



SUSTAINABILITY IN EXPORT FINANCE

Leveraging Export Finance to support
the delivery of the SDGs

White Paper | September 2021

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LETTER FROM ICC

In 2015, the UN General Assembly formally established the 17 UN Sustainable Development Goals (SDGs) to be addressed by 2030 and that same year, 195 countries committed to keep global warming to well below 2°C. An estimated \$5-7 trillion a year of new investment is needed until 2030 to realise the SDGs globally, including investments into infrastructure, clean energy, water and sanitation and agriculture.

The financial services industry has taken important steps to contribute to help mobilise the required investments to achieve the SDGs and support the transition towards a low-carbon, more resource-efficient, and fair economy. Sustainability has become a critical strategic topic for the boards and C-suite of financial institutions around the world. There has been a flood of innovation in the industry, with new products aimed at channeling capital towards projects that achieve positive environmental and social impacts. For example, there has been a lot of focus on the issuance of debt instruments labelled as green, social and sustainable, the growth of blended finance structures, the integration of environmental, social and governance (ESG) criteria in investment decisions, the growth of the impact investing industry, etc.

In this context, Export Finance receives only a cursory mention in the broader sustainable finance conversation. Yet, Export Credit Agencies (ECAs), working closely with their banking partners, have a track-record of delivering investments at scale—in particular in infrastructure—in countries and sectors where private capital does not naturally flow. According to UNEP FI, by addressing financing gaps in the market, “ECAs are an important channel of public SDG financing flows. They play a critical role in promoting the export of capital goods of developing countries. [...] Their role is therefore often indirect, acting as a catalyst and enabler of investments, especially in countries perceived to be high-risk.¹”

The International Chamber of Commerce (ICC) set up a Global Export Finance Committee Sustainability Working Group (ICC-SWG) in 2018, with the objective to grow the share of Sustainable Export Finance and showcase how the industry can contribute to global challenges. This whitepaper is an important output of the Working Group.

This White Paper has two important objectives:

1. To provide a baseline of the industry’s current practices and priorities in regards Sustainable Export Finance
2. To provide policy and product recommendations that, if implemented, will help grow the flow of Sustainable Export Finance

The approach for developing this White Paper was designed to be participative in nature, gathering the views of market participants across banks, ECAs and their Guardian Authorities, buyers, exporters, industry organisations, NGOs and civil society. This approach provides the rare opportunity to analyse the context of decision-making for various stakeholders at the policy, strategy, product and competitive layers.

With fewer than 10 years left to achieve the Sustainable Development Goals and less than 7 years left on the carbon clock for a 1.5°C scenario,² this White Paper is a call for action to Export Finance market participants to ensure that the industry contributes meaningfully to the sustainability agenda and plays an important role addressing the global challenges we are all facing.

Andrew Wilson

Global Policy Director
Permanent Observer to the United Nations
International Chamber of Commerce

¹ Rethinking Impact to Finance the SDGs, UNEP FI, November 2018

² <https://climateclock.world/>

ABOUT THE AUTHORS

About International Financial Consulting Ltd.



International Financial Consulting Ltd. (IFCL) was founded in 2000 to enhance the capacity and performance of government-owned financial institutions, such as Export Credit Agencies, Exim banks, and multilateral, regional, bilateral and national DFIs. Offering specialised expert advisory services, their mission is “Better Institutions, Better Outcomes”, supporting client institutions to better align their activities toward contributing to achievement of the World’s To-Do, meeting the UN Sustainable Development Goals.

IFCL’s team of global experts has extensive experience working with clients to help them strengthen their institutions, programs and products, and fulfill their public mandates to deliver targeted and positive impact to their stakeholders—including their clients.

IFCL has worked with client institutions in over 70 countries on hundreds of projects, honing cross-cutting expertise in financial consulting and applying a deep understanding of the clients’ need for thoughtful, customized, and data-driven solutions to their unique local and regional challenges.

www.i-financialconsulting.com

About Acre Impact Capital



Acre Impact Capital invests climate-aligned infrastructure by partnering with leading commercial lenders and Export Credit Agencies. Acre Impact Capital’s Export Finance funds address the estimated \$100 billion annual infrastructure financing gap in Africa, driving economic growth and providing essential services for underserved populations.

Acre Impact Capital believes that sustainable, impactful infrastructure development is fundamental to economic growth and providing essential services to underserved populations. Acre Impact Capital focuses on four thematic areas strongly aligned with the UN Sustainable Development Goals: Renewable Power, Health, Food and Water Scarcity, Sustainable Cities, Green Transportation.

By co-investing alongside Export Credit Agency partners, Acre Impact Capital aims to achieve risk-adjusted market-rate returns for our investors while mobilising up to 5.6x private sector capital for every dollar invested.

Acre Impact Capital is supported by The Rockefeller Foundation and GuarantCo a Private Infrastructure Development Group (PIDG) company.

www.acre.capital/

DISCLAIMER

The findings, interpretations, recommendations, and conclusions expressed in this report are those of the Authors and do not necessarily reflect the views of the ICC, The Rockefeller Foundation or other institutions involved in this report.

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The 16 banks in the ICC Global Export Finance Committee are: ANZ, Banco Santander, S.A., BNP Paribas, Citi, Commerzbank AG, Crédit Agricole CIB, Deutsche Bank AG, DZ BANK, AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, HSBC, ING Bank, Investec Bank, J.P. Morgan, MUFG Bank, Ltd., Standard Chartered, Sumitomo Mitsui Banking Corporation, and UniCredit S.p.A.

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INTENDED AUDIENCE

An important objective of this White Paper is to bridge the knowledge gap between Export Finance professionals and Sustainable Finance professionals. Export Finance already contributes in many ways to the rich ecosystem of Sustainable Finance. However, many Export Finance professionals may not be fully aware of the extent of their contributions to the Sustainable Finance landscape, or of the recent trends and developments in the field. Similarly, Sustainable Finance professionals may not be familiar with specific aspects of the Export Finance product.

