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A Swedish market for sustainability-related and socially labelled bonds: Institutional investors as drivers

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Abstract

The report examines the role that Swedish institutional investors might play in the development of a Swedish market for sustainability-related and socially labelled bonds. Engagement by the financial sector is seen as a necessity for society's ability to cope with the growing stress on welfare systems and the demands presented in the 17 United Nations Sustainable Development Goals (SDGs). While Sweden has been in the foreground with green bonds, the country is lagging behind many other western liberal market economies on social bonds.

A point of departure for this research has been to better understand SDG 11, on the development of sustainable cities and communities, and what are viewed in Sweden as run-down and socio-economically weak suburbs. Drawing on international experience of sustainability-related and socially labelled bonds as well as previous experience of Swedish impact investing, the report analyses the drivers of and forces constructing this virgin market, zooming in on the role taken of three parties: institutional investors and the issuers, mainly local governments and property developers, with the financial sector acting as intermediary.

The report finds that the institutional investors have taken a variety of approaches to social bond investing, which is an indicator of a lack of guidance from both the individual investor-organizations' boards as well as the Swedish public. In the few cases where investments have been made, previous experience of both green investing and foreign social bonds were used as stepping stone. Overall, knowledge is weak, in relation to both evaluating risk and return and understanding the impact metrics linked to the bonds' use of proceeds. Furthermore, potential Swedish issuers are yet to come forward.

As is the case in other western countries, Swedish public financial institutions – such as the export agency and a government sponsored mortgage lender, appears to be at the forefront. Nonetheless, Swedish local governments, which play a central role in the high-tax economy's delivery of public services, remains hesitant, prevented by the limited successes of previous experimentation with social financial instruments such as public social investment funds and social impact bonds. This is compounded by restrictive accountancy practices, organizational silos and a culture that shuns public-private collaborations.

The report makes recommendations on how to help the socially labelled bond-market achieve take-off, such as enhancing the development of financial vehicles, private as well as government-sponsored, and speeding up the work with the development of standardized metrics. In addition, institutional investors need to step up, and be braver than they are currently – at least if they claim to take all the SDGs seriously. A key message to the issuers is not to ask for too much in relation to risk-sharing – socially labelled bonds must not be too complex in structure or too complicated to evaluate for investors. However, the grand message from the report, is just the spreading of knowledge of the value of developing a market for socially labelled bonds, and the role that domestic institutional investors can play, if they decide to increase their commitment.

Key words:
Institutional investors; impact investing; socially labelled bonds; sustainable development goals; Sweden; social democratic welfare state

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Key messages

- Sweden is a front runner of green bonds, but is lagging behind many other western economies on the novel market for sustainability and social bonds. Presenting a braod study and documentation of the Swedish market for social labelled bonds, this report reveals concrete activities that are beeing carried out outside the public eye in private, best described as "talk between stakeholders". The report thus mitigates the knowledge gap among domestic institutional investors, banks, policy setters and issuers like local governments.

- A point of departure for this research has been to better understand SDG 11, on the development of sustainable cities and communities, where Sweden experience problems with run-down and socioeconomic weak suburbs. So far only one such socially labelled bond has been issued, by property owner Trianon targeting suburbs in Malmö. Other potential issuers, working on developing sustainability framworks, are Malmö Stad, Kommuninvest and Svensk Exportkredit. The bank SBAB and property developer Stena Fstigheter are at initial stages of developing a framework.

- Swedish institutional investors take a varied approach to socially labelled bonds: spreading from actively committed to showing no interest at all. Previous experience of investments in green bonds as well as foreign social bonds act as "stepping stones". However, bond-managers overall receive limited guiding from the boards and policy setters. Furthermore, the bond-teams need to build in-house competence related to evaluating impact-metrics and project bonds, which differ from the equity-side.

- Engagement from local governments as issuers of sustainability-related bonds has so far been limited. Commitment is hampered by difficulties experienced from other social financial instruments, hindering accounting practises, silo-organizations and societal scepticism towards private funding pf public welfare. But pressure to reconsider citizens' expectations on the welfare offerings, including a need for higher expenditure, work to change this view.

- The study gives three recommendations: (i) the Swedish government must reform rules and regulation and contribute financially to develop a market for impact financing, (ii) the institutional investors need to enhance commitment and take a more active role in public, and (iii) the market could be enhanced if standardized metrics are developed to evaluate social projects, bond-managers learn to evaluate the risk and return of social financial instruments and local governments increase commitment to the social SDGs.

1. Introduction

1.1 A Swedish market for sustainability-related and socially labelled bonds

This report examines on the role that Swedish institutional investors might play in the development of a Swedish market for sustainability-related and socially labelled bonds. Engagement by the financial sector is viewed as a prerequiste for society's ability to cope with the growing stresses on welfare systems and the demands made in the 17 United Nations Sustainable Development Goals (SDG)s, as well as the work on Agenda 2030 and the European Commission's Action Plan for Financing Sustainable Growth (European Commission 2018). The UN estimates that US$ 6 trillion of new investment is needed annually successfully achieve the SDGs (UNDP 2019). At the same time, achieving green and social goals seems to be mutually dependent.[1]

A point of departure for the report has been to better understand the development of sustainable cities and communities, as expressed in SDG 11. This goal is also relevant to Sweden, which like many other European countries faces challenges related to its deprived suburbs. A large number of rented apartments are in need of refurbishment, migrants and marginalized groups on the labour market, diminishing psychological ill-health and high rates of school drop outs, leading some to be drawn into criminal activity. In addition to green commitments, tackling SDG 11 will require consideration of social goals such as SDG 3 (good health and wellbeing), 4 (quality of education), 8 (decent work and economic growth), 10 (reduced inequality) and 17 (partnerships).

The World Bank's framework for sustainable cities stresses the importance of including an "integrative, holistic and collaborative perspective on cities" in order to deliver economic, societal and environmental goals (World Bank 2018). This is also relevant to Sweden. The report thus centres on how the successful implementation of sustainability-related and socially labelled bonds in a local market such as Sweden's hinges on a plethora of activities to create inclusive value that links incentives, policy instruments and collaboration between stakeholders such as public sector actors, banks, property companies, NGOs and social enterprises.

As private owners of massive citizen capital, Swedish institutional investors have a central role to play. A number of studies have claimed that external private finance actors can supplement the work of the public sector. Private actors follow up investments and outcomes in a more systematic way than public actors traditionally have. In addition, opening the public sector up to collaboration with private financial investors could broaden the market for external financial actors overall, which could increase innovation (Augustinsson, Persson, and Backström 2016; Backström 2014; Fryshuset 2017a; Nachemson-Ekwall 2018).

For now, Sweden plays a dual role on the labelled bond market. Sweden is a key global player in the environmentally focused green bond market: it currently ranks fifth in terms of green bonds' issued globally (Climate bonds initiative 2018). Many of the Swedish institutional investors have committed to take the lead on global climate-initiatives, of which the launch in September 2019 of the United Nations-convened Net-Zero Asset Owner Alliance is one example. At the same time, Swedish local government and private property companies pride themselves on their issues of green bonds. In stark contrast, there are no stated commitment from institutional investors or local governments to socially labelled bonds, including purely social bonds, sustainability bonds that are both green and social, or SDG-related and environmental, social and governance (ESG) bonds. On this, Sweden also lags behind many other European and western economies.

This report sets out to convey a different story. In describing a bond-market that is yet to be formed, it reveals, for the first time in Sweden, a web of activities being carried out outside the public eye, in private. This could best be described as "talk between key stakeholders". Much of this talk centres around previous experience of

[1] This was highlighted by a number of participants at a conference held by Aktuell Hållbarhet in Stockholm (IVA 7 February 2018).

the green bond market and investments in foreign social bonds: acting as a stepping stone for socially labelled investments.

The study evolves around three research questions:

(i) What does the Swedish and international market for sustainability-related and socially labelled bonds look like?
(ii) What is the interest in and appetite for developing socially labelled bonds in the Swedish financial sector?
(iii) What are the driving facilitators of and limiting barriers to the development of a sustainability-related and socially labelled bond market in Sweden?

In order to explore these questions, the report addresses how interest is expressed and what Swedish actors can learn from the green bond market and from foreign experience, while also exploring the organizational, regulatory and normative environment in relation to facilitators and barriers. The work revolves around an in-depth description of how the international market for socially labelled bonds has developed. It also zooms in on the 23 sustainability-related and socially labelled bonds that Swedish institutional investors have invested in thus far.

The study also examines evaluation of the quality of the reporting of the use of proceeds. Metrics and the development of standards currently lagg behind green bonds, making it difficult for institutional investors to evaluate the impact on a target group. This also relates to the level of impact – the creation of additionality, for instance whether the particular project is adding something new (which could be financial, reporting etc) that would not have been carried out otherwise. Finally, the study discusses issuers – real estate and property owners and local governments, as well as other eligible bonds issuers. This latter group includes agencies, financial institutions and commercial actors.

The study is aimed at an audience of practitioners, policymakers and opinion formers, but also academia. There should be societal value in spreading knowledge of the functioning of this virgin socially labelled bondmarket, including an understanding of the driving forces of and obstacles to the devlopment of a sustainable cities' and communities bond.

1.2 Main findings

First, the report centres on the actions taken by the 21 largest Swedish institutional investors – the state-owned AP funds, private pension funds and occupational pension funds, and the retail funds run by the large banks and private investment funds. It appears that the virgin character of the sustainability-related and socially labelled bond market has left these institutional investors struggling with how to interpret their role as social bond investors. The analysis of interviews with the institutional investors conveys that these can be organized in three groups: The first group is committed to bonds with social labels, pure social or mixed with green. Its members are actively looking for investments. A second group can be described as "interested but not there yet", giving the impression of being "curious" about the instrument. A third group shows no interest at all, remaining passive but also in large parts abstaining from participating in this research.

Part of the community of Swedish institutional investor's relationship with this novel investment opportunity relates to its own understanding of its role as driver of the issuance of socially labelled bonds more generally. This is particularly true of the promotion of an SDG-11 bond targeted at deprived suburbs, which have become a major concern of Swedish society in recent years.

This understanding includes ideas related to the intepretation of their fiduciary duties, which has historically had a political dimension in which commitments to social investments that might involve the Swedish welfare state complicate matters. This also involves the Swedish regulation of the role of institutional investors as activist-investors in the domestic Swedish market. In addition, there are difficulties related to the evaluation of risk and return metrics associated with sustainability-related and socially labelled bonds, as compared to the more common green bonds.

The second stakeholder is the intermediaries of the financial community. The five large Swedish commercial wholesale banks and their debt capital market-teams (DCMs), act as intermediaries between a potential issuer and the investment community. All the banks have teams that arranges green bonds and within that team there are employees working on sustainability-related and social themes. A number of the Swedish banks have arranged socially labelled bonds outside of Sweden and would be able to transfer this experience to Swedish issuers and investors.

The third stakeholder singled out in the report is the issuers. Here the "talk in the industry", in private rooms, is very present. The report lists at least 20 actors that might consider issuing socially labelled bonds. A few are in the process of developing a sustainability framework in accordance with International Capital Market Association (ICMA) principles. However, SDG 11, on sustainable cities and communities, is complex. It centres on the special features of the Swedish public sector with its municipalities and counties. Until now most of the focus has been on the development of social financing instruments that address social impact and innovation, through the so-called social investment funds (SIFs) and social impact bonds (SIBs), or social outcome contracts (SOCs), which is the phrase used in Swedish ("*sociala utfalls kontrakt"*). However, one of the conclusions from the report is that the Swedish public experience of both SIFs and SIBs has brought the issue of evaluating success-metrics, validation and impact measures to the fore in the public sector, and aspects of the development of metrics are also applicable to evaluating the use of proceeds from socially labelled bonds.

Complementing the public sector's issuance of green bonds with socially labelled bonds could spark the interest of social impact financing as a whole. Yet, there has thus far been only one Swedish sustainability-related bond – that also addresses SDG 11, on the development of sustainable cities and communities on the market. The stock-market listed property company, Trianon, issued the first sustainability-related bond committed to delivering a positive social impact to a specific group of citizens in Lindängen, one of the deprived suburbs in Malmö, Lindängen, in the spring of 2019. As this report shows commitment by the public sector actors is constrained in a number of ways.

- Sweden appears to be struggling with its development of metrics for evaluating, validating and scaling up social impact. There is a lack of standardized metrics for evaluating social projects and this is combined with too much focus by local governments on technical innovation to promote additionality. This can lead to the issuance of socially labelled bonds that are so ambitious, complicated and focused on scalability that, in the end, they become unattractive, both for small social companies and institutional investors.

- This is compounded by Swedish local governments being at an early stage in reorganizing the work of the public sector's work to cater for collaboration both inhouse between departments and or with external parties. This hinders collaboration between different public sector departments and efforts to break down silos. In addition, public accounting practises prevent local governments from earmarking investments to projects tied to social pre-emptive activities, that could be delivered using the proceeds of a socially labelled bond.

The report includes recommendations on how to make the socially labelled bond-market take-off, like enhancing the development of financial vehicles, private as well as government-sponsored, and speeding up the work with the development of standardized metrics. As key message the institutional investors need to enhance commitment and take a more active role in public - step up, and be braver than today – at least if they claim to take all the SDGs seriously. A key message to the issuers is not top beg for too much realated to risk-sharing – socially labelled-bonds must not be too complex in structure and too complicated to evaluate for investors.

However, the grand message from the report, is just the spreading of knowledge of the value of developing a market for socially-labelled-bonds, and the role domestic institutional investors can play, if they decided to level up commitment.

A natural starting point for the report is to look at what is happening on a global scale to develop a socially labelled bond market. This includes a presentation of the most active issuers in the European market, to find out to what extent knowledge could be transferred to the Swedish setting. In other western countries, a large number of the socially labelled bonds target affordable or social housing and economic development of small and medium-sized enterprises (SME financing) in deprived regions and areas. Among the issuers are both municipalities and financial institutions.

It is equally important to take a closer look at the Swedish welfare state, where the institutional set-up of publicly financed local government explains part of the limitations on collaboration between the private and public sectors thus far. Sweden lacks a definition of social housing, which makes it difficult to develop a socially labelled bond targeted at affordable housing. In addition, Sweden has applied public procurement regulation in a highly economically liberal manner, and until recently abstained from the ability to reserve tenders for social services entities in the welfare sector.

The report also describes other novel financial vehicles such as publicly sponsored SIFs, SIB/SOCs and the possible launch of a government-sponsored social impact or outreach fund. Reactions to these instruments provide an understanding of the public sector's openness to or lack of interest in private-public partnerships.

1.2 Method

The report builds on interviews with more than 60 people, a review of the academic literature and policy reports and participation at conferences on social finance and impact investing in a Swedish setting. It maps socially labelled bonds, listed from different perspectives – the global market, the European market and investments by Swedish institutions in socially labelled bonds – as well as other social impact investments. It also includes a description of the public sector's work with social investments funds and social impact bonds and on the development of impact metrics. The research was conducted between December 2018 and August 2019. Additional and follow-up interviews took place until the middle of November. A thorough description of the methodology is provided in the appendix.

1.4 Structure of the rest of the report

Chapter 2 sets the scene, beginning with a description of the market for sustaianbility-related and socially-labelled-bonds. The chapter defines socially labelled bonds and impact investing. Building on experience from the green bond market, it presents an overview of the drivers of and barriers for socially labelled bonds. *Chapter 3* describes the actors and institutions involved in constructing a Swedish market for socially labelled bonds. The chapter explains why the timing might be right for the introduction of socially labelled bonds in Sweden and discusses what the research tells us about the citizens' changing expectations of the Swedish welfare state.

Chapter 4 puts the Swedish financial market for sustainability-related and socially labelled bonds in a broader European context. The global market for such bonds is described. *Chapter 5* addresses the role played by Swedish institutional investors, based on interviews with representatives of all the large Swedish institutional investors. *Chapter 6* outlines the commitments made by institutional investors. It conveys the different positions taken, which seem to be related, not to organizational structure, but more to individual preferences derived from board level, managers or specific employees.

Chapter 7 moves the perspective to the issuers. It provides a description of the role played by intermediaries, such as banks and rating agencies, as well as the issuing parties – local government, property companies and financial institutions. It also discusses other possible issuers, framed as discussions in private as "market talk", as these appear to take the lead in the informal discussions surrounding the developing of the market. *Chapter 8* focuses on the functioning of the Swedish welfare state, including procurement rules, accounting practices and the absence of social housing, which hinders the issuance of socially labelled bonds. Nonetheless, there is an emerging market for Swedish social impact financing, which is described in *Chapter 9.* The chapter touches on the experiment with social investment funds and social impact bonds and describes the development of metrics for evaluating the use of proceeds.

The final chapter contains concluding remarks on the development and formation of the Swedish market for sustainability-related and socially labelled bonds, including recommendations to policy-makers and opinion formers, and suggestions for further studies. A description of the methodology is attached as an appendix.

2. Sustainability and social bonds: What they are and what make them special

This chapter sets out the framework for socially labelled bonds, including the opportunities for and barriers to their possible growth. It begins with an overview of the developing market – both green and social. It then defines what sustainability-related and socially labelled bonds are, and how they differ from green bonds. Finally, it zooms in on what is known about – and what is changing for – the two actors at the core of the study – the institutional investors in and the issuers of SDG-11 bonds, local government and property developers.

2.1 Defining socially labelled bonds

Socially labelled bonds are bonds where the use of proceeds is earmarked for social or green-social projects. The cornerstone of a socially labelled bond is therefore the description and evaluation of and the legal documentation on the use of proceeds. All designated social projects must provide clear social benefits or seek to achieve positive social outcomes especially but not exclusively for a target population(s). At least annually, investors must be given detailed and transparent reporting on how the money has been used in relation to the investment plan that was presented.

Socially labelled bonds – purely social as well as SDG- and ESG-related sustainability bonds, which can have both green and social goals – differ from the green bonds in two important ways. First, whereas green finance focuses mainly on the *transformation* of economies in the direction of reducing carbon dioxide (CO_2) emissions, social impact investing has its primary focus on investing for specific *social impact*.

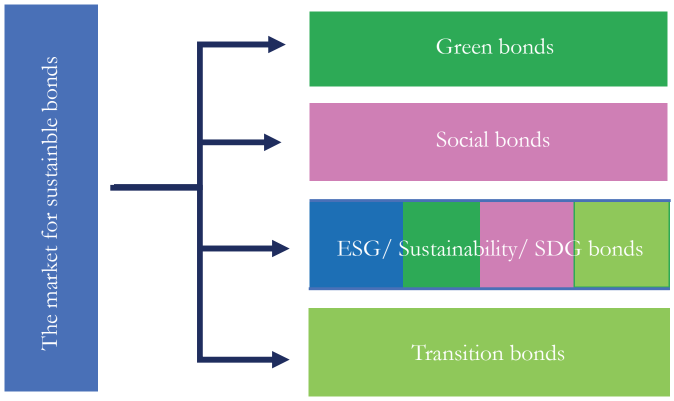
The Organization for Economic Cooperation and Development (OECD) follows the Global Impact Investing Network (GIIN) in defining social impact investments as "those that intentionally target specific social objectives along with a financial return and measure the achievement of both" (GIIN 2009; OECD 2019).

A main difference between socially labelled bonds and green bonds is that social impact is typically more complex to measure in the former than it is for standard green bonds. When it comes to green bonds, the evaluating effect is often quite straightforward – to deliver reduced CO_2 emissions, clean water or biological pluralism. In contrast, socially labelled bonds always include a specification that the social project's direct aim must be to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, especially but not exclusively for a target population or populations. In these bonds, the social dimension is evaluated using a number of different metrics, with additionality added to the evaluation process of effectiveness, in the sense that tracking a positive impact requires a measurement of social effect (IFC 2010). For example, delivering a training programme is not enough: what is measured is whether the target group, after for example having fulfilled an educational programme, obtains employment or is eligible for higher education or the job market. This makes social impact measures more complex than environmental ones. Tracking the reduction of CO_2-emissions in a refurbished building is a more straightforward procedure. ICMA acknowledges that "the definition of target population can vary depending on local context and that, in some cases, such target population(s) may also be served by addressing the general public" (ICMA 2018).

In this report, sustainability-related and socially labelled bonds are been defined according to the ICMA principles (Figure 1), as this is the most used definition that is used, among others, by the Stockholm based Nasdaq Fixed Income Market. Agencies that choose their own definitions often also describe their impact in a way that is aligned with ICMA (UNEPFI 2019).[2]

[2] Social, green and sustainability-related are internationally framed as "sustainable" and the terms are used interchangeable. In Swedish, this translates as "samhällsansvar" rather than "socialt och miljömässigt ansvar".

Figure 1: The sustainable bond market



Source: ICMA definitions

ICMA's labelled bond principles, e.g. the Social Bond Principles (SBP) have four core components:

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting

Bonds issued with labels can be broadly categorized in four groups: green, transition, social and sustainability-related/ESG/SDG bonds. All four share a number of commonalities. They all need to earmark proceeds to projects that deliver clear benefits to the environment, social welfare or both. Eligible areas for use of proceeds include but are not limited to:

1. Climate change mitigation;
2. Access to essentials such as health care, education and vocational training, financing and financial services;
3. Protection of biodiversity;
4. Affordable housing.

ICMA's definition covers a variety of bond-instruments. There are currently four types of socially labelled bonds that are traded on fixed-income exchanges:

1. ***Standard Social Use of Proceeds Bonds,*** which trades just like general senior debt, but are aligned with the SBP. Typically, these bonds are tied to the issuer's balance sheet rather than the cash flow of a specific project. The investor will not be exposed to the risk of projects specified under the 'use of proceeds', but instead to the entire balance sheet of the issuer. The reason for this is that projects/ initiatives are usually part of a larger bond programme in which not every initiative matches the terms of each bond. Most large issuers have these types of rolling programmes.
2. ***Social Revenue Bonds,*** where the credit exposure of the bond is tied to a cash flow. The cash-flow (coupon) is tied to the outputs of specific targets.
3. ***Social Project Bonds,*** a project bond for a single or a multiple of social projects. This type of bond has received much attention from the investor community, since such bonds are often tied to novel projects and enhanced commitments by the issuer. At the same time, a lack of standards related to the use of proceeds, makes them more difficult to evaluate by the investor community
4. ***Social Securitized and Covered Bonds*:**,a bond collateralized by one or more specific social projects, including but not limited to covered bonds, asset-backed securities (ABS), mortgage-backed securities (MBS), and other structures; and aligned with the SBP.

Social project categories include, but are not limited to, providing and/or promoting:

- Affordable basic infrastructure such as clean drinking water, sewers, sanitation, transport, energy;)
- Access to essential services such as health care, education and vocational training, healthcare, financing and financial services;
- Affordable housing;
- Employment generation including through the potential effect of SME financing and microfinance;
- Food security;
- Socio-economic advancement and empowerment.

