived to be just, directly addressing issues of safety, social justice, equality, mutual trust and well-being. Positive peace cannot be separated from the objectives of other development frameworks, such as the SDGs, which attach weight to sustainability, inclusiveness, equality and especially gender equity. Positive peace is not singularly achieved by the elimination of conflict: it is better understood as a process through which conflicts and grievances are resolved in peaceful, just and fair ways.

9 Galtung J, 'Violence, Peace and Peace Research', (1969) 6/3 Journal of Peace Research <https://www.jstor.org/stable/422690>.

10 In general, definitions of positive peace are also diverse, and more contested.

Individuals, organisations and interventions can contribute to peace in many ways. One simple but commonly used distinction, often made by international humanitarian and development actors, separates 'capital P' and 'lower-case p' peace initiatives,[11] to be understood as 'political peace' outcomes and 'social peace' outcomes. 'Political peace' interventions seek macro political and/or formal solutions to violent conflicts and may be supported by a formal legal architecture such as a peace agreement, legal change at the national level, or via a UN Security Council mandate.[12] They are inherently political, generally visible, high-profile in nature, and might include support to implement a peace agreement. 'Social peace' actions work to transform relationships, increase the capacity to sustain peace in institutions and broader society, and support trust and social cohesion both between identity groups and between state and society. Both 'political peace' and 'social peace' actions and impacts are frequently intertwined and equally necessary; both are required if peace is to be durable and sustained. Yet, often, when invoking the word 'peace' in fragile settings, many tend to think of 'political peace' solutions over and above those related to 'social peace', despite the fact they cannot be separated and that, by definition, almost all political peace outcomes are founded on a bedrock of social peace.

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

Understanding Peace Impact Causality

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

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

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

Development and investment in areas such as water, health, education or infrastructure can be measured in terms of material changes they provide for people, i.e. water or food provided, electricity delivered, vaccines administered, health services made available, schooling hours provided – and so on. These material impacts evidently can also have peace impacts – greater provision of resources or services can increase trust in the state, transform the availability of resources, mitigate resource competition, make social hierarchies more equal, or even positively transform patterns of social behaviour and change incentive structures for conflict and violence. At the same time, said material impacts can also do the opposite – they can reinforce conflict dynamics, be insensitive to cultural conditions, and feed the unequal existing distribution of resources exacerbating grievances between groups.

Low quality delivery can also undermine trust and trustworthiness in various institutions. In many cases, there is nothing intrinsically peace-promotional about specific investments in sectors and their outputs/outcomes. Rather, their peace impact is determined qualitatively through their relational character - how those outputs are delivered, for whom and where as well as how communities perceive who the beneficiaries actually are. Thus, to assess peace impacts requires actors to consider how communities and populations engage with each, how resources will be used, by whom, as well as what their interventions deliver, further identifying the actual as well as the perceived beneficiaries of said interventions. Also, the timing of benefits will also be important depending on the wider context and timing of key events (such as elections, for instance).

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

1. the relevance of the outputs/outcomes of the investment to conflict dynamics within the context,
2. the quality of process and how the investment addresses the transversal social and political determinants of peace within the context.

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

Key definitions

> **Defining Social Peace:** Social Peace is the presence of social cohesion and trust between the state and people, between different social and identity groups (e.g. caste, tribe, race, ethnicity, religion, class, gender) and within institutions whereby people can resolve their grievances in non-violent ways. Social Peace actions are any inputs, outputs or outcomes that result in people transforming conflictual relationships between groups and between state and society.

- **Defining Political Peace:** 'Political Peace' interventions relate to political and/or largely formal solutions to violent conflicts and may be supported or reinforced by a formal legal architecture such as a peace agreement, legal change at the national, regional or international level, such as a UN Security Council decision.
- **Defining Negative Peace:** Negative peace is commonly understood to be the absence of forms of direct physical violence or fear of physical violence. This Peace Taxonomy uses 'safety and security' as one of its key three peace dimensions which is analogous to negative peace.

Introducing an indicative Peace Taxonomy

An indicative Peace Taxonomy (hereafter "Taxonomy") serves as a valuable guidance tool to help investors and businesses be specific about the types of changes they seek to make and provide further clarity as to what kind of peace additionality is aimed for. Based on the definitional categories provided above, the proposed Taxonomy seeks to provide three simple categories for investors to align and identify peace impacts of their potential investments.

The Taxonomy presents three Peace Impact Dimensions:

1. **Safety and Security**
2. **Social Peace**
3. **Political Peace**

Peace Impact Dimension 1: Safety and Security

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

In many cases, various forms of violence are redressed in the immediate term in highly direct ways, through policing and law enforcement, peacekeeping, diplomacy, community enforcement and neighbourhood watch, and/or in ceasefire mediation, to cite a few examples. In the great majority of these cases, private sector investments will have an indirect contribution to the mitigation of these aforementioned negative peace categories. Although, in some instances, direct impacts could be sought and accounted for. For instance, in the categories of sexual and gender-based violence (SGBV) in the community or household – companies may adopt particular gender responsive/transformative employment policies and/or staff training that may direct mitigate this type of violence in both the workplace and household. They may also adopt particular approaches in and around the assets where their investments are located that directly seek to mitigate such forms of violence which would also be related to reputational risks. This has been prominently seen in the case of textile workers in Bangladesh where civil society campaigns have highlighted significant rates of gender-based violence in fast fashion factories which has exposed several major fashion brands to major reputational and operational risk.[13]

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

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

Peace Impact Dimension 2: Social Peace

Social Peace impacts are broader and more multi-systemic than the Safety and Security dimension. Because of their potential breath, relevance and relationship to operational, reputational and other forms of risk, they are perhaps the most fundamental peace dimension for investors to make both direct and indirect contributions. While social peace can be said to be composed and determined by many more factors than is shown here, this taxonomy presents what are thought to be minimum criteria for investors planning peace aligned investment. Combined with dimension one, these seek to cover the key targets and indicators of SDG16+.[14]

Peace Impact Dimension 3: Political Peace

While all peace outcomes are, in a sense, 'political', the state of relationships between social elites, between states and non-state political groups, between states themselves and the trusted functioning of formal and informal dispute resolution mechanisms are especially visible and consequential determinants of peace.

