# Green Loan Principles

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## Introduction

**The green loan market aims to facilitate and support the key role that credit markets can play in financing progress towards environmental sustainability.**

**The Green Loan Principles (GLP) aim to promote the development of the green loan product by providing a recommended framework of market standards and guidelines for use across the green loan market, whilst allowing the loan product to retain its flexibility.**

The GLP are voluntary recommended guidelines, developed by an experienced working party consisting of representatives from leading financial institutions and law firms active in global loan markets. They are to be applied by market participants on a deal-by-deal basis depending on the underlying characteristics of the transaction, which recommend transparency and disclosure, and seek to support integrity in the development of the green loan market by clarifying the instances in which a loan may be categorised as "green".

The GLP seek to support borrowers in financing environmentally sound and sustainable projects that foster a net-zero emissions economy, protect and restore the environment, facilitate adaptation to climate change, and/or provide other environmental benefits. GLP aligned loans should provide transparent green credentials alongside an investment opportunity. By having borrowers report on the use of green loan proceeds, the GLP promote a step change in transparency that facilitates the tracking of funds to environmental projects, while simultaneously aiming to improve insight into a project's estimated impact.

The GLP provide high level, non-exhaustive categories for eligible Green Projects (see Section 1 - Use of Proceeds) in recognition of the diversity of current views and of the ongoing development in the understanding of environmental issues and consequences. At the same time, the GLP allow for the use of complementary definitions, standards and taxonomies for determining the environmental sustainability of projects. The GLP encourage all participants in the market to use this foundation to develop their own robust practices, referencing a broad set of complementary criteria as relevant.

The GLP will be reviewed on a regular basis to accommodate the development and growth of the green loan market.

## Green Loan Definition

Green loans are any type of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) made available exclusively to finance, re-finance or guarantee, in whole or in part, new and/or existing eligible Green Projects and which are aligned to the four core components of the GLP.

It is understood that certain eligible Green Projects may also have social co-benefits, and that the classification of a use of proceeds loan as a green loan should be determined by the borrower based on the primary objective of the underlying projects.

It is important that green loans should not be considered interchangeable with loans that are not aligned with the four core components of the GLP.

All transactions completed prior to 9 March 2023 will be exempt from following these GLP, and instead should be reviewed in conjunction with the version of the GLP in force at the time of origination, extension or refinancing of the loan, as applicable. Care should be taken not to misrepresent such loans as having been originated, extended or refinanced in accordance with this current version of the GLP. All loans originated, extended or refinanced after 9 March 2023 must fully align with this version of the GLP to be classified as green loans.

## Green Loan Principles – Core Components

The GLP set out a framework, enabling all market participants to clearly understand the characteristics of a green loan, based around the following four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The GLP also seek to emphasise the required transparency, accuracy and integrity of the information that will be disclosed and reported by borrowers to stakeholders through these core components.

### 1 Use of Proceeds

The fundamental determinant of a green loan is the utilisation of the loan proceeds for Green Projects (including other related and supporting expenditures, including R&D), which should be appropriately described in the finance documents, and, if applicable, marketing materials for the financing and/or a green loan framework. All designated Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the borrower.

Where funds are to be used, in whole or part, for refinancing, it is recommended that borrowers provide an estimate of the share of financing versus refinancing. Where appropriate, they should also clarify which investments or project portfolios may be refinanced, and, to the extent relevant, the expected look-back period for refinanced eligible Green Projects.

A green loan may take the form of one or more tranches of a loan facility, and may be made by way of a term loan, revolving credit facility and/or contingent facilities. Considerations for revolving credit facilities are set out in Appendix 1.

The GLP explicitly recognise broad, non-exhaustive categories of eligibility for Green Projects, which contribute to environmental objectives such as: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control.

The following list of project categories, while indicative only and high-level, captures common types of projects supported, or expected to be supported by the green loan market. Green Projects include assets, investments and other related and supporting expenditures such as R&D that may relate to more than one category and/or environmental objective. Three environmental objectives identified above (pollution prevention and control, biodiversity conservation and climate change adaptation) also serve as project categories in the list. As such, they refer to the projects that are more specifically designed to meet these environmental objectives.

The eligible Green Projects categories, listed in no specific order, may include, but are not limited to:

- Renewable energy (including production, transmission, appliances and products);
- Energy efficiency (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products);
- Pollution prevention and control (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy);
- Environmentally sustainable management of living natural resources and land use (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes);
- Terrestrial and aquatic biodiversity conservation (including the protection of coastal, marine and watershed environments);
- Clean transportation (such as electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions);
- Green technologies (such as carbon extraction technologies and energy storage systems);
- Sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation);
- Climate change adaptation (including efforts to make infrastructure more resilient to impacts of climate change, as well as information support systems, such as climate observation and early warning systems);
- Circular economy adapted products, production technologies and processes (such as the design and introduction of reusable, recyclable and refurbished materials, components and products; circular tools and services; and/or certified eco-efficient products); and
- Green buildings (that meet regional, national or internationally recognised standards or certifications for environmental performance).

While the GLP's purpose is not to take a position on which green technologies, standards, claims and declarations are optimal for environmentally sustainable benefits, it is noteworthy that there are several current international and national initiatives to produce taxonomies and nomenclatures, as well as to provide mapping between them to ensure comparability. These may provide useful guidance to green loan borrowers as to what may be considered green and eligible by lenders, but each institution will nonetheless need to determine whether they wish to align their lending with these taxonomies, and, if so, whether to do so in whole or in part. These taxonomies are currently at various stages of development.

There are many institutions that provide independent analysis, advice and guidance on the quality of different green solutions and environmental practices. However, it is recognised that definitions of green and green projects may vary depending on sector and geography.

