

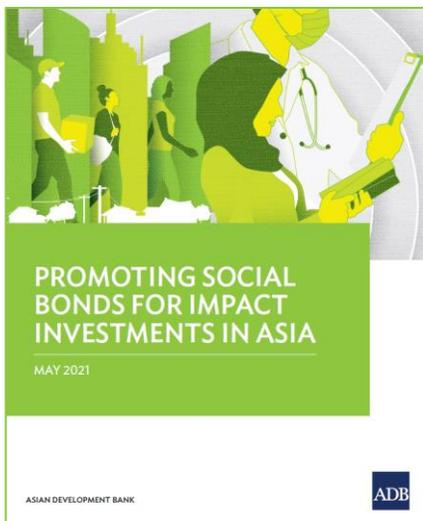
This is not an ADB material. The views expressed in this document are the views of the author/s and/or their organizations and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy and/or completeness of the material's contents, and accepts no responsibility for any direct or indirect consequence of their use or reliance, whether wholly or partially. Please feel free to contact the authors directly should you have queries.

Promoting Social bonds for Impact Investments in Asia

Jason Mortimer, Head of Sustainable Investment – Fixed Income and Senior Portfolio Manager, Nomura Asset Management

August 4, 2021

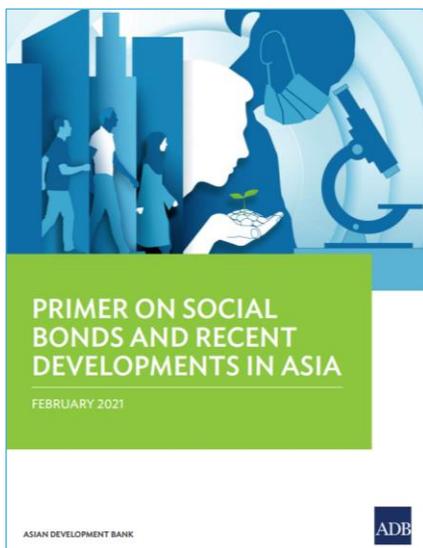




May 2021

Promoting Social Bonds for Impact Investment in Asia

<https://www.adb.org/sites/default/files/publication/703076/social-bonds-impact-investments-asia.pdf>



February 2021

Primer on Social Bonds and Recent Developments in Asia

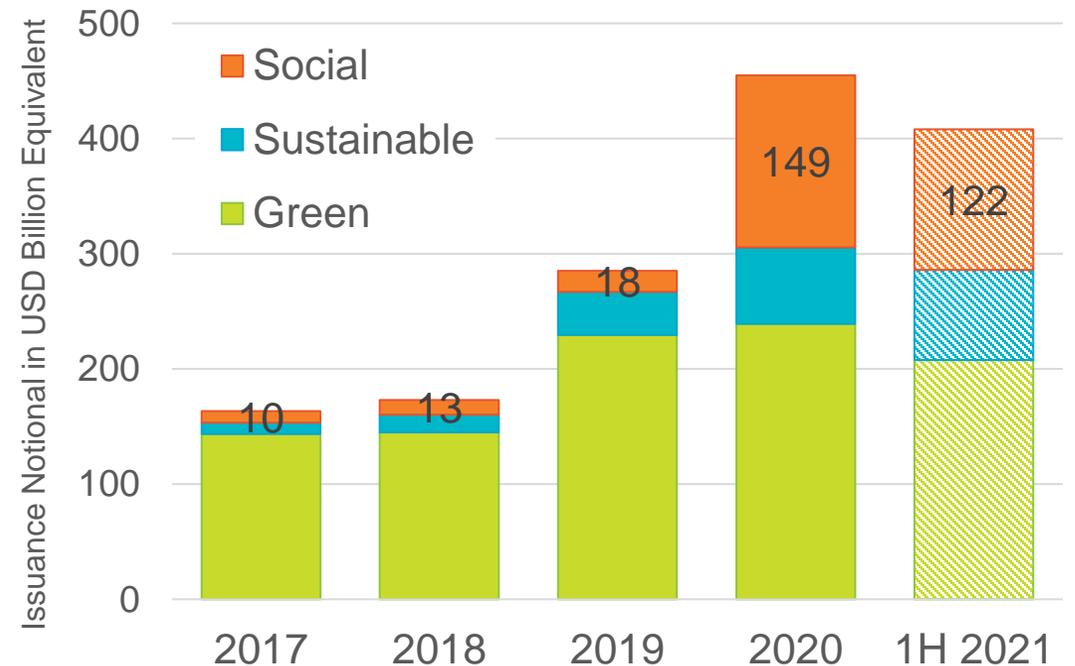
<https://www.adb.org/sites/default/files/publication/677671/social-bonds-recent-developments-asia.pdf>