The Taxonomy defines such highly visible, consequential and prominent issues as in their own category of Political Peace. Political Peace interventions tend to relate to mediation processes, high level diplomatic negotiations seeking macro political and/or formal solutions to violent conflicts. Often such processes are supported by a formal legal architecture such as a peace agreement, legal change at the national level, or via a UN Security Council mandate.[15] Political peace can also be determined by formal legal instruments, including outcomes in the formal protection of human rights, whether economic, political, civil, cultural or social.

Peace processes in these areas are inherently political, with a complex combination of both discreet and public channels, high-profile in nature, and often required or present in situations of open conflict between a state and non-state parties, between states and or in highly fragile settings characterised by high levels of intercommunal or intergroup violence. Perhaps paradoxically, because they may have short-term orientation focused on ceasefire or cessation of hostilities, they are not always in alignment with the social peace requirements of a given peace and conflict situation.

This short-term focus may however provide more immediate signs of progress than

14 A total of 24 targets from seven other Goals – including SDGs 1, 4, 5, 8, 10, 11 and 17 – that directly measure an aspect of peace, inclusion or access to justice. These additional 24 targets together with the 12 targets from SDG 16 are collectively known as 'SDG16+.

15 Inter-Agency Standing Committee (IASC), 'Exploring Peace within the Humanitarian-Development-Peace Nexus (HDPN). IASC Results Group 4 on Humanitarian-Development Collaboration' (Issue Paper, IASC 2020),

can be found in the longer-term multi-generational efforts related aspects of 'social peace', such as truth and reconciliation processes, for instance.

Based on this clarification, many investors, especially private ones (as opposed to public DFI or Government investors) may not see an appropriate role for themselves in impacting either directly or indirectly Political Peace. While it is likely that few private investors will seek to identify direct or indirect impacts in the relevant sub-dimensions of political peace, it is critical that investments in conflict affected settings where Political Peace is a salient issue do not exacerbate conflict dynamics and worsen hostilities. Within these dimensions, sub-objectives or sub-dimensions have been proposed as a non-exhaustive indicative list further specifying the objective that the investor could seek to impact. The Guidance notes, to be published separately, will further elaborate on these subdimensions.

Table 1. Taxonomy Peace Impact (sub)dimensions, DNH and exclusionary criteria and minimum safeguards

Peace Impact Dimension 1: Safety and Security Subdimensions 1: Indicative		Peace Impact Dimension 2: Social Peace Subdimensions 2: Indicative		Peace Impact Dimension 3: Political Peace Subdimensions 3: Indicative	
1.1	Impact on direct interpersonal violence in the community.	**2.1**	Impact on Vertical Social Cohesion (State and Society Trust).	**3.1**	Impact on diplomatic relations between States, and non-State actors.
1.2	Impact on sexual and gender-based violence (SGBV) in the community or household.	**2.2**	Impact on Horizontal Social Cohesion (Trust between groups).	**3.2**	Impact on the development of infrastructure or provision of goods and services that support a formal peace process either defined in a peace agreement and/or a recognised part of a peace process.
1.3	Impact on abuse and all forms of violence against children.	**2.3**	Impact on equitable access of resources and basic services, income and goods (education, health, housing, work, etc.)	**3.3**	Impact on dispute resolution mechanisms, whether formal or informal and improved perception of justice and human rights issues.
1.4	Impact on collective and intercommunal violence.	**2.4**	Impact on gender, intergenerational equity or on other group identities such as caste, class, race, ethnicity, religion, political affiliation.	**3.4**	Impact on transboundary relations (e.g. in the case of cross border energy or water projects).
1.5	Impact on Armed conflict, State-sponsored violence, or violence by non-State actors.	**2.5**	Impact on governance of public services and trustworthy delivery of basic services.	**3.5**	Other impact example.
1.6	Impact on conflicts over natural resources.	**2.6**	Impact on patterns of economic exclusion for marginalised or excluded communities or groups.		
1.7	Impact on fear of violence in above categories.	**2.7**	Impact on the free flow of information, transparency, accountability and corruption in public and private institutions.		
1.8	Other impact example.	**2.8**	Impact on climate resilience and access to cleaner sources of energy.		
		2.9	Impact on structural grievances that mark the origins of violence (e.g. land rights/titles, access to natural resources).		
		2.10	Impact on cultural identities and local traditions.		
		2.11	Other impact example		
No harm to the other dimensions and subdimensions (DNH)					
Exclusionary criteria and minimum social and environmental safeguards					

Exclusionary criteria

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

Proposed Taxonomy exclusionary criteria ensure that investments claiming to be aligned with the Taxonomy are not in fact engaging in activities which would run counter to its primary peace objectives. Rather than attempting to modify or adapt unwanted activities, these exclusionary criteria allow investors and partners to rule out certain categories of activity from peace-supporting investments that are deemed socially and environmentally harmful, in line with other normative frameworks.

The ESG and SDG frameworks summarised in a separate document titled "The Rationale for the Peace Finance Impact Framework" provide a number of analogous exclusionary principles on which this Taxonomy draws. Some of these are sector-specific, such as the ban on certain mining practices considered permanently harmful to the environment. Some are subject-specific, such as those in the EU taxonomy regarding sustainable finance, which exclude certain so-called 'green' activities which may nevertheless have a deleterious environmental impact. This is where do no significant harm (DNSH) is important to define: '... Substantial Contribution to an environmental objective should not come at the cost of significantly harming another one'.[16] In the mapping part of this research, one of the recommendations in the proposal for an EU Social Taxonomy was to make the environmental "DNSH criteria" from the Environmental taxonomy valid for the Social taxonomy and vice versa to ensure a balanced relationship and be able to compare the degree to which an investment is considered to be in line with the environmental taxonomy, the Social Taxonomy, or both taxonomies. For an application of DNSH in emerging markets and fragile settings, the relationship between environmental and social criteria is highly relevant. In fact, there is a close relationship between climate change and conflict supported by growing anecdotal evidence and case study examples from around the world demonstrating how climate change adaptation policies and programmes have exacerbated conflict.

