HARNESSING SOCIAL BONDS FOR SUSTAINABLE FINANCE: A FOCUS ON CHALLENGES AND PROSPECTS IN THE SULTANATE OF OMAN

Dr. Mohamed Zaheeruddin 1* , Dr. Mohammed Omer Fareed 2, Shafi Dastagir Ansari 3 ,

Dr. Syed Jaffer 4 , Dr. Khudaija Sultana 5

1 Lecturer, University of Technology and Applied Sciences- Shinas, Sultanate of Oman.

2 Lecturer, Al Buraimi University College, Sultanate of Oman.

3 Lecturer, University of Technology and Applied Sciences- Shinas, Sultanate of Oman.

4 Assistant Professor, School of Business, Gitam-Deemed to be University, Hyderabad, India.

5 Lecturer, University of Technology and Applied Sciences- Shinas, Sultanate of Oman..

ABSTRACT

In the modern business era where the financial services integrate environmental, social, and governance (ESG) models and investment decisions influence sustainability, social bonds are a recent emerging financial tool. A financial instrument that allows private funders to upfront capital for public ventures that deliver societal and environmental outcomes. As a twig of green bond and sustainable category, social bonds are proving their separate nature of equal viability in terms of both issuers and investors. Despite being recently developed categories; social bonds have experienced a noteworthy track in the international financial markets. Oman recently has strategies of sustainability and weighs legislative plans to enable issuance of green, blue, and social bonds. As a part of the country's incessant growth efforts to improve and expand the capital market, these fundraising tools are being issued to meet the issuers and investors' needs. While still in its developmental years and a late entry to the capital market, a few social bond draft regulations have already been set up in the Sultanate of Oman. Hence, this paper attempts to present some related concepts of social bonds and their international experiences of growth in the initial years globally. Also tries to present the opportunities and challenges of social bond mechanism and issue process in the Sultanate of Oman.

Keywords: *Social bonds, Capital Market Authority, Sultanate of Oman, Vision 2040, Social wellbeing.*

INTRODUCTION:

The primary goal of management is to maximize its firm value, on the other hand, the investor's main objective of the investment is to get maximum returns with minimum risk. This single-minded focus of maximization of financial returns both by firm and investors left the social justice and environmental factors wayside. But now things have changed, the climatic, governance, and social disasters exposed the finance sector to greater risk. It made the key players of financial markets rethink and combat the social crisis, resulting in the evolution of sustainable finance. Sustainable finance is the approach of investment decisions where monetary returns and environmental, social, and governance (ESG) factors are most considered. Here, social justice and environmental factors are not compromised when a financial decision is rendered.

Sustainable expansions conglomerate environmental and social boundaries, ensuring the present and future generations have the required resources for food, water, health, and other basic amenities needed to live (Schoenmaker and Schramade, 2019). The major goals that are insisted to achieved worldwide by sustainability are no poverty, good health, and well-being of citizens, zero starvation, gender egalitarianism, affordable energy, work with economic growth, strong infrastructure, and innovation, climactic action, care of all living beings on the earth, peace, and justice. Thus, sustainability covers all the aspects of the biosphere, society, and economy safety and integrity.

The global financial system has a major role to play in the advent of sustainability. It could be only possible when the financial system can allocate capital and invest only in forecast-based information, monitor and exert corporate governance after investment, facilitate trade-diversification and risk management (Levine, 2005). The evolution of sustainable finance can be framed in four stages viz, *'traditional finance'* that stress on shareholder wealth maximization, *'refined shareholder value'* focus on profit maximization but by eluding sin stocks that has an extremely negative impact, *'stakeholder value'* concentrates on well-being of all stakeholders and lastly *'common good value'* that ensures the welfare of the environment, society, and governance (Riedl and Smeets, 2017).

