Social innovation in a post-pandemic world: labeled bonds rise to the challenge

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Summary

The coronavirus crisis has catapulted social financing to the forefront of sustainable debt markets, a trend that is likely to endure long after the effects of the pandemic subside. Since the onset of COVID-19, social bonds have been the fastest-growing segment of the use-of-proceeds green, social and sustainability (GSS) bond markets – with volumes reaching $146 billion in the first half of 2021, up 187% from the same period in 2020. While we expect pandemic-driven issuance of social bonds to moderate, investor appetite to generate positive social impact and issuer desire to mitigate structural social risks will drive increasing innovation in social financing over time. We present four case studies in this report highlighting some of the innovations we have observed in social financing to date through our Second Party Opinions (SPOs).

Post-pandemic recovery plans and heightened market focus on social justice underscore the diverse deployment of social bond proceeds. Post-pandemic spending plans have led to growing volumes of social bonds focused on addressing high unemployment and unequal access to healthcare, predominantly from public sector issuers and development agencies. Beyond pandemic-related financing, we also see opportunities for proceeds innovation and diversification in the areas of social justice and equality, which continue to rise up the agenda for investors, businesses and governments. Such innovation could make labeled bonds a key instrument in effecting social change.

The interrelationship between social and environmental factors will drive increasing innovation in social financing structures, including the use of sustainability bonds and sustainability-linked instruments. In many instances, recognition of the complex interplay between social and environmental objectives will be critical in realizing the 2030 Agenda for Sustainable Development. As such, we expect the continued use of labeled bonds that include both social and environmental activities. These include use-of-proceeds SDG or sustainability bonds, as well as sustainability-linked bonds and loans. Regardless of the structure used, investors will increasingly consider the link between an issuer’s social financing and its overarching ESG credentials and sustainability strategy.

Social bond reporting and disclosure practices remain immature, but best practices around project eligibility criteria, impact metrics and post-issuance verification will gain traction. The diverse set of social project types can translate into unstandardized and often qualitative reporting and metrics, limiting the ability of investors to track, compare or aggregate the overall impact of their portfolios. This can, in turn, give rise to concerns around "social washing" – that is, when an issuer overstates or misrepresents the impact of social projects. However, we are seeing innovation in impact reporting, including the use of granular project-level indicators and commitments to verification of post-issuance reporting, trends that will be enhanced by emerging regulatory initiatives.
The coronavirus crisis has catapulted social financing to the forefront of sustainable debt markets, a trend that is likely to endure long after the effects of the pandemic subside. Since the onset of COVID-19, social bonds have been the fastest-growing segment of the use-of-proceeds green, social and sustainability (GSS) bond markets – with global volumes reaching $146 billion (in US$ equivalent terms) in the first half of 2021, up 187% from the same period in 2020, and approaching the record $167 billion issued during all of last year (see Figure 1). By way of comparison, global social bond volumes totaled just $18 billion throughout all of 2019. The surge in social bond issuance has primarily been in response to the challenges stemming from the pandemic. Nevertheless, issuers are also aiming to mitigate operational and reputational risks from structural social exposures, a key feature of the market that will persist in a post-pandemic world and support continued social bond issuance.

Figure 1  Global social bond volumes have surged during the coronavirus pandemic

Global annual issuance of social bonds, 2014-H1 2021 ($billions)

The significant expansion in social bond volumes observed since the beginning of 2020 has been largely attributable to public sector and development agency issuers responding to the coronavirus pandemic with labeled debt financings. Following total volumes of $51 billion between 2014-19, social bonds surged to an aggregate $313 billion issued between 2020-H1 2021. This

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1 Data in this report primarily come from the Environmental Finance Bond Database, downloaded as of August 5.
increase in issuance is largely attributable to sovereigns,\textsuperscript{2} supranationals and agencies, collectively accounting for 80% of all social bonds over the past 18 months (see Figure 2).

