Finance for Peace

Peace Finance Impact Framework Guidance Notes

Applying the Peace Finance Taxonomy

PART 3

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Contents

Part 3: Understanding and Applying the Taxonomy for Peace Financing

Introduction

This practical guide helps issuers to identify and assess projects and assets and align them with the Peace Finance Taxonomy. Using the Taxonomy assures issuers that their investments in conflict-affected and fragile regions will be viable financially and will contribute to peacebuilding and sustainable development.

How should the Taxonomy be used?

To prepare for a Peace Bond or Peace Equity investment, issuers must meet the Taxonomy's requirements. To do so, they need to determine that the projects and assets of potential Peace Bond or Peace Equity instruments align with eligible peacebuilding criteria and objectives. Below are the detailed steps that issuers must take:

1. **Apply the Peace Finance exclusionary criteria**
   The issuer must consider the proposed investment's impact on the natural habitat and its social, economic and cultural impacts on local communities. The Taxonomy excludes certain classes of investment that tend inherently to harm these elements.
2. **Comply with minimum social and environmental safeguards**
   Projects that aspire to be Peace Finance investments must adhere to established social and environmental safeguards. They must support sustainable development and must not worsen existing vulnerabilities.
3. **Apply a do-no-harm approach across all sub-dimensions**
   An issuer must thoroughly evaluate each investment to ensure that it does not cause harm in any of the Taxonomy's peace-related sub-dimensions. The issuer should look specifically for unintended consequences that might undermine peace efforts or community stability.
4. **Show the investment will contribute substantially to specified sub-dimensions**
   An issuer must show that a proposed Peace Finance project will make a significant contribution to a specified sub-dimension in the Peace Taxonomy. It might, for example, enhance social cohesion, increase economic empowerment or strengthen environmental sustainability. Projects can also contribute to other specified sub-dimensions (demonstrating responsiveness to a variety of peacebuilding needs).
5. **Satisfy the Peace Bond Standard or Peace Equity Standard**
   To qualify to be described as a Peace Finance investment, all assessed projects must comply with the criteria of the Peace Bond Standard or the Peace Equity Standard. These quantify and qualify the impacts of peace-supporting investments.

Exclusionary criteria

When an issuer designs a Peace Finance investment, it must pay particular attention to the Peace Taxonomy's exclusionary criteria. The exclusionary criteria ensure that an investment does not inadvertently exacerbate conflicts or cause environmental and social harm. They are derived from international humanitarian law, human rights standards, and environmental protections.

Specifically, the Taxonomy's exclusionary criteria are grounded in the principles outlined in ESG environmental, social and governance (ESG) frameworks and the Sustainable Development Goals (SDG) framework. These principles identify and exclude investments that harm environmental and social welfare. The Taxonomy also aligns with the EU's sustainable finance regulations, particularly in applying do-no-significant-harm (DNSH) principles. DNSH principles ensure that investments that contribute to one environmental or social objective do not harm another.[1] Applying DNSH principles across both environmental and social dimensions is vital in fragile contexts where climate change and conflict can interact in particularly pronounced ways. Considering these criteria together ensures that investments contribute positively to sustainable development and peace without causing harms inadvertently.

Exclusionary criteria by sector and by character

The Taxonomy states that investments in certain activities and sectors cannot be described as Peace Bond or Peace Equity investments. The following sectors are excluded:

- **Weapons and ammunition.** Investments that support the production or sale of heavy weapons, ammunition, chemical weapons, mines or small arms are excluded.
- **Proscribed substances.** Activities associated with the manufacture of drugs that are banned under legal and international regulatory frameworks are excluded.
- **Environmental impact.** Operations that occur on land designated as primary forest, in high conservation value areas or in legally protected areas, or that involve harmful agricultural or afforestation practices, are excluded.

Also excluded are investments that involve or are associated with:

- **Violations of international law.** Investments in entities that breach international humanitarian law, including the Geneva Conventions and their additional protocols, are excluded.
- **Human rights violations and exploitative practices.** Activities that directly or indirectly benefit from or lead to corruption or violations of human rights or labour standards are excluded. Specifically, activities that involve or result in slavery, child labour, human trafficking, or sexual exploitation are excluded.
- **Criminal activities.** Association with companies that have been implicated in criminal activities or other serious offences, whether related to environmental, social, governance or other serious offences, is excluded.

1 See summary in International Capital Market Association (ICMA), 'Overview and Recommendations for Sustainable Finance Taxonomies' (ICMA 2021)

Future development and implementation

In future, the Taxonomy's list of sectoral exclusions may need to be extended or refined to address new harmful practices (such as driftnet fishing or mining that removes mountain tops).

Additional exclusion considerations

In addition to the exclusionary criteria listed above, an issuer should consider exclusions that are commonly applied by financial intermediaries. The exclusions listed below are covered generically by the Taxonomy's list of exclusions but are particularly relevant in conflict-affected and fragile contexts.

