



**Interpeace**

INTERNATIONAL ORGANIZATION  
FOR PEACEBUILDING

**S|E|B**

# **Peace Bonds**

## Feasibility study

### *Summary*

Developing a new asset class that can lower risk and enhance peace.

January 2022

## Rationale

- Risks related to conflict are the major obstacle to unlocking the investment required to realise the Sustainable Development Goals (SDGs) in developing countries. Paradoxically, peacebuilding actions and approaches that can lower these risks are badly underfunded and are not aligned with potential investment flows. This vast market failure needs to be addressed if billions of people living in countries in need are to achieve sustainable peace and development.
- With SEB and other partners, Interpeace is working to address this problem by developing a new asset class called Peace Bonds.
- Peace bonds would access very large global debt markets with a value of trillions of USD, and make it possible to truly scale up financing to fragile and conflict affected societies.

---

## What are peace bonds?

- **Peace bonds are a proposed new type of bond instrument whose proceeds are applied to finance new or existing projects that achieve verifiable peace impacts, guided by a robust set of new principles and standards.**
- Peace bonds apply to a very large array of investment thematic, geographic contexts and structures and can refinance existing capital to lower risks.
- Peace bonds will create additional value in two ways.
  1. Proposed **peace bond principles and standards** will provide certification to show that peace bond-aligned investment verifiably deploys capital in ways that are peace responsive, do no harm and involve communities. These safeguards will ensure that investments target real needs and, where possible, contribute to peace. They build stakeholder trust in an investment and signal to investors that peace impacts can be verified.
  2. **Peace enhancing mechanisms** (PEMs) are embedded and financed by the proceeds of a peace bond. They promote peace directly and address key project risks. Their effect is to (a) lower discount rates on peace bonds and (b) improve project cash flows, which can further lower peace bond discount rates. These benefits can improve net present values (NPVs) and market premiums and create additionality while leveraging significant private finance for peacebuilding and development at scale.
- How peace bonds achieve these outcomes will vary depending on the context, the investment area, and the peace bond's structure.

---

## Different types of peace bond

- Peace bonds might adopt various structures, of differing complexity, according to the issuer. They might be issued by Sovereigns (government peace bonds), by corporate entities (commercial peace bonds), and/or by a mix of corporates, international or non-government organizations (NGOs) and development finance institutions (DFIs). Structures might feature donor risk-sharing mechanisms such as guarantees, political risk insurance or co-financing (blended peace bonds).
- The report focuses on peace bonds that have purely commercial structures, in which the arranger and/or issuer is a corporate or for-profit entity. This is important because, if peace bonds are to be scaled up sustainably as an asset class, their additionality and ability to create value must be established independently of government or public financial support.

---

## Proposed feasibility case: a 50MW solar plant

- To understand how commercial peace bonds can be structured, how PEMs would be integrated and financed, and how PEMs would impact financial and project risk, the report presents a detailed feasibility case based on a real proposed investment project.
- A 50MW solar plant is to be constructed in Northern Ghana that would deliver energy to Burkina Faso through a power purchase agreement (PPA). The project has the potential to impact one million people in Burkina Faso (5% of the population). Its output would cover 14% of the country's energy import needs.
- The feasibility study shows that a realisable set of PEMs, embedded and financed by the peace bond, could directly address conflict risks as well as key project risks and credibly reduce the discount rate linked to the project by 200 basis points, from 19% to 17%. The effect would be to improve the NPV of the project by USD 6M. The surplus value of the PEMs in alignment with the Peace Bond is calculated to amount to USD 4.4M.
- This shows that, by closely aligning PEMs with key project risks, a peace bond structure can improve bankability and the peace impact of private investments and reduce dependence on development aid and public finances, achieving a win-win-win for people, investors, and governments.

---

## Peace Impacts of the peace bond

- Only about 20% of the population of Burkina Faso has access to energy, most of which is currently consumed by those in urban areas. The urban/rural split in access to energy is one of many interlinked causes of conflict, in association with issues of governance, rural/urban divides, land conflicts, resource competition and State legitimacy. PEMs, tied to issuance of the bond, will address these issues by earmarking energy to under-served communities, using dialogue platforms to build trust in service provision, and co-developing benefit-sharing mechanisms with communities and national actors.
- PEMs can improve benefits to communities and increase their inclusion, and at the same time lower key project risks and raise NPV, thereby increasing the project's bankability for investors. PEMs would also embed a resilience strategy that would enable the investment and communities to withstand shocks and ultimately have the capacity to adapt operations.
- More broadly, increased Burkina Faso's electricity supply has critical development outcomes that are vital for the country's continued economic growth and its transition to a development path that is more resilient and peaceful.

