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Sustainability Insights:

Social Project Analysis: A Key Component Of Our SPOs And A Tool For Sustainable Development

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(***Editor's Note:*** *This commentary aims to enhance transparency about how S&P Global Ratings analyzes social projects in its Second Party Opinions (SPOs). SPOs are not credit ratings, do not assess credit quality, and do not factor into our credit ratings. This report does not constitute a rating action.*

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Key Takeaways

- Social projects are important, particularly for developing regions, governments, and supranationals; for us to consider social- or sustainability-labeled bond issuance aligned with sustainable finance principles in our SPOs, the proceeds must directly aim to address or mitigate a specific social challenge or provide clear social benefits.
- There are four key components of our analysis of social projects: 1) identifying a material social issue; 2) defining the target population; 3) understanding the intended social outcomes; and 4) establishing whether each social project's implementation includes sufficient social risk management.
- We assess these components holistically because there may be significant overlap between them, and the relative materiality of a component may vary, depending on the proposed project and its context.

In brief: Social projects in sustainable finance

Over half of sustainable bonds issued in 2024 included at least one social project

Issuers of social and sustainable debt are more likely to be public entities and in developing economies

The social project categories we see most often when we conduct our SPOs are affordable housing and access to essential services

Source: S&P Global Ratings.

Social bonds were issued as early as 2006, largely by multilateral institutions, with a strong emphasis on funding routine vaccination of children. The COVID-19 pandemic significantly accelerated the use of such instruments, with a broader spectrum of issuers financing an increasingly diverse set of projects to address social challenges and support sustainable economic development. As the market for social bonds has grown, so too has the need to ensure the credibility of these instruments.

We have conducted over 150 SPOs on financing frameworks and transactions that include at least one social project category since we introduced our SPO for social and sustainability bond and loan principles in 2021. However, we often assess frameworks from governments, supranationals, and financial institutions that contain multiple social project categories. More than one-quarter of the financings we assessed contained four or more social projects, and many frameworks may include multiple project types per project category.

Why it matters: As social projects become more prevalent in the sustainable finance market--in both developed and developing economies--we are increasingly asked how we assess such projects and their potential benefits. Social projects, such as those to expand access to basic infrastructure, essential services like education, and affordable housing, may be necessary to achieve the U.N.'s sustainable development goals. However, the application of the "social" label to issuances and projects with unclear benefits or unmitigated risks could diminish the intended benefits of sustainable debt and undermine stakeholder confidence.

Financing Social Projects Is Embedded In Sustainable Debt Markets

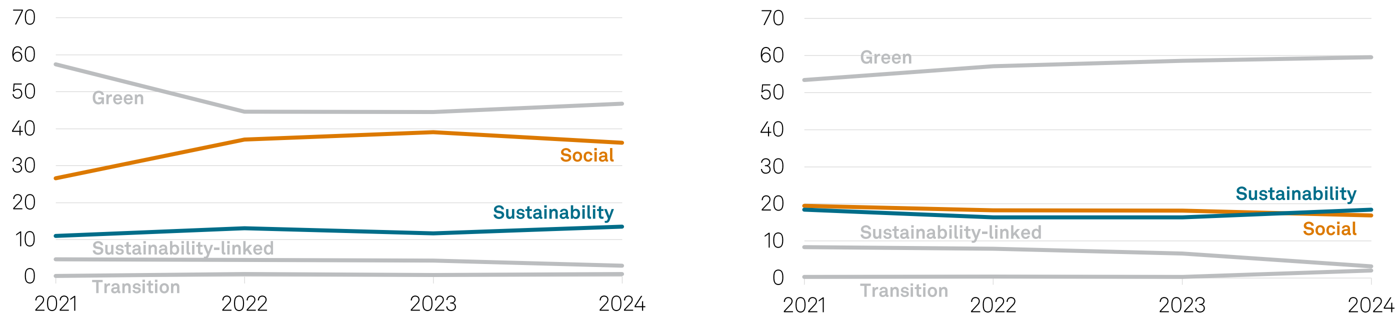
Based on market data, the nominal (or par) value of sustainable issuance shows that the majority of proceeds go to environmental projects. However, the number of issues shows a more balanced picture.