- Investments should not support industries or activities that engage in forced labour or exploit children.
- Investments in commercial logging operations, particularly in tropical forests, should be excluded unless they meet stringent sustainability criteria and are conducted with the full consent and participation of local communities. (See the section on Challenges to securing genuine consent in fragile settings.)
- Activities that have an effect on lands owned or claimed by Indigenous Peoples should be carefully scrutinised. Investments should only proceed with the full, documented consent of the Indigenous communities affected and should ensure that their rights and cultural heritage are respected. (See the section on Challenges to securing genuine consent in fragile settings.)

Areas of high conservation value (HCV)

This is an important exclusion:

- HCV areas[2] are natural habitats that play a vital role in maintaining ecological balance and supporting local communities. They often have significant cultural and social as well as environmental value.
- The European Development Finance Institutions' principles for responsible financing emphasise that HCV areas must be protected. Destroying or harming these areas can cause ecological degradation and exacerbate local and regional conflicts, particularly in societies that depend on access to natural resources.
- Investors that recognise the significance of HCV areas can take more informed decisions that respect both the environment and the needs of the societies in which they invest. By protecting these areas, they can help to maintain local livelihoods and prevent conflicts that might arise due to resource scarcity and environmental degradation.

The need for expertise and better data

To apply the exclusionary criteria effectively, an issuer must have detailed information on the places and societies in which it plans to invest, and skills to analyse the impacts of its investment.

2 HCV Network, 'HCV Approach'.

The expertise of local communities, ecological experts and social scientists can throw light on the potential impacts of investments in HCV and other sensitive ecological and social landscapes. Consultation is essential to arrive at informed decisions that align with peace and sustainability goals.

In short, an issuer that wishes to prepare a Peace Finance investment needs to understand the culture and the political and social economy of the local society as well as the natural environment.

Challenges to securing genuine consent in fragile settings

Obtaining 'full consent' from local communities or Indigenous Peoples presents significant challenges. Historically and today, these communities have often lacked political power or the means to voice their concerns or negotiate for their interests in ways that respect their rights and cultural heritage.

Document and verify consent. An issuer that plans to invest in sectors such as commercial logging, especially in tropical forests, must meet stringent sustainability criteria but also ensure that it acts with the documented consent of local communities.

> **Document consent.** The issuer must obtain consent and that consent must be thoroughly documented in a manner that describes all aspects of the agreement. Documentation should include detailed records of community meetings, discussions, and any objections or endorsements made by community leaders or members.
>
> **Verify consent.** An issuer is advised to invite an independent body to audit the procedure and verify consent. This can help to ensure that consent is genuine and was not obtained under duress or on the basis of misleading information. Auditors should be independent and have no interest in the project's outcome.

Empower local communities. An issuer should take steps to make sure that its investment empowers local communities to participate in decision-making that concerns them and increases their ability to engage effectively in processes that require their consent.

> **Build their capacity.** Communities that receive legal, environmental, and negotiation training can more effectively discuss land use, environmental conservation, project impacts and other matters of interest to them.
>
> **Facilitate open dialogue.** An issuer should ensure that its investment will encourage dialogue with community members, in order to build trust and improve the quality of decisions, and that it listens to all voices. It should establish mechanisms that enable communities to express their concerns and require managers to respond promptly and transparently.

Minimum social and environmental safeguards

The Peace Finance Taxonomy incorporates stringent safeguards to ensure that all investments comply with established international human rights and governance standards. These safeguards enable issuers and investors to evaluate investment proposals and confirm that they will achieve the social and environmental objectives they aim for.

The Taxonomy's minimum safeguards draw on several international instruments:

- **The International Bill of Human Rights** and the **UN Covenants** on Civil and Political Rights and on Economic, Social, and Cultural Rights set broad standards for human rights protection.
- **The International Labor Organization's Declaration on Fundamental Rights and Principles at Work** sets out core labour rights and fair work conditions.
- **The OECD Guidelines for Multinational Enterprises**, including its environmental chapter, outlines best practices of corporate responsibility in multiple domains.
- **The Guiding Principles on Business and Human Rights**, which implement the United Nations' 'Protect, Respect and Remedy' framework, set out globally-agreed standards for preventing and addressing violations of human rights linked to business activity.

The EU's Corporate Sustainability Due Diligence Directive (CSDDD, 2024)[3] enhances these safeguards by requiring large corporations to fulfil specific due diligence obligations with respect to human rights and the environment. The Taxonomy will integrate the requirements of new laws, including the German Supply Chain Due Diligence Act[4] and the Dutch Responsible and Sustainable International Business Conduct Act (pending),[5] as these come into effect, to ensure that the Taxonomy remains up to date.

Implementing the AAAQ framework

To operationalise these standards, the Taxonomy encourages issuers to adopt the AAAQ framework, which is widely used to judge whether economic, social and cultural rights are being met. AAAQ stands for:

- **Availability.** This criterion assesses whether people are able to obtain a sufficient quantity of products and services.
- **Accessibility.** This criterion assesses whether people can obtain products and services without discrimination. It covers issues of affordability, physical availability, and whether transparent information is available.
- **Acceptability.** This criterion assesses whether products and services are ethically and culturally appropriate, and takes account of cultural attitudes and practices.
- **Quality.** This criterion assesses whether products and services are safe and made to a good standard. It covers safety standards, compliance with internationally recognised quality benchmarks, and scientific approval.

