International Platform on Sustainable Finance

Strengthening clarity in social finance: scaling up social bonds

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The recommendations proposed are voluntary and build on existing public and private initiatives.

Chapter 1: Introduction

While social investment has been on the rise, it has also faced some of the greatest challenges of environmental, social and governance (ESG) investing. The members and observers of the International Platform on Sustainable Finance (IPSF) have therefore tried to understand the existing frameworks and practices, the challenges and opportunities in sustainable finance for social objectives and to explore, on the one hand, elements that need to be accounted for to design effective responses to the evolution of the market and, on the other hand, possible actions, by both public and private actors, that may support this market and its development moving forward.

Overview of social bonds and their importance in financing social projects

Despite the efforts made by governments over the years, progress in reducing inequality in several of the world's regions remains insufficient. Furthermore, the world is facing the deepening of one of the toughest challenges in history. The consequences of the climate and biodiversity crisis are already being felt, especially among vulnerable countries and communities, which are also suffering for instance from increasing poverty, food and energy insecurity, displacement, lack of access to clean water.

At the same time, the economic repercussions of the Covid-19 pandemic have hit the most vulnerable populations hardest, causing substantial setbacks in many social goals, exacerbating existing inequalities between and within countries, increasing unemployment and pushing millions of people into poverty. The pandemic, and its economic and social impact, has widened inequality, exposed large funding gaps in many social sectors around the world and highlighted inequality in access to basic services, including education, health and housing in various segments of society. Geopolitical tensions, a context of falling growth, rising interest rates and global inflation, a backdrop of energy and food insecurity, increasing debt vulnerabilities and shrinking fiscal space, have exacerbated this situation, leading to the diminishment of the financial resources available in many countries to achieve development.

This context aggravates further the significant financing gap for achieving the Sustainable Development Goals (SDGs). In 2014, the United Nations Conference on Trade and Development (UNCTAD) estimated the financing gap in developing countries at USD 2.5 to 3 trillion.[1] According to estimates of the Organisation for Economic Co-Operation and Development (OECD), the Covid-19 pandemic brought this figure up to USD 3.7 to 4.2 trillion, with an additional USD 1 trillion gap in public spending on emergency response. A closer look into financing for the SDGs reveals that between 2012 and 2017, only 6% of private capital funded social sectors.[2]

It is important to highlight the role of debt in this issue. Even more so if we take into account that in many cases, middle-income countries (MICs) and low-income countries (LICs) are the countries with the greatest financing needs to reach the SDGs objectives and a just transition, in economic and social

[1] https://www.jointsdgfund.org/sdg-financing
[2] https://www.oecd.org/dev/OECD-UNDP-Scoping-Note-Closing-SDG-Financing-Gap-COVID-19-era.pdf

terms, towards a carbon neutral or net-zero economy[3]. Figures show that public debt vulnerability has increased over the last decade in LICs and MICs, becoming a critical constraint in accessing affordable and accessible finance. According to the G20 International Financial Architecture Working Group[4], public and publicly guaranteed external debt (PPG) of low- and middle-income countries has reached an average of 32% of GDP in 2021[5]. At the same time, the average ratio of total public debt to GDP in low- and middle-income countries has reached 58% in 2022[6]. According to recent International Monetary Fund (IMF) estimates, 39 low-income countries are now in debt distress or at high risk of external debt distress, while in 2022 there were 18 middle-income countries with a credit rating of C or lower (no investment considered highly speculative or default)[7]. The development of sustainable finance is an opportunity to catalyse more public and private investments in better financial conditions to move towards more inclusive, sustainable and resilient economies and societies. Sustainable finance usually occupies the international agenda with a climate perspective. However, sustainable finance has an essential role in supporting wider transitions and other environmental and social factors, which are fully interlinked. While the financial sector's role in relation to addressing climate change and environmental challenges is acknowledged, its potential to address societal challenges has not yet been fully harnessed. Connecting the dots is of paramount importance, as the interdependence of the green and social spheres also means that the attainment of goals within either domain presupposes the attainment of goals within the other.

Social bonds: an investment opportunity to improve the social status quo

Social bonds offer investors a way to support projects that contribute to a social objective with a positive social impact with the prospect of a financial return (in juxtaposition with philanthropy). They are an investment opportunity that enhances transparency and accountability of the issuer's projects. They may also help reduce the potential negative consequences associated with a disorderly transition to a low-carbon economy, with serious social implications.

This type of financial instrument can be and is being used to address notably the social goals of the 2030 Agenda for Sustainable Development. But closing the financing gap can only be achieved if the financial system identifies where capital should be deployed. This is achieved by enhancing clarity as to where projects effectively benefit underserved populations, including women, indigenous people, migrants, refugees, religious minorities, LTGBIQ+ people, low-income communities, and all other vulnerable communities with limited access to essential services such as basic nutrition, infrastructure, finance, job access, etc.

Based on international experience, common categories for the eligibility of social bond projects include, among others, supply and promotion of:

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[3] Recognising that the goal of achieving carbon neutrality or net-zero depends on a country's level of development.
[4] G20 Note on the Global Debt Landscape.
[5] For low-income countries, the external debt-to-GDP ratio has risen from 26% in 2010 to 36% in 2021, while for middle-income countries, the external debt-to-GDP ratio has risen from 21% in 2010 to 30% in 2021.
[6] From 36% in 2010 to 59% in 2021 (57% in 2022) for low-income countries and from 43% in 2010 to 64% in 2021 (59% in 2022) for middle-income countries.
[7] Previously there were 13 and 8 respectively.

- Basic infrastructure such as clean drinking water, sanitation and energy.
- Access to essential services such as healthcare and education.
- Access to affordable housing.
- Job creation and employment generation.
- Sustainable food security.
- Socio-economic advancement and empowerment of underserved groups, including women and youth.

Social bonds have become increasingly popular in recent years. In 2020, the social bond market exploded with USD 249 billion representing a more than 10-fold increase (1022%) year-on-year, the sharpest annual growth in any theme since the inception of the Green, Social & Sustainability (GSS) debt market. As of the end of 2022, the total cumulative issuance of thematic bonds had surpassed the USD 3.7 trillion mark. Globally, social issuances accounted for 15% of GSS debt in 2022.[8] In the sovereign thematic debt market, 2020 saw the first social issuances by Chile, Ecuador and Guatemala and sustainability bond issuances by Luxembourg, Mexico, and Thailand. Since then, sovereign thematic bonds issuances have had a strong growing trend, with 43 sovereign issuers having issued combined volumes of USD 323.7 billion thematic bonds at the end of 2022 according to the Climate Bonds Initiative (CBI). However, social bond issuances slowed down in 2023.

Scaling up the social bond market presents some challenges. The size of the social bond market is equivalent to 27.2% of the green bond market. The challenge is even bigger in the sovereign thematic debt market, where social sovereign issuances correspond to 5.7% of green sovereign ones.[9]

One of the key challenges for scaling up social bond issuances, and social finance as a whole, is the lack of a clear and common understanding of social objectives, economic activities that substantially contribute to them, and social risks. As a consequence, there is also lack of clarity about social investments and impacts. While environmental objectives and criteria can generally be based on environmental science, social objectives are often even more of a qualitative and contextual nature. Tackling specific social problems requires the identification of specific indicators and while there are some existing international social indicators, these may not be fit to local specificities. At the same time, there is a need for any definitions/indicators to maintain a degree of comparability and interoperability without which cross-border investments may not reach their potential and scale. Scaling up social bonds worldwide therefore requires exploring the development of comparable definitions and criteria. Aside from other barriers, such as limited awareness and understanding or limited demand (potentially explained by a lack of eligible pipeline and adverse market conditions) of this type of instrument, it is also important that policymakers, regulators and the international community at large reflect on whether more standardisation in the measurement and reporting of social risks, impacts and dependencies could facilitate the comparison and evaluation of different social bond issuances, support market integrity and thereby increase investor appetite.

The challenges of achieving just, sustainable, orderly and inclusive transitions to socially and environmentally sustainable economies can be an opportunity for policymakers to develop a pragmatic approach to sustainability and ESG considerations and for the financial sector to be an engine for promoting efficiently and decisively social goals and more socially sustainable financing

[8] Climate Bonds Initiative, 2023. https://www.climatebonds.net/files/reports/cbi_sotm_2022_03e.pdf
[9] Own calculations based on Climate Bond Database as of H1 2022.

approaches. Social bonds may be used as a vehicle to stimulate the broader social finance market and strengthen the related regulatory landscape, constituting a piece of a broader puzzle.

In this regard, it can be observed that the social aspect is becoming increasingly prominent in discussions in international fora. For instance, the G20 Sustainable Finance Working Group (SFWG) this year discussed how to enable finance for the SDGs – Priority 2 – including a focus on impact investing for social-related SDGs. The G20 SFWG report also included a compendium of cases studies for financing SDGs for social impact investment. The increasing demand for social bonds (to finance, for instance, social housing, healthcare, and jobs for target groups) is another indicator that investors see social investments as an opportunity. This demand also shows that private capital can be directed to socially valuable activities.

This report focuses on social bonds as a subset of social finance to examine different approaches and best practices across the IPSF membership and beyond. The following Chapter briefly addresses the different ways in which social considerations have been incorporated in sustainable finance frameworks beyond social bonds. Chapter 3 maps initiatives that have been developed at international and regional level on the subject of social bonds – including initiatives on narrower themes. Chapter 4 presents some of the key challenges in scaling up social bond issuances and facilitating financial flows for social objectives. Chapter 5, bringing together the experience of IPSF members and observers, concludes with key takeaways, considerations and recommendations for addressing these challenges and pursuing increased interoperability between social bonds frameworks. While social bonds are the focus of the present report, the identified challenges, opportunities and conclusions may apply more broadly to the field of social finance, including other instruments and products. The IPSF hopes that the insights coming out of this report will inform future work on these issues.

Chapter 2: The Current Landscape of Social Aspects in Sustainable Finance

From a regulatory perspective, there are several ways to address social aspects in sustainable finance frameworks. Different approaches and instruments may be combined but do not all have to be in place simultaneously.

- ***Social taxonomies***. Most recently, in March 2023, Mexico's Ministry of Finance launched the country's Sustainable Taxonomy with the initial aim of addressing three major sustainability challenges: climate change, gender equality and access to basic services in municipalities. Its purpose is to facilitate financial flows and mobilise capital for sustainable activities, generate reliable information, provide transparency, create the foundation for sustainable finance policies in Mexico, and address social gaps and vulnerabilities. The Mexican Taxonomy took an innovative approach by selecting one social category that is highly material to the country. On the social dimension, gender equality, healthcare, education, financial inclusion, as well as access to services relative to sustainable cities are included in the Taxonomy.[10] Mongolia is another country that integrated social objectives in its taxonomy by revising its existing green taxonomy (2018) into an SDG Taxonomy (2023), adding social impact sectors and activities such as health, education, communications, and affordable infrastructure. Mongolia's taxonomy also proposes key social impact indicators to assist investors in the impact measurement, reporting and verification of sustainable instruments and transactions. Related discussions have also taken place or are ongoing in other jurisdictions.[11]
- ***Social in taxonomies***. The EU Taxonomy Regulation establishes criteria for determining whether an economic activity qualifies as sustainable. Minimum social safeguards are a core pillar of the EU Taxonomy alongside 'substantial contribution', 'do no significant harm' and the 'technical screening criteria'. Minimum safeguards are defined against the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs), including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation (ILO) on Fundamental Principles and Rights at Work and the International Bill of Human Rights. In its 2022 Report on Minimum Safeguards, the EU Platform on Sustainable Finance advised on the application of minimum safeguards in relation to the Taxonomy Regulation by a) embedding Minimum Safeguards in existing EU regulation, b) identifying substantive topics relating to the standards and norms referenced in the definition of Minimum Safeguards and c) presenting advice on compliance with Minimum Safeguards.
- ***Sustainability reporting covering the S in ESG***. In India, the top 1000 listed entities by market capitalisation must report on both environment and social-related key performance indicators (KPIs) as part of the Business Responsibility and Sustainability Report. Social KPIs cover communities, consumers, and gender diversity, among others. The European Sustainability Reporting Standards, covering own workforce, workers in the value chain, affected communities, and consumers and end-users are another example. In the EU's framework,

[10] https://www.gob.mx/cms/uploads/attachment/file/809773/Taxonom_a_Sostenible_de_M_xico_.pdf (p. 26)

[11] For example, the EU Platform on Sustainable finance put forward recommendations to the European Commission on a possible social taxonomy. The EU Platform on Sustainable Finance is an advisory body and does not commit the Commission or preclude any policy outcomes.

double materiality is an important angle, as it looks at activities' impact on social aspects. In this way, it promotes a rethinking and enables a cultural change. There may be a question on whether financial materiality is sufficient, especially in the area of social sustainability.

- ***Corporate governance requirements***. For instance, the G20/OECD Principles of Corporate Governance provide guidance to help policymakers evaluate and improve the legal, regulatory and institutional framework for corporate governance, with a view to supporting, among others, sustainable growth and financial stability. The Principles have a global reach and reflect the experiences and ambitions of a wide variety of jurisdictions with varying legal systems and at different stages of development. The Principles offer guidance on companies' sustainability and resilience, and will help companies manage environmental and social risks. In the EU, the Corporate Sustainability Due Diligence proposal foresees implementing comprehensive mitigation processes for adverse human rights and environmental impacts in companies' value chains, integrating sustainability into corporate governance and management systems, and framing business decisions in terms of human rights, climate and environmental impact, as well as in terms of the company's resilience in the longer term.
- ***Labels and guidance for social instruments***. Guidelines and labels allow both issuers and financial stakeholders to catalogue and identify financial products that ensure sustainability as they address challenges in terms of social and climate criteria. Labels define specific criteria, and alignment with these criteria is usually assessed by qualified and accredited third parties, who can verify consistency with the certification criteria. The traceability and transparency of these processes provide a degree of confidence that the investment will have a social impact, giving visibility to investors of the use that sovereign governments or companies make of the resources they obtain in the market with the issuance of a bond. The International Capital Market Association's (ICMA) Social Bonds Principles are the main guideline on the subject and the basis on which many jurisdictions have developed guidelines and labels. For instance, the Argentine National Securities Commission (CNV) has worked on a Guide for the issuance of Thematic Bonds, including the possibility of issuing Gender Bonds, where the funds will be applied exclusively to finance activities or projects related to diversity, equity and inclusion in gender issues, and whose target population are women and the LGBTI+ community[12]. Work on a joint European Commission-OECD report on labels has also recently started. The report will map public and private certifications, statuses and qualifications available and applicable to social economy entities in the EU and will analyse their trends and main criteria.
- ***Integrating social factors in ESG risk assessments and related financial legislation***. Social risks entail financial implications for companies. For example, labour strikes and employee attrition can affect productivity and labour issues can result in reputational risks. The financial value of social risks has been increasingly integrated in investors' calculations.[13]

For instance, banks and investors can integrate social indicators into their operations and use access to finance as a tool to raise corporate standards on social issues (such as low productivity and growth relating to long term unemployment, inequality, unequal access to education and human rights

[12] The first issuance of a gender bond in the Argentine capital market took place in February 2023 by the company PRO MUJER S.A. In this issuance, the objective of PRO MUJER SA. was to allocate all the funds raised to provide loans to 1,700 women, mostly low-income and between the ages of 18 and 75, as well as to owners of micro and small businesses.