Other exclusionary criteria in analogous investment frameworks cross thematic boundaries between environmental, social, governance and issue-specific concerns, by examining the 'character' of the entity claiming a sustainable investment activity.[17] Drawing on these analogous frameworks, an indicative Taxonomy list of exclusionary criteria by sector and by character would be composed at a minimum of the following:

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

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

Exclusionary criteria by sector:

- Investments that directly support activities involving the manufacture or sale of heavy weapons, ammunition, chemical weapons, mines, or small arms.
- Investments that directly or indirectly support the manufacture of drugs proscribed by legal and international regulatory frameworks.
- Investments that directly or indirectly support agricultural or afforestation operations on land designated as primary forest, in high conservation value areas, or in legally protected areas.

Exclusionary criteria by character:

- Investments that breach the requirements of International Humanitarian Law, in particular the Geneva conventions and their additional protocols.
- Investments that support activities that directly or indirectly cause violations of human rights, breach of labour standards, cause corruption.
- Investments that support activities that involve or result in slavery, child labour, human trafficking, or sexual exploitation.
- Investments that include any companies that have been involved in major criminal activities (environmental, social, governance, other).

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

Considering other exclusionary criteria potentially related to peace

Financial intermediaries commonly apply exclusions in connection with forced or child labour, commercial logging in tropical forests as well as those activities that impinge on the lands owned or claimed by Indigenous peoples without their full documented consent.

In addition, the European DFI Principles for Responsible Financing of Sustainable Development also consider the destruction of High Conservation Value (HCV) areas, defined as natural habitats, as part of its exclusion criteria.[18] HCVs criteria cover the importance of natural resources to local communities and consider connections between the ecological landscape and the wider social context. Such criteria may be beneficial in the context of conflict sensitive investments. This underlines how exclusionary criteria for peace should consider the importance of natural resources to local communities and demand more specific data, relevant expertise and consultations to understand and identify areas where strong cultural and political-economic connections between the ecological landscape and the social context exist.

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

Minimum social and environmental safeguards

The Taxonomy contains minimum safeguards at the entity level to guarantee that human rights and governance are also taken into account. Currently, it is proposed that the international instruments such as the International Bill of Human Rights and the UN Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights, the International Labor Organization Declaration on Fundamental Rights and Principles at Work, the OECD Guidelines for Multinational Enterprises including the environmental chapter and the UNGPs, constitute the "minimum environmental and social safeguards" that entities implementing an investment should follow and be aligned with.

In the future, when the proposed EU Corporate Sustainability Due Diligence Directive[19] will be passed through the EU legislative process requiring many big corporations to meet due diligence obligations with respect to human rights and environmental standards, the EU directive will become one of the minimum safeguards of the Taxonomy. Other national initiatives such as the German Supply Chain Due Diligence Act[20] that has come into force on January 1st, 2023 and the proposed Dutch Responsible and Sustainable International Business Conduct Act[21] when it becomes effective are automatically added to the minimum safeguards for those companies that need to act in compliance with these new national regulatory laws.

Do No Harm to other (sub)dimensions

Do No Harm (DNH) is both a principle and framework that has been used extensively in humanitarian, development and peacebuilding aid work for decades to help ensure external actors engaging in humanitarian, developing and or fragile and conflict affected places consider and mitigate the potential negative effects of their aid. While the phrase is self-explanatory, commonly used DNH frameworks like that developed by CDA[22] also provide a detailed framework[23] for helping actors operate in ways that minimises the potential for unintended consequences. Such frameworks go beyond typical pro-active risk mitigation efforts and require actors to have a more holistic understanding of the context in order to minimise unintended consequences of a given project or investment.

In the proposed EU Social Taxonomy, Do No Significant Harm (DNSH) criteria further signal a shift to a more expansive understanding of DNH going beyond typical risk mitigation efforts and towards something more than a minimum safeguard. There, the DNSH criteria gives weight to a European Pillar of Social Rights (EPSR) which is a multidimensional framework that implies more transformative social improvement, further recognising the need for progress in one domain to not undermine another.

19 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0071

20 https://www.csr-in-deutschland.de/EN/Business-Human-Rights/Supply-Chain-Act/supply-chain-act.html

21 https://www.business-humanrights.org/en/latest-news/dutch-bill-on-responsible-and-sustainable-international-business-conduct/

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

23 CDA Collaborative, 'Do No Harm: A brief introduction from CDA' (2018) <https://www.cdacollaborative.org/wp-content/uploads/2018/01/Do-No-Harm-A-Brief-Introduction-from-CDA.pdf>.

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

The purpose of DNH in the proposed Taxonomy is connected to the need for traditional 'do no harm' practices to move beyond the minimum safeguards, so the investment activities can bring the intended change for specific groups in a particular peace (sub) dimension(s) while other (sub)dimensions or groups are not harmed in the process.

The Contribution Spectrum

In order to further elaborate on the extent of the additionality ambition and peace impact intention within each of the key peace dimensions, the proposed Peace Taxonomy identifies three types of contributions. These are shown in table 2 following a spectrum of contributions ranging from 'Do No Harm' criteria contribution to Indirect Positive Contributions and Direct Positive Contributions.

Table 2. Peace Taxonomy Contribution Spectrum

Type of Contribution	Definition
'Do No Harm' Contribution	An activity is contributing to one or more of the peace (sub)objectives and is not doing harm to any of the other (sub)objectives or the minimal social and environmental safeguards in line with the Principle of Dual materiality.
Indirect Positive Contribution	Indirect positive contributions occur through process driven approaches and outputs where those impacts are secondary to the direct outputs of the business, but nonetheless contribute to mitigating conflict drivers or improving peace drivers.
Direct Positive Contribution	Direct positive contributions occur when the business outputs of the proposed investment directly contribute to mitigating an identified key conflict driver or improve the capacity of a peace driver.

Do No Harm Contribution

The 'Do No Harm' contribution that helps execute the dual materiality principle recognises that an aligned investment project may not be able to positively impact all dimensions of a context's conflict and peace dynamics but ensures key risks in the non-targeted dimensions are acknowledged, monitored and any potential harm is mitigated by the investee or project. In this sense, the DNH contribution also functions as a more sophisticated risk monitoring and assessment tool, where the investor or issuer elaborates potential risks, even those that may appear quite tangential to the investment itself.