Application of AAAQ measures

The AAAQ framework can be applied to evaluate the impacts of proposed investments and establish robust social safeguards. It can also help to screen for harms and ensure that investments will not inadvertently cause social or environmental harm.

Applying the AAAQ tests to investments provides an assurance that they meet minimum ethical and health criteria.

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

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

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

Box 1: Applying the AAAQ framework to the right to water

The AAAQ framework was originally developed by the Danish Institute for Human Rights in 2014. It attracted renewed interest when the EU began to develop a Social Taxonomy, to assess the social impacts of investment decisions. The framework uses four criteria to evaluate progress towards fulfilment of economic, social and cultural rights. To illustrate, it applies the four criteria to the right to water as follows:

Availability. Can people obtain water in sufficient quantity to meet their needs?

Accessibility. Are water services and facilities physically and economically accessible to all members of the population without discrimination?

Acceptability. Is water distribution and are water facilities culturally appropriate and sensitive to gender, life cycle, and privacy requirements?

Quality. Is water safe for consumption and use? Does it meet health and safety standards?

The framework introduces generic benchmarks related to these indicators. The framework makes clear that these need to be adapted to different environmental and social contexts.

Contextual adaptation. The four generic criteria and their benchmarks need to be contextualised to take account of the specific needs and conditions of people in a given location. This enables the framework to remain relevant in all physical and cultural settings.

A participatory process. The generic criteria should be adapted and applied using a participatory process that involves all relevant stakeholders. In the case of water, this would involve local consumers, people of different age and gender, civil society organisations, water management authorities, environmental experts, hydrographers, etc. Adopting an inclusive approach makes it more likely that measures will be comprehensive, technically feasible, tailored to local conditions and relevant to the community.

This example illustrates how delivery of a specific human right (in this case, water) can be improved using contextualised international indicators and consultation. The same approach can be used to measure and improve the delivery of other rights.

The right to water: Generic Indicators and Generic Benchmarks		
Criteria and Standards	**Generic Indicator**	**Generic Benchmark**
Availability Sufficient Water	Quantity of water used per person per day	Intermediate: 20 Litres of water used per person per day Recommended: 50 Litres per person per day
Continuous Supply	Number of disconnections / Incidents of unavailability of water over time	--
Accessibility Physical	Total collection time, including waiting time Number of reports of threats / assaults Number of people / households per water outlet by geographical location	Intermediate: Max 30 minutes collection time, incl. waiting time Recommended: Max 5 minutes collection time, incl. waiting time
Economic	Total (direct + indirect) costs as a proportion of income (and as proportion of total cost of fulfilling basic needs / rights)	Total household water costs amount to max 5% of total household income
Non-discrimination	Disaggregation of indicators of access on prohibited grounds of discrimination	--
Information	--	--
Acceptability Consumer	Number of complaints about colour, odour and taste	--
Cultural	--	--
Quality	Are WHO guidelines applied?	80%
Safe Water / Water Quality	Improved vs. unimproved water source as primary water source?	Intermediate: MDG benchmark - 89% Recommended: 100% use improved water source
Prevent, Treat and Control Waterborne Diseases	Prevalence of waterborne diseases	

Source: https://www.humanrights.dk/files/media/migrated/aaaq_international_indicators_2014.pdf.

The do-no-harm principle

The humanitarian, development and peacebuilding sectors regularly apply the do-no-harm principle to minimise harms that their interventions cause to local communities and environments in fragile, conflict-affected or developing countries. Well-established do-no-harm frameworks, by Collaborative for Development Action (CDA) and others,[6] advise external actors on how to intervene without exacerbating or creating conflicts.

Extending do-no-harm to do-no-significant-harm (DNSH)

Recently, influenced by the EU's proposed Social Taxonomy, do-no-harm has evolved into do-no-significant-harm. This shift broadens application of the do-no-harm principle.

Beyond risk mitigation. Whereas traditional do-no-harm frameworks focus on mitigating immediate risks, DNSH also considers long-term and indirect effects of interventions.

A holistic understanding of context. DNSH analyses the social, economic, and political landscape in more detail to establish whether external actors are likely to unintentionally disrupt it.

Integration of DNSH with the European Pillar of Social Rights (EPSR)

DNSH criteria align closely with the European Pillar of Social Rights, which affirms substantial and transformative social standards:

- EPSR promotes a balanced approach: progress in one domain should not occur at the cost of harm in another. To illustrate, new jobs should not undermine social protections or cause environmental degradation.
- The aim is to avoid harm but also to contribute positively to social rights, equity, and inclusion, in order to create more resilient and sustainable communities.

Application of the do-no-harm principle in the Peace Taxonomy

The do-no-harm principle and the broader do-no-significant-harm principle help to ensure that investments achieve their social objectives without causing significant harm. The Peace Taxonomy can guide this process:

- Issuers can screen an investment to assess its potential impact on society and the environment. The screening process evaluates investments against do-no-harm criteria to ensure they contribute holistically to societal wellbeing and support social equity and environmental sustainability.
- Issuers and investment managers of Peace Finance investments are required to adopt practices that avoid doing harm. When they identify risks of harm, they are expected to take steps to prevent or mitigate them.