From a geographic standpoint, European issuers and supranationals have accounted for the vast majority of the aggregate $363 billion of social bond issuance since 2014, representing a respective 43% and 39% of the global total (See Figure 3). This trend has remained consistent since the beginning of 2020 as some of the market’s largest issuers represent these two regions. Beyond European issuers and supranationals, there has been relatively little social bond issuance to date, with issuers from North America and Asia Pacific each accounting for just 8% of the global total. Emerging market issuers remain a relatively small part of the market to date with only 3% of social bonds since 2014, but we expect issuance from emerging markets will grow over time given the relatively high social risks and significant sustainable development needs in these economies.

While the pandemic has brought social issues into greater focus and led to the significant expansion in social bond volumes, this growth has also been heavily concentrated among a few large issuers. Between the second quarter of 2020 and the second quarter of 2021, $191 billion of the $305 billion of social bonds issued during this period was attributable to three issuers: the European Union (EU) and French public finance agencies Caisse d’Amortissement de la Dette Sociale (CADES) and UNEDIC (see Figure 4). These issuers have accounted for aggregate issuance of $109 billion, $54 billion and $29 billion, respectively, since the second quarter of 2020. The largest of these issuers, the EU, elected to finance its €100 billion Support to mitigate Unemployment Risks in an Emergency (SURE) program\textsuperscript{3} exclusively with social bonds, which presented a significant boon for labeled issuance.

Social bond issuance beyond the EU, CADES and UNEDIC has been relatively limited this year, with just $19 billion in the first quarter and $22 billion in the second quarter, a key point that suggests the global social bond market will slow considerably in the second half of 2021 as these three largest issuers wind down their pandemic-related social bond issuances. Social bond volumes fell to $56 billion in the second quarter as pandemic-related financings from the market’s largest issuers began to subside, following a quarterly record of $90 billion in the first quarter of 2021.

\textsuperscript{2} For the purposes of this report, social bonds issued by the European Union are classified as sovereign social bonds.

\textsuperscript{3} SURE: The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), European Commission.
Figure 4  EU, CADES and UNEDIC have been major contributors to global social bonds since the pandemic’s onset

Global quarterly issuance of social bonds, Q1 2020-Q2 2021 ($billions)

While we expect pandemic-driven issuance of social bonds will moderate, investor appetite to generate positive social impact will drive increasing innovation in labeled social financing, including diversification in terms of issuer and project types, as well as bond structures. Many investors see the United Nations Sustainable Development Goals (UN SDGs) as an effective communication tool to their external stakeholders, with a growing numbers of investors referencing the SDGs in their reporting to the UN Principles for Responsible Investment. Investors will also respond to evolving regulatory developments, such as the implementation of the Sustainable Finance Disclosure Regulation (SFDR) and the creation of the social taxonomy in the EU, which will necessitate better identification and measurement of social risk exposures and impacts. As such, social bonds will remain a viable alternative for issuers across a wide array of sectors and regions, especially as market standards continue to evolve and impact measurement techniques are refined. Throughout this report, we employ illustrative case studies to highlight some of the innovative ways in which the debt capital markets have already been used to finance projects with tangible social outcomes.

Post-pandemic recovery plans and heightened market focus on social justice underscore the diverse deployment of social bond proceeds

Social bond proceeds can be used for a wide variety of purposes, making the market a potentially significant force for effecting positive social change. Under the International Capital Market Association’s (ICMA) Social Bond Principles (SBP), eligible social projects (see Figure 5) address or mitigate specific social issues and/or seek to achieve positive social outcomes for a number of target populations, such as those living below the poverty line, undereducated or underserved persons, women and/or sexual and gender minorities and other vulnerable groups. Eligible social bond project categories include affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security and sustainable food systems, and socioeconomic advancement and empowerment. The SBP have been updated over time to include a broader array of eligible project categories and target populations, and ICMA provided specific guidance on social bonds for COVID-19 pandemic relief.

Relief efforts during the pandemic and post-pandemic spending plans have led to an increase in social bonds focused on addressing high unemployment and unequal access to healthcare, predominantly from public sector issuers and development agencies. This includes the EU’s €100 billion SURE social bond program launched in October last year to protect employment. The focus on pandemic relief has led to access to essential services, employment generation and socioeconomic advancement and

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5 Regulation on sustainability-related disclosure in the financial services sector, European Commission.
9 European Commission to issue EU SURE bonds of up to €100 billion as social bonds, European Commission, October 2020.
empowerment representing the largest use of proceeds categories since the beginning of 2020 (see Figure 6). As a result, over 80% of social bond proceeds since 2014 have been collectively allocated to these three categories.

