Global Compact
Network Germany

SUSTAINABLE FINANCE: OPPORTUNITIES BEYOND REGULATION

A beginners' handbook to sustainable finance

This handbook provides a practical introduction to implementing sustainable finance initiatives within your company. The Sustainable Finance Canvas offers a hands-on tool for sustainability professionals, particularly those in SMEs and mid-sized corporations, to develop and implement sustainable finance projects step by step.

The UN Global Compact Network Germany e. V. would like to thank the members of the peer review group. Their time, expertise and in-depth feedback significantly contributed to the quality and practical relevance of the original publication. The multi-stakeholder approach proved particularly valuable, bringing together perspectives from business, the financial sector and civil society.

Paul Healy | Germanwatch e. V.
Dr. Jens Heidingsfelder | GLS Gemeinschaftsbank eG
Joshua Jung | ING-DiBa AG
Eva Kleemann | Germanwatch e. V.
Dr. Ralf Lütz | BNP Paribas S.A. German branch
Dr. Laura Mervelskemper | GLS Gemeinschaftsbank eG
Dr. Mathias Onischka | MVV Energie AG
Dr. Christian Priemer | Hamburger Hochbahn AG
Michael Rebmann | ING-DiBa AG
Daniel Schubert | BioNTech SE
Sina Steffen | BNP Paribas S. A. German branch
Stefan Zeller | ING-DiBa AG

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Investing in the green transition can deliver improved competitiveness, environmental sustainability and benefits for people now. For European companies and financial institutions, integrating sustainability considerations is not only the right thing to do for people and the planet, but also the smart thing to do to boost growth, jobs and quality of life. Sound sustainability practices mean bringing clean, renewable and more affordable energy to businesses and households. This not only reduces greenhouse gas emissions at scale, it is strengthening energy security by reducing Europe's dependence on fossil fuel imports; and it supports innovation and job creation in a rapidly changing global economy. A focus on sustainability also means building back nature, reducing pollution and increasing our resilience to climate change impacts – all of which have benefits both here in Europe and in our partner countries. Sustainable finance is about seizing green, social and transition finance opportunities and also about managing sustainability risks, both at home and in supply chains.

The European Union has been at the forefront of regulatory initiatives in sustainable finance, setting ambitious standards and frameworks to improve transparency, comparability and robustness in sustainability related information. Data shows that this is working: building investors' trust and accelerating green investment for climate and the environment. The EU approach is to improve standardisation, avoid greenwashing, and reduce the proliferation of fragmented, tailor made reporting that overloads businesses and bond issuers – and which actually discourages investors. A coherent, scientifically robust approach is essential to provide clear and reliable information for investors and stakeholders. At the same time, there is a broad consensus that sustainable finance frameworks should evolve as implementation challenges are addressed, so that regulation is clearer, simpler, and more usable.


Charlotte Hill

Within this context, the European Investment Bank (EIB) is consolidating its role as the EU Climate Bank, and is actively working with a range of partners to support climate and nature action and social sustainability. EIB's approach includes close cooperation with the European Commission, and with public and private market players, to help improve the usability of EU regulations. Tools such as the EIB Group Green Checker illustrate this commitment, helping financial institutions and companies more easily assess whether their investments make a substantial contribution to Europe's climate and environmental objectives. In this context, the EIB supports the development of tools like this handbook which offers practical guidance for companies navigating sustainable finance. The Sustainable Finance Canvas provides a structured approach to developing and implementing sustainable finance initiatives, helping translate regulatory frameworks into actionable strategies.

Nancy Saich
EIB Chief Climate Change Expert and EU Platform on Sustainable Finance representative and
Charlotte Hill
Senior Sustainable Finance Advisor

FOREWORD
SILKE STREMLAU

Sustainability is under increasing political pressure. The growing backlash against ESG in the US is spilling over into the EU. In Europe, sustainability is often portrayed as a synonym for excessive bureaucracy. Some argue that, in light of the multiple crises of our time, climate action and sustainability should be deprioritized. At the same time, extreme weather events are occurring around the world, including prolonged droughts, flooding and extensive wildfires with catastrophic economic impacts. These events are becoming more frequent, more intense and longer lasting.

Are we caught in a state of cognitive dissonance as we try to reconcile these two opposing developments?

Looking in the rear-view mirror reveals nothing more than the yearning for old times and the industrial model of the 20th century. Yet only organizations that look to the future and invest in decarbonization, the circular economy and climate adaptation will benefit in the medium term.

This transformation requires substantial investment – from private households, business and local authorities – and coordinated action by both public and private investors. This is where sustainable finance plays a pivotal role. It directs capital towards sustainable activities and establishes the criteria that determine which loans and investments are sustainable and how they contribute to the transformation. What standards should green and social bonds meet? How do companies manage their ESG risks and opportunities? How compatible are banks' loan portfolios with the Paris Agreement?

These issues are complex and never black and white. But they can be resolved if we support each other in the quest for answers, learn from each other and seek solutions as a team. This handbook will help shift the perception of sustainability from a regulatory duty towards a strategic opportunity.

This makes the publication particularly valuable. It demystifies the (at times) misunderstood and complex topic of sustainable finance and complements it with hands-on guidance. Above all, it encourages us to take initiative and actively shape the financing of the transformation.

Let us begin!

Silke Stremlau
Former Chair, Sustainable Finance Advisory Council of the German Federal Government (20th legislative period); Managing Director, Finance 4 Transition (F4T gGmbH)

INTRODUCTION

Beyond regulation – from compliance to sustainable finance opportunities

For sustainability professionals, the regulatory landscape has become increasingly complex. In the past years, the EU has initiated a wide range of legislative initiatives, including the EU Taxonomy regulation, CSRD, CSDDD, CBAM and EUDR.[1]

ABOUT THIS PUBLICATION

This publication explores the opportunities of sustainable finance for small and medium-sized enterprises (SMEs) and mid-sized corporates. Developed by the UN Global Compact Network Germany, together with companies, financial institutions, and civil society representatives, it is now available in English to make it accessible to an international audience.

While the EU is reviewing and modifying its regulations, developments outside the EU remain dynamic. The sustainability disclosures issued by the International Financial Reporting Standards (IFRS-S) are gaining international traction. Listed companies in South Africa, Hong Kong or Singapore are required to report according to these standards, while China is introducing disclosure requirements aligned with the IFRS-S, with a phased implementation expected in the coming years.[2] Around 50 jurisdictions worldwide have developed their own sustainability taxonomies, in some cases explicitly based on the European regulation.[3] Even the double materiality principle, originally embedded in EU legislation, is increasingly shaping international practice. According to the ESG rating agency S&P, 48 % of the companies assessed take the double materiality concept into account.[4]

Independent of the scope and application of ESG regulation, the significance of corporate sustainability cannot be explained by regulation alone. Environmental and social risks are becoming increasingly material to financial performance, as extreme weather events, supply chain disruptions, and reputational damage can lead to economic losses. Amid geopolitical tensions and volatile markets, these risks can quickly become critical for business and financial markets.

The real opportunity lies in embedding sustainability into corporate decision-making, rather than treating it as a compliance exercise.[5] In this respect, regulatory requirements can create value for companies by improving the quantity and reliability of data.

A particular opportunity arises from the use of sustainability data to access new sources of financing.[6] Investors, banks, and insurers increasingly rely on standardized, decision-relevant sustainability information to assess the risks for their financing and investments.[7] Sustainability is therefore not confined to sustainability management, but also relevant for other business functions, particularly finance, financial reporting and treasury, which will benefit from closer collaboration.

Many financial institutions regard the Ten Principles of the UN Global Compact as a minimum standard for responsible business conduct and may exclude companies that do not comply with these principles from financing and investment. In addition, infringements of the principles or a lack of due diligence, for instance with regard to human rights, labour standards or corruption, can negatively affect the ESG risk assessment. This may, in turn, influence credit ratings and financing conditions. A clear commitment to the UN Global Compact not only strengthens the sustainability strategy, it also improves access to sustainable financing.

1 The full titles are: Taxonomy (Regulation (EU) 2020/852 of the European Parliament and the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment); CSRD (Corporate Sustainability Reporting Directive); CSDDD (Corporate Sustainability Due Diligence Directive); CBAM (Carbon Border Adjustment Mechanism); EUDR (EU Deforestation Regulation).

2 See: UNEP FI. (2025). China embarks on a journey of ESG disclosure: 2024 progress and focus for 2025.

3 See: Marchewitz, C., Ballesteros, F., Schütze, F. &Hadj Arab, N. (2024). Sustainable finance taxonomies – Enabling the transition towards net zero? A transition score for international frameworks.

4 See: S&P Global. (2025). The state of double materiality in corporate reporting.

5 See: Atz, U., Van Holt, T., Liu, Z. Z., & Bruno, C. C. (2023). Does sustainability generate better financial performance? Review, meta-analysis and propositions. Journal of Sustainable Finance & Investment, 13(1), 802-825.

6 See: Dako, O. F., Onalaja, T. A., Nwachukwu, P. S., Bankole, F. A., & Lateefat, T. (2023). Integrating ESG performance metrics into financial reporting frameworks to strengthen sustainable investment decision-making processes.

7 See: Bertelsmann Stiftung. (2024). Sustainability Transformation Monitor 2024.

THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT

HUMAN RIGHTS

Principle 1:
Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2:
make sure that they are not complicit in human rights abuses.

ENVIRONMENT

Principle 7:
Businesses should support a precautionary approach to environmental challenges;

Principle 8:
undertake initiatives to promote greater environmental responsibility; and

Principle 9:
encourage the development and diffusion of environmentally friendly technologies.

LABOUR

Principle 3:
Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4:
the elimination of all forms of forced and compulsory labour;

Principle 5:
the effective abolition of child labour; and

Principle 6:
the elimination of discrimination in respect of employment and occupation.

ANTI-CORRUPTION

Principle 10:
Businesses should work against corruption in all its forms, including extortion and bribery.

THE SUSTAINABLE FINANCE CANVAS

This publication aims to complement existing sustainable finance resources and to address remaining information gaps.

It serves as a guide and is based on the results of a study conducted by the UN Global Compact Network Germany, which assessed existing sustainable finance guidance and identified several key gaps:

- Most existing formats primarily target the financial sector.
- There is a lack of practical tools to support companies in the real economy – particularly SMEs – in implementing sustainable finance initiatives.
- Companies are increasingly interested in understanding how regulatory reporting requirements relate to sustainable finance initiatives and are seeking practical guidance and concrete examples to support implementation.

This handbook provides guidance for sustainability professionals who want to advance sustainability within their companies by using sustainable finance instruments. It supports readers in developing a project idea to present to the finance function and explains what is relevant from a financial perspective. This guide is for practitioners who are new to sustainable finance and can be applied by companies of all sizes and across all sectors.

TIP:
The appendix also includes a detailed checklist to help you prepare and implement a sustainable finance project. This checklist is particularly useful when preparing discussions with your bank or financing partners.

Structure of the handbook: The core element is the Sustainable Finance Canvas

The Sustainable Finance Canvas forms the central element of this handbook. It helps users plan a sustainable finance initiative step by step, from the initial idea to implementation.

The Canvas is structured around five phases:

1. **Starting point** – Define the environmental or social challenge you want to address and how the project contributes to addressing it.
2. **Value proposition** – Explain how your project responds to the identified challenge and what strategic value it creates for the company.
3. **Implementation and collaborators** – Define the implementation approach for the project: who should be involved, what resources are required and what the timeline will be.
4. **Financial structure and instruments** – Determine the financing needs and select a suitable sustainable finance instrument.
5. **KPIs and reporting** – Define relevant performance indicators and consider the reporting requirements of banks or investors.

You may already have developed an initial project idea and are now considering how to engage your finance department or senior management. Alternatively, you may be primarily interested in identifying suitable financing instruments and understanding related reporting requirements. In either case, you can start with the section of the Canvas that best reflects your current starting point.

The appendix includes 5 case studies – 2 from banks and 3 from companies in the real economy – illustrating how sustainable finance initiatives can be implemented in practice. The case studies provide practical insights and inspiration for structuring and implementing your own sustainable finance project.