Report Content and Analysis

1. The Range of Social Impacts Addressed by Social Bonds
2. Social Impacts Relevant to Asia
3. Social Impact Measurement
4. Optimizing Impact in the COVID-19 Era and Beyond

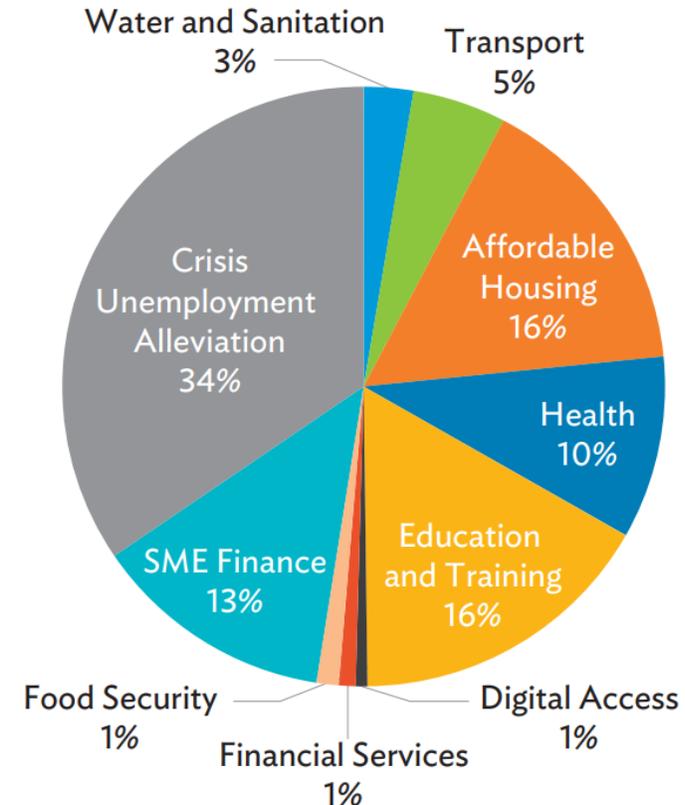
Figure 1: Global Green, Sustainable, and Social Bond Issuance in USD Billions (Public, ICMA-compliant 2017-1H 2021)



1. The Range of Social Impacts Addressed by Social Bonds

- From 2017 to 2020, more than **\$190 billion** equivalent of publically listed and ICMA SBP-compliant Social bonds were issued
- In our report, we calculated the estimated **\$ project funding allocations to each bond** based on ICMA's non-exhaustive list of social bond project categories
- We found that globally the **top funding projects** during this period were:
 - Crisis Unemployment Alleviation: \$65.6 billion
 - Education and Training: \$31.4 billion
 - Affordable Housing: \$29.8 billion

Figure 2: Share of Global ICMA-Compliant Social Bond Issuance by SBP Project Type, 2017–2020 (USD-equivalent notional, estimated)