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

Direct and Indirect Positive Contributions

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

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

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

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

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

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

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

This can be better understood by way of stylistic example:

- **In a context (Context A)** characterised by resource competition and conflict over land and food, the peace promotional provision of food storage facilities that reduces food loss and increases food availability, inclusion and equality may directly reduce related resource competition. This business output can be directly attributed to a very specific peace outcomes in Safety and Security and Social Peace through reducing resource-based violence and increasing horizontal social cohesion and trust between different groups competing over resources.
- **In another context (Context B)** where resource competition is not a prevalent conflict driver, the same type of business output related to food storage may not make any direct contribution to Safety and Security or Social Peace. Conversely, it may make direct and indirect contributions to other Social Peace sub-dimensions through engaging communities in more participatory ways in the planning phase of the investment in such a way that contributes to increased greater community cooperation and intra-group trust between groups that were suspicious of each other.

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

Indirect positive contributions occur through process driven approaches and outputs where those impacts are secondary to the direct outputs of the business, but nonetheless contribute to mitigating conflict drivers or improving peace drivers. Two factors are thus key in shaping whether something is direct and/or indirect: **(1) Context**, and **(2) Additionality ambition**. Context relates to the peace and conflict dynamics and how the business outputs relate to it (i.e. dual materiality) whereas Additionality ambition reflects the financial and value additionality of the size and type of investment including the additional peace and development value for communities impacted by the investment.

In many cases, it is anticipated that peace-aligned projects and investments will predominantly have indirect contributions to peace which are realised in more process driven approaches. This relationship between the dimensionality of peace impact and the extent of contribution further provides a framework to consider the degree of additionality ambition and the intended peace impact for Taxonomy alignment. This is visualised in figure 3. The three peace dimensions and three contribution levels provide a nine-part diagram, whereby an investee and its partners would need to articulate through the Theory of Change and peace investment strategy the degree of additionality ambition vis-à-vis intended level of peace impact in order to be able to label the investment as peace-positive.

Figure 3. Peace impact vs Contribution

Food storage investment example

Scenario: Context A is characterized by resource competition and conflict over land and food between groups. Investing in food storage facilities has the aim to reduce food loss and increase food availability. However, the peace promotional provision (i.e. contribution) of these storage facilities has the ability to impact inclusion and equality and address resource competition. In fact, the business output can intentionally create direct peace impacts in the Safety and Security and Social Peace dimensions if the investment in food storage facilities holds the ambition to increase social performance and reduce harm (i.e. additionality ambition). More concretely, by investing in inclusive trust-building processes around the food storage facilities, the food storage facilities can contribute to social cohesion and address the resource-based violence at the same time. Harm by the investment can be prevented through an additional investment in the application of heightened due diligence and risk mitigating measures in accordance with the Peace Finance Standard and guidance for such measures.

PEACE IMPACT / CONTRIBUTION	Do No Harm	Indirect	Direct
Political Peace	⊖	⊖	⊖
Social Peace	Investing in heightened due diligence	⊖	Investing in inclusive trust building processes that build social cohesion
Safety and Security	Investing in risk mitigating measures	⊖	Investing in inclusive trust building processes that address resource based violence

Insights from the emerging practice of peace supporting investment[24] demonstrate how an investment may be designed and implemented to have a direct impact on peace and violence. This kind of direct impact may occur when the investment itself is designed as an instrument in support of existing or future peacebuilding or peace-making efforts.

In situations where it is impossible to convene leaders across conflict lines, peace-making actors are eager to create additional entry points and platforms for dialogue around economic or business themes. Having established this kind of access on a neutral and relatively apolitical investment subject, peacemakers can then begin exploring prospects for future political dialogue, on topics which are amenable to resolution, and which may then serve as a confidence building measure for future talks on more difficult issues.[25] This scenario would result in a direct contribution towards a political peace impact.

In relation to social peace impact, investors can make a direct impact by targeting investment towards projects that trusted partners indicate are likely to help communities envisage cooperation for their mutual benefit in the future. For example, communities that have been driven apart by violence may find a pathway towards reconciliation through an investment project that seeks to realise the production of a culturally significant and shared local product. In other emerging peace investment practice, peace-impact investing has seen the creation of local enterprises bringing together participants from across the conflict divide to produce goods that affirm a shared local identity and peaceful future. In some cases, peace investment actors have designed and launched sustainable enterprises which provide meaningful livelihoods to demobilised combatants, thereby harnessing a strong economic incentive in favour of peace, and creating opportunities for collaboration and cooperation between former combatants and the communities which they may have at one stage threatened. Other peace investment projects have been deliberately designed to address social divides between urban and rural demographics, which replicated ethnic divisions fuelling longstanding conflict in the country.[26] These kinds of projects result in a direct contribution towards a social peace impact.

Overall, a peace-investment strategy will need to ensure that an investment in a conflict affected area provides a profitable rate of return, without exacerbating existing conflict dynamics. An investor will need to use locally grounded conflict and peace analyses and insights to avoid creating a perception that some ethnic or tribal groups are profiting from an investment to the exclusion of neighbouring groups. When contributing to indirect or direct peace in the three dimensions, do-no-harm risk avoidance and mitigation to the conflict situation need to be applied.

24 For example, prototype and pilot projects completed by PDI in 2020-2022. See Peace Dividend Foundation, 'Our Origins (2022) <https://www.peacedividends.org/about/our-origins/>.

25 This example drawn from confidential real-world case provided by PDI. Peace Dividend Foundation, 'Our Strategy' (2022) <https://www.peacedividends.org/our-strategy/> accessed 16 September 2022.

26 These examples are also drawn from confidential real-world peace impact investment projects executed by PDI. Peace Dividend Foundation, 'Our Strategy' (2022) <https://www.peacedividends.org/our-strategy/> accessed 16 September 2022.