Social bonds made up only 17% of sustainable issuance by value in 2024, but more than 36% of the number of issues (see charts 1 and 2). Sustainability bonds added another 18% and 14%, respectively, implying that about half of sustainable issues in 2024 financed at least one social project category. The par amount of social bonds is generally smaller (see chart 2), since the use of proceeds tends to be less capital intensive than for other project types. Sustainability bonds tend to have larger par values due to funding multiple social and green projects.

Charts 1 and 2

Sustainable bonds issuance by type

By number of issuances (% of total) | By nominal value (par) (% of total)



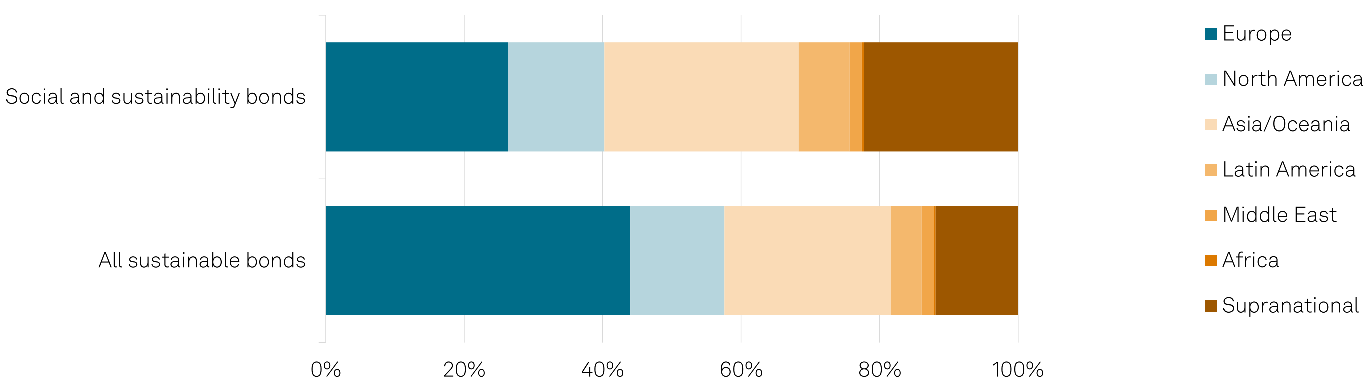
Sources: Environmental Finance Bonds database, S&P Global Ratings.

Issuers of social and sustainability debt are more likely to be public entities and in developing economies. In addition to smaller par values, there are differences by region and sector among issuers that include social projects in their sustainable financings and those that don't. A higher percentage of social and sustainability bonds that include social projects comes from supranational entities (12% of all sustainable bonds in 2022-2024, but 22% of bonds including social projects), and issuers located in Asia, Latin America, and Africa (combined 29% and 36%, respectively). This may stem from a greater need in these regions for investment to meet sustainable development goals, which are often intertwined with environmental and social issues, than in other parts of the world. Furthermore, social vulnerabilities can be particularly acute in emerging economies.

Chart 3

Social and sustainability bonds are more prominent outside Europe and North America

