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The Critical Role of the Debt Market in COVID-19 Response and Recovery
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The COVID-19 pandemic has resulted in an unprecedented situation that is severely impacting the daily lives of millions of people globally. In addition to health repercussions, economies and livelihoods all over the world are being challenged by changes in both supply and demand. Governments have scrambled to prepare fiscal stimulus packages and inject liquidity to keep economies afloat.

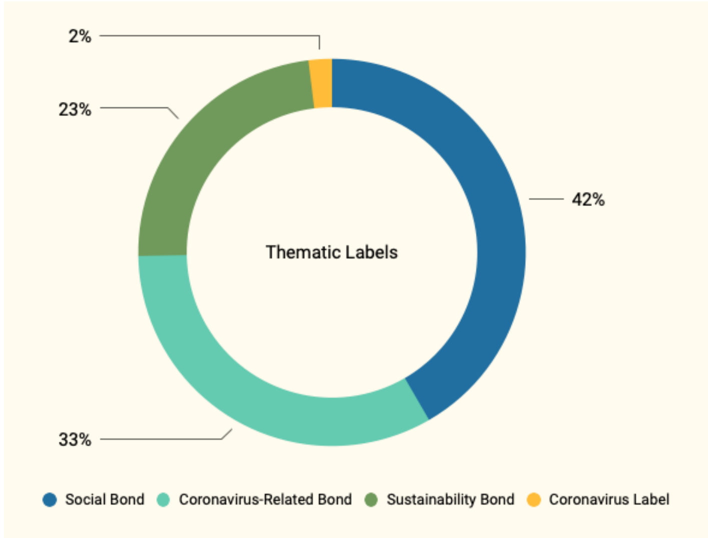
2020 has seen an explosion of fixed-income instruments, such as **pandemic bonds** and **COVID-19-response bonds**, as well **social** and **sustainability** bonds with coronavirus response use of proceeds. In order to uncover some market trends regarding these new instruments, HPL collected a representative sample of 100 thematic transactions representing USD 165 bn of social, sustainability, and other coronavirus related bonds issuances.

Deciphering the Thematic Labels in Fixed Income

For the purpose of this work and this analysis, we have developed the following nomenclature to group different types of labelled bonds we came across related to the pandemic:

Type of Bond	Definition	Example	COVID-19 UoP	Framework	External Review
Coronavirus Related Bonds	Bonds whose use of proceeds (UoP) are partially or fully earmarked towards COVID-19 but do not have any specific thematic label, framework, and/or SPO/external review	Bogota	X		
Coronavirus Labelled	Bonds that include a COVID-19 related self-label, have a corresponding COVID-19 related framework, and whose UoP are partially or fully earmarked towards COVID-19	Nordic Investment Bank	X	X	
Social Bond	Bonds that have a corresponding Social Bond Framework following the International Capital Market's (ICMA) Social Bond Principles (SBP)[1]	BBVA	X	X	X
Sustainability Bond	Bonds that have a corresponding Sustainability Bond Framework following ICMAs Sustainability Bond Guidelines (SBG)[2]	Region Ile-de-France	X	X	X

[1] We included in our database only those Social Bonds that had a UoP related to COVID-19 response.
[2] We included in our database only those Sustainability Bonds that had a UoP related to COVID-19 response.



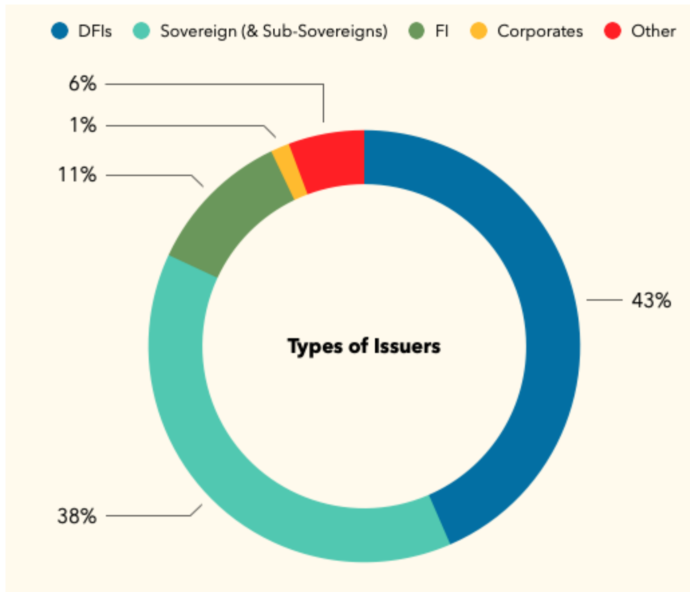
A few issuers at the start of the pandemic came to market with COVID-19 bonds. This was the case of BPI France's Covid-19 Response Bond, Getinge's Covid-19 Bond, and Nordic Investment Bank's Response Bond, which we describe as "Coronavirus Labelled" Bonds. The issuers were clear to note in the bond documentation that these transactions were not aligned with the International Capital Markets Association (ICMA) principles (therefore, they could not be denoted as Social Bonds) and that the transactions had not obtained an external review due to the urgency of financing needs. We differentiate these issuers from the "Coronavirus-Related" Bonds because those issuers, although they specify that the use of proceeds of the bonds went to pandemic response and recovery, did not create a specific framework for the transaction nor use a COVID-19-related label in their marketing. From the sample we collected, the most used label (by volume) has been Social (42%) followed by Coronavirus-Related (33%), Sustainability (23%) and Coronavirus Labelled (2%).