**Figure 5**  Social bonds can finance a wide array of eligible project categories

Eligible categories under the Social Bond Principles (SBP)

The deployment of social bond proceeds can also be viewed through the lens of alignment with and contribution to the 17 UN SDGs. Financed projects often have impact on more than one goal given the potential for multiple social benefits associated with eligible projects. Some of the SDGs that have been most closely linked with projects financed by social bond proceeds to date include: SDG 1: No poverty; SDG 3: Good health and well-being; SDG 8: Decent work and economic growth; SDG 10: Reduced inequalities; and SDG 11: Sustainable cities and communities (see Figure 7). We anticipate a wider array of SDGs will be financed by social bonds over time, especially as the types of projects financed with social bonds diversify in a post-pandemic world.

**Figure 6**  Social bond use of proceeds by Social Bond Principles eligible category, 2014-2019 (inner ring) and 2020-H1 2021 (outer ring)

**Figure 7**  Social bond use of proceeds by UN Sustainable Development Goal (SDG), 2014-H1 2021

Note: For bonds with multiple eligible categories cited, this analysis assumes equal deployment of proceeds to each of the categories. Not all bonds have data on use of proceeds category, so those are excluded from this analysis.

Sources: Moody’s ESG Solutions and Environmental Finance Bond Database

Note: For bonds with multiple UN SDGs cited, this analysis assumes equal deployment of proceeds to each of the goals. Not all bonds have data on SDGs, so those are excluded from this analysis.

Sources: Moody’s ESG Solutions and Environmental Finance Bond Database
Beyond pandemic-related financing, we see opportunities for proceeds innovation and diversification in the areas of social justice, equality and inclusion, which continue to rise up the agenda for investors, businesses and governments. For example, there have been a growing number of global bond and loan issuances linked exclusively to the economic empowerment of women or addressing female underrepresentation in board rooms and corporate suites. Such “gender bonds” will continue to grow in number from both corporate issuers and national and regional governments given that expanded opportunities for women can reduce operational and reputational risks and benefit economic growth and social cohesion.

For example, with the support of IDB Invest, Banco Davivienda issued Latin America’s first gender-focused social bond in August 2020 (see case study below).

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**Case Study #1 – Banco Davivienda**

**Summary of transaction:**

Banco Davivienda issued Latin America’s first gender-focused social bond under international standards in August 2020. The transaction was structured and solely subscribed to by IDB Invest, the private investment arm of the Inter-American Development Bank Group. The COP362.5 million (equivalent to approximately $100 million) social bond has a seven-year term, with a maturity date of August 2027.

**Overview of our assessment:**

According to our second party opinion (SPO), Banco Davivienda's social bond framework is aligned with the four core components of the SBP. The bond’s performance with respect to its contribution to sustainable development is considered “advanced.”

**Areas of innovation:**

This social bond is the first of its kind in South America, with international standard adherence and a clear targeted goal for gender equity. The committed reporting of social impact indicators is extensive, consistent and comparable throughout the maturity of the bond. The bond is also mapped to six of the UN SDGs.

The social bond includes the following eligible use of proceeds:

- Loans to eligible women-led and owned small medium enterprises (SMEs) in Colombia.
- Social interest housing loans that seek to benefit first-time female home buyers with lower incomes.

Banco Davivienda’s social bond incorporates targeted goals to allow women to enter the workforce and continue to grow their businesses. This is relevant given the importance of narrowing Colombia’s gender employment and wage gaps to bolster the country’s future economic resilience. The UN ranks Colombia 22nd of 153 countries in gender equality, while the percentage of working aged women in the workforce stands at 50.3%, compared with 75.9% for men.

