The Rationale for a Peace Finance Impact Framework

A comprehensive analysis, scoping and mapping to show why a new framework, standards and guidance are needed to change how private and public investment supports peace

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Finance for Peace

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About this report

This report has been developed by the Finance for Peace initiative. It describes the rationale and scope for development of a comprehensive investment alignment framework – a Peace Finance Impact Framework (PFIF) – that will help public and private investors to plan, partner around, report on and ultimately realise peace impacts that reduce risks for both investors and communities. The analysis and mapping presented here set the scene. The PFIF itself has been published as a separate document that is being circulated for wider input, consultation and iteration over time.

It is hoped that a broad range of key stakeholders will comment on the proposed PFIF. Potential users and partners include government donors, multilateral organisations, development finance institutions (DFIs), multilateral development banks (MDBs), private asset managers and banks, private enterprises operating in fragile and emerging markets, norm-setting organisations in the financial sector, second party opinion providers, organisations that operate in the development and peacebuilding sectors, civil society organisations, and communities.

The report has three sections. An introduction describes the rationale for peace finance and why new approaches are needed to address the challenges set by environmental, social and governance (ESG) standards as well as impact and blended finance approaches. The second and third sections map in detail current ESG, impact and DFI/MDB frameworks relevant to investment in fragile and emerging markets, and analyse key gaps with regard to peace.

About the Finance for Peace initiative

Finance for Peace is an independent initiative that seeks to change systemically how private and public investment supports peace in developing and fragile contexts. It aims to create multistakeholder approaches that can co-develop the market frameworks, political support networks, partnerships and knowledge that are required to scale up "peace finance", by which we mean investments that intentionally seek to improve conditions for peace. The aims are to reduce the risks for both investors and communities and achieve outcomes that are bankable and advance peace.

Finance for Peace has been incubated by Interpeace, an international peacebuilding organisation that has worked on conflict resolution and peacebuilding in Africa, the Middle East, Asia, Europe and Latin America for over 27 years. The governance and administration of the initiative is supported by Interpeace headquarters in Geneva, Switzerland. It is financially supported by the German Federal Foreign Office as part of its Investing for Peace (I4P) initiative.

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Terms and definitions

Negative peace. 'Negative peace' commonly refers to the absence of direct physical violence or fear of physical violence. As used by the PFIF, 'safety and security' is one of three key dimensions of peace, and is analogous to 'negative peace'.

Political peace. 'Political peace' interventions are political or largely formal solutions to violent conflicts that may be supported or reinforced by a formal legal architecture, such as a peace agreement, national legal reform, or a regional or international intervention (such as a UN Security Council decision).

Social peace. 'Social peace' describes a state of social cohesion and trust between the State and people, between different social and identity groups (e.g. castes, tribes, races, ethnic groups, religions, classes, genders), and within institutions, enabling people to resolve their grievances in non-violent ways. Social peace actions are inputs, outputs or outcomes that have the effect of transforming conflictual relationships between groups and between the State and society.

Other terms

Conflict sensitivity. The term 'conflict sensitivity' evolved in the aid sector, where it refers to practices that promote understanding of how aid interacts with conflict in specific contexts, mitigates unintended negative effects, and influences conflict positively, by means of humanitarian, development or peacebuilding interventions. It is now seen to be a minimum standard for all actors that operate in conflict-affected settings.

Do No Harm. Humanitarian, development and peacebuilding organisations have used the Do No Harm (DNH) principle and framework for decades to help ensure that external actors who engage in fragile places that are subject to conflict consider and mitigate the potentially harmful effects of their interventions. In relation to peace, the DNH standard is met by any approach that does not have harmful unintended consequences in the short, medium or long term, and does not exacerbate conflict dynamics. DNH judgements can only be made on the basis of a rigorous and systemic analysis of the local context and local peace and conflict dynamics.

Peace-enhancing mechanisms (PEMs). 'Peace-enhancing mechanisms' are peace actions embedded in financial structures and investment approaches that seek alignment with the PFIF. They are implemented by partners of investors (PEM partners) and refer to a broad array of actions that may be appropriate in a specific investment context. PEMs and organisations that have the potential to be PEM partners are described in this report.

Peace-positive. The term 'peace-positive' is used informally but widely in the development and peace literature to refer to actions that have a positive impact on peace dynamics (on negative peace but also other forms of social or political peace). It should not be confused with the more formal concept of 'positive peace'.

Peace-supporting. The phrase 'peace-supporting' is used in this report to refer to any activities, inputs or associated outcomes that intend to have or have positive (social or political) effects on peace.

Positive peace. 'Positive peace' describes an ongoing process of transformation of attitudes, institutions and norms that enables societies to resolve grievances in non-violent ways that people perceive to be just.[1] Progress is made towards positive peace when grievances are transformed and remedied in ways that are non-violent and perceived to be just, and directly address issues of safety, social justice, equality, mutual trust and well-being.

Peace responsiveness. The concept of 'peace responsiveness' builds on conflict sensitivity. It refers to practices of actors operating in conflict-affected or fragile contexts that are conflict-sensitive and satisfy the DNH principle, but also intentionally contribute to peace through programming in ways that are adaptive, enhance collective impact, strengthen societal resilience to conflict and violence, and support inclusive, gender-responsive, locally-led change.

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

Glossary

ADB	Asian Development Bank
ARIA	Africa Resilience Investment Accelerator
BCB	Business And Conflict Barometer
BII	British Investment International
BNEF	Bloombergnef
CBI	Climate Bonds Initiative
CBS	Climate Bond Standard
CDP	Cassa Depositi E Prestiti
CHRB	Corporate Human Rights Benchmark
CSRD	Corporate Sustainability Reporting Directive
DAC	Development Assistance Committee
DFC	Development Finance Corporation
DFI	Development Finance Institutions
DNH	Do No Harm
DNSH	Do No Significant Harm
EDFI	European Development Finance Institutions
EIB	European Investment Bank
EMIA	Emerging Markets Investors Alliance
ESF	Environmental And Social Framework
ESG	Environmental, Social And Governance
ESIA	Environmental And Social Impact Assessment
ESMP	Environmental And Social Management Plan
ESS	Environmental And Social Standards
EU	European Union
FCA	Financial Control Authority
FCDO	Uk Foreign Commonwealth And Development Office
FCPA	Foreign Corrupt Practices Act
FCS	Financial And Corporate Services
FCV	Fragility, Conflict And Violence
FDFA	Swiss Federal Department Of Foreign Affairs
FDI	Foreign Direct Investment
FSA	Fragile And Conflict-Affected Situations And Small Island Developing States Approach
GBP	Green Bond Principle
GEF	Global Environment Facility
GFFO	German Federal Foreign Office
GIIN	Global Impact Investing Network
HIPSO	Harmonized Indicators For Private Sector Operations
HRDD	Human Rights And Environmental Due Diligence
HSBP	Human Security Business Partnership

I4P	Investing For Peace
ICMA	International Capital Markets Association
ICRC	International Committee Of The Red Cross
IFRS	International Financial Reporting Standards
IHL	International Humanitarian Law
ILO	International Labour Organization
IMF	International Monetary Fund
IS-FSD	Impact Standards For Financing Sustainable Development
ISSB	International Sustainability Standards Board
JII	Joint Impact Indicator
KPI	Key Performance Indicators
MDB	Multilateral Development Bank
MIGA	World Bank Multilateral Investment Guarantee Agency
MNE	Multinational Enterprise
OECD	Organisation For Economic Co-Operation And Development
OECD DAC	Development Assistance Committee Of The Organisation For Economic Co-Operation And Development
OPIM	Operating Principles For Impact Management
PAI	Principal Adverse Impacts
PDI	Peace Dividend Initiative
PEM	Peace Enhancing Mechanism
PES	Peace Equity Standard
PFIF	Peace Finance Impact Framework
PFS	Peace Financing Standard
PPI	Private Participation In Infrastructure
PPT	De Pury Pictet Turrettini
PSD	Private Sector Development
SASB	Sustainability Accounting Standards Board
SBP	Social Bond Principle
SBG	Sustainability Bond Guidelines
SDG	Sustainable Development Goal
SFDR	Sustainable Finance Disclosure Regulation
SLBPs	Sustainability-Linked Bonds Principles
SRI	Socially Responsible Investing
SRCF	Syrian Revolving Credit Fund
THK	Tri Hita Karana
ToC	Theory Of Change
UNCDF	United Nations Capital Development Fund
UNEP	United Nations Environment Programme
UNEP FI	United Nations Environment Programme Finance Initiative
UNGPs	Un Guiding Principles On Business And Human Rights
US	United States Of America

Executive Summary

This report presents the rationale for a Peace Finance Impact Framework (PFIF) that will set out principles, standards and guidance for benchmarking how public and private investors can achieve peace impact through their investments. Through peace aligned investment, companies can lower risks for both communities and investees by implementing peace and investment strategies that are sensitive to political and social risks while increasing inclusion, trust, buy-in and certainty. For more detail on the PFIF itself, please refer to the PFIF Report (published separately).

New incentives to finance approaches that support peace are needed urgently. The facts are well known. 1.8 billion people, almost a quarter of the world's population, live in 57 countries where the Sustainable Development Goals (SDGs) are not being met because of ongoing violence and conflict. Foreign direct investment (FDI) and private investment to these fragile societies is at a ten-year low and existing blended finance approaches are currently not bridging the gap. The supply of large-scale investment is suppressed by poor market perceptions and evidence of systemic mispricing of risks. At the same time, there is widespread evidence that some private and public investment exacerbates conflict dynamics and fails to mitigate the risks faced by investees and communities. Underpinning this situation, public and private investors lack fit-for-purpose market frameworks, guidance and incentives to help them proactively engage with and properly mitigate the risks that are present in fragile and conflict-affected settings (FCS).

New frameworks, partnerships, guidance and standards to change investor incentives, impact peace and mitigate risks are badly needed for a host of reasons. First, despite a proliferation of ESG and impact frameworks (mapped and reviewed comprehensively by this report), no globally recognised benchmark or framework defines how 'peace impact' will be applied to different asset classes and categories of investment. In addition, most current frameworks do not require investors to understand peace and conflict dynamics or map the local impacts of their investment. This is so even though the effects of investment on peace and the effects of conflict and political dynamics on investment are material risk factors for investors that operate in fragile and emerging markets. Without benchmarks or points of reference, peace impacts cannot be planned or monitored and markets cannot judge whether reporting is trustworthy, transparent and fit-for-purpose. The development of the green bond market and the phenomenon of 'greenwashing' have shown that a rigorous and widely validated framework and transparent forms of measurement are necessary to establish market trust and uptake. In the absence of a rigorous framework, 'peacewashing' becomes a significant risk, given that self-labelled peace investments are being planned and will soon start to enter the market.

Nonetheless, many points of learning can be drawn from ESG methodologies as well as impact tools, principles and frameworks. Various frameworks, including the new EU draft social taxonomy, have sought to apply more rigorous standards of dual materiality, under which investors must consider and report on risks to society as well as risks to the company or investor. This shifts the focus from a narrow duty to Do No Harm to an obligation to intend to 'do good'. Various DFI, blended finance and impact frameworks and standards now recommend stakeholder consultation on the grounds that it improves understanding of local needs, as well as the community's inclusion, engagement and participation in investments. Calls for more transparency and accountability mark similarly significant shifts in the normative environment for investments that have a social impact.

However, improved frameworks and standards will not by themselves redress all the systemic challenges associated with scaling up investments that support peace in fragile and emerging markets. 'Corporate peace' literature and years of hard learned practice in the business and human rights fields have confirmed that voluntary regulation and efforts to make businesses more accountable have minimally affected business activity in developing countries. For many investors, due diligence procedures and impact alignment processes are merely 'another' transaction cost; because they are cumbersome and costly to implement, they are viewed as an investment disincentive. In consequence, many good principles and practices have been unused or ignored, or remain unknown to the vast majority of investors.

For this reason, any proposed peace finance impact framework should demonstrate that alignment with it will bring material advantages. A PFIF needs to become a positive and more central component of investment strategies and practice. If it is not, it will become another due diligence 'check box', and its adoption and implementation will be piecemeal.

Many of those who contributed to this research noted that, in terms of information, skills and capacities, there are fundamental asymmetries in the relationship of 'outside' investors to 'local' consumers, communities and implementors in developing countries. Many investors lack access to local networks and knowledge of the contexts in which they are investing and as a result cannot navigate with skill the complex political and social risks their investments must address. To bridge these gaps, a framework is needed that will create new incentives for partnership with local actors, create conditions for peace actions that will improve community buy-in, distribute benefits more inclusively, and lower risks for both communities and investors.

In contrast to most current risk transfer mechanisms in fragile locations, which focus predominantly on forms of financial de-risking,[2] peace finance approaches can help investors to materially reduce social risks through their investments or assets. This addresses a potential moral hazard: where projects exacerbate conflict dynamics, typical DFI or MDB financial risk-sharing mechanisms may lower risks for investors but may increase risks for communities. To de-risk through the investment or asset, partners and investors implement peacebuilding actions, dubbed Peace Enhancement Mechanisms (PEMs). The scale, scope, content and detail of PEMs will be influenced by the peace strategy that partners develop as part of a peace alignment process. They will therefore be context and investment specific. The investment methodology will build in peace actions that support a peace and investment strategy in order to increase inclusion and earn the trust of local stakeholders. Peace-aligned investments of this kind are more likely to make deliberate positive impacts and to mitigate harms and risks because they will create transaction structures that integrate the financing of PEMs in their capital or operational expenditure.

As noted, asset/investment de-risking is likely to be context and transaction specific. However, a feasibility study has demonstrated that a peace bond structure can generate substantial positive benefits on net present values and risk-adjusted returns on capital for capital intensive projects that involve upfront borrowing.[3] This finding is especially important because high country risk premiums in fragile and emerging markets create elevated debt costs that often undermine the bankability and feasibility of projects. In addition, where hybrid forms of governance prevail, large-scale conflict-sensitive investment is very difficult to achieve without the local, inclusive, participatory and process-oriented approaches that peace finance will help investors to develop. In such ways a proposed PFIF investment can create real additionality.

Finally, it is important to note that a significant opportunity exists to scale up peace finance. Today's developing and emerging markets are among the fastest growing but also among the most socially fragile in the world. By 2025[4] these markets are expected to account for nearly half the world's consumers[5] and will have enormous infrastructure investment needs.[6] At the same time, demand for socially responsible investment has increased. Globally, one third of all assets under management (AUM) is already ESG-labelled. Social bonds to the value of almost USD 400 billion were issued in 2021 alone, representing almost a quarter of the USD 1.6 trillion global sustainable debt market. These trends reflect the growing demand of investees and investors for investments that are sensitive to environmental and social risk. In addition, new regulations on green disclosure in the United States of America (US) and the European Union (EU), and potential legislation on human rights due diligence, have significant legal implications for companies that operate in developing and emerging markets. Combined, these developments create conditions that support the uptake of peace finance.

2 Examples of de-risking include securitisation, co-lending or tranching between lenders (first-loss), guarantees or syndicated loans, and political risk insurance.

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

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

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

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

Key facts and summary of rationale

Ten common peace impact gaps in ESG and impact investment frameworks, principles, standards and guidance.

1. Current frameworks across the ESG, impact and blended finance space are largely silent on peace and conflict concerns.
2. They do not address double materiality consistently and need to shift from Do No Harm to positively 'doing good'.
3. Holistic, forward-looking, and adaptive approaches are needed to assess value and risks as they materialise over time.
4. Impact design and planning processes need to become less ad hoc and more deliberate.
5. Risk assessments of peace and conflict dynamics need to become more context specific.
6. Investors often have a limited or superficial understanding of local needs, inclusion, engagement and participation, which weakens due diligence, additionality, risk mitigation and sustainability.
7. Investors are rarely required to collect or listen to the views of affected communities and beneficiaries, which undermines transparency and accountability.
8. Many frameworks lack specific and actionable guidance and as a result are not implemented.
9. Impact management and measurement systems need to connect more to disclosure mechanisms.
10. Many complaint and grievance mechanisms are unfit for emerging and fragile contexts.

Deficiencies that DFIs and pioneer investment managers identify in fragile and emerging markets.[7]

- Global benchmarks or recognised frameworks are not available to monitor and maximise peace impacts from investments in private businesses.
- **DFIs and investment managers do not have access to specialist expertise on peace and conflict**.
- **Market intelligence for new product offerings is not available**. It is difficult to raise finance for the development costs of new product offerings and strategies, particularly where the potential demand is high but unproven.
- **Technical assistance for peace finance is not available**. Pioneering investment managers need technical assistance to tackle a range of activities, including investment and administrative processes, investor outreach, business integrity and compliance concerns, and feasibility analysis.
- **Investment managers lack opportunities to learn from one another.** Companies lack networks to help them obtain information, local insights, and capital to expand their operations. Local investment managers are familiar with local systems, operating environments and market actors but are not resourced to share this knowledge with other investors looking to enter the market.
- **Investors do not have access to viable, contextualised peace impact management frameworks.** Partnerships with peacebuilding and development actors could meet this need and could also help investors to manage reputational risk.
- **Investors lack data and peace-informed market intelligence.** Sector specific research and research into value chains is needed; researchers should have country level expertise.
- **Investors lack non-financial capacities to operate in fragile and conflict-affected States.** Actors need training in a host of non-financial capacities relevant to fragile settings, including systems thinking and value-oriented investing.

7 Van Hoeylandt, P. and Lions Head (2022), 'Investing for Peace Feasibility Study', unpublished.

Key facts about the proposed Peace Finance Impact Framework (PFIF)

- ✓ The PFIF would be a voluntary framework. Public and private investors would use its standards to align their investment and business activities. The standards would help them to manage risks related to peace and conflict and create new additionalities in their investment environment.
- ✓ The PFIF would help investors to achieve deliberate peace impacts, measured in terms of a widely recognised definition and taxonomy of peace, and to report and disclose to the market the progress of those peace impacts.
- ✓ It would define peace based on a peace taxonomy that investors could use to plan and report on their contributions. It would help investors to identify the extent of their contribution and the ambition of their intended peace impacts.
- ✓ While investors and their PEM partners would largely self-determine their alignment to the PFIF, verification gateways would make sure that investors follow PFIF guidance and process with respect to peace impacts.
- ✓ The PFIF is expected to become an important source of certification and validation for categories of sustainable finance that want to put a 'peace' label on their investments.
- ✓ Elements of the PFIF could be modular and may be applied alongside screening, reporting and due diligence tools that measure alignment with environmental or social objectives.
- ✓ The PFIF seeks to create additionality for investors but to reduce investment risks at the level of the asset. This contrasts with most current risk transfer mechanisms in developing settings that focus on financial de-risking.[8] The PFIF aims to reduce the risks of investors but also to reduce the risks of investees and communities.
- ✓ Alignment and disclosure processes will vary according to the asset class of the investment (bonds, loans or equity). Specific peace bond and peace equity standards will need to be developed, based on the conceptual foundations, principles and verification and disclosure guidelines of proposed PFIFs.
- ✓ PFIFs will encourage investors and companies to change the direction of their operations or investments. They provide disclosure and alignment processes for new capital or operational expenditures that deliberately integrate peace impacts. As a result, it is not expected that companies will be able to report under the PFIF framework on the peace impact of pre-existing operational or capital expenditures. If the market for peace finance grows, however, peace standards may evolve to accommodate existing investments, in order to improve the alignment of business continuation with the new regime.
- ✓ A detailed description of the PFIF has been published separately, and will be circulated widely to potential stakeholders for consultation and validation. Those consulted will include communities living in fragile and emerging markets, the finance industry, public and private investors, civil society organisations, multilateral agencies, government policymakers, and donors that fund development and peacebuilding.