The key benefactors of sustainable finance are corporations, banks, multinational financial institutions, multinational corporations, national governments, central banks, capital market regulatory authorities, institutional investors, and stock exchanges. These providers ensure economic sustainability through sources such as CSR initiatives, green investments, green funding, licensing of social funds, regulation of ESG equipped to finance. Social bonds are one of the approaches of sustainable finance, where the bond proceeds raised by the organizations are used for projects that have a positive social outcome.

BOND MARKET OVERVIEW:

A bond is a contractual commitment where the bond issuer pays interest and principal at a predetermined rate of interest at a specified date for a specified period to its bondholders. The relationship between the bondholder and the issuer is just like a loan of money where interest is compulsorily considered to earn money on money (Choudhry and Moorad, 2006). These are usually issued by government entities or corporations when it needs capital.

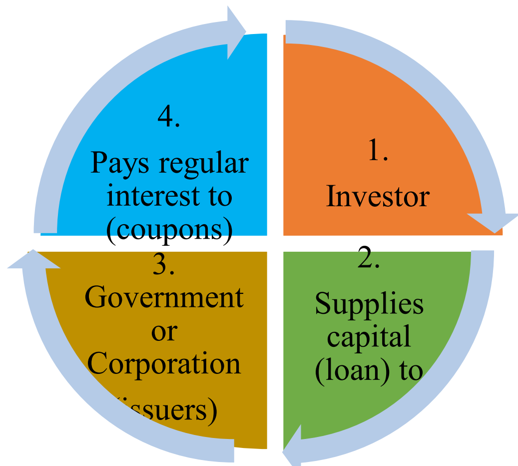

Fig 1: Bond market overview

Bond markets act as a linkage between issuers who require funds and investors willing to invest the funds in long-term fixed interest-bearing securities. These markets provide a wide range of opportunities to both investors and corporations either government or private. The market is controlled by a capital market regulatory regime with a special basic framework for bonds. A bond market is said to be more efficient when there is low transaction cost and low disintegration and a high level of transparency.

Objectives of the study: This study aims to explore the concept and evolution of social bonds as an innovative tool for sustainable finance. It seeks to examine global best practices and frameworks related to the issuance and impact of social bonds, providing valuable insights into how such instruments are successfully implemented across different regions. Furthermore, the research intends to analyze the potential role of social bonds in promoting the Sustainable Development Goals (SDGs) within the Sultanate of Oman. A critical assessment of the key challenges associated with the implementation and adoption of social bonds in the country will also be conducted. In addition, the study will highlight the opportunities and policy implications for integrating social bonds into Oman's financial and developmental strategies. Finally, the research aims to propose actionable recommendations for leveraging social bonds to enhance sustainable financing in alignment with Oman's Vision 2040.

SOCIAL BONDS: Social bonds are one of the approaches of sustainable finance, where the bond proceeds raised by the organizations are used for projects that have a positive social outcome. The social outcomes are in terms of environmental co-benefits. Social bonds are sometimes referred to as sustainability bonds when there is a mix of green and social projects.

Social bonds are issued on four basic principles that build confidence and transparency among investors, financial institutions, underwriters, and any other stakeholders of the bond mechanism. The four basic confidence-building principles are *(i) Usage of bond proceeds (ii) Social project evaluation and selection process (iii) Proceeds management and (iv) Reporting*. Whereas transparency is possible with *(i) framework and (ii) external reviews.*

Usage of bond proceeds is the core principle of social bond which is described in the legal document of bond, that discloses the eligible social projects where the funds are going to be utilized (international capital market association, 2021). These investments must contribute a clear benefit to the society at a large number or at least for the targeted group of population. The benefit to the society may be either in terms of reasonably priced infrastructural facilities such as transport, energy, water, sewer, etc., or affordable essential services like housing, health, education, food security, etc. The bond proceeds are majorly used for the targeted people of below poverty, people with disabilities, under/uneducated, unemployed youth, society suffering due to natural disasters.