Economically participating women are also at a disadvantage to men in terms of joblessness. With an unemployment rate of 13.2%, women are 1.7 times more likely to face unemployment compared with their male counterparts. The effects of COVID-19 will only exacerbate existing gender disparities. Such cases are already observed where women have been forced out of the workforce to care for children and other vulnerable populations. By channeling funding towards women-owned SMEs and female purchased social interest housing, the bond will help mitigate the effects of pandemic-driven inequities.

Banco Davivienda’s social bond is further underpinned by the proven track record of the structurer, IDB Invest, which focuses on projects with a social focus in the Latin American and Caribbean regions. In addition to its anchor investment, IDB Invest will grant a $300,000 bonus spread over a five-year period on the condition that Banco Davivienda achieves specific outcomes, for instance the expansion of its women SME loan portfolio from 20% to 27%.

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We also anticipate that there will be a growing number of social bonds with proceeds focused on empowerment of marginalized groups and communities, as societal focus on the importance of these issues grows. There have been some examples, for instance, of banks issuing labeled sustainable bonds to advance racial equality initiatives. In September 2020, Bank of America issued a $2 billion “Equality Progress Sustainability Bond,” with the aim of advancing racial equality, economic opportunity and environmental sustainability. Similarly, Citi issued a $2.5 billion social bond in October 2020 focused on affordable housing and partnered with...

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10 ESG – Global: Efforts to meet gender bond targets are credit positive for issuers over the long term, Moody’s Investors Service, May 2021.
11 ESG – Global: Rising focus on gender inclusion highlights links to economic growth and credit quality, Moody’s Investors Service, March 2021.
women, veteran and minority-owned firms to execute the deal. We anticipate such transactions will continue in the future as governments and corporations seek to address racial, economic and other inequalities via projects financed through the capital markets.

*The interrelationship between social and environmental factors will drive increasing innovation in social financing structures, including the use of sustainability bonds and sustainability-linked instruments*

In addition to the strong growth observed in the labeled social bond market, other sustainable debt instruments have experienced continued expansion in recent years, incorporating the heightened focus on social issues. For some issuers with broader funding needs or a shortage of social projects to issue a benchmark-size bond, other labels or structures may be alternative options. In fact, social bonds accounted for just 27% of the global $614 billion of aggregate green, social, sustainability and sustainability-linked bonds in 2020 (see Figure 8). Social issues are directly incorporated in use-of-proceeds sustainability bonds, however, and may also be present in social targets in sustainability-linked bonds or in issuer’s overall sustainability strategies referenced in their green bond frameworks. The latest forecasts from Moody’s Investors Service call for nearly $1 trillion of sustainable bond issuance in 2021, including $450 billion green bonds, $200 billion each of social bonds and sustainability bonds and $100 billion of sustainability-linked bonds, with the rising prominence of social issues being a key contributing factor to the strong growth in overall labeled issuance.\(^\text{14}\)

**Figure 8** Sustainable bond issuance will approach $1 trillion in 2021

Global annual issuance of green bonds, social bonds, sustainability bonds and sustainability-linked bonds, $billions

![Graph showing annual issuance of green bonds, social bonds, sustainability bonds, and sustainability-linked bonds from 2014 to 2021.](image)

**Note:** 2021F reflects latest published forecast by Moody’s Investors Service.

**Sources:** Moody’s Investors Service and Environmental Finance Bond Database

Use-of-proceeds sustainability bonds, which are typically issued in accordance with ICMA’s Sustainability Bond Guidelines,\(^\text{15}\) combine environmental and social projects and have been experiencing strong growth in recent years. Sustainability bonds grew to $139 billion in 2020 from $44 billion in 2019, and stood at $107 billion through the first six months of this year. Heightened focus on corporate sustainability and stakeholder capitalism will continue to support growth in sustainability bonds, with greater participation from financial and nonfinancial corporates seeking to highlight both their environmental and social objectives. While pandemic-related social bonds are largely a temporary phenomenon, the broader emphasis on corporate sustainability will likely represent a more lasting trend that contributes to our expectations for sustained growth in use-of-proceeds sustainability bonds over time.

