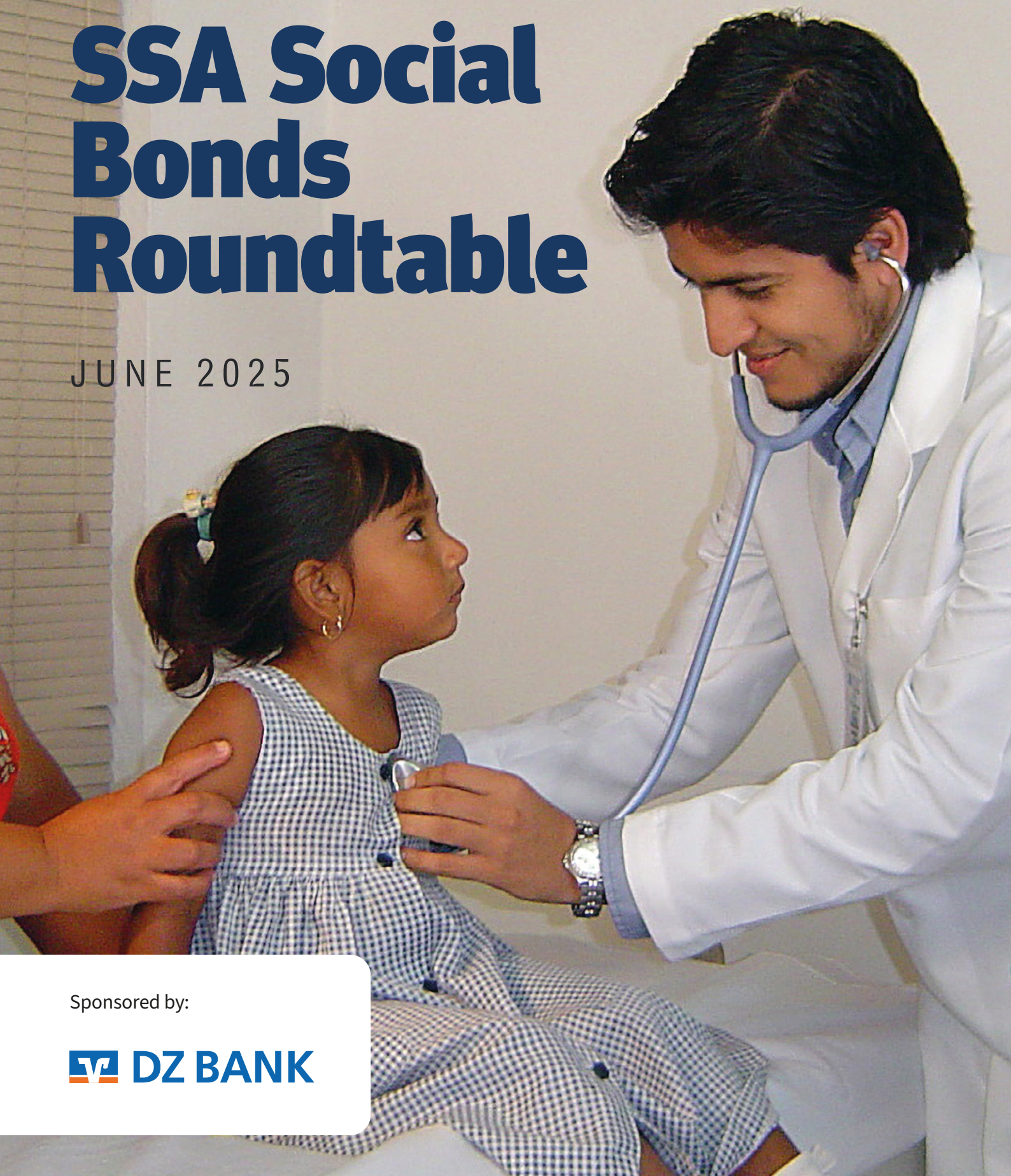


GlobalCapital

SSA Social Bonds Roundtable

JUNE 2025



Sponsored by:



Social bond investors demand volume, variety and strong outcomes

Social bonds have become an established part of the funding market for supranational, sovereign and agency borrowers, with a steady output of about €140bn a year from all kinds of issuer, since the exceptional surge during the pandemic.

Investors would like more, and large reservoirs of social spending in the public sector are not being tapped. Among governments, national and local, still only a minority use the instrument.

Meanwhile, investor demand is tangible but diffuse, often spread across a variety of funds and firms with environmental, social and governance awareness, rather than coming from dedicated social bond funds.

Investors who do pursue the product are thirsty for a broader spread of issuers and

currencies — this year issuance has been 50% in euros and 63% from the public sector.

GlobalCapital brought together 10 leading issuers, investors and investment bankers in June to discuss their experiences and what the market needs to grow.

Speakers debated pricing dynamics, the scarcity factor, whether the Trump administration's stance on ESG has affected the market, and whether defence can be considered social expenditure.

They argued investors want clarity on impact. That can be difficult to provide when impacts can take years to bear fruit, but issuers are learning to be more precise about the immediate outcomes the bonds finance, and which groups in society are benefiting from social investments.



