Finance for Peace

Peace Finance Impact Framework Guidance Notes

Introduction

PART 1

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Contents

Introduction to the Peace Finance Impact Framework Guidance Notes

These Guidance Notes assist issuers, lenders, and investors to manage Peace Finance investments. The Peace Finance Impact Framework (PFIF) sets out detailed strategies, best practices, and tools for successful investment management in fragile and conflict-affected areas. It is designed to align with peace principles and the Sustainable Development Goals (SDGs). This version of the PFIF Guidance Notes enables stakeholders to apply the Peace Finance Standard (PFS) to Peace Bonds or Peace Equity investments effectively.

This section sets the stage. It provides an overview of the PFIF's purpose and highlights its relevance in the current financial landscape. Later sections focus more specifically on:

- Understanding peace impacts: introducing the Peace Taxonomy
- Understanding and applying the Peace Taxonomy
- The Peace Bond and Peace Equity Framework Guide
- Exploring Peace Partnerships in investment

Each section is an essential element of the PFIF. Together, they describe a holistic approach to Peace Finance that will enable users to contribute effectively to peace and sustainable development through financial investments.

The Guidance Notes introduce the principles and practices of Peace Finance. They outline key features of the PFIF and emphasise its commitment to transparency, disclosure, reporting, and measurement. They emphasise that the PFIF is aligned with international standards and principles, integrates social and environmental issues in decision-making, and strives to continuously improve impact management.

The PFIF does not replace but complements existing frameworks by addressing the specific needs and challenges that are present in fragile and developing areas. It seeks to enable investors in such areas to operate in a conflict-sensitive way to achieve intended and measurable peace outcomes.

The purpose of the PFIF Guidance Notes for issuers, lenders, and investors

The primary objective of these Guidance Notes is to assist issuers, lenders, and investors to apply the Peace Finance Impact Framework[1] effectively. To do so, they need to be able to identify, design, structure, implement, and manage Peace Bonds or Peace Equity investments. A critical element of the PFIF is the Peace Finance Standard (PFS, the Standard), which sets out pre-and post-issuance requirements that issuers, lenders and investors must fulfil if they wish to certify their investments as Peace Bond or Peace Equity investments.

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

Relevance to other international risk and impact frameworks

Many existing principle-based frameworks can help to guide Peace Finance. The PFIF Guidance Notes do not replace these: they augment and build on them. Relevant standards and principles include (but are not limited to):

- The Principles for Responsible Investing initiative (PRI), particularly its five-part framework.
- The Equator Principles.
- The Kampala Principles.
- The Tri Hita Karana (THK) Impact Working Group's Checklist for Impact Assessment on the Poor.
- The Impact Standards for Financing Sustainable Development (IS-FSD).
- The OECD DAC Blended Finance Principles and detailed guidance notes.
- The EDFI Principles for Responsible Financing of Sustainable Development.
- The UNEP-FI Principles for Responsible Banking.
- The SDG Impact Standards.
- The Operating Principles for Impact Management (OPIM).
- The ICMA green, social, and sustainability-linked bond principles and guidance.[2]
- The EMIA Enhanced Labelled Bond Principles.

Finance for Peace reviewed many of these frameworks in a mapping report published in 2022[3]. Several have significantly influenced the PFIF. In particular, these frameworks recommended that investors of all kinds should:

- Be more transparent and commit to disclosure, reporting and measurement.
- Consciously and actively incorporate social and environmental issues in decision-making.
- Undertake to continuously improve their management of social and environmental impacts.
- Improve stakeholder engagement, focusing on country and local ownership.
- Promote inclusion and acquire a deeper understanding of the local contexts in which they invest.
- Recognise the importance of partnerships.

These recommendations are particularly relevant for operations in fragile and developing areas that must be conflict-sensitive and seek to achieve peace impacts. However, Finance for Peace's mapping exercise also revealed that internationally accepted standards and principles make few explicit references to peace outcomes and most define 'social impact' in broad and sometimes vague terms.

