



**THE SECURITIES & EXCHANGE COMMISSION  
PROPOSES NEW RULES ON SOCIAL BONDS**



The Securities and Exchange Commission (SEC) on the 7th of June 2021 released its exposure rules on Social Bonds. SEC noted that Social Bonds have increased in popularity across the world, especially as the COVID-19 crisis has led investors to place more emphasis on the social component of environmental, social and governance-driven (ESG) investing.

In Nigeria, due to the financial crunch occasioned by the pandemic, funding of social projects has been affected as resources were diverted to unexpected areas of expenditure which creates an avenue for the issuance of Social Bonds.

### Overview of the Proposed Rules

**What is a Social Bond?** The exposure rules define a Social Bond as a type of debt instrument, where the proceeds would be exclusively applied to finance or refinance new and/or existing eligible projects with clear and identifiable social objective(s) and which are dedicated to an identified population.

**What are Social Projects?** These are projects developed directly to address or mitigate a specific social issue and seeking to achieve positive social outcomes.

#### What are Eligible Projects?

For any money or instrument to qualify as a social bond, it must be invested towards any of the following social projects:

- i. Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy, etc.)
- ii. Access to basic services (e.g. health, education and vocational training, healthcare, etc.)
- iii. Affordable housing
- iv. Job creation including through the potential effect of small and medium-sized enterprises financing and microfinance.
- v. Food security
- vi. Socioeconomic advancement and empowerment
- vii. Any other social project as may be approved by the Commission from time to time.

The social project must be dedicated to any of the people identified as follows:

- i. People living below the poverty line.
- ii. Excluded and/or marginalised populations and/or communities.
- iii. Vulnerable groups
- iv. People with disabilities
- v. Migrants and/or displaced persons
- vi. Undereducated population
- vii. Underserved population, due to lack of access to essential goods and services
- viii. Unemployed persons.



## Utilization of Funds and Reporting Procedure

### How shall the funds be kept and utilised?

The net proceeds of the social bond shall:

- a) only be utilised for the purpose stated in its approved offer documents and deployed within the given timeframe prescribed in the prospectus.
- b) be domiciled with a Custodian in an escrow account specifically opened for that purpose. The issuer and the Trustees shall be signatories to this escrow account.
- c) have the spending tracked according to the approved internal policy of the issuer.

Unallocated proceeds shall be invested by the Trustees in money market instruments with investment grade rating that include projects which are consistent with the delivery of positive social outcomes especially but not exclusively for a target population(s).

### Social Bond Report and Assessment Report

Throughout the duration of the bond, the issuer shall issue, at least annually, a Social Bond Report containing the list of projects and assets to which proceeds have been allocated. The Social Bond report will also include description of the projects and amounts disbursed, expected impact of the projects, performance indicators and impact measures including the methodology for arriving at same.

In addition to the Social Bond report to be published and filed by the issuer, an independent professional assessment or certification agency is also expected to be engaged to conduct annual follow-up assessments and issue its own reports, called an assessment report, which shall also be filed with SEC and published online.

### Other Provisions

The proposed rules also contain provisions for disclosures towards refinancing and external reviews. The external review is meant to confirm the alignment of the proposed bonds with all components of the Social Bond Principles, and it may be total or partial.

### Conclusion

The Exposure Rules are a welcome development, and they created an avenue for Local Governments to access to debt capital markets for the implementation of eligible social projects. As framework provided by the exposure rules also will serve the purpose of assuring investors that their social contributions are utilised properly while implementing philanthropic or developmental efforts, ensuring transparency and accountability while preventing diversion of funds.

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