### Sectors that favour peace bond Issuance

Energy

Water, water resources, and sanitation and hygiene (WASH).

Agriculture, food security, and land use.

---

## Indicative operational standards for peace bonds

- Peace bonds would be verified in four stages:
  1. Use of proceeds.
  2. Process for project evaluation and selection.
  3. Management of proceeds.
  4. Reporting.
- Operational standards will describe how PEMs are embedded in the issuance of particular investments.
- Standards will emphasise process and impact, not just the eligibility of projects.

---

## Peace enhancing mechanisms (PEMs)

- Peace enhancing mechanisms (PEMs) enable peace bonds to be aligned with peace bond principles and standards.
- A PEM mainstreams peacebuilding, peacemaking or peace responsive development actions in the proceeds of a bond. PEMs enable peace bonds to reduce the risks of projects that operate in fragile and developing zones. They create financial additionality and can materially impact the risk premium on investments as well as assist peace bonds to create peace impacts.

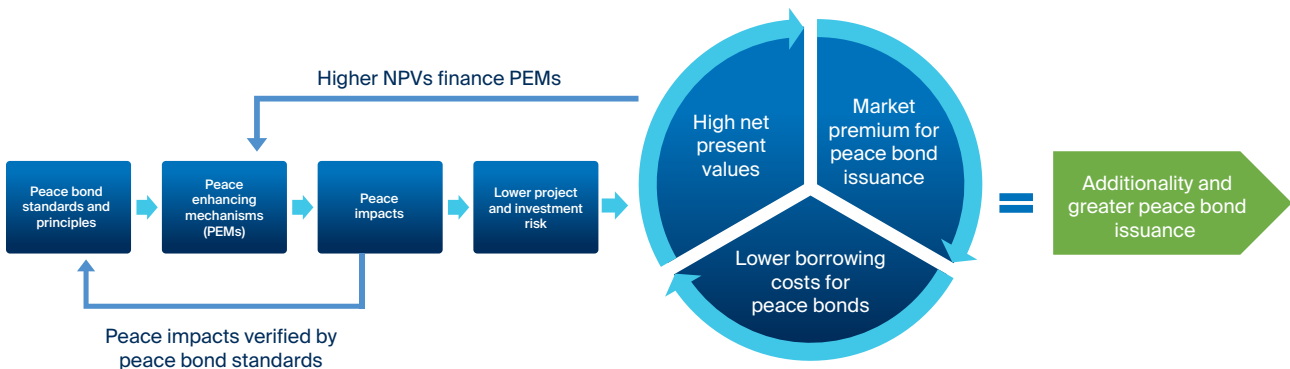
---

## The potential peace bond premium

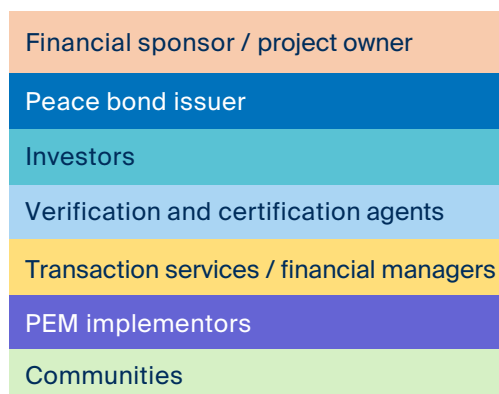
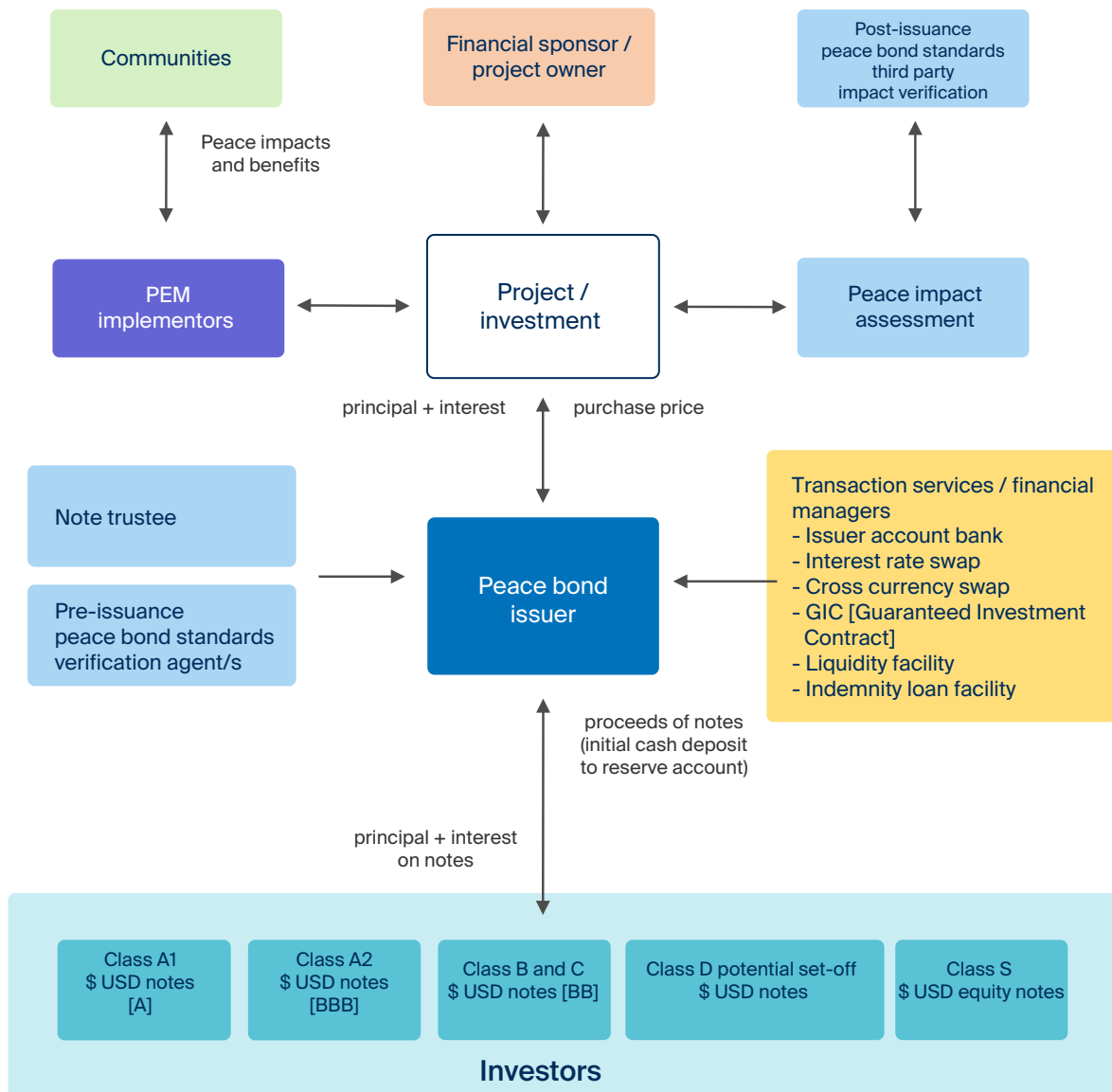
Peace bonds, especially commercial peace bonds, can create at least three different, interlinked forms of additional value relative to standard bonds. This is due to the material and demonstrable impact of PEMs (integrated in the peace bond structure) on risk premiums associated with an investment.

- 1. Improved net present value (NPV).** PEMs integrated in the use of proceeds have a material impact on a project or investment because they reduce its risks and borrowing costs.
