Finance for Peace

Peace Finance Impact Framework Guidance Notes

Peace Bond and Peace Equity Framework Guide

PART 4

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Introduction to the framework

This section of the guidance sets out recommendations and processes for designing Peace Bond or Peace Equity instruments. It provides issuers and asset/fund managers with essential directions for preparing these Peace Finance investments for Certification.

Why is a Peace Bond and Peace Equity framework needed?

It is important to design and implement a Peace Bond or Peace Equity investment very precisely for several reasons:

1. To align peace investments with the Peace Taxonomy
The framework ensures that all aspects of the investment align with the Peace Taxonomy and Peace Finance Principles, and shows how an investment contributes to peace-positive outcomes. During both the pre-issuance and post-issuance phases, it helps issuers adhere to the Peace Financing Standard.
2. To confer clarity and transparency
Issuers can provide to investors and stakeholders clear well-ordered information that shows how an investment will be managed and what peace-enhancing impacts the issuer expects to achieve. These are essential pre-requisites for creating trust and taking informed investment decisions.
3. To provide an assurance that Peace Finance investments comply with the Peace Finance Standard and other standards
The Certification process describes in detail how the issuer plans to fulfil the Peace Finance Standard and maintain compliance. The investment strategy is evaluated and verified by an external Peace Finance Verifier. Certification qualifies an investment to be described as a Peace Bond or Peace Equity instrument.
4. To enable issuers to create Peace Finance portfolios.
Using a framework model, issuers are able to create portfolios of Peace Finance investments. This streamlines management and enhances efficiency, but also enables issuers to align their portfolios with specific Sustainable Development Goals (SDGs) and international standards such as the United Nations Guiding Principles on Business and Human Rights (UNGPs). Box 1 below illustrates how the Sustainable Development Goals (SDGs) and Peace Finance investments connect with and mutually support each other.
5. To guide issuers and managers
The framework is a guide for issuers and asset/fund managers. It describes the operational steps they need to take to design and successfully implement a Peace Bond or Peace Equity investment. It covers the selection of eligible projects, risk management, impact measurement, and reporting requirements.

Box 1: How the Sustainable Development Goals (SDGs) and Peace Finance investments interconnect

The SDGs are the global community's primary instrument for measuring progress towards development, human wellbeing and peace. It is therefore important to understand the SDGs when implementing Peace Finance strategies. Actions taken to realise one SDG can support or hinder the achievement of others. This is particularly true of SDG 16 which seeks to achieve inclusive societies by promoting peace, justice and strong institutions. SDG 16 is often referred to as the 'enabling goal' because of its broad effects on other SDGs.

SDG 16: Enabler of other Goals

SDG 16 promotes peace, justice and strong institutions, on which the achievement of other SDGs depends. For example, competent governance, transparency and inclusive institutions help to reduce both poverty and inequality.[1] Transparency and accountability ensure that resources intended for poverty reduction (SDG 1) are used effectively and reach intended beneficiaries, while participatory and inclusive decision-making helps to combat inequality (SDG 10).

The bi-directional Influence of SDGs

The effects of SDG 16 on other goals are reciprocal.

- Actions that mitigate climate change (SDG 13) reduce the incidence of conflicts caused by resource scarcity, which supports SDG 16.
- Efforts to build effective justice and other governance institutions under SDG 16 will help societies to manage environmental resources and ensure equitable economic development, which supports SDG 13 and SDG 10 (among others).

Navigating the UN Global Compact's Blueprint

The UN Global Compact's Blueprint[2] helps investors to understand where SDGs interconnect. It shows them how initiatives targeted at other SDGs can help or hinder progress on SDG 16. This tool is particularly useful to investors who want to understand the wider effects of their Peace Finance investments.

If their investment strategies are informed by this information, issuers and investors can ensure that their Peace Bond and Peace Equity investments make positive contributions in several dimensions. Taking a more holistic approach will enhance the effectiveness of each investment and support global efforts to create a sustainable and peaceful future. The Blueprint enables issuers to:

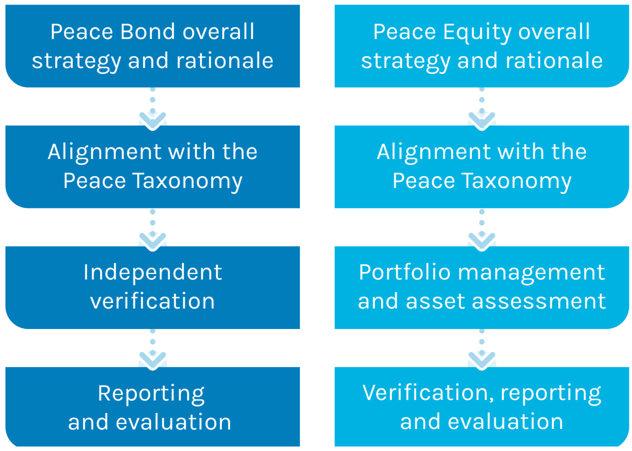
- Identify how specific SDG targets in their investment portfolio support or hinder the achievement of others, including SDG 16.
- Devise investment strategies that achieve direct impacts and also contribute to connected development goals.

1 https://www.sdg16hub.org/system/files/2021-07/Interlinkages%20summary_FINAL.pdf
2 https://blueprint.unglobalcompact.org

Main content of the framework for Peace Bond and Peace Equity instruments

The framework for structuring and managing Peace Bond and Peace Equity instruments takes users through a coherent process. Each step is designed to ensure (and assure) that all peace-enhancing financial instruments align with specified peace objectives and broader sustainability goals. Figure 1 lists the steps in order.

Figure 1: The framework for a Peace Bond or Peace Equity instrument



Each step serves a distinct purpose in the overall development and implementation of Peace Bond and Peace Equity instruments. Here is an overview of the steps:

1. Overall strategy and rationale
   In the first step, an issuer sets the foundational goals and strategic objectives of a candidate Peace Bond or Peace Equity instrument. The issuer describes the instrument's rationale, selects and identifies the peace impact it expects to achieve, and shows how the peace impact fits in the instrument's broader investment or financial strategy.
2. Alignment with the Peace Taxonomy
   In the second step, the issuer makes sure that all the planned investment or financial activities associated with the instrument align with the Peace Taxonomy. Alignment guarantees that the instrument targets and can be expected to achieve specific peace-enhancing outcomes and will not cause inadvertent harms.
3. Portfolio management and asset assessment (Peace Equity) / Independent verification (Peace Bond)
   In this step, the procedure for Peace Equity instruments and Peace Bond investments differs.
   In the case of Peace Equity instruments, the issuer examines management and assessment processes to ensure that all assets remain aligned with the instrument's peace objectives.
   In the case of Peace Bonds, the issuer commissions an independent Peace Finance Verifier to confirm that the investment aligns with the Peace Taxonomy, will not cause harm to people or the environment, meets all the required standards, and can expect to achieve its intended peace outcomes.

4. Verification, reporting and evaluation (Peace Equity) / Reporting and evaluation (Peace Bond)

   Reporting and evaluation are essential processes for both instruments but peace equity instruments include an additional verification process. It ensures that all activities are continually evaluated against their intended peace impacts, and that findings are reported transparently to stakeholders.

   Peace Bonds focus on reporting and evaluating the outcomes and effectiveness of the investment after it is implemented to ensure that the investment remains aligned with its objectives and continues to meet the required standards. Issuers must publish regular and transparent reports that must be accessible to investors and other stakeholders.

Application and impact

If they follow this step-by-step process, issuers can develop, manage and evaluate Peace Bond or Peace Equity instruments and qualify them for the Peace Investment label. The approach's rigour enhances the credibility and effectiveness of the instruments and provides an assurance that they will make the positive contributions to peace that they plan.

At each step, issuers must answer specific questions that confirm the preparedness, alignment, and expected peace outcomes of the instruments. These questions help to refine an instrument's strategy and its compliance with specific norms and standards, and make it possible to assess its overall impact on peace dynamics in the area of investment.

Framework for issuing a Peace Bond

Core elements

Peace Bonds comply with established financial principles but meet additional requirements that enable them to be described as Peace Finance investments. To begin with, they comply with the International Capital Market Association (ICMA) Social Bond Principles and the Sustainability Bond Guidelines, which give a solid foundation to use of proceeds instruments. Here is how a Peace Bond draws on different frameworks:

- It integrates ICMA Principles

  The Peace Bond framework adopts the ICMA Social Bond Principles and Sustainability Bond Guidelines as a starting point. This ensures that Peace Bonds comply with globally recognised standards for issuing bonds. Their structure is familiar to investors and other stakeholders. The ICMA principles guide the allocation of funds that are raised and ensure they are spent on projects that have positive social outcomes. In the case of Peace Bonds, funds are spent on initiatives that enhance conditions for peace.

> It applies the Peace Bond Standard

In the design phase, the issuer adapts the generic bond issuance process to the specific needs of Peace Finance by applying the Peace Bond Standard. The Standard adds pre- and post-issuance criteria that adapt the ICMA use of proceeds framework for use in emerging markets and fragile settings, and makes sure that projects contribute to peace and meet rigorous due diligence and conflict sensitivity standards.

