



SOCIAL KPIS MATTER

Setting Meaningful Indicators for Sustainability-Linked Finance

DISCUSSION PAPER

This paper highlights current trends in the use of social key performance indicators (KPIs) in Sustainability-Linked Finance, with a focus on the infrastructure sector. Given the diversity of the sector and evolving nature of SLF itself, this paper is not intended to offer a finite, comprehensive perspective on the use of social KPIs in SLF transactions. Rather, it explores the current landscape, looks ahead at the social issues that might drive the next generation of social KPIs, and offers insights based on IFC's own experiences to date. The paper aims to stimulate robust and thoughtful discussion among market participants on opportunities and challenges in advancing the use of social KPIs.



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Table of Contents

- 1** | Executive summary
- 3** | The case for increased use of social KPIs
- 6** | Current market trends: SLF with social KPIs
- 7** | Business imperatives likely to drive future social KPI growth
- 12** | Key considerations in advancing social KPIs
- 18** | Case studies on the use of social KPIs
 - 18** | IZSU, Türkiye
 - 19** | Anglo American, South Africa
 - 20** | Millicom, Latin America and Africa
 - 21** | Schneider Electric, France
- 22** | Appendix: Social metrics in SLF transactions: Current state and and new opportunities
- 26** | Endnotes

Executive summary

In just a few years, Sustainability-Linked Finance (SLF)¹ has grown in volume and popularity among market actors pursuing sustainability objectives. The premise of the new instrument is attractive. Whether it is sustainability-linked loans (SLLs) or sustainability-linked bonds (SLBs), they incentivize the pursuit of sustainability targets by tying pricing to their achievement. SLF transactions also allow companies to signal their sustainability efforts to the market. This paper explores the current use of social metrics in SLF transactions, projects future directions in setting of social key performance indicators (KPIs) and offers recommendations to advance the use of social KPIs.

Although public disclosure on KPIs, remains limited, the available data indicates that adoption of social targets has lagged the setting of environmental targets. About 68 percent of total global issuances to date deployed corporate environmental KPIs. Carbon emissions-related KPIs have proven the most common, year after year. Only about 23 percent of SLLs and SLBs included social and governance targets.²

In the environmental category, most metrics are focused on climate. In the social category, metrics for gender equality and worker safety are the most commonly used. Others include labor rights, education, and supply chain performance. Of the issuances with social metrics, most include environmental metrics as well.

Based on the evidence available, the SLF market has yet to progress to the point of widespread uptake on social KPIs. However, stakeholders today are paying more attention to issues such as gender diversity, public health, social justice, and sustainable livelihoods—and the fact that environmental and social issues are deeply intertwined. Thus, credible corporate action on social issues, along with robust environmental commitments, is sure to become increasingly important in unlocking access to capital that will reward sustainability performance.

Several business imperatives are likely to drive future social KPI growth. These include workplace diversity and inclusion, workforce safety and well-being, access to services and infrastructure, building good community relations, just transition, and sustainable supply chain development (Figure 1).

FIGURE 1. Business imperatives that will drive future growth in social KPIs





To date, market participants have faced several challenges in advancing the use of social KPIs. Chief among them are the limited availability of standardized market benchmarks and the lack of data on past company social performance, which makes it more difficult to identify the most meaningful and ambitious social metrics. Addressing these issues is essential for strengthening the credibility of social KPIs associated with SLF transactions.

These challenges also present opportunities for SLF market participants. There is a need for innovation here; for pushing the boundaries beyond the social KPIs currently used, definitions of what constitutes an ambitious target, and approaches to measurement. Current SLF transactions that include social KPIs are setting the bar for others. Businesses—and especially their senior managers—must advocate actively for social KPIs that matter to them. Other market participants, including sustainability coordinators and second-opinion providers, also have a role in supporting increased use of social KPIs.

Here are some ways to heighten focus and promote action on social KPIs:

- **Identify material issues and set the right metrics**, beginning with pinpointing those issues most material to company operations. This includes determining metrics that are relevant to the company’s sustainability efforts and that go beyond business as usual.
- **Tackle the benchmarking challenge**, which starts with establishing baselines and ambitious targets, in alignment with global frameworks such as the Sustainable Development Goals and other resources such as market studies, and national and local development plans.
- **Lay out the roadmap for achieving targets**, which also involves hitting interim milestones as well as ensuring that the foundational elements—such as policies and procedures—are in place to enable success.
- **Lean into transparency**, which will involve striking the balance between providing more detailed ESG disclosure to enhance credibility and avoiding overly burdensome reporting standards.
- **Invest in leadership**, because committed leaders will drive the company’s sustainability agenda, and strong board and senior management oversight of sustainability-related policies and strategies will ensure that environmental and social considerations are integrated into business and investment decisions.

The case for increased use of social KPIs

In just a few years, Sustainability-Linked Finance (SLF) has grown in volume and popularity among market actors pursuing sustainability objectives. The premise of these new instruments is attractive. Whether in the form of sustainability-linked loans (SLLs) or sustainability-linked bonds (SLBs), they incentivize the pursuit of sustainability targets by tying pricing to their achievement (Box 1).

Key performance indicators (KPIs) for SLF transactions, including social metrics, must meet several requirements. They must be:³

- Relevant, core, and material to the issuer’s overall business, and of high strategic significance to the issuer’s current and/or future operations.
- Measurable or quantifiable on a consistent methodological basis.
- Externally verifiable.
- Benchmarkable, meaning using an external reference or definitions to facilitate the assessment of the sustainability performance target’s level of ambition, to the extent possible.

BOX 1. Super-green loan links financial incentives with climate and social KPIs

Coelba is a subsidiary of Neoenergia, a publicly-traded Brazilian energy company that is in major growth mode. Enabled by IFC’s BRL550 million (about \$115 million) “super-green” loan, the company is embarking on an ambitious network expansion, with a goal to add about 700,000 users over a five-year period. The financing will also enable system upgrades and digitization that are expected to reduce energy losses.

The loan is the first such product for a power distribution company in Latin America. It combines traditional, green use-of-proceeds commitments with sustainability-linked financing features, including reduced carbon intensity, improved gender metrics, and external validation of the company’s emission reduction targets. Achievement of the sustainability targets by 2026 will reduce the company’s interest rate applicable to interest periods following the reference date.

ABOUT COELBA’S CLIMATE AND GENDER KPIS

IFC’s role also included helping the company develop its first sustainability-linked financing framework and define corporate climate and gender KPIs and sustainability performance targets (SPTs).