Examples of target populations include, but are not limited to, those that are:

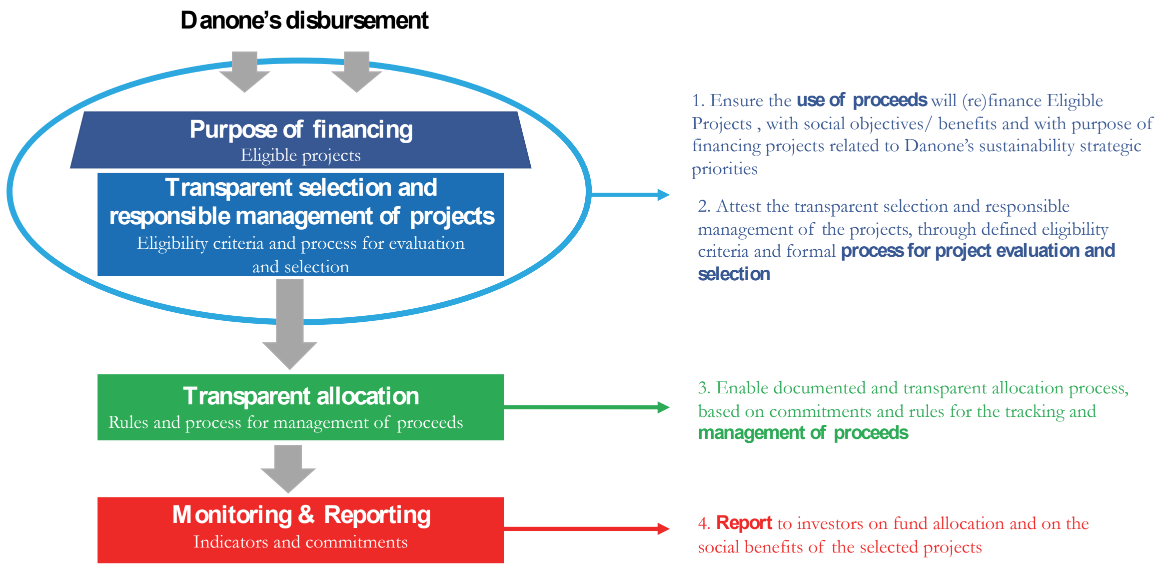
1. People living below the poverty line
2. People living in excluded and/or marginalized populations and / or communities
3. Vulnerable groups, including as a result of natural disasters
4. People with disabilities
5. Migrants and /or displaced persons
6. The less educated
7. The under-served, owing to a lack of access to quality goods and essential services

Related to the market for socially labelled bonds, is the market for dedicated social/sustainability bond funds. According to a survey by the GBP Executive Member Committee (GBP Excom), 47% of the signatories to the ICMA principles, have dedicated green funds, compared to only 14% and 16% respectively for social/sustainability bonds.[3]

Danone, the large nutrition company, provides an illustration of how eligible projects are listed and proceeds are validated and finally reported (Figure 2). The company issued a €300 million social bond in 2018, the first social bond issued by a multinational aligned with the SBPs.

Eligible social projects under the Danone bond are: research and innovation on advanced medical nutrition (40% of the proceeds); social inclusion (25%); responsible farming and agriculture (20%); entrepreneurship financing (10%); and quality health care and parental support (5%). Danone publishes details of its initiatives, its target populations and its reporting indicators.

Figure 2: Example Danone's management of proceeds



[3] HSBCs report, p. 23 January 2019

Source: Vigeo Eiris Second Party Opinion on the sustainability of Danone, March 2018. This follows the SBP

2.2 The market for socially labelled bonds at a glance

Little is known about the possibility of involving institutional investors as financial partners to drive socially labelled change. For the past 30 years, institutional investors, acting either globally or in their domestic market, have played a mostly passive role as investors in the bond market, simply investing according to risk and return metrics. An overview of the literature on developing a market for social impact investing by institutional investors confirms that socially labelled bonds are a virgin market. A broader discussion of sustainable finance is offered in the *Routledge Handbook of Social and Sustainable Finance* (Lehner 2017) and *Sustainable Financial Innovations* (Wendt 2019). These go into detail about amalgamating impact investing and the fiduciary duties of asset managers, but without developing a discussion on socially labelled bonds – either purely social, SDG- and ESG-labelled, or sustainability bonds that are both green and social.

This is changing, however, and this change could have a profound effect on the functioning of bond markets. As of 2019, the size of the global fixed income market (total debt and bonds outstanding) is estimated at US$130 trillion, which is about three times the size of EU and US aggregate gross domestic product and double the size of the global stock market. While shareholder activism has been around for some time, with codes of conduct and regulations related to good corporate governance in place since the 1980s, impact investing on the bond market has emerged more recently. However, increasing concerns related to climate change and social disorder have put the spotlight on the global fixed income market as the real game changer to enable the transition to a sustainable future. The ability to invest in labelled bonds – green, social, sustainability or SDG- and ESG-related bonds – has naturally contributed to this perspective.

Only a fraction of this investment is dedicated to green and socially labelled bonds. It is however a growing market. The 2019 global issuance of green bonds is estimated to be US$ 250 billion, a surge of 49% on the previous year (Climate Bond Initiative 2019). The labelled bond market has also started to expand beyond green bonds to include socially labelled bonds, which as of 2019 are expected to bring an additional US$ 38–45 billions of issues (SEB and Flensborg 2018). The first real take-off came in 2018, with the introduction of broader sustainability-themed bonds tied to the UN's SDGs.[4] SDG bonds finance a combination of green and social projects, including those linked to the SDGs. Frameworks for social and SDG bonds have been provided by the International Capital Market Association (ICMA), which also has a green environmental framework. SDG bonds and sustainability-related bonds both mix environmental and social goals. ESG bonds also exist to a lesser extent.

This growth of the sustainability-related and socially labelled bond market, however, began from a low base. Issuance of sustainability-related and socially labelled bonds was up 75% in the first two quarters of 2019 compared to the same period in 2018, reaching US$ 26 billion for sustainability-related bonds in the first two quarters, and $13 billion for socially labelled bonds (ICMA and Richards 2019; ICMA 2019), which surpassed the full year figure for 2018.

France, the UK and Japan are taking the lead. Each has issued a small number of socially labelled bonds of investment grade. In many respects, Sweden is also lagging behind its Nordic neighbours. Iceland launched its first purely social bond, targeted at affordable housing, in 2019. A first purely social bond in the Nordic states was issued by the European Investment bank (EIB) in Norwegian krone in the spring of 2019. (It was listed on the Luxembourg fixed income exchange.) To date, Sweden has one sustainability-related bond listed on Nasdaq Fixed Income, with a credit ranking by a Swedish issuer that follows ICMA's principles. There is no purely social bond (ICMA 2019). Since the spring of 2019, Nasdaq has also listed two corporate high-yield sustainability bonds: one by the property developer, Trianon, and the other by the mobile network provider, Millicom.

The social labelled bond market is often addressed together with SIBs, a related financial instrument focused on social impact, but not to be mistaken for a bond instrument. SIBs are option contracts, often small in size (i.e. SEK 20 million) and structured as private placements (and in Sweden known as social outcome contracts,

[4] HSBC issued a first US$ 1 billion SDG bond in November 2017, linking the proceeds to seven SDGs (3, 4, 6, 7, 9, 11 and 13) https://www.environmental-finance.com/content/news/hsbc-prices-$1bn-sdg-bond.html

SOCs). These often attract philanthropists, high-net-worth individuals and social investors. However, SIBs can be bundled together and thus scaled-up to a size that makes them worthwhile to invest in for institutional investors – at least a few hundred million SEK, according to the investors covered in this report. They can also be transformed into a tradable social project bond with a variable coupon stream, which can attract institutional investors. Although different, impact metrics and reporting have similarities for both SIBs and socially labelled bonds.

The UK has taken the lead on SIBs, whereas Sweden as yet only has one SIB that involves collaboration between a public sector entity and a private investor (Fryshuset 2017a). Finland is committed to developing scalable SIBs with the support of the Finnish government.

2.3 Investors' perspective: Opportunities

For a long time, institutional investors focused solely on financial returns when acting in the interests of beneficiaries, just adhering to the basic human rights, International Labour Organization Conventions, and so on. After the Millennium, a growing number of investors started to interpret fiduciary duties as not being hindered by the inclusion of ESG factors. Since then the trend has moved in the direction of requiring asset managers to incorporate ESG factors into their investment decisions. Today, SDG investing is emerging as a way to gain societal legitimacy. Commitment has also moved beyond asset managers active on the stock market to also include the fixed income teams.

To understand the institutional investors' possible appetite for socially labelled bonds, we can get some inspiration from what is known about the appetite for green bonds. The green bond market has been in existence for ten years, and thus offers studies by academics, practitioners and policymakers that are not yet available for the nascent social bond market.

For institutional investors the labelled bond market offers better opportunities for investor activism than both tradable shares on the stock market and plain vanilla bonds. Bonds that are tied to certain commitments written in the prospectus are more sensitive for a number of reasons (Erlandsson 2019):[5]

1. ***Continuous IPOs.*** Bonds are issued with a certain maturity, often 5 or 7 years. This means that an issuer with commitments needs to return to the market, continuously carrying out initial public offerings (IPOs). This means that the issuer has to confront investors and explain and defend the impact on proceeds of previous bond programmes. The entire stock of bonds in the world will thus have been traded 1.5 times before 2030. By contrast, many listed companies hardly ever make a rights issue and would usually have greater flexibility when timing one.
2. ***Reputational Risk.*** For the issuer, the reputational risk of not delivering according to promises is high, as the effect on cash flow is instant if an issuer is downgraded by a credit institute and the bond is priced higher as a result. By contrast, a CEO that has to confront shareholders with a profit warning does not have to risk much for the company apart from his or her own job, as long as the company doesn't need a right's issue.
3. ***Ongoing Dialogue.*** Conditions are created for an ongoing dialogue between the issuer and investors. A single bond issue is often worth several billion SEK and it is usually subscribed to by a small number of institutional investors. This creates a much closer relationship between the issuer and investors than is found between shareholders and a listed company. As the use of proceeds is followed up on a yearly basis, the potential for influence and impact is greater.
4. ***Proximity to investor base.*** There is also a proximity issue. Domestic investors often take a large share of a bond issue, and if they start to cooperate, the impact effect will be further strengthened.
5. ***Herding effect on views.*** There is a herding effect on the bond market, with less divergence of views than among shareholders.

[5] Ulf Erlandson, affiliated researcher Lund University, listed these arguments at a conference arranged by the SSFC in May 2019

2.4 Issuers' perspective: Opportunities

From the issuers' perspective, there are opportunities tied to the labelled bonds that drive appetite. Theoretically it can be argued that labelled bonds, green, social or sustainability-related, should be priced at a discount – a greenium – that reflect their greater future prospects, but this has been difficult to identify in studies. The over-the-counter (OTC) character of the bond market makes it difficult to track prices and most bonds are not traded on a daily basis. There are anecdotal examples of discounts of 2–3 basis points (bps). At the same time, studies of issues by municipalities, that have simultaneously issued green bonds and general bonds, reveal no pricing differential. Given that the municipality has to pay extra for investment banking services, sometimes up to 10%, and also to carry costs for getting a project certified as eco-friendly, the labelled bond is more expensive for the local government (Larcker and Watts 2019). Consequently, price cannot be the only driver for issuers. However, experience from the green bond market shows that:

1. ***Attracting new groups of investors***. A green label broadens the market for an issuer. This finding is supported by the fact that green bonds are oversubscribed more often than plain vanilla bonds, and by lower pricing spreads (Climate Bond Initiative and World Bank 2019).
2. ***Enhancing cooperation and the breaking down of silos.*** Many issuers describe how introducing a green bond opens the door for an internal dialogue between different entities at the issuer. Green issues open doors between the environmental side and the finance side. This is relevant for the corporate sector and public sector alike, although the problem with silos is usually greater in the public sector.

2.5 Barriers to sustainability-related and socially labelled bonds

Many institutional investors have specific mandates to invest in green (or sustainable) bonds, which drives appetite and demand. The greatest barrier to green bonds appears to be the limited size of the market, representing only 0.5% of the entire bond market. Institutional investors have complained about this, citing lack of ambition from issuers, a worry about green-washing and opaque impact measures.

In particular, there is a lively global debate related to project-effectiveness and whether any positive impact is really traceable to the financing-activity, on the one hand, or that the focus is too much on what can be considered "dark" green rather than looking at "shades of green", and thus focusing on transformative investments related to the greening of the remaining 99% of issuers, on the other. The latter would have a potentially greater impact on the climate than detailed regulation of what constitutes green. The EU's 800-page Green Taxonomy, published in June 2019, cast some light on this dilemma. A study by MSCI ESG Research claims that only 17% of the market value of bonds contained in the *Bloomberg Barclays MSCI Green Bond Index* would meet the proposed taxonomy criteria, and thus be eligible to be verified in line with the EU Green Bond Standard (EU GBS) (Hurley 2019).

Thus, social bonds are widely viewed as a way to grow the labelled bond-market. There are, however, some clear differences between green/transition bonds and bonds that also carry social labels, and this creates barriers to the development of the market.

1. ***Defining what is social is more complex.*** Whereas climate change is global and measurable (CO_2 emissions), metrics related to social issues are often local, and solutions are highly local too. They are affected by demographic issues and context. Playgrounds might be branded social in Sweden but are less likely to qualify in an Italian context. Access to clean drinking water might be a social issue in parts of Africa but not in Sweden.
2. ***Political and institutional differences***. These are related to a country's organization of social welfare but also to the domestic structure of the credit market. Sweden belongs to the group of corporatist tax-financed welfare states, whereas many other wester liberal economies rely more on market solutions and non-profit organizations.
3. ***Lack of standards.*** There is a lack of standards on how to measure project impact and on how to validate effect. Each country more or less has to make up its own framework. Whereas green bond projects are focused on specific investments, social projects also track effects on a target population, which is more

complex and time-consuming for the issuer to set up and for the fixed-income portfolio manager to follow up.

4. ***Local frameworks***. The issuer seldom controls the social project alone. Rather, the project involves collaboration with external parties, such as social enterprises and parts of the public sector (e.g. social housing, employment support). Green bonds are easier in that sense, as an issuer can often control the project alone. The climate effect related to energy-savings in a house is easier to organize by a property developer than social projects related to care for the elderly that involve multiple stakeholders.
5. ***Currency restrictions***. Institutional investors are often subject to currency regulations. Some Swedish institutions, for example, are prohibited from investing in currencies other than SEK, while others have a broader investment mandate that also includes dollars and euros. As a result, the former can invest in green bonds denominated in SEK, but cannot find any socially labelled bonds, since these do not exist. There are also limits on mandates related to less risky investment-grade bonds and high-yield bonds.

A 2018 report by the World Bank states that institutional investors are being constrained by the lack of ESG-focused products for fixed income investors (Inderst and Stewart 2018).[6] There is much to do: (i) the collection of ESG-related data needs to be improved; (ii) more rigorous research is needed on the relationship between ESG factors and financial risks, and returns to fixed income; and (iii) standards, principles and metrics on applying ESG and impact investing must be developed. Finally, more innovative and scalable products are needed to accommodate the growing demand for fixed income sustainable investments.

[6] The World Bank report sought input from the world's largest institutional investors, rating agencies and data providers such as MSCI, Moody's, Sustainalytics and S&P.

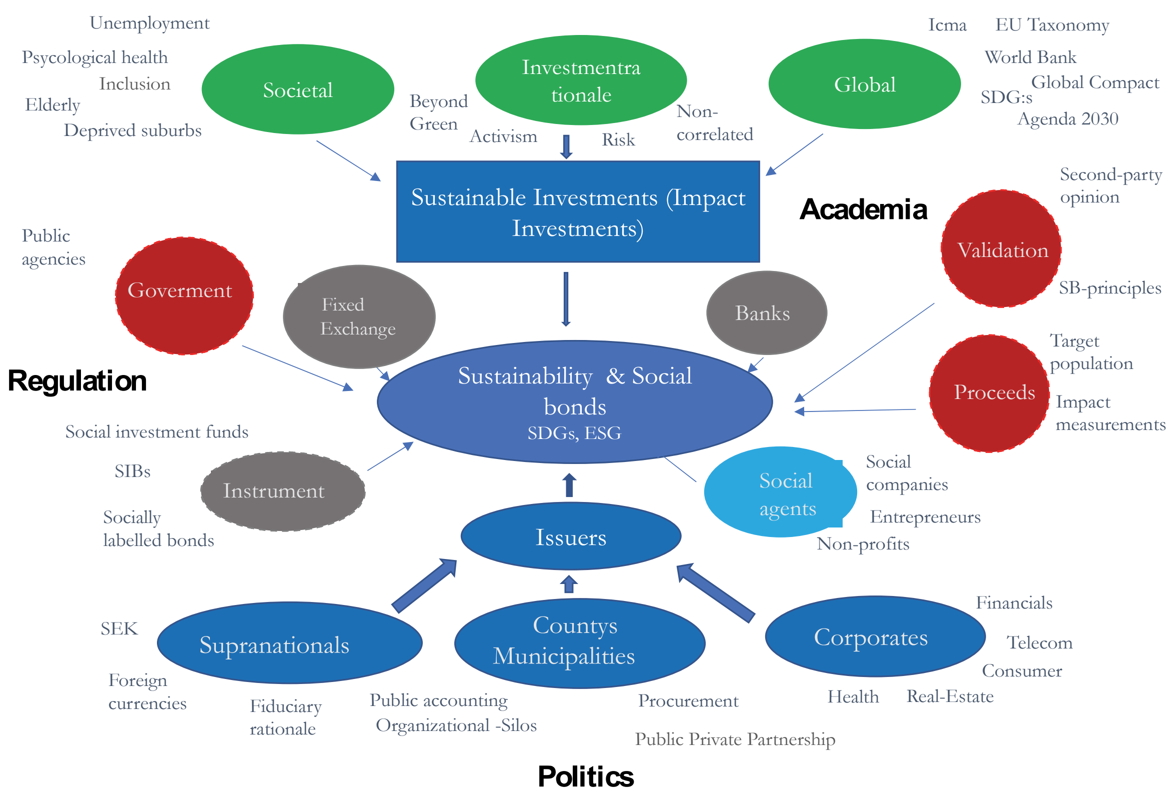
3. The societal fabric for the Swedish market: Barriers and drivers

The chapter introduces the Swedish context for sustainability-related and socially labelled bonds, starting with an illustration of the actors constructing such a market. It then describse the value of launching an SDG-11 bond. The chapter then highlights the actions taken by three of the central drivers of development: (i) the public sector's experience with social financial instruments thus far; (ii) the government's role; and (iii) activities of financial actors.

3.1 Actors and agents constructing a Swedish market

Studies on the social impact market in Sweden largely overlooks institutional investors as partners (Lundgaard Andersen, Gawell, and Spear 2016). The focus is on equity financing, primarily covering foundations and philanthropists. The debt-financing literature mainly targets the emerging market for green bonds. The social finance literature mostly focuses on microfinancing in developing countries. A study by a governmment agency (Vinnova 2019) lists 22 possible financiers of Swedish social enterprises, meaning companies that commit to deliver on both social and economic goals. Institutional investors or impact investors are not included as an investor-category. The actors are both many and varied (see Figure 3).

Figure 3: Actors and agents in the Swedish market for socially labelled bonds



The diagram is specifically designed to foreground the position of the domestic institutional investors and the issuers.

Figure 3 touches on the barriers and preferences (regulatory as well as normative) in the supply side (institutional investors as financiers and the forces influencing potential interest), the demand side (government, public institutions as well as private sector and possibly also civil society) and intermediaries (banks, the fixed income market, validating actors). For example, public-private collaboration is perceived as a delicate political issue for a tax-financed welfare state.

The illustration also positions the emerging Swedish labelled bond market in an international context. For example, as shown in the illustration the Swedish government plays a role, but it is not as central as the governmnets are in many other countries. In addition, Sweden lacks a concept of social housing, which limits the ability to target affordable housing-proceeds to low-income groups. The commercial banks, which dominate the Swedish credit-market, generally abstain from social financing. This affects the business environment, especially in the urban areas, where Sweden has experienced a faster fall in population compared to other western states (Nachemson-Ekwall, 2016; 2018).

From an international perspective, obstacles to growing the market stem, among other things, from a lack of collaboration between the key stakeholders required to develop new forms of collaborations, including regulations that hinder private-public partnerships (Bloomfield 2006; C&AG 2015; Roehrich, Lewis, and George 2014). Sweden is no different, but lags behind, and this can partly be explained by difficulties in developing partnerships involving stakeholders that pursuing different ends, have different rationales and are evaluated using different metrics (Sivesind 2016; Wijkström 2012). Problems related to lack of collaboration have also been analysed in reports addressing problems in Swedish suburbs (Villaneau Gran 2016; Nilsson and Lundmark 2012; Fölster 2018; Veidekke 2017).

For domestic institutional investors, there is also a political dimension attached to a study on impact investing. Integrating positive social factors into the investment decisions of domestic institutional investors could be interpreted as a fund-manager stumbling into the public domain. When municipalities issue green bonds these are tied to infrastructure projects, which in accordance with Swedish public accounting practices are eligible for external financing. However, local governments must put the costs for the employees who are involved in social commitments on the current operational budget, thereby excluding external financing (see chapters 7 and 8). Openingen up the Swedish market to sustainability-related and socially labelled bonds issued by local governments will thus impact the institutional set-up of the tax-financed Nordic welfare system to which Sweden belongs (Nachemson-Ekwall 2016; 2018).

3.2 A possible market for Swedish SDG-11 bonds: unsustainable suburbs

Highly developed welfare states, such as Sweden's, are not seen as the most obvious targets for the social SDGs. The basic needs of citizens in the developing world are, of course, greater and investments have the potential to have greater effect in terms of pay-off in a short period of time. Sweden's large tax-financed general welfare system means that it also has a culture of abstaining from private-public collaboration (Sivesind 2016; Nachemson-Ekwall 2016). Turning the spotlight on to the issuance of an SDG 11-bond for sustainable cities and communities, however, changes the playing field.

Segregation, the income gap and socio-economic inequality have been highlighted as growing problems in Sweden (Börjeson 2018). Problems are linked to the lack of affordable housing, the need for innovation and green development to create resilient cities, gender inequality and health issues related to socioeconomics, and the lack of employment opportunities for citizens living some distance from the ordinary labour market. In Sweden, 200,000 people are living in underprivileged suburbs in Stockholm, and 350,000 more live in similar suburbs elsewhere (Nilsson and Lundmark 2018). This is 5% of the population.

There are 60 suburbs listed as vulnerable areas, in the sense that the police have difficulties working there ("Polisens nya lista över utsatta områden" 2019). The urge to resolve problems in these deprived suburbs is constantly discussed by politicians and the media, while a number of shootings in the autumn of 2019 moved the public discourse towards "an emergency-crisis". Thus, an improvement of the Swedish performance on SDGs 11, 10 and 3 is, and should be, uppermost in people´s minds. The Swedish finance minister, Magdalena Andersson, foresees a funding gap for Swedish municipalities and counties of up to SEK 90 billion by 2026 (Direkt 2019).

