SOCIAL KPIs MATTER

Setting Robust Indicators for Sustainability-Linked Finance

DISCUSSION PAPER

This paper highlights current trends in the use of social key performance indicators (KPIs) in Sustainability-Linked Finance (SLF), with a focus on the infrastructure and natural resources sectors. Given the diversity of these sectors and evolving nature of SLF itself, this paper is not intended to offer a finite, comprehensive reference guide on the use of social KPIs in SLF transactions. Rather, it explores the current landscape, looks ahead at the social issues that might drive the next generation of KPIs, and offers insights around their implementation based on IFC's own experiences to date. The paper aims to stimulate discussion among market participants on opportunities and challenges in advancing the use of social KPIs in SLF to create more inclusive and sustainable growth.

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Executive summary

In only a few years, sustainability-linked finance (SLF) has introduced a new dimension into the universe of financial instruments available to companies and investors. The new dimension is this: SLF holds borrowers and issuers accountable for meeting stakeholders' expectations of long-term societal value creation—and not just corporate profit.[1] It holds particular promise in developing countries, where social and environmental challenges are vast.

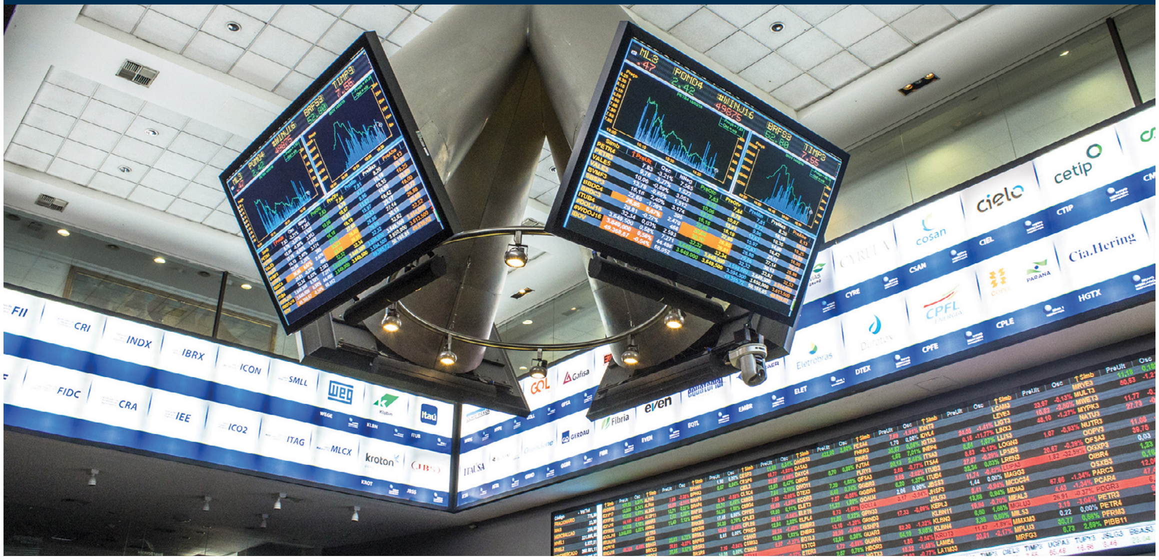
Sustainability-linked financial products such as sustainability-linked loans (SLLs) or sustainability-linked bonds (SLBs) incentivize borrowers and issuers to pursue sustainability targets by tying pricing to their achievement. When key performance indicators (KPIs) are core and material, the targets are ambitious, and underlying methodologies are transparent, SLF transactions can help companies deliver on their sustainability efforts in many aspects of environmental, social, and governance (ESG) performance. **With a focus on development finance, this paper explores the current trends and future directions in integrating social metrics in SLF transactions. It also offers recommendations for advancing the use of social KPIs by SLF market participants.**

Despite a slowdown in 2022, SLF volume has grown in recent years. As of June 2023, total global SLF issuances surpassed the $1.6 trillion mark, with the majority— about 85 percent—in SLLs, and the remaining 15 percent in SLBs. At 52 percent, the majority of SLF issuances to date are concentrated in Europe and Central Asia. SLF issuances in low- and middle-income countries totaled about $113 billion as of June 2023, representing only 7 percent of the total.[2]

Based on the available data, about 69 percent of total global issuances to date have corporate environmental KPIs—with carbon emissions-related KPIs the most common. **The number of transactions using social KPIs lags, with about 21 percent of SLLs and SLBs including social and/or governance targets.**[3] Most of the transactions with social KPIs also include environmental metrics or environmentally friendly use of proceeds. Transactions to date that include social KPIs typically feature gender equality and worker safety metrics.

The paper notes that internal and external stakeholders are playing an increasingly influential role for businesses. The centrality of these stakeholders is underpinned by a number of regulatory policies and voluntary market standards that call for increased disclosure of non-financial information, including environmental and social aspects of corporate performance. There is also the growing public embrace of "stakeholder capitalism," in which companies are expected to not just optimize short-term profits for shareholders and do no harm, but to seek long-term value creation, by considering the needs of all their stakeholders, along with society as a whole.[4] Social KPIs can help companies do just that, moving beyond "do no harm" to creating additional value.

Despite the growing focus on the private sector's societal role, the SLF market has yet to see widespread uptake on social KPIs. **The limited use of social KPIs is likely due to several factors, including lack of standardized market definitions and benchmarks, limited availability of data on past company social performance, and the context-driven nature of social KPIs.**



An additional challenge for market players involves demonstrating robust ESG commitments, at a time of growing concern about green- and sustainability-washing. Questions may arise about the degree of social KPI relevance and materiality to the borrower's business and to the local setting, and whether the targets are meaningful and ambitious. **Evidence, benchmarking, monitoring, and third-party opinions will provide the credibility that is essential for SLF to deliver on its promise and continue to thrive as a development finance instrument.**

These same challenges also present opportunities for SLF market participants. Companies that broaden their focus beyond climate will gain a better understanding of their wider role in economies and societies. They can also demonstrate their contributions to the United Nations Sustainable Development Goals (SDGs), which will attract the attention of impact investors who carefully review such commitments when deciding where to deploy their capital.[5] In addition, social and climate issues are deeply intertwined. The current focus on a just transition—a transition to a low-carbon economy that leaves no one behind—illustrates this connection well. For companies this implies commitment and actions to ensure the participation of diverse stakeholders in their corporate climate journeys.

As more companies seek to integrate social issues into their operations, several business imperatives are likely to inform the future use of social KPIs. In the infrastructure and natural resources space, these include workplace diversity and inclusion, workforce safety and well-being, access to services and infrastructure, building good community relations, just transition, and sustainable supply chain development (Figure 1).

FIGURE 1. Business imperatives that will drive future growth in social KPIs

With a significant opportunity at hand, what can be done to advance the use of social KPIs in SLF transactions? Raising awareness and understanding among all market actors on the value of social KPIs will be critical. There is a need for leadership and innovation by pushing the boundaries beyond commonly used social KPIs and setting ambitious targets. Robust tracking of results over time will provide evidence of impact, distinguishing companies with genuine intent from from companies that over-promise and under-deliver on sustainability commitments.

Current SLF transactions with social KPIs are blazing the trail and setting the standard for others to follow. The paper outlines four actions to help companies and financiers heighten their use of social KPIs:

1. **Identify material social issues and set relevant and credible KPIs.** This involves conducting a formal and inclusive stakeholder engagement process and identifying the social issues most material to company operations and stakeholders in a given local setting. Once key issues are identified, ensure the relevance of selected KPIs by linking them to desired outcomes.
2. **Tackle the benchmarking challenge,** which starts with establishing baseline performance using information from the three previous years. If a company does not disclose the baseline data publicly, collect it from their internal databases and seek external verification on provided numbers. Recognize that benchmarking social data can be difficult and pay attention to the local context.
3. **Lay out the roadmap for achieving ambitious targets.** As appropriate, make use of global frameworks such as the International Organization for Standardization, the International Labour Organization, International Sustainability Standards Board reporting, sectoral publications from leading think tanks, and the growing number of private ESG databases that show what others are doing. Address the local development context by referring to relevant national plans and strategies. The roadmap should include interim—preferably annual—milestones. It also must ensure that foundational elements such as internal policies and procedures are in place to enable success.
4. **Lean into transparency,** to manage concerns and accusations of greenwashing and sustainability -washing. Ensure that there is clear communication about the materiality and ambition of selected KPIs and targets given the borrower's business and local context. This includes regular year-over-year reporting on target achievement.

