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Original Research Paper

Management

"SOCIAL BONDS-AN EMERGING TOOL IN FINANCIAL MODELING; APPROACH OF FINANCIAL SUSTAINABILITY"

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ABSTRACT With the ever-changing needs and goals of society and business, the vision of corporates has reformed inevitably. Giant companies are an integral part of society and hence it has a certain sense of responsibility toward social well-being. Under financial goals, in the journey past that target, only profit maximization has changed to wealth maximization of investors, and presently the decisions are relying upon a goal counting sustainability. In investment decisions under sustainable finance; Environmental, Social and Global (ESG) factors are most considered. No poverty, well-being of citizens, gender equality, affordable energy, strong infrastructure, climactic action, etc. are some factors considered in ESG. Social bonds are a recent emerging financial tool aiming at sustainability, where the bond proceeds raised by the organizations are used for projects that have a positive social outcome. Hence the present paper attempts to present some related conceptions of social bonds, their need and growth, and challenges that may enforce in its issue process.

KEYWORDS : ESG, Social bonds, Social well-being, challenges.

INTRODUCTION

Finance which is the lifeblood of any business has to be raised from either equity or debt sources (Ramirez, E. 2017). Raising finance by businesses for encountering profit, maximizing shareholder wealth, and increasing firm value was the only primary goal in the past epoch. With the ever-changing needs and goals of society and business, the vision of corporates has reformed inevitably. Giant companies are an integral part of society and hence it has a certain sense of responsibility toward social well-being. The financial market key players have understood the social disasters caused due to the single-minded primary goal of corporates and have now restructured their strategies to combat the prevailing societal tragedies. This has stemmed from the evolution of sustainable finance. Under sustainable finance, financial decisions are rendered without compromising the Environmental, Social and Governance factors.

No poverty, well-being of citizens, gender equality, affordable energy, strong infrastructure, climactic action etc. are some factors considered in ESG. *E- Environmental* related for issue of Environmental or Green Bonds with respect to overcome the social calamities such as climate change, water efficiency, energy efficiency, carbon intensity, etc. *S- Social* bonds are issues to curb the issues of Health and safety, Human rights, equal opportunities, education, quality life for citizens, etc. *G-Governance* concerns such as investors rights, ethical standards, pay for performance, Board of Directors independence, etc. considered by way of issuing Sustainable bonds which would also be the combination of Green bonds and Social bonds (Schoenmaker and Schramade 2019).

Importance Of The Study

Thru ever-changing needs and goals of society and business, the vision of corporates has reformed inevitably. Giant companies are an integral part of society and hence it has a certain sense of responsibility toward social well-being. Today's corporate financial services have integrated environment, social, and governance models and investment decisions to influence sustainability, social bonds are the latest emerging financial tool. A financial instrument that allows private fund providers to upfront capital for public ventures that deliver social and environmental outcomes. Hence, it is important to understand what is social bonds and how it works, therefore the present paper attempts to present some related conceptions of social bonds, their need and growth, and challenges that may enforce in its issue process.

Statement Of Problem

Every investor invests in corporate shares to maximize his returns on investments and at the other end, corporates always strive to maximize their firm value.

The single-focused profit agendas of both investors and corporates had made social justice shrink. Therefore, to justify societal justice, it is key for financial players to rethink modern finance decisions with the involvement of sustainability.

Objectives

1. To Understand what financial sustainability is.
2. To examine how social bonds emerged as a sustainable financial tool.

Research Methodology

The present paper is intended to study and make understand the basic aspects of sustainable finance and appraise how social bonds have emerged as a financial tool that is used to overcome the sustainability issues of society. Hence the study was conducted based on secondary data.

Sustainable Finance

Gone are the days when companies use to think about financial stability concentrating solely on profit creation, retention, and expansion. The trend has changed from financial sustainability to sustainable finance. Sustainable finance is the era where financial decisions by companies are influenced by Environmental, Societal, and Governance aspects. (Ramaiah. V and Gregariou. N, 2016) The major aims that are maintained to achieve universally through sustainability are low poverty, virtuous health, and well-being of people, zero hunger, gender parity, inexpensive energy, work with economic growth, strong infrastructure, and modernization, climactic action, care of all creations on the earth, peace, and justice. Thus, sustainability covers all the aspects of the biosphere, society, and economy safety and integrity.

Social Bonds Overview

Social Bonds is one of the latest emerging tool of financial market with an approach of sustainable finance. The bond proceeds raised by the organizations are used for projects that have a positive social outcome (Choudhry, Moorad. 2006). These positive outcomes are in terms of reasonably priced infrastructural facilities or in terms of affordable essential services. The reasonable priced infrastructure would be reasonably priced transport facilities to general public, reasonable electricity, safe and sufficient water and better sewer services etc. the affordable essential services would count like housing, health, education and food security etc.

Key Features

Similar to the conventional bonds, Social bonds also operate for a fixed period of time viz., 3 yrs., 5 yrs., etc. These bonds do not provide a fixed rate of return rather the result completely depends on the success of the social outcome for which the bond proceeds are used. These social bonds are not affected by variables like interest rate risk, reinvestment risk, and market risk. But they are subject to inflation risk (International Capital Market Association 2021).