[13] https://www.oecd.org/finance/ESG-investing-practices-progress-challenges.pdf

violations, bringing investment to remote regions and thus preventing them from continuing to fall behind). In order to direct capital flows, central banks, where in their mandates, may also consider mandating financial institutions to lend a minimum percentage of their portfolio to certain sectors which may not be lucrative on their own. For instance, the Reserve Bank of India has mandated the Scheduled Commercial Banks to lend at least 40% of their net bank credit to sectors covered under priority sector lending, including education, housing, and social infrastructure.

It is essential that **a balance in the relationship between social and environmental objectives is preserved**. Regardless of whether it is social or environmental finance, a holistic assessment is essential and negative social and/or environmental impacts should be considered. This can be achieved notably via concepts such as do no significant harm or minimum safeguards. For instance, just as social and governance-related minimum safeguards (UNGPs and OECD guidelines for Multinational Enterprises) are part of environmental taxonomies and tools, minimum environmental safeguards should be part of social taxonomies and social tools. Environmental and social 'do no significant harm' criteria can also facilitate a closer integration of social and environmental goals and requirements.

While minimum safeguards crucially ensure a certain degree of mainstreaming across areas covered by sustainable finance frameworks and address primarily social risks of investments, a more proactive approach has been taken in some cases to accelerate positive social impact and bring in more investments. Such approaches include:

- The 2X Challenge, launched by the G7 in 2018, to increase gender-smart private sector investment in developing country markets.[14]
- The Just Transition Declaration adopted by the European Union, EU Member States, Canada, New Zealand, Norway, the UK, and the US on the occasion of COP26. The Declaration sets out just transition principles, which apply to the signatories' funding for low and middle income countries (LMICs) and their own domestic just transition plans.[15]
- The UN's Road Safety Strategy.[16]

The fact that social aspects can be integrated into sustainable finance frameworks in a multitude of ways provides jurisdictions and organisations with the necessary flexibility to adopt an approach that best responds to their specific needs and circumstances. At the root of all approaches lies the question of how social aspects, activities, risks, and impacts are understood, identified and measured. The G20 Green Finance Synthesis Report of September 2016 highlighted that 'the lack of clarity as to what constitutes green finance activities and products (such as green loans and green bonds) can be an obstacle for investors, companies and banks seeking to identify opportunities for green investing'. The G20 recognised that a 'one size fits all' approach is not required as a solution and that internationally comparable indicators are useful in facilitating cross-border and cross-market green investment. This assessment also applies in the case of social finance, which is considered the twin sibling of environmental finance by the United Nations Environment Programme (UNEP) Inquiry of 2016[17].

[14] https://www.2xchallenge.org/
[15] https://ukcop26.org/supporting-the-conditions-for-a-just-transition-internationally/
[16] https://www.un.org/en/safety-and-security/road-safety
[17] http://unepinquiry.org/wp-content/uploads/2016/09/1_Definitions_and_Concepts.pdf

Chapter 3: Current Practices for Scaling Up Social Bond Issuances

This section focuses on guidance and frameworks that have been produced at a global and cross-jurisdictional level to structure and guide the issuance of social bonds. It initially maps those addressing social aspects as a whole. It then zooms in to frameworks focusing on particular aspects, especially gender. It finally presents how social considerations have been incorporated in broader bond guidance. Jurisdictional approaches, from the IPSF and beyond, to the design of locally-tailored frameworks and the implementation of the regional and global frameworks detailed here can be found in Annex 1.

General

ICMA Social Bonds Principles

ICMA's Social Bonds Principles (SBP) have emerged as one of the key reference points for social bond issuances on the global stage and form the basis of several other pieces of guidance and initiatives.

ICMA defines social bonds as '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'. To qualify as a social bond, the following core components have to be complied with:

1. Use of proceeds: the proceeds of the bond must be used for eligible social projects that aim to especially benefit vulnerable groups of the population. Social project categories include: affordable basic infrastructure, access to essential services, affordable housing, employment, food security and sustainable food systems, socioeconomic advancement and empowerment.
2. Process for Project Evaluation and Selection: issuers should at a minimum inform investors of the social objectives of the social projects, the eligibility evaluation process, and the identification process for social and environmental risks associated with the projects.
3. Management of Proceeds: issuers should track the net proceeds of their social bonds, for example by means of a sub-account or sub-portfolio, and follow principles of transparency vis-à-vis investors.
4. Reporting: issuers should update information on the use of proceeds on an annual basis or promptly in case of material developments.

ICMA's principles allow variety with regard to the focus of eligible projects and flexibility with regard to the particular context of a given project or issuance.

ASEAN Social Bond Standards (2018)

For issuances of ASEAN Social Bonds, issuers must, in addition to the SBP, follow the 2018 ASEAN Social Bond Standards. In terms of eligibility, they require a geographical or economic link of the issuer or issuance to the ASEAN region and that the financed projects do not pose a negative social impact related to alcohol, gambling, tobacco, and weaponry. They also allow issuers the freedom of defining further ineligibility criteria.

Furthermore, disclosure requirements on the part of the issuer are higher; information on the use of proceeds, project evaluation and selection process, and management of proceeds must be included in the issuance documentation and made publicly available continuously. Periodic reporting is encouraged on top of the SBP's annual reporting requirement. Finally, external reviews, while remaining voluntary as in the SBP, have to be conducted by experts in the field. Reviewers' credentials and the scope of the review must be made publicly available.

As one of the early players in the area of social bonds, ASEAN utilised ICMA's SBP to create a stricter regime that caters to local circumstances and needs. The additional requirements on transparency and ineligible projects showcase how the SBP can be adapted and reinforced to fit different contexts.

Central American Bank for Economic Integration (CABEI) - Social Bond Framework (2019)

The CABEI Social Bond Framework is aligned with the ICMA Social Bond Principles and aims to finance projects in strategic sectors such as: access to essential services, employment generation, socio-economic empowerment, affordable basic infrastructure, food security and sustainable food systems.

The selection process is carried out by a Multidisciplinary Social Bond Working Group. The process is guided by a System for the Identification, Evaluation and Mitigation of Environmental and Social Risks and has an exclusion criterion. The exclusion criterion stipulates that no projects may be financed that violate CABEI environmental and social policy, environmental and social regulations in force in the host country and international environmental and social agreements and conventions. In terms of reporting, reports on the allocation of funds (allocation reports) and the impact of Eligible Social Projects (impact reports) are provided to investors on an annual basis during the life of the Social Bonds.

Inter-American Development Bank Invest Sustainable Debt Framework[18]

IDB Invest has designed this Sustainable Debt Framework (SDF) as an overarching tool ruling the issuance of green, social, and sustainability debt instruments. It is aligned with ICMA's Green Bond Principles (GBP) 2018, SBP 2020, and Sustainability Bond Guidelines (SBG) 2018. This is the first ICMA-aligned Sustainability Debt Framework from a high-grade multilateral development bank.

The SDF is used to finance and/or refinance, in whole or in part, new or existing projects, with short or long-term maturities, that are eligible for the following categories:

For the social category, the sectors and projects chosen are related to Health and well-being (SDG 1); Quality education (SDG 4); Gender equality (SDG 5); Clean water and sanitation (SDG 6); Affordable and clean energy (SDG 7); Decent work and economic growth (SDG 8); Industry, innovation and infrastructure (SDG 9); Reduction of inequalities (SDG 10); Sustainable cities and communities (SDG 11); Responsible production and consumption (SDG 12); Climate action (SDG 13) and Partnerships to achieve goals (SDG 17). These include:

- Affordable basic infrastructure (social Infrastructure - including health and education, among others – and Transport),
- Access to essential services (water and sanitation and energy),
- Food security and sustainable food systems,
- Employment generation and programs to alleviate unemployment from socio-economic crises (agribusiness and manufacturing),
- Socioeconomic advancement and empowerment (telecommunication and financial institutions and fintech),

[18] Available at: https://www.idbinvest.org/en/download/12265.

- Sustainable water and wastewater.

For the evaluation and selection of projects, IDB Invest applies its Impact Management Framework throughout the project cycle, which is based on three pillars: Strategic Selectivity (focused on key priority areas: climate change, gender equality and diversity and inclusion, micro, small and medium enterprises); Development Impact; and Systemic Approach.

Funds are managed by IDB Invest and reported on an annual basis until maturity of the bond. This consists in reporting revenues collected through the sustainable debt instrument and an impact report specifying the environmental and social impact results achieved. Integrated reporting for investors includes both environmental and social impact indicators in a single report.

Specific social aspects

Some frameworks and initiatives address specific social objectives. The gender dimension has especially gained prominence, leading to frameworks that support the issuance of gender bonds:

2X Challenge Criteria[19]

On the particular subset of gender bonds, 2X has defined five non-cumulative criteria (four direct and one indirect) for 2X eligibility. The eligibility of projects is judged based on whether one of the following criteria is fulfilled:

1) Entrepreneurship- if a business has been founded by a woman or the share of women ownership is equal to or exceeds 51%.
2) Leadership- if the share of women in senior management or on the board or on the investment committee is 30%.
3) Employment- if the share of women in the workforce is 30-50% (depending on the sector) and if the employer has in place an initiative to specifically advance women in the workplace.
4) Consumption- if the product or service specifically or disproportionately benefits women.
5) Investments through Financial Intermediaries: if 30% of the development finance institution loan proceeds or portfolio companies meet one of the four direct criteria.

IFC and UN Women Guidance on Gender Bonds

This 2021 document explores how sustainable and sustainability-linked bonds can cater to gender equality. As far as gender bonds are concerned, it invites investors to consider the gender dimension of the issuer's leadership, workforce, supply chain, products or services, and community engagement. For public sector issuers, of relevance are the national action plan for gender equality, relevant international frameworks, laws and policies with potential gender equality impact, and gender-responsive budgeting. It also seeks to guide issuers by means of sample projects, KPIs, and sustainability performance targets.

19 https://static1.squarespace.com/static/5b180402c3c16a6fe0001e45/t/60bfe754201d3d2a8e51745c/1623189333660/2X+Challenge+Criteria+%28Final+June+2021%29.pdf, https://assets.cdcgroup.com/wp-content/uploads/2020/03/16111901/How-to-measure-the-gender-impact-of-investments.pdf

Social in broader guidance

Other frameworks and initiatives have approached the social element as part of broader guidance they have issued. One example is:

ILO Just Transition Finance Tool

This guidance focuses on mainstreaming social considerations in climate transition activities in banking and investing. It builds a four-tier framework consisting in the following steps:

1) Foundations: assessing and including just transition considerations in the organisation's corporate and net zero strategies.
2) Governance: ensuring commitment from senior leadership, assigning responsibilities, building capacity to support a just transition.
3) Implementation: embedding just transition considerations in the product offering; origination; lending/investment agreements; and monitoring, risk and impact management and reporting.
4) Engagement: embedding social aspects in client relationship management processes and engaging with relevant actors to promote system-wide innovation.

Other tangentially related resources include:

- The International Finance Corporation's (IFC) Performance Standards, which also form the basis for the IFC's ESG performance indicators for capital markets. These define the responsibilities of IFC clients as regards the management of environmental and social risks. Among others, they set standards for labour and working conditions; community health, safety, and security; indigenous peoples; and cultural heritage.
- The Loan Syndications and Trading Association's Social Loans Principles. These are structured around the same four components as the ICMA principles and follow the same definition and examples of social projects.
- On social loans and in line with ICMA, the Loan Market Association has published Guidance for Green, Social, and Sustainability-Linked Loans External Reviews, addressing the form, process, and content of external reviews.

Chapter 4: Challenges in scaling up social bond issuances

Some of the challenges entailed in social bond issuances are not unique to social finance but rather are common to those faced by green and sustainability bonds. There is a higher transaction cost linked to GSS bond issuances compared to vanilla bonds. These costs arise from the complexity of the process - including the bond framework, impact assessments, ongoing reporting – but also include costs arising from local currency issuances. Indeed, issuances in local currency have higher transaction costs, which decreases the returns of international investors. A further challenge is the low liquidity due to the lack of a secondary market for the thematic bond asset class, and especially sovereign social bonds. These come on top of broader challenges that may affect the development of financial markets, especially in emerging economies. Such challenges include macroeconomic and market conditions, such as a high risk of default and market volatility that may discourage potential investors, as well as limited institutional capacity which may delay the development of appropriate frameworks and a supportive market infrastructure. An unfavourable geopolitical context and associated risks can further exacerbate such market-related challenges.

The social bond market also faces some specific and heightened challenges compared to other (green and sustainable) bonds, which are analysed in further detail in this chapter.

Investor perception, prioritisation and diversification needs. The investor base for social bonds is growing but remains relatively smaller compared to the broader sustainable bond market. Several causes lie at the root: (i) the average social bond deal size tends to be smaller than green bond deals to date, which impacts the return on investment and the pool of interested investors; (ii) there is a need for generating a diverse pipeline of investment-ready projects to support investors' needs in diversification across social themes and geographies; (iii) investors with eligible social expenditures may prefer to incorporate those alongside green expenditures into a sustainability bond. Furthermore, given the low level of awareness in the area of social finance, some investors may be disincentivised by the perception that social upliftment is solely within the mandate of governmental action.

Risk perception of investors may be higher due to uncertainties in measuring social outcomes and concerns about impact washing, which may result in lower demand and higher borrowing costs for social bond issuers compared to their green bond counterparts. The credit risk of social and green bonds is the same as for vanilla bonds.

Complexity in the credible identification and measurement of social impacts. More comparability between definitions of social finance is key to fostering investments for social objectives. A key challenge when it comes to social investing is the comparative elusiveness of social risks and social impacts and the lack of clarity of definitions of social finance (and by consequence also lack of comparability). There is a relatively poor common understanding of the definitions and concept of social investment. The qualitative nature of many social indicators may also hamper widespread adoption and creates a risk of 'social washing' or an asymmetrical investor focus on areas and targets with more straightforward, quantitative indicators. While environmental impact can be pinned down on the basis of environmental science, there is no universally accepted methodology to measure and valorise social impact.