Promoting Social Bonds for Impact Investment in Asia

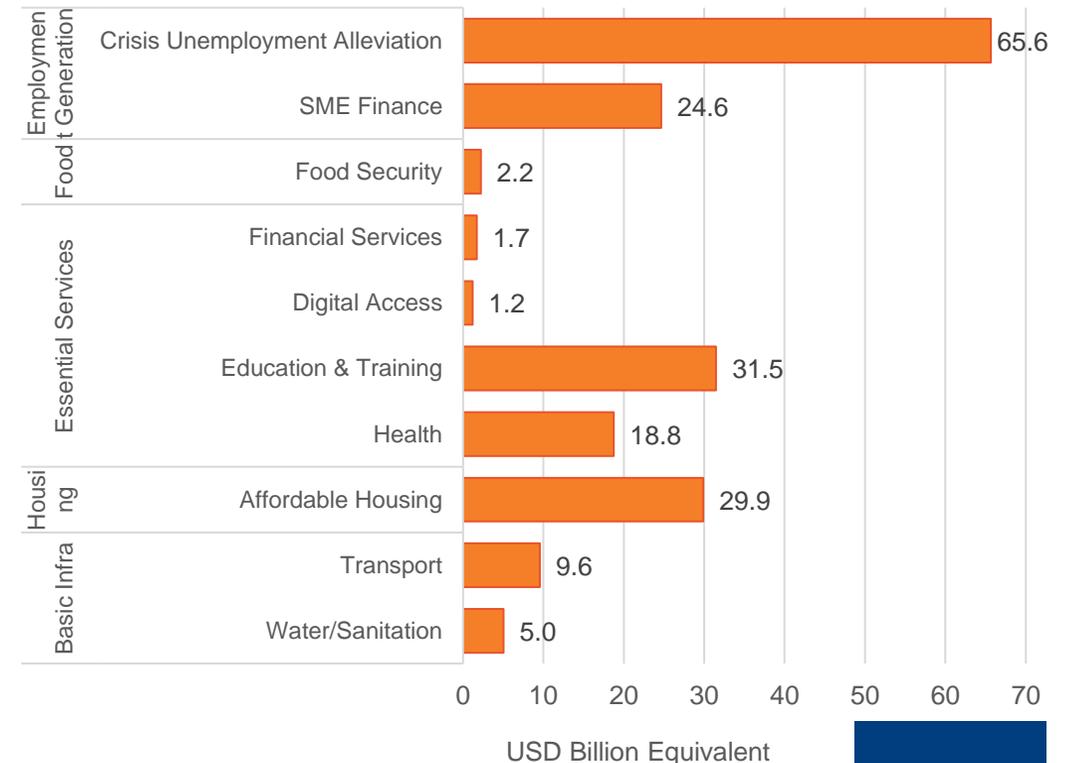
1. The Range of Social Impacts Addressed by Social Bonds

- Social Impact Analysis: We classified and quantitatively analysed the global Social bond market to identify project-allocation trends

Table 1: Classification of International Capital Market Association Social Bond Use of Proceeds by Project Category and Project Type

Project Category	Project Type	Most Commonly Targeted Population	Most Commonly Referenced SDG
Affordable Basic Infrastructure	Water and Sanitation	General Public	SDG 6—Clean Water and Sanitation
	Transport Infrastructure	General Public	SDG 11—Sustainable Cities and Communities
Affordable Housing	Affordable Housing	Low Income	SDG 11—Sustainable Cities and Communities
Access to Essential Services	Health	Elderly	SDG 3—Good Health and Well-Being
	Education and Training	Low Income	SDG 4—Quality Education
	Digital Access	Underserved	SDG 9—Industry, Innovation and Infrastructure
Food Security and Sustainability	Food Security	Low Income	SDG 2—Zero Hunger
	Financial Services	Low Income	SDG 8—Decent Work and Economic Growth
Employment Generation	SME Finance	MSMEs	SDG 8—Decent Work and Economic Growth
	Alleviation of Crisis-Related Unemployment	Crisis Affected	SDG 8—Decent Work and Economic Growth
Socioeconomic Advancement and Empowerment	Access and Opportunity	Low Income	SDG 8—Decent Work and Economic Growth
	Participation and Integration	Low Income	SDG 8—Decent Work and Economic Growth

Figure 3: Global ICMA-Compliant Social Bond Issuance, by Estimated SBP Project Category Allocation (2017-20) in \$ billions



Note: MSME= Micro, Small, and Medium-sized enterprises; SDG = Sustainable Development Goals
 “Most Commonly Targeted Population” and “Most Commonly Referenced SDG” refer to the population type and SDG, respectively, found most frequently in social bond frameworks with use of proceeds allocated to a particular International Capital Market Association project type.



Promoting Social Bonds for Impact Investment in Asia

1. The Range of Social Impacts Addressed by Social Bonds

- 2020 Shift: Global Social bond project-category allocations decisively shifted from Basic Services to Crisis Response-related projects
- Regional Differences: Asian Social Bonds focus relatively more to economic issues (SME Finance 37%, Transport Infrastructure 21%)

Figure 4: Global ICMA-Compliant Social Bond Issuance by Year and SBP Project Type, 2017–2020 (USD-equivalent notional)