- 2. Market premium.** PEMs bring reputational benefits that increase a project's market value and in principle the demand for peace bonds, provided these can verify that they have peace impacts.
- 3. Additionality.** Investments in fragile zones will become more attractive as PEMs improve their NPV and rising demand for peace bonds improves knowledge. More funds will flow into projects in fragile zones and those funds will be deployed more effectively. Additionality is potentially the most important benefit of peace bonds.

## Visualising the Potential Peace Bond Premium



## Key stakeholders and their roles in a generic peace bond structure



Key actors in a generic peace bond issuance process

---

## About the study

This is a joint study by Interpeace, an international peacebuilding organization, and Skandinaviska Enskilda Banken AB (SEB), a leading Nordic banking institution. It studies the process, mechanisms, conditions and commercial applications that would be necessary to establish a new asset class of Peace Bonds. The report is part of *Finance for Peace*, a larger initiative started by Interpeace, that aims to create the enabling conditions for a global peace bond market. It builds on existing work by Interpeace, SEB and other partners to develop new financial instruments that will attract private capital to peacebuilding and make current and future investment capital more conflict sensitive and peace responsive.

The study has been supported by the United Kingdom Foreign, Commonwealth and Development Office (FCDO).

The full study is publicly available.



### Interpeace Headquarters

2E Chemin Eugène-Rigot  
1202 Geneva  
Switzerland

[info@interpeace.org](mailto:info@interpeace.org)  
[www.interpeace.org](http://www.interpeace.org)



In partnership with the United Nations