This is, to some extent, justified by the need to reflect varied circumstances and types of social impact. It however also means that measurement is more complex and costly. This, together with nascent investment-enabling environments in many jurisdictions including limited and fragmented measurement and reporting frameworks for social finance, as well as insufficient investor awareness about methodological tools to integrate social aspects into investment policies, may hinder transparency, comparability, and ultimately impact the potential of social investing on a global scale.

The analysis of different frameworks in Chapter 3 and Annex 1 shows that there is some degree of convergence in eligible categories of potential impact metrics, but that the actual impact metrics remain very heterogeneous. The same also applies to the specific measurement methodologies of these impact metrics. For instance, measurable impacts might be in the form of education (better educational outcomes) or health (reductions in cancer diagnosis); metrics should be clearly monitored, measured, and reported to understand the additionality of any investment. This requires additional skills and dedicated capacity, but it is also often difficult to execute, particularly if done ex-post and not embedded in the structure/conditions of the issuance. As it may be sometimes challenging to measure impacts accurately, an associated (unwanted) risk might be the focus on investments for which there are 'easy' measurement methodologies.

The OECD has mapped different measurement methodologies and identified the variety of definitions for 'social' and 'impact', recognising that methodologies can differ depending on whether they aim to prove or to improve an organisation's impact. Further considerations affecting the methodology include the scope and whether the measurement is ex ante, ex post, or concurrent to the project's implementation. After analysing different approaches, the OECD concludes with seven areas where convergence appears to emerge:

1) The acknowledgement that a one-size-fits-all approach does not reflect the variety of social investing and the evolution of standards.
2) The use of causal models, including theories of change, value chains, and logic models, to determine which impacts to measure.
3) Stakeholder engagement as a key pillar of methodologies.
4) Social impact increasingly being linked to well-being.
5) The inclusion of qualitative indicators alongside quantitative ones.
6) Incorporation of digital tools for the collection and sharing of data.
7) The requirement for independent verification to prevent impact washing.

Lack of comparable and interoperable frameworks for social reporting and financial risk reporting and management. There is currently no global framework to guide companies and investors in measuring, managing and mitigating the risks to enterprise value and financial stability generated by social issues. Business, policy and investment behaviour is grounded in international human rights law, as interpreted by the UNGPs, the International Covenant on Economic, Social and Cultural Rights and jurisprudence. Yet investor mobilisation has been limited, among others, by (i) a lack of comprehensive analysis of how social and inequality-related risks can manifest as material financial risks – both to individual enterprises and the health of the entire financial system; (ii) a lack of understanding about how private-sector activities contribute to social inequalities, and by how much; and (iii) insufficient investor awareness about methodological tools to integrate social aspects into investment policies. Discrepancies between existing reporting frameworks for social bonds may pose an obstacle for investors and further hamper comparability and therefore an efficient allocation of funds. Lack of investment track record, data on returns and risks associated with a social investment may discourage investment.

Inadequate verification processes and assurance practices. Robust processes for impact verification and auditing help prevent impact washing and enhance investor confidence. Currently, the market for verification and assurance of social bonds is fairly underdeveloped and such processes can come at a high cost. This can put the credibility and trustworthiness of social bonds into question.

Imbalanced allocation of capital. Concentrations of debt in some markets versus others, or on specific SDGs, can lead to inequality and also create asset bubbles or credit crises. Moreover, it may be challenging to ensure that social bonds proceeds reach those who need them the most and contribute to reducing social inequalities in an inclusive way. From a public sector perspective, it must be kept in mind that, despite the social dimension, investors' decisions are still informed by the prospect of a return. Some investors may perceive social bonds as riskier or less financially attractive compared to other bond types. This may pose a challenge for some services, as it is more likely that investors fund projects with a higher chance of success, which may exclude the services on which the most vulnerable populations depend.

Scalability. Given the central regulatory and normative role of state actors in social policies, the conception and implementation of cross-border projects aiming at social impact can be significantly more complicated. While this may not be a problem for goals such as access to drinking water, heavily nationalised fields like education or unemployment may not be easily scalable across borders due to different approaches to these policy areas by different governments. Scalability may also be negatively affected by the circumstance-driven nature that often characterises social projects, in the sense that projects can come in response to a particular short- or medium-term need and so are perceived as only 'one off'.

Sustainability of impact. The public sector should be prepared to ensure service continuity when such projects come to an end, whether as planned or prematurely, and, if necessary, absorb the shock. This can incur a high financial cost, but equally requires careful planning as far as resources, capabilities, and expertise are concerned.

Chapter 5: Key findings and recommendations

The development of social bonds implies exploring various elements, from developing the social ecosystem to understanding the sources and levels of social investment, attractiveness to investors, the criteria of project or activity selection, and use of proceeds, to name a few.

Key findings

The **size of the social bond market** has expanded rapidly, no doubt accelerated by the Covid-19 pandemic. At the same time, the market has also showed a downward trend in 2022. Between 2021 and 2022, the volume of social bond issuances fell by 41%. It remains too early to attempt to assess or interpret this fluctuation. However, a multi-year view on the development of the social bond market will be important moving forward to track trends and understand their root causes and implications.

As identified in the previous chapter, there is a **financing asymmetry across SDGs**, a phenomenon that may be explained by a multitude of reasons including the profile and interests of the issuer, the (perceived) demand in the market or the complexity of measuring impact on a particular goal. Analysis shows that 60.5% of sovereign social issuances are most relevant to SDG 8 (Decent Work and Economic Growth), SDG 16 (Sustainable Development) and SDG 1 (End Poverty). As will be explained below, OECD research points to various motivations for financing social projects, which may also influence the choice of projects and targeted SDGs.

In general, there is clear **demand for private investment** for social objectives as a confluence of worsening macro-economic conditions, reduced public budgets and persisting socio-economic issues in a range of areas, including health, education, employment, and access to certain services. Such financing demand may come from a range of actors that contribute to the resolution of social issues, such as corporations, social enterprises, social-purpose organisations, non-profit organisations, cooperatives, inclusive businesses, and traditional companies with intentional social impact. Importantly, public entities at central and local level are also frequently issuers of social bonds.

The **issuer landscape** in social bonds transcends the traditional dichotomy between sovereign and corporate. Analysis by CBI on the 2022 market shows that social and sustainability debt was primarily issued by the public sector; however, if one looks at the precise breakdown, it becomes evident that sovereign issuances make up the smallest portion of public sector issuance (Figure 1). Local government and, crucially, government-backed entities play a leading role. In fact, government-backed entities surpassed manifold any other type of issuer in terms of the volume of 2022 issuances (Figure 2). The prevalence of government-backed entities may be explained by the particular nature of social policies and the competences and mandates such entities have in their respective jurisdictions.

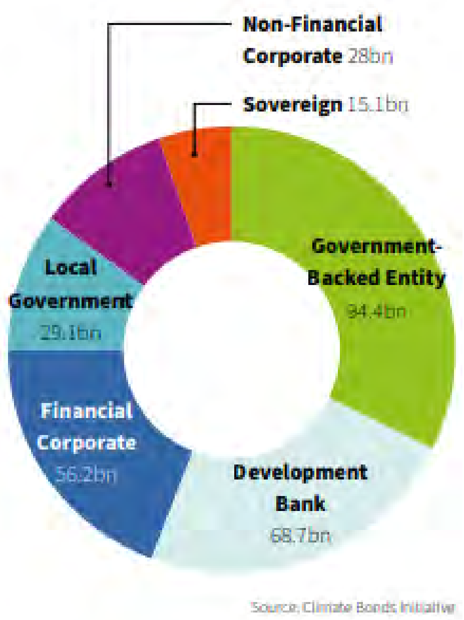

Figure 1 (CBI Global State of the Market 2022)

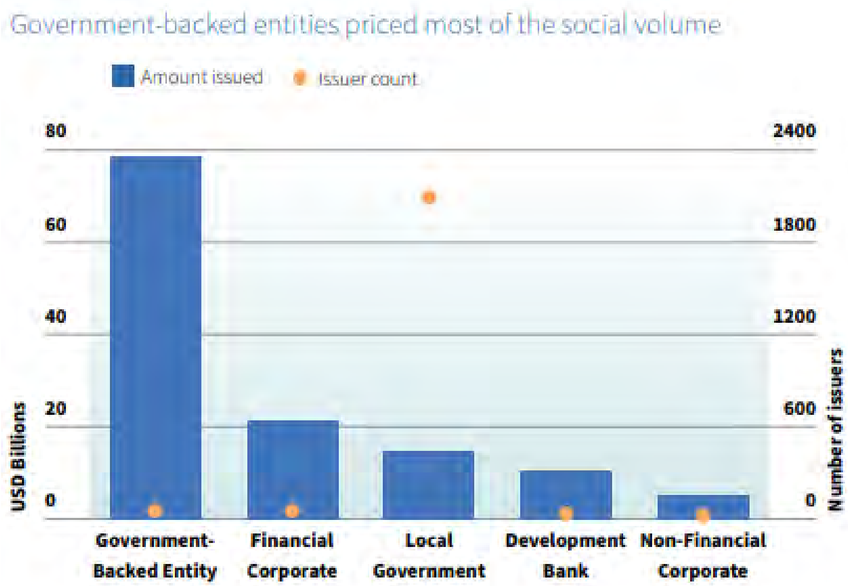

Figure 2 (CBI Global State of the Market 2022)

On the **investor side**, motivation to finance social projects can vary, which may ultimately influence the choice of sector or SDG. Capital providers (including governments, multilateral development banks, development finance institutions (DFIs), and private investors such as equity funds, foundations, high net-worth individuals, banks, pension funds, sovereign wealth funds, and other financial market players) may increasingly see social investment as a way to diversify their portfolios, improve risk management, pursue financial and societal goals but also to respond to regulatory and disclosure obligations.

In setting up social finance frameworks and scaling up social bonds issuances, it is also important to understand the **perspective of investors**, and why investors may or may not be interested in social bonds, as opposed to green bonds. This might lead to observations on the attractiveness of the social market or things that may need to be addressed. Given the relatively nascent nature of social finance, it is not yet certain that there is a qualitative difference between the social and green markets. In fact, there are indications that the growth of the social bonds market is faster than the growth of the green bonds market at a comparatively early phase, perhaps in part due to the Covid-19 pandemic.

Figure 3 below summarises the key drivers found to motivate ESG investment. According to the OECD, institutional investors – usually mediating between the bond issuer and their clients – decide based on calculations of risk and financial return. Meanwhile, end investors are rather moved by the societal values furthered by their investment. [20] While increased end investor appetite can also serve to increase demand and subsequently financial return, low-risk high-profit projects and objectives are likely prioritised, particularly in the case of institutional investment. Growing awareness and the increasing amount of pressure applied by the public, in their capacity as citizens or investors/clients, can also drive a broader push for governments and corporations to behave and invest in a socially responsible manner and perhaps lead to more investment in under-financed social sectors.

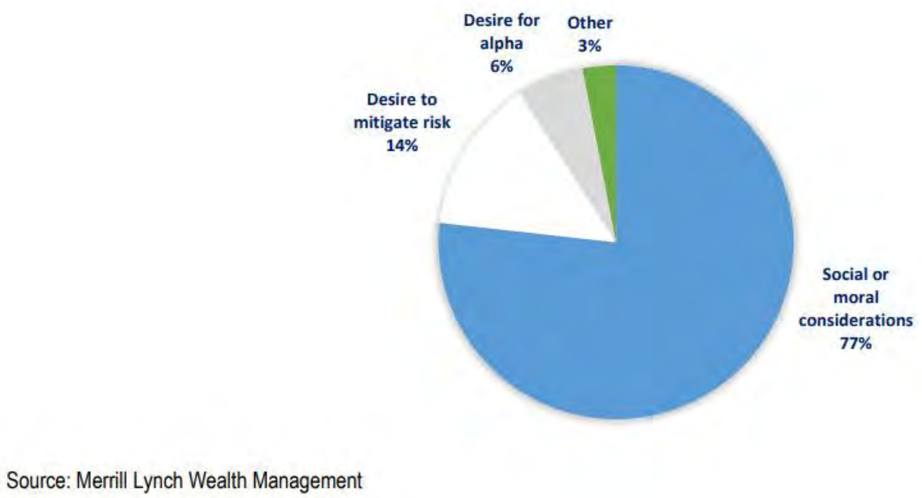

Figure 3 (OECD ESG Investing: Practices, Progress and Challenges)

Directing capital to ventures that are expected to yield social and environmental benefits as well as profits provides investors with a way to 'do well by doing good'. In Japan, the report of the JFSA's Working Group on Impact Investment aims to foster a common understanding among stakeholders on the role, concepts, and key elements of impact investing, based on the understanding that social or environmental impact and business potentials can complement and strengthen one another, creating a positive feedback loop.

The Impact Multiple of Money (IMM) is a six-step process for calculating it: (1) Assess the relevance and scale of a potential product, service, or project. (2) Identify target social or environmental outcomes. (3) Estimate the economic value of those outcomes to society. (4) Adjust for risks. (5)

[20] https://www.oecd.org/finance/ESG-investing-practices-progress-challenges.pdf

Estimate terminal value. (6) Calculate the social return on every dollar spent. The IMM 'offers a rigorous methodology to advance the art of allocating capital to achieve social benefit'.[21]

Public authorities, regulators, standard setters are crucial in shaping the regulatory framework and promoting responsible investment practices. A favourable context for sustainable finance can promote and enable transparency, accountability, and the long-term sustainability of investments, incentivise responsible investment practices, and discourage investments contributing to negative impacts. Frameworks and standards can provide guidance for measuring and reporting on social and environmental impact, ensuring transparency and accountability.

Rating agencies and index providers offer sustainability assessments and benchmarks for social investing[22], evaluate ESG disclosures, etc. If credible and sound, these ratings and indices can guide ESG portfolio management and support the development of sustainable investment products. Governments could work with standardisation bodies to ensure that the methodologies and norms are interoperable and transparent, allowing market development and scalable mobilisation of resources.

The **balance between social and climate or environmental objectives** is important to consider. Regardless of whether it is social or environmental finance, a holistic approach is needed and negative social and/or environmental impacts should be considered. Investor confidence could be lost without this balanced approach: a social or SDG objective cannot be an excuse for the financing of environmental degradation or finance that is ultimately incompatible with Paris Agreement goals; the adoption and adaptation of environmental and climate change safeguards would also need to take social considerations into account, including structural constraints, improving the quality of employment, or reducing social gaps.