> It complements ICMA criteria

It is important to note that the Peace Bond Standard does not replace ICMA criteria; it complements and strengthens them by introducing additional safeguards and layers of scrutiny. These are necessary when investments are made in volatile environments characterised by conflict or instability. The additional criteria assure issuers and other stakeholders that, even in complex and unstable environments, a Peace Bond will meet ethical and investment standards and reliably target specific peace outcomes.

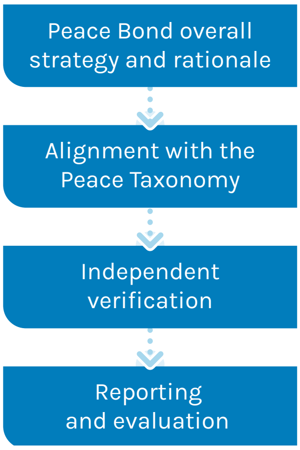
> It aligns with SDG targets

A Peace Bond aligns with relevant SDG targets. As a result, it supports broader national and international development objectives and contributes to global efforts to reduce poverty and improve justice and the environment. Peace Bonds must demonstrate that the projects they finance contribute to achieving the peace objectives they target and do not unintentionally harm people or the environment in other respects.

> It exercises do-no-harm due diligence

Before (but also after) Certification, the issuers of Peace Bonds must conduct thorough due diligence to ensure that all projects a Bond finances comply with do-no-harm principles. If an issuer finds that a project may have negative impacts, it must implement measures to mitigate them. The inclusion of do-no-harm due diligence provides an assurance that Peace Bonds will not cause indirect harms and will not inadvertently exacerbate conflicts, but will actively improve conditions for peace.

Figure 2: The Peace Bond framework



Developing and implementing the Peace Bond framework

Overall strategy and rationale

First, the issuer establishes the overall strategic intent of a Peace Bond. It should link the issuer's broader sustainability strategy to the Bond's specific peace objectives. In addition, the issuer should confirm its strong commitment to peace and to conflict sensitivity and make clear that the Bond is sustainable.

Alignment with the Peace Taxonomy

In this essential step, the issuer must describe how the Bond's proposed projects and assets align with the pre-issuance criteria of the Peace Bond Standard. The issuer must select projects that comply with the Peace Finance Principles and must engage credible Peace Partners. In addition, the issuer should describe the types of project that will be financed, their geographical location, and the peace-enhancing mechanisms the project will employ. If specific projects have not been identified when the investment proposal is published, the issuer should state the Bond's priority sectors and the types of project that will be eligible for consideration.

Independent verification

The issuer must describe how the Bond's alignment with pre-issuance criteria will be verified, and must appoint an independent Peace Finance Verifier for this exercise. Verifiers qualify to be considered if they satisfy the ICMA Guidelines or meet the Peace Finance Verifier standards set out in the Peace Investment framework. This step assures issuers and other stakeholders that all the activities associated with a Peace Bond's activities will meet Peace Finance standards.

Reporting and evaluation

The issuer must commit to transparent and comprehensive reporting and evaluation. It must:

- Publish the Peace Bond framework and a detailed list of the projects and assets linked to it.
- Publish and make available reports that set out the roles, responsibilities and interests of all stakeholders.
- Apply qualitative and quantitative indicators to measure the impact of the Peace Bond investments and adopt clear methods for assessing impact.
- Describe any changes to the strategy or framework that become necessary because of an evaluation's findings or feedback.

Reporting and evaluation are essential. They permit the issuer to continuously improve the peace impact of its Peace Bond investments. For other stakeholders, they sustain confidence in the integrity of Peace Bond investments.

Implementation and management

Throughout a Peace Bond's development and implementation, the issuer must ensure that the use of proceeds is managed in a manner that is conflict sensitive and must apply the dual materiality principle to identify and mitigate any potential adverse impacts. Management of the proceeds must be inclusive and transparent and must align with the Bond's peace-enhancing objectives.

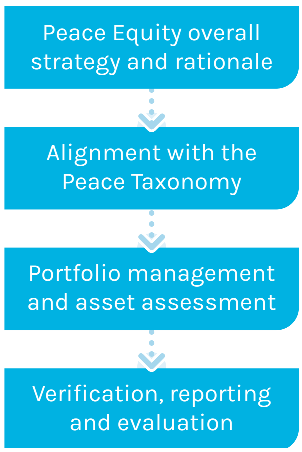
These steps assure the issuer, investors and other stakeholders that a Peace Bond mobilises capital effectively to support projects that significantly improve conditions for peace. The approach ensures that all parties have clear expectations, and understand and can measure the peace impacts of the investment. These assurances enhance the effectiveness, viability and credibility of the Bond.

Framework for issuing a Peace Equity instrument

Core elements

Peace Equity instruments comply with the five key building blocks and nine principles of the Operating Principles for Impact Management (OPIM). The principles apply throughout an investment's lifecycle and ensure that peace outcomes and conflict-sensitive considerations are integrated at every stage (strategy, origination and structuring, portfolio management, exit, and independent verification). The nine principles do not prescribe specific tools, however. To establish and manage Peace Equity funds or portfolios, issuers apply the Peace Equity Standard. This ensures that a Peace Equity instrument always pursues its intended peace impacts.

Figure 3: The Peace Equity framework



Developing and implementing a Peace Equity instrument

Overall strategy and rationale

The strategy for a Peace Equity investment must align with its peace objectives and broader impact goals. The first impact principle sets the strategic objective of a Peace Equity portfolio or fund. Fund managers are required to ensure that its peace objectives are consistent with relevant SDGs and with national development objectives. This ensures that an investment will contribute positively to broader societal and developmental goals, which reinforces its legitimacy and impact.

Alignment with the Peace Taxonomy

To align a Peace Equity project and its assets with the Peace Taxonomy, fund managers must ensure that it has a theory of change and a peace investment strategy. The strategy must include a comprehensive do-no-harm due diligence process tailored to the scale of the fund or portfolio. The fund manager should show how each asset in a portfolio fits into and complies with the Taxonomy. To provide transparency and accountability, the manager must describe the issuance process and the interests and role of each stakeholder.

Portfolio management and asset assessment

At portfolio or fund level, the fund manager must describe the impact management process, specifying the roles and responsibilities of each stakeholder involved in impact assessment and management. The project should encourage collaborative processes that support inclusion and build trust. The fund manager should also set out the indicators that will be used to measure impact, and any external assistance that will be required, and justify the choices made against best practices and industry standards. Finally, the terms and procedures for exit should be described. An assurance should be given that ethical as well as investment standards will be maintained throughout the investment lifecycle.

Verification, reporting and evaluation

The fund manager must establish an independent verification procedure. It should comply with pre-issuance criteria, state who will conduct verification, and clarify how the verifier will assess whether the criteria have been met. The fund manager must report any changes to the Peace Equity instrument's framework that result from independent verification during the pre-investment stage. Further, the fund manager must report annually on the progress of projects funded by the Peace Equity instrument, and must describe the data and methods used. Reports should consider the communities that projects affect and describe any actions that must be taken to adjust the framework or the strategy in the light of feedback.

The evaluation must comply with the Peace Equity Standard's post-investment criteria. It should provide an assurance that investments continue to comply with their peace objectives.

By rigorously following these procedures, fund managers will ensure their frameworks for Peace Equity investments yield financial returns and contribute to peace and stability in the societies in which they are deployed.

Understanding Certification

How do the framework's various elements support the Certification process?

The Peace Bond and Peace Equity investment framework (pictured in Figure 1) aligns them with the Peace Taxonomy and the Peace Finance Standard, which in turn enables them to be certified as Peace Finance instruments. The framework guides the formation of a Peace Bond or Peace Equity investment's strategy but also ensures that all its operational processes contribute to its chosen peace objectives.

Confirming alignment

An issuer confirms that its Peace Bond or Peace Equity investment aligns with the Peace Taxonomy. This is an assurance that the investment actively supports peace-enhancing objectives. An investment must meet the requirements of the Peace Taxonomy and the Peace Finance Standard before it can be certified as a Peace Finance instrument.

Comprehensive strategy and process description

The issuer describes the instrument's investment strategy and how that strategy will be implemented to meet the instrument's chosen peace objectives. The description sets out how the investment will be managed, the criteria that will be used to select projects, and the mechanisms that will be used to monitor and evaluate. These elements mark out a clear path for achieving the intended peace impacts.

Verification and evaluation

The above documents are the primary sources of information for the independent Peace Finance Verifier before Certification and for evaluators after Certification. The Peace Finance Verifier assesses whether the Bond or Equity instrument meets the standards of the Peace Taxonomy and the Peace Finance Principles and can be certified. After Certification, evaluators assess whether the investment has implemented its strategy, remained compliant with all the standards required for Certification, and made progress towards achieving its peace objectives. If their answers are positive, the project retains its Certification.

