



# **SOCIAL BONDS Framework**



**Kommuninvest i Sverige AB**  
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DISCLAIMER: This English version is a translation of the Swedish original. Whilst care has been taken to adequately capture the nuances of the original version, in case of a discrepancy, the Swedish original will prevail.

## BACKGROUND



### About us

Kommuninvest is a member organization representing the municipal sector in financing matters. It consists of the member association Kommuninvest Cooperative Society and its wholly owned subsidiary, Kommuninvest i Sverige AB, which conducts all business operations, including borrowing and lending.

All member municipalities and regions have entered into a joint guarantee commitment for Kommuninvest's obligations. The basic idea is that municipalities and regions, by joining forces, should be able to obtain more stable and cost-efficient financing than they could individually, and that the municipal sector should be able to increase their expertise in financial management. Since the inception in 1986, we have contributed to reducing the borrowing costs of the municipal sector by billions of Swedish Kronor. This has ultimately benefited Sweden's residents and contributed to a developed community service at both local and regional levels.

### Sustainability at Kommuninvest

Promoting a long-term sustainable societal development is part of Kommuninvest's basic idea and vision. Through sustainable financial solutions, we promote efficient use of tax funds, financial stability and the municipal sector's work with the Global Goals and the 2030 Agenda for Sustainable Development. Our

sustainability view is based on the Swedish municipal sector's core values and we operate within the framework of municipal competence and in accordance with relevant legislation. It therefore complies with international frameworks such as the ILO's Core Conventions, the OECD guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the UN Global Compact initiative.

Kommuninvest's sustainability work is based on our mission - to finance the municipal sector's development and investments for a good and sustainable society - and on the expectations of our stakeholders. The ambition is to integrate sustainability throughout our operations from three perspectives: (i) Sustainable financing, (ii) Responsible operations, and (iii) Sustainable organisation. This means, among other things, that we must live up to our Code of Conduct and the expectations of our stakeholders, as well as safeguard a good working environment and employee health. It also means supporting the work of municipalities and regions on matters regarding economic, environmental and social sustainability. Part of this work has been our work on green financing, introduced in 2015.

## Promoting green investments

Kommuninvest's green finance programme aims to foster the municipal sector's work to reach national, regional and local environmental objectives. The investment projects financed through our Green Loans promote the transition to a society with lower greenhouse gas emissions and which is adapted to a changing climate. Since the programme was launched in 2015, we have contributed to financing a large number of green investment projects throughout Sweden, with a significant impact on the reduction of greenhouse gas emissions, energy use, chemical use and more. Financing is provided through green funding in the capital market. Kommuninvest is today one of the largest Nordic green bond issuers.

Kommuninvest has also initiated a Nordic issuer collaboration on impact reporting for green bonds. In 2017, a joint paper (*Nordic Position Paper on Green Bond's Impact Reporting*) was published, with guidelines for how green bonds should be reported to investors with regard to allocation and environmental impact. The paper has since then been revised twice and has become an important driving force for further development and harmonization of reporting practices.

In line with Kommuninvest's work on sustainability and to build on our green financing programme, we now also want to make visible and support the municipal sector's investments for increased social sustainability.

## Social sustainability

Social Sustainability<sup>1</sup> is of crucial importance for a democratic society as well as desirable and necessary from a socio-economic and human perspective. Through its public commitments, the state, regions and municipalities bear considerable responsibility for the development of the Swedish society and the welfare services offered. A socially sustainable society:

- Meets the basic needs of all people and contributes to the safeguarding of human rights

- Contributes to the inclusion of all people - regardless of gender, education and income level, social status, ethnic affiliation, religion or other beliefs, place of residence, sexual orientation, gender identity and expression, age and disability
- Is adapted and designed to meet the needs of the most vulnerable groups.

