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# Sustainability-Linked Finance



AN INNOVATION OF  
**WORLD BANK GROUP**

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IBRD - IDA

**IFC** International  
Finance Corporation

**MIGA** Multilateral Investment  
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# Mobilizing Capital for Environmental and Social Impact in Emerging Markets

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# The Challenge

Meeting the 2030 UN Sustainable Development Goals will require enormous infrastructure investment around the world. Sustainability-linked financing (SLF) incentivizes companies to pursue ambitious, long-term environmental and social goals. SLF achieves its sustainability impact by tying pricing to the achievement of measurable goals, usually through interest rate step-ups or step-downs. SLF offerings thus differ from other sustainable finance products, such as green and social bonds, which focus on the use of proceeds.

SLF instruments are now the fastest-growing instruments in the sustainable finance market. Over \$876 billion of sustainability-linked loans (SLLs) and bonds (SLBs) have been issued since SLF appeared on the market in 2017. Yet emerging markets are dramatically under-represented in this space. Despite the large investment needs for sustainable infrastructure in low- and middle-income countries, issuances in these countries represent only 5 percent of total SLF issuances to date.

The SLF sector is poised to grow dramatically in emerging markets. In 2021, SLF issuance in emerging markets saw a 386% increase compared to 2020 volumes. Projects in Mexico, China, Turkey, Russia and Brazil led the way, with approximately 83% of total volumes in non-high-income countries. There was also SLF activity in India, Thailand and elsewhere in Asia. In Africa, as in the rest of Latin America, market activity remains limited thus far.

SLLs have been the most popular sustainability-linked instrument in emerging markets so far, but SLBs skyrocketed in 2021 in line with global trends. The first emerging market SLL was issued by Polat Energy, a wind-power investor in Turkey in 2018. Since then, \$28.6 billion of SLLs have been issued in low- and middle-income countries. In 2020, Suzano, a Brazilian pulp and paper company issued the first SLB in an emerging market. Despite the slow ramp-up, over \$19.8 billion of SLBs have been issued to date.



# The Solution

As the largest global development institution focused on the private sector in emerging markets, IFC is well-positioned to support the scale-up of SLF issuances. IFC can help clients tackle climate change while promoting inclusive economic growth. IFC has a deep understanding of local markets and extensive sector expertise. IFC also has unrivalled experience in environmental and social (E&S) issues in emerging markets, with IFC's Performance Standards considered the golden standard for E&S risk management. IFC is a market leader in impact measurement, leading the development of widely-used impact metrics such as the HIPSO indicator set and Joint Impact Indicators, as well as its proprietary ex-ante impact assessment tool—the Anticipated Impact Measurement and Monitoring (“AIMM”) system. IFC chairs the International Capital Markets Association's Executive Committee of the Green, Social and Sustainability-Linked Bonds Principles, which has helped establish market guidelines for these instruments.

The value of working with IFC does not stop at structuring the transaction and providing financing. IFC's SLF offering aims to support companies in their long-term sustainability agendas, with options to provide strategic support, transaction support, and implementation support:



**Strategic Support:** IFC can come in at an early stage to help companies craft or enhance their sustainability strategies. IFC's experts can ensure that strategies are comprehensive, ambitious, and inclusive enough to underpin an SLF project. This includes net-zero pathways, climate risk diagnostics or just transition plans, among others.



**Transaction Support:** Once the decision to proceed to an SLF project has been made, IFC will assign a Sustainability Coordinator to the deal. The Sustainability Coordinator, who is normally an internal expert from IFC's Climate or Advisory teams, will work with the company to identify appropriate sustainability targets for the financing. In collaboration with our Sustainable Finance Analytics team, the Sustainability Coordinator will ensure targets are ambitious in relation to the company's historical performance and industry standards, protecting clients from “greenwashing” accusations and ensuring projects are aligned with the Paris Agreement. IFC can also assist clients in seeking a second-party opinion for the financing.



**Implementation Support:** IFC can support clients, after or in parallel to the financing, in implementing E&S initiatives or testing new decarbonization technologies in line with their sustainability strategy. IFC can partially co-fund some of these activities via its own funds or donor financing.

IFC's integrated approach, encompassing strategy, financing and implementation is unique in the market, and gives a significant advantage to its clients.

# Recent Projects



## Sembcorp, Singapore, 2021

This landmark deal was the first SLB by an energy company in Southeast Asia, and the region's largest such issue. The investment comprised S\$675 million (\$500 million equivalent) that will be used for renewable energy projects and other sustainable assets. The bond included a 25 basis point interest rate step-up linked to a corporate carbon intensity reduction target of 25 percent by 2025. This SLB issuance was completed at a crucial stage of Sembcorp's strategic shift to transform itself into a leading sustainable solutions provider in Asia, in line with the company's roadmap to quadruple renewable generation capacity to 10 GW by 2025. In addition to anchoring the issue, IFC helped Sembcorp review the sustainability-linked finance framework, including a materiality assessment for the selection of metrics, target benchmarking, implementation action plans, and reporting methodologies.



## Precious Shipping, Thailand, 2021

IFC provided a sustainability-linked loan of \$85 million to Precious Shipping Limited (PSL) to finance four specialized cement carriers and one bulk carrier owned and operated by PSL subsidiaries. The sustainability targets are tied to a reduction in the consumption of onshore-sourced freshwater by the company's vessels. This facility will help improve the resilience of PSL, a key player in the maritime shipping sector in Southeast Asia.



## Corsan, Brazil, 2021

The investment consisted of a R\$300 million (\$60 million equivalent) green and sustainability-linked loan to support Corsan's water-loss program and energy efficiency improvements through network replacement and efficient electric pumps and hydrometers. The facility included a coupon step-down linked to Corsan's target of reducing water losses in distribution to less than 35 percent by 2024. In addition to the standard Sustainability Coordinator services provided by IFC, this project benefited from additional advisory and funding support through the "Utilities for Climate" initiative. This work is helping Corsan diagnose and plan priority locations and interventions for its objective to reduce water losses.



## Izmir Water and Sewerage Administration (IZSU), Turkey, 2021

This \$30 million loan to Izmir Water and Sewerage Administration (IZSU) was the first sustainability-linked loan to a municipality in Turkey. The facility linked to IZSU's target to hire at least 300 female employees in jobs where women are currently under-represented by 2025. Complementing the standard Sustainability Coordinator services, IFC is also providing IZSU advisory services on gender and water conservation.

## IFC Contacts



[www.ifc.org/slf](http://www.ifc.org/slf)

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