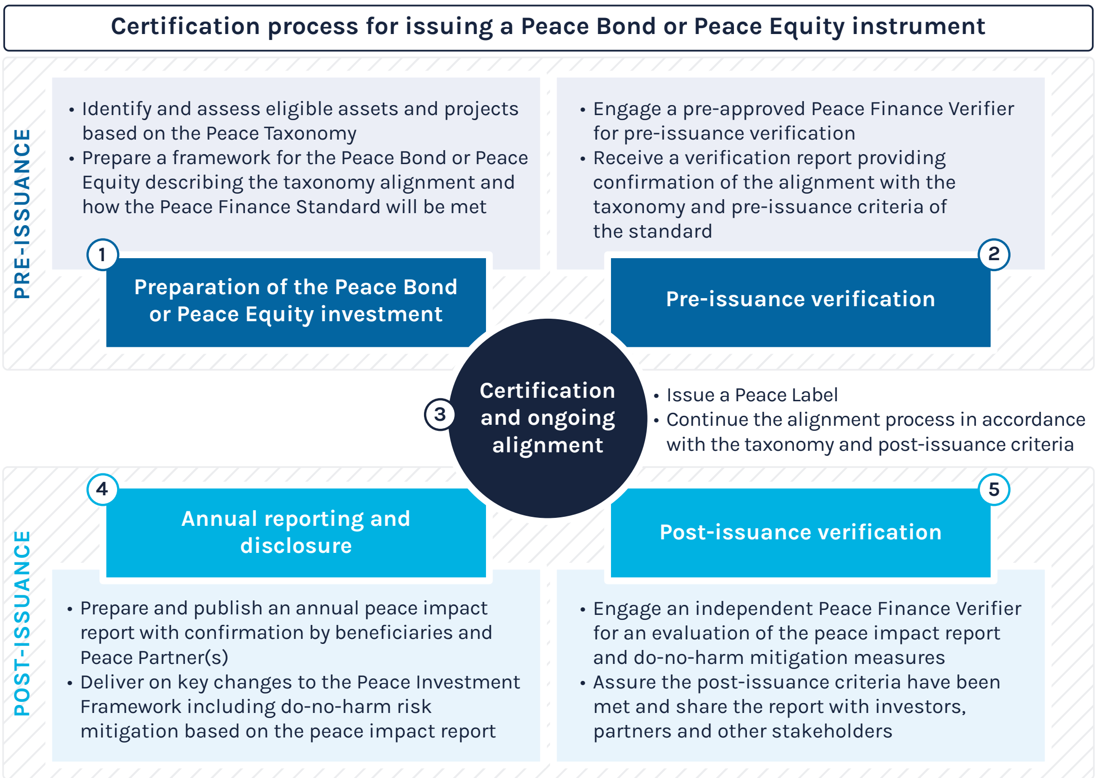
Support for pre- and post-issuance Certification

These procedures underpin and justify the initial Certification at the time of issuance and continued Certification afterwards. They assure the issuer and all stakeholders that a Peace Bond or Equity instrument will continue to align with the Peace Taxonomy and with the Peace Finance Principles, and continue to seek its chosen peace objectives, throughout its life span.

Certification of a Peace Bond or Peace Equity instrument

The five stages of the Certification process spread across the full life cycle of a Peace Bond or Peace Equity instrument (see Figure 4). Reviews and feedback are solicited at each stage, ensuring that every investment continues to comply with both the Peace Taxonomy and the Peace Investment Principles.

Figure 4: The five phases of Certification



Phase 1: Preparation of a Peace Bond or Peace Equity instrument

Involvement of Peace Partners

The issuer starts by aligning the projects and assets of a potential Peace Bond or Peace Equity instrument with the Peace Taxonomy, and confirms that it complements the issuer's overall sustainability strategy. Part 3 of these Guidance Notes describes the Peace Taxonomy's eligibility rules. The appointment of a Peace Partner adds to the credibility of Taxonomy alignment.

The role of Peace Partners

Peace Partners identify the methods, approaches, and tools that an issuer can adopt to achieve peace impacts. In the first steps of Taxonomy alignment, they assist the issuer (or investees) to carry out peace and conflict analysis, actor mapping and other essential activities. The detailed and context-specific information they collect enables the issuer to design a Peace Bond or Peace Equity instrument, define its strategy, identify realistic peace objectives, and determine that these comply with the Peace Taxonomy and the Peace Finance Principles. In some instances, a Peace Partner might invite a prospective issuer to prepare new peace-aligned investments. Partners are necessarily well-informed about social, economic and political conditions in the location of investment, or are in a position to become well-informed. By collaborating with a Peace Partner, an issuer can determine with more confidence that its proposed investment activity will not do inadvertent harm and will support peace.

Conducting a locally-informed peace and conflict analysis

A locally-informed peace and conflict analysis delivers asset-specific conflict analysis and peace mapping, which are essential to understand local needs, capacities, assets, and resilience, and to identify investment activities that should be excluded.

Implementing a peace and conflict analysis

International development organisations frequently commission peace and conflict analyses. Many guidelines describe how they should be done. Essentially, they assess the causes and drivers of conflict in specific locations. If possible, they base their findings on information provided by people on the ground (primary sources) and use participatory methods (such as focus groups, interviews or surveys). Studies based on published reports (secondary sources) are generally of limited value to an issuer who is designing peace-supporting investments. It is important to find a Peace Partner who has close ties in the local context, and who is equipped to analyse complex social environments and investment risk.

More advanced analyses identify the peace dynamics, capacities, and sources of resilience in communities. Practically, conflict analyses underpin a risk analysis of the setting, pinpoint levers of change and key issues, and enable the issuer to develop a theory of change and an investment strategy and identify opportunities to achieve peace impacts.

Transparency

Peace Partners and other consultants who undertake a participatory peace and conflict analysis should clearly explain the purpose of their inquiries and who has commissioned them to the communities and others they consult. Partners should manage community expectations carefully and avoid making promises before a potential Peace Finance investment has been certified. The peace and conflict analysis is just the first step in a long process, and it is vital to retain public trust and confidence in both the Peace Partners and the issuer.

Conflict sensitivity

A conflict analysis enables issuers to design investments that are conflict-sensitive, whether they address conflict directly or indirectly or aim to do no harm. A conflict-sensitive investment is one that takes into account the context in which the investment is located and its dynamics (including causes of conflict, key actors, local communities' histories, factors of resilience, relations with government, social inequalities, etc.). An investment should strive to remain conflict-sensitive throughout the investment cycle, from planning, through implementation, to monitoring and evaluation (see Table 1).[3] This will ensure that investments remain mindful of the effects they have on conflict dynamics and on conditions for peace.

3 International Alert et al, (2004), 'Applying Conflict Sensitivity at Project and Programme Level', in International Alert et al, 'Conflict-Sensitive Approaches to Development, Humanitarian Assistance and Peacebuilding: A Resource Pack', Ch.3.

Table 1. Conflict analysis informs conflict sensitivity

Conflict sensitivity - why?	Conflict analysis – how to do it
To understand the social, political, economic (and natural) environment in which the investment will be made.	Conduct a conflict analysis and update it regularly, guided by Peace Partners and other experts.
To understand how the investment will affect the local environment and be affected by it.	Apply the analysis to the investment's projects and assets, at every stage of its life cycle. Build in do-no-harm assurances and apply screening indicators.
To apply the knowledge acquired, both to avoid doing harm and to maximise benefits and conditions for peace.	Plan, implement, monitor and evaluate the Peace Bond or Peace Equity investment in a conflict-sensitive manner. Adjust the peace investment strategy based on the impacts reported.

Mapping stakeholders

Actor or stakeholder mapping is a component of peace and conflict analyses. It includes all the individuals, groups, and institutions who are engaged in or affected by violence and conflict: those who contribute to conflict; those who are harmed by or benefit from conflict; and those who act to moderate or contain conflict. Where possible, mapping also identifies institutional capacities for peace and shows how an investment will influence them.

The issuer should ask its Peace Partners to map all relevant actors in the course of doing the peace and conflict analysis. They should map those the investment will affect directly, but also those whom it may affect indirectly. Actors should be mapped at various levels, to identify who the investment should involve and consult at local, regional and national level. Mapping should focus on how conflict and conflict dynamics influence actors' interests, goals, relationships, and capacities.

Actors cannot be mapped well from a distance; this is especially true for actors at local or community level. The Peace Partner, potentially accompanied by a representative of the issuer or an investee, should therefore visit communities that are likely to be affected and consult key local decision-makers and community leaders. The mapping should establish the demographic composition of the community. Visits and consultation provide information that issuers need in order to complete do-no-harm tests and prepare a theory of change and an investment strategy. To meet the Peace Finance principle of intentionality, issuers and Peace Partners should ensure that they do not instrumentalise relevant individuals or communities or ignore their interests or concerns.

Understanding the local political economy and how a proposed investment will affect the context

A peace and conflict analysis will normally analyse the national and local political economy in order to identify regional and national drivers of conflict and their local effects. To provide such an analysis, Peace Partners need to understand how the investment will affect and be affected by local patterns of economic activity, control over resources, competition, power relations and political dynamics, wider elite and patronage structures, and possibly cross-border issues. A political analysis of this kind complements and deepens the ethnographic, sociological, and relational content of a standard peace and conflict analysis.

Other peace-enhancing mechanisms

Peace-enhancing mechanisms are simply tools, approaches, methodologies and programming practices that can be used to inform, develop and implement an investment strategy. Conflict and peace analysis is one such tool. They should be context-specific and relevant to the investment. The cost of a given mechanism will depend on the resources the tool deploys, the strategy, the type of investment, and the local context.