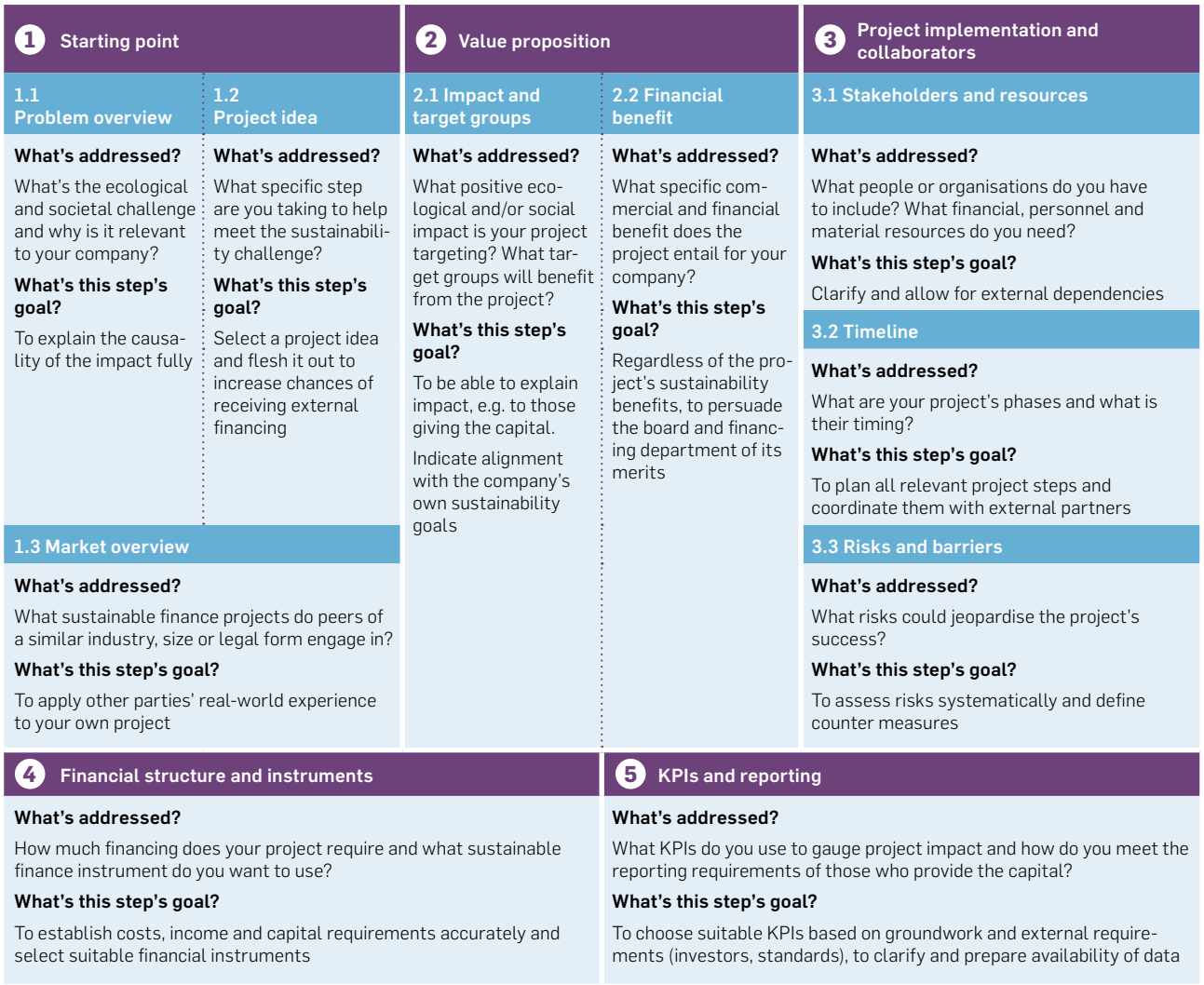

Figure: Sustainable Finance Canvas

→ *Download blank canvas template to fill in: bit.ly/susfin-canvas*

What is sustainable finance?

In general terms, sustainable finance refers to the allocation of capital by private and public actors to sustainable economic activities and companies.

At the corporate level, sustainable finance typically involves the use of sustainable financing instruments.

For the purposes of this handbook, sustainable finance is understood more specifically as:

a) **financing a sustainable project** — such as assets, property or infrastructure initiatives — using sustainable finance instruments with a specific purpose (use-of-proceeds instruments, such as a green loan or social bond)
b) **corporate financing or refinancing** using sustainability-linked financial instruments.[8]

8 Sustainable finance also includes other measures, such as switching to a sustainability-driven bank or strategic changes in treasury management. However, this handbook focuses primarily on more comprehensive projects that are specifically implemented using sustainable finance instruments.

STEP 1:
STARTING POINT

In this step, you define your starting point and the rationale for your project. The Canvas distinguishes between two elements: the problem statement (the underlying sustainability challenge) and the project idea (the action you plan to take to address that challenge).

Even if you already have a concrete project idea, it is useful to begin with the problem statement. Doing so helps you clearly articulate the project's intended impact, identify appropriate measures and structure your project more effectively.

If you have already developed a clear project idea, you may proceed directly to Step 2 – Value Proposition, where you define the expected sustainability impact and financial benefits.

STEP 1.1:
PROBLEM STATEMENT

PURPOSE OF THE PROBLEM STATEMENT – CLARITY AND CREDIBILITY

The problem statement describes the environmental or social challenge your company is addressing — whether through a specific project, across the organisation or in response to broader social developments. It also explains why this issue is relevant to your business.

Defining the problem statement is essential when using sustainable finance instruments. Banks, investors and potential partners typically require companies to demonstrate the sustainability benefits and expected positive impact of a project. A well-defined problem statement therefore provides the foundation for communicating your project clearly and identifying both its scope and its limitations.

TIP:
The problem statement should not describe an abstract goal (for example, net-zero emissions) or a symptom (for example, high emissions). Instead, it should define a concrete challenge.

Example: "Fossil fuel use leads to significant GHG emissions, which contribute to climate change. Dependence on fossil fuels also exposes companies to volatile energy prices, regulatory pressure and rising carbon-related costs."

Methods for identifying root causes include tools such as the Ishikawa diagram (also known as the fishbone or cause-and-effect diagram) or the Five Whys method.

Problem statement examples and potential project ideas

The following table illustrates typical sustainability challenges and shows how companies can address them through sustainable finance projects.

Topics	Decarbonisation	Biodiversity	Circular economy	Human rights and supply chains	Climate change mitigation and adaptation	Water management
Problem overview	Fossil fuels cause high carbon emissions, which are a factor in climate change. Fossil-fuel dependency makes companies vulnerable to volatile energy prices, regulatory pressures and the rising costs of carbon emissions.	Any encroachment on natural habitats causes ecological damage. This causes conflicts of use, regulatory restrictions and entails a reputational risk for companies.	Inefficient usage of resources and linear product designs mean enormous material consumption and unnecessary waste. A wasteful use of resources makes it more difficult to meet customer and statutory requirements.	A lack of transparency and control in global supply chains increases the risk of violations of human rights and laws. Companies risk reputational damage.	Climate change is having a negative impact on local weather. Insufficient preparation for physical climate risks such as heat, heavy rain or floods can cause interruptions to operations and damage.	The availability and quality of water drops. The rising squeeze hits companies using water inefficiently particularly hard – both operationally and financially.
Project ideas	• Investing in renewables • Refurbishing buildings • Incentivising green transport • Adapting the product and service portfolio • Decarbonising supply chains • Heat conversion technologies • Industrial hydrogen projects	• Vegetation projects • Incentivising sustainable supply chains • Investing in sustainable product portfolios • Investing in rewilding projects • Investing in reforestation	• Investing in changing production processes • Product-as-a-service, sharing or re-use models • Developing reverse logistics systems • Financing modern recycling plants	• Rolling out audits and certification in the supply chain • Setting up audit and monitoring systems • Training and social standards in the supply chain • Increasing transparency in supply chains	• Adapting properties to climate risks • Taking flooding and heat prevention action • Flood protection systems • Preventative action to adapt to climate change	• Rainwater harvesting systems • Improving water supply systems • Water treatment plants for industrial wastewater • Switching production to water-efficient materials • Developing expertise among suppliers • Waste water management and plants

Table: Problem statement examples and potential project ideas

STEP 1.2: PROJECT IDEA

The purpose of this step is to determine which measures your company will implement to address the sustainability challenge identified in the problem statement. Often, companies already have an initial idea that needs to be further developed or must choose between several potential options. In either case, the project should be clearly defined to increase the likelihood of successful implementation and access to external financing.

Projects are particularly likely to be implemented and financed when they meet one or more of the following criteria:

Projects based on your double materiality analysis

A double materiality analysis — for example as part of a sustainability report according to ESRS — identifies both the positive and negative sustainability impacts of your company as well as the associated financial risks and opportunities (such as changing markets or climate risks).

Ideally, the project should generate both positive sustainability impact and business value.

Projects relevant to key stakeholders

Customers, employees, shareholders, local communities, NGOs and other stakeholders affected by your company's activities often have expectations regarding sustainability initiatives.

Taking these expectations into account can strengthen stakeholder support and increase the likelihood that a project will be implemented. Relevant insights can often be drawn from existing stakeholder analyses, such as those included in sustainability reports or quality management documentation.

Projects that strengthen your sustainability strategy

Projects that contribute directly to the achievement of corporate sustainability targets are more likely to gain support from internal decision-makers. They are also more credible for investors, banks and the public.

Projects aligned with voluntary standards or regulatory frameworks

For green financial instruments such as green loans or green bonds, many investors and banks use the EU Taxonomy regulation as a reference framework. Activities that are EU Taxonomy-aligned therefore have a higher likelihood of attracting financing.

If a project does not fall directly within the EU Taxonomy framework, companies can refer to their transition plans (for example on climate or biodiversity) or to the strategic concepts outlined in their sustainability reporting. This allows companies to explain how specific measures contribute to their broader sustainability transformation even if they are not taxonomy-aligned.

Projects that improve ESG ratings

If a project improves environmental performance indicators or strengthens due diligence processes in the supply chain, it may also improve the company's ESG ratings. Higher ESG ratings can influence investment decisions and, in some cases, procurement or financing conditions linked to ESG performance.

The following section presents key areas of action and potential measures suitable for sustainable financing, including examples and their strategic relevance.

DECARBONIZATION

Decarbonization is a major challenge, particularly for companies operating in high-emission sectors. Many companies have already defined net-zero targets and developed transition plans. These plans provide a useful foundation for financing decarbonization initiatives: they translate climate targets into concrete measures and help investors assess the capital expenditure (CapEx) and operational expenditure (OpEx) required to achieve those targets.[9]

Possible measures in this area include:

- **Investing in renewable energy generation,** such as solar, wind and hydropower or bioenergy projects
- **Improving the energy efficiency of buildings,** for example through thermal insulation, heating system modernisation or energy-efficient lighting
- **Electrifying vehicle fleets** and installing the necessary charging infrastructure
- **Adapting products and services** by developing more sustainable product lines or offering climate friendly services
- **Decarbonizing supply chains** by working with suppliers to reduce emissions or switching to low-carbon materials
- **Deploying low-carbon heating solutions,** such as local or district heating systems based on renewable energy or waste heat
- **Developing industrial green hydrogen solutions** to decarbonize energy-intensive processes.

Strategic benefits

Decarbonization reduces a company's transition risks, which are risks associated with the shift to a low-carbon economy, including changing market demand, technological developments and increasingly stringent regulation. It can also lower energy costs and reduce exposure to fossil fuel price volatility. [10]

Principles:

7. Businesses should support a precautionary approach to environmental challenges.

8. Businesses should undertake initiatives to promote greater environmental responsibility.

9. Businesses should encourage the development and diffusion of environmentally friendly technologies.

SDGs:

7. Affordable and Clean Energy

9. Industry, Innovation and Infrastructure

13. Climate Action

9 See: Financial Stability Board. (2025). Stocktake of financial authorities' approaches to transition plans and transition finance. Financial Stability Board. https://www.fsb.org/uploads/P140125.pdf.

10 See: Oliver Wyman & UNEP FI. (2021). Decarbonisation and Disruption: Understanding the financial risks of a low-carbon transition.

BIODIVERSITY

The economic relevance of biodiversity is still frequently underestimated. According to a study by the European Central Bank, around three-quarters of EU companies depend on healthy ecosystems and natural capital. In some cases, this dependence is direct (for example in agriculture), but in many sectors it stems indirectly from supply chains.[11]

Financial institutions increasingly view biodiversity loss as a material financial risk and take it into account when assessing investment and lending decisions.