Recommendations

Broader public policies to support social goals. As identified in the previous section, investment is likely to be directed to projects with a higher likelihood of success and financial return. As such, social bonds may be seen as a complementary instrument within the wider context of public policy and service provision. For instance, public authorities could establish 'just transition funds' supporting activities to address e.g. climate action and related employment risks for workers and vulnerable communities, reskilling programmes etc. Mandatory corporate social responsibility on SDG-linked activities for companies above a certain threshold of revenue or profits is another example.

Developing comparable sustainable financing frameworks that support the issuance of bonds or loans that finance programmes and projects with positive social impacts in each jurisdiction. Such frameworks allow for the identification of projects or programmes that channel resources towards investments and expenditures that contribute to the achievement of the country's environmental and social objectives, for instance environmental protection, resilience to climate change, reduction of poverty and other inequalities, ensuring gender equality and diversity, as well as increasing the country's competitiveness on a sustainable development path.

Creating an investment-enabling environment for the social bond market. The establishment of supportive regulations, tax incentives and clear guidelines for social bond issuances can help drive

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[21] Addy et al (2019) Calculating the Value of Impact Investing, *Harvard Business Review*. https://hbr.org/2019/01/calculating-the-value-of-impact-investing

[22] https://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.pdf

market growth. Public-private partnerships may facilitate this, as governments can provide incentives and support mechanisms for private sector participation in social bond issuances. The public and private sector can in this way work together to identify and prioritise socially impactful projects.

Governments have a crucial role to play in building market space through policies that recognise the importance of social finance. For example, through plans that advocate further exploration of the potential of Social Impact Bonds (SIBs), they can synthesise interest in developing innovative financing schemes starting from the central level, followed by local authorities. They can also improve scalability and replicability through robust contractual schemes that create certainty, efficiently allocate risk and adapt to the needs of issuers and investors. It is also crucial to work on a clear and transparent reporting process.

The International Public Sector Accounting Standards Board (IPSASB) has decided to commence the scoping of three potential public sector-specific sustainability reporting projects to develop sustainability reporting guidance tailored to the public sector which would encourage transparency. This would allow governments to be held accountable for the long-term impacts of their interventions and enable better-informed decision-making.

Developing comparable and interoperable frameworks on social risk reporting. Increased collaboration between standard-setting organisations, regulatory bodies, and industry stakeholders could help overcome the discrepancies in risk reporting and management frameworks and pave the way for consistent reporting requirements and indicators for social impact, and in this way facilitate cross-border investment. Attention should be paid to how forward-looking social and contextual risk analyses could be further developed, particularly in relation to the trend of growing inequalities. There is also a need for investors to factor in social risks and take up social issues with investee companies as part of their stewardship responsibilities. More comparable and interoperable frameworks for assessment and reporting by companies on social risks and impacts will bring a greater focus and push on social finance. Although there have been significant steps forward (such as the Impact Reporting and Investment Standards and the Global Reporting Initiative), further efforts are needed, for example to allow investors to assess and compare the impact of different types of social investments or to cover a broader range of possible social areas. These frameworks would also help fill a gap in data that has been highlighted above and make investment decisions easier, more transparent and increasingly scalable.

Creating an ecosystem (with advisory and intermediary markets). The existence of advisory and intermediary markets can assist both issuers and investors in identifying investment opportunities and build up a financial structure for each investment in the absence of 'off the shelf' ready-made investments.

Developing the verification and assurance market. Independent verification and assurance mechanisms are crucial to ensure credibility and trustworthiness of social bonds. However, as identified in the previous chapter, the cost of such processes may reduce the appeal of social bond issuances for investors. Making verification and assurance mechanisms more accessible will simultaneously increase the attractiveness of social bond issuances and enhance credibility and trust in the market.

Enhancing the availability of data. To match capital to real needs and monitor the progress of social investments, investment in relevant social data at the local and global level is crucial. As identified in the previous chapter, certain objectives or SDGs may disproportionately attract financing because of availability on data for those objectives. This may be because it is easier to monitor or measure certain objectives as compared to others, because there are longer track records, and other reasons. The collection of comparable data on the funding gaps and identified needs in different social fields can help better tailor pipeline projects, direct investors, and in this way maximise the impact of social investment. Reliable and coherent data on social indicators can inform the decision-making of investors, enhance the assessment of impact, thus in turn better focusing future investments and overall improving the market's credibility.

Leveraging blended finance. Given the quantum of funds needed for supporting the achievement of social goals, there is a need for catalysing private capital in projects that contribute to sustainable development, while providing financial returns to investors. Policy makers can consider creating avenues for mobilising blended finance, including setting up capacity-building funds for creating awareness amongst stakeholders, of avenues for fund raising and investing.

Strengthening Regulatory Oversight. Regulatory bodies should play an active role in promoting and monitoring the issuance of social bonds. They can develop guidelines, conduct regular audits, and enforce compliance to ensure that social bond issuances adhere to established standards and principles.

Enhancing market participants' education and awareness. Capacity-building programmes have the potential to enhance the capabilities of market participants, including issuers, investors, and regulators, in understanding and implementing social finance principles. This can involve training programmes, knowledge-sharing platforms and mentorship initiatives. As regards investors in particular, education and awareness programmes to enhance their understanding of social finance, its potential impact, and the importance of integrating social factors into investment decisions can bring significant added value. This can be achieved through workshops, training sessions, and awareness campaigns targeting investors, financial institutions, and asset managers.

Supporting research and innovation. Investing in research and innovation is crucial to advance the measurement and valuation of social impact. To this end, fostering partnerships between academia, research institutions, and financial industry stakeholders is an important step towards the development of methodologies, tools, and frameworks for assessing and quantifying social outcomes.

Promoting integrated impact reporting. Companies and issuers can be encouraged to adopt integrated reporting frameworks that consider both social and environmental impacts alongside financial performance. Integrated reporting provides a holistic view of an organisation's value creation, helping investors make informed decisions and promoting accountability for social and environmental outcomes.

Discussing a standard-neutral classification of social finance. In line with the G20 approach, such international dialogue on a classification system could focus on two dimensions: (i) social objectives, (ii) indicators to measure contributions of economic activities to these objectives. Such a classification could in turn facilitate cross-border social investments.

Annex 1- Jurisdictional and institutional frameworks and initiatives

IPSF members and observers

Chile- Sustainable Bond Framework (2020)

Unlike other jurisdictions where green and social bonds are tackled separately, Chile covers both under the umbrella of its Sustainable Finance Framework, strengthening its commitment to the SDGs, which governs its sovereign bond issuances. Regarding the group that could benefit through projects associated to social bonds, the current structure considers the most vulnerable portions of the Chilean society as defined by household income and other social adjustments. In the current definition, the target population that could benefit includes up to the 60% most vulnerable population. Tax and operational expenditures, investments in real assets and maintenance costs for public infrastructure, intangible assets, as well as transfers of capital to public or private entities are considered eligible expenditures.

The Framework identifies the following categories for eligible projects, all contributing to at least one SDG:

- Projects supporting the elderly or those with special needs in a vulnerable situation. To be eligible, a project should finance basic pensions for the most vulnerable.
- Subsidies or contributions for low-income families.
- Monetary support for human rights victims.
- Projects generating employment in vulnerable communities.
- Projects on affordable and quality housing benefitting vulnerable families.
- Projects on higher quality education and access to education for vulnerable children and young people.
- Projects on access to healthy and nutritious food for the most vulnerable participants of the education system.
- Projects on the development of a preventive and curative healthcare network, including in the context of public health emergencies.
- Projects to alleviate or prevent unemployment stemming from socioeconomic crises, such as natural disasters or pandemics, including through the potential effect of financing SMEs and microfinances.

Additionally, activities that violate indigenous rights are excluded from the scope of eligible projects under both the green and the social sectors of the framework.

The Sustainable Bond Framework sets out the procedure for evaluation and selection of projects. For social issuances, the Department of Social Policies and the International Finance Unit of the Ministry of Finance are jointly responsible for selections. Finally, the authorities are bound to report on the allocation of net proceeds and the conformity of supported projects with the eligibility criteria. Additionally, an annual impact report is to be drafted on the basis of quantitative indicators.

Japan- Social Bonds Guidelines (2021)

The Financial Services Agency, Japan (JFSA) in 2021 published a set of Social Bond Guidelines. These are based on the four components of ICMA's Social Bonds Principles, with the content and key recommendations of each component being equivalent to those described in the SBP. In addition, Japan-Social Bonds Guidelines include examples of social projects and target groups to facilitate reader understanding as follows.

Under use of proceeds, the JFSA builds on the examples of social project categories and beneficiary target populations in the ICMA SBP and elaborates on more sub-categories that can be considered to have a positive social impact. To be more specific, 'affordable basic infrastructure' includes not only clean drinking water, sewers, sanitation, transport, and energy, but also disaster prevention, mitigation, and recovery, resilience of aging infrastructure, and ICT infrastructure. 'Access to essential services' is extended to parenting and long-term care support, welfare and essential services for aging populations, and ICT. Under the employment label, socio-economic crises arising from epidemics and regional revitalisation are included, while 'food security and sustainable food systems' encompasses advanced technology use for food systems and the improvement of eating habits and management of pre-symptomatic disease. Finally, the promotion of diversity, empowerment of women, work-style reform, promotion of barrier-free access and universal design, and preventive care count as part of socioeconomic advancement and empowerment.

The target populations are also expanded to include more categories of natural and legal persons. As such, workers with caring responsibilities, companies and residents in geographically and socio-economically disadvantaged areas, as well as SMEs affected by crises (such as public health crises) are specifically covered under the Guidelines.

In terms of reporting, the Guidelines state that issuers should disclose information regarding the expected social benefits of projects by using appropriate indicators and recommends that issuers, where feasible, use quantitative indicators. To provide disclosure examples and materials that issuers can refer to, in 2022, the JFSA published the 'Examples of Indicators for Social Benefits of Social Projects' as Annex to the Guidelines based on discussion with the Cabinet Office, relevant ministries and agencies.

In order to improve transparency, it has also provided a framework for issuing social bonds and reviews by external organisations as key recommendations.

India- Social Stock Exchange (2022)

Following a public, stakeholder, and expert consultation, India implemented the Social Stock Exchange (SSE) Framework as a segment under the existing stock exchanges. The aim of the Social Stock Exchange is to channel financial flows into activities geared towards social impact.

Listed entities must demonstrate that social intent and impact are their primary goals by focusing on social objectives for underserved or less privileged populations or regions. To be eligible, an enterprise's activities must additionally pursue a list of eligible objectives. In addition to the SDGs, these include objectives based on national policy and law, such as support for the livelihoods of rural and urban poor, disaster management, financial inclusion, the bridging of the digital access divide, the promotion of sports, and the welfare of migrants and displaced persons. Finally, 67% of the enterprise's activities should be eligible activities for the target population based on revenue, expenditure, or customer base.

Non-profit organisations can also be registered on the SSE and can issue, in association with Alternative Investment Funds, zero coupon principal bonds and development impact bonds, which are linked to social rather than financial returns.

Social enterprises on SSE will be required to make disclosures at the initial stage as well as on periodic / annual basis on various aspects including governance, financials and the social impact created through an impact score card. The impact report envisages measurement from the perspective of intended beneficiary which the social enterprise seeks to serve including the reach, depth and inclusiveness of the impact being generated[23].

The impact disclosures will be mandatorily subject to social audit. The Institute of Chartered Accountants of India (ICAI) has set up a self-regulatory organisation which will empanel Social Auditors. ICAI has issued Social Audit Standards[24] for various social activities (such as eradicating hunger and poverty, promoting health care and education, etc.) which include key metrics for evaluating or assessing any project or programme undertaken in these areas.

Argentina Sustainable Sovereign Financing Framework (2023)

Argentina's Sustainable Sovereign Finance Framework - which is aligned with the main standards in the field[25] - establishes criteria to guide the issuance of green, social and/or sustainable bonds and/or loans in both local and international debt markets. With this, Argentina seeks to channel resources towards programmes that contribute to the fulfilment of the country's environmental and social objectives, environmental protection, resilience to climate change, reduction of poverty and other inequalities, ensuring gender equality and diversity, as well as increasing the country's competitiveness on a sustainable development path. The goal is to achieve low-carbon growth aligned with commitments made in international environmental and social agreements, including the Paris Agreement and the SDGs of the 2030 Agenda.

The Framework identifies the following categories for eligible projects, all contributing to at least one SDG:

- Eligible environmental programmes: (1) Sustainable use and management of water resources; (2) Climate change adaptation and mitigation; (3) Conservation of ecological systems and biodiversity; (4) Energy efficiency; (5) Renewable energy; (6) Sustainable forest management; (7) Sustainable agricultural production; and (8) Sustainable mobility.
- Eligible social programmes: (1) Access, quality and permanence in the education system; (2) Access to a comprehensive and quality health system; (3) Socio-economic advancement and empowerment of people from vulnerable and minority groups; (4) Generation and promotion

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[23] SEBI has given guidance on the contents of the Annual Impact Report, available at: https://www.sebi.gov.in/legal/circulars/sep-2022/framework-on-social-stock-exchange_63053.html

[24] https://www.icai.org/new_post.html?post_id=18823

[25] The Framework is aligned with the Green Bond Principles 2021, the Social Bond Principles 2021, and the Sustainable Bond Guidance established by ICMA. In addition, it is aligned with the Green Lending Principles 2021 and the Social Lending Principles 2021 established by the Loan Market Association, Loan Syndication and Trade Association and Asia Pacific Loan Market Association.

of employment and development of regional economies; (5) Access to affordable housing and basic infrastructure; (6) Promotion of gender equality and diversity; and (7) Sustainable food security.

The evaluation and selection process of projects eligible for thematic funding instruments will be carried out by an Evaluation and Selection Committee defined and formed within the Ministry of Economy of the Nation (MECON).

With respect to the exclusion list, any programme, project, asset or expenditure that involves/implies in any way the following activities shall be excluded from Eligible Green Expenditures and Eligible Social Expenditures:

- Exploration, production and distribution of fossil fuels;
- Energy generation based solely on the burning of fossil fuels;
- Production and/or commercialisation of any product or activity considered illegal under national laws or regulations, as well as international conventions and agreements to which Argentina is a party;
- Deforestation or degradation of forests;
- Alcoholic beverage, arms, tobacco and gambling industries;
- Activities in protected areas or activities that violate indigenous rights;
- Child labour or forced labour.

The Sustainable Sovereign Finance Framework was rated by Sustainable Fitch during its second-party opinion with its highest rating, "Excellent", as it is fully aligned with all major international principles and guidelines. In addition, the practices inherent in the framework meet excellent levels of rigour and transparency in all aspects and are well above market standards. The framework has aligned the eligible social and environmental categories with the ICMA Green Bond Principles, Social Bond Principles and Sustainable Bond Guidance, as well as their alignment with the Loan Market Association, Loan Syndication and Trade Association and Asia Pacific Loan Market Association Green Lending Principles and Social Lending Principles. Both the Framework and the Second Party Opinion will be published on the website of the Ministry of Finance.