Box 2 lists peace-enhancing methods and approaches employed by development and peacebuilding programmes. Most of the methods in the left hand column are used to build partnerships and trust with local communities and other stakeholders. The right hand column lists interventions that peacebuilding actors use to achieve specific purposes.

Box 2: Peace-enhancing methods and approaches

Transversal peace-enhancing methods that issuers and investors can employ	Intentional peace interventions used by peacebuilding actors
Availability Sufficient Water	Inter-religious dialogue
Continuous Supply	Formal political mediation between leaders
Accessibility Physical	Informal mediation and discreet diplomatic channels
Economic	Restorative justice and reconciliation approaches
Non-discrimination	Disarmament, demobilisation and reintegration (DDR)
Information	Dealing with the past and transitional justice initiatives
Acceptability Consumer	Participatory and inclusive governance approaches
Cultural	Non-violent resistance training
Quality	Community psychoeducation
Safe Water / Water Quality	Sociotherapy
Prevent, Treat and Control Waterborne Diseases	Nonviolent communication training
	Socioemotional skills training
	Cognitive-behavioural approaches
	Narrative approaches
	Psychosocial support
	Peace negotiation
	Human rights protection
	Security sector reform
	Institutional reform
	Gender equality and inclusion and positive masculinity
	Deconstructing stereotypes
	Youth development, mentoring, empowerment and inclusion

Box 3. What do enhanced due diligence and peace-enhancing approaches cost?

In emerging and frontier markets, it may be hard to establish the cost of due diligence and risk mitigation systems, making it difficult to allocate investment funds effectively. Quantitative cost-benefit analyses often fail to pick up financial losses caused by disputes or the costs of reputational damage, litigation, and other indirect financial risks. Nor do they fully reflect the benefits of positive social impacts that result from higher operational efficiency or good relations with local communities.

Data on the cost of social and environmental risk mitigation do exist, however, and can be compared with losses caused by project delays and disputes. A 2021 ODI and TMP Systems analysis of 137 development finance institution investments in Africa and Asia found that a strong business case can be made for investing in actions that mitigate social risk. The costs of these actions typically amount to 2% of overall project expenditure (an average cost of about USD 10 million per project).[4] The potential financial losses that were mitigated or avoided through these actions were conservatively estimated to amount to USD 25–40 million per project (24% to 37% of average NPV). In particular, these actions helped to avoid delays caused by disputes between investors and local communities.

Qualitative evidence suggests that social dialogue with communities is the most effective risk mitigation strategy. The study recommended that investors should invest time and resources in stakeholder mapping, local community consultation, and needs-based community development programmes; that capital should be structured to allow for early and patient engagement with local communities; and that companies should reduce long-term risks rather than seek to maximise short-term profit. Currently, nevertheless, systems that support social due diligence and dialogue are still immature and lack proper processes for standards compliance.

The theory of change and the investment strategy

Having mapped the actors and completed a peace and conflict analysis, the issuer should apply the information it has acquired to prepare a theory of change and an investment strategy. Inter alia, these documents identify the indirect and direct peace contributions the investment will make. This process helps the issuer to determine whether the investment will contribute to political peace, social peace, or safety and security.

Reassessing eligibility and ensuring compliance

The issuer is then required to confirm that the investment proposal, including its assets, satisfies the requirements of the Peace Taxonomy and does not fall foul of the Taxonomy exclusion criteria. (See Part 3 of the Guidance Notes.) Screening indicators and do-no-harm due diligence will help the issuer to identify any direct or indirect harms the investment might cause and to take steps to mitigate such harms.

4 Feyertag, J., Bowie, B. (2021), '[The financial costs of mitigating social risks: costs and effectiveness of risk mitigation strategies for emerging market investors](#)', ODI

Creating a theory of change (ToC)

To qualify as a Peace Finance instrument, an investment must include a theory of change. This describes how the investment will achieve specified direct or indirect peace impacts that match sub-dimensions of the Peace Taxonomy. The theory of change underpins the peace investment strategy that the issuer is also obliged to prepare, and helps the issuer to select appropriate peace-enhancing mechanisms.

At its simplest, a theory of change states that "We believe that, if (the investment) does X (action), it will achieve Y (progress towards peace)". For example, "If our investment generates jobs for unemployed youth, fewer youth will be recruited into violence". A well-articulated theory of change advances a testable hypothesis that sets out how a specific peace investment strategy and specific peace-enhancing assets will contribute to specific intended peace outcomes.

Assumptions and risks

A comprehensive theory of change should explain the risks and assumptions that underpin the links it posits between activities, outputs, outcomes and impacts. Transparency is essential to the integrity of dual materiality risk analysis.

For guidance on drafting theories of change, the IRIS+ system by GIIN provides a useful checklist. (See Box 4.)

Box 4. The IRIS+ theory of change checklist

An issuer can use this checklist to clarify its impact priorities, define its strategic objectives, and set out a path to reach them. In applying the checklist, it should build key assumptions into its approach. This will help to make clear the logic that has been followed and identify risks that might need to be managed.

Describe the problem your investment or business strategy is trying to solve.
Consider the main problem you want to solve, and also the long-term goal you want to accomplish. To help frame the problem, consider referencing the SDGs or generally accepted impact themes.

Describe the key stakeholders you aim to affect through your strategy.
Consider those you seek to benefit. Stakeholders (people and/or the planet) include those who are most affected by the issues your investment strategy or business aims to address. Be as specific as possible.

Describe the entry points through which you will influence or benefit key stakeholders.
Consider whether your entry point is predominantly investment assistance and support; intellectual assistance; a product or service; other forms of assistance; or a combination of these. Be very clear: this is how you think you can most directly create impact.

Describe the steps that need to be taken and the assets you will allocate to address the problem and create impact.

Consider key actions that you will take as part of your strategy to create impact. Consider your expectations and those of your stakeholders. Ideally, you will consult your stakeholders or experts to ensure that your plan aligns with the needs of your target stakeholder group(s). Try to make your actions as specific and action-oriented as possible. Identify the assets that you are prepared to allocate to address the problem: these might include capital, business ideas, capacity building support, partnerships, or other inputs.

Describe the limits of your theory of change.

Consider your constraints. These could be factors outside your control or parameters that limit what you or your organisation is able or prepared to do. Consider the risks to your strategy. Are you trying an untested idea? Do you lack evidence to support your strategy? Are you operating in an unstable environment? Are you relying on untested partners to execute your plan? Etc. Consider the timeframe within which you plan to produce results? Is it realistic? Have you accounted for external factors, the scale of the problem, the capacity of partners and other variables that might affect your ability to deliver to deadline?

Describe the short- and long-term change(s) that you see as your goal.

To specify your goal(s), first consider what the immediate results or outcomes should be. List the key near-term outcomes that your actions should lead to: these are the pre-conditions that you need to realise to achieve your goals. Next consider the long-term results or outcomes that you expect to achieve.

Describe your strategy's expected measurable effects (positive and negative, near- and long- term).

Consider what tangible results you expect to achieve set against your theory of change. Can you explain to others exactly how your investment or enterprise will meet your impact expectations? Is each stage clearly understandable? Are you on the right path or do you need to pivot?

Measurable effect 1

> What are the wider benefits of this strategy?
> What are the negative effects of this strategy?

Measurable effect 2

> What are the wider benefits of this strategy?
> What are the negative effects of this strategy?

Measurable effect 3

> What are the wider benefits of this strategy?
> What are the negative effects of this strategy?

Source: https://iris.thegiin.org/theory-of-change-checklist

Issuers should consult relevant stakeholders when they design a theory of change, both to identify risks and clarify needs and to ensure that all parties fully understand the investment's intended peace impacts and the reasoning that governed their choice. To inform the peace investment strategy appropriately, a theory of change should address:

1. The impact on peace
   It should say how the investment will impact peace and why a specific population or group has been targeted.

2. Risk management
   It should say how specific peace-enhancing actions will address specific risks and what assumptions lie behind the choices made.

3. Adaptability
   It should say how the investment will respond to specific risks identified by the conflict and peace analysis (such as spoilers, loss of trust, violence, changes in the context among key stakeholders, etc.).

Especially in fragile and conflict-affected areas, the context is likely to evolve. When this occurs, the investment and its peace strategy (and possibly its theory of change) will need to evolve too. Otherwise, the investment may face unintended consequences that cause harm. Issuers should also remember that the investment itself changes the context: it may alter the social, or political and economic environment in unexpected ways that need to be addressed.

The issuer and Peace Partners can address unintended effects by adapting the investment and its strategy, or by taking specific actions to put the investment back on track. They may:

- Take new peace-enhancing actions
  The issuer or the investment can work with existing or new local partners (community leaders, civil society actors, government officials, international organisations) to devise and implement remedial actions.

- Extend or adopt new peace mechanisms
  In cooperation with partners, the issuer or the investment may employ new or familiar peace mechanisms to address the issues.

To prepare for such situations, the issuer must make sure during the preparation phase that the investment strategy anticipates potential unintended harms and sets out fall-back plans. Ideally, the issuer and Peace Partners will respond rapidly to dual materiality concerns from the investment's inception. To do so, they need to pay consistent attention to:

- The impact of the investment's activities on local communities;
- The impact of local conflict on the investment.