Possible measures in this area include:

- **Urban greening measures,** such as green roofs and green façades that support local biodiversity, create habitats for insects and birds, and can also improve building performance
- **Developing sustainable supply chains,** for example by strengthening supplier due diligence, conducting audits, and improving traceability and transparency of raw materials regarding biodiversity impacts
- **Investing in sustainable product portfolios,** such as R&D for products based on sustainable inputs, deforestation-free production processes, or credible sustainability certifications
- **Investing in renaturation projects,** such as restoring floodplains, wetlands or rivers that can support biodiversity while strengthening natural flood protection and potentially reducing infrastructure and insurance costs
- **Investing in reforestation and sustainable forestry,** for example by improving the sustainability of own operations or supporting suppliers' responsible forestry practices to secure long-term access to key inputs

Strategic benefits

Reducing biodiversity-related risks can improve a company's financing prospects. Biodiversity is also addressed in regulatory frameworks such as the CSRD and the EU Taxonomy regulation.[12] In addition, the EU Deforestation Regulation (EUDR) will require companies in certain sectors to ensure that relevant commodities and products are sourced from verifiably deforestation-free supply chains. [13]

This topic is also gaining political momentum through initiatives such as the Kunming-Montreal Global Biodiversity Framework[14] or the EU Biodiversity Strategy[15].

Principles:

7. Businesses should support a precautionary approach to environmental challenges.

8. Businesses should undertake initiatives to promote greater environmental responsibility.

SDGs:

14. Life Below Water

15. Life on Land

11 See: Ceglar, A., Boldrini, S., Lelli, C., Parisi, L., & Heemskerk, I. (2023). The impact of the euro area economy and banks on biodiversity (Occasional Paper Series No. 335). European Central Bank.

12 See: (EU) 2023/2486.

13 See: (EU) 2023/1115.

14 See: Convention on Biological Diversity (CBD). (2022). Decision 15/4: Kunming-Montreal Global Biodiversity Framework.

15 See: European Commission. (2020). EU Biodiversity Strategy 2030.

CIRCULAR ECONOMY

From a company perspective, a circular economy means designing products and processes so that materials remain in use for as long as possible within closed loops. This includes using secondary raw materials, preventing waste and keeping materials in circulation through reuse, repair and recycling.

Possible measures in this area include:

- **Converting production processes,** for example by switching to recycled materials, reducing material losses and reintegrating production waste into the process
- **Product-as-a-Service,** sharing or reuse models that encourage repeated use and support more durable and repairable products.
- **Developing reverse logistics systems,** for example take-back schemes for reuses or repair, which can also strengthen customer relationships
- **Using circular construction and real-estate materials** that can be reused or recycled
- **Financing modern recycling facilities** to recover valuable secondary raw materials

Strategic benefits

A circular economy delivers both environmental and business benefits. Companies can use resources more efficiently, reduce material consumption and waste management cost, and ultimate lower operating expenses. Circular approaches also reduce dependence on virgin materials and can increase resilience to supply bottlenecks and price shocks. In addition, circular business models can open up new customers segments and revenue streams.

Principles:

8. Businesses should undertake initiatives to promote greater environmental responsibility.

9. Businesses should encourage the development and diffusion of environmentally friendly technologies.

SDGs:

9. Industry, Innovation and Infrastructure

12. Responsible Consumption and Production

CLIMATE ADAPTATION

Climate adaptation aims to increase resilience to climate risks such as extreme weather events, rising temperatures and changing precipitation patterns, and to reduce the adverse impacts of climate change.

Possible measures in this area include:

- **Climate proofing buildings and sites,** for example through green roofs and façades, improved insulation, shading, or measures to reduce water damage
- **Heat and flood prevention measures,** such as greening outdoor spaces, improving drainage, or installing flood barriers
- **Flood protection infrastructure** such as dikes, retention basins or other protective systems to reduce damage from heavy rainfall and rising water levels
- **Preventive adaption measures** such as early-warning systems, climate risk monitoring and climate-resilient infrastructure planning

Strategic benefits

Climate adaptation helps companies protect operations, assets and surrounding communities from the direct impacts of climate change and reduces business interruption risks. It can also lower insurance costs, improve financing conditions and safeguard asset values.[16] Companies within the scope of the CSRD or EU Taxonomy regulation are required to conduct climate risk analyses and disclose measures to manage and reduce those risks.[17]

Principles:

8. Businesses should undertake initiatives to promote greater environmental responsibility.

9. Businesses should encourage the development and diffusion of environmentally friendly technologies.

SDGs:

11. Sustainable Cities and Communities

13. Climate Action

16 See: Bär, H., Peiseler, F., Richter, B., & Aleksandrova, I. (2023). Wechselwirkungen und Zielkonflikte, Nachhaltige Soziale Marktwirtschaft. (Combining climate and financial policy: Focus Paper, (7).

17 See: (EU) No. 2024/90457 and (EU) 2020/852.

WATER MANAGEMENT

Water is an essential resource. With climate change and increasing water scarcity, sustainable water use is becoming ever more critical. By protecting and using water more efficiently, companies can also reduce operational dependence on this resource.

Possible measures in this area include:

- **Installing rainwater harvesting systems** to reduce potable water consumption
- **Improving water distribution systems,** for example by using smart measuring systems
- **Implementing industrial wastewater treatment and water reuse,** for example by filtering and reusing process water in production
- **Switching to more water-efficient inputs,** for example by replacing water-intensive raw materials with alternatives with a lower water footprint
- **Building supplier capabilities,** for example by supporting water-efficient cultivation methods in upstream raw material production
- **Improving wastewater management,** including systems for treating and reusing wastewater

Strategic benefits

Investments in sustainable water management can reduce exposure to water scarcity, drought, operational disruptions and downtime, thereby lowering business risk.[18] Efficient water management can also reduce operating and infrastructure costs.[19]

Principles:

7. Businesses should support a precautionary approach to environmental challenges.

8. Businesses should undertake initiatives to promote greater environmental responsibility.

SDGs:

6. Clean Water and Sanitation

12. Responsible Consumption and Production

18 See: WWF Germany. (2021). Das importierte Risiko: Wie deutsche Unternehmen durch Wasserrisiken in ihren Lieferketten bedroht sind. WWF Deutschland. https://www.wwf.de/fileadmin/user_upload/002WWF_Studie_Wasserrisiko_Deutschland.pdf

19 See: International Finance Corporation. (2017). Cash flows with water: Investing in industrial water efficiency solutions can pay off quickly – even if water is free.

HUMAN RIGHTS AND SUPPLY CHAINS

Global value chains can involve significant human rights risks, including child labour, forced labour. And inadequate health and safety conditions. Companies have a responsibility to respect human rights and to conduct appropriate human rights due diligence across their operations and supply chains.

Possible measures in this area include:

- **Conducting supplier audits and supporting credible certification schemes** to promote ethical and fair working conditions (for example, Fairtrade or workplace safety standards such as SA8000)
- **Establishing audit and monitoring systems** to track supplier compliance with human rights standards
- **Strengthening training and social standards in the supply chain,** for example through vocational training and upskilling programmes that improve working conditions, promote equal opportunity and enhance occupational health and safety
- **Increasing supply chain transparency,** for example through traceability systems and risk management processes designed to detect human rights risks such as child labour or forced labour at an early stage

Strategic benefits

Strengthening human rights due diligence and investing in social standards across the supply chain can reduce reputational and legal risks, build trust with customers and business partners, and support long-term, stable business relationships.[20]

Principles:

1. Businesses should support and respect the protection of internationally proclaimed human rights

2. Businesses should make sure that they are not complicit in human rights abuses.

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

4. Businesses should uphold the elimination of all forms of forced and compulsory labour.

5. Businesses should uphold the effective abolition of child labour

6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.

10. Businesses should work against corruption in all its forms, including extortion and bribery.

SDGs:

1. No Poverty

5. Gender Equality

8. Decent Work and Economic Growth

10. Reduced Inequalities

20 See: Chen, A., Gerick, L., & Tang, Q. (2024). Strategic timing of corporate social responsibility investments under reputational risk. Risk Sciences. https://doi.org/10.1016/j.risk.2024.100008.

STEP 1.3: MARKET OVERVIEW

A market overview serves as a useful compass when developing a sustainable finance project. It helps you understand what comparable companies are doing, for example companies of a similar size, ownership structure or industry. Identify which sustainable finance initiatives they have implemented and which financial instruments they use.

The purpose is not a comprehensive market or competitor analysis. Rather, the aim is to identify practical approaches that have proven effective and learn from them in an efficient and pragmatic way. A market overview allows you to benchmark your ideas, potential objectives and key performance indicators against selected peers at an early stage. This can help answer important questions: Is your project realistic? Is it ambitious enough to attract external financing?

HOW TO CONDUCT A MARKET OVERVIEW:

- **Engage with your bank:** This is often a good starting point. Many banks have dedicated ESG advisory teams with experience from similar projects and a good understanding of current market developments. They can help identify potential starting points for your company with relatively little effort.
- **Conduct online research:** Simple online research can quickly reveal examples of successful sustainable finance initiatives within your industry. Relevant information can often be found in press releases, corporate announcements or industry publications.
- **Review sustainability reports:** Sustainability reports from comparable companies can provide valuable insights into key topics such as energy efficiency, circular economy initiatives or supply chain transparency.
- **Seek external support:** Targeted support from a consultant can help you identify relevant best practices and obtain a structured overview of available options.
- **Research pilot projects, studies and white papers:** These sources can provide useful insights into market trends and emerging best practices. They are often published by consultancy companies, industry associations or ESG analysts from rating agencies and investment banks.

TIP:

You do not need to conduct an exhaustive market review. Instead, focus on a small number of relevant peers or leading companies — including those outside your industry. This will help you understand how sustainable finance could be applied within your own organisation.

STEP 2:
VALUE PROPOSITION

A clear value proposition allows you to present your sustainable finance project to lenders, management, colleagues, partners and other stakeholders. The objective is to combine positive environmental and social impacts with tangible business benefits for your company. This distinction between sustainability impact (2.1) and financial benefits (2.2) reflects the concept of double materiality.

TIP:
When presenting the project internally, emphasize the financial benefits. This can help convince senior management and the finance department of the project's value.

STEP 2.1: SUSTAINABILITY IMPACT

To demonstrate positive environmental and social impacts, you can refer to established frameworks. For example, you can show how your project contributes to global climate goals, reduces pollution or improves working conditions within the supply chain.[21]

For use-of-proceeds instruments, many investors and lenders require alignment with the EU Taxonomy regulation. However, the EU Taxonomy also has limitations. First, many economic activities are not yet covered. Second, it focuses primarily on environmental criteria and is therefore less suitable for assessing projects with a primarily social impact.

In such cases, aligning the project with the United Nations Sustainable Development Goals (SDGs) is a widely recognised market practice. The SDGs provide a useful framework for classifying and communicating a project's impact. For example, projects that expand renewable energy, promote low-carbon transport or develop sustainable housing and infrastructure can help reduce greenhouse gas emissions (SDG 13) while conserving natural resources (SDG 12). They can also contribute to the protection of ecosystems (SDGs 14 and 15) and improve quality of life (SDG 3).

Social benefits may include job creation, improved working conditions (SDG 8) and greater social inclusion (SDG 10).

21 In this case, the first task is to show that your project is helping to meet broadly accepted sustainability goals. Specific measurement of project impact via performance indicators will be carried out later and explained in Chapter 5.

Figure: 17 United Nations Sustainable Development Goals

TIP:

Use tools from the UN Global Compact, such as the SDG Compass or publications to map your project to relevant SDGs.[22] [23]

22 See: UN Global Compact Netzwerk Deutschland: SDG Compass
23 See: UN Global Compact Netzwerk Deutschland: Publications

"More favourable financing conditions are possible when a company or project has a strong risk profile, which often correlates with strong sustainability performance."

TARGET GROUPS BENEFITING FROM THE PROJECT

Defining target groups that benefit from the project is another important element of assessing sustainability impact. These target groups include the stakeholders who benefit directly or indirectly from the project. For projects with a social focus — for example those financed through social loans or social bonds — banks or other financing partners will typically require a clear definition of the target groups.

These target groups can be very diverse: low-income households benefiting from affordable housing, rural communities gaining access to sustainable mobility or digital infrastructure and local communities benefitting from improved healthcare services through a new hospital. Even projects primarily focused on environmental outcomes often have clear social beneficiaries. For example, local residents benefit when emissions from industrial facilities decrease, traffic noise is reduced or brownfield sites are redeveloped and made accessible to the public.

2.2: FINANCIAL BENEFIT

To attract external financing, projects generally need to be economically viable. Only in exceptional cases – for example when supported by public funding – may projects only need to break even financially.

Even for sustainable finance instruments, **credit risk** remains a key factor in determining financing terms. More favourable financing conditions are possible when a company or project has a strong risk profile, which often correlates with strong sustainability performance. Conversely, if the risk profile is weak, financing may become more expensive or even unavailable — regardless of the project's sustainability credentials.