Part of the driving force behind the growth of sustainability bonds has been an increase in the number of issuers opting to publish broader sustainability bond, or SDG bond, frameworks – in some cases expanding existing green or social bond frameworks to incorporate a more holistic view of sustainability. As outlined in the case study below, the Republican of Benin became the first Sub-Saharan African sovereign to publish an SDG bond framework, entering the sustainability bond market in July 2021. The

\(^{13}\) Citigroup issues largest-ever private sector social bond. Reuters, October 2020.

\(^{14}\) **Sustainable Finance – Global. Sustainable bond volumes to top $850 billion in 2021 following record first half.** Moody’s Investors Service, July 2021.

\(^{15}\) **Sustainability Bond Guidelines (SBG).** International Capital Market Association.
framework and use of proceeds highlight both social projects (e.g. food security and access to essential services) and environmental projects (e.g. sustainable agricultural management and coastal and rural community sustainable development). We expect this trend will continue as there is growing recognition of the complex interplay between social and environmental objectives that will be critical in realizing the 2030 Agenda for Sustainable Development. For example, the pathway to a net-zero global economy will require significant attention – and financing – to deliver a just transition for the most affected workers and communities.

Case Study #2 – Republic of Benin

Summary of transaction:

The Republic of Benin issued a €500 million ($591 million) SDG bond in July 2021. The transaction has a 12.5 year weighted average life and coupon of 4.95%.

Overview of our assessment:

Our SPO indicates that the SDG Bond Framework is aligned with ICMA GBP and SBP and showcases market best practices. The expected impacts from the bond are deemed “advanced” and ESG risk management is “robust.” The framework is mapped to 15 UN SDGs and includes a combination of eligible green and social use of proceeds.

Areas of innovation:

The Republic of Benin is the first sovereign in Africa to issue an SDG bond. The country has a history of partnering with external stakeholders to build a resilient and green economy, starting in 2018 with its participation in an IMF-UN pilot program to assess the costs of meeting the SDGs for emerging market countries. Benin will leverage its partnership with the United Nations Sustainable Development Solutions Network (SDSN) to monitor and evaluate progress made in achieving the SDGs laid out in its bond framework.

Benin’s success in setting up an SDG bond framework in partnership with the UN SDSN represents a landmark for Sub-Saharan Africa. The region’s sustainable development has been dealt a considerable blow by the lasting social, environmental and financial impact of the coronavirus pandemic and limited vaccine rollout. Benin’s SDG framework points to the need to “build back better” in order to facilitate a sustained recovery. Eligible projects target the intersection of green infrastructure, job creation, gender equality, quality education and protection of the environment.

One eligible category of the SDG bond is the development of a sustainable and productive agriculture – a sector that is essential to Benin’s economy. The objectives and benefits outlined include food security, socioeconomic development and climate change adaptation. The category is relevant as it targets approximately 70% of employment in Benin, and 25% of the country’s GDP. The sector is also the source of environmental degradation from topsoil loss to eutrophication in nearby waterways. Targeted benefits that have well defined metrics – including increases in agricultural output and related jobs, the percentage of population able to access healthy nutrition, and percentage increase in sustainable agricultural practices – reinforce the transaction’s likely impact.

Access to low-carbon, reliable and affordable energy represents another important category. Benin’s population is growing at a rate of 2.7% per annum, and energy consumption increased by more than 600% from 1990 to 2018. While 97% of energy demand comes from biomass and imported petroleum products, only 32% of Benin’s population has access to electric power. Benin has therefore outlined an important goal for many developing economies – providing universal, affordable and green electricity to its population. Such objectives illustrate the clear intersection of green infrastructure and social objectives.

In addition to use-of-proceeds sustainability bonds, the growing market focus on social issues will drive sustainability-linked bonds (SLBs) that have social targets as part of their structures. Typically issued in accordance with the ICMA Sustainability-Linked Bond Principles (SLBP), SLBs are general corporate purposes borrowings where the cost of capital can fluctuate based on whether certain enterprise-wide sustainability targets are achieved. As investors have increasingly focused on issuers’ overall sustainability credentials and how their bond financings align with their broader sustainability objectives, issuers have begun to turn to SLBs in an attempt to appeal to sustainability-minded investors while maintaining the flexibility of general corporate purposes borrowing. SLBs have also begun to emerge as an instrument of choice for non-financial corporates and other issuers that wish to deliver socially-positive outcomes but may have a lack of sizeable social assets that need financing. Despite their relative newness in the

sustainable bond markets, the instrument saw $39 billion of issuance globally in the first half of 2021, after just $9 billion for all of 2020.