Sector selection and relevance

Mimicking the proposal for an EU Social Taxonomy, the Peace Finance Standard and Certification scheme could align a sector specific methodology and use the NACE[27] industrial classification system for a future sector specific impact framework. Like the EU Environmental and Social Taxonomy, priority sectors can be identified from the 21 sector specific codes. From these sectors it is apparent which ones have either existing peace-oriented investments and/or are highly consequential for investment in fragile and conflict affected settings, including:

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

Clarifying relevant geographies for peace impact projects and investments

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

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

27 European Commission, 'List of NACE codes' (2010) <https://ec.europa.eu/competition/mergers/cases/index/nace_all.html>.

Peace Enhancing Mechanisms and Peace Partners

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

Effective Peace Partners not only may implement and accompany peacebuilding activities in developing and fragile settings, they may also bring critical networks and contextual knowledge related to the country or specific communities. This usually requires Peace Partners to be operating in close proximity to local actors and communities and be able to navigate trusted local networks within the area of the investment. Such local Peace Partners may also function as intermediaries and 'bridge builders' between the local communities and investors who tend to be from outside the context. They may also play facilitative role akin to advisory function in traditional deal structuring where they provide a holistic service offering focused on helping the issuer, investor and investee how to best achieve Taxonomy alignment and peace additionality.

Partnerships should be based on local needs, interests and expectations and organised according to local capacities and according to available resources. The reason for the emphasis on "local" stems from the fact that the involvement of local partners and communities can pose difficulties including threats for certain groups when working with companies, particularly when they are already marginalised. A greater focus on the 'local' supports Do No Harm approaches and conflict sensitive actions during the investment stages. A key part of this is the development of trust for long-term cooperation with local Peace Partners and local communities. A long-term view enables credible partnerships aiming to reach optimum levels of trust. In fact, sustained interaction in a structured way will help to build these good partner relations and also control the time spent on them. Such an approach can reduce the significant resources that are often needed in more ad-hoc transactions down the line.

By working together with Peace Partners, the investee or project should be able to ascertain and report on the ways in which the proposed business activity is in fact peace-supporting, or not. A close partnership provides confidence to the investor in modifying business plans or launching new initiatives to maintain the Taxonomy-alignment status of the investment. The scope of the partnership between the Peace Partners and investors or issuers will depend on the transaction and the scope of capacity of the Peace Partners. In many cases, local Peace Partners will be the most fitting although in some cases, an investor may require various Peace Partners on the basis of deal advisers versed in the peace alignment requirements of the specific transaction. Generally, the relationship could be both financial and service oriented and analogous to a donor-recipient relationship seen in international aid projects, although with a shared mission driven ethos regarding the Peace Finance Principles underpinning the PFIF. The quality of the relationship between investors, issuers, investees and Peace Partners as well as the high degree of autonomy of the Partners in the project's or investee accompaniment would be important at both the pre-investment and post-investment phase, and key for the investor's approach to risk mitigation and realisation of financial and peace additionality. The role of Peace Partners and the criteria of the relationship in relation to achieving the Peace Finance Principles during the pre-and post-investment stages has been visualised in the diagram below and has been further articulated in the Peace Finance Standard.

How would Peace Partners be identified and selected?

The PFIF envisages that appropriate disclosure requirements will enable an observer to determine whether the Peace Partners are authentically pursuing peace, or whether they are simply positioning themselves in the context using an unauthentic "peace" banner. It is not envisaged at the early stage of the use of the PFIF that there would be a definitive list of 'approved organisations' which may be considered as authentic Peace Partners. However, there will be a need for some degree of vetting which will be facilitated by specific criteria set by the Peace Finance Standard. Suitable Peace Partners can be identified by investors themselves according to this standard. Moreover, disclosure requirements will allow the market to identify and recognise the track record of Peace Partners analogous to how second party opinion providers on sustainability investment or deal advisers may be recognised for their track record.

In some cases, training may be required for the Peace Partner to be able to carry out the accompanying role while at other times a blend of partners who complement each other may be needed.

It is apparent that market enabling infrastructure is required to support investors in identifying suitable Peace Partners for specific investments and transactions. A Peace Finance Standard Committee could carry out this function and help connect relevant actors as PFIF usage grows over time.

Examples of Peace Partners

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

Non-exhaustive list of potential Peace Partners:

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

From this potential Partners candidate list, the local organisation's ability to connect to local beneficiary communities must be recognised. Their function as a Peace Partner in the investment process will likely be key to the building of trust with local communities. At the same time, they are actors in the political economic environment whose interests may not necessarily be aligned with other local actors. The investor or issuer will need to find a balance in the various roles of Peace Partners that can support the full breath of the Peace Finance Principles.

Potential Peace Enhancing Mechanisms

Peace Enhancing Mechanisms themselves are simply tools, approaches, methods and programming praxis that would be applied to implement peace strategies part of the theory of change process of peace alignment. They would be highly context specific and related to the peace and conflict analysis linked to the investment. Basic examples of such methods and approaches can be drawn from developmental aid and peacebuilding programming experience. In relation to bankable investment projects, key tools mostly relate to engagement and dialogue to engage communities which can be distinguished from highly intentional interventions that are commonly the domain of dedicated peacebuilding actors. A key element when considering specific Peace Enhancing Mechanisms is to ensure they will be carried out in a conflict sensitive manner and not run counter to the peace intentions. For instance, Human Rights protection activities for local marginalised groups used as a peace enhancing approach may increase tensions with other groups or with local or national authorities and trigger conflict.

