



# Sustainable Sovereign Bond of Peru

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Case study  
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# 1. EXECUTIVE SUMMARY

Peru is implementing the process of reducing greenhouse gas (GHG) emissions in pursuit of its Nationally Determined Contributions (NDC). Peru looks to achieve sustainable economic reactivation while concurrently incorporating environmental and social aspects in its investments, especially by supporting the participation of women and vulnerable groups.

Sustainable bonds are innovative financial instruments used by governments to finance environmental and social impact-oriented public investment projects, which is key in the context of increased climate ambition and post-COVID-19 recovery.

In this context, the Sustainable Bond Framework (hereinafter SBF) of the Peruvian government was financed by the technical assistance program of the UK Green Recovery Challenge Fund of the United Kingdom. This program aims to:

- *Work with partner countries to enhance the abilities and capabilities of their key institutions to facilitate emission reductions and foster inclusive economic growth.*
- *Address challenges and constraints to green growth.*
- *Seek opportunities for further climate action.*

**“The Peruvian Government, for the first time, issued two Sustainable Bonds for a total of US \$3.250 million and a Social Bond for €1.000 million”**

GGGI directly supported the development of the SBF, whose approval by the Ministry of Economy and Finance led to the first-ever bond issuances in two categories:

- **Two Sustainable Bonds** for a total of US \$3,250,000 billion.
- **A Social Bond** for a total of €1.000 million.

The bond issuances were part of the Integral Asset and Liability Management Strategy that the Ministry of Economy and Finance (MEF) has been implementing, which considered the issuance of a Sustainable Bond as one of its milestones.

# UK Pact Support

UK PACT funding allowed the timely and effective implementation of a demand-led technical assistance program leading to the issuance of approximately USD 4.2 billion of sustainability and social bonds by the Government of Peru. The Sustainable Bond Framework developed through the UK PACT funded technical assistance provides a transparent and efficient mechanism guaranteeing that bond proceeds will contribute to finance Peru's green and inclusive economic recovery.

## Objective

**S**upport the development of skills and knowledge for the planning and implementation of the issuance of the first Sustainable Bond of Peru.

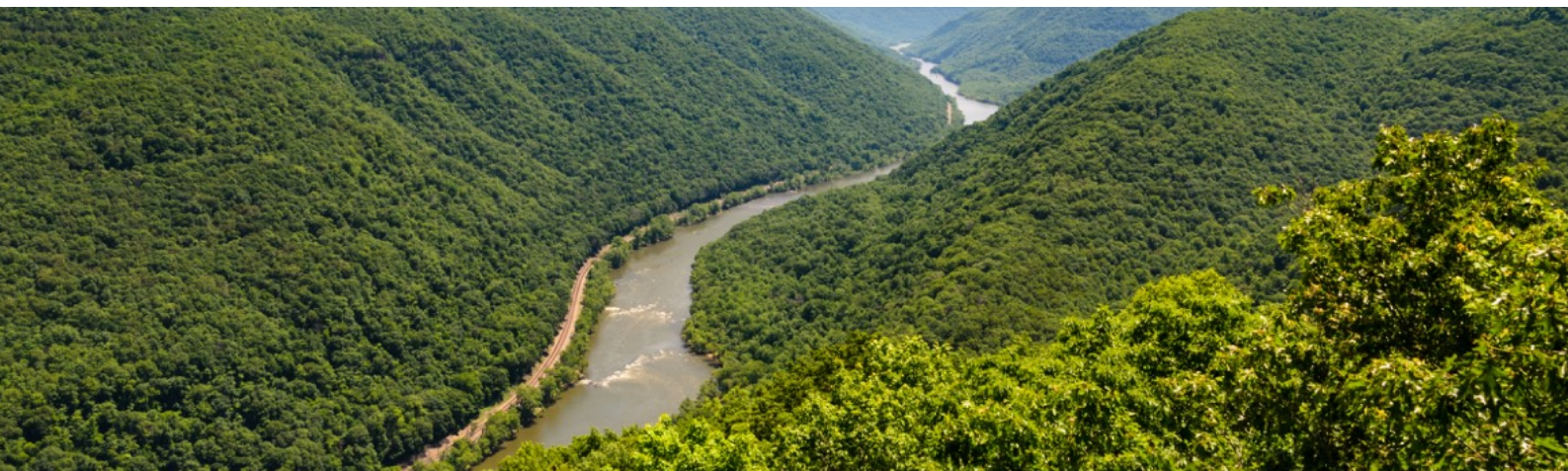
## Specific Objectives

**E**stablish a structure of governance and participation for key government stakeholders.

**D**evelop specific procedures about the use of resources, evaluation and selection of projects, resource management and reporting in compliance with international standards according to the *International Capital Market Association – ICMA*.

