

# Pre-issuance Checklist for Social Bonds/Social Bond Programmes

June 2021



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This document aims to give guidance on the steps for establishing a Social Bond Framework as recommended by the 2021 edition of the **Social Bond Principles (SBP)**<sup>1</sup>. Links to the different supporting documents (e.g., High-Level Mapping to the Sustainable Development Goals, Harmonised Framework for Impact Reporting of Social Bonds, etc.) have been inserted for ease of reference. It is intended to be a pragmatic and condensed tool for issuers and for investors. Also included are some common questions that the external review providers may assess pre-issuance.

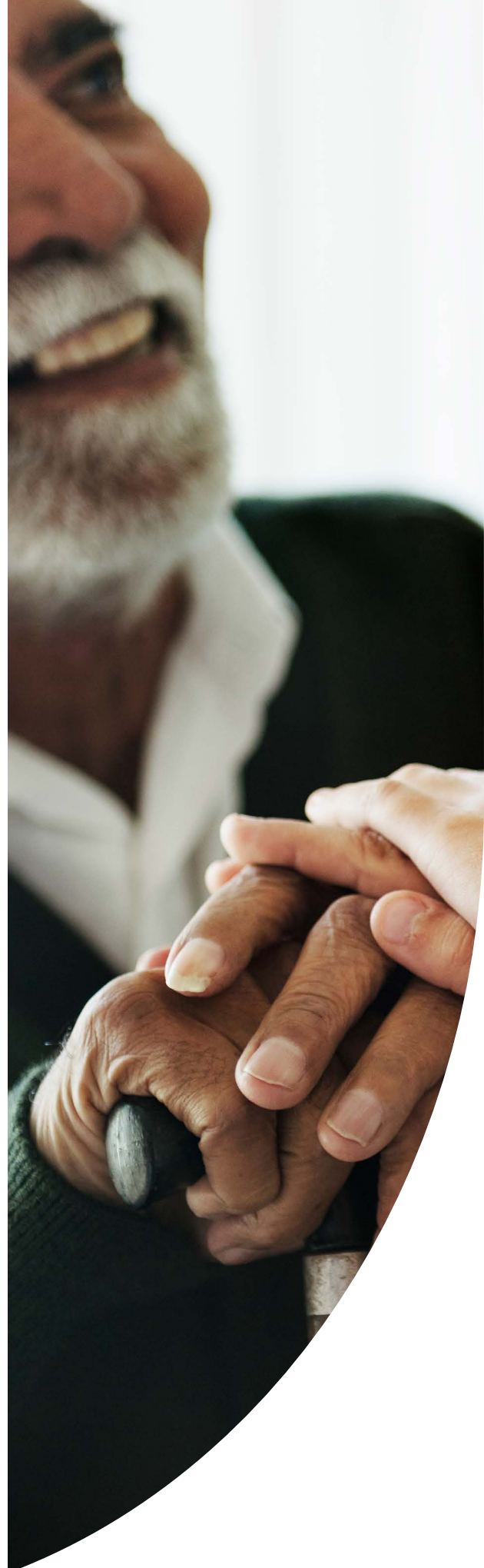
<sup>1</sup> Issuers should explain the alignment of their Social Bond or Social Bond programme with the four core components of the SBP (i.e. Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting) in a Social Bond Framework or in their legal documentation. Such a Social Bond Framework and/or legal documentation should be available in a readily accessible format to investors.