- **Climate:** The first indicator covers Scope 1 carbon intensity, with a target to achieve 50gCO₂eq/kWh by 2026. The second indicator is independent validation of Scope 1,2 and 3 greenhouse gas emissions targets by the Science-Based Target Initiative.⁴
- **Gender:** The chosen indicator will measure the percentage of female electricians compared with the total number of electricians. In an industry where women hold few technical roles, the company has committed to achieving a 10.7 percent female electrician workforce by 2026, against a 2019 baseline of 0.8 percent.

A company's social performance includes two separate dimensions. The first is about managing risks and mitigating and avoiding impacts: **"Do no harm."** IFC requires all clients to comply with its Performance Standards to manage environmental and social risks and impacts.⁵ Evidence abounds supporting the importance of managing social risks. One recent study of 137 development finance institution investments in emerging markets found that failure to adopt social risk mitigation strategies could cost investors \$25–\$40 million per project. The same study found that over 90 percent of investors considered social dialogue processes among the most effective ways to manage social risks.⁶

The second aspect of social performance is the opportunity to create shared value and benefits: **"Doing good."** Such efforts lie at the heart of IFC's SLF transactions, requiring companies to set ambitious social targets that go beyond business as usual. Going beyond business as usual implies that a company not only is in compliance with existing requirements, but also proactively implements good practices across its operations, striving for continuous improvement. Robust systems and strategies for identifying and managing material social performance areas and integrating good practice are the necessary starting point. They are also fundamental for ensuring that sustainability-linked finance transactions are underpinned by material, meaningful indicators and targets that meet the technical requirements of SLF principles.

Companies can choose to focus on a wide range of social issues. Many yield clear business value, such as a heightened focus on gender.⁷ Strengthening supply chain resilience is another example. According to the recent CDP annual global supply chain report, several issues, such as climate change, deforestation and water insecurity, could contribute to future cost increases for corporate buyers. The report, which analyzed disclosures gathered from more than 8,000 supplier companies across various sectors, estimates that such cost increases could amount up to \$120 billion in the next five years if they are not addressed.⁸ Other important aspects of supply chain resilience include labor and working conditions, respect for human rights, and practices that encourage diversity, equal opportunity, and inclusion.

Social and environmental issues are deeply intertwined. Often, action on one triggers or necessitates action on another (Box 2). For example, greater gender diversity is linked with prioritized climate action; companies with boards composed of 30 percent women have demonstrated improved climate governance and innovation.⁹ So, social targets that include increasing the number of women in senior leadership can enable achievement of climate targets.

BOX 2. Linking reduced water consumption with community engagement¹⁰

French company Saur is an international provider of water and sanitation services. Saur's sustainability-linked framework lists three KPIs that are material to the company's business and aligned with its CSR roadmap. Among them: a KPI on water management, which calls for measuring water withdrawals per subscriber. This KPI encompasses the entire value chain of drinking water production and distribution, from improvements on network performance and yield of production plants to addressing sustainable use of water by the end user. To achieve the company's 2027 water reduction KPI, engaging with stakeholders to ensure reduced water consumption will be critical. Planned measures include distribution of water saving kits and targeted communication actions with subscribers, among others.

Social and environmental issues are deeply intertwined. Often, action on one triggers or necessitates action on another.

The influence goes both ways. For example, the impacts of climate change come with a significant social dimension. Numerous studies have shown that climate change disproportionately impacts the most vulnerable.¹¹ Increasingly, companies operating in places hard hit by climate change will be expected to help build community resilience against climate risks.

More broadly, social acceptance plays an important role in implementing and achieving climate policies and actions.¹² Corporate climate journeys must be credible. And they must be perceived as credible by stakeholders, including local community members. A lack of trust can negatively affect the organization in multiple ways, from damaged social license to operate and reputational repercussions due to accusations of greenwashing to increasing the cost of capital.¹³

It is clear that corporate action on social issues is becoming ever more important, as these issues move to the forefront of the global consciousness. The United Nations SDGs set a global framework for universal ambition. The SDGs also provide metrics for improving the world, along interconnected economic, social, and environmental dimensions. Other organizations monitor and highlight social issues as well. For example, the World Economic Forum's most recent Global Risks Report named erosion of social cohesion, livelihood crises, and mental health deterioration as three of the five most concerning global threats in the coming years.¹⁴ Meanwhile, the COVID-19 pandemic elevated the focus on public health and social justice.¹⁵ And shareholders are demanding more action, with a surge in recent ESG-themed resolutions on climate change, along with employee health, safety, and wellness; fair labor practices; and diversity and inclusion.¹⁶

Bottom line: Attending to social performance is critical to the company brand. Doing so will enable private and public sector companies alike to generate value for themselves, their stakeholders, and the broader community while managing risks and contributing to the public good.



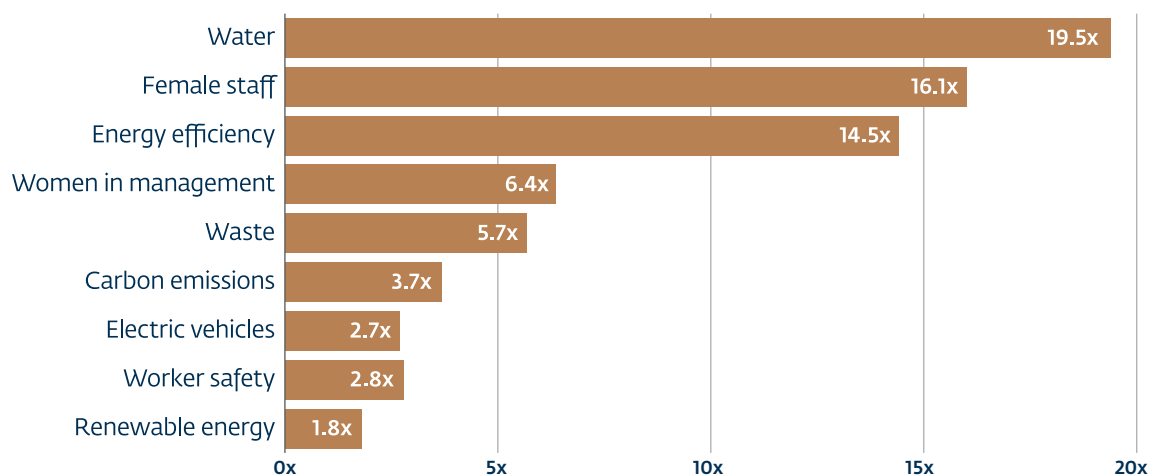
Current market trends: SLF with social KPIs

As of November 2022, total global SLF issuances surpassed the \$1.2 trillion mark, with the majority— about 85 percent—in SLLs, and the remaining 15 percent in SLBs.¹⁷ At 54 percent, the majority of SLF issuances to date are concentrated in Europe and Central Asia. SLF issuances in low- and middle-income countries add up to about \$76 billion as of November 2022, representing only 6 percent of the total.