Green financing can be particularly advantageous when it is a use-of-proceeds instrument (green loan or bond) aligned with the EU Taxonomy regulation, as banks increasingly consider EU Taxonomy-alignment in their risk assessments. For sustainability-linked instruments, financing conditions such as interest rates are directly linked to predefined sustainability targets. If the targets are achieved, financing costs may decrease; if they are missed, financing costs may increase. In practice, the direct financial advantage is often modest. However, these instruments can help embed sustainability within the corporate strategy and facilitate constructive discussions with the finance function.

Depending on the projects, operating costs may also decrease. Investments in renewable energy, energy-efficient processes or resource-efficient production can reduce energy and raw material consumption. This can strengthen resilience to external shocks such as energy crises or supply chain disruptions.[24]

TIP:

Even without mandatory reporting requirements, publishing a voluntary sustainability report can be beneficial. It ensures that relevant sustainability information is readily available for banks, institutional investors, business partners and other financing stakeholders.

Recognised standards such as the European Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME) or the GRI Standards (Global Reporting Initiative) can help structure and standardise sustainability disclosures.

24 See: World Business Council for Sustainable Development. (2023). Accelerating to net-zero emissions: How integrated solutions can unlock corporate decarbonization. https://www.wbcsd.org/wp-content/uploads/2024/04/Accelerating-to-net-zero-emissions.pdf

STEP 3: IMPLEMENTATION AND COLLABORATORS

This step focuses on preparing the implementation of the sustainable finance project. It is helpful to consider the following aspects in advance:

- **Stakeholders** and stakeholder groups are directly or indirectly connected to the project, have specific interests and can influence its success.
- **Resources** include the financial, human and technical resources required to implement the project.
- The **timeline** should particularly take into account the phases in which you rely on external parties or require internal and external approvals, such as official permits.
- This step also examines how you identify potential **risks and barriers**, i.e. potential obstacles, that may affect the project implementation.

STEP 3.1: STAKEHOLDERS AND RESOURCES

Whether you want to finance an existing project through a sustainable loan or bond or want to develop a new initiative, you will typically interact with a wide range of stakeholders who influence – or even determine – whether the project can be implemented. You should identify these groups early in the project and actively engage with them.

Three categories can be distinguished: **Internal stakeholders, external stakeholders** and **supporting organizations.**

TIP:
Use the examples below for stakeholder mapping. Determine when and how these stakeholders should be involved and whether additional resources are required – for example budget or personnel.

Internal stakeholders and stakeholder groups:

- The **finance department** plays a central role and is often the most important internal partner when developing and implementing the project.
- **Senior management** is the company's key decision-making body. Usually, it is helpful to first align with finance, investor relations and communication teams before presenting the project to senior management. In smaller companies, senior management may be involved from the beginning of the project.
- **Colleagues** from sustainability management and other departments are often responsible for the operational implementation of the project. Their commitment and support are pivotal to the project's success.

External stakeholders and stakeholder groups:

- Engage with **banks and investors** early on to understand which documents and data they require. The bank's sustainability report can provide insights into its exclusion criteria, expectations on the management of climate or biodiversity-related risks, and its internal sustainability frameworks.
- **Regulatory authorities and public institutions** issue permits, for example for infrastructure projects, and monitor compliance with environmental regulations. Early contact with the relevant departments can help initiate the necessary procedures and clarify documentation requirements.
- Many projects involve collaboration with **external partners** – such as suppliers, providers of technology, external expertise, software or data. Sustainability expectations should therefore be communicated accurately and at an early stage.

- If a project affects local neighbourhoods, traffic routes or public spaces, engagement with **civil society** and local communities is particularly important. **NGOs** in the field can provide valuable expertise to ensure that relevant environmental or social considerations are properly addressed.

Supporting organizations:

- **ESG rating agencies** assess whether a project has a positive sustainability impact and whether environmental or social risks are adequately addressed. Some investors or lenders require an external review of this kind, a so-called Second Party Opinion (SPO).

- To ensure compliance with regulatory and contractual requirements, **legal advice** may be necessary.

- External **consultants** can support project design, analyses and reporting.

Key resources

Coordination of the above-mentioned stakeholders can be complex and requires sufficient internal resources, particularly from sustainability management and other departments involved in project implementation.

Identify early which partners need to be involved and ensure you have sufficient time, for example for procurement procedures or tender processes. Financial resources should also be carefully planned when preparing the project.

STEP 3.2: TIMELINE

The timeline helps ensure that all stakeholders know when their involvement is required and what tasks they are responsible for. The following checklist can help structure the timeline:

- **Define project phases clearly.** Typical phases are planning, permits, financing, implementation, monitoring and reporting.
- **Identify dependencies** between project phases.
- **Include realistic time buffers** to account for potential delays such as permitting procedures, technical challenges or supply chain bottlenecks.
- **Define milestones,** such as completion of the financing phase, receipt of all permits, or completion of construction. These milestones help identify and address delays early.
- **Involve relevant stakeholders** and stakeholder groups at **an early stage,** for example investors, local authorities and project partners, to avoid delays due to missing approvals or insufficient coordination.
- **Build flexibility into the timeline.** Evaluations and status reports help to keep everyone up to date. However, you should prepare for unforeseen challenges.

If the project itself already exists and the main objective is to organise financing, only add the financing-related steps to the timeline – e.g., discussions with banks, preparation of documentation or ongoing reporting obligations.

STEP 3.3: RISKS AND BARRIERS

Responsibility for identifying and assessing project risks usually lies with the project manager or project sponsor. The sustainability management can contribute by highlighting sustainability-related or reputational risks.

Particularly where experience with similar projects is limited, it can be useful to document potential risks systematically in a risk matrix with their likelihood and severity. The matrix should be updated regularly, for instance when entering a new project phase or in case of major changes to the project.

Some of the key areas of risk are:

- **Financial risks** such as market volatility or cost overruns.
- **Operational risks** such as delays in permitting procedures, technological obstacles or supply chain disruptions.
- **Reputational and greenwashing risks,** for instance, if sustainability targets are not achieved or environmental claims cannot be credibly substantiated with data.
- **Regulatory risks** such as new reporting obligations or financing requirements.

TIP:

Discuss the risk analysis with other key project stakeholders and involve financial reporting and internal audit teams early on. These departments often take responsibility for documenting project risks. Greenwashing risks can be avoided by using established reporting frameworks as well as obtaining expert advice and independent third-party verification.

"Particularly where experience with similar projects is limited, it can be useful to document potential risks systematically in a risk matrix with their likelihood and severity."

STEP 4: FINANCIAL STRUCTURE AND INSTRUMENTS

A crucial step is choosing the financing instrument that best fits your project and your company's situation. For example, a green loan or green bond, sustainability-linked financing, a promotional loan, or financing provided by a sustainability-focused bank.

This section introduces common sustainable finance instruments and their defining features, supporting your selection. To secure financing, you will also need a robust estimate of expected costs and anticipated income or savings.

TYPES OF FINANCING FOR COMPANIES

Before raising external capital, consider whether part of the needed budget can be covered through other sources. The following options may be available without using capital market instruments or traditional bank loans:

- **Internal financing,** using reserves, reinvesting profits or intercompany loans. This reduces dependence on external lenders and their terms.
- **Equity financing,** for example, by raising capital through venture capital, private equity or existing shareholders. ESG-focused investors may be particularly relevant, as they consider sustainability criteria alongside financial returns. Note, however, that equity financing typically involves investor influence on governance and decision-making.
- **Mezzanine capital** such as subordinated loans or silent partnerships combine features of debt and equity: You can receive capital without adding new shareholders or requiring collateral. However, interest rates are usually higher than for conventional loans.

If these sources are insufficient, remaining financing needs can be covered via **sustainable finance instruments or hybrid structures** – for instance, by combining a promotional loan with a conventional bank loan.

Selecting a sustainable finance instrument[25]

Which sustainable financial instrument is most suitable mainly depends on two questions: What type of financing fits your project? And is it a use-of-proceeds instrument or not?

Type of financing: loan vs. bond

- **Loan:** A bank, lending syndicate or promotional bank provides capital directly to the company.
- **Bond:** The company raises funding in the capital market. Bonds are generally suitable for larger, capital market-oriented issuers due to minimum volume and disclosure requirements. A Second Party Opinion (SPO) is typically required to assess robustness and ambition of the sustainability criteria, monitoring, governance, and the management of ESG risks.
- An alternative – also for small companies – are **promissory notes ("Schuldschein")**, a widely used instrument in German-speaking countries that is increasingly applied in other markets. Promissory notes can be placed with banks and institutional investors. As they are not subjected to the same stringent capital market regulations as bonds, they can be accessible to mid-sized companies depending on size and structure.

25 Alongside the financial instruments we presented here, there are also sustainable investment types such as ESG funds and impact investments that channel capital into sustainable companies and projects. However, as these are capital investments and not a direct source of financing for companies, we have not incorporated them in the matrix.

Intended use: Use-of-proceeds vs. flexible instruments

- **Use-of-proceeds instruments** (e. g., green/social loans or bonds) are tied to a contractually defined purpose. Borrowers or issuers are typically required to provide **allocation and impact reporting** on their use of proceeds.

- **Flexible instruments** such as sustainability-linked loans or bonds are not tied to a specific purpose. The company may use the funding for general corporate purposes, but financing terms depend on meeting agreed ESG targets.

TIP:
Use-of-proceeds instruments are well-suited for clearly defined sustainability projects. Ideally, you can demonstrate alignment with recognised standards, like the EU Taxonomy regulation. Flexible instruments are typically better suited when your company needs working capital and already has a sustainability strategy with measurable targets and audited, stable KPIs.

Figure: Matrix of sustainable finance instruments

Notes:
- In many markets, "ESG" is used interchangeably with "sustainability" (e. g., ESG-linked loan).
- Promotional loans are typically tied to a specific purpose, but they may not always carry an explicit sustainability label.
- To date, there is no accepted market standard for transition bonds.

The table below provides an overview of common financing instruments, their respective requirements and guidance on their suitability for different project types.

Finance instruments	Requirements for the company	This is the right choice when
General purpose loans		
The conditions of **sustainability-linked loans** (SLLs) are linked to the borrower's performance against previously defined KPIs. KPIs could be, for instance, GHG emissions, training metrics or an ESG rating. A step-up/step-down system is applied with better interest rates if targets are achieved and poorer rates if they are not.	Banks generally require clearly defined **ESG KPIs and targets,** annual reporting and **external verification.** A sustainability report with audited performance indicators is a very helpful resource. If ESG ratings are part of the terms, the borrower must maintain strong performance on an ongoing basis.	SLLs are suitable for companies that want to improve ESG performance without being tied to a specific project. SLLs can also be suitable for **smaller companies** if they define verifiable targets and frequently track and report ESG KPIs.
General purpose bonds		
Sustainability-linked bonds (SLBs) are the capital market's counterpart to sustainability-linked loans. The **coupon is linked to meeting specific sustainability targets.** Sustainability-linked promissory notes follow a similar logic.	Issuers are required to present **clearly defined KPIs and targets,** report performance regularly and obtain **external verification.** Companies that already publish audited ESG KPIs can use these as a basis. An SPO is required to confirm that targets are ambitious, material, measurable and aligned with market practice.	SLBs are suitable for companies considering the capital market as a financing option and want to position their sustainability strategy **publicly**. A key consideration is reputational risk: Missing targets lead to higher interest, but negative market perception, too. SLBs are typically used for larger volumes (starting **from 100 million euros**) and therefore mainly suitable for **big companies**. Sustainability-linked promissory notes can provide access to institutional investors for companies without public bond market access.

