

# Social Bond Principles

Voluntary Process Guidelines for Issuing Social Bonds

June 2020



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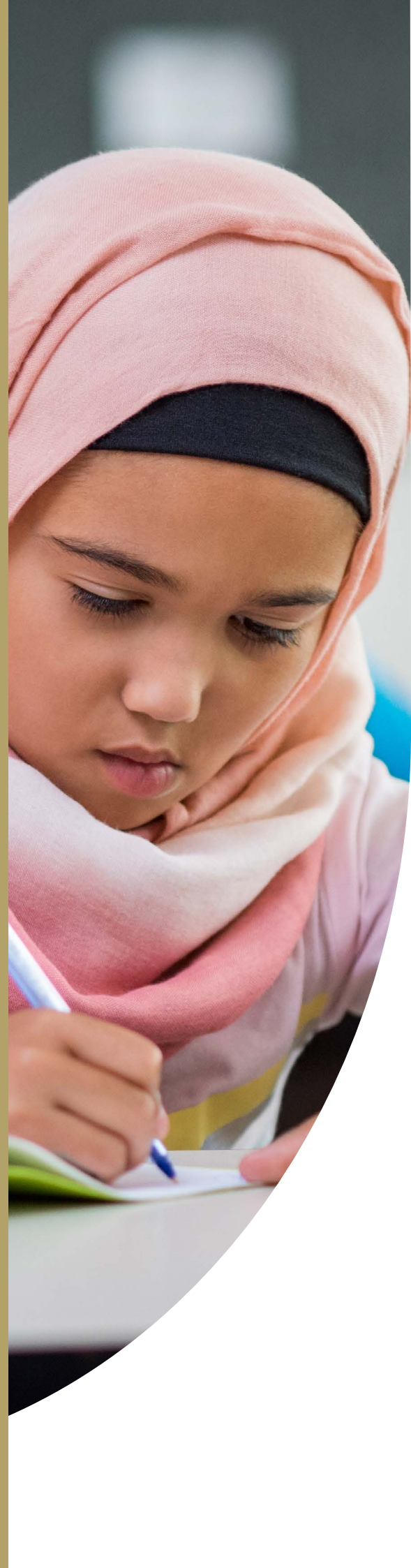
#### Introduction

The Social Bond market aims to enable and develop the key role that debt markets can play in funding projects that address global social challenges. Social Bonds are use of proceeds bonds that raise funds for new and existing projects that address or mitigate a specific social issue and/or seek to achieve positive social outcomes. The Social Bond Principles (SBP) promote integrity in the Social Bond market through guidelines that recommend transparency, disclosure and reporting. They are intended for use by market participants and are designed to drive the provision of information needed to increase capital allocation to social projects without any single arbiter.

Issuance aligned to the SBP should provide an investment opportunity with transparent social credentials. By recommending that issuers report on the use of Social Bond proceeds, the SBP promote a step change in transparency that facilitates the tracking of funds into social projects, while simultaneously aiming to improve insight into their intended impact. The SBP provide high level categories for eligible Social Projects in recognition of the diversity of current views and of the ongoing development in understanding of social issues and consequences.

The SBP are collaborative and consultative in nature based on the contributions of Members and Observers of the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines (referred to as the Principles), and of the wider community of stakeholders. The Principles are coordinated by the Executive Committee. They are updated when it is necessary to do so in order to reflect the development and growth of the global Social Bond market.

The 2020 edition of the SBP benefits from the input of the Social Bond Working Group (SBWG) and the 2019 autumn consultation of the Members and Observers of the Principles. This edition provides a definition of a social issue which may benefit from a social project. It also includes an expansion of examples of project categories and target populations.



## Social Bond Definition

Social Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible Social Projects (see section 1 Use of Proceeds) and which are aligned with the four core components of the SBP. Different types of Social Bonds exist in the market. These are described in Appendix I.

It is understood that certain Social Projects may also have environmental co-benefits, and that the classification of a use of proceeds bond as a Social Bond should be determined by the issuer based on its primary objectives for the underlying projects. (Bonds that intentionally mix green and social projects are referred to as Sustainability Bonds, and specific guidance for these is provided separately in the **Sustainability Bond Guidelines**).

It is important to note that Social Bonds should not be considered fungible with bonds that are not aligned with the four core components of the SBP. Bonds issued under earlier Social Bond Guidance released prior to this version are deemed consistent with the SBP.

