Guidance on Social Loan Principles

APLMA Asia Pacific Loan Market Association

LMA Loan Market Association

LSTA ADVANCING THE CORPORATE LOAN MARKET

Important Notice: This guidance is intended as an overview and is not intended to be comprehensive. Whilst every care has been taken in its preparation, no representation or warranty is given by the APLMA, LMA or LSTA as to the accuracy or completeness of the contents of this guidance. Most importantly, this guidance is not designed to provide legal or other advice on any matter whatsoever.

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Interpretation of terms

The following definitions provide guidance for understanding and implementing this Guidance on Social Loan Principles:

- "Shall": Indicates a mandatory requirement.
- "Should": Indicates a recommendation.
- "May": Indicates an optional course of action.
- "Can": Indicates possibility or capability, for example, that an organization or individual is able to act.

For all other terms, a plain English approach is adopted.

1 Introduction

The Social Loan Principles (SLP) were originally launched in 2021 and provide a framework of market standards and guidelines for use across the social loan market, whilst allowing the loan product to retain its flexibility. In order to promote the development of this product, and to underpin and strengthen its integrity, the APLMA, LMA and LSTA considered it appropriate to produce Guidance on the SLP, to provide market practitioners with clarity on their application and promote a harmonised approach.

This Guidance should be read alongside the SLP.

Guidance is also available for the Sustainability-Linked Loan Principles (SLLP) and the Green Loan Principles (GLP). These sets of Guidance are intended to highlight the differences between, and suitability of application of, the GLP, the SLP and/or the SLLP to any particular deal.

2 Fundamentals

A. Is there a definition of social loans?

The SLP define social loans as:-

"… any type of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) where the proceeds or an equivalent amount shall be exclusively applied 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."

Borrowers shall explain the alignment of their social loan with the four core components of the SLP in a social loan framework and/or legal documentation, as appropriate.

This definition of social loans will be reviewed on a regular basis in light of the development and growth of the social loan market. Whilst it is recognised that definitions of "social" and "Social Projects" may vary depending on sector and geography, the SLP do contain a high-level, non-exhaustive list of potential categories of eligibility for Social Projects (See – 1. Use of Proceeds in the SLP).

B. What are the advantages of entering into a social loan?

Entering into a social loan offers a range of advantages for borrowers and lenders. Such advantages may include, but not limited to, the following:

- **Broader investor Pool:** Attracting a more diverse range of investors, especially those who prioritise environmental, social and governance (ESG) focused investments.
- **Scalable Financing Options:** Simplifying the process of linking new financing to specific social projects through a clear social loan framework.
- **Positive Impact on Target Populations and Society:** Contributing to social development and well-being.
- **Enhanced reputation and Credibility:** Strengthening public image and trust.
- **Stronger, Values-Based Relationships:** Building deeper connections with stakeholders based on shared values.
- **Access to New Markets:** Opening up opportunities in previously untapped sectors.
- **Supporting the UN Sustainable Development Goals (SDGs):** Advancing global social objectives.
- **Supporting a Just Transition:** Ensuring that the benefits of economic and environmental changes are shared fairly, while supporting those who may face economic challenges during the transition.
- **Meeting Regulatory and Policy Commitments:** Aligning with relevant regulatory, strategic, and policy goals.

C. Who can borrow a social loan?

Subject to any applicable law, regulation and credit assessment, any type of borrower can borrow a social loan, provided the borrower is able to provide the strategic elements necessary for the structure to be aligned with the four core components of the SLP.

D. What is the difference between green/social loans and sustainability-linked loans (SLLs)?

The fundamental determinant of a green/social loan is the utilisation of the loan proceeds for green/social projects (loans that intentionally mix eligible green and social projects can be referred to as "sustainability loans"). Whilst use of proceeds is the key determinant, the other core criteria set out in their respective principles (GLP/SLP) shall also be met, i.e. the criteria for project evaluation and selection, management of proceeds and reporting.