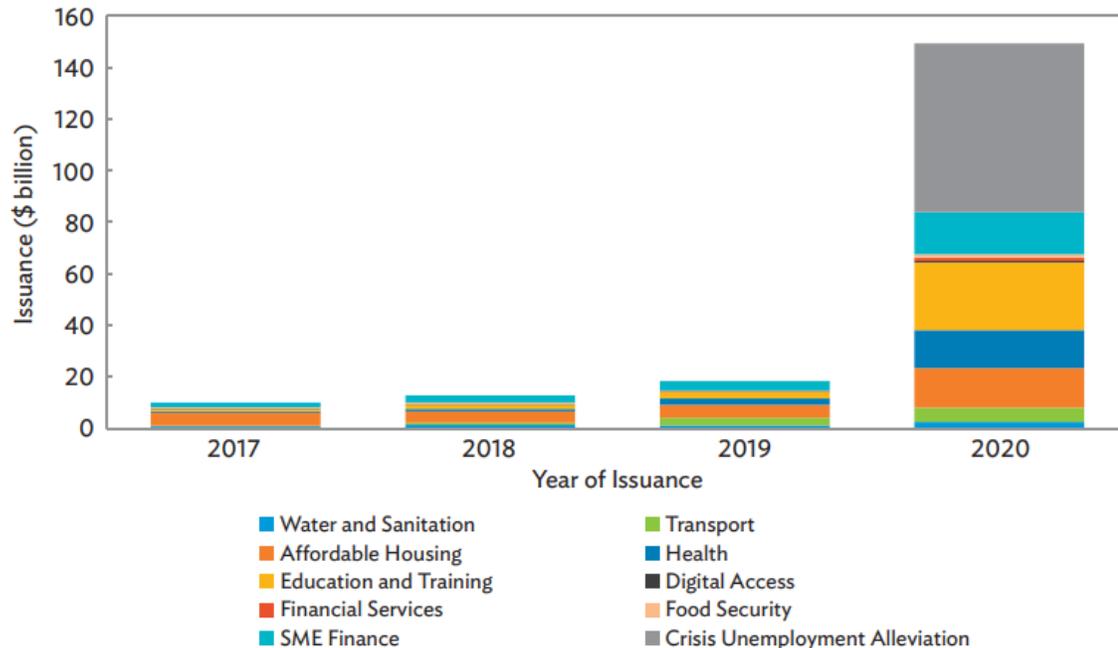
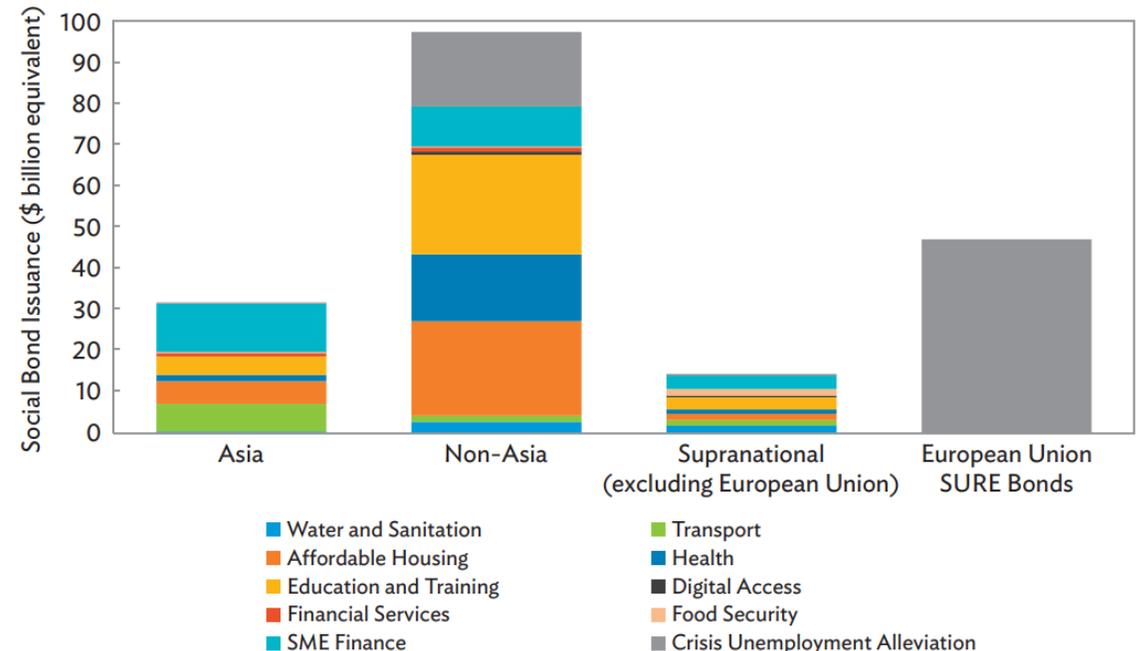