Building confidence in terms of *social project evaluation and selection process* is the second basic pillar of the social bond. It is of utmost importance for the investor to know the money they invest in social projects is really and wisely employed. Hence it is the responsibility of the social bond issuer to communicate precisely the selection and evaluation process they follow to fit the projects in eligible social projects (international capital market association, 2021). Yet times it is also encouraged to inform regarding strategies and policies of sustainability, eligibility, and elimination conditions of project selection.

The *net proceeds* received in terms of a social bond must be managed well by the issuer is the third core pillar of confidence under the social bond issue process. The money received is credited to a sub-portfolio account that the issuer may easily track and manage proceeds properly. The social bonds proceeds have the provision to manage either bond by bond approach (individually) or portfolio approach (collectively). In case there are unallocated net proceeds available, they would be notified to the investors. For healthier transparency, an external auditor may also be appointed to track the proceeds of social bone separately.

Timely basis the social bond issuer is required to do *Reporting* its financiers. Up-to-date information is always kept available about the proceeds and their allotment and allocation and regular developments and probable impact on the society. A basic annual report is prepared and reported to the investors covering all the above aspects to maintain a high level of transparency. The annual report indicates both qualitative and quantitative performance measures of the social projects undertaken and their prospects in terms of target groups, the number of people who benefited.

GLOBAL STANCE OF SOCIAL BONDS: The globally sustainable debt market has had a major hype in recent years, by the end of December 2020 the net proceeds reached USD 1.7 trillion with around 10,000 instruments under the Global sustainability label.

It has been observed a tremendous increase in the social bond market issue globally. Data reveals there is an escalation of 1022 percent in the social bond market, with an 1107 percent increase of issuers accumulating more countries and currencies in the list. Due to the Covid pandemic in 2020 being a reason for social cause the issuance of social bonds has been skyrocketed (Liam Jones, 2020). The list of eligible social projects has been added with medical research, covid health care services, loans to support small and medium-sized entrepreneurs losing their business.

Table 1: Cumulative size of social bonds Globally

PARAMETERS	NUMERICAL FACTS
The total size of the market	The US $ 315.6 Billion
Number of issuers	601
Number of instruments	1230
Number of participant countries	36
Number of participant currencies	25

Source: Climate Bonds Initiative

Major issuers of social bonds have already planned for future issues, such as Walmart Inc., Amazon.com, Credit Agricole, JPMorgan, Citi group, BNP Paribas announced their probable issue plans of millions of dollars (Patturaja Murugaboopathy and Gaurav Dogra, 2021). When the issuers and number of issues data are observed, it can be viewed the tremendous increase of the social bond market globally.

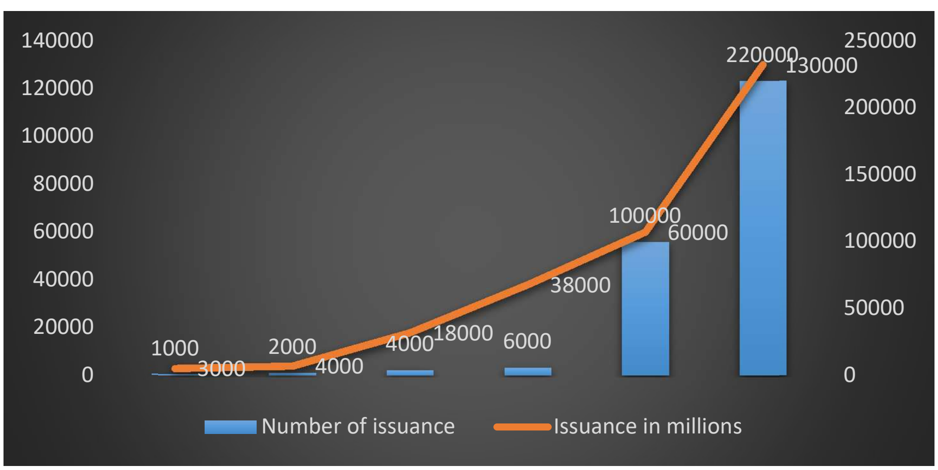

Figure 2: Global issuance of social bonds

Source: Refinitiv Eikon data (Gaurav Dogra- Reuters Graphics) https://www.reuters.com/business/sustainable-business/global-sustainable-bonds-see-record-issuance-jan-sept-2021-2021-10-12/

