

Peru's first Blue Bond

Using innovative financing to mobilize institutional capital for water access



Executive summary

To improve access to water and sanitation in Peru's most underserved areas, traditional financing sources need to be complemented with innovative mechanisms that attract large-scale investments. Thematic bonds, such as blue bonds, represent a promising solution by tapping into capital from socially and environmentally conscious institutional investors who prioritize both the scale of opportunities and measurable impact.

In September 2024, Peru issued its first Blue Bond—a S/100 million (USD 26.3 million) financial instrument designed to expand access to safe water and sanitation. Developed through a strategic alliance between COFIDE (Peru's national development bank), FEPCMAC (the national federation of municipal savings and credit banks), and Water.org (a global non-profit organization), the bond enables local financial institutions—known as CMACs (Municipal Savings and Credit Banks)—to offer lower-interest water and sanitation loans to households living under USD 6.85/day in rural and peri-urban areas across Peru.

This case study documents the context under which the Blue Bond was developed and offers key insights for structuring similar transactions in water and sanitation, one of the most underfunded sectors in sustainable development:

- Local lending networks can be aggregated, organized and made investable.
- Focus should be placed on strong-performing partners that are already reaching underserved communities but often lack the resources to grow.
- Early, detailed market analysis is essential to align structure with capital market needs and preferences.
- Affordable local funding can enable financial institutions to offer lower loan rates.

Transaction highlights

Currency	PEN - Peruvian Soles	
Offering amount	S/ 40,000,000, expandable up to S/ 100,000,000	
Total investor demand	S/ 217,205,000	
Total amount allocated	S/ 100,000,000 (USD 26.3 million)	
Oversubscription	2.17x	
Issuer	Corporacion Financiera De Desarrollo S.A. – (COFIDE)	
Market placement	Local capital market (Peru), via Bolsa de Valores de Lima (BVL), Nuam Exchange	
Structurer	COFIDE	
Issue date	Sep. 25, 2024	
Investors	Pension fund managers	Mutual funds
	Public sector entities	Insurance companies
	Brokerage firms	
Beneficiaries	Rural and peri-urban populations in Peru	
Use of proceeds	Water and sanitation loan portfolios of 6 credit and savings banks members of FEPCMAC: Caja Huancayo, Caja Cusco, Caja Arequipa, Caja Ica, Caja Trujillo, Caja Piura	
Tenor	1 year maturity	
Interest rate	4.71875%	
Risk ratings	CP-1+(pe) by APOYO & ASOCIADOS INTERNACIONALES / ML A-1+.pe by MOODY'S LOCAL PE (Highest local credit ratings)	

Enabling factors for Blue Bond development

Peru's water and sanitation financing gap

Limited water availability, poor resource management, and inadequate sanitation infrastructure undermine public health, education, and economic opportunity. Despite decades of government programs and policies, a significant gap remains between the needs of vulnerable communities in Peru and the resources available to meet them.

Out of its population of 34 million people, 16 million people (48% of the population) lack access to safe water and 14 million people (42%) lack access to safely managed sanitation (UNICEF and WHO, 2023). Rural and peri-urban areas in Peru face the most severe water and sanitation gaps. According to World Bank data, progress fails in these regions due to complex local conditions, high costs, and limited community engagement (World Bank, 2023). As a result, many may rely on unsafe sources and makeshift storage, increasing health risks and forcing households to spend time and money on costly alternatives like bottled water and water trucks.

The financial gap for improving water and sanitation remains substantial. Many financial institutions are not focused on serving people living in poverty and lack the tools and know-how to lend sustainably to them. To address this need, specialized financial institutions have developed the appropriate credit methodologies and products to serve this market segment.

The role of Municipal Savings and Credit Banks

Municipal Savings and Credit Banks (CMACs) are publicly owned microfinance institutions in Peru that provide financial services to underserved populations, particularly micro, small, and medium-sized enterprises. They serve individuals and businesses often excluded from traditional banking, offering products such as personal and pledged loans tailored to rural households living in poverty.

FEPCMAC is the national federation of Peru's 10 CMACs. It manages joint initiatives across the network, negotiates with regulators and financial partners, and helps design shared financial products.

A structured demand for WSS loans

A key factor in the successful issuance of Peru's first Blue Bond was the existence of a seasoned and healthy credit portfolio of water supply and sanitation (WSS) loans within the CMACs, which was the result of a longstanding partnership with Water.org.