About 68 percent of total global issuances to date deployed corporate environmental KPIs. Carbon emissions-related KPIs have proven the most common, year after year. Only about 23 percent of SLLs and SLBs included social and governance targets (Figure 2). There has been a move away from using third-party ESG ratings. Gender equality and worker safety are the most frequently-used social targets. Other social metrics used included labor rights, education, and supply chain performance. It is worth noting that many of the issuances with social metrics also included environmental KPIs. Public disclosure remains limited, particularly for SLLs. For SLBs, disclosures are written into bond documentation.

Demand is growing among investors, civil society, regulators, and companies themselves for a wider and more innovative range of indicators, as companies seek to leverage these instruments to address various sustainability priorities.¹⁸ While more indicators are in use today, they are mostly environmental—focused on water, energy efficiency, and waste, among others—or gender-related—focused on female employees and women in management. The creation of alternative social KPIs has received little attention.

FIGURE 2. Annual Growth of Sustainability-Linked Financing by Corporate Metric in 2021



Source: BloombergNEF, Bloomberg L.P.

Business imperatives likely to drive future social KPI growth

As social issues take on increasing relevance for corporate stakeholders, companies will need to deeply understand, strategically plan, and actively drive their stakeholder engagement agenda. Extending well beyond environmental concerns, this agenda covers a growing number of social topics, such as inclusion, accessibility, human rights, and just transition, among others. As the social KPI space evolves, it is hoped that the next generation of social KPIs will:

- Build on and strengthen measurement of the social metrics already used in SLF transactions, such as diversity in the workplace.
- Ensure SLF is deployed in materially-driven performance areas, integrate new social metrics into SLF transactions, and push innovation in measuring social KPIs.

This section looks at several business imperatives focused on social issues that are likely to remain relevant in the future (Figure 3). It includes examples of social targets and KPIs for companies to use in SLF transactions (for more examples see Appendix). These are merely suggestions, recognizing that the SLF market is still in its early stages, changes are happening rapidly given the growing momentum for SLF, and other issues could take precedence in the future.

FIGURE 3. Business imperatives that will drive future growth in social KPIs





Improving workplace diversity and inclusion

Globally, there are critical gaps in gender equality, made worse by the COVID-19 pandemic. Studies suggest that the amount of time needed to close the global gender gap increased from 99 years to 136 years in 2020 and 2021.¹⁹ Yet, a large body of evidence shows that gender equality enhances business outcomes across various dimensions, including profitability.²⁰

Racial and ethnic diversity is also associated with better financial returns and improved organizational performance.²¹ Diversity extends beyond gender and ethnicity, however. It includes young people at risk of marginalization, the LGBTQ community, refugees, and people with disabilities, among others. For many of these groups, it may be difficult to find employment in the open job market. Businesses can implement proactive strategies to attract workers from these communities. For example, 1 billion people, or 15 percent of the world's population, experience some form of disability, with a higher prevalence in developing countries.²² Persons with disabilities are more likely to experience adverse socioeconomic outcomes, including lower levels of employment.

Youth engagement and skill building is another important issue. Over 40 percent of the world's population is under the age of 25, with most living in emerging markets.²³ Yet, about 20 percent of 15- to 24-year-olds in the average emerging market and developing economy are neither in work nor in school.²⁴ A large population of unemployed and disenfranchised youth can stir up social upheaval, instability, violence, and migration. On the positive side: Youth represent a significant untapped resource that can help companies stay competitive.



Supporting a productive and healthy workforce

For many businesses, ensuring workplace health and safety has always been a priority, but the COVID-19 pandemic has further elevated these issues, while spurring an expanded focus on wellness, well-being, and healthy lifestyles. Some companies addressed this shift with enhanced employee assistance programs to cover financial, mental health, nutrition, and fitness counseling services, as well as support programs to help employees adjust to remote work. And since discriminatory workplace practices negatively impact productivity, trust, and morale, ensuring worker well-being includes the creation and implementation of effective diversity, equity, and inclusion policies, standards, and practices.

Other considerations for companies looking to promote productive and healthy workforces: providing cybersecurity and personal data protection, since cyber risks and digital identity fraud can have a profound negative impact on employees. The quality and safety of the physical environment—buildings—is yet another aspect.²⁵

So, too, is community health. The greatest influence on employee health often comes from the social, economic, and environmental conditions in which people live, as the COVID-19 pandemic so clearly demonstrated, with community-wide shutdowns and months-long quarantines.²⁶ **To build worker resilience, companies can seek opportunities to improve the health and well-being of the communities on which they rely for labor, customers, and suppliers alike.**



Expanding access to services and infrastructure

Access to public services is critical for development, but significant gaps remain. Worldwide, one in three people lack access to safe drinking water and an estimated 3.6 billion people live in energy poverty.²⁷ Meanwhile, almost half of the world's population cannot connect to digital services. In the world's poorest countries, less than one in five people have connectivity.²⁸ This digital divide disproportionately affects women and girls.²⁹

Extending these public services to the underserved can uplift entire communities, improving income generation opportunities and productivity in key sectors of the local economy.³⁰ **When setting KPIs and targets, key factors to explore include service availability and whether services are sufficient, accessible, affordable, and acceptable.** Accessibility considerations will vary depending on the industry. In the transport sector, for example, accessibility considerations play a vital role in ensuring mobility for all (Box 3).

Affordability is a common issue across the range of public services. In the digital connectivity space, the price of mobile voice and data services alone, excluding equipment, can comprise up to 12 percent of monthly gross national income (GNI) per capita in least-developed countries.³¹

There are several creative ways to address the affordability issues. For example, companies can make low-cost mobile devices available, along with affordable data plans—with a particular focus on enabling women's access. Ensuring energy affordability is another area where companies can make a difference. For instance, companies can support energy retrofit programs that help customers reduce their bills, while also conserving power.