As a result, this White Paper was drafted with these two audiences in mind:

- > For Export Finance market participants, this White Paper aims to provide an overview of the broader Sustainable Finance landscape and a snapshot of the current sustainability practices being pursued in the Export Finance market.
- > For Sustainable Finance professionals, the aim is to introduce the Export Finance product and highlight its opportunities for sustainable financing.

For both audiences, the aim is to highlight the potential contribution of the Export Finance industry to the Sustainable Development Goals and the Paris Agreement.

DEFINITIONS

For the purposes of this White Paper, we use the term **Export Finance** as an all-encompassing term to refer to medium/long-term finance provided by banking institutions in partnership with official Export Credit Agencies.

Sustainable Finance is commonly understood to refer to the integration of environmental, social and governance (ESG) criteria into the business, investment and risk management decisions of financial services institutions, in support of society's goals as expressed in the Sustainable Development Goals and the Paris Climate Agreement and relevant national and regional frameworks.³

In line with this definition, **Sustainable Export Finance** refers to Export Finance transactions that contribute to society's goals as expressed in the Sustainable Development Goals and the Paris Climate Agreement.

RESEARCH METHODOLOGY

This White Paper is an independent report combining market sentiment data with quantitative trends and qualitative insights. In the development of this White Paper, IFCL and Acre Impact Capital conducted desk research, online surveys, and an extensive interview programme with leading market participants in the Export Finance and Sustainable Finance ecosystem.

Online Surveys

The **online surveys** targeted various market participants to obtain a wide range of insights, including four individual surveys designed specifically for banks, ECAs, exporters, and buyers, as well as a fifth survey structured to capture the opinions of other market participants, including private Credit and Political Risk Insurance (CPRI) providers, non-governmental organisation (NGOs), financial advisors, government authorities, international organisations and associations, regulatory bodies, academics, and media professionals.

The surveys were launched in December 2020 and were open for responses until May 2021. The surveys were widely marketed at various industry events such as the Berne Union⁴ Capacity Sharing Marketplace, ICC/Berne Union forums bringing together commercial banks and ECAs, various exporter associations in different markets, various industry conferences as well as through TXF, our media partner. In addition, a specific effort was made to proactively reach out to NGOs that have historically engaged with the Export Finance industry to ensure well-rounded feedback.

Close to 500 market participants responded, with representation across commercial banks, ECAs, buyers, exporters, and other interested parties including NGOs, private credit insurers, representatives of industry organisations and guardian authorities of ECAs, financial advisors, lawyers, etc. The survey was designed to gather confidential individual responses rather than institutional responses, in order to get a pulse of the perceptions and aspirations of industry participants on the topic of sustainability. As a result, it is entirely plausible that multiple and differing answers were collected from representatives of the same organization.

4 International Union of Credit and Investment Insurers: <https://www.berneunion.org/>

Stakeholder interviews

Semi-structured one-hour **interviews** were conducted between December 2020 and July 2021. As the distribution of interviewees can affect responses, special consideration was given to ensure a diversity of perspectives across sectors, regions and stakeholder sizes. With this in mind, more than 150 market participants were interviewed, providing a representative sample which allowed us to identify trends and draw conclusions for the industry as a whole.

Market participants interviewed represented the following types of institution:

International banks. Arranging banks active in the Export Finance market were interviewed. Careful consideration was taken to ensure global geographic spread as well as a mix of large international banks. Interviewees included Export Finance teams, Heads of Sustainability, and Environmental and Social Risk Management teams.

Export Credit Agencies. Interviews were held with senior underwriters, employees working in international relations, and employees working in sustainability. Interviewees were solicited from both OECD and non-OECD ECAs globally to ensure a diversity of views.

Exporters. Exporters from North America, Europe, Africa, and Asia were targeted for interviews. They were selected based on size, industry/sector, and geographic location to gain a wide range of insights. Special consideration was taken to solicit interviews from exporters active in both green and transitioning sectors.

Buyers. Several buyers cutting across the public and private sectors, industries and regions were interviewed to develop an understanding of how sustainability is incorporated in their buying and financing decisions.

Guardian Authorities⁵. Senior representatives from Guardian Authorities of Export Credit Agencies, namely the government ministries to whom they report and who have strategic oversight, were interviewed to shed a light on the drivers of policy decision-making.

Other Actors. Other actors in the Export Finance industry also participated in completing the online surveys and in the interview process. These included PRI providers, financial advisors, and academics, as well as employees working for NGOs, associations, government authorities, international organizations, and regulatory bodies.

In order to (i) obtain a broad set of market views and (ii) not delay the publishing process while obtaining approvals from Communications or Compliance departments, IFCL and Acre carried out these interviews confidentially. IFCL and Acre would like to acknowledge and thank the individuals that generously contributed their knowledge and time to this research effort.

⁵ The guardian authority is a government body responsible for setting policies for the Export Credit Agency. Typically, the guardian authority is either the Ministry of Trade/Commerce or the Ministry of Finance.

STRUCTURE OF THE DOCUMENT

This document is divided into four chapters:

Chapter 1—The State of Sustainability in Export Finance. This Chapter provides an overview of the Export Finance market and the current state of sustainability in the industry. For readers unfamiliar with the Export Finance market, this Chapter provides a helpful primer.

Chapter 2—The Sustainable Finance Market. This Chapter provides an introduction to Sustainable Finance and maps out the key Sustainable Finance products across the Investment, Capital Markets, Banking, and Insurance industries. Through this analysis, this Chapter aims to situate Export Finance within the overall Sustainable Finance ecosystem.

Chapter 3—Key Findings and Recommendations. This Chapter presents the key findings of the research and puts forward recommendations to grow the volume of Sustainable Export Finance.

Chapter 4—Conclusion.

