

A Sustainable Banking Network (SBN)
Flagship Report
Addendum to SBN Global Progress Report

October 2019

Country Progress Report

Peru

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Table of Contents

1. Country progress summary	1
2. Overview of policy coverage by indicators	3
3. Policy coverage developed	4
4. Policy coverage to be developed	8

1. Country progress summary – Peru



SBN Member: [Superintendency of Banking, Insurance and Private Pension Fund Administrators \(SBS\)](#) (member since 2013)

SBN Working Group: none

Key policy documents:

- Regulation for Social and Environmental Risk Management (SBS, 2015)
- The role of enhanced due diligence in the regulation of socioenvironmental risk management for financial firms (SBS, 2015)
- Green Bond Guide for Peru (Bolsa de Valores de Lima, 2018)

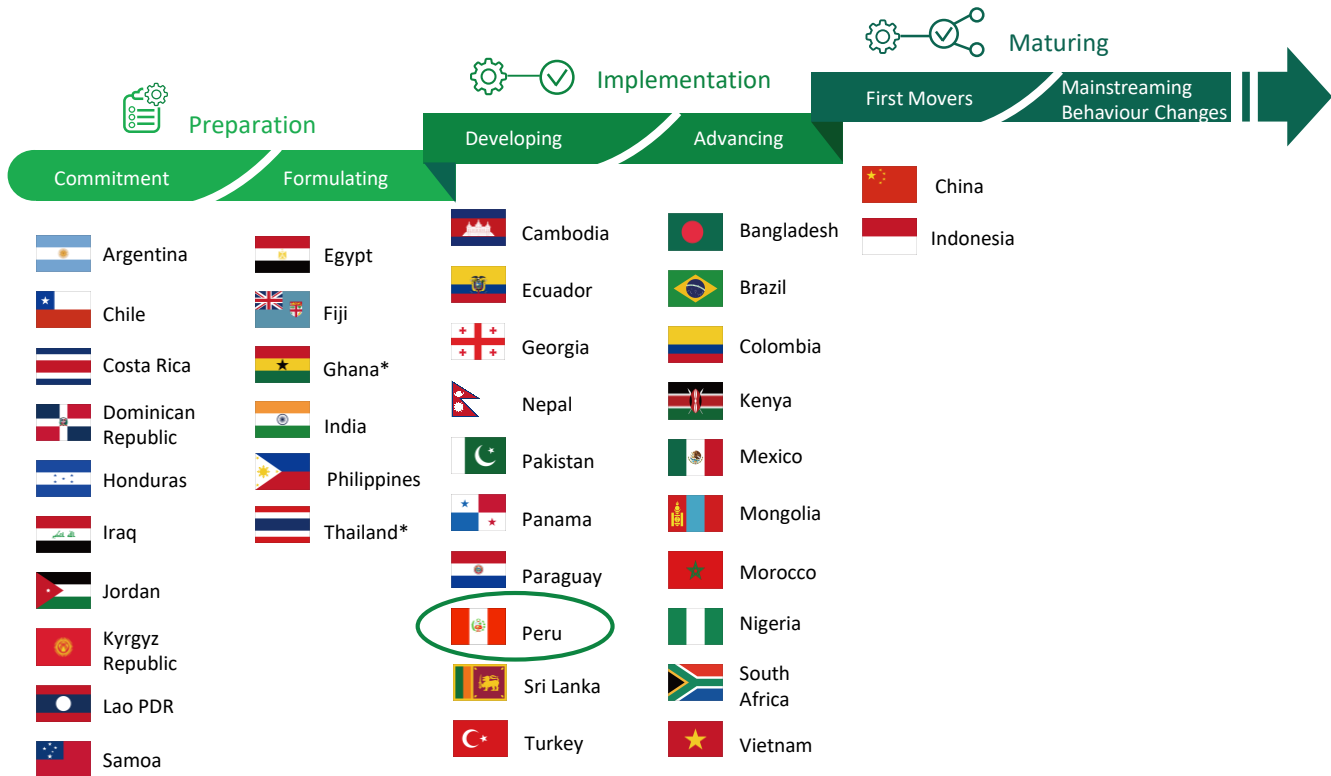
Key milestones since 2018 SBN Report:

- Peru Stock Exchange launched the Green Bond Guide (2018)
- Its capital market has seen a trend of financing green projects and green growth, in line with the Government's environmental policies.
- Peru led several sustainability activities in 2018, such as capacity building around sustainable finance for regulators, associations, financial institutions, and stock exchanges.

