Finance for Peace

Peace Equity Standard

A Component of the Peace Finance Standard – Rigorous Criteria for Certification and Impact Accountability

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Peace Equity Standard

About this report

The Peace Equity Standard sets a global benchmark for the certification of Peace Equity investments, defining excellence in investment practices that foster peace. The Standard sets out rigorous criteria that equity issuers must meet to achieve certification, and guides them during the structuring, management, and verification of meaningful peace impact investments.

The Peace Equity Standard is a key component of the Peace Finance Impact Framework (PFIF). The PFIF encourages investors to engage deeply with peace-building efforts, and offers a structured approach to planning, reporting and achieving peace impacts. It requires investors to work with partners, and mitigates investors' own risks and the risks to communities in areas of investment.

Influenced by advice from government agencies, development finance institutions, private sector entities and civil society, the Peace Bond Standard and the PFIF are the result of a collaborative effort and reflect a broad consensus that peace concerns need to be integrated in financial investments. They underscore our commitment to inclusivity and the value of diverse perspectives in shaping a more peaceful world through finance.

About the Finance for Peace initiative

Finance for Peace works with partners to catalyse a market for peace-positive investment. It works collectively to create standards, market intelligence and partnerships across sectors to build trust, share knowledge and establish networks.

Through leveraging and creating new partnerships of community engagement and political support, Finance for Peace aims to scale "Peace Finance" – investment that has an intentional and positive impact on peace while promoting economic development, job creation and better livelihoods. Peace-positive investment generates mutual benefits of reduced risks for investors and communities and can achieve both bankable and peaceful outcomes.

Peace-positive investment encompasses different asset classes such as Peace Bonds or Peace Equity and similar structures, across a range of sectors. In order for Peace Bond and Peace Equity structures to take flight, we need commonly agreed standards and guidance that the market can trust and use, as well as new partnerships and knowledge.

Finance for Peace brings together investors, private sector actors, development finance institutions and other development actors, governments, peacebuilders, civil society and communities, to identify innovative solutions that can bring true additionality to investors, as well as more inclusive development.

Finance for Peace is supported by the German Federal Foreign Office (GFFO) and builds on feasibility research supported by the UK Foreign and Commonwealth Development Office (FCDO) on a new sustainable investment category called Peace Bonds.

Finance for Peace has been incubated by Interpeace, an international peacebuilding organisation that has worked on conflict resolution and peacebuilding throughout Africa, the Middle East, Asia, Europe and Latin America for 30 years. For more information, please visit: https://financeforpeace.org/ and https://www.interpeace.org/.

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A New Peace Finance Standard (PFS) and Certification Scheme

The Peace Finance Standard (PFS) and its accompanying certification scheme are poised to set a new global benchmark for the labelling of both Peace Bonds[1] and Peace Equity investments. The PFS sets out rigorous requirements that bond or equity issuers must meet to attain certification. It provides guidance for structuring, managing and verifying Peace Bonds and Peace Equity investments. Its innovative financial instruments are designed to generate positive peace impacts in tandem with financial returns, marking a significant advance in impact investing.

The Peace Equity Standard is a central element of the Peace Finance Impact Framework (PFIF). It aligns with the 9 Impact principles and five stages set out in the Operating Principles for Impact Management (OPIM) process.[2]