BOX 3. Using social KPIs to drive accessibility in the transport sector

The transport sector is well-positioned to drive innovation in spatial inclusivity and accessibility. As a leading infrastructure subsector for SLF transactions, it can set a high bar for others, with a focus on building more accessible transport systems to serve all users better. By incorporating universal design principles in infrastructure and buildings, such as airport terminals or urban transport hubs, all people can access them equally, regardless of ability or disability—including persons with permanent, temporary, and situational disabilities. Additional opportunities exist for companies to drive even more rigor through ambitious social KPIs that push for the full participation of all users through accessible transport. Areas where potential accessibility KPIs can be explored include:

- Accessibility training for workers.
- Engagement with organizations representing persons with disabilities during design and operations.
- Third-party global certifications and ratings: Companies can make use of certifications such as BREEAM Infrastructure (formerly CEEQUAL) to benchmark and measure environmental and social performance during design, construction and maintenance. In addition, there are certifications specific to accessibility, such as Accessibility International System (AIS). AIS is a certification that evaluates the usability, comfort and safety conditions and certifies, on a five-star scale, the level of excellence in accessibility. The certification system also considers the intended use of the built structure in its rating.



Building and maintaining good community relations

Projects developed on community lands often come with opportunities for delivering positive impacts for project-affected populations. In some cases, companies negotiate voluntary benefit-sharing agreements to access land and ensure local license to operate. The intended benefits, which are often related to fundamental human rights such as access to basic services, are a key expectation at local, regional, and national levels.

Even in situations where agreements are mandated, there are ways to maximize positive impacts beyond what has been agreed. **Local focus is important here: Efforts must be aimed at project-impacted communities, since most benefits, such as taxes, procurement opportunities, and jobs, typically flow to the regional and national levels.** Optimizing local-level benefits involves a highly deliberate effort. It is likely that education, training, coaching, and access to finance will be needed if local project-affected communities are to take advantage of employment and procurement opportunities.

Other examples of how companies have shared benefits with local communities include revenue and ownership sharing, alternative skills building, building capacity of community-based organizations and public institutions, and promoting community climate resilience.





Ensuring a just transition

The transition to a low-carbon economy has involved a growing number of net-zero commitments focused on environmental metrics. However, the very concept of “just transition” highlights an acute need to balance the demands of decarbonization with the need to respect the rights of workers and communities. This is a new and evolving area. Several groups have proffered just transition frameworks featuring overall principles, metrics and expectations for government, companies and other stakeholders, including the Council for Inclusive Capitalism, Climate Action100+, and others.

While there are differences in how these frameworks articulate goals, most emphasize that just transition is a responsibility shared among businesses, government, suppliers, workers, communities, and civil society. Critical social fundamentals of just transition include collaboration, which implies stakeholder dialogue and participation, and transparency. At an industry and enterprise level, this must include meaningful negotiation between employers and their workers, unions or representatives—at a minimum.

The framework provided by the Council for Inclusive Capitalism suggests other elements of just transition with particular relevance for the private sector, such as supporting universal access to energy and a net-zero emissions world, evolving the energy workforce to support a low and zero carbon energy future, and building community resilience.

The concept of just transition intersects with other areas discussed in this paper. For example, elimination of energy poverty is an important issue when measuring progress on access to services and infrastructure and job creation. A recent study by the Rockefeller Foundation finds that investing in distributed renewable energy systems could end energy poverty and create 25 million direct jobs in the power sector in Africa and Asia by 2030, while saving 4 billion tons of greenhouse gas emissions.³²



Promoting sustainable supply chains

Engaging with the supply chain often requires a company to shift its mindset, from compliance to competitive advantage.³³ To date, companies have primarily emphasized managing the environmental footprint in the supply chain, particularly carbon emissions. This will likely remain a priority as companies eye strategies that translate their net-zero commitments into supply chain initiatives. **Additional opportunities for supply chain engagement include all of the social issues highlighted in this section: diversity and inclusion, health and safety, human rights protections, and local community impacts.**

Companies often focus on supplier development as a way to promote sustainable supply chains.³⁴ A variety of efforts fall under the supplier development umbrella: supplier codes of conduct, audits, benchmarking, third-party verification, and supplier training and collaboration. Other areas of focus could involve work with suppliers on monitoring and verifying relevant supplier practices and helping them adopt and maintain good practices through collaboration and training. Companies can also prioritize development of the small and medium enterprises in their supply chain, which may face challenges in adopting the desired sustainability standards.

Key considerations in advancing social KPIs

Companies can explore a number of social KPIs in the context of an SLF transaction, but final selection must meet several requirements, as laid out in documents such as the International Capital Market Association's "Sustainability-Linked Bond Principles," and "Sustainability-Linked Loan Principles," from the Loan Syndications and Trading Association.³⁵

The company's own strategy and materiality assessment are critical to this final selection, given that a top requirement is ensuring that KPIs are material and core to the business. Ambition is essential, with the degree of sustainability performance target (SPT) ambitiousness calibrated against the company's past performance, along with relevant benchmarks, such as performance of peers, sector, country, or other proxies such as existing scientific reference materials.

But when it comes to social KPIs, the limitations in data availability represent a significant and overarching challenge. It may simply be because a company does not have a sufficient track record for the chosen KPIs. Plus, there are few benchmarks, adding to the difficulty.

There are other challenges as well. Many of the company-related and material social interfaces that could have associated KPIs might not be fully under their direct operational control, such as supplier performance or project-affected communities' goodwill towards them. This can make it more difficult to identify KPIs that are meaningful and that can be measured for progress over time.

The lack of standard metrics is another issue. For example, the goal of many community programs is to generate social license to operate for a company. But there are no standard metrics for this. Even seemingly more straightforward KPIs such as local jobs created can get bogged down by complicated questions such as: At what point a job is created? How long should the job exist before it is counted? Should indirect and direct jobs be measured? Who can validate the results achieved?

In addition, the country-level operations of global businesses often need the flexibility to select the social issues that are meaningful for them.

For instance, country-specific regulations could influence the specific social issues to prioritize and measure. So, it might be difficult to identify relevant social KPIs that apply across all sites and can be consolidated for comprehensive reporting.

These challenges also present opportunities for SLF market participants. Senior company leaders set the tone and need to become genuine champions. According to a recent survey by OCEG, a corporate governance advocacy non-profit, more than half of 530 corporate executives have little or no confidence in the reliability and maturity of their ESG programs. Only 9 percent of respondents were highly confident in their companies' ESG programs.³⁶ This raises an important question: What types of skills, systems, and infrastructure do senior company leaders need to support them so they can set a strong tone at the top and drive action on ESG issues throughout the organization? On this journey, material environmental and social issues need to receive equal importance.

