LMA Loan Market Association

Sustainability-Linked Loans

When Finance Rewards Sustainability Performance

Sustainability-Linked Loans (SLLs) have rapidly become a vital tool in the global sustainable finance landscape, uniquely combining performance-based financial structuring for borrowers with sustainability stewardship for lenders. Designed to encourage borrowers to meet meaningful and ambitious sustainability targets, SLLs directly align financial outcomes with measurable environmental and social objectives.

Why SLLs Matter Today

In a market facing growing headwinds, SLLs have a unique and timely role to play. As highlighted in the Transition Finance Market Review final report [1], sustainability-linked instruments, including SLLs, can be a powerful and useful part of the transition finance toolkit. They act as engines driving a more resilient, future-ready economy by aligning financing with meaningful sustainability outcomes, without compromising financial flexibility.

When structured well, SLLs serve as more than just a financial product; they become an effective communication tool. By linking financial terms to clear sustainability goals, borrowers can visibly reaffirm their commitment to sustainability performance. This external signalling, especially when disclosed to the market, brings with it a natural reputational stake, further incentivising credibility in both sentiment and execution.

SLLs also help embed a clear trajectory, encouraging borrowers to set out measurable annual milestones and action plans. This forward-looking discipline enhances the legitimacy of a borrower's wider sustainability strategy.

Finally, SLLs have the potential to drive behavioural change. By linking financing to sustainability performance, they nudge organisations toward integrating sustainability considerations into their core operations and decision-making processes, supporting not just compliance, but true transformation.

[1] https://www.theglobalcity.uk/insights/scaling-transition-finance

Market Growth and Momentum

Since the first corporate green loan in 2014 and the inaugural SLL in 2017, the market for labelled sustainable finance products has soared, propelled by financial market demand for credible, performance-based instruments. By 2024, the global sustainable loan market reached $638 billion in total issuance [2], with SLLs leading the charge at $463 billion, an 18% increase from 2023. Green and social loans also hit record levels, with $162 billion and $13 billion issued respectively. This growth highlights the market's resilience and the financial community's support for the transition to a sustainable economy.

The launch of the Sustainability-Linked Loan Principles [3] **(SLLP)** in 2019 marked an inflection point, providing a solid foundation for the credibility and transparency of SLLs, enabling the market to scale effectively.

Why should borrowers consider a sustainability-linked loan?

Flexibility

Unlike green loans, SLLs can be used for general corporate purposes, making them accessible to sectors with or without specific green assets but committed to measurable sustainability performance objectives.

While the SLLP set out mandatory requirements across five core principles, the March 2025 updates to the SLLP and accompanying Guidance [4] introduce helpful flexibilities. Notably, the updates clarify that annual sustainability performance targets **(SPTs)** per key performance indicator **(KPI)** are not a mandatory requirement, provided there is a strong rationale for why annual targets are not appropriate. This may be particularly relevant where significant performance improvements are only achievable over a longer (multi-year) timeframe, such as cases involving substantive business model changes or upgrades to infrastructure and assets.

[2] Source: Dealogic

[3] Sustainability-Linked Loan Principles - 26 March 2025 .pdf

[4] Guidance on Sustainability-Linked Loan Principles - 26 March 2025.pdf

Incentives

One of the primary benefits of SLLs is that they offer borrowers the opportunity to reduce borrowing costs by meeting clearly defined SPTs. This structure encourages companies to embed sustainability into their operations and strategic planning, supporting long-term value creation and financial resilience.

Enhanced Access to Capital

By linking financing to credible sustainability strategies and transition plans, SLLs enhance access to capital for companies committed to meaningful progress. At the same time, they introduce market differentiation, favouring borrowers with transparent, measurable goals and signalling reduced lender/investor confidence or appetite for those lacking credible action plans.