Percentage of total issuance by value (par), 2022-2024



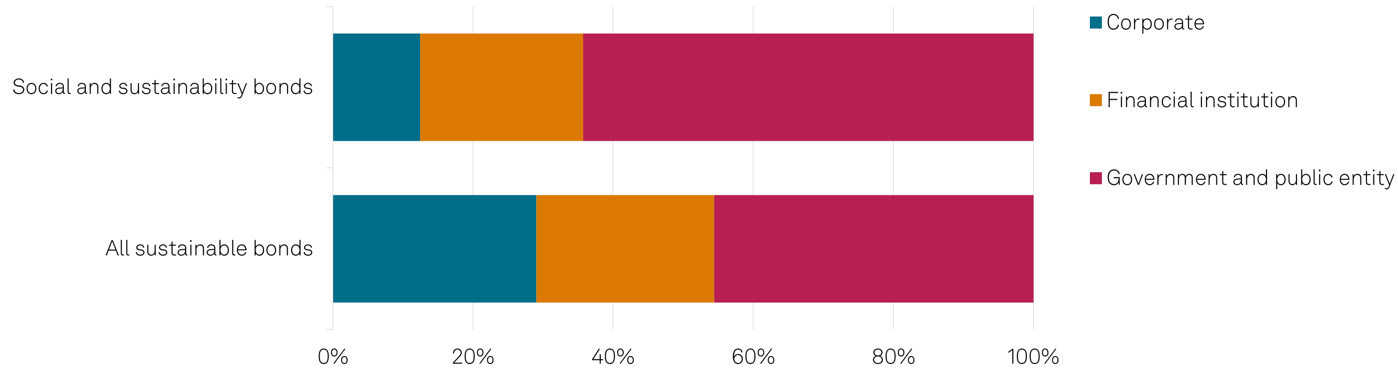
Source: S&P Global Ratings.

Regarding sectors, public entities tend to issue more social and sustainability debt than corporate entities, in line with the social mission of many public entities. We see a greater balance of the par value of all sustainable bonds issued in 2022-2024 between corporates, financial institutions, and governments or public entities (see chart 4). The term governments and public entities includes supranationals like development banks, sovereigns, local and regional governments, and government agencies.

Chart 4

Issuance of social and sustainabilty bonds is more common for governments and public entities

Percentage of total issuance by value (par), 2022-2024

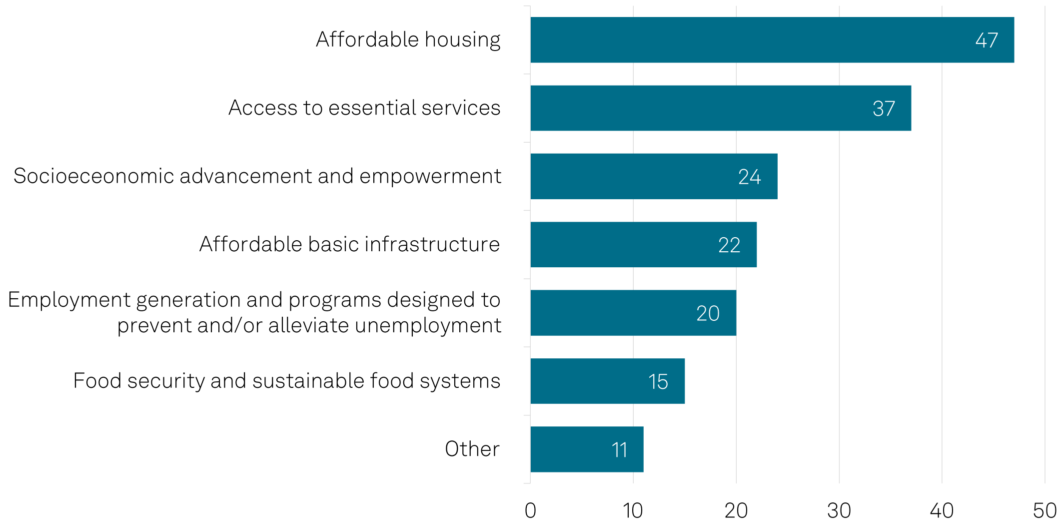


The term governments and public entities includes supranationals like development banks, sovereigns, local and regional governments, and government agencies. Source: S&P Global Ratings.