There is a need for innovation here; for pushing the boundaries beyond the social KPIs currently used, definitions of what constitutes an ambitious target, and approaches to measurement. Current SLF transactions that include social KPIs are setting the bar for others. Businesses—and especially their senior managers—must advocate actively for social KPIs that matter to them. Other market participants, including sustainability coordinators and second-opinion providers should support collective action and elevate a focus on social metrics in SLF transactions.

Here are four proposed actions to advance social KPIs:

- 1. Identify materiality and set the right KPIs.**
- 2. Tackle the benchmarking challenge.**
- 3. Lay out the roadmap for achieving SPTs: The journey matters.**
- 4. Lean into transparency.**

1. Identify materiality and set the right KPIs.

Before setting social targets or indicators, companies first need to identify the issues that are material to their operations and that should tie into the SLF framework.

On metrics, the goal is to make an informed choice. This involves identifying the most meaningful metrics to anchor SLF transactions and reward the right behaviors. While some social metrics are difficult to measure, others can be

grounded in international authoritative standards such as the International Bill of Human Rights or global indicator frameworks such as the Sustainable Development Goals (SDGs). Companies can also make use of established standards and global ratings, such as building certifications and accessibility standards, to measure some aspects of social performance.

However, it is also important to understand which KPIs among those that can be measured make the most sense. That's because not all KPIs, on their own, offer the most meaningful representation of progress. For example, maintaining good community relations is a common material issue in many industries. Metrics tracked in sustainability reports often include amount of money invested in the communities and/or number of community complaints received.

While such indicators have value, they might not reflect the ultimate quality and longevity of company-community relations. Companies can pour a great deal of poorly targeted money into communities and end up with worse relationships and greater liabilities. Similarly, merely reporting the number of jobs created does not tell the full story about the quality of such jobs. Nor does simply reporting an increase in complaints or grievances, which could be interpreted as a problematic trend. But such increases are not always a bad thing. In some cases, it can mean that a company grievance mechanism is trusted and used increasingly by the local stakeholders as a valid way to engage. In other situations, a rise in the number of grievances, especially if there are repeated negative behaviors, can indeed be worrisome. Just looking at the amount the company invests in the communities or number of complaints may not give an accurate understanding of a company's performance on community relations.

There are ways to address these issues in the design of the measurement framework. Including additional indicators that drill down on the specifics associated with a particular KPI can help tell a deeper and more comprehensive story about the impact of the social efforts. For example, perceptions-based data on how workers, communities, or suppliers view corporate actions in a given area could complement the KPIs that measure the reach of such actions.

2. Tackle the benchmarking challenge.

The absence of market benchmarks and the lack of company data on past social performance can make benchmarking difficult.³⁷ But that doesn't mean it should not or cannot be done. In fact, at time when many market players and some corporate leaders still view social KPIs as soft and not nearly as rigorous as environmental KPIs, it is even more important to focus on setting quantifiable indicators and strong social targets.

This begins with setting the baseline. As past performance of the company is an important benchmark, efforts to collect relevant and consistent data may need to start well in advance of the SLF transaction and should be grounded in robust environmental and social management systems. A rule of thumb is that

there should be a minimum of a three-year track record for a selected KPI. This is because investors need to see the starting point and historic performance to judge ambitiousness.

When it comes to the benchmarking required to establish the ambitiousness of the target, depending on the data in question, benchmarks may not be readily available. If this is the case, referencing global frameworks and targets such as the SDGs may help. Other resources, such as national and local development plans or market studies, can help determine whether the scale of the proposed social initiative—on cost, intermediate results, or final impact—can be considered ambitious. Note that at the end there should be sufficient data or proof to judge if the target was met.

Alignment among all market actors on how the selected indicators meet sustainability-linked principles is key. This includes sustainability coordinators, corporate leaders, and second opinion providers. Local benchmarking truly matters here. This means ensuring that the target is ambitious and measurable compared to other local players in the same sector. Achieving this alignment may require proactive outreach to the relevant stakeholders, especially second-party opinion providers.

3. Lay out the roadmap for achieving SPTs: The journey matters.

Setting social KPIs is only the beginning—achieving the sustainability performance targets is the goal, with success resting on hitting multiple interim targets. A clear roadmap is needed every step of the way. In addition to assessing KPIs against sustainability-linked loan or bond principles, it is equally important to understand the foundational elements needed to achieve the KPI. Are they in place? Are they likely to be in place? For example, if the KPI is about hiring more women, exploring whether policies exist to support this metric must be part of the equation. Other underlying issues to address include retention programs, harassment tracking, appropriate career opportunities, and pay gaps, among others.

The opportunity here is to set and view KPIs as a way to drive the needed change and hold teams accountable on this journey. In this context, SLF instruments, with their built-in incentive structure, serve as a platform that supports organizational change.

Setting interim targets is important and linking pricing to them could prove useful, so that corrections to the action plan are not delayed. The opportunity here is to set and view KPIs as a way to drive the needed change and hold teams accountable on this journey. In this context, SLF instruments, with their built-in incentive structure, serve as a platform that supports organizational change. For example, IZSU's KPI on hiring more women into jobs previously only held by men will need to include broader efforts to bring about culture and mindset change throughout the organization. (See case study on IZSU.)

Senior company leaders must invest in a solid strategy to drive corporate action on ESG issues. Remuneration can help incentivize the strengthening of sustainability culture and action on mobilizing the entire organization to achieve social priorities. In fact, some infrastructure companies have introduced remuneration policies tied to the achievement of ESG targets for senior leaders (Box 4).

Tying ESG metrics to executive pay is a growing trend. As of 2021, 45 percent of FTSE 100 companies included an ESG measure in executive pay.³⁸ Doing so can promote accountability, closing the gap between what the company has committed to and what the company is actually doing.

BOX 4. Creating pay incentives to drive sustainability goals

Italian energy producer Enel links leaders' pay to progress on the transition to clean energy.³⁹ Enel's remuneration policy includes several mechanisms. A variable short-term remuneration includes objectives related to the specific company function of each manager. A long-term variable remuneration includes a quantitative climate objective—the reduction of Enel Group's CO₂ emissions per kWh over the next three years, representing 10 percent of executives' total long-term variable remuneration. A recent addition is a long-term incentive system for the CEO and top management related to the growth in the net consolidated installed capacity of the company's renewables compared with the total net consolidated installed capacity. This represents 15 percent of these executives' long-term variable remuneration.⁴⁰

Technology can be another enabler to support better tracking of social KPIs. For example, use of higher quality and more frequent satellite imagery has facilitated stronger monitoring of illegal labor by detecting and tracking time spent in fields, construction sites, quarries, mines, and forests. Advances in artificial intelligence have revolutionized how large volumes of complex data are processed. Sentiment analysis algorithms, also known as "opinion mining," are being used in ESG investing. These algorithms can be trained to analyze the tone of certain conversations, including social media, and gauge brand perceptions.⁴¹

The ESG Analytics Lab at the University of Pennsylvania's Wharton School, in partnership with Amazon Web Services, is currently exploring the use of thematic coding related to stakeholder sentiment. By digging into data from various media such as social media platforms and conflict databases, it is possible to measure the level of stakeholder support/sentiment for a concrete development. While this is a niche development, still in its infancy, it demonstrates what is possible in using technology to aid social KPIs measurement.