While the majority of targets included in SLBs to date focus on climate issues,17 some companies are also including social targets, including Schneider Electric as outlined in the below case study. Regardless of the structure or label used, investors will increasingly consider the link between an issuer’s social financing and its overarching ESG credentials and sustainability strategy.

**Case Study #3 – Schneider Electric**

**Summary of transaction:**

Schneider Electric issued a €650 million ($769 million) convertible sustainability-linked bond (SLB) in November 2020, with a maturity date of June 2026. Schneider Electric is a French electrical systems company with a global footprint and market capitalization of €66.5 billion on the Paris bourse.

**Overview of our assessment:**

According to our SPO, the Sustainability-Linked Financing Framework is aligned with the SLBP. The key performance indicators (KPIs) and sustainability performance targets (SPTs) are considered “robust” and map to seven of the UN SDGs. The issuer’s overall ESG performance is “advanced,” with controversies limited to one isolated instance.

**Areas of innovation:**

While other issuers have brought convertible bonds with a sustainability feature to the market, Schneider Electric is the first to incorporate potential payouts – to the tune of 50 basis points (bps) – to bondholders. Such a scenario will occur if the company fails to meet an average 9/10 score across the three metrics by the end of 2025, using end-2020 as the baseline period.

The ambitious and innovative nature of these SPTs make Schneider Electric’s SLB a precedent transaction for other corporates to consider raising KPI-linked financing. The three KPIs, with associated sustainability performance targets, include:

- CO2 emission savings and avoidance for customers: deliver 800 million tons of saved and avoided of CO2 emissions to customers.
- Gender diversity, from hiring to front-line managers and leadership teams: 50% women hiring, 40% women among front-line managers, 30% women in leadership teams
- Number of underprivileged people trained in energy management: train 1 million underprivileged people in energy management

Schneider Electric has chosen four main strategies to achieve lower carbon emissions: the expansion of savings calculations, acquisition of low-carbon businesses, priority on low-carbon business lines and an internal incentive plan that spans approximately 60,000 eligible employees.

Schneider Electric will also target an increase in its female workforce using methods such as appropriate flextime for family leave that prioritizes leave during critical development stages for children and implementing childcare facilities and subsidies. The bond also includes an ambitious target of training one million underprivileged individuals in energy management. Through the Schneider Electric Foundation and VolunteerIn program, the company will provide financial and technical support to training projects for local partners.

**Social bond reporting and disclosure practices remain immature, but best practices around project eligibility criteria, impact metrics and post-issuance verification will gain traction**

Although the diverse set of eligible social projects categories can mean a wide range of potential positive social impacts, the diversity of project types can also translate into unstandardized and often qualitative reporting and metrics, limiting the ability of investors to track, compare or aggregate the overall impact of their portfolios. This is reflected in many current market practices as well as the granularity and detail in ICMA’s guidance documents with respect to impact reporting metrics. For the Green Bond Principles, for instance, nearly all eligible project categories have seen standalone documents published with detailed impact reporting guidance. Conversely, impact reporting guidance for the Social Bond Principles consists of one high-level document with

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17 Credible targets and structures key to long-term growth of sustainability-linked bonds, Moody’s ESG Solutions, May 2021.
suggested impact indicators by category. Nevertheless, we anticipate more detailed work to define impact reporting best practices as the market matures.

One of the challenges with social bond impact reporting is the difficulty with assessing the true extent of the impact of financed projects. Investments in eligible social bond projects can often have multiple benefits, but the measurement of such benefits is often challenging. For example, construction of affordable housing directly provides homes for low-income persons, but can also contribute to better job security, health and educational outcomes. Attributing these secondary benefits to an individual’s housing conditions is difficult, however, and suggested impact metrics for affordable housing projects typically include more easily measured items such as the number of dwellings financed and the number of individuals benefitting from subsidized housing.

