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Climate Bonds INITIATIVE

Climate Bonds Initiative Social & Sustainability Bond Database Methodology

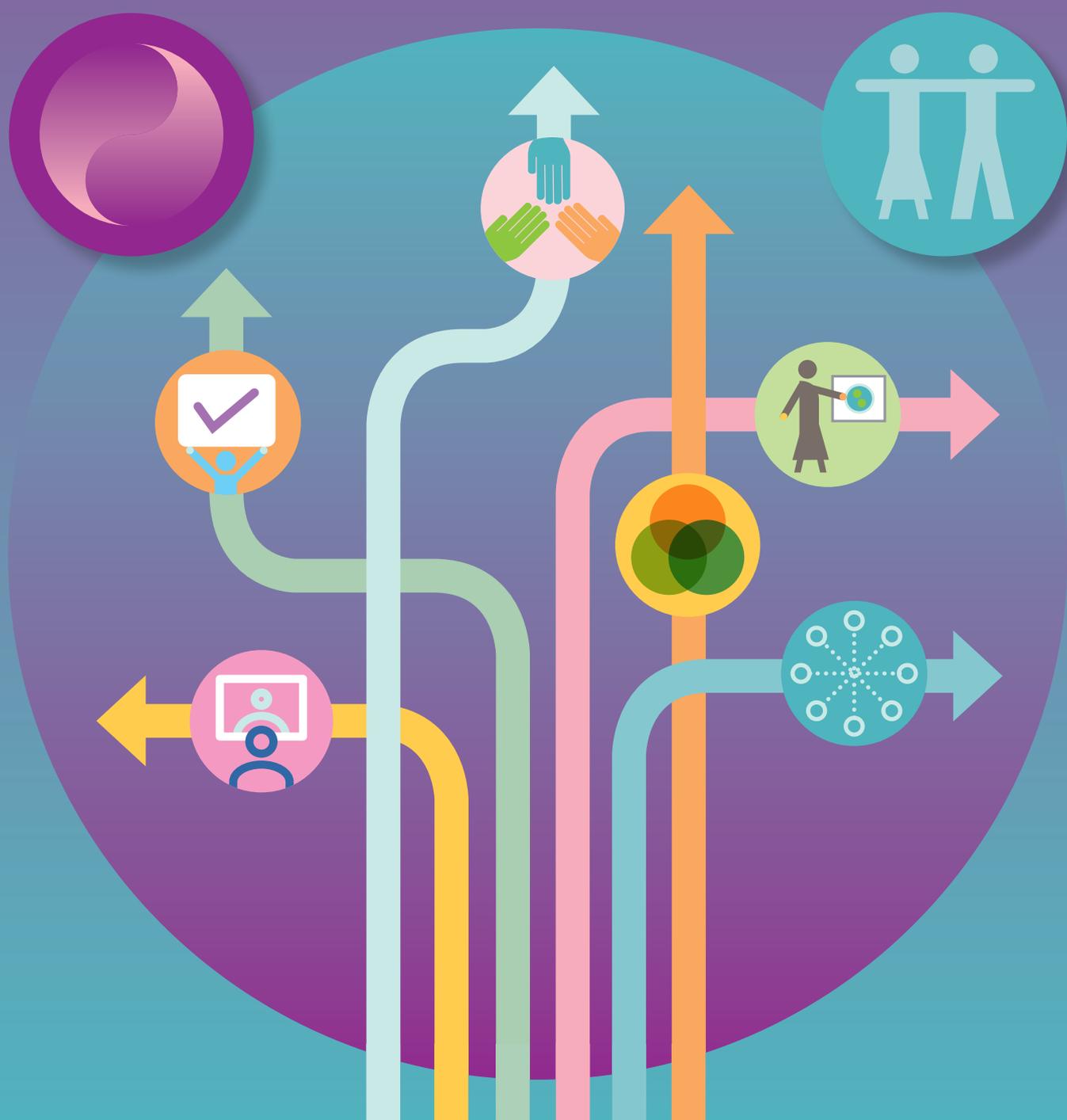


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1. Introduction

The rapid transition to a **sustainable economy** requires action from all sectors, and significant financing to enable this. In the capital markets this has given rise to a variety of financial instruments aimed at providing environmental and social benefits alongside financial returns. Such instruments demonstrate the potential for financial markets to enable solutions to global problems such as climate change and its myriad physical and societal effects, including extreme weather, natural disasters, and pandemics.