## Missions and challenges of the municipal sector

The municipalities and regions' assignments include a responsibility for housing, education, health care, social care and social services, and being able to offer these services of equal quality and quantity. This has become more challenging as the conditions of the municipalities and regions change. Over the past decades, Sweden has experienced strong urbanization, which has created significantly different conditions for metropolitan and rural municipalities.<sup>2</sup>

Moreover, Sweden has seen extensive demographic change, increased segregation and high refugee reception, where many of the refugees are young. These changes place higher demands on the municipalities and regions, for example through increased demand for health care, health services and social care, and higher demands on the education system. In addition, socio-economic segregation has since long resulted in significant differences throughout the country in terms of school results, educational level, employment, crime, health, housing standards and participation in democracy and in cultural life. Such factors are crucial in order to foster equality of opportunities and living conditions. According to the Government's strategy to reduce and counter segregation<sup>3</sup>, such increased differences lead to a fragmented society with increased injustices and reduced growth. Kommuninvest hopes to reduce these challenges by promoting the members' investments in social sustainability, including through the development of working methods and work processes.

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<sup>1</sup> Definitions as per section 1.6

<sup>2</sup> SNS Business Council Report 2019: The Future of Municipalities (Sw. *SNS Konjunkturrådsrapport 2019: Kommunernas framtid*), Mörk, Erlingsson och Person

<sup>3</sup> The Government's long-term strategy to reduce and counter segregation, 2018

## SOCIAL BONDS FRAMEWORK

Sweden's municipalities and regions face significant challenges, resulting from demographic changes, increased segregation and an increased number of socio-economically vulnerable areas. There are significant local differences in people's preconditions and standard of living as well as quality of life, and the challenges differ between municipalities and regions. The purpose of this document ("Social Bonds Framework" or "Framework") is to address such challenges. By mobilizing capital, Kommuninvest can provide financing for investments that contribute to increased social sustainability in Sweden's municipalities and regions. The ambition is to promote social sustainability throughout the country, through financing of investments deemed to have good potential in addressing local social challenges. This will include financing of investments in the most vulnerable areas, as well as in other areas.

The Framework, established in accordance with the ICMA (*International Capital Market Association*) [Social Bond Principles \(SBP\) 2020](#), defines the selection criteria for the so-called Social Sustainability Loans that can be financed with the proceeds from social bonds issued by Kommuninvest ("Social Bonds"). The Framework also describes the process for evaluating and selecting the investments intended to be financed with such Loans, arrangements for managing the bond proceeds, as well as the annual report on the allocation of proceeds and the positive social outcomes. The legal documentation for each Social Bond must refer to this Framework.

The Framework is designed to promote social sustainability efforts among Swedish

municipalities and regions in a clear and measurable way. A prerequisite to obtain financing is a targeted social intervention, or a combination of interventions, aiming at reaching predetermined social objectives.

All members of Kommuninvest Cooperative Society should be able to apply for a Social Sustainability Loan, even though the extent of their social challenges may vary. The starting point is always a locally decided plan addressing social sustainability.

In addition, a clear objective is that Kommuninvest's Social Sustainability Loans will promote an 'impact assessment culture' within the municipal sector and foster systematic work on social sustainability issues that include knowledge building and method development.

With the introduction of a Social Bonds Framework, Kommuninvest manages two use-of-proceeds funding programmes, one for environmentally oriented investments and one for investments fostering social sustainability. Both frameworks are designed to make visible and support the Swedish municipal sector's sustainability investments and transition in accordance with the UN Sustainable Development Goals. Kommuninvest's intention is that the two frameworks should interact with and complement each other.

Kommuninvest has engaged Danske Bank and SEB as strategic advisors. Sustainalytics has provided an independent second opinion to the Framework. An external auditor will verify the allocation of the proceeds annually. The Framework, second opinion and auditor verifications will be available on Kommuninvest's website.

4 February 2021

CEO

CFO

Head of Sustainability

## 1. USE OF PROCEEDS

### 1.1 Allocation of proceeds

Social Bond proceeds will be used to finance loans to Kommuninvest's members ("Social Sustainability Loans" or "Loans"), with the aim to fully or partially finance or refinance investments that promote social sustainability ("Eligible Projects"). The Loans can also be provided to municipal companies, foundations and federations that are eligible to apply for funding from Kommuninvest. Social Sustainability Loans will constitute a portfolio of assets ("Portfolio of Social Sustainability Loans") that may be used as a basis for financing with Social Bonds. The Loans are pre-financed by Kommuninvest until the total disbursed Loan volume is sufficient to justify a bond issue.

