



# IISD

International Institute for  
Sustainable Development

## POLICY BRIEF

# Integrating Gender in Sustainability-Linked Bonds:

## Innovations in multi-KPI sustainability-linked structures

David Uzsoki and Safa Rahim

October 2021

This article was commissioned by the ASEAN Low Carbon Energy Programme (LCEP) and funded by the Foreign, Commonwealth & Development Office (FCDO).

## Gender-Smart Sustainability-Linked Bonds

Gender equality and women's empowerment are essential for a prosperous and sustainable world, as they affect all aspects of sustainable development. At the same time, the most pressing sustainability challenges of our time impact women disproportionately. Due to their role in society, women are particularly vulnerable to climate change. It can worsen structural gender-based inequalities and further increase existing gender disparities in accessing resources and economic opportunities. Mark Carney, ex-Governor of the Bank of England, elaborates:

As we pursue a more sustainable economy, progress on gender diversity must be at the forefront of our goals. Women are often disproportionately affected by the impacts of climate change, and there can be tremendous synergies between efforts to achieve gender equality and address climate change. Gender responsive climate investments can strengthen climate and environmental outcomes, open up business opportunities and be financially more effective.<sup>1</sup>

Similarly, the Gender Smart Initiative has been promoting the application of a combined gender and climate lens to investing.<sup>2</sup> The recently published UK *Government Green Financing Framework* has also committed to assessing and reporting on the social risks and co-benefits,

<sup>1</sup> International Gender Champions. (2021). *Mark Carney*. <https://genderchampions.com/champions/mark-carney>

<sup>2</sup> Gender Smart. (n.d.). *Gender & climate investment: A strategy for unlocking a sustainable future*. <https://www.gendersmartinvesting.com/climate-gender-working-group-about#gender-and-climate-report>



including gender considerations, of its green investments.<sup>3</sup> Unfortunately, despite the increasingly recognized societal and financial benefits, gender-focused financing has been limited to date. Only USD 17 billion in assets are in gender-labelled financial products globally,<sup>4</sup> which is a fraction of the global sustainable investment universe of over USD 40 trillion.<sup>5</sup>

To scale up financing to meet gender objectives, all new sustainable bond issues, irrespective of their thematic focus, should include gender considerations in their respective bond frameworks. In the case of use-of-proceeds bonds, such as green and sustainability bonds, this means including gender criteria in how the eligibility of projects that can be financed are determined. For sustainability-linked bonds (SLBs), the integration of gender considerations requires issuers to include an additional set of key performance indicators (KPIs) and sustainability performance targets (SPTs) alongside their main sustainability KPIs and SPTs. In practice, this means that issuers need to have multi-KPI sustainability-linked structures supported by an appropriate bond framework. While this is common practice for sustainability-linked loans, the majority of SLBs issued to date have had a single KPI.

---

Only USD 17 billion in assets are in gender-labelled financial products globally, which is a fraction of the global sustainable investment universe of over USD 40 trillion.

---

The financial characteristics of an SLB can change depending on whether the issuer has achieved its predetermined SPT. How this “trigger event” is determined is particularly important for multi-KPI SLBs. Should issuers meet all SPTs outlined in their bond framework or rather try to aim for an 80% average success rate across all SPTs? Would the answer to these questions differ for SLBs with gender diversity KPIs?

For this article, we have reviewed many of the existing multi-KPI debt structures, focusing on how issuers have defined the trigger event in their respective frameworks. As there have only been a limited number of multi-KPI SLBs to date, we have also looked at multi-KPI sustainability-linked loans. The article covers a few examples in more detail to demonstrate the diverse approaches taken by issuers. Based on this assessment, the article also offers recommendations on how issuers should design trigger conditions, especially in the context of gender-smart SLBs.

This article is part of a series that examines how integrating gender considerations into all newly issued sustainable bonds could significantly scale up financing for gender objectives.

---

<sup>3</sup> HM Treasury & United Kingdom Debt Management Office. (2021, June). *UK Government Green Financing Framework*. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1002578/20210630\\_UK\\_Government\\_Green\\_Financing\\_Framework.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1002578/20210630_UK_Government_Green_Financing_Framework.pdf)

<sup>4</sup> Based on estimates of Catalyst at Large, Parallele Finance, Sagana, Veris Wealth Partners and Suzanne Biegel, Co-Founder of GenderSmart.

<sup>5</sup> Opimas. (2020, June 17). *ESG data: Integration by asset manager: Targeting Alpha, fiduciary duty & portfolio risk analysis*. <http://www.opimas.com/research/570/detail/>



Our earlier article<sup>6</sup> discussed the rationale behind mainstreaming gender considerations, including the challenges and opportunities of this approach. In another article<sup>7</sup> in the series we have looked at how gender criteria have been integrated to date in non-gender-labelled sustainable bonds, with a focus on green and sustainability-linked bonds.

## Sustainability-Linked Bonds

Sustainable bond issuance has been growing rapidly, both in terms of volume and types of instruments.<sup>8</sup> New issuance reached a record USD 732.1 billion in 2020, with green bonds leading the way with issues totalling USD 305.3 billion.<sup>9</sup> The traditional use-of-proceeds structure of green and sustainability bonds requires issuers to allocate the funds raised to a predetermined set of eligible project categories that are in line with the relevant International Capital Markets Association (ICMA) principles. This has limited the participation of some issuers in sustainable debt markets because either their corporate structure or the nature of their business makes earmarking funds in this way impossible.