Integrating DNSH in investment planning is a significant advance. By adopting do-no-harm criteria, issuers can assure themselves that their investments are ethically sound and create conditions for long-term peace and sustainable development.

6 Mary Anderson developed the first do-no-harm frameworks for Humanitarian Action. Collaborative Development Associates (CDA) has produced much of the guidance on do-no-harm and conflict sensitivity. See CDA (2018), 'Do No Harm: A brief introduction from CDA'.

Defining the type and extent of contributions

To measure and communicate the impact of peace investments effectively, the Peace Taxonomy recognises three types of contribution: do-no-harm contributions to peace; indirect but positive contributions to peace; and direct contributions to peace.

This categorisation recognises that Peace Finance investments can have different levels of engagement and can aim to achieve a range of peace objectives and peace impacts.

Table 1: Types of contribution to peace recognised by the Peace Taxonomy

Type of contribution	Definition and examples
Do-no-harm contribution	**Definition.** The investment project concerned ensures that it does not do harm to any of its peace objectives and actively contributes to at least one. It does not breach any of the social and environmental safeguards. It aligns with the principle of dual materiality by considering its impacts on local society and the environment as well as impacts on the project's value and viability. **Example.** A company in a conflict zone respects strict environmental standards to ensure that its operations do not exacerbate local tensions or deplete resources.
Indirect positive contribution	**Definition.** Investment projects typically achieve indirect contributions by operating in inclusive and participatory ways that gradually change attitudes and behaviours. They are secondary to the primary business outputs. Indirect contributions mitigate factors that drive conflict or enhance factors that contribute to peace. **Example.** A telecommunications company expands internet access in a remote area where communities are divided. In doing so, it indirectly enables more adults and children to improve their education, and enables people to communicate more with each other and with the world. Both outcomes improve social cohesion and understanding.
Direct positive contribution	**Definition.** Direct contributions occur when the core business outputs of an investment explicitly address or mitigate factors that drive conflict or significantly enhance factors that drive peace. These contributions are intentional and direct results of the business's activities. **Example.** An agribusiness project employs and trains people on both sides of a divided community. In doing so, it directly reduces unemployment (which is known to drive conflict) and increases economic interactions across the community.

Issuers and investors who seek to support peace need to understand and distinguish between these three types of contribution. By clearly defining their nature and scope, the Peace Taxonomy helps issuers to align investments with their peacebuilding goals, maximise their positive impact, and continue to respect ethical standards.

Do-no-harm contributions

A do-no-harm analysis is grounded in the dual materiality principle.[7] The starting assumption is that it is not realistic to expect an investment to have a positive impact on every dimension of conflict and peace in a region, but projects must meticulously avoid negative impacts in dimensions they have not targeted. This step transforms do-no-harm analysis into a sophisticated tool for risk monitoring and assessment, enabling investors to identify and address potential risks, including those indirectly related to the investment.

Operational approach

- Risk identification. A do-no-harm risk analysis identifies possible risks that might not directly relate to the investment but could influence the broader context negatively. It assesses risks across various dimensions of conflict and peace that the investment might influence.
- Mitigation and monitoring. Investors must articulate and implement strategies to mitigate risks they identify. They must undertake regular risk monitoring to ensure that their investments do not inadvertently harm the context in which they operate. Monitoring supports transparency and accountability, which are vital to credibility and the trust of stakeholders.
- Disclosure and transparency. Issuers must regularly disclose how they manage and mitigate risks. Disclosure allows stakeholders to monitor progress and understand an investment's real world impacts. It is an essential element of issuers' and investors' commitment to transparency.

The alignment process before Peace Finance investments are issued

The do-no-harm category in the Taxonomy must be addressed before a Peace Bond or Peace Equity investment can be issued.

Issuers need to demonstrate that they have identified all relevant conflict and peace factors in the investment context and have put appropriate measures in place to manage the risks that they have identified.

Alignment also requires issuers to map how their investments will impact the targets of various Sustainable Development Goals (SDG), and identify positive and negative impacts. The mapping helps investors to demonstrate that they have considered broader developmental impacts comprehensively.

Annex A contains a template that issuers can use to show how their investments align with the Taxonomy's do-no-harm criteria. It ensures that reporting is consistent and clear.

Compliance with minimum safeguards

Investments must also comply with minimum safeguards. Compliance requires issuers to show that they will respect fundamental human rights, workers' rights, anti-corruption and governance principles, and international humanitarian law (IHL). A project that does not fulfil the safeguards cannot be called a Peace Bond or a Peace Equity investment.

7 The concept of 'double-materiality' was first formally proposed by the European Commission in its 'Guidelines on Non-financial Reporting: Supplement on Reporting Climate-related Information' (2019). It encourages a company to judge materiality (outcomes) from two perspectives: from the perspective of the company (effects on its development, performance and value); and from the perspective of the broad range of stakeholders who are affected by the environmental and social impacts of the company's activities. It assumes that interconnections between the two also need to be assessed.