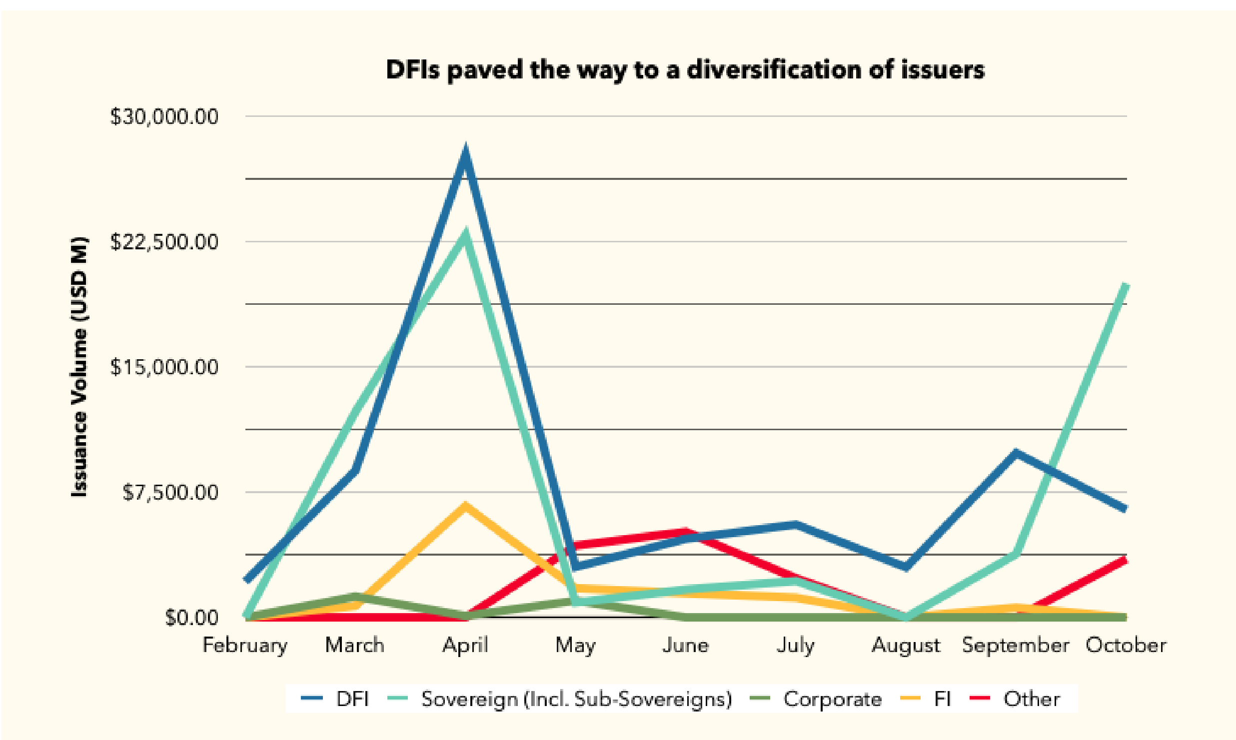
Sustainable Finance Community Provides Guidelines for Issuers

Since the start of the crisis, the sustainable finance community was quick to provide issuers with guidance on best practice for these types of instruments. On March 31st, 2020, the ICMA published a "COVID-19 Market Updates: Sustainable Finance" page, which provides some of the earliest guidance documents on these types of bonds, such as a COVID Bonds FAQ and the IFC's illustrative case study of eligible use of proceeds for Social Bonds with COVID-19 use of proceeds. The page is continuously updated with new transactions and serves as informative resource for issuers. Sustainalytics, an external review provider, followed soon after, publishing on April 8th a guidance document entitled "COVID-19 related use of proceeds in Sustainalytics' Taxonomy". In May, we even saw a large pension fund, APG, publish a guidance from the investor's perspective for COVID-19 response bonds.

DFIs Paved the Way to a Diversification of Issuers

Development Finance Institutions (DFIs) pioneered the wave of coronavirus bonds, with transactions such as: China Development Bank's (CDB) CNY 13.5 bn (USD 1.9 bn) bond financing epidemic prevention and control; International Finance Corporation (IFC) USD 1 bn Social Bond, and African Development Bank's USD 3 bn "Fight Covid-19" Social Bond. Since then, we have seen a diversification of the market, with additional development banks, corporates, sovereigns, financial institutions (FIs), and others entering the market with labeled bonds. In our representative sample, DFI's make up the largest percentage of issuers (43% based on volume), followed by sovereign and sub-sovereigns (38%), FIs (11%), and corporates and others making up the remaining 7%.





