

Inter-American Development Bank (IADB)

First-of-its-kind “theme” bond aligns IADB’s funding with its development programs

Case Study

A \$500 million Education, Youth and Employment (EYE) bond, structured by Citi, provides funding for education and workforce development programs.

The Challenge The Inter-American Development Bank (IADB), a leading source of development financing for Latin America and the Caribbean, reduces poverty and promotes sustainable growth through a wide range of social investment programs. Funding for the projects that it sponsors is contributed by its 48 member countries and also by utilizing IADB’s solid capital base to raise funds in the international capital markets.

With socially responsible investing and instruments such as green bonds gaining traction in the marketplace in recent years, IADB sought a new approach to enhancing and expanding its investor base that also would align its funding sources with its development mission and field work.

The Solution Citi’s Capital Markets and Microfinance teams worked side-by-side with the IADB to assess its portfolio of field programs and create a first-of-its-kind investment instrument tied specifically to the organization’s work: an Education, Youth and Employment (EYE) bond.

The fundamental concept behind the bond is that its proceeds are directed to IADB’s eligible EYE projects that are linked directly to its purpose and focus on, for example: early childhood development and education; primary, secondary, compensatory, vocational and technical education; and areas such as teacher education and effectiveness, human resources and workforce development, and labor intermediation systems.

Citi, in addition to serving as the sole structuring agent for this first-ever large-scale USD-denominated social “theme bond”, acted as joint-book runner. The \$500 million triple-A rated issue, which garnered orders of more than \$600 million, attracted a wide range of institutional and mission-related investors, including foundations, pension funds and family offices.

Similar to green bonds, the proceeds are segregated to a separate sub-account. Unlike other social impact bonds, which represent contracts based on a pay-for-performance model, the EYE bond finances projects and provides outputs and results metrics. The IADB will track how programs are accomplishing their objectives and provide investors with access to the results on its website and through annual reporting.

The Result

IADB's triple A-rated EYE bond provided socially conscious investors with an appealing investment option that aligns with their values, investment goals, and risk guidelines. At the same time, it allowed IADB to achieve its goal of attracting a broader investor pool, whilst creating greater awareness of its many education and employment-related undertakings across the region.

Based on the overwhelming success of the issue, it also provides a platform for similar offerings in the future.

"The EYE bond is an innovative instrument designed to bring additional resources and awareness to bear on three key priorities for Latin America and the Caribbean. The projects that will benefit from these investments will contribute to improving the quality of children's education, increasing productivity and enhancing the skills of young people entering the job market." – Luis Alberto Moreno, President, IADB