A number of local governments and private property owners are showing an increasing interest in enhancing socio-economic inclusion in suburbs by incorporating features such as transport systems and digitalization, as well as green investments in energy efficient housing. This interest is now being mixed with ambition to address specific social goals. Given that Sweden is the only Nordic country with an active bond market – which already attracts municipalities, counties and real estate companies – this could offer an alternative finance opportunity to raising taxes or transferring money from the government budget or richer regions. This makes Sweden especially interesting to study from a Nordic welfare state perspective.

3.3 The Swedish experience of social impact financing

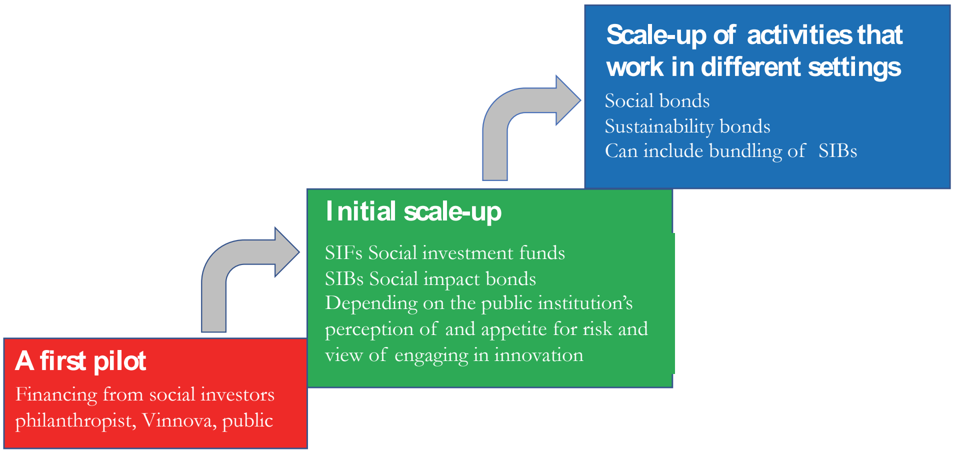
The absence of socially labelled bonds on the Swedish bondmarket thus far does not mean that the Swedish public sector lacks experience or competence related to social financial instruments. There is an emerging literature related to two other social impact structures: Swedish municipality run *Social Investment Funds* (SIFs) (Hultkrantz and Vimefall 2017; Balkfors, Bokström, and Salonen 2019); and *Social Impact Bonds* (SIBs) (Dear et al. 2016; Gustafsson-Wright, Gardiner, and Putcha 2015), where Swedish contributions have been limited to a number of reports. SIFs are internal public funding vehicles that enable the transfer of cash between different budgetary time periods and between different public departments. This enables the public sector to allocate operational income from expected savings in the future. In a standard budgetary process, the pay out today, for example for school services for teenage high-school drop outs, would only be accounted for as current operational expenditure. SIFs have been used by municipalities as a financial instrument since 2010.

The SIB market has received a good deal of interest since it was first launched in the UK in 2010. The name SIB is somewhat misleading, as it is not a bond but a loan with a variable repayment stream, a "pay for success instrument", tied to a pre-decided outcome that works as an options programme. Sweden uses the phrase "sociala utfallskontrakt" (social outcome contracts SOC). SIBs can address a range of social issues, such as workforce development, foster care, education, health (e.g. diabetes and dementia) and homelessness. Sweden is yet to launch a single complete SIB/SOC but 130 SIBs have been issued globally, many of them in the UK.

SIFs and SIBs can be seen as complementary financial structures to socially-labelled-bonds. However, the experience of SIFs and SIBs influences civil servants' interest in both supporting and hindering the development of socially labelled bonds. A schematic view of the link between SIFs, SIBs and socially labelled bonds, from the perspective of local governments, is offered by Brännvall and Eriksson Åshuvud (2019). There are three steps (see Figure 4). The initial stage is to establish a *Pilot* to develop a project, impact measures and evaluation effects. This spurs collaboration between the public sector, academia and socially labelled enterprises, with-profits as well as non-profits. This initial stage is funded with the support of a philanthropists or public sector seed funding. The second stage, *initial scale-up*, requires collaboration with different government departments as well as external private sector parties. This step receives financial support through a SIF or a SIB, working alone or possibly together with an external private sector party. The third and final step is to *scale-up* those initiatives which work. It is at this last stage that socially labelled bonds might come in. The scale-up phase includes the possible bundling of SIB contracts, where for example 10 or 20 contracts worth SEK 20–30 million each can be wrapped up together in a credit default obligation (CDO) that could be an investment-case for fixed-income-asset manager.

One factor often mentioned as limiting the growth of financial instruments for social impact-investing is the lack of standardized metrics for evaluating effect. Parts of this difficulty is the strict focus on innovation, in the sense that it used to gain acceptance and legitimazy for public-private partnerships from politicians, civil servants and the local community. This applies to socially-labelled-bonds too. This is in line with Sweden overall lagging behind the OECD economies more generally in the development of financial infrastructure for private investing for social purposes, and in the social economy in general (Augustinsson, Persson, and Backström 2016; Backström 2014; Fryshuset 2017a; Nachemson-Ekwall 2016).

Figure 4: The market for social impact financing



Source: Inspired by Brännvall and Eriksson Åshuvud (2019)

Also, there is a lack of financial capital in both the pilot and scale-up phase. Sweden lacks a dedicated government-sponsored social investment fund, such as British Society Capital (Big Society Capital 2017) and does not have a system of credit guarantees for social enterprises. At the same time, it is relevant to compare with Finland and Denmark, countries that share communality with the Swedish welfare system but were the state and politicians have showed a more open approach to private actors on the market for financing social investing. Thus, domestic institutional investors play and can play a different role in Sweden than in liberal market economies such as the UK, France and Belgium.

3.4 The government's role as driver of a transforming societal context

The Swedish government plays a more limited role in promoting financial instruments for financing the social economy than in similar western countries (Brooks and Uppman Helminen 2018; Nachemson-Ekwall 2018; 2016). However, there is an emerging interest from both central and local authorities in developing institutions that support the development of the Swedish social economy, especially related to the growth of social enterprises. Signals include:

- Since 2019, the *Law on Public Procurement*, has enabled public authorities to include reserved contracts and socially focused service providers in tenders in the well-fare sector.
- The government has published Sweden's action plan for Agenda 2030 on sustainable development, which is now being integrated into the works of public sector entities. The Agenda 2030-delegation writes that "New forms of collaboration between the public sector, business and research should also be encouraged to promote innovation and mobilise resources" (SOU 2019:13 2019). However, Agenda 2030 does not include specific goals and targets that stakeholders can agree on and work witt, as has been done on the environmental side.
- In 2018 the Social Democratic Party/ Green Party governing coalition earmarked SEK 150 million for socially innovative projects through a programme of social innovation and social entrepreneurship. The money has gone to Rise, which will develop tools for measuring, tracking and reporting impact. In addition, Vinnova has been awarded SEK 60 million for the three-years period 2018–20 in order to develop a national programme for social incubators and SIBs.
- In June 2018, the government set up a special inquiry that will make proposals on promoting the contribution of social enterprises to the development of the welfare sector, including proposing appropriate legislation, new procurement rules and collaborations, for instance through the IOP.

In addition, Sweden has strengthened its commitment to the development of the social economy through having signed the 2017 Madrid Declaration on the Social Economy in Europe. The work by the Swedish government is also inspired by the OECD, the World Bank and the EU, as well as the G8 and the World Economic

Forum. These have produced proposals for strategies and action plans on social innovation that can both grow and gain access to capital.

3.5 Emerging activities by financial market actors

There are also signs of activity within the Swedish institutional investors' community and the Nasdaq Fixed Income:

- ***An emerging interest in social impact bonds***. SIBs/SOCs fall within the scope of the whole area of impact investing and social financing, where the life insurance mutual Skandia is one of several institutional investors to highlight the need to develop a Swedish market for scaled-up social impact bonds. Skandia has made presentations in 2017, 2018 and 2109 in Almedalen, known as a popular and internationally rather unique democratic meeting place (located in the summer city if Visby on the iceland of Gotland) for citizens, politicians, civil society and the business sector, but so far this has been limited to individual initiatives.
- ***Commitment by issuing banks.*** The large wholesale banks frequently arranges seminars and participates in conferences that promote social financing. SEB is particularly active.
- ***The formation of a Swedish advisory board on impact investing***. A group of stakeholders, that includes banks, institutional investors, social enterprises, academics and experts has come together to form The Swedish National Advisory Board for Impact Investing (NAB). NAB was launched in April 2019 and is one of 22 NABs around the world connected to the Global Steering Group for Impact Investment (Carenco 2019; OECD 2019) (originally a network for the G8 countries) (GIIN 2009; OECD 2016). Among the board members are found Skandia, Nordea, SEB and Stockholm Region. However, the government is not a member.
- ***Prinicples of Responsible Banking***. Nordea is one of a core group of 30 founding banks of The United Nations Environment Program (UNEP) finance initiative, 'Principles for Responsible Banking', launched at the UN SDG conference in New York in September 2019 (UNEPFI 2019). The principles identify what the individual banks can do to increase the positive impact of their credit portfolio and reduce the negative impact. Other signatories include SEB.

In addition, the Swedish Institute for Standards (Svensk Standard, SIS) has set up a committee on sustainable finance (ISO/TC 322) in order to develop social metrics that are aligned with the SDGs and Agenda 2030.

Finally, Sweden's limited experience thus far should be compared to developments in its Nordic neighbours. None of the countries can be described as a frontrunner, but each has chosen to go a different way. The Danish government has allocated funds at the national level, through the *Den Danske Kapitalfond*, for the development of methods and partnerships for integration into the labour market. Finland is testing SIBs on a large scale, with support from a government-funded financial vehicle. Norway's commitment is very much pushed championed by the private sector Ferd foundation. Iceland issued its first sustainability bond, committed to Reykjaviks social housing program in April 2019. The Swedish Agency for Economic and Regional Growth,

Swedish Agency for Economic and Regional Growt (*Tillväxtverket*) has issued a report suggesting the formation of a government-sponsored social investment fund – focusing on loans, microloans and credit guarantees of around SEK 150–200 million. The government has not responded (Brooks and Uppman Helminen 2018).

4. International outlook: What works for sustainability and social bonds

Whereas Sweden took an early lead in the formation of the green bond market, when it comes to socially labelled bonds the transfer of knowledge is in the other direction. Thus, a global list of sustainability-related and social bonds has been compiled for this research for use as reference. Supranational agencies appear to lead the market, but other issuers include domestic public institutions and local government. The list can be used for reference, and as examples of what kind of socially labelled bond might work or not work in the Swedish context.

4.1 The global market for sustainability-related and social bonds

The Environmental Finance Bond Database contains a list of social and sustainability bonds.[7] As of 13 April 2019, it comprises 233 sustainability-related and social bonds, that were filtered out by this research. The majority of the bonds are aligned with The Social Bond Principles (SBP) and The Sustainability Bond Guidelines (ICMA 2018). The list covers the full spectrum of issuers, from banks, agencies and supranational organizations, to national and local governments, corporate bonds and private placements. Within the social bonds, corporates make up 5% of the market and financial institutions 24%. Within sustainability-related bonds, corporates and financial institutions each make up 20%. As a comparison, corporates make up 36% of the green bond market financial institutions 20%. For the study, 101 bonds were categorized as sustainability-related and 132 as social. These were categorized by size (in US dollars) and then grouped in seven tables.

Starting with sustainability-related bonds, nearly 40 have European issuers, with the lead taken by Spain (9), the Netherlands (9) and Germany (5). France, Sweden and the UK have issued three sustainability-related bonds each. The public sector dominates, and bonds are backed by issuers controlled by either governments or municipalities. This includes local government-run housing societies and regional financial institutions. Sweden is alone in having backed issues backed two property companies (Hemsö and Trianon).

Of the social bonds 60 stem from Europe, making up almost half the global market. Of these, 33 relate to cholera bonds, issued by the International Finance Facility for Immunization Co (IFFI) Vaccine programme, which has its head office in London. The rest of the European social bond market is dominated by public issuers in the Netherlands, for a public social housing programme (Waterschapsbank NV 8), access to finance by small and medium-sized enterprises (SMEs), and job-creation by government-backed financial institutions in Spain (Instituto de Credito Oficial 5). In France, the cooperative banking group (BPCE) with nine million members, is taking the lead, with four sustainability bonds addressing people who live and work in economically and/or socially disadvantaged areas or communities. Projects include human development (education, health care, social development, social housing) and support for the financing of small businesses, SMEs, local authorities and non-profit organizations. Iceland has issued one social housing bond, issued by Reykjavik municipality.

Looking at sustainability bonds issued from the rest of the world the US dominates (25) through the New York City Housing Development Corporation (18), followed by Mexico (4), Japan and South Korea, Australia/New Zealand and Canada. IBRD, part of the World Bank, has issued ten sustainability bonds. Internationally, there are also three sustainability corporate bonds.

The market for social bonds from the rest of the world is dominated by supranational institutions and agencies. These include the African development bank (AfDB) with 10, the Inter-American Development Bank (IADB), with 11, and International Finance Corporation (IFC), also part of the World Bank, with 7. Social bonds are found in ten countries, including the USA (5), Japan (4), South Korea (3) and India (2). Affordable housing and socio-economic development dominate.

The material was also structured to detect trends within private corporate and financial institutions. 30 sustainability bonds were tracked, from 18 different issuers. The list included bonds from Korea (4), Spain (3), UK (3)

[7] https://www.bonddata.org/

and Mexico (2). Sweden has two corporate property bonds and one telecom bond, issued by Trianon, Hemsö and Millicom.

The list of purely social bonds issued by private corporate and financial institutions only includes 16 bonds, from 13 issuers. Chief among these is France (4), including for example Danone, a leading global food- and beverage company. The US has issued three purely social bonds and India two.

4.2 Use of proceeds

The database also provides insight into the use of proceeds (Table 1). Although incomplete, it gives some indications of what works internationally. European issuers mainly involve: (i) commitments to employment generation, through the potential effects of SME financing and microfinance; (ii) affordable/ social housing; and (iii) basic health care initiatives. Sustainability-related bonds also list climate-commitments, mainly targeted at clean transportation and clean water. The list includes the IIFIs 33 cholera bonds. The issuers' reports on the use of proceeds and impact are validated through secondary opinions delivered by ESG ratings firms such as Systanalytics, Cicero and Vigeo Eiris.

Table 1: List of use of proceeds

Use of proceeds	No of bonds	Sustainability	Social
Food Security	25	12	13
Access to essential services	72	25	47*
Employment generation	25	11	14
Clean transportation	434	18	0

*IIFI 33

Source: Environmental Finance Bond Database, as of 23 April 2019

Separate searches on the phrase "affordable housing" matched 37 bonds, "socio-economic advancement and empowerment" matched 28 bonds, and "sustainable water" matched 18 bonds. However, a detailed analysis of the use of proceeds would need to build on more hands-on examinations.

For this research, eight European bond programmes picked at randomly according to whether they appeared relevant, and had been referred to in interviews or mentioned in articles were investigated in more detail, searching for trends and patterns in the reporting on use of proceeds, that might inspire Swedish issuers (see Table 2). The tracking of impact found a mixt of results and degree of traceability. Three reflections can be made:

- (i) ICMA is satisfied with deliverables that have been proved to work historically, built on evidence-based research. The focus is not on innovation.
- (ii) It is enough to address a target population that is currently disadvantaged, indicating that there is no requirement to address novel groups.
- (iii) Many programmes are related to impact measures that are predefined at the national level. For example, the Netherlands has a definition of social housing.

Table 2: Example of presentations of a variety of sustainability-related bonds

Issuer Use of Proceeds	Selection, Evaluation/ Management of Proceeds	Second opinion	Bond, example
Council of Europe Social housing for low-income persons, educational and vocational training, supporting SME:s for the creation and preservation of viable jobs	Proceeds earmarked, managed by CEB finance department.	Sustainalytics	Eur 500m 7yr Apr.17, Eur 500 7 yr March 18

Danone, French corporate R&I for advanced medical nutrition, Social inclusiveness, Responsible farming, Quality health care and parental support	Proceeds earmarked, Danone Sustainable Integration Committe.	Vigeo Eiris	Eur 300m 7yr March 18
Félagsbústadir, Reykjavík Social Housing Affordable housing (SDGs 1, 10 and 11), Constructing new houses/ refurbishing. Manages 2 600 apartments	A two-step process by which projects are identified and screened internally, and then submitted to a committee with representatives from the management teams at Reykjavik Social Housing (RSH), as well as the City of Reykjavík's Department of Welfare for approval, in line with market practice.	Sustainalytics	ISK 620 Million, 20 yr, Dec. 18
The Region Occitanie, France Sustainability bond (social SDGs 3, 4, 10 and 11) targeting 5,8 million citizens in 4500 municipalities	Social housing, youth employmentt, education. Among a group of social projects the region has set the objective to reach 30% of notified contracts containing a social clause by 2021.	Vigeo Eiris	Eur 200 Million, 15 yr, Sept. 18
ICO Bank, Spain Generate measurable social impact alongside a financial return. In 2017 the funding of EUR 500mn supported 10 000 projects and an estimated 54,894 jobs were created or retained.	ICO has developed an analysis for the quantification of the macroeconomic impact generated by its financing activity linked to the Social Bond. The analysis is based on the input-output tables of the National Accounts, combined with econometric and statistical methods.	Danske Bank	SEK 500m Sept. 17, more bonds, Eur2 Billion
Flanders, Belgium Sustainability bond (social SDGs 3, 4, 10 and 11)	A dedicated Sustainability Bond Committee is responsible for project evaluation and selection, comprised of members of the departments of Finance and Budget, VMSW (social housing), Agion (Agency for School Infrastructure) etc.	Systanalytics	Eur 750m 25 yr, Apr 19
Peabody Trust, UK Social housing (SDGs 1, 8, 10, 11 and 17)	Interest rate is linked to performance on KPIs, with a special focus on childcare.		A 5-year revolving credit, BNP Paribas
Netherland Wattershatterbank Social bond, SDG 11 and SDG 1 (End poverty providing access to adequate, safe, and affordable housing for all)	Netherlands has a structured procedure for targeting economically weak citizens that need access to affordable housing, working together with property developers, and providing yearly impact reports.	Systanalytics	Eur 1 Billion, 10 yr Feb. 19

Sustainability and social bonds issued in economies similar to Sweden

Case: NWB Affordable housing bonds

The Dutch bank NWB Bank is at the forefront of the Affordable Housing Bond market. Since 2017, it has issued a series of Affordable Housing Bonds with a combined value of €5.7 billion. In 2019, a social bond framework was converted into an SDG 11 framework for social housing. (Systanalytics 2019). NWB is a leading financial services provider for the public sector. The bank arranges short-term and long-term loans for water authorities, municipalities, provinces, social housing, health care, educational institutions, public-private partnerships and activities in the fields of water supply and the environment.

Under Dutch regulations, Dutch municipalities work with housing associations in the country to place applicants in social housing, prioritizing the most vulnerable groups. Social housing applicants are put on a waiting list. In 2015, the average waiting time for social housing in the Netherlands was eight years. According to the Social House Building Guarantee Fund (WSW), which follows statutes set by the Dutch government, housing associations that qualify for loans under the NWB Social Bonds framework must guarantee that they deliver:

1. 80% of the social housing lettings are given to households with a maximum income of €36.798 (2018) per annum
2. Rents are capped at €710.68 per month
3. A maximum of 10% of annual social lettings will be allocated freely to people on incomes up to €42.436 or to specific priority groups.

NWB tracks the loan portfolio on a quarterly basis and provides an annual impact report, through the lens of its Impact Drivers and associated Key Performance Indicators, such as the number of social dwellings owned and managed, the percentage change in rental costs, and the percentage of units let to target groups and priority target groups. The proceeds tied to the issue are credited to a special budget account that supports NWB's lending for social housing.

Case: Peabody Trust

It is also possible to link social housing projects to other types of bonds and credits. In the UK, Peabody Trust has agreed a five-year £75 million (US$91 million) revolving credit facility with the French bank, BNP Paribas. Interest rates are linked to the housing association's performance on social impact-based key performance indicators and criteria. The proceeds target SDG 1 on poverty, SDG 8 on work and economic growth, SDG 10 on reducing inequality, SDG 11 on sustainable cities and communities, and SDG 17 on partnerships. The loan will be used for general corporate purposes (Peabody 2019). BNP Paribas has issued three bonds tied to social impact targeting British housing associations. Peabody is the first to use a childcare metric while two previous loan facilities, to London & Quadrant and Optivo, were both linked to employment.

4.3 The Nordic sustainability-related and social bond market

The Environmental Finance Bond Database was also scanned for a specific Nordic twist. Sweden is active on a number of fronts. First, as mentioned above, three sustainability-related bonds have been issued by Hemsö, Trianon and Millicom.

There are also a small number of supranational bonds denominated in SEK and listed on the Nasdaq Fixed Income exchange (i.e. AfDB and IBRD). These include a general bond especially targeted at sustainable cities (SDG 11) issued by the IBRD. The Dutch NWB has issued three social housing bonds denominated in SEK, for which the wholesale bank SEB acted as lead manager. SEB is listed as the sixth largest lead manager of social bonds in 2019 (US$ 584 million) (Environmental Finance 2019). Nordea is listed as lead manager for both Trianon and Millicom. Danske Bank is active as lead manager for the FMO bond (2017) and the IBRD bonds (2018). In October 2019, Danske acted as lead advisor to the Austrian Export credit agency (Oesterreichische Kontrollbank, OKB), when issuing its first sustainability bond (a 7-year bond worth €500 million); 70% of the proceeds are tied to social projects and the rest to green projects. In addition, 13% of the investors are from the Nordic region.

4.4 Implications for Sweden

A few reflections are possible based on the material. Firstly, supranational agencies such as the World Bank, the AfDB and the IADB have taken a clear lead in developing a market for socially labelled bonds. National aid agencies have also stepped forward such as the national development banks of Japan and Belgium, as well as a Swedish institutional investor network tied to Sida, in a collaborative bond issue with the World Bank.

Secondly, the most committed municipalities and regions comes from different countries. In the USA, they can be found in New York, Los Angeles and the State of Oregon; in France in Paris, Ile de France and Région Occitanie; in Spain in Madrid, the Basque County and Barcelona. Other prominent cities are Mexico City and Reykjavik. All these target the UN SDGs 3, 4, 10 and 11, related to good health, education, reducing inequality and sustainable cities and communities. All of them also contain commitments to affordable housing.

Third, active financial institutions use proceeds for employment generation, by providing access to capital for SMEs and microfinancing. Many of these institutions are partly or fully owned by public sector agencies.

There are also conclusions to be drawn related to the use of proceeds and target populations:

- A number of issuers use the proceeds for social/affordable housing, to provide access to finance for SMEs and for employment-generation activities. These areas are also perceived as problem areas for specific groups in the Swedish population.
- Public entities such as municipalities play a larger role in the domestic market for sustainability-related and socially-labelled-bonds than in green bonds. These European and US-based municipalities have developed programmes to enable reporting on and tracking and validation on the use of proceeds. This implies that Swedish municipalities could do the same.
- Criteria for use of proceeds reporting does not need to be overly complicated or novel. ICMA does not demand innovative projects; access to finance (i.e. being able to finance a project) can itself be seen as

adding value. Rather, the focus is on evidence-based research, trackability and reporting. At the same time, transparent national standards simplify implementation.