Under the SLLP, use of proceeds is not a determinant in its categorisation and SLLs are typically available without such restrictions (for general corporate purposes). The focus is instead on supporting a borrower in improving its sustainability performance, via the achievement of predetermined sustainability performance targets. As a result, the proceeds may be used to finance any kind of business activities that the borrower is pursuing, which aligns with the overarching objective of the SLLP to promote positive environmental and social outcomes, be they project based, acquisition based and so on.

E. Can a loan follow a combination of the GLP, the SLLP and/or the SLP?

Technically, a loan can follow a combination of the GLP, the SLLP and/or the SLP.

In this instance, there would need to be a rationale to both qualify the proceeds of the loan as green and/or social and to support the underlying assets' green and/or social performance through the additional introduction of key performance indicators and sustainability performance targets.

F. How do the SLP incorporate ESG considerations?

The SLP explicitly recognise several broad categories of eligibility for social loans with the objective of addressing key social purposes, such as affordable basic infrastructure, access to essential services and affordable housing. A non-exhaustive list of examples of categories of eligible Social Projects is set out in Part 1 (Use of Proceeds) of the SLP. Furthermore, the borrower of a social loan shall clearly communicate to its lenders the social objective(s) and the target population of the Social Projects and borrowers should position this information in the context of their overarching objectives, strategy, policy and/or processes relating to social sustainability.

A social loan could have related environmental and governance considerations, but these considerations alone will not qualify the loan as social. However, broader ESG considerations should be included in the impact assessment of the projects – either from a risk management perspective under project selection and evaluation (i.e., negative impacts) or from a positive outcome perspective in the impact reporting.

G. How do the SLP fit with their bond counterparts?

The SLP build on and are closely aligned to the Social Bond Principles (SBP) administered by the International Capital Market Association (ICMA), with a view to promoting consistency across financial markets. The SBP are internationally recognised voluntary issuance guidelines that promote transparency, disclosure and reporting in the social bond market.

It is envisaged that on some occasions, the SLP will be used together with the SBP. For example, a company may issue social bonds using the SBP, and thereafter, when it comes to using the proceeds of the bond issuance, the same company may act as a lender and use the SLP to provide social loans to one or more ultimate borrowers. Alternatively, a social bond may be used to refinance an existing social loan.

In a similar way, it is envisaged that the SLP may be used by an original borrower to borrow an initial social loan, and thereafter, the original borrower may act as lender to provide social loans to one or more ultimate borrowers. This is more likely to be the case where the original borrower is a government or semi-public institution such as a municipality or a development finance institution. Each of the loans need to comply with the four core components of the SLP to be classified as a social loan, and care will need to be taken to avoid the double counting of any such social loans.

In both scenarios, care should be taken to ensure transparent communication of the impact of underlying projects to avoid any complications related to double-counting.

3. Social Loan Principles

A. Social loan definition

I. Can a revolving credit facility (RCF) be a social loan?

Social loans include any type of bilateral or syndicated loan which aligns with the four core components of the SLP, including RCFs. Appendix 1 of the SLP specifically relates to the application of the SLP to RCFs.

II. Can a revolving loan be recognised as social if the borrower does not have a designated eligible Social Project at the time of entering into the loan?

Where the borrower does not have a designated eligible Social Project at the time of entering into the loan, it may be possible to designate a RCF as a social loan provided the eligible category (or categories) of Social Projects for which the loan proceeds may be utilised is sufficiently identifiable and the loan satisfies all four core components of the SLP. The parties may agree a social loan framework for the purposes of identifying what amounts to an eligible Social Project on such transactions. It will ultimately be for the parties to agree whether and at which point the revolving loan can be designated and marketed as a social loan. Where a RCF is made available for general corporate purposes, but also allows for draw down of the RCF for eligible Social Project(s), only those proceeds that are allocated for Social Project(s) may be classified as social loans, provided they comply with all the core components of the SLP.