The social project categories we see most often when we conduct our SPOs are affordable housing and access to essential services (see chart 5). However, overlaps between project types can complicate our analysis. In addition, issuers may categorize similar projects differently, depending on the intent. For example, we have seen various projects that aim to extend formal credit to individuals and small and midsize enterprises (SMEs) categorized as "access to essential services," "employment generation," or "socioeconomic advancement and empowerment." The aim of providing access to credit programs may even appear in multiple project categories within a single framework, depending on the specific program and its social objectives. Furthermore, some issuers may include multiple classifications in the International Capital Market Association (ICMA)'s Social Bond Principles for a single category in their framework, such as "Access to essential infrastructure and services," combining ICMA's categories of "Affordable basic infrastructure" and "Access to essential services".

Chart 5

Social project categories in our SPOs: August 2023-January 2025
Financings with the project category under the new analytical approach



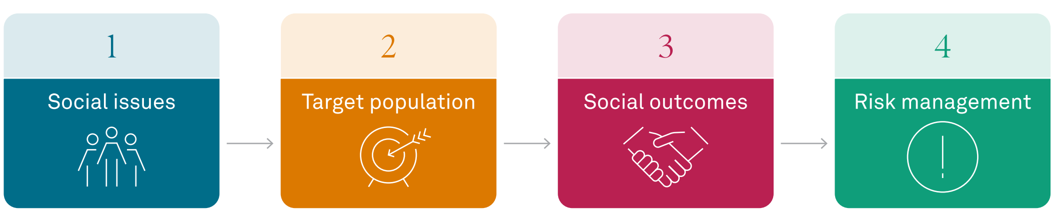
Source: S&P Global Ratings.

Our Holistic Analysis Of Social Projects Centers On Four Key Components

These are social issues, target population, intended social outcomes, and social risk management (see chart 6). That said, our opinion is holistic and based on the extent of each component and their relative materiality to the social project.

Chart 6

Our holistic analysis of social projects centers on four key components: social issues, target population, intended social outcomes, and social risk management



Source: S&P Global Ratings.

There is considerable interaction among the four components, particularly between the identification of social issues and the definition of the target population. The relative materiality of each component will vary depending on the project type. For projects with significant social risks, such as those to provide access to finance for populations that may lack financial literacy, the risk management component is critical. For projects with fewer social risks, such as those to improve digital infrastructure, risk management may be less material, and the identification of the social issue and target population may be more important to our analysis. Intersecting considerations may also influence the outcome of our analysis of one or more of these components, such as jurisdiction (or the local context for the project) and the value chain.

Our analysis draws on generally accepted definitions of social projects, as well as the Social Bond Principles and Social Loan Principles.

According to ICMA's Social Bond Principles (SBPs), social project categories include, but are not limited to, providing, and/or promoting:

- Affordable basic infrastructure (such as clean drinking water, sewers, sanitation, transport, and energy)
- Access to essential services (such as health, education and vocational training, health care, financing, and financial services)
- Affordable housing
- Employment generation and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, climate transition projects, and/or other considerations for a “just transition”; such provision and/or promotion could include SME financing and microfinance
- Food security and sustainable food systems (such as physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements; resilient agricultural practices; reduction of food loss and waste; and improved productivity of small-scale producers)
- Socioeconomic advancement and empowerment (for example via equitable access to and control over assets, services, resources, and opportunities; as well as equitable participation and integration into the market and society, including reduction of income inequality)

1. Social issue: This must be clear and material

The first step in our analysis is to understand the social issue or issues that a project means to address. This social issue should be clearly identifiable. According to the SBPs, a social issue "threatens, hinders, or damages the well-being of society or a specific target population."

As part of our analysis, we consider the materiality of the identified social issue(s) within the local context. Although projects may have social or economic benefits, we may not consider them social projects if they do not address a clear risk to the well-being of the target population.

Table 1

Social issues in the local context

Example of a project that does not identify a clear material social issue	Example of a similar project that identifies a clear social issue
Building a road	Approximately 42% of Cameroon's population resides in rural areas. Supporting connectivity is vital in these regions, where many communities face challenges accessing essential services due to inadequate infrastructure (see "SPO on Cameroon's Sustainable Financing Framework").