Ensuring that the SLF instrument is designed with ambition, transparency, and credibility will require the collective effort of all market actors. IFC is eager to play its part. We welcome comments on the paper and look forward to hearing from others about their experiences with SLF transactions that include social KPIs. Please send comments to: commdev@ifc.org

The case for increased use of social KPIs

In just a few years, sustainability-linked finance (SLF) has grown in volume and popularity among market actors pursuing sustainability objectives. Despite a slowdown in 2022, when contractionary monetary policy and macroeconomic uncertainty depressed global bond issuances, the premise of the sustainability-linked instruments remains attractive to issuers/borrowers.[6] This is due to the flexibility of SLF compared to use-of-proceeds instruments. Both sustainability-linked loans (SLLs) and sustainability-linked bonds (SLBs) incentivize company behavior change through the pursuit of sustainability targets by tying pricing to target achievement (Box 1).

In all SLF transactions, key performance indicators (KPIs) and sustainability performance targets (SPTs), including social metrics, must meet several requirements.[7]

- KPIs must be relevant, core, and material to the issuer's overall business, and of high strategic significance to the issuer/borrower's current and/or future operations.
- Targets must be measurable or quantifiable on a consistent methodological basis.
- KPIs and targets must be externally verifiable and benchmarkable. This means using an external reference or definitions to facilitate the assessment and calibration of the target's level of ambition, to the extent possible.

BOX 1. Green loan with financial incentives linked to climate and social KPIs

Coelba is a subsidiary of Neoenergia, a publicly traded Brazilian energy company that is in major growth mode. Enabled by IFC's BRL550 million (about $115 million) green loan combined with sustainability-linked features, the company embarked on an ambitious network expansion, with a goal to add about 700,000 users over a five-year period. The financing will also enable system upgrades and digitization that are expected to reduce energy losses.

The loan was the first such product for a power distribution company in Latin America. It combines green use-of-proceeds with sustainability-linked financing features, including reduction of carbon intensity and improvement of gender metrics. The borrower obtained external validation of all KPIs. Achievement of targets by 2026 will reduce the company's interest rate applicable to interest periods following the measurement date.

ABOUT COELBA'S CLIMATE AND GENDER KPIS

The company's inaugural sustainability-linked financing framework defines corporate-level climate and gender KPIs and sustainability performance targets.

- **Climate:** The first indicator covers Scope 1 carbon intensity, with a target to achieve 50gCO2eq/kWh by 2026. The second indicator is an independent validation of Scope 1,2, and 3 greenhouse gas emissions targets by the Science Based Targets initiative (SBTi).[8]
- **Gender:** The chosen indicator will measure the percentage of female electricians compared with the total number of electricians. In an industry where women hold few technical roles, the company has committed to achieving a 10.7 percent female electrician workforce by 2026, against a 2019 baseline of 0.8 percent.

A company's social performance includes two separate dimensions. The first is about managing risks and mitigating and avoiding impacts: **"Do no harm."** IFC requires all clients to comply with its Performance Standards to manage negative environmental and social risks and impacts.[9]

The second aspect of social performance is the opportunity to create additional value and benefits: **"Creating positive impact." Creating positive impact also responds to the growing public embrace of "stakeholder capitalism," in which companies are expected to not just optimize short-term profits for shareholders and do no harm,**[10] but to seek long-term value creation, by considering the needs of all their stakeholders, along with society as a whole. Such efforts lie at the heart of SLF transactions, requiring companies to set ambitious social targets that go beyond business as usual.

This means that a company is not only in compliance with existing requirements, but also proactively implements good practices across its operations, striving for continuous improvement. Robust strategies and systems that help identify and manage material social issues are the necessary starting point. They are fundamental for ensuring that SLF transactions are underpinned by indicators and targets that meet the technical requirements of SLF principles. (See page 4.)

Social and environmental issues are deeply intertwined. Often, action on one triggers or necessitates action on another.

Companies can choose to focus on a wide range of social issues. Many yield clear business value, such as a heightened focus on workplace diversity and inclusion and on promoting gender equality across company's operations, supply chain and in host communities.[11] Supply chain resilience is another example. According to the 2022 CDP Global Supply Chain Report, several issues, such as climate change, deforestation, and water insecurity, could contribute to future cost increases for corporate buyers. The report, which analyzed disclosures gathered from more than 8,000 supplier companies across various sectors, estimates that such cost increases could amount up to $120 billion in the next five years.[12] Other important aspects of supply chain resilience include labor and working conditions, respect for human rights, and practices that encourage diversity, equal opportunity, and inclusion.

Social and environmental issues are deeply intertwined. Often, action on one triggers or necessitates action on another (Box 2). For example, greater gender diversity is linked with climate action; companies with boards composed of 30 percent women have demonstrated improved climate governance and innovation.[13]

BOX 2. Linking reduced water consumption with community engagement[14]

French company Saur is an international provider of water and sanitation services. Saur's sustainability-linked framework lists three KPIs that are material to the company's business and aligned with its corporate social responsibility roadmap. Among them: a KPI on water management, which calls for measuring water withdrawals per subscriber. This KPI encompasses the entire value chain of drinking water production and distribution, from improvements on network performance and yield of production plants to addressing sustainable use of water by the end user. To achieve the company's 2027 water reduction KPI, engaging with stakeholders to ensure reduced water consumption will be critical. Planned measures include distribution of water saving kits and targeted communication actions with subscribers, among others.

The influence goes both ways. The impacts of climate change come with a significant social dimension and numerous studies have shown that climate change disproportionately impacts the most vulnerable.[15] Increasingly, companies operating in places hard hit by climate change will be expected to help build community resilience against climate risks.

More broadly, **social acceptance plays an important role in implementing and achieving climate policies and actions.**[16] Stakeholders expect that the transition to a low-carbon economy will be just and will yield benefits shared by all, across countries, regions, industries, communities, and workers themselves. This means that supply chain sustainability and social concerns will need to factor into a company's climate equation. Bringing diverse stakeholders along is an important factor in ensuring that corporate climate journeys are credible and are perceived as credible. A lack of trust can negatively affect the company in multiple ways, from a damaged social license to operate and reputational repercussions due to accusations of green- and sustainability-washing to increasing the cost of capital.[17]

The heightened global social and climate conscience underscores the increasingly influential role of internal and external stakeholders for businesses. A growing number of investors are looking to shape real-world outcomes in line with the United Nations Sustainable Development Goals (SDGs), which set a global framework and metrics for improving the world, along interconnected economic, social, and environmental dimensions. One related tool—the UN Environmental Programme's Impact Radar—translates the SDGs into areas of impact for businesses, helping investors decide where to deploy their capital, particularly in the context of developing countries.[18]

Other organizations monitor and highlight social issues as well. For example, the World Economic Forum's most recent Global Risks Report named erosion of social cohesion, cost of living crisis, and involuntary migration among the top ten risks in the coming years.[19] Meanwhile, the covid-19 pandemic elevated the focus on public health and social justice.[20]

Against this backdrop of increased global sustainability awareness, capital markets have placed greater emphasis on corporate non-financial information disclosure, by way of regulatory policies or voluntary market standards. Among these: the recently published International Financial Reporting Standards S1 General Requirements for Disclosure of Sustainability-Related Financial Information, the European Sustainable Finance Disclosures Regulation, and the ISO 26000:2010 International Standard on Social Responsibility.[21] In addition, ESG-themed shareholder resolutions on climate change have surged, along with resolutions on employee health, safety, and wellness; fair labor practices; and diversity and inclusion.[22]

Attending to social performance is critical to the company's reputation and long-term value creation. Doing so will enable private and public sector companies alike to generate value for themselves, their stakeholders, and the broader community while managing risks and contributing to the public good.