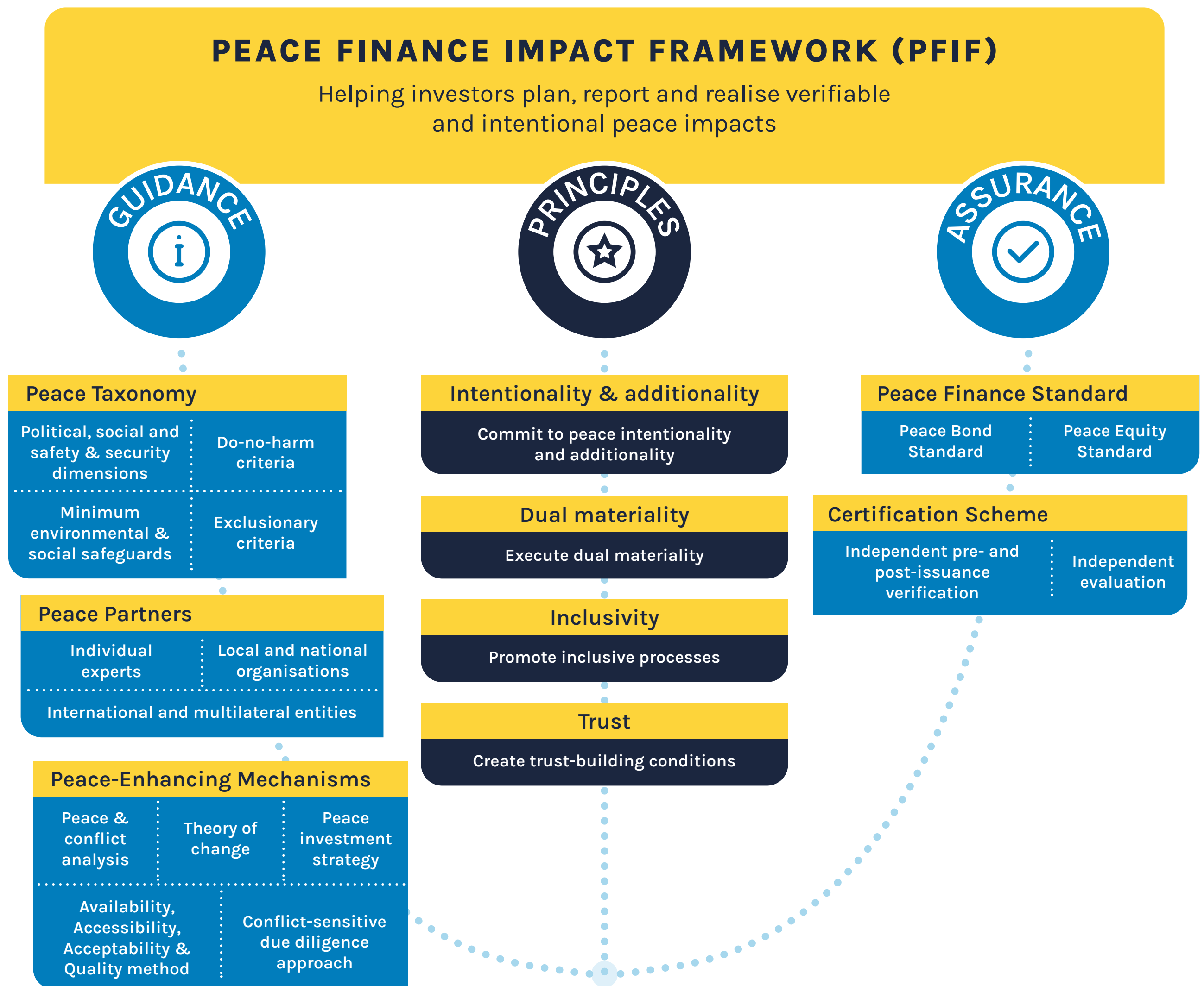
The Peace Bond Standard is described in a related document. It aligns with the ICMA Social Bond Principles and Sustainability Guidelines, and focuses on use of proceeds, project evaluation, management and reporting.

Both the Peace Bond Standard and the Peace Equity Standard are anchored in the PFIF's Peace Taxonomy, which includes essential exclusionary and do-no-harm criteria and addresses gaps that Finance for Peace identified during a comprehensive mapping exercise that it described in a separate report.[3]

