Social Loan Principles

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Introduction

The social loan market aims to facilitate and support the key role that credit markets can play in financing the mitigation of social issues and challenges, and/or the achievement of positive social outcomes.

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

The SLP 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 social loan market by clarifying the instances in which a loan may be categorised as "social".

The SLP provide high level, non-exhaustive categories for eligible Social Projects (see Section 1 Use of Proceeds) in recognition of the diversity of current views and of the ongoing development in the understanding of social issues and consequences.

The SLP will be reviewed on a regular basis to accommodate the development and growth of the social loans market.

Social Loan Definition

Social 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 Social Projects, and which are aligned to the four core components of the SLP.

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

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

All transactions completed prior to 9 March 2023 will be exempt from following these SLP, and instead should be reviewed in conjunction with the version of the SLP 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 SLP. All loans originated, extended or refinanced after 9 March 2023 must fully align with this version of the SLP to be classified as social loans.

Social Loan Principles – Core Components

The SLP set out a framework, enabling all market participants to clearly understand the characteristics of a social 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 SLP 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 social loan is the utilisation of the loan proceeds for Social 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 social loan framework. All designated Social Projects should provide clear benefits of a social nature, 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 Social Projects.

A social 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.

Social Projects directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes including for, but not limited to, a target population(s). A social issue may threaten, hinder or damage the well-being of society or of a specific target population. For the avoidance of doubt, it is acknowledged that the definition of target population can vary depending on local contexts and that, in some cases, such target population(s) may also be served by addressing the general public.

The following list of project categories, while indicative only and high-level, capture common types of projects supported, or expected to be supported, by the social loan market. Social Projects include assets, investments and other related and supporting expenditures that may relate to more than one social objective. The eligible Social Project categories, listed in no specific order, may include, but are not limited to, providing and/or promoting:

- Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy, basic telecommunications);
- Access to essential services (e.g. education and vocational training, public health/healthcare, public health emergency

response energy (including electricity), financing and financial services, other governmental offices servicing select populations (and/or in low /low-middle income countries));

- Affordable housing;
- Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic inequality, including through the potential effect of small and medium enterprise financing and microfinance;
- Food security and sustainable food systems (e.g. physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements; resilient agricultural practices; reduction of food loss and waste; and improved productivity of small-scale producers); and
- Socioeconomic advancement and empowerment (e.g. equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality).

Examples of target populations include, but are not limited to, those who are:

1. Living below the poverty line[1];
2. Excluded and/or marginalised populations and/or communities;
3. People with disabilities;
4. Migrants and/or displaced persons;
5. Undereducated (including illiteracy/digital illiteracy);
6. Underserved, owing to a lack of quality access to essential goods and services[2];
7. Unemployed;
8. Women and/or sexual and gender minorities;
9. Aging populations and/or vulnerable youths; and
10. Other vulnerable groups, including as a result of natural disasters.

There are several categories and sets of criteria defining Social Projects already in existence in the market that can be used as complementary guidance. Definitions of Social Projects may vary depending on sector and geography.

2 Process for Project Evaluation and Selection

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

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

Borrowers are encouraged to:

- position the information communicated above within the context of their overarching objectives, strategy, policy and/or processes relating to social sustainability;
- provide information on the related eligibility criteria, including if applicable, exclusion criteria and also disclose any social 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 social 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 Social Projects. The borrower should make known to the lenders any intended types of temporary placement for the balance of unallocated proceeds.

Where a social loan takes the form of one or more tranches of a loan facility, each tranche applicable to the Social Project(s) must be clearly labelled, with proceeds of the social 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 social if it includes a social and non-social tranche(s); the social label applies only to the tranche(s) aligned to the four core components of the SLP.

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

1. In accordance with local/regional definitions.
2. As above.

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 social loan is fully drawn (or until the loan maturity in the case of a revolving credit facility), and on a timely basis in the event of material developments. This annual report should include a list of the Social Projects to which the social loan proceeds have been allocated and a brief description of the projects, the target population, 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 SLP 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 SLP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures (for example, number of beneficiaries, especially from target populations) 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 social loan or social loan programme with the four core components of the SLP.

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 social loan with the key features of the SLP, may be sufficient.

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 Social 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 social 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 SLP 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 SLP 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 social 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 social use of proceeds in the legal documentation, but in any case proceeds should be utilised for eligible Social Project(s) throughout the lifetime of the revolving credit facility.

The parties to any proposed social 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 Social Project or Social Projects when applying the SLP to such a loan. A revolving credit facility may include a specific social tranche but, where not possible, a borrower may seek to report to the lenders the use of any revolving borrowings and/or identify Social 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 social 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 "social" without satisfying the components listed in the SLP.