

SOCIAL BONDS - GUIDANCE FOR ISSUERS

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INTRODUCTION

Alongside the development of the Green Bond market, a related bond market aimed at financing projects with social objectives, or with a combination of social and environmentally sustainable objectives has emerged. Issuances in this market, which are occurring under a variety of names including Social Bonds, Sustainability Bonds, and others, reflect the continuing development of the impact-oriented bond market. Specific examples of such transactions can be found on the ICMA website at the following www.icmagroup.org/socialbonds.

A number of these transactions share common key features with Green Bonds aligned with the Green Bond Principles (GBP). The GBP's four core components and their recommendations on the use of external reviews can therefore also apply to them.

This guidance has been developed to confirm the relevance of the GBP in this context and facilitate the application of their guidance on transparency and disclosure to the emerging Social Bond market. The aim of this document is to ensure that issuers are better able to anticipate and fulfil the information expectations of investors. It aims to facilitate the availability of information for the review and evaluation of expected or realized positive social outcomes by investors. It also assists underwriters by promoting the expected disclosure of information and methodology.

SOCIAL BOND DEFINITION

Social Bonds are any type of bond instruments where the proceeds will be exclusively applied to finance or re-finance in part, or in full, new and/or existing Social Projects as defined in this document, and which follow the four core components of the GBP (use of proceeds, process for project evaluation and selection, management of proceeds, and reporting), as well as its recommendations on the use of external reviews.

It is understood that some issuers may come to the market with bonds where the proceeds will be applied to both social and green projects. In such cases, investors will need to be informed accordingly and the transaction's designation may need to reflect the broader scope of the use of proceeds as in the case of Sustainability Bonds already in the market.

In addition to information disclosed by an issuer on its Social Bond process, criteria and external reviews, Social Bond investors may also take into consideration the quality of the issuer's overall framework and performance regarding sustainability.

SOCIAL PROJECTS

Social Projects are projects, activities and investments that directly aim to help address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially, but not exclusively, for target population(s). In line with the GBP, the approval of Social Projects should be subject to transparent, issuer-defined eligibility criteria and an associated process for project evaluation. Social Projects should provide clear benefits that can be described and, where feasible, quantified and/or assessed. Examples of expected positive social impacts should be stated and may include, but are not limited to, the number of beneficiaries from these projects.

Please see below illustrative examples of Social Project categories that seek to achieve positive socio-economic outcomes for men, women and children in target populations.

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

- Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport)
- Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)
- Affordable housing
- Employment generation including through the potential effect of SME financing and microfinance
- Food security
- Socioeconomic advancement and empowerment

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

- Living below the poverty line
- Excluded and/or marginalised populations and /or communities
- Vulnerable groups including as a result of natural disasters
- People with disabilities
- Migrants and /or displaced persons
- Undereducated
- Underserved
- Unemployed

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 examples through links listed in the ICMA webpages at www.icmagroup.org/socialbonds.