**D**efine the impact indicators for the eligible environmental and social categories, according to the SBF developed in alignment with the implementation of the NDC and the Sustainable Development Goals.

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## Result

The Ministry of Economy and Finance (MEF) officially approved the Sustainable Bond Framework (MINISTERIAL RESOLUTION No. 221-2021-EF/52) following ICMA's strict standards. The SBF was the result of the MEF's leadership and commitment to green finance. The General Directorate of the Treasury spearheaded this work and was supported by the MEF's National Council for Competitiveness and Formalization.

The SBF also received a Second Party Opinion from the international verification and certification entity *Sustainalytics*, which certified that the framework is aligned with international best practices and the principles of the *International Capital Markets Association* (ICMA).

“This Framework was the result of MEF’s leadership and its commitment to green finances”

## Global Green Growth Institute

GGGI's interest in thematic bonds is due to the potential that these instruments have to provide governments, national development banks and the private sector with the ability to obtain long-term financing for the implementation of environmentally and socially sustainable investment projects.

Since February 2021, GGGI has ICMA observer status, and is an active participant in discussions with the global community of issuers, banks, investors and other asset market participants in the green, social and sustainable bond markets.

## 2. HISTORY OF THE PROJECT

Since September 2019, GGGI worked jointly with the MEF and the Ministry of Environment (MINAM), to contribute to the implementation of the National Competitiveness and Productivity Plan, which has specific goals in green finance.

Between February 2021 and July 2021, GGGI worked jointly with the General Directorate of the Treasury to develop the SBF and design a training program and a communications campaign to raise awareness of the SBF among public decision makers, and also other public and private sector entities. This will foment the sustainability of the SBF by connecting it to the public investment system and supporting decision makers with the elements necessary to develop low carbon development projects that can use the SBF as a financing source. This work was conducted jointly under the leadership of the General Directorate of the Public Treasury of the MEF.

With the Sustainable and Social Bond issuances, Peru joined the group of countries committed to investing in projects with high social and environmental impact, following the most demanding global standards.

### What special characteristics does the Sustainable Bond have for Peru?

The Sustainable Bond will contribute significantly to Peru's achievement of the greenhouse gas (GHG) mitigation targets established in Peru's NDC to the Paris Climate Accord by earmarking funds for specific areas in Peru's NDC. The SBF was designed specifically to finance projects in sectors that contribute significantly to emissions and where practices and technology change require significant financing. The Sustainable Bond will allow Peru to invest in forward-thinking projects that help achieve a low-carbon economy.

To this end, the SBF has specific parameters for investment in gender, social inclusion and poverty reduction projects, which are urgent not only for long-term development, but also for post-pandemic recovery.

# What were the auspicious factors of the project?

First and foremost, the leadership of the Public Treasury of the Ministry of Economy and Finance was crucial to the development of the SBF and the subsequent bond issuances. Peru has discussed thematic bonds for a number of years, and the MEF's ambition was necessary for this success.

Second, the SBF was based on the recommendations of the International Capital Market Association (ICMA) and included other international standards that strengthened its design, which combined with Peru's successful macroeconomic performance, provided propitious conditions for an issuance.

In addition to these favorable factors for the bond issuances, the MEF, supported by GGGI, developed procedures for identifying, selecting, and verifying investment projects, which will help the SBF sustainability during future administrations. Furthermore, the Second Party Opinion from *Sustainalytics* not only ensures the SBF's alignment with international best practices, but also contributes to providing investors with confidence.