In sum, although the market for sustainability-related and social bonds is in its infancy, both western local governments and public and private financial institutions are active. The lack of activities from Swedish actors, as well as the rest of the Nordics, is therefore at odds with wider developments.

5. The Swedish bond market; the institutional investor's perspective

This chapter describes the dominant role of Swedish institutional investors on the Swedish bond market. Their commitment to investing in green bonds has contributed to that market's development and can be seen as a stepping- stone for developing their interest in sustainability-related and socially labelled bonds. The chapter also develops the role of institutional investors as social investors abroad. This is built on interviews with the investors and demonstrates how this foreign experience is central to their understanding of the virgin market. Inspiration is also gained from investing in other social financial instruments and micro financing.

5.1 The Swedish bond market

The Swedish bond-market has almost doubled in size since 2006, going from a market capitalization of SEK 1 900 billion to SEK 3 900 billion in 2019 (SCB 2019). The activity level of the Swedish government was unchanged throughout the period, reflecting austerity in the national budget policy. The growth instead came from household mortgages, which made up one-third of the market, and the banks, which med up 20% of the market. Non-financials, meaning the corporate sector and the property market, grew from SEK 130 billion in 2006 to 600 billion in 2019, and the local government (municipalities and regions) bond issues, has tripled in size to SEK 150 billion, bit remains a small part of the market.

At the same time, the investor base has remained quite stable. Swedish institutional investors own two-thirds of the bonds listed on Nasdaq Stockholm Fixed Exchange. Domestic corporatist and private insurance and pension funds take 40% of the market, while the national public pension funds (AP funds) have 12% and the banks (including retail funds) cover 14% of the market. This can be compared with the investor-base on the stock market where Swedish institutional investors only control 20% of the market capitalization: Swedish pensions funds (7.5%), the AP funds (1.5%), the banks retail funds (12%). This is partly due to regulations, as private and occupational pensions funds are required to hold a certain amount of their pay-out obligations in liquid assets. In addition, Swedish legislation prevents the AP funds from taking large stakes in listed companies, while enforcing them to invest 30% of their assets in liquid bonds.[8] The difference is also striking when looking at foreign bond investors. Foreigners entities active on Nasdaq control 40% of the stock market but only 20% of the outstanding bonds. This supports the view that domestic bond holders have a greater ability to exercise impact on labelled bond-issuers than as activist stock-investors in listed companies.

5.2 The stepping-stone of Swedish green bonds

Almost all of the Swedish institutional investors contacted for this study have sustainability teams working in close cooperation with their fixed income teams to screen the fixed-income portfolio for bonds exposed, for example, to coal and oil. The experience with green bonds can thus work as a stepping-stone for expanding into sustainability-related and socially labelled bonds.

The Nasdaq Sustainable Bond Market was launched in July of 2015 with a total volume of €740 million. Since then it has almost doubled every year, to just over €8 billion (2018). This makes up 6% of the global market for sustainable bonds, which is being led by France (24%) followed by Luxembourg (15%), Germany (15%), the Netherlands (12%) and Spain (10%).[9]

There are 47 issuers of green bonds on the Swedish market. Of these, 18 are property companies and five financial institutions, only one of which is Swedish (August 2019). There are also eight municipalities and regions, revealing a public commitment to financing green projects, whereby several have launched green bonds. Notably, the City of Gothenburg was a pioneer worldwide when it launched a green bond in 2013. Sweden's Nordic neighbours have been slower at taking up green bonds, possibly due to their limited commercial debt markets. Finland only has one listed green bond, Denmark three, and Iceland and the Baltics states four each.

[8] New regulation of the AP funds from 2020 lowers the requirement of fixed income to 20% of assets.
[9] Based on the HSBCs database (Sustainable financing. Social Bond Update, January 2019)

Sweden is at the forefront of the green economy, with goals to boost the Swedish transition towards a low-carbon and climate-resilient economy. Commitments include high standards of regulation in the property sector. A building's level of greening has been pushed by tenants, and both vacancies and rent levels are affected by a "greenium". The investor focused Climate Bond Initiative (CBI) has criteria for what are considered to be environmentally sustainable buildings. These are included in the CBI's taxonomy of sustainable investments that is linked to the Climate Bonds Standard (CBS).[10]

Another commitment relates to societal expectations of institutional investors' asset management policies. A handful of the institutional investors follow active mandates that direct investments in green bonds. For example, the mutual life insurer Folksam, which has taken a lead, decided to invest SEK 25 billion in green bonds, a goal that was reached in 2018, and has since reached SEK 30 billion (Folksam 2019). AP3's investments in green bonds will double to SEK 30 billion by 2025 and other sustainability investments will double to SEK 25 billion (AP3 2019, 3). The target is infrastructure. The insurance federation Länsförsäkringar (LFAB) has invested SEK 8.3 billion in 60 sustainable bonds, mainly green, equivalent to 6.6% of its asset under management (AUM).[11]

There is a governmental commitment to transform Sweden to a CO_2 neutral economy by 2045. Effective from January 1, 2019, new investment guidelines were implemented for the AP funds (Bolund and Johansson 2018), raising the level of ambition regarding sustainable investing. It is now stated in law that the asset management operations must be conducted in exemplary fashion through responsible investments and responsible ownership. This should be achieved without compromising on the overall objective of maximizing return to policyholders (future Swedish pensioners). The guidelines quote standard international conventions, such as those of the ILO, the Paris Agreement, Agenda 2030 and the UN SDGs as well as commitments to the carbon disclosure project (CDP).

However, a 2018 government commissioned report on green financing highlights that there is still some way to go (Andersson 2018). Suggestions include a greening-taxonomy for buildings that work on recognizing that half of a property's climate impact is derived from the construction of the building, something that is not included in the current Swedish certification system. In addition, project developers, bond issuers as well and investors want further support from regulatory bodies, such as the Swedish Financial Supervisory Authority (Finansinspektionen). This would include lighter capital requirements for investments in the green transition. Furthermore, there is a need for government to support a centre for evaluating impact-standards, reporting and validation.

In the summer of 2019, finance market minister Per Bolund, co-chair of the Green Party, finally answered calls from the investor community to launch a sovereign green bond, issued by the Swedish National Debt Office (Riksgälden)(Bolund 2019). Thus, Sweden is now following the same track as France, in active engagement on the development of a domestic green bond market. The Netherlands, Portugal and Italy also have plans to issue sovereign green bonds.

5.3 Current investments in socially labelled bonds by Swedish investors

While interviewing the institutional investors and the banks for this research, it became clear that experience of investing in instruments issued abroad served as a reference point for the interest in Swedish socially labelled bonds and SDG 11. This included gaining experience from evaluating the use of proceeds and participating in international labelled bond conferences. Thus, there was a useful transfer of knowledge. The bonds that attract Swedish institutional investors vary in character. In addition, there seems to be a great variety in the level of interest taken by the investor community.

[10] For example, environmental certification is cited according to LEED Gold / Platinum or equivalent under other environmental certification systems such as BREEAM and Green Star.
[11] https://www.lansforsakringar.se/globalassets/aa-global/dokument/ovrigt/aa-om-oss/rapporter-och-undersokningar/green-bonds_table-q3-2019.pdf

Based on the interviews, a list was compiled of currently existing sustainability-related and socially labelled bonds in Swedish portfolios (see Table 3; for the methodology, see the appendix). These amounted to 22 instruments, of which 16 have been issued in the past two years (January 2018–Aug. 2019). Eight of the bonds are labelled social, two are labelled as SDG-related and the rest as sustainability-related bonds, of which two are positioned as ESG bonds.

The majority of the bonds are listed on the Luxembourg Fixed Income exchange or on Euronext, Paris. Three bonds are listed on the Nasdaq (Stockholm) Sustainable Bond Market. These three are all non-financial/commercial bonds (Trianon, Millicom and Hemsö). In addition, the vast majority of the bonds have Nordic banks as lead managers. SEB Debt Capital Market (DCM) takes the lead on issues. Nordea DCM is lead manager of both Trianon and Millicom, both of which are high-yield bonds issued in the spring of 2019.

Supranationals and agencies focused on aid to developing countries stood as issuers of 11 bonds. Five were issued in euros, three in US dollars and one each in the Norwegian krone and the Swedish krona. Three sustainability bonds were issued by municipalities – the Basque region and Madrid in Spain, and the State of North Rhine-Westphalia (NRW) in Germany. All attracted the public sector pension fund AP2, which is also the sole Swedish investor in the Dutch social housing authority (NWB), and Ico, the Spanish state-backed bank that works in SME financing.

A number of the supranational bonds have been designed to attract investors specifically from the Swedish market. These include a US$ 1.5 billion inaugural bond issued by IDA in April 2018, which is a sustainability-related bond with social goals. This was the first time in its 60-years history that IDA, with has a strong track record as private investor, has issued a bond. For IDA, it marked a new way of tapping into the international market for financial support that channels loans to poor countries directed at investments tied to the SDGs: among investors are Folksam Group US$ 350 million (SEK 2.8 billion); Alecta (500 MSEK); Skandia (250 MSEK).

A network of institutional investors has emerged with the capacity to collaborate and instigate ideas on new investments targeting the UN SDGs.[12]

[12] The SISD group consists of AP2, AP3, AP4, AP7, Alecta, AMF, Folksam, Skandia, SPP Storebrand, Industrivärlden, Investor, Carl Bennet AB, the Church of Sweden, Handelsbanken Funds, SEB Life and Investments, East Capital, Swedbank Robur and Swedfund. It is a concrete example of SDG 17: Partnerships. Competitors work side by side with a development agency on pressing development issues and investment opportunities. The group was formalized in 2016. Working groups concentrate on SDG 5 (gender equality and empowering women), SDG 6 (clean water and sanitation), SDG 8 (economic growth and decent work, with a special focus on decent work in the green sector and on supply chains within the same sector; some participants also have started to invest in microfinance), SDG 11 (sustainable cities) and SDG 16 (with a focus on fighting corruption).

Table 3: What the Swedish institutional investors have in their portfolios. October 2019

Supranationals	Amount	Investment year	Description	Use of proceeds	Swedish investor	Bank	Exchange
ATI African Trade Insurance Agency AfDB	EUR 100 Million	2019 July	Social	SDG 1, 3 and 4 for Ivory Coast	Alecta (EUR 100 Million)	Japanese MUFG	Private placement
AfDB African Dev. Bank	EUR 1.25 Billion	2018 May	Social	Underserved populations in Africa	AP2 (EUR 8 Million)		Luxembourg
AfDB African Dev. Bank	NOK 500 Million	2019 April	Social	First Norweign Social Bond	Nordea Investment Management	SEB	Luxembourg
IBRD World Bank (through Swedish Sida)	SEK 2.5 Billion	2018 October	SDG	SDG 11, Sustainable Cities	Skandia (1.5 Billion SEK); SEB Life & funds (650 MSEK); Handelsbanken funds (250 MSEK); Church of Sweden (100 MSEK),	SEB	Luxembourg
IBRD World Bank	USD 350 Million	2018 February	Sustainability	SDG 3, 5, 12 and 13 in Argentina, Swaziland, China, India and Indonesia	Folksam group (USD 350 Million)	*ni*	Private placement
IBRD World Bank	CAD 1.2 Billion		Social	SDG 4, Women's empowerment	AP2 (CAD 2 Million)		Luxembourg
EIB	EUR 500 Million	2018 September	Sustainability	EIBs First Sustainable Awareness Bond, SDGs water supply and health	Alecta (554 MSEK)	SEB	Luxembourg
EIB	SEK 2 Billion	2019 September	SAB	Social Awarness bond health/ education	AMF (400 MSEK)	SEB, Nordea	Luxembourg
IDA International Dev. Ass. World Bank	USD 1.5 Billion	2018 April	Sustainability	Support for poor countries SDGs 3, 5, 12 and 13	Alecta (500 MSEK); Skandia (250 MSEK)	Barclays, BNP, Nomura	*ni*
FMO Dutch Development Bank	USD 250 Million	2018 April	SDG	Emerging Markets Loan Fund SDGs 8, 10 and 13	Alecta (730 MSEK of committed capital of 2 Billion SEK)	*ni*	*ni*
CEB The Council of Europe Development Bank/ Coebank	EUR 500 Million	2017/ 2018	Social Inclusive	SME-financing, social housing, education, vocational training	AP2 (EUR 18 Million)	Credit Agricole, Rabobank, DZ Bank	*ni*
IADB/ IDB	USD 500 Million	2014 September	Social	Loans to education, employment projects in Carribean and Latin America	AP2 (USD 20 Million)	*ni*	*ni*
National/ Public Institutions	**Amount**	**Investment year**	**Description**	**Use of proceeds**	**Swedish investor**	**Bank**	**Exchange**
NWB Nederlandse Waterschapsbank NV - 3 BONDS	EUR 500 Million; 1.5 Billion; 1 Billion	2017/ 2017/ 2019	Social	Affordable housing	AP2 (EUR 17 Million)		Luxembourg
Caffil Caisse Francaise de finacement local	EUR 1 Billion	2018 June	Sustainability	Export financing developing to countries	AP (EUR 5 Million)		Luxembourg
ICO Instituto de Credito Oficial Spanishe State Bank	EUR 500 Million	2017	Social	SME-financing/ unemployment	AP2 (EUR 10 Million)	Banque Santander	Luxembourg
Basque Government	EUR 500 Million	2018 June	Sustainability	Welfare/ 11 SDGs	AP2 (EUR 5.5 Million)	Renell Wertpapierhandelsbank AG	Berlin
Comunidad Madrid	EUR 1.25 Billion	2019 February	Sustainability	SDG 1, 3, 4, 5, 11 and 13	AP2 (EUR 7.5 Million)		
JICA Japan International Corporation	USD 500 Million	2018 June	Sustainability	Investing in developing countries 10 SDGs	AP2 (USD 15 Million)		Berlin
ICO Instituto de Credito Oficial S	EUR 750 Million	2017 June	Sustainability	General welfare	AP2 (EUR 17 Million)		Frankfurt
Private Sector	**Amount**	**Investment year**	**Description**	**Use of proceeds**	**Swedish investor**	**Bank**	**Exchange**
Trianon	SEK 400 Million	2019 May	Sustainability	Hybrid Bond Green buildings+ social housing, employment	Carnegie High Yield fund	Nordea	Nasdaq Stockholm
Millicom	SEK 2 Billion	2019 May	Sustainability	Internet solutions in emerging markets, gender equality and reduction of the company's energy consumption	Handelsbanken, Alecta, Öhman (56 MSEK)	Nordea, DNB	Nasdaq Stockholm
Hemsö	SEK 1 Billion	2016 May	Sustainability	financing for buildings for elderly care, education, health care	Handelsbanken	Handelsbanken, Danske Bank	Nasdaq Stockholm

A prominent example is a private placement SEK 2.5 billion bond issued by IBRD World Bank (October 2018) targeting sustainable cities and communities in developing countries. The bond has received international recognition as a model for the World Bank to align with investors collaborating through national aid agencies to attract groups of institutional investors from specific countries (SIDA 2018b; 2018a). Behind the theme bond stands four Swedish institutions: the pensions fund Skandia; SEB, investing through its traditional pension portfolio and in mutual funds; Handelsbanken, investing through mutual funds; and the Church of Sweden. Table 3 reveals a number of perspectives:

- It is new and groundbreaking in the Swedish market that asset owners develop investment solutions together, as has been done with the support of the SIND-network.
- Two investors stand out in the group: The public pensions-fund AP2 which has invested in 12 sustainability-related and socially labelled bonds, worth of SEK 1 billion; and the occupational pension's fund, Alecta, which has invested nearly SEK 3.5 billion in four bonds, including the high yield bond from mobile operator Millicom.
- A first Norwegian social bond has been issued, a NOK 500 million bond issued by the AfDB, with SEB as lead manager. A number of Swedish investors are included it.

It is notable that there is a wide variety in the design of the supranational bonds. In 2018, the EIB issued a $500 sustainability awareness bond tied to all the SDGs. This first awareness bond was focused on the water sector (mainly water supply, sanitation and flood protection), but within the scope of the programme bonds can also cover health and education (EIB and Willis 2018). Alecta is found among the investors, and SEB as part of the arrangement.

Another example is the social sovereign bond issued in a SEK 1 billion private placement, between Alecta and the African Trade Insurance Agency (ATIA), an arm of the AfDB. The bond securitizes a loan taken by a West African country, in this case the Côte d'Ivoire. The loan is structured by the Japanese bank MUFG and insured by the ATIA, which in turn has reinsured the entire nominal amount with a larger number of international reinsurance companies. The loan targets SDGs 1 (poverty), 3 (health) and 4 (education). Alecta would not lend money unless in a creative risk sharing-mechanism with a supranational.

In the interviews, the institutional investors revealed that all the supranational bonds are general bonds. There are no project bonds, that would enable targeted use of the proceeds for specific projects that then can be tracked over time. The same applies to the branded SDG 11 bond, as the World Bank cannot earmark proceeds to specific projects.

The Church of Sweden has invested almost SEK 100 million in the bond. The head of sustainable investments, Gunnela Hahn, discussed the experience:

> *"We were happy to be able to team up in a joint initiative with other Swedish investors. But we were all disappointed that the World Bank did not wish to issue a project bond that could ring fence proceeds to specific projects. The Church of Sweden wished to be able to track additionality, that is the contribution we make to specific social projects in cities that would not have been realized without our support. Overall, there is a lack of exiting project financing for social or environmental impact in cities."*

In March 2019 Handelsbanken launched a first Swedish fixed income impact fund aimed at financing improvements in any of the 17 UN SDGs, *Handelsbanken Sustainable Global Bond*. To date, no social investments have been made, but it has invested in a Telefonica bond, which has been issued under the ICMA sustainability framework, that could target social projects going forward. This could, for example, fund access to mobile communications in under-deserved communities in developing countries. The fixed income fund's investment theme will begin with an ESG analysis of the company, complemented by a look at the global credit and macro environment. Finally, there will be consideration of the financing and use of proceeds of the specific green or sustainability-related bond. The fund manages SEK 700 million.

5.4 Broadening the social fixed income spectrum

The interviews with the institutions and banks also revealed a broader scope of fixed-income investments with a social impact, but in bonds or other credit products that do not follow principles – either ICMA's or other standards – tied to social goals. As a result, it was decided to compile a list of social impact commitments in other fixed-income products, such as credit guarantee funds (see Table 4). The list, which is based on information provided by the institutional investors, reveals the pluralism that exists among the investor community. This includes AMF's investment of SEK 500 million in an AfDB themed bond addressing power and electricity supply in a number of African countries. Skandia has invested SEK 750 million in a private placement by Uppsala municipality, targeting the financing of a cancer clinic. Neither are branded social or report on effects.

Swedbank Robur, the retail fund house controlled by Swedbank, provided a list of 16 green bonds that all include social issues but lack commitment to reporting according to any fixed principles. This includes bonds from Kommuninvest, which represents 289 of the 310 Swedish municipalities. The green bonds issued by Stockholm and Gothenburg municipalities also list that they target SDG 3 (good health and well-being), as well as the broader SDG 11 goal and a number of green goals. A municipal bond issue could in some eyes be seen as a "pure play", since its objective is to serve its citizens. The Swedbank Robur list also includes senior debt issues from EIB and NWB. These are both unlabelled general bonds.

Länsförsäkringar's list of 60 sustainable – green – bonds (mentioned earlier), includes six bonds that also list social SDG's. Among examples are Verizon (6, 7, 11 and green 13 and 14), Danone (2, 3, 5, 6 and 15) but also Region Skåne (3, 11, 7 and 13) and Swedbank (2 on zero hunger, 6, 7, 9 and 11).

A related issue is highlighted in the SEK 2 billion private placement between Folksam and the City of Stockholm (October 2018). It is an ordinary, plain vanilla, bond, but, in a public announcement, the CEO of Folksam described the commitment as a sustainability-related investment in a sustainable city. This has raised concerns on the market about whether the Folksam investment could be seen as case of "social washing". The City of Stockholm has committed to neither the GBPs nor the SBP, and there will be no reporting of use of proceeds. Instead it claims that Stockholm is a "pure-play". At the same time, the capital of Swedish is generally perceived as sustainable, and was ranked second after London, on the Sustainable Cities Index in 2018, a global ranking of 100 cities by people-planet-profit (PPPs) (Arcadis and Batten 2018). For this reason, the Stockholm-bond could equally be seen as a "missed opportunity" for the SDG bond market. Like Swedbank's and AMF's supranational investments, the Stockholm bond raises a number of different issues, depending on the perspective, which are discussed further on.

Other social impact investments emanate from instruments such as microfinancing funds. These include the microfinance funds pioneered by SEB in 2013 (SEB Investment Management 2019). SEB is one of the largest microfinance investment managers in Europe, having launched seven microfinance funds at a total value of US$ 950 million. The funds provide credit to local banks in developing countries that make micro-loans to entrepreneurs and SMEs. This targets the financial inclusion goals of the SDG, alongside all the social goals. Half of the loans target women entrepreneurs. Among the investors are the Church of Sweden and SEB's traditional pension portfolios.

Table 4: A list of related social debt placements

Related social credits	Investor	MSEK	Social project
Skandikon kliniken	Skandia	750	A cancer clinic in Uppsala, a project bond arranged by Öhman Pareto
Luminar Ventures	Church of Sweden; SPP Storebrand	50	A health ap. High tech VC-fund that gives loans to SDG-focused companies
SEBs Microfunds	7 funds	9 500	microfinancing institutions, reaching 23 million entreprenurs in 40 developing countries
Althelia Climate Fund	Church of Sweden	100	Protecting forest in developing countries, supporting farmland
SFRE funds	Church of Sweden	72	Credits to ethical banks
Handelsbanken Sustainable Global Bond	Handelsbanken funds	300	A sustainability high-yield fund, that stil has all green but will look for social bonds, i.e.Telefonica, Philips, Verizon
Nordea Stars Funds		ni	ni
Marginalen Bank*	Credit-guarantees from EIF	500	Targeting SMEs below 9 employees; Also, cultural and creative industries
Green for Growth Fund Southeast Europe; Africa Agriculture Trade and Investment Fund (AATIF); European Fund for Southeast Europe; Microfinance Enhancement Facility)	AFA Insurance	500	Among others: Supporting SME-financing and microfinancing in southern Europe; Addressing African farming and agriculture
No social branding but close	**Investor**	**Value**	**Social project**
African Development Bank	Öhman Grön Obligationsfond	10	Climate change
Gothenburg, EBRD, EIB, Kommuninvest, NWB, NIB, Region Skåne, Stockholm, Örebro	Swedbankrobur funds	7 000	various supranationals/ municipalities that have a social profile but do not follow a framework
Stockholm Stad	Folksam group	2 000	Municipality/ Welfare but no branding
Skåne Region, Swedbank, Verizon, Danone, Asian Development Bank	Länsförsäkringar	NI	Green bonds that have listed social goals too
IBRD	Alecta (1 Billion SEK); AP2; AP3; AMF	6 000	Green bond, Clean water and seas
AfDB.org African Development Bank	AMF (500 Million SEK)	733	Themed bond, Light up and power Africa

Property with social profile	Owner
Willhem	AP1
Skandia fastigheter	Skandia
Sveafastigheter	PRI

The list illustrates examples from institutional investors and banks; *for more info www.marginalenbank.se

Furthermore, a number of agencies have developed their own methods for social impact evaluation and can be seen as acting as catalysts, despite the fact that they have not yet adapted to a standard social disclosure methodology. These include the Nordic Investment Bank (NIB), the European Social fund Plus (ESF+) and the Globalization Adjustment Fund (EGF).