To date, the majority of this type of funding has come in the form of labelled debt, predominantly bonds and loans. An array of labels and structures can and have been used with such instruments, typically at the issuer's discretion. Since 2009, **Climate Bonds Initiative** ([Climate Bonds](#)) has been working solely to mobilise the global debt market for climate change solutions. While Climate Bonds continues to focus primarily on climate-related outcomes, environmental and social issues are clearly linked. In order to ensure a just transition to a low-carbon economy and meet all 17 of the UN Sustainable Development Goals (SDGs), a range of persistent inequalities must be addressed.

Climate Bonds has added a **Climate Bonds Social and Sustainability Bond Database** (SSBDB) to its suite of GSS debt databases. The SSBDB complements the Climate Bonds Green Bond Database in order to provide a more complete snapshot of the GSS debt market.

The aim of the SSBDB is to provide transparency on global social and sustainability debt, ranging from individual deal-level analysis to the identification of general market developments and trends. The database will evolve with the market.

Glossary:

GSS bonds: Green, Social and Sustainability-labelled bonds

External review: A document which confirms compliance with the Social Bond Principles (SBP) or Sustainability Bond Guidelines (SBG). Types of external review include Second Party Opinions (SPO) sustainability bond ratings, assurance, etc.

SDGs: The 17 United Nations Sustainable Development Goals

SSBDB: Climate Bonds Social and Sustainability Bond Database

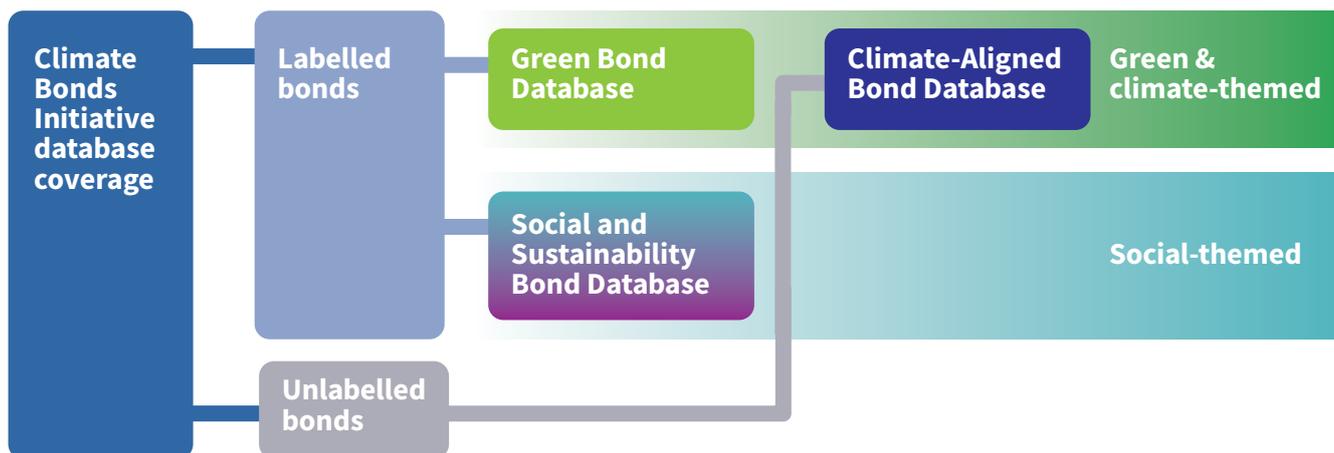
Sustainable Finance Framework: An issuance framework which defines eligibility categories for use of proceeds and reporting for social and/or sustainability bonds.

