ESG CHALLENGE

Pulp, paper and palm oil giant RGE plans 'significant' pivot to sustainability-linked loans

It recently secured 2 SLLs worth a total of US$1.65b; such financing helps to sharpen the group's ESG focus, says its president

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THE region's urgent transition to a cleaner economy has seen sustainability-linked loans (SLLs) flourish in the past year.

Issuances in Asia-Pacific excluding Japan were up a record 332 per cent year on year, chalking up US$21 billion from 49 deals in 2021, Bloomberg data showed.

Resource-based manufacturing giant Royal Golden Eagle (RGE) is among Singapore-based corporates that have recently tapped into such financing, securing 2 SLLs worth a total of US$1.65 billion.

The first was a US$750 million loan for its palm oil business last October, followed by a US$900 million loan for its pulp, paper and forestry business in December.

"This is just the beginning. We will be moving a significant majority of our financing towards SLLs," RGE president Tey Wey Lin told *The Business Times*.

Unlike green loans, SLL proceeds can be used for general corporate purposes so long as the borrower meets a set of predetermined sustainability targets.

The borrower is rewarded with lower loan rates if targets are met, while failure to do so will often trigger some penalties.

With over US$20 billion in assets, RGE's portfolio companies are mainly in the upstream pulp, paper, palm oil and viscose fibre industries operating in Indonesia, China, Brazil, Spain and Canada.

Given the nature of these businesses, SLLs serve as a flexible means of financing as proceeds are not restricted to specific green projects only.

Tey said SLLs help sharpen the group's environmental, social and governance (ESG) focus as its internal KPIs are now "crystallised into very measurable targets" under the loan arrangements.

It further helps that there is a strong incentive to meet those targets to reduce financing costs.

"If we do them well, there are pretty good interest reductions. If we don't, there are very stringent penalties involved. But most of the KPIs are there to be met," said Tey.

Apical Group, a palm oil processor under RGE, had secured the group's first SLL from a syndicate of 17 lenders last October.

The US$750 million loan is structured as a 2-year revolving credit and 4-year term loan facilities, to be used to finance Apical's working capital and capital expenditure requirements.

> RGE is currently working with Nanyang Technological University and Enterprise Singapore to develop a blockchain-based platform for industry players to register themselves. This would generate a bank of traceability data.

The predetermined ESG targets – assessed by independent consultancy Environmental Resources Management – are based on Apical's commitment to ensure a sustainable supply chain. Performance against the targets will be assessed on an annual basis for the loan period and incentives awarded accordingly.

Apical executive director Pratheepan Karunagaran told BT that developing traceability and helping smallholders build sustainable agriculture practices are among KPIs linked to the loan.

To give an example, Apical is working with about 5,000 smallholders in south Sumatra to improve their standards and help them get certified. "Those are very measurable KPIs that the banks would like to see us do together," Karunagaran noted.

About a third of the global edible oil supply comes from palm oil, of which 40 per cent are produced by smallholders who typically harvest in a 1 to 2-hectare land area around their house.

"In certain instances, that's their only source of income so it's very important to ensure they are included in the sustainable supply chain. As long as you know where the supply is originating from and where it's ending, a lot of the issues in between can be resolved. That's why traceability is the No 1 objective to make the supply chain sustainable," said Karunagaran.

But undertaking such traceability to plantation is far from straightforward. "You need to have surveillance, satellites, people on the ground to monitor the supply chain... going from place to place to (ensure) sustainability practices are being followed," he noted.

To standardise and better quantify the process, RGE is currently working with Nanyang Technological University and Enterprise Singapore to develop a blockchain-based platform for industry players, especially smallholders, to register themselves.

This would generate a bank of traceability data that can be accessed by financial institutions, independent ESG consultants and non-government organisations, according to Karunagaran.

RGE is among the first non-property player in the Republic to tap the SLL market.

Last October, a subsidiary of Singapore developer UOL Group secured its first S$540 million SLL for a period of 5 years. Earlier in September, CapitaLand China Trust bagged its maiden S$150 million SLL tied to the sustainability performance of a China portfolio.

Such loans are no doubt a flexible, cheaper financing option for companies looking to fund their day-to-day operations and expansion plans while doing their part in the global net-zero race.

The banks, too, stand to benefit as they come under public pressure to green their loan books.

But like any other ESG-related instrument, SLLs have their share of budding "sustainable washing" risks that cannot be overlooked as issuance continues to rise.

For one, the borrower's predetermined targets under the loan may represent low-hanging fruit – easily achievable or already nearly met.

This means any sustainability-related impact could be less significant than touted, all while the borrower enjoys lower rates and lenders earn their "green" image.

RGE president Tey Wey Lin (above) says: "This is just the beginning. We will be moving a significant majority of our financing towards SLLs."
PHOTO: RGE