The European Investment Fund (EIF) has also offered credit guarantees to the Swedish small, new and so-called niche bank, Marginalen Bank, to a total value of SEK 250 million to fund microloans targeted at SMEs with fewer than nine employees (Marginalen Bank 2019). The bank collaborates with the non-profit association for new businesses, Nyföretagarscentrum. In October 2019, Marginalen Bank also gained a guarantee from EIF targeting SEK 200 million in loans to entrepreneurs in the cultural and creative sector (Marginalen Bank 2019).

AFA Insurance has invested SEK 500 million in bonds with sustainability-related and social goals issued by international investment funds and listed on the Luxembourg Exchange. For example, the Africa Agriculture

Trade and Investment Fund (AATIF) targets African agricultural development and the European Fund for Southeast Europe targets SME financing and microfinancing. The social impact perspective can also be broadened to include other financial instruments such as social impact bonds (SIBs), which are described in chapter 9.

Last but not least, all the pension funds, private, corporatist and AP-funds are large investors in the domestic property and housing sector, indicating that they could promote the issuing of sustainability or even social bonds themselves. They directly and indirectly own public buildings such as health centres, elder care homes, schools and places of recreation such as swimming pools. They also own rented housing and community centres in deprived suburbs, the so-called miljonprogramsområden (se ch. 8.1). All have programmes to enhance inclusion, work to engage citizens and provide jobs for marginalized groups, such as migrant women and the young unemployed. Only one, Hemsö, which is owned jointly by AP3 and Sagax, a listed property owner, has developed a sustainability-related bond framework. Among the uses of proceeds listed are school playgrounds and garden projects for the elderly. Hemsö is currently taking loans directly through the EIB and the NIB, which have developed their own sustainability metrics.

In addition to bonds, there are other financing methods in the property market such as credit funds targeting real estate. Brunswick Real Estate Capital (BREC) provides senior secured financing to commercial real estate. It manages credit funds worth SEK 10 billion, is increasing its focus on social impact financing and works to include the SDGs to the extent possible. The investor base in BREC's funds includes Folksam, PRI and KLP, among others. In addition, rela estate owner Sveafastigheter is involved in property development in the suburbs and town centres, with social commitments. Sveafastigheter is too small to issue a sustainability bond but has plans to include SDG targets in future credit programmes, where the interest rate is tied to outcomes. Byggvesta, another private property developer, is involved in building projects in deprived suburbs such as Rinkeby in Stockholm. It would also be happy to tie social goals to loans. Among its social investments are facilities rented to businesses employing migrant women. However, its Chief Financial Officer says that bond funding is unsuitable for long-term project development with uncertain cash flow and that banks' loan facilities are still only tied to green goals.

6. Domestic institutional investors´ perspective

6.1 Conversations with capital market actors

Conversations with the five large Swedish commercial wholesale banks played an integral role in the development of the interviews with the institutional investors. Debt capital market (DCM) teams, act as intermediaries between potential issuers and the investment community. All the banks have teams that arranges green bonds, and within each group there are employees assigned to focus on the sustainability-related and social themes. The relationship with issuers is dealt with chapters 7 and 8. Here, the views of the DCM-representatives are presented in relation to their overall impressions of the institutional investors' interest in socially-labelled-bonds. In sum:

- The trend is for green investors to ask more questions about social issues. This is partly a result of the increased understanding of the impact of climate change on social issues. As a result, issuers are encouraged to broaden the scope of their impact reports.
- There is also a general growth in investors who wish to include a broader range of SDG-goals in their bond portfolios, without this having a negative impact on returns. They wish to have more aspects added to the use of proceeds, but without paying any extra.

From the banks' perspective, sustainability and socially labelled bonds are not about price, but about being able to address a larger investor sphere, which is good for liquidity. All the banks claim that labelled bonds attract more investors, and that there is a surge in variations of themes, that is, bonds targeting other SDGs than climate. Theoretically this should result in a higher price for the bond as demand increases, but the author of this report is not aware of any studies supporting such results.

6.2 Conversations with institutional investors

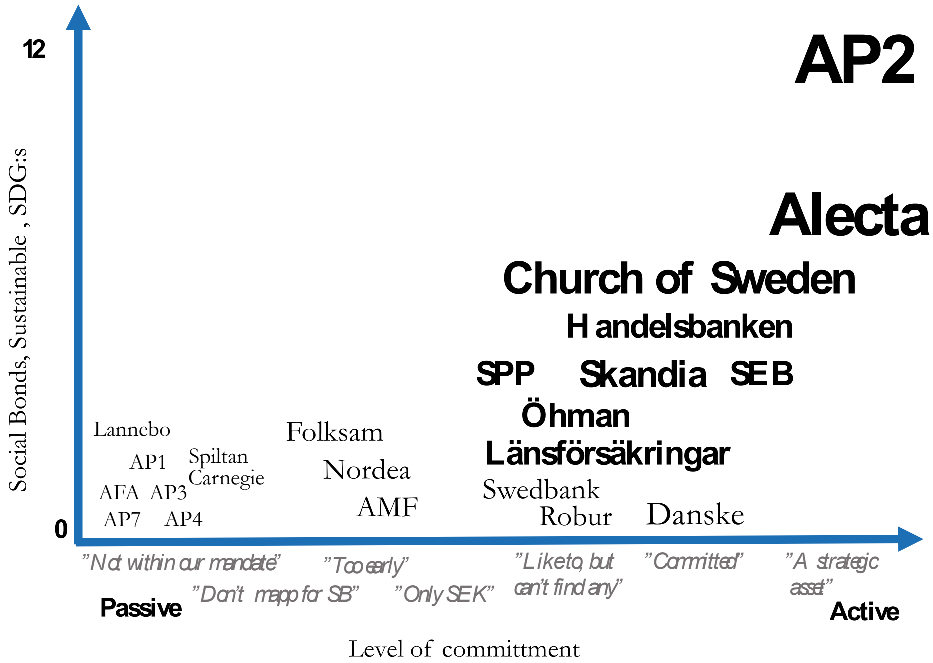
The contacts with the 17 institutional investors targeted for this study varied in character, depending on the response received following the initial e-mail contact (on methodology see the appendix). Three general reflections can be listed:

1. None of the asset managers contacted for this study had employees dedicated to social bond investments. Where such bond investments existed, they were dealt with by the same analysts and asset managers who worked on green bonds and the SDGs more generally.
2. None of the institutions could describe a systematic approach to social impact investing. However, all the institutional investors, both large and small, employ ESG screening to exclude investments in certain companies or industries. This work is primary conducted by the equity side.
3. This was contrasted with the positive response received from interviewees in various positions. All the institutions that were able to point to a list of sustainability-related or socially labelled bonds, albeit maybe only two or three, responded with enthusiasm, indicating both an interest with regard to implementing the SDGs and a curiosity about the introduction of new financial instruments.

In order to structure the attitudes to sustainability-related and socially labelled bonds presented in the contacts with institutions, the comments and impressions from the emails, phone conversations and interviews were organized in a table and plotted on a chart. The number of socially labelled bonds is on the vertical axis and the comments are on the horizontal axis. The institutions plotted in the lower left corner were less active and had a more a negative attitude, whereas institutions in the upper right corner were more active and had a positive attitude.

Figure 5: Swedish institutional investors' views on social bond

What they answer when asked if they invest in sustainability-related and socially labelled bonds



The middle letter corresponds with position on x-axis. State pension funds: AP1-4; Independent pension fund: AP7; Occupational and private sector pension-funds: Alecta, AMF, Folksam, Länsförsäkringar, Skandia; Wholesale bank funds: Danske Bank, Handelsbanken, SEB, Swedbank, Nordea. Retail funds: Carnegie, Lannebo, SPP, Spiltan ,Öhman, Occupational injury insurance fund AFA Insurance, and Church of Sweden.

Note: All screen investments along sustainability guidelines and metrics from i.e. UNPRI, the UN Global Compact, the TCFD and Swedish Swesif.

Figure 5 divides the institutions into three groups:

1. ***Committed to socially labelled bonds.*** One-third has a portfolio containing several sustainability-related and socially labelled bonds. In this group, fixed income portfolio managers are actively committed to addressing social ESG-related factors. Two stands out: AP2, which claims to have a systematic process for evaluating socially labelled bonds and to be able to produce a list of 11 investments with ease. Alecta, which is limited to four bonds, but has committed more capital.
2. ***Interested but not there yet.*** A further one- third of the institutions showed a positive attitude and was generally curious to learn more about sustainability-related and socially-labelled-bonds, but its actual investments were limited. The reasons were variants on the comment such "can't find any", which could be related to investment mandates being limited to SEK (i.e. Länsförsäkringar) or investment-grade, which is common for retail fixed income funds (both Millicom and Trianon are high-yield bonds).
3. ***Low interest, no investments.*** There was also a third group that argued that the question of sustainability-related and socially labelled bonds "has been raised prematurely", and that it doesn't map any labelled bonds apart from green bonds. In that group are the rest of the AP funds. AP7 and AFA Insurance even claimed that socially labelled bonds are not included in their investment mandates. An email from one of the absent funds explained "We do not map these types of investments separately; nor are they managed under a specific mandate, which means that our participation in your study is not relevant at this time."

6.3 The risk-return conundrum

The plotting of the activities of the Swedish institutional investors in Figure 5 provides the framing for a market that is in its very infancy. The detailed conversations show that there is no clear relation between the position taken and the type of institution – state owned pensions fund, corporate or private occupational pensions fund or retail bond investor.

This is shown clearly when the answers along the horizontal line are linked to attitudes related to the *Risk-return conundrum*. Several trustees argued that they are limited by statutes to focusing on delivering a high return. The ESG teams screen all investments but after that, they cannot pay a premium (reflected as a lower coupon) for a bond labelled green, sustainability-related or social. This argument was brought out by all the AP-funds apart from AP2, AFA Insurance and a number of the occupational pensions´ funds such as Folksam.

> *We don't look for any themes. We always focus on return. If there are two bonds from the same issuer, and one is labelled and priced at a premium, then we will buy the plain vanilla one. After all, it's the same underlying assets.* (CIO at AP4)

The risk-return conundrum is related to the *evaluation of credit risk*. The riskiness of the cash flow must not be too complicated to evaluate. A fixed income bond portfolio manager seldom has more than an hour available to set aside to make an investment. Most of them have limited experience of reading proceeds reports. Project bonds, which might have variable coupons attached to cash flow, are often viewed with skepticism. Whereas the equity side are used to working closely with financial analysts, that follow companies over many years, and the stock market also attracts activist investors, the fixed income team is more slimmed down. The majority of the credit analysts are instead found within the banks, for example as part of the DCM team.

Regulations and fiduciary obligations do leave scope for *subjective interpretations*. For example, within Länsförsäkringar's mandate states that it is permissible to invest at a slight discount, as long as the reasons for this can be explained. At the same time, investments should also support local Swedish communities:

> *LF life and funds is mutually owned by 23 regional life and insurance companies. These have expressed a wish that we invest more locally, so as to reflect the values off our owners. Dutch social housing does not naturally fit into that.* (Head of ESG at Länsförsäkringar).

However, other aspects, such as a *long-term-commitment* can compensate. AP2 claims that because it has a long tradition of being a sustainable investor with commitments in both the fixed-income and the equity teams, it is shortlisted by the banks, so it is called when sustainability-related and socially labelled issues come out.

> *We are an active investor, always looking for good investments that match our interest-curve. The banks are familiar with our commitment to sustainability, so they call us.* (CIO at AP2)

Alecta instead highlights that *size* and *familiarity* matters in the fixed income-market.

> *We invest in companies that have solutions for tomorrow, so having a positive impact is the starting point for all our investment-decisions, stocks and bonds alike. Since we are a large player in the market, the banks know that we invest large amounts if we are interested, so we usually receive attractive price-offers. It is also important that we have a good understanding and relationship with the investee. It reduces risk.* (Head of Responsible Investment at Alecta)

In addition, the question of risk and return (and the cost of paying too much) is modified if sustainability-related and socially labelled bonds are part of the strategic asset portfolio. Skandia has chosen such a strategy.

Last but not least, the Church of Sweden stands out among smaller institutional investors, as it actively engages and collaborates with partners encourage the development of a Swedish market for sustainability-related bonds. The Church of Sweden was the driving force behind the SDG 11 bond issued through the Sida network and is working to create interest in a Swedish SDG 11 bond.

6.4 Institutional Investors' willingness to take a lead

All the fixed-income portfolio managers interviewed for this report had green bonds in their portfolios. As a number of them have taken an active lead on investing in green bonds, they were asked in what way this had influenced their interest in the rest of the SDGs. Answers varied and also diverged from the positions taken on green investments. On the one hand, all the investors with an above average commitment to sustainable and social bonds stated a commitment to green investments. On the other hand, there were green investors that did not specifically look for broader SDG-related opportunities. At the same time, those investors with limited activity related to green bonds also showed only a marginal interest, or just responded with passive curiosity, when asked about socially labelled bonds.

Consequently, the ambassadors for sustainability and social bonds are not automatically the same as the ambassadors for green bonds. For example, the public pensions fund AP4, which has a history of engagement with corporate governance going back to the 1990s, has been one of the front runners on green bonds in Sweden, but lacks any interest in social bonds. It relates this to a lack of resources, but also the absence of suitable instruments to invest in.

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> *It's a matter of priority. Of course, we care about social issues, but we cannot be everywhere. We have chosen to focus on green issues and corporate governance.* (CEO of AP4)

On the other hand, Alecta has chosen to adopt a high profile on *both* green and social issues. The CEO at Alecta was vocal in pushing the Swedish government to launch a green sovereign bond. Alecta is also part of the European Union High Level Expert Group (HLEG) on Sustainable Finance, which besides promoting green issues communicates the need for the institutional investors to include a commitment to the SDGs across all asset-classes. The influence of CO_2 emissiosn on the asset management also plays a role. Impact analysis and scenario analysis over 50 and 100 years, are familiar to pensions funds with long-term commitments. However, on the social side, however, these types of analysis are yet to be developed.

SEB funds, that have invested in the EBRD/ Sida bond, say that the take-off in Sweden has been somewhat hampered by difficulties in evaluating proceeds and impact.

> *Green bonds have their framework, but it is still challenging within other emerging asset classes when it comes to evaluating impact. We also need to develop follow-up work going forward on the social side."* (Portfolio manager at SEB Life)

SEB Life has US$ 3 billion AUM so is continuously searching for investment opportunities tied to impact in the alternative space. For a number of years, the life portfolio has had a mandate to invest 5–10% of the portfolio in investments with a trackable SDG profile. This goal has now been raised to 10% and the investment team believes that there might eventually be specific mandates to search for sustainability-related and socially labelled bonds, going beyond the green.

This also sheds light on the possible lack of internal resources. This is especially true for competences related to project financing, where the banks' credit analysts have experience of evaluating uncertain cash flows.

> *"We will not see a take-off in the socially labelled bond market until the fixed income-teams have acquired banking competence related to evaluation of specific investments tied to the use of proceeds, and how these deliver on green and social goals. This is as different approach than evaluation of risks at the corporate level, which the equity*

> *team focuses on. But it is inevitable that it will come."* (Representative of one of the banks' DCM desks)

Resources also relate to simple headcounts. When this report was nearing completion in September 2019, follow-up contacts were made with all those interviewed. A number responded that the EU green taxonomy (presented in June 2019) was taking up all available resources, and that this had postponed work on sustainability-related and socially labelled bonds.

7. Swedish sustainability and socially labelled bonds. Issuers' perspective

This chapter takes the issuers' perspective on developing Swedish socially labelled bonds. The focus is on the development of an SDG-11 bond. However, the section first describes the "market talk" on 20 potential issuers of sustainability bonds, that might act as frontrunners. This includes previous experience of green bonds and comments from local governments, which has thus far s opted out of acting as catalysts for development of the market.

Of the interviews for the study, 26 informants represented the perspective of the issuers, either as issuers themselves or as intermediaries. These came from both the public and the private sector. There were local governments officers from municipalities or regions (7), consultants and property developers (4), intermediaries focused on impact measurements (3) and other experts (7). For the purpose of the study, contacts were made with six municipalities and Kommuninvest. These were chosen because their names were mentioned in other interviews, during conferences or in the media. In addition, four private sector companies were approached and one governmental agency. This chapter also draws on a number of impact conferences that were attended in 2018 and 2019, as well as reports on the impact-field in general, rather than, socially labelled bonds specifically. A full description of methodology is provided in the appendix.

7.1 The issuers perspective

Using the interviews, publications and information provided during seminars, a list has been complied of potential interested issuers that might act as frontrunners (see Table 5). The list includes various organizations and financial instruments. Of the 27 organizations on the list 13 are regions or municipalities, four of which have no commitment to social bonds as yet and six are property companies.

While the list is far from complete the results can be seen as input for gaining an overarching understanding of why the list of Swedish socially-labelled-bonds on the Nasdaq Fixed Income Exchange is so short, but that it is nonetheless possible to compile a list of possible issuers. The list can be described as "market-talk", which highlights its subjective character. However, such market talk demonstrates how sustainability-related and socially or SDG-labelled bonds are mostly promoted by intermediaries on the market – employees on the DCM-desks of the five large banks but also some of the representatives of the big asset asset managers such as AP2, Alecta, SPP Storebrand and the Church of Sweden. In addition, it is this push that spurs reactions among possible issuers.

The market talk also reveals a mixture of pre-understanding, or experience from other financial impact instruments, such as green bonds, and of organizational limits:

- All the listed property developers target refurbishment in deprived suburbs with a high proportion of apartment blocks for rent.
- The list includes three financial institutions – two foreign development agencies (Svensk Exportkredit and Swedfund) and one government-backed, but commercial, mortgage loan issuer (SBAB). However, there is no financial institution that can target SME financing.
- Almost all potential issuers listed, have already issued green bonds.

Other potential issuers have gained inspiration from sustainability-related bonds that already exist – such as Hemsö's standard bond of 2016 and the high-yield issues by the telecom Millicom and Trianon in the spring of 2019. In addition, the Sida network/World Bank SDG-11 bond, worked as a point ofdeparture for the "market talk".

Table 5: "Market talk". Possible issuers of sustainability-related and socially labelled bonds.

Entity	Organization	Readiness for comittment	Possible product	Related bonds
Municipality Counties	Malmö Stad	Awaiting decision by the municipal council H1 2020	Has a programme for listing possible social projects related to property investments, social clauses in contracts etc.	Green
	Vellinge	Working on a sustainability framwork	New schools, elderly care, magazines for water	Green
	Kommuninvest	Collaborates with Botkyrka, Kungälv, Norrköping, Sjöbo, Skövde, Uppsala and Ånge	A concept for social loans has been developed	
	Region Stockholm	Awaiting decision to issue a Health Impact Bond	The HIB tragets diabetes type II prevention, but could in the future be extended to elderly accidental injury, psychological disorder	Green
Gov't financial institution	Svensk Export Kredit (SEK)	Will launch a sustainability bond framwork	Icma's goals for green and social, supporting Swedish export industry, believes this will strengthen offering	Green
	SBAB	Early plans for a sustainability framework	Residental mortages and property loans, could develop SDG 8, 11	Green
	Swedfund	Capital market talk	Invests in developing countries and could follow the idea of Danish public-private partnership	
Supranational	NIB Nordic Investmentbank	Capital market talk	Finances infrastructure projects in the Nordic and Baltic region, could be extended to social SDG:s	Environmental
	EBRD	Capital market talk	Sweden is a partner. A sustainability bond could be issued in SEK	Green/ sustainability
Property	Hemsö	Might issue a new sustainability bond the future	Has a sustainability bond from 2016 and has an updated sustainability framework (2018)	Sustainability
	Sveafastigheter	Plans to target social goals for credits	Discusses SIBs, social bonds - psychological health, safety, education, co-space sharing etc. Has long-term SDG credits	
	Stena fastigheter	Initial plans for a sustainability framework	"Affordable housing", "employment" "socio-economic advancement", 25 000 residential and 3 500 objects in Gothenburg, Malmö, Stockholm, Lund, Lomma, Landskrona and Uppsala	Green (Oslo börs)
	Specialfastigheter	Capital market talk	Special purpose buildings, prisons, police and military	Green
	SKB	Capital market talk	Green, social responsibility and "affordable housing", has 8000 Cooperative apartments in the Stockholm region, builds, manages and leases residental property.	Green
	ByggVesta	Capital market talk	SDG 11 for deprived suburbs	
	Brunswick Real Estate Capital (BREC)	Is looking for opportunities	Provides senior secured financing to commercial real estate. Aims to increase focus on social issues.	
Corporation	Hoist Finance	A social bond targeting SDGs 3, 9, 10, 13, 17	Collects portfolios of non-performing loans and is looking to wrap up repayment programmes for socio-economically vulnerable groups	
	Nobina	Capital market talk	bus transportation	Green
Non-profit	Rädda Barnen, Save the Childern Sweden	General talk of scaling/ bundling SIBs	Member of the Swedish National Advisory Board on Impact Investing	
	Fryshuset	General talk of scaling/ bundling SIBs	As above. A Swedish/ global organization for promoting youth empowerment and social inclusion.	
Not ready	Botkyrka	Committed to a SIB that is funded internally	Has plans to issue a social project bond, with a SIB on top, targets hospital employee-absentism	Green
	City of Gothenburg	Idea of a Social bond has been presented to City Council, which turned it down	The financial department found the instrument uncertain, that there was a need of social investments of at least 200 Million SEK do be interesting, and possibly expensive to implement	Green
	Örebro	Wish to stick to the green framework	Is happy to include social impact in the green framework	Green
	City of Stockholm	Not interested	Does not feel the need for either green or social financial instruments, as the city can finance bonds with a good risk-return profile in any event	

The list also includes names of actors that for a variety of reasons wish to deepen and broaden the market for socially labelled financial instruments. These includes Brunswick Real Estate Capital, which wants to include SDG-related goals in its long-term credit facilities for property development. Rädda Barnen (Save the Children, Sweden) and Fryshuset, are both active promoters of social impact bonds (SIBs/SOCs), which could be scaled-up or bundled to attract capital from institutional investors.

Other interviewees stumble over the difficulty of developing impact metrics that both targets a predefined population and delivers measurable effects, that can be validated by a second party. One example of this is Hoist Finance, a listed company that collects portfolios of non-performing loans. It targets groups of indebted households and individuals, and the company is working on developing programmes for repayments.