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### Disclaimer

*This document does not constitute an offer to purchase or sell securities nor constitute specific advice of whatever form (tax, legal, environmental, accounting or regulatory) and does not create any rights in, or liability to, any person, public or private. Issuers adopt and implement the check list voluntarily and independently, without reliance on or recourse. If there is a conflict between any applicable laws, statutes and regulations and the check list, the relevant local laws, statutes and regulations shall prevail.*



## I Strategy and rationale

Topic	Content	Core to the Principles / Recommendation	Reference
<b>Social and/or Sustainability Strategy</b>	<p>Description of the issuer's strategy and the reasoning for issuing a social bond.</p> <p><u>Note:</u> Certain Social Projects may also have environmental co-benefits; the classification of a use of proceeds bond as a Social Bond should be determined by the issuer based on its primary objectives for the underlying projects.</p>	Recommendation	<b><u>Social Bond Principles</u></b> Component 2
<b>Overall Strategy</b>	<p>It is recommended that issuers summarise in their Social Bond Framework relevant information within the context of the issuer's overarching sustainability strategy.</p> <p><b><u>Common question(s) from the Pre-Issuance External Reviewers:</u></b></p> <p>- <i>Is the activity integrated into the issuer's business model?</i> (For example, charitable activities that are integrated into the business model for charitable organisations may be considered credible, but not for for-profit sectors.)</p>	Recommendation	<b><u>Social Bond Principles</u></b> Key recommendation
<b>SDGs Alignment</b>	<p>Issuers are also encouraged to identify alignment with market-wide social or development objectives, such as the Sustainable Development Goals (SDGs), to help investors that may use them as part of their investment decisions. Issuers can indicate alignment:</p> <ol style="list-style-type: none"> <li>1) On the company level (if applicable)</li> <li>2) In respect of the Social Bond Framework</li> </ol> <p>The SBWG<sup>2</sup> recommends that issuers include in their Social, Green, and/or Sustainability Bond Frameworks their methodology for alignment with the SDGs, and where applicable, incorporate this in their external review process. Issuers should provide as much clarity and detail as feasible on how specific SDGs are relevant and not simply reference the SDGs in general.</p>	Recommendation	<b><u>Harmonised Framework for Impact Reporting for Social Bonds</u></b>  <b><u>High-Level Mapping to the Sustainable Development Goals</u></b>

Topic	Content	Core to the Principles / Recommendation	Reference
<b>Social Objectives</b>	<p>Description of the social issue(s) that will be addressed and how they are hindering the well-being of society/ target population. The project category is then how it will address the issue.</p> <p><b><u>Common question(s) from the Pre-Issuance External Reviewers:</u></b></p> <p>- <i>Does the activity fall in one of the social bond categories outlined in the SBP?</i></p> <p>While eligible activities are not limited to the categories outlined in the SBP, the alignment with one of the categories can provide a good indication to the intended positive outcome of financing the activity.</p> <p>Select all those that apply:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Affordable basic infrastructure</b> (e.g. clean drinking water, sewers, sanitation, transport, energy)</li> <li><input type="checkbox"/> <b>Access to essential services</b> (e.g. health, education and vocational training, healthcare, financing and financial services)</li> <li><input type="checkbox"/> <b>Affordable housing</b></li> <li><input type="checkbox"/> <b>Employment generation</b>, and programmes designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance</li> <li><input type="checkbox"/> <b>Food security and sustainable food systems</b> (e.g. physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements; resilient agricultural practices; reduction of food loss and waste; and improved productivity of small-scale producers)</li> <li><input type="checkbox"/> <b>Socioeconomic advancement and empowerment</b> (e.g. equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality)</li> <li><input type="checkbox"/> <b>Other</b> (please describe):</li> </ul>	<p>Core</p>	<p><b><u>Social Bond Principles</u></b> Component 1</p>