## Social Bond Principles

The SBP are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Social Bond market by clarifying the approach for issuance of a Social Bond. The SBP are intended for broad use by the market: they provide issuers with guidance on the key components involved in launching a credible Social Bond; they aid investors by promoting availability of information necessary to evaluate the positive impact of their Social Bond investments; and they assist underwriters by moving the market towards expected disclosures that will facilitate transactions.

The SBP recommend a clear process and disclosure for issuers, which investors, banks, underwriters, placement agents and others may use to understand the characteristics of any given Social Bond. The SBP emphasize the required transparency, accuracy and integrity of information that will be disclosed and reported by issuers to stakeholders.

The SBP have four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

### 1. Use of Proceeds

The cornerstone of a Social Bond is the utilisation of the proceeds of the bond for Social Projects which should be appropriately described in the legal documentation for the security. All designated Social Projects should provide clear social benefits, which will be assessed and, where feasible, quantified by the issuer.

In the event that all or a proportion of the proceeds are or may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced, and, to the extent relevant, the expected look-back period for refinanced Social Projects.

Social Projects directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population(s). A social issue threatens, hinders, or damages the well-being of society or a specific target population. For the avoidance of doubt, it is acknowledged that the definition of target population can vary depending on local contexts and that, in some cases, such target population(s) may also be served by addressing the general public. Please see below illustrative examples of Social Project categories.

The following list of project categories, while indicative, captures the most commonly used types of projects supported by or expected to be supported by the Social Bond market. Social Projects include other related and supporting expenditures such as research and development and may relate to more than one category.

Social Project categories include, but are not limited to, providing and/or promoting:

- Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy)
- Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)
- Affordable housing
- Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance
- Food security and sustainable food systems (e.g. physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements; resilient agricultural practices; reduction of food loss and waste; and improved productivity of small-scale producers)
- Socioeconomic advancement and empowerment (e.g. equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality)

Examples of target populations include, but are not limited to, those that are:

1. Living below the poverty line
2. Excluded and/or marginalised populations and /or communities
3. People with disabilities
4. Migrants and /or displaced persons
5. Undereducated
6. Underserved, owing to a lack of quality access to essential goods and services
7. Unemployed
8. Women and/or sexual and gender minorities
9. Aging populations and vulnerable youth
10. Other vulnerable groups, including as a result of natural disasters

There are several categories and sets of criteria defining Social Projects already in existence in the market that can be used as complementary guidance. Issuers and other stakeholders can refer to **case studies** and examples through links listed on the **Green, Social and Sustainability Bonds Database**.

## 2. Process for Project Evaluation and Selection

The issuer of a Social Bond should clearly communicate to investors:

- the social objectives;
- the process by which the issuer determines how the projects fit within the eligible Social Project categories identified above;
- the related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage potentially material social and environmental risks associated with the projects.

Issuers are encouraged to position this information within the context of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability. Issuers are also encouraged to disclose any social standards or certifications referenced in project selection.

The SBP encourage a high level of transparency and recommend that an issuer's process for project evaluation and selection be supplemented by an external review (see External Review section).

## 3. Management of Proceeds

The net proceeds of the Social Bond, or an amount equal to these net proceeds, should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process linked to the issuer's lending and investment operations for Social Projects.

So long as the Social Bond is outstanding, the balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible Social Projects made during that period. The issuer should make known to investors the intended types of temporary placement for the balance of unallocated net proceeds.

The SBP encourage a high level of transparency and recommend that an issuer's management of proceeds be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Social Bond proceeds (see External Review section).



#### 4. Reporting

Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in the case of material developments. This annual report should include a list of the projects to which Social Bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the SBP recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories).

Transparency is of particular value in communicating the expected impact of projects. The SBP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures (e.g. number of beneficiaries, especially from target populations) and disclosure of the key underlying methodology and/or assumptions used in the quantitative determination. Issuers with the ability to monitor achieved impacts are encouraged to include those in their regular reporting.

Voluntary guidelines aiming at a harmonized framework for impact reporting exist for Social Projects (**see guidance documents**). The guidelines include templates for the format of impact reporting at a project and at a portfolio level that issuers can adapt to their own circumstances. The SBP encourage further initiatives, to help establish additional references for impact reporting that others can adopt and/or adapt to their needs.

The use of a summary reflecting the main characteristics of a Social Bond or a Social Bond programme and illustrating its key features in alignment with the four core components of the SBP may help inform market participants. To that end, a template is being made available on **the GBP/SBP web pages** on ICMA's website which once completed can be published online for market information by following the instructions at the same link.