Lenders and borrowers will need to determine on a case-by-case basis how best to document the use of proceeds requirement in relation to the relevant RCF agreement, and agree whether any additional reporting requirements and/or other conditions (e.g. around marketing/publicity) will apply at the point of drawdown under the RCF.

III. Refinancing of Projects

a) How can borrowers be transparent about the age of refinanced assets?

Social loans are often used to refinance assets that have a longer operating lifetime than a loan's tenor. Eligible projects would qualify for refinancing as long as they are in use, follow the relevant eligibility criteria at the time of the refinancing, and are still assessed as making a meaningful impact. Note, however, that many lenders differentiate between the refinancing of capital projects and operating expenditures and may expect a shorter lookback period for operating expenditures. Lenders may also seek additional information on the clear social benefits of refinanced projects with longer lookback periods.

The SLP provide that borrowers should, where appropriate, clarify which investments or project portfolios may be refinanced and disclose, to the extent relevant, the expected lookback period (i.e. the number of previous years that the borrower will look back to) for refinanced eligible Social Projects.

b) Can eligible assets be refinanced with the proceeds of a social loan before the original borrowing has matured?

Yes. In addition to providing clarity on the assets to be refinanced, the borrower should make clear when the original financing is due to mature. As the proceeds of any social loan shall not be used contemporaneously against the same asset more than once, in the overlapping period, the borrower shall ensure that the proceeds raised from the new financing will not be used for any purposes that would lead to double counting.

c) Can long-dated social assets be (re)financed by (multiple) consecutive social loans?

Long-dated social assets, including their maintenance and/or upgrade costs, may be (re)financed by multiple consecutive social loans subject to key disclosures by the borrower. The easiest way to do this may be in a portfolio-based 'Management of Proceeds' approach where multiple social loans finance one single pool of assets and expenditures. Specifically, the borrower should make explicit: the age and remaining useful life of the asset, as well as any (re)financed amounts, their (re)evaluation of the continuing social benefits of all eligible projects/assets and, where relevant, any (re) evaluation by an external reviewer[1]. This information should be communicated to the lenders at the time of the origination, extension or refinancing of the loan and it is recommended, where possible, be made publicly available on the borrower's website as part of the overall information on the related social loan.

d) Can existing assets that are pledged as collateral against another borrowing be refinanced through a social loan?

Yes, unless the eligible assets are included in the use of proceeds of an outstanding green, social or sustainability loan or equivalent bond instrument. The borrower should make clear that the assets are pledged as collateral, as well as conforming to all four core components of the SLP. The refinancing should be done within the usable lifetime of the social asset (See 3.A.III.c above).

[1] To include a second party opinion provider as relevant

B. Core components

I. Use of proceeds

a) If a tranche of a loan is social, is the whole loan deemed social?

No – only the social tranche shall be classified as social. Where a facility includes a social tranche, the social tranche shall be clearly designated, with proceeds of the social tranche credited to a separate account or tracked by the borrower in an appropriate manner.

b) Is disclosure of use of proceeds mandatory?

Borrowers shall make, and keep readily available, up-to-date information on the use of proceeds to the lenders. This information shall be updated at least annually until the loan is fully allocated (or until the loan maturity in the case of an RCF), and on a timely basis in the event of material developments.

This information shall include:

- a list of the Social Projects to which the social loan proceeds have been allocated;
- a brief description of the projects;
- a brief description of the target population;
- the amounts allocated; and
- the expected and, where feasible, achieved impact. The borrower and the lender(s) may agree that this information should be reviewed by an external reviewer.

The borrower and the lender(s) may also agree that additional reporting in relation to use of proceeds be carried out to ensure that the use of proceeds criteria continues to be met.

c) Are intangible assets or expenditures (such as training, monitoring, research & development and finance cost) also eligible for social loan financing?