Current market trends: SLF with social KPIs

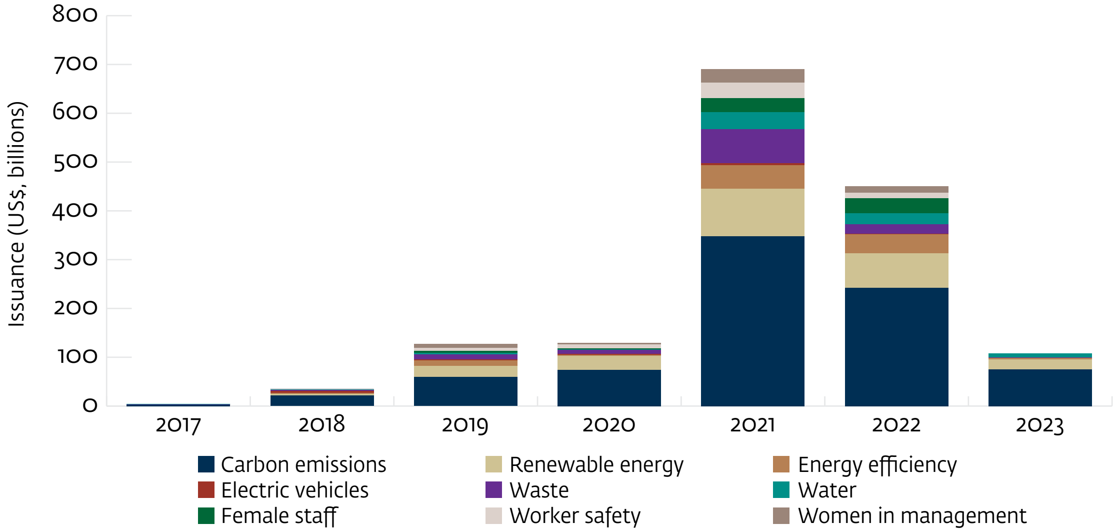
As of June 2023, total global SLF issuances surpassed the $1.6 trillion mark, with the majority—about 85 percent—in SLLs, and the remaining 15 percent in SLBs. At 52 percent, the majority of SLF issuances to date are concentrated in Europe and Central Asia. SLF issuances in low- and middle-income countries add up to about $113 billion as of June 2023, according to Bloomberg data, representing only 7 percent of the total.[23]

About 69 percent of total global issuances to date have deployed corporate environmental KPIs. Carbon emissions related KPIs have proven the most common, year after year. To date, only about 21 percent of SLLs and SLBs included social and governance targets (Figure 2). The remaining 10 percent are based on the use of the third-party ESG ratings, but there has been a move away from using these ratings.[24]

Among social performance targets used, gender equality and worker safety have been the most common. Other SLF transactions with social KPIs have also used targets for labor rights, education, and supply chain performance. It is worth noting that many of the issuances with social metrics also included environmental KPIs. Public disclosure remains limited, particularly for SLLs. For SLBs, disclosures are written into bond documentation.

Demand is growing among investors, civil society, regulators, and companies themselves for a wider and more innovative range of indicators, as companies seek to leverage these instruments to address various sustainability priorities.[25] While more indicators are in use today, they are mostly environmental—focused on water, energy efficiency, and waste, among others—or gender-related—focused on female employees and women in management. The creation of alternative social KPIs, such as measures of workplace diversity that go beyond gender, measures related to quality and accessibility of public services and infrastructure, and supply chain performance on social aspects, has received little attention.

FIGURE 2. **Annual growth of sustainability-linked financing by corporate metric, 2021**



Source: BloombergNEF, Bloomberg L.P.

Business imperatives likely to drive future social KPI growth

As social issues take on increasing relevance for internal and external stakeholders, **companies will need to understand, strategically plan, and actively drive their sustainability agendas. Extending well beyond environmental concerns, this agenda covers a growing number of social topics, such as inclusion, accessibility, human rights, and just transition, among others.** As the social KPI space evolves, the next generation of social KPIs will:

- Build on and strengthen measurement of the social metrics already used in SLF transactions, such as diversity in the workplace.
- Ensure that SLF is deployed in materially driven performance areas, that it will integrate credible new social metrics into SLF transactions, and that it will push innovation in measuring targets for social KPIs.

Several business imperatives are likely to drive future growth in the use of social KPIs. These imperatives are aligned with frameworks that outline material categories of social issues, such as the recently updated KPI registry by the International Capital Market Association and ISO 26000-2010.[26] The imperatives presented in this paper include improving workplace diversity and inclusion, supporting a productive and healthy workforce, expanding access to services and infrastructure, building and maintaining good community relations, ensuring a just transition, and promoting sustainable supply chains (Figure 3).

To date, however, SLF transactions with social KPIs have deployed a relatively narrow set of indicators in the pursuit of these business imperatives. These indicators are summarized in Table 1 —not as a comprehensive list or an endorsement of a particular approach, but rather as examples, given that the SLF market is still in its early stages and continues to evolve. Additional suggestions for social KPIs are provided in Appendix A.

FIGURE 3. Business imperatives that will drive future growth in social KPIs

TABLE 1. **Overview of business imperatives with examples of associated social KPIs used in SLF transactions**

BUSINESS IMPERATIVE	WHY IT MATTERS	EXAMPLES OF INDICATORS USED TO DATE
Improving workplace diversity and inclusion	• There are critical gaps in gender equality, made worse by the COVID-19 pandemic. • Diverse groups, such as young people, the LGBTI community, refugees, people with disabilities, racially and ethnically diverse groups, can find it challenging to find employment in the open market. Yet, they represent a significant untapped resource. • Gender, racial, and ethnic diversity can contribute to better financial returns and improved organizational performance.[27]	Indicators in this category are widely used. Common measures include gender diversity on boards and/or in senior management. Examples: • Percentage of female employees • Percentage of women in management • Percentage of women in technical jobs • Wage parity between men and women • Percentage of suppliers with majority female ownership • Percentage of employees from underrepresented racial and ethnic groups • Number of employment opportunities offered to apprentices
Supporting a productive and healthy workforce	• Worker health is essential for household income, productivity, and economic development. • The covid-19 pandemic elevated workplace health and safety issues and spurred an expanded focus on wellness, well-being, and healthy lifestyles. • Many aspects, including workplace inclusion, cybersecurity, quality, and safety of the physical environment, workplace sexual harassment, and community health, can influence health, safety and overall well-being of employees. • The positive impacts of workplace health initiatives on organizational performance, include reduction in sick leave absenteeism and health-care costs for companies.[28]	Indicators in this category are widely used. Most measures look at health and safety occupational performance. Examples: • Health, safety, and environment (HSE) training hours • Work-related injuries/total recordable incident frequency • Industry specific measures such as road safety (i.e., percentage of road traffic incidents/injuries (RTI) rate reduction)