EXECUTIVE SUMMARY

1. The potential of Export Finance as Sustainable Finance product is significant but largely untapped.

Export Credit Agencies exist to address market gaps which prevent private sector participation in financing exports and cross-border transactions. They address many of the risks that worry exporters and financiers, including political risks, credit risks, bribery and corruption risks, environmental, social and human rights risks, etc. In doing so, they encourage private sector participation in the financing of exports and large-scale infrastructure projects (in particular in emerging markets) and facilitate the rollout of new and disruptive technologies which are needed to support the transition and achieve the SDGs. The industry supports financing volumes comparable to that of bilateral DFIs and MDBs. Today, about 20% of industry volumes support sustainable transactions in sectors as diverse as wind and solar power generation, water treatment infrastructure, healthcare facilities, affordable housing and even educational facilities in low-income countries. Benchmarked against labelled Sustainable Finance products such as green bonds or social loans, Export Finance by definition (i) is additional (ii) extends tenors beyond what the private market can provide and (iii) allows for a tightly controlled use of proceeds providing comfort to capital providers that funds will be used for the stated purpose. Despite this potential, the use of Export Finance as a Sustainable Finance product is still fairly nascent.

2. The Export Finance industry has not kept pace with the changes in the Sustainable Finance industry.

ECAs were in many ways ahead of the banking industry in implementing environmental, social and governance measures, standards and guidelines, with the first commitments related to the environment and export credits dating back to 1998. The industry then introduced a cascade of OECD measures related to environmental risk management (2000 and 2003), bribery and corruption (2000) and sustainable lending (2001). Over time, these measures have been updated and strengthened to reflect new industry developments and improved standards. However, no new multi-lateral decisions have been reached since the 2016 agreement on coal-fired electricity generation which aimed to encourage a transition towards more efficient technologies but fell short of phasing out coal. In contrast, innovation in the banking industry has increased significantly since 2015, with the issuance of green, social and sustainable and sustainability-linked bonds and loans rapidly multiplying over a short timeframe. For many banks, sustainability has become a key strategic thrust driven by the C-suite, shareholder pressure, clients, employees and increasingly, regulators. While several OECD ECAs also started to take a more strategic interest in sustainability and introduce incentives outside of the OECD Arrangement, the majority still lack a clear mandate from their Guardian Authorities to take a stand on the global sustainability agenda.

3. Governments have so far excluded Export Finance from their commitments to address global challenges.

To date, it appears that governments have not fully integrated the activities of their ECAs in their commitments towards the Paris Agreement and the Sustainable Development Goals. At a time when the activities of public finance institutions and instruments are increasingly scrutinised for their alignment with the global goals, this gap stands out and has been criticised by some in civil society as “exporting GHG emissions”. Furthermore, a whole-of-government approach for official financing instruments and tools such as ECAs, bilateral DFIs and domestic financing schemes is often missing. The lack of alignment and cooperation between bilateral DFIs and ECAs is particularly concerning, as their financing activities increasingly converge with regard to financing products, beneficiaries, sectors and geographies. Similarly, domestic innovation schemes which support new and innovative businesses with technologies that contribute to addressing global challenges are often poorly coordinated with ECAs.

4. The industry is starting to mobilise to demonstrate how Export Finance can contribute to the Sustainable Finance ecosystem.

The overwhelming majority of survey respondents feel that financial institutions, and in particular ECAs, should play a role in shifting the industry towards a higher share of Sustainable Export Finance. Most ECAs interviewed in the development of this White Paper declared that they are busy developing their climate policies and a handful of ECAs and Guardian Authorities have recently announced sector exclusions targeting not only the coal sector but also the oil and gas industry. In April 2021, seven European countries including Denmark, France, Germany, Spain, Sweden, the Netherlands and the United Kingdom launched the Export Finance for Future initiative. These governments recognise that Export Finance “can play a key role in reorienting investment patterns and catalyse private investments towards low-carbon resilient projects.” In parallel, many exporters report that they are developing transition strategies while a majority of buyers state that sustainability performance is very important in selecting exporter, banking and ECA partners. Finally, some ECAs and banks have started to offer (modest) incentives to support sustainable projects and banks have started to leverage industry-wide frameworks to issue the inaugural green and social Export Finance loans.

5. The modernisation of the OECD Arrangement to be consistent with global sustainability commitments is critical to materially increase the volume of sustainable Export Finance.

This report includes several recommendations that will help increase the volume of sustainable Export Finance. These include harmonising the divergent definitions and frameworks applied by banks and ECAs to define Sustainable Export Finance, widening the origination effort of both banks and ECAs to support emerging companies that are exporting innovative solutions addressing environmental and social problems and leveraging blended finance opportunities to offset the increased CAPEX required for new and innovative technologies developed to achieve our global sustainability commitments. In addition, banks and ECAs can take unilateral decisions to exit certain GHG intensive sectors while at the same time providing incentives for sustainable sectors and activities. However, the most promising opportunity lies in the modernisation of the OECD Arrangement. These ongoing discussions present a unique opportunity to integrate the SDGs and the Paris Agreement objectives within the rulebook of OECD ECAs, creating incentives for certain industries and technologies while ensuring that public finance no longer supports projects that are not congruent with these goals. While modernisation conversations have been ongoing for years with little progress, now universally all industry participants—including the 16 banks supporting this report—conveyed a strong sense of urgency ahead of COP26 this November in Glasgow.



CHAPTER 1

The State of Sustainability in Export Finance

For the reader who is less familiar with Export Finance, this chapter provides an overview of the industry, with a focus on the many practices that the industry has been implementing for years to ensure that their activities adhere to the highest ESG standards. Export Finance professionals will be au fait with this discussion and are invited to skip to section 1.3 in which we develop some of the many recent sustainability trends in the industry, and section 1.4 in which we provide a sizing of the Sustainable Export Finance market today.