UoP: Use of proceeds

2. The Climate Bonds Initiative Social and Sustainability Bond Database analysis process

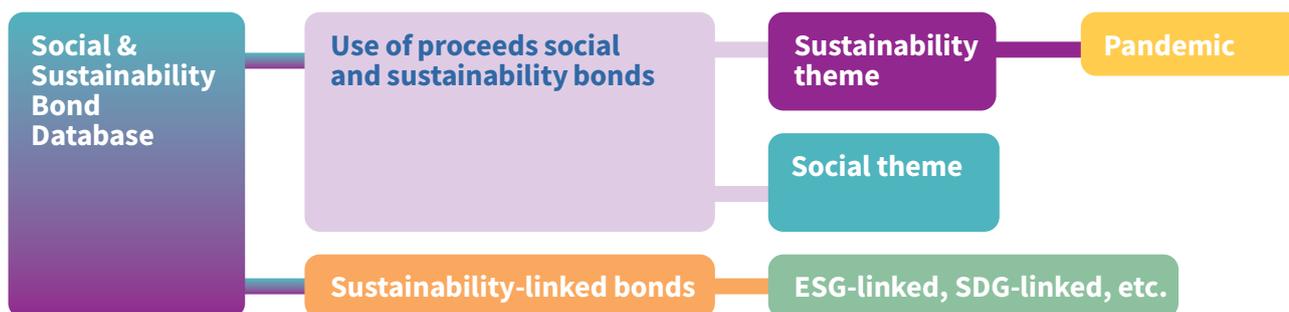
Classification

As with green bonds, Climate Bonds screens **self-labelled debt instruments** to identify bonds and other debt instruments as eligible for inclusion in the SSBDB. The screening references the Climate Bonds Taxonomy, albeit using a modified sector list rather than directly using the Taxonomy screening indicators. This document provides information on the approach and the database maintenance process.



The Database covers two overarching debt themes based on the projects/ activities financed:

1. Use of Proceeds (UoP) social and sustainability bonds, and
2. Performance-linked bonds, mainly sustainability-linked bonds (SLBs).



Based on the themes that these instruments are financing, UoP bonds are further categorised as either social or sustainability. In 2020, the market also saw the emergence of thematic bond labels related to mitigating the impacts of the COVID-19 pandemic, which sit under the social theme.

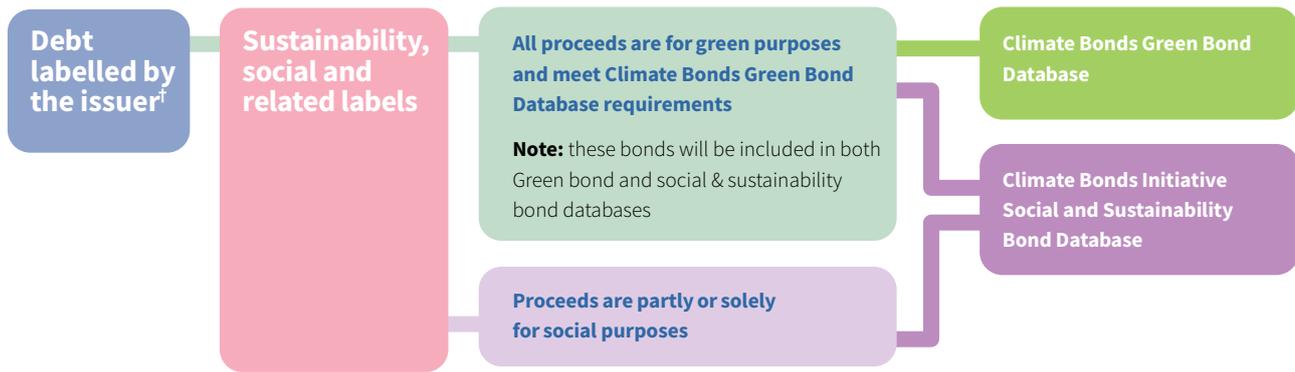
Social and sustainability bonds are defined as instruments that:

- a. have been labelled as such by the debt issuer, and
- b. finance social and/or sustainability-related assets, projects and/or activities.