> *The financial sector needs to take its share of social responsibility. We could develop a social bond targeting SDGs 3, 9, 10, 13, 17. But to be successful we need to collaborate with other parties, such as the public sector, the social services departments, employment offices and the health service."* (Head of Sustainability, Hoist)

7.2 The green stepping-stone to issuing a socially labelled bond

The foremost driver of issuing a socially labelled bond appears to be previous positive experience with issuing a green bond. One actor that is about to launch a sustainability-related bond framework is the Swedish export credit agency (Svensk Exportkredit/ SEK). Its credit portfolio includes SEK 260 billion in loans to 153 clients in the Swedish export industry and its clients around the world. Green bonds as well as sustainability bonds issued by similar government-backed agencies in other countries, such as Austria's OKB (mentioned in ch. 4.3), have spurred interest. The SEK framework will cover three types of bonds – transition, green and sustainability – with social projects such as hospitals, mobile networks and infrastructure. A first, smaller sustainability-related bond is planned for 2020.

Svensk Exportkredit only issues in euros or US dollars, as foreign institutional investors, accept paying a premium for the agency's strong credit rating, given its governmental backing, something that domestic Swedish investors have abstained from. When Svensk Exportkredit began issuing green bonds, however, it attracted both international and domestic financial institutions.

According to head of sustainability at Svensk Exportkredit, "Our green bond has been well received by both international and Swedish institutions. We worked hard to develop a framework that assured that ensured that we deliver a positive impact. To be able to scale our programme up we are working on extending our impact framework to also include the full range of SDG-related goals. Customers of Svensk Exportkredit have been asked to list projects that would have a positive impact. The aim is to issue a first bond within the new sustainability framework towards the end of 2019. Green bonds have been issued with a total worth of SEK 6 billion. If the use of proceeds were extended to the full range of SDGs, this could over time rise to SEK 50 billion, or 25 % of Svensk Exportkredit's bond-portfolio: The estimated greenium in the market is thought to be 2–7 points. This should be reflected in a discount to our customers and also extended to cover all sustainability bonds linked to SDGs", according to head of sustainability.

Another example is *Vellinge*, a socio-economically stable municipality close to Malmö. It has launched two green bonds worth a combined total of SEK 3 billion under a green bond framework set in 2018. It is now considering launching a sustainability bond framework. Åke Grönvall, the finance director at Vellinge, argues that: "It is not as if we need to finance our social commitments with a bond loan. It's about legitimacy. It's about delivering on Agenda 2030".

At first, Grönvall and his colleagues had difficulty finding social projects. Psychological health programmes, for example, are perceived as ineligible, as these are financed through the revenue budget. Vellinge thus brings up the delicate issue of budgetary limitations on socially labelled bond issues by the public sector, even if they wish to, which is developed in chapter 8. However, the eligible social programmes are schools, elderly care, and storage for storm and drinking water (Vellinge has a long coast affected by climate change and rising sea levels), as well as an increasing the number of rental apartments. Åke Grönvall noted that: "This is not complicated. Rather I see it as an integral part of my area of responsibility and it brings our different departments together".

The *City of Malmö* is also working on developing a framework for a social (sustainability-related) bond. Malmö has a population of 330 000. The City of Malmö is among the socio-economically weaker areas of Sweden. It has 3000 homeless people, 1500 of them children. Malmö issued a SEK 1.3 billion green bond in 2017. An updated broader framework will be presented to the City council, which is a social democrat-liberal party coalition, in the winter of 2020. The municipality's finance department's experience of issuing a green bond was positive. According to chief financial officer at Malmö City Council:

> *The work with the green bond has helped us develop a collaboration between the finance department and facility management. This has created a platform for dialogue and creativity, and it opens up opportunities for discussion of possible projects. We can see how this influences how each of us work Commitments made in the green bond need to be validated. It creates accountability, it becomes about concrete rather than short-term projects…I am confident that*

the same effect can be achieved on social issues too. (CFO Malmö Stad)

Malmö expects that the sustainability bond will be priced similarly to green bonds but with a small discount. The Malmö CFO noted that: "We already feel that talking about social impact makes us interesting among investors. Before we never knew who bought our bonds, now we have a dialog. This broadens the scope for our bond-issues".

7.3 Local governments taking a cautious position

Other local governments were also named in the market talk but, when contacted for interviews, took a cautious approach to developing a socially labelled framework. These include Region Stockholm, the City of Gothenburg and Örebro. All three were among the first issuers of green bonds and are familiar with ICMA's framework. Arguments relate to: (i) uncertainty in relation to internal costs and possible discounting of the issue price; (ii) a lack of eligible social projects; and (iii) the market's novelty.

Göteborg Stad (Gothenburg City) has issued green bonds to the value of SEK 7 billion. The finance department presented plans for a sustainability-related bond framework to the municipality's committee in 2018, but it was voted down by the political majority in February 2019 (Göteborg Stad 2018). In the documents prepared by the municipality's commissioners (Stadsledningskontoret), the finance department stated that:

1. The city's green bonds are issued with a discount, but it cannot be concluded that a social bond, or a combined green and social bond, for which there is only a small global market, will be priced with a discount.
2. Preparing reporting on the allocation of funding would require new routines and work, collaboration between different departments and an external review, which makes time allocation and costs highly uncertain at this stage.
3. There is not currently a list of eligible projects, but it can be assumed that these would have commonalities with projects already linked to the green bond programme.

Taken together, the conservative majority on the municipality found the timing of putting additional financial burdens on the municipality to be wrong. However, it is notable that the municipality remains committed to green developments.

A third position was taken by Stockholm City, which focuses on the economic aspects. In 2018, Stockholm City issued a SEK 2 billion bond in a private placement with the mutual fund Folksam, offering life pension and property and loss insurance. Folksam has described the it as a sustainability bond, even though it does not comply with any standards and there are no commitments on reporting progress. Stockholm has not issued a green bond either and, according to the finance department, it finds the idea financially unappealing. CFO at Stockholm City argues that:

> *It is good economics to be cautious with taxpayers' money. We are a large player. We are trustworthy and we receive good prices on our bonds. Why should we take on the extra work of delivering a progress-report? We can't finance anything social through the bond anyhow.*
> (CFO Stockholm Stad)

Many of those interviewed for this study highlighted the Stockholm City placement. Some claimed that Stockholm City can be seen as a "pure play", and as such it is irrelevant whether there is a social or a green brand. Others chose to frame Folksam's acceptance of investing in the Stockholm bond issue as a lost opportunity. According to an employee of one of the bank's DCM units: "We need good examples to get the market started. Stockholm City has the size and competence to act as front runner".

7.4 Case: Kommuninvest

Kommuninvest organizes around SEK 400 billions of funding, for 289 of the 310 municipalities and regions in Sweden. The agency has received a prize from the UN related to its work on green bonds. Most of the bonds have been oversubscribed and priced at a discount of 2 or 3 basis points below Kommuninvest's regular Swedish krona benchmark curve. Kommuninvest financed the Swedish translation of ICMA's social bond and sustainability frameworks.

Kommuninvest is conducting a concept study of ICMA's principles on social bonds, which could be expanded to cover sustainability and the SDGs more broadly. There are seven municipalities involved in the project.[13] Possible projects include socially vulnerable suburbs, youth unemployment, the integration of migrants, security, access to public spaces (citizens with disabilities and public transportation), loneliness and affordable housing.

Municipalities can only take up external loans for infrastructure projects. A green and social project could for example be a hospital, whereas increasing the number of teachers in an existing school in a socially deprived neighbourhood counts as a purely social project. As described in chapter 8, the discussion is complicated by public accounting practices.

Kommuninvest also highlights the complex issue of evaluating effect, including the expectations of issuers that an externally financed social project should deliver additionality, meaning social investments that might not have been carried out without external financing. According to head of sustainability at Kommuninvest there is a gap between the investor community and the public issuers:

> *Investors welcome the transparency offered in bond contracts tied to "use of proceeds". But many of them lack the experience and capacity to evaluate outcome metrics, especially if the size is small…. Many municipalities, on the other end, shun away from developing what are often perceived as complex innovative social projects with demanding documentation on outcomes. When novel financial instruments are added, it becomes even more complicated.* (Head of sustainability, Kommuninvest)

A third issue relates to the municipalities' perception of the cost of delivering on a framework. Kommuninvest expects that municipalities that are able to report on impact metrics will experience the same favourable treatment as green bond issuers are given today. Today's borrowers may be offered a discount of 2 bps if they deliver on green projects. This could also include social proceeds.

[13] The seven are Skövde, Uppsala, Sjöbo, Kungälv, Ånge, Norrköping and Botkyrka

8. Understanding the Swedish welfare state

The Swedish welfare state's lack of commitment to socially labelled bonds is based on four structural limitations: (i) the lack of a definition of social housing; (ii) an economically liberal view of the EUs public procurement rules; (iii) public accounting practices that hinder social investment in pre-emptive work; and (iv) an organizational structure of public administration that fosters a short-term focus on costs. In all these areas there are discussions on change, including of how local government is organized and works. However, externalizing and partnering with to the private sector is politically delicate.

All well-functioning societies try to balance a tax-financed public sector, the private sector and a values-driven third sector, which can comprise a mix of civil society organizations, non-profits and cooperatives. The size of each sector depends on the country's political system, but also who is expected to provide for citizens' welfare (Esping-Andersen 1990; Nachemson-Ekwall 2016). In the *social democratic* – Scandinavian or Nordic – model, a publicly financed social insurance system covers everyone for education, health care and care for the elderly. In contrast, in *the economically liberal* US model, welfare is mainly managed by market actors, which could be non-profits or religious institutions, and financing is often through private insurance solutions. A third alternative is the *conservative* model in which the state and social insurance jointly organize the welfare of citizens according to ability to pay. This model is common in much of continental Europe.

Common to all western countries is that the welfare offering, regardless of how it is financed or delivered, is facing pressures to downsize, increase efficiency or enhance service provision either because taxes are perceived to be too high, or the public sector's financial resources are limited, or citizens' demands on welfare are increasing. This has opened up opportunities up for private-public partnerships, hybrid organizations (a mix of corporations with a social purpose in their statutes) and private financing. The Nordic welfare states are no different in this respect, and all are experimenting with new ways to enhance the quality of their welfare offer. However, Sweden differs from its neighbours, due to the small presence of non-profit organizations even in a social democratic context.[14]

Access to the bond market to invest in social welfare, which is the key focus here, has not been a central issue for Swedish local government. Many finance investments related to property and infrastructure use the commercial bond market. In general, 25–30% of a municipality's budget is spent on infrastructure and property. The public sector's access to the capital markets has been good, and ratings for municipalities are AAA. At the same time, expenditure on social services (mainly wages) is seen as part of the operational budget presented by the municipal council each year. The central government has a tradition of supporting underfunded local governments, and there is also a system of transferring resources from rich to poor municipalities. Thus, Swedish local government has not faced pressure to be creative in the same way as its counterparts in the UK, France and Spain. As discussed below, however, there are also other factors driving interest.

Part of the lack of interest in socially labelled bonds from the public sector can be traced to the Swedish housing market, and the lack of a concept of social housing. This duality of a strong and tax-financed welfare state and a lack of social housing is expressed in the government's implementation of the Agenda 2030 framework. No targets have been communicated for social goals, in contrast to the work done by the government with regard to the carbon neutral by 2045 goal. It also lacks a specific reference to SDG 11 on sustainable cities and communities, and its role in development. In addition, the Swedish Agenda 2030 ignores culture as a driver of sustainable development. This is for example brought out by Malmö, the third-largest city in Sweden, which is socio-economically poor and has a large migrant population. Malmö argues that the government commission still needs to define specific social goals and impact measures (Kommunstyrelsen Malmö Stad 2019).

[14] Non-profits account for 3% of services in the public sector.

8.1 The absence of social housing

Sweden has 2.4 million apartments, one-third of which need refurbishing. Many of these are apartments built in the 1960s and 1970s, when Sweden embarked on a building programme – *Miljonprogrammen* – in the suburbs with the ambition to make sure that everyone could have a home at a reasonable price. As of today, public sector property companies owned by the municipalities ("Allmännyttan") manage some 800 000 rental apartments, representing almost 20% of the total housing stock in Sweden and half of the rented sector (Elsinga and Lind 2012). Today, socio-economically weak groups such as migrants, the unemployed and the unskilled are overrepresented in these suburbs, in what are large areas of rundown rental housing.

However, Sweden lacks any provision of social housing. As a result of a number of reforms in the 1990s, there are no longer any general housing subsidies. Investment in public housing must be financed by the income from rents. Public sector housing companies enjoy no special benefits or advantages compared to the private rental sector. In addition, to avoid stigmatization of public housing estates Allmännyttan is open to anybody. There are no income limits or other similar hurdles. Citizens that have difficulty paying rent are eligible for government rent allowance. Around 300 000 citizens receive such rent support. Given the lack of incentives to refurbish rental houses in an economically affordable way, gentrification has been widespread in attractive areas.

To compound the problem, Sweden has a chronic housing shortage due to a history of regulated rents, high building standards, a concentrated building market and high production costs. Today, almost all towns and cities with a population of more than 50 000 people have a housing waiting list, and in the Stockholm region the wait for an ordinary rental apartment is 11 years (Lind 2018). Property developers have instead focused on building quality apartments for the middle classes or upmarket homes. At the same time, a number of rental houses have been sold to tenants, creating popular housing cooperatives where each tenant owns an apartment that is bought at the market price. As a result, the share of rented housing in the total housing stock has fallen from 95% in the 1950s to 59% in 2015.

For economically weak groups, the system has a number of side-effects:

1. Rent caps make it less attractive for property developers to focus on building apartments for rent for low-income groups. Augmenting the problem are municipalities that sell land for new construction at high prices, which makes it uneconomic to build homes that are affordable for economically weaker groups.
2. The lack of affordable rented housing in the city centres is combined with a loan market that excludes citizens who lack private savings. Many of those who receive social benefits are migrants, unemployed or single parents. Most end up in the older suburbs in rented houses, thereby creating segregation.
3. The problem was augmented when in 2018 the Swedish Financial Authority (FSA) introduced a requirement that buyers in housing cooperatives must invest 15% of the apartment price upfront. This was done in order to slow increasing apartment prices and levels of citizen indebtedness, but with a side-effect of furthering hindering young people and migrants who lack financial savings from entering the cooperative housing market.

Despite all of the above, Sweden has abstained from creating a social housing market. In the Netherlands, the UK, Iceland and Austria, public and private sector property owners offer a percentage of flats in new-build projects at a rental or price that is below market level. The lower rent homes are then allocated to specific target groups of people that have an income lower than the average. These countries have criteria for social housing that are easy to track, are standardized and it is possible to follow-up as part of the social proceeds from a sustainability-related bond issue. The programmes can be either general vanilla bonds or project bonds with a variable return, in line with the ICMA principles (see the NWB and Peabody Trust loans discussed in chapter 4).

If Sweden is to develop SDG-11 bonds targeted at deprived suburbs, an innovative approach will be needed to ringfencing target groups. One idea is that when building new homes, the municipal authorities should ensure that these are of both higher and a basic standard, the latter known as "basic housing". In this way, households that can only afford or want to spend a small sum on their accommodation can be included (Lind 2018). This idea was discussed during the research for this study.

A number of housing developers have begun to experiment with loan products targeted at the less affluent, such as the cooperative apartment builder, Riksbyggen. SBAB, a government-sponsored residential mortgage and housing lender is in the early stages of developing a sustainability-related or socially labelled bond framework for refinancing loans made to private property developers in deprived suburbs across Sweden. The focus is on low-rent affordable housing, and the plan is to target the millionprogram, and areas where tenants have an income 30% below the average of the region. However, research on trackable Swedish impact metrics is limited. The private sector house builder and manager, Stena Fastigheter, has a 20-year track record of working with social projects and collaborating with social organizations and enterprises in deprived suburbs. This includes providing summer jobs for 300 young people, In the autumn of 2019, Stena initiated a study on developing a framework for a social bond targeting SDG 11, among other things. It will include new homes for the elderly and affordable housing. The case of Trianon is also discussed below.

8.2 The driving catch on social housing

Örebro provides an example of the current restrictive order. Örebro has some of Sweden's most deprived neighbourhoods and Örebro Region is committed to social research studies, developed in close collaboration with Örebro University. Örebro municipality has issued green bonds and has an active social investment fund. it has considered issuing an externally financed social impact bond (see below). However, the question of issuing a socially labelled bond is seen as premature. The finance director explains:

> *Our banking contacts and also Kommunivest want us to look at social projects when we list our green projects. They claim we are involved in social housing. But we are not. Our new housing blocks are open to everyone. We do a lot of refurbishment of our public rental portfolio. But we haven't found much that can be branded social there either. It is too little money.* (CFO Örebro municipality)

Instead, the municipality will try to highlight social goals, within its current green bond framework, which also references Agenda 2030. There is a council of experts tied to the green bond programme. However, when time is right, the Örebro finance director would be happy to initiate a sustainability framework, "of course, I'd be happy if we could be better at tracking positive impact. But we are not there yet."

Malmö Stad, on the other hand, is trying to develop a social housing offering. Malbo, the municipality's public housing entity, collaborates with private property developers to rebuild centres in a socio-economically sustainable way. Work has also commenced on developing a broader sustainability framework with SDG goals that can develop a Swedish version of social housing. This involves listing construction works that include social commitments. Among the examples are:

1. Employment with social clauses when assigning areas for property development
2. Access to services and meeting areas, for example, in new school buildings, that can bridge segregation and gender issues, and provide after school activities for poorer children.
3. A Swedish model of social housing targeting, for example, the structural homelessness, families with children and buildings where more than 50 per cent of residents are unemployed.
4. Health and security.

There are limits, however, and Malmö can only take loans that are backed by infrastructure. Only social proceeds that can be tied to a building are eligible. Building a new school is such a case. Funding can also be used for other purposes, such as a meeting place for community activities. Malmö is also collaborating with Trianon, the first Swedish issuer of a sustainability-related bond targeted at SDG 11.

8.3 Case: Trianon

The property company Trianon has a background as a developer in socio-economically weak suburbs, mainly in Malmö County. It is listed on the Nasdaq First North Growth Market and issued the first Swedish sustainability-related hybrid bond targeted at socio-economically weak households on the Nasdaq Sustainable Bond List in May 2019. (Fröjd 2019). The issue raised SEK 400 million and was substantially oversubscribed.

Trianon's framework targets socio-economically weak households in Rosengård, Hermodsdal and Lindängen, all listed as deprived areas in the national register maintained by the police. In some houses, 50–60% of tenants lack employment. Trianon has a track record of managing social refurbishment. When it first arrived in Lindängen in 2011, 20% of the tenants moved out every year and nothing had been built in the area for over 30 years. Trianon set up a programme employing 35 tenants, who later got jobs as caretakers. Renovation was carried out in a basic way, so that rents could be kept low. Energy costs were reduced. Turnover was reduced from 20% to 7% in the five-year period 2012–2017. There was less demolition and crime went down. The value of the property doubled. According to chief financial officer at Trianon, "We believe that one-third is because of social factors. The rest is due to lower energy costs and higher market interest in investing in million-programme areas".

The use of proceeds from the new bond includes a 10-point program of job-creation measures with specific goals, such as, for example, that at least 30 long-term unemployed should have been given a job during the five-year period or that total unemployment in the area, which is still over 50% in many buildings, should be reduced by 10 per cent. The CFO argues that, "The whole area changes if employment in the apartment block rises above 50%. Other goals include offering summer jobs to young people and tying subcontractors to social clauses.

The social projects tied to the bond proceeds are combined with promises to build new apartments for low learners, as well as a number of environmental and energy targets linked to the UN SDGs and other global goals. Trianon has a proven track record of refurbishing houses in an affordable way so that tenants do not have to move.

Trianon has issued a high-yield hybrid bond. This means that most asset managers have investment policies that prevent them from investing. However, the bond is found in dedicated high-yield funds, for example, at Carnegie and Handelsbanken. The CFO argues that: "It is very clear that the issue has strengthened the Trianon brand among both investors and our tenants".

Trianon is also involved in a project to develop 160 cooperative-owned apartments in Rosengård, with the aim of allowing tenants who lack financial resources to take a loan equivalent to the down-payment of 15% from a private financial actor and pay back the debt over a longer time period. The project is supported by the government agency, Vinnova, and being developed in collaboration with apartment builder Peab, the financial investor Green Specialisten and SEB.

According to Anna Heide, in charge of development at Trianon, "83% of Swedes wish to own their own home. With the loan, of up till 200 000 SEK, it will be less expensive for these tenants to pay rent and interest on the loan than if they rent. And it will enable them to remain in the area, which they can strengthen and where they already have a social network". If successful, the loan model might be included as a social component of future sustainability bonds issued by Trianon.

8.4 A liberal market take on public procurement

During the 1990s, public procurement rules were adapted to treat all welfare suppliers the same, regardless of governance structure, association or service offered. In practice, this meant that the same evaluation metrics were applied to contracts for delivering computers, furniture or a social service related to rehabilitation or support for marginalized women refugees. For officials working in a municipal purchasing department, price rather than quality became the preferred parameter when evaluating a tender for a service, as this would protect them from criticism and often complex public appeals processes, of which Sweden has the most in all the EU.[15]

In the 2004 EU public procurement rules, Sweden was the only member state not to utilize an opt-out clause enabling contracts for welfare services to be reserved to non-profits. The Swedish Competitive Authority has

[15] https://sverigesradio.se/sida/artikel.aspx?programid=83&artikel=6778832 Se Konkurrensverkets rapport s. 18–19. 2014 var 50 procent av upphandlingarna lägsta-pris-upphandlingar, 41 procent ekonomiskt mest fördelaktiga.

since been clear about the prohibition on public procurement authorities reserving contracts to non-profit organizations, and Almega, the private sector employers' organization for the Swedish services sector, has long been a highly vocal supporter of that interpretation.[16]

Criticism of the public procurement system has built up over the years, for clearly favouring large, price-efficient corporations, often including private equity groups, thereby excluding small private enterprises, non-profits and social enterprises (Nachemson-Ekwall 2016; Wijkström et al. 2010). Sweden has also been more or less alone in Europe in interpreting the law as opening up all public services to fully fledged competition (Sylvan 2016).

When the EU rules on public rules were revised in 2014, Sweden again stopped short of opting out. Among the changes, the EU directive allows special treatment of non-profit organizations and special associations, such as predefined social enterprises and socially committed workers' cooperatives. Article 77 allows public service contracts to be reserved to organizations that reinvest their profits in order to deliver a social purpose (EU 2014)

Scepticism about the absence of profit restrictions on private sector companies working in the tax-financed welfare sector reached a crescendo in the 2014 General Election. In order to receive support from the Left Party, the Social Democratic-Green governing coalition commissioned a report on restricting profit-taking by non-governmental entities, the "for profits in the welfare sector". The report was published in the autumn of 2016 (SOU 2016) but a final version of the report was blocked in parliament in the spring of 2018.