The introduction of SLBs has sought to mitigate this problem. These instruments are forward-looking, performance-based instruments whose financial characteristics are influenced by the achievement of predetermined KPIs. Here, the “use of proceeds” is not a determinant in categorization, and it is not defined by the bond guidelines. This flexibility enables issuers to use the proceeds toward a variety of environmental and social objectives, including addressing gender inequality. Therefore, SLBs—like other sustainable bonds—can be used by corporations that seek to achieve profit with purpose. The popularity of SLBs has increased dramatically since being accepted as eligible collateral for the credit operations of the European Central Bank in 2020.<sup>10</sup>

---

Therefore, SLBs—like other sustainable bonds—can be used by corporations that seek to achieve profit with purpose.

---

Due to their critical role, KPI(s) should be carefully chosen and be in alignment with the sustainability strategies of the issuer. Each KPI has a corresponding SPT, which establishes a benchmark that needs to be achieved by the target observation date. The KPI(s) should aim for material improvement to the targeted social/environmental objectives to avoid the

---

<sup>6</sup> Uzsoki, D. (2021, January 31). *Integrating a gender lens in sustainable investing*. <https://www.iisd.org/articles/gender-lens-sustainable-investing>

<sup>7</sup> Uzsoki, D. (2021, October 1). *Mainstreaming Gender Objectives in Sustainable Bonds*. <https://www.iisd.org/publications/mainstreaming-gender-objectives-sustainable-bonds>

<sup>8</sup> NN Investment Partners. (2021, May 6). *Sustainability-linked bonds: A viable alternative or green bonds?* <https://www.nnip.com/en-SG/professional/insights/sustainability-linked-bonds-a-viable-alternative-for-green-bonds>

<sup>9</sup> BloombergNF. (2021, January 11). *Sustainable debt breaks annual record despite Covid-19 challenges*. <https://about.bnef.com/blog/sustainable-debt-breaks-annual-record-despite-covid-19-challenges/>

<sup>10</sup> European Central Bank. (2020, September 20). *ECB to accept sustainability-linked bonds as collateral*. <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200922~482e4a5a90.en.html>



risk of impact washing.<sup>11</sup> The performance of the KPIs is tracked during the life of the bond, and they are usually audited on an annual basis. The outcome of the observation of whether the issuer has achieved the SPT(s), as outlined in its bond framework, is called the “trigger event.”<sup>12</sup> The issuer’s performance against the relevant SPT affects the financial characteristics of the bond mainly through post-issuance pricing adjustments.<sup>13</sup> This can occur in three ways:<sup>14</sup>

1. Benefit mechanism (one way): a coupon “step-down” occurs if SPTs are achieved by the observation date, effectively making the cost of borrowing lower for the issuer. Investors tend to dislike this structure, as it makes the financial performance of the bond uncertain and therefore difficult to value.
2. Penalty mechanism (one way): a coupon “step-up” occurs if the issuer fails to achieve the SPTs by the observation date. This is the most common mechanism followed by SLBs in the market currently.
3. Combined benefit-penalty mechanism (two way): a combination of the other two mechanisms. In this case, the issuer receives a benefit in the form of a coupon step-down if the SPTs are achieved before the observation date. On the other hand, a penalty is imposed, such as a coupon step-up, if the issuer fails to achieve the predefined SPTs.

Investors must be made aware of the potential trigger events and the pricing mechanisms followed by the issuers by defining them clearly in the bond framework.

## Industry Best Practices: Determining trigger events

Most sustainability-linked debt issued to date has a single sustainability KPI. For the purposes of this article, we have done a comprehensive review of the few multi-KPI structures available. Our findings show that there is a lot of experimentation in the space without any clear “best practices” on how issuers should determine the trigger event for their multi-KPI SLBs. While this is a testament to the inherent flexibility of sustainability-linked structures that has made them popular, it also raises the question of whether there is a “right way” to design the trigger conditions of multi-KPI SLBs. In this section, we have selected a few notable examples that demonstrate the different successful approaches that issuers have taken so far.

While the decision of how the trigger event is determined is left to the judgment of the issuer, it has a significant impact on the way investors perceive the level of ambition of the bond. The following examples illustrate the four main approaches of identifying the trigger event:

---

<sup>11</sup> Environmental Finance. (n.d.). *Sustainability-linked debt: The risk of ESG-washing*. <https://www.environmental-finance.com/content/analysis/sustainability-linked-debt-the-risk-of-esg-washing.html>

<sup>12</sup> The Sustainability-Linked Bond Principles. (2020, June). *Sustainability-Linked Bond Principles: Voluntary process guidelines*. <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf>

<sup>13</sup> Ibid.

<sup>14</sup> Environmental Finance (n.d.), supra n. 10.