The labels themselves provide a broad description of the type(s) of projects financed and/or their benefits, with social and sustainability being the most common. The below table provides a summary of other common labels falling under other common labels falling under the social and sustainability themes.

In addition to social and sustainability UoP bonds, the SSBDB will include SLBs. While the proceeds raised from these deals are not earmarked or ring-fenced for a specific list of eligible projects, they comprise a fast-growing segment of GSS+ debt with significant potential to help facilitate the sustainability transition.

The process for selection is as follows:



Prerequisites for inclusion

Climate Bonds tracks self-labelled GSS-themed issuance to identify and analyse bonds and similar debt instruments eligible for inclusion in the Climate Bonds SSBDB. The eligibility screening and analysis references the Social and Sustainability Debt Analytical Framework (see Annex A). This document provides information on the analysis and the database maintenance process. There are three overarching requirements for inclusion:

- 1. Debt instrument** includes but is not limited to bonds, asset-backed securities and loans. Short-term debt, such as deposits and commercial paper, is not included.
- 2. Self-labelled**, defined as a decision by the issuer to tag the instrument under the social and/or sustainability themes. This is typically communicated in deal documentation including, but not limited to, offer prospectuses, sustainable financing frameworks, and independent external reviews (e.g., Second Party Opinion, SPO). Deals that finance the right types of assets, projects and activities, but are not self-labelled by the issuer, are excluded.
- 3. Disclosure:** Eligibility rests on public disclosure that is sufficient to:
 - a. determine if the financed assets, projects, activities, and expenditures fall under relevant categories within the social or sustainability themes, and
 - b. allow the entry of the debt instrument into the database, most notably including an amount outstanding and settlement date.

Bond analysis process

If the above-listed requirements of self-labelled debt instrument with adequate public disclosure to determine classification into social and sustainability thematic areas are met, Climate Bonds applies a three-step screening process to classify a labelled bond as eligible.

Step 1: Identification of labelled social and sustainability debt

The issuer of a social and sustainability debt instrument must declare that the debt funding raised is or will be dedicated to generating sustainability or social benefit(s).

This is communicated by labelling the debt instrument. At least 70 labels were visible in the market as of July 2022. Some common examples of labels are listed in table 1.

Table 1. Illustrative examples of labels used in social and sustainability debt instruments

Sustainability	Social
ESG	Affordable housing
SDG	Gender equality
Sustainable development	Education
Sustainability	Pandemic
Sustainability awareness	Social
	Social impact

Bond discovery

Climate Bonds discovers labelled bonds via data platforms and sources of documentation, including, for example, stock exchanges' sustainable bond listing segments, financial and ESG data provider platforms, dedicated regulator data platforms, and primary networks of issuers, underwriters, advisors, and external review providers.

Use of Proceeds information sources

A variety of sources are used for collecting the UoP information. These may include, but are not limited to, the bond prospectus, final term sheet, news releases, SPOs, and other external reviews, and written confirmation from the issuer itself or from other involved parties, such as underwriters or external review providers.

External reviews

We consider all types of external assessment (see summary table below). An external review is recommended but not required if equivalent information is clearly disclosed by the issuer in a bond framework, prospectus or other document. Equivalent information covers the four principles of the [ICMA Social Bond Principles \(SBP\)](#), [Sustainability Bond Guidelines \(SBG\)](#), and [Sustainability-Linked Bond Principles \(SLBP\)](#), namely:

1. Pre-determined eligibility criteria
2. Information on the asset or project selection process
3. Management of proceeds to ensure allocation
4. Post-issuance reporting (at least on allocations)

Obtaining an external review does not lead to automatic inclusion in the Climate Bonds SSBDB, as compliance with SBP, SBG, or SLBP does not mean that the use of proceeds categories meet all the inclusion criteria. The review as well as other information disclosed by the issuer is independently assessed by Climate Bonds.

