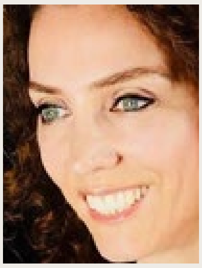
OPINION



WHAT ARE SOCIAL BONDS?

Social bonds are less well-understood than green bonds, but the Social Bond Principles are designed to help issuers and investors in this field, explains Simone Utermarck, director sustainable finance, International Capital Market Association.

CENTRAL banks which invest in green bonds as part of their sustainability mandates, or a mandate to support the government's sustainability goals, have also started to show an interest in social bonds. These are less well-understood as social factors cannot be based on science, and therefore often appear to be a more challenging asset class to invest in.

Social bonds are governed by the Social Bond Principles which, like the Green Bond Principles, have become the de facto global voluntary standard created by a market-led initiative consisting of issuers, investors and underwriters, supported by the International Capital Market Association. According to the SBP, 'Social bonds are any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible social projects… and which are aligned with the four core components of the SBP.' These are: use of proceeds, process for project evaluation and selection, management of proceeds and reporting. The SBP recommend that issuers publish a bond framework and get an external review.

Similarly to the GBP, the SBP provide a list of eligible social project categories which can be financed. Social projects aim to address or mitigate a specific social issue and achieve positive social outcomes especially but not exclusively for a target population. Unlike the GBP, the SBP also list potential beneficiaries in the form of target populations.

Looking at the bond market, social bonds as well as sustainability bonds (a mix of green and social) experienced a surge in issuance during the pandemic. In 2020 and 2021, they proved to be suitable instruments to finance the socio-economic consequences of Covid-19. The European Union during that time became the largest social bond issuer with its €100bn Support to Mitigate Unemployment Risks in an Emergency programme for addressing unemployment risks.

The public sector is the largest issuer of social bonds with the lion's share coming from sovereigns, supranationals and agencies, followed by financial institutions and corporates. According to Environmental Finance Data, France, the US and Chile – followed by Japan and Korea – had the most social bond issuances in 2021. LGX DataHub shows that the euro is the main currency that social bonds are issued in, followed by the Korean won, Japanese yen and the dollar – the first and last in particular help to attract an international investor base. There have also been issuances from emerging markets like Latin America, as well as smaller ticket items in Asia.

This year, in light of the Russian invasion of Ukraine and other wars, the executive committee of the principles, supported by ICMA, underlined that existing guidance for social and sustainability bonds was appropriate for use in the support of fragile and conflict states. Eligible projects include direct emergency relief such as food, shelter and healthcare, and specific projects designed to alleviate unemployment caused by the circumstances.

Another topic that has gained importance in the last 18 months is diversity and inclusion. In the social bonds space, we have seen the emergence of gender finance and what is sometimes called 'gender bonds', which are a theme under social bonds. In November 2021, ICMA – together with the International Finance Corporation and United Nations Women – published practical guidance on the topic.

With sustainable debt products such as social bonds, investors want to know whether their money is doing any good. For social bonds, ICMA provides a harmonised framework for impact reporting which is part of the reporting component under the SBP. Investors appreciate it when issuers show the intended contribution of the bond to the UN sustainable development goals, which seems especially popular for social debt products even though it is not part of the SBP. ICMA has created a mapping document to allow issuers to map eligible project categories to the SDGs.

Finally, it is becoming increasingly clear that the climate transition has to go hand in hand with a just transition on the social side. Social bonds should therefore continue to grow as a sustainable asset class, increasing liquidity along the way. •

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