1. Applying a scoring scale to KPIs – Schneider Electric
2. Achieving all KPIs – EQT
3. Weighting KPIs – H&M
4. Selective fulfilment of KPIs – BlackRock

## Approach 1: Applying a scoring scale to KPIs – Schneider Electric

Schneider Electric (SE) is one of the leading companies in energy and digital solutions, focusing on enhancing energy efficiency and sustainability. The company has made notable commitments to pursue sustainability, which is reflected in its ambitious action plans. Apart from pursuing environmental sustainability, SE has undertaken decisive steps toward social objectives like enhancing gender inclusion.<sup>15</sup> In 2019, it became the first multinational company to unanimously commit to the United Nations Women’s Empowerment Principles across its global leadership teams.<sup>16</sup>

In pursuit of these goals, SE issued its first sustainability-linked convertible bond with gender KPIs for a nominal amount of EUR 650 million in 2020.<sup>17</sup> A convertible bond is typically a corporate bond that can be converted into a predetermined number of shares at certain times during its life.<sup>18</sup> This was not only one of the first SLBs ever issued, but it was also one of the few SLBs with an explicit gender KPI.<sup>19</sup> The bonds do not bear interest and have been issued at a price of 107.75% of the nominal value.<sup>20</sup> As long as the bond is not converted, exchanged, or cancelled, it can be redeemed by June 2026. However, if the predefined KPIs are not met by the target observation date, a premium payment amount, or step-up, will be imposed.<sup>21</sup>

SE’s SLB framework targets the fulfilment of three KPIs falling under the themes of climate, gender equality, and building generations (Table 1).<sup>22</sup> These KPIs are aligned with the company’s sustainability strategy—the Schneider Sustainability Impact. While the first KPI seeks to reduce carbon emissions, the second and third KPIs target social objectives of gender inclusion and building capacity. The performance of these KPIs is linked to a subsequent trigger event, with the potential to restructure the pricing mechanism of the

<sup>15</sup> Schneider Electric. (2020, November 22). *Schneider Electric included in the Top 50 for The Diversity Leaders 2021 ranking held by the Financial Times*. <https://www.se.com/ca/en/about-us/newsroom/news/press-releases/schneider-electric-included-in-the-top-50-for-the-diversity-leaders-2021-ranking-held-by-the-financial-times-5fb9fa85876b126a51791964>

<sup>16</sup> Cision. (2019, April 3). *Schneider Electric accelerates its practices of gender equality and inclusion forward with 100% leadership commitment to UN Women’s Empowerment Principles*. <https://www.prnewswire.com/news-releases/schneider-electric-accelerates-its-practices-of-gender-equality-and-inclusion-forward-with-100-leadership-commitment-to-un-womens-empowerment-principles-300824008.html>

<sup>17</sup> Schneider Electric. (2020, November 17). *Schneider Electric launches its first sustainability-linked bonds convertible into shares and/or exchangeable for existing shares (OCEAEs) sure 2026 for a nominal amount of €650 million*. <https://www.se.com/ww/en/assets/564/document/174193/release-sustainability-linked-bonds.pdf>

<sup>18</sup> Investopedia. (2020, October 6). *Convertible bond*. <https://www.investopedia.com/terms/c/convertiblebond.asp>

<sup>19</sup> Moody’s. (2021 May 17). *Credibility targets and structures key to long-term growth of sustainability-linked bonds*. [https://assets.website-files.com/5df9172583d7ecc04960799a/60a1da152e1185ea3f5f7566\\_BX6396\\_MESG\\_SLBs\\_17May2021.pdf](https://assets.website-files.com/5df9172583d7ecc04960799a/60a1da152e1185ea3f5f7566_BX6396_MESG_SLBs_17May2021.pdf)

<sup>20</sup> Schneider Electric (2020), supra n. 16.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.



SLB. To determine the level of fulfillment of the KPIs, the Schneider Sustainability Impact has formulated a scoring scale. It ranges from 0 to 10 and indicates the overall measure of the company's progress on its sustainability goals. This is done by converting each KPI performance to a 10-point scale, such that the base year performance has a score of 3/10, while the 2025 objective translates to 10/10. The overall score indicated by the scale is the average of each KPI's score, weighted equally.

**Table 1.** Schneider Electric SLB KPIs<sup>23</sup>

KPI	KPI baselines (Corresponding to a score of 3/10)	SPT
1. Saved and avoided CO <sub>2</sub> emissions to its customers	280 Mt of saved and avoided CO <sub>2</sub> emissions for SE's customers	Deliver 800 Mt of saved and avoided CO <sub>2</sub> emissions for SE's customers
2. Gender diversity from hiring to frontline managers and leadership teams a. % of women hires b. % of women among the frontline managers c. % of women in leadership teams	2.a. 43% women hiring 2.b. 25% women among frontline managers 2.c. 23% women in leadership teams	Increase gender diversity from hiring to frontline managers and leadership teams: d. 50% women hiring e. 40% women frontline managers f. 30% women in leadership positions
3. Underprivileged people trained in energy management	268,000	Train 1 million underprivileged people in energy management