Roundtable participants



Jean-François Masure , head of debt agency, Communauté Française de Belgique	Felix Baumann , specialist, investor relations and ESG, NRW. Bank	Ayelet Perlstein , head of investor relations, International Finance Corp	Laura Fan , head of funding, Inter-American Development Bank	Marcus Pratsch , global head of sustainable bonds and finance, DZ Bank	Antti Kontio , head of funding and sustainability, Municipality Finance	Felix Grote , head of funding and investor relations, Council of Europe Development Bank	Manuel Valdez , head of funding, CAF (Corporación Andina de Fomento)	Bram Bos , global head of green, social and impact bonds, Goldman Sachs Asset Management	Moderator: Toby Fildes , managing director, <i>GlobalCapital</i>	Sydney Siahajja , head of funding, BNG Bank
---	--	--	---	---	--	---	---	---	---	--

STRENGTH OF DEMAND

GlobalCapital: What is the present landscape of investor demand for social bonds? Where are the hot spots and how is it evolving?

Marcus Pratsch, DZ Bank: What we can generally say is that too much demand meets too little supply. Social bonds are a vehicle which is very much sought after in the market. So deals are traditionally more oversubscribed than plain vanilla bonds.

At the same time, it's a growing market. Of course we saw a peak during Covid but in the last three years the market has been more or less growing. It's still a niche within the sustainable bond segment, which is OK because green was a very early market and social bonds came into play a couple of years ago.

The fixed income market is a more than \$100tr opportunity. We now see global issuance of around

\$1tr in the whole sustainable bond market and social bonds are still under-represented, there's much more potential.

Where we think there is a lot of potential is the sovereign market. We have 170 sovereign bond issuers, only about a third come to the sustainable bond market yet, and most choose green.

Emerging markets are also one of the biggest opportunities for the social bond market. This is what I hear from most of the investors. We are building the bridge between the investor and the issuer — they would love to see more supply in the market.

Bram Bos, Goldman Sachs Asset Management: In our view the social bond market is still very niche at the moment. Issuance is highly concentrated in SSAs. When you look at the corporate bond space, generally all you can find is financials issuing social bonds. So there's still

a big gap to bring it to the same issuance level as green bonds.

We see demand for social bonds, but nowhere near the same level as green bonds, where there are many more dedicated strategies and a clear additional demand.

As to your remark on emerging markets, I fully agree. We see a lot of investors looking at investing in emerging markets to make a social impact.

So if you ask me where is the big opportunity of the future, it's probably in that space because it feels more natural for a lot of asset owners and asset investors.

GlobalCapital: Felix, you're a big issuer of social bonds, do you find it's true that investors are frustrated by the lack of supply, or are you quite happy for it to be that way?

Felix Grote, Council of Europe Development Bank: It's a chicken and egg situation. How can we together, investors and issuers, add and help the social market to grow? Of course it would be nice if there were more dedicated social bond portfolios but then there are also a lot of broader ESG portfolios that can buy our social bonds.

But a larger variety of issuers is still needed. For example, I wonder why more regions, local authorities or cities don't use the instrument. That's where most of the social investment is happening.

To your point about emerging markets, my institution's mandate



"I wonder why more regions, local authorities or cities don't use the instrument. That's where most of the social investment is happening"

Felix Grote, Council of Europe Development Bank

is 100% social, all our lending is social, and then sometimes from investors in Asia we get this question ‘well, we’d like to invest in a project in eastern Europe because we feel there’s a higher social impact’.

We have decades of experience in how we select the right projects and monitor them, and we would argue that all our projects, including in countries like Germany and France, have a high social impact for the local target populations. And the success of our Social Inclusion Bonds clearly confirms that our investors believe in the quality of our social assets pool.

Emerging markets are one thing but in many countries there’s underinvestment in social infrastructure. So there should clearly be more issuers coming to the social bond market and all of us together offering additional supply.

At CEB we have also expanded into new currencies and markets to respond to investor demand and feature a larger product offering.

Ayelet Perlstein, International Finance Corp: We’ve seen a lot of demand for our social bonds. We’ve recently updated our framework to be more comprehensive and give more detail on the eligibility criteria and types of projects.

And we added a second party opinion, which was a big plus for investors — a lot of them specifically were looking for that. We had our largest dollar benchmark, \$2bn in social.

But we still don’t see enough investors where it is a designated bucket or mandate for social. A lot of investors say it’s a nice to have, it’s a plus.

We see some advantages in the bookbuilding — we do see more demand. Our \$2bn deal was massively oversubscribed. We have seen that for other transactions in the market last year, but we feel a lot of that was due to it being a social bond.

We find they perform better in the secondary market. There’s the rarity effect; a lot of investors who buy these bonds are buy and hold.

But we haven’t really seen the advantage in terms of pricing and we haven’t seen enough investors where this is the mandate or the bucket for a social bond. It is still considered niche.

Other investors will tell us: ‘IFC, anything you do is social anyway, so why do you have a designated

social?’ I’m not talking about the more sophisticated investors who want the ICMA alignment and impact reporting, but investors who don’t really focus on ESG.

So it’s very important for us to also have the role of education in the market, to explain what is a thematic bond, why is it a social bond specifically, why not all of our proceeds are social. We really try to educate investors, especially in the US where it’s a little bit less focused on thematic bonds.

GlobalCapital: You were talking about advantages in the secondary market — are you comparing it to non-labelled bonds or to environmental, for example?

Perlstein, IFC: To non-labelled. For green bonds, greenium has eroded but we still see some pricing benefits sometimes. It’s not 3bp but we see sometimes maybe 1bp, maybe 2bp. For social we don’t see a pricing advantage at all.