2 https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/

3 https://www.financeforpeace.org/resources/mapping-investment-guidance-for-peace-2023/

The authors of the mapping analysis concluded that the most widely-used principles and standards do not adequately equip investors to intentionally achieve high social impacts or manage their accountability in fragile and conflict-affected settings. To address this gap, the PFIF affirms four new principles:

- **Principle 1:** Commit to peace intentionality and additionality.
- **Principle 2:** Execute dual materiality.
- **Principle 3:** Promote inclusive processes.
- **Principle 4:** Create conditions that build trust.

The four Peace Finance Principles are designed to complement internationally recognised risk and impact management principles. They are the foundation stones of the PFIF: they provide a vision and also explicit operating guidance for investors, issuers, verifiers, and other stakeholders in Peace Finance. The Peace Finance Principles are described in more detail in the PFIF.

How should the Guidance Notes be used?

The Guidance Notes are specifically crafted to enable bond issuers, asset managers, fund managers and other users[4] to deepen their understanding of the PFIF, and they should be read in conjunction with the PFIF.

Specifically, the Guidance Notes help users to interpret, implement, and apply the Peace Finance Standard (PFS), and navigate the certification process for Peace Bond or Peace Equity investments. The Notes describe approaches, processes, and instruments, and provide templates and examples of good practices, that users can adopt to meet the pre-issuance and post-issuance requirements that must be met before a Peace Finance instrument can be certified and so labelled.

Users and verifiers of these international principles, checklists, and standards, and those who exercise oversight of them, are encouraged to integrate and reference the PFIF and the Peace Finance Standard as part of their efforts to enhance and upgrade their practices. Finance for Peace intends to update the Guidance Notes regularly by incorporating additional resources and references; users are invited to contribute to them by sharing useful materials and best practices with Finance for Peace.

To users who do not seek labelling and certification, the Guidance Notes still offer valuable elements, including the Peace Taxonomy, the four Peace Finance Principles, and relevant standards, processes, instruments, and indicators. These elements are particularly beneficial for impact management and measurement processes. The Guidance Notes will be especially helpful to investors who want to identify peace-enhancing and conflict-sensitive investments in their portfolios. Using the Peace Taxonomy and appropriate indicators, for example, will enable them to identify which of their investments have the most potential to achieve peace impacts and which require additional risk mitigation measures.

The Guidance Notes provide links to relevant frameworks, tools, and resources, and include practical examples. More examples as well as specific sectoral guidance will be added when the Guidance notes are periodically updated to ensure they remain current and comprehensive.