Responsiveness can be achieved by establishing effective and accessible grievance and accountability mechanisms very early on. Peace-enhancing investments are more likely to avoid and manage the risk of conflict and prevent disruptions to activity if they show they are accountable, listen to complaints, and remedy problems swiftly.

Box 5. Provision for exit

Even a well-designed Peace Finance investment that continues to satisfy all criteria may find that it is unable to operate in conditions that have radically altered. In such circumstances, the issuer and investees may need to exit. The issuer may also decide to cancel or exit if the independent evaluator judges that the investment cannot be realigned with the Peace Taxonomy or the Peace Finance Principles. Recognising that they need to prepare for worst-case scenarios, the issuer and Peace Partners should:

1. **Identify exit triggers.** The issuer should define in what circumstances an exit would be necessary. These might include economic, political, social, or environmental changes that make the investment unworkable or directly harm local communities.
2. **Prepare for exit due diligence.** The issuer should put in place a due diligence procedure for implementing an exit decision. Any due diligence process should comprehensively examine an exit's potential impacts on local communities and beneficiaries.
3. **Design an exit plan.** The issuer should design a clear, actionable exit plan that sets out how an exit would be achieved. The plan should describe what the investment would do to:
   - Communicate with all stakeholders, including local communities and Peace Partners;
   - Mitigate the harmful effects of an exit on local communities;
   - Implement strategies to ensure that, as far as possible, benefits of the investment are sustained.
4. **Prepare stakeholders early.** The issuer should discuss the exit strategy with stakeholders while the project is still being planned to ensure that all parties understand that an exit is possible, as well as its conditions and procedures.
5. **Monitor and review.** The issuer should regularly review the conditions and triggers for exit. Monitoring should be continuous and should respond to changes in circumstance.

By making provision for exit and involving stakeholders, issuers can manage risks better and reduce harm to communities. Because they are committed to being responsible and responsive, Peace Finance investments have a duty to prepare for worst case outcomes.

Preparing the investment strategy and its validation

Issuers should co-create the investment strategy with the Peace Partner, or ensure that the Peace Partner validates it. It may be helpful to borrow from approaches used by international development and peacebuilding organisations. Issuers should also consult relevant individuals, community leaders, local or national government authorities, and international actors who were identified during mapping. When preparing the strategy, it is especially important to consult and involve local communities and their leaders. If possible, the latter should be invited to participate in the design and validation process. (See Box 5.)

The purpose of these processes is to generate a wide consensus in support of the project design and its peace objectives. The consultations that precede validation should communicate to all actors involved the key features of the investment, its timelines and peace objectives, and its expected impacts on people, land, the economy and services. To the extent that agreement can be reached around these issues, all stakeholders will be in a better position to work together constructively and share appropriate expectations.

Finally, the issuer and other investment partners need to calculate what capabilities and financial resources will be required to implement the strategy throughout the investment's life. The issuer should attach a budget to the strategy, which should be compatible with the theory of change. If appropriate, the budget should include some unallocated funds that can be used to address unexpected circumstances. The duration of the Peace Partners' involvement will depend on the project or investment. In some cases, Partners could remain involved for three years or more; to manage key risks, large infrastructure investments may need to monitor the strategy over a long period.

Box 6. Adopting a qualitative process to develop an inclusive peace strategy

To be successful, a Peace Finance investment needs to involve relevant communities early on, during the design and planning phases. Their participation will ensure that the investment's theory of change and its peace objectives are relevant. Issuers should consider a wide variety of possible ways to involve and establish relations of trust with local communities. Options include participatory governance, benefit-sharing mechanisms, multi-track dialogue between local and national government representatives, and cooperative decision-making. These methods encourage local participation, inclusion and buy-in, which are critical to an investment's success. They also align with Peace Finance Principles 3 and 4.

The exact choice of tools and approaches, and their complexity, will depend on the investment's scale and nature. For example, an investment that focuses on SME business development and microfinance might simply adjust its approach to lending. It might review the purposes of recipient businesses, their geographic location, their links to ethnic identity, gender, urban/rural ownership, etc. and other factors that influence peace and conflict dynamics in the area.

By contrast, a large infrastructure project that has to acquire land and will unavoidably cause disruption needs to spend more and do more. To earn local support, it will need to invest in community programmes and participatory processes of decision-making. According to Sonno et al., land-intensive investments very frequently cause conflict.[5] If they do not make a substantial effort to win the confidence of affected communities, they may face operational and political risks that can threaten the investment's viability. Inclusion and participation are necessary because they are ethical but also because they mitigate regulatory and due diligence risks.

5 Sonno, T., Zufacchi, D. (2022), '[Peace Impact of Private Investments: Evidence from Multinationals Investments in Africa]', Finance for Peace initiative

The role of key performance indicators

When the issuer and its Peace Partner prepare the theory of change, they should select key performance indicators (KPIs) to identify, track and evaluate the progress of the investment towards its direct or indirect peace impacts. KPIs should align with relevant sub-dimensions of the Taxonomy but should also take account of the context (described in the conflict and peace analysis). The issuer and Peace Partner should identify at least one direct or indirect impact indicator for each targeted sub-dimension of the Taxonomy. Do-no-harm screening indicators should monitor the other sub-dimensions. We discuss design and use of peace impact KPIs in more detail below.

Aligning the peace investment strategy with the Peace Finance Principles

The issuer must align a Peace Bond or Peace Equity instrument with the Peace Finance Principles. This is done by demonstrating that the investment adheres to the Peace Finance Standard. The Peace Finance Standard establishes norms that underpin the investment's ethos and approach. It remains relevant throughout the life of a Peace Finance investment, since compliance with it is required for Certification and, every two years, for re-Certification after evaluation.

Phase 2: Pre-issuance verification criteria

During the second phase of the Certification process, the issuer appoints an independent Peace Finance Verifier to confirm that the Peace Bond or Peace Equity instrument meets all the pre-issuance criteria for Certification. A verifier should be involved in this phase, and, after the investment is certified, whenever it is subsequently evaluated (for re-Certification).

Box 7. Who can be a Peace Finance Verifier?

Qualified Peace Finance Verifiers may be organisations that currently provide verification services for other categories of sustainable investment, independent organisations that have a development or peacebuilding focus, individual consultants, or advisers. The verification of Peace Finance investments must be done by pre-approved verifiers.

Qualification criteria for approved verifiers

An approved Peace Finance Verifier must demonstrate proficiency and experience in the following key areas:

Capital market expertise

The verifier must be proficient in the issuance of debt instruments in capital markets and have experience of managing funds in issuing organisations.

Verification experience in fragile and conflict-affected regions

Verifiers must be able to demonstrate experience of verifying projects in regions characterised by fragility and conflict. They must have a proven track record of understanding and addressing the complexities and challenges inherent in such environments.

Familiarity with international standards and socio-political dynamics

Verifiers must have a deep understanding of international standards and frameworks relevant to fragile and conflict-affected countries, and a nuanced comprehension of the socio-political dynamics of such contexts.

Knowledge of the Peace Finance Impact Framework and the Peace Finance Standard

Verifiers must possess a thorough understanding of the Peace Finance Impact Framework and the Peace Finance Standard, ideally obtained through a specialised training programme provided by Finance for Peace.

Assurance services expertise

Verifiers must be able to provide assurance services that align with the International Standards on Assurance Engagements (ISAE 3000).

Additional qualifications

Depending on the specific nature of the investment, specialised knowledge of climate change and its intersection with conflict, or expertise in the triple nexus approach (to humanitarian action, development, and peacebuilding) may be required. Such specialised knowledge ensures that verifiers can adequately assess and address the complex interdependencies involved in Peace Finance investments.

The ICMA Guidelines for External Reviewers[6] are commonly used to review green, social, sustainability, or sustainability-linked bonds and provide sound criteria for selecting and appointing Peace Finance Verifiers. These guidelines establish ethical and professional standards that complement the ICMA Principles and other relevant frameworks, such as the Climate Bonds Standard Assurance framework.

Requirements for verification

Before a Peace Bond or Peace Equity investment can be certified, a Peace Finance Verifier must confirm that it complies fully with the Peace Finance Standard and meets all other qualifications for Certification. The issuer must commission an independent Verifier to carry out verification.

Verifying the investment's integrity

The Peace Finance Verifier checks the Peace Bond or Peace Equity framework against the pre-issuance criteria outlined in the Standard.

Ethical and professional principles

Peace Finance Verifiers should adhere to the following five principles:

1. Integrity
2. Objectivity
3. Professional competence and due care
4. Confidentiality
5. Professional Behaviour.

Ideally, verifiers should be familiar with the ICMA Principles and Guidelines and the Impact Principles.

The components of verification

A separate guide will cover verification. The core components of a Peace Bond or Peace Equity instrument that a Peace Finance Verifier checks are listed below. An investment must comply with every element before it can be labelled a Peace Bond or Peace Equity investment.

- Alignment with the Peace Taxonomy.
- Compliance with partnership requirements (see Part 5 of the Guidance Notes).
- Active participation of Peace Partners in conflict analysis, design of the theory of change, and the investment strategy.
- Inclusive consultation of local stakeholders in the conflict analysis, the investment strategy and choice of KPIs (see the section on monitoring and evaluation).
- Compliance with the Peace Finance Standard.
- Compliance with the Peace Finance Principles.