Topic	Content	Core to the Principles / Recommendation	Reference
<b>Target Population</b>	<p>Description of the target population (and/or the social issue(s) that will be addressed for society at large).</p> <p>The definition of target population can vary depending on local contexts.</p> <p>Select all those that apply:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Living below the poverty line</li> <li><input type="checkbox"/> Excluded and/or marginalised populations and /or communities</li> <li><input type="checkbox"/> People with disabilities</li> <li><input type="checkbox"/> Migrants and/or displaced persons</li> <li><input type="checkbox"/> Undereducated</li> <li><input type="checkbox"/> Underserved, owing to a lack of quality access to essential goods and services</li> <li><input type="checkbox"/> Unemployed</li> <li><input type="checkbox"/> Women and/or sexual and gender minorities</li> <li><input type="checkbox"/> Aging populations and vulnerable youth</li> <li><input type="checkbox"/> Other vulnerable groups, including as a result of natural disasters</li> <li><input type="checkbox"/> General public</li> <li><input type="checkbox"/> Other (please describe):</li> </ul>	<p>Core</p>	<p><b><u>Social Bond Principles</u></b> Component 1</p>
<b>Fundamental Rights / National &amp; International Standards</b>	<p><b><u>Common question(s) from the Pre-Issuance External Reviewers:</u></b></p> <p><i>Is the activity/project addressing an urgent need or a social need that is of particular importance due to the national/regional context and/or that has not been sufficiently addressed?</i></p> <p><i>(For example: how does the country perform on that social objective? or is there a specific gap in achieving the identified social objective where the activity/projects are located?)</i></p> <p><i>In particular, does the execution/realisation of the activity or project respect the ILO Conventions and Recommendations? Has the country where the activity or project is located ratified these International texts?</i></p> <p>Check to be done via ILO<sup>3</sup> website – Human rights risks mapping by country.</p>	<p>Recommendation</p>	

3 International Labour Organisation <https://www.ilo.org/global/lang--en/index.htm>



## II Focus on the 4 pillars of the SBP

### SBP component 1: Use of proceeds

Topic	Content	Core to the Principles / Recommendation	Reference
<b>Social Projects</b>	<p>A description of the issuer's social projects should be appropriately described in the legal documentation of the security. All designated social projects should provide clear social benefits, which will be assessed and, where feasible, quantified by the issuer. Issuers are encouraged to provide further details on the project category, such as sector of operation.</p> <p><b><u>Common question(s) from the Pre-Issuance External Reviewers:</u></b></p> <p><i>Does the activity/project provide clear social benefits that can be monitored, quantified and are attributable (at least indirectly) to the activity/project?</i></p>	Core	<b><u>Social Bond Principles</u></b> Component 1
<b>Target Population</b>	<p>Is there a target population?</p> <p><input type="checkbox"/> Yes, specific target population</p> <p>Issuers are encouraged to provide additional information as to why the specific population has been targeted.</p> <p>Issuers may consider target populations outlined in the Social Bond Principles, as well as additional target populations for which evidence exists that they are disadvantaged or vulnerable, and that the activity financed will improve the social conditions of the target population (please see section above).</p> <p><input type="checkbox"/> General population</p> <p>There may be some types of activities/UoP for which targeting a specific population is not appropriate or required, e.g. when investments address or mitigate a general social issue/challenge.</p> <p>However, in cases where there is no specific target population identified, it should be considered whether the activity has the potential to exclude some vulnerable or disadvantaged populations, e.g. through costs, geography, etc. The key question is whether the product/service associated with the UoP has a social impact and is accessible and affordable to all.</p> <p>When it comes to access to essential services, the general population can be targeted but this should be justified by the fact that the location of the project or the applicable legislation regulating the activity will ensure universal access to the service.</p> <p><b><u>Common question(s) from the Pre-Issuance External Reviewers:</u></b></p> <ul style="list-style-type: none"> <li>- <i>Is the mechanism clear regarding how the target population is addressed through the activity financed?</i></li> <li>- <i>Is the target population a disadvantaged or vulnerable group, or does the target population include a disadvantaged or vulnerable group?</i></li> </ul>	Core	<b><u>Social Bond Principles</u></b> Component 1