1 Types of Peace Bond include sovereign, supra or corporate debt, and municipal or revenue bonds.

2 https://www.impactprinciples.org/

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

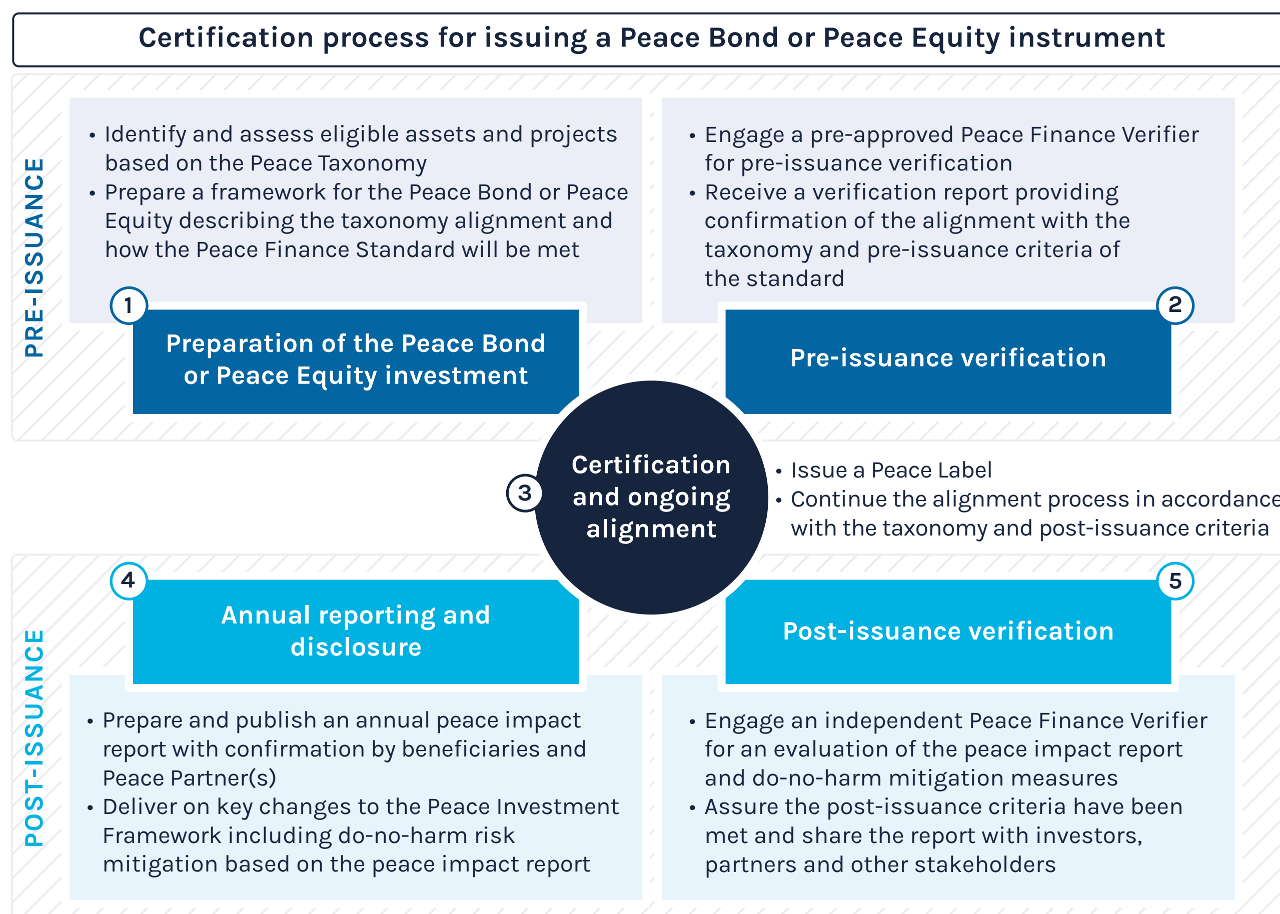


Certification under the Peace Finance Standard ensures that a Peace Bond or Peace Equity instrument is:

a. Fully aligned with the Peace Finance Principles and the PFIF Taxonomy.
b. Consistently contributes to achieving relevant Sustainable Development Goals (SDGs) and supports national development objectives.
c. Adheres to market best practices that are based on the ICMA Social Bond Principles, Sustainability Bond Guidelines and the Impact Principles.