1.1 What is Export Finance?

The basic role of an official Export Credit Agency is to encourage exports and outward investment by helping finance international trade and investment transactions either through guarantee or insurance products, and in some cases by providing loans or finance directly. ECAs can be government institutions or private companies owned by and/or operating on behalf of governments. The first ECA, UK Export Finance (UKEF), was founded by the UK government in 1919. Since the founding of UKEF, almost all OECD—and many developing countries—have established an ECA or an export credit facility. There are currently 115 official export credit providers.⁶

Most governments see the role of ECAs as filling market gaps and encouraging the participation of the private sector in financing exports and cross-border transactions. Market gaps generally arise for two main reasons: (i) private-sector reluctance or inability to accept certain risks (e.g., target country political/market risks and long-term fixed-rate lending); and/or (ii) private-sector reaction to market cycles or economic crises. For instance, ECAs ramped up activity in the wake of the Global Financial Crisis (GFC) as commercial bank appetite for emerging and frontier markets waned. During the COVID-19 pandemic, ECAs have played a similar countercyclical role, implementing a number of programs to support exporters and borrowers.

ECAs' products can be broadly classified into four product categories: (i) short-term credit insurance and working capital facilities and (ii) medium/long-term credit insurance, (iii) investment insurance and (iv) untied facilities. **The scope of this White Paper is Officially Supported medium and long-term Export Credits.** The OECD defines Officially Supported Export Credits as:

Government financial support, direct financing, guarantees, insurance or interest rate support provided to foreign buyers to assist in the financing of the purchase of goods from national exporters.

Most ECAs can support export credit transactions for a duration of up to 20 years.

The export credit is typically structured with a two to three-year delivery and construction period, plus a repayment period that can last between ten and 18 years (in accordance with OECD Arrangement rules) after delivery/project completion. Debt financing is then either delivered by a banking institution (alone or in syndicate) or directly by an ECA when it has a direct lending program.

Between 2015-2019, ECAs volumes of Officially Supported Export Credits were around \$125bn⁷ annually on average. Ninety percent of outstanding exposure was in the form of guarantees or insurance, with direct lending by ECAs representing the balance.

As a financing mechanism, **Export Credits provide a number of specialised benefits relative to other forms of finance**, such as the ability to crowd-in private sector participants to fund projects and providing reliable long-term sources of capital and attractive direct lending programs. By extending tenors beyond what the private sector may be able to bear, ECAs can also significantly increase affordability for the imports for buyers, in particular for large infrastructure projects.

The OECD Arrangement for Officially Supported Export Credit, generally referred to as the ‘Arrangement’, initially came into effect in April 1978. It sets parameters for financing support offered by its participating member states. It is also followed by some non-OECD members. Should a participant breach the parameters set, there is matching provision which allows other members to match, thus dis-incentivising such breaches.

Specifically, the Arrangement sets out the terms and conditions for the provision of export credits, including minimum interest rates, premiums, repayment terms and maximum tenors. It is meant to ensure that competition is based on the quality and price of goods and services provided, rather than financing terms.

The ‘Arrangement’ also includes rules on tied aid. Specifically, it seeks to limit “the use of concessional financing for projects that might be supported through commercial financing. These rules were also developed to redirect tied aid away from richer countries, which should be able to attract commercial credits, and towards developing countries, that are less well off.”

OECD legal instruments include:

- > *Recommendation of the Council on Bribery and Officially Supported Export Credits* to deter bribery in export credit transactions.
- > *Recommendation on Sustainable lending practices and Officially Supported Export Credits* that guides Export Finance of one year or more to “take into account the results of the most recent IMF/World Bank country specific debt sustainability analyses (DSAs) [...] and take into account the prevailing limits on public sector non-concessional borrowing [...] for transactions involving public obligors or publicly guaranteed obligors in lower-income countries.”
- > *Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence* which “sets common approaches for undertaking environmental and social due diligence to identify, consider and address the potential environmental and social impacts and risks”.
- > *OECD Guidelines for Multinational Enterprises* which are voluntary principles for multinational business conduct that lenders are also encouraged to adopt.

The WTO’s Agreement on Subsidies and Countervailing Measures (mandatory for signatory countries) regulates the use of subsidies. The Export Finance industry’s current working assumption is that export credits are considered accepted subsidies as long as they are in line with the OECD Arrangement.

EU Regulation No: 1233/2011 (legally binding for EU ECAs): The regulation stipulates that the OECD Arrangement applies in the EU and sets out reporting measures—including how environmental risks are to be considered by EU ECAs.





The International Union of Credit and Investment Insurers (the “Berne Union”) This is the largest network of ECAs and private credit insurers. All members follow a set of principles focused on sharing and implementing best practices in the export credit industry, while taking into account environmental issues surrounding their activities.

1.2 ESG Practices

Environmental, social and governance risk management practices are long-established in the industry. Many ECAs have for years implemented practices, disciplines and controls to ensure that environmental, social and governance risks are assessed and managed in line with the highest, internationally recognised standards. This is in part thanks to the coordinating role of the OECD which sets clear guidelines on environmental and social topics (e.g. due diligence requirements and standards) as well as governance topics (e.g. debt sustainability and compliance requirements). Furthermore, the industry’s focus on safeguarding a level playing field between competing countries has played a role in fostering transparency among ESG Practitioners and ECAs on transactions and business practices.

In addition, because an ECA is an official institution representing a sovereign nation, there is reputational risk in supporting an exporter or a project that may underperform. In response, ECAs embrace detailed due diligence and controls to maximize the success probability of projects being supported.

Figure 1: Key ESG risk-management practices of the Export Finance industry

E&S	 <p>Environmental and Social</p>	<ul style="list-style-type: none"> As per OECD guidelines, ECAs are required to conduct detailed Environmental and Social Impact Assessments (ESIA) Arranging Banks and ECAs active in the market follow a number of environmental and social risk management best practices (e.g. Equator Principles, IFC Performance Standards, World Bank Safeguard Policies, etc.)
	 <p>Debt Sustainability</p>	<ul style="list-style-type: none"> For sovereign borrowers, OECD ECAs perform debt sustainability assessments before supporting a transaction. This includes: <ul style="list-style-type: none"> Assessing the priority of the project for the social and economical development of the country Ensuring alignment with the debt sustainability analysis of the World Bank / IMF Applying value for money tests to ensure the project sponsor is paying a fair price
Governance	 <p>Compliance</p>	<ul style="list-style-type: none"> Tightly controlled use of proceeds specifically to the project (as compared to other types of debt finance such as Bonds) The disbursement of funds directly to the contractor helps ensure capital is used for the stated purpose of the project Arranging banks and ECAs each ensure that robust KYC, AML, and anti-bribery and corruption procedures are followed
	 <p>Project Execution</p>	<ul style="list-style-type: none"> In order to obtain ECA support, contractors must demonstrate a realistic delivery plan and a track record or on time delivery and execution Release of funds is direct to the contractor and the contractor follows clearly defined project milestones that must be signed-off by the project sponsor

1.2.1 ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

OECD ECAs adhere to the recommendations on “Common Approaches” on Environmental and Social Due Diligence, to prevent and mitigate environmental and social impacts and risks of projects being supported.