The proceeds from a social loan may be used to finance or refinance other expenditures related to or in support of eligible Social Projects, as long as those intangible assets and expenditures are associated with clear social benefits.

d) When a loan finances projects that have both social and environmental benefits, such as sustainable social housing, sustainable public transport and access to clean water, can the borrower freely choose the designation of the loan as either a green or social loan?

Yes, as long as the loan is aligned with the core components of the GLP and/or SLP. The borrower should determine the designation depending on the primacy of the intended objectives of underlying projects. Where the borrower's prime focus is on the intended environmental objectives of the project, they should label the loan a green loan. Where the borrower's prime focus is on the intended social objectives of the project, they should label the loan a social loan. Borrowers may also align to both the SLP and GLP as per questions 2D and 2E above, in which case the loan may be labelled as a 'sustainability loan'.

e) Can a borrower enter into 'theme' loans focusing only on one category out of a more general green, social and SLL framework?

Yes, a green, social and SLL framework can allow the loan proceeds to be allocated to a project(s) belonging to one or several defined categories. A borrower may enter into loans focusing on different ESG "themes" using a single framework that encompasses all the relevant themes, or they may highlight thematic differences in their approach to any of the core components of the SLP through establishing additional frameworks. Whatever the focus of the loan or framework, it is helpful to ensure that all loan communications and documentation state clearly whether the loan is aligned with all four core components of the SLP.

II. Process for project evaluation and selection

Social Projects should be consistent with the sustainability strategy of the borrower and in line with local policies and lenders' lending criteria/policies.

As stated in the SLP, borrowers are encouraged to position the information within the context of their overarching objectives, strategy, policy and/or processes relating to sustainability

a) What standards might be referred to in determining whether a loan is social?

There is no consensus in relation to what constitutes 'social' in the context of social loans. However, there are a number of standards that may be helpful in this area such as the World Bank's 'Environmental and Social Standards' and the SDGs. There has been some discussion around extending the EU Taxonomy to cover socially sustainable activities[2], but as yet no consensus has been reached internationally on a social taxonomy.

National living income indexes can serve as a reference point for 'living below the poverty line' when looking to identify target populations for the purposes of social loans. The World Bank's data on low- and middle-income countries can also be used a reference point[3].

Indicative categories of eligible categories of Social Projects are found in the SLP together with a list of potential target populations. Definitions of Social Projects and target populations may vary depending on sector and geography.

Where appropriate, an external reviewer may be able to assist the borrower when seeking alignment to the SLP.

b) The SLP states that a borrower shall clearly communicate "the processes by which the borrower identifies and manages perceived, actual or potential social and/or environmental risks associated with the relevant project(s)". What is expected of borrowers in this regard?

Borrowers shall seek to clarify any related eligibility and exclusion criteria, as well as any other policies or processes by which the borrower identifies and manages perceived, actual or potential social and environmental risks associated with the proposed projects.

Borrowers are encouraged to seek, through their processes, to identify mitigants to known and likely risks of material social and environmental impacts from the project(s), which may include minimum standards, governance structures and ongoing monitoring, and clear and relevant trade-off analysis undertaken.

c) Can a social loan be made to a borrower that has low ESG ratings, exposure to controversial sustainability issues or sectors/technologies (such as fossil fuels or nuclear energy)?

The focus of social loans is on the eligible projects rather than on the borrower itself. The SLP require that borrowers clearly communicate to its lenders the social sustainability objectives of the Social Projects, as well as complementary information on the processes by which the borrower identifies and manages perceived, actual or potential social and environmental risks associated with the proposed projects.

In the presence of controversial sustainability issues or where the project may have an adverse impact on other SDGs, borrowers may be required to provide additional transparency to lenders, particularly around the strategic importance of sustainability for the business and/or sustainability benefits from the underlying projects that go beyond established sector norms and business as usual. Lenders and borrowers may also wish to determine on a case-by-case basis whether to agree any conditions around, e.g. marketing/publicity of the loan as social.