FRAMEWORKS AND METRICS

Laura Fan, Inter-American Development Bank: Last Thursday we announced a new Sustainable Debt Framework for IDB. It will allow us to issue green, social and sustainability bonds and we have an SPO from Sustainalytics, which we did not have in our previous frameworks. It says the framework is aligned with the ICMA Principles.

Now this new framework is meant to complement our existing Sustainable Development Bond Framework. We also have a social bond framework called our EYE Bond framework — Education, Youth and Employment. That programme will wind down and be

replaced by social bonds under the Sustainable Debt Framework.

This framework specifies the targeted population, for example, looking at vulnerable populations, small and medium sized enterprises, and in addition to that we have provided examples of metrics for the impact reporting. We will have dedicated allocation and impact reporting.

Like Ayelet said, as we are a multilateral development bank with a mission to promote the economic and social development of Latin America and the Caribbean, one could argue that simply by our mission alone, everything we issue could be considered sustainable. So this new framework targets a particular segment of demand that wanted the specific reporting and an SPO.

We issued two EYE Bonds in Australian dollars and what we learnt was maybe in the primary market there isn’t too much of a pricing advantage, but in the secondary market, the bonds typically traded better than conventional bonds.

Part of the rationale was that, after meeting with global investors, I learned that many of them do have dedicated portfolios or a particular interest, maybe an overall objective at the corporate level to demonstrate commitment to social issues.

Because it’s so difficult to find social bonds, if for example there’s market volatility and you need to sell a bond, then if you sell a social bond, you have to replace it with another labelled bond and that’s not that easy to find. So when times are volatile they may pause and choose to sell a conventional bond instead.

GlobalCapital: Why did you decide to add an SPO now?

Fan, IDB: When we put the EYE Bond Framework together, it was in



“Emerging markets are one of the biggest opportunities for the social bond market. This is what I hear from most of the investors. . . they would love to see more supply in the market”

Marcus Pratsch, DZ Bank

“Whenever we’re considering a project — related to education as an example — we conduct a baseline study. And then you set the targets the loan is going to achieve. Those targets clearly have to be ambitious. Therefore, what is right in one country may not be right for another because the baseline is different”

Laura Fan, Inter-American Development Bank



2014, and we felt that at that time, the SPO providers were much better versed in green and less in social. A little bit over 10 years later we have felt that their knowledge has grown quite significantly, so there is value in that SPO where we did not believe there was value before.

Perlstein, IFC: I feel today with the landscape, especially investors in the EU, it’s not enough to say ‘I’m IFC/World Bank, it’s fine, trust us, it’s all OK.’ Investors want more. They want more analysis, they want more comprehensive data. More is demanded from us as issuers in reporting and the frameworks to be best practice.

Felix Baumann, NRW.Bank: This is something we’re observing as well. We’re a state promotional bank of North Rhine-Westphalia. We’re an economic policy instrument of the state government, owned by the state government. And we’re active in three promotional fields: housing, especially social housing; SME financing and infrastructure financing. Just by definition of our mandate, social impact is part of our DNA.

We’re quite active in the market as a social bond issuer since 2020, coming with at least one, often two, social bonds per year. And what you said about the investor demand — we do not necessarily see an undersupply of social bonds, as the average oversubscription of our books is comparable between social bonds and our regular benchmark issues.

But what we do observe is the rising expectations of investors when it comes to credible and robust impact.

As issuers, we’re challenged to match this demand from the investors by making our impact rationales and impact methodologies more sophisticated, and designing robust impact chains, especially when it comes to lending and the understanding of what the lending is for.

In terms of pricing, if this trend persists, maybe the demand/supply equilibrium will shift but from our perspective it’s questionable if this will actually lead to a premium in price for the issuer, which we saw in the green market up until a few years ago.

Jean-François Masure, Communauté Française de Belgique: CFB is focusing on education, so 80% of the budget can be used to justify the issue of social bonds. We’ve done something like €3bn since 2021.

But what is a bit worrying for me is the impact reporting we have to provide. There is no consensus in the market about the KPIs we have to show which are interesting for almost all the investors.

For green bonds the KPIs are quite familiar for everyone. Social is something different and I think every investor has its own request in terms of KPIs. Some will focus on education, some will focus on the age of the population and so on, but not everyone has the same focus.

RATIONALE FOR ISSUANCE

Antti Kontio, Municipality Finance: ESG has become mainstream in many ways. Green bonds are leading the way compared to social bonds. But in our social bonds the investor base is pretty much the same as we have in conventional bonds.

In green bonds, the investor base is deeper, you definitely have these very green investors, but in social we haven’t really seen this.

When it comes to us and how we have approached this topic, we have always wanted to have additionality. We want to avoid wrapping something that we would do anyway as social.