Social issues in the local context

Example of a project that does not identify a clear material social issue	Example of a similar project that identifies a clear social issue
Providing mortgage loans for home ownership	We believe providing loans for qualifying low- and medium-income women to acquire and improve their homes has significant social benefits. El Salvador and its neighbors, Guatemala and Honduras, together have a qualitative housing deficit of 3.9 million homes. In El Salvador, 40% of households are overcrowded, meaning that three or more people share a single room to sleep (see our "SPO on Sistema Fedecrédito's Social Bond Framework").

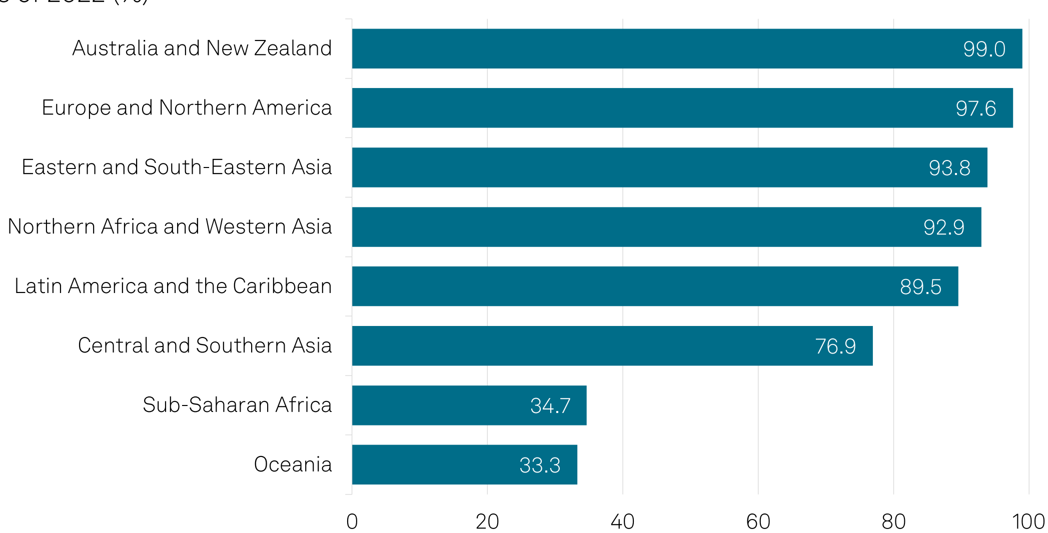
Source: S&P Global Ratings.

What makes a social issue material: Understanding the local context (or jurisdiction) is an important part of determining whether a social issue may be material. For example, although access to safe water, sanitation, and hygiene is a basic human need for health and well-being and one of the U.N.'s Sustainable Development Goals, such access is already nearly universal in many regions, and we may not consider investments in existing systems to be social projects. However, access to basic sanitation in Central and Southern Asia is lower than 80%, and in Oceania and Sub-Saharan Africa below 40% (see chart 7); we would likely view low access as a material social issue in those regions. Social issues can be more material in certain countries, regions, or communities in a region. This brings us to the second component, target population.

Chart 7

Access to sanitation varies by region

As of 2022 (%)



Source: S&P Global Ratings.

2. Target population: A well-defined target population can make the social need clearer

The social projects we assess include a target population, which means the portion of the population that is intended to receive the benefit of financed projects. The SBPs state that: "For the avoidance of doubt, issuers should identify the relevant target population(s) of the Social

Projects [sic], however, it is acknowledged that the definition of target population can vary depending on local contexts and that, in some cases, such target population(s) may also be served by addressing the general public."

Targeting a specific population may narrow the project's focus to communities most affected by a social issue, and thereby increase the potential benefit of the project. Even within the most advanced economies, there may be significant variations in the population's vulnerability to various issues, resulting in unequal social outcomes. Some of the most common target populations cited in financings we have reviewed include low-income individuals or those below the poverty line; excluded and marginalized populations (such as rural and indigenous communities); and communities that lack of access to essential goods or services.