**“Peru has discussed thematic bonds for a number of years, and the MEF's ambition was necessary for this success.”**

Post issuance, the Key Performance Indicators for monitoring and reporting of the Sustainable Bond-financed investment projects will ensure transparent, effective, and prompt reporting consistent with international best practices.

Finally, training and awareness raising with key public and private sector actors will help decision makers identify and develop projects for Sustainable Bond financing, and investors to be able to invest with the confidence that Peru will continue to promote low-carbon development and seek to benefit vulnerable populations.



# What were the main results of the Project?

**T**he Republic of Peru issued its first Sustainable Bond (\$US 3.2 billion) and EUR 1 billion utilizing the SBF approved in July 2021. The resources obtained will help finance environmental and social projects that will support Peru's achievement of its NDC in the Paris Accord and the United Nations Sustainable Development Goals.

The NDC and priority areas for social inclusion in Peru as reflected in the SBF include:

- a) *Support to vulnerable groups and people in vulnerable circumstances. The SBF targets these populations utilizing the Household Targeting System (SISFOH<sup>1</sup>) of the Ministry of Development and Social Inclusion (MIDIS).*
- b) *Access to affordable housing, education, and essential health services.*
- c) *Support for Small and Medium Enterprises as part of the post-COVID-19 economic recovery process.*

In addition, it includes key sector such as:

- + Green buildings
- + Renewable energy
- + Energy efficiency Low-carbon transportation
- + Efficient and resilient water and wastewater management
- + Sustainable management of natural resources, land use and marine protected areas
- + Sustainable agriculture
- + Sustainable waste management

GGGI's engagement with the MEF resulted in a highly positive collaboration that led to the Sustainable Bond Framework. This collaboration entailed the development of the bond governance structure, found the relevant government agencies, and produced the necessary operational rules and regulations.

<sup>1</sup> SISFOH is the method used by the Ministry of Development and Social Inclusion to define vulnerable populations so that they can be eligible for social and economic support programs from the state.



### 3. GENDER AND SOCIAL INCLUSION (GESI) AS A DESIGN PRIORITY

In designing and issuing the bond, the MEF sought to maximize the benefits for women, youth, and vulnerable groups through the following practices:

This Framework focuses on the integration of GESI by including specific categories of financing for vulnerable groups such as women, children, youth, the elderly, and the Small and medium-sized enterprises (SME) as key direct and indirect beneficiaries. These priorities were established as a result of a comprehensive review of national public policies on gender, social inclusion and vulnerable populations. These definitions were also based on the utilization of the Household Targeting System (SISFOH) of the Ministry of Development and Social Inclusion.

In addition, the SBF includes Key Performance Indicators for GESI reporting. These quantify:

- a) Total beneficiaries disaggregated by gender and age.
- b) Beneficiaries for each program being implemented.
- c) Beneficiaries in poverty and extreme poverty, among others.

“The process looks to maximize benefits for women, youth and vulnerable groups”

Due to the importance of GESI for GGGI, a gender specialist was added to the communication and training team. In addition, the material included in the training sessions were revised to ensure the GESI approach is a key aspect of the new investment projects.

The Framework document was developed with the Public Treasury Directorate of the MEF, where 75% of the team is made up of women. One of them is the director.

Training and ability building sessions were provided to private industry, academia, NGOs, and government. In all cases, the bond was promoted as an innovative financial instrument oriented to investment projects with a positive impact on women and vulnerable groups.

Finally, a corporate video has been developed to share the GESI experience. This case study will also look to highlight lessons learned and recommendations on the overall implementation of the project.

## 4. LESSONS LEARNED

### **E**ffective collaboration maximizes results

International cooperation entities such as GGGI with in-depth knowledge of public policy, working effectively with public sector leadership can maximize results for governments seeking to invest in low-carbon development.

### **I**nstitutional alignment

It is 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.

### **D**ecisive leadership

The political leadership and commitment demonstrated by the MEF was key to achieving significant results for green financing now and in the future.

### **S**ustainability

The SBF was based on established government policy and was championed by political leaders with a long-term vision. This helped maintain continuity for the development of the SBF and the bond issuances during the time of change in government. In addition, linking the SBF to the public investment system and training decision makers to develop projects for bond financing will foment its sustainability for green financing in the long term.

Sustainable Sovereign Bond of Peru

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