The KPIs of this SLB have been rated to be “robust”<sup>24</sup> by an external review provider due to the SLB's high “minimum threshold.” SE has committed to achieving a minimum average score of 9/10, which represents an 85% achievement of each KPI. Over the last 15 years, SE claims it has been improving continuously, with the highest performing score achieved so far being 9.58/10.<sup>25</sup> Seeking to maintain high levels of performance, the SLB has set a step-up margin or premium that will be triggered if the KPI is not achieved by the target observation date. For instance, if the average sustainability performance score is not reached by the end of 2025 for SPT 1, SE will have to pay an amount equal to 0.50% of the nominal unit value, or premium payment amount, on each bond.<sup>26</sup>

<sup>23</sup> Schneider Electric. (2020, November 16). *Sustainability-linked financing framework*. <https://www.se.com/ww/en/assets/564/document/174194/schneider-electric-sustainability-linked-financing-framework.pdf>

<sup>24</sup> V.E. (2020, November). *Second party opinion on Schneider Electric's sustainability-linked financing framework*. <https://www.se.com/ww/en/assets/564/document/174195/second-party-opinion-vigeo-eiris.pdf>

<sup>25</sup> Schneider Electric (2020), supra n. 22

<sup>26</sup> Schneider Electric (2020), supra n. 16.



As discussed, SE uses a scoring scale to determine the trigger event for its SLB. The performance of its three KPIs is scored on a 10-point scale with a baseline score of 3/10. The company has set a minimum score of 9/10, representing the achievement of at least 85% of each of the targets by the target observation date of the bond. If this target is not met, a coupon step-up will be triggered. This is one of the few SLBs that use a scoring scale to determine the achievement of its KPIs. The advantages of this approach include better quantification of the sustainability performance and therefore comparability across the different KPIs. At the same time, issuers must make sure that the conversion of different units of measurement into a common scale is precise. For instance, in this case, we see avoided CO<sub>2</sub> emissions (KPI 1) and the number of women (KPIs 2 and 3) aggregated into a 10-point scale, which could be a complicated exercise.

## Approach 2: Achieving all KPIs – EQT

EQT is a purpose-driven global investment organization focusing mainly on private equity, venture capital, and infrastructure investments. With sustainability as one of its key investment themes,<sup>27</sup> it has included environmental, social, and governance (ESG) criteria into some of its private equity and infrastructure funds. Furthermore, the company has recently issued sustainability-linked securities (SLSs). These financing instruments consist of SLBs and sustainability-linked loans, among others. EQT published its SLS financing framework in 2020, which targets 3 KPIs falling under ESG objectives. All of its new sustainable debt issuances will be aligned to these objectives, as shown in Table 2.<sup>28</sup>

EQT introduced the largest-ever ESG-linked subscription credit facility (SCF) in June 2020<sup>29</sup> and another large SCF in November 2020.<sup>30</sup> SCFs, also known as bridge loans, are typically short-term loans provided to private equity firms.<sup>31</sup> These loans are to be primarily used to cover transaction costs. More recently, EQT set a new precedent by issuing a EUR 500 million 10-year SLB in 2021.<sup>32</sup>

---

<sup>27</sup> Science Based Targets. (2021, June). *SBTi Corporate manual: Version 1.1* (TVT-INF-002). <https://sciencebasedtargets.org/resources/files/SBTi-Corporate-Manual.pdf>

<sup>28</sup> BNP Paribas. (2021, May 14). *Propelling sustainability-linked bonds into the private equity sector*. <https://cib.bnpparibas/propelling-sustainability-linked-bonds-into-the-private-equity-sector/>

<sup>29</sup> EQT. (2020, June 11). *EQT introduces largest ever ESG-linked Subscription Credit Facility*. <https://eqtgroup.com/news/2020/eqt-introduces-largest-ever-esg-linked-subscription-credit-facility>

<sup>30</sup> EQT. (2020, November 19). *EQT continues to accelerate portfolio company's ESG performance*. <https://eqtgroup.com/news/2020/eqt-continues-to-accelerate-portfolio-companies-esg-performance>

<sup>31</sup> Fugazy, D. (2019, September 17). *A rise in subscription credit facilities*. AXIAL. <https://www.axial.net/forum/a-rise-in-subscription-credit-facilities/>

<sup>32</sup> BNP Paribas (2021), supra n. 28.

**Table 2.** EQT: The KPIs of the SLS framework<sup>33</sup>

KPI	KPI Baselines (2020)	SPT
1. Achieve Green House Gas (GHG) emission reduction targets approved by the Science Based Targets initiative (SBTi)	Not established	Seeking approval of its science-based targets (SBTs) aiming to reduce GHGs by the SBTi by December 31, 2023.
2. Increase the percentage of women investment advisory professionals	21% of investment advisory professionals are women	At least 28% of Investment Advisory Professional positions should be women by December 31, 2026.
3. Increase the percentage of independent women board members appointed at EQT's portfolio companies	21% of the independent directors in EQT's eligible fund portfolio companies are women	The board diversity percentage at EQT's portfolio companies will be equal to or greater than 36% by December 31, 2026.

The first KPI of the EQT SLS financing framework is on reducing GHG emissions, including scope 1, 2 and 3 (see Box 1).<sup>34,35</sup> While scopes 1 and 2 are related to the direct and indirect emissions of EQT, scope 3 includes the emissions resulting from its portfolio companies.<sup>36</sup> The company seeks the approval of its science-based targets (SBTs) by the SBTi. To achieve this target, EQT has 24 months to submit and publish the validated SBTs on the SBTi website.<sup>37</sup> Failure to meet the SPT of KPI 1 will result in a coupon step-up.