For example, an income-defined target population supports many of our opinions on affordable housing projects in high-income countries. If the proportion of households that are housing burdened--meaning they spend 30% or more of their income on housing costs--is significantly higher at lower income levels, we would regard this as a material social issue for that portion of the population (see table 2).

Table 2

Housing affordability is a greater challenge for lower- and middle-income households

Annual household income	Total households	Households spending 30% or more on housing	Proportion
<$20,000	12,921,169	11,080,921	86%
$20,000 to $34,999	13,512,681	9,172,546	68%
$35,000 to $49,999	13,175,671	6,556,749	50%
$50,000 to $74,999	19,903,069	6,155,541	31%
$75,000 or more	62,483,686	5,398,155	9%

Source: U.S. Census Bureau, S&P Global Ratings.

The definition of the target population should align with the social issue and the nature of the social project. Some projects--such as those to provide housing loans or housing units--typically include eligibility criteria for individual applicants. For other types of projects, such as building water-treatment facilities or rural schools and clinics, the target population is typically defined more broadly, within a community or region that has a stated social need. Many projects will incorporate eligibility criteria for social programs, or public definitions of vulnerable or marginalized populations, as a means of defining the target population in the local context.

Table 3

Social projects and target population

Example of a project without a target population	Example of a similar project with a target population
Providing business loans	Loans to support the growth of micro, small, and medium enterprises (MSMEs). The target populations are financially excluded women and MSMEs owned by women, with reference to the definitions in India's Micro, Small and Medium Enterprises Development Act 2006 (see our "SPO on Muthoot Microfin Ltd.'s Social Financing Framework").
Investment in education	The National Administrative Department of Statistics [conducts]... regular surveys and censuses to determine the strata of various neighborhoods and households. We believe the official socioeconomic

Social projects and target population

Example of a project without a target population	Example of a similar project with a target population
	stratification supports the identification of low-income and underserved populations, thereby increasing the accuracy of the social benefits of the projects. Moreover, the issuer uses data from the System of Identification of Social Program Beneficiaries as an additional layer of screening for low-income groups (see our "SPO: Banco Santander de Negocios Colombia S.A.'s Sustainability Use-Of-Proceeds Framework").

Source: S&P Global Ratings.

3. Social outcomes: The project should demonstrate improvement

We examine whether social projects use established approaches to providing social benefits, although some projects may use novel or customized methods. Either way, there should be a clear explanation of how the project will seek to mitigate, eradicate, or prevent the social issue(s). Our goal is to determine whether the proposed projects have a high likelihood of improving social outcomes.

For project types that include well-established approaches to providing social benefits, such as lending to SMEs, we may assess how projects will incorporate best practices to improve social outcomes. Two social project types that are common to SPOs we've conducted--affordable housing and access to financial services--provide useful examples. Over the last several decades, public-sector entities have taken a range of approaches to building and investing in affordable housing. Similarly, many banks, community nonbank financial institutions, and nonprofit organizations have developed programs to increase access to savings accounts, formal credit, and financial literacy of individuals, SMEs, and communities.

Past programs have identified a number of best practices, such as integrating housing with social services for people with serious social-service needs; as well as approaches that had adverse impacts, such as multifamily properties that isolated low-income populations from the rest of the community. Where such information is available, we seek to understand how the project plans to incorporate these insights to improve social outcomes.

Unmanaged issues may hinder an improvement of social outcomes and could constrain our assessment. Many social projects aim to support greater access and affordability to essential infrastructure, goods, or services. An important distinction is that access and affordability go hand in hand. Starting a project or creating physical access does not mean the project will significantly improve social outcomes unless access is also affordable, including for low-income populations. For example, the construction of a new hospital does not necessarily increase health care access for the target population if health care services are unaffordable.