Finance instruments	Requirements for the company	This is the right choice when
Use-of-proceeds loans		
Where a company seeks financing for a clearly defined project, use-of-proceeds instruments, such as **green loans, social loans, promotional loans or specific purpose loans from a sustainability-focused bank** may be appropriate. The loan may **only be used for previously agreed sustainable purposes,** for instance, a solar power plant, energy efficient technologies or sustainable infrastructure. A green mortgage is a special type of green loan dedicated to constructing, refurbishing or acquiring energy-efficient buildings. Social finance projects follow a similar logic and are used, for example, to finance educational facilities or affordable housing. Sustainability loans combine environmental and social categories.	Borrowers generally need to define the **use of proceeds, relevant risks and expected sustainability impact.** Many banks require a Second Party Opinion, either for a single transaction or via a green or social loan framework, covering several transactions. For green financing, **EU Taxonomy-alignment** criteria are often used as a reference. Therefore, companies already reporting in line with the requirements of the EU Taxonomy – voluntarily or for regulatory reasons – are at an advantage. Sustainability-focused banks set their own criteria. Funding, for example from national development banks or the European Investment Bank (EIB) – can only be used according to funding guidelines. Therefore, this type of funding is not very flexible, but usually available at good conditions.	Green or social loans are often already available **from 1 million euros,** making them suitable for **smaller companies** implementing a specific sustainability project. Sustainability-focused banks may also provide financing for smaller amounts and can add value through expertise and networks. If the project qualifies for grants or subsidies, or can be designed to do so, concessional funding can be attractive because it may be partially non-repayable or offered as a low-interest loan. Promotional loans are particularly interesting for SMEs.
Use-of-proceeds bonds		
Green, social, sustainability and transition bonds enable companies to **finance** sustainable projects **via the capital market.** Transition bonds are intended for issuers in high-emission sectors aiming to finance credible transition activities. However, market practice and standards remain less mature. **Sustainable promissory notes** can serve as an alternative for companies without access to the capital market, allowing them to raise capital from institutional investors.	Issuers need to define eligible use of proceeds, risk management and expected sustainability impact, and obtain a **Second Party Opinion.** Ongoing **impact and allocation reporting** is required, demonstrating how proceeds were used and the environmental and social impacts achieved. EU Taxonomy-alignment is a common reference for green bonds. Strong internal sustainability reporting capabilities are an advantage in terms of impact reporting.	These instruments are suitable for companies financing specific sustainability projects and aiming to **position themselves as sustainable issuers in the capital market.** They are generally most relevant for **big companies** issuing volumes of at least **100 million euros.** Promissory notes are an alternative for companies without access to the public capital market. market.[26]

Table: Overview of sustainable finance instruments

26 Promissory notes aren't traditional capital market instruments but are subscribed to by institutional investors and often follow the ICMA market standards (e.g. green bond principles, social bond principles).

Calculating costs, income and financing requirements

The following table provides an overview of potential costs and expected income for a typical sustainable finance project.

Costs and income	Categories and examples
Direct project-related costs Costs directly linked to implementing the financed project (e.g., constructing a wind farm, refurbishing a building, delivering an infrastructure project)	• **Planning and concept development** – e.g., feasibility studies, technical planning, project preparation • **Materials and infrastructure** – e.g., construction materials, machines, technical components, infrastructure • **Construction and installation** – e.g., construction work, assembly, installation of sustainable technologies • **External support** – e.g., legal counsel, engineering and planning firms, environmental assessments • **Permitting and administrative costs** – e.g., inspections, construction permits, environmental assessments, other costs related to approval procedures • **Personnel and training costs** – e.g., project management and coordination, capacity building
Direct project-related income/ savings Income generated directly by the project (e.g., sales of sustainable products, efficiency gains)	• **Revenue from sustainable products and services** – e.g., sales, feed-in of renewable electricity, rental income • **Cost reductions through sustainability measures** – e.g., lower energy and (raw) material consumption, reduced operating costs
Specific financing costs Costs associated with the selected financing instrument (e.g., green bond, sustainability-linked loan)	• **Documentation and ratings –** e.g., ESG ratings (for instance, EcoVadis, ISS, ESG, Sustainalytics, MSCI, S&P) and KPI systems for sustainability-linked products, EU Taxonomy-alignment • **Certification and external reviews** – e.g., management systems, SPO (especially for capital market instruments) • **Due diligence and legal review** – e.g., credit assessment, legal advice • **Transaction costs** – e.g., issuances fees for bonds, administrative fees • **Monitoring and Reporting** – e.g., annual allocation and impact reporting, IT tools for ESG/KPI monitoring • **Investor relations** – e.g., investor presentations, roadshows for bond issuances • **Communications** – e.g., publications, website updates
Specific financing benefits Financial benefits associated with sustainable financing (e.g., preferential terms)	• **Grants and subsidies** – e.g., public financial support for sustainable investments • **Preferential financing terms** – e.g., lower interest margins, pricing benefits for sustainability-linked instruments
Risk buffers	• **Risk buffers** – e.g., for unexpected cost increases (usually around 10% of project costs) or for potential step-ups if targets agreed for sustainability-linked instruments are missed

Table: Guide to calculating financing requirements

TIP:

At the latest at this stage, collaboration with the finance department is vital. A detailed project plan is particularly valuable because it helps identify relevant cost drivers (for example permitting procedures, budgets for external experts or verification requirements). Input from multiple departments is typically required for this step.

A practical approach is to start with project-related costs and income, and then identify the most appropriate financing instrument.

"Your existing sustainability reporting can provide an excellent foundation for the KPIs required for sustainability-linked instruments."

STEP 5:
KPIs AND REPORTING

This section explains the reporting requirements associated with different sustainable finance instruments. Companies are typically required to report regularly – often annually – to lenders or investors on their sustainability performance (for sustainability-linked instruments) or the use of proceeds and the impact achieved (for use-of-proceeds instruments). If your company already publishes sustainability information, you are well positioned, as it gives you a strong starting point.

Two types of indicators are relevant for your sustainable finance project:

- **Financial KPIs** measure the economic performance of the financing. Lenders use these indicators to assess the profitability and risk profile of your project to decide whether financing should be granted and on what terms. For your company, financial KPIs help evaluate the financial benefits of the project and the chosen financing structure compared with conventional financing options. Typical indicators include financing costs (e. g., interest rates and transaction costs) and return on investment (ROI). You also need to take into account cost savings (e.g., energy costs or overheads) or favourable financing terms resulting from sustainable financing instruments.

- **Sustainability KPIs:** For sustainability-linked instruments, these KPIs measure the sustainability performance at company level. For use-of-proceeds instruments, impact indicators verify the environmental and social impact of the financed project.

Your existing sustainability reporting can provide an excellent foundation for the KPIs required for sustainability-linked instruments. If additional data is required that your company does not yet capture systematically, it can often be integrated into existing sustainability reporting cycles.

Which KPIs are relevant for sustainable finance projects?

The type of financing determines which indicators are required: Sustainability-linked instruments require company-level KPIs. Use-of-proceeds instruments require project level indicators demonstrating the sustainability impact of the financed activities.

TIP:
Sustainability-linked instruments usually require external verification of KPIs. Therefore, data quality and documentation must be very robust and are consequently time-consuming. If your company already publishes a sustainability report with audited data, this can significantly simplify the verification process of the KPIs agreed upon with the bank. For financing-related KPIs, reasonable assurance can increase credibility and acceptance among lenders.

Selecting and defining KPIs

KPIs are typically defined together with the bank or lending syndicate. Banks generally follow market standards developed by the Loan Market Association (LMA) or – in case of a bond issuance – the International Capital Market Association (ICMA). LMA and ICMA are industry associations that have developed standards for sustainable finance instruments. Key frameworks are:

- **Green Loan Principles (GLPs)** and **Social Loan Principles (SLPs)** from the Loan Market Association (LMA).
- **Green Bond Principles (GBPs)** and **Social Bond Principles (SBPs)** from the International Capital Market Association (ICMA) or the European Green Bond Standard (EUGBS) in alignment with the EU Taxonomy.
- **Sustainability-linked Loan Principles (SLLPs)** from the LMA and the **Sustainability-linked Bond Principles (SLBPs)** from the ICMA.[27]
- The principles provide guidance for companies, lenders and investors and often serve as a **basis for external verification** by independent bodies, such as Second Party Opinions. Banks may also apply additional ESG criteria or reporting requirements.

27 See:
LMA. (2018). Green Loan Principles. LMA_Green_Loan_Principles_Booklet-220318.pdf.
LMA. (2025). Social Loan Principles. https://www.lma.eu.com/application/files/1816/1829/9975/Social_Loan_Principles.pdf
ICMA. (2021). The Green Bond Principles. Green-Bond-Principles-June-2022-060623.pdf.
ICMA. (2023). The Social Bond Principles. Social-Bond-Principles-SBP-June-2023-220623.pdf.
LMA. (2025). Sustainability-Linked Loan Principles. https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/#
ICMA. (2024). The Sustainability-Linked Bond Principles. Sustainability-Linked-Bond-Principles-June-2024.pdf.

REPORTING REQUIREMENTS BY TYPE OF FINANCING:

Use-of-proceeds instruments[28]

Example: Green bonds, social loans, sustainability bonds
When financing is dedicated to specific environmental activities, the EU Taxonomy regulation is often used as a reference framework. Requirements of the LMA and ICMA principles include:

- **defining eligible use of proceeds,** in particular outlining the eligible activities (e. g., renewable energy projects) and sustainability criteria (e. g., GHG emission thresholds for eligible power plants).
- **definition of suitable indicators** to measure impacts of the financed projects.
- publishing **annual impact and allocation reports.**
- obtaining a **Second Party Opinion** (SPO) on the eligible use of proceeds, governance processes and impact indicators.

Sustainability-linked instruments

Example: Sustainability-linked loans and bonds.
In these instruments, financing terms depend on the company's sustainability performance. The SLLPs and SLBPs therefore define how to set the performance targets and how to monitor whether the company has met the targets. According to the SLLPs[29]/SLBPs[30] borrowers or issuers are required to:

- define **ambitious and transparent KPIs**
- conduct **annual monitoring** whether targets are met
- obtain **external verification of KPIs** (e. g., by an auditor or ESG rating agency)
- provide **regular progress reporting on KPI development** to lenders or investors

Typical indicators for different sustainable finance instruments

The following table provides an overview of the requirements associated with different sustainable finance instruments – including example projects, typical KPIs, reporting requirements and external verification. The table is intended as guidance when selecting and implementing suitable indicators together with the lender or financing partner.

TIP:
The ICMA and LMA's principles (GBPs, SBPs, SLBPs, GLPs, SLLPs) and their detailed requirements are available on the following websites: https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/ and https://www.lma.eu.com/sustainable-lending/resources.

Transition bonds and loans are still relatively uncommon and less standardized than green, social and sustainability-linked instruments. The table does not include sustainability loans and sustainability bonds, which cover both environmental and social aspects and generally follow the requirements of green and social loans or bonds.

28 Each of the principles (GLPs, GBPs, SLPs, SBPs) specify the exact disclosure requirements. You can find more information in the Sustainable Lending Library (LSTA) or directly from the ICMA or LMA.
https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/
https://www.lsta.org/app/uploads/2025/03/LSTA-Sustainable-Lending-Library.pdf

29 See: LMA. (2025). Sustainability-Linked Loan Principles. https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/#

30 See: ICMA. (2024). The Sustainability-Linked Bond Principles. Sustainability-Linked-Bond-Principles-June-2024.pdf

Type of financing	Possible projects	Typical KPIs (SLLs and SLBs) and impact indicators (use-of-proceeds instruments)	Verification/ monitoring	Reporting requirements
Sustainability-linked loans	Transformation projects at company level with defined sustainability targets, e.g., decarbonization, energy efficiency, diversity	• Greenhouse gas emissions (GHG) scopes 1–3 (tonnes CO_2e) • Share of recycled waste (%) • Share of products from recycled or renewable materials (%) • Share of recycled water (%) • Share of EU Taxonomy-aligned investments (in %) • Share of female employees in the workforce / management (%) • Work-related accidents (Lost Time Injury Frequency Rate, LTIFR) • Share of suppliers trained on human rights (%) • ESG rating results	Mandatory, external verification of KPIs and targets achievement (e.g., by an ESG rating agency, technical expert or auditor)	Annual report to the bank on KPI performance, including external assurance
Sustainability-linked bonds				Annual report on KPI performance, including external assurance
Green loans	Environmental projects such as renewable energy, energy efficiency, green buildings or sustainable transport; EU Taxonomy-alignment for the financed activity is often required	• Installed renewable energy generation capacity (MW) • Renewable energy generated (MWh) • GHG emissions avoided (tonnes CO_2e/year) • Share of recycled materials in the final product (%)	External verification recommended, including confirmation of environmental or social impact and transparency on the use of proceeds	Annual reporting on use of proceeds and, where applicable, EU Taxonomy-alignment (for green loans), including indicators on expected and achieved impact
Social loans	Projects with a social impact, such as infrastructure (e.g., water supply, transport, telecommunications), affordable housing, public healthcare	• Number of beneficiaries (e.g., number of people gaining access to affordable housing or to basic infrastructure) • Housing units created		
Green mortgages	Construction of new energy-efficient buildings, refurbishment to increase energy efficiency	• Energy consumption (kWh/m^2) • Building's GHG emissions in kg CO_2e/m^2 • Certificates (e.g., BREEAM, LEED)	External assessment via an energy certificate/energy advisor or external certification	Annual report on use of proceeds and energy performance
Green bonds	Green infrastructure, sustainable transport, circular economy	• Greenhouse gas emissions avoided (tonnes CO_2e) • Energy savings (MWh) • Water savings (in m^3 or % decrease) • Reused or recycled waste (in t or % reduction) • Final or primary energy consumption of buildings (kWh/m^2)	External verification (e.g., a Second Party Opinion) of the bond framework or the legal documents required, which disclose the use of proceeds, the process for selecting the eligible projects, the management of the use of proceeds and reporting	Annual impact and allocation report
Social bonds	Social housing projects, access to education/healthcare	• Number of beneficiaries • Number of units created (e.g., affordable housing, school places, hospital beds) • Passenger-kilometres		
Transition bonds	Transformation projects in high-emission industries, e.g., steel, cement, chemicals	• Greenhouse gas (GHG) reduction pathways • Investments in low-emission technologies	• Validation of Paris-alignment (e.g., by the SBTi) • Guidance from the ICMA Climate Transition Handbook	Progress report on maintaining the transition pathway

Table: Sustainable finance instruments, typical KPIs and reporting requirements

Impact indicators and key performance indicators (KPIs): Choosing the right indicators

When selecting KPIs or impact indicators, consider the following aspects:

1. Alignment with financing instrument

The type of financing determines the appropriate indicators.