 ISSN NO : 0363-8057

According to the International Finance Corporation report issued on June 30th, 2021, the social bonds were issued dollar 3.8 billion in volume in various currencies out of which 50.5 percent was issued alone in US dollars 33% in Australian Dollar 9% in Swedish Krona 9%, in Mexican Peso 3% and Brazilian Real 2.5% respectively.

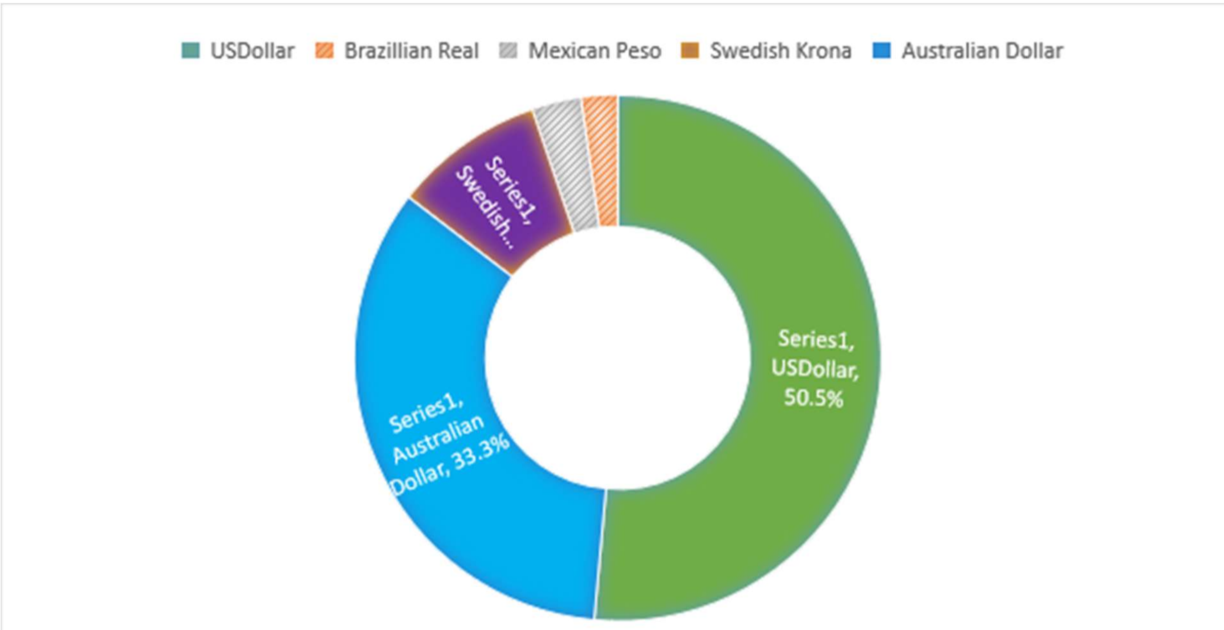

Figure 3: IFC Cumulative Social Bond Issuance by currency

Source: International Finance Corporation- World bank group

https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/investor+relations/ir-products/socialbonds

SOCIAL BOND MECHANISM AND STRUCTURE: Along with the key players, investors, and issuers of Social bonds many other stakeholders constitute a broad structure in the mechanism and process of issue. The other participants are various intermediaries, service providers, validators, and so on. The investors are the basic fund providers who invest in the social cause projects, which they hand over the investments service providers for delivering the projects.