Water.org initially began working with a limited number of individual CMACs in 2014 to provide technical assistance to financial institutions to support the development of their water and sanitation loan portfolios. This included:

- **Delivering training and awareness programs** to equip commercial staff (loan officers) and clients with the knowledge needed to promote and manage WSS loans effectively.
- **Conducting community outreach and promotional workshops** to raise awareness and drive demand for water and sanitation financing solutions.
- **Providing technical assistance** to support the design and refinement of tailored financial products for WSS projects.
- **Implementing monitoring and reporting systems** to track program performance and ensure accountability.
- **Launching incentive programs** to motivate branch office teams and loan officers to increase loan placements and expand outreach.

Following the success of these partnerships, Water.org launched a new expansion phase, establishing a strategic alliance with FEPCMAC in 2017 to ensure that all member CMACs worked collectively to maximize their impact. By coordinating more than 13,000 loan officers across ten CMACs, the partnership achieved a broader scale than any individual institution could on its own. Since then, CMACs have continued to independently finance these water and sanitation microloans, successfully structuring a stable and recurring demand for water and sanitation loans nationwide.

Bond design and fundraising

Developing the bond concept

In 2019, Water.org identified COFIDE as a potential partner to expand water and sanitation financing, initially focusing on financial inclusion and guarantee mechanisms. Progress paused during the COVID-19 pandemic but resumed in 2024 when FEPCMAC proposed leveraging CMACs' water and sanitation loan portfolios to issue a thematic bond, reducing funding costs and improving loan affordability.

By May 2024, COFIDE, FEPCMAC, and Water.org began structuring a Blue Bond. COFIDE led the process, selecting six CMACs with sound risk profiles, while Water.org supported due diligence and portfolio modeling to assess impact and financial viability.

Establishing a reference framework

A key enabler of the bond's issuance was COFIDE's Thematic Bond Framework, developed in early 2024 with technical support from the Global Green Growth Institute. The framework aligns with the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines issued by the International Capital Market Association. It also reflects Peru's national sustainability objectives, as outlined in the Ministry of Economy and Finance's 2021 Sustainable Bond Framework.

The framework provided clear eligibility criteria to ensure that proceeds were allocated exclusively to water and sanitation projects. A Second-Party Opinion from S&P Global Ratings confirmed the framework's alignment with international standards, including Sustainable Development Goal 6 (Clean Water and Sanitation), enhancing transparency and investor confidence.

Creating investor demand

An investor roadshow in Lima, organized by Water.org, COFIDE, and FEPCMAC, presented the bond's structure and expected outcomes. The Peru Blue Bond attracted strong interest from institutional investors, driven by a compelling combination of competitive returns, short-term maturity, and clear, measurable social impact.

The participating CMACs had already integrated water and sanitation loan products into their systems, with established reporting processes in place. This operational readiness—including the ability to track key indicators such as loan volume, gender distribution, and geographic reach—ensured transparency for investors. With an average of over 1,000 loans disbursed monthly, the institutions demonstrated both the scalability and impact potential, reinforcing the bond's viability as a credible, investable channel for social impact capital.

Market execution

To align with local investor preferences, the bond's maturity was reduced from three years to one year, offering a 4.72% interest rate. COFIDE leveraged its existing programs with the Superintendence of the Securities Market (SMV) and the Lima Stock Exchange (Bolsa de Valores de Lima – BVL) to streamline regulatory approvals and facilitate issuance. Nuam Exchange – a regional holding that integrates the stock exchanges of Peru, Chile and Colombia – supported the bond's placement, increasing visibility in the financial market. Its participation was key to the operation's success, especially considering that the integration of the Lima Stock Exchange into a regional block opens new opportunities to attract international investors, thereby expanding the Blue Bond's reach in the region.