- **SLLs and SLBs:** company-wide KPIs (e. g., GHG emissions, diversity in the workforce).
- **Use-of-proceeds instruments (green/social loans and bonds):** project-related impact indicators (e. g., GHG emissions avoided by the project, energy savings).

2. Alignment with ICMA and LMA standards

- For **SLLs and SLBs,** KPIs must meet high standards: They must be derived from the company's sustainability strategy and materiality analysis, be measurable and verifiable and be comparable over time and across the industry ("benchmarkable").[31]
- For use-of-proceeds instruments, LMA and ICMA guidance on impact indicators can provide useful orientation. Reviewing impact and allocation reports of other companies or issuers can also provide valuable insight.

3. Alignment with regulatory frameworks

- For **SLLs and SLBs,** select KPIs aligned with your sustainability strategy and based on existing, reliable data with a consistent history. Also, KPI development should be within the company's control via sustainability measures.
- For green use-of-proceeds instruments, threshold defined in the EU Taxonomy can help define appropriate impact indicators.

31 See: LMA. (2025). Sustainability-Linked Loan Principles. https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/# and: ICMA. (2024). The Sustainability-Linked Bond Principles. https://www.icmagroup.org/assets/documents/Sustainable-finance/2024-updates/Sustainability-Linked-Bond-Principles-June-2024.pdf

TIP:

For sustainability-linked instruments, it is often helpful to align KPIs with reporting standards such as the European Sustainability Reporting Standards (ESRS), the IFRS-S or GRI. Using existing reporting structures reduces additional data collection and ensures that KPIs are based on externally verified information.[32]

Monitoring KPIs

Once KPIs have been defined, they must be monitored and reported regularly. For most sustainable finance instruments, annual reporting is sufficient. However, internal monitoring – for example on a quarterly basis – is recommended for sustainability-linked instruments, since financing conditions depend directly on your KPI performance. Regular monitoring allows you to identify deviations early and to take corrective action quickly if targets are not on track.

Similarly to regulatory sustainability reporting, reporting of your sustainable finance KPIs requires close cooperation between the sustainability and finance teams. Typically, **sustainability management** develops the project, defines the relevant frameworks, KPIs or impact indicators, and prepares sustainability reporting for lenders and investors. **Finance and financial reporting teams** ensure that data is collected, verified and reported in accordance with the bank's requirements or capital market regulations.

"Companies subject to regulations, such as the CSRD or EU Taxonomy, or with voluntary sustainability reports can use this information as a basis for sustainable finance projects."

32 See: United Nations Research Institute for Social Development. (year not specified). SDPI Online Platform. https://sdpi.unrisd.org/

SUMMARY
SUCCESS BY STRUCTURE AND IMPACT

Even for SMEs and small corporations, sustainable finance is a viable option, if certain conditions are met. Thorough preparation and a structured approach – from defining targets to selecting suitable financial instruments to the selection of appropriate KPIs – are pivotal to a project's success. The Sustainable Finance Canvas provides structured guidance. It helps to ask the right questions, gather relevant information and present your project in a convincing way. The tool supports both internal decision makers and external financing partners.

Combining sustainability impact with a clear business case is the key to success. In this way, sustainability can open new financing opportunities and strengthen resilience. Companies subject to regulations, such as the CSRD or EU Taxonomy, or with voluntary sustainability reports can use this information as a basis for sustainable finance projects. In this case, teamwork between the sustainability management and finance departments is vital.

This publication's purpose is to encourage you to take the first step. It shows that a large sustainability department isn't necessary to make a real contribution and secure the necessary financing.

APPENDIX 1
CASE STUDIES

The following case studies provide insights into specific sustainable finance projects and highlight key challenges as well as lessons learned during implementation.

- **Case Study 1: BNP Paribas – sustainability-linked loan**
- **Case Study 2: Hamburger Hochbahn – green financing**
- **Case Study 3: Wagenborg and ING – sustainability-linked loan**
- **Case Study 4: Ahold Delhaize – green bond**
- **Case Study 5: ASM – sustainability-linked revolving credit facility**

The case studies illustrate the factors that supported or hindered the implementation of sustainable finance projects and provide practical solutions. They highlight different financial instruments and demonstrate how sustainable finance can help implement forward-looking projects.

We invite you to take inspiration from these case studies. Perhaps one of the projects presented will encourage you to take the next step in your company.

CASE STUDY 1:
BNP Paribas – sustainability-linked loan

Financing overview

- General corporate financing structured as sustainability-linked loans totalling €150 million
- KPIs and targets agreed: Reduction of GHG emissions (scope 1 and 2), reduction of GHG emissions (scope 3), reduction of work-related accidents (excl. commuting accidents)
- Annual report on target achievement with external verification (at least limited assurance)

The Sustainable Finance Canvas – BNP Paribas

1 Starting point

1.1 Problem overview

Key sustainability challenges:

- Social risks in the supply chain and workforce
- Decarbonisation
- Biodiversity

1.2 Project idea

General corporate financing linked to sustainability

- Helps to finance the borrower's rising raw-material prices
- The next step towards a sustainable business model underpinned by ambitious goals

1.3 Market overview

- Review market practices of sustainability-linked loans or sustainable promissory notes
- Embed sustainability in the strategy as well as internal and external communications

2 Value proposition

2.1 Impact and target groups

- Social impact on employees and workers in the supply chain
- Transition to a climate-neutral business model in the mid term while reflecting the needs of suppliers, employees, customers and corporate clients
- Decarbonisation of direct and indirect greenhouse gas (GHG) emissions (scopes 1 to 3)
- Promoting biodiversity in the supply chain

2.2 Financial benefit

- Helps finance increased working capital needs due to rising raw material prices
- Harmonising loan agreements
- Closer integration of finance, sustainability and financial reporting functions

3 Project implementation and collaborators

3.1 Stakeholders and resources

- Management board, finance & treasury, sustainability, HR, financial reporting, auditing and purchasing depts.
- Improve internal coordination, strengthen strategy and secure financing

3.2 Timeline

- Identify financing needs
- Term sheet stage
- Define KPIs and sustainability performance targets
- Loan agreement negotiation
- Closing and signing

3.3 Risks and barriers

- Overly tight timelines
- Insufficient granularity and quality of ESG data
- Goals not ambitious enough and greenwashing risk
- Lack of project management

→ *Tip: Appoint an ESG coordinator to mitigate these risks*

4 Financial structure and instruments

- A sustainability-linked loan enables flexible use of financing without a specified use of proceeds
- Compared to bonds or promissory notes, loans offer greater flexibility if capital requirements change

5 KPIs and reporting

- Three KPIs: Cutting carbon emissions for scopes 1, 2 and 3, reducing accidents at work (excluding commuting accidents)
- Annual reporting with external verification at least at a limited assurance level

→ *Tip: Choose suitable KPIs based on groundwork and external requirements (investors, standards), clarify and prepare availability of data and ensure an adequate level of ambition*

Starting point and targets

The borrower aimed to gain greater financial flexibility in response to potentially rising commodity prices and to strengthen its financial planning. At the same time, the core banking group was being consolidated, and loan agreements were harmonised. The overall objective was to transition towards a climate-neutral business model in the medium term while reflecting the needs of suppliers, employees and clients. The financing was also intended to embed the sustainability strategy more firmly within the company's overall strategy.

Project pathway and success factors

Key sustainability challenges included social aspects of the supply chain and workforce, decarbonization and biodiversity. A reliable ESG database, transparent processes and efficient project management were critical success factors – both within the company's finance department and in coordination with the lead bank. Key challenges included milestones that were sometimes scheduled too closely together and insufficient granularity in ESG data.

COMPANY PROFILE

Industry: Financial services/banking

Size: 178,000 employees worldwide (2024)

Location: Headquarters in Paris, France

Brief profile: BNP Paribas is a leading European financial services provider operating in 64 countries. It offers services across three main divisions: Corporate & Institutional Banking, Commercial, Personal Banking & Services, and Investment & Protection Services. Sustainability is a strategic priority and includes initiatives related to climate transition and responsible business practices.

Recommendations

- → Ensure close coordination between the management board and the finance & treasury, sustainability, HR, financial reporting, audit and procurement before the project begins
- → Establish a project management office (PMO) structure within the company, ideally under with finance & treasury's being in the lead
- → Ensure robust data management, covering both financial and ESG data
- → Avoid overly tight milestone planning
- → Appoint an ESG coordinator within the banking group

CASE STUDY 2:
Hamburger Hochbahn AG – green financing

Financing overview

- A range of green finance instruments (green bonds, green promissory notes, green registered bonds) with a total issuance volume of €800 million.
- The financing will be used to modernise the existing subway system, purchase new vehicles, electrify the bus network with new charging technology, and expand customer services including the "hvv switch" platform.
- Various KPIs are used to measure the project's impact (e.g., kilometres travelled per person, avoided emissions, number of service users) and have been reported annually since 2023 in the Integrated Green Finance Allocation and Impact Report.

The Sustainable Finance Canvas – Hamburger Hochbahn AG

1 Starting point

1.1 Problem overview

Demand for sustainable mobility projects to support the transition to climate-neutral transport in Hamburg

1.2 Project idea

Financing three project clusters:

- Modernisation of the subway network and procurement of new trains
- Electrification of the bus network (e-buses, charging technology, depots)
- Passenger services (e.g. digital mobility platform)

1.3 Market overview

Research on sustainable finance projects comparable with relevant companies, e.g.:

- The RATP Group (France)
- Transport for London (UK)
- MTR Corporation (Hong Kong)

2 Value proposition

2.1 Impact and target groups

Impact:

- Contributes to achieving urban and company-wide climate targets
- Makes the integrated public transport system and the associated modal shift more attractive
- Electrification of the fleet

Contributes to SDGs 7, 8, 9, 11, 13

Target groups:

- Environment
- Citizens
- Industry

2.2 Financial benefit

- Applying a sustainable business model and strong ESG performance enables access to new investor groups, supports strong order books and therefore leads to favourable financing conditions
- New business relationships can be leveraged directly for subsequent funding of projects

3 Project implementation and collaborators

3.1 Stakeholders and resources

- Internal: Financing, financial reporting, sustainability management, legal depts.
- At an urban level: Politicians, financial affairs authority, transportation authority
- External: ESG rating agencies, SPO providers

3.2 Timeline

Typically, the process takes between 1 and 6 months, depending on experience with green emissions and existing documents (particularly the Green Finance Framework)

3.3 Risks and barriers

Bonds may be less attractive to (institutional) investors if they are not included in an index

→ *Tip: If the bond is not well known on the market, ensure a minimum issuance volume so that it is included in the bond index, which increases visibility and attractiveness*

4 Financial structure and instruments

A range of green finance instruments (green bonds, green promissory notes, green registered bonds) and funding loans in 2021 and 2023 with an issuance volume of €800 million

5 KPIs and reporting

- Impact is measured based on the following impact KPIs: Greenhouse gas and air pollutant emissions (nitrogen oxides, sulphur dioxide, particulate matter) prevented through modal shift (from cars to integrated public transport system) and electrification of network
- Annual publication of an impact report (Integrated Green Finance Allocation and Impact Report 2021–2023)

Starting point and targets

The project focused on financing the transition to sustainable mobility in Hamburg while enabling the company to achieve its own climate targets and contribute to the city's climate goals as part of Hamburg's Climate Action Plan. The goal was to take an integrated approach to sustainability and embed it firmly in business processes. It was expected that sustainable business models would be rewarded by the capital market driven by strong investor demand.