Disclosure

The assessment is typically based on publicly available information. Occasionally, Climate Bonds may obtain private information to determine alignment.

Information made available on the Climate Bonds website about [Certified instruments](#) is considered publicly available even if the issuer has not made it publicly available on their website.

Table 2. Overview of external review types and providers

Pre-issuance review	Scope	Providers (examples)
Assurance	Positive or negative assurance on compliance with the Social Bond Principles (SBP) or Sustainability Bond Guidelines (SBG)	EY, Deloitte, KPMG
Second Party Opinion (SPO)	Confirms compliance with SBP or SBG. Provides assessment of issuer's sustainable finance bond framework.	CICERO, DNV-GL, Sustainalytics, Vigeo Eiris, ISS-Oekom
Pre-issuance verification of the Climate Bonds Certification	Third party verification confirms that the process followed by the issuer and use of proceeds adhere to the Climate Bonds Standard and sector specific criteria. Only applicable for sustainability bonds where 100% of the net proceeds meet criteria – please see the Interaction with the Climate Bonds Green Bond Database section below.	Approved Verifiers under the Climate Bonds Standard
Post-issuance review	Scope	Providers
Assurance, audit or post-issuance SPO	Assurance of actual allocation of proceeds to eligible projects.	Audit firms, ESG service providers
Post-issuance verification of the Climate Bonds Certification	Third party verification confirms the allocation of proceeds is to eligible projects and that the types of projects conforms to requirements of the Climate Bonds Standard.	Approved Verifiers under the Climate Bonds Standard
Impact report	Assessment that seeks to quantify the environmental impact of financed projects/assets (<i>often not considered an external 'review' per se as the assessment is done by the provider itself, and does not cover UoP information</i>).	ESG service providers, scientific experts, other specialised consultants

Step 2: Use of Proceeds analysis

1. Use of Proceeds instrument:

Each bond or other debt instrument is reviewed based on its declared UoP. The UoP is classified against the relevant social use of proceeds categories (see Annex A). Each bond must also clearly identify an appropriate **target population**, i.e., the group(s) of people that will benefit from the investments made with the funding raised.

Provided that the bond's UoP can be classified, a target population identified, and the proceeds do not include any categories that can be considered to breach the **minimum climate safeguards** outlined in Annex C, the label and accompanying disclosure are sufficient for inclusion.

2. Performance-linked instruments:

Performance- or KPI-linked debt instruments, specifically Sustainability-linked bonds (SLBs) and loans (SLLs) are instruments that raise general purpose finance for the issuer. The coupon may step up, or down, if the issuer meets predefined, time bound KPIs related to sustainability improvements at the entity level. Common labels used to identify SLBs and SLLs include ESG-linked, SDG-linked and sustainability-linked. Development of the criteria to evaluate the robustness of the sustainability contribution of such deals is ongoing. Such deals are recorded in the SSBDB, and their UoP is denoted as sustainability-linked general corporate purpose funding.

Step 3: Key information and SDG mapping

In addition to recording relevant basic information, such as the issuer name, deal size, and dates, Climate Bonds also classifies each debt instrument's UoP according to their respective social and/or sustainability outcomes, where applicable. These are accompanied by links to the issuer's bond framework and SPO or other external review documentation.

In addition, Climate Bonds analysts map each instrument's UoP against the relevant Sustainability Development Goals (SDGs), and the relevant project categories detailed in the Climate Bonds Social and Sustainability Debt Analytical Framework. The SDG mapping is available in Annex B.

Interaction with the Climate Bonds Green Bond Database

The GSS themes addressed by social and sustainability debt may overlap with those financed by green bonds. [The Climate Bonds Initiative Green Bond Database](#) requires 100% of net proceeds to be allocated to eligible green assets, projects and activities, irrespective of the label of the bond. Therefore, if the proceeds of a social or sustainability bond are partially or solely allocated to social purposes, the instrument is only included in the SSBDB.