Topic	Content	Core to the Principles / Recommendation	Reference
<b>Social Benefits</b>	<p>Taking into account the local context and nature of the issuer, will the intended activity/project provide/ensure a short or long-term improvement or would it empower people regarding the social issue addressed?</p> <p>Can the issuer demonstrate that the project/activity will provide clear and relevant social benefits for the target population (based on evidence, research, international standards, etc)?</p>	Core	<b><u>Social Bond Principles</u></b> Component
<b>Multiple Projects</b>	Description of the estimated proceeds allocation per Social Project category.	Core	<b><u>Social Bond Principles</u></b> Component 4
<b>Refinancing</b>	Description of an estimate of the share of financing vs. refinancing, and where appropriate, also clarify which investments or project portfolios may be refinanced, and, to the extent relevant, the expected look-back period for refinanced Social Projects.	Core	<b><u>Social Bond Principles</u></b> Component 1

## SBP component 2: Process for project evaluation & selection

Topic	Content	Core to the Principles / Recommendation	Reference
<b>Selection of Social Projects</b>	<p>Description of the governance process:</p> <ul style="list-style-type: none"> <li>• the alignment of the issuer to the social project categories (e.g., qualitative and quantitative criteria),</li> <li>• if applicable, exclusion criteria,</li> <li>• if applicable, alignment of each Social Project with the respective target population.</li> </ul>	Core Recommendation	<b><u>Social Bond Principles</u></b> Component 2

Topic	Content	Core to the Principles / Recommendation	Reference
<b>Associated Risks</b>	<p>Description of the process applied to identify and manage perceived social and environmental risks associated with the relevant projects.</p> <p>If this were the case, it is recommended that issuers have a process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s). Such mitigants may include clear and relevant trade-off analysis undertaken and monitoring required where the issuer assesses the potential risks to be meaningful.</p> <p>While social activities do not require to demonstrate a positive environmental impact, they should not be harmful for the environment.</p> <p><b><u>Common question(s) from the Pre-Issuance External Reviewers:</u></b></p> <ul style="list-style-type: none"> <li>- <i>Would the considered UoP have a significant negative impact on the environment, or on other vulnerable groups or social areas?</i></li> <li>- <i>In addition, the social safeguards should be ensured, such as standards addressing human and labour rights (for example in the context of SME lending)</i></li> <li>- <i>What measures can be implemented to avoid or at least minimise the negative impact of the activity/project?</i></li> <li>- <i>Is the commitment to identify and manage potentially material social and/or environmental risks, as well as international conventions and recommendations or local labour laws formalised and detailed in the Framework?</i></li> </ul>	<p>Core Recommendation</p>	<p><b><u>Social Bond Principles</u></b> Component 2</p>
<b>International Standards</b>	<p>Issuers are encouraged to disclose any social standards or certifications referenced in project selection.</p> <p><b><u>Common question(s) from the Pre-Issuance External Reviewers:</u></b></p> <ul style="list-style-type: none"> <li>- <i>Does the activity/project evaluation and selection process include audit and controls to verify the compliance against the commitments along the value chain (define a sample depending on the level of risks)?</i></li> </ul>	<p>Recommendation</p>	<p><b><u>Social Bond Principles</u></b> Component 2</p>



**SBP component 3: Management of proceeds**

Topic	Content	Core to the Principles / Recommendation	Reference
<b>Management of Proceeds</b>	<p>Issuers should describe the key characteristics of the approach and process used for managing and tracking the net proceeds.</p> <p>The proceeds of social bonds can be managed per bond (bond-by-bond approach) or on an aggregated basis for multiple social bonds (portfolio approach).</p>	Core	<b><u>Social Bond Principles</u></b> Component 3
<b>Unallocated Proceeds</b>	Description of the intended types of temporary placement for the balance of unallocated net proceeds.	Core	<b><u>Social Bond Principles</u></b> Component 3
<b>Verification</b>	The management of proceeds may be supplemented by the use of an external auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Social Bond proceeds.	Recommendation	<b><u>Social Bond Principles</u></b> Component 3