BUSINESS IMPERATIVE	WHY IT MATTERS	EXAMPLES OF INDICATORS USED TO DATE
Expanding access to services and infrastructure	• Extending public services such as electricity, water, sanitation, telecommunications, and transport to the underserved and poor improves income generation opportunities and productivity across multiple sectors of the local economy. • Meeting the needs of underserved communities requires careful attention to the design and delivery of services and infrastructure. Of note: men and women have diverse needs and use infrastructure differently. • Gender inequality poses significant barriers to service and infrastructure access for women and girls. • Several dimensions of access are important, including availability, accessibility, acceptability, and quality. Depending on the country and industry, the relative importance of these dimensions will vary.	Use of indicators in this category is growing, with a significant diversity of potential KPIs depending on sector and industry: • Number of new connections in underserved/ rural communities • Number of mobile data users and 4G net additions • Number of homes connected • Responsible lending to women entrepreneurs, including in underserved communities • Number of patients provided with essential medicines • Volume of essential medicines sold and delivered to patients • Patient satisfaction (i.e., responses that report positive experience as "most of the time" or "always") • Water withdrawals per subscriber for drinking water production
Building and maintaining good community relations	• Projects developed on community lands often come with opportunities for delivering positive impacts for project-affected populations. • The intended benefits, which are often related to fundamental human rights such as access to basic services, are a key expectation at local, regional, and national levels. • Social and environmental issues are intertwined. Progress on many important environmental goals such as cutting greenhouse gas emissions and tackling biodiversity loss cannot be accomplished without community participation. • Building community relations is critical to a company's social license to operate: the ongoing acceptance of a project, company or industry by the relevant stakeholders. Lack of social license can translate into stakeholder opposition and lead to work stoppages or delays, increase the cost of putting a resource into production, and negatively impact reputation. Good community relations can help mitigate these risks and foster a mutually beneficial presence.[29]	Few examples, with most indicators measuring output such as value of annual community contributions or number of people or beneficiaries trained. Examples: • Value of annual community fund contributions • Number of underprivileged people trained in energy management • Number of people trained in areas such as smartphone use, digital skills and safety, and entrepreneurship • Extent of community priorities implementation, as recommended in the community investment plan by local partners • Number of trainees certified • Predetermined and registered acreage under community outgrower programs • Percent increase in Indigenous/ local procurement of corporate materials and services

BUSINESS IMPERATIVE	WHY IT MATTERS	EXAMPLES OF INDICATORS USED TO DATE

Ensuring a just transition	• Demands of decarbonization should be balanced with the need to respect the rights of workers and communities.
	• There is an expectation that the clean energy transition will create a significant specialized workforce gap, leading to the need for re-skilling and re-deployment programs for workers.
	• Ensuring a just transition is an important expectation of a variety of stakeholders. The just transition includes a number of critical social fundamentals. Of particular relevance for the private sector[30]
	    • Supporting universal access to energy and a net-zero emissions world
	    • Evolving the energy workforce to support a low and zero carbon energy future
	    • Building community resilience
	    • Collaboration and transparency, which implies stakeholder dialogue and participation
		There are very few examples of just-transition indicators in SLF transactions. It is worth noting that just transition is a highly contextual process. KPI selection should be carefully considered in the context of relevant economic, social, and environmental changes resulting from the just transition. Examples:
		• Employees redeployed
		• Investments in SMEs in areas with high unemployment challenges and where the company is active
		• Customers benefiting from financial aid, energy efficient homes, and better understanding of energy consumption

Promoting sustainable supply chains	• In the current global landscape, building resilient supply chains will require focus on environmental and social issues and will remain critical. With increased reporting and regulatory requirements, companies will need to have more visibility into their supply chains.[31] • Opportunities for supply chain engagement on social issues include diversity and inclusion, health and safety, human rights protections, and local community impacts. • Implementing a supply chain sustainability management and supplier engagement strategy requires collaboration and communication among various functions and stakeholders across the supply chain.	Few examples. Most of the disclosed examples looked at supplier engagement— supplier training, suppliers screened against certain risks, suppliers implementing corrective measures—and supplier performance on issues such as gender diversity. Examples: • Percent of suppliers with female major shareholders • Percent of discretionary spend procurement from women-owned and minority-owned suppliers • Number of suppliers with enhanced ESG reporting • Metrics on suppliers screened for human rights risks (identified in one transaction reviewed)

Key considerations in advancing social KPIs

Companies can explore a number of social KPIs in the context of an SLF transaction, but the final selection must meet several requirements, as laid out in documents such as the International Capital Market Association's "Sustainability-Linked Bond Principles," and "Sustainability-Linked Loan Principles," from the Loan Syndications and Trading Association.[32]

The company's own strategy and materiality assessment are critical to this final selection, given that a top requirement is ensuring that KPIs are relevant, material and core to the business. Ambition is essential, with the degree of SPT ambitiousness calibrated against the company's past performance, along with relevant benchmarks, such as peers' targets, sector or country performance, or other proxies such as an existing body of academic reference materials.

When it comes to social KPIs, the limitations in data availability represent a significant and overarching challenge. It may simply be because a company does not have a sufficient track record for the chosen KPIs. Adding to the difficulty: Few benchmarks exist, since social metrics are highly context-driven.

The lack of standard metrics is another issue. For example, the goal of many community programs is to generate a social license to operate for a company. But there are no standard metrics for this. Even seemingly more straightforward KPIs, such as local jobs created, can become difficult to assess because of complicated questions such as: At what point a job is created? How long should the job exist before it is counted? Should indirect and direct jobs be measured? Who can validate the results achieved?

There are other considerations as well. Many of the company-related and material social interfaces that could have associated KPIs might not be fully under company's direct operational control, such as supplier performance or project-affected communities' goodwill towards them. In addition, the country-level operations of global businesses may need the flexibility to select the social issues that are meaningful for them. For instance, country-specific regulations could influence the choice of social issues to prioritize and measure. As a result, making decisions about which social KPIs and associated targets to choose can become quite cumbersome.

To begin overcoming these challenges, senior company leaders can play an important role, as champions for social KPIs. According to a recent survey by OCEG, a corporate governance advocacy non-profit, more than half of 530 corporate executives have little or no confidence in the reliability and maturity of their ESG programs. Only 9 percent of respondents were highly confident in their companies' ESG programs.[33] This raises an important question: What types of skills, systems, and infrastructure do senior company leaders need to set a strong tone at the top and drive action on ESG issues throughout the organization? On this journey, material environmental and social issues should both matter.

There is a need for innovation here; for pushing the boundaries beyond the social KPIs currently used, defining what constitutes an ambitious target, and clarifying how to measure progress or lack thereof. Other market participants, including sustainability coordinators and second-opinion providers, should support collective action and elevate their focus on social metrics in SLF transactions.

It is important to keep in mind that current SLF transactions are setting the bar for others. Here are four proposed actions to advance social KPIs:

1. **Identify material social issues and set relevant and credible KPIs.**
2. **Tackle the benchmarking challenge.**
3. **Lay out a roadmap for achieving ambitious targets.**
4. **Lean into transparency through thorough disclosure.**

1. Identify material social issues and set relevant and credible KPIs.

Before setting social targets or indicators, companies first need to identify the issues that are relevant and material to their operations and that should tie into the SLF framework. Companies make this determination based on the outcomes of meaningful stakeholder engagement, commonly presented in a sustainability materiality matrix.

On metrics, the goal is to make credible choices on the indicators to anchor SLF transactions and to reward the right behaviors. While some social issues are difficult to measure, others can be grounded in international authoritative standards such as the International Bill of Human Rights, the International Labour Organization, or global frameworks such as the SDGs. Companies can also make use of established standards and global ratings, such as building certifications, gender certifications, and accessibility standards, to measure some aspects of social performance.

It is also important to identify the KPIs that make the most sense, since not all KPIs, on their own, offer the most meaningful representation of progress. For example, maintaining good community relations is a common material issue in many industries. Metrics tracked in sustainability reports often include the amount of money invested in the communities and/or the number of community complaints received. While such indicators have value, they might not reflect the ultimate quality and longevity of company-community relations. It is possible for companies to invest a great deal of poorly targeted money into communities, only to end up with worse relationships and greater liabilities. (See suggestions for additional indicators in Appendix A.)