8 Examples of de-risking include securitisation, co-lending or tranching between lenders (first-loss), guarantees or syndicated loans, and political risk insurance.

Introduction: The Need for a Peace Finance Impact Framework

The scale of development needs in fragile and conflict-affected settings is enormous. While public finance can play a critical catalytic and early stage role, sustained private sector investment is ultimately the key to long term development. However, how public and private investments interact with peace and conflict dynamics determines whether risks are mitigated and communities can sustain development gains. It is necessary to increase the quantity of private finance invested in fragile settings, but also to transform *how* finance is invested: investments must become more sensitive to conflict dynamics and local political risks as well as opportunities for peace.

The financing environment for peacebuilding, conflict prevention and development in fragile and conflict-affected settings is already changing. COVID-19 has had large macro-fiscal impacts on economies and caused governments to divert significant amounts of aid to urgent health and pandemic response support. In addition, the Russian full-scale invasion of Ukraine led donor States to allocate large sums to Ukraine for humanitarian aid and economic support. These and other factors have reduced the funds available for wider conflict prevention and peacebuilding, which are predominantly financed by States. Historically high levels of conflict, and rising poverty and hunger levels, mean that it has become vital to secure additional and alternative forms of finance for peace and sustainable development.

At the same time, the COVID-19 pandemic has disproportionately harmed poor, underserved communities. The pandemic exposed vulnerabilities in food and water as well as health systems, and generally widened inequalities, many of which are strongly associated with conflict dynamics. Simultaneously, social responses to COVID-19 and other crises in the form of bonds issuance have been deployed to tackle public and private needs, a phenomenon that investors have welcomed. However, this trend has raised questions about which impact areas should be prioritised. Stakeholders have been asked to provide better measurements of social impact, because this will be central to growth of the social bond market, especially in emerging countries that suffer from fragility and conflict.

It is an investment paradox that fragile and conflict-affected settings are at once regions of very high risk and among the world's largest significant investment opportunities. Many have enormous pent-up demand and growth potential based on their demography and state of development. Investors and markets tend to depreciate these markets even though they frequently have no detailed understanding of the real opportunities and threats they present, creating a danger of market failure because perceived risks outweigh real risks. In many situations, large and highly diverse countries are labelled as too risky even though levels of risk vary widely within them.

In parallel, profound changes are occurring in market and investor appetite for ESG aligned and socially conscious investment. Sustainable investment products (green bonds, social bonds and loans, sustainability-linked bonds and loans) have grown almost exponentially in the past five years and now have an estimated value of more than USD 1.6 trillion. Reflecting this growth, the body of principles, standards and guidance that underpin these markets has become more complex and sophisticated. It has also come under sharper scrutiny as doubters have questioned whether it is achieving its intended outcomes. In addition, although ESG and other normative frameworks have proliferated (to include green, social and human rights standards, and an EU regulatory green and social taxonomy), investors lack principles, guidance and standards on peace and conflict. Human rights frameworks certainly provide some minimum standards for investors and businesses operating in emerging markets; but many remain unused, they are narrowly focused on Do No Harm, and lack a system for evaluating and making accountable the kinds of contextual trade-offs that determine the real impact of business activities on communities.

As a consequence, investors and businesses do not clearly understand whether their investments in emerging and fragile markets have positive or negative effects on peace and conflict dynamics. Empirical quantitative research by the Finance for Peace initiative showed that certain types of multinational private sector activity (which accounts for 80% of FDI into Africa) correlate positively with increases in conflict and violence. (See the text box 'Summary of Key Input Paper'.) More specifically, land intensive investment in Africa is significantly and positively associated with increases in local conflict and violence.

Because they offer few or no processes, approaches and standards that companies can use to evaluate and mitigate risks linked to violence and conflict, current ESG and sustainable investment principles and frameworks do not generally create additionality and use-value for investors in fragile settings. Private actors have little incentive to invest in such settings, let alone invest to promote peace. As impact and ESG investment evolves and improves, investors are likely to recognise the effects of investment activity on conflict and violence, and to demand more rigorous standards.

Finally, governments, impact investors and the development sector need to confront 'peacewashing' or 'social good washing'. The growth of sustainable, ethical investing and impact investing undeniably indicates a positive normative shift in international investment. Nevertheless, current impact and accounting frameworks lack rigour and standardised norms, particularly with respect to peace and social cohesion, and this generates mistrust. The rapid and significant growth of 'virtuous' money creates perverse incentives to practise 'peacewashing', 'social washing' or 'social corporate washing'. Private and blended impact approaches have not yet learned from the experience of grant-funded development and peacebuilding organisations, which is reflected in the silos that still exist between the sectors: this too needs to be on the task list.

Policy momentum for investment in fragile and conflict-affected states

Important policy shifts are being made by many DFIs. The World Bank published its fragility, conflict and violence (FCV) strategy in 2020. In 2022 the International Monetary Fund (IMF) released a strategy for fragile and conflict-affected states. In 2021 the Asian Development Bank (ADB) published a 'Fragile and Conflict-Affected Situations and Small Island Developing States Approach' (FSA). As this report was completed, the European Investment Bank (EIB) was finalising its strategy on fragility and conflict. In 2022, the Development Finance Corporation (DFC), British Investment International (BII), Proparco, FinDev Canada, and Cassa Depositi e Prestiti (CDP) launched the Africa Resilience Investment Accelerator (ARIA), a joint initiative designed specifically to help DFIs develop a pipeline for conflict sensitive public investments in Africa. Research by the GFFO and the Stabilisation Platform on 'Investing for Peace' (I4P) proposed important options for pooling DFI funds that have peace-positive objectives.

These initiatives and policy approaches recognise that public concessional finance must become more conflict aware, conflict sensitive and deliberate in its efforts to advance peace. The I4P research showed that DFIs lack critical staff capacities, but also partnerships, knowledge and frameworks that they will require to scale up their peace impacts in fragile and conflict-affected locations. To achieve positive change, they need to form new partnerships with civil society, international actors, peacebuilding actors, development actors, and private actors working in emerging markets. For Finance for Peace, these conditions create a special opportunity to convene and connect these actors and develop norms, guidance and standards that they can adopt and apply in their programmes and investments.

Key facts on private financial flows to fragile settings and on blended finance

Financial flows to fragile settings are inadequate

- To achieve the SDGs, it is estimated that USD 2.5 trillion, or USD 500bn per year, will need to be raised for the world's low-income countries.[a] Given that ODA currently hovers at about USD 160 billion (one third of the amount required) and that many low-income countries continue to depend on aid, the financing gap is significant. The fiscal challenges caused by COVID-19 make it most unlikely that ODA levels will rise sufficiently.
- Critically, investment to developing countries is structurally weak, especially to countries that are affected by conflict and sectors that are relevant to the SDGs. The COVID-19 pandemic exacerbated the ODA dependence of many developing countries; and in 2021 investment flows to sectors relevant to the SDGs collapsed.[b] Foreign direct investment (FDI) into Africa fell by 16% to USD 40 billion, a level last seen 15 years ago. According to the same source, the number of newly announced greenfield projects in developing countries fell by 42% and the number of international project finance deals – important for infrastructure – by 14%. These impacts are significant and show that more resources and investments need to flow into parts of the world where future sustainable development is critical.

Most blended finance is still blind to peace and conflict

- Currently, very little impact and sustainable investment supports SDG 16 (peace, justice and strong institutions) or peace more generally. While the potential of impact and blended finance to supplant ODA and raise significant additional private finance for development and peace has been widely discussed, least developed countries have attracted just 6% of all the private finance that ODA has mobilised.[c] A variety of factors is responsible for this, but the principal cause is a failure to link development and peace strategies to private sector activity.
- Sectors that promote sustainability and peace have not yet successfully attracted significant funds to specific peacebuilding issues or countries that experience conflict. It is well understood that financing is a critical precondition for achieving many SDGs, yet very few blended finance operations have identified investable areas in SDG 16. In Convergence's blended finance database (a comprehensive database of over 600 blended finance structures), only three entries referenced SDG 16, in all cases to support press freedom. Just one fund structure indicated a deliberate aim to achieve peace impacts: a 2016 fund valued at USD 1.4 million, sponsored by SIDA, to support reconciliation efforts in Colombia.

a UNCTAD, 'World Investment Report 2014: Investing in the SDGs – an action plan'.
b. UNCTAD, 'World Investment Report 2021'.
c. OECD (2020), 'Blended Finance in the Least-Developed Countries'.

What we know about private sector impacts on peace

Starting in the early 2000s, multilateral agencies played a leading role in promoting the involvement of the private sector in peacebuilding processes. They did so even though research has shown clearly that, in fragile and conflict-affected States, private sector development (PSD) often exacerbated conflict dynamics, created social divides that led to conflict and violence, and undermined wider peacebuilding and development goals.[9] Recent explicit calls for more private sector involvement in fragile and conflict-affected States,[10] including by the PFIF, make it critical to revisit evidence of the private sector's impacts on peace and conflict dynamics, as well as its wider social, environmental and contextual influence.

The nexus of peace and economic activity

Ideological and philosophical assumptions about the relationship between peace and economic activity should be acknowledged, because they still shape thinking today. One of the most widely accepted causal mechanisms was first advanced by the liberal John Stuart Mill. He argued that bilateral trade increased the opportunity cost of war for countries, deterring use of violence even in contexts of intra-State conflict.[a] Promoters of Realism and Trade Expectations, on the other hand, argued that growth and new economic opportunities can motivate actors to fight for control of resources, especially in States characterised by horizontal inequalities.[b] More recent business and peacebuilding research has taken a more institutional and contextual view. It found that local businesses tend to promote peace or conflict according to the degree to which inter-group differences decline in their operating environment.[c]

Business and peacebuilding researchers have noted that it is difficult to evaluate the impact of private firms on peace and conflict. Businesses influence and participate in the societies they invest in, and a company that operates in a conflict-prone country develops intricate relations with its workforces, the supply chain, and local political and cultural institutions.[d] In this sense, policies must recognise the local nature of business operations and of conflict and violence policies and address the entire conflict system, not just companies. Solutions already exist in the fields of peacebuilding, conflict prevention, and violence reduction. Business strategies should be responsive to the specific social, political, economic and conflict dynamics that influence local actors at that time and in that place.[e]

a See Morelli, M., Sonno, T. (2017), 'On economic interdependence and war'; Oneal, J. R., Russet, B. M. (1997), 'The classical liberals were right: Democracy, interdependence, and conflict, 1950–1985'; Russett, B. M., Oneal, J. R. (2001), 'Triangulating peace: Democracy, interdependence, and international organizations', WW Norton.

b. Copeland, D. C. (2014), 'Economic interdependence and war', Princeton; Collier, P., Rohner, D. (2008), 'Democracy, development, and conflict'; Cederman, L. E., Weidmann, N. B., Gleditsch, K. S. (2011), 'Horizontal inequalities and ethnonationalist civil war: A global comparison'.

c. Miklian, J., Schouten, P. (2019), 'Broadening "business", widening "peace": a new research agenda on business and peace-building'.

d. Ganson, B. (2013), 'How do we succeed in a complex environment', in Gibson, B., 'Management in Complex Environments: Questions for Leaders', NIR.

e. Ganson, B., Wennmann, A. (2018), 'Business and Conflict in Fragile States: The Case for Pragmatic Solutions', Routledge.

Research has shown that while businesses can evidently promote economic development by providing local jobs,[11] attracting technological transfers,[12] and investment,[13] they can also reinforce marginalisation and exclusion and create corruption and new grievances. For this reason, different case studies recommend careful analysis of the incentives and forms of entrepreneurship that multinational enterprises (MNEs) adopt abroad. When a business is rent-seeking or extractive, gains are likely be retained by local elites, fuelling conflict by depleting natural resources and worsening inequalities. These well-established findings have been confirmed by quantitative research commissioned by Finance for Peace and summarised below.

On the other hand, research has also shown that business activities can make positive contributions to peace by acting inclusively and ethically.[14] Ganson concluded that peace-positive business activity should:

- Stimulate broad-based economic growth (rather than benefit a few companies or industries).

9 Ganson, B. (2021), 'Private sector development in fragile states: a peacebuilding approach', Policy Brief, Institute for Development Studies, <https://issafrica.s3.amazonaws.com/site/uploads/PB-164-2.pdf>.

10 United Nations (2020), 'Secretary-General's Peacebuilding Fund 2020-2024 Strategy', <https://www.un.org/peacebuilding/sites/ www.un.org.peacebuilding/files/documents/pbf_strategy_2020-2024_final.pdf>.

11 Fort, T. L., Schipani, C. A. (2014), 'The role of business in fostering peaceful societies', Cambridge University Press.

12 Spencer, J. W. (2008), 'The impact of multinational enterprise strategy on indigenous enterprises: Horizontal spillovers and crowding out in developing countries', Academy of Management Review, 33/2, <https://doi.org/10.5465/amr.2008.31193230>.

13 Buckley, P. J., Ghauri, P. N. (2004), 'Globalisation, economic geography and the strategy of multinational enterprises', Journal of International Business Studies, 35/2, <https://www.jstor.org/stable/3875244>; Fort, L. T. (2008), 'Prophets, profits, and peace: The positive role of business in promoting religious tolerance', Yale University Press.

14 Fort, T. L. (2008), 'Prophets, profits, and peace: The positive role of business in promoting religious tolerance', Yale University Press.

- Expand economic opportunities in informal as well as formal markets in countries where most people are active in informal markets.
- Reduce horizontal (between-group) inequalities.
- Acknowledge and address critical drivers of conflict and fragility, whether these take the form of ethnic exclusion, elite enrichment, abuse of the State security apparatus for economic gain, or corporate impunity.[15]

Although achieving these goals absorbs time and resources, they increase the sustainability of investments in fragile and conflict-affected places. In its 'Evaluation of Support in Fragile and Conflict-affected situations', the Global Environment Facility (GEF) found that projects in conflict-affected contexts are on average less sustainable than projects in non-conflict contexts.[16] In addition, conflicts can block access to target sites, create security costs and risks for staff, and oblige companies to restructure, delay or cancel projects. To manage these risks and problems, peace-positive and conflict-sensitive safeguards, policies, and guidance are essential tools.

Obstacles to investment in fragile and conflict-affected areas

Research by Lions Head and van Hoeylandt, supported by the GFFO and the Stabilisation Platform on Investing for Peace Feasibility Study, documented key barriers to investment in fragile and conflict-affected settings. The lack of a global benchmark or recognised framework for monitoring and maximising peace impacts was a central impediment.

The research focused on obstacles that concessional finance institutions face. However, many of the same obstacles are felt as acutely or more acutely by private actors. When considering how to scale up peace-positive finance or peace finance, key challenges include:

- There is no global benchmark or recognised framework for monitoring and maximising the peace impacts of investments by private businesses.
- **DFIs and investment managers do not have access to specialist expertise on peace and conflict**.
- **New product offerings lack market intelligence**. It is difficult to raise finance and development costs for new product offerings and strategies, particularly where the potential demand is high but unproven.
- **Investment managers lack technical assistance in the field of peace finance**. Pioneering investment managers need technical assistance to tackle a range of activities, including investment and administrative processes, investor outreach, business integrity and compliance concerns, and feasibility.
- **Investment managers lack opportunities to learn from one another.** Companies lack networks to help them obtain information, local insights, and capital to expand their operations. Local investment managers are familiar with local systems, operating environments and market actors but are not resourced to share this knowledge with other investors that want to enter the market.
- **Investors do not have access to viable, contextualised peace impact management frameworks.** Partnerships with peacebuilding and development actors could meet this need and could also help investors to manage reputational risk.
- **Investors lack data and peace-informed market intelligence.** Sector specific research and research into value chains is needed; researchers should have country level expertise.
- **Investors lack non-financial capacities to operate in fragile and conflict-affected States.** Actors need training in a host of non-financial capacities relevant to fragile settings, including systems thinking and value-oriented investing.

As a result of all these issues, DFIs and larger market investors lack an investment pipeline that is adequate in scale. Although significant concessional capital is available and investors are interested in emerging markets, lack of guidance and the absence of a pipeline have generated a form of market failure. Because they lack local knowledge and local partnerships, it is difficult for DFIs to configure and complete potential deals, though their mandate is to catalyse private investment in emerging and developing markets, most of which are fragile and conflict-affected.

15 Ganson B. (2021), 'Private sector development in fragile states: a peacebuilding approach', Policy Brief, Institute for Development Studies, <https://issafrica.s3.amazonaws.com/site/uploads/PB-164-2.pdf>.

16 Global Environment Facility (2020), 'Evaluation of GED Support in Fragile and Conflict-Affected Situations', GEF Council, <EN_GEF.E_C59_01_Evaluation_of_GEF_Support_in_Fragile_and_Conflict-Affected_Situations_Nov_2020_0.pdf (thegef.org)>.

What does a market for peace finance require?

Research by I4P and others established that there is a potential market for peace enhancing finance, which initially requires two key enabling factors: (1) a harmonised impact framework that will credibly and robustly guide and subsequently explain peace impacts; and (2) principles, standards and guidance that will assist private investors both to engage responsibly in fragile and conflict-affected settings without doing harm and to make positive contributions to peace. Development of a widely recognised global benchmark is the first step to acquiring the local knowledge, partnerships, business sourcing and political acumen that successful investment in fragile and conflict-affected markets requires. The presence of an agreed benchmark may give DFIs, donors and other sources of potential concessional capital confidence in peace finance mechanisms and help to generate the technical assistance and human support skills that a peace finance pipeline will need if it is to scale up.

Once a viable number of examples and deals has been reached, a wider network can be developed. This will facilitate further research, partnerships and coalition building between different actors, strengthening their buy-in and support and adoption of the framework. A proven pipeline of examples will show that peace projects are bankable and verifiable, generate additionality, mitigate risk and bring benefits for both investors and communities. It will act as a catalyst - attracting fresh private sector interest, persuading investors to align with peace finance labelling and standards, and thereby enabling peace finance to scale up.