Therefore, we seek to find out how project sponsors, either directly or through public programs, intend to ensure that all members of the target population will be able to afford and benefit from the project. In addition to financial barriers, other restrictions may limit the ability of individuals to benefit from social projects, ranging from legal (such as a citizenship requirement to access housing or education) to physical (for instance, no wheelchair access). Although these types of issues may not be material in all cases, the absence of a plan to address them and ensure broader social outcomes may limit our opinion.

As part of our analysis of social projects, we seek to understand how issuers define, track, and measure a project's success. This may involve reviewing metrics other than those disclosed in the issuer's impact reporting. We may ask what changes, if any, were made to programs in the past in response to program monitoring and whether or not programs resulted in the intended outcomes. These questions can be particularly important for innovative projects, where there is little historical data to act as a benchmark. There are significant challenges in reporting on the impact of social projects. Some of these are due to the difficulty in quantifying issues like “quality of access,” which are fundamentally subjective. It can also be difficult to discern whether changes in social outcomes--like poverty rates--are the result of successful social programs or broader dynamics like economic growth and demographic trends. As a result, much of the reporting on the benefits of social projects amounts to counting dollars invested, houses built, or loans granted.

Table 4

Social projects and social outcomes

Example of a project without clear social outcomes	Example of a similar project with clear social outcomes
Addressing a shortage of affordable housing by building more housing, but the new units are rented at market rates	The [housing] plan elaborates the City of [New York]'s objectives and related targets associated with affordable housing, and the City tracks and regularly reports on its progress toward these goals... nearly 40% of the total units across all projects will be allocated for the formerly homeless, which we view as a best practice (see "SPO on City of New York's General Obligation Bonds, 2025 Series D Taxable Social Bonds, Subseries D-1").
Providing student loans, but incidentals are not covered, so the total cost of education is still unaffordable	The education loans will cover tuition fees and ancillary expenses, such as accommodation, travelling expenses, examination fees, purchase of books, equipment, uniforms, or IT equipment... The company will require borrowers to provide enrolment verification of the students with requisite documentation, as well as proof of end use of funds (see "SPO on HDFC Credila Financial Services Ltd. Social Financing Framework").

Source: S&P Global Ratings.

4. Risk management: Unmitigated social risks and negative social externalities can constrain our opinion on whether a project is social

Social projects have the potential to provide significant social benefits. But they may also introduce social risks. In our assessment of risk management, we consider what those risks entail, and what steps the issuer or project sponsor is taking to manage or mitigate them.

Social risks and negative externalities can affect the target population, broader community, or the value chain associated with implementing social projects. We consider the full value chain impacts in our social project assessment. This could include impacts associated with sourcing materials, through to long-term changes in the workforce resulting from the project. Issuers that are less involved in program implementation, such as financial institutions, often face greater challenges in identifying and managing these risks.

Some social project types, such as access to financial services, can pose significant social risks to the direct beneficiaries of the project. If an individual receives a loan they cannot afford, the social benefit that comes from receiving the loan is reduced by the financial strain of making regular payments and possibly the social harm that comes from defaulting on the loan. For such projects, we seek to determine how the issuer intends to manage such risks--for example, whether financial education programs, underwriting standards, or maximum interest rates and fees, are in place--and engage with distressed borrowers.

Other projects may have a more material impact on the community where they are located, such as affordable housing programs. If social risks are not managed, housing development projects can result in significant changes in affordability for some tenants, security concerns, and gentrification or other social and economic disruption. Social risk management in these cases often entails consultation with communities, mixed-income development, and managing impacts on social resources and property values.

Social standards, certifications, and supportive regulatory environments may help identify, manage, and mitigate the risks, including negative impacts on communities outside the target population. Many social projects incorporate local regulatory frameworks to help manage the potential social risks of projects, such as workforce health and safety regulations, usury laws, or the need for community consultation before undertaking major construction projects. This reflects the issuer's efforts at understanding how likely a project is to have positive outcomes in the local context. Some projects also incorporate industry guidance documents, such as the Equator Principles: "a financial industry benchmark for determining, assessing, and managing environmental and social risk in projects." We factor these local and global standards into our analysis.