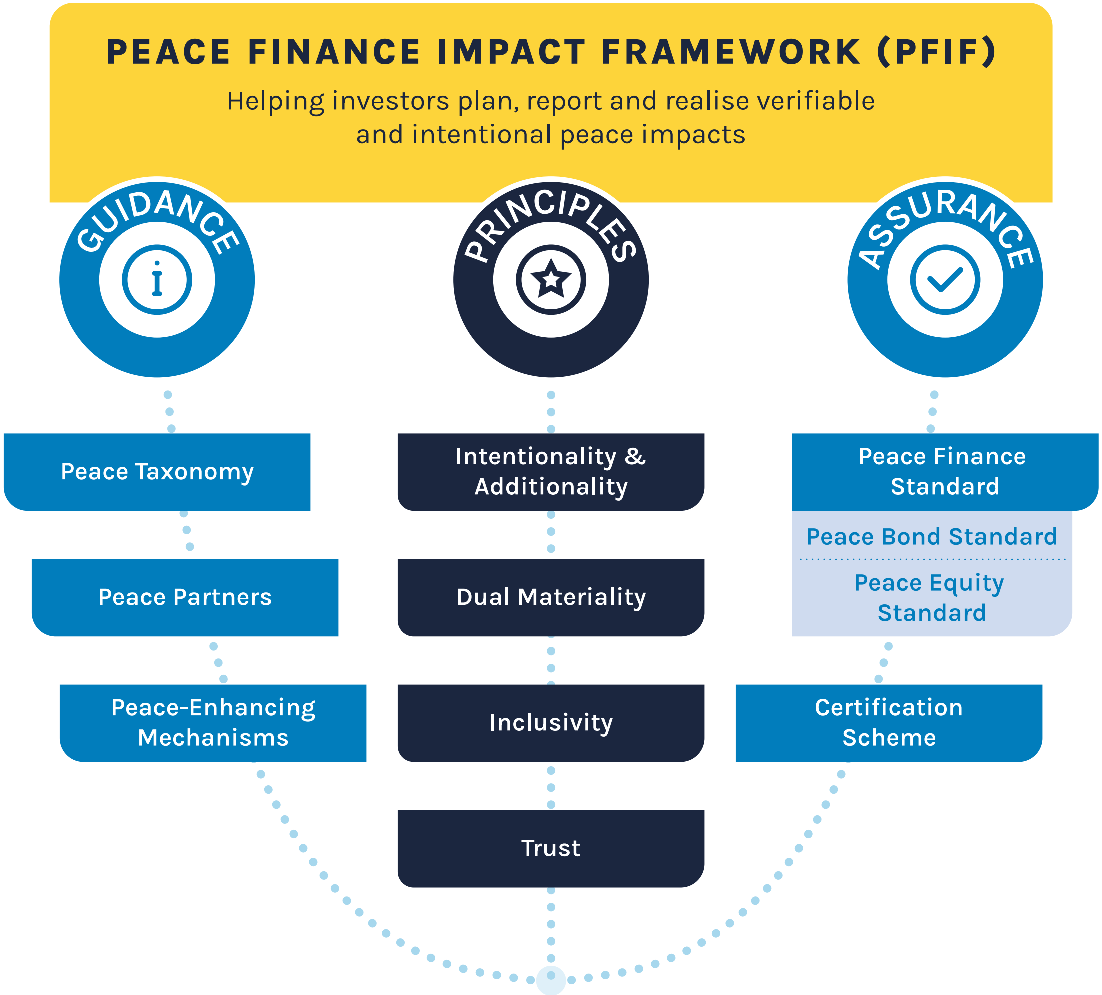
4 In this Guidance, 'users' refers to (bond) issuers, asset managers and owners, fund managers, DFIs, MDBs, pension funds, and other investors who adopt the PFIF for the purpose of creating, structuring and managing conflict sensitive investments that achieve peace outcomes. The term also includes Peace Finance verifiers who review PFIF criteria and check that they have been met.

The Peace Finance Impact Framework

The PFIF is a comprehensive framework designed to guide the issuance and management of Peace Bonds and Peace Equity instruments. It has three core components:

1. **Principles.** The four Peace Finance Principles underpin the PFIF.
2. **Guidance.** The PFIF sets out detailed instructions and methodologies for applying the Principles.
3. **Assurance.** The PFIF includes mechanisms to ensure compliance and alignment with its standards.

Figure 1. The Peace Finance Impact Framework



The Peace Finance Standard and the certification scheme

What are the Peace Finance Standard and the certification scheme?

The Peace Finance Standard (PFS) and the accompanying certification scheme set international best practices for labelling Peace Bonds and Peace Equity instruments. The PFS sets out minimum requirements that bond or equity issuers must meet to initiate and manage the certification of a Peace Bond or Peace Equity instrument.

Within the PFIF, the Peace Bond Standard provides an assurance component. It draws on the Climate Bond Standard and the ICMA Social Bond Principles and Sustainability Guidelines, and has four core components:

- **Use of proceeds.** It outlines how funds raised will be used, and how they will contribute to peace and stability.
- **Project evaluation and selection.** It describes criteria and a methodology for selecting projects that align with Peace Finance objectives.
- **Management of proceeds.** It explains how funds raised are to be managed and allocated in a manner that conforms to an investment's stated objectives.
- **Reporting.** It requires transparency and accountability, achieved inter alia by regular reporting on the use of proceeds and impacts achieved.

Separate criteria apply to Peace Bond pre-issuance and post-issuance stages; taken together, they compose the Peace Bond Standard.

The Peace Equity Standard draws on the nine impact principles and five stages of the Operating Principles for Impact Management (OPIM)[5]. These set the foundation of the Peace Equity Standard.

Both the Peace Bond and Peace Equity Standards align with the PFIF's Peace Taxonomy[6]. This alignment is of critical importance: it supports the design, structuring, and management of Peace Bond and Peace Equity instruments, and helps them to generate positive peace impacts as well as positive financial returns.

Certification under the PFS ensures that a Peace Bond or Peace Equity instrument:

- Is fully aligned with the Peace Finance Principles and the Peace Taxonomy.
- Consistently contributes to the achievement of relevant Sustainable Development Goals (SDGs) and supports national development objectives.
- Adheres to market best practices based on the ICMA Social Bond Principles, the Sustainability Bond Guidelines, and the Impact Principles.