If it is found that a safeguard might be breached, the issuer must complete a do-no-harm risk analysis, explicitly acknowledge the risk in question, and take steps to address it. To be effective, mitigating measures must enable the investment to comply with the safeguards.

In sum, the do-no-harm analysis and safeguards are essential components of the Peace Taxonomy. They ensure that issuers design and manage investments in a way that consciously avoids harm and promotes peace and stability. By adhering to this approach, investors can act responsibly and effectively to ensure that their contributions support peace in a manner that is sustainable and ethically sound.

Direct and indirect positive contributions

To assess the contribution of their investment to peace, investors and issuers start by acquiring a sound understanding of the location and society in which they plan to invest, including its peace and conflict dynamics. They consider contributions to three key dimensions of peace: safety and security, social peace, and political peace.

Investments generally introduce new goods, services, or capital stock. These inputs provide a range of direct benefits. For example, they may increase the availability of goods, enhance service provision, or expand productive capacity.

The inputs target primary business objectives. However, they also have the potential to influence peace and conflict, directly or indirectly. The context of the investment shapes the influence that inputs can have. An investor's ability to identify and achieve potential peace impacts is also influenced by the quality of the investment's peace and conflict analysis. Investments should be strategically aligned to maximise their peace-positive impact.

The nature of contributions

The business outputs of investments can **improve access to essential products and services that fulfil basic human needs**, such as food, housing, water, healthcare, and education. They may also **create economic services and infrastructure**, including electricity, transport, telecommunications, financial technology and sanitation. By increasing community wellbeing and stability, these improvements influence peace and conflict dynamics.

Impact depends on context

The impact on peace that a business output makes will depend upon the context. In some circumstances, it may directly improve conditions for peace. Typically, however, its direct or indirect impact will be conditioned by a range of factors, including the social, political and economic context, as well as the investor's investment strategy and theory of change (including the peace impacts that the project prioritised).

To illustrate, consider two hypothetical situations:

Context A. In a region plagued by resource competition and conflict over land and food, an investor establishes food storage facilities, which directly reduce food scarcity and so lower resource-based violence. These direct positive impacts enhance safety and security. In addition, they improve social peace by strengthening social cohesion and increasing levels of trust between competing groups.

Context B. In a region in which resource competition is not a major cause of conflict, an investor constructs the same food storage facilities. These do not directly influence safety and security or social peace. However, their construction contributes indirectly to social peace because the project involves (divided) communities in their planning and implementation, which increases the communities' trust of one another and their willingness to cooperate.

These examples demonstrate that the same business output can have different effects on peace and conflict. It underlines the point that investments must take into account the unique character of each context.

Contextual sensitivity and additionality ambition

Direct and indirect contributions to peace are both important. They are influenced by two key factors:

- **The context.** In conflict and fragile locations, the success of an investment depends on whether investors have a sound understanding of the local context and local peace and conflict dynamics. They need to understand how business outputs align with these dynamics and to apply the principle of dual materiality.
- **The investment's additionality ambition.** 'Additionality' refers to the value that an investment adds in terms of peace impacts as well as financial impacts. It is probable that only a minority of peace-aligned investments will make a direct impact on peace. More are likely to improve conditions for peace by adopting participatory and inclusive forms of management that strengthen trust, increase wealth and wellbeing and encourage cooperation.

The principle of dual materiality underpins efforts to ensure that peace-aligned projects and investments do in fact support the overarching goals of peace, stability, and development.

By mapping the peace dimensions against types of contribution, issuers can more accurately plan and articulate their investments, ensuring that each investment is optimally aligned to support peace in its unique context.

To ensure they make peace-positive contributions, issuers of Peace Finance investments are required to adopt a theory of change that describes exactly how the investment will achieve the peace impacts the issuer has decided to target. The issuer is also required to state the investment's additionality ambition with respect to those impacts.

Distinguishing between indirect and direct contributions

Indirect contributions

Most peace-aligned projects and investments make indirect contributions to peace. These are often outcomes of inclusive, participatory practices that inspire trust and cooperation but which may appear to have a low level of ambition compared to direct peace impacts. In fact, they are crucial because they build a foundation for sustainable peace by positively influencing the socio-economic fabric of conflict-affected societies over a long period.

Process-driven approaches

Process-driven approaches tend to focus on:

- **Community participation.** Involving local communities in the planning and execution of projects empowers them, inspires trust, and ensures that the needs and expectations of communities are identified and met.
- **Capacity building.** Providing training and resources to local populations enables them to make good use of an investment's benefits and prosper.
- **Infrastructure development.** Improving local infrastructure in appropriate ways supports economic development and social cohesion, which are essential for long-term peace.

Direct contributions

While less common, direct impacts on peace and violence are also achievable.[8] They occur when investments are explicitly designed to support or catalyse ongoing or planned peacebuilding or peacemaking efforts. The investment contributes directly to reducing conflict or supporting reconciliation and peace processes.

Examples of direct impact might include:

- Investments that fund initiatives that facilitate peace negotiations or dialogues between conflicting parties.
- Funding programmes that assist former combatants to reintegrate society.
- Investments that create job opportunities and support local businesses in conflict-prone areas, and reduce economic disparities that drive conflict.