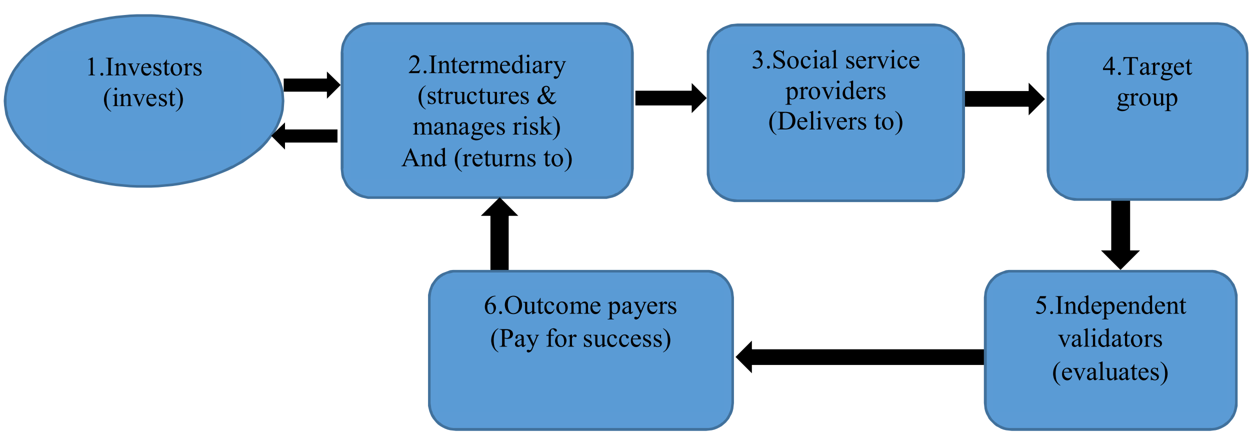

Figure 4: Social Bond Mechanism

Source: Organization for Economic Cooperation and Development (OECD)

These service providers act as an intermediary who structures and manage the risk of bond returns. These service providers based on the management of proceeds deliver the social impacts to the population or target groups. In this whole process outcome evaluation and measurement is a critical step, based on which the agreed interest on a bond is calculated and paid to the investors (OECD, 2015). It is of utmost importance to enable and upgrade the regulatory framework that helps in the social bond structure development. Government has a major role to play in the progress of the issue mechanism. Strong regulation of the key players in the below manner may assist the social bonds to be more proactive.

Government authorities being a major regulator has to be able to spread the funds throughout the financial year, for which it majorly concentrates on two main areas: contacts and budgets. (Liebman et al., 2013). *Investors,* on the other hand, must consider their funding openings, procurement, and tax parameters, all these three constraints of investors solely rest on the ability of the government authorities (Centre for Global Development & Social Finance, 2013). *Intermediaries/Social service providers* have a challenge of considering whether there is a specific legal framework for providing such social service. Many labor laws and contract-specific regulations play a prominent role in the risk content of the social bond issues.

SOCIAL BOND MARKET IN OMAN: The bond market in Oman is regulated by the Capital Market Authority (CMA), which supervises, organizes, and is responsible for all the processes of issue. In Oman bond issuers issue both conventional bonds and also bonds with Islamic sharia perspectives called Sukuk. In Sukuk investment, the holders instead of receiving interest entitle a proportionate right of the underlying asset being offered by the issuer.

Besides Sukuk, Social bonds are originated to be the new emerging approach of Oman, it is in the year 2021 Oman Capital Market Authority has for the first time drafted a bond regulation that includes sustainable and responsible investment (SRI). Under the regulation, it has been made clear that Sukuk includes a new obligation of sustainability and responsibility towards the society and hence this regulation enables Oman to open up potential billion’s dollar’s investment in renewable and alternative energy-based projects (Oman observer, 2021).