Project pathway and success factors

The close working relationship between the sustainability management, finance departments and the bank was the project's key success factor. The initiative was supported by a project management team. Good ESG reporting and data management delivered clear benefits in terms of pitches to investors, ESG ratings and the second party opinion.

COMPANY PROFILE

Industry: Public transport

Size: More than 6,900 employees (2024)

Location: Hamburg

Brief profile: Hamburger Hochbahn AG is one of the leading public transport organisations in Germany and considers itself a pioneer of sustainable urban transport. It focuses on providing reliable and attractive transport for all. With zero-emission vehicles, sustainable procurement and environmentally friendly infrastructure, sustainability lies at the heart of its operations.

Recommendations

→ Select the appropriate financial instrument (including the reporting required) at an early stage
→ Ensure professional project management
→ Hamburger Hochbahn AG's existing ratings enabled investors to reduce the time required for due diligence, which facilitated faster alignment between investors and the issuer.

CASE STUDY 3:
Wagenborg and ING – sustainability-linked loan

Financing overview

- Converting short sea operator Royal Wagenborg's general corporate financing into a sustainability-linked loan
- ING supported Wagenborg as Sole Sustainability Coordinator with identifying KPIs and targets, presenting the structure to other lenders (ABN AMRO & Rabobank) and incorporating this into the legal agreement
- KPIs: GHG emission (scope 1 and 2) intensity reduction, workplace accidents reduction, retention of workforce increase
- Annual reporting on KPIs with external verification

The Sustainable Finance Canvas – Wagenborg & ING

1 Starting point

1.1 Problem overview

Sustainability challenges:

- Decarbonization
- Social aspects in the supply chain and workforce
- Data security & privacy

1.2 Project idea

General corporate financing with a sustainability focus

- Link the sustainability performance and strategy to the financial structure
- Assess whether the sustainability strategy is based on measurable and ambitious goals

1.3 Market overview

- Peer analysis on Maritime sector and overarching goals set out by International Maritime Organization (IMO)
- Anchor the sustainability strategy and internal and external communication (corporate image)

2 Value proposition

2.1 Impact and target groups

Decarbonization in line with IMO targets to become a climate neutral company in 2050.
Decarbonization of 40 % by 2030.

Social impact on own employees and the supply chain workforce (30 nationalities)

- Strive towards zero accidents
- Offer security for employment (retention)
- Equal opportunities, regardless of age, sex or nationality (diversity)

Code of conduct for employees and partners (corporate culture)

2.2 Financial benefit

- Energy efficiency and innovation leads to lower operational costs
- Sustainable shipping is a distinguishing factor in tenders for governments and large corporates
- Less accidents lead to higher productivity and lower costs of absenteeism
- Higher retention rates correspond with a well-integrated workforce
- Diverse teams increase problem-solving capacity
- CoC is considered hygiene factor in way of working

3 Project implementation and collaborators

3.1 Stakeholders and resources

- Finance & Treasury, Sustainability, Human Resources (HR), Controlling, (ESG) Audit
- Optimizing internal and external coordination, further developing the strategy, securing financing

3.2 Timeline

- Identifying the targets and KPIs of the sustainability-linked loan
- Loan agreement negotiation together with all banks
- Closing and signing

3.3 Risks and barriers

- Inadequate quality of ESG data
- Scope to which KPIs apply (can differ from ESG report)
- Insufficiently ambitious goals and greenwashing risk
- Banks not aligned on ESG target setting

→ *Tip: Involve the sustainability coordinator at an early stage to minimize the risks mentioned.*

4 Financial structure and instruments

- Sustainability-Linked Loan, enabling flexible financing without predetermined purpose
- Loan offers greater flexibility in response to changes in capital requirements than alternative instruments such as bonds or "use of proceeds" loans such as green loans

5 KPIs and reporting

- Three KPIs: CO_2 intensity reduction for Scope 1 and 2 (in line with IMO Guidelines), reduction of workplace accidents and increase workforce retention. Annual reporting with limited assurance.
- Diversity and Code of Conduct not included in KPI's as they are considered less material and CoC is considered a hygiene factor (Business as Usual)

→ *Tip: Select suitable KPIs based on preliminary work and external requirements (IMO and peer analysis), clarify and prepare data availability and ensure a high level of ambition.*

Starting point and targets

Wagenborg – Europe's largest short sea operator, with over 160 general cargo vessels and HQ in Delfzijl, the Netherlands – indicated their wish to align financing with their sustainability strategy. With the dual purpose to unite internal functions behind shared ESG KPIs and deliver positive margin benefits. Wagenborg has a strong track record in sustainability, striving through innovation and strategy towards a sustainable future for people and planet. Sustainability reports are publicly available and in line with International Maritime organization (IMO) and EU guidelines.

Project pathway and success factors

Close collaboration between Wagenborg and ING was a key success factor in this project. The sustainable strategy was challenged based on peer analysis and guidelines on SLL and of the IMO. Deeper understanding of the challenges for the Maritime sector, and for Wagenborg specifically, led to a set of material KPIs in line with IMO Guidelines and the Corporate Sustainability Reporting Directive (CSRD). Next, the ambition level for each KPI was calibrated to ensure ambitious but realistic target setting.

Finally, Wagenborg and ING as the Sustainability Coordinator sought approval of all lenders via a lenders meeting. During the meeting, KPI materiality based on Wagenborg's Double Materiality Assessment and external benchmarks was showcased. Target levels of KPIs, as well as unselected KPIs were discussed. All lenders agreed to proposed KPIs and targets.

COMPANY PROFILE

Industry: Financial Industry/Banking

Size: 60.000+ employees globally (2024)

Location: Amsterdam, the Netherlands

Brief profile: ING offers retail and wholesale banking services globally. Our purpose is to empower people to stay a step ahead in life and in business. We aim to be a banking leader in building a sustainable future.

We integrate sustainability into financing through green loans and bonds, and other innovative products such as the Sustainability Linked Loan, which we pioneered in 2017.

ING recognizes that the transition to a low-carbon economy is underway and that both financial institutions and their clients are navigating this shift. While the bank finances sustainable activities, it still finances more activities that are not sustainable, reflecting the current pace and constraints of the real-economy transition.

Which key insights did the project yield?

The importance, but challenge of remaining a steady course whilst staying flexible to fit a company's sustainability strategy with the everchanging dynamics of legislation, commodity prices, tariffs, innovation and the like.

Recommendations

Which recommendations would you give to companies that want to implement a similar project?

- → Invest in one or more deep-dive sessions to understand the company's core business and its role of within its sector and environment.
- → Involve and inform all stakeholders of the intention to structure a sustainability-linked loan as early as possible to ease alignment across parties.

CASE STUDY 4:
Ahold Delhaize – green bond

Financing overview

- Form of financing: Green Bond
- Issue volume and timing: € 500 million, issued in March 2024. The bond matures in March 2031, issued under the 2023 Green Finance Framework.
- Use of proceeds: Funds will finance or refinance eligible green projects across five categories: green buildings, energy efficiency, renewable energy, clean transportation, and pollution prevention and control.
- Allocation status (latest report): As of December 29, 2024, € 364 million (73 %) of the proceeds were allocated, with the largest portions directed to green buildings and energy efficiency.
- Features: Structured in accordance with the ICMA Green Bond Principles (2021) and LMA Green Loan Principles (2023). Governance is overseen by a Green Finance Committee.

The Sustainable Finance Canvas – Ahold Delhaize

1 Starting point

1.1 Problem overview

- Ambitious transition plan to reduce emissions requires significant investments in clean, low-emissions and zero-emissions technologies.
- Sustainable financing is critical to fulfilling the net-zero by 2040 commitment for own operations.

1.2 Project idea

Secure capital to finance and/or refinance new or existing Eligible Green Projects in five categories:

- Green buildings
- Energy efficiency
- Renewable energy
- Clean transportation
- Pollution prevention and control

1.3 Market overview

Ahold Delhaize was the first retailer to issue a euro-denominated Sustainability Bond in 2019, positioning itself as an early mover in sustainable finance.

Since then, major international peers and large-scale retailers have issued green and sustainability-linked bonds. The 2024 green bond issuance reinforces Ahold Delhaize's leadership role.

2 Value proposition

2.1 Impact and target groups

- Project reduces or avoids GHG emissions across the company's vast real estate and logistics network.
- Investments, such as those in low-emission refrigeration systems and energy-efficient buildings (e.g., EPC A or BREEAM Excellent), contribute to the environmental pillar of the 'Growing Together' strategy.
- Initiative helps accelerate the transition toward more sustainable food systems and supports several UN Sustainable Development Goals (SDGs 7, 9, 11, and 12).

2.2 Financial benefit

- Alignment of the company's funding strategy to its sustainability strategy is crucial for maintaining corporate reputation and long-term brand value.
- Accelerated implementation of necessary energy efficiency and decarbonization investments, which in turn reduces long-term operational costs and enhances the resilience of the business against future climate transition risks.
- Green bond serves to diversify our investor base by attracting ESG-focused investors.

3 Project implementation and collaborators

3.1 Stakeholders and resources

Successful implementation requires coordination between finance, treasury, sustainability, and real estate/operations. The Green Finance Committee evaluates and tracks Eligible Green Projects. The Green Finance Framework is developed with the Second Party Opinion provider and investor input, and external assurance on the Allocation Report is provided by the auditor.

3.2 Timeline

The project is structured around three phases:

1. Drafting of the Green Finance Framework (incl. SPO).
2. Green Bond issuance.
3. Ongoing allocation and reporting phase until full allocation.

3.3 Risks and barriers

Key risks relate to project tracking and the quality of ESG impact data for the allocated proceeds. These risks are mitigated by embedding green finance processes into existing reporting and ESG processes and by involving ESG and finance leaders in the Green Finance Committee.

4 Financial structure and instruments

The core financing instrument used for this project is the green bond, with an issuance volume of €500 million. The financing requirement is to secure capital for Eligible Green Projects, ensuring the equivalent net proceeds are used to fund or refinance both new and existing capital expenditures that align with the rigorous environmental criteria set out in the Green Finance Framework (GFF).

The structure is explicitly based on the ICMA Green Bond Principles (2021), with the allocation governed internally by the Green Finance Committee. As of late 2024, €364 million of the total proceeds have already been allocated to the pre-defined green CapEx portfolio.

5 KPIs and reporting

Investor reporting requirements are fulfilled annually through an Allocation and Impact Report that details both the allocation of proceeds and the corresponding environmental impact. This reporting process is maintained until full allocation is reached and includes independent 'Limited Assurance' from external auditors on the Allocation Report, in line with market standards, to ensure maximum transparency.

The impact of the green bond is measured via specific Key Performance Indicators (KPIs) or impact metrics, including the expected or achieved GHG emissions reduced/avoided (tCO2e), the energy efficiency gains achieved (MWh), and the renewable energy capacity installed (MW).

Starting point and targets

The project was initiated to finance Ahold Delhaize's transition plan to reduce emissions by achieving Net-Zero Scope 1 & 2 emissions by 2040. The core objective was to use a dedicated Green Bond (€500M) to secure capital for eligible green projects, ensuring capital allocation aligns with the new mission: "Inspiring everyone to eat and live better, for a healthier future for people and planet."

Project pathway and success factors

The project's success was fundamentally driven by the thoroughness of the Green Finance Framework (GFF) and the seamless collaboration achieved between the internal finance department and sustainability teams. This internal governance was crucial, as it helped to accelerate key investments, overcome the complexities of global data collection, and ensure the integrity of the "green" use of proceeds. The market response validated the strategy, confirming a strong investor appetite for green financing linked to tangible, measurable environmental outcomes, which served as a crucial internal mechanism to accelerate investments in energy efficiency and reinforce commitment to the net-zero transition.

COMPANY PROFILE

Industry: Global Food Retail and E-commerce

Size: Approximately 393,000 associates; 9,400 stores worldwide (Dec. 2025)

Location: Headquarters in the Netherlands (Koninklijke Ahold Delhaize N.V.)

Brief profile: Ahold Delhaize is one of the world's largest food retail groups. We are a leader in supermarkets and e-commerce, and a company at the forefront of sustainable retailing. We are a family of great local brands that share a passion for delivering great food, value and innovations, and for creating inclusive workplaces that provide rewarding professional opportunities.

Recommendations

→ For companies looking to implement a similar sustainable finance project, Ahold Delhaize recommends establishing a robust GFF that is explicitly aligned with both the ICMA Principles and SBTi targets. Furthermore, success hinges on securing strong internal collaboration across multidisciplinary teams to guarantee continuous data flow and allocation. Finally, it is imperative to prioritize transparency in the CapEx allocation and the related sustainable target reporting.