## Box 1. Categories of GHG emissions

### Scope 1

Direct emissions from owned or controlled sources

### Scope 2

Indirect emissions resulting from the generation of purchased electricity, steam, heating, and cooling consumed by the company

### Scope 3

All remaining indirect emissions occurring in a company's value chain. For instance, emissions of portfolio companies.

<sup>33</sup> Ibid.

<sup>34</sup> ISS ESG. (2021, April 30). *Second party opinion (SPO): Sustainability quality of the issuer and sustainability-linked securities*. <https://www.issgovernance.com/file/spo/spo-20210430-eqtab.pdf>

<sup>35</sup> Allwood J. M., Bosetti, V., Dubash, N. K., Gómez-Echeverri, L. & von Stechow, C. (2014). Annexes. In *Climate change 2014: Mitigation of climate change*. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Edenhofer, O., R. Pichs-Madruga, Y. Sokona, E. Farahani, S. Kadner, K. Seyboth, A. Adler, I. Baum, S.

<sup>36</sup> Ibid.

<sup>37</sup> Science Based Targets (2021), supra n. 27.





---

One of the reasons behind the success of the company's debt instruments is their ambition level and clear sustainability goals.

---

The second and third KPIs aim to improve gender inclusion in the financial sector. They seek to increase the share of women in EQT's investment advisory functions (KPI 2) and on the boards of EQT's portfolio companies (KPI 3) (see Table 2). With respect to KPI 2, 40% of all employees at EQT are classified as "investment advisory professionals," and by the end of 2026, EQT seeks to increase the share of women in that position to 28%.<sup>38</sup> KPI 3 is about increasing the number of women on the independent boards of EQT's portfolio companies. The metrics used to determine the trigger event are different for each of these KPIs. KPI 2 is calculated as a percentage of the total number of investment advisory professionals at EQT. In contrast, KPI 3 is calculated as the average share of board members appointed by EQT in its portfolio companies. All three KPIs are individually linked to a trigger event that can potentially result in a financial restructuring. For instance, if the SBTs are established, and 28% of the investment advisory professional positions are filled by women by 2026 but EQT fails to have at least 36% women board members, a coupon step-up will occur.<sup>39</sup> One of the reasons behind the success of the company's debt instruments is their ambition level and clear sustainability goals. According to Anjali Pandit, Primary Markets Sustainable Manager at BNP Paribas, investors have positively responded to gender KPIs.<sup>40</sup>

EQT's approach is a good example of SLSs that require the achievement of all SPTs to avoid a trigger event. This approach signals to investors that the issuer has high sustainability ambitions and will have a strong incentive to achieve all of its sustainability KPIs in the framework. Additionally, since all three KPIs are weighted equally, the company will have to prioritize the performance of all three equally. Despite the rapid growth of sustainability-linked debt, there are only a few companies that pursue social goals like gender inclusion. EQT is one of the few companies pursuing the cause of gender inclusion through their SLBs, therefore making it a good example for other companies to follow.

### Approach 3: Weighting of KPIs – H&M

H&M Group is one of the leading multinational clothing-retail companies. It has an ambition of achieving a high level of sustainability across its operations. This overarching commitment has led the organization to set a goal to have a "climate-neutral supply chain" by 2030.<sup>41</sup> To this end, their main strategy areas include energy efficiency, 100% renewable energy, the development of circular business models, and nature-based solutions. Although this example

---

<sup>38</sup> ISS ESG (2021), supra n. 35.

<sup>39</sup> BNP Paribas (2021), supra n. 28.

<sup>40</sup> BNP Paribas (2021), supra n. 28.

<sup>41</sup> H&M Group. (2021, January). *Sustainability-linked bond framework*. [https://hmgroupp.com/wp-content/uploads/2021/02/HM\\_Sustainability-Linked-Bond-Framework.pdf](https://hmgroupp.com/wp-content/uploads/2021/02/HM_Sustainability-Linked-Bond-Framework.pdf)



does not include any gender-related KPIs, it illustrates an innovative new model of multi-KPI SLB design that can be adapted to integrate gender and climate KPIs in future issuances.

In line with their commitments to sustainability, H&M issued an SLB in January 2021.<sup>42</sup> The issuance size was EUR 500 million, with maturity in 8.5 years and an annual coupon rate of 0.25%.<sup>43</sup> All three KPIs of the SLB fall under the theme of environment. KPI 1 seeks to increase the share of recycled materials used in commercial goods. This KPI is driven by the objective to reduce the environmental footprint of the production process and is aligned with the company's commitment to developing a circular economy. The remaining two KPIs align with the broader goal of the European Union to address climate change mitigation. KPI 2 targets GHG emissions falling under scopes 1 and 2, and KPI 3 seeks to reduce scope 3 emissions, as shown in Table 3. Each of the KPIs has a corresponding SPT that is approved by the SBTi for GHG emissions.