## 2 Process for Project Evaluation and Selection

The borrower of a green loan should clearly communicate to its lenders:

- the environmental sustainability objective(s) of the Green Projects;
- the process by which the borrower determines how the project(s) to be funded fits within the eligible Green Projects categories; and
- complementary information on the processes by which the borrower identifies and manages perceived, actual or potential environmental and social risks associated with the relevant project(s).

Borrowers are also encouraged to:

- position the information communicated above within the context of their overarching objectives, strategy, policy and/or processes relating to environmental sustainability;
- provide information, if relevant, on the alignment of projects with official or market-based taxonomies, related eligibility criteria, including, if applicable, exclusion criteria, and also disclose any green standards or certifications referenced in project selection; and
- have a process in place to identify mitigants to known or potential material risks of negative social and/or environmental impacts from the relevant project(s). Such mitigants may include clear and relevant trade-off analysis undertaken and monitoring required where the borrower assesses the potential risks to be meaningful.

## 3 Management of Proceeds

The proceeds of a green loan should be credited to a dedicated account or otherwise tracked by the borrower in an appropriate manner, so as to maintain transparency and promote the integrity of the product.

Management of proceeds should be attested to by the borrower in a formal internal process linked to the borrower's lending and investment operations for Green Projects. The borrower should make known to the lenders any intended types of temporary placement for the balance of unallocated proceeds.

Where a green loan takes the form of one or more tranches of a loan facility, each tranche(s) applicable to the Green Project(s) must be clearly labelled, with proceeds of the green tranche(s) credited to a separate account or otherwise tracked by the borrower in an appropriate manner. For the avoidance of doubt, a facility cannot be labelled as green if it includes a green and non-green tranche(s); the green label applies only to the tranche(s) aligned to the four core components of the GLP.

The proceeds of green loans can be managed per loan (loan-by-loan approach) or on an aggregated basis for multiple green loans (portfolio approach).

## 4 Reporting

Borrowers should make, and keep, readily available up to date information on the use of proceeds, such information to be renewed annually until the green loan is fully drawn (or until the loan maturity in the case of an revolving credit facility), and on a timely basis in the event of material developments. This annual report should include a list of the Green Projects to which the green loan proceeds have been allocated and a brief description of the projects, the amounts allocated and their expected and, where possible, achieved impact. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the GLP recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories). Information need only be provided to those institutions participating in the loan.

Transparency is of particular value in communicating the expected and/or achieved impact of projects. The GLP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures (for example, energy capacity, electricity generation, greenhouse gas emissions reduced/avoided, etc.) and disclosure of the key underlying methodology and/or assumptions used in the quantitative determination. Borrowers with the ability to monitor achieved impacts are encouraged to include those in regular reports to those institutions participating in the loan.

# Review

Where appropriate, it is recommended that borrowers appoint (an) external review provider(s) to assess the alignment of their green loan or green loan programme with the four core components of the GLP.

Alternatively, given that the loan market is traditionally a relationship-driven market and therefore lenders are likely to have a broad working knowledge of the borrower and its activities, self-certification by a borrower, which has demonstrated or developed the internal expertise to confirm alignment of the green loan with the key features of the GLP, may be sufficient.

Nonetheless, borrowers are recommended to document thoroughly such expertise, including the related internal processes and expertise of their staff. This documentation should be communicated to institutions participating in the loan on the basis agreed between the parties in the legal documentation. When appropriate, and taking into account confidentiality and competitive considerations, borrowers are recommended to make publicly available, via their website or otherwise, the parameters on which they assess Green Projects, and the internal expertise they have to assess such parameters.

There are a variety of ways for borrowers to obtain outside input to their green loan process and there are several types of review that can be provided to the market. Where applicable, borrowers should consult the Guidelines for Green, Social and Sustainability-Linked Loans External Reviews (Guidelines for External Reviews) for recommendations and explanations on the different types of reviews.

The Guidelines for External Reviews are a market-based initiative to provide information and transparency on the external review processes for borrowers, underwriters, lenders, other stakeholders and external reviewers themselves.

The GLP encourage external review providers to disclose their credentials and relevant expertise and communicate clearly the scope of the review(s) conducted. Where applicable, any external review should be communicated and made available in a timely manner to all the financial institutions party to the loan in accordance with the relevant loan documentation provisions. Where appropriate, and taking into account confidentiality and competitive considerations, borrowers should make the external review publicly available, or an appropriate summary, via their website or otherwise.

# Appendix 1

### Application to Revolving Credit Facilities

The GLP were drafted such that they can be applied to a wide variety of loan instruments, including term loans, contingent facilities and/or revolving credit facilities.

One of the fundamental determinants of a green loan is the utilisation of the loan proceeds, which should be appropriately described in the finance documents and, if applicable, marketing materials. The use of proceeds component of a term loan is often easily identifiable. Revolving credit facilities, however, may not identify in similar detail such green use of proceeds in the legal documentation, but in any case proceeds should be utilised for eligible Green Project(s) throughout the lifetime of the revolving credit facility.

The parties to any proposed green loan taking the form of a revolving credit facility will need to determine how best to evidence the flow of funds to an agreed upon Green Project or Green Projects when applying the GLP to such a loan. A revolving credit facility may include a specific green tranche but, where not possible, a borrower may seek to report to the lenders the use of any revolving borrowings and/or identify Green Projects supported by the revolving credit facility.

Lenders are recommended to monitor and track the sustainability information provided by the borrower during the life of the loan, mindful of the need to preserve the integrity of the green loan product. In the absence of sufficient internal expertise at the lender to monitor the loan, external review is strongly recommended. Revolving credit facilities for general corporate purposes should not be categorised as “green” without satisfying the components listed in the GLP.