Figure 1 shows the certification process for Peace Bonds and Peace Equity investments. The process is designed to ensure alignment with the highest standards. The process has five stages which take an investment through initial assessment leading to certification, then through reporting, monitoring and evaluation. The process seeks to maximise peace-positive outcomes alongside financial returns. There are dynamic feedback loops between each stage to ensure that investments remain responsive, both to any need to change their structure and to changes in their environment.

Figure 1. Certification process for Peace Bonds and Peace Equity investments.



Eligible assets and expenditures for peace impact investments

Certified peace impact investments identifiable as Peace Bonds or Peace Equity investments may include:

- **Physical or financial assets.** Such assets may include (but are not limited to) micro-credits and loans. These are often tangible, though intangible assets may be considered under certain conditions.
- **Operating expenditures.** These expenses are directly related to the sustainability and operational efficiency of assets. Eligible expenditures include necessary public expenditures and subsidies that contribute to an asset's enduring impact.

Peace Equity Standard

The Peace Equity Standard guides issuers through the OPIM framework's five stages (strategy, origination and structuring, portfolio management, exit, and independent verification) and nine principles, ensuring that peace and conflict sensitivity are integrated at every stage of the investment cycle. The Peace Equity Standard directs issuers to develop a Peace Equity Framework, structured in accordance with Part 4 of the PFIF Guidance Notes. The Peace Equity Framework addresses critical issues: alignment with peace objectives, adherence to criteria, impact management, and robust reporting and verification protocols. It supports the certification process and also enhances the transparency and accountability of Peace Equity investments. Four key questions need to be addressed:

- How does the issuer's overall strategy align with the peace-enhancing objectives of the Peace Equity investment?
- How do Peace Equity projects and assets align with pre-issuance criteria set by the Peace Equity Standard?
- How are impacts managed at portfolio or fund level?
- How and what does the issuer need to report and what approach to verification and evaluation has been adopted?

Peace Equity pre- and post-investment requirements

Strategic Intent

1. **Define strategic impacts in terms that are consistent with the strategy**

   1.1. **Strategic impact definition** The Manager[4] must define the strategic objectives of the Peace Equity portfolio or fund when they draft a Peace Equity Framework (the framework). The framework sets out the investment's intent to achieve one or more direct or indirect peace impacts. It must align with the Peace Taxonomy and should underscore the portfolio's or fund's peace-enhancing nature. It should integrate the OPIM principles and Peace Finance Principles..

   1.2. **Investment strategy development.** The manager must develop an investment strategy that is peace-enhancing and also conflict-sensitive. Peace strategies should follow the five steps of the certification process and adhere to leading industry practices. Strategic objectives should be mapped against relevant SDGs and their sub-targets, and the strategy should highlight positive and potential negative impacts.

   1.3. **Peace strategy and theory of change.** Managers must ensure that a comprehensive and co-designed peace and conflict analysis, coupled with actor mapping, informs the peace strategy and the theory of change. The theory of change should lay a solid foundation for realising the portfolio's or fund's peace impact goals; should address double materiality risks; and should make sure that each investment proportionally contributes to the portfolio's or fund's overall peace objectives, and benefits targeted groups or communities.

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

2. Manage strategic impact on a portfolio basis

2.1. Stakeholder engagement for impact management: The manager must establish inclusive processes and ensure that stakeholders participate in overseeing peace impacts at portfolio level. To do this, managers must monitor and evaluate the portfolio systematically, using key performance indicators (KPIs) that have been agreed with local actors and partners and are aligned with the theory of change.

2.2. Developing a collaborative theory of change. Managers must involve local actors and partners when they develop a theory of change, and agree with them expected peace outcomes and methods for verifying impact that are clearly defined. The theory of change should identify KPIs that are actionable and that Peace Partners and other stakeholders can verify, with the aim of fostering a shared commitment to achieve the peace objectives.

2.3. Comprehensive impact measurement. Managers must include KPIs that measure a portfolio's direct and indirect impacts on peace, and that specifically measure improvements in economic infrastructure and in meeting basic human needs. The KPIs should provide qualitative as well as quantitative measures of the portfolio's impacts on peace. To make sure that the portfolio obtains a rounded picture of its contributions to peace, KPIs should be chosen that track different levels of impact over time: outputs (immediate results); outcomes (medium-term effects); and impacts (long-term changes).