The allocation of funds will be reviewed annually until full allocation of resources by independent external auditors, as well as in case of material changes. This external verification will be published in the annual report of the thematic instrument.

Morocco- Green, Social and Sustainability Bond Guidelines (2018) and Gender Bond Guidelines (2021)

In June 2018, the Moroccan Capital Market Authority (AMMC), with the support of the International Finance Corporation (IFC), issued Guidelines on Green, Social and Sustainability Bonds[26]. It follows from the Guide on Green Bonds published by AMMC in November 2016, in collaboration with IFC. The guide aimed to open more opportunities for financing sustainability by introducing two new types of instruments: Social Bonds and Sustainability Bonds. The guidelines provide an overview of the

[26] AMMC, 2018, *Green, Social & Sustainability Bonds : Instruments de Financement du Développement Durable Guide de l'AMMC*, https://www.ammc.ma/sites/default/files/AMMC_%20Guide%20sur%20les%20Green%2C%20Social%20and%20Sustainability%20Bonds.pdf

principles that issuers need to comply with for each category and offer instructions on the steps required to certify these bonds. The reference to socially related aspects is made either through the distinct category of Social Bonds or the Sustainability Bonds category, which intends to finance or refinance green and social projects or integrate the potential social benefits of a green project.

The Guidelines are based on ICMA's Social Bond Principles four components with the content and key recommendations of each component matching those described in SBP.

Regarding use of proceeds, the Guidelines fully adopt the definition as being stated in SBP - social bonds are bonds whose issue proceeds are exclusively allocated to the financing or total or partial refinancing of new projects or existing projects aimed directly at resolving or mitigating social problems specific and/or targeting a positive social impact, specifically but not exclusively to benefit of one or more target population(s). Social projects eligible for funding by a social obligation must present clear social benefits that can be evaluated, and quantified, if possible, by the issuers.

The concept of the target population becomes decisive in the context of Social Bonds. It is mandatory for the issuer of a Social Bond to clearly define the target population(s) who will benefit from the social outcomes of the projects associated with the issuance.

The Guidelines adopt the eligible project categories and target population list as stated in SBP and link the eligible projects to SDGs.

Categories of Eligible Projects according to the ICMA Social Bonds Principles (non-exhaustive list)	**Potential match to SDGs**
Affordable basic infrastructure: such as drinking water, sanitation, network wastewater disposal, transport, energy	
Access to basic services: such as health, education, professional training, financing, and financial services	
Social housing	
Job creation: including through the potential effect of financing SMEs and microfinance	
Food Security	
Socio-economic advancement and empowerment	

Examples of Target Population List

according to the ICMA Social Bonds Principles (non-exhaustive list)
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, owing to a lack of quality access to essential goods and services
Unemployed populations

On project evaluation and selection, the Guidelines recommend the issuer to clearly communicate the social objectives, the process by which the issuer determines how the projects fit within the eligible Social Project categories identified and the related criteria.

The Guidelines adopt the SPB's recommendations for crediting the net proceeds of the social bond to a sub-account and being tracked appropriately to manage proceeds.

The Guidelines adopt SBP's recommendations on reporting and state that consistent disclosure regarding Green, Social, or Sustainability bonds should be included within the ESG report, to be released annually by issuers conducting public offerings under the revised regulations in Book III of the AMMC circular. The disclosure is mandatory and may cover all or part of the aspects of the bond.

The Guidelines also include the prior to-issuance process of a bond, the authorisation process by the AMMC and the particular attention to the clearly defined target population for the case of social bonds, the obligations throughout the life of the bonds and answering frequently asked questions.

In March 2021, the AMMC with the support of Financial Sector Deepening Africa, published guidelines on gender bonds.[27] The guidelines highlight the importance of gender equality and women empowerment for the achievement of all SDGs, and hence the relevance of these topics for sustainable finance. Gender bonds seek to achieve gender equality and women's empowerment through financing projects and economic activities, as well as supporting or encouraging corporate behaviour and policies, that are aligned with this objective.

The Guidelines build on AMMC's Green, Social & Sustainability Bonds Guidelines published in 2018 and are based on the ICMA Social Bond Principles and Sustainability-linked Bonds Principles (SLBP).

[27] AMMC Gender Bonds guidelines, March 2021, https://www.ammc.ma/sites/default/files/Guide%20sur%20les%20Gender%20bonds_0.pdf

In addition to the eligible projects referenced in the Green, Social & Sustainability Bonds Guidelines, the Guidelines reference the following key international gender frameworks as guidance on the selection of Use of Proceeds activities for social bonds and impact indicators for Sustainability-linked Bonds:

- UN Women empowerment principles[28]:
  - Principle 1: Establish high-level corporate leadership for gender equality
  - Principle 2: Treat all women and men fairly at work – respect and support human rights and non-discrimination
  - Principle 3: Ensure the health, safety and well-being of all women and men workers
  - Principle 4: Promote education, training and professional development for women
  - Principle 5: Implement enterprise development, supply chain and marketing practices that empower women
  - Principle 6: Promote equality through community initiatives and advocacy
  - Principle 7: Measure and publicly report on progress to achieve gender equality
- The 2X Challenge:
  - Women entrepreneurship
  - Women employment
  - Women consumption
  - Investments through Financial Intermediaries

A decisive part in the gender bond issuance is defining the target population which: (i) in direct financing is usually composed of the issuer women employees, board members, managers and can be further extended to suppliers and customers, and (ii) in indirect financing can target various level of women populations such as:

- Low-income women, through providing microfinance loans
- Women employees, through lending to companies that demonstrate gender equality aligned behaviour
- Women entrepreneurs and leaders, through providing loans to women-owned or led SMEs

The managing of proceeds, reporting and verification follow the process as SBP and AMMC's Green, Social & Sustainability Bonds Guidelines have outlined. Finally, the Guidelines provide answers to frequently asked questions.

European Investment Bank- Environmental and Social Standards (2022)

The EIB Group's Environmental and Social Sustainability Framework is based on EU and international laws and standards. It introduces 11 standards that apply to all projects financed by the EIB at the level of due diligence and monitoring. These must be consistent with 'Minimum Safeguards' principles and requirements.

8 of the 11 standards address, at least partially, social aspects of sustainability - 3 on the governance of projects, 2 on labour conditions, and 3 on projects' impact on the surrounding sociocultural environment.

[28] https://www.weps.org/

Standard 1 requires that environmental and social considerations be addressed in decision-making through appropriate impact assessment and risk management, while Standard 11 adapts this requirement to sub-projects supported through intermediated finance. Standard 2 prescribes engagement with stakeholders in the assessment and management of such impacts and risks.

Standard 8 introduces labour rights requirements based on ILO treaties and the European Pillar of Social Rights. Relatedly, Standard 9 deals with the health and safety of workers and the surrounding community.

Standard 6 tackles project-induced involuntary resettlement and Standard 7 addresses disproportionate impacts on vulnerable groups, indigenous peoples, and on the basis of gender. Finally, Standard 10 confers a responsibility to protect and conserve cultural heritage.

Other relevant frameworks in non-IPSF jurisdictions

Colombia's Sovereign Green, Social and Sustainable Bond framework

Colombia’s sustainable finance market is the seventh largest sustainable debt market in Latin America and the Caribbean (LAC) with USD 2.4 billion issued across the GSS+ spectrum as of the end of 2022. The green theme is the most popular by volume with 16 deals from nine issuers and cumulative volumes of USD 1.3 billion, or 53.7% of the country’s GSS+ market. Cumulative issuance of social and sustainability bonds follow closely behind at USD 620 million (26.3%) and USD 343.2 million (14.5%) respectively. While sustainability-linked bonds currently comprise the smallest portion of the market, they possess significant potential for growth and could contribute substantially to Colombia's transition to a net-zero economy.[29]

Colombia has a bond framework that includes both green and social issuances. In terms of social and economic development, the main objective is to reduce poverty by closing inequality gaps throughout the national territory and among the various groups that make up Colombian society, with special attention to women and girls, the migrant population, ethnic groups, people with disabilities, young people and the population living below the poverty line as an essential group.

In terms of social challenges, the country has focused its efforts on the eradication of poverty, both monetary and multidimensional, developing strategies for the social and productive inclusion of the population.

The analysis of poverty of the Colombian population combines and incorporates these two definitions:

- Monetary poverty is understood as the generation of income and income and resources necessary to access a minimum amount represented in consumption baskets.
- Multidimensional poverty analyses access to basic services in health, education, work and housing, conditions of children and adolescents.

The following can be considered manifestations of poverty: hunger, malnutrition, lack of decent housing and limited access to other basic services such as drinking water and sanitation, and to

[29] https://www.climatebonds.net/files/reports/colombia_sustainable_state_of_the_market_2022_english.pdf

essential services such as education and health. These manifestations will define their subsequent lines of action and relevant indicators.

In addition, to meet these objectives, Colombia has developed a system of group classification in order to be able to determine more precisely how vulnerable they are, for example by calculating income or place of residence.

The lines of action are as follows: Education; Peace building; Employment generation and productivity promotion, including MSMEs; Decent and affordable housing, Access to basic services; Food and nutritional security; and Effective access to and quality of health services.

The Ministry of Finance and Public Credit is responsible for verifying that the amount associated with Eligible Green and Eligible Social Expenditures is equivalent to the net amount received by the issue, with the information provided by the National Planning Department, ministries or entities one year after the issue. In addition, an independent verification by Moody's ESG Solutions will be conducted.

Colombia- BancoIndex Social Bond Framework

Bancóldex, also known as the Colombian Foreign Trade Bank S.A., is a state-owned development bank focused on providing financial solutions to bolster the advancement of Colombian businesses across various scales and industries. As part of its strategy, Bancóldex has introduced a framework for social bonds, utilizing the proceeds from these bonds to fund or refinance expenditures associated with the financing of micro and small enterprises. The primary goal of this effort is to encourage financial inclusivity, gender equality, and local economic growth.

Eligible investments for Bancoldex include all credit operations in which the beneficiary is considered a micro or a small enterprise (MSE). These allocations are divided into four distinct target groups: micro and small enterprise financing, business owners located in rural areas, women business owners, or victims of armed conflict business owners.

Use of Proceeds category	**Eligible Projects**	**SDG**	**SDG Target**
Micro and small enterprise financing and financial inclusion	Micro and small enterprise financing Rural business financing Victims of armed conflict-owned business financing Women-owned business financing	8.Decent work and economic growth 9.Industry, Innovation, and Infrastructure 10.Reduced inequalities	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity, and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services. 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets

			10.3 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
	Women-owned business financing	5. Gender equality	5.1 End all forms of discrimination against all women and girls everywhere.

With regard to project evaluation and selection, the coordination of the Social Bonds Committee will be overseen by the Financial and Administrative Vice-Presidency of the bank, with participation from representatives of the Treasury Department, Special Project Management, and the Office of New Products and Services. Additionally, the Committee will include a member of the Commercial Vice-Presidency, actively involved in the development of the relevant initiative. Evaluation of the operations funded through the issuance's proceeds will be conducted by the Bancóldex Social Bond Committee to ascertain their compliance with the specified eligibility and exclusion criteria.

The funds from the Social Bond will be supervised by the Bancóldex Treasury Department and will be allocated towards supporting either current or new loans. The funds awaiting disbursement will be securely held in cash or other highly liquid and low-risk instruments, strictly dedicated to eligible social projects. The project's eligibility will be ensured through an internal statistical tracking system linked to the Bancóldex central banking system, allowing the bank to authenticate the information pertaining to each credit operation.

Bancóldex will annually disclose the utilisation of funds from the issuance, providing in the report details on the number of recipients, average loan amounts, distribution based on social categories, and the regional allocation of resources.

Furthermore, in the annual report on the 'Utilisation of Social Bond Proceeds', in addition to financial details, Bancóldex will highlight the positive social impacts of projects by selecting up to 4 illustrative cases. These cases will be chosen based on their significant contribution to the objectives of the bond, considering the financing utilised and the social impact achieved.

Finally, in terms of verification, Bancóldex engaged Sustainalytics to review its Social Bond Framework and provide a second-party opinion on the alignment of the framework with the Social Bond Principles 2017, as administered by ICMA, and the framework's social credentials.

Mexico's SDG Bond Framework[30]

The issuance of SDG Sovereign Bonds backed by the SDG Sovereign Bond Framework allows the government to identify eligible projects, assets and expenditures that support Mexico's most pressing SDGs. This Framework is designed to align with the latest ICMA Sustainable Bond Guidelines (2018). It

[30] https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/roadshow_desarrollo_sostenible.pdf

is also designed to be in line with the spirit of the EU Green Bond Standard. In this regard, the framework details the four core components of the ICMA's Green Bond Principles and Social Bond Principles, 2018 edition.

The Framework includes geographic eligibility criteria to prioritise vulnerable populations living in disadvantaged and landlocked areas. This criterion builds on national authorities' "priority area" zoning policies with a focus on the "Social Gap Index", to further refine the target populations. The Social Gap Index consists of eleven sub-indicators. The design of this geospatial eligibility criterion targets the final beneficiaries of vulnerable population groups, including those in extreme poverty, the indigenous population, the elderly and children. The use of resources in these areas is eligible for projects that meet the criteria of the Social Gap Index (education, health and basic habitat services). Not all SDGs have been targeted within the Framework. The selected SDGs are those where tangible SDG contributions have been identified against budgetary expenditures (zero hunger; health and well-being; quality education; clean water and sanitation; affordable and clean energy and climate action).

Ecuador's Social Bond Framework for Affordable and Decent Housing[31]

The 'Casa para Todos' programme - which aimed to address the housing deficit of almost half of the country's households (67% in rural areas and 38% in urban areas) - was financed through the issuance of the first sovereign social bond of the Republic of Ecuador. This bond was also the first sovereign social bond in the world.

The proceeds of the bonds were used to support the government's programme to diversify sources of financing for access to affordable and decent housing and to reduce the country's housing deficit. In this way, the resources were used through the Ecuadorian financial system, and through a securitisation scheme, to grant mortgage loans at a preferential interest rate of 4.99%. Under this mechanism, it was possible to generate a supply of these credits for around USD 1.35 billion, in favour of around 24.000 middle and low-income households.