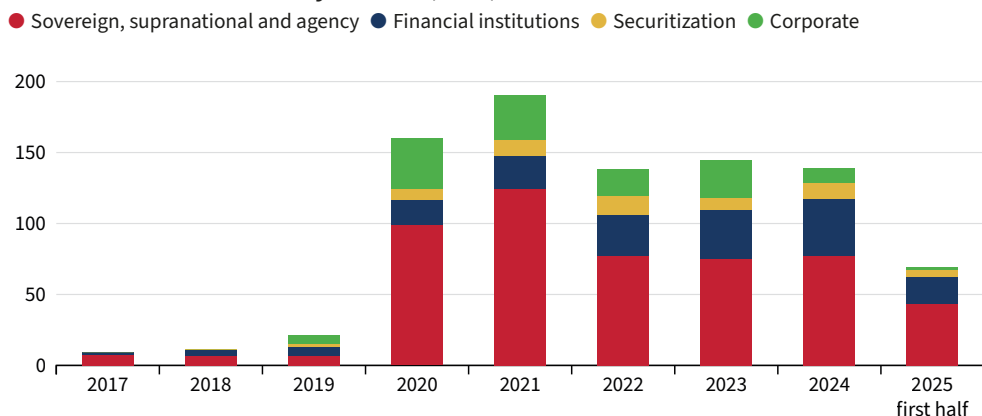
So the whole Social Bonds Framework has been designed in a way that we only look at the highest quality from the social perspective. This also limits the amount we can do. So the question why there is undersupply — maybe one reason is that some issuers have a different approach to this.

Manuel Valdez, Corporación Andina de Fomento: Our experience before the pandemic from investor feedback was that they preferred green, there were specific green mandates for investors.

Then came the pandemic, we saw a lot more issuance of social bonds. But at the same time, investor feedback was that there weren’t any funds specifically mandated for social aspects.

So that’s why you would see most of the MDBs change their funding strategies, having a social

Social bond issuance by sector (€bn)



Source: GlobalCapital analysis of Dealogic data

bond framework, a green bond framework, and now pretty much everybody is doing a sustainability framework — because investors provided that flexibility of investing in sustainable, which has those two components. It's not just what we used to hear in the past that they only wanted green bonds.

That's something we saw change. Then regarding SPOs, I think the ESG rating agency universe has significantly changed — it's now more concentrated. A lot of the methodologies are a bit more standardised and it makes sense that most of the big players of thematic bonds have SPOs.

Regarding where this asset class will grow, I think the sovereigns and sub-nationals. And in the same way that MDBs provided technical assistance for green bonds for sovereigns, we should also do that for social bonds.

Sydney Siahajja, BNG Bank: I definitely recognise what was said with regard to the rating and SPO providers being more integrated.

We've been issuing social bonds and sustainability bonds since 2014. We renewed and finalised our current Sustainable Finance Framework in 2021, updated its wording last year, and obtained a new SPO. We found that the discussion was much more in depth and we had a very fruitful back and forth, which taught us a lot and hopefully taught them a lot.

Last year we were very active in social bonds, we issued over €6bn, to finance the Dutch social housing associations.

In terms of the investor base, we get more traction with certain geographies such as Canada and Switzerland, and of course Europe is very vocal about ESG and more developed in social than some other geographies.

I would like to go back to something Bram said, which was interesting to me. You covered the topic of social being more relevant perhaps in developing economies than in developed economies.

But since you are intimately familiar with Dutch society, would you not say that the role of social housing associations also provides a solution to the housing shortage, which I personally think is related to many issues we are currently facing in Dutch society? It could only be seen as a very important social use of proceeds.

Bos, GSAM: Yes, I believe social housing is also important. I just speak to a lot of asset owners and they really feel they can have more tangible impact when they invest in emerging markets.

ESG PENDULUM

GlobalCapital: I think one of the elephants in the room is what's happening in the last six, nine, 12 months. Ten years ago lots of people were very pro-ESG bond markets, lots of issuers supported it, lots of investors supported it.

And then suddenly, attitudes changed a lot in the US. Life became harder for the ESG bond markets in general, especially from the US. I don't want to put words in anyone's mouth but it appears with the new administration in the US, that attitude has hardened somewhat.

With all that's going on, is this the time for social bonds to really come out and become a much more powerful instrument, just because of the potential attitude problems towards the environmental side in the US? Is this an opportunity for social bonds to grow sharply, given that it might be harder for certain other parts of ESG over the next couple of years? Feel free to disagree with what I just said.

Pratsch, DZ Bank: From my point of view, the sustainability bonds market won't be Trumped. We should turn this challenge into an opportunity.

First of all, if we look at the social bond market, it's more or less dominated by government-backed assets, at 61% in 2024. In the USA,

for example, Fannie Mae, Freddie Mac and Ginnie Mae have 16% of global issuance.

But if you look at Europe and Asia combined, they're responsible for 60% of issuance — especially in Asia, I see issuance really picking up. It's a big potential market.

Social bonds are also a response to crises. We've seen this in the pandemic, we now see it during the Ukraine war. And the Sustainable Development Goal financing gap is widening and we have less than five years to go. We need to have the capital markets on board and this is where the opportunity lies.

We now see the debate changing. 'ESG' is dead, from my point of view. Why is ESG dead? First it's an error, we should call it EESG, because we have also the economic perspective of sustainability.

This is where also the social part plays a big role, the interaction between the economic and the social dimension.

And ESG is dead in a way, now also talking about transition — it's a more mature market, it's not about the sustainable and non-sustainable thing anymore.

Transition also includes a social dimension. We always talk about environmental transition but the social part is a very good part of this.

The ESG term won't be used in some administrations but sustainable finance is here to stay. This is the big opportunity, and if you look at the growth rates over the last year, social bonds really showed and proved that they are a very resistant instrument within the overall segment.