**Table 3.** H&M: KPIs for SLBs<sup>44</sup>

KPI	KPI Baselines (2020)	SPT
1. Share of recycled materials/total materials used	0.5%	Increase the share of recycled materials as inputs to 30% by 2025
2. Scope 1 and scope 2 CO <sub>2</sub> e emissions (tonnes)	63,690 CO <sub>2</sub> e emissions (tonnes)	Reduce the company's scope 1 and 2 emissions by 20% by 2025
3. Scope 3 CO <sub>2</sub> e emissions from upstream activities	13,479,100 CO <sub>2</sub> e emissions (tonnes)	Reduce scope 3 emissions by 10% by 2025

Unlike the previous examples, all three KPIs of this SLB fall under the same theme. However, the metrics used to determine the trigger event are different. The group has defined a “single trigger event,” which implies that a trigger will occur even if one of the three KPIs does not achieve its respective SPT.<sup>45</sup> To evaluate the performance of the KPIs, the bond framework has outlined the following situations that indicate a trigger event and a consequent coupon step-up:

1. If H&M fails to achieve the predefined targets by the observation date.
2. If the reporting fails to meet the prerequisites outlined in the SLB framework.
3. If the verification of the SPT is not made public by the reporting end date.

These situations will result in a coupon step-up, which will apply to the relevant securities from the first day of the next interest period immediately after the reporting end date and

<sup>42</sup> Ibid.

<sup>43</sup> EGS Today. (2021). *H&M's €500 million sustainability linked bond nearly 8x oversubscribed*. <https://www.esgtoday.com/hms-e500-million-sustainability-linked-bond-nearly-8x-oversubscribed/>

<sup>44</sup> H&M Group (2021), supra n. 42.

<sup>45</sup> Ibid.



until maturity.<sup>46</sup> An interesting aspect of this bond is that the KPIs are assigned to the relative weight of the aggregate coupon step-up (see Table 4).

**Table 4.** H&M bond weighted coupon step-ups<sup>47</sup>

<b>KPI</b>	<b>Relative weight of each KPI to the aggregate coupon step-up</b>
KPI 1	40%
KPI 2	20%
KPI 3	40%

The step-up of the coupons can consequently be 0%, 20%, 40%, 60%, or 100% of the total step-up rate depending upon the performance of the KPIs. There is no information on what factors will be considered when assigning weights to each KPI. Issuers may prefer this weighted approach either because they value certain sustainability objectives or because some targets may be easier to achieve than others. The framework also includes a “fallback mechanism” that enables H&M to adjust the baseline under certain conditions, such as significant changes in corporate structure or better data availability. In any case, the KPIs and SPTs stay the same for any bond issued under the framework.

This example demonstrates the unique approach of assigning different weights to KPIs when determining the size of the coupon step-up. When following this approach, the issuer should clearly disclose the rationale behind assigning weights; otherwise, it can potentially give a wrong signal on the issuer’s sustainability priorities and ambitions. For instance, if the reduction of emissions were weighted at 80% and increasing female leadership in top management at only 20%, investors might interpret this as meaning that gender diversity is significantly less important than climate for the issuer. Additionally, it would also signal that the company will have significantly less incentive to have a more balanced executive team. At present, there are very few SLBs that weight KPIs differently. Based on upcoming SLB issues in the pipeline, it seems that the H&M SLB has set a precedent, and more issuers will be following this approach. The H&M issuance was well received: the offering was nearly eight times oversubscribed.<sup>48</sup>

<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

<sup>48</sup> EGS Today (2021), supra n. 44.



## Approach 4: Selective fulfillment of KPIs – BlackRock

BlackRock is the world’s largest asset manager, with assets worth USD 8.7 trillion.<sup>49</sup> Over the years, it has actively sought to integrate ESG considerations into its investments. All active funds and advisory strategies are expected to “fully integrate” ESG into investments.<sup>50</sup> In 2021, it introduced its first sustainability-linked revolving credit facility, which has been called a major milestone in non-environmental ESG KPIs.<sup>51</sup> It is expected to incentivize BlackRock to work toward achieving its sustainability goals.<sup>52</sup>

---

In 2021, it introduced its first sustainability-linked revolving credit facility, which has been called a major milestone in non-environmental ESG KPIs.

---

The sustainability-linked credit facility has three KPIs that focus on diversity and sustainable investing. The first KPI aims to increase the racial diversity of employees, while the second one seeks to increase the percentage of female leadership within the organization. The third KPI sets a target for sustainable assets under management (see Table 5).

Unlike the sustainability-linked structures discussed earlier, BlackRock does not need to achieve all KPIs in order to have a positive trigger event.<sup>53</sup> If at least two out the three KPIs are successfully achieved without “meaningfully underperforming” on the third KPI, BlackRock will pay a lower interest rate and facility commitment fees on the loan.<sup>54</sup> However, if two of the three KPIs “meaningfully underperform,” a pricing penalty will be introduced. There is no information publicly available on what constitutes “meaningful” underperformance.

---

<sup>49</sup> Global Capital. (2021, April 8). *BlackRock signs ESG ‘milestone’ loan tied to employee equality*. <https://www.globalcapital.com/article/b1r9tnyt9tg6dv/blackrock-signs-esg-milestone-loan-tied-to-employee-equality>

<sup>50</sup> BlackRock. (2021, May 19). *BlackRock ESG integration statement (Rev.)*. <https://www.blackrock.com/corporate/literature/publication/blk-esg-investment-statement-web.pdf>

<sup>51</sup> Global Capital. (2021), supra n. 52.