Similarly, merely reporting the number of jobs created does not tell the full story about the quality of such jobs. Nor does simply reporting an increase in complaints or grievances, which could be interpreted as a problematic trend. But such increases are not always a bad thing. In some cases, it can mean that a company's grievance mechanism is trusted. The increase could reflect the fact that local stakeholders are making more use of the mechanism because they view it as a valid way to engage. In other situations, a rise in the number of grievances, especially if there are repeated negative behaviors, can indeed be worrisome. Just looking at the amount the company invests in the communities or the number of complaints may not give an accurate understanding of a company's performance on community relations.

In addition, social KPIs are often context-driven, which means that benchmarking can be a challenge. Identifying the KPIs that make the most sense should focus not just on which indicator captures the issue of interest in a given local setting, but also on the contextual variables that are relevant for establishing the ambitiousness of targets, such as current market conditions, existing regulatory frameworks, and stage of project development.

There are ways to address these issues, including additional indicators that drill down on the specifics associated with a particular KPI, which can help tell a deeper and more comprehensive story about the impact of the social efforts. For example, perceptions-based data on how workers, communities, or suppliers view corporate actions in a given area could complement the KPIs that measure the reach of such actions. Telling a clear story about why a chosen indicator is relevant in a given local setting and how it connects with impact on the ground also makes a difference. To demonstrate: Indicators that measure improvements in water accessibility or quality typically tie in with positive societal impacts, such as improved health outcomes, better school attendance, and freed-up time for other productive activities.[34]

2. Tackle the benchmarking challenge.

The absence of market benchmarks and the lack of company data on past social performance can make benchmarking difficult.[35] But that doesn't mean it should not or cannot be done. In fact, at a time when many market players and some corporate leaders still view social KPIs as soft and not nearly as rigorous as environmental KPIs, it is even more important to focus on setting quantifiable indicators and strong social targets.

This begins with setting the baseline. As past performance of the company is an important benchmark, efforts to collect relevant and consistent data may need to start well in advance of the SLF transaction and should be grounded in robust environmental and social management systems. **A rule of thumb is that there should be a minimum of a three-year track record for a selected KPI, representing past performance.**[36] This is because investors need to see the starting point and historic performance to calibrate ambitiousness.

When it comes to the benchmarking required to establish the ambitiousness of the target, depending on the data in question, benchmarks may not be readily available. If this is the case, referencing global frameworks and targets such as the SDGs may help. Other resources, such as national and local development plans or market studies, can help determine whether the scale of the proposed social initiative—on cost, intermediate results, or final impact—can be considered ambitious.

Alignment among all market actors on how the selected targets meet the ambitiousness principle is critical. Local benchmarking matters here. This means ensuring that the target is ambitious and measurable compared to other local players in the same sector. Achieving this alignment may require proactive outreach to the relevant stakeholders, especially second-party opinion providers.

3. Lay out the roadmap for achieving ambitious targets.

To be considered ambitious, SPTs should go beyond business-as-usual when compared with three-year historic performance and industry/national science-based benchmarks.

But setting SPTs is only the beginning. Achieving the targets is the goal, and a clear roadmap is needed every step of the way.

The roadmap can elaborate on the foundational elements that are needed to achieve the KPI. Are they in place? Are they likely to be in place? For example, if the KPI is about hiring more women, exploring whether policies exist to support this metric must be part of the equation. Other underlying issues to address include retention programs, harassment tracking, appropriate career opportunities, and pay gaps, among others.

Setting interim targets is an important step along this journey. Such interim targets can be in the form of annual milestones, in line with the most recent guidance on sustainability-linked loans and bonds.[37] Linking pricing to these targets could prove useful, so that corrections to the action plan are not delayed.

> *The opportunity here is to set and view social performance targets as a way to drive the needed change and hold teams accountable on this journey, throughout the likely leadership transitions and restructurings. In this context, SLF instruments, with their built-in incentive structure, serve as a platform that supports organizational change.*

In general, the opportunity is to set and view SPTs as a way to drive the needed change and hold teams accountable on this journey, throughout the likely leadership transitions and restructurings. In this context, SLF instruments, with their built-in incentive structure, serve as a platform that supports organizational change. For example, IZSU's KPI on hiring more women into jobs previously only held by men will need to include broader efforts to bring about culture and mindset change throughout the organization. (See case study on IZSU.)

Remuneration can help incentivize the strengthening of sustainability culture and action on mobilizing the entire organization to achieve social priorities. In fact, some infrastructure companies have introduced remuneration policies tied to the achievement of ESG targets for senior leaders (Box 4).

Tying ESG metrics to executive pay is a growing trend. As of 2021, 45 percent of FTSE 100 companies included an ESG measure in executive pay.[38] Doing so can promote accountability, closing the gap between what the company has committed to and what the company is actually doing.

BOX 4. Creating pay incentives to drive sustainability goals

Italian energy producer Enel links leaders' pay to progress on the transition to clean energy.[39] Enel's remuneration policy includes several mechanisms. A variable short-term remuneration includes objectives related to the specific company function of each manager. A long-term variable remuneration includes a quantitative climate objective—the reduction of Enel Group's CO_2 emissions per kWh over the next three years, representing 10 percent of executives' total long-term variable remuneration. A recent addition is a long-term incentive system for the CEO and top management related to the growth in the net consolidated installed capacity of the company's renewables compared with the total net consolidated installed capacity. This represents 15 percent of these executives' long-term variable remuneration.[40]

Technology can be another enabler of better social KPI tracking. For example, use of higher quality and more frequent satellite imagery has facilitated stronger monitoring of illegal labor by detecting and tracking time spent in fields, construction sites, quarries, mines, and forests. Advances in artificial intelligence have revolutionized how large volumes of complex data are processed. Sentiment analysis algorithms, also known as "opinion mining," are being used in ESG investing. These algorithms can be trained to analyze the tone of certain conversations, including social media, and gauge brand perceptions.[41]

The ESG Analytics Lab at the University of Pennsylvania's Wharton School, in partnership with Amazon Web Services, is currently exploring the use of thematic coding related to stakeholder sentiment. By digging into data from various media such as social media platforms and conflict databases, it is possible to measure the level of stakeholder support/sentiment for a concrete development. While this is a niche development, still in its infancy, it demonstrates what is possible in using technology to aid social KPIs measurement.

4. Lean into transparency through thorough disclosure.

Concerns and accusations of greenwashing and sustainability-washing in the SLF market have grown. Questions that are being raised concern the materiality of selected KPIs given the borrower's business and local content, whether the targets are ambitious (see Box 5 for more information). Credibly addressing these concerns by the market participants is a key for the SLF to continue to thrive.

On the one hand, ESG reporting is already difficult to tackle as it includes more than 600 reporting provisions.[42] On the other hand, corporate reporting on certain areas, particularly social performance, remains insufficient. As an example, a 2022 assessment from the World Benchmarking Alliance provided a global state of play focused on three themes: respect for human rights, decent work, and ethical conduct. It looked at 1,000 leading companies in more than 60 countries, identifying a lack of meaningful data disclosure on social topics as well as a lack of comparable disclosure standards. The study's authors noted that some companies may say more than they do, and some may do more than they say.[43] Increased public disclosure on social performance in SLF-related reporting can represent an opportunity for companies to show that they are both saying and doing the right thing.

As noted, SLF transactions come with a requirement to report on KPIs to track performance, typically also requiring external verification. For SLLs, such disclosure occurs within the closed circle of borrower and lender. For SLBs, reports are more likely to be public. Third-party reporting and verification is now a requirement for both SLLs and SLBs.

More work is needed to refine public reporting on SLF KPIs. Information disclosure currently takes various forms—from stand-alone audit reports to a footnote in an annual report to a section in a sustainability report. Even if the data is made available, year-on-year reporting may not have a consistent format. As a result, tracking data on corporate performance over the years remains an issue.

As the SLF market gains further traction, companies and lenders will likely see even greater scrutiny on transactions and whether they are leading to real progress. If there is no public disclosure, or there are inconsistencies in how progress is reported, external stakeholders will continue raising concerns. Third-party verification, formal evaluations of results, and clear reporting on indicators against original baselines will play decisive roles in promoting the credibility and integrity of SLF transactions.