Fan, IDB: I don't think social bonds are dead in the United States but issuance has declined in the past year or so. It's interesting what Felix mentioned [about local

"We have always wanted to have additionality. We want to avoid wrapping something that we would do anyway as social. So . . . we only look at the highest quality from the social perspective"

Antti Kontio, Municipality Finance



“What is a bit worrying for me is the impact reporting we have to provide. There is no consensus in the market about the KPIs we have to show which are interesting for almost all the investors”

Jean-François Masure, Communauté Française de Belgique



government]. In the US, there’s an extremely large municipal bond market and there you do see green, sustainable and social bond issuance.

Most of that social bond issuance is in different programmes. Marcus has mentioned Freddie Mac, Fannie Mae — they have a mortgage-backed securities programme, which primarily focuses on affordable housing for low and moderate income households.

And in a lot of the states — there are housing authorities for example in Pennsylvania, in Michigan, in Connecticut and their focus is on issuing bonds to provide low income and moderate income families with affordable housing.

So it’s not just about funding affordable housing, it’s about the impact that a house could have on an individual’s economic prospects, to allow them to become a more productive member of society, which obviously then benefits the country.

Perlstein, IFC: I fully agree with Laura and I think the question is not the social, the green bonds themselves but more the narrative, the story we build around it and how we communicate that to investors.

Certain terms have become more sensitive in the US, so in that respect

when Marcus says ESG is dead, we don’t sell these social bonds as ESG. They’re not ESG bonds, they’re labelled or thematic bonds. But I think the story we tell investors is very important.

So when we frame it as ‘we are financing affordable housing, we are financing jobs, we’re financing participation in economic activity, women’s participation in the labour force’, then we really see that narrative hit US investors and they do participate.

At IFC we see ourselves as market leaders and want to build the market. And part of that is to educate both our investors and the SPO providers, to be honest, what it looks like to invest in developing markets.

So we try to frame the narrative in a way that would be appealing to US investors.

I know it’s not a panel about green bonds but I think the same goes for green projects. It really is about how you build the narrative. If you talk about an energy project with green benefits, it’s much easier to communicate.

So in the US, it is a question of how we present it, and how we try and bridge that gap between developing markets where we invest and who invests in them.

Grote, CEB: The beauty of the product is that it is a longer-term investment tool, but it can also be a really flexible tool, as Marcus said.

At the start of the Covid pandemic we thought ‘this is the right instrument to finance health expenditures’, and when the war broke out in Ukraine, ‘let’s tap the market to get financing for refugees from Ukraine.’ For the latter I used to wonder why we were the only institution to do so.

These bonds were hugely successful. There was so much investor demand that we had never seen before. For the first time, we upsize our Social Inclusion Bonds and expanded into the US dollar market. In the case of Covid we updated our existing social bond framework in record time, as little as a week, between bond pricing and settlement. So the product is very flexible, very useful.

If we look at what’s happening currently and this focus, let’s say, away from green only, at the same time more and more investors are reaching out to us about what is called the just transition — the green transition needs to happen in a socially just way.

As an institution we are closely engaged in some of these discussions and I would be really pleased to witness if at some point we see some social bonds to finance the just transition.

DEFINING STANDARDS

Bos, GSAM: One of the challenges when comparing social bonds with green bonds is the difficulty around definitions for social projects.

This is really a very big challenge. That’s why a lot of long term asset owners may have a CO₂ reduction target for example, but long term social targets are rare.

Green bonds have been one of the examples of what is easy to define and very successful. Social bonds are in our view lagging there, the question is — what do we have to do to bring it to the same level?

Education is very important, but one thing which is important is having a varied availability of issuer types.

Whenever we are designing a new product, we try to replicate a normal fixed income index or strategy because then people can say ‘Oh, it’s easy to replace it.’

“Regarding where this asset class will grow, I think the sovereigns and sub-nationals. And in the same way that MDBs provided technical assistance for green bonds for sovereigns, we should also do that for social bonds”

Manuel Valdez, Corporación Andina de Fomento



Fan, IDB: Typically, we say biodiversity markets are local, and to some extent social markets are local as well. And when you're talking about that impact report, it's not an impact report, it's an outcome report.

What you're measuring, if you're issuing a five year bond, is what can be counted — the number of children educated, number of schools built, number of hospitals built, number of people who have benefited from medical programmes.

Especially for a child, you can't ascertain the ultimate impact until maybe he or she is 25 years old. Is their standard of living higher than what it would have been had they never gone to school and that school had not been built?

For the IDB, whenever we're considering a project — related to education as an example — we conduct a baseline study. And then you set the targets the loan is going to achieve.

Those targets clearly have to be ambitious. Therefore, what is right in one country may not be right for another because the baseline is different.

So there's a lot of additional work investors have to put in to ascertain first the baseline and then whether the targets are ambitious or not.

So to some extent, yes, I agree there's limited cross-border comparison because to some extent it's local.

Grote, CEB: There is of course the ICMA Green and Social Bond Principles and the respective working groups to define those standards, on a global level.

What we often hear from investors is the thing that is maybe missing is some kind of sensible regulation or taxonomy. We probably all agree the draft EU Social Taxonomy was not ideal.