**SBP component 4: Reporting**

Topic	Content	Core to the Principles / Recommendation	Reference
<b>Frequency of Reporting on Allocation of Proceeds</b>	<p>The reporting should be renewed:</p> <p><input type="checkbox"/> Annually until full allocation of the proceeds of the relevant social bond</p> <p><input type="checkbox"/> In case of full allocation, on a timely basis in case of material developments</p>	Core	<b><u>Social Bond Principles</u></b> Component 4
<b>Frequency, Duration, Level of Impact Reporting</b>	<p>The report should include the output, outcome and/or impact of projects financed by social bond proceeds either on a project level or on a portfolio level throughout the life of the Social Bond.</p> <p>When possible and if applicable, issuers are encouraged to:</p> <ul style="list-style-type: none"> <li>• define and disclose the period and process for including projects in their report.</li> <li>• describe the indicative name of the report and its publication location.</li> </ul>	Recommendation	<b><u>Harmonised Framework for Impact Reporting for Social Bonds</u></b>
<b>Reporting Indicators</b>	<p>Description of the qualitative and quantitative impact metrics that will be used to demonstrate substantial contribution to social objectives per project category related to the criteria.</p> <p>Issuers should use output, outcome, and/or impact metrics relevant for their projects and utilise existing indicator lists and catalogues wherever possible. Quantitative indicators are encouraged.</p>	Recommendation	<b><u>Social Bond Principles</u></b> Component 4 <b><u>Harmonised Framework for Impact Reporting for Social Bonds</u></b>

Topic	Content	Core to the Principles / Recommendation	Reference
<b>Indicator Methodology</b>	<p>Description of the key underlying methodology and/or assumptions used in the quantitative determination.</p> <p>For comparability and transparency, it is highly recommended that issuers provide background on the methodology and assumptions used for the calculation of social impact indicators. Issuers are encouraged to explain (if possible) if indicators represent incremental change between a baseline and a target (relative point) or simply a total figure (absolute figure).</p>	Recommendation	<p><b><u>Social Bond Principles</u></b> Component 4 <b><u>Harmonised Framework for Impact Reporting for Social Bonds</u></b></p>
<b>Share of Financing and Reporting</b>	<p>Explanations of the methodology used to determine the share of eligible project financing being applied to impact calculation. This is the share of the total project cost that is financed by the issuer. Issuers may also report the total project cost.</p>	Recommendation	<p><b><u>Harmonised Framework for Impact Reporting for Social Bonds</u></b></p>
<b>Disbursement Reporting</b>	<p>It is recommended that issuers' impact reports indicate the timing of disbursements.</p>	Recommendation	<p><b><u>Harmonised Framework for Impact Reporting for Social Bonds</u></b></p>
<b>Further Information</b>	<p>In this section you have the opportunity to provide further information e.g. based on national regulations, data and/or certain KPI's, with regard to the SDGs or other information which could be useful for investors.</p>	Recommendation	<p><b><u>Harmonised Framework for Impact Reporting for Social Bonds</u></b> <b><u>High-Level Mapping to the Sustainable Development Goals</u></b></p>

### III Engaging external review providers

Topic	Content	Core to the Principles / Recommendation	Reference
<b>Appointment</b>	The SBP recommend that in connection with the issuance of a social bond or a social bond programme, issuers appoint (an) external review provider(s) to assess through pre-issuance external review the alignment of their bond or bond programme with the four components of the SBP.	Recommendation	<b><u>Social Bond Principles</u></b> Key recommendation
<b>Type of External Review</b>	<input type="checkbox"/> Second Party Opinion <input type="checkbox"/> Verification <input type="checkbox"/> Certification <input type="checkbox"/> Scoring/Rating	N/A	<b><u>Guidelines for External Reviews</u></b>
<b>Public Disclosure of the Reports or Templates</b>	The SBP recommend public disclosure of external reviews (on the bond issuer's website and/or through any other accessible communication channel as appropriate before or at the time of the issuance) as well as using the template for performed external reviews.	Recommendation	<b><u>Social Bond Principles</u></b> Key recommendation
<b>External Verification of Reporting</b>	Indicate if external review will be provided for impact/ allocation reports.	Recommendation	



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