## External Review

It is recommended that in connection with the issuance of a Social Bond or a programme, issuers appoint (an) external review provider(s) to confirm the alignment of their bonds with the four components of the SBP as defined above. There are a variety of ways for issuers to obtain such outside input to their Social Bond process and there are several levels and types of review that can be provided to the market:

An issuer can seek advice from consultants and/or institutions with recognised expertise in social issues or other aspects of the issuance of a Social Bond. It may cover areas such as the establishment of an issuer's Social Bond framework or the reporting of a Social Bond issuer. Consultancy or advisory services entail collaboration with the issuer and differ from independent external reviews. The SBP encourage independent review of social features of the (types of) assets or activities associated with the Social Bond or Social Bond programme, where applicable.

Independent external reviews may vary in scope and may address a Social Bond framework/programme, an individual Social Bond issue, the underlying assets and/or procedures. They are broadly grouped into the following types, with some providers offering more than one type of service, either separately or combined.

- 1. Second Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- 2. Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.

- 3. Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- 4. Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

An external review may be partial, covering only certain aspects of an issuer's Social Bond or associated Social Bond framework or full, assessing alignment with all four core components of the SBP. The SBP take into account that the timing of an external review may depend on the nature of the review, and that publication of reviews can be constrained by business confidentiality requirements.

The SBP recommend public disclosure of external reviews as well as using the template for performed external reviews available on **the GBP/SBP webpages** on ICMA's website. External reviewers are also encouraged to fill out the External Review **Service Mapping Template** which will be made available on the ICMA website.

The SBP encourage external review providers to disclose their credentials and relevant expertise and communicate clearly the scope of the review(s) conducted. **Voluntary Guidelines for External Reviews** have been developed by the SBP to promote best practice. The Guidelines are a market-based initiative to provide information and transparency on the external review processes for issuers, underwriters, investors, other stakeholders and external reviewers themselves.

## Disclaimer

*The Social Bond Principles are voluntary process guidelines that neither constitute an offer to purchase or sell securities nor constitute specific advice of whatever form (tax, legal, environmental, accounting or regulatory) in respect of Social Bonds or any other securities. The Social Bond Principles do not create any rights in, or liability to, any person, public or private. Issuers adopt and implement the Social Bond Principles voluntarily and independently, without reliance on or recourse to the Social Bond Principles and are solely responsible for the decision to issue Social Bonds. Underwriters of Social Bonds are not responsible if issuers do not comply with their commitments to Social Bonds and the use of the resulting net proceeds. If there is a conflict between any applicable laws, statutes and regulations and the guidelines set forth in the Social Bond Principles, the relevant local laws, statutes and regulations shall prevail.*



## Appendix I

### Types of Social Bonds

There are currently four types of Social Bonds (additional types may emerge as the market develops and these will be incorporated in annual SBP updates):

- **Standard Social Use of Proceeds Bond:** a standard recourse-to-the-issuer debt obligation aligned with the SBP.
- **Social Revenue Bond:** a non-recourse-to-the-issuer debt obligation aligned with the SBP in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and whose use of proceeds go to related or unrelated Social Project(s).
- **Social Project Bond:** a project bond for a single or multiple Social Project(s) for which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer, and that is aligned with the SBP.
- **Social Securitised and covered Bond:** a bond collateralised by one or more specific Social Project(s), including but not limited to covered bonds, ABS, MBS, and other structures; and aligned with the SBP. The first source of repayment is generally the cash flows of the assets. This type of bond covers, for example, covered bonds backed by social housing, hospitals, schools.

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## Note:

It is also recognised that there is a market of sustainability themed bonds which finance a combination of green and social projects, including those linked to the Sustainable Development Goals (“SDGs”). In some cases, such bonds may be issued by organisations that are mainly or entirely involved in sustainable activities, but their bonds are not aligned to the four core components of the SBP. In such cases, investors will need to be informed accordingly and care should be taken to not imply SBP (or GBP) features by a Sustainability Bond or SDG reference. These issuing organisations are encouraged to adopt, where possible, the relevant best practice of the SBP (e.g. for reporting) for such existing sustainability, SDG or otherwise themed bonds, and to align future issues with the SBP and GBP.

A mapping of the GBP and SBP to the Sustainable Development Goals (SDGs) is available and aims to provide a broad frame of reference by which issuers, investors and bond market participants can evaluate the financing objectives of a given Green, Social or Sustainability Bond/Bond Programme against the SDGs. It can be found on **the GBP/SBP webpages** on ICMA’s website.



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