Figure 5: ICMA-Compliant Social Bond Issuance by Estimated SBP Project Type Allocation and Region, 2017–2020 Cumulative



Note: SME= Small, and Medium-sized enterprises; EU = European Union, SURE = Support to mitigate Unemployment Risks in an Emergency Bonds
 \$ Billion allocation figures based on author's calculations based on review of Bloomberg data, issuer social bond frameworks, and review secondary opinions



Promoting Social Bonds for Impact Investment in Asia

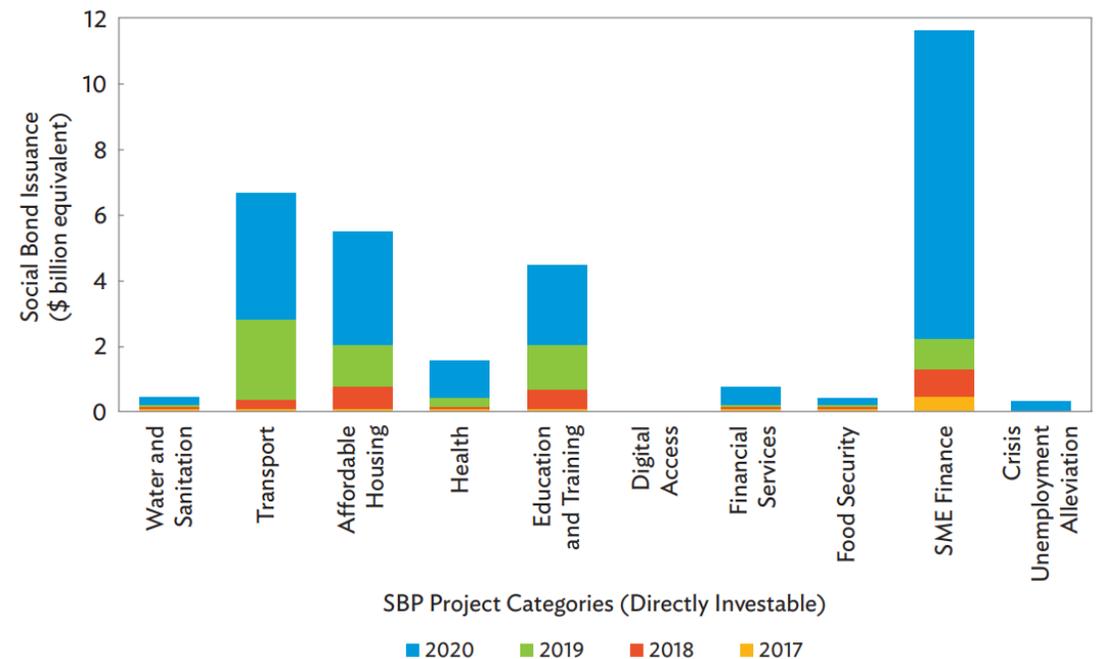
2. Social Impacts Relevant to Asia

- Case Studies: We present a variety of recently issued social bonds as case study models for 10 Asia-relevant social impact areas
- Reference Book: Case studies discuss each bond's target impact area(s) and population, SDG linkages, and reporting framework

Table 2: Possible Impact Areas to Be Addressed by Social Bonds

Impact Area	SDG Linkages	Case Study
Socioeconomic Crisis Alleviation	SDG 1, 3, 5, 6, 8, 9, 10	Chugoku Bank
Health, Water, and Sanitation	SDG 3, 6	SFIL Group Nipro Corporation
Food Security	SDG 1, 2, 3	African Development Bank
SME Finance	SDG 1, 5, 8, 9, 10	Bank of the Philippine Islands
Resilience	SDG 1, 2, 3, 6, 8, 11, 13	East Nippon Expressway Co. Ltd.
Education and Training	SDG 1, 4, 5, 8, 9, 10	Unedic
Girls' Education	SDG 1, 4, 5, 10	Rajasthan, India
Gender Equity	SDG 1, 5, 8, 10	Bank of Ayudhya (Krungsri)
Digital Inclusion	SDG 3, 4, 5, 8,	Credit Agricole
Poverty and Inequality	SDG 1, 4, 5, 8, 10	Region Wallonne Belgium

Figure 6: ICMA-Compliant Social Bond Issuance in Asia by Estimated SBP Project Type Allocation and Region, 2017–2020



Note: Socioeconomic Crisis Alleviation includes measures and projects aimed at preserving employment and livelihoods during a crisis.