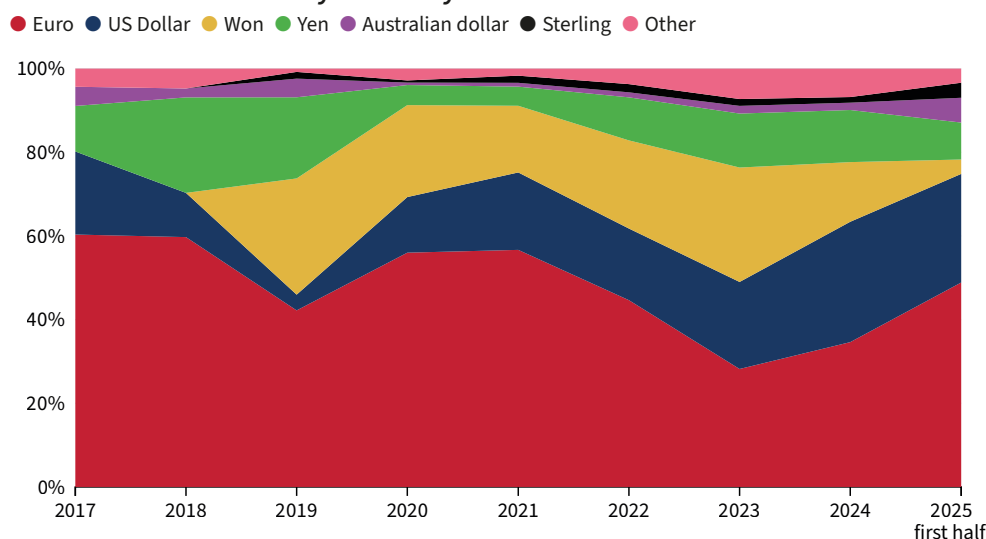
But maybe the market needs something in between that could give investors further comfort.

Perlstein, IFC: But that would be further narrowing and you don't want to further narrow the market.

Grote, CEB: It doesn't need to be further narrowed, it just needs to be pretty clear for everyone.

Again with ICMA, we aim to find the right level of standardisation and harmonisation but sometimes we as an issuer also go beyond that and add further details if we can or give

Social bond issuance by currency



Source: GlobalCapital analysis of Dealogic data

examples. But of course the most important thing is standardisation and robust reporting, so investors can compare across their various holdings.

Baumann, NRW.Bank: I very much agree with what Laura said. Social impact is always contextual, not like in the green sphere, where impact is more or less absolute, for example considering the reduction of CO₂ emissions.

It all boils down to a shared understanding of what constitutes social. Much of what we regard as social lies in the public sphere: education, public services, health.

However, that does not mean anything in the public sphere is automatically social. Look at the housing market. In most Western societies, affordable housing is among the most urgent social issues. For societies, however, where housing is easily available or vacancy rates are high, such investments wouldn't be considered social.

So you always — and that is something the Principles require as well — have to address an underserved part of the population.

The question is: will standardisation help with that? Do we have to focus on economic activities that provide social benefit or social effect? I would much rather argue we need a shared understanding of how we can determine how social impact is created. So we go one level above.

In our most recent Social Bond Framework update in May 2025, we introduced the AAAQ [availability, accessibility, acceptability and quality] model that was also suggested at the European level to make our impact rationales more sophisticated. We sharpened our target populations and made our eligibility criteria more precise, while gaining the opportunity to understand better the impact we have on relevant target populations. That's eventually what it comes

“When we frame it as ‘we are financing affordable housing, we are financing jobs, we’re financing participation in economic activity, women’s participation in the labour force,’ then we really see that narrative hit US investors and they do participate”

Ayelet Perlstein, International Finance Corp



“Green bonds have been . . . easy to define and very successful. Social bonds are in our view lagging there, the question is — what do we have to do to bring it to the same level?”

Bram Bos, Goldman Sachs Asset Management



to — you have to know the target population.

What has been very helpful for us is that not only we regularly engage with investors, especially investors with a strong social focus, to get their perspective and bring them on board, but also we work with the Wuppertal Institute, a scientific institution that has specialised in impact measurement and reporting. For us, having a scientific partner supporting us is tremendously helpful.

And yes, most KPIs we report are at outcome level. Exactly as you said Laura: due to the long term nature of social impact, reporting on the impact level is really difficult.

We see our social bond programme as a learning journey, accompanying a maturing market. With every step, we try to increase the transparency and credibility of our bond rationale and provide additional benefits to the investor. For example, with our upcoming impact methodology revision, we’re trying, together with the research institute, to use AI to test for the robustness of the impact rationales.

It’s experimental. We try it, we learn. And hopefully we can take these learnings and implement them into the next steps.

Kontio, MuniFin: I fully agree with what has been said. But because of the nature of the product of social, it’s very difficult to just say that ‘this is social and this is not’. From our perspective, the ICMA Principles are enough for that.

And it finally all goes into the communication the issuer has with the investors, it’s very important to have discussions with the investors, to explain that ‘OK, this is how we see social’, get the feedback and also get the feedback on impact reports.

We usually don’t get much feedback but I think it’s a good sign.

But it’s so important to be transparent because all the programmes are different and it’s impossible to draw definitions in a unified way.

Valdez, CAF: As an issuer, it all depends on your framework, how rigorous it is, how transparent you are with investor communication.

In many cases, when we’re looking at projects we’re reporting on and we’re sitting with investors, the feedback we get is ‘this threshold isn’t sufficient’ and obviously it’s because we’re not in the European Union standards.