An eventual Peace Finance Impact Framework should specifically address a number of needs and opportunities. In particular it will be important to:

> **Establish a peace finance and verification process that will become an agreed global benchmark that guides and demonstrates robust and credible peace-supporting impact and additionality**

For peace finance, it is foundational to understand the nature and characteristics of peace impacts. It is not enough to just increase the size and scale of investment in fragile and developing countries. Forms of new investment must Do No Harm, be conflict-sensitive and peace-responsive, and be peace-supportive or 'peace-positive '. When financing for peace is scaled up, investors, companies and communities need to understand whether peace impacts are actually being achieved. However, peace impacts can be measured in many ways and take many forms. There are at least two major approaches: one conceptualises sectors and areas of investment that are favourable for peace impacts and contrasts them with sectors that are generally unfavourable; the other conceptualises approaches and methods of engagement that tend to advance peace. Clearly both are relevant; they need to be brought together in a coherent framework.

The private sector can benefit from the good practices and learning of other sectors. Peacebuilding and development actors have accumulated a significant body of expertise on how peace impacts can be achieved and monitored, which the private sector should adopt to meet its needs. Specifically, it will be necessary to improve the monitoring and evaluation of longer-term projects whose peace impacts are intended but indirect. Time is also an important dimension for private sector interventions because an investment can achieve intended peace impacts in the short term but then cause unintended harmful effects in the longer term. This risk will need to be recognised and monitored.

> **Link private and public approaches to impact measurement**

The financial market lacks agreed practices for disclosing information and measuring social impact. Advances in quantitative social science analysis and the availability of robust geolocated data on conflict and conflict drivers should assist private sector actors to price, understand and monitor local risks to their operations and ultimately enable them to measure their material impact. This will help to counter the current tendency of investors to overprice risk because they lack information about or access to fragile and conflict-affected societies. For both public and private actors, these new analytic tools have great potential value which at present is largely unrealised.

> **Create market trust by establishing market norms**

Harmonised PFIFs can establish a market norm for peace finance that will inhibit private actors from exaggerating the impact of their work. Lessons can be learned from green and sustainable investing markets, where the proliferation of impact measurement frameworks has made it difficult for investors to show clearly that they are meeting their fiduciary ESG requirements. This issue will become more prominent because clients of large pension and sovereign funds are increasingly asking funds to improve their ESG alignment and impact.

> **Connect to larger standardisation processes for ESG and SDG impact**

Especially in the EU, and as a result of COP26, efforts are being made to standardise environmental impact frameworks. The EU Social Taxonomy and the EU Sustainable Corporate Governance initiative and proposed directive on mandatory human rights and environmental due diligence both signal that peace issues will be taken more seriously and that regulatory enforcement will be preferred to voluntary action. These processes will tend to formalise nascent peace impact concepts and frameworks. However, the content of both the social and governance dimensions of ESG will need to be developed to make them relevant to conflict-affected and fragile settings. Current frameworks do not enable investors to adequately manage the risks that arise in such environments.

Given the proliferation of impact, ESG and SDG frameworks, why are new principles, standards and guidance for peace needed?

In the course of preparing this report, researchers mapped the principal frameworks, standards, principles, and guidance on ESG and social impact that are relevant to private and public investment in fragile and conflict-affected settings. The report provides a summary analysis of this research, complementing a lengthy literature review that has been published separately. The analysis describes how current frameworks address peace and conflict issues and assesses the extent to which they help public and private investors to minimise their unintended negative impacts on peace and maximise their potential positive impacts on peace. This work has informed the conceptual foundations, principles, proposed alignment process, results verification, and disclosure guidance of the draft PFIF.

The research identified ten important gaps which are described at length later in this report:

1. Current frameworks across the ESG, impact and blended finance space are largely silent on peace and conflict concerns.
2. They do not address double materiality consistently and need to shift from Do No Harm to positively 'doing good'.
3. Holistic, forward-looking, and adaptive approaches are needed to assess value and risks as they materialise over time.
4. Impact design and planning processes need to become less ad hoc and more deliberate.
5. Risk assessments of peace and conflict dynamics need to become more context specific.
6. Investors often have a limited or superficial understanding of local needs, inclusion, engagement and participation, which weakens due diligence, additionality, risk mitigation and sustainability.
7. Investors are rarely required to collect or listen to the views of affected communities and beneficiaries, which undermines transparency and accountability.
8. Many frameworks lack specific and actionable guidance and as a result are not implemented.
9. Impact management and measurement systems need to connect more to disclosure mechanisms.
10. Many complaint and grievance mechanisms are unfit for emerging and fragile contexts.

The analysis indicates that current ESG and impact frameworks are not equipped to comprehensively mitigate harm in fragile and conflict-affected settings or achieve planned peace impacts. Many of the mapped frameworks include guidelines for improving the integrity and quality of sustainable and blended investments. (Examples include the principles of green, social and sustainability bonds published by the International Capital Markets Association (ICMA);[17] the Principles for Blended Finance of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC);[18] and the Kampala Principles.[19]) However, they are not designed for use in fragile and conflict-affected contexts and lack incentives to encourage their adoption in such environments.

When considering peace impacts (indeed impacts in general), the main challenges to current approaches are: the issue of double or dual materiality; the narrowness of their scope and intent; the absence of context specific guidance; and the dis-

17 International Capital Market Association (ICMA) (2021), 'Social Bond Principles: Voluntary Process Guidelines for Issuing Social Bonds', <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>.

18 OECD (2020), 'Blended Finance Principles Guidance', <https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/ ?cote=DCD/DAC(2020)42/FINAL&docLanguage=En>.

19 Global Partnership for Effective Development Co-operation (2019), 'Kampala Principles: On Effective Private Sector Engagement In Development Co-operation', <https://www.effectivecooperation.org/system/files/2019-07/Kampala%20Principles%20-%20final.pdf>.

connect between principles and their application. The latter problem stems from overly narrow or imprecise measurement approaches that reduce transparency. Measurement weaknesses are in turn due to selective disclosure requirements that do not require investors to collect important information on sustainability or the material impacts of company operations on local communities.

These problems are linked to a design issue that has been widely discussed. Current approaches adopted a 'building block' model that identified and aligned ESG criteria in eligible sectors. The model makes practical sense in environmental matters but it is less appropriate in social and governance domains, where impacts tend to be more transversal. For instance, greenhouse gas (GHG) impacts are a relevant metric that can be applied to actions that affect the environment; however, similar singular or composite measures in the social and governance domains are rare because inputs and outcomes are more multidimensional. Social and governance outcomes and impacts are hard to directly observe and attribute because they have multifactorial causes. In addition, while individual inputs may be important, they flow and interact in a complex system. This has implications for the standardisation of social and governance measurement regimes. Currently, no composite array of indicators has been agreed for these fields, let alone foundational definitions. ESG principles or standards related to peace must therefore give far more attention to relational issues and context, which the structure of an investment influences, and which influence whether an investment mitigates (or worsens) conflict drivers or improves conditions for peace.

With respect to work on peace (and social and governance domains more broadly), frameworks and thinking need to be more process driven. Development actors often frame the contributions that public and private sector activities make to peace in terms of their impact on jobs, basic needs, livelihoods, access to resources, technology and other material results. These are indeed fundamental building blocks of both development and peace. However, as grant-making international development organisations have discovered from years of hard-learned experience, communities and nations do not achieve peace if they are simply provided with material goods and services. *How* goods, services, resources and capital are deployed, developed, and circulated, and *how* communities engage and relate, matter enormously. Relations and processes determine the cohesion of communities and the quality of the social contract between communities and their authorities. Actors need to consider more deeply *how* communities and populations relate and engage with each other as well as *what* their interventions deliver, and identify the actual as well as perceived beneficiaries of interventions.

The importance of these relational, qualitative and often political outcomes is increasingly recognised in both grey and scholarly development literature. A systemic evaluation carried out in 2019, for example, demonstrated that interventions that encouraged participation by citizens and communities measurably improved user engagement, the quality of services delivered, and confidence in State/society relations.[20] These effects were acknowledged by the International Finance Corporation (IFC) in 2013, when it reviewed the first phase of its Conflict-Affected States in Africa Initiative (CASA). Yet qualitative analysis of the role of aid delivery in conflict mitigation has not been matched by quantitative studies. Applying the methodology of the International Evaluation Group (IEG, a unit of the World Bank), Jacob Moscona investigated the effectiveness of World Bank projects and showed that better managed projects reduced violent conflict in sub-national areas, whereas poorly managed projects made conflict more likely.[21] This work indicated the general link between well managed investments and benefits to people and communities; good management also has positive financial impacts on the efficiency and effectiveness of assets or investments and reduces their risk.

Finally, the mapping review demonstrated that frameworks and principles need to address uptake and use. Many existing standards and principles affirm important norms that are widely accepted but, because investors lack incentives, guidance, capacities or a complementary market infrastructure, they are not widely adopted or applied. Any proposed PFIF must therefore consider issues of adoption and implementation. It will need to provide appropriate incentives to encourage uptake and use, and reduce organisational and bureaucratic obstacles to adoption.

Proposed standards, principles and guidance need to demonstrate that they provide financial and peace additionality, mitigate risk, and are practical (enable private actors to apply them straightforwardly). To achieve these objectives, PFIF principles, standards and governance mechanisms must be accessible, rigorous and trusted by investors. These qualities must be present in the practical guidance provided to structure investments and transactions; in the metrics applied to monitor them; in the partnerships that manage and accompany them; and in the methods adopted to achieve peace impacts.

20 Waddington, H., Sonnenfeld, A., Finetti, J., Gaarder, M., Stevenson, J. (2019), 'Does incorporating participation and accountability improve development outcomes? Meta-analysis and framework synthesis', Systematic Review 43, International Initiative for Impact Evaluation, <https://www.3ieimpact.org/sites/default/files/2019-06/SR43-PITA-report.pdf>.

21 Moscona, J. (2019), 'The Management of Aid and Conflict in Africa', <https://scholar.harvard.edu/files/moscona/files/mgmtaidconflict_manuscript1.pdf>.

Materiality, additionality and intentionality in ESG (and peace) investments

Where earlier social investment approaches, such as socially responsible investing (SRI), used exclusionary screening and value judgments to shape investment decisions, ESG investing has been driven by demand across the finance ecosystem, as well as pursuit of higher long-term financial value and better alignment with values. A long-held (and often contested) view holds that responsible investment implies weaker financial performance. The evidence for this is mixed: some responsible investment or ESG funds are reported to have outperformed mainstream funds in 2020.[22]

Broadly speaking, ESG investing seeks to incorporate environmental, social and governance factors in asset allocation and risk decisions to generate sustainable, long-term financial returns. SRI, ESG and impact investments are often treated as different types of ESG approach, distinguished in terms of their complexity and intentionality. Some investment portfolios include several approaches, confirming that they are not mutually exclusive. Exclusionary approaches lie at one end of the ESG spectrum, adjacent to 'norm-based' approaches, and approaches that focus on thematic areas, including alignment with relevant SDGs. Towards the other end of the spectrum are approaches that focus on social and environmental impacts. Furthest out are investors who seek to fully integrate ESG in their entire investment process; these approaches are among the most complex .

Many investors manage ESG risks in terms of the material impact of people and the environment on their financial returns, rather than in terms of the impact of their investments on people and the environment. This is generally a key point of distinction between ESG and impact investing. ESG is a way of mitigating the financial risk of investors; unlike impact investing, it does not consider the risk to stakeholders that investments cause. Since the European Union issued its Sustainable Finance Disclosure Regulation (in 2019), investors are required to disclose risks to themselves but also adverse impacts on both the planet and society. Known as double or dual materiality, this approach was also incorporated in the EU's green taxonomy and guidelines on reporting climate-related information[23] and will be incorporated in the EU Corporate Sustainability Reporting Directive (CSRD), which is due to be implemented in 2023.[24]

Investors that want to move from a risk-return approach to a risk-return-development impact approach need to shift from a risk-centred management strategy to a strategy that sets development impact as its primary business objective while simultaneously mitigating ESG risks. For investors who want to understand transparently how their capital is being applied to a particular end such as peace, impact investing is a more attractive vehicle than ESG or SRI. Ultimately, two features distinguish impact investors: intentionality and additionality. Intentionality responds to the question: "What do I seek to achieve as an investor?" Additionality is obtained by answering the question: "What impact would have occurred had I not invested?" It describes the additional outcome that an investment is responsible for. Even though no standardised way to conceptualise and measure additionality has been agreed,[25] on the ground representation and effective communication can help to clarify local needs, identify opportunities, support project preparation, and establish fruitful partnerships.

Several investor standards make provision for independent consultants to monitor the implementation of action plans or oversee stakeholder consultations. A number of widely accepted standards and principles adopt a risk-oriented and Do No Harm approach, including the IFC Performance Standards and the OECD's Blended Finance Principles; but few demand specific peacebuilding or conflict sensitivity expertise. As a result, opportunities for development additionality in conflict-affected and fragile States are not usually maximised. Indeed, many principled frameworks are unable to assess whether an investment in development positively improves conditions for stability and peace. Even though it is widely acknowledged that peace and development are two sides of the same coin, surprisingly little effort has been made to determine what a development impact standard that includes peace-enhancing investment strategies could look like. This reveals a shortcoming in the conflict-sensitive approaches of DFIs[26] but also that there is insufficient awareness that conflict analyses can help to address a variety of risks and mitigate material impacts across all three dimensions of ESG investment.

22 Responsible Investment Association Australasia (2022), 'Responsible Investment Benchmark Report: Australia 2022?', <https://responsibleinvestment.org/resources/benchmark-report/>.

23 European Commission (2019), 'New guidelines on reporting climate-related information', Factsheet, <https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf>.

24 Deloitte (2022), 'The Challenge of Double Materiality: Sustainability reporting at a crossroad', <https://www2.deloitte.com/cn/en/ pages/hot-topics/topics/climate-and-sustainability/dcca/thought-leadership/the-challenge-of-double-materiality.html>.

25 OECD, 'OECD DAC Blended Finance Principle 3: Tailor blended finance to local context', Guidance Note, n.d., <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/documents/P3_Guidance_Note.pdf>.

26 Van Hoeylandt, P., Lions Head (2022), 'Investing for Peace Feasibility Study', unpublished.

Dual materiality in emerging markets and fragile settings

Dual materiality is particularly critical to investment in emerging markets and fragile settings because material ESG risks are on a different scale in such societies. In most fragile settings, social and environmental risks are associated with deep-rooted structural inequalities that may trigger violence. As a result, when investors choose to apply standards or frameworks that do not show the local and national impact of their investments, they can worsen conflict and widen existing fault lines without making themselves aware of it. The shift to dual or double materiality is therefore an important step because it increases investor accountability as well as additionality by addressing indirect and disguised forms of harm.

Investments that improve conditions for social peace can increase local trust and participation, which can in turn lower operational risks, increase user engagement, and mitigate sovereign risk. Where investments have particularly high operational risks (notably, investments that acquire land in societies with hybrid forms of governance), community resistance can create security risks and even pose an existential risk to the investment. Project delays, sabotage, cancellations, lack of workers and partners: these and similar material financial risks are the flip side of positive peace impacts. They underline the linkages between company risk, operational risks, local community risks, risks to the environment, and their effects in combination on the sustainability of an investment.

Figure 1. ESG and impact investment compared: materiality, additionality, intentionality and Do No Harm.

	ESG investing	Impact investing
Dual materiality	Environmental and social impacts are considered material if they create financial risks for investors.	Environmental and social impacts are considered material if they create risks to any of the stakeholders.
Additionality	The aim is to move towards more sustainable performance.	The aim is to create catalytic impacts that advance sustainable development.
Intentionality	The intention is to manage ESG risks and opportunities.	The intention is to generate measurable social and environmental benefits.
Do No Harm	The aim is to mitigate the financial risks of harmful impacts.	The aim is to ensure that no harmful side effects occur.

Challenges presented by the social dimension of ESG

Discussions of the social dimension of ESG often focus on human rights; and conflict is often presumed to be a subtheme of human rights. However, human rights analysis focuses primarily on State accountability, and only secondarily on company accountability, it tends to concentrate attention on company due diligence procedures and States' capacity to hold companies to account after the fact. These approaches are not well equipped to capture the long-term impact of investment on local communities, or the combination of benefits and risks that a company's presence generates over time. Moreover, because human rights compliance can be measured in various dimensions (and therefore has no single unit of measurement), due diligence processes (rather than performance against objectives) have become a proxy for evaluating companies' human rights compliance. As a result of these biases, many existing frameworks seek primarily to minimise negative impacts of business activities on human rights (which are often presumed to be inevitable); they are ill suited to assess mixed benefits and risks, or sustainability, and are not designed to address the specific conditions that exist in fragile and conflict-affected settings.

This is now changing under the pressure of investor demands and new regulatory policies. Via initiatives such as the Principles for Responsible Investment (PRI), investors are putting more emphasis on human rights.[27] The PRI recommend that investors commit to respecting human rights, set up due diligence processes to manage potential negative outcomes, "lend with strings attached", and drive positive outcomes by taking collective action on social issues. These demands build on the argument that respect for human rights should not be just another ESG factor, but a global minimum standard of conduct for all companies as well as investors. In 2022, the EU's mandatory human rights and environmental due diligence directive shifted the regulatory environment further in this direction. It is described in more detail later in this section.

27 Principles for Responsible Investment Association, 'Human rights', <https://www.unpri.org/human-rights>.

Although ESG investing has grown very rapidly in recent years, the industry faces important challenges, including media scrutiny. Many of the challenges are not new. At least partly, they have driven the push for regulation, especially in the EU. The proposed PFIF needs to consider them, and avoid or mitigate them, because several will reappear in a peace finance category.

Though a complete review cannot be undertaken here, the core challenges are:

- To reconcile what investors and the general public believe ESG frameworks have been designed to do;
- The sheer number of competing concepts and frameworks;
- The lack of sound conceptual foundations for ESG and its methodologies;
- Whether ESG frameworks should predominantly measure ESG risks to a company's interests, or risks for society and the environment that are associated with a company's operations.

More technical concerns include problems of selective reporting, and the lack of an agreed method for calculating, or weighting, the trade-offs between different ESG factors, which means that investors and the wider market are confused by the many ways in which ESG is measured.

These issues have undermined market trust, facilitated 'greenwashing' or 'social-good washing', and created scepticism about performance claims.

The concept of availability, accessibility, acceptability and quality (AAAQ)

The EU's social taxonomy adopted availability, accessibility, acceptability and quality (AAAQ) as starting criteria to enhance positive impact and achieve adequate living standards and wellbeing for end-users.

1. **Availability** means that a good is available in sufficient quantity.
2. **Accessibility** means that a product or service is economically affordable and physically accessible without discrimination, and that related information about the product or service is also comprehensible and accessible.
3. **Acceptability** means that goods and services are ethically and culturally appropriate. They must be respectful of the sensibilities of minorities and vulnerable groups as well as sensitive to gender and age requirements.
4. **Quality** means that a good or service is safe and meets internationally recognised standards that are scientifically approved.

