5 keys points of Ecuador's Sovereign Social Bonds

Republic of Ecuador | 2020
5 keys points of Ecuador's Sovereign Social Bonds

To diversify its financing sources for affordable housing access, and thus reduce the housing deficit in the country, the Republic of Ecuador has issues its first social bond.

Authors: Joan Prats, Isabelle Cartillier, and Gerald Prado
The Republic of Ecuador has issued the world’s first sovereign social bond. The proceeds from the bonds will support “Casa para Todos”, a public program.

For the first time, the Inter-American Development Bank (IDB) has granted a partial credit guarantee for a bond issuance. This guarantee—by a supranational entity with AAA credit rating—allows Ecuador to attract international investors and reduce the cost of financing. Spain’s General Cooperation Fund also provides technical assistance resources to the Program.

The housing deficit affects almost half of households in Ecuador: 67 percent in rural areas and 38 percent in urban areas. The deficit is estimated to increase at a rate of 40,000 households per year. * For a large part of the population, the limited saving capacity of the households and the lack of mortgage loans at affordable rates are the main causes of the deficit.

Under this mechanism, approximately US$1.35 billion will be offered to benefit 24,000 middle- and low-income households.

The proceeds from the issuance of the sovereign social bond will allow for mortgage loans to be offered at a preferential interest rate of 4.99 percent, through the Ecuadorian financial system and a securitization scheme.

This issuance of sovereign social bonds provides affordable housing to the target households, costing them no more than a third of their income and allowing them to maintain their current standard of living. To learn more about this issuance, as well as “Casa para Todos”, please visit: [https://www.finanzas.gob.ec/](https://www.finanzas.gob.ec/).

* According to data from the Ministry of Economy and Finance of Ecuador (2017).
The Sovereign Social Bond for Affordable and Decent Housing in Ecuador meet four of the 17 Sustainable Development Goals (SDGs):

For most of the population, home acquisition is one of life’s most important investment decisions. The ability to purchase a home greatly depends on the availability of affordable mortgage loans.

** The public program “Casa Para Todos” considers the definition of “affordable and decent housing” provided by the United States Department of Housing and Urban Development, which states that buyers should be able to afford homes with 30 percent or less of their income.
Sovereign Social Bond Execution Scheme

Investors

Bond proceeds (US$400 million)

Sovereign social bond with IDB guarantee

IDB

Guarantee (US$300 million) +
Technical assistance from Spain's General Cooperation Fund

Fiduciary structure

Financial intermediaries

Social mortgages

IDB supervision through compliance with the Operating Regulations (OR) program

Republic of Ecuador 2020

5 Key Points of Ecuador’s Sovereign Social Bonds
### IDB Guarantee Terms

| Guarantor                     | Inter-American Development Bank (IDB)  
|                              | Fitch AAA / S&P AAA / Moody's Aaa  
| Cover                        | US$300 million  
| Covered risk                 | Non-honoring of a sovereign financial obligation for the payment of scheduled interest and principal payments due under the notes on each scheduled date  
| Governing law                | New York State  

### Sovereign social bond summary term sheet

| Issuer                        | The Republic of Ecuador  
| Guarantor                     | IDB  
| Issued amount                 | US$400 million  
| Currency                      | US$  
| Tenor                         | 15 years  
| Use of proceeds               | Eligible social mortgages complying with the “Casa para Todos” program requirements  
|                               | [Vigeo Eiris](https://www.vigeo-eiris.com) – issuance in compliance with the [ICMA Social Bond Principles](https://www.icma.org/).  
| Independent reviewer of the social bond framework |  
| Social impact reporting       | Annual  
| Listing                       | Luxembourg  

---

**Republic of Ecuador 2020**

**5 Key Points of Ecuador’s Sovereign Social Bonds**