But at the same time, given we’re an emerging market lender, once you explain the story and the rationale, that’s a way for investors to jump on board on many of the issues and a lot of the projects we’re financing.

PRESENTING THE MESSAGE

GlobalCapital: Given some of the changes in attitudes in the US, do you issue mostly in dollars still or also euros?

Valdez, CAF: Dollars, euros, sterling. It depends.

GlobalCapital: Have you had to evolve your narrative, given the political environment?

Valdez, CAF: Most of our ESG issues have been concentrated mainly in the European and Asian markets. But we recently updated our sustainability framework and we have had a lot of investor meetings over the last six months.

And the feedback from US asset managers with ESG mandates has been that they have made some long term social and green commitments. The demand will still be there from them, investing in these instruments.

They probably won’t publicly announce it in marketing as much as in the past, but since they have these long term commitments, the demand will still be there.

Bos, GSAM: We are looking positively at more dollar issuance. You mentioned the US muni market, but it’s less liquid. International investors do not always have access to it.

Fan, IDB: They don’t buy it because muni bond yields are usually more attractive to US investors, as they may receive federal, state and/ or local tax exemptions.

Bos, GSAM: We really are looking for more issuance in dollars in general, it’s something we would really like to add. Of course if there’s limited issuance from the US, there will be some kind of social premium and that will probably lead to some issuance.

GlobalCapital: Might we see the French community of Belgium issuing in dollars?

Masure, CFB: Well I think it would cost a lot if you translate the dollars into euros. But I was wondering if the social Taxonomy would, at least in Europe, help a bit in the definition of the KPIs and so on. That’s helped quite a lot in the green bonds. Maybe this would increase a bit the visibility of the social bonds and the KPIs we have to use to have a uniform view of the bonds.

I always wonder who really looks at the reporting we do and what do the investors do with it? I think they just tick the box — ‘OK the reporting is there, they did what they said’ and that’s it. I don’t think they do something real with the social reporting.

Bos, GSAM: We actually do. We publish impact reports on all our funds and a lot of clients are asking for it. So if we invested in your bonds, we would read your impact report and if we thought the numbers were off or outliers, we always would check with you, ‘hey, how did you come to this number?’ So we try to engage. For us, it’s extremely valuable.

Masure, CFB: I have never received any call from an investor asking for some engagement or asking questions about the reporting we

did. That's a bit the brake on the volume of social bonds we issue.

Grote, CEB: It's a great point of entry, we do have these calls and then potentially end up with a reverse enquiry. It's a different type of dialogue, focused on the impact report and other ESG reporting. It is more intense and going into details. They have questions on why is it different from this year to that year — it's a really nice engagement tool.

Siahajja, BNG: It's very dependent on the investor in my experience. There are investors all across the spectrum, right from those that say 'I'm agnostic, it doesn't really add anything for me specifically', through to those that are really ESG-only and have a specific mandate for that.

In my experience, it is those investors who are most likely to come to you with specific questions on the impact reporting as they will definitely read it, like the investor we have present here today.

And those questions can be quite detailed and well thought out. It's always interesting to have those kinds of conversation because it also gives us the kind of feedback we use to improve the impact reporting.

And that's very important for us to be credible as an ESG issuer, that we are trying to make this real world impact and we want to provide easy to understand targets in our impact reporting, and also to provide cases of actual clients that are now using their money to do good.

The feedback we are getting from these investors is that they are looking for this kind of information, these very tangible numbers like the number of houses built, and they are also very interested to read the cases of clients — what are they using the money for?

Pratsch, DZ Bank: One or two words on the social Taxonomy. I like regulation and I like taxonomies when they have the intention to grow the market, when they are usable, when they are not too complex and when they are accepted by market participants.

After all this experience with the green Taxonomy and the big challenge now with [the Omnibus reform package] and all those things, it's important to get it right.

My personal fear is now that when we talk about 'do no



"[It's] very important for us to be credible as an ESG issuer, that we are trying to make this real world impact and we want to provide easy to understand targets in our impact reporting, and also to provide cases of actual clients"

Sydney Siahajja, BNG Bank

significant harm' from a social context and maybe combine it with the green do no significant harm, it might be so complex that we might see an adverse effect on the market.

A social Taxonomy might be helpful, but it should be done right, from the start.

Perlstein, IFC: I absolutely agree. Saying you want to see more issuance from local government, emerging markets, corporates and then mentioning a social Taxonomy coming out of the EU — to me they don't go hand in hand.

I understand the problem of standardisation and comparability, but the focus has to be transparency — easy to understand, measurable, tangible results — and make it easy.

For us, the ICMA Principles meet these standards and it's important to socialise them to see more issuance coming from local and corporate and emerging markets.

Grote, CEB: And make use of the ICMA reporting template. Very few issuers actually do that.

Perlstein, IFC: Yes.

WHERE ARE THE GOVERNMENTS?