<sup>52</sup> Lim, D. (2021, April 17). *BlackRock must hit ESG targets or pay more to borrow money*. *Wall Street Journal*. <https://www.wsj.com/articles/blackrock-must-hit-esg-targets-or-pay-more-to-borrow-money-11617769833>

<sup>53</sup> Global Capital (2021), supra n. 52.

<sup>54</sup> Segal, M. (2021, April 8). *BlackRock links borrowing costs to diversity and sustainability investing targets*. <https://www.esgtoday.com/blackrock-links-borrowing-costs-to-diversity-and-sustainable-investing-targets/>

**Table 5.** BlackRock sustainability-linked revolving credit facility KPIs<sup>55</sup>

KPI	SPT
1. Diversity of employees	1. Increase the % of black, African American, Hispanic, and Latino employees to 30% by 2024
2. Female leadership	2. Increase the % senior female leaders by 3% per year
3. Sustainable Investing	3. Grow sustainable assets under management to USD 1 trillion by 2030

While the focus on social objectives is welcome, a “selective fulfillment of KPIs” approach can be considered lenient compared to current industry best practices. The main drawback of this approach is that BlackRock will have less incentive to focus on the KPI that is the most difficult to achieve, while that KPI could potentially be also the most material to the company’s long- sustainability strategy. In other words, this approach can lead to BlackRock prioritizing certain KPIs rather than working toward achieving them equally. It is therefore imperative for the asset manager to set ambitious minimum thresholds for all KPIs to ensure an impactful outcome of the sustainability-linked credit facility. This is especially important since it also aspires to set a precedent for other sustainability-linked structures.

## Recommendations

The credibility of the SLB market rests on the selection of KPIs and their associated SPTs. The pricing mechanisms used, including the conditions for trigger events, are also an important factor when determining an SLB’s credibility. Without trust in the robustness of these key components, gender-smart, multi-KPI SLBs will not experience the exponential growth that we have seen for the more established types of sustainability debt, such as green bonds.

The examples discussed earlier demonstrate the flexibility issuers (corporates, governments, municipalities, and supranational entities) have when designing SLBs. While the ICMA Sustainability-Linked Bond Principles (SLBPs) provide guidance on the key components of launching an SLB, they are not intended to be prescriptive, allowing room for innovation and experimentation. This is particularly apparent when it comes to multi-KPI structures, where issuers have taken a wide range of approaches in determining the trigger event of their SLBs. The question about the right approach is especially important, as issuers follow our advice on including some form of gender KPI in all newly issued SLBs. Based on our review of different multi-KPI sustainability-linked structures, we have compiled the following recommendations.

### Recommendation 1: No possibility to ignore KPIs

While the ICMA SLBPs discuss the selection of KPIs and the calibration of SPTs in detail, they do not provide specific guidance on setting ambitious conditions for trigger events. Our recommendation is that issuers should not be rewarded, either by avoiding an interest rate

<sup>55</sup> Lim (2021), supra n. 55.



step-up or having an interest rate step-down, if they are not meeting any of the KPIs of the SLB. If gender considerations are to be part of all newly issued SLBs, issuers should have negative consequences when they do not deliver on their gender targets. Also, issuers having the option to ignore certain KPIs would be against the spirit of the ICMA SLBPs. The issuer needs to have the necessary incentives in place to have a material improvement in all the KPIs compared to its business-as-usual trajectory.

### Recommendation 2: Full achievement of KPIs preferred

All KPIs selected should be material to the issuer's overall business and of high strategic significance to the issuer's current and future operations. Therefore, we recommend that the SLB framework requires issuers to fully meet all their KPIs to avoid a penalizing adjustment in the bond's structural or financial characteristics. This would also signal to the market that the issuer has a high level of sustainability ambition and that there are strong incentives in place to deliver on its gender diversity and other sustainability commitments.

### Recommendation 3: Partial achievement only if justified

If the risk of failure is too high due to circumstances outside the issuer's control, committing to the full achievement of all KPIs might not be feasible. This would otherwise create too much uncertainty in the issuer's cost of financing, potentially having wider implications. The increased level of uncertainty around meeting KPIs could be due to the specificities of the issuer's operations or structural setup. For example, when attempting to improve gender diversity, companies are encouraged to set gender targets for different functions separately (e.g., board, management team, etc.) as opposed to having an overarching target on gender balance in the workforce. However, for a company with a small number of employees, even a small amount of turnover can result in wild fluctuations in gender indicators. In this case, allowing a partial achievement of KPIs would be justified. This could be implemented by setting up a scoring scale that would require a certain percentage of achievement across the different KPIs. The issuer could potentially explore the possibility of assigning different weights to KPIs. However, this should be done with caution as this could lead to prioritizing certain KPIs over others. The issuer should be transparent on why this approach was chosen and how the different weightings were determined for each KPI.

### Recommendation 4: Better comparability across approaches

Innovation is important and should be encouraged, especially in the early stages of this asset class. It can increase the integrity of the sustainability-linked market and incentivize a wider range of companies to improve their sustainability performance, among other positive outcomes. However, as the asset class matures, there will be a need for more standardization on how to design pricing mechanisms and determine trigger events. This would result in better comparability, more transparency, and easier assessment of sustainability ambitions across the different SLB issues.