### 1.2 New financing and refinancing

Social Bond proceeds may be used for financing of Social Sustainability Loans, which in turn are used for new financing and refinancing of Eligible Projects. New financing is defined as the committed volume of Social Sustainability Loans during the reporting year. Refinancing is defined as the committed volume of Social Sustainability Loans before the reporting year.

### 1.3 Loan amount

Financing for new construction, renovation or acquisitions may be granted equivalent to the actual investment cost. When selecting the loan amount, the borrower is encouraged by Kommuninvest to take into account potential adjustments in book value, so that the Loan amount after amortizations during the Loan term does not exceed the book value of the asset.

Refinancing can be granted corresponding to the book value of the asset. Social Sustainability Loans can only be granted for Eligible Projects to the extent not otherwise financed. Social Sustainability Loans can replace other financing.

### 1.4 Selection criteria Social Sustainability Loans

#### 1.4.1 Eligible Projects

Investment projects eligible for Loan financing within this Social Bond Framework shall meet the selection criteria described in this section.

Social Sustainability Loans shall finance investments, based on the municipalities'/regions' established plans for social sustainability, e.g. in regards of societal participation, public health, socio-economic inclusion, employment and security. Social Sustainability Loans may be provided for financing Eligible Projects of two investment types:

1. **Physical investments with an associated social intervention**, where the physical investment is a suitable platform for work on social sustainability and where there is a clear link between the physical investment, the social intervention and the social objectives.
2. **Physical investments where the physical investment itself qualifies as a social intervention**. This applies in cases where research, pre-study and/or proven experience shows that the physical investment can in itself contribute to achieve the set social objectives.

The borrower is typically expected to finance the social interventions through its own operating budget, special grants or social investment funds, while Social Sustainability Loans finance the physical investment.

#### 1.4.2 Social Sustainability Loan Categories

Eligible Projects distributes over three main categories (each a "Social Loan Category") with relevant sub-categories and objectives, and the overall objective to *increase social sustainability* in Kommuninvest's member municipalities and regions:

#### 1. Housing and residential environments

##### 1.1. Public housing in areas with special needs

Investment in the form of new construction, renovation, acquisition or the refinancing of residential property/properties and/or residential environment(s). The borrower must carry out systematic work to *counter, reduce or solve a social challenge in one or several*

*defined residential areas.* The specific needs may vary depending on the social challenges addressed.

#### 1.2. Socially sustainable housing or premises

Investment in the form of new construction, renovation, acquisition or the refinancing of property/properties, premises or other environment aimed at *creating socially sustainable housing, premises and environments*, including targeted housing such as student and senior housing, as well as socially sustainable urban environments.

### 2. **Safety, security and accessibility**

#### 2.1. Safety and security

Investment aimed at *increased safety and security as well as reduced crime*. The interventions can include both physical indoor and outdoor environments, and target both social and situational crime prevention as well as suicide prevention.

#### 2.2. Accessibility

Investment aimed at *increased accessibility and inclusion for all*, regardless of functional diversity. The investment may include the creation of areas, constructions and solutions that enable improved access to physical indoor and outdoor environments, or the renovation of them to improve accessibility.

### 3. **Health, education, sports and culture**

#### 3.1. Health care

Investment aimed at *promoting improved public health and mental health as well as disease prevention*. The investment may be in the form of either new construction, renovation, acquisition or refinancing.

#### 3.2 Education and training

Investment in physical education environments with the aim of *increasing the level of education, further training and integration as well as improving educational performance*. The investment may include the creation of an area or facility for education and training or the renovation of existing ones.

#### 3.3 Sports

Investment in facilities and physical sports environments with the aim to *promote*

*improved public and mental health, prevent diseases and increased integration*. The investment may include the creation of a new area or facility, or the renovation of existing ones, and include both physical indoor and outdoor environments.

#### 3.4 Culture

Investment in physical environments related to culture with the aim to *increase the possibilities of leisure activities as well as to promote integration and public health*. The investment may include the creation of a new area or facility, or the renovation of existing ones, and may include both physical indoor and outdoor environments.