SBN and IFC role: IFC has provided advisory services to SBS in relation to policy development, implementation, and capacity building, in partnership with Canada. Through SBN, SBS has shared its experience with other SBN members, including hosting the 2015 SBN Annual Meeting, and has benefited from the collective SBN knowledge base.

Figure 1: SBN Progression Matrix with Assessment Results¹

Assessment based on progress up to and as of June 2019²



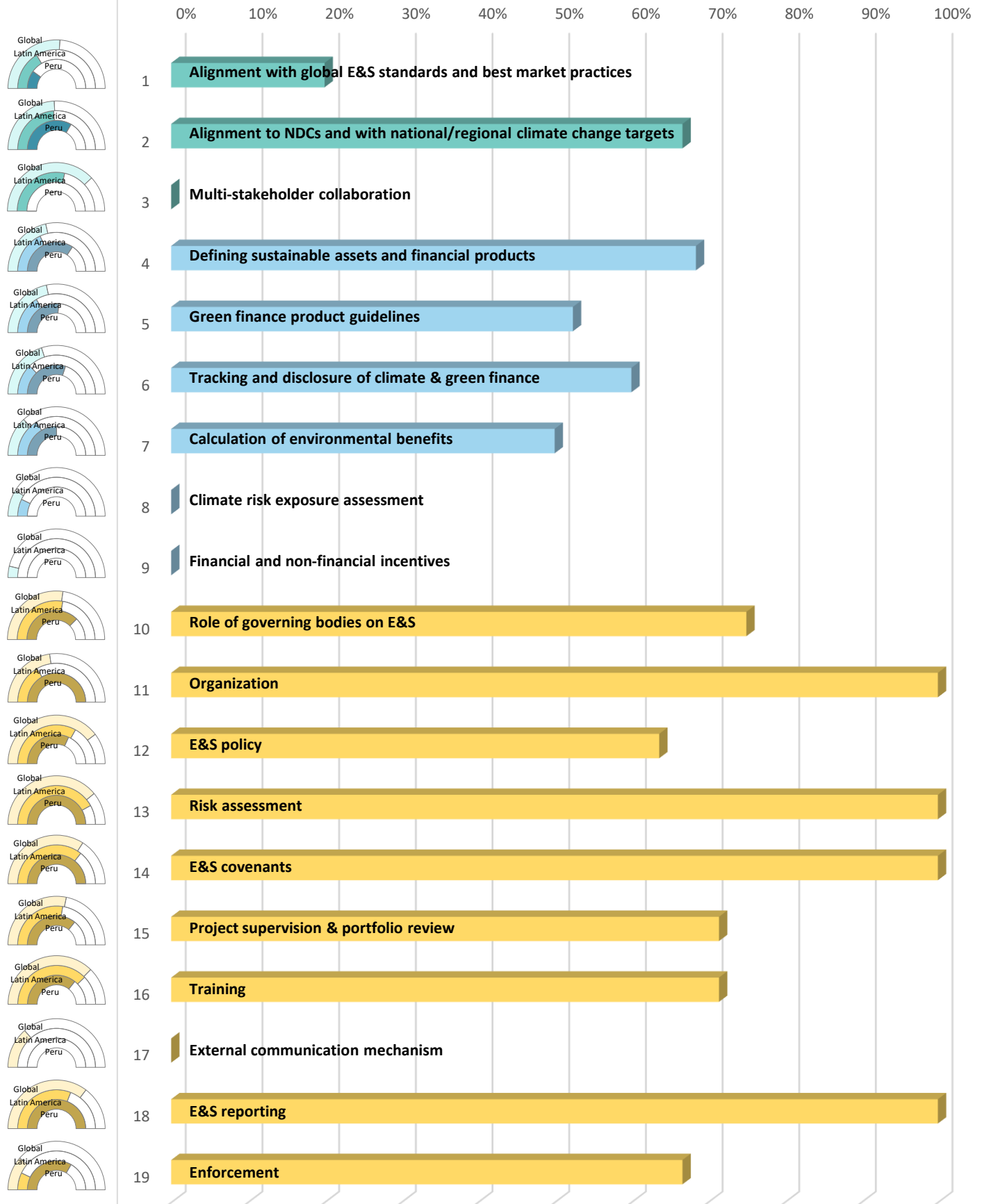
Note:

1. Please refer to the SBN Global Progress Report for an explanation of the Progression Matrix.

2. Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this report.

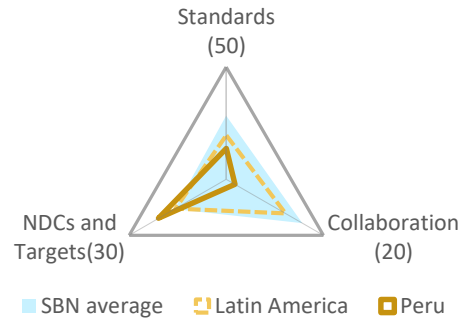
2. Overview of policy coverage by indicators

policy coverage



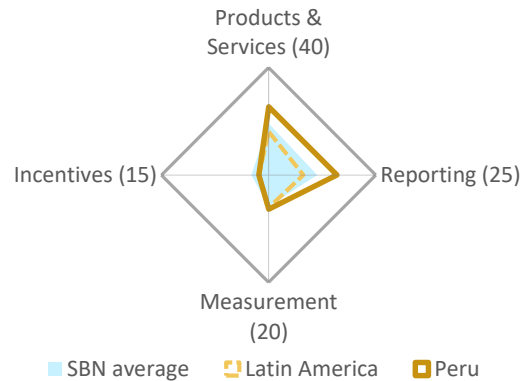
3. Policy coverage developed

Pillar I: Strategic Alignment



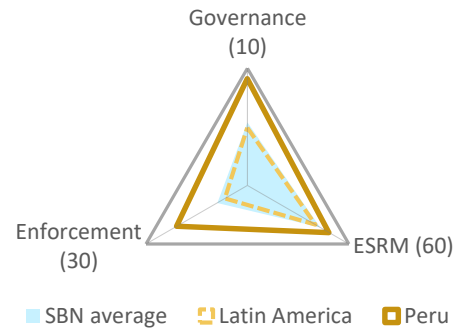
Indicator	Policy requirement	Reference
Alignment with global E&S standards and best market practices		
Indicator 1	<p>The additional document on the Role of Enhanced Due Diligence refers to international best practice on E&S risk management, including the Equator Principles, IFC Performance Standards, and UN Principles for Responsible Investment.</p> <p>In terms of green finance, while there are no requirements in terms of reporting following international standards, the green bond guide published in 2018 provides guidance that is aligned with best practice.</p>	<p>The role of enhanced due diligence in the regulation of socioenvironmental risk management for financial firms (SBS, 2015) - Page 6 - Regulatory Scope & Page 10 to 13 - Annex 1]</p> <p>Green Bond Guide for Peru (Bolsa de Valores de Lima, 2018)</p>
Alignment to NDCs and with national/regional climate change targets		
Indicator 2	<p>The green bond guide published by the Lima Stock Exchange in 2018 is well aligned with Peru’s national commitments.</p>	<p>Green Bond Guide for Peru (Bolsa de Valores de Lima, 2018) – page 9</p>
Multi-stakeholder collaboration		
Indicator 3	-	-