When assessing material outcomes, AAAQ provides important transversal principles that are relevant to a PFIF. The EU's social taxonomy recognises that the acceptability criterion is the most complex and that it is potentially open to interpretation because it depends on cultural and contextual norms. Clearly, acceptability is a critical factor in creating conditions for peace. Whether a given project or investment or its outcomes are acceptable can only be determined by the communities that are affected by or are expected to benefit from them.

Issues of measurement are especially relevant to the social and governance dimensions of ESG. The final report on the EU's social taxonomy took note of a study on the divergence of ESG ratings. This showed that ESG rating agencies deviated widely in the rating results they accorded to human rights and product safety (two categories of social issue).[28] Though several frameworks ranked the same issues as important, their scores were inconsistent. More specifically, even when ESG ratings were aligned with issues of significant importance to fragile and conflict-affected settings (human rights and community relations), most frameworks reached quite different scores.[29]

A global ESG survey by BNP Paribas in 2019 found that 46% of 347 institutional investors surveyed found the social aspect of ESG to be the most difficult to analyse and embed in their investment strategies.[30] A 2017 study by NYU Stern Center for Business and Human Rights compared 12 rating agency approaches to the social dimension of ESG and found four main

28 F Berg, J Kolbel and R Rigobon (2019), 'Aggregate Confusion: The Divergence of ESG Ratings', Review on Finance, forthcoming, <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3438533>. The authors found that the correlations between six prominently used ESG ratings ranged from uncorrelated at r=0.38 to correlated at r=0.71 and that measurement accounted for most of the divergence between frameworks (at 56%). Scope accounted for 38% of the variation.

29 Ibid, p. 43.

30 BNP Paribas, 'BNP Paribas Securities Services ESG Global Survey 2019: trends and key figures', 26 April 2019, <https://group.bnpparibas/en/news/bnp-paribas-securities-services-esg-global-survey-2019-trends-key-figures>.

problems in measuring social sustainability:

- Social measurements evaluated what was most convenient, not what was most meaningful.
- Approaches to disclosure were unlikely to yield information that would identify social leaders.
- The lack of consistent standards underpinning the measurement of social sustainability increased costs, creating confusing 'noisiness' across the ESG industry.
- Measurement did not equip investors to respond to rising demand for socially responsible investing strategies and products.[31]

These issues are relevant to a potential PFIP. Social and peace criteria resemble one another, perhaps more than environmental criteria, because they are complicated to define, multidimensional, and generate embedded trade-offs. A PFIF will need to explain very clearly to the market what peace impacts are, how they can be achieved, how they can be measured and verified, how they generate additionality, and, more specifically, what sectors, financial structures and approaches will most successfully improve conditions for peace.

Investor demand for more socially impactful investment

Investor demand for ESG aligned investment and socially impactful investments has grown very significantly in recent years. According to the 1H 2022 Sustainable Finance Market Outlook of research company BloombergNEF (BNEF), categories of sustainable debt (including sustainability-linked bonds, green loans, green bonds, and social bonds) had issued bonds to the value of USD 4 trillion by 2021, USD 1.6 trillion of which was issued in 2021 alone. While the category of green and sustainability-linked bonds was the largest, social bonds also grew very significantly in the last two years. Starting from almost zero in 2017/18, their value in 2021 alone reached nearly USD 400 billion, almost one quarter of the global sustainable debt market. Bloomberg projected that global ESG assets were on track to exceed USD 53 trillion by 2025, which would amount to more than one third of the USD 140.5 trillion in assets that are expected to be under management at that date. This highlights the scale of potential demand.[32]

The social bond category is composed of investments that target essential services, housing, food security, socio-economic advancement, affordable basic infrastructure, and vulnerable communities and specific social categories.[33] Its expansion can be attributed to many factors, but shows that investors are increasingly interested in values-based investing, as well as reputational risks associated with the composition of their investment portfolios. The evolution of the green bond market has been such that investor demand now commands a modest market premium: a so-called 'greenium'. Although it is very much in its infancy, the social bond market may come to do the same. According to research cited by Sustainalytics, compared with conventional bond equivalents, social bonds received a yield discount of around 12 basis points at issuance: a potential 'socium'.[34]

Early stage peace impact investors

A Peace Finance Impact Framework will be relevant to the many peace finance initiatives listed in this report, but also to a wide variety of investors operating in emerging markets. They include DFIs, which play an essential role in fragile and conflict-affected States because they are able to catalyse public funding and thereby reduce investment risks, coordinate development finance actors, apply their expertise, networks, and influence to mobilise collaborative approaches to upstream work and project co-investment, and advocate for the implementation of international standards and their extension. [35] Impact and sustainability investors are also a key category, because they deliberately invest to measurably improve social and environmental conditions in addition to obtaining a financial return.

Following the decline in real terms of both private financial flows and official development assistance to conflict-affected

31 O'Connor, C., Labowitz, S. (2017), 'Putting the "S" in ESG. Measuring Human Rights Performance for Investors', NYU Stern Center for Business and Human Rights, Metrics-Report-final-1.pdf (squarespace.com).
32 Bloomberg Intelligence (2021), 'ESG assets may hit $53 trillion by 2025, a third of global AUM', <https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/>.
33 See International Capital Market Association (ICMA) (2021), 'Social Bond Principles: Voluntary Process Guidelines for Issuing Social Bonds', <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>.
34 Sustainalytics (2022), 'What's Happening in Sustainable Finance: Evidence of a Social Bond Premium, the Elements of a Just Transition and More', podcast, 25 February, <https://www.sustainalytics.com/esg-research/resource/podcasts/what-s-happening-in-sustainable-finance-social-bond-premium-elements-of-just-transition-and-more>.
35 Collier, P., Kriticos, S., Logan, S., Sacchetto, C. (2021), 'Strengthening development finance in fragile contexts', Policy Brief, International Growth Centre and State Fragility Initiative, <https://www.theigc.org/wp-content/uploads/2021/03/Strengthening-development-finance-in-fragile-contexts_Final.pdf>.

countries,[36] DFIs and impact investors have been called on to fill the considerable gap in investments that frontier markets must find if they are to achieve the SDGs.[37] DFI engagement in developing countries has grown significantly in recent years, from USD 10 billion in 2002 to USD 70 billion in 2014.[38] Fifteen DFIs invested approximately USD 4.9 billion in fragile and conflict-affected societies between 2014 and 2016.[39] Concurrently, 69% of 294 impact investors surveyed by the Global Impact Investing Network (GIIN) in 2020 considered that the market for impact investments was "growing steadily"; 21% believed it was "about to take off". (In 2011, 75% of respondents said the market was "in its very early stages".[40]) The same survey reported on the motives of impact investors. The top three reasons for making impact investments concerned impact. 70% of investors found impact investing financially attractive relative to other investment strategies.[41] This seems to suggest that a shift is taking place: investors no longer believe that impact for good implies poorer financial performance; they believe new categories of sustainable finance are an opportunity.

This awareness has prompted some asset managers in emerging and frontier markets to develop more funds and investments in fragile settings, since they can offer investments that offer less risk and more impact additionality. However, it needs to be stressed that most developing countries classified by institutional investors as "frontier markets" are not in this position, due to their income status, smaller size, higher perceived risk, or illiquidity. Given the political, economic, and financial risks that these countries present, investments in them typically offer some form of risk-mitigating guarantee, even when financial products are high impact and sustainable. In general, the potential investor base for "frontier markets" is much narrower, and bond issuances/equity funds tend to be targeted at longer term investors that are less sensitive to political, economic, and financial risk.

Risks and opportunities for investors in fragile and conflict-affected settings

Comprehensive risk management is about understanding downside risk and upside opportunity. How external social risks will intersect with the material financial risks of a company or investment will depend on the sector and context. With respect to extractive industries, many argue that the optimal strategy for many companies will be to externalise their risks and deliberately avoid incorporating negative investment impacts in their pricing structures. While that strategy may be followed by extractive industries, regulatory developments in the EU and the US and investee demand for ESG and impact standards indicate that such practices are themselves becoming regulatory and reputational risks that could have material consequences. This demonstrates that materiality is dynamic: it changes over time, influenced by regulation, activism, global events, or violence and conflict.

Investors and companies in many other sectors may face significant material financial risks down the line if they fail to consider the impacts of their investments on social cohesion and wider peace and conflict dynamics in the locations they invest in. These risks can relate to all areas of business operations, and include:

- Operational risks.
- Reputational risks.
- Insurance risks.
- Credit risks.

As van Hoeylandt and Lion's Head noted, the complexity of local conditions, the limited transparency of logistic and supply chains, elevated levels of corruption, and challenging social, economic, and political dynamics expose investors to exceptional operational and reputational risks in fragile and conflict-affected environments.[42] At the same time, failure to

36 PBSO, DPPA and PSPB (2021), 'Background note on Financial Flows for Peacebuilding', prepared for the High-Level Peacebuilding Fund Replenishment Conference in 2021, <https://www.un.org/peacebuilding/sites/www.un.org.peacebuilding/files/documents/ financial_flows_for_peacebuilding.background_note.210124.layout2.pdf>.

37 Van Hoeylandt and Lion's Head (2022), 'Investing for Peace Feasibility Study', unpublished, p. 14.

38 Savoy, C. M., Carter, P., Lemma, A. (2016), 'Development Finance Institutions Come of Age: Policy Engagement, Impact, and New Directions', Center for Strategic & International Studies, <https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2017/10/Development-Finance-Institutions-Come-of-Age.pdf>; Kenny, C., Morris, C., Ramachandran, V. (2018), 'Comparing Five Bilateral Development Finance Institutions and the IFC', Center for Global Development.

39 Ryu, J. J., Chung, D. (2018), 'Understanding DFI's Private Sector Engagement in African Fragile and Conflict-Afflicted Situations: Review of Development Finance Institution's Activities in Cote d'Ivoire, the Democratic Republic of Congo; Liberia and Sudan', International Finance Corporation, <https://www.ifc.org/wps/wcm/connect/6269f41e-c97a-4e9d-b988-3379ee108cb0/DFIs+private+sector+engagement+in+African+FCS_Dec+2018_Low+Res.pdf?MOD=AJPERES&CVID=mAV3srs>.

40 Hand, D., Dithrich, H., Sunderji, S., Nova, N. (2020), 'Annual Impact Investor Survey 2020: Executive Summary', Global Impact Investment Network, <https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020%20Executive% 20Summary.pdf>.

41 Ibid.

42 Van Hoeylandt, P., Lion's Head (2022), 'Investing for Peace Feasibility Study' , unpublished, p. 29.

mitigate such risks by operating in a conflict-sensitive and peace-responsive way can worsen local grievances, leading to human rights violations that may create liquidity, credit, and regulatory risks.

It is clearly necessary to take steps to mitigate such risks. The typical solution of DFIs and MDBs has been to encourage private and blended financial flows to emerging economies that transfer risk from the investor to either a development agency or the local government.[43] The result is that blended finance operations share and mitigate risks between commercial and development parties, but create a moral hazard if they do not resolve or redress risks the asset or investment creates for impacted communities and local stakeholders.

Pricing risks

A starting assumption of peace finance is that investors will grasp the opportunity presented by an approach that mitigates the risks of local communities while benefiting investors financially – that allows investors to accrue additionality and increase the certainty of returns on their investment while improving the security of communities the investment affects. One reason this result may be achievable is that there is extensive evidence of systemic mispricing of risks in fragile and conflict-affected settings. Public concessional lenders such as World Bank Multilateral Investment Guarantee Agency (MIGA) and Swedish International Development Cooperation Agency (Sida) also have a long record of lending in such contexts without significant losses or loan failures. For instance, a 2016 evaluation of Sida's use of guarantees to support market development and poverty reduction stated that "in none of the interventions so far a claim has been issued as a result of default… This is beneficial for efficiency and it creates opportunities for re-using the repaid funds for other interventions. At the same time, it raises doubts on whether the risks guaranteed warranted a guarantee in all cases, which is a matter of additionality".[44] While many factors could explain such as result (risk averse lending or the fact that risks are hard to price), this does suggest possible mispricing of risk. In the words of the Sida report, "the overall pricing system lacks consistency and transparency, which could be improved through clear guidelines and responsibilities".[45]

Many DFIs and MDBs base their risk calculations on those of international rating agencies. How they price risk can directly influence how public investors lend and guarantee investments. Calls were made recently for a pan-African credit rating agency after research showed that premiums were arbitrarily downgraded during COVID-19 on the basis of asymmetrical information, negative investor confidence, and assumptions that were not likely to materialise.[46] Recognising the importance of this question, the Finance for Peace initiative recently commissioned a research project (starting in 2023) to deepen understanding of country risk premiums.

Peace-enhancing mechanisms and the return on risk-adjusted capital (RORAC)

PEMs are activities embedded in and financed by the proceeds of a peace finance structure (bond or equity) that seek to promote peace directly and address key project risks at community level.[a] Their financial effect is to lower discount rates on peace bonds and improve project cash flows on peace equity. They are potentially a cost effective way to mitigate risks and increase additionality. Their effect can be substantiated by comparing the average size of a grant in the peacebuilding sector (approximately USD 1 million), which is likely to be the potential average size of a PEM, to the average investment commitment of an infrastructure project with private participation in an emerging market and developing economy (EMDE) (about USD 183 million in 2020).[b] The Interpeace/SEB report suggested that the impact of PEMs on the risk profile and on the RORAC of large capital-intensive investments would be such that even modest changes in the risk profile would recoup the PEM investment several times over. Moreover, PEMs can be used in addition to political risk insurance, further lowering risks and improving bankability.

a. See Interpeace and SEB (2022), 'Peace Bonds - Feasibility study: Assessing the potential of a new asset class that can lower risk and enhance peace'.
b. Private Participation in Infrastructure (PPI) (2020), '2020 Annual Report', World Bank.

43 African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Monetary Fund, and World Bank Group (2015), 'From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance', <https://thedocs.worldbank.org/en/doc/622841485963735448-0270022017/original/DC20150002EFinancingforDevelopment.pdf>
44 Carnegie Consult (2016), 'Evaluation of Sida's use of guarantees for market development and poverty reduction', Swedish International Development Cooperation Agency, , <https://cdn.sida.se/publications/files/sida61986en-evaluation-of-sidas-use-of-guarantees-for-market-development-and-poverty-reduction---case-studies-for-evaluation-report.pdf>.
45 Ibid.
46 African Peer Review Mechanism (2020), 'Africa Sovereign Credit Rating Review: Mid-Year Outlook', African Union, <https://au.int/sites/default/files/documents/38809-doc-final_africa_scr_review-_mid_year_outlook_-_eng.pdf>.

Regulatory and policy environment for peace and the key actors

It has already been noted that growing numbers of investors recognise that more private capital should be directed to promote sustainable activities. ESG investment opportunities and assets under management have expanded in response, and so has the regulatory and policy environment.

Adopted by the United Nations in 2011, the UN Guiding Principles on Business and Human Rights (UNGPs)[47] have become the global standard on human rights for businesses and investors. They have enabled businesses to identify and respect a broad range of risks to human rights that may arise in the context of their operations, and encouraged them to create grievance mechanisms and provide remedies when their operations cause harm. Together with other international instruments, such as the International Bill of Human Rights,[48] the Declaration on Fundamental Rights and Principles at Work of the International Labour Organization (ILO),[49] and the OECD Guidelines for Multinational Enterprises,[50] the UNGPs are "minimum safeguards" that entities involved in economic activities must respect and implement. In 2019, the UN General Assembly launched Principles for Responsible Banking, based on a document with the same title published by UNEP's Finance Initiative.[51] The framework's six principles are designed to bring purpose, vision and ambition to sustainable finance. Signatory banks commit to embedding the principles in all business areas (strategic, portfolio and transactional).

Eschewing a voluntary approach, the European Union has been developing a regulatory environment for environmental and social investment. Developed by the EU Platform for Sustainable Finance, the EU's environmental and social taxonomies seek to give investors clarity and certainty about: (i) what constitutes a social or environmental contribution to EU objectives; (ii) how to avoid doing significant harm; (iii) what kinds of activities are harmful; and (iv) how to comply with technical screening criteria.[52] Its recently launched sustainable corporate governance initiative aims to improve the EU regulatory framework on company law and corporate governance and, at least partly, better align the interests of companies, their shareholders, managers, stakeholders and society.[53] At the core of this initiative is a draft regulation on human rights and environmental due diligence (EU HRDD), released by the European Commission in 2022. (See the textbox below.)

Similar discussions are taking place in the United States, where the limited legal options available to hold US companies accountable for human rights abuses committed overseas have led to calls for a mandatory corporate liability scheme similar to the draft EU directive.[54] A proposal to pass a human rights act similar to the Foreign Corrupt Practices Act (FCPA) has recently gained traction.[55] It would create criminal and civil liability for an enumerated set of abuses in much the same way that the FCPA prohibits bribery by U.S. companies overseas. The proposal could require companies to document the efforts they make to prevent abuse and might accept evidence of due diligence as a mitigating factor when determining civil or criminal penalties.[56] Finally, the Financial Control Authority (FCA) of the United Kingdom has recently stated that there is a "clear rationale" for regulating ESG ratings, because concerns have mounted that some proceeds from green bonds have been used for non-ESG compliant projects.[57]

47 Office of the UN High Commissioner of Human Rights (2011), 'Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework', United Nations, <https://www.ohchr.org/sites/default/files/documents/ publications/guidingprinciplesbusinesshr_en.pdf>.

48 Office of the High Commissioner of Human Rights (2022), 'International Bill of Human Rights', <https://www.ohchr.org/en/what-are-human-rights/international-bill-human-rights>. The International Bill of Rights is composed of the Universal Declaration of Human Rights plus the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

49 International Labour Organization (2022), 'ILO Declaration on Fundamental Principles and Rights at Work', <https://www.ilo.org/declaration/lang--en/index.htm>.

50 OECD (2011), 'OECD Guidelines for Multinational Enterprises', <https://www.oecd.org/daf/inv/mne/48004323.pdf>.

51 Finance Initiative/UNEP, 'Principles for Responsible Banking', UN Environment Programme, <https://www.unepfi.org/banking/bankingprinciples/>.

52 Platform on Sustainable Finance (2021), 'Draft Report by Subgroup 4: Social Taxonomy', European Commission, <https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf>.

53 European Commission, 'Sustainable corporate governance', <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance_en>.

54 Flacks, M. (2022), 'European Union Releases Draft Mandatory Human Rights and Environmental Due Diligence Directive', <https://www.csis.org/analysis/european-union-releases-draft-mandatory-human-rights-and-environmental-due-diligence>.

55 Chambers, R., Martin, J. (2021), 'Foreign Corrupt Practices Act for Human Rights: A Due Diligence Plus Model for the United States?', WVU College of Law, Research Paper No. 2021-019, <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3852975>.