### 1.4.3 Core requirements

Social Sustainability Loans may be granted for Eligible Projects (see section 1.4.1) that:

- 1) promote a socially sustainable society through the development of practices, innovation and/or increased quality in terms of the physical investment, the social intervention or the target population;
- 2) is part of the borrower's systematic work for social sustainability or contributes to the development of such work;
- 3) refers to a defined target population;
- 4) are long-term;
- 5) have clear objectives and include systematic assessment of Results.

### 1.4.4 Other qualifications

In addition to meeting the core requirements under 1.4.3. Eligible Projects shall comply with applicable laws and regulations and, as far as possible, take into account other environmental aspects. The Swedish legislation governing the municipalities and regions is considered to be strict, both from an environmental and social perspective, safeguarding a high fundamental level of Eligible Projects.

Kommuninvest's members and customers may, for the same specific investment, obtain approval both under this Framework and under Kommuninvest's Green Bonds Framework, provided that the investment meets the requirements set by each framework.

Kommuninvest actively encourages this. However, an Eligible Project can only receive funding for the part that is not financed otherwise.

Investment projects related to property construction are typically expected to include a systematic approach to countering financial crime, undeclared work and irregularities at construction sites.

Collaborations and/or partnerships with other private and public actors and civil society that support the link between the investment and the social intervention are viewed positively but does not constitute a core requirement.

### 1.5 Disqualification

A Loan loses its status as a Social Sustainability Loan if:

- The physical investment fails or changes in character in such a way that it can no longer be considered to meet the requirements of this Framework
- The social intervention is not implemented or has changed in such a way that it can no longer be considered to meet the requirements of this Framework.

However, it is not a basis for disqualification if the expected social outcome and/or the expected social impact is not achieved, provided that the borrower reports on the reasons that are considered to have prevented reaching the social objective(s).

A loan that has lost its status as a Social Sustainability Loan will become a regular loan from Kommuninvest or a Green Loan, provided that the loan continues to meet the requirements of Kommuninvest's Green Bonds Framework.

### 1.6 Definitions

- **Social:** When using "social" as a descriptive term in connection with other words (e.g. social intervention, social impact, social challenge, etc.) this means that it is about people and their human rights and well-being.
- **Sustainability:** Sustainability means that today's needs are met without compromising the ability of future generations to satisfy their needs. Social

sustainability means that human rights and well-being are met without compromising the same ability of future generations.

- **A socially sustainable society:** According to the Public Health Agency of Sweden, a socially sustainable society is an equal and fair society in which people live a good life with good health and without unfair differences. It is a society with high tolerance, the central pillar of which is people's equal worth; this requires people to have confidence in and trust each other, and to take part in the development of their society
- **Intervention:** A working method, series of activities, operation or a more comprehensive action programme intended to prevent, counteract, reduce or solve a challenge for a defined target population. A "*Social intervention*" is an intervention that addresses a challenge linked to human rights and well-being.
- **Objective:** The future state that an intervention is intended to contribute to achieve. The objective of the intervention should align with the municipality's/region's overall goals, strategy, policy and/or processes concerning social sustainability.
- **Systematic work:** A systematic work is characterized by ongoing processes, including the following sets of work streams;
  1. Planning and analysis (action plans, policies, orientation document, mapping, comparisons or the like),
  2. Implementation
  3. Follow-up and evaluation, and
  4. Documentation

Within the framework of systematic work, a starting point (so-called *baseline*) is typically identified for the indicators one intends to follow up, and the development of the indicators is then monitored over time. Thereafter, a qualitative and financial evaluation can be carried out.



- **Target population:** The defined group of people to whom the social intervention is directed or the user of a physical investment that is eligible for funding in accordance with 1.4.1 (2) of this framework.

The target population for each Social Sustainability Loan can vary depending on the intervention, local conditions and type of investment. Examples of target populations are low-income earners, students, the elderly, single-person households, the undereducated, the unemployed, people with functional diversity, excluded and/or marginalised people, persons suffering from mental illness or otherwise vulnerable groups and persons with special needs. The target population can be either defined (e.g. people over 65 years of age) or defined and delimited (e.g. people over 65 years of age with certain conditions), as far as possible the target group should be both defined and delimited.