The Framework establishes the procedure for the evaluation and selection of projects, which is carried out by the Intermediary Financial Institutions (loan risk analysis: solvency, debtor's resources, examination of the property proposed as collateral, its value and the environmental risk assessment determined by an accredited independent expert) and the Mortgage Securitisation Company (acted as financial and legal structurer of the securitisation mechanism of the mortgages associated with the Eligible Loans, being responsible for reviewing that the financed loans complied with the applicable eligibility criteria). Exclusion criteria were determined by location, non-compliance with local regulations and/or environmental risk issues.

The allocation of resources has a term of 60 months, which is justified by the life cycle of the project. The Issuer commits to report annually and in a transparent manner on the allocation of the Bond funds and the social benefits (results) of the programme until their full allocation.

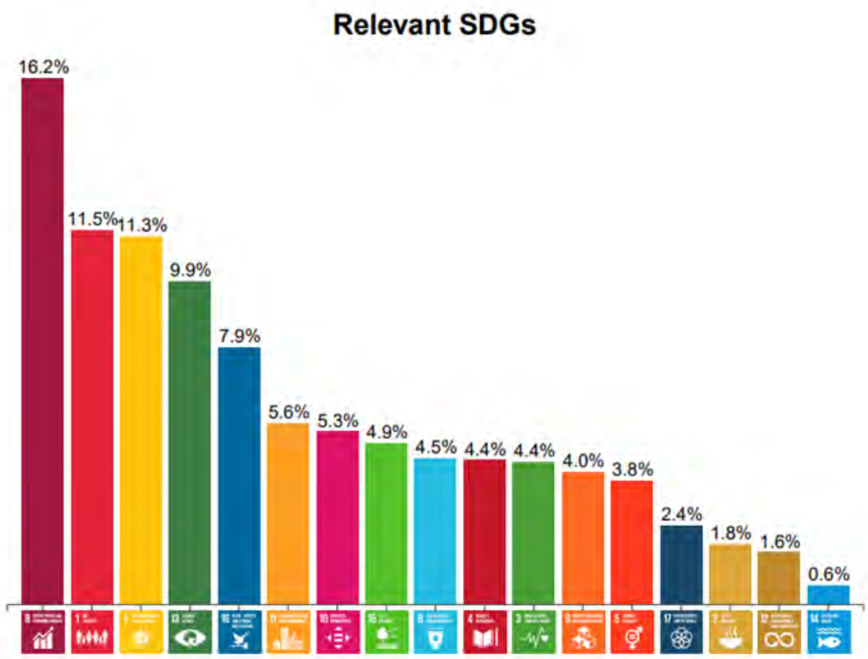
The bond was backed by a guarantee proposed by the Inter-American Development Bank (IDB). Which attracted international investors and reduced the cost of financing, thanks to the backing of a AAA-

[31] https://www.finanzas.gob.ec/wp-content/uploads/2019/11/Marco_Bono_Ecuador_ESP.pdf

rated supranational entity. It was aligned with four of the 17 SDGs: ending poverty, clean water and sanitation, reducing inequalities, and sustainable cities and communities.

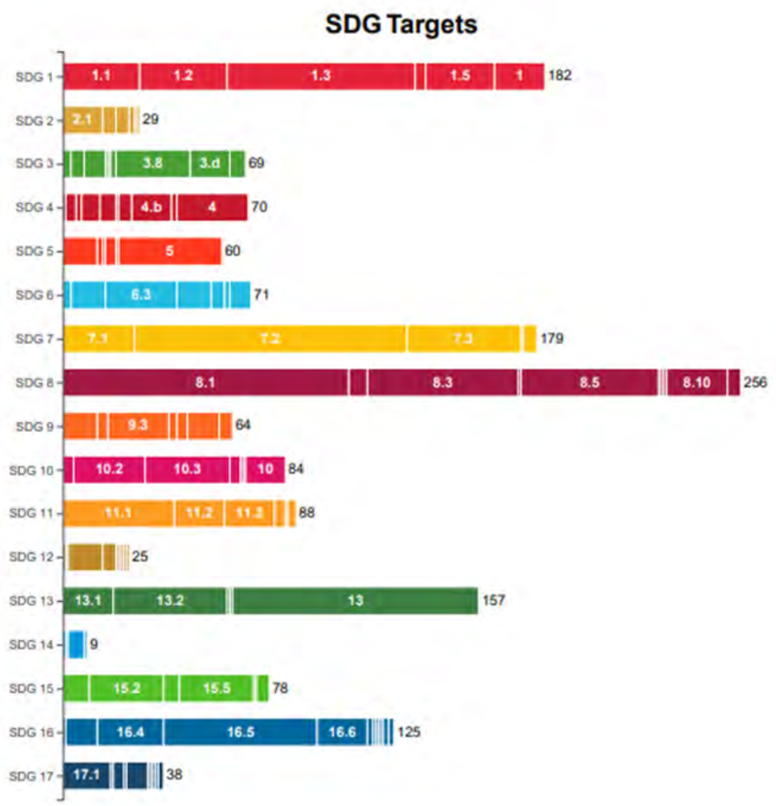
Overview of aggregated sovereign frameworks

The graph below shows the SDGs detected (by ranking) when aggregating data from all Social or SDG/Sustainable sovereign bond frameworks including Mexico, Peru, Chile, Guatemala, Uzbekistan, NDB SDG and Indonesia SDG. The graphs illustrate that, together, environmental SDGs comprise 37.2% of the use of proceeds in SDG and social bond issuances, while SDGs targeting inequality and poverty comprise in total 21.2%, recognising the need for strengthening the social dimension of sustainable development and enhancing policy coherence within social sectors. This includes poverty eradication strategies, policies to promote employment and decent work and social inclusion, policies to enhance access to quality education, basic healthcare, safe drinking water, sanitation, group specific policies – youth, older persons, persons with disabilities, indigenous peoples, etc.



Source: European Commission SDG Knows tool, 2023.

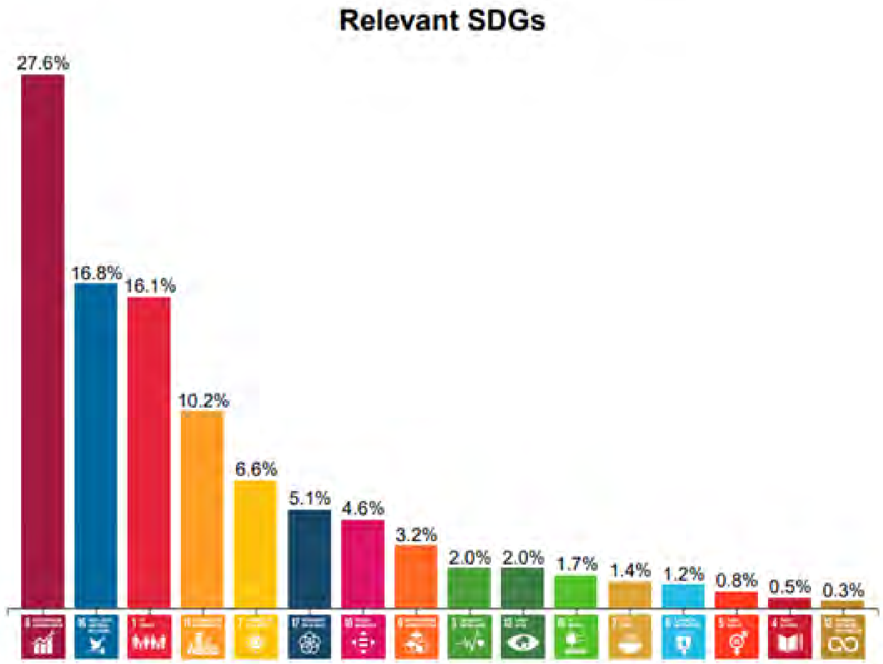
The graph below illustrates that targets focusing on energy and climate change within SDGs 8 and 1 are the most relevant ones with 27.7%, followed by SDG 7, sustainable development with 11.3%. Economic growth-related targets gain the most traction amongst SDG targets in social bond issuances, demonstrating the wide financing gap between what is flowing through social expenditure and what is ultimately needed to meet the SDGs by 2030. It further demonstrates how the social market is not limited to explicitly labelled social bonds, where corporates have eligible social expenditures, investors incorporate those alongside green expenditures. Findings suggest that tackling climate change and social inequalities is interlinked and should be viewed within a multiplier effect.

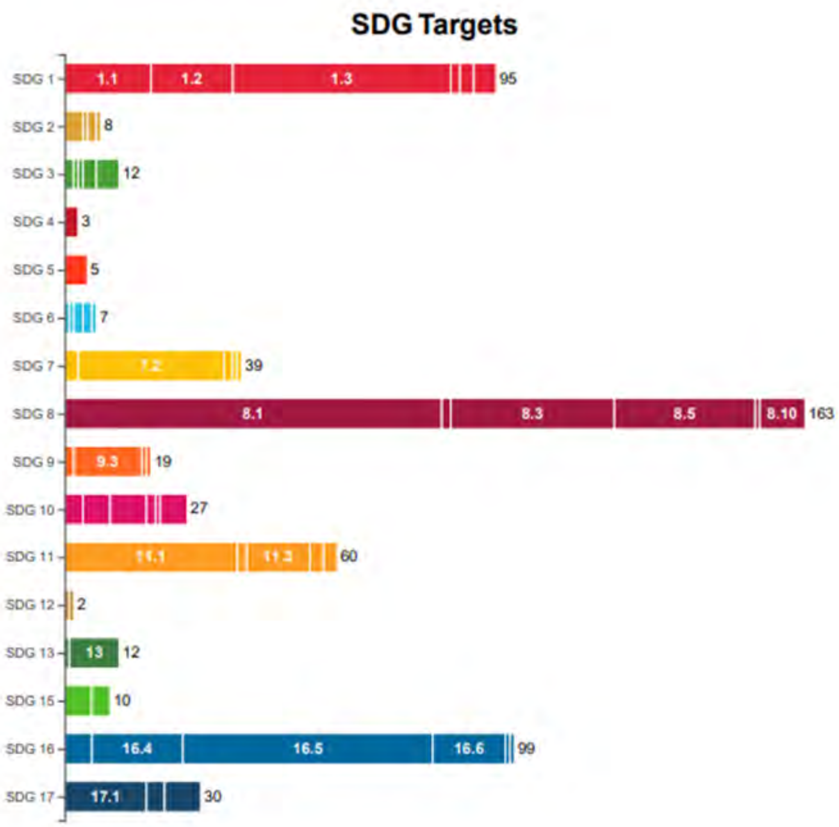


Source European Commission SDG Knows tool, 2023. **SDG**	**Target**
SDG 1	**1.1 Eradicate Extreme Poverty**
	1.2 Reduce Poverty by at least 5%
	1.3 Implement social protection systems
SDG 8	**8.1 Sustainable Economic Goals**
	8.3 Promoting policies to support job creation and growing enterprises
	8.5 Full employment and decent work with equal pay
	8.10 Universal access to banking, insurance and financial services
SDG 16	**16.4 By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime**
	16.5 Substantially reduce corruption and bribery in all their forms

	16.6 Develop effective, accountable and transparent institutions at all levels

The most relevant objectives for sovereign social issuances to date are SDG 8 (Decent Work and Economic Growth), SDG 16 (Sustainable Development) and SDG 1 (End Poverty), which together comprise 60.5%, reflecting the continued focus on SDGs 8 and 1 in social bonds issuances. The overall result is in line with the above analysis of SDGs 8, 16 and 1 being amongst the most used SDGs.




SDG Targets
SDG 1
1.1
1.2
1.3
95
SDG 2
8
SDG 3
12
SDG 4
3
SDG 5
5
SDG 6
7
SDG 7
7.2
39
SDG 8
8.1
8.3
8.5
8.10
163
SDG 9
9.3
19
SDG 10
27
SDG 11
11.1
60
SDG 12
2
SDG 13
13
12
SDG 15
10
SDG 16
16.4
16.5
16.6
99
SDG 17
17.1
30

Eligible Category Potential Impact Metrics	SDG Target[1]	Eligible Category Potential Impact Metrics	Mexico	Peru	Uzbekistan	Indonesia	NDB (China)	Guatemala	Chile	Argentina	EIB
Access to affordable housing, education and essential health services	4.1.1	• Number of students reached (enrolment rate)	X		X		X			X	X
	4.5.1	• Number of students reached with disabilities and special needs			X						X (students form disadvantaged socio-economic background)
	4.A.1	• Number of education facilities and / or initiatives			X		X			X	
	4.C.1	• Number of teachers trained			X						X (number of education staff employed by the involved institutions)
		• Area of classroom space that was built, converted, or expanded for use within educational facilities (m2)	X		X					x	X (square meters created or upgraded)
		• Decrease in proportion of youth (aged 15-24 years) not in education, employment or training			X		X				
		• Number of job opportunities created					X				
		• Increase in employment rate		X			X				
		• Number of schools with access to basic services and amenities including, but not limited to					X			X	

		electricity, internet, computers, infrastructure and materials for students with disabilities, basic drinking water, sanitation facilities; and basic handwashing facilities (as per the WASH indicator definitions)									
		• Number of jobs created as related to education, housing and health infrastructure • Number of beneficiaries disaggregated by gender • Number of beneficiaries disaggregated by level of i • Number of homes built, disaggregated by new or improved homes • Number of beneficiaries disaggregated by type of hospital network		X							X (number of education staff employed by the involved institutions) X (Volume of patients treated) X (Population covered by improved health services) X (Number of households in new or refurbished social and affordable housing Units) X (Number of social and affordable housing units built or refurbished)
		•Number of vulnerable students benefited, broken down according to level of education							X	x	X (students form disadvantaged socio-economic background)
		•Number of beneficiaries broken down according to level of education							X		X (higher education ISCED 5-8)
Sustainable Water Supply		•% of the population that has daily access to piped water and basic sanitation	X		X					x	

and Waste Water Management		• Yield improvement of basic crops in areas with irrigation infrastructure			X						
		• Reduction in water consumption	X		X					X (reduction in water waste)	
		• Km of wastewater piping installed			X						
		• Quantity of wastewater treated	X		X					X	
		• Volume of potable water supplied			X				X		
		• Volume of water collected and / or treated (m3)		X	X				X	X	
		• Increase water efficiency of systems (% reduction in water consumption/loss)	X	X	X				X	X	
		• Number of users with access to clean drinking water	X	X	X						X (Persons benefitting from safe drinking water)
		• Annual volume of clean drinking water in m3 supplied for human consumption		X	X					X (Capacity of water treatment plant constructed or rehabilitated (m3/))	X (Capacity of water treatment plant constructed or rehabilitated (m3/day)
		• Other relevant indicators based on the projects considered		X	X					X	X (Persons benefitting from improved sanitation services)

