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The role and the importance of a sustainability co-ordinator in transactions involving green, social and sustainability-linked loans

The Loan Market Association (the LMA), has published a [guidance note](#) in relation to the role of the sustainability coordinator, in syndicated transactions structured as green, social and/or a sustainability-linked loans (GSS loans), following a rise in the number of GSS loan transactions.



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The role and the importance of a sustainability co-ordinator in transactions involving green, social and sustainability-linked loans

The Loan Market Association (the LMA), has published a [guidance note](#) in relation to the role of the sustainability coordinator, in syndicated transactions structured as green, social and/or a sustainability-linked loans (GSS loans), following a rise in the number of GSS loan transactions.

GSS loans are loan instruments that allow a corporate borrower (the borrower) to link the debt they have received from financial institutions to various environmental and social goals. These loans incentivise the borrower to achieve ambitious, predetermined sustainability objectives. GSS Loans have become popular for borrowers as, amongst other things, (i) they allow the borrower to build a more sustainable business whilst indirectly providing socio-economic benefits for the communities and environments in which they operate; (ii) they can use the funds from the loan for general corporate fundraising with no restrictions on the use of the funds for specific green, social or sustainability projects; and (iii) it allows for interest rates in financing facilities to be linked to sustainability targets (i.e. there will be a decrease in the interest rate(s) if the set performance targets are met).

Structuring a GSS loan can be quite complex and thus, it is recommended that a sustainability coordinator is appointed for syndicated loan transactions. The guidance note issued by the LMA does however, emphasise that a sustainability coordinator does not always need to be appointed to help structure a GSS loan. Whether a sustainability coordinator should be appointed or not will most likely depend on the needs of the borrower and the requirements of the syndication at that time.

According to the LMA, the role and responsibility of the sustainability coordinator will vary from one transaction to another as well as across the different institutions. The LMA guidance note does however set out the main roles and responsibilities of a sustainability coordinator, both before and after the signing of the

relevant loan documentation, which include amongst others:

- assisting the borrower and the lenders in negotiating the relevant key performance indicators or social performance targets (KPI's) for the GSS loan;
- identifying the green or social project to be financed using the proceeds of the loan;
- preparing the material to be presented to the syndicate for the structure of the GSS loan;
- ensuring that the GSS loan transaction is aligned to the relevant market standards, such as the Green, Social or Sustainability Linked Loan Principles published by the LMA; and
- renegotiation of the KPI's where the borrower is failing to meet the agreed KPI's during the life of the loan.

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The role of the sustainability coordinator is typically assumed by the leading lender of the GSS loan transaction. However, it is imperative that the relevant lending institution has the requisite expertise and experience in structuring GSS loans before assuming such responsibilities. The current market practice is for the sustainability coordinator to have a dedicated sustainability team within the lending institution working hand in hand with the loan team of the relevant lending institution.

It is also recommended that the sustainability coordinator is appointed at the outset of the GSS loan transaction, on a non-reliance basis, which then means that the borrower and the lender group within the syndication will be excluded from relying on the sustainability coordinator in relation to its confirmation on whether the GSS loan

meets the lender groups requirements or any other external standards. It should however be noted that the sustainability coordinator just like any other finance party to the syndication, such as an arranger or facility agent, may potentially be held liable by the borrower and/or the other finance parties in the syndication. Therefore, it is important that the sustainability coordinator builds in the necessary safeguards in its mandate letter, or any other relevant documentation, to protect itself against such liabilities.

In conclusion, although GSS loan transactions remain relatively niche and are still developing, the demand for sustainability-linked corporate financing solutions is accelerating far quicker than what we can comprehend and especially amongst corporates in South Africa. As we forge ahead and accelerate towards a more sustainable world, the LMA

guidance note will certainly be helpful to those borrowers who are looking to enter into a GSS loan transaction as well as to lending (or other) institutions assuming the role of the sustainability coordinator as it highlights important considerations for appointing a sustainability coordinator and provides guidance on what could be expected of them.

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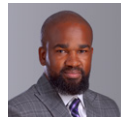
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