- **Long-term:** In this framework, long-term refers to a commitment and systematic work to ensure that the investment and associated social interventions contribute to a socially sustainable society over time. This means that the ambition is for completed investments and interventions to be followed up over the long term; that lessons learned and experiences are utilized; that the interventions are adjusted if necessary to achieve the desired impact and that the interventions that prove to give desired results are continuously implemented.
- **Output:** The products or other deliverables which are the direct consequences of the investment (e.g. number of apartments built/renovated), with the aim of individually or together

with the Social Intervention influence the Target Population and create an impact.

- **Outcome:** The change (or absence of change) that is observed in the Target Population during and after an intervention (e.g. reduced structural homelessness). An outcome does not have to be solely caused by the intervention.
- **Impact:** The change within the target population caused by the intervention, which otherwise would not have occurred. Impact can be both positive and negative.
- **Evaluation**<sup>4</sup>: A diligent and systematic ex-post assessment of the extent to which:
  - a) the outputs resulting from an investment is as expected (*output evaluation*)
  - b) the interventions that have been delivered are as expected (*intervention evaluation*)
  - c) the changes that have occurred to the target population after an intervention are as expected (*outcome evaluation*)
  - d) the changes that have occurred to the target population after an intervention have been caused by it and would otherwise not have occurred (*impact evaluation*).
- **Results:** A collective term for outputs, interventions, outcomes and impacts.

## 1.7 Mapping of the UN Sustainable Development Goals (SDG's)

Kommuninvest contributes to Agenda 2030 and the SDG's both directly (within its operational decision mandate) and indirectly (via lending and borrowing as well as the

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<sup>4</sup> Evaluation is carried out by the borrower based on the criteria and methods specified in the Loan application. The evaluation must at least describe the intended impact chain and a follow-up of outcome(s). The evaluation must also contain a brief reasoning about the extent to which and in what way the outputs and the interventions have

contributed to develop the borrower's systematic work with social sustainability. The framework's ambition is to promote a development towards increased use of impact measurement in Swedish society.

balance sheet). Each Social Loan category has been mapped to the UN SDG's in accordance with "the High-Level Mapping to the SDG's" published by ICMA<sup>5</sup>.

Kommuninvest's borrowers are, in the Loans for Social Sustainability application, asked to state which of the SDG's they consider having the strongest connection to the investment and its associated social intervention. For individual Eligible Projects, more than or less than the SDG's set out in this framework may be reported upon, in accordance with section 4.3 Impact reporting.

Social Sustainability Loan Category: Housing and residential environments

SDG 1: No poverty

SDG 5: Gender equality

SDG 8: Decent work and economic growth

SDG 10: Reduced inequalities

SDG 11: Sustainable cities and communities

Social Sustainability Loan Category: Safety, security and accessibility

SDG 3: Good Health and well-being

SDG 5: Gender equality

SDG 10: Reduced inequalities

SDG 11: Sustainable cities and communities

SDG 16: Peace, justice and strong institutions

Social Sustainability Loan Category: Health, education, sports and culture

SDG 3: Good Health and well-being

SDG 4: Quality education

SDG 5: Gender equality

SDG 8: Decent work and economic growth

SDG 10: Reduced inequalities

SDG 11: Sustainable cities and communities

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<sup>5</sup> <https://www.icmagroup.org/green-social-and-sustainability-bonds/mapping-to-the-sustainable-development-goals>

## 2. PROJECT SELECTION AND EVALUATION PROCESS

### 2.1 Selection process

On an ongoing basis, Eligible Projects will be:

1. identified and verified by Kommuninvest's members
2. selected by the finance departments of Kommuninvest's members and sent to Kommuninvest for initial appraisal together with completed application forms and appropriate documentation in accordance with Kommuninvest's instructions

and on at least a quarterly basis be:

3. reviewed and approved via consensus decision by Kommuninvest's Committee on Social Sustainability as regards compliance with the selection criteria for Eligible Projects. At least three external members must be present for decisions.