Origination & Structuring

3. Establish the manager's contribution to achieving impact

3.1. Local community consultation. Managers must actively and systematically engage with the local population or targeted groups, focusing on their needs and interests, to make sure that these are central to the investment process. Managers must aim to foster transparency, build trust and mitigate risks to target communities' needs and interests.

3.2. Capacity development for impact management. Managers are encouraged to enhance the impact management process by promoting capacity-building activities that support effective implementation of the Peace Equity Standard. Specific KPIs should report such initiatives and measure their impact.

3.3. Transparent communication. Managers must clearly communicate to investors and to targeted groups the fund's impact objectives and processes. Managers should describe the fund's intended direct and indirect outcomes and the peace-enhancing mechanisms that have been put in place to manage and promote them.

3.4. Collaboration with Peace Partners. Managers must ensure that Peace Partners co-develop or validate the peace strategy. Managers should ensure that they work only with Peace Partners who comply with the Peace Partner requirements set out in the Guidance notes.

4. Assess systematically the expected impact of each investment

4.1. Base impact assessment on the theory of change. Managers must evaluate the expected peace impact of investments, taking account of feedback from investees, local actors and Peace Partners, and must incorporate that feedback in the theory of change. The theory of change should explain the investment's peace rationale and why the communities or groups it targets have been chosen. It should cover key issues, including the nature of the investment's impacts, the identity of project beneficiaries, the significance of impacts, and how impacts will be measured.

4.2. Collaborate with experts. Managers should work with conflict sensitivity and peace experts to refine the investment's impact assessments. Their expertise, supported by qualitative and quantitative KPIs that align with industry standards, will give managers a fuller understanding of the contexts in which they invest as well as the impacts of their investments, and help them to identify intended peace-enhancing benefits.

4.3. Baseline and progress tracking. Managers must conduct an early socio-economic assessment of affected communities in order to establish a baseline for tracking investment progress. Managers, in collaboration with Peace Partners, should continuously collect data, and this data collection should include feedback from beneficiaries. To ensure that the investment's impact findings are valid, and to increase the investment's responsiveness, data collection should adhere to best practices, enhancing the impact validity and responsiveness of the investment.

5. Assessing, addressing and managing potential negative impacts

5.1 Eligibility and compliance assurance. Managers must work with Peace Partners and investees to make sure that investments meet all eligibility, exclusionary and do-no-harm criteria before they are labelled peace-enhancing. They should ensure that investees undertake to adhere to global human rights standards and to environmental and social safeguards.

5.2. Enhanced financing and risk monitoring. Managers must monitor economic, social and governance (ESG) risks, and do-no-harm risks. To do so, they must consult with investees to identify material risks, agree with them indicators to assess risks, and apply those indicators. To improve management of risk and conflict-sensitivity, managers should take steps to build the capacity of investees, for example by encouraging them to adopt conflict-sensitive practices or apply the AAAQ framework[5]

5.3. Consultative due diligence. Managers must regularly and transparently consult investees, Peace Partners, local stakeholders and beneficiaries to evaluate potential impacts and unearth risks to, as well as opportunities to increase, peace additionality. Systematic consultation of beneficiary communities will help investments to tailor projects to local needs, and foster

5 AAQ stands for Availability, Accessibility, Acceptability and Quality. The approach seeks to address and overcome obstacles to the fulfilment of social, economic and cultural rights. A certain good is available when it is in a sufficient quantity. A product or service is accessible when it is economically affordable and physically accessible without discrimination, and when relevant information on the product or service can also be obtained. Goods and services are acceptable when their form and delivery are ethically and culturally appropriate. A good or service is of good quality when it is safe and meets internationally recognised standards that are scientifically approved.

transparency and trust. In addition, regular consultation actively mitigates risk, reducing the future cost of repairing harms. Adopting a collaborative approach is vital both to deepen an investment's peace-related value and secure its acceptance. Initiatives should aim to open a path to sustainable and positive outcomes and to lessen reliance in the future on complex and costly measures of remediation.