4. Lean into transparency.

On the one hand, ESG reporting is already difficult to tackle as it includes more than 600 provisions.⁴² On the other hand, the evidence shows that corporate reporting today does not include enough information and data about social performance. A 2022 assessment from the World Benchmarking Alliance provided a global state of play focused on three themes: respect for human rights, decent work, and ethical conduct. It looked at 1,000 leading companies in more than 60 countries, identifying a lack of meaningful data disclosure on social topics as well as a lack of comparable disclosure standards. The study's authors noted that some companies may say more than they do, and some may do more than they say.⁴³ Increased public disclosure on social performance in SLF-related reporting can represent an opportunity for companies to show that they are both saying and doing the right thing.

As noted, SLF transactions come with a requirement to report on KPIs to track performance, typically also requiring external verification. For SLLs, such disclosure occurs within the closed circle of borrower and lender. For SLBs, reports are more likely to be public. Third-party verification, formal evaluations of results, and clear reporting on indicators against original baselines will play decisive roles in promoting the credibility and integrity of SLF transactions.

The SLF market is not immune to accusations of greenwashing and social-washing, and the associated negative publicity. More work to refine public reporting on SLF KPIs is needed. This can take various forms—from sharing a stand-alone audit report to a footnote in an annual report or section in a sustainability report. As the SLF market gains traction, companies and lenders will likely see even greater scrutiny on transactions and whether they are leading to real progress. If there is no public disclosure, or there are inconsistencies in how progress is reported, external stakeholders are likely to raise concerns.

Case studies on the use of social KPIs

With the use of social KPIs evolving, a review of SLF transactions with social metrics can be instructive.

CASE STUDY 1. IZSU, TÜRKİYE | Incorporating ambitious gender KPIs and targets

IFC's sustainability-linked \$30 million long-term loan to the city of Izmir's Water and Sewerage Administration (IZSU) will fund water, wastewater, and stormwater infrastructure improvements in seven municipal districts. The investments will improve the reliability of Izmir's water supply network, benefiting an estimated 463,000 citizens, and provide better-quality drinking water to approximately 200,000 people.

In this transaction, IFC also served as sustainability coordinator, working with IZSU to establish clear and measurable KPIs focused on gender equality. At the time of the financing, IZSU had already taken steps to improve opportunities for women in its workforce and leadership, with 21 percent female permanent employees and 42 percent female managers—placing it well above the norm for water utilities. But women's participation in the company's overall workforce—including contract workers—lagged. For a company in which contract workers comprise two-thirds of the workforce, this meant that total women's representation was only 11 percent.

SETTING SPECIFIC TARGETS

As part of the loan agreement, IZSU set a sustainability performance target (SPT) of 300 new contract female hires by December 2025—specifically in 16 operational job categories that had little or no women's representation, such as heavy machinery operators and warehouse workers. This would increase the percentage of women in the overall workforce to 23 percent. Accomplishing this will require some significant changes—in both hiring processes and company culture. Under the terms of the sustainability-linked structure, if IZSU meets this ambitious target, it will receive a slight decrease in the all-in interest rate paid on the IFC loan.

LESSONS LEARNED

- Setting meaningful targets depends on context: Long-established company culture can pose significant barriers to female participation. As IZSU sought to place women in job roles previously only held by men, the challenge was overcoming a mindset that women could not perform certain jobs.
- Gaining clear commitment from senior management is critical: It lays the foundation for the selection of indicators and targets, and for successful implementation. With IZSU, the dialogue with management involved showing the business case for gender diversity. IFC shared evidence that women's participation in technical roles increases productivity and creativity, ultimately bolstering the bottom line. Gaining management buy-in will be essential as the company undergoes the changes needed to support a gender-inclusive culture.

CASE STUDY 2. ANGLO AMERICAN, SOUTH AFRICA | Leading on social KPIs and targets

IFC's \$100 million sustainability-linked loan (SLL) to Anglo American, a leading global mining company, is helping advance the company's global sustainability strategy. A first for the mining sector globally, the SLL focuses exclusively on social development KPIs and targets, with an emphasis on delivering benefits for communities in the vicinity of the company's mining and processing operations in South Africa.

The loan is aligned with Anglo American's global sustainability goals, as articulated in its Sustainable Mining Plan. The goals include ensuring that schools in host communities perform within the top 30 percent of state schools nationally and supporting three offsite jobs for every on-site job by 2025. The loan's sustainability performance targets are aligned with these goals, with a focus on South Africa.

The SLL comes with clear incentives for achieving the KPIs and targets. Each KPI features a minimum, base and stretch target. If stretch targets are achieved, the interest rate will not change. Anglo American has committed to contributing additional funds to agreed social causes if it falls short of fully achieving the stretch targets under the terms of this loan.

SETTING THE SOCIAL KPIS AND TARGETS

In addition to the financing, IFC served as sustainability coordinator for the transaction. In this role, IFC's team helped the company translate its highly ambitious education and livelihood KPIs into a form appropriate, meaningful and stretching for the SLL, as well as cooperated to develop a sustainability-linked financing framework.

- **Education target:** The target aims for host community schools supported by Anglo American's South Africa Education Programme to be placed in the top 30 percent of public schools by 2025, as determined by the results of national exams. To achieve the target, the program focuses on whole-school development and delivering training for educators and school management teams, including upgrades of school infrastructure and equipment.
- **Livelihood target:** The target is linked to the company's longstanding enterprise and supplier development program in South Africa, called Zimele. Through Zimele, the company delivers mentorship, capacity building, skills development, and access to finance to small businesses in the mining value chain and in other sectors, with a focus on women and young people. The target explicitly defines the contribution that will be required from Zimele towards the corporate target of 3 off-site jobs for every onsite job by 2025.

