

How ESM prepared for social bonds - Panel discussion with Siegfried Ruhl

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Siegfried Ruhl, ESM Head of Funding and Investor Relations

Panel Discussion - Covid-19 and social bonds (extracts)

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Earlier this year the ESM became part of the European response to the Covid-19 pandemic. While our mission in general has a social character, we haven't issued social bonds so far. Yet, as part of the European response to Covid-19, with our new tool, the Pandemic Crisis Support credit line, we are now able to issue also social bonds. We published our social bond framework in June, and should Member States request the Pandemic Crisis Support we will be able to use this to fund support for the Member States.

(On capital markets responding to the Covid-19 pandemic):

Our mandate in the past had a social element. So many investors asked us to issue social bonds. Yet we were not able, based on the framework we had, to declare these social bonds in line with the social bond principles. Of course, investors are now more aware of this topic, but the funding needs related to COVID-19 also put the issuers in a different position and gives more flexibility on the issuer side to issue social bonds. Should we be asked for Pandemic Crisis Support we are a good example. In the past we couldn't do it. Now we can do it. I think there was always demand. It was a lack of supply. Now we have supply and can bring it into a better

balance. What is really good is that European investors and issuers are reacting quite quickly. It is good for the European capital market which already has a huge share of globally-issued SRI (Socially Responsible Investments). We should let this market develop and grow.

(On setting up a social bond framework):

When we set up the framework we had some pressure because we didn't know if and when a Member State might apply. So we set up the framework in a few weeks. We realised that this market, with the (International Capital Market Association) Social Bond Principles is quite well developed. They are a good guidance for this. I agree there was uncertainty at the beginning, what is social and what is not social, related or not related to Covid-19. Yet looking ahead it is an important responsibility for us as issuers that we develop this market in a credible way. It's in our interests. I mentioned earlier that Europe has quite a large share of issued social bonds, and if we want to maintain our advantage here then it is important that we avoid this, as you called it "social washing", and that we as issuers act in a responsible way and are transparent, clear and allocate the right social assets to those proceeds. Everyone will benefit, the investor and issuer.

(On how investor expectations have adapted to Covid-19):

I am not sure if Covid-19 awakened investors. What we experienced in the past two or three years is an increasing attention from investors on the ESG performance of an issuer. Covid-19 means that issuers can better satisfy demand from the investor side. But the focus on ESG has been there prior to Covid-19.

(On sovereigns issuing social bonds):

They have huge amounts of social expenditures. If you look at the current Covid-19 crisis, health care spending in some countries is up to 8% of GDP. The question is will governments use social bonds and in how far can they? In some countries, social debt has to be financed with tax. So there might be legal hurdles. What we have to take into consideration is that it took sovereigns some time to enter the green bond market and deal with the issue of how it can fit into the budget. They found a way and so this process can more or less be a copy and paste function for social bonds.

Author



[Siegfried Ruhl](#)

Head of Funding and Investor Relations, Funding and Investor Relations

Contacts



[Cédric Crelo](#)

Head of Communications and Chief Spokesperson

+352 260 962 205

c.crelo@esm.europa.eu



[Anabela Reis](#)

Deputy Head of Communications and Deputy Chief Spokesperson

+352 260 962 551

a.reis@esm.europa.eu



[Juliana Dahl](#)

Principal Speechwriter and Principal Spokesperson

+352 260 962 654

j.dahl@esm.europa.eu