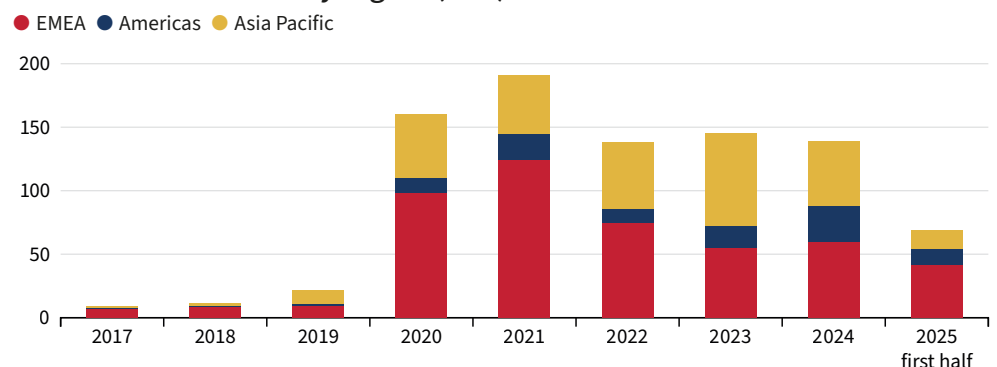
GlobalCapital: Four countries — Chile, Colombia, Slovenia and Iceland — have issued social bonds, as have a number of local governments. But many others have stuck to green bonds and have not taken up the social idea. Can we expect to see more sovereign social bonds?

Pratsch, DZ Bank: We have 170 sovereigns in the world who can issue sovereign debt. Fifty-nine by the end of 2024 had come to the labelled bond market, the majority use green. We saw some social and some sustainability bonds.

I expect more to come, especially from emerging markets. We have to see if all of them really use the use of proceeds concept.

For some of them, the target-linked concept might be quite good. I know it's very often criticised, but Chile and Uruguay also proved it. And I can imagine that some might link this to social KPIs, which would be a very smart solution.

Social bond issuance by region (€bn)



Source: GlobalCapital analysis of Dealogic data

But as we now see the SDG financing gap widening due to the geopolitical reality, the sovereign market is of course one of the drivers of the sustainable bond market, not only social but also green.

Now every country has to update its Nationally Determined Contribution before Cop 30. So I think sovereign issuance will further take off.

In general the public sector — this also applies to the SSAs at the table — are guarantors for the good quality of the market. It's not only quantitative growth, it's also qualitative growth. And there are a lot of sovereigns which have not come to the market yet — Northern Macedonia and others. So we really expect things will be kicking off here.

A lot of them might use the dollar but I also see the euro becoming more and more important. In the overall labelled bond market, the euro is the most sought currency, but in the social bond market interestingly it's still the dollar. The euro might pick up here, but there's also an opportunity for some local currencies.

Sometimes as an investor you are not allowed to invest in every currency. So we need to look at the global finance architecture to get over some market hurdles and connect emerging market currencies with investors.

DEFENCE CONUNDRUM

GlobalCapital: Does defence spending always have to be resolutely excluded from social bonds? Could you see a time when that changes, given necessities?

Fan, IDB: We have an environmental and social policy framework, for all the bank's lending. As part of that we have an exclusion list, which very specifically excludes supporting weapons and munitions.

So in that sense, it's really difficult. Most investors, I would also venture to say, have that exclusion as well. In equity investing, that's very typical.

Maybe you can label some defence spending within a very narrow definition: supporting displaced persons, or rebuilding a country.

But I think it would be difficult to label all defence spending as either green, social or sustainability.

Valdez, CAF: There are some variables in security or defence. The category can include things like veteran support, civil service or cyber-security. Could any of those be considered social?

Perlstein, IFC: Cyber-security is very problematic. Cyber-security measures could have the potential to be used for monitoring civilian activities, for example. And I think you mentioned shelters, rebuilding and displacement — these align with the eligibility criteria for issuing a social bond. So rather than framing it as defence, simply issue a social bond.

We also have weapons and munitions in our exclusion list. I believe anything currently eligible as social — such as food security or displaced shelters — should be clearly labelled as social. Anything else would not qualify as social.

Siahajja, BNG: Next week during the Nato summit, we'll probably have an announcement

that member countries' defence expenditures are going to go up by effectively 1.5%. From 2.5% to 5%, but 1.5% of that is infrastructure and veterans' benefits and that kind of stuff. So it's already in the budget.

But that extra 1.5% is going to primarily be financed by the sovereigns themselves. Already people are buying sovereign bonds without really having qualms about the fact that part of the money is going to defence spending.

So I would question whether it is really necessary that we put this into a certain theme because I think it's already being financed quite effectively. Insofar as the additional spending is going to be a problem, it's more of a debt sustainability issue, which you would be hard pressed to solve by adding a label to it.

GlobalCapital: We mentioned Nato and GlobalCapital has written a lot about this in the last six months — the potential formation of a new supranational institution like a multilateral development bank for defence.

Grote, CEB: What's your view?

GlobalCapital: My view is that they should create the institution — how they fund it is a different matter. But there is talk at the moment about creating a supranational linked to Nato that finances itself like an MDB. And benefits from guarantees of some form. If they were to issue a bond, would you buy it?

Bos, GSAM: Whether defence can be included as a social use of proceeds is among the most asked questions at the moment. It's difficult. We expect the demand for investment in defence to ramp up, in Europe in particular. But within the Green, Social and Impact bonds strategies we do not include defence-related issuance in our social bond selection.

GlobalCapital: I guess it does show that two years ago we would never have imagined we would be talking about this and yet we are, so who knows what we will be doing in two years' time? GC

"You always have to address an underserved part of the population. The question is: will standardisation help with that?"

Felix Baumann, NRW.Bank