LESSONS LEARNED

- Alignment between global, enterprise-level corporate targets and local implementation progress is critical. A detailed analysis of the specific initiatives that will contribute to delivering the targets at the local level and how local results will contribute to the achievement of existing global targets is key to ensuring success.
- Use of meaningful social KPIs hinges on the ability to generate and validate performance data. Anglo American wanted to move forward with social development KPIs, which highlighted the importance of good monitoring, evaluation and reporting systems in tracking progress over time.
- Tracking other indicators related to the social KPIs adopted in the SLL can yield a fuller understanding of the factors driving progress towards the targets. For example, the education KPI could include indicators such as dropout rates.
- SLL providers take a holistic view of ESG risks, so it is important to ensure that delivery partner organizations also operate to high ESG standards, for example on safety, employee conditions and stakeholder engagement.

CASE STUDY 3. MILLICOM, LATIN AMERICA AND AFRICA | Indicators from flagship social programs as possible first step towards new social KPIs⁴⁴

Millicom is a provider of cable, mobile and high-speed broadband services, dedicated to emerging markets in Latin America and Africa. The company's Sustainability Bond Framework defines eligibility criteria in three areas: energy efficiency, increased access to information and communication technology, and flagship social programs facilitating socioeconomic advancement and empowerment.

The last two aim at generating social benefits and are linked with one of the two core pillars of Millicom's Corporate Responsibility Framework—Responsible Leadership in Action. Under this pillar, the company focuses on facilitating safe and productive adoption of the digital lifestyle by the company's customers. Millicom's flagship programs are designed to help the company achieve this goal.

ABOUT THE FLAGSHIP SOCIAL PROGRAMS

Eligible projects focus on empowering women, protecting children, connecting communities, and boosting the sustainability of Millicom's supply chain. Among the activities:

- Digital training for women and women micro-entrepreneurs
- Training and certification for mobile money agents
- Provision of computer equipment for community centers and instructors to teach digital literacy, computer programming, robotics, and the opportunities and dangers associated with access to the internet security
- Supplier training to integrate sustainability into the practices of the company's key suppliers

Included in the plans is a commitment from Millicom to provide an annual investor letter, with reports on budget allocation and project impacts.

PREPARING THE GROUND FOR SOCIAL KPIs

Millicom regularly reports on its progress towards achieving social targets. Examples of accomplishments as of 2021 include:

- Digital literacy training for more than 158,000 women
- Training on safe internet use for 22,891 children, 112,737 teachers, and 114,952 parents and caregivers
- New digital connectivity for 2,2267 schools and 586 public institutions in Latin America
- Sustainable procurement training for 76 percent of current suppliers, exceeding the 75 percent target

While the Sustainability Bond focuses on the use of proceeds, the tracking of specific results from the flagship social programs can set the stage for a SLB in the future by generating a baseline and track record for potential social KPIs.

CASE STUDY 4. SCHNEIDER ELECTRIC, FRANCE | Increasing workforce diversity; training the underprivileged in energy management⁴⁵

Schneider Electric is a French energy management and automation company with operations around the world. In 2020, the company issued its first sustainability-linked convertible bond, with a financing framework that includes three key performance indicators and associated targets. Two of the three KPIs are social: increasing gender diversity and training underprivileged people in energy management.

MEASURING PROGRESS

To measure KPI performance, Schneider uses its Schneider Sustainability Impact (SSI) tool—a 0-10 scale designed to measure overall progress towards its sustainability goals. When the sustainability-linked bond was issued, each KPI was assigned a baseline SSI score of 3/10, with the top potential 2025 objective of 10/10. Specifically, the company committed to an average score of 9/10, representing an 85 percent target achievement on average for each KPI.

KPI	KPI BASELINES (Corresponding to a score of 3/10)	SPT
1. Saved and avoided CO ₂ emissions to its customers	280 Mt of saved and avoided CO ₂ emissions for SE's customers	Deliver 800 Mt of saved and avoided CO ₂ emissions for SE's customers
2. Gender diversity from hiring to frontline managers and 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

REWARDING A CULTURE OF SUSTAINABILITY

Failure to meet the minimum KPI score by year-end 2025 would result in a step-up margin or premium payment. The company also links workforce bonuses to progress towards its overall sustainability goals: 20 percent of the annual bonuses for more than 60,000 eligible employees are tied to SSI performance.

ACHIEVING TANGIBLE IMPACT

Progress towards the energy management training sustainability performance targets, as of 2021:

- 328,359 underprivileged people in more than 45 countries trained. Young people from underprivileged backgrounds are the main target for the training program. This could mean unemployed and/or without degree and/or living in underserved neighborhoods. The definition is contextualized. For example, in France, the target group is adults aged 18–30 with little education or qualifications and are likely to encounter discrimination. In India, the definition is broader— young people without jobs who left school or college. Of note, because female participation in the energy trainings is a significant challenge, the program also supports local organizations specializing in skills development and women's empowerment.

Progress towards the gender diversity sustainability performance targets:

As of 2021, women represent:

- 41 percent of Schneider new hires
- 24 percent of Schneider's leadership ranks
- 25 percent of Schneider's front-line managers

Appendix | Social metrics in SLF transactions: Current state and new opportunities

This table does not represent the full universe of potential indicators or a complete analysis of evolving social KPIs practice. We strongly recommend that organizations explore other references, such as ICMA's illustrative [KPIs Registry](#), and also consider specific social indicators in the context of their own challenges and in alignment with their ESG governance and management systems.