Pillar II: Climate and Green Finance



Indicator	Policy requirement	Reference
Products and services		
Indicator 4, 5	<p><u>Defining sustainable assets and financial products</u> The environmental policies approved by the Peruvian Government in 2016 address the financing of ecosystem services (to secure their preservation), and of watershed conservation. The green bonds guide published by BVL provides a list of green sectors and clearly defines the green bond mechanism, referring to international standards.</p> <p><u>Green finance product guidelines</u> The framework refers to existing standards and recommends external party verification. It also provides guidelines for green bond issuance.</p>	<p>Green Bond Guide for Peru (Bolsa de Valores de Lima, 2018) - page 11 -12</p> <p>Green Bond Guide for Peru (Bolsa de Valores de Lima, 2018) - page 11</p>
Climate and green investment reporting		
Indicator 6	<p>The Green Bond Guide asks FIs to report on green bond related investments.</p> <p>The Green Bond Guide encourages FIs to publicly report their green finance activities.</p>	<p>Green Bond Guide for Peru (Bolsa de Valores de Lima, 2018) - page 13</p> <p>Green Bond Guide for Peru (Bolsa de Valores de Lima, 2018)</p>
Measurement		
Indicator 7, 8	<p><u>Calculation of environmental benefits</u> Although reporting on the environmental benefits of investments is not currently required, BVL's green bonds guide highlights the importance of measuring environmental impacts when issuing green bonds.</p>	<p>Green Bond Guide for Peru (Bolsa de Valores de Lima, 2018) - page 16</p>
Incentives		
Indicator 9	-	-

Pillar III: ESG Integration



Indicator	Policy requirement	Reference
Governance of E&S		

Indicator 10, 11	<u>Role of governing bodies</u> The framework states that FIs’ Boards are responsible for ensuring that necessary capacity is established and maintained, and that appropriate functions are defined, in order to manage E&S risks.	Regulation for Social and Environmental Risk Management (SBS, 2015) - Page 4 - Article 5° & 7°
	<u>Organization</u> The unit in charge of E&S risk management is responsible for identifying training needs, in order to ensure that the policy is implemented. The framework asks FIs to define roles and responsibilities, highlighting the roles of front officers and second lines of defense. It also requires FIs to define competencies for each role.	Regulation for Social and Environmental Risk Management (SBS, 2015) - Page 4 - Article 7°

E&S risk management		
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Indicator 12 - 17	<u>E&S policy</u> The framework asks FIs to formalize an E&S or ESG policy and encourages them to go beyond E&S requirements of local laws and regulations.	Regulation for Social and Environmental Risk Management (SBS, 2015) - Page 4 - Article 5°
	<u>E&S assessment</u> An evaluation of the E&S risks of primary project suppliers is mandatory under the Framework and constitutes good practice in terms of monitoring project risk. The framework requires FIs to carry out appropriate E&S due diligence at both transaction level and client level. It encourages FIs to categorize projects and clients according to their level of E&S risk and incorporate site visits for high-risk transactions. It also invites FIs to engage with clients to implement mitigation measures for negative E&S impacts.	Regulation for Social and Environmental Risk Management (SBS, 2015) – page 3 to page 7, Article 4, 8 , 9 & 11; The role of enhanced due diligence in the regulation of socioenvironmental risk management for financial firms (SBS, 2015)
	<u>E&S covenants</u> For all projects related to services defined in the Framework, FIs must include several commitments and obligations in their contracts, including E&S clauses.	Regulation for Social and Environmental Risk Management (SBS, 2015) - Page 8 & 9 - Article 17°
	<u>Project supervision & portfolio review</u> Bank units dedicated to E&S risk management are required to monitor operational risk once projects have been granted financing. FIs are required to report regularly to SBS, and to the wider public, on their management of E&S risks and their clients’ exposure to E&S risks. FIs are expected to develop processes to manage E&S risk during supervision.	Regulation for Social and Environmental Risk Management (SBS, 2015) - Page 9 - Article 18° & page 8 – Article 16°; The role of enhanced due diligence in the regulation of socioenvironmental risk management for financial firms (SBIPPFA, 2015)
	<u>Training</u> FIs should develop and maintain E&S capacity through regular training.	Regulation for Social and Environmental Risk Management (SBS, 2015)

Pillar III: ESG Integration (cont.)