Portfolio management

6. Monitor each investment to see how far its impacts match expectations, and respond appropriately

6.1. **Pre-investment confirmation of the theory of change.** Before investing, managers must agree with stakeholders a theory of change, and clear strategies for data collection and impact tracking. Strategies should clearly describe frequencies, methods and responsibilities.

6.2. **Stakeholder-driven impact management.** Managers must ensure that impact management and measurement processes align with the Peace Finance Principles, clearly declare stakeholder expectations, describe the involvement of stakeholders, and set out a schedule for sharing impact data.

6.3. **Grievance and accountability mechanisms.** During the pre-investment stage, managers must design and establish an accessible and independent mechanism for addressing grievances and risks. It should be adequately equipped to act proactively and promptly to mitigate actual or potential harmful impacts.

6.4. **Annual impact confirmation.** Managers must annually obtain confirmations of impact from affected populations and targeted groups, compare initial expectations with actual outcomes, and document any divergences between ex-ante and ex-post assessments in an annual peace impact report.

6.5. **Post-investment: performance sharing and collaboration.** During the post-investment stage, managers must share performance data with investees. Their reporting should describe data collection methods, highlight emerging risks, and describe any corrective measures that are required. Such reports should be made annually. To help them capture and report peace-enhancing benefits, harmful impacts and emerging risks in full, managers are strongly advised to collaborate with peace and conflict sensitivity experts.

Impact at exit

7. Exit and sustained impact

7.1. **Disclose and confirm the exit strategy.** Managers should prefigure conditions for exit and a strategy for exit at the pre-investment stage. The strategy should list clear exit criteria. An independent evaluation should be commissioned to ensure the strategy is sustainable and does no harm. Before declaring a 'do-no-harm' exit, managers should establish on the basis of evidence that the strategy will be effective and is sustainable. They should also ask beneficiaries to confirm the investment's peace impacts, to make sure that the exit strategy aligns with the investment's long-term peace goals.

7.2. **Impact considerations at exit.** When planning an exit, managers must evaluate its timing, structure and process to see how these will affect the investment's sustained impact. Exits should respect do-no-harm principles, contributing to the investment's intended peace contributions..

8. Review, document and revise decisions based on impacts and lessons learned

Comprehensive disclosure and reporting. Reporting by managers should make use of both qualitative and quantitative indicators to describe realised and expected outcomes. They should clearly explain variations between projected (ex-ante) and actual (ex-post) results, and should propose revisions to the theory of change and the peace strategy that may be necessary in light of the results. Revisions must be made in consultation with all relevant stakeholders, to ensure that the investment strategy remains responsive and impactful.

Independent Verification

9. Publicly disclose alignment with the Peace Finance Principles and verify the alignment independently at regular intervals

9.1. **Framework disclosure and initial verification.** Before investments are made, managers must make the Peace Equity framework public and must commission a pre-approved independent Peace Finance Verifier to assess its alignment with the Peace Equity Standard and OPIM. These steps ensure that the process of granting a Peace Label is transparent and in accordance with the Peace Finance Standard. When the verifier so advises, adjustments should be made to the framework, to make sure it meets all criteria. The verifier's report must be made public.

9.2. **Annual disclosure and biennial verification.** Managers must publicly confirm, on an annual basis, that the impact management systems align with the OPIM and Peace Equity Standard. During the post-investment stage, every 24 months, managers must commission an independent Peace Finance Verifier to assess whether the impact management systems remain aligned. The verifier's reports must be disclosed to investees, Peace Partners and other stakeholders. If issues that may affect certification status are identified during evaluations, appropriate changes to the peace strategy should be made, to ensure continuous alignment with the Peace Equity Standard.

9.3. **Continuous engagement and validation.** Throughout an investment's life cycle, managers must remain in regular communication with all stakeholders, in order to share decision-making, validate impact management systems and reported outcomes, helping to foster collective oversight, strengthen mutual accountability and deepen trust

References

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

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