The sustainable and responsible bonds and Sukuk Oman intends the encouragement of capital market fundraising for the corporations that wish to issue social bonds including foreign investors too. The social bonds may assist the country to attain the vision 2040 objectives. It is experiential that the draft on social bonds in Oman still is under process to be finally regulated and implemented in the capital market. For this purpose, the CMA has received suggestive measures from various financial experts and various stakeholders.

As per the suggestive comments of various stakeholders, the Capital Market Authority of Oman encompassed a separate clause in capital market regulations on SRI with an advanced financial instrument that includes sustainable, green, blue, and social bonds including Waqf Sukuk (Times of Oman, 2021). A specialized regulatory infrastructure is being processed to be developed that may support and create flexible and relaxed financing provisions in line with international developments and fulfill the vision 2040 objectives. The central aim of these bonds and Sukuk is to mobilize the financial means to certain human schemes and activities specifically to balance the economy and social intentions and attain sustainable development.

OPPORTUNITIES OF SOCIAL BOND IN OMAN: Preparation of future vision 2040, Oman has a high exactitude towards social harmony and participation of different segments of society. With a mission of *"well-being and social protection"* Oman is in the process to move towards a decent and sustainable life for all its citizens. The purpose is achieved and attained only when citizens are provided a satisfactory livelihood, quality welfare services especially in health, education, and safety concerns (Oman vision 2040 document, 2013). This necessitates a stimulating environment for volunteer and non-governmental plans, community donations, women and youth empowerment.

Prioritizing the guaranteed interest of youth is the strategic directive of the country's vision, that enhances the political, economic, and social participation to shape a better future. This may lead to the empowerment of youth with disabilities by providing robust social protection.

The opportunities of social impact bond are initiated in the following priority areas in Oman: social development by government and private partnership in civil society. The civil society formed has effective participation in the country's sustainable development. A social safety network enabling the community to enjoy insured life. An organized plan for the upliftment of women, youth, children, disabled people, and other vulnerable sects. Fulfilling other basic needs of the society and social protection to the targeted population.

Oman has aimed its performance indicators for the social well-being and protection of a certain targeted population, where it targets specific indexes for the years 2030 and 2040 respectively. According to its vision, the Human Development Index aims to target be among the top thirty countries by the year 2030 and top forty by 2040 being at a baseline 48^{th} rank. Youth Development Index aims to target be among top forty countries by the year 2030 and top thirty by 2040 being at a baseline 99^{th} rank. Social Progress Index aims to target be among top forty countries by the year 2030 and top twenty by 2040 being at a baseline 66^{th} rank.

Table 2: Performance indicators for well-being and social protection of Oman

PERFORMANCE INDICATORS	BASELINE VALUES	2030 TARGETS	2040 TARGETS
Human Development Index	Value: 0.821 Rank: (2018): 48/189	Top 30 Countries	Top 20 Countries
Youth Development Index	Value: 0.611 Rank (2016): 99/183	Top 40 Countries	Top 30 Countries
Social Progress Index	Value: 68.2 Rank (2018): 66/146	Top 40 Countries	Top 20 Countries

GDP Per Capita	Value: OMR 6246.0 Rank (2017): 48/187	Increase by 50%	Increase by 100%

Source: Oman preliminary vision 2040 document

The GDP target is to be at a 100% increase by the year 2040 being at 48th top rank. In 2021 Oman's emerging market was able to return to the international capital market with US Dollar 1.75 billion nine-year Sukuk issues. This was the first time the country reached ever since 2018 and attracted over US Dollar 11.5 billion in demand (Brian Lawson, 2021).

Thus, it can be viewed that social bond as an emerging financial device offers the massive potential of increase in both size and quality of investments by way of improving the well-being of the society. The various opportunities Oman may foresee in social bonds are found to be in the following ways:

Revision of poor incentives: Social bonds enable the country's public policy revisions when they are poorly allied, and assist to improvise social outcomes which are previously lacking. Such as correcting flaws in the law and services, if any, related to women, youth, disabled, and other vulnerable groups and helping them to be aligned systematically (Geoff Mulgan, et al., 2011). This also helps in saving public money allocated by the government.