56 Flacks, M. (2022) 'European Union Releases Draft Mandatory Human Rights and Environmental Due Diligence Directive', <https://www.csis.org/analysis/european-union-releases-draft-mandatory-human-rights-and-environmental-due-diligence>.

57 Yarker, J. (2022), '"Clear Rationale" for regulating ESG ratings, says FCA', Portfolio Adviser, <https://portfolio-adviser.com/clear-rationale-for-regulating-esg-ratings-says-fca/>.

The EU draft regulation on human rights and environmental due diligence

Released in February 2022, the Directive requires large EU companies, and some non-European companies that do significant business in Europe, to **assess their actual and potential human rights and environmental impacts** throughout their operations and supply chains **and to take action to prevent, mitigate, and remedy identified human rights and environmental harms.**[a] They have a responsibility to consult affected stakeholders, adopt codes of conduct and human rights and environmental due diligence policies, and invest in internal infrastructure to ensure compliance. Companies that fail to conduct effective due diligence or to implement preventive or remediation measures face both administrative penalties and civil liability. If the European Parliament and the Council approve this directive—a process expected to take a year or more—**EU member states will have two years to transpose the directive into national law and begin enforcement**. The directive would apply to approximately 13,000 EU companies and about 4,000 non-EU companies in the following categories:

EU companies with at least 500 employees and global net turnover exceeding EUR 150 million.

- EU companies that work in sectors at high risk of human rights abuse (including agriculture, apparel, and extractives) and that have at least 250 employees and exceed EUR 40 million in global net turnover. There will be a two-year phase-in period before the directive applies.
- Non-EU companies that have a net turnover exceeding EUR 150 million from their operations in the EU, or that operate in a high-risk sector and have a net turnover exceeding EUR 40 million from their EU operations.

As of 2020, nearly half of the 229 companies assessed by the Corporate Human Rights Benchmark (CHRB) had yet to take any public action to address human rights issues in their supply chains.[b] The lack of action led many civil society organisations and some companies to press governments to introduce regulations that require large corporations to address their human rights and environmental impacts.

Notwithstanding the remarkable breadth of the directive, a group of business organisations and academic professionals has noted that it contains **no specific provisions on conflict or responsible business conduct in conflict-affected and high-risk areas**. Specifically, the draft directive omits requirements to: (a) respect international humanitarian law (IHL) in situations of armed conflict; (b) conduct adequate human rights due diligence and integrate conflict analysis and conflict sensitivity in that process; and (c) provide non-financial compensation for serious human rights violations.

Two concerns need to be highlighted:

1. As a result of the above omissions, **a company could comply with the EU Directive yet contribute significantly to conflict and instability**.
2. **Compliance with some of the points indicated in the Directive** (such as points 19 and 20 of the Annex on unlawful land seizure or eviction[c]) could in theory be significantly facilitated by alignment with the PFIF.

a. European Commission (2022), 'Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending directive (EU) 2019/1937', resource.html (europa.eu).

b. World Benchmarking Alliance (2020), 'Corporate Human Rights Benchmark – 2020 Key Findings', WBA-2020-CHRB-Key-Findings-Report.pdf (worldbenchmarkingalliance.org).

c. European Commission, 'Replies to questionnaire on quantitative information on the practical operation of the European arrest warrant – Year 2020', Documents (europa.eu).

Defining the Scope of Peace Finance

What should be the scope of a Peace Finance Impact Framework?

A framework that aims to assist investors to make deliberate contributions to peace must start by defining its scope, its components, and what it seeks to achieve.

To plan, guide, frame and assess the effects of their investments, companies, investors and DFIs draw on a vast range of ESG, impact and risk frameworks, tools, strategies, standards, principles, and assessments. These vary significantly in scope, specificity, intent, and purpose. In particular, they vary in the degree to which they deliberately address the material impacts of investments on communities (the materiality perspective). On reviewing this literature, it becomes clear that a potential PFIF could be narrow or maximalist in its scope and intent, and deep or broad in its specificity. Issues of scope, intent and specificity have implications for how a PFIF will be used, the range of its application, its relevance to peace impacts, and ultimately its uptake and effects.

Some frameworks (including the majority of ESG standards) are narrowly concerned with helping companies to report on ESG factors that are important in particular sectors or markets. They mitigate organisational or institutional risks and apply exclusionary criteria to help investors align their investments. Several provide standards at sectoral level: these specify sector specific requirements and offer measurement techniques for the sector in question.

Many frameworks are more normative: they provide high level advice on how companies and operations ought to operate in particular settings, and include specific guidance on governance and reporting requirements. The Equator Principles and the Principles for Responsible Investing (PRI) are good examples of this kind of framework. PRI is one of the most widely used frameworks of principles, has over 4,900 signatories, focuses on embedding minimum standards and ESG values and frameworks, and recently began to consider human rights and social issues relevant to peace. Other standards frameworks offer process-driven protocols to help investors (including issuers, arrangers, and companies) to align to a particular standards label in given asset classes (bond or equity). ICMA's green and social bond standards and the UNDP's SDG Equity Standards are of this kind.

It is important to say that alignment and reporting remain voluntary in such normative frameworks, which vary widely in terms of scoring, reporting and follow up. Some, like the PRI, provide a degree of organisational support to help companies and investors align or deal with challenges; but they appear to make light demands on investors.

A number of DFIs have developed frameworks for public concessional investment. These are linked to internal fiduciary and probity requirements. They are highly specific and address transversal issues that are important to investment in fragile and conflict-affected settings. The IFC prescribes eight performance standards with which all IFC investment projects must comply. They have been used by other DFIs and banks and have influenced norms of public investment. Several of the standards are relevant to peace, including those that address community health and safety and security, land acquisition and resettlement, and indigenous peoples and cultural heritage. Several of the standards are also echoed in more recent frameworks, including the World Bank's environmental and social framework (ESF) and environmental and social standards (ESS). These include a potential requirement to conduct social and conflict analysis, a critical precondition of Do No Harm investment practice in fragile settings. The OECD DAC recently published blended finance principles. These also address peace in that they emphasise context and the need to engage local partners in design processes. Recent frameworks and principles have made marked progress in that they specify principles of conduct that are preconditions of peace impact and conflict sensitivity.

A review of this copious literature suggests that a proposed PFIF will need to have wide scope if it is to be effective and fit for purpose. In addition, to promote confidence in it and foster a community of practice that will allow a wide range of actors to discuss and test the framework without confusion, it will need to set out clearly its key components and processes. This report's literature review and mapping process suggest that key components include:

1. **Principles.** Many ESG and related frameworks are framed as 'principles'. These may be specific and codified in nature and more heuristic and normative. Both dimensions matter, but heuristic and norm-based principles are seen to be more foundational than codified guidance, which is often linked to a verification or checklist process. In fact, both are crucial. A proposed PFIF needs to establish simple high-level principles that private investors, DFIs, banks and industry can use to guide and inform their approach to investment and that will convey to other investors

the framework's normative expectations. At the same time, exclusionary criteria and minimum standards stand alongside and complement more general principles because they enable investors and observers to judge whether an investment is peace positive or not. The principles would be operationalised through the standards, guidance and processes set out below.

2. **Peace finance standards for specific asset classes.** How an investment is aligned to peace impact will depend on the asset class. Starting with bond and equity investments, the PFIF would provide umbrella principles and guidance for peace bond and peace equity investments that investors could apply practically in each asset class. The alignment, certification and reporting process would vary for bond or equity investments, but the processes for engaging, including and collaborating with communities and peace partners would be the same across asset classes.

3. **Guidance, tools and certification.** The PFIF would set out a peace taxonomy. This would contain detailed minimum safeguards, definitions, and exclusionary criteria that investors, partners and other parties would use to certify, verify and report on peace finance investments. Guidance will be required to help investors to understand and operationalise peacebuilding actions (PEMs), take steps to de-risk or increase the additionality of an investment, and create and sustain essential partnerships. Much of this guidance needs to be developed. In particular, work is needed to understand how peace actions can be adapted for particular business activities and contexts. Many current frameworks include explicit instructions to investors on how they should report on the impact of their investments. A PFIF should state in practical terms what an investor should report, and should provide examples, benchmark indicators and metrics that investors and other parties can use to monitor outcomes and sectors. Because much peace impact is contextually specific, the PFIF must recognise that disclosure and reporting should reflect the specific risks and context of each peace investment.

Applying a PFIF to specific asset classes (bonds, loans, equity and enterprise investment)

Alignment and disclosure processes will differ according to the asset class of the investment (bond, loan or equity). This means that at least two sets of standards (for peace bonds and peace equities) will need to be developed, based on the PFIF's conceptual foundations, principles, and verification and disclosure guidelines. Because a PFIF is likely to require investors and companies to make intentional shifts in their operations and investments, it is not envisaged that companies will be able to report on the peace impact of pre-existing operational or capital expenditure. Initially, the PFIF will focus on providing disclosure and alignment processes for new capital and new operational expenditures that aim deliberately to have peace impacts.

To make it possible to introduce PFIFs for different investment classes, separate standards will need to be developed that address the legal, transaction structuring and fiduciary steps particular to each class. A peace financing standard (PFS) and a peace equity standard (PES) will therefore be proposed; they will build on existing bond and equity structuring processes, but include specific protocols and processes for achieving peace impacts.

Peace related criteria across existing frameworks in relation to ESG/SDG and impact frameworks

The mapping done for this report identified several current or nascent peace finance investment initiatives that have peace impact criteria or peace-related frameworks. These have informed the proposed PFIF. Currently, they cover or relate to a broad array of asset classes, including bonds, equity, listed equity funds, and blended finance.

The Cadmos Peace European Engagement Fund

The Swiss company de Pury Pictet Turrettini (PPT) was the first asset management firm to directly address peace and stability, in 2018, through the PeaceNexus Foundation of the Cadmos Peace Fund. In 2022, after the fund was consolidated into the flagship Cadmos-Peace European Engagement fund, PPT formed a strategic partnership with TrustWorks Global (TrustWorks), which advises portfolio companies on operating responsibly in fragile and conflict-affected settings, using the lenses of conflict sensitivity and SDG 16.

As an Article 9 **sustainable finance** disclosure regulation (SFDR) fund, the Cadmos-Peace European Engagement Fund invests in highly profitable industry leaders that are responding to digital disruption, demographic trends and climate change. PPT recognises that ESG targets and SDG objectives are undermined by fragility and conflict, and that there can be no peace without development and no development without peace.

The Fund starts from the understanding that armed conflict and fragility are the principal sources of systemic risk for companies and investors; and that the same risks are entry points that companies and investors can use to create more stable operating environments and conditions favourable to peace and resilience. These objectives are achieved by direct expert engagement embodied in PPT's Buy & Care® investment philosophy, at the heart of which is a commitment to ensure that portfolio companies have access to the expertise they require to be high performing companies with positive externalities.

The Buy & Care® approach encourages regular, constructive engagements with companies to identify where their operations and supply and value chains may inadvertently nourish conflict. The Fund's objective is to establish a dialogue with every Cadmos portfolio company within three years, with the aim of ensuring that, in partnership with TrustWorks, each company identifies and implements practical steps to support peace and stability objectives. As recognition grows that the investment model in conflict-affected regions must change, PPT hopes that other fund managers will join it in addressing the issue of peace.

The Peace Dividend Initiative and the "+P" framework

The Peace Dividend Initiative (PDI) designs conflict-sensitive investments to meet peacemaking objectives, working in partnership with non-profit peacemaking organisations. It accompanies investments during design and implementation. PDI seeks to bridge the gap between peace mediation and economic actors by means of dialogue, incubation, and investment.

Headquartered in Geneva, PDI was incubated by the Centre for Humanitarian Dialogue in 2017-2018, evolved and piloted with support from the Swiss FDFA in 2019-2020, and launched as an independent Swiss Foundation in 2021. It aims to serve the entire peace sector in "harnessing market forces for peace". PDI has a wide network, which includes peacemakers, international organisations, governments, investors, and entrepreneurs. It bridges the worlds of private investment and peacemaking by working closely with trusted peace mediation organisations.[58]

PDI identifies, incubates, and catalyses opportunities for peace-supporting investment. It seeks to address the root causes of the conflict trap by investing long-term and maintaining trusted relationships with field-based and global actors. Its peace-supporting investments include local peace-monitoring and conflict analysis as standard practice. PDI investments use blended finance and public-private partnerships moderated by accompaniment and informal local mechanisms that ensure investments do good and do not harm and adapt rapidly in response to changes in conflict dynamics.

Since 2018 PDI has piloted a number of investments in conflict-affected areas to demonstrate the potential of its model. It has also incubated two specialised investment vehicles that can deliver peace impact investments rapidly on an appropriate scale in conflict-affected areas. The first PDI fund is expected to launch publicly in 2022-2023: the Peace Venture Fund is described as an early-stage growth fund, focused on "peace-supporting SMEs", and was piloted with support from the UK FCDO and the Swiss FDFA. A second fund is expected to launch in 2023-2024: the Peace Dividend Investment Fund will "facilitate larger-scale investments, with the potential to develop infrastructure and transform industries".[59]

The strength of the PDI approach is its close collaboration with peacemakers, who can apply contextualised conflict analysis and daily accompaniment to achieve peace-supporting impacts. PDI's model affirms that it is possible to promote conditions for peace in very insecure places and allocates capital on the basis of local needs, not just the financial interests of investors. Its approach is to identify peace-supporting investment opportunities through its networks, work with trusted peacemaking partners to develop conflict analyses and run economic dialogues, invite inputs from experienced investors to develop proposals, and produce sound and sustainable peace-supporting business opportunities.

Between 2019 and 2022, PDI developed the '+P' Peace Finance Impact Framework, a prototype that includes over 25 metrics and more than fifty sub-indicators. It combines global principles (similar to those affirmed by the PRI and SDGs) with contextual understanding, trustworthy data collection, verification mechanisms, and peace-focused criteria that make use of local assessments, consultation, and monitoring. PDI's +P impact framework assumes that an investment's contribution to peace can be assessed by examining three core questions:

1. Does the investment meet a requisite standard of '**quality for peace'** in its analysis, design and capability? Does it include close accompaniment by a reputable peacemaking or peacebuilding organisation?
2. Does the investment pursue a sound **peace-supporting strategy**, and adapt it in a timely way to maximise prospects

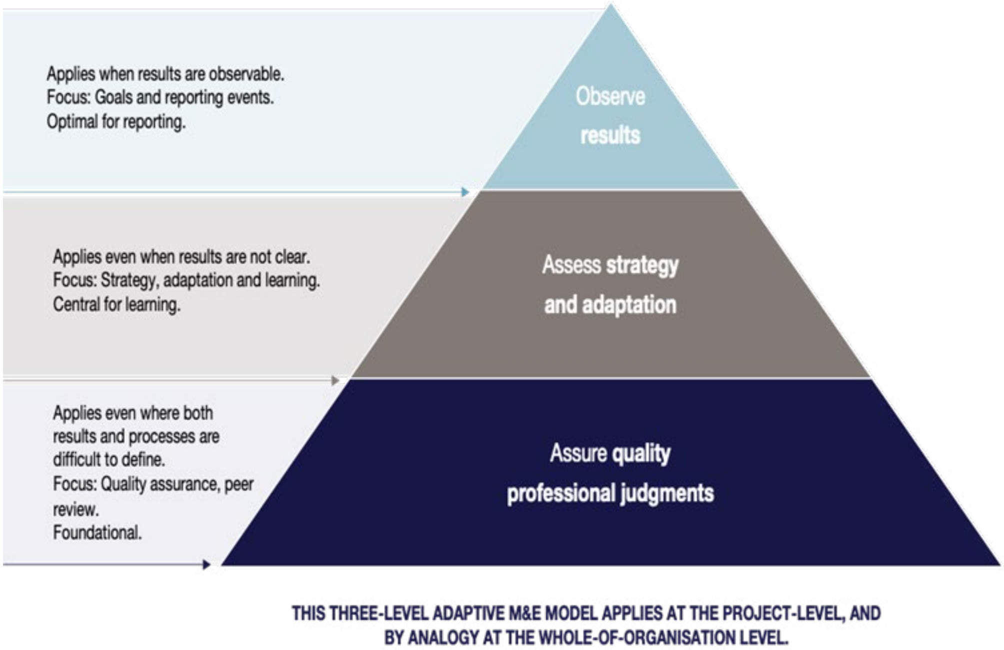
58 For more detail, see Peace Dividend Foundation (2022), 'Our Strategy', <https://www.peacedividends.org/our-strategy/>.
59 Ibid.

for peace-supporting results?

3. Does the investment deliver **results** that are peace-supporting?

A diagram to explain PDI's three-level analysis draws on adaptive impact frameworks applied in the peacemaking sector.[60]

Figure 2. PDI's three-level impact analysis addresses quality, strategy, and results.



The third part of the PDI's +P impact framework lists five results areas for peace impact (referred to as PDI Peace-Supporting Investment Standards). These reflect the organisation's core mission to harness market forces for peace using entrepreneurial business dialogue, incubation, and investment as instruments to strengthen peacemaking and peacebuilding efforts:

- PSI Standard 1: Enhanced conflict analysis for peacemakers.
- PSI Standard 2: Enhanced access for peacemakers.
- PSI Standard 3: Increased engagement in dialogue.
- PSI Standard 4: Creation of economic incentives aligned with prospects for peace.
- PSI Standard 5: Contribution to observable peacemaking results.

Overall, PDI's +P framework specifically targets peace impacts rather than replicating the criteria usually set out in ESG and SDG frameworks.

Investing for Peace (I4P) Feasibility Study for a Peace Finance Impact Framework

The Investing for Peace Feasibility Study, supported by the German Federal Foreign Office, mapped barriers to investment in fragile and conflict-affected settings. It based its findings on extensive interviews with pioneer investment managers and staff from donor organisations, DFIs, and non-profit organisations such as PDI. The study proposed a draft PFIF and set out the parameters of a specialised investment vehicle that DFIs could adopt to scale up peace-promoting investments in fragile and conflict-affected settings.