Transversal Peace Enhancing Mechanisms in the field:

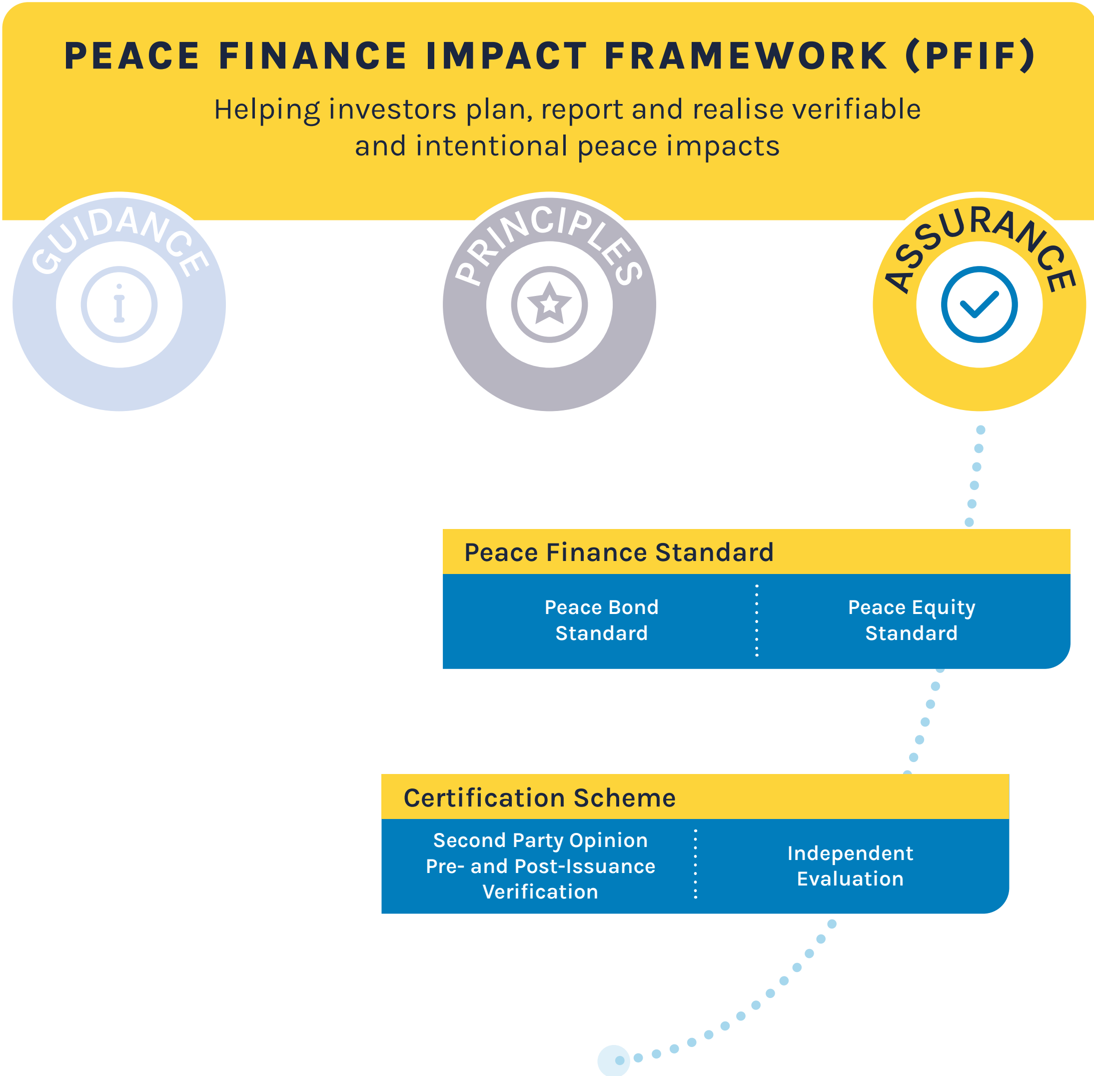
- Participatory peace and conflict and political economy analysis
- Community dialogues and mediation
- Participatory action research and learning for action
- Community and Beneficiary Assessment
- Community centred development approaches
- Participatory evaluation approaches
- Participatory governance approaches
- Participatory development planning and policy-making
- Benefit sharing mechanisms
- Multi-track engagement and dialogue platforms
- Community led-procurement
- Civic education
- Integrated Multisystemic resilience analysis

These can be distinguished from specific, highly intentional peace interventions:

- Inter-religious dialogue
- Formal political mediation between leaders
- Informal mediation and discreet diplomatic channels
- Restorative Justice and Reconciliation approaches
- Disarmament, Demobilisation and Reintegration (DDR)
- Dealing with the Past and Transitional Justice Initiatives
- Participatory and Inclusive Governance approaches
- Zones of Peace[28]
- Non-violent resistance training
- Community Psychoeducation
- Sociotherapy
- Nonviolent Communication Training
- Socioemotional Skills Training
- Cognitive-Behavioural Approaches
- Narrative Approaches
- Psychosocial Support Groups
- Peace Negotiations
- Transitional Justice
- Human Rights Protection
- Security Sector Reform
- Institutional Reform
- Emerging Leadership Frameworks
- Media Development
- Gender Equality and Inclusion and Positive Masculinities
- Deconstructing Stereotypes
- Youth Development, Mentoring, Empowerment, and Inclusion
- Civic Engagement and Volunteerism

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

Assurance: a new Peace Finance Standard and Certification Scheme



It has long been recognised that green and social bonds present an opportunity for investment in emerging and fragile settings.[29] The significant missing piece for both debt and equity markets, however, relates to rigorous and trusted labelling schemes related to peace.

The following section of the report describes and analyses some of the key principles and standards for issuing green, social and sustainability bonds. It uses the main points from the "Mapping Investment Guidance on Peace"[30] that has been separately published on ESG/SDG, Impact and Peace frameworks to determine to what extent these principles and standards used for a social (and green) bond can be turned into a Peace Finance Standard that set new criteria for issuing and verifying a Peace Bond. The emerging Standard has been further shaped to follow the design and management of Peace Equity investments based on the Operating Principles

29 Back in 2016, a study commissioned by the OECD International Dialogue on Peacebuilding and Statebuilding and BNP Paribas investigated innovative finance options, exploring social and green bonds structures to finance peace International Dialogue on Peacebuilding and Statebuilding, 'How to Scale Up Responsible Investment and Promote Sustainable Peace in Fragile Environments. Draft report' (2017) <https://www.pbsbdialogue.org/media/filer_public/8b/27/8b27b529-8fcc-4a2c-8d7b-87aabc55f7f3/final_privatesectorreport.pdf>.

30 Available at: https://financeforpeace.org/resources/mapping-investment-guidance-for-peace-2023/

for Impact management (OPIM). Two separate documents have been published describing the new Peace Finance Standard for Bonds and Equity investments.