BOX 5. Addressing green- and sustainability-washing risks

Several elements of sustainable finance instruments' structures can become subject to green- and sustainability-washing risks. These include:

- **Materiality of targets:** Are the targets material to the company's overall contributions to sustainability? The concept of materiality is addressed throughout the paper, with particular references on pages 5, 13, and 14.
- **Ambitiousness of targets**: Do the targets go beyond business as usual and/or compliance with regulation? Requirements related to setting targets and challenges to determining ambitiousness are briefly discussed on page 15.
- **Robustness of action plans:** For carbon emissions, this means clarity about how the company will achieve sustainability targets without simply offloading emissions or purchasing carbon credits. For social issues, the importance of having a clear roadmap is discussed on pages 15 and 16.
- **Weak incentive mechanisms and pricing structures:** Are the penalties and incentives material or appropriately calibrated to change behavior? One type of shortcoming in the context of SLF is if the relative size of the incentive or penalty is too small to change behavior. Delaying target dates to minimize the impact of the penalty and keeping redemption options or prepayment rights that allow issuers/borrowers to prepay the financing before maturity and avoid penalties are other loopholes that pose greenwashing risks. On the other end of the spectrum, there is a disproportionally high level of reward for achieving targets which lack sufficient ambition.
- **Variable reporting and verification processes:** Are there effective mechanisms to monitor and verify the issuer's progress on reaching targets and impact? The absence of standardized reporting methods heightens the risk that the company will be accused of misrepresenting data. To mitigate this risk, it is critical to calculate KPIs in reference to existing, publicly disclosed, methodologies and taxonomies, and to obtain external verification of the progress of those KPIs—as much as possible. This risk is magnified in the case of loans because they are private contracts with fewer obligations to publicly disclose objectives and financial penalties.

Case studies on the use of social KPIs

With the use of social KPIs evolving, a review of SLF transactions with social metrics can be instructive. To illustrate the diversity of social KPIs in SLF transactions, this section presents four examples of companies in different sectors and country contexts that have taken a variety of approaches to integrating material social KPIs into the company's measurement and reporting frameworks.

CASE STUDY 1. IZSU, TÜRKIYE | Incorporating gender KPIs and targets

IFC's sustainability-linked $30 million long-term loan to the city of Izmir's Water and Sewerage Administration (IZSU, signed in June, 2021) will fund water, wastewater, and stormwater infrastructure improvements in seven municipal districts. The investments will improve the reliability of Izmir's water supply network, benefiting an estimated 463,000 citizens, and provide better-quality drinking water to approximately 200,000 people.

In this transaction, IFC also served as sustainability coordinator, working with IZSU to establish clear and measurable KPIs focused on gender equality. At the time of the financing, IZSU had already taken steps to improve opportunities for women in its workforce and leadership, with 21 percent female permanent employees and 42 percent female managers—placing it well above the norm for water utilities. But women's participation in the company's overall workforce—including contract workers—lagged. For a company in which contract workers comprise two-thirds of the workforce, this meant that total women's representation was only 11 percent.

SETTING SPECIFIC TARGETS

As part of the loan agreement, IZSU set a sustainability performance target (SPT) of 300 new contract female hires by December 2025—specifically in 16 operational job categories that had little or no women's representation, such as heavy machinery operators and warehouse workers. This would increase the percentage of women in the overall workforce to 23 percent. Accomplishing this will require some significant changes—in both hiring processes and company culture. Under the terms of the sustainability-linked structure, if IZSU meets this ambitious target, it will receive a slight decrease in the all-in interest rate paid on the IFC loan.

LESSONS LEARNED

- Setting meaningful targets depends on context: Long-established company culture can pose significant barriers to female participation. As IZSU sought to place women in job roles previously only held by men, the challenge was overcoming a mindset that women could not perform certain jobs.
- Gaining clear commitment from senior management is critical: It lays the foundation for the selection of indicators and targets, and for successful implementation. With IZSU, the dialogue with management involved showing the business case for gender diversity. IFC shared evidence that women's participation in technical roles increases productivity and creativity, ultimately bolstering the bottom line. Gaining management buy-in will be essential as the company undergoes the changes needed to support a gender-inclusive culture.

CASE STUDY 2. ANGLO AMERICAN, SOUTH AFRICA | Leading on social KPIs and targets

IFC's $100 million sustainability-linked loan (SLL) to Anglo American, a global mining company, is helping advance the company's global sustainability strategy. A first for the mining sector globally, the SLL focuses exclusively on social development KPIs and targets, with an emphasis on delivering benefits for communities in the vicinity of the company's mining and processing operations in South Africa.

The loan is aligned with Anglo American's global sustainability goals, as articulated in its Sustainable Mining Plan. The goals include ensuring that schools in host communities perform within the top 30 percent of state schools nationally and supporting three offsite jobs for every on-site job by 2025. The loan's sustainability performance targets are connected to these goals, with a focus on South Africa.

The SLL comes with clear incentives for achieving the KPIs and targets. Each KPI features a minimum, base and stretch target. If the company meets the stretch targets, the interest rate will not change. Anglo American has committed to contributing additional funds to agreed social causes if it falls short of fully achieving the stretch targets under the terms of this loan.

SETTING THE SOCIAL KPIS AND TARGETS

In addition to the financing, IFC served as sustainability coordinator for the transaction. In this role, IFC's team helped the company translate its highly ambitious education and livelihood KPIs into appropriate, meaningful and stretching for the SLL, as well as cooperated to develop a sustainability-linked financing framework.

- Education target: The target aims for host community schools supported by Anglo American's South Africa Education Program to rank in the top 30 percent of public schools by 2025, as determined by the results of national exams. To achieve the target, the program focuses on whole-school development and delivering training for educators and school management teams, including upgrades of school infrastructure and equipment.
- Livelihood target: The target connects with the company's longstanding enterprise and supplier development program in South Africa, called Zimele. Through Zimele, the company delivers mentorship, capacity building, skills development, and access to finance to small businesses in the mining value chain and in other sectors, with a focus on women and young people. The target explicitly defines the contribution that will be required from Zimele towards the corporate target of 3 off-site jobs for every onsite job by 2025.

LESSONS LEARNED

- Alignment between global, enterprise-level corporate targets and local implementation progress is critical. A detailed analysis of the specific initiatives that will contribute to delivering the targets at the local level and how local results will contribute to the achievement of existing global targets is key to ensuring success.
- Use of meaningful social KPIs hinges on the ability to generate and validate performance data. Anglo American wanted to move forward with social development KPIs, which highlighted the importance of good monitoring, evaluation, and reporting systems in tracking progress over time.
- Tracking other indicators related to the social KPIs adopted in the SLL can yield a fuller understanding of the factors driving progress towards the targets. For example, the education KPI could include indicators such as dropout rates.
- SLL providers take a holistic view of ESG risks, so it is important to ensure that delivery partner organizations also operate to high ESG standards, for example, on safety, employee conditions and stakeholder engagement.

CASE STUDY 3. MILLICOM, LATIN AMERICA AND AFRICA | Social indicators tied to use-of-proceeds bonds as potential first step towards future sustainability-linked bond with social KPIs[44]

Millicom is a provider of cable, mobile and high-speed broadband services in Latin America and Africa. In May 2019, Milicom completed its offering of a SEK 2 billion (approximately $211 million) floating rate, senior, unsecured sustainability bond, followed by a January 2022 issuance of a SEK 2.25 billion (approximately $252 million) 5-year, senior, unsecured sustainability bond. The bonds support green and social initiatives in accordance with the company's sustainability bond framework. The framework defines eligibility criteria in three areas: energy efficiency, increased access to information and communication technology, and flagship social programs to facilitate socioeconomic advancement and empowerment—linked to main aspects of the company's corporate social responsibility framework and materially relevant to its operations.