Unlocking of new funds: The government funding, which may not sometimes be able to provide a decent and sustainable life to all its citizens, social bonds being a source of funds helps a potential way of funding and enables to provide well-being of certain target population.

Risk transfer: if any social upliftment scheme fails that was funded purely by the government, criticism would be raised on the government alone. But when these social schemes are funded by social bonds issued under the public-private corporations, the risk of such failure if any would be transferred to both government and private corporates.

Returns of Investors: Social bonds as a new opportunity of investment available for funding, investors seeking returns may find a new avenue for investment with certain social responsibility.

Social service providers and intermediaries: Social bonds allow a guarantee to the service-providing agencies and other intermediaries that their activities will be sponsored over a lengthy period providing continuousness to staff and clients.

CHALLENGES OF SOCIAL BOND IN OMAN: Every opportunity is associated with a challenge, and so is the case of social bonds (Disley, E., et al., 2011). Despite seeing abundant opportunities, Oman has to face certain challenges in the social bond issue process and implementation. At one end, the main reason for the social bond issue is the welfare of the society in the long run but at the same time, on the other hand, it has to give mark able returns to the investors.

The major hurdle is, many finance experts and corporations opine that the welfare of the community and society is the basic responsibility of the government and hence issuing social bonds are a needless and complex method of financing. Also, experts profound that government-sponsored financing is cheaper and more affordable compared to social bonds issued voluntarily by private corporations (Geoff Mulgan, et al., 2011). Besides, philanthropists are concerned that social bonds may divert the corporate-sponsored funds into government projects and agendas, which if not, would have been used by the corporates in other CSR activities.

Sometimes the issue of social bonds may raise a question of whether the society wellbeing outcome is greater than the cost involved for achieving the same (Kohli, J., et al., 2015). If not, it is a great challenge both for the government and corporations voluntarily involved in the process. The cost of the social bond issue process incurs both in the long run and short run. The investment amount made by the investors is a short-run cost, on the other end, conditional payment of returns to the investors on the successful completion of the welfare program is a long-run cost. Moreover, there are other hidden and transaction costs involved in the process that would incur on intermediaries and service providers by way of fees and other overhead expenses.

Social bond is a new era in the financial tool, the development and implementation is also a challenging task. It will be the method of doing and then learning for the process of the social bond issue and implementation, as there will not be any prior prototype of the same and hence may entail finance cost.

The selection of the target group for the well-being is another challenge for the authorities, intermediaries, and service providers. As discussed earlier there are many areas and groups to be uplifted and served such as women, youth, children, disabled people, and other vulnerable sects. Which target group to select out of these many for welfare is a task of confronting. Thus, Social bonds along with abundant opportunities Oman has a challenge on its issue process and implementations.

CONCLUSION: Social bonds are emerging testing tools of financial modeling, being where the raised funds are used for the well-being of the society and community (Zaheeruddin.M, 2022). During the time of depression in a country, where the allocated funds are not sufficient for gratifying community challenges, social bonds prove to be a ground-breaking instrument for the government, investors, and society. These are proved to be best when there are skewed incentives to progress, fund, and deliver preventive services that can optimize benefits and reduce costs for a better result in society. With the active involvement of intermediaries, service providers, and evaluators in the mechanism of the social bond, SB objectives, and community services are rendered more effectively. Based on the international data it can be viewed the tremendous increase of the social bond in recent years globally (Jones, L. 2020). As a budding financial tool, social bonds on the other side also have raised several queries on transparency, cost, answerability, and so on.

Oman though is a new entrant in the social bond concept of sustainable finance, seems to have a wide range of opportunities. Vision 2040 of social harmony and participation of different segments of society with a mission of well-being and social protection may be highly achieved with the help of social bonds effectively. The shortfalls in the process and implementation of social bonds are inevitable for Oman's market, but still, it may be better managed by the Capital Market Authority and yield specific advantages. For this purpose, a proper regulatory framework is required to be analyzed and formed such that the social outcomes, their benefits are monitored and measured in terms of the cost of the issue.