6 ICMA, 'Guidelines for Green, Social, Sustainability and SustainabilityLinked Bonds External Reviews,' 2022

When a Peace Finance Verifier should be appointed

Users should not appoint a Peace Finance Verifier until documents for the Peace Bond or Peace Equity instrument have been designed and all pre-issuance criteria (except verification) have been met. Where full compliance has not yet been confirmed (shown by an orange traffic light: see Table 5), the Bond cannot be certified under the Peace Finance Standard. Such projects should remain on the nominated list or registry until they meet the criteria. (See also Phase 5 below.)

Phase 3: Certification and ongoing alignment

The Peace Finance Standards Committee (PFSC)

The Peace Finance Standards Committee (PFSC) approves Peace Finance Verifiers and Peace Partners, and certifies investments that seek to be recognised as a Peace Finance investment under the Peace Finance Standard. [7]

Ongoing alignment

After an instrument has been certified as a Peace Finance investment, it must continue to meet Certification standards and remain peace-enhancing. To ensure that this is so, the investment is periodically evaluated; remedial actions must be taken if for any reason its status as a Peace Finance investment cannot be re-certified. Evaluations are conducted by an independent Peace Finance Verifier, and require inputs from stakeholders, including affected communities. These procedures ensure that Peace Finance investments continue to comply with Certification standards, remain aligned with their peace-supporting objectives, and do not become ineffective or cause harm.

Key components of post-Certification compliance

To merit re-Certification, a Peace Finance investment must demonstrate to the independent evaluator that:

> It aligns with the Peace Taxonomy

A Peace Finance investment must continue to align with the Peace Taxonomy. If an evaluation finds that an investment is no longer aligned, it cannot be re-certified until it has been realigned.

> It addresses complaints and grievances

A Peace Finance investment must establish complaint and grievance mechanisms that are accessible to stakeholders, including affected communities. It must address complaints promptly and adequately.

> It operates inclusively

A Peace Finance investment must involve and consult stakeholders, including affected communities, in its planning, operations and decisions. It should establish relations of trust with stakeholders, including affected communities. (Peace Finance Principles 3 and 4.)

7 More information about the Peace Finance Standards Committee is available at www.financeforpeace.org

> It invites feedback and manages risk

To manage risk and keep its strategy on course, a Peace Finance investment must continuously seek and respond to feedback from partners and stakeholders, including affected communities. (Peace Finance Principle 2.)

> It delivers peace-positive impacts

A Peace Finance investment must deliver peace-positive impacts, including the peace impacts that it listed in its theory of change and its strategy. (Peace Finance Principle 1.)

Adaptation and strategy modification

Because a Peace Finance investment is likely to be operating in a fragile and changeable environment, its strategy should show how it will respond to unexpected changes. Taxonomy alignment should not be seen as a 'set-and-forget' mechanism; an issuer must expect that it may have to alter a project's direction and strategy. A Peace Finance investment should be able to act in an agile way and work closely with trusted partners to respond to emerging risks, new actors, evolving needs, or other important changes in the local context.

Because the core strategy allows for risk, including unpredictable risk, Peace Finance investments can adapt and remain authentically peace-supporting. Box 7 discusses accompaniment.

Box 8. Post-Certification accompaniment and partner support to Peace Finance investments

Peace Finance investments benefit from the support of partners and stakeholders before Certification and throughout their life. Close collaboration with a Peace Partner enables the investment to monitor its contributions to peace and identify (and prevent) unintended harms and emerging risks. Peace Finance Verifiers provide assurance that the investment continues to merit Certification and complies with all required standards. Communication with affected communities enables the investment to improve its planning and decisions, identify problems, and focus its objectives on real needs.

Key elements of accompaniment

Continuous assessment
The issuer and the Peace Partner should regularly assess the investment's peace impact and adapt the strategy as needed.

Early warning
The investment should receive and respond quickly to warnings of potential harms and new risks.

Frequent consultation
The investment should meet the Peace Partner frequently when risks increase or the situation is volatile.

Trust
The investment should sustain strong, honest and confidential relationships with partners.

Monitoring impact

The issuer and Peace Partners need to monitor an investment's progress. Key performance indicators (KPIs, or milestones) offer one way to do so. Issuers and Partners will want to retain some flexibility, but the techniques adopted by issuers of Development Impact Bonds (DIBs) provide examples of good practice (see Box 8). All approaches to measurement should fund the collection of representative baseline data. Monitoring information should be included in disclosure and results reports.

To ensure that progress is tracked effectively and transparently, a monitoring plan should set out how data will be collected, when data will be collected, and how data will be analysed. Methods should comply with the Peace Standard's disclosure requirements for impact reporting.

Key elements of monitoring

> Prepare a clear monitoring plan

A Peace Finance investment should prepare a detailed plan that sets out how objectives will be monitored using KPIs or other techniques.

> Collect baseline data

The investment should collect (and fund the collection of) baseline data. This information is necessary to track progress over time.

> Collect data periodically

The investment should select the methods it will use to collect and analyse data, and how often it will collect data to monitor progress during the project's lifecycle.

> Disclose and report

A Peace Finance investment will ensure that its data collection methods meet the Peace Finance Standard's disclosure requirements for impact reporting.

If they follow these steps, investors and partners will be able to monitor the investment's progress and impact accurately and report the results transparently.

Box 9. Measuring the impact of Development Impact Bonds: best practices

Development Impact Bonds (DIBs) are innovative financing mechanisms designed to tackle complex social or development challenges in education, healthcare or poverty alleviation. It is important to measure their impact, both to determine that DBIs are effective and to improve their design. Good DIB measurement practices include:

1. Define clear and measurable outcomes
   - Clearly define outcomes that align with the DIB's objectives.
   - Ensure outcomes are specific, relevant, and measurable.
   - Use rigorous and reliable data collection methodologies.
2. Employ robust methods of data collection and analysis
   - Collect accurate, reliable, and timely data.
   - Employ rigorous and statistically sound analysis techniques.
3. Choose appropriate key performance indicators (KPIs)
   - Select relevant and specific KPIs that align with the DIB's outcomes.
   - Common KPIs include attendance rates, test scores, health outcomes, and employment rates.
4. Do rigorous impact evaluations
   - Apply rigorous methodologies, such as randomised controlled trials (RCTs).
   - Compare the DIB outcomes with the outcomes in a control group that did not receive the DIB intervention.

Thematic KPIs that DIBs often use include:

- Education
  Literacy and numeracy test scores.
- Healthcare
  Vaccination rates or disease incidence rates.
- Poverty alleviation
  Income levels or employment rates.
- The environment
  Reduction in carbon emissions.

Peace KPIs

Peace KPIs are outcome or impact indicators that link to sub-dimensions of the Peace Taxonomy. For example, a peace KPI for Peace Taxonomy sub-dimension 2.1 (vertical cohesion) could be: "The investment has increased trust between local communities and the national government". A survey of local communities could be used to report this particular KPI.

KPIs for peace should be context specific and should be developed with the Peace Partner. Indicators should meet the basic SMART criteria. They should be:

- **Specific:** clearly defined and focused.
- **Measurable:** quantifiable to track progress.
- **Achievable:** realistic and attainable within the given resources and time frame.
- **Realistic:** relevant and reasonable.
- **Time-bound:** set in a specific time frame.

Readers will find a number of generic indicators and benchmarks in Annex A.

Project-oriented indicators

Other relevant indicators are project-oriented. They track the implementation of a Peace Standard through an investment's lifecycle to ensure that the investment continues to align with the Peace Finance Principles. Table 2 provides some examples.

Table 2. Peace Finance Principles and examples of KPI

Principles	KPIs to track progress on the Peace Finance Principles: examples
Commit to peace intentionality and additionality	Level of understanding To what degree do stakeholders' descriptions of peace and conflict impacts coincide? Support of partners To what extent do peace-enhancing partners support the investment's peace strategy and theory of change?
Apply dual materiality	Impact disclosure Track the disclosure of all impacts and do-no-harm risks to local stakeholders based on data collected from them. Project sustainability Assess project sustainability based on mitigation of material risks.
Promote inclusive processes	Community engagement Measure the level of community engagement and ownership, by counting the number of times that local needs and interests are addressed during decision-making processes. Accessibility Evaluate the accessibility of the design process to local stakeholders, especially beneficiaries. Stakeholder expectations disclosure Track the disclosure of stakeholder expectations.
Create trust-building conditions	Acceptability and cooperation Measure how many local beneficiaries and other stakeholders find the investment acceptable and cooperate with it. Transparency Assess the transparency of impact management and measurement processes.

Monitoring, evaluation and verification of peace impacts

Methods that peacebuilding organisations use to monitor and evaluate are widely covered elsewhere. Annex A provides some examples. For a Peace Finance investment, the issuer and its Peace Partners should use a context-specific mix of qualitative, quantitative, and participatory methods to monitor, evaluate and verify its peace impact.

Qualitative and quantitative methods

- **Qualitative assessments** gather and evaluate feedback from individuals or groups, key informant interviews or survey responses.
- **Quantitative methods** analyse evidence that is processed and aggregated in quantitative form.
- All data collected to evaluate a Peace Finance investment should be informed by the investment's objectives and Certification requirements and should meet SMART criteria.