The complexity inherent in measuring the impact of social financing can, in turn, give rise to concerns around “social washing” – that is, when an issuer overstates or misrepresents the impact of social-related projects. The presence of “greenwashing” has been a challenge for some issuers in the sustainable bond markets, and investor scrutiny of issuers’ claims of social responsibility have similarly intensified as the importance of social issues becomes clearer. Despite the challenges inherent in reporting, issuers will increasingly be expected to justify the claims inherent in their social bond frameworks and reporting as appropriate measurement techniques come into greater focus. Credible and comparable reporting is key for investors as they seek to track, compare and aggregate the overall social impacts of their bond portfolios.

Despite the challenges in today’s market landscape, we are gradually seeing innovation in impact reporting, including the use of granular project-level indicators and commitments to verification of post-issuance reporting. Issuers are leveraging the existing market guidance to define project eligibility and strive for impact metrics that are relevant, extensive and measurable, such as the transaction from the Local Initiatives Support Corporation (LISC) outlined in the below case study.

We anticipate that such innovations will continue and be enhanced by emerging regulatory initiatives around social classifications, such as the creation of a social taxonomy in the European Union, which would help produce a common market language around eligible activities and criteria over time. Such a taxonomy would help define what constitutes a substantial social contribution, how to define “do no significant harm” (DNSH) principles and identify what activities are socially harmful. The EU’s work on an environmental taxonomy similarly incorporates social issues with a DNSH provision and a requirement to maintain minimum social safeguards. Developments such as the EU’s taxonomy work could help bolster the breadth and liquidity of social financing in the debt capital markets, particularly with respect to facilitating the expansion of the market among prospective corporate issuers.

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Case Study #4 – Local Initiatives Support Corporation (LISC)

Summary of transaction:
In late 2020, Local Initiatives Support Corporation (LISC) commenced offering up to $150 million of Impact Notes with maturities ranging from one to 10 years and proceeds earmarked for a mix of refinancing existing debt and funding investments into new projects. Operating in the US as a non-profit intermediary, LISC is a community development financial institution (CDFI) that brings capital into low-wealth communities. The focus of LISC’s mission is to serve low- and moderate-income communities where capital is infused into socially focused projects to build a resilient and inclusive economy.

Overview of our assessment:
Our SPO states that the social bond framework is aligned with the four core components of the SBP, with an “advanced” performance on the contribution to sustainable development. The use of proceeds will contribute to eight of the UN SDGs. In addition, the issuer is deemed to have a “robust” ESG strategy with no assessed involvement in controversies.

Areas of innovation:
This is the first set of notes from a CDFI to receive an SPO on formal alignment to the SBP and UN SDGs. The use of proceeds include clear eligibility and ineligibility criteria to inform project selection. The framework covers LISC’s activities to address the opportunity gap in the US in four project categories: affordable housing, access to essential services (such as education, healthcare and community services), food security and employment generation. In addition, $10 million of the proceeds for the 2020-2021 offering will support Project 10X, under which LISC invests in building equity and wealth for Black, Indigenous and People of Color.

LISC’s chosen impact metrics are relevant, extensive and rooted in systemic change for target communities. They are also comparable across the 2,200 counties in which LISC operates. Impact metrics that are measurable and comparable are important because they can be reported on internally and to external stakeholders, such as investors and peers, to create a blueprint for social change. Granular reporting also brings credibility to the activities funded through social bond instruments to address racial and gender inequity, thereby supporting future investment flows. Selected indicators include:

- Number of affordable rental and for-sale units built or preserved
- Number of student seats at full capacity
- Number of people to be served annually by a new healthcare facility
- Number of square footage of retailers selling or producing healthy and affordable food serving low-income groups
- Percentage of Women Business Enterprises, Minority Business Enterprises, Veteran Business Enterprises supported

Financing by organizations that operate within the fabric of their communities typically have higher social impact. LISC has an over 40-year proven track record for on-the-ground community development in underserved communities. As such, the institution has the necessary components in place to effect meaningful positive impact in underserved communities through its social bond offering.
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