

A young girl with long dark hair tied in a ponytail is wearing a light blue surgical face mask. She is looking intently at a blue tablet computer that she is holding with her right hand. The background is a solid bright blue color.

Gender Equality and Social Inclusion (GESI) Case Study

Project: GFS 126: Capacity
building process for Peruvian
government to support its first
sustainable bond

1. The Change

The pre-intervention context found that the main social challenges to focus on were gender and vulnerable groups. The financial needs of these groups struggle to secure enough funds to cover its basic needs. This happens even though Peru's social welfare national policies indicate that the country is committed to give priority to fighting poverty and applying integral policies to guarantee equal economic, social and political opportunities. The Ministry of Development and Social Inclusion and the Ministry for Women and Vulnerable Populations are two ministries that support policies and programs in these areas, in concert with the Ministry of Health, Ministry of Education, as well as a variety of other national and subnational entities.

In this context, Peru had a number of pending goals that it needed to reach, in order to achieve an egalitarian society, and obtaining poverty alleviation through economic development, as well as an emphasis on gender equity and social inclusion.

In summary, pre-intervention Peru had good national public policies that had been established to support access the welfare of women and vulnerable groups. Thanks to the intervention, now has the funding and the tools to provide the support to these groups, and implement its own policies protecting and supporting these groups.

For instance our initial mapping of key stakeholders identified the Ministry of Economy and Finance (MEF) and the Ministry of the Environment (MINAM) as key actors, as both guided GGGI in the Sustainable Bond Framework (SBF)'s green and socially eligible categories.

GGGI's engagement with MEF resulted in a highly efficient collaboration that produced the SBF. This collaboration included the development of the governance for the SBF, relevant government agencies for the development and monitoring of projects and the SBF's operational procedures in alignment with those established by the Ministry of Economy and Finance.

GGGI developed specific GESI communication and training material, including a video that tells a real story focused on the lack of water and sanitation, and how SB financing can affect positive change. The story is told by one of the people affected by this situation, in this case, a young girl from a local rural community.

The GESI training events were tailor-made to suit the Peruvian context as well as the change in government due to the Presidential elections in July.

The SBF was approved by the Ministerial Resolution RM 221-2021-EF-52, issued on July 26th, 2021. It mentions the following areas as priority for project financing:

- Support for vulnerable groups and people in vulnerable situations (as defined by the SISFOH*).
- Access to affordable housing, education and essential health services.
- Support for SMEs and social program to alleviate and/or prevent unemployment.

The Republic of Peru issued its very first Sustainable Bond thanks to the new SBF. The proceeds will help fund diverse social projects, as outlined in the SBF. It is expected that these projects will help advance Peru's compliance with the Sustainable Development Goals.

The first amount raised was

USD 4.0 bn

consisting of a new 12-year Sustainable Bond, a tap of 2051, and a new 50-year Sovereign Sustainable Bond.

The second amount raised was

1.0 bn euros

consisting of a Social Bond, a tap of 2036, considering three social eligible categories.

* The Peruvian government works with the definition and identification of vulnerable populations through the Household Targeting System (Sistema de Focalización de Hogares, SISFOH).

The SISFOH is an intersectoral and intergovernmental system employed by the Government of Peru, that was created and is used to identify vulnerable poor and extremely poor communities, and help prioritize public spending, in alignment with the country's social targets.

The SISFOH utilizes a combination of socioeconomic, geographic and intervention-specific criteria to identify people, households, and groups in situations of poverty, vulnerability, or exclusion.

The anticipated long term and sustainable impact from the thematic bond resources on GESI activities by Peru's government are:

- Financing of programs and projects that improve the financial and social inclusion of vulnerable groups;
- Provide funding to enhance access to essential services, in alignment with public policies focused on poverty reduction;
- Financing of programs and projects aimed at improving and/or increasing the access to education, housing and health services of vulnerable groups
- Loans or other financial support to SMEs facing financial distress, promoting their competitiveness and their employment of vulnerable groups.

2. The Analysis

The project aimed to assist the Peruvian government in issuing its first sovereign thematic (green and social) bonds. These bonds would allow Peru to invest in infrastructure, energy, social development, environmental sustainability, and climate change, helping the country achieve its NDC targets. At the same time, these bonds will help address gender, social inclusion, poverty reduction and green post-COVID recovery gaps.

The successful bond emission was achieved thanks to four interconnected outputs:

1. Development of the Sustainable Bond governance and issuance processes:

The Peruvian Ministry of Economy and Finance (MEF), led the development of the bond's governance structure, which was based on the recommendations of the International Capital Market Association (ICMA), and other international standards. This effort included capacity building efforts, as well as the validation of deliverables and outputs by the public entities involved.

2. Creating the Sustainable Bond Framework (SBF):

MEF, with GGGI's support, developed the SBF. It defines how to identify, select, verify and report on projects eligible for direct or indirect financing. The SBF received a second party opinion, by Sustainalytics, ensuring its alignment with international best practices:

- ICMA's Green Bond Principles - 2021
- Social Bond Principles - 2021
- Sustainability Bond Guidelines - 2021
- The United Nations Sustainable Development Goals

3. Implementation of KPIs designed to monitor and report the process of issuing a Sustainable Bond:

These specific KPIs are focused on the process needed for each social and green eligible category. The aim is to ensure transparent, effective, and timely reporting aligned with international best practices.

4. Capacity building, communication strategy, and awareness raising:

This output was focused on capacity building of decision makers, and in the development of a communication strategy. Both of these efforts were focused on reaching actors in the private and public sectors, helping them consider green and social bonds as an alternative to their finance needs.