Enhanced Reputation, Transparency, and Stakeholder Engagement

SLLs promote transparency and accountability by requiring borrowers to set clear, measurable KPIs and regularly report on sustainability targets, with data verified by independent third parties. This transparency fosters stronger relationships with stakeholders, including investors, customers, and employees, and can significantly enhance a company's reputation.

Recognising that targets are intentionally set to be ambitious and meaningful, meeting them can attract new sources of capital, boost employee engagement, and build long-term stakeholder trust. At the same time, the process encourages open dialogue between borrowers and relationship banks, especially when targets prove challenging to achieve. In cases where companies are pioneering new approaches or starting from a more difficult baseline, flexibility is supported through collaboration and context-driven disclosure. If targets are missed, transparent reporting offers borrowers the chance to explain progress and reaffirm their commitment, supporting credibility rather than automatically triggering reputational risk.

For lenders

SLLs can lead to stronger lender-borrower relationships, demonstrating the lender's support to the borrower's long-term vision. Furthermore, SLLs enhance transparency on the lending portfolio – crucial as regulatory requirements continue to evolve - and provide stewardship and engagement opportunities with borrowers, raising awareness and improving action on material environmental and social risks that might impact the portfolio's financial performance.

Market trends and 2025 Outlook

Resilience amid headwinds: Despite interest rate volatility, trade wars, regulatory and geopolitical shifts, and on-going scrutiny of sustainability claims, sustainable finance products, including SLLs, remain central for many lenders, investors, borrowers and policymakers looking to finance the transition and advance inclusive development, amongst other sustainability priorities. The resilience of the SLL market can be seen from the number of repeat SLL borrowers, as well as new entrants, seen in the last 12 months.

Growing focus on quality: The market is evolving from a phase of rapid expansion to one of maturity, credibility and accountability. Commitment to structuring high-integrity SLLs remains strong, aligning with increasing demand for transparent and impactful loan structures as quality becomes a fundamental requirement in the market. This trend is reinforced by stronger reporting and verification standards, which help build trust in the market. However, rising costs for independent verification of sustainability data continues to pose challenges for some borrowers. The March 2025 updates of the SLLP and Guidance enhance the market's robustness and bring further clarity in the interpretation of the Principles' requirements and recommendations. For example, the Guidance notes that ***"Where information has already been verified as part of a borrower's (public) annual reporting or regulatory submission, it need not be verified again for the purposes of these SLLP."***

Global reach and sector diversification: SLL issuance is accelerating worldwide, driven by the instrument's flexibility and broad applicability across sectors, such as utilities, telecommunications, transportation, agriculture, real estate and manufacturing. Global issuance of SLLs has grown substantially, from $128 billion in 2019 to a peak of $610 billion in 2021, and reaching $463 billion in 2024 [4], underscoring sustained interest despite broader market fluctuations. This highlights the vital role of SLLs in advancing the sustainability transition of the real economy.