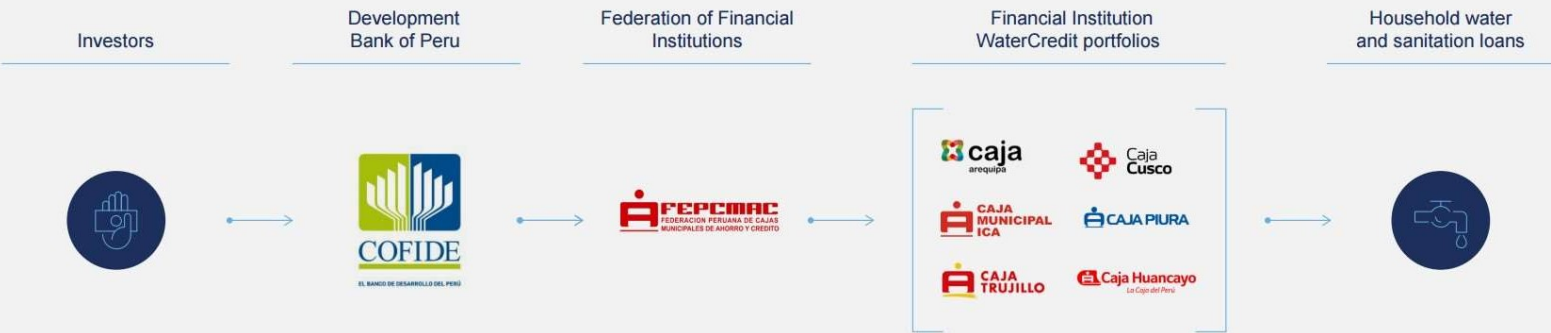
The bond's conditions were highly attractive to investors, leading to demand exceeding 200% of the initially offered amount on September 24, 2024.

Figure 1. Allocation by type of investor

Investor type	Amount issued (local currency)	%
Local pension funds (AFP)	S/ 41,805,000	41.80%
Public sector entities	S/ 30,000,000	30.00%
Private brokers	S/ 13,595,000	13.60%
Mutual funds	S/ 8,280,000	8.30%
Insurance companies	S/ 6,320,000	6.30%
Total	S/ 100,000,000	100.00%

Blue Bond: Capital markets financing for WaterCredit portfolios

Water.org provided the linkage between the different entities involved in the issuance of the Blue Bond, with services including impact monitoring, due diligence, coordination, and technical assistance.



Initial conceptualization to final market placement

Evaluation and selection of CMACs:

At COFIDE, financial intermediaries specializing in microfinance, through which loans are channeled, are evaluated annually and monitored monthly by the Risk Management Department. Given this continuous monitoring of CMACs, those with the best financial performance were selected to channel the resources obtained from the Blue Bond.

Bond structuring and design:

The characteristics of the short-term instrument were defined based on the requirements of the participating CMACs and the conditions of the local capital market.

Credit ratings and expert opinions:

COFIDE's thematic bond framework was developed by the Global Green Growth Institute, with the Second-Party Opinion provided by S&P. Locally, COFIDE's financial instruments are rated by Moody's Local and Apoyo & Asociados.

Preparation of documentation and prospectuses:

The registration process for each issuance in the Public Securities Market Registry of the Peruvian Superintendence of Securities Market (SMV) is highly demanding and detailed. Each issuance must be registered and substantiated in SMV's eProspectus System. After the corresponding review, the issuance is registered, and the Lima Stock Exchange generates the respective codes, making the bond eligible for public auction.

Approval and registration of the issuance:

The issuance is approved within COFIDE by the Assets and Liabilities Committee (a function delegated by COFIDE's Board of Directors). The issuance is then registered with the SMV, where the application is reviewed and approved.

Bond placement and market distribution:

A public auction is conducted, with bond allocation using a Dutch Auction mechanism.

Performance monitoring and reporting:

Monitoring is carried out according to the provisions outlined in the current Thematic Bond Framework.



Current status and expected impacts

Status of the Blue Bond

Bond proceeds, on-lent by COFIDE to six CMACs, have funded expanded lending for safe water and sanitation solutions in rural and peri-urban communities, and led to reduced annual interest rates for their clients.

Expected impacts

Building on Water.org's previous collaboration with FEPCMAC and extensive global experience in water and sanitation financing, the Peru Blue Bond is expected to generate several high-impact outcomes at both institutional and community levels:

- **Expanded financial inclusion:** Targeting unbanked and underserved populations in rural and peri-urban areas, the bond-financed loans will bring formal financial services to those traditionally excluded from the banking system.
- **Improved quality of life through WSS access:** By enabling households to invest in water and sanitation solutions, the bond will directly improve health, and hygiene—core benefits consistently observed through improved access to water and sanitation.
- **Diversification and strengthening of financial institutions:** Municipal savings banks (CMACs) are now raising debt from institutional capital markets investors who represent a vast source of funding, at favorable pricing, and this also increases their bargaining power with other lenders.