However, in the following two examples, where the UoP meets the green bond database requirements, the bond will be included in both the Green and the Social and Sustainability Bond Database.

1. A bond is labelled sustainability or other label following the issuer's general sustainable finance framework, but only finances eligible **green** projects. (e.g., a sustainability bond financing wind power)
2. A bond is labelled sustainability or other related label but the nominated assets, projects, activities, and expenditures generate clear climate or environmental benefits that meet the [Climate Bonds Initiative Green Bond Database Methodology](#) requirements. A typical example is a social housing bond where the building also carries a green building certification (e.g., BREEAM, LEED) that meets the Green Bond Database requirements.

In the above cases, the bond will be included in the SSBDB, because of the corresponding label it carries, as well as the Green Bond Database, because 100% of the net proceeds finance eligible green categories.

Methodology update process and implications

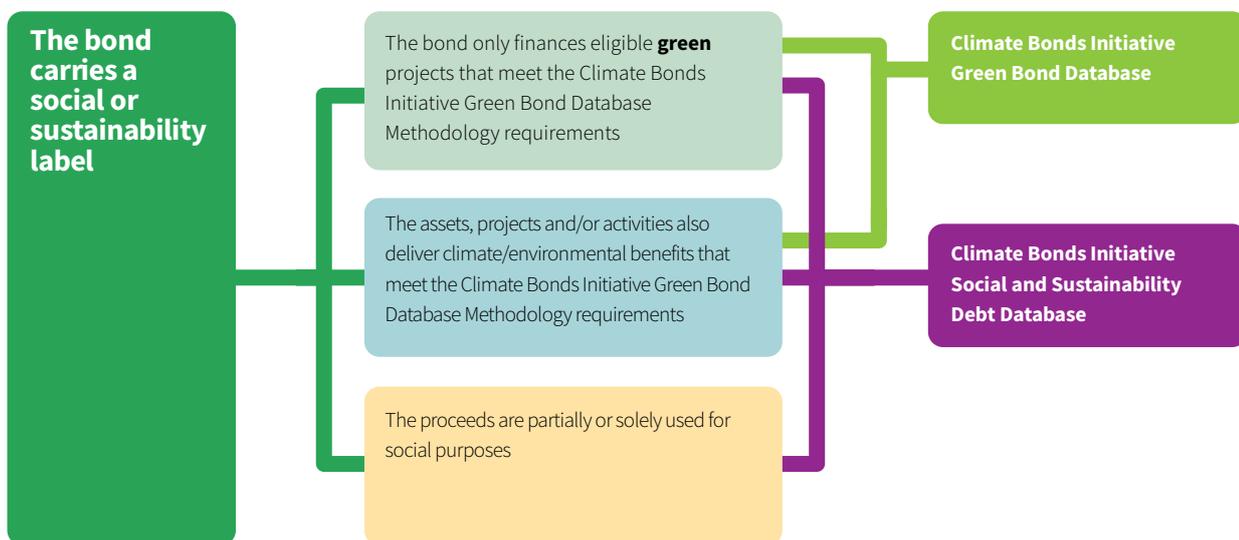
The approach taken in this methodology seeks demonstration of ambition from social and sustainability bond issuers. The requirements for inclusion will be tightened over time.

The methodology will be reviewed at least **semi-annually**. In line with the Climate Bonds Green Bond Database Methodology, the review process will comprise inputs from independent subject matter experts, and will include consultation with data users and other relevant stakeholders. Where possible, the methodology will also aim to reflect relevant market updates, such as the ongoing work by the [International Platform for Sustainable Finance](#) on the approach to a social taxonomy.

Bond classifications will not be retrospectively changed as Climate Bonds develops, deploys, and tightens the screening criteria used in this methodology.

Changes in and updates to assessment criteria will be notified, but the aim is to encourage high levels of ambition in the labelled GSS bond market and promote a rapid transition to a low carbon, sustainable, and resilient economy.