** The three categories, as written in the Sustainable Bond Framework, are:

1. Support for vulnerable groups and people in vulnerable situations (as defined by the SISFOH);
 2. Access to affordable housing, education and essential health services;
 3. Support for small and medium sized companies, and support for social programs, to alleviate and/or prevent unemployment
-

Inclusive strategies and/or approaches used:

The project developed a GESI Action Plan, which helped monitor GESI activities across the four outputs. Of note:

- The identification of, and engagement with, the Gender Focal Points (GFPs) from the 10 Ministries involved in the project. The GFPs helped identify whether the projects were green or social.
- The SBF was developed with MEF's Treasury Directorate, which is led by a woman and is 75% women.
- The training and capacity building sessions were provided to the private industry, academia, NGOs, and government. In all cases, thematic bonds were promoted as an innovative financial instrument to fund investment projects with positive impact on women and vulnerable groups.
- The SBF included GESI priorities, in the form of national public policies, as well as GESI-specific KPIs to measure impact on GESI indicators relevant for the mandatory reporting.
- The process and methodology for identifying, prioritizing, and selecting eligible social projects includes GESI aspects, specifically regarding reporting KPIs such as: number of total beneficiaries disaggregated by gender and age, number of beneficiaries for each program being implemented, number of beneficiaries living in poverty and in extreme poverty.
- Our communication materials include GESI themes. information. Specifically, we have developed a corporate video aimed at sharing the GESI experience. This GESI case study will highlight lessons learned and recommendations for others.

3. Project Value

- **Volume and market-making potential:** The Government of Peru's 2021 Sustainability Bond issuance was the largest-ever sustainability bond from Latin America and the Caribbean, and the largest-ever sustainability bond from a Sovereign issuer in the world (as of the 2nd of February 2022, according to Environmental Finance Database). Beside its record-breaking amount, this bond issuance will decisively contribute to build the confidence of future thematic bond issuers and investors in a region which has traditionally lagged behind the rest of the world in terms of thematic bond volumes.
- **Post-COVID recovery potential:** The USD 3.25 billion bond proceeds provide resources to fuel Peru's recovery from the coronavirus pandemic. It will also help build a greener, more inclusive and resilient country. The Sustainability Bond Framework was drafted in line with the Sustainability Bond Guidelines of the International Capital Market Association. Remarkably, the Framework outlines the direct link between eligible categories and Peru's NDC actions, with a high level of granularity. A second party opinion provider, Sustainalytics Inc., part of Morningstar's ESG Solutions, certified that the framework is aligned with the ICMA's Principles, is coherent with Peru's wider NDC and SDG strategies, and will "provide a robust contribution to sustainability."

A specific impact for getting volume and market-making potential with respect to the post recovery potential will be the use of innovative financial instruments, as are thematic bonds, that will help the Peruvian public sector meet its already established GESI goals, such as strengthening social programs aimed at ensuring the well-being of girls, boys, young people, the elderly, and women. Also, ensure adequate care that is closely related to three factors: the achievement of economic safety, access to health services, and housing and quality education.

- **Inclusiveness of Peru's Sustainability Bond Framework's development process:** The Framework was structured around Peru's National Development and Social Inclusion Policy, and National Gender Equality Strategy. The Framework's development processes included a highly consultative process, consisting of webinars and roundtables.
 - **Institutional alignment:** Since the beginning of the project development was essential to set up a process for the evaluation and choice of investment projects, prioritizing those with the greatest social and environmental impact and that are also aligned with the current structure of the public investment system and GESI national public policies in place. The Sustainable Bond Framework design will include Peruvian public policies specifically focused on women and vulnerable groups as a fundamental part. This context has been reviewed taking women's and vulnerable groups' differentiated needs, knowledge, experiences, and priorities into account specially within the social eligible categories for project investment projects and key performance indicators established.
-



4. Lessons learned & recommendations

- Since the beginning of the SBF development, the project reviewed Peru's GESI legal framework, as well as its public GESI policies. This means that GESI-specific KPIs were included, and all GESI items were aligned with specific ICMA procedures.
 - We have included a GESI module in each training session involving the public sector, since the project must incorporate GESI in all investment projects.
 - The GESI video has complemented the training sessions quite well. The video highlights a real GESI gap that we hope will be addressed by investment projects funded by the Sustainable Bond.
 - GGGI supported the Government of Peru in the implementation of the Green Bond Roadmap in the context of the National Plan for Competitiveness and Productivity.
 - The political leadership and commitment demonstrated by the MEF was key and necessary to achieve steps forward for green finance in the country.
 - It is important to build innovative financial instruments together with public sector actors, thus strengthening their knowledge and increasing the level of commitment to something innovative and beneficial for the country and its citizens, especially regarding the use of the thematic bonds.
 - Establishing a governance process for the evaluation and selection of investment projects that is aligned with the current structure of the public investment system and this also allows incorporating a process of prioritization of social and environmental project needs.
 - A specific impact for getting volume and market-making potential with respect to the post recovery potential will be the use of innovative financial instruments, as are thematic bonds, that will help the Peruvian public sector meet its already established GESI goals, such as strengthening social programs aimed at ensuring the well-being of girls, boys, young people, the elderly, and women. Also, ensure adequate care that is closely related to three factors: the achievement of economic safety, access to health services, and housing and quality education.
 - One main lesson, was to take the time and do a review and analysis of the country's GESI legal framework, as well as its public GESI policies. This was useful to ensure that the GESI legal framework and institutional mandate was already present, and that our GESI activity was in alignment to Peru's national public policies and procedures.
 - Another main lesson was the need to establish a governance process for the evaluation and selection of GESI activities within the project. Together with that, it was important to incorporate a process of prioritization of social and environmental impacts expected.
-

Contact:

Global Green Growth Institute (GGGI)

Ana Lucía Pinto

Project Coordinator

E-mail: ana.pinto@gggi.org