SME= Small, and Medium-sized enterprises; SDG = Sustainable Development Goals.

The discussion of specific issuers and social bond frameworks does not imply an endorsement or recommendation by the authors or the ADB



2. Social Impacts Relevant to Asia

Case Study Example 1:

Nipro Corporation Social Bond for Securing Medical Supply Chains

- **Issuer:** Japanese medical equipment and health-care supply manufacturing company
- **Security:** NISSHO 1.6 9/2055 JPY 50 billion (~\$473 million)
- **Use of Proceeds:** Capital investment to secure medical supply chains, including vaccines and dialysis treatment
- **Target Population:** General public with particular focus on aging populations and patients in underserved rural areas
- **SDG Linkage:** SDG 3 (Good Health and Wellbeing)
- **Impact Reporting:** Nipro will continuously disclose domestic drug and medical device manufacturing capacity, patient capacity, number of centers (outputs) with number of drugs and devices sold, and number of patients served (outcomes)

Case Study Example 2:

Chugoku Bank Social Bond for SME Lending and COVID-19 Crisis Alleviation

- **Issuer:** Japanese regional bank based in Okayama Prefecture (Chugoku region of Japan)
- **Security:** CHGOKU 0.78 10/2030 JPY 10 billion (~\$95 million)
- **Use of Proceeds:** Funding for emergency loans to individuals & regional SMEs temporarily struggling due to the pandemic
- **Target Population:** Socioeconomic Crisis-affected individuals and SMEs in regional areas
- **SDG Linkage:** SDG 8 (Decent Work and Economic Growth)
- **Impact Reporting:** Chugoku Bank will disclose the funds allocation status and any changes on its public website, and provide impact reporting of the amount and number of loans disbursed by category of eligibility criteria

Note: SME= Small, and Medium-sized enterprises; SDG = Sustainable Development Goals.

Nipro Corporation: https://www.r-i.co.jp/en/news_release_sof/2020/08/news_release_sof_20200807_eng.pdf

Chugoku Bank: https://www.r-i.co.jp/en/news_release_sof/2020/08/news_release_sof_20200831_eng_1.pdf

Promoting Social Bonds for Impact Investment in Asia

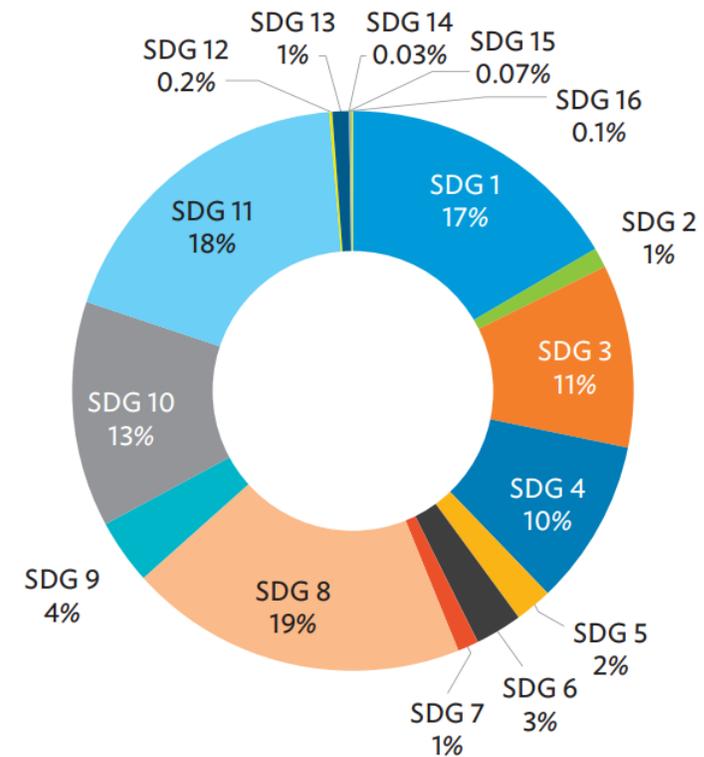
3. Social Impact Measurement

- The rapid expansion of Green and Social financing necessitates rigorous yet practical impact assessment to avoid “Social washing”
- While Environmental impact is generally standardized and physically measurable, Social impact is diverse and harder to quantify