An issuer that seeks to have a direct impact on peace should:

- Ensure that its investment supports existing peacebuilding frameworks or strategies recognised by international bodies, the national government or local governments.
- Focus on specific issues that are known to drive conflict in the community, such as unemployment, unequal access to resources, or intergroup tensions.
- Work with NGOs, government bodies and other stakeholders who are actively involved in peacebuilding in order to align efforts and maximise impact.

When an issuer selects the peace impact targets of a Peace Finance investment, it should bear in mind the distinction between direct and indirect contributions. Indirect impact is generally achieved by long term processes that accumulate influence. Direct contributions tend to address immediate peace and conflict issues more dynamically. Both types of contribution are necessary to create an effective peace investment strategy in conflict-affected areas.

8 For example, prototype and pilot projects completed by PDI in 2020-2022. See Peace Dividend Foundation (2022), 'Our Origins'.

Box 2: Demonstrating additionality ambition and peace impact intentions through strategic investment: scenarios

Scenario A: Facilitating political dialogue

The challenge. In Context A, leaders of groups in conflict refuse to dialogue because they do not trust each other.

Investment Strategy. Peace-making actors convene meetings to discuss economic and business concerns in which all parties have an interest. Conflict leaders send representatives because the themes are less contentious and do not address critical areas of dispute.

Implementation. The meetings initiate forms of economic collaboration that involve communities in dispute (a few joint ventures, some co-operative projects). Further meetings are planned.

Direct peace contribution. The joint projects build confidence in the possibility of collaboration. They may even open a path to political dialogue in the future. The initiative makes a direct contribution to political peace because it creates more favourable conditions for dialogue and reduces political tensions.

Scenario B: Reconciliation through cultural and economic collaboration

The challenge. Communities in Context B are deeply divided following prolonged violence. Violence, threats and mistrust severely impede interchange and contact.

Investment strategy. An investor finances a local woman entrepreneur who develops a culturally significant artefact that all the communities are proud to identify with. She encourages different groups to work together on a project to produce and market this product.

Implementation. The project sets up sustainable enterprises in different communities and recruits demobilised combatants to work in them. The enterprises need to cooperate to be efficient and by degrees begin to share skills and information. The success of the enterprises eventually leads those involved to affirm their commitment to peace.

Direct peace contribution. By creating enterprises that must work in association to produce a valued product, the entrepreneur contributes directly to social peace. The investment promotes economic well-being and economic interdependence, and strengthens social cohesion and shared cultural values, all of which are essential elements of long-term peace and stability.

Meeting the standard for Taxonomy alignment

The Peace Finance Standard plays an essential role in the Certification of a Peace Bond or Peace Equity investment. It ensures that investments are aligned with the Peace Taxonomy.

The Standard guides issuers through the entire investment process, from pre-investment planning to post-investment monitoring, confirming at each phase that an investment complies with peace-supporting principles. By following the standard, issuers can assure other stakeholders that peace finance instruments are principled and will have peace-positive effects.

Key components of the Standard

The Standard applies to all phases of the investment lifecycle. To continue to be described as a Peace Bond or Peace Equity instrument, an investment must consistently adhere to specific criteria. This requirement ensures that a peace investment will continue to align with peace objectives after the capital has been deployed.

To qualify for Certification, projects must demonstrate their alignment with peace goals by defining and applying a coherent theory of change and a strategy. The theory of change sets out logically the steps by which the investment will achieve its chosen peace outcomes. The strategy provides a clear narrative that explains how the expected social and peace-enhancing impacts will be achieved and the means that will be required to achieve them.

The strategy of a Peace Finance investment must include key performance indicators (KPIs). These are applied to measure the progress that a Peace Finance investment makes towards the peace outcomes it expects to achieve. The requirement that Peace Finance investments must apply an explicit theory of change, supported by KPIs, enables issuers to report the progress of particular peace investments to all stakeholders in a coherent and transparent manner. They are able to see whether a peace investment is achieving the peace outcomes that it promised - or failing in specific respects.

Screening tool for investors

Investors can use the Peace Finance Standard as a screening tool to evaluate the potential of investments to contribute to peace. This helps them to make informed decisions about where to allocate their resources to maximise peace-positive impacts.

Readers who want more information on the Peace Standard and its application are invited to refer to The Peace Finance Impact Framework, version 3.[9]

Project identification and Taxonomy alignment

Universal application

The overall aim of the Peace Taxonomy is to catalyse investment in emerging markets affected by conflict or fragility. However, the taxonomy's principles can also be applied to middle-income and developed countries where peace and conflict are issues. Any project that is not subject to the Taxonomy's exclusion clauses can potentially realise peace impacts.

9 https://www.financeforpeace.org/resources/the-peace-finance-impact-framework/.

Eligibility and sectoral focus

Whether a project is eligible to be described as a Peace Finance investment is determined by its alignment with the Taxonomy. The latter evaluates economic activities more than sectors, industries or companies. Nonetheless, some sectors are particularly conducive to peace-oriented investment, especially in fragile settings. They include agriculture, forestry, and fishing; mining and quarrying; electricity, gas, steam and air conditioning supply; and sectors that support infrastructure and the social fabric of communities.