III. Management of Proceeds

a) How should you deal with surplus money arising when social loan proceeds exceed social projects?

The SLP state that the net proceeds, or an amount equal to these net proceeds, of the loan will be exclusively applied for Social Projects. It nevertheless recognises that there may temporarily be unallocated loan proceeds, and that the borrower should make known the intended types and durations of temporary placement of any unallocated loan proceeds. Borrowers may consider temporary placements (preferably thematically relevant/ESG placements) pending allocation to eligible Social Projects. Borrowers should seek to ensure that, in the selection of such temporary investments, they do not damage the integrity of the social loan market.

IV. Reporting

a) Are Social Projects required to identify a target population?

Borrowers shall identify the target population(s) for which positive social outcomes are anticipated and include target population(s) in reporting wherever possible. It is acknowledged that a Social Project could benefit people beyond the identified target population. The notion of 'target population(s)' may also be context-specific in that an individual considered underserved in one sector or country context, may not be considered underserved in another. Where applicable, borrowers should provide information on such context.

b) Reporting on Broad Social Issues Impacting the General Population

In instances where there may be broad social issues that impact the general population, for example public health issues, polluted water supply, etc. the target population could be the entire population rather than a particular segment

[2] https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf
[3] https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

of the population.

In such cases, borrowers shall provide:

- an explanation of how the social issue is expected to be addressed by the project and the impact on the general population;
- any safeguards and measures to ensure that especially vulnerable parts of the population are not excluded from the project benefits due to cost aspects, project location or general access, etc.; and
- to the extent possible, identifying any segments of the general population that are expected to especially benefit from the project.

c) How are metrics chosen to report on the social impact or efficiency of projects?

The SLP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures and disclosure of the key underlying methodology and/or assumptions used in the quantitative determination.

For the calculation of indicators, where there is no commonly accepted standard, borrowers may follow their own methodologies while making these available to lenders. Reporting data based on a uniform, consistent and published methodology remains a challenge as on-going efforts to harmonise accounting methodologies for relevant sectors take place. Borrowers should therefore provide full transparency on the applicable accounting methodology and assumptions they have applied, which can be referenced.

Parties may wish to refer to market guidance, such as the ICMA's 'Harmonised Framework for Impact Reporting for Social Bonds (September 2024)'[4] for further guidance on impact reporting and/or any other relevant market guidance.

d) How often and for how long should a borrower be expected to report on social loans?

Borrowers shall make and keep readily available up-to-date information on the use of proceeds. This information shall be updated at least annually until the loan is fully allocated (or until the loan maturity in the case of a RCF), and on a timely basis in the event of material developments. The borrower and the lender(s) may agree that reporting should take place more regularly.

Where the proceeds are used to finance more than one eligible Social Project, the borrower's report shall clearly set out the proceeds being applied to each project and each project's resulting social benefits. Alternatively, where portfolio level reporting is agreed between the borrower and lender(s), information on proceeds allocation and aggregated impact at the portfolio level should be clearly reported.

The expected and, where possible, achieved impact of projects should also be communicated to the lenders. The SLP recommend the use, where feasible, of quantitative performance measures of expected and achieved impact.

Borrowers should report throughout the life of the loan and, to the extent possible, should make available the latest report either on their website or in another publicly available space or to their lenders, with the date as at which it was prepared.

e) Is there a standard methodology for reporting on the impact of the loan proceeds?

Transparency is of particular value in communicating the expected and/or achieved impact of Social Projects, including through the use of qualitative performance indicators and, where feasible, quantitative performance measures.
In the bond market, ICMA has encouraged harmonised impact reporting by providing core principles for reporting the impact of projects, together with suggested metrics and the provision of templates to cover most eligible Projects. ICMA has produced a Harmonised Framework for Impact Reporting (updated in June 2024), which highlights recommended disclosures of the key underlying methodology and/or assumptions used in the quantitative determination, and which may also be useful for loan market participants.

f) How should a borrower report impact for projects where the borrower has provided only partial financing?