Table 3: Various Impact Measurement Standards and Practices

Approach	Process	Example	Notes
ICMA SBP	Communicate quantitative and qualitative metrics; address specific issue(s) and target population(s).	East Nippon Expressway Bond in Japan (2020) received third-party evaluation of its social objectives that confirms its alignment with the SBP.	Emphasizes communication and information transparency
Mapping to SDGs	Identify specific SDGs that the bond’s proceeds will be used to address.	Shriram Transport Finance Company Bond in India (2020) aligns with SDGs 8 and 10.	In non-high-income Asia, employment generation is the most common use of proceeds.
GIIN IRIS+	Draws on the Catalog of Metrics and standard social and environmental performance metrics for impact investors	Nuveen Affordable Housing Portfolio (over \$250 million in assets under management): Outcome targets include increased residential stability, increased resources available after housing payments, improvement in housing quality, and decreased environmental harm	Most valuable for start-up equity investors, especially social enterprises in developing markets

Figure 7: Percentage Share of Global ICMA-Compliant Social Bond Issuance by reported SDG Linkage (2017–2020, Cumulative)



Note: GIIN = Global Impact Investing Network, ICMA = International Capital Markets Association, SBP = Social Bond Principles, SDG = Sustainable Development Goals
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Framework-for-Social-Bond-Reporting-Final-06-2019-100619.pdf>
 ICMA SBP Working Paper on Harmonized Principles for Impact Reporting in Social Bonds 2019



Promoting Social Bonds for Impact Investment in Asia

3. Social Impact Measurement

- As of 2020, the degree of standardization in Social Bond Impact measurement is less developed than that of Green Bonds
- While there is no widespread agreement on a single model of assessment, debate is undergoing with certain best-practices identified

Social Impact Measurement: **General Best Practices**

- Concept of Additionality: Funded social projects should provide additional benefits to the target population that would not have accrued in the absence of the project
- Consistent, Objective, and Verifiable Measurement: Prioritize quantitative measurements over subjective surveys
- Aim for Comparability where possible: Check emerging standards and examples from the relevant peer-group for comparable approaches to impact measurement
- Focus on real impact: Reporting on Outcomes and Impacts, though more difficult to identify and track over time in practice, should be given priority over Outputs (“counting heads”) as data for the sake of data

ICMA Social Impact Working Group: **Guidelines for Impact Measurement**

Issuers should

- Put in place **formal internal processes** for tracking proceeds
- Report at least **annually** on the use of proceeds and impacts
- Identify the social project **categories** for proceed allocation
- Identify the **target population** that the project will serve
- Report the **output, outcomes, and/or impact** of the projects
- Illustrate **expected social impacts** made possible by projects

The ICMA Working Paper also contains recommendations for issuers on Project Eligibility, Deciding Impact Indicator metrics, Disclosure of Methodologies and share of financing etc.

Note: ICMA = International Capital Markets Association

<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Framework-for-Social-Bond-Reporting-Final-06-2019-100619.pdf>

ICMA SBP Working Paper on Harmonized Principles for Impact Reporting in Social Bonds 2019



4. Optimizing Impact in the COVID-19 Era and Beyond

- In 2020, Social Bond issuance global growth was driven by **crisis-related sectors** like education and job re-training, SME finance, and unemployment alleviation funding schemes
 - This latter category in particular was driven by large, one-off issues in Europe (EU SURE, French UNEDIC)
- By region, **SME Finance** was the dominant category for Asian Social bond issuance overall with \$9.4 bil in allocations vs \$5.0 bil for RoW
- In Ex-High Income Asian markets, Social Bond issuance is almost entirely for SME Finance; outside of Asia, Ex-High Income issuance is focused on **Basic Needs** (housing, health, edu)
- Social Bonds proved **well suited** to raising funds for socio-economic crisis response
 - Government/Official sector issuers etc may consider developing Social Bond frameworks and issuance pipelines now to respond quickly to crises in the future
- The SBP **SME lending** and **Financial Service Access** impact categories are well-aligned to the real needs of developing Asian economies
 - Asian banks and financial firms are particularly well positioned to issue Social Bonds to fund impact through MSME lending and underserved finance
 - Further Social Bond market growth may be enabled by impact diversification from private sector Healthcare and public sector Affordable Housing and Education