The process for classification is as follows:



Annex A: Analytical Framework for classifying use of proceeds

The Climate Bonds Social and Sustainability Analytical Framework provides guidance for prospective issuers and investors. The current diagram summarising eligible categories for assets, projects and activities in GSS-themed bonds is reproduced below. Drawing on existing market reference guidelines and extensive research, it provides broad guidance on eligible sectors and subsectors that can be funded with social and sustainability-themed bonds.

Analytical Framework for classifying use of proceeds		
ICMA SBP (2019 version)	Climate Bonds Initiative social and sustainability use of proceeds category	Social assets, projects or activities
Access to essential services (e.g., health, education and vocational training, healthcare, financing, and financial services)	Education	Education infrastructure Education equipment Educational activities Research and development
	Healthcare	Medical equipment manufacturing Healthcare infrastructure Healthcare services Research and development
	Employment and training	Vocational training Job creation Job retention Welfare and wellbeing
Employment generation including through the potential effect of SME financing and microfinance	Microfinance	Financial services for micro and small-sized enterprises Poverty alleviation
Food security	Food security	Food availability Price stability
Affordable basic infrastructure (e.g., clean drinking water, sewers, sanitation, transport, energy)	Non-green affordable infrastructure	Energy Transport Building Waste Others
Affordable housing	Non-green affordable infrastructure Housing	
Socioeconomic advancement and empowerment	Equality	Gender equality Human rights
	Social adaptation and resilience (A&R)	Crisis response Creating more robust social systems

Annex B: SDG mapping and Climate Bonds' GSS bond Use of Proceeds categories

Green definitions for the Climate Bonds Initiative Green Bond Database						
Social and Sustainability Bond Database			SDG Benchmark	Green Bond Database		
Social & Sustainability Projects, assets & activities	Climate Bonds Social & Sustainability Use of proceeds categories	SDG No.	SDGs	SDG No.	Climate Bonds Green Taxonomy	Green Projects, assets & activities
Education infrastructure Education equipment Educational activities Research and development	Education	G4	Quality education	G4	/	
Medical equipment manufacturing Healthcare infrastructure Healthcare services Research and Development	Healthcare	G3	Good health and well-being	G3	/	
Vocational training Job creation Job retention Welfare and wellbeing	Employment & training	G8	Decent work and economic growth	G8	/	
Financial services for micro and small-sized enterprises Poverty alleviation	Microfinance	G1	No poverty	G1	/	
Food availability Price stability	Food security	G2	Zero hunger	G2	/	
Energy Transport Building Waste Others	Non-green Affordable infrastructure	G6	Clean water and sanitation	G6	Water	Water infrastructure Water monitoring Water storage Water treatment Water distribution
		G7	Affordable and clean energy	G7	Energy	Solar Wind Geothermal Bio-energy Hydropower Marine renewables

Green definitions for the Climate Bonds Initiative Green Bond Database(Continued)

Social and Sustainability Bond Database			SDG Benchmark	Green Bond Database		
Social & Sustainability Projects, assets & activities	Climate Bonds Social & Sustainability Use of proceeds categories	SDG No.	SDGs	SDG No.	Climate Bonds Green Taxonomy	Green Projects, assets & activities
		G11	Sustainable cities and communities	G11	Buildings	Commercial, residential & energy efficiency Urban development
Gender equality Human rights	Equality	G5 G10	Gender equality reduced inequality	G5 G10	/	
/	/	G9 G12	Industry, innovation and infrastructure Responsible consumption and production	G9 G12	Industry	Primary resources Clean up Supply chain
/	/	G13	Climate action	G13	All themes	Energy Buildings Transport Water Waste Land use & marine resources ICT
/	/	G14	Life below water	G14	Land use & marine resources	Fisheries and aquaculture
/	/	G15	Life on land	G15	Land use & marine resources	Agriculture (including mixed use productive systems) Commercial forestry Natural Ecosystem protection & restoration Supply chain assets management
Crisis response Creating more robust social systems	Social adaptation and resilience	G16	Peace and justice strong institutions	G16	/	
/	/	G17	Partnerships to achieve the goal	G17	/	