Alignment criteria

To align a potential Peace Finance investment with the Peace Taxonomy, issuers must complete three steps:

1. **Show the investment is not ineligible.** An initial screening shows, first, whether the investment is ineligible because it falls into a category that is excluded by the Taxonomy; and, second, whether it will breach essential social and environmental safeguards. Potential peace investments must pass these tests before they can advance further towards Peace Finance status.
2. **Demonstrate the project's peace-enhancing character.** An issuer must clearly demonstrate how its investment will contribute to peace. It does so by designing a credible theory of change and a strategy that describe how the investment will improve conditions for peace in at least one of three dimensions of peace (safety and security, social peace, or political peace). Peace contributions may be direct, indirect, or do-no-harm. The issuer must declare and justify the ambition of the investment's contribution.
3. **Apply a do-no-harm assessment and context analysis.** An issuer must conduct a thorough conflict and peace analysis of the local context to identify risks and dual materiality concerns that the investment might affect. The analysis must identify any material risks and implement appropriate risk mitigation measures. The issuer must also complete a do-no-harm assessment. If the conflict and peace analysis or the do-no-harm assessment reveal that potential harms cannot be prevented or mitigated, the investment cannot align with the Taxonomy.

Annex A provides a template that helps issuers to negotiate the alignment process. The template ensures that issuers supply all the documentation required by the alignment process.

Showing whether assets are compatible with the Taxonomy

Colours can show whether investments align with the Taxonomy. The traffic light system uses three colours:

Green	signifies full compatibility or certifiability.
Yellow	signifies compatibility but additional criteria must be met.
Red	signifies incompatibility with the Taxonomy.

Where further assessment is required, the 'light' can remain blank until a colour can be determined. Table 3 illustrates how the traffic light system works. This type of visual aid helps issuers and stakeholders to quickly understand an investment's status and see what still needs to be done.

Table 2: Traffic light system indicating the compatibility of assets in a portfolio or fund

Sector or category	Asset type	Asset specifics	Peace Taxonomy alignment	Do-no-harm screening indicators	Certifiable
Agribusiness, food and water	Food production, water distribution	Enhances food security; targets marginalised groups; aims to reduce inequalities.		> Deforestation. > Efficient and inclusive water usage. > Conflict sensitivity and AAAQ criteria.	
Energy	Infrastructure	Generates and distributes solar electricity; conflict-sensitive; AAAQ assessed; targets off-grid communities.			
Financial	Micro finance	Grants loans to rural women who are affected by violence; the women are active in the farming and fishing industry.			
	SME bank	Issues loans to purchase land titles in an area where land disputes are frequent.			

What can be included in a peace impact investment?

Peace Bonds and Peace Equity investments are designed to support initiatives that sustain or enhance peace. Such investments typically include a variety of assets and expenditures that, taken together with their participatory and inclusive processes, increase stability and development in conflict-affected regions.

Types of asset and expenditure

Investments in peace usually create important physical and financial assets that enable economic stability and development: plants, infrastructure, institutions, permanent jobs, supply chains, material outputs, etc. They might also include micro-credit and loans which support small businesses and entrepreneurs in regions recovering from conflict. Such financial tools stimulate the local economy and can reduce economic disparities that often lie at the heart of social tensions.

Peace impact investments are also likely to generate operating expenditures related to these assets, which enhance their sustainability. These include costs associated with the maintenance, upgrade, or replacement and improvement of physical assets.

Relevant public expenditures and subsidies also play a role, particularly when they support infrastructure development or essential social services that underpin the peacebuilding process.

For instance, the construction of manufacturing plants and infrastructure projects provides employment opportunities and improves local economies. Establishing institutions such as schools and healthcare facilities supports community wellbeing and development. Additionally, creating permanent jobs contributes to long-term economic stability, while developing supply chains ensures the consistent flow of goods and services. The production of material outputs from these investments fuels further economic activities.

Investments might also include micro-credit and loans, which support small businesses and entrepreneurs in regions recovering from conflict. These financial tools stimulate the local economy by enabling business growth and innovation, helping to reduce economic disparities that often lie at the heart of social tensions.

Refinancing of assets and projects

It is possible to refinance assets and projects that are financed by peace investments. However, refinancing should aim to create value that is additional to the initial benefits. For instance, if a social bond is refinanced, its investment strategy should be revised to enhance peacebuilding outcomes that have not been fully realised. It might target previously underserved social groups or address unresolved horizontal inequalities. Such changes would make the investment newly eligible for a Peace Label.

Creating peace additionality by refinancing

Refinancing a Peace Finance investment enables an issuer to adapt and evolve its investment strategy to meet new circumstances or emerging peace and conflict risks; this should be the primary purpose of refinancing. In the course of refinancing, the issuer can respond to new dual materiality risks, for example, or realign a project with the Peace Taxonomy. It allows refinanced projects to remain relevant and to enhance their peace impacts.