Assessment process

Every project that is being considered for ECA support should be screened for environmental and social risks and classified into three different categories:

- > **Category A:** Projects with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
- > **Category B:** Projects with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.
- > **Category C:** Projects with minimal or no adverse environmental or social risks and/or impacts.

Category A and B projects should be benchmarked against the World Bank Safeguard Policies and the IFC Performance Standards. For Category A projects, an Environmental and Social Impact Assessment must be prepared. Category B projects also require a detailed documented environmental and social review, which often takes the form of an Environmental and Social Impact Assessment (ESIA).

While these assessments do not guarantee positive social or environmental outcomes, they do ensure that any negative impacts that could be foreseen are identified and mitigated. In addition, projects are monitored for any new risks that may arise during the construction period and often during the entire life of the ECA cover. As such, ECAs strive to avoid unintended consequences and ensure that they “do no harm”. In many cases, ECAs also provide ‘value additionality’⁸ to the transaction and its stakeholders by demanding that projects follow international standards which are sometimes more comprehensive than local practices and laws.

⁸ According to the OECD, value additionality occurs when the public sector offers non-financial value which the private sector is not offering and which will lead to better development outcomes e.g. by providing or catalysing knowledge and expertise, promoting social or environmental standards or fostering good corporate governance. ([Reporting Methods for Private Sector Instruments, OECD, December 2018](#))

1.2.2 GOVERNANCE

Arranging banks and ECAs both independently ensure that robust KYC, AML and anti-bribery and corruption procedures are followed. Given the increased regulatory scrutiny and record fines levied on the banking industry in recent years, compliance is taken seriously by all parties. The OECD Recommendation on Bribery and Officially Supported Export Credits remains a key element of the OECD's overall anti-corruption strategy. Where a contract was not awarded through a public tender process, most ECAs apply 'value for money' tests to ensure that the project sponsor is paying a fair price.

Unlike other forms of debt finance such as bonds or general-purpose facilities, the use of proceeds for Export Finance transactions is always well defined. Funds are usually disbursed directly to an exporter based on pre-agreed project milestones. These milestones will have been signed-off by both the project sponsor and the exporter. This control is key to ensure financing proceeds are used for the stated purpose of the project which has been approved by the ECA. The exporter is also required to subscribe to strict anti-bribery and corruption undertakings towards the ECA.

In public sector transactions, where the buyer is a government or a municipality, OECD ECAs perform debt sustainability assessments before supporting a transaction. In line with the OECD's recommendations, the transaction must adhere to "sustainable lending practices." These are practices that support the buyer country's economic and social progress without endangering its financial future and long-term development prospects.⁹ In practice, this means ECAs assess the priority of a project relative to its social and economic development impacts and ensure that any new borrowing is in line with the debt sustainability analysis of the country from the World Bank or IMF. In addition, the OECD Arrangement allows borrowers from certain geographies (all countries except High-Income OECD countries) to benefit from longer tenors.

As a result of these practices, ECAs have a strong track record of minimizing defaults. For example, the International Chamber of Commerce (ICC) reports a default rate of 0.62% on all ECA loans between 2007-2018.¹⁰ For reference, the default rate for US corporates over the same period was 1.4%.¹¹

The detailed assessment of project execution is another key characteristic of Export Finance. As official institutions representing their sovereign, ECAs must carefully manage any reputational risk that may result from poor or inadequate project delivery, in particular for large-scale infrastructure projects. In order to mitigate these risks, significant time is spent on key project execution topics such as:

- > Ensuring that the project (and related financing) has received the appropriate approvals;
- > Ensuring alignment and common expectations between all stakeholders;
- > Ensuring that the contractor has the required expertise, knowledge and track record to deliver the proposed project;

⁹ OECD, Recommendation of the Council on Sustainable Lending Practices and Officially Supported Export Credits

¹⁰ International Chamber of Commerce Trade Register

¹¹ S&P 2019 Annual Global Corporate Default And Rating Transition Study

- > Ensuring that the contractor has the financial strength to undertake the project;
- > Reviewing the project delivery/construction and payment milestones to ensure they are reasonable and in line with similar projects.