Key insights

By channeling capital through trusted local lenders, bonds like this can efficiently reach underserved populations while offering investors a credible, risk-adjusted opportunity. Insights from COFIDE leadership and key partners revealed several takeaways and recommendations to strengthen future bond issuances and enable broader replication:

- **Market analysis must shape bond terms:** Initial plans for a three-year bond maturity had to be quickly adjusted based on investor demand. Early, detailed market analysis is essential to align structure with market needs and preferences.
- **Internal coordination is critical:** The bond execution involved multiple institutions and departments. Early alignment across teams within the development bank streamlined decision-making and improved execution.
- **Development banks need deeper insight into intermediary financial institution products:** A more thorough understanding of how intermediary financial institutions like CMACs operate—and how they align with investor interests—can strengthen structuring and strategy.
- **Engage strategic partners early:** Early involvement from implementing and regulatory partners improves alignment, increases efficiency, and reduces bottlenecks.
- **Reduce costs and increase inclusion:** Continued efforts are needed to ensure that lower-cost capital reaches end borrowers and that underserved populations are prioritized throughout implementation.
- **Establish a recurring Blue Bond program:** Move from one-off issuances to a structured program that aligns with seasonal demand and long-term sector financing needs.
- **Strengthen the development bank's strategic role:** Expand COFIDE's involvement beyond financing to include bond planning, partner engagement, and promotional strategy.
- **Deepen public-private collaboration:** Involve a broader range of strategic partners—including ministries, regulators, and private-sector actors—to expand reach and impact.
- **Tailor financial products to local market needs:** Align bond terms and loan offerings with the realities of diverse regions, intermediary financial institutions, and client segments.



- **Enhance inclusion and reduce end-user costs:** Ensure financing mechanisms prioritize underserved households and continuously improve affordability.
- **Scale and replicate across Latin America and beyond:** Leverage lessons from Peru to inform similar models in other countries, adapting the approach to local context.

Looking ahead




Peru's Blue Bond represents a new approach for directing capital to where it's most needed—through financial institutions that are already reaching people living in poverty who often lack the resources to grow. By helping these institutions access more affordable funding, the bond enables lower loan rates for households and service providers working to expand safe water and sanitation access in harder-to-reach areas.

This structure shows how local lending networks can be aggregated, organized, and made investable—using market-based tools to unlock broader capital flows. While the terms and mechanisms must be adapted for each context, the core approach is replicable: identify strong-performing partners, tailor the financial instrument to local markets, and ensure financing reaches those traditionally excluded.

COFIDE plans to establish a recurring Blue Bond program, aligned with seasonal demand and long-term financing needs, and several investors have expressed interest in participating in future bond issuances with similar characteristics. Water.org is exploring how to replicate the model across Latin America, applying lessons learned to future issues in Peru and beyond. Water.org is also assessing opportunities to support strong individual financial institutions to issue directly in the capital markets.



Transaction participants

Stakeholders	Description	Role
COFIDE 	<p>The Development Bank of Peru is an institution committed to promoting Peru's sustainable development by facilitating access to resources and opportunities for individuals and businesses. Its strategy is based on a triple-bottom-line management approach, aiming at creating positive impacts from an economic, social, and environmental perspective.</p>	<p>Structuring the financial instrument, defining the strategy, gathering information from the capital markets, and executing the placement of the instrument to secure the best conditions possible for participating CMACs.</p>
FEPCMAC 	<p>The Peruvian Federation of Municipal Savings and Credit Banks (CMAC) has economic, financial, and administrative autonomy. It comprises 10 Municipal Savings and Credit Banks that operate across the country. It serves as the official representative of the CMAC system in engagements with public and private institutions, both in Peru and internationally.</p>	<p>Played the role of promoter, facilitator, and coordinator between the CMAC system and COFIDE to determine the technical characteristics of the Blue Bond issuance (term, type of instrument, KPIs, demand, financial cost, among others).</p>
Water.org 	<p>Water.org is a global nonprofit organization that has positively transformed millions of lives around the world through access to safe water or sanitation. Founded by Gary White and Matt Damon, Water.org pioneers market-driven solutions to the global water crisis. For more than 30 years, Water.org has helped give women hope, children health, and families bright futures.</p>	<p>Leveraged its longstanding partnerships with CMACs to provide a tested loan model, technical assistance, and market insights that shaped the bond's structure and positioned it for success. Water.org also financed the Bond's investor roadshow and worked with CMACs to develop forward-looking water and sanitation portfolio projections.</p>

World Bank. 2023. Peru: Strategic Actions Toward Water Security. Water Security Diagnostic. Washington, DC: World Bank.

Progress on household drinking water, sanitation and hygiene 2000–2022: special focus on gender. New York: United Nations Children's Fund (UNICEF) and World Health Organization (WHO), 2023.