In recent years, Sweden has revised its public procurement rules in stages. Since 2016, social clauses can be inserted into contracts, but their usefulness is limited as the Confederation of Swedish Industries managed to restrict their application through a three-year cap on contracts (Swedish government 2016).[17] Since 2019, however, social contracts can now be extended to four years, which is enough to enable social companies to obtain bank loans, and there is a threshold for reserved contracts for procurements below €700 000 (Lindberg and Kjellberg 2019). Famna, the association for non-profits in Sweden, believes that new public procurement rules and views on public-private partnerships might enable non-profits to take 10 % of contracts by 2030 (Famna 2019).

The above provides an understanding of why any market talk of private institutional capital in the welfare sector is politically delicate. Nonetheless, as is shown below, things are moving forward.

8.5 The public sector as a driver of change

The changes in the public procurement rules coincided with increased pressure on local government to restructure their offering to deliver on citizens' expectations. The need to look for new solutions to welfare provision had been augmented by digitalization and innovation, but intrapreneurship has found it difficult to flourish in public administration's silo-structured organizations. External collaborations can speed up innovation, and support resilience and the breaking down of these silos. Three forces act as primary drivers of change:

1. ***A move from New Public Management to New Public Governance.*** In order for new procurement legislation to be efficient, the attitude of municipalities to their tasks must change, away from delivering a service, which is easily evaluated with a hierarchical focus on price, to more of a focus on effects, which can open up space for collaborations and partnerships with citizens and different actors. In the process, the municipalities and counties are moving away, albeit slowly, from New Public Management (NPM), to New Public Governance (NPG) (Osborne 2006; Mattisson 2015).
2. ***There is a growing focus on preventive work***. The societal cost of psychological ill-health, dementia and unemployment among marginalized groups is spiralling. Studies show that it is both less expensive for society and creates less human suffering if actions are taken early in a citizen's life. However, annual budgetary planning rules and public accounting practices are short term, which limits the ability to earmark social spending for longer periods. This hinders innovation and collaboration across departments. At the same time, costs for the individual and society rise as time passes (Nilsson and Wadeskog 2012).

[16] Quoting an Almega report from 2012 (Sylvan 2019).
[17] The change took place on I January 2017 with the implementation of the Law (2016:1145) on Public Procurement.

3. ***Municipalities are pressed to develop and reconsider public accounting practices.*** The Swedish Association of Local Authorities and Regions (SALAR), the employers' organization that represents all of Sweden's municipalities and counties, remains clear on the limits to covering ordinary social services using loans. However, SALAR has stated that it is possible to take loans for special project financing (Bokström, Lindencrona, and Wieselgren 2014). This has opened up possibilities for the allocation of money targeted at innovation and preventive work, performance-based payments, and financial arrangements with external financial partners.

The local governments interviewed for this report held different views on external private financing. There seemed to be no correlation with the politics of left and right. In general, two arguments appear to be key drivers of collaboration with external financial institutions:

- External reporting could enhance public accountability, enable benchmarking and foster the development of metrics that can track impact.
- Impact often requires collaboration between different groups of employees, professionals and departments (breaking down silos). Involving an external third party can facilitate commitment to and continuity in such work.

Both aspects are perceived to enhance efficiency and foster innovation.

The local governments testing different methods of financing seem also to be independent of political persuasion. Studies on the public sector's attitude to involving external financiers in financing social welfare (Balkfors, Bokström, and Tapio Salonen 2019) show that:

1. Commitment by civil servants and the role played by civil servants depend on the personal preferences of the civil servants working in the finance department.
2. Previous experience of working with impact-financing and impact measurements influences the willingness of civil servants to take on new external financial instruments for social projects (see chapter 9).

The CFO of Malmö explained why the municipality does not see the extra work as too burdensome: "Everyone wants reporting these days. Doing a yearly report for someone external forces us to talk across silos. If anything, it creates value. But it will be more difficult to get this done within the social side. These departments are less used to collaborating". To enhance its commitment, Malmö has a specific sustainability office with employees dedicated to enhancing collaboration between the 14 different municipal departments.

In addition, it is worth noting that the EU's report on green standards, the TEG sustainable finance report (2019), opens up opportunities for green expenditure by sovereign and sub-sovereign entities, which also includes relevant public investment and public subsidies. This enables green assets to include physical assets and financial assets such as loans, as well as the share of working capital that can reasonably be attributed to their operation (EU TEG 2019). The implication is that the use of proceeds does not have to be tied/earmarked to a specific project. This procedure has the potential to spill over into sustainability-related and socially labelled bonds, thereby increasing municipal interest.

9. Developing a Swedish public market for social impact

The Swedish public sector's participation in the development of a market for sustainability-related and socially labelled bonds is dependent on experience of two other financial vehicles for impact investing: Social Investment Funds (SIFs) and Social Impact Bonds (SIBs) or Social Outcome Contracts (SOCs). Each is well positioned to deal with SDG 11, but has been slow to take off. The development of projects is hampered by a lack of standardized methods of evaluating, implementing, validating and reporting on impact.

9.1 Metrics for evaluating impact

Part of the difficulty kick starting the Swedish market relates to the lack of standardized metrics for evaluating impact. Tools such as Social Return on Investment (SROI), which are more or less standard cost-benefits analysis, have not been applied consistently, and guidelines have not been followed (for a Swedish perspective of social impact methods see Hahn et al 2016; Social Innovation 2018; Fryshuset 2018). Alongside guidelines from the ICMA and the World Bank, the focus is instead on enhancing the use of standards and metrics that work, rather than the development of new methods and metrics.

SALAR has been engaged in the development of pilot metrics and the documentation of effects, including a guide to impact measurement of social projects. An example initiative is a pilot on prevention and early intervention for children and young people (Bokström, Lindencrona, and Wieselgren 2014). The work builds on studies that show that many problems at both the individual and the societal level are the result of conditions in early childhood that can be corrected or mitigated at a much lower cost if done at an early stage (see e.g. the work of Nobel laureate James Heckman (2006) as well as Nilsson et al. 2014).

Other examples include:

- Fryshuset, an NGO working with children and teenagers, which in 2016 developed a knowledge hub, the Institute for Social Effect and published "Social Impact Bonds i svensk välfärd" in 2018 (Fryshuset 2017b).
- The life insurance mutual Skandia, which through its Idéer för Livet foundation has compiled a guide to impact measurement (Pärus and Ranung 2015).
- A number of initiatives enacted through the Mötesplats Social Innovation, which runs annual conferences and a research platform for academia. Among these initiatives is a book on impact measurement for social enterprises, based on theory of change (TOC) analysis (Augustinsson red, Berlinger, and Singh 2018).

The Socialdemocratic Party and Green Party coalition government's decision in 2018 to allocate SEK150 million to social innovation is part of a policy to increase focus. The creation of a national competence centre on impact measurements, organized by the public Swedish research and innovation partner RISE and its Social and Health Impact Center (SHIC), is also included in the government programme. Municipalities that lack financing for pilots can seek support from SHIC.[18] SHIC's work is evidence-based and based on administrative data. It assists with implementing projects and setting up structures that enable integration and continuity. The work is structured to support the development of social impact bonds (see below). At present, SHIC has four employees and the ambition is to increase this to 10 by 2021.

According to Tomas Bokström, previously at SKL and now at SHIC: "We wish to show municipalities that there is value in allocating a few billion SEK in the budget to impact contracts. If successful, individual projects can be scaled-up, and bundled together to many SIBs. These could then be of interest to external investors". SHIC's main focus is working with local government in partnerships with academia. Currently, a pilot study is being conducted together with Botkyrka and Örnsköldsvik, related to sick leave.

[18] Talk March 11, 2019

SHIC draws on experience from initiatives in other countries, such as SITRA in Finland, *Social Finance* in the UK and the *MaRS Centre for Impact Investing* in Canada (RISE 2018). All these vehicles are involved in developing social impact bonds. SHIC has been inspired by the *Washington State Institute of Public Policy*, which has developed evidence-based models for cost-benefit metrics (WSIPP 2019).

In sum, a number of initiatives are being taken, but social enterprises are keen to leverage up the government's commitment. Sweden still lacks an open register for evaluating metrics and impact, which could support social enterprises, as noted by both CEO of Fryshuset, and head of the Stockholm-based non-profit *Reach for Change*, which runs an incubator for social enterprises. Örebro is the only municipality that has a public list of expenditure related to its various social investments.

In the autumn of 2019, Vinnova, the Swedish innovation agency, launched *Effektfullt*, a network for developing impact measurement. By the end of 2020, Effektfullt aims to have supported 200 organizations to become better at measuring the impact of their interventions and investments. Among its supporters are Kommuninvest (Fryshuset 2018; Vinnova 2019).

There is also an initiative led by Vinnova and the Swedish Standard Institute (SIS) to develop a certified Swedish standard on impact evaluation for the so-called AFS companies, which are workers' cooperatives that target marginalized groups. The costs of AFS staff are subsidized by the Swedish Public Employment Service (Arbetsförmedlingen) (Skoopi 2019).

9.2 Public Social Investment Funds

Municipality- and county-sponsored SIFs emerged in 2010, with the purpose of allocating public funding for preemptive work in the public sector. SIFs are not ordinary funds, in the sense that pre-decided money is locked in a closed fund structure and allocated to investments over a period of time. Instead they create space in the annual operating budget to cover net transfers to new projects and returns from old ones, acting independently of the public sector drawbacks of short-term budgeting and planning horizons (Hultkrantz 2015; Hultkrantz and Vimefall 2017; Nilsson et al. 2014). SIFs have been especially popular within left-leaning municipalities.

A SIF sources competences and resources from across departments within the municipality, including officers from the finance department and employees working in social services. This bridges the gaps in municipalities' often poor skills in active risk management, which has hampered innovation (Albury 2005; Daglio, Gerson, and Kitchen 2014). Part of the role of a SIFs is the dissemination of knowledge to improve general standards, evaluation of positive societal impacts and providing documentation to enable scalability. Profit, in the form of reduced long-term costs related to a target group, are shared among the participating departments. The SIF can also collaborate with external organizations.

By 2017, one-fifth of Swedish municipalities had established SIFs (Hultkrantz and Vimefall 2017; Hultkrantz 2015). In a follow-up study, 70 municipalities claimed to have dedicated resources to social investments (Balkfors, Bokström, and Tapio Salonen 2019), amounting to SEK 1.7 billion (which is 0.01 % of their total annual operating budget). Examples include Norrköping and Örebro, which have allocated SEK 80 million and SEK 40 million respectively. The funds target projects for a specific group, such as unemployed migrant women or people on sick leave.

Studies have found mixed results. On the positive side, the majority of the SIFs show greater benefits than costs. Decision makers have allocated resources to projects that are expected to yield returns over several years, so the SIFs therefore function as platforms for collaboration (i.e. Balkfors et al 2019). The fact that the majority of the funds have been from internal sources has given the municipality and civil servants full control over the process, which has been viewed as positive.

There are also drawbacks. Payback requirements may bias project selection towards programmes and performance variables that are easy to monitor. Municipality commitment is dependent on politics, and a new majority can change the role of the fund at short notice. There are also conflicting incentives, as a successful pilot that leads to lower budget expenditure might result in fewer resources being allocated going forward, which could reduce commitments from officials.[19]

It has also been difficult to find out whether these programmes deliver their impact targets or the expected monetary returns, given methodological difficulties, changes in external and internal conditions (like employees moving) and the small sample size.

In a report for the Swedish public procurement agency, Brännvall and Eriksson Åshuvud (2019) highlight the lack of correlation between the SIFs' levels of risk-taking and potential outcomes. Genuine pilot studies require risk-taking and an acceptance that mistakes will be made and are even a necessity in order to identify the most innovative and efficient solutions. Private money is better suited to risk-taking, which is where the SIBs/SOCs come in.

Robert Jonsson, who is affiliated to the Linköping University Centre for strategic municipality studies, argues that senior officials in the municipal hierarchy must take active ownership of innovation:[20] "Social investments must be integrated into the municipalities' long-term financial goals. It is not enough to just bring them into the operational budget".

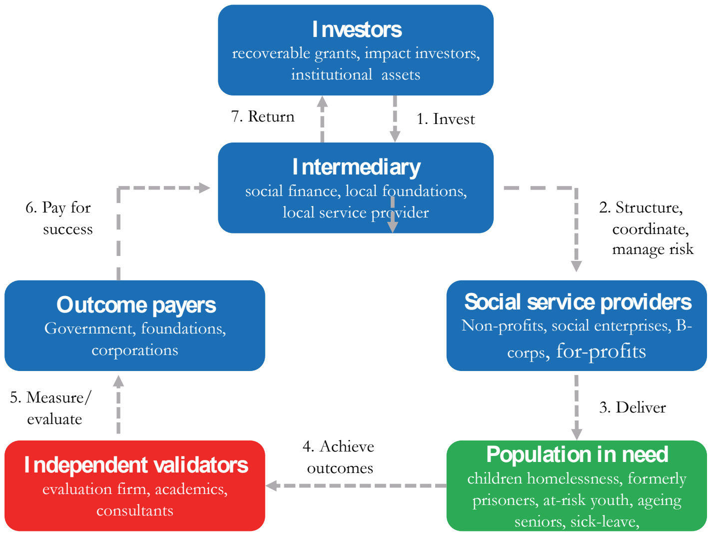
Finally, a common critique of SIFs is that the expenditure is charged to the municipal budget, but the benefits are shared with other parts of the public sector. Sweden lacks a government-sponsored financial investment vehicle to support development, something that has been identified as limiting development (Balkfors, Bokström, and Tapio Salonen 2019; Fryshuset 2017b; Brännvall and Eriksson Åshuvud 2019). As a comparison, the UK has set up the *Life Chances Fund* and the *Youth Engagement Fund*, targeting outcomes related to children's services, early years and youth unemployment (Big Lottery Fund 2018). Other examples include the decision by the US Congress to set aside US$ 92 million in the 2018 budget for the *Social Impact Partnership to Pay for Results Act*, (SIPPRA) paid over a 10-year period.[21]

9.3 Social Impact Bonds

SIBs began in the UK in 2010 as a way to tackle the twin problems of shortage of public funding and the underfunding of NGOs. As of September 2019, 137 SIBs have been launched in 25 countries, raising more than US$ 440 million in investment to address social challenges affecting 1.7 million people (Social Finance 2019).

Figure 6: The social impact bond

[19] Malmö Stad's SIF financed a programme involving social workers working with 30 rather than 70 clients. The results were positive, but the project was not documented to enable scalability. Malmö has closed its SIF.
[20] Attending an impact conference 13 March 2019.
[21] States and regions are eligible for support and 50% of projects must be directed towards children and young people. The decision was compounded by tax relief on capital gains when investors invest money in socio-economically deprived areas, the Investing in Opportunity Act (US Congress 2017).



Source: Understanding Social Impact Bonds (OECD 2016)

A SIB/SOC is usually constructed as a private placement involving four parties: a social company providing a service, a public institution that pays for the outcome and a private investor that finances and is paid an agreed amount on completion. The fourth, an intermediary or adviser, sets up the SIB vehicle. Together, these actors identify a recognized social problem and how it could be resolved both effectively and scaled-up. If the outcomes are positive, investors are rewarded, and the government pays for the results. If not, the investment is lost but the government or municipality evades the economic cost of failure.

For the financial community, the SIB instrument has merits as a form of risk diversification, as the return/income stream is not correlated with stock markets. However, investing in a single SIB is of no interest to an institutional investor. They usually involve a small target group and thus are too limited in size, usually to around SEK 20–30 million. In addition, the variability in the pay out and characteristics of private placement makes them time-consuming to monitor and difficult to evaluate. SIBs are excluded from most standard investment mandates. Target investors have instead mainly been philanthropists or impact investment funds.

However, SIBs can be bundled or wrapped up together in a single contract, making them scalable just like CDOs. Finnish Impact investing (FIM) together with Epiqus, an impact-focused fund company, have put together a scaled-up SIB targeted at employment projects for asylum seekers. This "Koto-SIB" is €14.2 million, making it one of Europe's largest. Investors include Sitra, a state sponsored impact fund, local cooperatives, private investors and municipalities, as well as the European Investment Fund (EIF) and the European Social Fund (ESF). The aim is to provide jobs for at least 2000 migrants within three years. The client for the project is the Ministry of Employment and the Economy. If the project succeeds, the Finnish state will save €28 million.

9.4 The market for Swedish SIBs/SOCs

During the research, Swedish SIB/SOC structures were discussed with interviewees at seminars or documented in reports (see Table 6). Only a few have been implemented and none of them have been scaled up. There are four pilots, one of which was terminated before launch (Klippan). Of the three SIBs still running (Botkyrka, Norrköping and Örnsköldsvik), the municipality takes on a larger responsibility than in a standard SIB in all cases. SHIC supports the development of metrics in Botkyrka and Örnsköldsvik, but in both cases financing is arranged internally. Norrköping asks the social services department to handle implementation but has attracted external finance through the social investor Leksell Social Venture.

The Norrköping SIB targets support to young people in care placements ("family-homes") to improve school performance and reduce the risk of further care placements. Repayments vary in the range of SEK 4–12 million, depending on both social and economic outcomes. The maximum pay-out is equivalent to an interest rate of

5% per year for four years. The preliminary results have been good. However, Norrköping municipality has not yet made the savings necessary for a full repayment to the investors (final results pending 2021). The fact that cost savings for the municipality have thus far been smaller than expected is thought to be linked to both the ambitious timeframe set to recuperate costs compared to similar interventions in Finland, as well as increased engagement by the social services generating increased costs (Leksell Social Ventures 2019). As a result, Leksell's success fee has so far not been delivered according to expectations. The Norrköping experience has been important for SHIC's work with the Botkyrka and Örnsköldsvik SIBs.

Leksell has tried to encourage interest from other investors in participating in financing a bundle of SIBs/SOCs, but without success. The investors and the financial sector have shown an interest, but there has been a lack of available contracts. The municipalities have shied away due to financial constraints, a lack of both standards and key performance indicators for measuring impact and risk sharing, as well as limited interest.

Botkyrka has tried to develop a sustainability project bond following ICMA principles. The bond includes standard green infrastructure investments combined with a bundle of SIB contracts tied to sick leave prevention for public health employees.[22]

The Botkyrka bond-value was set at SEK one billion, of which the SIB was to account for approximately 10%. The structure offered a combination of pre-defined payment and variable payment tied to the outcome of specific projects. SKL, Rise (later SHIC) supported the project with validation of impact measures and Kommuninvest represented municipalities and counties. The original plan included commitments from EIB (SEK 500 million) and Skandia (SEK 500 million). However, the bond was turned down by both other municipalities and other institutional investors:

(i) Municipalities had limited interest in enrolling external investors, which led Kommunivest to halt the process. The CFOs did not see the value of including external financial parties, feeling that they could finance the SIB with internal proceeds. Nor did they see any value in external reporting and accountability. In addition, accounting practices reduced interest.

[22] The bond was developed by Lena Eriksson Åshuvud and Ruth Brännvall at Impact Invest Scandinavia.

	Date	Problem adressed	Financial set-up	Investor	Social organization/ Coordinator	Intermediary/ Support	Comment
Klippan	2015–16	Provision of care for children, aim of reducing the number by 50 % within 3years	SIB-Pilot	Leksell Social Venture	Fryshuset	Fryshuset/ Institutet för sociala effekter	Not realized due to administrative uncertainties, working in silos, change of personnel, accounting
Botkyrka 1	2016	Reducing sick leave of employees in public health care	SIB-Pilot	municipality SIF	Skandia's Health offer	Skandia Idéer for Livet; SKL/SHIC	Satisfactory results/ not scaled-up
Botkyrka 2	2017	green-infrastructure investments + bundle of SIBs tied to the sick leave prevention programmes	Sustainability Project Bond, Icma; 90% standard green, 10% SIB variable pay stream 3–7% return.	EIB SEK 500 million; Skandia 500 million; Kommuninvest	N/A	SHIC	Not realized. Municipalities had limited interest in enrolling external investors; Investors found the variable payment stream too difficult to calculate within a standard bond-portfolio mandate.
Botkyrka 3	2018-	Mobile application coaching target group within the health sector in order to decrease short-term sick leave by 12 % over 3 years	SIB SEK 22 million	municipality SIF	Aino Health AB	Aino; SHIC	Satisafactory preliminary results; Still to be evaluated
Örnsköldsvik	2018-	Healthsupport for coaching target group withinh the healt sector in order to decreae short-term sick leave by 12 % over 3 year	SIB SEK 28 million	municipality SIF	Previa	SHIC	N/A
Norrköping 1	2014–16	Pre-emptive activities to strengthen children's psychological health	SIB-Pilot	municipality SIF	Norrköping	SKL (SHIC), Lumell Associates	Successful
Norrköping 2	2016–2020	support young people in care placements (family homes) to improve school performance and reduce the risk of further care placements	SIB USD 1.2 million; Repayment between SEK 4–12 million, depending on outcome/ Max. interest rate of 5%/ year/4 years.	Leksell Social Venture	Norrköping (competence and resources already existing in the municipality; uncertainty as regards to sharing confidential information with an external party)	N/A	Effect successful, but return to LSV was tied to cost reductions in the municipality that have not been achieved, due to increased commitment
Region Stockholm	2016–2018	Diabetes type 2 prevention. A mobile application	Pre-study HIB Health Impact Bond	EU funding	Health Integrator	SHIC	Successful
Region Stockholm	2019–	Next step. Diabetes type 2 prevention. A mobile application	HIB Health Impact Bond; Planning to bundle and scale-up	Unnamed private	Health Integrator	Bank SEB	Developing. The financial design is done. Awaiting clearance to go from Region

Table 6: The Swedish experience of testing social impact bonds

Source: Hand-collected and compiled through interviews (Tomas Bokström, SHIC; Lena Eriksson-Åshuvud, SIIN; Jenny Carenco, Prosper; Skandia; Fredrik Lindencrona, SSL), reports (Fryshuset 2017b; Aino Health 2018; 2019) (Bokström et al. 2014), web-page (www.rise.se), conferences (Stockholm social innovation summit)

(i) The project bond was tested on institutional investors, of which three were interviewed for this study. All found the variable payment stream – i.e. risk/reward – too difficult to calculate within a standard bond-portfolio mandate. There was also a private service provider in the form of a social company that needed to be evaluated. In contrast, Skandia, as a consolidated life insurer, can allocate a SIB to its portfolio of alternative investments with more flexible mandates.

Stockholm County is currently testing the market's appetite for investing in a Health Impact Bond (HIB) for preemptive care of type 2 diabetes. The target group is pre-diabetic middle-aged men and women. The region has teamed up with Health Integrator (a service provider), SEB as an intermediary and a large (unnamed) institutional investor. Stockholm Region is ready to issue a HIB and awaiting a formal decision to do so.

9.5 Reflections on the Swedish market for SIBs

The Swedish work with SIBs/SOCs highlights the drawbacks of the institutional fabric of the Swedish market for social impact financing.[23] Chief among these are:

(i) The absence of a government-supported funding vehicle that can bridge the problems of risk-sharing and time-horizon considerations while also covering part of the accounting cost for future savings. A national impact fund or outcome fund would compensate for the latter by taking on the role of paying part or all of the success fee, while at the same time catering for quality assurance and impact metrics.