Sources of data

- **Statistical data** can be collected from central authorities (for example, demographic statistics, cross-border trade statistics).
- **Survey information** can be collected from beneficiaries (for example, the size of households, the income of households, the income earned by women).
- **Qualitative information** can be gathered during community focus groups.
- **Big data analysis** can be obtained from social media platforms and local news sources (useful for collecting data on violent events or protests).

Measurement approaches

Issuers and Peace Partners need to develop fit-for-purpose measurement approaches, invest sufficient resources in monitoring, and design sound and illuminating indicators. KPIs play an important role in reporting and demonstrating peace impacts. The monitoring plan for a Peace Finance investment should identify context-specific indicators that comply with Peace Taxonomy reporting and can be applied using a baseline sample of local community members.

Experiential data

Depending on the peace KPI, measurement may need to focus on experiential data (individual responses). Partners should ensure that information is gathered in a conflict-sensitive manner. When statistical or quantitative information cannot be collected, Peace Partners can use other techniques to capture community sentiment and perceptions of change (such as outcome mapping, contribution analysis or collaborative outcome reporting).

Social indicators

Social indicators can support KPIs that report peace impact. For instance, the Harmonised Indicators for Private Sector Operations (HIPSO) are used internationally to measure the development outcomes of DFI private sector investments. They focus on economic and social dimensions but can be adapted to include peace and conflict concerns. To illustrate, where water is scarce, an investment in water services should aim to distribute water equitably. Social indicators, such as HIPSO indicator WA-03 (the total number of new connections to water services received by members of underserved groups) can capture levels of social cohesion and trust between underserved groups and other groups in society. Table 3 lists a few examples of peace and conflict-sensitive indicators based on HIPSO indicators.

Table 3. Peace and conflict-sensitive indicators based on HIPSO indicators: examples

HIPSO category example	HIPSO metrics	Derived peace and conflict-sensitive indicators
Agribusiness	Number of farmers that are linked to the client company as suppliers, buyers, contractors or farming employees (HIPSO code AG-03).	Number of farmers etc. from excluded and marginalised groups based on fault lines (e.g. gender, regional, ethnicity) in the society. Percentage of land owned or allocated to vulnerable and historically marginalised groups. Existence of mechanisms to address stakeholder grievances and feedback.
Energy	Number of new residential connections for underserved groups resulting from the project. Underserved: groups inadequately served by the current market by gender, race, nationality, ethnicity, social and indigenous origin, religion or belief, disability, age, or sexual orientation (HIPSO code EN-04).	Percentage of underserved groups that have affordable and suitable access to energy source based on community-driven preferences (thus based on conflict-sensitive AAAQ factors). Number of completed energy projects that have had no negative impacts on conflict dynamics (have not caused resource disputes or increased inequality, for example). Number of renewable energy projects implemented as part of peacebuilding, social cohesion and reconstruction efforts.
Community development contributions and payments"	Amount of money spent by the client towards activities that benefit local communities during the reporting period (HIPSO code TA-18). Payment to government (HIPSO code TA-19).	Amount of money spent by the client that has been allocated to targeted communities in a participatory and conflict-sensitive way that involves local stakeholders and beneficiary groups. The number of companies that have negotiated arrangements with the government (before investment) under which their corporate taxes are discounted by the value of the contributions they make to infrastructure or social projects in the area of their operations: and the value of those tax discounts.

Peace impact indicators must always be relevant to the specific context and objectives of the project whose progress and impact they measure. They should be developed in consultation with relevant stakeholders, including local communities, to ensure they take account of local conditions and address the peace impacts that are planned.

Do-no-harm screening indicators

It is difficult to give general advice on how to design do-no-harm screening indicators because they are context-specific. Below are some broad guidelines.

1. Do a context analysis
   - Thoroughly analyse the local context, including social, economic, political, and environmental factors.
   - Learn the history, dynamics and vulnerabilities of the area to identify potential risks and opportunities associated with the investment.

2. Work with stakeholders
   - Establish relations with a wide array of stakeholders, including local communities, civil society organisations, and relevant authorities.
   - Listen to their inputs, perspectives, and concerns to ensure that the investment's impact indicators are precise and relevant.

3. Apply conflict-sensitive principles
   - Follow conflict-sensitive principles to minimise harmful impacts and maximise positive ones.
   - Focus particularly on avoiding harm, promoting local ownership and enhancing the investment's positive impacts.

4. Identify potential harmful impacts
   - Identify and prevent or mitigate harmful impacts (such as displacement, environmental degradation, human rights violations, and social conflicts).
   - Use indicators to screen for potential harms associated with the investment and address any harms to local communities and ecosystems.

5. Establish minimum environmental and social safeguards
   - Apply indicators that will enable the investment to assess
     - Its compliance with minimum environmental and social safeguards;
     - Its compliance with internationally recognised human rights standards and instruments;
     - Its fulfilment of AAAQ criteria.

6. Establish a monitoring and reporting mechanism
   - Track the progress and impacts of the investment over time;
   - Identify emerging risks or unintended consequences and implement timely mitigation measures.

7. Adapt and learn
   - Continuously review and adapt the screening indicators based on feedback, results and lessons learned.
   - Ensure indicators remain relevant and meet their purpose effectively.

Phase 4: Annual reporting and disclosure

Reporting

The credibility of a future Peace Finance market or Peace Finance investment category depends on its integrity and on investor trust, which are supported by frank and transparent disclosure and reporting.

The main reporting requirement of a Peace Finance investment is the production of an annual peace impact report. The issuer should draft this document in collaboration with its Peace Partner and allow affected communities and other stakeholders to review and confirm its findings, both to comply with the Peace Finance Principles and to avoid impact washing. Peace Bond issuers are encouraged to use ICMA's Harmonised Framework for Impact Reporting for Social Bonds, which includes core principles for reporting.[8]

At a minimum, an annual peace impact report should:

> Report progress

The report should describe the investment's progress towards its objectives and peace targets and also its direct and indirect contributions in key sub-dimensions of the Peace Taxonomy, as shown by peace outcome and project KPIs.

> Record the findings of do-no-harm screening indicators

The report should describe the results of do-no-harm screening indicators applied to other taxonomy sub-dimensions.

> Explain the results

The report should explain the results, positive and negative, and any divergences between ex-ante expectations and ex-post outcomes.

> Describe remedial actions

The report should describe remedial actions that the investment has taken to mitigate risks and redress harms.

> Analyse the evolution of risks

The report should analyse the risks, including new and emerging risks, that might threaten the investment, cause harm to affected communities and other stakeholders, or lead the investment to change the assumptions of its theory of change.

> Describe changes to the strategy

The report should set out any changes that have been made to the investment strategy and any required do-no-harm actions that have been taken.

Peace KPIs, like some quantitative methods of monitoring, may not reveal trends and progress swiftly. Where this is the case, the monitoring plan should assess progress in qualitative terms. The investment can do this by asking stakeholders to describe how the investment has impacted various peace sub-dimensions. Ideally,

8 ICMA, 'Harmonised Framework for Impact Reporting for Social Bonds', 2022

it would collect survey data from a representative sample of members of affected communities and collect the views of key stakeholders. Frequent data collection enables an investment to monitor key issues and risks more closely; where this has been done, it should also be reported. Table 4 sets out the elements that should be addressed by a peace impact report.

Table 4. Overview of key elements of a peace impact report

Key elements	Overview
Peace Taxonomy: progress on relevant sub-dimensions	The report summarises the investment's contributions to relevant sub-dimensions of the Peace Taxonomy and describes any changes to those contributions.
Impacts on development and social categories and SDGs	The report summarises the investment's impacts on development and SDG objectives that relate to its intended peace impacts.
Overview of business/ investment activity and key sectors	The report summarises the sector(s) in which the investment or fund is engaged, and provides relevant financial information. It adds links to additional information.
Description of key local stakeholders and beneficiaries	The report describes the key communities and groups it targets, and other stakeholders. It may estimate the number of people the investment impacts directly and indirectly, their geographic location, and intersectional characteristics.
Description of the theory of change and peace investment strategy	The report summarises the strategy, the context and its dynamics, and intended peace impacts. It sets out the theory of change, and the roles of Peace Partners and other partners. It describes the investment's peace-enhancing actions and do-no-harm risk mitigation actions. It references the peace and conflict analysis where that is relevant.
Progress of the peace strategy	The report describes the intended and the observed progress (direct or indirect) that has been made, as measured by the peace KPIs. It reports any direct or indirect harms or failures that have occurred, again measured by the KPIs. It explains any divergences between ex-ante expectations and ex-post outcomes. It discloses any negative outcomes revealed by do-no-harm screening indicators. It highlights conflict-sensitive issues, new risks and mitigation measures that are relevant, and reports the investment's performance on AAAQ measures.
Theory of change statement	In its theory of change statement, the report describes the investment's result logic (If… then… because) and key risks and assumptions.
Peace KPIs	The report summarises and explains the KPIs, the strategy's targets, and shows the progress that has been measured. It draws conclusions on progress.
Project KPIs	The report lists the investment's project KPIs, which track compliance with the Peace Standard and Peace Principles.
KPI monitoring and measuring method	The report summarises the methodologies that have been adopted to monitor and evaluate.
Peace Partners and partnership arrangements	The report describes the Peace Partners, their roles and responsibilities, and the status and nature of the investment's partnership agreement with them.