Table 5

Social projects and risk management

Example of a project without sufficient social risk management	Example of a similar project that manages social risks
Economic development projects that fail to account for long-term impacts on social resilience	By mitigating environmental risks through environmental and social impact assessments and reforestation, the project [also] addresses social risks, as soil degradation and biodiversity loss could directly impact (sic) local livelihoods, food security, and community resilience (see "SPO: Togo Sustainable Financing Framework").
A new highway to be built through a low-income community, destroying the cultural fabric and introducing additional sound and air pollution	The issuer has stated that the negative impact on local populations is expected to be limited because there will be no relocation of people, since the construction works will be performed in areas where no people live or where the population is very low (see "SPO: Aragon’s Sociedad Concesionaria Itinerario Sobrarbe Ribagorza (Route 6) Social Loan").

Source: S&P Global Ratings.

The Role Of Environmental Risks, Jurisdiction, And Value Chains

On their own, environmental risks that a project may introduce are not a consideration in our determination of whether that project produces social benefits. In contrast, the jurisdiction (that is, the local context) and value chains may affect our analysis of multiple components.

Environmental risks do not influence our analysis of social projects unless they also pose social risks. In cases where an environmental risk may also pose a social hazard, we would take it into consideration in our analysis. An example of such risk would be certain types of air pollution, given the potential risk to human health. A second example is unmitigated physical climate risk for a social facility, such as affordable housing or a hospital, which could expose residents to physical danger in the event of a flood, storm, or wildfire.

That said, if projects entail significant environmental risks, such as emissions lock-in, deforestation, or biodiversity loss, we assess those risks and comment on them elsewhere in our SPO report, as well as actions the issuer has taken or intends to take to mitigate them.

Jurisdiction plays a key role in determining the materiality of social issues and how they affect the target population, the project's objective and probable impacts, and baselines for social risk management. In some regions, for example, populations that are particularly vulnerable to harm from social issues have already been defined. Examples are indigenous communities or households eligible for social and housing assistance. Where this is the case, and projects use these definitions or leverage public programs to identify material social issues or increase the social benefits, this can support our assessment.

Value-chain considerations may have substantial implications for social outcomes and risk management. In our analysis, we consider upstream and downstream elements of the project and its implementation, that is, the value chain associated with the project. Most often, these value-chain effects materialize though either dependencies or externalities:

- **Value chain dependencies may compromise a project's ability to achieve its objectives, reducing the desired social outcomes.** In analyzing the value chain, we consider what additional goods, services, or human resources may be necessary for the project to yield social benefits, and whether those were considered as part of the project plan. To expand access to health care in a rural area, for example, it is not only necessary to build or acquire a hospital or clinic, but also to staff it with trained doctors and nurses, acquire and maintain equipment and medications, and ensure there is reliable transportation to the facility.
- **Potential externalities are often associated with the risk management component.** These could be indirect impacts of projects beyond the scope of the target population, such as a transfer of social risk to another vulnerable group or geographic area; failure to implement social safeguards in the project's development; or human rights risks associated with the product supply chain.

Social And Sustainable Bond Issuance Will Continue, As Long As The Benefits Are Clear

Much of the recent growth of social project financings was spurred by the immediate need to address the impacts of the pandemic on communities. Issuance of social bonds has continued to rise, and the use of their proceeds has expanded to address a range of social challenges, from affordable housing, to access to essential goods and infrastructure.

As these challenges and their solutions broaden, so too will the diversity of social projects and their share of sustainable debt markets. It will be critical for investors to understand the benefits and risks of social projects, particularly as new project types come into scope, to ensure that the capital deployed addresses the most pressing social needs and delivers the desired outcomes. Our approach to analyzing social projects, using the four key components, provides a framework for understanding the benefits of such projects.

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