Recent Innovations in Socially Responsible Investing (SRI):
The Role of “Socially Responsible Bonds” in Spurring Sustainable Development

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While it has become clear that the global community needs to utilize partnerships between the public and private sectors to achieve broader economic and development goals, there has been less discussion about the potential role of investors in shaping and participating in this movement. Part of this may be due to familiarity with traditional methods such as official development assistance (ODA) and relatively less understanding about recent innovations in socially responsible investing (SRI), including social impact bonds and development impact bonds. As economies like Korea have begun to show greater interest in harnessing various investment strategies to achieve broader social goals, we find it critical to better understand what financial tools are available within the context of encouraging sustainable development. As such, this paper highlights the potential role investors can play in contributing to broader social issues both at home and abroad through an examination of recent innovations in SRI – specifically, the category of so-called “socially responsible bonds.”

Keywords: development impact bonds (DIB); financial innovation; social impact bonds (SIB); socially responsible bonds; socially responsible investing (SRI); sustainable development

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I. INTRODUCTION

When it comes to the question of whose responsibility it is to solve social problems, we have seen a wide range of arguments put forth in practice and in academic literature. The traditional expectation is that governments provide for citizens’ safety, welfare and basic infrastructure via tax revenue. At the same time, it is clear that governments face real budgetary constraints in fulfilling these and an expanding scope of social needs, leading scholars such as Eggers and Macmillan (2013) to argue that “government alone can’t solve society’s biggest problems.” This is particularly challenging in lesser economically-developed countries, resulting in efforts by more developed economies to aid the former’s economic development and longer-term sustainability – noticeably through official development assistance (ODA).

In more recent years, there have been calls to examine the potential of partnerships in achieving broader social goals. In fact, Goal 17 of the UN Sustainable Development Goals (SDGs) specifically highlights partnerships between public and private sectors in achieving global sustainable development, or “the achievement of economic growth, social inclusion and environmental protection … to meet the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations 2016).

At the same time, partnerships as framed by the UN SDGs emphasize greater cooperation between the public and corporate sector, with little specific mention of the role of investors. Given that a growing segment of investors (i.e., socially responsible investors) actively seek to align financial returns with social impact (Renneboog et al. 2008; Sparkes 2002), greater attention should be paid to the potential role the investing community can play in spurring sustainable development at home and abroad. Indeed, we find that financial innovations such as social impact bonds (SIBs) and development impact bonds (DIBs) provide convincing support for this view.

To address this gap in the literature and provide useful insight to practitioners about recent innovations in SRI, this paper provides a comprehensive review of what we coin “socially responsible bonds.” While this paper focuses on social impact bonds and development impact bonds, we will also examine the emergence of green bonds, health impact bonds, sustainability bonds, environmental impact bonds, blue bonds, gender equality bonds and humanitarian impact bonds. In addition, this paper will present data on Korea and recent trends in socially responsible bond investments. Lastly, this paper will conclude with final remarks and some directions for future research.