Indicator	Policy requirement	Reference
E&S risk management (cont.)		
Indicator 18	<p data-bbox="332 359 479 390"><u>E&S Reporting</u></p> <p data-bbox="332 390 885 474">The policy requires FIs to report regularly on their E&S or ESG performance, including publicly, to investors or to regulators.</p> <p data-bbox="332 506 868 590">It also makes E&S or ESG reporting and disclosure more consistent across financial institutions by introducing principles, guidelines, or templates.</p>	<p data-bbox="950 390 1451 537">Regulation for Social and Environmental Risk Management (SBS, 2015) - page 9 - Article 18; The role of enhanced due diligence in the regulation of socioenvironmental risk management for financial firms (SBS, 2015)</p>
Enforcement		
Indicator 19	<p data-bbox="332 653 868 747">FIs are required to report regularly to the regulator regarding their ESG performance. The Regulation states that failure to comply will result in sanctions.</p>	<p data-bbox="950 653 1386 716">Regulation for Social and Environmental Risk Management (SBS, 2015) - Page 9</p>

4. Policy coverage to be developed

Pillar	Sub Pillar	Gaps	Areas for improvement
Pillar I: Strategic Alignment	Alignment with global E&S standards and best market practices	80%	<ul style="list-style-type: none"> ➤ Reference to international E&S targets ➤ Reference to established international green finance reporting standards ➤ Reference to international climate finance reporting standards ➤ Requirement to seek external verification for E&S policies, practices, and results
	Alignment to NDCs and with national/regional climate change targets	33%	<ul style="list-style-type: none"> ➤ Define main climate risks for their local financial sector
	Multi-stakeholder collaboration	100%	<ul style="list-style-type: none"> ➤ Inter-agency collaboration between financial supervisors/regulators, industry association and FIs ➤ Collaboration with other public agencies ➤ Collaboration with representatives of civil society
Pillar III: Climate and Green Finance	Products & services	40%	<ul style="list-style-type: none"> ➤ Definition/examples for social/sustainable assets ➤ Guidelines for green financial assets (excluding green bond) ➤ Recommendation of external party verification
	Climate & green investment reporting	40%	<ul style="list-style-type: none"> ➤ Requirement to report on climate risk exposure at portfolio level
	Measurement	75%	<ul style="list-style-type: none"> ➤ Taxonomy of potential environmental impacts ➤ Methodologies, tools, and/or templates to measure and report environmental impacts ➤ Requirement to monitor climate risk exposure at portfolio level ➤ Reference to specific climate exposure methodologies ➤ Encouragement of mitigation steps
	Incentives	100%	<ul style="list-style-type: none"> ➤ Incentives for green financial products/services ➤ Financial incentives on green products/services
Pillar II: ESG risk management	Governance of E&S	10%	<ul style="list-style-type: none"> ➤ Requirement of FI operational bodies to report to the governing bodies on implementation of the E&S strategy
	E&S risk management	22%	<ul style="list-style-type: none"> ➤ Requirement for FIs to set E&S or ESG objectives and targets ➤ Requirement for FIs to publicly disclose their E&S policy and its governance ➤ Encourage a periodic review of E&S risks at aggregate portfolio level ➤ Highlight the training of (i) front officers, (ii) second lines of defense, and (iii) E&S experts ➤ Requirement of FIs to establish and maintain any inquiry/complaints/grievance mechanism in relation to E&S or ESG practices
	Enforcement	33%	<ul style="list-style-type: none"> ➤ Financial and non-financial incentives for establishing ESRM systems

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