SLBs are expected to jump to USD 200 billion global issuance in 2021.<sup>56</sup> However, the asset class can only succeed if it avoids the emergence of non-credible, low-ambition structures. This is especially important in the early years when the market's perception of SLBs is still being shaped. Due to the possibility of multi-KPI structures, SLBs are also well-placed to scale up financing for gender objectives. Indeed, in 2021, there is no excuse for not issuing a gender-smart SLB.

---

<sup>56</sup> Environmental Finance (n.d.), supra n. 10.



## Appendix A

Table A1 provides examples for gender indicators and their corresponding eligibility criteria. They are based on the 2X Challenge,<sup>57</sup> which is a major initiative by G7 development finance institutions to mobilize resources to advance gender equality and women's economic empowerment.

**Table A1.** 2X Challenge gender indicators<sup>58</sup>

2X Challenge gender indicator categories	Gender indicators	Eligibility criteria
<b>Entrepreneurship</b>	<ol style="list-style-type: none"> <li>1. Percent of female ownership</li> <li>2. Percent of company founder(s) who are female</li> </ol>	<ol style="list-style-type: none"> <li>1. 51% or more</li> <li>2. 51% or more</li> </ol>
<b>Leadership</b>	<ol style="list-style-type: none"> <li>1. Percent of senior management who are female</li> <li>2. Percent of the board who are female</li> </ol>	<ol style="list-style-type: none"> <li>1. At least 20% for infrastructure, power, telecoms; at least 25% for financial services, manufacturing, agribusiness and food, professional services, consumer services; at least 30% for health care, education</li> <li>2. At least 30% or the national legal minimum, whichever is higher</li> </ol>

<sup>57</sup> 2X Challenge Financing for Women. (2021). <https://www.2xchallenge.org/>

<sup>58</sup> CDC Investment Works, 2X Challenge, Global Impact Investing Network, & IRIS+. (n.d.). *How to measure the gender impact of investments: Using the 2X Challenge indicators to alignment with IRIS+*. <https://assets.cdcgroup.com/wp-content/uploads/2020/03/16111901/How-to-measure-the-gender-impact-of-investments.pdf>; 2X Challenge. (2018, October). 2X Challenge: Criteria. <https://static1.squarespace.com/static/5b180402c3c16a6fe0001e45/t/5bd3ef321c67c31502108f4/1541160694250/2X+Challenge+Criteria+%2818+October+2018%29.pdf>.





<b>2X Challenge gender indicator categories</b>	<b>Gender indicators</b>	<b>Eligibility criteria</b>
<b>Employment</b>	<ol style="list-style-type: none"> <li>1. Percent of full-time employees who are female</li> <li>2. Initiative in place to specifically advance women in the workforce (Y/N)</li> </ol>	<ol style="list-style-type: none"> <li>1. At least 30% for infrastructure, power, telecoms; at least 40% for financial services, heavy manufacturing, agribusiness and food, professional services; at least 50% for health care, education, consumer services, light manufacturing</li> <li>2. Have an initiative in place to advance women in the workforce</li> </ol>
<b>Consumption</b>	<ol style="list-style-type: none"> <li>1. Product or service specifically or disproportionately benefits women (Y/N)</li> <li>2. Percent of customers who are female</li> </ol>	<ol style="list-style-type: none"> <li>1. Offer at least one product or service that enables women to increase their safety or security; access to finance or to markets; access to health, access to education and time savings.</li> <li>2. 51% or more</li> </ol>
<b>Indirect Investments</b> Investments through financial intermediaries	<ol style="list-style-type: none"> <li>1. Share of financial intermediary's portfolio that meets at least one of the criteria above</li> <li>2. Share of fund's portfolio that meets at least one of the criteria above</li> </ol>	See above

© 2021 The International Institute for Sustainable Development  
Published by the International Institute for Sustainable Development.

This publication is licensed under a [Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License](https://creativecommons.org/licenses/by-nc-sa/4.0/).

## INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT

The International Institute for Sustainable Development (IISD) is an award-winning independent think tank working to accelerate solutions for a stable climate, sustainable resource management, and fair economies. Our work inspires better decisions and sparks meaningful action to help people and the planet thrive. We shine a light on what can be achieved when governments, businesses, non-profits, and communities come together. IISD's staff of more than 120 people, plus over 150 associates and consultants, come from across the globe and from many disciplines. With offices in Winnipeg, Geneva, Ottawa, and Toronto, our work affects lives in nearly 100 countries.

IISD is a registered charitable organization in Canada and has 501(c)(3) status in the United States. IISD receives core operating support from the Province of Manitoba and project funding from governments inside and outside Canada, United Nations agencies, foundations, the private sector, and individuals.

### Head Office

111 Lombard Avenue, Suite 325  
Winnipeg, Manitoba  
Canada R3B 0T4

**Tel:** +1 (204) 958-7700

**Website:** [www.iisd.org](http://www.iisd.org)

**Twitter:** [@IISD\\_news](https://twitter.com/IISD_news)