The proposed I4P PFIF allocated a central role to post-investment support and accountability in the form of continuous community engagement and community monitoring, both to maximise peace impacts and manage risks and disputes. The study stated that, to demonstrate peace impact, investors would need to make complementary investments in mon-

60 See, for example, Wadley, I. (2017), 'Valuing Peace: Delivering and Demonstrating Mediation Results', HD Centre, <https://reliefweb.int/report/world/valuing-peace-delivering-and-demonstrating-mediation-results>.

itoring at deal level and in impact evaluation at portfolio level.[61] The report found five ways in which monitoring could establish that private sector investments had a peace impact at portfolio level. Specifically, an investment could show impact if it:

- Resulted in the creation or reform of political institutions to handle grievances in situations where such grievances genuinely drive conflict.
- Contributed to momentum for peace by causing participants and communities to develop their own peace initiatives to address critical issues revealed by context analysis.
- Prompted people increasingly to resist violence and provocations to violence.
- Resulted in an increase in the community's security and sense of security.
- Resulted in meaningful improvement in inter-group relations.[62]

The study suggested that a deliberately peace-positive investment strategy would require a theory of change. This would articulate qualitatively how the investor intended its portfolio to contribute to prospects for peace. This implied defining the specific peace and conflict drivers that might be influenced, and how associated risks of harm would be mitigated. An investment would be peace-positive if it:

A. Aligned with a peace-positive investment strategy that targeted specific conflict drivers.

B. Contributed to at least one peace driver (see below), that was recognised to be a priority in a given context, and passed the 'peace diligence' test:

   - Inclusion: investments help mitigate horizontal inequalities that fuel inter-group grievances.
   - Access: investments alleviate competition for desirable but scarce products, services, and resources, such as fertile land and water.
   - Mitigation of concentration: investments help to reduce vertical inequalities and centralisation of economic and political power, which can be an important source of grievance even where horizontal inequalities are absent.
   - Accountability: investments enhance businesses' accountability to their stakeholders, and government accountability to citizens, particularly by cooperating in a coalition.
   - Incentivising leaders: investments enhance the peaceful economic integration of leaders who benefit from embedded conflict, even at the margin.

The framework sets out four steps for investors to follow. It emphasises the importance of planning and design as well as post investment support.

Figure 3. I4P peace finance impact framework.

61 Van Hoeylandt, P., Lion's Head (2022), 'Investing for Peace Feasibility Study', unpublished.
62 CDA, 'Business and Peace', n.d., <https://www.cdacollaborative.org/cdaproject/business-and-peace/>.

The 'peace drivers' that I4P proposed could add value to ESG, SDG and other impact investment standards. They fill some of the gaps highlighted earlier, such as lack of inclusion and accountability; and their emphasis on comprehensive political and conflict analysis would increase understanding of inflammatory horizontal inequalities (rural/urban, gender, regional, ethnic, age, religious) and reveal where investments might exacerbate local, regional or national divisions.

For the proposed framework to be peace supportive, political and conflict analyses would need to cover all possible conflict drivers. These were not listed in the framework. Much would therefore depend on how investors and their partners implemented particular peace and conflict analyses and 'peace diligence tests'. The framework did not describe the 'peace diligence test' in detail either; it would require more input. The five key peace drivers were the key elements of peace support. These are highly relevant and address several determinants of peace, notably inclusion, accessibility and accountability. The other two (mitigation of concentration and incentivising for leaders) are arguably both more ambitious and more contested. Actions that deliberately reduce concentration may be insensitive to or induce conflict; their effect is significantly influenced by an investment's political approach and positioning. Actions that incentivise leaders to re-engage economically may promote short-term negative peace but, according to the political economy and local conflict dynamics, may undermine long term social peace.

These trade-offs and contradictions are found in other ESG frameworks. To a degree, arguably, they are unavoidable. Some may say that, because conflict and peace systems are complex, it is unlikely that sustained peace-positive change can be achieved by addressing a single peace driver, especially if investments do not contribute to other worthy peace objectives the framework identified. For instance, an investment that lacks genuine inclusion and accountability but improves accountability may make a contribution in one area but inadvertently contribute to conflict in another.

Interpeace feasibility study on peace bonds and 'making the market for peace' research

Interpeace's feasibility study on peace bonds used a real investment case study to show how a potential peace bond structure could create new forms of value by lowering the project risks of investment and providing sustainable development benefits for communities in fragile and conflict-affected locations.[63] It addressed the need to find new ways to finance peace that can lower the risks of investments in such environments.

The study outlined the need for a peace financing framework aligned with peace bond standards and principles. It proposed a few core principles for peace bonds.

- **Principle 1.** Investors intend to support peace (negative and positive[64]), deploy funds in a peace-responsive manner,[65] and intended peace impacts are verifiable.
- **Principle 2.** Bonds produce bankable returns to sustain market incentives.
- **Principle 3.** Investments in certain economic sectors produce synergies between economic development and peace impacts.

One of the key conditions of the verification process of peace bonds is that they must set out an operational theory of change, showing how the investment will achieve the direct or indirect peace impacts that it has included among its objectives. The issuer must clearly communicate these objectives.

The report suggests that PEMs are key tools for aligning peace bonds with peace bond principles and standards. As noted earlier, PEMs are peacebuilding activities, financed by the proceeds of bonds, that aim to reduce ESG risks and create development and financial additionality. They are applied on the basis of comprehensive contextual analysis and the involvement of communities and national partners in accordance with peace bond standards. Contextual analysis needs to be comprehensive enough to show whether a peace bond can materially reduce a range of risks, including both project risks and community risks, and produce benefits for both project and communities.

Business against violence assessment framework (Katsos and Forrer)

The business against violence assessment framework was conceived by the scholars John Katsos and John Forrer. It posits a three-stage process that responds to the presence and intensity of violence. The framework builds on work by other

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

64 Put simply, negative peace is the absence of direct personal violence, and positive peace is the absence of indirect structural violence. J Galtung (1964), 'An editorial', Journal of Peace Research, 1/1, <https://doi.org/10.1177/002234336400100101>.

65 Peace responsiveness has been defined as doing no harm, being conflict sensitive and increasing peace impact. See Interpeace (2021), 'Peace Responsiveness Framing Paper', < https://www.interpeace.org/peace-responsiveness/>.

scholars, in particular Oetzel et al. (2009)[66] and Fort and Schipani (2007),[67] who sought to understand whether and under what conditions businesses could enhance peace in the communities they operated in.

The framework aims to reorient future research on 'business for peace', by asking what options are available to businesses that choose to help to reduce violence, and how effective these options are. It proposes a way to measure the impact of business on peace. To make peace impacts more explicit, it applies a broad definition: peace is the absence of both direct violence and indirect structural violence.

The Blue Peace initiative investment framework – a multisectoral approach

The Blue Peace approach to investment of the UN Capital Development Fund (UNCDF) advocates transboundary, joint investment water plans across several sectors as well as countries or municipalities, and covers all forms of water use. The model incentivises cooperation and political agreements among countries that share water resources. Water is the 'entry point' or reason for engagement to reduce social, political and economic conflicts and support peace.

Blue Peace investments require a blended finance approach that helps to reduce risk and improve returns. With this objective in mind, a Blue Peace Trust is being created that will institutionalise investing in multisectoral transboundary investment plans through two different Blue Peace holdings: (1) transboundary water organisations; and (2) municipalities in different countries. The Blue Peace Trust will support these holdings to: fund structuring and issue of Blue Peace bonds; de-risk the bonds and attract private capital from institutional investors; and assist transboundary water organisations and municipalities technically, to build capacity, negotiate and design investment plans, and raise financial resources globally without external help.

Katsos and Forrer argued that definitions of violence are established: 'violence' is generally considered to take direct and indirect forms.[68] Direct violence is visible and therefore easy to measure (in terms of means, types, issues and consequences), particularly in the context of political conflict.

The authors argued that indirect violence (also called structural' violence) is more difficult to measure, but in many ways is more relevant for businesses trying to reduce their impacts. A business or an investment can help to address three sub-categories of structural violence: exploitation, social injustice, and inequality. It can be most effective when those in conflict are in a horizontal relationship to one another, because addressing the causes of structural violence depresses mortality more than reduction of direct violence.[69]

The framework's first step is to detect the presence of structural violence and identify the groups that are at risk (ethnicities, religious minorities, political parties, women, etc.). To measure the structural barriers that groups face, the model suggests borrowing from the fields of health and economics, and comparing the average life expectancy of relevant groups. In a similar way, Galtung argued that a true measurement of positive peace might be the number of avoidable deaths.[70]

The proposed framework further considered contextual factors that are relevant to a business decision on whether to address violence. For example, extractive industries are both in a position to exert influence because they have access to resources, and less able to disengage than other industries, meaning that their risks are higher. Size of market is a consideration for companies in countries that experience violence or depend on mineral production; mining of coltan in the DRC is an obvious example. Finally, the institutional environment is likely to influence the decision of a business to invest in efforts to reduce violence and create conditions for peace.

66 Oetzel, J., Westermann-Behaylo, M., Koerber, C., Fort, T. L ., Rivera, J. (2009), 'Business and Peace: Sketching the Terrain', Journal of Business Ethics, 89, <https://link.springer.com/article/10.1007/s10551-010-0411-7>.

67 Fort T. L., Schipani, C. A. (2017), 'An Action Plan for the Role of Business in Fostering Peace', American Business Law Journal, 44/2, <https://doi.org/10.1111/j.1744-1714.2007.00040.x>.

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

69 Katsos, J., Forrer, J. (2022), 'Business against violence: assessing how business impacts peace', Multinational Business Review, 30/3, <https://www.safetylit.org/citations/index.php?fuseaction=citations.viewdetails&citationIds[]=citjournalarticle_720689_8>.

70 Galtung J., Hoivik, T. (1971), 'Structural and Direct Violence: A Note on Operationalization', Journal of Peace Research, 8/1, <https://journals.sagepub.com/doi/10.1177/002234337100800108>.

The Human Security and Business Partnership Framework (LSE IDEAS and the United Nations Trust Fund for Human Security)

The Human Security Business Partnership (HSBP) Framework was designed to assist companies and investors to partner with governments, the UN system, and local stakeholders to achieve the SDGs. The model was developed by LSE IDEAS and aligns commercial goals with the SDGs and other normative frameworks and standards, such as business and human rights and responsible investing.

The Framework has three pillars: principles, processes and tools. The pillars interconnect and define the spirit and ethos of a new type of local cooperation between the private sector and other actors. Partnerships are guided by principles. They are:[71]

- **Locally driven**. Partnerships should be based on local needs, interests, and expectations, and organised in a way that reflects local capacities and recognises all relevant resources. The Framework's emphasis on the local includes the principle of conflict sensitivity. This is important in locations where certain groups and individuals, particularly if they are already marginalised, may find it dangerous to work with companies and public stakeholders.
- **Inclusive**. Partners should be drawn from every segment of local society, including marginalised groups. They should counter exclusion.
- **Forward-looking**. Partnerships are about building a common future, doing things in a different way from the past, and setting goals that will lead to change and improvement.
- **Based on trust**. Partnerships should create conditions for long-term cooperation. Partners should have confidence in each other. Trust is built through accountability, joint commitments, and transparency. Sustained and structured interaction creates 'good partner' relations rather than mere transactions.
- **Sharing**. At the core of the HSBP is the belief that partnerships offer incentives and benefits that should be spread equitably between all types of partner. The benefits of investment should be shared, interests should be mutual, and every partner should take responsibility for addressing risks and achieving positive outcomes from the collaboration.

The HSBP does not set standards and its principles are achieved through trust-building processes, management protocols, and tools. The human security approach helps to bridge human rights, sustainable development, and peace and stability; the HSBP framework focuses on the idea that shared goals between companies and communities provide a model for collaboration, trust-building and dialogue that allows partners to make known their needs. The framework takes a pro-active approach and includes preventive measures to improve the environment for both business and communities. As part of the process, it addresses the challenges of real representation and 'meaningful' rather than token consultation.[72] It seeks to address power asymmetries, information inequality, and differences of cultures that frequently inhibit efforts to apply human rights norms and achieve transformative change.

Essentially, the HSBP enables companies and investors to go beyond Do No Harm approaches, and achieve positive impacts at local level that can reduce non-financial risks. Its processes and tools can help investors to select indicators to measure corporate social impacts and community engagement. Where conflict-sensitive business practices aim to change corporate behaviour by encouraging managements to adopt different forms of risk analysis and mitigation, the HSBP addresses local challenges by empowering local communities and using partnerships to mobilise collective action involving companies and other stakeholders.

71 LSE IDEAS, (2018), 'People, Profits and Peace: Proposals for a human security approach for the private sector towards the achievement of the Sustainable Development Goals', <https://www.lse.ac.uk/ideas/Assets/Documents/reports/2018-02-07-PeopleProfitsPeace-WEB.pdf>.

72 Wilson, E., Best, S., Blackmore, E., Ospanova, S. (2016), 'Meaningful Community Engagement in the Extractive Industries', International Institute for Environment and Development, <http://pubs.iied.org/pdfs/16047IIED.pdf>.

Other innovative financial mechanisms that may influence peace

Several innovative financial mechanisms are worth mentioning, in addition to the frameworks described above, because they have the potential to influence peace in conflict-affected settings.

- The ICRC's Humanitarian Impact Bonds.
- The Near East Foundation's Syrian Revolving Credit Fund.
- The Business and Conflict Barometer (BCB).

Initiated by the International Committee of the Red Cross in 2017, Humanitarian Impact Bonds are a financing instrument created to encourage social investment from the private sector to support the ICRC's health and rehabilitation programmes.[a] The capital raised has been used to build and run three new physical rehabilitation centres in Nigeria, Mali and the Democratic Republic of Congo over a five-year period.

In December 2020, the Near East Foundation officially launched the Syrian Revolving Credit Fund (SRCF), which supports and promotes local entrepreneurship in northeast Syria.[b] In its first phase, the intervention supported 480 entrepreneurs by establishing three community-based revolving credit funds in Raqqa, Deir Ez-Zor, and Hasakah. In addition to business capital, entrepreneurs were granted access to non-financial services that included training in life skills, financial literacy, business development, and demand-driven coaching and mentoring. The aim was to empower Syrian entrepreneurs, improve their businesses and livelihoods, create jobs and promote local economic activities.

Finally, though still in development, the Business and Conflict Barometer (BCB) is relevant to peace finance work. Led by Prof. Brian Ganson of Stellenbosch Business School, the BCB uses data science tools and analytics to identify private sector developments that are likely to promote conflict, enabling them to be corrected, as well as private sector developments that are likely to promote conditions of peace, enabling them to be promoted and used for learning. The project's rationale is that scientific use of data can reduce the harms and increase the benefits of private sector investment in fragile and conflict-affected areas.

a. Humanitarian Impact Bond (ox.ac.uk).
b. NEF Belgium | Near East Foundation.
c. https://esg.wharton.upenn.edu/news/an-introduction-to-the-business-and-conflict-barometer/.

Mapping Current Practice in ESG, Impact and Blended Investment

Key global impact frameworks and bond issuing and verification regimes

Background research (published separately) has reviewed and analysed 31 major frameworks and taxonomies on responsible, sustainable or social investing that major international (financial) institutions and other organisations currently employ. These principles, standards, frameworks and exclusion lists, and metrics for impact measurement, are listed in Table 1.

1. The Principles for Responsible Investing initiative (PRI).
2. International Capital Markets Association (ICMA): Social Bond Principles, Sustainability Bond Guidelines, and Sustainability-Linked Bonds Principles (SLBPs).
3. Sustainability Accounting Standards Board (SASB) Standards; and the International Sustainability Standards Board (ISSB).
4. The EU social taxonomy and exclusionary criteria (not yet approved).
5. The Sustainability Finance Disclosure Regime (SFDR); Principal Adverse Impacts (PAI).
6. World Bank Environmental and Social Framework (ESF).
7. The Equator Principles.
8. The Kampala Principles.
9. Tri Hita Karana (THK) Impact Working Group: Check List for Impact Assessment on the Poor.
10. OECD DAC: Blended Finance Principles; detailed guidance notes.
11. OECD: Guidelines for Multinational Enterprises (OECD Responsible Business Conduct for institutional investors).
12. OECD and UNDP: Impact Standards for Financing Sustainable Development (IS-FSD).
13. Principles for Responsible Banking (UNEP FI).
14. UN Global Compact: SDG 16 Business Framework - Transformational Governance.
15. The SDG Impact Standards.
16. Climate Bond Standard (CBS).
17. EU: the Climate Bond Standard; the EU Green Bond Standard.
18. IFC: Environmental and Social Performance Standards.
19. IFC: exclusion list.
20. World Bank Multilateral Investment Guarantee Agency (MIGA): Environmental and Social Performance Standards.
21. MIGA: exclusion list.
22. World Bank: Environmental and Social Framework (ESF) (new); the ten Environmental and Social Standards (ESS).
23. DFI Working Group on Blended Concessional Finance): Enhanced Blended Finance Principles.
24. European Development Finance Institutions (EDFI): Principles for Responsible Financing of Sustainable Development.

25. EDFI: exclusion list.

26. Operating Principles for Impact Management (OPIM).

27. Global Environment Facility (GEF): Environmental and Social Safeguards or Minimum Standards.

28. Various standards, including harmonised metrics, applied by other DFIs.

29. Harmonized Indicators for Private Sector Operations (HIPSO) Indicators.

30. Joint Impact Indicators (JII).

31. Emerging Markets Investors Alliance (EMIA): Enhanced Labelled Bond Principles.

Table 1. Frameworks, principles, standards, and guidance on impact and sustainable investment.

Category	Principles and Guidance	Standards, Certification and Ratings	Exclusion lists	Frameworks and Regulations	Metrics and Indicators
Impact management	Principles for Responsible Investing (PRI)	The IFC Environmental and Social Performance Standards	IFC	EU Environmental and Social Taxonomy proposal	
	Equator Principles (EPs)	E&S Performance Standards of the World Bank Multilateral Investment Guarantee Agency (MIGA)	MIGA	Sustainability Finance Disclosure Regime (SFDR) and the Principal Adverse Impacts (PAI)	
	OECD-DAC Blended Finance Principles	World Bank Environmental and Social Standards (ESS)	EDFI	World Bank Environmental and Social Framework (ESF)	
	THK Checklist	Global Environment Facility (GEF) Environmental and Social Safeguards or Minimum Standards	EU Social Taxonomy proposed exclusion criteria	UN Global Compact SDG 16, Business Framework: Transformational Governance	
	Kampala Principles	OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD)			
	DFI Enhanced Blended Finance Principles	The SDG Impact Standards			
	EDFI Principles for Responsible Financing of Sustainable Development	Climate Bond Standard (CBS)			
	Principles for Responsible Banking (UNEP-FI)	Climate Bond Standard and the EU Green Bond Standard			
	OECD Guidelines for Responsible Business Conduct (RBC)	SASB and ISSB Standards			
	Operating Principles for Impact Management (OPIM)				
	ICMA Green, Social and Sustainable-(linked) Bond Principles				
	Emerging Markets Investors Alliance (EMIA) Enhanced Labelled Bond Principles				

Category	Principles and Guidance	Standards, Certification and Ratings	Exclusion lists	Frameworks and Regulations	Metrics and Indicators
Impact measurement					Joint Impact Indicators (JII)
					Harmonized Indicators for Private Sector Operations (HIPSO)
					Social Indicators of the ICMA Harmonized Framework for Impact Reporting for Social Bonds
					Principal Adverse Impacts (PAI) indicators

These frameworks have been mapped according to their potential application in financial and corporate services, focusing particularly on Do No Harm, enhanced due diligence, conflict sensitivity, and peace-positive impact. Gaps have been identified and highlighted, as have elements that might complement a PFIF. Exclusion lists were included; these principally concern industries where forms of exclusion are common. The section that follows describes the outcomes of the mapping analysis and their relevance to a PFIF.