	INDICATORS CURRENTLY USED	ADDITIONAL INDICATORS TO EXPLORE
<p>Diversity and inclusion</p> 	<p>Indicators in this category are widely used. Among the commonly used measures: gender diversity on boards and/or in senior management. Other areas include gender diversity in the workforce, hiring, remuneration. KPIs focused on racial or ethnic diversity (e.g., Black and Hispanic employment rate), disability inclusion, youth inclusion are rare. Examples of social KPIs used:</p> <ul style="list-style-type: none"> • Percentage of female employees • Percentage of women in management • Percentage of women in technical jobs • Wage parity between men and women • Percentage of suppliers with majority female ownership • Percentage of employees from underrepresented racial and ethnic groups • Number of employment opportunities offered to apprentices 	<p>Among a variety of potential indicators,⁴⁶ companies can explore the following topics:</p> <ul style="list-style-type: none"> • Employee parental leave (employees entitled to parental leave, employees on parental leave, post-pregnancy return to work, retention rate by gender). • Participation of underrepresented and vulnerable groups in the workforce (hiring, retention, promotion, etc.). • Number of employment opportunities offered to groups with difficulty finding employment in the open job market, such as young people, asylum seekers, people with reduced work ability. • Indicators related to delivery/results of education, training, and support programs for underrepresented groups. • Indicators related to delivery/results of technical education, training, and support programs for women to boost their hiring into technical jobs.
<p>Health and safety</p> 	<p>Indicators in this category are widely used. Most measures look at the health and safety occupational performance. Other measures related to total employee wellness—physical, mental, and social well-being—are very rare. Examples of social KPIs used:</p> <ul style="list-style-type: none"> • Health, safety, and environment (HSE) training hours • Work-related injuries/total recordable incident frequency • Industry specific measures such as road safety (i.e. percent road traffic incidents/injuries (RTI) rate reduction). 	<ul style="list-style-type: none"> • Access to preventative care for employees (percentage uptake of employee well-being programs, such as mental health, counseling, nutrition, and fitness). • Indicators related to delivery/results of training on well-being, such as mental health and digital safety. • Industry specific certifications (i.e. iRAP (International Road Assessment Program) for road safety. Some building certifications (i.e. WELL) measure various parameters (i.e. air, light, fitness, comfort and mind) and can be used as an indicator of well-being related to physical environment.

INDICATORS CURRENTLY USED

ADDITIONAL INDICATORS TO EXPLORE

Access to services and infrastructure





Use of indicators in this category is growing, with a significant diversity of potential KPIs depending on sector and industry. Most focus on measuring access, while aspects of accessibility, acceptability, affordability, and sufficiency have yet to be considered.

Examples of social KPIs used:

- Number of new connections in underserved/ rural communities
- Number of mobile data users and 4G net additions
- Number of homes connected
- Responsible lending to women entrepreneurs, including in underserved communities
- Number of patients provided with essential medicines
- Volume of essential medicines sold and delivered to patients
- Patient satisfaction (i.e. responses that report positive experience as “most of the time” or “always”)
- Water withdrawals per subscriber for drinking water production

- **Sufficiency:** This can include usage indicators such as water, electricity consumption, or data usage per subscriber that help to understand whether service is sufficient. For example, the principal indicator related to UN SDG 7 is the residential electrification rate of a minimum of 50 kilowatt-hours (kWh) per capita per year. But one recent study identifies a “Modern Energy Minimum” of about 1,000 kilowatt hours per person per year and estimates that using this threshold, about 3.6 billion people still live in energy poverty today.⁴⁷
- **Accessibility:** Number of people reached through the company’s accessibility strategy/ initiatives, such as through training and infrastructure additions or modifications. Third-party global certifications and ratings can also be used to assess accessibility (see Box 3). More specific indicators will vary depending on the industry. In the context of city transport, for example, the number of jobs accessible within a 60-minute timeframe can be used to evaluate how well the mobility system is serving a particular spatial area, or group of people such as the most vulnerable.⁴⁸
- **Affordability:** A common issue across public services. Indicators can look at the percentage of the targeted population that pays to own a device or subscribe to a specific service (i.e., digital payment modes).

	INDICATORS CURRENTLY USED	ADDITIONAL INDICATORS TO EXPLORE
<p>Community relations</p> 	<p>Very few examples, with most indicators measuring output: community investments made or training provided. What's needed is more detail on how a company's community investments translate into sustainable jobs or livelihoods for the communities.</p> <p>Examples of social KPIs used:</p> <ul style="list-style-type: none"> • Value of the annual community fund contributions • Number of underprivileged people trained in energy management • Number of people trained in areas such as smartphone use, digital skills and safety, and entrepreneurship • Extent of community priorities Implementation, as recommended in the community investment plan by local partners • Number of trainees certified • Predetermined and registered acreage under community outgrower programs • Percent Increase in Indigenous/local procurement of corporate materials and services 	<ul style="list-style-type: none"> • Local jobs creation, including targeted training and skills development programs for local communities: number/percent of "full-time equivalent" (FTE) jobs created/ supported; percent of local jobs accessed by women; number/percent of local residents with increased skills, enabling access to local jobs. • Local procurement: such as expenditures on local goods and services as a percentage of total spend. • Targeted training, education, and supplier development programs: such as number of local suppliers trained and/or local suppliers graduating from company-supported supplier development programs, number of suppliers accessing finance as a result of the support provided. • Changes in livelihoods due to company-supported community investment programs: such as number of locally-owned/operated businesses established as a result of company-provided training or jobs improved. The latter can refer to existing formal and informal jobs that are made easier, more cost-effective, and less burdensome. For example, by helping communities in unelectrified areas to mechanize agricultural processing, which is often done manually, a company can help improve this informal job.

	INDICATORS CURRENTLY USED	ADDITIONAL INDICATORS TO EXPLORE
<p>Just transition</p> 	<p>There are very few examples of just-transition indicators in SLF transactions.</p> <p>It is worth noting that just transition is a highly contextual process and selection of indicators should be carefully considered against economic, social, and environmental changes brought out by just transition in a given context.</p>	<ul style="list-style-type: none"> • Job creation: green jobs created, jobs transitioned/ job-to-job transition rate. • Indicators related to delivery/results of education, training, re-skilling, and well-being programs for workers displaced by the transition to a low-carbon economy. • Formal stakeholder engagement processes: such as number of agreements with local stakeholders implemented as part of just transition processes. • Contractor and direct supplier metrics: such as the number of suppliers trained in human rights/codes of conduct and performance of suppliers based on existing code of conduct, supplier provision of social protections for their workers affected by just transition processes. • Access to services and infrastructure: access to affordable, reliable, sustainable, and modern energy; delivery/results of energy efficiency programs for homes. • Social investment: delivery/results of social investment programs to increase community resilience and community ability to manage impacts of a low-carbon transition.
<p>Supply chain</p> 	<p>Very few examples. Most of the disclosed examples looked at supplier engagement—supplier training, suppliers screened against certain risks, suppliers implementing corrective measures—and supplier performance on issues such as gender diversity.</p> <p>Examples of social KPIs used:</p> <ul style="list-style-type: none"> • Percent of suppliers with female major shareholders • Percent of discretionary spend procurement from women-owned and minority-owned suppliers • Number of suppliers with enhanced ESG reporting • Metrics on suppliers screened for human rights risks (identified in one transaction reviewed) 	<ul style="list-style-type: none"> • Supplier performance on relevant diversity and inclusion indicators • Supplier performance on relevant health and safety metrics • Supplier performance on human rights • Local supplier development programs • Supplier performance on relevant community relations metrics

Endnotes

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