Overall, Social bonds have accomplished fascinating results globally showing the potential in the financial market and social services of the community. Hence, with continuous Government support, strong Capital Market Regulations, and various stakeholders' determination, social bonds may be proved successful and have great prospects in Oman.

REFERENCES:

1. Lawson, B. (2021). *Economics & country risk research & analysis, capital markets weekly*. IHS Markit. Retrieved from https://ihsmarkit.com
2. Burand, D. (2013). Globalising social finance: How social impact bonds and social impact performance guarantees can scale development. *Journal of Law & Business*, *9*, 447–502.
3. Center for Global Development & Social Finance. (2013). *Investing in social outcomes: Development impact bonds*. Retrieved from http://www.cgdev.org/sites/default/files/investing-in-social-outcomes-development-impactbonds.pdf
4. Choudhry, M. (2006). *Bond basics*. https://doi.org/10.1057/9780230627260_2
5. Disley, E., Rubin, J., Scraggs, E., Burrowes, N., & Culley, D. (2011). *Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough*. Ministry of Justice.
6. Mulgan, G., Reeder, N., Aylott, M., & Bosher, L. (2011). *Social impact investment: The challenge and opportunity of social impact bonds*. The Young Foundation. Retrieved from https://youngfoundation.org
7. International Capital Market Association. (2021). *Social bond principles: Voluntary process guidelines for issuing social bonds*. Retrieved from https://www.icmagroup.org/sustainable-finance/social-bond-principles/
8. Kohli, J., Golden, M., Coletti, J., & Bo'sher, L. (2015). *From cashable savings to public value: Pricing program outcomes in pay for success*. Center for American Progress.
9. Levine, R. (2005). Finance and growth: Theory, mechanisms and evidence. In P. Aghion & S. N. Durlauf (Eds.), *Handbook of economic growth* (pp. 865–923). Elsevier.
10. Jones, L. (2020). *Sustainable debt: Global state of the market report*. Climate Bonds Initiative. Retrieved from https://www.climatebonds.net/2021/04/record
11. Organisation for Economic Co-operation and Development. (2015). *Social impact bonds—Promises and pitfalls: Summary report of the OECD experts seminar*. Retrieved from http://www.oecd.org/cfe/leed/SIBsExpertSeminar-SummaryReport-FINAL.pdf

12. Oman Observer. (2021, July 13). Oman weighs legislation to enable issuance of green, blue and social bonds. *Oman Observer*. Retrieved from https://www.omanobserver.om
13. Oman Vision 2040. (2013). *Moving forward with confidence: Preliminary vision document*. Retrieved from https://national-day-of-oman.info/OmanVision2040-Preliminary-Vision-Document.pdf
14. Murugaboopathy, P., & Dogra, G. (2021, October 12). Global sustainable bonds see record issuance Jan–Sept 2021. *Reuters*. Retrieved from https://www.reuters.com/business/sustainable-business/global-sustainable-bonds-see-record-issuance-jan-sept-2021-2021-10-12/
15. Riedl, A., & Smeets, P. (2017). Why do investors hold socially responsible mutual funds? *Journal of Finance*, *72*(6), 2505–2550. https://doi.org/10.1111/jofi.12547
16. Schoenmaker, D., & Schramade, W. (2019). *Principles of sustainable finance*. Oxford University Press.
17. Times of Oman. (2021, August 4). CMA receives feedback on draft bonds and Sukuk regulation. *Times of Oman*. Retrieved from https://timesofoman.com
18. Zaheeruddin, M. (2022). Social bonds – An emerging tool in financial modeling; Approach of financial sustainability. *Global Journal for Research Analysis*, *11*(12). https://doi.org/10.36106/gjra