		• Number of people benefitted by training programmes	X	X	X						
		• Number of efficient pumps installed		X	X						
		• Km of new water pipes installed		X	X						X (Length of water mains or distribution pipes built or upgraded (km)
		• Number of new reservoirs / flood defences built		X	X					X	X (Length of combined collectors rehabilitated (km) X Capacity of retentions or room-for-river areas constructed or rehabilitated (m3)
		• Number of studies completed		X	X						
		• Volume of waste / energy / water saved / treated/ recycled	X		X		X				
		• Number of evacuation shelters Number of people and/or enterprises benefitting from measures to mitigate the consequences of floods and droughts	X		X						X (Persons facing reduced risk of flooding) X (Capacity of retentions or room-for-river areas constructed or rehabilitated (m3) X (Length of combined collectors rehabilitated (km))
Access to Essential Health Services		• Number of hospital beds per capital	X	X	X		X		X		
		• Number of patients reached	X	X	X		X		X	X	X (Volume of patients treated) X (Population covered by improved health services)
		• Number of places and beds	X	X	X		X		X		

		•% population with an inability to access medical care	X	X	X		X				
		• Reduction in maternal mortality and neonatal mortality Increase in the number of: • Hospitals and other healthcare facilities built / upgraded • Medical consultations per year (General Practitioners, Specialists) • Number of patients treated by program / vaccinations	X	X	X		X			X X X	X (Volume of patients treated) X (Population covered by improved health services)
Delivery of Essential Transportation Services		• Length of railway construction with equitable access (km)			X		X		X	X	
		• Increase in passenger km			X		X				
		• Length of rail construction					X			X	
Support for MSMEs and social programs to alleviate and/or prevent unemployment		• Number of MSMEs supported by public programs		X					X		
		• Number of women-led MSMEs supported		X			X				
		• Number and value of publicly financed loans to MSMEs		X			X		X		
		• Number of jobs created as related to MSME competitiveness programs		X			X		X	X	

Sustainable agriculture		• Area (hectares) cultivated with agroforestry and / or silvopastoral systems		X			X				
		• Area (hectares) of plantations and natural forest under active monitoring		X			X				
		• Area (hectares) cultivated with drip irrigation system		X			X			X	
		• Area (hectares) cultivated with organic fertilizers		X			X			X	
		• Area (hectares) of rice converted to other crops		X			X				
		• Number of people benefited by the training programs		X			X				
		• Number of studies completed		X			X			X	
Financial Institutions		• Number of people benefitting from access to essential financing and financial services					X				
		• Number of job opportunities created					X				
		• Increase in employment rate					X				
Social Housing		• Number of beneficiaries					X		X		X (Number of households in new or refurbished social and affordable housing units)
		• Number of residences constructed / renovated					X			X	X (Number of social and affordable housing units built or refurbished)
Sustainable Waste		• Volume of waste saved/ treated/ recycled		X						X	

Management											
Ensure food security and access to essential services		• Target population recipients by program	X						X	X	
		• Number of claims processed p.a. and % of claims approved	X							X	

How impact indicators are measured

On use-of-proceeds bonds, ICMA principles and market standards require two different post-issuance reports by the issuer: i) an allocation report and ii) an impact report. Allocation reports focus on demonstrating that the proceeds were allocated to eligible expenses and provide insights to the financing pipeline supported by the thematic issuance. They are conducted annually and certified by auditors before being presented to investors. Impact reports, on the other hand, follow less standardised routes and countries can apply different guidelines for this purpose.

Although in many cases the issuer's M&E team would handle this task, some sovereign issuers have appointed external agencies, such as the UN Development Programme, to deliver the impact report. Some common practices emerge when comparing the sovereign frameworks. Some frameworks provide more concrete details on how impact is measured than others. For example, Mexico's framework provides a comprehensive overview and digital tool for progress tracking, while others indicate that an annual report will be provided. The reporting consolidates information regarding social and environmental indicators that public entities that are managing the proceeds must report on with respect to the selected projects with allocated bond resources. This is often done on the basis of KPIs.

Sovereigns have employed various tools to gather data on progress achieved, such as:

1) Digital systems. This is an emerging practice that allows governments to monitor and provide timely information to track the progress of indicators. Mexico, for example, has implemented a digital tool for progress tracking.
2) ICMA Harmonised Framework for Impact Reporting for Social Bonds. The framework comprises six main principles in reporting, in which the issuers should put in place a formal internal process for tracking of proceeds, report the use of proceeds annually, identify the social project categories to which the proceeds have been allocated, identify the target population for which positive outcomes are expected, report output, outcome and/or impact of the projects.
3) SDG Impact Assessment Tool. Using this tool requires a five-step process from gathering available data to recommending improvements based on the impact assessment.

Annex 2- Use cases from IPSF members and observers (and beyond)

EU's Support to mitigate Unemployment Risks in an Emergency (SURE)

In the wake of the Covid-19 pandemic, the European Commission established the European Instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) to fight the negative socioeconomic consequences of the pandemic. SURE supported short-time work schemes and similar measures, as well as health-related measures, to help EU Member States protect jobs and in this way shield the workforce against the risk of unemployment and loss of income.

With a total envelope of EUR 100 billion in the form of favourable term loans granted from the EU to affected Member States, SURE is the world's largest social bond scheme to date and accounted for 16% of the global social bond issuance in 2021. SURE, being an issuance under the EU's own resources, was structured to protect the EU budget. Member States provided guarantees for a quarter of the total financial envelope with the remainder being guaranteed by the EU budget.

Eligible Social Expenditures targeted, among others, 'employment' and 'access to essential services', as well as good health and well-being (SDG 3) and decent work and economic growth (SDG 8). The target population was defined as 'the general population impacted by the COVID-19 pandemic in the Member States'.[32] The flexibility offered by the SURE instrument in practice allowed Member States to adopt different approaches, best suited to the specific circumstances of their labour market and the impact of the COVID-19 pandemic on it.

The European Commission performed evaluations of the Member States requests to assess whether there was a sudden and severe increase in public expenditure directly related to short-time work schemes and the COVID-19 pandemic. The terms of the loan were defined on the basis of this assessment. Beneficiary Member States were bestowed with a regular reporting obligation, allowing the monitoring of the use of SURE proceeds in planned public expenditure.

Five half-yearly reports were issued during the run of SURE, detailing the allocation of SURE Social Bond proceeds across EU Member States and across the types of Eligible Social Expenditure, as well as the impact reported by Member States. Moreover, while ex-ante or ex-post controls were required, in several cases Member States performed both ex-ante and ex-post controls.

At the height of the COVID-19 pandemic in 2020, SURE benefitted approximately 31.5 million citizens and 2.5 million companies, amounting to almost one third of employment and more than a quarter of companies in the beneficiary EU Member States.[33] It is estimated that the EU's policy response to the COVID-19 crises prevented 1.5 million people from becoming unemployed, with schemes funded through SURE Social Bonds likely contributing to this in large part.

A report by the European Court of Auditors concluded that the issuance of SURE Social Bonds allowed the EU to support its Member States faster than it would under normal funding procedures, while simultaneously cushioning the financial risk to the EU budget at a time of crisis.[34]

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[32] European Commission, EU SURE Social Bond Framework, 2020, https://commission.europa.eu/system/files/2020-10/eu_sure_social_bond_framework.pdf.

[33] European Commission, SURE after its sunset: final bi-annual report, 2023, https://economy-finance.ec.europa.eu/system/files/2023-06/COM_2023_291_1_en.pdf.

[34] European Court of Auditors, Special report: Support to mitigate Unemployment Risks in an Emergency (SURE), 2022, https://www.eca.europa.eu/Lists/ECADocuments/SR22_28/SR_SURE_EN.pdf.

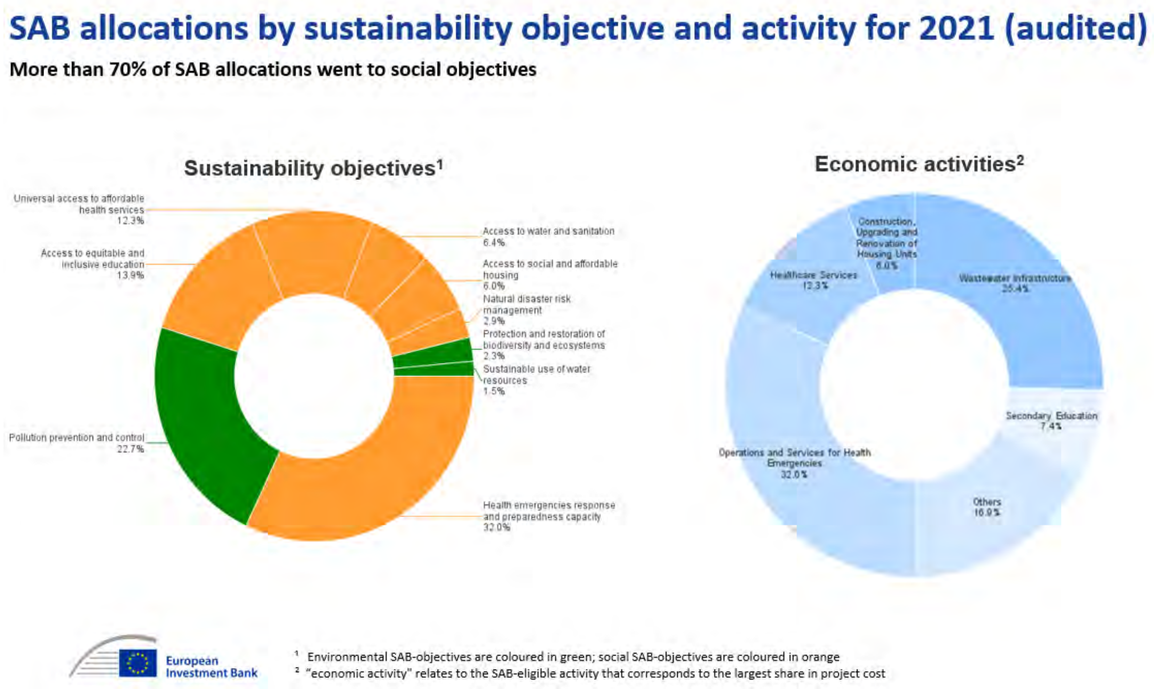
EIB’s Sustainability Awareness Bonds (SAB)

The EIB issued the world’s first green bond in 2007 with its first Climate Awareness Bonds. In 2018, the EIB issued its inaugural Sustainability Awareness Bonds which extended the approach from climate change mitigation to further environmental and social sustainability objectives.

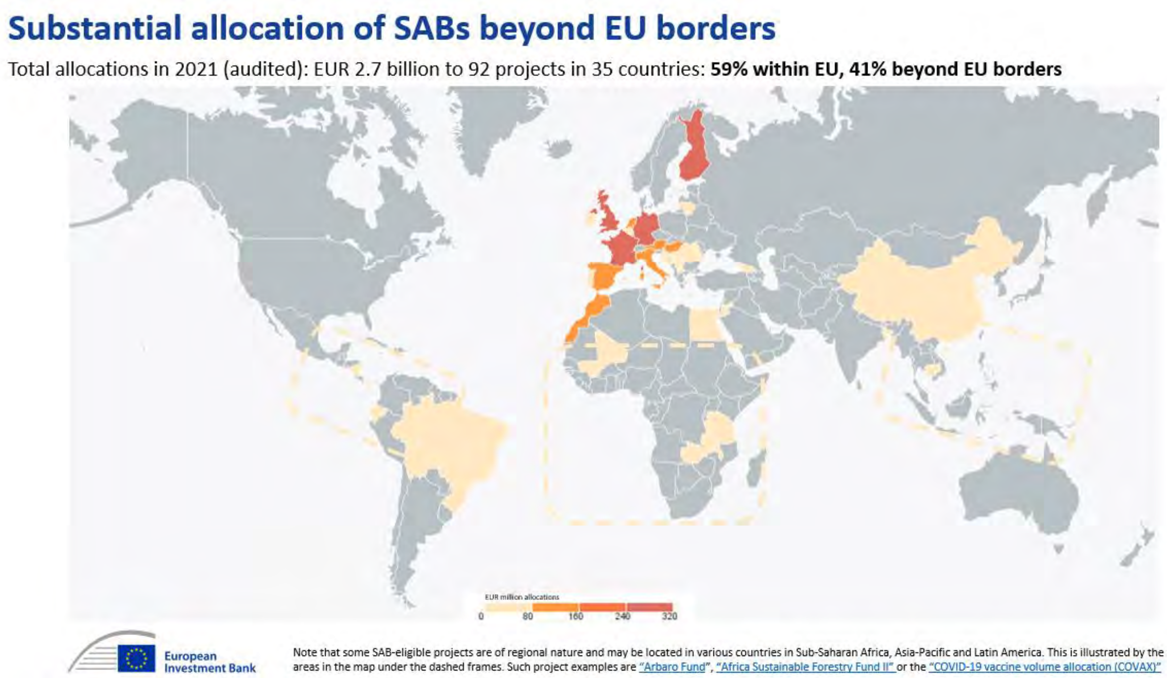
The EIB was the first issuer to tune the documentation of its sustainability funding instruments to the EU Taxonomy Regulation. This allows investors to monitor consistently how the funds raised are being used through audited allocation and impact reports. This provides a reliable sustainable investment opportunity at the service of the Sustainable Development Goals. SAB sustainability objectives establish a direct link to the EU Taxonomy’s environmental objectives as well as to social dimensions of SDGs.

This business-driven entrepreneurial approach has taken the logic of the EU Taxonomy Regulation as reference to increase transparency and accountability in social finance.

In 2021, around EUR 2 billion was allocated to disbursements to projects contributing substantially to social objectives, such as access to water and sanitation, health emergencies response and preparedness capacity, universal access to affordable health services, and access to equitable and inclusive education.



Sustainability Awareness Bonds highlight the EIB’s growing engagement beyond EU borders at the service of SDGs globally.



Proceeds from Sustainability Awareness Bonds are allocated to projects that meet eligibility criteria which are aligned with the logic of the EU Taxonomy Regulation. In areas of environmental and social sustainability not yet covered by the EU taxonomy, EIB has already started applying its own expertise to data collection and reporting in line with the logic and structure of the taxonomy, thereby permitting investors to monitor progress on this path. This means that the SAB project eligibility criteria are structured to include criteria or processes for the assessment of 'substantial contribution', 'no significant harm', and 'minimum social safeguards'. In addition, the SAB technical screening criteria for substantial contribution are aligned with the logic of the technical screening criteria for substantial contribution of Article 3 of the EU Taxonomy Regulation i.e. 'structured to incorporate principles, metrics and thresholds where possible and otherwise include qualitative criteria or processes for the assessment of substantial contribution'. In the area of 'Do No Significant Harm' and 'Minimum Safeguards', the EIB has also compared (in 2021) for the first time its Environmental and Social Standards with the provisions of Articles 17 and 18 of the EU Taxonomy Regulation, establishing an accountable platform for further improvement over time.