Key elements	Overview
Peace-enhancing mechanisms	The report summarises mechanisms that support the peace strategy, such as due diligence screening tools.
Summary of key changes to the strategy	The report discloses any changes to the strategy that have been made, including to key partners, timeframes, peace KPIs, and targets. It explains why the changes were made and highlights any implications for the investment's theory of change, strategy or peace objectives.
Remedial actions taken	The report describes any remedial actions the investment has taken to address unintended consequences, and explains how the effects of those changes will be tracked.
Best practices and lessons learned	The report notes lessons learned and best practices.

Impact reporting on sub-dimensions of the Peace Taxonomy

The impact report should document progress on sub-dimensions of the Peace Taxonomy. Issuers are encouraged to use the original template in Part 2 of the Guidance Notes, which shows how to align an investment with the Taxonomy during the pre-Certification phase. Progress can be reported using a colour-coding system:

Green	Contributions achieved
Yellow	Positive progress made
Grey	Not (yet) identified
Red	Harmful impacts (contributions have not been achieved). These impacts should be described in the do-no-harm space.

A hypothetical example

Table 5 describes a hypothetical case that illustrates the colour code approach. This imaginary investment can report two indirect positive impacts (green) in the Social Peace sub-dimensions (2.1 and 2.2). In four other areas, it can report that progress has been made (2.3, 2.4, 2.5, and 2.6) (yellow); in each case, the issuer would be expected to provide more evidence of these indirect contributions. In one area (2.3), do-no-harm screening indicators show that the investment had a harmful effect (red). It may be imagined, to illustrate, that the investment had received complaints from one community about the quality of the services that it supplied; whereas in some other communities its services had improved (yellow). In such a case, the investment would be expected to take do-no-harm mitigation or remedial actions (to improve the services at fault) and perhaps adjust the strategy (if the aggrieved groups had not been targeted for benefits).

Grey boxes indicate that no contributions, positive or negative, have been identified. This might be because those sub-dimensions were not included in the scope of the theory of change and were therefore not reported. It might also be that the issuer was unable to monitor the sub-dimensions in question. Ideally, the issuer should regularly screen all sub-dimensions for harm.

Table 5. Using colour coding to report on social peace (peace dimension 2 of the Peace Taxonomy)

Peace dimension 2: Support to 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 their reliable delivery.	🟢	🟡	⚪	
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 (such as access to land or natural resources).	🟢	⚪	⚪	
2.10 Impact on cultural identities and local traditions.	🟢	⚪	⚪	

Disclosure

Peace impact reports and related independent evaluations should be made public and shared with investors, local communities and other stakeholders. They demonstrate to the market that Peace Finance investments are committed to improving conditions for peace, are planned rigorously, hold themselves accountable, and comply with essential standards. Transparency encourages trust and cooperation.

Phase 5: Post-issuance verification

Appointing a Peace Finance Verifier

The issuer should periodically ask an independent Peace Finance Verifier to evaluate certified Peace Bond and Peace Equity investments. The issuer should explain how evaluations will be done, and how a Peace Finance Verifier will be selected and appointed, during the pre-Certification phase. The same expert may verify the eligibility of a proposed Peace Bond or Peace Equity for Certification and subsequently evaluate that investment after Certification to confirm that it continues to qualify for the Peace Label.

While issuers should produce a peace impact report annually, they should commission an independent evaluation once every 24 months, in accordance with the Peace Standard. The evaluation verifies that a Peace Finance investment continues to comply with the Peace Taxonomy and the Peace Finance Principles. To reach this judgement, the verifier should assess relevant annual reports, review any remedial actions that have been taken to address negative impacts, and consult the investment's Peace Partners and other key stakeholders.

An evaluation follows the Guidance Notes for Peace Finance Verifiers.

Box 10. Independent evaluation of Peace Finance investments

The issuer of a Peace Finance investment is expected to continue to communicate with partners and with trusted local organisations throughout its lifetime. But this is not sufficient to ensure alignment. Periodically, the issuer and Peace Partners need to confirm that their perception of the investment and the context are sound. Every 24 months, therefore, as required by the Peace Finance Standard, an issuer should commission an independent evaluation that considers the investment's peace impact reports, the contributions of the Peace Partner, the steps taken to address grievances, and the veracity of peace impact claims the investment has made.

An issuer may choose to commission an independent evaluation more frequently, most obviously because local partners signal the emergence of new or acute risks, or appear to understate such risks. Differences of perception are particularly likely to occur in fragile and unstable environments and in societies where multiple nationalities, ethnic groups, or religious or political communities hold a variety of views about the investment's impact and their interests.

The issuer must appoint an impartial and independent evaluator or evaluation team, that possesses the requisite experience and skills (see Box 6). The evaluator should draw on locally-sourced information provided by the Peace Partner and may consult other sources to establish whether the investment has taken full account of relevant conflict and business risks and changes in the local context. The evaluator also confirms that the Peace Finance investment continues to comply with the Peace Taxonomy, the Peace Finance Principles and other relevant standards and is achieving its peace impact objectives, and therefore continues to qualify for the Peace Finance Label.

Evaluation reports must be made available to investors, Peace Partners, affected communities, and other stakeholders. If the report finds that any issues stand in the way of re-Certification, the issuer must make adjustments to the investment strategy to address them.

Annex A. Generic key performance indicators measuring peace (sub-) dimensions

Peace (Sub)dimension	Generic KPI examples
Peace dimension 1: Safety and security	
1.1 Impact on direct interpersonal violence in the community.	Perceptions of safety have improved and fear of violence has fallen due to the investment made (as measured by perception surveys and community feedback mechanisms).
1.2 Impact on sexual and gender-based violence (SGBV) in the community or household.	Employees' awareness and knowledge of SGBV have measurably increased (based on knowledge of its forms and consequences, and awareness of available support services).
2.3 Impact on abuse and all forms of violence against children.	School attendance and retention rates have measurably increased, especially among children who are at risk of violence or who live in conflict-affected areas.
1.4 Impact on collective and intercommunal violence.	The number of targeted group members' who report that trust, understanding, and cooperation across communal lines have improved.
1.5 Impact on armed conflict, state-sponsored violence, or violence by non-state actors.	Implementation of conflict-sensitive practices, including risk assessments, mitigation measures and grievance mechanisms.
1.6 Impact on conflicts over natural resources.	The number of conflicts, disputes, or violent incidents associated with natural resource extraction in the investment area.
1.7 Impact on fear of violence in the above categories.	More members of communities feel safe and secure (as measured by surveys and interviews).
Peace dimension 2: Support to social peace	
2.1 Impact on vertical social cohesion (trust between the state and society)	Trust and confidence in public institutions among targeted groups has measurably increased due to the investment.
2.2 Impact on horizontal social cohesion (trust between groups).	Representation and meaningful involvement of marginalised groups in FDI-related processes and activities has measurably increased.
2.3 Impact on equitable access to resources and basic services, income and goods (education, health, housing, work, etc.).	The number of viable economic opportunities has measurably increased in a 10 mile area around the investment..
2.4 Impact on gender and intergenerational equity.	The number of viable economic opportunities for youth and women has measurably increased.

Peace (Sub)dimension		Generic KPI examples
2.5	Impact on governance of public services and their reliable delivery.	Percentage increase including satisfaction in access to basic infrastructure, such as roads, schools, healthcare facilities, and clean water supply for vulnerable groups based on conflict-sensitive AAAQ method of measuring.
2.6	Impact on patterns of economic exclusion of marginalised or excluded communities or groups.	Number of initiatives promoting the inclusion of local businesses and suppliers in combination with skills training and the creation of market opportunities for underrepresented groups, fostering economic linkages and reducing economic disparities.
2.7	Impact on the free flow of information, transparency, accountability and corruption in public and private institutions.	Civil society participation in the investment's governance processes has measurably increased.
2.8	Impact on climate resilience and access to cleaner sources of energy.	The number of households with access to clean energy has increased.
2.9	Impact on structural grievances that cause violence (such as access to land or natural resources).	The number of households who have successfully registered land claims has increased.
2.10	Impact on cultural identities and local traditions.	Investment that supports the preservation and restoration of cultural heritage sites, artifacts, and traditions has increased.
Peace dimension 3: Support to political peace		
3.1	Impact on diplomatic relations between states and non-state actors.	The number of diplomatic exchanges, high-level visits and conferences facilitated or supported by the investment project that promoted dialogue, collaboration and diplomatic relations between states and non-state actors.
3.2	Impact on development of infrastructure or provision of goods and services that support a formal peace process that is either defined in a peace agreement or is a recognised part of a peace process.	The involvement and leadership of local actors in the planning, implementation, and management of development projects has measurably increased.
3.3	Impact on dispute resolution mechanisms, whether formal or informal, and improved perception of justice and human rights issues.	The number of local companies and suppliers that have undertaken publicly to comply with human rights has measurably increased.
3.4	Impact on transboundary relations (for example, cross border energy or water projects).	The number of joint investment projects or collaborations between companies from different countries or regions in the area of the investment has measurably increased.

Finance for Peace

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