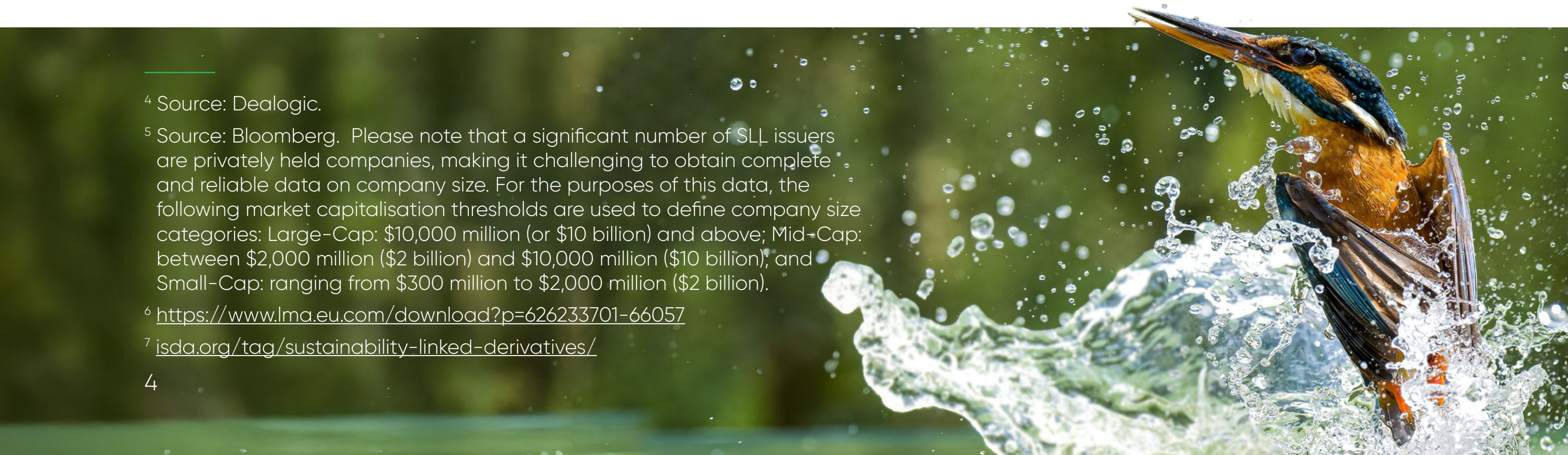
There is a growing emphasis on sectors undergoing transition, particularly those that are hard to abate, like steel and cement producers, where SLLs serve as a powerful accountability and incentive mechanism for borrowers to clearly communicate their decarbonisation goals to capital providers.

Additionally, the market is becoming increasingly inclusive, with greater participation from small and medium-sized enterprises **(SMEs)**. SLL volumes attributed to SMEs have grown significantly, from approximately $25 billion in 2020 to $63 billion in 2024 [5]. Over the same period, the number of deals has nearly tripled, rising from 40 to 119, highlighting a broadening adoption of SLLs beyond large-cap issuers. Private credit markets are also increasingly adopting these instruments, indicating potential for further growth.

Innovation: The SLL market will continue to see meaningful innovation, as market participants adapt to an evolving macroeconomic backdrop. Recently, we've seen the emergence of new structures designed to better align financial and structural terms with borrowers' sustainability performance, while allowing for flexibility in cases of events beyond the borrower's control (e.g., the COVID-19 pandemic).

Innovations include the development of novel KPIs that go beyond emissions reductions to address broader sustainability themes such as nature, biodiversity, and social impact. Additionally, the application of SLL principles is expanding to more complex borrower types, including sovereign-linked entities, public-private partnerships and sub-sovereign bodies.

The market is also seeing the rise of complementary instruments such as Sustainability-Linked Loan Financing Bonds [6] and sustainability-linked derivatives [7]. These products are broadening the reach and adaptability of the SLL framework, supporting its integration across a wider array of sectors, borrower types, and transition strategies.



[4] Source: Dealogic.

[5] Source: Bloomberg. Please note that a significant number of SLL issuers are privately held companies, making it challenging to obtain complete and reliable data on company size. For the purposes of this data, the following market capitalisation thresholds are used to define company size categories: Large-Cap: $10,000 million (or $10 billion) and above; Mid-Cap: between $2,000 million ($2 billion) and $10,000 million ($10 billion); and Small-Cap: ranging from $300 million to $2,000 million ($2 billion).

[6] https://www.lma.eu.com/download?p=626233701-66057

[7] isda.org/tag/sustainability-linked-derivatives/

Conclusion

Sustainability-linked loans are entering a defining phase in their evolution. Their unique blend of financial incentives, transparency and innovation positions them as powerful instruments for driving sustainable impact. While market growth may stabilise amid regulatory evolution and geopolitical uncertainty, a sharper focus on transition sectors, expanded markets, enhanced guidance, and a continued track record of innovation will help ensure SLLs remain a central pillar of the sustainable finance toolkit, motivating borrowers to lead and deliver on meaningful, measurable change.

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