Common gaps in current frameworks with respect to peace: analysis

The mapping looked for gaps, needs and implementation challenges that might be relevant for a potential PFIF and taxonomy. As noted, ten significant gaps were identified, which will be described below in more detail:

1. Current frameworks across the ESG, impact and blended finance space are largely silent on peace and conflict concerns.
2. They do not address double materiality consistently and need to shift from Do No Harm to positively 'doing good'.
3. Holistic, forward-looking, and adaptive approaches are needed to assess value and risks as they materialise over time.
4. Impact design and planning processes need to become less ad hoc and more deliberate.
5. Risk assessments of peace and conflict dynamics need to become more context specific.
6. Investors often have a limited or superficial understanding of local needs, inclusion, engagement and participation, which weakens due diligence, additionality, risk mitigation and sustainability.
7. Investors are rarely required to collect or listen to the views of affected communities and beneficiaries, which undermines transparency and accountability.
8. Many frameworks lack specific and actionable guidance and as a result are not implemented.
9. Impact management and measurement systems need to connect more to disclosure mechanisms.
10. Many complaint and grievance mechanisms are unfit for emerging and fragile contexts.

1. Current frameworks across the ESG, impact and blended finance space are largely silent on peace and conflict concerns.

As this report has described, different societies, communities and markets attach more or less weight to peace and conflict issues, but everywhere peace is a transversal and contextually determined outcome. However, most current ESG, impact and blended finance principles do not define 'peace' or 'conflict' or include them as normative objectives. This omission creates two evident problems:

1. Investors focused on emerging and developing markets lack Do No Harm criteria on peace and conflict. As a result, they cannot mitigate risk competently or exercise due diligence in these areas. This creates important material risks for communities and reputational and operational risks for companies.

2. Investors who seek impact, or development additionality or to 'do good', especially in the blended finance space, possess no normative (principled) conceptual framework to guide their investments towards peace outcomes. In this sense, existing frameworks are largely peace and conflict blind.

At the same time, it is important to underline that new and nascent frameworks do consider peace concerns. The draft EU social taxonomy has a sub-objective on inclusive and sustainable communities and societies that links to key dimensions of social peace. It emphasises a range of issues, including: (i) land rights; (ii) indigenous people's rights; (iii) human rights defenders; and (iv) the provision for groups in need of accessible and available economic infrastructure and services (such as clean electricity and water).[73] These transversal outcomes are important for peace and will have significant overlap with some of the peace impact criteria proposed in this report. The OECD DAC Blended Finance principles promote norms to ensure that investors take the local context into account through consultation and engagement. While terms such as 'meaningful consultation with communities' need to be explicated in detail, local engagement is evidently a critical element of peace-responsive or peace-supporting investment. These emergent trends highlight that there are opportunities to embed peace criteria in investment frameworks as well as relevant investment norms in peace criteria.

2. Current frameworks do not address double materiality consistently and need to shift from Do No Harm toward positively 'doing good'.

ESG, impact and socially responsible investment frameworks depend on the commitment of the signatories that underwrite them. Most focus on the investor's risks. However, several recent principles and standards consider an investment's benefits to communities and the impact of management processes on local people. The check list of impact management on the poor by the Tri Hita Karana Impact Working Group is an example. The Principles for Responsible Banking (UNEP FI) also require signatories to work continuously to increase positive and reduce negative impacts. They expect signatory banks to set clear targets with respect to the most significant negative *and* positive impacts.[74] Some of the harmonised indicators used by DFIs recommend that the sums clients spend on activities that benefit communities should be included in investment reports.[75]

Viewed as a whole, it is clear that the double materiality concept has increasing influence: frameworks are gradually raising the profile of community interests. Double materiality extends the accounting concept of materiality to cover not just the material impacts of the context on a company but also the impacts of that company's actions on the local social context and environment.[76] The concept is still emerging, nevertheless: many frameworks still focus on risks to the company. In this sense, traditional Do No Harm practices need to move beyond minimum safeguards; while avoiding harm, economic and development investments should more deliberately seek to bring benefits to the environment and to communities they affect.

The implications are not merely normative. Such a change would arguably add value to investments and reduce their risks. The current normative environment encourages companies and investors to take a narrow view of risk. If they do not consider their impact on the broader social environment, however, their risk analysis will not be adequate. In many cases, companies can only mitigate operational risks by taking deliberate steps to understand how their investments will affect the communities and environments in which they are located.

73 For the EU social taxonomy see: Platform on Sustainable Finance (2021), 'Draft Report by Subgroup 4: Social Taxonomy', European Commission, <https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf>.

74 UN Environment Finance Initiative (2017), 'The Principles for Positive Impact Finance: A Common Framework to Finance the Sustainable Development Goals', <https://www.unepfi.org/wordpress/wp-content/uploads/2017/01/POSITIVE-IMPACT-PRINCIPLES-AW-WEB.pdf>.

75 Harmonized Indicators for Private Sector Operations (2020), 'Indicators', <https://indicators.ifipartnership.org/indicators/>.

76 Adapted from Täger, M. (2021), '"Double materiality": what is it and why does it matter?', LSE Commentary, <https://www.lse.ac.uk/granthaminstitute/news/double-materiality-what-is-it-and-why-does-it-matter/>.

The new financial products consider that ESG factors provide a path to go beyond Do No Harm. However, investors that seek to 'do good' underuse them – even though they can reveal opportunities in places where investment is most needed and they align with their ambition to reach the poor and those left behind, and also with development additionality[77] requirements that need to be determined in advance of a blended investment. Development additionality requires a transaction or investment to demonstrate that it will create development outcomes and support underserved populations such as women, youth, and indigenous peoples.[78] It usually also requires an explicit theory of change (see below), showing how the investment will address opportunities as well as risks for groups affected by fragility and conflict.

It can be argued that the majority of current standards that apply the Do No Harm principle inadvertently inhibit development additionality opportunities. Investors that lack contextual understanding and whose risk appetite is low may conclude that attempts to achieve development additionality or apply double materiality may have unintended consequences. Depending on the investor and the context, this may in fact be true, which is why assertions of double materiality and development additionality need to be supported by tools, guidance and partner accompaniment. In the absence of strong policy support and practice, it is likely that investors will continue to under-invest and over-price risk in fragile and conflict-affected areas.

The proposed EU social taxonomy potentially addresses this issue. It postulates a Do No Significant Harm (DNSH) principle that expects actors to go beyond typical pro-active risk mitigation practices. 'Not doing harm' is no longer considered a minimum safeguard; investors are expected to bring transformative improvements to the societies they affect. DNSH criteria in the proposed social taxonomy give more weight to the European pillar of social rights, and in particular to equal opportunities, social protection, and inclusion. For example, an economic activity that makes a substantial contribution to wages under the decent work objective should not harm equal employment opportunities for women or vulnerable groups.

3. Holistic, forward-looking, and adaptive approaches are needed to assess value and risks as they materialise over time.

The International Sustainability Standards Board (ISSB) is currently aggregating many of the ESG frameworks that international investors use for reporting into a harmonised framework. Most use a 'building blocks' approach, allowing investors to neatly dissociate and report on the materiality of specific sustainability issues. However, as the UNEP Finance Initiative and other UN agencies have highlighted, many issues are deeply interconnected and cannot be considered in isolation.[79] This concern underlies several of the core critiques of ESG frameworks: that they are not able to calculate or understand trade-offs between different environmental, social and governance factors; that they report on ESG factors selectively; and that they cannot quickly update as risks emerge and develop over time.

The International Financial Reporting Standards (IFRS) Foundation's decision to develop ISSB standards marks an important step towards a globally harmonised ESG reporting structure; but the initiative could further embed many of ESG methodological weaknesses. Because they lack of a long-term perspective, ESG frameworks are unlikely to cope well with fast-changing environments or risks that evolve over time. These are problems that ESG investments have met in Russia and in the context of COVID-19. Combined with the absence of globally harmonised sector-agnostic indicators, current ESG models encourage investors to report selectively, severely undermining trust in them as well as transparency.

A PFIF will need to consider the issue of time. An investment that is conflict-sensitive or peace-supporting may be beneficial for a period but may create conflict and risks for the investor or communities at a later date. This is where holistic disclosure and long horizons can help investors to monitor, manage and mitigate risk and make their reporting fit for purpose. Because many of the risks associated with peace and conflict have financially material consequences, they should be monitored and treated as an element that contributes to the financial additionality and viability of an investment.

4. Design and planning processes for impact need to become less ad hoc and more intentional.

Peace-supporting development investments in fragile settings need to include a theory of change (ToC). A ToC explains how an investor's portfolio intends to improve conditions for development or peace and how it will reduce material risks.

77 Development additionality measures the development impacts that occur as a result of investment that otherwise would not have occurred. See Winckler Andersen, O., Hansen, H., Rand, J. (2021), 'Evaluating financial and development additionality in blended finance operations', OECD Development Co-operation Working Paper No. 91, < https://www.oecd-ilibrary.org/docserver/a13bf17d-en.pdf?expires=1663868366&id=id&accname=guest&checksum=05E9EEC403F1F40B6151114CAE415292>.

78 OECD, 'OECD DAC Blended Finance Principle 2: Design blended finance to increase the mobilisation of commercial finance', Guidance Note, <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-2/Principle_2_Guidance_Note_and_Background.pdf>.

79 UN Environment Programme Finance Initiative (2022), 'UN responds to the ISSB consultation on new standards with joint statement', <https://www.unepfi.org/news/un-responds-to-the-issb-consultation-on-new-standards-with-joint-statement/>.

The methodology builds on the experience of peacebuilding and development actors, who use results-based management (RBM) and theory of change processes to plan, anticipate and make explicit the goals and risks of proposed projects or investments.

It is particularly important to do this when projects or investments are to be implemented in complex and uncertain environments. A robust ToC can 'force' investors and companies to state clearly how their investment will lead to the outputs, outcomes, additionalities and peace impacts they anticipate. DFI financial intermediaries use them to track causes and effects between their investments and development objectives.[80] A number of existing frameworks, including the OECD DAC Blended Finance Principles, encourage public investors and other actors to adopt ToCs. The Kampala Principles list criteria for developing ToCs in association with communities. Specifically, they recommend that, before a project kicks off, all stakeholders should agree on a set of key performance indicators and that local actors should participate actively in the design and implementation, as well as monitoring and evaluation, of development interventions.[81]

Such principles and guidance can help investors to align their investments with the development efforts of national governments. Several peace impact frameworks, including the I4P peace impact framework, the study of peace bonds by Interpeace and SEB, and PDI's peace framework, recommend ToCs and provide advice on how to design and apply them.

5. Risk assessments of peace and conflict dynamics needs to become more context specific.

Most of the tools and guidance that accompany the ESG frameworks reviewed for this report do not specify risks related to peace and conflict or the broader political economy in a conscious manner. Risks related to peace and conflict are usually identified indirectly, and they are generally considered through the narrow lenses of violence and security and operational risks to specific assets. From the perspective of investors, detecting risks relating to peace and conflict early can have significant material financial impacts; local conflicts can generate operational and reputational risk far wider than a specific asset.

In general, as a result, most current ESG frameworks are of limited help to investors who want to mitigate risks, because their criteria are often selective and they consider risks generically, rather than in context. These weaknesses are problematic because many risks are context specific and can only be properly understood when analysed in a context specific way. Based on the interviews and desk review for this study, it is evident that, to understand adequately the risks of their investments, especially in fragile or conflict-affected areas, large institutional investors need more than available frameworks offer.

Public concessional climate finance provides a precedent for investors who want tools on peace and conflict analysis to manage their risks in fragile and conflict-affected settings. A 2020 evaluation by the Independent Evaluation Office of the Global Environment Facility (GEF) concluded that risks related to conflict and fragility, and how GEF projects responded to those risks, disrupted the timetabling of projects and harmed their effectiveness, efficiency, and sustainability. The evaluation showed that projects that did not control risks were more likely to be cancelled and more likely to increase violent conflict, causing deaths among people in affected communities.[82] By contrast, GEF projects that ran conflict analyses, integrated peacebuilding practices, and addressed conflict drivers, were more sustainable and managed risks better. This finding underlines the importance of collaboration between investors and peace practitioners, who can help companies to do contextualised conflict analysis and align their investment with peace objectives.

Some existing risk assessment approaches do require investors to be sensitive, for instance, to respect a country's poverty reduction strategy or avoid damage to development cooperation programmes.[83] Sensitivity of this kind can be relevant to conflict and, if associated with conflict analysis, can inhibit conflict drivers or promote conditions for peace. In addition, some guidance is so relevant to peace and conflict dynamics that it can be used and taken forward by a PFIF. The OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones is an example.[84]

Unfortunately, like many other standards and frameworks, the more specific environment and social assessment tem-

80 OECD, 'OECD DAC Blended Finance Principle 5: Monitor blended finance for transparency and results', Guidance Note, <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-5/Principle_5_Guidance_Note_and_Background.pdf>.

81 Global Partnership for Effective Development Co-operation (GPEDC) (2019), 'Kampala Principles on effective private sector engagement in development cooperation', <https://www.effectivecooperation.org/system/files/2019-07/Kampala%20Principles%20-%20final.pdf>.

82 Global Environment Facility (GEF) (2020), 'Evaluation of GED Support in Fragile and Conflict-Affected Situations', <https://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.E_C59_01_Evaluation_of_GEF_Support _in_Fragile_and_Conflict-Affected_Situations_Nov_2020_0.pdf>.

83 The Tri Hita Karana Roadmap for Blended Finance Impact Working Group (2020), 'A checklist for assessing the impact of blended finance on the poor', <https://www.thkforum.org/wp-content/uploads/2020/06/THK_Impact_checklist.pdf>.

84 OECD (2006), 'OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones', <https://www.oecd.org/daf/inv/investmentfordevelopment/36885821.pdf>.

plates that DFIs typically use do not help investors to understand in detail the interaction between a proposed investment and the broader social context, beyond the direct effects on communities. At a spatial and institutional level, investments can have effects that involve important trade-offs in terms of power, resources and influence. For example, few businesses consider in a deliberate way how an investment might improve or worsen relations between different social groups at local, regional or national level, beyond the immediate footprint of the investment.

To do this kind of analysis, a broader range of stakeholders needs to be consulted during the planning phase. This might involve actor analysis and mapping, which are central to peace and conflict analysis. Useful precedents are available. The ESS10 (on stakeholder engagement and information disclosure) requires borrowers to do a stakeholder analysis. However, a sound stakeholder analysis requires a participatory review of the interests, goals, positions, capacities and relationships of all actors and specifically examines power dynamics and actors' access to economic resources, information, networks, and political ties. It also examines spoilers a project may face. Decisions on who does the analysis, and when, how and on what terms, are likely to determine its rigor, quality and credibility. These factors also need to be considered when guidance is prepared for the PFIF.

Consideration of peace and conflict in environmental and social assessments: entry points for DFIs

DFIs have many entry points if they decide to approach peace and conflict issues through environmental and social impact assessments (ESIAs). The timing of ESIAs is crucial.[a] They are frequently implemented after projects have already been planned, or after decisive events, such as land acquisition, have already occurred. In addition, their findings are often not translated into environmental and social management plans (ESMPs). Errors of this sort can devalue important findings on indigenous peoples, local communities, cultural heritage, land use, land rights, and stakeholder engagement.

The IFC's performance standards expect clients to apply methods and assessment tools in ways that are consistent with good international industry practices. Assessment tools include (but are not limited to) full-scale ESIAs, more limited ESIAs, and environmental and social baseline data. However, recognising that IFC standards do not at present incorporate a mature conflict-sensitive approach, the IFC and MIGA are developing new tools and guidance.[b] It is not yet known whether the new tools will apply only to high-risk projects (categories A and B) or more generally. The environmental and social standards (ESS) of the World Bank are based on the IFC's standards and encourage investors to recruit independent specialists to carry out ESIAs.

Many other principles that DFIs and MDBs apply align with the IFC Performance Standards. Examples include MIGA, the Equator Principles, GEF, and the World Bank. Several standards organisations have taken steps to incorporate enhanced ESIAs that address risks to affected communities. The Equator Principles is one. Such assessments are independent evaluations that may address potential human rights impacts. The IFC Standards also require clients to develop an action plan for category A and B (high-risk) projects and demonstrate that stakeholders have been actively involved in a structured and culturally appropriate manner.[c] Action plans would benefit from inputs from experts in conflict sensitivity and peacebuilding; this would help to address implementation weaknesses in this area.

The new environmental social framework (ESF) of the World Bank may require borrowers to conduct a social and conflict analysis that assesses the degree to which their project: (a) exacerbates tensions and inequalities within society (within communities affected by the project and between those communities and others); (b) will have a negative effect on stability and human security; and (c) may be negatively affected by tensions, conflict and instability, particularly by war, insurrection and civil unrest. This is the World Bank's strongest ESS reference in support of conflict-sensitive investment.

There is broader policy momentum for such approaches. The 'DAC Recommendations on the Humanitarian-Development-Peace Nexus' state that blended finance investors operating in conflict-affected settings should consider adopting a Do No Harm approach to 'deliver better financing' and that investors should undertake joint, risk-informed, gender-sensitive analysis of the root causes and structural drivers of conflict.[d] It also encourages institutional investors to collaborate, at operational level or through external grievance mechanisms, with parties that raise concerns, and calls on investors to prioritise prevention, mediation and peacebuilding, and to scale up investment in development.

a UNCTAD and World Bank 'Environmental and Social Impact Assessments, Knowledge Into Action Note Series, No 14, World Bank Document.

b World Bank Group, 'Strategy for Fragility, Conflict, and Violence 2020–2025', FCVStrategyDigital.pdf (worldbank.org).

c Equator Principles, 'Guidance note for EPFIs on incorporating environmental and social considerations into loan documentation', Guidance Note: For EPFIs on Incorporating Environmental & Social Considerations into Loan Documentation (equator-principles.com).

d OECD, 'DAC Recommendation on the Humanitarian-DevelopmentPeace Nexus', OECD/LEGAL/5019, 643.en.pdf (oecd.org).

6. Investors often have a limited or superficial understanding of local needs, inclusion, engagement and participation. This weakens due diligence, additionality, risk mitigation and sustainability.

Almost all social sustainability and social peace frameworks emphasise the importance of local engagement: inclusion, consultation, acceptability and participation. However, these are qualitative terms whose application is context specific. In many cases, frameworks neither define 'consultation', 'meaningful inclusion', 'engagement', 'consent', and 'local acceptability', nor provide investors with guidance. Yet the quality of local engagement, participation and leadership in peace-building and development work can be the most important factor in creating trust and in an intervention's success.