Modelling a Peace Finance Standard for Peace bonds after the ICMA Bond principles, Climate Bonds Standard and the EMIA Enhanced Labelled Bond Principles

Modelling a new Peace Finance Standard for Peace Bonds (hereafter "Peace Bond Standard") after the ICMA Bond Principles and Climate Bonds Standard aims to increase the credibility and acceptance on the part of the issuer. For investors, the use of market best practices based on the ICMA Bond Principles and Climate Bonds Standard also creates more certainty that their investments are being used to deliver real verifiable peace-related outcomes.

However, there have been challenges in connection with the current verification practices, especially around green bonds, that social and future peace bonds should be wary of. Issuing green bonds has proven to be profitable because of price benefits or reputational gains. But pressure to demonstrate greenness and follow-up costs associated with green commitments (i.e. monitoring impact and external review costs) disincentivises the issuer from pursuing those commitments. This has lowered transparency and accountability in the green bond market.

Ex-post verification can also result in unexpected adverse impacts that may cast doubts on the quality (i.e. greenness in the case of green bonds) of the bond, potentially damaging the reputation of the issuer. In general, the issuers' hesitance to verify ex-post is partly caused by a lack of a standardised definition of green projects, lack of transparency instruments, and the varying quality of external reviews. The combination of these factors has led to situations where investors were given a false sense of the actual green impact of the funded project. This development has been increasingly witnessed in the greenwashing of investments over the last several years. The bottom-line here is the issue of trust and the perceived conflict of interests between issuers and investors in the bond market which are tied to the integrity of the credentials of a specific green, social or future peace bond market.

The ICMA Bond principles recommend transparency and disclosure and promote integrity in the development of the Green, Social or Sustainability Bond market by clarifying the approach for the issuance of these Bonds. The Use of proceeds model enables a wide range of approaches including project bonds and other debt instruments which suit the development of a potential Peace Finance Standard. Social Bond Principles (SBPs) and Sustainability Bond Guidelines (SBGs) are, on the face of it, a good point of departure to help issuers with the necessary guidance to finance humanitarian, development, and peace connected outcomes. In addition, the enhanced standards for labelled bond issuance developed by the Emerging Markets Investors Alliance (EMIA) that offer guidance for emerging market labelled bonds can make a meaningful contribution to further shape the new Peace Finance Standard.

The section below assesses the **four components** of the SBPs, taking into consideration the ten key common gaps identified in the mapping report in order to distil standards for issuing and verifying Peace Bonds using the use of proceeds model.

1. **Use of Proceeds**

At the heart of a Social Bond (SB) is the utilisation of the proceeds of the bond for SBs which aim to deliver clear social benefits that are captured under social projects categories similar to the ones listed in the EU Social Taxonomy. These are goods & services related to basic human security needs or economic infrastructures (e.g. food, water, education, access to housing, healthcare, transport, and telecommunications). To enhance the social benefits with more peace related outcomes that would align with a Peace Finance Standard, the Use of Proceeds component is recommended to apply the AAAQ concept with DNSH criteria relative to the targeted local population that is directly or indirectly affected by a funded peace project. The required legal documentation must, therefore, specify the allocation of the use of proceeds on peace enhancing projects that support peace objectives and reduce levels of indirect or direct violence in line with the Peace Taxonomy described in the above sections.

2. **Process for Project Evaluation and Selection**

A key gap in the implementation of existing frameworks point to the demand for a robust Theory of Change (ToC) that will establish a common understanding of different outcomes (i.e. the difference between social and peace-related outcomes). This suggests the potential use for a set of eligibility or screening criteria (similarly to the model used by the Climate Bond Initiative Taxonomy for green activities) to define peace enhancing activities. Peace screening through the use of such a traffic light system can provide an indication if a funded project aligns with the Peace Finance Principles, and Taxonomy and is compatible with the Peace Finance Standard. These include, among others, the involvement of local Peace Partners and beneficiaries in the design, implementation and monitoring of the Peace investment strategy, as well as an alignment with specific SDGs and national development and violence reductions (direct or indirect) targets.

A green light would potentially indicate full compatibility with the Peace Finance Standard while an orange light suggests that the Bond is potentially compatible if and unless additional Do No Harm (DNH) due diligence screening criteria are met. Those additional criteria may involve more resources and guidance for complaints and/or grievance mechanisms, specific capacity development activities targeting Peace Partners in support of stakeholder engagement throughout the project cycle, or the collection of more granular baseline data. A red light suggests the current type of investment or its design is incompatible, for instance in the case minimum safeguards and DNH criteria cannot be met.

Recommended under the ICMA Bond Principles and required under the CBI Standard for green bonds is the appointment of external reviewers to confirm alignment of the bond with the four components. In fact, it is common practice for certified green bond issuers to contract another party to review documentation, either prior to bond issuance (to check alignment against the standard) or for post-issuance (to control alignment of the projects funded against eligibility criteria).[31] This is consistent with one of the main gaps specified in the mapping that stresses the importance of independent conflict sensitivity and peacebuilding specialists to be involved in environmental and social impact assessments and evaluations. Other recommended criteria for the evaluation and selection for issuing a Peace Bond include:

» Use of proceeds frameworks to include a well-articulated inclusive due diligence process that details community involvement in alignment with the EMIA Principles. Disclosure of this localised due diligence process encompassing on the ground representation and systematic local consultations focusing on local needs, interests and ownership increases transparency and builds trust with communities. Having such a localised monitoring process in place can prevent risks from materialising and potentially reduces the need for resource-intensive grievance mechanisms down the line. Locally driven eligibility criteria are recommended to address some of the perceived conflict of interests further described below.

» Early communication to investors of the sustainability risks that may become material over time based on a contextualised sustainability analysis with peace-enhancement targets and Human Rights responsibilities. To increase the sustainability of investments, a conflict-sensitive risk assessment of the intended and potentially unintended impacts across ESG and Peace dimensions at local, regional and national levels must be carried out by local Peace Partners.

3. Management of Proceeds

The SBPs encourage a high level of transparency which suggests that clarity on how the net proceeds impact peace and stability will need to be articulated. In order to increase transparency and further accountability, the collection of contextual performance data ex-post that incorporates the voices of beneficiaries as part of impact indicators in the data collection is highly recommended.