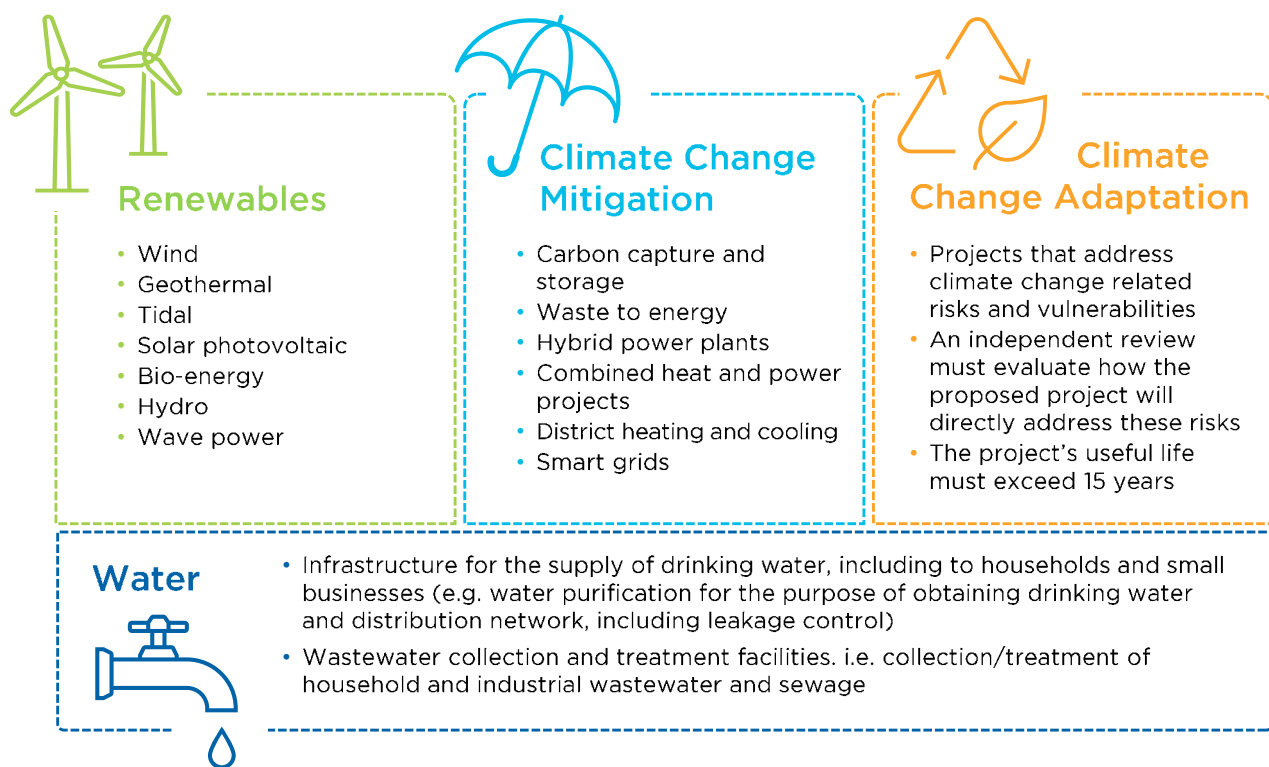
1.2.3 SECTOR LIMITATIONS

In 2016, the Participants to the OECD Arrangement implemented the Coal-Fired Electricity Generation Sector Understanding (CFSU), which provided stricter terms and conditions for the provision of official Export Finance related to coal-fired electricity generation project. The CFSU is meant to encourage both exporters and buyers of coal-fired power plants to move away from low-efficiency standards and encourage the implementation of only “supercritical” plants (emissions between 750g-850g CO₂/kWh) and “ultra-supercritical” plants (emissions below 750g CO₂/kWh).

1.2.4 INCENTIVES FOR CLIMATE-FRIENDLY AND SOCIAL PROJECTS

The OECD Arrangement allows for extended financing terms of up to 18 years for projects in sectors that have positive environmental and societal impacts. These include projects related to renewables, climate change adaptation and mitigation and water.

Figure 2: Climate-friendly and Social Sectors benefiting from extended tenors as per the OECD Arrangement



In addition, the rail sector understanding allows projects in that sector to benefit from more flexible terms and conditions to “to promote the use of rail as a viable alternative to road and air transportation, in the context of energy scarcity, fuel prices and climate change”.¹² When these projects finance green or essential rail infrastructure, they can often contribute to environmental and social objectives.

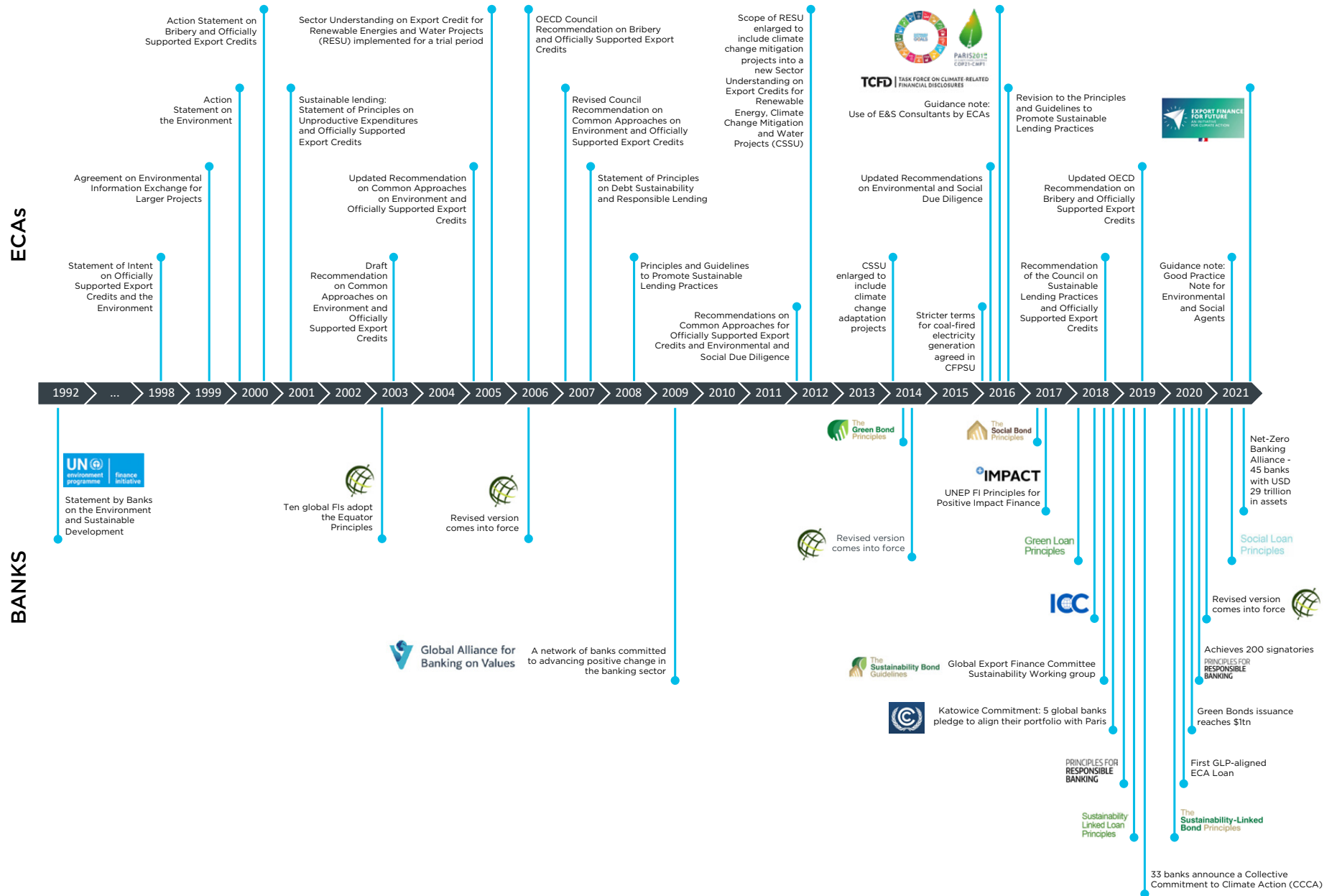
1.3 Milestones in Sustainable Export Finance