Borrowers should report the impacts of the prorated share of the total project cost that they are financing, and to provide the total project cost when available, subject to confidentiality considerations. Borrowers who do so are further encouraged to provide confirmation that they have chosen to report using a pro-rata methodology. Where borrowers have used estimates to determine their share of financing of the total project cost, they should clearly state so. In circumstances where the borrower believes an alternative impact reporting methodology is appropriate, borrowers should explain their rationale, and provide transparency regarding the share of the project they financed as well as the share of the impacts they are reporting.

g) Should a borrower report on actual and/or estimated impact?

It is understood that for certain Social Projects, actual impact cannot be calculated until those assets are operational and/or projects completed, which may/may not be at the origination, extension or refinancing of a social loan. In these

[4] https://www.icmagroup.org/assets/documents/Sustainable-finance/2024-updates/ICMA-Handbook-Harmonised-Framework-for-Impact-Reporting-for-Social-Bonds-September-2024-250924.pdf

cases, borrowers should report on their estimated impact. With either approach, actual or estimated, borrowers should provide detailed insight with clear disclosure on the scope and limitations of data presented.

C. Review

I. What is an external review and is it required?

Where appropriate, borrowers should appoint an external review provider(s) to assess through pre-origination external review the alignment of their social loan (or social loan programme) and/or social loan/finance framework with the four core components of the SLP (i.e. Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting).

Post-origination, a borrower's management of proceeds may be supplemented by the use of an external auditor, or other third party, to verify the internal tracking and the allocation of funds from the social loan proceeds.

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 should document thoroughly such expertise, including the related internal processes and expertise of their staff. This documentation should be communicated to financial 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 should 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.

For more information, see the APLMA, LMA and LSTA 'Guidance for Green, Social, and Sustainability-Linked Loans External Reviews'[5].

II. Does a new external review need to be issued on a refinancing?

When refinancing an existing social loan, parties should consider whether it may be appropriate to obtain a new external review. This may assist, in particular, where minimum qualitative and/or quantitative thresholds have been set so as to ensure that the eligibility criteria are in line with the best practices prevailing at the time of the refinancing.

It will also help to ensure that the integrity of the product is maintained.

III. Do self-certified loans need to be externally reviewed before they are compared/ranked against other loans (e.g. league tables)?

None of the APLMA, LMA or LSTA can determine which loans can be included in social loan league tables, nor whether they need be externally reviewed. We are aware that the SLP are often used as screening criteria by data providers.

D. Documentation

I. Are there any examples of drafting of social loan clauses?

Whilst there is currently no template wording available for use in social loan documentation, the APLMA's Model Provisions for Green Loans (June 2024)[6], the LMA's Draft Provisions for Green Loans (November 2024)[7] and the LSTA's Drafting Guidance for Green Loans (March 2025)[8] (together the "Provisions") may be adapted for use.

These Provisions are intended to provide a starting point for green loans based on market practice at the time of publication; they are not intended to be a comprehensive analysis of green loan transactions and intentionally omit several features which are commonly negotiated between parties from time to time and/or may be relevant for a particular sector or asset class. These Provisions should therefore be subject to case-specific and sector-specific customisation and subsequent negotiation.

[5] https://www.lma.eu.com/application/files/7516/4623/8848/Guidance_for_Green_Social_and_Sustainability-Linked_Loans_External_Reviews.pdf
[6] APLMA - Green and Sustainable Lending Microsite. Available to members only.
[7] https://www.lma.eu.com/sustainable-lending/documents# Available to members only.
[8] https://www.lsta.org/content/green-loan-drafting-guidance-march-17-2025/. Available to members only.