Annex C: Minimum climate change mitigation, adaptation, and resilience safeguards

Exclusions based on a breach of minimum climate safeguards

In the spirit of evolving binding and voluntary market guidelines, Climate Bonds maintains that an activity contributing to positive social outcomes should do no significant harm (DNSH) to climate change mitigation and adaptation. Therefore, the SSDBD includes a red flag identifying all labelled instruments in the database where **more than 5%** of the proceeds may be allocated to areas that have a potentially negative impact on climate change. Such deals will be separately recorded as **excluded** labelled social and sustainability debt instruments (cf. [Climate Bonds Green Bond Database Methodology](#)).

Key areas for minimum safeguards

The most significant climate safeguards relate to assets, projects, activities and expenditures across industry value chains and economic sectors that can contribute to locking in the use or extending the life of fossil fuels. This covers all types of fossil fuels, including fossil gas. As new low-carbon technologies make alternative sources of energy mainstream (e.g. zero- and low-emission vehicles), the list of assets that are not supportive of or hinder rapid decarbonisation is expected to grow.

An illustrative list is provided in the table below.

Key areas for minimum safeguards
Fossil fuel exploration, production, and refining
Fuel production from petrochemicals
Fossil fuel-based heat, cool, and electricity generation
Transportation of fossil fuels
Fossil fuel-powered transport (e.g. ICE passenger and freight vehicles)
Road infrastructure (with exceptions – please see below)
Weapons

This list of activities will be continuously updated and expanded, and new safeguards will be announced and introduced as part of the Methodology updates described in the relevant section above. These safeguards may also later be developed into more detailed DNSH criteria, with details on multiple climate and environmental objectives.

Geographical variation: Road infrastructure

Climate Bonds recognises that financing the interconnected sustainable development outcomes captured in the SDGs is highly contextual and requires a flexible approach to minimising environmental and climate harm together with maximising human opportunity and equality. The Methodology takes a more nuanced approach to road infrastructure financing, in which the assessment of eligibility for infrastructure funding raised via labelled bonds depends on both the phase of economic development as well as the per-capita emissions of the jurisdiction where the proceeds are deployed. For very low-intensity, less-developed economies, road infrastructure to allow access to basic amenities and services may be eligible. These instances will be assessed on a case-by-case basis, taking into account the Climate Resilience Principles developed by Climate Bonds. These are described below.

Adaptation and resilience measures

Climate Bonds set up an Adaptation & Resilience Expert Group to develop high-level guidance for determining when projects and assets are compatible with a climate-resilient economy. Climate resilience covers assessment of risks, which tend to be idiosyncratic depending on geographic location and local climate, as well as developing measures to address and adapt to acute events (e.g., storms) and long-term changes (e.g., temperature and sea level rises).

As a first step, Climate Bonds has published the **Climate Resilience Principles** (see <https://www.climatebonds.net/climate-resilience-principles>). These provide a framework for issuers to demonstrate that, for the assets and activities (re)financed via the bond, they:

- understand the climate risks faced by the asset, activity or system in question;
- have addressed those risks by undertaking risk-reduction measures and adopting flexible management plans that take account of inherent uncertainties around climate change, and ensuring that the asset, activity or system is robust, flexible and fit-for-purpose in the face of that uncertainty;
- can deliver resilience benefits over and above addressing identified risks (for system-focused investments); and
- are undertaking regular (re)evaluation of the asset and/or system's climate resilience performance, adjusting to risk reduction measures over time as needed.

These types of measures and programmes could involve for example physical assets (e.g., coastal flood defences such as levees (Louisiana) or dykes (Netherlands)), nature conservancy (e.g., land banks) and reforestation (e.g., Indonesia's TLFF I), as well as project management that improves resilience and ongoing assessment of impact. So far, investments have been primarily in physical assets and projects, often in combination with mitigation measures in water management and sustainable land use.

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