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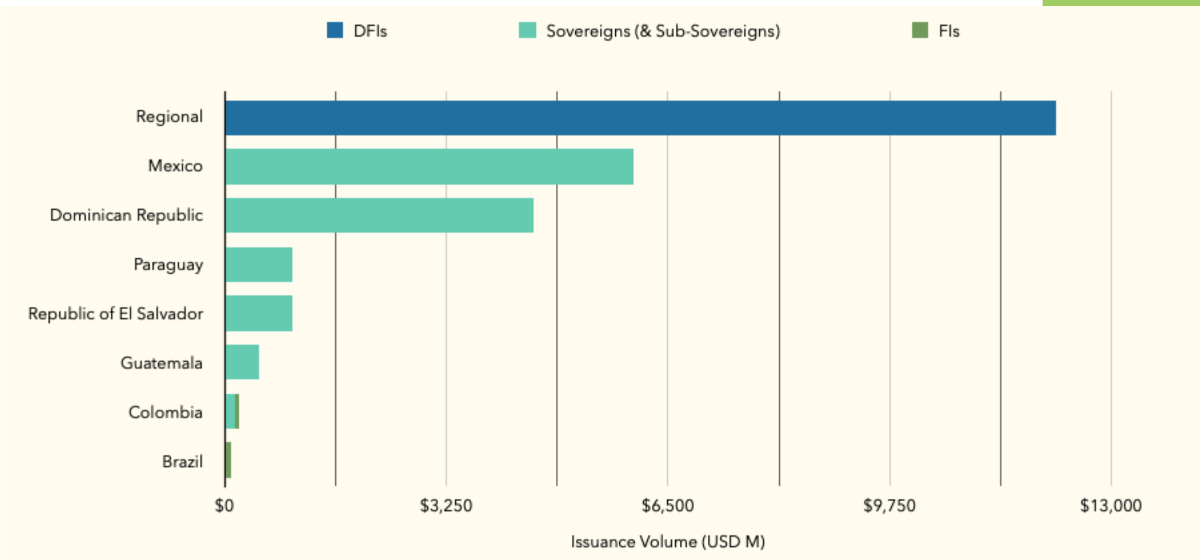
Zooming into the Latin America and the Caribbean (LAC) Market

We identified USD 29 bn of thematic bond issuance focused on COVID-19 relief and recovery in LAC. DFIs and Sovereigns were the first to issue bonds to finance pandemic relief.

Following its announcement that it would make up to USD 12 bn available to countries requesting support for the COVID-19 pandemic and its consequences, the Inter-American Development Bank (IADB) applied their Sustainable Development Bond framework in order to finance COVID-19 relief. To date, the development organization has placed over USD 10 bn in sustainability bonds. The IDB Invest also issued a USD 1 bn bond in April and an AUD 140 M bond in October to support the development banks coronavirus response. In May, the Corporación Andina de Fomento (CAF) sold EUR 770 M social bonds to fund its response to the COVID-19 pandemic.

The Republic of Guatemala was the first Sovereign in LAC to inaugurate the wave of COVID-19-related bond issuances, with a USD 1.2 bn Social Bond in April. Since then, we have seen issuances from Mexico, Paraguay, the Dominican Republic, the city of Bogota, and the Republic of El Salvador. HPL in collaboration with the IADB, has supported the Ministry of Chile to develop their Sustainability Bond Framework, in order to include their social programs and COVID-19 response, which paves the way for a future social or sustainability issuance by the Republic of Chile.

Since then, there has been a diversification of issuers, such as Colombian mortgage lender, La Hipotecaria, who issued a COP 52 bn (USD 15 M) social bond used to finance social interest housing, and up to 5% of the proceeds will cover reductions in their cash flow as a result of payment deferments from its clients as a result of the COVID-19 pandemic. Most recently, Banco ABC in Brazil issued the country’s first Social Bond for R$ 525 M (USD 100 M) to support the bank’s portfolio of medium-sized companies and the health sector.



Recent Innovations and Future Trends

Recently, the European Union (EU) made a historic splash in the market, issuing EUR 17 bn in social bonds, the largest labeled social bond transaction in history. The bonds had over EUR 233 bn of orders, a record in the euro market. The EUR 10 bn 10-year and a EUR 7 bn 20-year social bonds were issued under the Support to mitigate Unemployment Risks in an Emergency (SURE) program, which was first proposed by the EU this April to support 17 member states alleviate unemployment. The European Commission has announced that it will issue up to EUR 100 bn as social bonds under this program. It is likely that more issuers will follow suite, with the aim to finance the long-term recovery from this crisis.

The thematic bond market has responded rapidly to the COVID-19 crisis. We have seen a great diversity of issuers come to market to respond to the immediate and medium-term needs caused by the crisis. In addition, we have seen the sustainable finance community come together quickly to provide guidance as to what types of use of proceeds could support a COVID-19-related bond. We foresee that this market will continue to grow, however the focus of the issuances will be targeted towards longer term recovery. Thematic fixed income instruments present a great opportunity to finance green recovery measures aimed to restructure critical sectors and activities in order to support the transition to an environmentally sustainable, climate resilient, and socially just future.