5 Operating Principles for Impact Management (OPIM), 'The 9 Impact Principles', https://www.impactprinciples.org/.

6 https://www.financeforpeace.org/resources/the-peace-finance-impact-framework/ p. 19 .

How does the certification scheme work?

Figure 2: The certification scheme

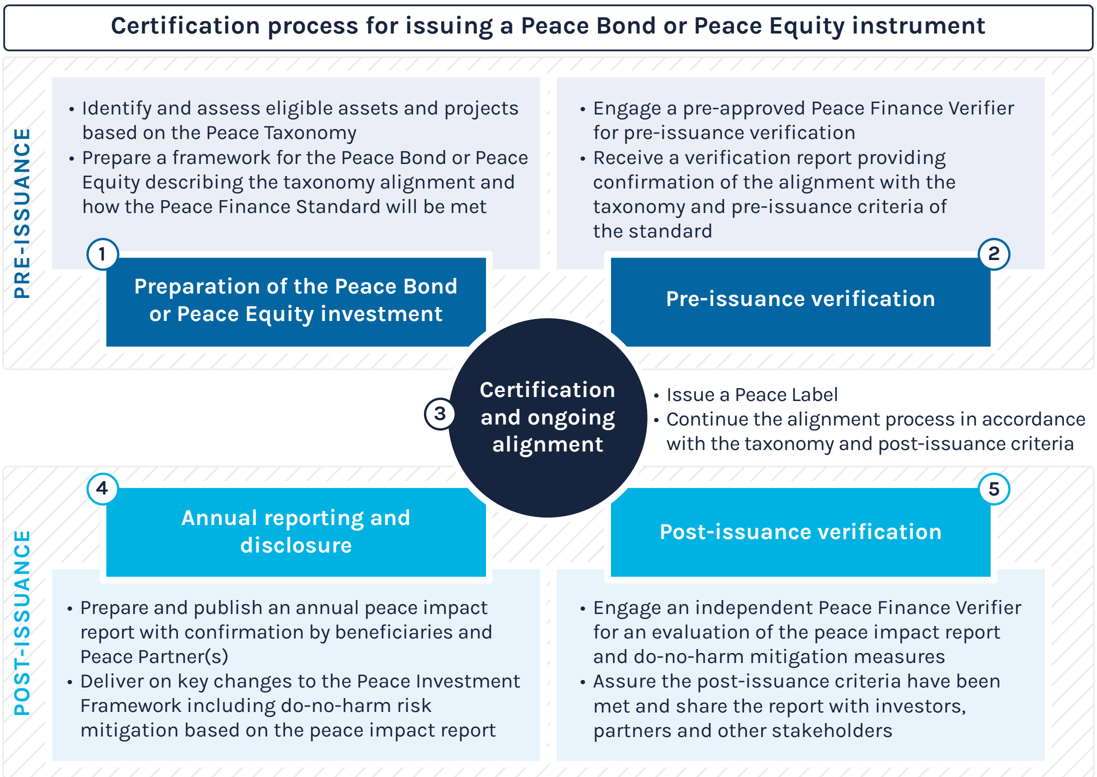


Figure 2 describes the certification process, whose five stages run across the pre-issuance and post-issuance phases of a Peace Bond or Peace Equity investment. The process includes feedback loops between each stage, to ensure that an investment is continuous aligned with the Peace Taxonomy and the Peace Finance Principles throughout its life cycle.

Best practices for the certification process are described in the Peace Finance Impact Framework Guidance Notes (Part 4) [available shortly].

How were the Peace Finance Standard and the certification scheme developed?

Existing market practices informed development of the Peace Finance Standard and the certification scheme, notably the ICMA Social Bond Principles and Sustainability Guidelines[7] the Climate Bonds Standard (CBI)[8], and the Operating Principles for Impact Management[9]. These standards and principles provided a foundation for the Peace Bond Standard and Peace Equity Standard.

In addition, however, the Peace Finance Standard has elements and guidelines that specifically promote conflict-sensitive approaches and peace impacts. These unique aspects of the Standard focus on impact planning and management in the context of Peace Finance. Annex A compares the ICMA Social Bond Principles and the newly formulated Peace Bond Standard.