The EIB's approach is characterised by transparency and accountability as the annual SAB Framework[35] is published and audited by a supervised auditor with a Reasonable Eassurance (ISAE 3000). The SAB Framework includes the SAB project eligibility criteria, the SAB allocation report and impact report.[36]

Council of Europe Development Bank – Social Inclusion Bonds

The Council of Europe Development Bank (CoE Bank) in 2017 developed a framework for Social Inclusion Bonds, revising it in line with ICMA developments. Social Inclusion Bonds were initially issued as 7-year EUR-denominated bonds to support projects related to social housing, education and

[35] https://www.eib.org/attachments/fi/eib-sab-framework-2021.pdf
[36] https://www.eib.org/en/investor-relations/publications/all/eib-sab-projects-2021 and https://www.eib.org/en/investor-relations/publications/all/eib-sab-impact-report-2021

MSMEs. With the advent of the Covid-19 pandemic, the scope of the Social Inclusion Bond Framework was expanded to include health. Given CoE Bank's mandate on displaced populations and refugees since its creation in 1956, in April 2022 CoE Bank issued a EUR 1 billion Social Inclusion Bond to support the (longer-term) needs of Ukrainian refugees in the Bank's member states. The funds raised through the bond, in line with the Social Inclusion Bond Framework, could cover projects related to social housing for low-income persons, education and vocational training, health and social care, and the creation and preservation of jobs in MSMEs.[37] CoE Bank also issued a USD 1 billion Social Inclusion Bond for this purpose.[38] This is a particularly interesting case, as it leverages common use of proceeds eligibility categories for an issuance focusing explicitly and exclusively on refugees, a less common target population.

Impact Investment Exchange (IIX) - Women's Livelihood Bond

The IIX launched its Women's Livelihood Bond Series in 2017, making it the first gender bond in the world to be listed on a stock exchange. To date, USD 128 million has been mobilised through 5 bond issuances to empower more than 1 million women and girls across emerging markets in Asia and Africa.

Morocco Gender Bond

The guidelines outlined in Annex 1 culminated in the inaugural gender bond issuance in Africa by Banque Centrale Populaire (BCP), through a private placement bond of USD 20 million in December 2021, focusing on microfinance for women. Second Party Opinion was provided by Vigeo SAS[39] which confirmed the alignment of the issuance framework with the Social Bonds Principles.

BCO gender bond issuance 2021 (adapted from UN-Women)[40]

Issuer	Description	Issuance date	Maturity date	Size	Objectives	KPIs
Banque Centrale Populaire (BCP)	Micro-credit loans granted by Attawfiq Micro-Finance, a subsidiary of BCP; Micro-credit loans to urban and rural women, who are economically disadvantaged, excluded from the financial system and wish to create or develop income-generating activities.	31 December 2021	31 December 2025	MAD 200 million (approx. USD 20.4 million)	The micro-credit loans granted to the target population aim to contribute to the following objectives: • Increase in job creation • Promotion of women's entrepreneurship and income-generating activities	• Number of loans granted to women eligible for micro-credit • Number of loans granted to women by o degree of formality o urban and rural area o activity o age group o marital status • Number of women beneficiaries of bank accounts

[37] https://coebank.org/en/news-and-publications/news/ceb-issues-new-social-inclusion-bond-bolster-its-response-ukraine-refugee-crisis/
[38] https://coebank.org/en/news-and-publications/news/ceb-usd-1-bn-social-inclusion-bond-benchmark-benefit-ukraine-refugees/
[39] https://www.moodys.com/web/en/us/hosted-assets/spo-20210702-ve-spo-bcp-attawfiq-gender-bond-english.pdf
[40] UN-Women, 2023, Case study series: Innovative Financing for Gender Equality via Bonds, *Morocco: social bond issued by a commercial bank*, https://www.unwomen.org/sites/default/files/2023-05/case-study-series-innovative-financing-for-gender-equality-via-bonds-morocco-en.pdf

					• Reduction of inequalities • Providing banking to women excluded from the traditional financial systems	• Number of women beneficiaries of micro-insurance

The Hong Kong Mortgage Corporation Limited Social, Green and Sustainability Financing Framework[41]

The Hong Kong Mortgage Corporation Limited has developed The Hong Kong Mortgage Corporation Limited Social, Green and Sustainability Financing Framework, under which it may issue green, social and/or sustainability bonds and other debt instruments and use the proceeds to finance projects in the eligible categories. Eligible categories include Social Alleviation: SME, Access to Essential Services, Affordable Housing, Access to Affordable Basic Infrastructure and Services, Renewable Energy, Clean Transportation, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Green Buildings - Data Centres and Energy Efficiency. Sustainalytics considers that the projects funded using proceeds from the instruments issued under the Framework are expected to contribute to the low-carbon transition and sustainable development. The Framework outlines a process for tracking, allocating and managing proceeds, and makes commitments for the Hong Kong Mortgage Corporation Limited to report on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that Framework is aligned with the overall sustainability strategy of the Group and that the use of proceeds categories are expected to contribute to the advancement of SDGs 3, 4, 6, 7, 8, 9, 11 and 12. Additionally, Sustainalytics is of the opinion that The Hong Kong Mortgage Corporation Limited has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Use of Proceeds Category	SDG	SDG target
Social Alleviation: SME	8. Decent work and economic growth 9. Industries, Innovation, and Infrastructure	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their

[41] **The Hong Kong Mortgage Corporation Limited Social, Green and Sustainability Financing Framework, 2022.** HKMC Social, Green and Sustainability Financing Framework Second-Party Opinion (F).pdf

		integration into value chains and markets
Access to Essential Services	3. Good Health and Wellbeing 4. Quality Education	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all 4.1By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and Goal-4 effective learning outcomes
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Access to Affordable Basic Infrastructure and Services	7. Affordable and clean energy 9. Industry, Innovation and Infrastructure 11. Sustainable cities and communities	7.1 By 2030, ensure universal access to affordable, reliable and modern energy services 9.c Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Renewable Energy	7. Affordable and clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Pollution Prevention and Control	12. Ensure sustainable consumption and production patterns	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all 6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Green Buildings - Data Centres	11. Sustainable Cities and Communities	11.c Support least developed countries, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials
Energy Efficiency	7. Affordable and clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency

Mexico - Banco Compartamos Social Bond Framework[42]

Banco Compartamos S.A. Institución de Banca Multiple (‘Banco Compartamos’) is a financial institution, part of Gentera S. A. B. de C. V. (‘Gentera’), offering loans and credits – mainly through group lending methodology – to community groups and low-income individuals, as well as bank accounts, saving products, insurance policies, and payment services.

The Bank has developed the Banco Compartamos Social Framework, under which it intends to issue one or more social bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future lending. Additionally, the bank will expand its product offering including bank accounts,

[42] Banco Compartamos Social Bond Framework, 2020.
Banco+Compartamos+Social+Bond+Framework+Second+Party+Opinion.pdf

payment services, transactional channels, savings products, insurance coverage and/or digital financial solutions that advance financial inclusion for underserved and unbanked populations, as well as using the liquidity generated by the transaction to strengthen its overall balance sheet and maintain liquidity in the face of the current pandemic-driven macroeconomic context. The Framework defines eligibility criteria in three areas:

1. Employment Generation – Microfinance and Entrepreneurs Financing

2. Socioeconomic Advancement and Empowerment – Programmes to support women-owned businesses

3. Access to Essential services – Financial

Impact of Use of Proceeds

The use of proceeds categories are aligned with those recognised by the SBP. Sustainalytics has focused below on how the impact is specifically relevant in the local context. In the context of Mexico's emerging market economy, MSMEs make up a vital part of the economy and overall employment. According to OECD, 4 million SMEs in Mexico represent 12.4% of total gross production and employ 47.2% of the entire workforce. However, the lack of access to finance for MSMEs has become a significant impediment for employment, economic development and shared prosperity in the country. Based on statistics of the IFC, MSMEs in Mexico face a financing gap of USD 163 billion, accounting for 14% of GDP, the second-highest gap by volume among all Latin American countries. Additionally, 2018 data from the OECD shows a 5.9% interest rate spread between SMEs and larger firms as the average interest rates correlate with the size of the borrowing company, which further burdens MSMEs seeking financing. The MSME financing gap leads to wide labour productivity gap. Mexico has the lowest labour productivity of SMEs among all OECD countries. The huge productivity gap between SMEs and large firms aggravates income inequalities and slows economic growth in Mexico.

The importance of addressing these concerns is represented in the steps the Mexican federal government has taken in implementing specific programmes targeted to micro and small enterprises. These include initiatives aimed at lowering the personal income tax rate, providing management training and ICT adoption in micro-business. The Financial Inclusion Action Plan, launched in 2016, also addresses the importance of MSME financing. Having served over 13 million people since its founding in 1990, and by continuing to provide financial services to underserved populations, Banco Compartamos' social bonds are expected to create job opportunities and to help promote the economic development of the communities targeted. Therefore, Sustainalytics is of the view that Banco Compartamos' provision of loans for micro/small and rural business will have a positive impact on job generation and improve economic growth in Mexico.

Importance of supporting women in entrepreneurship

Despite Mexico's economic growth, women's labour force participation rate in Mexico lags the average of OECD countries as well as other large Latin American countries. Compared to an 80% rate of male labour force participation, Mexican women are represented at a rate of 48% based on the National Survey for Financial Inclusion 2018 data. Additionally, the fact that women are overrepresented in insecure and lower-paid jobs demonstrates a broader gap in gender inequality in Mexican society. According to the OECD, one cause of this low participation rate is the unpaid work burden on Mexican women, which has created more obstacles for women to devote time to formal employment. Moreover, based on the classification of the Mexican government to measure poverty, 14% of women agricultural producers and MSMEs are recognised as highly marginalised communities. Mexico launched its National Financial Inclusion Strategies in 2016, which includes the Mujeres PYME policy aimed at supporting small businesses led by women. Along with other policies, this is expected to help nearly 7 million women to participate in the formal financial system. Banco Compartamos is targeting primarily female entrepreneurs with limited or no credit history. As 88% of the Bank's clients in Mexico are women, the use of proceeds of these social bonds allocated to female entrepreneurs will help advance Mexico's Financial Inclusion Strategy and empower women in leadership, promote women in the economy and bridge the gap of inequality. Given this context, Sustainalytics recognises the importance of supporting female-owned businesses, and it impacts on reducing gender inequality in Mexico. The projects funded through Banco Compartamos' social bonds are anticipated to bring positive impacts to gender equality in Mexico.

Importance of financial inclusion and access to services in Latin American countries

In Mexico, only 44% of adults hold a bank account and more than 30% of adults have no access to financial services, with the percentage reaching 42.9% in rural areas. The low financial inclusion rate has been attributed primarily to low incomes. Access to financial services should also be considered in the context of its interrelation with access to other basic services (e.g. housing, healthcare and education). According to the IMF, a positive correlation has been found between the percentage of financial inclusion, per capita income and education level. Considering the majority of people without access to financial services belong to highly marginalised communities, without the protection provided by banking services, they are more vulnerable during economic uncertainties. The lack of financial access also limits the potential economic development for these groups.

As a World Bank Group partner country, committed to prioritising Universal Financial Access by 2020, Mexico launched the National Financial Inclusion Strategy in 2016. The strategy is expected to accelerate the access to financial services for more than half of its population. At the same time, the World Bank has implemented projects in Mexico to expand financial inclusion. To achieve this goal, the IFC supported the development of Banco Compartamos' microfinance offerings. By financing projects that expand individual access to banking and other microinsurance products, Banco Compartamos can promote access to underserved populations with little or no credit history to affordable financial services and support their overall economic growth. Financial inclusion also provides more opportunities in education, housing and health care for low-income populations, leading to overall improvements in wellbeing in the country. Therefore, Sustainalytics views Banco Compartamos projects for access to financial services as providing positive impacts for the target groups. The financial inclusion gaps in Latin American countries represent an opportunity for Banco Compartamos to generate measurable impact by strengthening the access to financial services for all people in Mexico.

Banco Compartamos has developed the Banco Compartamos Social Bond Framework under which it will issue social bonds and use the proceeds to finance lending and advance social and economic inclusion. Sustainalytics considers that the assets funded by the social bond proceeds will provide positive social impact. The Banco Compartamos Social Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Banco Compartamos Social Bond Framework is aligned with the overall sustainability strategy of the company and that the social use of proceeds categories will contribute to the advancement of SDGs 5, 8 and 10. Additionally, Sustainalytics is of the opinion that Banco Compartamos has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Alignment with/contribution to SDGs

The SDGs were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This social bond advances the following SDG goals and targets:

Use of Proceeds Category SDG SDG target	Use of Proceeds Category SDG SDG target	Use of Proceeds Category SDG SDG target
Employment Generation	8. Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.
Socio-Economic Advancement and Empowerment	5. Gender Equality	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.
Access to Essential Services	8. Decent work and economic growth 10. Reduced inequalities	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

Mexico- Fondo Especial para Financiamientos Agropecuarios (FEFA) Social Bond with a Gender Focus Framework[43]

In 2020, Fondo Especial para Financiamientos Agropecuarios (FEFA) issued a social bond to finance productive or investment projects for women (as individuals) or micro, small and medium-sized

[43] Fondo Especial para Financiamientos Agropecuarios (FEFA) Social Bond with a Gender Focus Framework, 2020. ESG-Social-FEFA21G-SPO-english.pdf (fira.gob.mx)

enterprises (MSMEs), family businesses, large companies, associations and organisations of producers that are led by women or have exclusive participation by women in agricultural, forestry, fisheries and rural areas. In April 2022, Fideicomisos Instituidos en Relación con la Agricultura (FIRA) engaged Sustainalytics to review the projects funded through the issued social bond and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the FEFA Social Bond with a Gender Focus Framework.

Under its Social Bond with a Gender Focus Framework, FEFA will issue social bonds and use the net proceeds to finance projects that promote gender equality and advance financial inclusion and socioeconomic empowerment of women. Sustainalytics considers that the financing provided by the social bond proceeds will deliver positive social impact.

The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the institution and that the social use of proceed category will contribute to the advancement of SDGs 1, 2, 5, 8, and 10. Additionally, Sustainalytics believes that FEFA, as one of the four trust funds forming FIRA, has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Alignment with/contribution to SDGs

SDG	SDG target
1. No poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.
2. Zero hunger	2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and nonfarm employment.
5. Gender equality	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.
8. Decent work and economic growth	8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

10. Reduced inequality	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.