The most forward looking articulations of these values are found in the IFC's performance standards, the OECD's Blended Finance Principles, and the World Bank's Environmental and Social Framework (ESF) and ten Environmental & Social Standards (ESS). However, implementing them can be complex and difficult even for actors that have a clear development or peace mandate. A review of investments showed how hard they are to implement[85] and the degree to which investment strategies and operations often failed to take conflict factors adequately into account.[86]

For instance, the IFC performance standards state that, where a project may have harmful effects on affected communities, it has a duty to consult them, make its assessment public, and disclose adverse impacts promptly. It is expected to demonstrate that affected communities have given their free, prior and informed consent (FPIC), or, where consent has not been obtained, to make appropriate plans to mitigate and remedy the harms. However, FPIC is not well defined and it is not clear what constitutes 'consent'. Asymmetrical power is a potential concern that is not addressed.

Guidance suggests that local processes must be developed that empower communities. However, where marginalised groups lack voice and agency it may be difficult logistically or politically for international actors to gain their trust and confidence and it is evidently difficult to ensure that they can make decisions freely. Local communities may feel that it will be dangerous or pointless to articulate criticisms or express grievances. If grievances are not addressed, however, communities may forcefully reject the project, perhaps putting it and its operations at risk. Several renewable energy projects have been delayed or entirely cancelled because communications with the local community broke down, land acquisition processes were resented, or project benefits were perceived to be unevenly distributed.[87] In many societies, additionally, western grievance or complaint models may not provide acceptable form of remedial justice.

Public investors in fragile and conflict-affected societies have made efforts to hold local dialogues, encourage expression of different interests, avoid privileging private commercial interests, and ultimately foster local leadership and empowerment.[88] They recognise that systematic and serious consultation with local stakeholders throughout a project's life cycle benefits all types of investment, reduces risk, and increases additionality.

Nascent peace impact frameworks, like that proposed by I4P, attribute a central role to community engagement and monitoring.[89] Such consultations should be inclusive and meaningful and involve all stakeholders and partners – even if it is not always clear what these expectations mean or when they have been met. Some frameworks already set out elements of ongoing ESG risk management. For instance, the Kampala Principles state that due diligence processes should identify ESG risks as part of the partnership development process, develop appropriate plans, allocate responsibilities for monitoring and addressing (perceived) risks over the project life cycle, and use the convening power of private sector actors to start a social dialogue and build trust.[90]

Unfortunately, there is evidence that many private investors believe stakeholder consultations are time-consuming and costly, even if they realise that developing ties with local communities mitigates risk, reduces disputes, improves investment results, and increases an investment's sustainability.[91]

This issue is clearly one that a prospective PFIF and its peace enhancing mechanisms must address.

85 Asian Development Bank (ADB) (2022), '2022 Annual Evaluation Review: Fragile and Conflict-Affected Situations and Small Island Developing States', <https://www.adb.org/sites/default/files/evaluation-document/737481/files/aer-2022.pdf>.

86 World Bank (2021), 'World Bank Engagement in Situations of Conflict: An Evaluation of FY10-20 Experience', Independent Evaluation Group, <https://ieg.worldbankgroup.org/sites/default/files/Data/Evaluation/files/SituationsofConflict.pdf>.

87 Examples include the Kinangop Wind Farm: see Reuters staff, 'Kenyan wind power project cancelled due to land disputes', 23 February 2016, <https://www.reuters.com/article/kenya-electricity-idUSL8N1620QG>). See also the Lake Turkana geo-thermal case: Business & Human Rights Resource Centre, 'Kenya: Court rules that Lake Turkana Wind Power acquired community land unprocedurally', 1 November 2021, <https://www.business-humanrights.org/en/latest-news/kenya-court-rules-that-lake-turkana-wind-power-acquired-community-land-unprocedurally/>.

88 OECD (2020), 'Blended Finance Principles Guidance', <https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/ ?cote=DCD/DAC(2020)42/FINAL&docLanguage=En>.

89 Van Hoeylandt, P., Lion's Head (2022), 'Investing for Peace Feasibility Study', unpublished.

90 Global Partnership for Effective Development Co-operation (GPEDC) (2019), 'Kampala Principles on effective private sector engagement in development cooperation', <https://www.effectivecooperation.org/system/files/2019-07/Kampala%20Principles%20-%20final.pdf>.

91 OECD, 'OECD DAC Blended Finance Principle 3: Tailor blended finance to local context', Guidance Note, <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/documents/P3_Guidance_Note.pdf>.

7. Investors are rarely required to collect or listen to the views of affected communities and beneficiaries, which undermines transparency and accountability.

Frameworks that address dual materiality acknowledge that the benefits communities receive from investments, even blended investments, are not clear or transparent.[92] Though investments may collect large amounts of development performance data, especially on outputs, very few gather impact indicators on beneficiaries or collect their views, or harvest the qualitative, sometimes ethnographic and largely perception-based information that makes it possible to evaluate social peace.[93] Investors tend to focus on material outputs and quantitative data, and do not adequately disaggregate intersectional factors (such as gender, age, ethnicity and geography), and as a result they are not able to evaluate the impacts of their investments on relational factors (inclusion, participation, perceptions of benefit and trust) that largely determine social impacts. This problem is at least partly due to the fact that most frameworks do not require investors to involve beneficiaries in their design, implementation, evaluation and reporting processes.

For similar reasons, investors tend to have a weak understanding of the material impacts of their projects. For instance, it often remains unclear how much blended finance investments have specifically impacted key SDG goals. Many ESG frameworks include reporting or disclosure requirements, but many of these are selective or focus on the company's operations (as opposed to beneficiaries). With respect to DFIs, OECD DAC guidance has suggested that the transparency deficit is caused partly by the myriad competing legal and organisational obligations of actors involved in blended finance, as well as lack of capacity to collect qualitative people-centred data.

A systemic problem is the lack of fit-for-purpose independent expertise and a viable system of assessors to verify impacts on the ground. In the absence of sound baseline data and context specific understanding of local risks and local peace and conflict dynamics, it is difficult for any evaluator to assess the impacts of an investment. Similarly, if affected local populations are not well informed, and do not know how a project has been funded and implemented, they will find it difficult to understand or verify its impact. Some of these issues can be redressed by a PFIF that requires investors to collect context specific baseline data and allocate a budget for monitoring and consultation during the project's lifespan.

8. Many frameworks lack specific and actionable guidance and as a result are not implemented.

Many ESG and impact frameworks display an implementation gap, between the principles and standards they espouse and their application. Many of the norms in question are relevant to peace and sustainability; but investments frequently fail to realise them. This gap is especially apparent in high profile DFI blended investments in fragile and conflict-affected settings. Many operations have failed to conduct adequate stakeholder consultations or have been delayed by community disputes over land acquisition. Though a host of reasons may explain why unintended impacts occur despite good intentions, interviews with a range of public and private investors made clear that one major reason is that investors lack actionable guidance for implementing given norms and standards. In practical terms, for instance, many frameworks do not indicate when an environmental and social impact assessment (ESIA) should be completed (in the planning phase) or how ESIAs should link to and support an environmental and social management plan (ESMP).

Some newer frameworks, including UNDP's SDG Impact Standards, have acknowledged this issue. The SDG Impact Standards have more extensive guidance and include a proposed capacity development function to assist investors to align and implement SDG-labelled approaches. The Standards also link to a certification process under development that will require certified organisations to develop a robust impact measurement and management process and embed continuous stakeholder engagement. Voluntary systems of alignment and labelling have also developed a network of second party opinion (SPO) providers in other categories of sustainable finance (such as green bonds). This delivers certification and feedback at the labelling phase but investors put significantly less emphasis on post investment disclosure.

Ultimately, any framework that affirms standards, norms and principles should give attention to their implementation. They should provide guidance and strengthen capacity, but also offer incentives and a broader enabling infrastructure that blends accountability incentives and learning, and includes certification and verification regimes and disclosure systems. A PFIF too will need to affirm and communicate norms and address their implementation and adoption. Usefully, several voluntary frameworks (such as the Climate Bonds Standard and ICMA principles for green, social and sustainability bonds and loans) include organisational feedback mechanisms that a PFIF could model and replicate.

92 OECD, 'OECD DAC Blended Finance Principle 5: Monitor blended finance for transparency and results', Guidance Note, <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/principle-5/Principle_5_Guidance_Note_and_Background.pdf>.

93 Ibid.

9. Impact management and measurement systems need to connect more to disclosure mechanisms.

Across the ESG landscape, potential gaps exist between principles and the impact measurement and management frameworks that investors can choose independently. To understand outcomes, a PFIF will need to apply agreed metrics for peace impacts.

Several frameworks, especially those that recognise dual materiality, already prioritise impact management and monitoring. For instance, the new OECD-UNDP Standards for Financing Sustainable Development (IS-FSD) integrate development impact and human rights safeguards in the design and management of operations, alongside the SDGs and ESGs. To address 'impact washing', they also link disclosure to the management and measurement of stakeholder impact. Similarly, the UNDP SDG Impact Standards help managements to put sustainability at the centre of their decision-making. These standards focus on what is important to stakeholders and use outside-in ways to involve them. In response to the challenge of measuring impact on marginalised groups, the Tri Hita Karana (THK) Impact Working Group devised a checklist of questions that blended finance providers should ask in advance of expected human security impacts, and described what needs to be measured after they occur. Its process obliges investors to consider inequalities and potential harms, and determine whether marginalised groups will benefit or not.

Some frameworks that focus on peace impacts have included methodologies for measuring them. To make peace impacts explicit, Katsos and Forrer's framework applies a broad definition of peace (absence of both direct violence and indirect structural violence).[94] The authors suggest that investment in a society can help to address three sub-categories of structural violence: exploitation, social injustice, and inequality. They argue that action to reduce structural violence, especially between horizontal groups, would reduce mortality more effectively than action to reduce direct violence.

10. Many complaint and grievance mechanisms are unfit for emerging and fragile contexts.

Complaint and grievance mechanisms are critical in many contexts, and notably where governments lack the will or the capacity to uphold international or national standards. Normative frameworks can establish confidential complaint and grievance mechanisms that beneficiaries can use to raise and resolve grievances. However, reviews of such mechanisms have shown that many are not accessible or effective, often because they are unsupported by guidance or resources.[95] An evaluation of MIGA/IFC found that it had limited capacity to conduct due diligence or supervise grievance mechanisms and that its clients were expected to provide resources to cover the cost of remedy and compensation.[96] In some contexts, furthermore, the notion of a complaint mechanism may not be a locally acceptable form of remedial justice. Adopting remedy procedures that are locally appropriate is a dimension of conflict sensitivity; but many large public and private companies and investors lack the skills or understanding of local dynamics to do it.

An effective grievance mechanism promptly investigates the claims of people who believe they have been harmed by an investment, and promptly remedies claims that are justified; it can mitigate important risks. To remain effective, such mechanisms need to be monitored and evaluated regularly, potentially by local partners or independent specialised consultants. They also need to be accessible, especially by vulnerable groups. By making them the primary point of contact with communities, some frameworks overstate their role. Grievance mechanisms should not be the primary tool for managing community risks. Issues such as the involuntary resettlement of individuals or communities should be dealt with during planning and design, not after the investment has started. In theory, a peace-responsive or peace-supporting investment would embed community engagement and contextually determined peace enhancement mechanisms from the start. Serious community engagement will alert an investment to potential grievances and socio-cultural issues, and enable it to respond appropriately to community and individual concerns; in this sense, complaint mechanisms are best understood as an adjunct protection mechanism.

94 Katsos J., Forrer, J. (2022), 'Business against violence: assessing how business impacts peace', *Multinational Business Review*, 30/2, <https://doi.org/10.1108/MBR-03-2021-0043>.

95 Booth, K. (2022), 'OECD Watch's annual "State of Remedy" report finds NCPs still largely failing to facilitate effective remedy outcomes in 2021', OECD Watch, 27 June, <https://www.oecdwatch.org/oecd-watchs-annual-state-of-remedy-report-finds-ncps-still-largely-failing-to-facilitate-effective-remedy-outcomes-in-2021/>.

96 Fairman, D., Hartmann, A., Larose, P., et al (2020), 'External Review of IFC/MIGA E&S Accountability, including CAO's Role and Effectiveness Report and Recommendations', World Bank, <https://thedocs.worldbank.org/en/doc/ 578881597160949764-0330022020/original/ExternalReviewofIFCMIGAESAccountabilitydisclosure.pdf>.

Current regimes for issuing and verifying green, social and sustainability bonds

It has long been recognised that green and social bonds offer a significant opportunity to invest in emerging and fragile settings. In 2016, a study commissioned by the OECD International Dialogue on Peacebuilding and Statebuilding and BNP Paribas investigated innovative finance options, including social and green bonds structures, to finance peace.[97] This section describes some of the key principles and standards for green, social and sustainability bonds.

The Green Bond Principles (GBPs) and the Social Bond Principles (SBPs) are voluntary guidelines prepared by market participants. Co-ordinated by the International Capital Market Association (ICMA), they are the most widely accepted frameworks for green, social and sustainable bonds. The GBPs do not define 'green', however; this is left to issuers to determine. Other standards are also widely used in the green bond sector, including the more prescriptive Climate Bond Standards (CBS) developed by the Climate Bonds Initiative (CBI),[98] which include the same basic requirements as the ICMA standards but add screening criteria to define green economic activities.

There is currently no universally agreed definition of green, social or sustainable impact. In order to support the credibility of the green bond market and to address "greenwashing", some initiatives have nevertheless made a start towards defining what is 'green'. The Climate Bonds Standards (CBS) is one of these. Developed by academic experts under the stewardship of the Climate Bonds Initiative (CBI), which has produced a taxonomy of green investments,[99] its traffic light system indicates whether identified assets and projects meet green criteria. (Green is compatible, orange is potentially compatible, red is incompatible.) Verification and certification are undertaken by approved external verifiers. Climate bond certification is based on a detailed sector-based analysis and specific eligibility criteria including screening indicators. The CBS has stricter requirements (and therefore fewer users) than ICMA's voluntary GBP standard.

ICMA Social Bond Principles, Sustainability Bond Guidelines and the Sustainability-Linked Bond Principles (SLBPs)

ICMA's Social Bond Principles aim to promote integrity, transparency and disclosure and help issuers to finance socially sound and sustainable projects that generate social benefits.[100] They aid investors to evaluate the positive impact of their social bond. The SBPs and the green bond principles address the same four components: use of proceeds, the process for project evaluation and selection, management of proceeds, and reporting. SBPs apply commonly used project categories, which include access, basic infrastructure and services (such as clean drinking water, sanitation, energy, education, healthcare, financial credit, food security, employment, and the socio-economic empowerment of specific groups). They promote transparency, including reporting of achieved impacts; investors are encouraged to use external reviewers to verify impacts. Sustainability Bond Guidelines (SBGs), a mix of green and social bonds, also apply the four core components and recommend external reviewers.

The Sustainability-Linked Bond Principles (SLBP) took a different path. This voluntary process focuses on five key components: selection of key performance indicators (KPIs); calibration of sustainability performance targets (SPTs); bond characteristics; reporting; and verification. The SLBP encourages issuers to explain publicly why they have selected their KPIs (for example, relevance or materiality), their level of ambition, the potential changes and trigger events that will induce change, and the reporting and independent verification process they intend to follow. Under the GBPs, SBPs and SBGs, an amount equal to the net bond proceeds is allocated to finance eligible projects (employing Use of Proceeds Bonds). By contrast, under the SLBP, an issuer distributes proceeds primarily for general purposes in pursuit of identified KPIs and SPTs (sustainability-linked bonds). If a bond combines SLB and Use of Proceeds features it must apply the guidance for both types of bond. (See figure 4.)

97 International Dialogue on Peacebuilding and Statebuilding (2017), 'How to Scale Up Responsible Investment and Promote Sustainable Peace in Fragile Environments - Draft report', <https://www.pbsbdialogue.org/media/filer_public/8b/27/8b27b529-8fcc-4a2c-8d7b-87aabc55f7f3/final_privatesectorreport.pdf>.

98 Climate Bonds Initiative (2019), 'Climate Bonds Standard Version 3.0. International best practice for labelling green investments', <https://www.climatebonds.net/files/files/climate-bonds-standard-v3-20191210.pdf>.

99 Climate Bonds Initiative (2021), 'Climate Bonds Taxonomy', <https://www.climatebonds.net/files/files/Taxonomy/ CBI_Taxonomy_Tables-08A%20%281%29.pdf>.

100 International Capital Market Association (ICMA) (2021), 'Social Bond Principles: Voluntary Process Guidelines for Issuing Social Bonds', <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>.

Figure 4. Overview of ICMA principles.

Mapping bonds to the SDGs

Mapping with respect to the SDGs is an addition to the core components of a green, social or sustainability bond. An issuer must identify key SDGs (and related sub-targets) that would be advanced by the capital deployed and select relevant indicators to track and report material results. For instance, an issuer can use the social bond framework to describe how a bond aims to address an SDG and include data on performance (in terms of selected indicators) in its ex-ante impact reporting.[101] An issuer must consider SDG-linked externalities if it applies eligibility and exclusion criteria, or other policies or processes, to identify and manage or mitigate perceived social and environmental risks associated with the bond.[102] For instance, a project may have a positive impact with respect to one SDG (for example, SDG 13 on climate action) but an adverse impact on another (for example, SDG 1 on poverty).

Modelling a peace financing standard after the ICMA Bond principles

Modelling a new peace financing standard for issuing peace bonds using ICMA bond principles would increase the issuer's credibility and create more certainty for investors that their investments will verifiably improve conditions for peace. However, the current verification practices for green bonds have been challenged. Green bond issues have been profitable because of premium benefits or reputational gains. But the pressure to demonstrate 'greenness' and the costs associated with green commitments (monitoring impact, reporting, external review costs, etc.) reduce the incentive to follow them up, which lowers transparency and market accountability.

In addition, subsequent verification procedures may discover unexpected adverse impacts that cast doubt on the quality (greenness) of green bonds, potentially damaging the reputation of the issuer. Issuers hesitate to verify ex-post because they lack an agreed definition of 'green project' or transparency instruments, and the quality of external reviews varies. In combination, these factors can give investors a false sense of the green or social impact of a project. Greenwashing of investments has indeed become apparent in recent years. Issues of trust and perceived conflicts of interest between issuers and investors in the bond market are tied to the integrity of the credentials of specific green, social or future peace bond markets.

The ICMA bond principles recommend transparency and disclosure and promote the integrity of the green, social or sustainability bond market by clarifying the conditions under which they can be issued. The use of a proceeds model permits a wide range of approaches, including project bonds and other debt instruments, which suits the development of potential peace bond standards. SBPs and SBGs are a good point of departure: both provide guidance for investments that finance humanitarian, development, and peace outcomes. Separate research by Finance for Peace will seek to publish emergent peace bond and equity standards based on the mapping and gaps analysis described in this report and the draft PFIF presented in a separate document.

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