While the sustainable bonds support use of proceeds, the tracking of specific results from the social programs detailed in the framework can set the stage for a future sustainability-linked bond by generating a baseline and track record for potential social KPIs.

ABOUT THE FLAGSHIP SOCIAL PROGRAMS

Eligible projects focus on empowering women, protecting children, connecting communities, and boosting the sustainability of Millicom's supply chain. Among the activities:

- Digital training for women and women microentrepreneurs.
- Training and certification for mobile money agents.
- Provision of computer equipment for community centers and instructors to teach digital literacy, computer programming, robotics, and the opportunities and dangers associated with internet access.
- Supplier training to integrate sustainability into the practices of the company's key suppliers.

Millicom has also committed to providing an annual investor letter, with reports on budget allocation and project impacts.

PREPARING THE GROUND FOR SOCIAL KPIS

Millicom regularly reports on its progress towards achieving social targets. Examples of accomplishments as of 2022 include:

- Digital literacy training for about 150,000 women annually, and 171,000 women in 2022.
- Training on safe internet use in 2022 alone reached 103,000 children and adolescents, 36,478 parents and caregivers, and 5,451 teachers, in addition to benefiting 22,891 children, 112,737 teachers, and 114,952 parents and caregivers in previous years.
- New digital connectivity for 2,437 schools and public institutions in Latin America.
- Sustainable procurement training for 79 percent of current suppliers, exceeding the 75 percent target; 57 percent of strategic suppliers were evaluated and listed on the sustainable procurement platform.

CASE STUDY 4. SCHNEIDER ELECTRIC, FRANCE | Increasing workforce diversity; training the underprivileged in energy management[45]

Schneider Electric is a French energy management and automation company with operations around the world. In 2020, the company issued its first sustainability-linked convertible bond, with a financing framework that includes three key performance indicators and associated targets Two of the three KPIs are social: increasing gender diversity and training underprivileged people in energy management.

MEASURING PROGRESS

To measure KPI performance, Schneider uses its Schneider Sustainability Impact (SSI) tool—a 0-10 scale designed to measure overall progress towards its sustainability goals. When the sustainability-linked bond was issued, each KPI was assigned a baseline SSI score of 3/10, with the top potential 2025 objective of 10/10. Specifically, the company committed to an average score of 9/10, representing an 85 percent target achievement on average for each KPI.

KEY PERFORMANCE INDICATOR	KEY PERFORMANCE INDICATOR BASELINES (Corresponding to a score of 3/10)	SUSTAINABILITY PERFORMANCE TARGETS
1. Saved and avoided CO_2 emissions to its customers	280 Mt of saved and avoided CO_2 emissions for SE's customers	Deliver 800 Mt of saved and avoided CO_2 emissions for SE's customers
2. Gender diversity in workforce and leadership: a. % of women hires b. % of women among the frontline managers c. % of women in leadership teams	a. 43% women hiring b. 25% women among frontline managers c. 23% women in leadership teams	Increase gender diversity from hiring to frontline managers and leadership teams: a. 50% women hiring b. 40% women frontline managers c. 30% women in leadership positions
3. Underprivileged people trained in energy management	268,000	Train 1 million underprivileged people in energy management

REWARDING A CULTURE OF SUSTAINABILITY

Failure to meet the minimum KPI score by year-end 2025 would result in a step-up margin or premium payment. The company also links workforce bonuses to progress towards its overall sustainability goals: 20 percent of the annual bonuses for more than 60,000 eligible employees are tied to SSI performance.

ACHIEVING TANGIBLE IMPACT

Progress towards the energy management training sustainability performance targets, as of 2022:

- 397,000 underprivileged people in more than 45 countries trained, towards the 2025 goal of 1 million people trained. Young people from underprivileged backgrounds are the main target for the training program. This could mean unemployed and/or without a degree and/or living in underserved neighborhoods, depending on local context. For example, in France, the target group is adults aged 18–30 with little education or qualifications and are likely to encounter discrimination. In India, the definition is broader—young people without jobs who left school or college. Of note, because female participation in the energy trainings is a significant challenge, the program also supports local organizations specializing in skills development and women's empowerment.

Progress towards the gender diversity sustainability performance targets: As of 2022, women represent:

- 41 percent of Schneider new hires
- 27 percent of Schneider's leadership ranks
- 28 percent of Schneider's front-line managers

Appendix A. Additional indicators for consideration in SLF transactions

Table 2 suggests additional social indicators to explore for use in future SLF transactions—beyond those listed in Table 1. The suggestions provided here do not represent the full universe of potential indicators or a complete analysis of evolving social KPIs practice. We strongly recommend that organizations explore other references, such as the International Capital Market Association's illustrative KPI Registry.[46] We also urge consideration of specific social indicators in the context of companies' own operations and in alignment with their ESG governance and management systems.

TABLE 2. Additional social indicators to explore

Diversity and inclusion 	• Employee parental leave (employees entitled to parental leave, employees on parental leave, post-pregnancy return to work, retention rate by gender). • Participation of underrepresented and vulnerable groups in the workforce (hiring, retention, promotion). • Number of people hired from groups with difficulty finding employment in the open market, such as young people, asylum seekers, people with reduced work ability. • Indicators related to results of education, training, and support programs for underrepresented groups. • Indicators related to results of technical education, training, and support programs for women to boost their hiring into technical jobs.
Health and safety 	• Access to preventive care for employees (percentage uptake of employee well-being programs, such as mental health, counseling, nutrition, and fitness). • Industry-specific certifications such as iRAP (International Road Assessment Program) for road safety. • Building certifications (i.e., WELL) that measure various parameters, such as air, light, fitness, comfort, and mind, which can be an indicator of well-being related to physical environment.

Access to services and infrastructure

- Availability: This dimension implies that a certain service is available in a sufficient quantity and is functioning. This can include usage indicators such as water, electricity consumption, or data usage per subscriber that help to understand whether service is sufficient. For example, the principal indicator related to UN SDG 7 is the residential electrification rate of a minimum of 50 kilowatt-hours (kWh) per capita per year. But one recent study identifies a "modern energy minimum" of about 1,000 kilowatt hours per person per year and estimates that using this threshold, about 3.6 billion people still live in energy poverty today.[47]
- Quality: This can include measuring access to services that meet the expectations of users for quality. For example, access to safe drinking water and safely managed sanitation facilities is often used as a measure of progress against poverty, disease, and death. Organizations such as UNICEF and the World Health Organization (WHO) offer definitions that describe the level/quality of water service.[48]
- Accessibility: The number of people reached through the company's accessibility strategy/ initiatives, such as through training and infrastructure additions or modifications. Third-party global certifications and ratings also can be used to assess accessibility. More specific indicators will vary depending on the industry. For example, in the transport sector, the move towards spatial inclusivity and accessibility can be accomplished by incorporating universal design principles in infrastructure and buildings. Areas where potential accessibility KPIs can be explored include:
  - Accessibility training for workers
  - Engagement with organizations representing persons with disabilities during design and operations
  - Third-party global certifications and ratings such as BREEAM Infrastructure (formerly CEEQUAL) to benchmark and measure environmental and social performance during design, construction and maintenance. Accessibility-specific certifications include the Accessibility Indicator System (AIS).[49]
- Affordability: A common issue across public services. Indicators can look at the percentage of the targeted population that pays to own a device or subscribe to a specific service (i.e., digital payment modes).

Community relations

- Local jobs creation, including targeted training and skills development programs for local communities: number/percent of "full-time equivalent" (FTE) jobs created/supported; percent of local jobs accessed by women; number/percent of local residents with increased skills, enabling access to local jobs.
- Local procurement: such as expenditures on local goods and services as a percentage of total spend.
- Targeted training, education, and supplier development programs: such as number of local suppliers trained and/or local suppliers graduating from company-supported supplier development programs, or number of suppliers accessing finance as a result of the support provided.
- Changes in livelihoods due to company-supported community investment programs: such as number of locally-owned/operated businesses established as a result of company-provided training or jobs improved—made easier, more cost-effective, and less burdensome. For example, by helping communities in unelectrified areas mechanize manual agricultural processing, a company can improve the quality of this informal job.