### 2.2 Committee on Social Sustainability

Kommuninvest's Committee on Social Sustainability (the "Committee") has been established to review and approve social investments and interventions that are eligible to be financed under this Social Bonds Framework, so-called Eligible Projects.

The Committee shall have at least three external members, consisting of

representatives from at least two member municipalities/regions as well as other relevant organizations in the public sector and/or academia, and in addition representatives from Kommuninvest's management, sustainability function and lending department. Kommuninvest appoints and dismisses members of the Committee.

#### 2.2.1 The tasks and responsibilities of the Committee

The responsibilities of the Committee include:

- Review and approve Social Sustainability Loan applications
- Assist Kommuninvest's members with expertise and advice in the ongoing work, for example regarding method recommendations, method development and impact reporting.
- Review and approve the impact reporting that Kommuninvest produces annually for investors and other stakeholders, see section 4 below
- Decide on any disqualification of previously granted Social Sustainability Loans
- Approve the Social Bonds Framework, and its future updates.

## 3. MANAGEMENT OF PROCEEDS

### 3.1 Tracking of Social Bonds net proceeds

Kommuninvest will track the Social Bonds net proceeds in accordance with its internal instructions. An external auditor will verify the allocation of the proceeds. For precautionary reasons, and in accordance with its internal instructions, Kommuninvest will strive to manage the proceeds so that the total Social Bonds proceeds shall not exceed the total disbursements for Social Sustainability Loans. If a financed Loan no longer meets the selection criteria that applied at the time of approval, Kommuninvest will disqualify the

Loan in accordance with 1.5 Disqualification above and remove it from the Portfolio of Social Sustainability Loans.

### 3.2 Temporary holdings

In the event that proceeds from the Social Bonds have not yet been allocated to Social Sustainability Loans, these will be held in accordance with Kommuninvest's internal regulations for liquidity management.

## 4. TRANSPARENCY AND REPORTING

### 4.1 Social Bonds reporting

To enable investors to monitor developments and to provide insight into prioritized areas, Kommuninvest will annually provide an allocation and impact report ("Social Bonds Report"), with information on how the proceeds were used and what social results the Eligible Projects have contributed to or are expected to contribute to. The Social Bonds Report will include both allocation reporting and impact reporting.

### 4.2 Allocation report

The allocation report will contain the following information:

- i. A summary of Kommuninvest's work on Social Sustainability Loans during the year
- ii. The issued and outstanding amount of Social Bonds
- iii. Amounts of Social Sustainability Loans committed and disbursed, and distribution of amounts disbursed by respective Social Loan category and subcategory
- iv. The total aggregated share of Social Bonds proceeds, as well as the proportion of each bond, in relation to the Social Sustainability Loan volume,

including in relation to the respective Social Loan category

- v. The proportion of Social Bonds proceeds used to new financing and refinancing respectively.
- vi. Proportion of Social Bonds proceeds not used to finance Social Sustainability Loans (if any)

### 4.3 Impact reporting

The impact reporting aims to measure and demonstrate the social results that the Eligible Projects, financed with the Social Bonds proceeds, are expected to contribute to, or have contributed to. To the extent possible, the social results are presented by reporting outputs and/or outcomes and impact of the Eligible Projects. This can be a complex exercise and sometimes only feasible after a certain amount of time has passed. In cases where this is not feasible, the reporting will reflect the actual output.

Indicators of results in the Social Bond Report are expected to vary, both within and between the various Loan categories and subcategories. This is because the framework enables the financing of Eligible Projects that address widely differing social challenges. The impact reporting will, among other things, be based on data from the borrowers, and social results will be measured on a best effort basis.

## 5. EXTERNAL REVIEW

### 5.1 Second party opinion

Sustainalytics has provided a second opinion to this Framework verifying its credibility, impact and alignment with the ICMA Social Bond Principles 2020. Kommuninvest intends to follow market practice as the market standard develops and will update the Framework accordingly when the Committee considers this relevant. An external auditor will verify the allocation of the proceeds on an annual basis.

Report, will all be available on Kommuninvest's website.

### 5.2 Publicly available documents

The Social Bonds Framework, the second party opinion by Sustainalytics, the external auditor verification and the annual Social Bond