The ICMA Management of proceeds step further recommends involving a Second Party Opinion (SPO) provider to follow up on the commitments made to investors once a bond has been issued. The use of a specialised independent external party will help verify the monitoring method, the alignment with the four Peace Finance Principles and the allocation of the proceeds for peace enhancing activities. Furthermore, the establishment of a Theory of Change (ToC) facilitates tracking of cause and effect between the investment and the peace objectives, especially if a common set of Key Performance Indicators (ex-ante) have been agreed upon with all stakeholders involved. Independent oversight of the use of proceeds by establishing a verification mechanism through which local partners can track performance will be of additional value.

Impact indicators can be potentially selected from the ICMA Harmonised Framework for Impact Reporting for Social Bonds[32] which are categorised according to the basic needs and economic infrastructures and specified as output, outcome and impact indicators. Indicators are also available from various other sources e.g., GIIN IRIS+ and the harmonised indicators (HIPSO) that are aligned with the SDGs and used by many DFIs for measuring

31 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021SC0181&from=EN

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

relevant basic human needs sectors such as energy, housing, education, transportation, communication, water and sanitation and health as well as cross-cutting infrastructural indicators. Some can serve as the basis for designing credible indicators supporting a Peace Bond. For instance, a social impact indicator demonstrating an increase access to financial services for women (output indicator) translating into a higher income for women (outcome indicator) could be converted into a peace impact indicator, if the indicator can also demonstrate a contribution to a reduction in gender inequality in a context suffering from gender-based violence.

4. Reporting

Proper disclosure mechanisms need to reveal what is important to stakeholders. The ICMA Harmonised Framework for Impact Reporting for Social Bonds[33] recommends that an annual impact report should illustrate the expected impacts or outcomes made possible as a result of projects to which bond proceeds have been allocated. In addition, the methods of measuring impact should be transparent in the reporting including illustrating the indicators that are based on the assumptions. Issuers are encouraged to provide information as to why a specific population has been targeted as well. In the case of issuing Peace Bonds, under the ICMA reporting standards, the issuer would need to explain why and how a selected community or group is being impacted by direct or indirect levels of violence.

Similar to the SB reporting principles, Peace Bond reporting standards should encourage both quantitative and qualitative reporting which allows for a better/more nuanced understanding of the local context. Bond issuers are recommended to collaborate with peace and conflict sensitivity experts to capture the local dynamics and help to reveal the peace enhancing benefits that are intended to accrue from the projects implemented.

As part of the social impact reporting, a comprehensive ToC will facilitate in demonstrating the peace contributing outputs, outcomes and impact on specific targeted groups and also clarify any divergences between ex-ante and ex-post assessments which ICMA recommends. Impact confirmation on target population is further recommended by collecting impact data from target populations - both pre- and post-issuance – whose lives the proceeds of the Peace Bond are intended to impact. The purpose of impact confirmation on the target population is to assess the effectiveness of the use of proceeds using an inclusive, bottom-up approach that will improve transparency of reporting and mitigate the risk of (peace) impact washing.[34] However, this inclusive bottom-up approach is only possible through systematic consultations with the aim to build trust with local actors. Reporting indicators, therefore, should include such consultations as output indicators and levels of community trust as a key outcome indicator measuring project progress.

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

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

Modelling a Peace Finance Standard for Peace Equity after the Operational Management Impact Principles

The Operational Management Impact Principles (also referred to as the Impact Principles) described in the mapping[35] follow a typical investment process and provide a framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle. They can be implemented through systems that are designed to be fit for purpose. Investors can decide to adopt the Impact Principles for specific funds or finance instruments including bonds, and do not need to adopt them for the entirety of their assets. The Impact Principles also do not prescribe specific tools or impact measurement frameworks. Investors may use the Impact Principles to screen impact investment opportunities and/or they may use them to assure investors that the impact funds are managed in a robust fashion. OPIM signatories and others affirming their alignment with the Impact Principles seem in a good position to integrate a Peace Finance Standard for Peace Equity (hereafter Peace Equity Standard) in their investment lifecycle for the purpose of screening new peace impact investment opportunities or for managing Peace Equity funds or portfolios.

Recommendations for the development and integration of a Peace Bond or Peace Equity Standard

To ensure that a Peace Bond or Peace Equity investment is identified to genuinely enhance peace, a proposed Peace Bond or Equity Standard will need to consider the following criteria:

> Demonstrate the peace-enhancing character of the Peace Bond or Peace Equity investment. Providing clarity on the use of the investment will help to reduce the need for spending additional resources to further define peace enhancing activities. Such clarity will also reduce potential reputational risk for issuers and asset managers if there is lack in understanding.

> Support the use of a peace and conflict sensitive investing lens that could follow a similar approach as the gender lens (Gender Lens Investing: An Approach to Advance ‘SDG 5 Gender Equality’)[36] that has been applied under the ICMA Principles.

> Support the AAAQ concept and DNH criteria, thus showing how peace enhancing activities are not having unintended negative environmental or social impacts.

> Encourage enhanced due diligence processes involving systematic local consultations centred around local needs, interests, and ownership.

> Address apparent conflict of interests between issuers and investors through a robust ToC highlighting outputs, outcomes and peace enhancing impacts that reduce violence (direct or indirect) and are aligned with the SDGs supporting national development objectives.

> Apply a classification system with sectoral eligibility criteria that distinguish projects with social and peace objectives building on the proposed Peace Taxonomy that can make links to the SDGs and development objectives.

35 Available at: https://financeforpeace.org/resources/mapping-investment-guidance-for-peace-2023/

36 https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Mapping-SDGs-to-GSS-Bonds_June-2022-280622.pdf

- Require issuers and asset managers/owners to use independent external reviewers who can provide evidence ex-post demonstrating that funded projects are in alignment with the Peace Finance Principles and compatible with the Standard. Impact confirmation should be verified with targeted population to enhance transparency and accountability, ideally through the involvement of a local Peace Partner.
- Encourage the use of both quantitative and qualitative indicators for the peace impact reporting that are collectively agreed on.

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