CASE STUDY 5:
ASM – sustainability-linked revolving credit facility

Financing overview

- Form(s) of financing: Sustainability-linked Revolving Credit Facility (RCF).
- Issue volume and timing: Multi-year committed facility for general corporate purposes.
- Reporting format and frequency: Annual public KPI verification, aligned with internal ESG governance and lender requirements
- KPIs and/or use of proceeds: Targets for Scope 1, 2 & 3 emissions (SBTi-aligned), reusable crating adoption rate, and gender diversity (company-wide & sub-board).
- Special features: Interest margin mechanism directly linked to annual performance against these sustainability KPIs.

The Sustainable Finance Canvas – ASM

1 Starting point

1.1 Problem overview

- ASM needed flexible, cost-efficient liquidity to support global operations and long-term growth strategy in a capital-intensive, highly cyclical semiconductor market.
- At the same time, the company wanted to embed sustainability into financial decision-making beyond compliance-driven disclosures.

1.2 Project idea

Align ASM's revolving credit facility with the corporate "Accelerate Sustainability" ambition by linking financing costs to progress on a limited set of material sustainability metrics (KPIs), embedded into the interest margin.

1.3 Market overview

External benchmarking especially played an important role in KPI design and aligning climate-related targets with recognized frameworks such as the Science Based Targets initiative

2 Value proposition

2.1 Impact and target groups

Linking financing costs to progress on material sustainability priorities:

- Climate action via SBTi-aligned decarbonization pathways for Scope 1, 2, and 3
- Circularity via increased adoption of reusable crating solutions
- Social impact via improved female representation across the company and at sub-board levels

2.2 Financial benefit

- Creating a tangible financial incentive for sustained sustainability progress by embedding KPIs into the interest margin of the revolving credit facility.
- Signaling to lenders and stakeholders that sustainability performance is integral to long-term value creation.

3 Project implementation and collaborators

3.1 Stakeholders and resources

- Close collaboration between Treasury and Sustainability, with early and transparent engagement of relationship banks.
- Governance with defined roles and responsibilities across functions to support consistent implementation and credibility over time.

3.2 Timeline

Developed as part of a broader multi-year initiative to embed sustainability across the organization (governance, processes, decision-making).

3.3 Risks and barriers

- Key obstacle: varying maturity of underlying data, especially Scope 3 emissions and circularity metrics.
- Required alignment on definitions, methodologies, data ownership, and internal controls.

4 Financial structure and instruments

Sustainability-linked revolving credit facility with an interest margin mechanism linked to selected sustainability KPIs

5 KPIs and reporting

KPIs:
- Scope 1, 2, and 3 decarbonization (SBTi-aligned)
- Reusable crating adoption
- Female representation (company-wide and sub-board levels).

Emphasis on auditable, decision-useful KPIs supported by definitions, methodologies, data ownership, and internal controls.

Starting point and targets

ASM sought to secure flexible and cost-efficient liquidity to support its global operations and long-term growth strategy in a capital-intensive market. At the same time, the company aimed to further embed sustainability into its financial decision-making, moving beyond compliance-driven transparent disclosures toward mechanisms that actively incentivize performance. The treasury function was therefore seen as a strategic lever to reinforce the company's sustainability ambitions rather than a standalone financing activity.

The objective of the project was to align ASM's revolving credit facility with its corporate "Accelerate Sustainability" ambition by directly linking financing costs to progress on a limited number of material sustainability metrics. These metrics reflect core strategic priorities for the company: climate action through Science Based Targets initiative (SBTi) aligned decarbonization pathways for Scope 1, 2, and 3 emissions, circularity through the increased adoption of reusable crating solutions, and social impact through improved female representation both across the company and at sub-board levels.

COMPANY PROFILE

Industry: Semiconductor equipment manufacturing

Size: Large, listed (Euronext Amsterdam)

Location: Headquarters in Almere, Netherlands (Global operations)

Brief profile: ASM International is a leading supplier of semiconductor process equipment. Sustainability is embedded in its "Growth through Innovation" strategy, focusing on Net Zero by 2035, circular economy, and diversity to drive long-term value for customers and society.

By embedding these key performance indicators into the interest margin of the revolving credit facility, ASM aimed to create a tangible financial incentive for sustained progress, strengthen internal accountability, and signal to lenders and other stakeholders that sustainability performance is integral to the company's long-term value creation. The structure supports continuous improvement over time and demonstrates how sustainability and finance can be mutually reinforcing when strategically aligned.

Project pathway and success factors

The project was developed as part of ASM's broader multi-year initiative to embed sustainability across the organization, ensuring that sustainability considerations are structurally integrated into governance, processes, and decision-making rather than treated as a standalone topic. From the outset, success relied on close and sustained collaboration between Treasury and Sustainability, as well as early and transparent engagement with relationship banks. This cross-functional approach was essential to translate strategic sustainability ambitions into a financing structure with clear, auditable, and decision-useful KPIs.

A key challenge during the project was the varying maturity of underlying data, particularly for Scope 3 greenhouse gas emissions and circularity-related metrics such as reusable crating adoption. These areas required alignment on definitions, methodologies, data ownership, and internal controls to ensure consistency and credibility over time. Establishing clear governance, including defined roles and responsibilities across functions, helped address these challenges and supported effective implementation.

External benchmarking played an important role in KPI design. By aligning climate-related targets with recognized frameworks such as the Science Based Targets initiative and leveraging best practices observed in sustainability-linked financing, ASM ensured that the selected KPIs were both ambitious and credible from a lender perspective. The structured collaboration and embedding approach ultimately enabled successful integration of sustainability KPIs into the revolving credit facility and strengthened internal alignment between sustainability strategy and financial execution.

Recommendations

- → Companies considering sustainability-linked financing should start by selecting a limited number of material KPIs that are clearly linked to corporate strategy and long-term value creation. KPIs should focus on areas where the company can demonstrate both ambition and credible execution, rather than attempting to cover a broad set of topics with limited data maturity. A smaller, well-defined KPI set supports clarity, comparability, and effective internal ownership.
- → Early and close collaboration between Treasury, and Sustainability is critical. Joint ownership from the outset helps ensure that sustainability objectives can be translated into financing structures that meet lender expectations while remaining operationally feasible. Engaging relationship banks early in the process allows for alignment on KPI design, ambition levels, verification approaches, and potential challenges, reducing friction during implementation and negotiation.
- → Investment in data quality, governance, and internal controls is essential, particularly for climate-related metrics such as Scope 3 emissions and for social indicators that require consistent definitions across regions and business units. Clear accountability, standardized methodologies, and regular internal review processes strengthen credibility with external stakeholders.
- → Finally, companies should ensure that sustainability-linked KPIs are designed to drive long-term transformation rather than short-term optimization. Targets should reflect multi-year progress aligned with recognized frameworks and strategic priorities, reinforcing sustainability as an integral component of financial and operational decision-making rather than a reputational exercise.

APPENDIX 2
CHECKLIST FOR IMPLEMENTING A SUSTAINABLE FINANCE PROJECT

1

STARTING POINT AND PROJECT IDEA

- [ ] Outline the sustainability challenge as specifically as possible, focusing on the underlying problem rather than on abstract goals or symptoms
- [ ] Explain its relevance for the company, supported by data, analyses or a clear causal link
- [ ] Select the activity that contributes to addressing the challenge
- [ ] Link the project to the materiality analysis, sustainability strategy and the EU Taxonomy
- [ ] Identify initial targets or KPIs
- [ ] Conduct a market comparison with similar projects (e.g., through online research, reports or consulting your bank)
- [ ] Prepare relevant project documents (e.g., strategy papers, stakeholder analysis, transition plan)

2

VALUE PROPOSITION

- [ ] Substantiate the sustainability impact using recognised frameworks (e.g., EU Taxonomy, SDGs)
- [ ] Define target groups that benefit directly or indirectly from the project
- [ ] Describe environmental and social benefits
- [ ] Identify financial benefits (e.g. cost savings, favourable interest rates, grants)
- [ ] Prepare a pitch for senior management and lenders or investors
- [ ] Link sustainability impacts with the business case

3

IMPLEMENTATION, COLLABORATORS AND TIMELINE

- Identify and involve relevant stakeholders (internal, external and supporting organisations)
- Discuss resource requirements (personnel, financial resources and expertise) at an early stage
- Define project phases and milestones realistically
- Factor in time buffers and dependencies (e.g. approvals, external verifications)
- Identify and document risks systematically (operational, financial, regulatory or reputational)
- Prepare a risk matrix and involve financial reporting and internal audit

4

FINANCIAL STRUCTURE AND INSTRUMENTS

- Review internal and alternative sources of financing (reserves, equity, grants)
- Select an appropriate financial instrument (loan vs. bond, use-of-proceeds vs. sustainability-linked instruments)
- Take requirements such as EU Taxonomy alignment or ESG KPIs into account
- Prepare a green or social loan/bond framework where necessary
- Systematically list project costs, expected income and savings, financing costs and reserves
- Calculate total financing needs and discuss them with the finance department

5

KPIs AND REPORTING

- Define relevant KPIs or impact indicators depending on the type of financing
- Consider external verification requirements and market standards (e.g., ICMA, LMA)
- Build on existing sustainability data when defining KPIs
- Establish internal responsibilities and reporting processes
- Establish a monitoring process (at least annually; more frequently for sustainability-linked instruments to allow timely corrective action)
- Integrate reporting into existing reporting cycles and link it to regulatory reporting requirements

LIST OF ABBREVIATIONS

BREEAM	Building Research Establishment Environmental Assessment Method
CapEx	Capital Expenditures
CBAM	Carbon Border Adjustment Mechanism
CFO	Chief Financial Officer
CSDDD	Corporate Sustainability Due Diligence Directive
CSO	Chief Sustainability Officer
CSRD	Corporate Sustainability Reporting Directive
ECB	European Central Bank
EFRAG	European Financial Reporting Advisory Group
EIB	European Investment Bank
ESG	Environmental, Social and Governance
ESRS	European Sustainability Reporting Standards
EUDR	EU Deforestation Regulation
EUGBS	EU Green Bond Standard
GBPs	Green Bond Principles
GHG	Greenhouse gas
GLPs	Green Loan Principles
GRI	Global Reporting Initiative
HR	Human Resources
ICMA	International Capital Market Association
IFRS	International Financial Reporting Standards
ISS	Institutional Shareholder Services Inc.
KPI	Key Performance Indicator
LEED	Leadership in Energy and Environmental Design
LMA	Loan Market Association
LSTA	Sustainable Lending Library
LTIFR	Lost Time Injury Frequency Rate
MSCI	Morgan Stanley Capital International
MW/MWh	Megawatt/megawatt hour
MWel	Megawatt of electricity
OpEx	Operating Expenditures
PMO	Project Management Office
R&D	Research and Development
ROI	Return on Investment
S&P	Standard & Poor's
SBPs	Social Bond Principles
SBTi	Science Based Targets Initiative
SDGs	Sustainable Development Goals
SF	Sustainable Finance
SFDR	Sustainable Finance Disclosure Regulation
SLB	Sustainability-Linked Bond
SLBPs	Sustainability-Linked Bond Principles
SLLPs	Sustainability-Linked Loan Principles

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Global Compact
Network Germany

Concept development and editorial staff
Alexander Kraemer | UN Global Compact Netzwerk Deutschland e. V.
Jan Hermanns | UN Global Compact Netzwerk Deutschland e. V.
Simon Sommer | :response
Jan Kortler | :response
Marten Deuter | :response

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Angelika Pohl

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HJM Technical Translations

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The UN Global Compact and the UN Global Compact Network Germany

The United Nations Global Compact is the world's biggest corporate sustainability and corporate social responsibility initiative. Underpinned by its 10 universal principles and 17 sustainable development goals (SDGs), its vision is to create an inclusive and sustainable global economy to the benefit of everyone. Over 24,000 companies and organizations have already signed the UN Global Compact and help to realise its global vision. The UN Global Compact Network Germany (UN GCD) is one of the biggest of the UN Global Compact's 65 local networks. Currently, it has more than 1,350 members – of which approx. 1,300 are companies, ranging from ones listed on the DAX to small and medium-sized enterprises (SMEs) and companies commonly referred to as Mittelstand in German that fall between the two. It also has 60 representatives from civil society, scientific and political spheres. The UN GCD's goal is to trigger change processes in companies and embed sustainability in strategies. During this process, it follows the UN Guiding Principles on Business and Human Rights.