(ii) Uncertainty related to public accounting practices for future pay outs. There is a need to develop a framework that allows municipalities to treat social investments by the same accounting rules as standard property investments, including how to account for performance-based external payments and reclaims from the SIF.

(iii) The absence of a large Swedish investment fund that can scale-up SIB contracts and attract institutional investors.

(iv) The risks related to the effect of too ambitious evaluations and reporting metrics on transformative innovation. If there is too much focus on exact calculations of risk-sharing to establish the correct formula for splitting costs, the variable cash-flow stream for the SIB will become too uncertain to invest in.

The Swedish work on SIBs has thus far also been highly focused on innovation. One possible explanation for this might be Swedish procurement rules, which enable municipalities and regions to bypass public procurement regulations if a service is branded R&D. Such problems are not unique to Sweden. The OECD argues that the, often complex, set-up of SIBs scares off stakeholders (OECD 2016; 2019). Many SIBs have been costly instruments and too difficult for many non-profit organizations to achieve. The SIB instrument also remains politically sensitive, even in countries that have developed successful programmes (Roy, McHugh and Sinclair 2018).

[23] For a comprehensive list of recommendations see Brännvall and Eriksson Åshuvud (2019), p. 99. See also, (Fryshuset (2017a); Balkfors, Bokström and Salonen (2019) and the Social Impact Summit in Stockholm, April 2019.

10. Concluding remarks and suggestions

10.1 It's all about collaboration

This report set out to shed light on the yet to emerge Swedish market for sustainability-related and socially labelled bonds. It set out to find what role institutional investors might play as drivers, given their position as large owners of Swedish denominated bonds and their existing commitment to green bonds.

Of special interest is the possibility of the issuance of a sustainability-related bonds for SDG 11 targeted at the development of sustainable cities and communities. Although it is known for its well-functioning western welfare state, Sweden has problems in its more deprived suburbs such as apartment blocks that are in need of refurbishment, unemployment among migrants and marginalized groups in the labour market, and youth high school dropouts being drawn into crime.

The report highlights the number of actors involved in social impact financing, which is far higher than the number dealing with green financing and drawn from different areas of society with different purposes and rationalities as well as differentiated access to financing. A thread running through the report is the need to develop collaborative platforms, in which institutional investors (the private sector), local government (the public sector) and intermediaries such as banks' DCM desks and social intermediaries, meet. Moving beyond the complexity, the report finds reasons for optimism. During work on the report, concrete examples emerged of potential issuers, such as Malmö Stad, Kommuninvest and Svensk Exportkredit, working on the development of sustainability-related frameworks. Others, such as SBAB and Stena Fastigheter, are at the initial stages of developing such a framework.

10.2 Key takeaways

The forces promoting a socially labelled bond market and an SDG-11 bond can be broadly placed in three categories.

1. ***There are signs that Swedish society and the market for social financing is becoming more collaborative.*** The National Advisory Board for Impact Investing (NAB) is one example. Efforts to organize actors committed to developing standardized measurements for evaluating impact are another. Banks supporting conferences and arranging seminars provide further signs, as do the institutional investors joining forces with the group of investors involved in the Sida/SIND sponsorship of a World Bank SDG-11 bond, and Kommuninvest and public sector government's joint development of a framework for social loans. All the large banks, through their DCM desks acting as intermediaries, are committed to promoting socially labelled bonds as a way to broaden their commercial offering. Nasdaq is participating in listings. There are also second party validation and advisers developing impact measures. The state-sponsored Rise has committed resources to developing impact measures together with academia.
2. ***There is transfer of knowledge between actors and areas.*** All the institutional investors, bank employees and representatives of issuers that showed an interest in issuing socially labelled bonds interviewed for this report have previous experience gained from the green bond market. This also includes drawing on experience from other countries that are already experimenting with socially labelled bonds, but also of related investments such as crowdfunding. Many of the institutional investors have investments in foreign sustainability-related and socially labelled bond issues or credit products. Of special relevance are the bonds issued by local government, which address affordable housing, and the financial institutions, both public and private sector, that target employment and SME financing in deprived regions. Sweden offers neither, for historical regulatory and cultural reasons but also because its highly concentrated banking market is dominated by with-profit banks. Nonetheless, but there are ways to bridge this gap with creative offerings that can be developed with the support of collaborative initiatives. Trianon's sustainability bond directed at the development of deprived areas in Malmö is one example, Sveafastigheter's and BREC's work with SDG-related credits, SBAB and Stena fastigheter provide others. Marginalen

Bank's credit guarantees supported by EIF, and the Stockholm City experiment with external financing of a scaled-up social impact bond (SIB) provide still more. A third force is local government's previous work with social impact instruments, especially public social investments funds (SIFs) and SIBs.

3. ***The Swedish public sector is transforming.*** The work of moving the public sector from delivering a service (education) to delivering an effect (graduation) is changing the way civil servants work, both between departments and in relationship to external parties. This move will speed up with the support of new public procurement rules that open up opportunities to include quality as well as price as a metric for evaluating tender offers. The discussion related to accounting practices, which appears to prevent local government from earmarking investments in projects tied to socially preemptive activities, is also being opened up. Cautious civil servants in finance and budget departments are slowly changing their attitudes, and a few are acting as front runners.

However, there are still some major barriers to break through. Local government's work with municipality-funded SIFs and SIBs/SOCs has produced both positive and negative experiences, highlighting both political and organizational difficulties in finding collaborative platforms between private investors and public welfare offerings. The Swedish framework for Agenda 2030 lacks clear social goals, which makes it difficult for collaborative structures to develop. The development of standardized metrics takes time, and financial support from central government to municipalities and regions is limited. At the same time, a red flag is presented by local governments that feel too much pressure to focus on technical novelty and innovation when measuring impact – often as a way to get around strict public procurement rules. However, this could draw attention away from the possible positive effects of just including an external party – a private sector financial actor – which ensures accountability when the public sector is forced to collaborate and deliver on commitments through a breaking down of silos.

In addition, the banks' enthusiastic DCM desks need to step up, and push the entire banking system in the direction of including social goals in their loans and credits. They can use the UN responsible banking framework for leverage.

There is also uncertainty related to the role the Swedish government will play both organizationally and as a financial catalyst. The government is not a stakeholder in the newly formed NAB, as central governments are in other countries. All the countries acting as frontrunners in social and impact financing also host state-sponsored financial vehicles. Sweden already has a web of government-supported financial vehicles in the start-up sector (i.e. Almi and Saminvest). What is needed now are government-supported social outreach funds, a dedicated social investment fund and a state-sponsored social credit guarantee fund. In many countries, such government sponsored financial vehicles are partnered with non-profits, trade unions, large private foundations and the co-operative sector (Nachemson-Ekwall 2016; 2018).

When the Swedish Agency for Economic and Regional Growth (Tillväxtverket) issued a report suggesting the formation of a government-sponsored social investment fund focused on loans, microloans and credit guarantees of the size of SEK 150–200 million, there was no response from the government (Brooks and Uppman Helminen 2018). Tillväxtverket is, however, working on setting up a national social financial fund with support from the EU. The EUs next programme period for its long-term budget, 2021–2027, includes plans to set up a funding vehicle for social enterprises (InvestEU).

For the fixed income asset managers at the institutional investors, the barriers are more normative than regulatory. The interviews reveal that there is a wide variety of approaches to the SDGs and Agenda 2030 among the institutional investor community's bond managers. These include the institutional investors' own understandings of their role as drivers of the issuing of socially labelled bonds in general and their approach to fiduciary duties in particularly, given their own understanding of role they might and maybe should play as impact investors. There is also a lack of understanding of how to evaluate social projects and deliverables. This is compounded by difficulties related to the evaluation of the risk and return metrics associated with sustainability-related and socially labelled bonds, compared to the more common green bonds. The bond-teams need to their competences related to project financing.

10.3 Suggestions for further research

This novel study opens a number of doors for further research. One such could evolve around a case study of the development of a Swedish sustainability-related and socially labelled bond, for example, a specific SDG-11 bond targeting deprived suburbs. Another study could evolve around the role of central government as a catalyst for the market's development. Comparing the Swedish experience with developments in neighbouring countries would also provide additional inspiration.

It should also be of value to dig deeper into the work of institutional investors on the pricing of sustainability-related and socially labelled bonds, and how they evaluate use of proceeds in different bond contracts – from general vanilla bonds to project bonds, bonds with variable pay-schemes, and combinations of SIBs/SOCs and regulatory bonds. This touches on the organizational structure of the asset managers, where the study's findings suggest that the bond desks lean on competences from the ESG teams tied to the equity side, whereas project evaluation is a competence that is to be drawn from the wholesale bank's regular credit teams. There should also be scope for further research related to the role of institutional investors as impact investors and how they could drive the bond market by demanding reporting on the use of proceeds from all their bond investments.

10.4 Final conclusions and recommendations

As a final comment, a reconsideration of the complexity of the various rationales at work in private-public partnerships will probably be the most important discussion moving forward. Norms and regulations must be developed to put the issue of societal value creation upfront in corporate board rooms and the public sector, and among institutional investors, financial institutions and social enterprises alike. This would also include a commitment from the regulatory authorities on public sector accounting practices and oversight by financial supervisors in Sweden (Finansinspektionen) when evaluating financial actors' performance and returns. These need to be involved if institutional investors and local government are to deliver on all the UN SDGs and Agenda 2030. To increase the chances of this happening, Swedish institutional investors must step up and push their investment rationales beyond green issues to include social and impact goals when investing in the Swedish bond market. While awaiting these developments, the grand message of the report is to spread knowledge of the value of developing a market for sustainability-related and socially labelled bonds.

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Appendix A: Method

I. Compilation of data on sustainability-related and socially labelled bonds

To study the development of a market for sustainability-related and socially labelled bonds, we started off by compiling a list of bonds that could be suitable as reference material. Such a list includes the different modalities of sustainable and social bonds and related financial instruments. To ensure that we chose a representative sample, we checked our working practices against the recommendations provided in the Responsible Conduct of Research (RCR) website at Northern Illinois University.

A representative list must be able to answer the questions:

1. What kind of sustainability-related and socially labelled bonds work in other countries?
2. Are there different bonds with different characteristics in different markets?
3. Are there differences between government, private sector, public sector, supranational and financial/non-financial issuers?
4. What are the common uses of proceeds?

The lists could then be used as a point of reference for what might work in a Swedish context and, at a later stage, what needs to be adapted in relation to size and proceeds to enable take-off of a Swedish social and sustainable bond market, as well as regulation and local norms and culture.

The Environmental Finance Bond Database contains a list of social and sustainable bonds.[24] The database was accessed using an account made available by the Stockholm Environment institute (SEI). The database tracks every self-labelled green, social and sustainability-related bond issued since the inception of the market in 2007. The database also includes private placements, where these have been declared to the EFBD and sufficient information is provided to enable its inclusion in the database.

The majority of the bonds are aligned with the Social Bond Principles and the Sustainability Bond Guidelines.[25] As of 13 April 2019, the database comprised 233 sustainability-related and social bonds. These were filtered out for this research. Given the low number of issues, all the bonds could be matched.

Bond categories	Maturity date
Bond standards	Rating agency
Country	Settlement date
Currency	Stock exchange
External assesment provider	Sustainable Development Goals
Identifier	Use of proceeds
Issuer type	

As a first step, 101 bonds were categorized as sustainability-related and 132 as socially labelled. To ensure suitable procedures in order to obtain a representative sample, we then categorized the list using a number of metrics. The database is designed to facilitate customized lists and metrics.[26] The bonds can be filtered by 13 different sections (see table above).

[24] https://www.bonddata.org/ The initial list was compiled with initial assistance from Gregor Vulturius, SEI.

[25] https://www.icmagroup.org/green-social-and-sustainability-bonds/green-social-and-sustainability-bonds-database#searchResultHold

[26] Documentation and official statements were gathered by contacting the issuers or lead managers involved in the issuance by email or telephone. In addition, the analysts employed by the EFBD conduct web research on the issuers' websites to extract relevant information. The bulk of the data is drawn from research. The EFBD claims that all

To start, we chose to categorize all bonds by size in US dollars. Next, we categorized bonds into different groups with the aim of identifying: (i) similarities or differences; (ii) possible country engagements; (iii) categories; and (iv) bond issuers. The initial categorization led to seven lists, which were compiled by hand. The list headings were:

1. Sustainability-related bonds, Europe;
2. Social bonds, Europe;
3. Sustainability-related bonds, rest of the world;
4. Social bonds, rest of the world;
5. Corporate and financial institutions, sustainability-related;
6. Corporate and financial institutions, social; and
7. Bonds with Nordic involvement.

A list was also made in relation to use of proceeds. The database was incomplete on this issue as not all the bonds have listed proceeds. The database also lacks categories such as "affordable housing" or "SME financing". Some bonds claim that proceeds are used in a number of different categories. The Spanish municipality in the Basque Country has issued a sustainable bond that claims to use proceeds in nine different areas.[27]

Four categories of proceeds were deemed relevant for social and sustainability-related bonds:

1. Food security
2. Access to essential services
3. Employment generation
4. Clean transportation

ii. Public material and documentation

The virgin character of the market for sustainability-related and socially labelled bonds has limited the availability of public material and documentation. None of the institutional investors have detailed written material related to the financial instrument on their websites or in published documents such as annual reports. In many cases, announcements of investments have been made in press releases or media coverage, most of which were found after contact with the institution.

However, an overview of the international market was gained by studying official material and policy documents. These include reports and internet documentation from the UN, UNDP and Agenda 2030, the OECD, the G20, the World Bank and the EU. We also relied on open access material on the webpages of organizations such as Environmental Finance and the ICMA group. Access was also provided to unofficial market reviews compiled by financial institutions, which are anonymous.

A number of books covering the impact of investing include chapters on sustainability-related and socially labelled bonds. It is notable that these are usually covered together with social impact bonds, which have been around for a longer period of time. Special attention was paid to the *Routledge Handbook of Social and Sustainable Finance* (2017).

Issuers of sustainability-related and social bonds provide extensive public documentation, which is available on the internet. These documents provide insights related to the use of proceeds, target groups and methods of validation and reporting.

Material covering the Swedish market for impact investing has focused on social finance and impact investing in general. This has mainly targeted themes related to (i) validation, effect and impact metrics; and (ii) existing

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the data is quantitative and does not reflect any personal belief or opinion. This means that it is the issuer's own categorization that is listed.

[27] Terrestrial and aquatic biodiversity conservation, Sustainable water management, Socio-economic advancement and empowerment, Renewable energy, Pollution prevention and control, Energy efficiency, Clean transportation, Affordable housing and Access to essential services.

social financial instruments, such as social impact bonds and municipality-run social investment funds. No reporting on social and sustainability-related bonds has been found. However, there is an extensive literature – academic as well as semi-academic – on the Swedish welfare state, and the role played by municipalities and regions. This literature addresses local government in relation to its organization, work with and impact on social work and the need for reform.

iii. Interviews

Following Bansal (2012), we made use of an eclectic search process in compiling material from each actor to enhance our ability to pose relevant questions during the interviews (see Table 7). Throughout the interview process, and especially during the analysis, responses were compared with the literature on a continuous basis.

The interviews were open-ended, focused on:

a. understanding which areas and projects could be eligible for SBs;
b. what kind of SB instruments might be of interest;
c. who the stakeholders are in the creation of an SB – actors (property companies, municipalities) or investors (institutional investors, Kommuninvest, foreign investors);
d. other actors that need to be involved such as social enterprises; and other financial instruments such as social impact bonds and credit guarantee funds; and
e. understanding institutional limitations related to regulatory limits, procurement rules and investing possibilities within the portfolio.

Interviews were conducted with representatives from 61 organizations. In many organizations, contact was made with 1–3 people. This included representatives from almost all the large Swedish institutional investors (amounting to 21 contacts). Compiling such a list is fairly easy as they are well known actors on the Swedish capital market and the researcher for this study has studied them previously, albeit from an equity perspective. However, addressing the specific issue of sustainable and social bonds was more complex. For a start, emails were sent to the contact person at the office of sustainability, in most cases titled head of sustainability. This mail included questions related to possible investments by the fixed income-team in bonds labelled social or sustainable.

All the institutions that responded positively, unrelated to the number of social impact investments presented, were followed up with physical meetings.[28] Large institutions that gave a passive response to the initial email received additional mails, including final follow-ups by phone. One of the AP funds that stated that it did not have any specific commitments in its fixed-income bond portfolio generated three physical meetings. The majority of the smaller institutional investors generally reacted with interest but, as they revealed a lack of knowledge of the social impact theme, a decision was taken to refrain from in-depth discussions.

Table 7: List of interviewees

[28] The interview with AP2 was done by phone as it is located in Gothenburg

Institutional Investors	Local governments	Financial institutions	Other
Skandia	City of Gothenburg	SEB	Expert on Procurement
Folksam	City of Malmö	Handelsbanken	Fryshuset
Länsförsäkringar	City of Stockholm	Swedbank	Bastakooperativen
Alecta	Stockholm Region	Danske Bank	OECD
Amf	Vellinge Municipality	Nordea	Dark matter labs
Afa	Örebro Municipality	Nasdaq FX	WWF
AP1	Kommuninvest	Brunswick Real Estate	Expert on Green Bonds
AP2		Marginalen Bank	
AP3	**Private Issuers**	Ekobanken	**Intermediaries**
AP4	Trianon	Mikrofonden	Prosper
AP7	Hemsö		Impact Invest Sweden
SEB/Trygg Hansa	Sveafastigheter	**Social Investor**	Rise
SPP/ Storebrand	Gårdsten fastigheter	Leksell Social Ventures	Cicero
Swedbank Robur	Hoist		
Handelsbanken	Byggvesta	**Public institutions**	
Nordea	Stena Fastigheter	SEK (financial)	
Lannebo		Sida	
Carnegie		SBAB (financial)	
Spiltan			
Söderberg&Partner			
Svenska Kyrkan			

Interviews lasted 40–90 minutes. More interviews with institutional investors would probably have added scope but not contributed to the theoretical question: as such the study reached a level of saturation (Strauss, 1967; Eisenhardt, 1989). However, in order to ensure quality of questions and the researchers own understanding of the responses from each institutional investor, it was early on deemed necessary to acquire a broader understanding of the market for sustainable and social bonds.

To enable a correct interpretation of the compiled list, the written material and the interviews with institutional investors it was decided early on to conduct meetings with market-actors outside the institutional investor sphere. This included broadening the perspective to the bond-market as such, including green bonds, as well as the role played by actors necessary for the functioning of a market. This included representatives from 16 bond issuers and potential issuers of sustainability-related and socially labelled bonds (property-developers, municipalities and regions), 12 financial institutions, 4 advisers and a group of experts on social companies (7). Of these, 20 were conducted through meetings in person. The rest-were conducted by phone.

Contacts were made between December 2018 and August 2019, and the bulk of the interviews carried out during May and June. Additional interviews and follow-ups were conducted until the middle of November. In all, the 61 organizations resulted in contact with 74 informants. Of these interviews, 44 were conducted through physical meetings and 18 by mail or phone. All the interviews started with open-ended questions (Noaks and Wincup, 2004) related to sustainable and social bonds, in order to detect the particular informant's knowledge and views on the topic. Talks with market actors also included general questions relevant to the specific actor's role. This could relate to social financing in general, impact measurements, or regulatory and organizational issues, as well as different financial instruments, including social impact bonds. Notes were taken and all the interviews have been written up. The interviews have been coded scientifically using the Nvivo program.

iv. List of seminars and conferences

During the research period, we also attended a number of conferences and seminars related to the theme of impact investing and social financing (see table below). Notes were taken during presentations. These have been coded and included in the interview database.

Date	Seminars and conferences
2018	
October 18	SEB Bank. A half day seminar on social bonds
October 25	SEB Bank. Breakfast meeting with sustainable cities group
November 14–15	Social Summit. Meetingplace Social Innovation. Malmö
November 23	SEB Bank. Breakfast meeting with sustainable cities group
2019	
January 17	SEB Bank. Two luncheon seminars. Sustainable Cities bond
February 7	Aktuellt Hållbarhet. Full day. Sustainable investing (IVA)
February 21	British Embassy .Transfer of experience of social impact investing
March 20	SNS Social Impact investing, with OECD (web-version)
March 21–22	KTH Viable Cities/ workshop
May 6–7	Prosper. Social Innovation Summit. Three half-days
June 4	Finansanalytikernas förening. Fryshuset. Impact investing/ SBs
July 1–5	Almedalen. seminars, own participation in paneldiscussions
September 16	Dagens Industri. Impact Summit, with Norrsken foundation
November 11	Danske Bank. Seminar and own participation.
November 12–13	Social Summit. Meetingplace Social Innovation. Malmö

Appendix B: Limitations

The study's primary focus is on the role of Swedish institutional investors in building a market for social bonds and its limitations. Social bonds – and sustainability-related bonds - are part of the larger discourse on social impact investing. Common investment instruments within this theme are different types of microfinancing funds, often directed at low income countries, social investment funds, often with co-investments between public and private partners, and social impact bonds, a pay-for-success instrument involving multiple parties. Socially labelled bonds (SDG bonds, social- themed bonds) are the latest addition to the impact investment field. Many green bonds also include social elements but are still only branded green. In addition, a number of issuers can be recognized as "pure play" (such as a tax-financed municipality and a property owner of a hospital building), but abstain from complying with a standard SBP framework, be it ICMA's or another.[29] In a broader definition, the impact market also includes philanthropists, foundations and family offices.

Within equity, social considerations have already become standard for most asset managers. These include standard RI-investing and complying with the Global Compact, along with tracking standards for ESG measures and GRI reporting. All the asset managers in this study are signatories to PRI and integrate ESG into their investment processes. This includes negative screening of the full asset portfolio, stocks and bonds alike. These aspects are considered in the study, but not included as such, as the focus is on how to build this limited – and virgin – segment of the impact investment market.

In addition, although the initial focus is on SDG 11, developing sustainable cities and communities, given its particular proximity to social problems, relationship to property, municipalities and so on, and that it also addresses the larger question of social inclusiveness, it became clear that a broader investigation was relevant.

The institutions in this study that lack socially labelled or sustainability-related bonds do not automatically lack a social conscience or an interest in finding socially viable investment opportunities. Swedish institutions are large investors in property (indirectly through the stock market or through direct ownership), including housing in socio-economically vulnerable suburbs.

Furthermore, the research addresses a societal need to develop clear definitions and criteria, as well as tools to assess and evaluate the benefits of projects. The study does not focus on individual measurement of social and environmental impact, however, as the debate on how to measure has been ongoing and standards yet to be developed.

[29] "Pure plays" are a common dilemma when investing in green bonds. A typical example is a windmill that issues one green bond and one plain bond. The risk is the same for both, as the underlying assets on the balance sheet are the same. However, the higher demand for green investments renders a premium ("greenium") for the green bond compared to the plain bond, thereby exposing the asset manager to the dilemma of which to choose.

Appendix C: About the author

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