Regulatory considerations

The Peace Finance Standard advises that the look-back period for refinancing projects should not exceed 24 months. This stipulation ensures that refinancing is confined to active projects and focuses on current peace outcomes, and recognises the dynamic and volatile nature of peace and conflict contexts.

Using the Peace Taxonomy alignment checklist

The checklist in Table 3 is designed to facilitate a systematic assessment of investments to ensure they align with the Peace Taxonomy. An issuer must secure independent verification before self-certifying a Peace Bond or a Peace Equity investment: systematic assessment is necessary to prepare for the independent verification process.

The checklist helps issuers to confirm that their investments meet key eligibility and contribution criteria. It includes a compliance column and space for commentary, and lists actions that must be taken to satisfy unmet criteria. By systematically assessing each criterion, an issuer can ensure that its investment is aligned with peacebuilding objectives and will contribute to sustainable peace and development.

Table 3: Peace Taxonomy alignment checklist

Eligibility criteria	Meets the criteria Yes/No	Commentary and actions to be taken to satisfy unmet criteria
The investment is not in an excluded category.		
The investment complies with minimum environmental and social safeguards and meets applicable conflict-sensitive AAAQ criteria.		
The investment makes a substantial contribution to the named Taxonomy (sub)dimensions (or other sub-dimensions to be identified).		
The user has applied do-no-harm tests in all (sub)dimensions based on a dual materiality analysis and has put in place risk prevention and mitigation measures.		
The user has met the Peace Financing Standard in respects that are relevant to the Taxonomy alignment.		
The assets and expenditures of the proposed peace impact investment meet the inclusion criteria. If refinancing is involved, the issuer has confirmed the additionality of the investment.		
Contribution criteria		
The issuer has a good understanding of the investment's local context and local peace and conflict dynamics, demonstrated by a comprehensive peace and conflict analysis.		
The issuer has clearly set out the peace-positive do-no-harm, direct, or indirect contribution(s) of the investment, and their scale, based on the issuer's ambition and taking account of the local operating context.		
The issuer has designed a credible peace strategy and theory of change that demonstrate the peace-enhancing character (additionality) of the contributions.		

Annex A. Template for Peace Taxonomy alignment

(Sub-)dimension		Contribution			
Peace impact dimension 1: Safety and security		**Do-no-harm**	**Indirect**	**Direct**	**SDGs**
1.1	Impact on interpersonal violence in the community,				
1.2	Impact on sexual and gender-based violence (SGBV) in the community or household.				
1.3	Impact on abuse and all forms of violence against children.				
1.4	Impact on collective and intercommunal violence.				
1.5	Impact on armed conflict, state-sponsored violence, or violence by non-state actors.				
1.6	Impact on conflicts over natural resources.				
1.7	Impact on fear of violence in the above categories.				
Do-no-harm	Specified do-no-harm contribution supported by risk mitigation measures:	Risk screening indicators:			
Indirect	Specified indirect peace impact contributions generated by the peace-enhancing mechanisms:				
Direct	Specified direct peace impact contributions generated by the peace-enhancing mechanisms:				
SDGs	Specified contributions to SDG targets and related national development objectives:				
Peace impact dimension 2: Social peace		**Do-no-harm**	**Indirect**	**Direct**	**SDGs**
2.1	Impact on vertical social cohesion (trust between the state and society).				
2.2	Impact on horizontal social cohesion (trust between groups).				
2.3	Impact on equitable access to resources and basic services, income and goods (education, health, housing, work, etc.).				
2.4	Impact on gender and intergenerational equity.				
2.5	Impact on governance of public services and delivery of basic services.				

2.6	Impact on patterns of economic exclusion of marginalised or excluded communities or groups				
2.7	Impact on the free flow of information, transparency, accountability and corruption in public and private institutions.				
2.8	Impact on climate resilience and access to cleaner sources of energy.				
2.9	Impact on structural grievances that cause violence (land rights/titles, access to natural resources, etc.).				
2.10	Impact on cultural identities and local traditions.				
Do-no-harm	Dual material risk analysis and potential mitigation measures:	Risk screening indicators:			
Indirect	Intended peace impact contribution of the investment supported by the theory of change:				
Direct	Intended peace impact contribution of the investment supported by the theory of change:				
SDGs	Intended SDG-related development contribution of the investment supported by the theory of change:				

Peace impact dimension 3: Political peace		Do-no-harm	Indirect	Direct	SDGs
3.1	Impact on diplomatic relations between states and non-state actors.				
3.2	Impact on infrastructure or provision of goods and services that support a formal peace process (defined in a peace agreement or a recognised element of a peace process).				
3.3	Impact on dispute resolution mechanisms (formal or informal) and on perceptions of justice and human rights issues.				
3.4	Impact on transboundary relations (for example, cross border energy or water projects).				
Do-no-harm	Dual material risk analysis and mitigation measures:	Risk screening indicators:			
Indirect	Intended peace impact contribution of the investment supported by the theory of change:				
Direct	Intended peace impact contribution of the investment supported by the theory of change:				
SDGs	Intended SDG-related development contribution of the investment supported by the theory of change:				

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