Figure 1: Social Bond Structure and Process

Essential Mechanisms

The basic ideologies that constitute the social bond process and enables fair and transparent relation between investors, financial markets, and other stakeholders are: Proceed usage will be allocated only to social projects, to ensure the societal-specific purpose those benefits are assessed by the issuer (Financial Services Agency 2021). Social problem identification is the process where the projects that damage society and its citizen's welfare are recognized and based on which the remedial social projects are undertaken. The social paybacks are evaluated with clear social benefits without hindering the environmental aspects. The bond issuers provide crucial information regarding the usage of investors' bond proceeds, target population, etc. with legal documentation. In certain conditions, the proceeds are used for existing social projects too instead of using it for new projects considered as refinancing.

Emergence Of Social Bonds

The need for societal factors has given a boost to the issuance of social bonds in recent years. Despite recent emergence, these have shown a noteworthy development globally. The below table depicts the pattern and trend through which the social bonds have been passed since its inception to the present.

Table 1: History and Trends in Social Bond Issues

YR. OF ISSUE	OFFERED BY	WORTH	PROCEEDS USED FOR
2015	Spanish Instituto de Credito (Spain)	€1 bn	Economically depressed regions of Spain
	Kutxabank	€1 bn	Financing & subsiding social housing projects Basque region (Spain)
	NASDAQ	€ 740 M	Social activities in the market world
2016	Spanish development bank	€500m	Create and preserve jobs
	Dutch public sector bank	€1 bn	Social housing sector in the Netherlands
	Starbucks Coffee (first UScorporate SB)	$ 500m	Support farmers in Starbucks supply chain
2017	World Bank IFC		Social projects: benefits people who earn less than $8 per day or who do not have basic needs
	Council of Europe Development bank	€ 500m	Social housing, education, job creation & preservation in small, & med.-sized enterprises
	African Development Bank	€ 500m	Poverty reduction, job creation
2018	Europe Development Bank	€ 500m	Social housing, education, job creation & preservation in small, & med.-sized enterprises
	African Development Bank	€ 1,25 bn	Poverty reduction, job creation
	Danone	€ 300m	Quality healthcare, and parental support
2019	Royal Bank of Scotland	€ 750m	Jobs and economic growth in deprived areas of the U.K.
2020 (Pandemic Response)	African Development Bank	$ 3 bn	Covid 19 issues
	Inter-American development Bank		
	Ford Foundation	$ 1 bn	

Source: Social Bonds History (social-bonds.net)

It is observed that the major countries have shown tremendous hype in the social bond issues since its inception from the year 2015. The total size of the market in the year 2020 was US $315.6 billion, with 601 issuers and a total number of instruments issued of 1,230. The overall participant countries were counted to be 36 with traded currencies of twenty-five (Patturaja et al., 2021). Most of the social concerns addressed with the bond proceeds are uplifting the depressed regions, subsidized housing, preserving and creating jobs, farmer concerns, education, poverty eradication, strong infrastructure, and innovation, climactic action, care of all living beings on the earth, peace, and justice.

Hurdles are inevitable in every social and institutional process, so in the case of the social bond issue process too. Social bonds are majorly concerned with the objective of social well-being, some finance gurus have a regimenting opinion that it is the basic responsibility of the nation's government and hence why there is a need for bonds issued especially by corporates for the given cause. They also opine that if the social activities are done by the government, they may cost cheaper compared to private fundraisers. The bond issue process is so lengthy that sometimes the cost of issuing might be higher than the benefits accrued from it (Kohli, J., et al., 2015).

Findings

It is found that the modernization of industries has roused the need for sustainability in the environment resulting in the emergence of sustainable finance. Social bonds have shown an emerging trend in its history since the time of inception in 2015. The developing and developed countries both have shown a great interest in the social bond issue process. The fair mechanism and issue process has gained attention from many countries.

CONCLUSION

The modern trend of corporates has changed from financial sustainability to sustainable finance, where the financial decisions by the companies are influenced by Environmental, Societal and Governance aspects. Social bonds are found to be the emerging testing tools of financial modeling, being where the raised funds are used for the well-being of the society and community. These bonds of hugely helpful during the times of depression in nations economy. This can be exclusively observed in the recent Covid-19 epidemic where the nations have struggled a lot, the social bonds have thrown a ray of light on the worse situations the countries were facing. Challenges are part of every process, still the benefits accrued by the social bonds weigh more than the challenges to be addressed. And hence the role of financial players is crucial to bring the emerging tool in to lame light so as to bring awareness among the people that may lead to higher social cause.

Scope For Further Research

Social bonds are latest emerging financial tool in the financial modeing structure of corporates. There is scope of further developments and major changes in the mechanism and its uses, hence there is scope of further research on the developmental aspects in detail. Also the study may be conducted on other bonds such as climatic bonds, Governance bonds which are issued for the similar purpose (ESG).

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