Just transition

- Job creation: green jobs created jobs transitioned/ job-to-job transition rate.
- Indicators related to results of education, training, re-skilling, and well-being programs for workers displaced by the transition to a low-carbon economy.
- Formal stakeholder engagement processes: such as number of agreements with local stakeholders implemented as part of just transition processes.
- Contractor and direct supplier metrics: such as the number of suppliers trained in human rights/codes of conduct and performance of suppliers based on existing code of conduct; supplier provision of social protections for their workers affected by just transition processes.
- Access to services and infrastructure: access to affordable, reliable, sustainable, and modern energy; delivery/results of energy efficiency programs for homes.
- Social investment: results of social investment programs to increase community resilience and community ability to manage the impacts of a low-carbon transition.

Supply chain

- Supplier performance on relevant diversity and inclusion indicators.
- Supplier performance on relevant health and safety metrics.
- Supplier performance on human rights.
- Results from local supplier development programs.
- Supplier performance on relevant community relations metrics.

Appendix B. Additional resources

BACKGROUND READING

Raquel de la Orden and Ignacio de Calonje. "Sustainability-Linked Finance—Mobilizing Capital for Sustainability in Emerging Markets." EM Compass Note 110. IFC. January, 2022. https://www.ifc.org/content/dam/ifc/doc/mgrt/emcompass-note-110-sustainability-linked-finance-web.pdf

Imtiaz Ul Haq and Djeneba Doumbia. "Structural Loopholes in Sustainability-Linked Bonds." Policy Research Working Paper. IFC. October, 2022. https://documents1.worldbank.org/curated/en/099237410062223046/pdf/IDU0e099a50307f86045a80b33201d0b7057cedf.pdf

IFC, International Capital Market Association, and UN Women. "Bonds to Bridge the Gender Gap - A Practitioner's Guide to Using Sustainable Debt for Gender Equality." November, 2021. https://www.icmagroup.org/assets/documents/Sustainable-finance/ICMAUN-WomenIFC-Bonds-to-Bridge-the-Gender-Gap-A-Practitioners-Guide-to-Using-Sustainable-Debt-for-Gender-Equality-November-2021.pdf

FRAMEWORKS AND TOOLS

Initial Framework of Social Indicators for Investments in a Just Transition, developed by Synergy Global Consulting
https://www.tips.org.za/images/Initial_framework_of_social_indicators_for_investments_in_a_Just_Transition_Synergy.pdf

Just Transition Framework, developed by the Council for Inclusive Capitalism
https://www.inclusivecapitalism.com/just-energy-transition-home/

Net Zero Company Benchmark, developed by Climate Action 100+
https://www.climateaction100.org/net-zero-company-benchmark/#:~:text=The%20Climate%20Action%20100%2B%20Net,reduction%2C%20governance%2C%20and%20disclosure

2x Criteria for Gender-Smart Investment, developed by 2X Global
https://www.2xglobal.org/what-we-do/#2xcriteria

Benchmarks and assessments of companies' ESG performance, developed by the World Benchmarking Alliance
https://www.worldbenchmarkingalliance.org/

ESG data cartography resource, developed by Institut Louis Bachelier
https://www.institutlouisbachelier.org/en/esg-data-cartography/

IRIS+, developed by the Global Impact Investing Network
https://iris.thegiin.org/

Just Transition Finance Tool for banking and investing activities, developed by the International Labour Organization and the LSE Grantham Research Institute
https://www.ilo.org/empent/areas/social-finance/publications/WCMS_860182/lang--en/index.ht

Endnotes

1 To learn more about Sustainability-Linked Finance (SLF), please see the following resources: Raquel de la Orden and Ignacio de Calonje. "Sustainability-Linked Finance—Mobilizing Capital for Sustainability in Emerging Markets." IFC EM Compass Note 110. January, 2022; Loan Syndications and Trading Association. Sustainability-Linked Loan Principles. March, 2022; and International Capital Market Association. Sustainability-Linked Bond Principles.

2 BloombergNEF. Bloomberg LP data as of June 2023.

3 Raquel de la Orden and Ignacio de Calonje. "Sustainability-Linked Finance—Mobilizing Capital for Sustainability in Emerging Markets." IFC EM Compass Note 110. January, 2022.

4 World Economic Forum. "What is stakeholder capitalism." January 22, 2021. https://www.weforum.org/agenda/2021/01/klaus-schwab-on-what-is-stakeholder-capitalism-history-relevance/

5 The United Nations Environmental Programme's Impact Radar provides information on companies' SDG commitments to help impact investors make investment decisions.

6 S&P Global. "Sustainable bond issuance will return to growth in 2023." March 20, 2023.

7 To learn more about requirements, please see the following resources: Loan Syndications and Trading Association. "Sustainability-Linked Loan Principles." March, 2022; and International Capital Market Association. Sustainability-Linked Bond Principles.

8 For more about the Science Based Targets initiative (SBTi), please see: https://sciencebasedtargets.org/about-us

9 For more information on IFC's Performance Standards, please see: https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards

10 World Economic Forum. "What is stakeholder capitalism." January 22, 2021. https://www.weforum.org/agenda/2021/01/klaus-schwab-on-what-is-stakeholder-capitalism-history-relevance/

11 See: IFC. 2021. "The Business Case for Gender-Responsive Climate-Smart Mining;" Alexandre Di Miceli and Angela Donaggio. 2018. "Women in Business Leadership Boost ESG Performance." IFC Public Sector Opinion 42; and IFC. 2016."SheWorks: Putting Gender-Smart Commitments into Practice."

12 CDP. 2021. "Transparency to Transformation: A Chain Reaction." CDP Global Supply Chain Report 2020.

13 BloombergNEF and Sasakawa Peace Foundation. "Gender Diversity and Climate Innovation." December 1, 2020

14 DNV. "Saur Sustainability-Linked Financing Framework: DNV Eligibility Assessment." September 4, 2021.

15 Goldman Sachs. "How Climate Change Affects Socially Vulnerable Communities." 2022 Sustainability and Impact Series. April 12, 2022.

16 European Commission. 2019. "Employment and Social Developments in Europe."

17 Jeffery Weirens et al. "Building credible climate commitments." Deloitte Insights. June 14, 2021; Richard Mattison. "The state of net zero, for now." Greenbiz. February 14, 2022.

18 The United Nations Environmental Programme's Impact Radar provides information on companies' SDG commitments to help impact investors make investment decisions. For more see: https://www unepfi.org/wordpress/wp-content/uploads/2018/11/PI-Impact-Radar.pdf.

19 World Economic Forum. 2023. "Global Risks Report 2023."

20 Christoph Lakner et al. "Updated estimates of the impact of COVID-19on global poverty: The effect of new data." World Bank Data Blog. October 7, 2020.

21 For more on these regulatory standards see: the European Commission's Sustainable Financial Disclosure Regulation; the International Sustainability Standards Board on General Sustainability-related Disclosures and ISO 26000 Social responsibility.

22 Saul Loeb. "Shareholders Up Climate, Social Demands After SEC Policy Shift." Bloomberg Law. April 4, 2022.

23 BloombergNEF. Bloomberg LP data as of June 2023.

24 BloombergNEF. Bloomberg LP data as of June 2023.

25 International Capital Market Association recently released an illustrative KPIs Registry. It includes KPIs on various social topics. Social KPIs are also integrated into broader areas like supply chain.

26 See the International Capital Market Association's Sustainability-Linked Bond Principles; and the ISO 26000:2010 Guidance on social responsibility standard.

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49 For more on BREEAM, see https://bregroup.com/products/breeam/ ; for more on AIS, see: https://www.aiscertificacion.com/en/ais/

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