1.3.1 ORIGINS AND TRENDS OF SUSTAINABLE PRACTICES IN EXPORT FINANCE

For many years ECAs were leading on sustainability trends (Figure 3). Looking back at the history of the OECD Arrangement, the ECAs were in many ways ahead of the banking industry in implementing environmental, social and governance measures, standards and guidelines, with the first commitments related to the environment and export credits dating back to 1998. The industry then introduced a cascade of measures related to environmental risk management (2000 and 2003), bribery and corruption (2000) and sustainable lending (2001). Over time, these measures have been updated and strengthened to reflect new industry developments and improved standards. For example, the June 2012 Recommendations on Environmental and Social Due Diligence squarely put social aspects at the same level as environmental considerations. In 2016, the industry introduced stricter terms for coal-fired electricity generation, to encourage a movement towards high-efficiency technologies. However, it fell short of phasing-out the export of coal-fired power plants or any upstream related activities. While ECAs have long-established processes in place to ensure they minimise the negative impact of their activities, these must necessarily continue to evolve as market expectations, practices and norms change and strengthen.

Apart from managing negative impacts of Export Finance, the ECAs and their governments also introduced incentives to promote transactions with positive impacts. Many of the OECD measures are aimed at managing ESG risks and limiting the potential negative impacts of the industry's activities, by ensuring improved common standards and controls for official export credits. In 2004, the industry started to consider better terms and conditions for certain projects that have positive environmental and social impacts by introducing a "sector understanding" for renewable energies and water projects (RESU), which allowed extended tenors (up to 18 years) and more flexibility for such projects. Initially in place for a two-year trial period, the RESU was made permanent in 2009 and was expanded to include climate adaptation projects in 2012 into a new Renewable Energy, Climate Change Mitigation and Adaptation and Water Projects Sector Understanding (CSSU).

Figure 3: Timeline of key sustainability-related developments for ECAs and banks

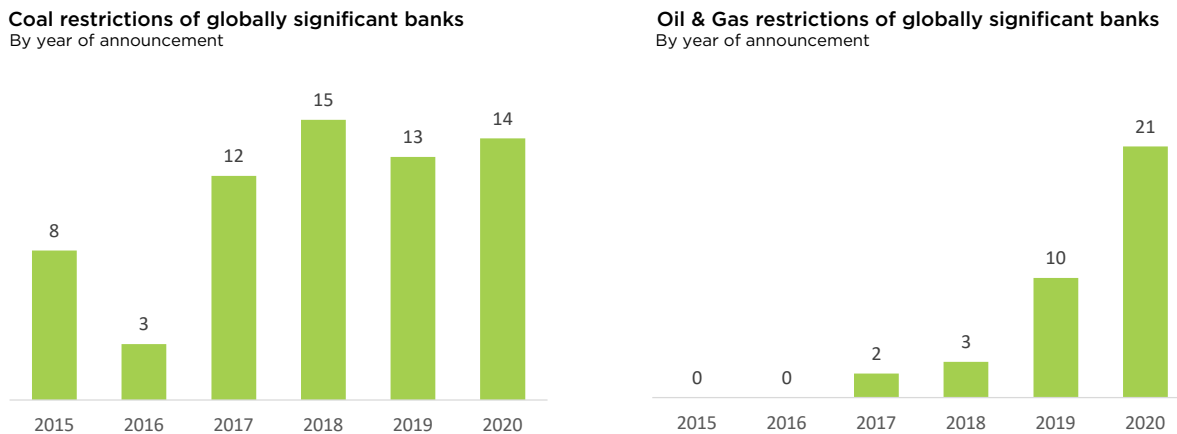


In recent years however, Export Credit Agencies have not introduced any new significant multilateral initiatives, even though their national governments have made commitments to the Paris Agreement and the Sustainable Development Goals. Increasingly, however, some national governments are considering the congruence of their home ECA's activities with their international commitments under the Paris Agreement. As discussed in later in the paper, this has led a handful of individual ECAs to make some significant and far-reaching commitments.

Over the same time period, the arranging banks active in the Export Finance market were mainly followers of the practices implemented by OECD ECAs. In June 2003, ten global financial institutions adopted the Equator Principles (EPs), a framework underpinned by the IFC Performance Standards that seeks to manage environmental and social risks of projects. Signatories have grown over time, and today 117 financial institutions (including some ECAs) are signatories of the Equator Principles. Beyond the EPs, banks did not have any materially significant restrictions, policies or commitments in place related to the environment or society, beyond corporate social responsibility (CSR) activities.

This started to change with the advent of the Paris Agreement. From 2015 onwards, several globally significant banks (mainly European) began to put in place policies and restrictions related to—amongst others—the financing of coal-fired power plants and coal mining projects. In 2017, banks started to introduce similar policies and restrictions in relations to the oil and gas sector, mainly related to the financing non-conventional oil and gas and drilling in the arctic.