7 https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/
8 https://www.climatebonds.net/climate-bonds-standard-v4
9 https://www.impactprinciples.org/

What are the benefits of the Peace Finance Standard and the certification process?

The Peace Finance Standard and the certification scheme offer significant benefits to both investors and issuers:

- **Investors.** The Peace Finance Standard is a comprehensive screening tool. Investors do not have to rely entirely on their own judgment during due diligence. Its structured approach enables them to evaluate the peace attributes of bonds or equity and feel confident that Peace Bonds or Peace Equity investments have been labelled justifiably.
- **Issuers.** The process enables issuers to demonstrate to the market that their bonds or funds are financially viable, include sound plans for achieving peace impacts, respect best practices in impact management, and meet expectations of transparency and accountability.

The certification process highlights and verifies the peace-enhancing characteristics of Peace Bonds or Peace Equity investments. It promotes adoption of a conflict-sensitive approach to investment that:

- Enhances due diligence processes and promotes systematic local consultations.
- Focuses on the needs and interests of local populations who are intended beneficiaries of an investment.
- Addresses potential conflicts of interest between issuers and investors.
- Includes a robust theory of change that aligns with relevant Sustainable Development Goals and national development objectives.

Importantly, the impacts of Peace Bond and Peace Equity investments must be independently verified and confirmed by the populations and groups that are intended beneficiaries of peace investments. A key advantage of certification is that it minimises the risk of peacewashing. It provides an assurance that Peace Bond and Peace Equity investments will make genuine contributions to peace and stability.

Subsequent parts of the guidance can be found in the following sections:

- Understanding Peace Impacts: Introducing the Peace Taxonomy [link].
- Understanding and Applying the Indicative Taxonomy for Peace Financing [link].
- The Peace Bond and Peace Equity Framework Guide [link].
- Exploring Peace Partnerships in Investment [link].

If you have questions or comments, please contact Finance for Peace at info@financeforpeace.org.

Annex A. Comparison between the Peace Bond Standard and the ICMA Social Bond Principles

Key feature	ICMA Social Bond Principles	Peace Bond Standard
Eligibility of projects and assets	ICMA provides high-level categories for eligible social projects. It recognises that views are diverse and that understanding of social issues is evolving.	Eligibility aligns with the Peace Taxonomy. The Peace Bond Standard includes detailed criteria for economic activities.
Framework development	ICMA provides guidance on establishing a Social Bond framework and explains how Bonds align with core components of the Social Bond Principles.	Requires a detailed Peace Bond framework, modelled on a use of proceeds model. The framework must include targeted groups, a theory of change, and a collaborative design process.
Reporting prior to issuance	Issuers should maintain readily available information on the use of proceeds, updated annually until full allocation. It is recommended that impacts on target populations should be confirmed before a Bond is issued, in line with the Harmonised Framework for Impact Reporting for Social Bonds.	The legal documentation for a Peace Bond must include the Peace Finance Impact Framework and a list of projects and assets. These documents must be publicly available. Intended and reported impacts must be confirmed by stakeholders and verified.
External review before issuance	Issuers are recommended to appoint external reviewers to confirm that a Bond aligns with components of the Social Bond Principles. Voluntary guidance in available.	Issuers must engage an independent external reviewer to assess the investment framework and verify that it complies with pre-issuance criteria. Peace Finance verification guidance is available.
Reporting after issuance	Issuers are encouraged to follow the Core Principles for Reporting and the recommendations of the Harmonised Framework for Impact Reporting for Social Bonds. Confirmation of post-issuance impacts is optional.	An annual peace impact report is required. Impacts must be confirmed by targeted beneficiary groups, and made public to investors and communities.
External evaluation after issuance	Post-issuance evaluation is not required, but external reviewers are expected to focus on assessing social benefits and impacts.	An independent evaluation of the peace impact report is mandatory every 24 months. The evaluation must be made available to partners and investors.
Refinancing of existing bonds	Issuers should clarify which projects may be refinanced and define the expected look-back period.	Disclosure of refinanced projects is required. It must show the additional value that has been created. The look-back period for refinancing cannot exceed 24 months.

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