Figure 4: Coal and Oil & Gas restrictions by globally significant banks¹³



Source: Institute for Energy Economics and Financial Analysis, bank websites and press releases

In parallel, institutional investor demand was driving significant growth in the sustainable debt capital markets, in particular green bonds issuance. In 2014, ICMA launched the Green Bond Principles which provided a common framework for the issuance of green bonds and a clear definition of the types of use of proceeds that could qualify as green.

As banks realised that sustainability was no longer just a topic relegated to CSR departments, but increasingly a driver of revenues and an opportunity to develop differentiated relationships with both institutional and corporate clients, **innovation picked-up pace**. New products and associated frameworks, such as social bonds (2017),

¹³ Defined as banks with more than \$10 billion in assets

sustainability bonds (2018), green loans (2018) and sustainability-linked loans (2019), social loans (2021), sustainability-linked bonds (2021) started to come to market.

Since 2015, ECAs' activities appear to have generally been omitted from the greenhouse gas emission reduction targets and commitments of countries. For example, a June 2019 report by the UK's Environmental Audit Committee found that UK Export Finance's activities were "the 'elephant in the room' undermining the UK's international climate and development targets."¹⁴

However, this is now changing fast. Virtually, all OECD ECAs interviewed for this report (and many of the non-OECD ECAs) reported that they were in the process of developing a climate policy, with publication expected in the next few months. A key driver of this flurry of activity appears to be the COP 26 conference in November 2021, where countries are expected to provide updated emission reductions targets.

Certain ECAs are moving beyond sector restrictions and are starting to develop incentive mechanisms to support green exports. While the scope of these incentives is limited by the rigidity of the OECD Arrangement, a handful of ECAs are pulling on the levers at their disposal to incentivise sustainable projects, mainly (i) risk appetite (ii) the percentage of country content that is required and (iii) access to direct lending facilities. This is discussed in detail in section 3.5.4.

1.3.2 RECENT COLLECTIVE INITIATIVES

Export Finance for Future (E3F)

In April 2021, a group of seven European governments¹⁵ including Denmark, France, Germany, Spain, Sweden, the Netherlands and United-Kingdom have launched the **Export Finance for Future (E3F) Coalition**, based on the recognition that Export Finance "can play a key role in reorienting investments patterns and catalyse private investments towards low-carbon, climate resilient projects".

Members of the E3F commit to:

- > Developing incentives to better support the development of exports to sustainable projects in all sectors of the economy;
- > Ending trade and export support directed to unabated coal power;
- > Reviewing trade and Export Finance support to fossil fuels and assess how to best phase out such support;
- > Starting a climate-oriented review of members' respective trade and Export Finance activities, in order to have a shared and documented understanding of climate impacts, and working on improving transparency on climate-related information;
- > Promoting the initiative and engaging with other providers of official trade and Export Finance, in all relevant fora and in particular in the OECD, with a view to shape a level playing field that would duly take the climate emergency into account.

¹⁴ UK Parliament Environmental Audit Committee, 10 June 2019, [MPs call for end of taxpayer support for fossil fuel projects from 2021](#). (Accessed 6 June 2021)

¹⁵ [Export Finance for Future](#), French Tresor

This unprecedented initiative by these seven governments and their respective ECAs marks a significant departure from the traditional forums such as the OECD or the Berne Union, in which these multilateral initiatives are normally discussed. It also serves as a strong signal to the industry that a subset of the OECD participants is breaking away on the topic of sustainability and dealing with the climate emergency.

ICC Export Finance Committee and Sustainability Working Group

Banks active in the Export Finance industry gather under the auspices of the International Chamber of Commerce (ICC) Global Export Finance Committee, which serves as a global discussion forum for banking experts in the Export Finance industry. In 2018, the **ICC Global Export Finance Committee created the Sustainability Working Group** with the following objectives:

- > Grow the proportion of Sustainable Export Finance activity
- > Increase awareness that Export Finance is uniquely suited to support the financing of the SDGs (in particularly sustainable infrastructure)
- > Position Export Finance as a unique and innovative financing solution that will be increasingly relevant to support sustainable development

The mere existence of the Sustainability Working Group, which brings together 16 competing commercial banks, is a strong signal that sustainability is a clear priority topic for the banking industry. The Working Group has been active in driving the dialogue between banks and ECAs in order to achieve its objectives.

EU Export Finance Lab Think Tank (ExFi Lab)

The ExFi Lab is an informal think tank which counts as members a group of experts participating in their own personal capacity. The participants stem from 18 national Export Credit Agencies, their Guardian Authorities in the EU Member States. In a White Paper published in July 2020, the ExFi lab called on the EU Council to put forward a green strategy for Export Finance and for the EU Commission to include Export Finance as part of the EU's green finance toolkit.

Acre Impact Capital / TXF Sustainability Reports

In September 2019, Acre Impact Capital, in partnership with TXF has published the first attempt at sizing the Sustainable Export Finance market, based on data from the TXF TagMyDeals database. For the first time, there is a clear sizing of the Sustainable Export Finance market, providing transparency to market participants and establishing a baseline of current financing volumes. In addition, TXF published sustainability league tables, which help put the spotlight on the leading ECAs and arranging banks in the industry. The objective of this effort is to increase awareness around the topic of sustainability and contribute to broadening the existing dialogue in the industry.

1.4 Sizing the Sustainable Export Finance market

The core mandate of ECAs is export promotion and job creation in their respective home countries. ECAs—by mandate—do not discriminate against any type of industry or project that can receive official support. Indeed, ECAs' activities have been criticised by certain NGOs and civil society due to the support they have provided to industries and projects that may not be compatible with the SDGs or the Paris Climate Agreement. Historically, ECAs have provided a significant amount of support to industries such as oil and gas, defence and shipping, largely driven by the mix of active exporters in their home market. More recently, ECAs' support to industries and projects that promote sustainable development, including renewables, water infrastructure, climate adaptation infrastructure and healthcare has attracted more attention. Amendments to the OECD Arrangement have facilitated climate-related activity by allowing ECAs to offer longer tenor guarantees and finance for these technologies.

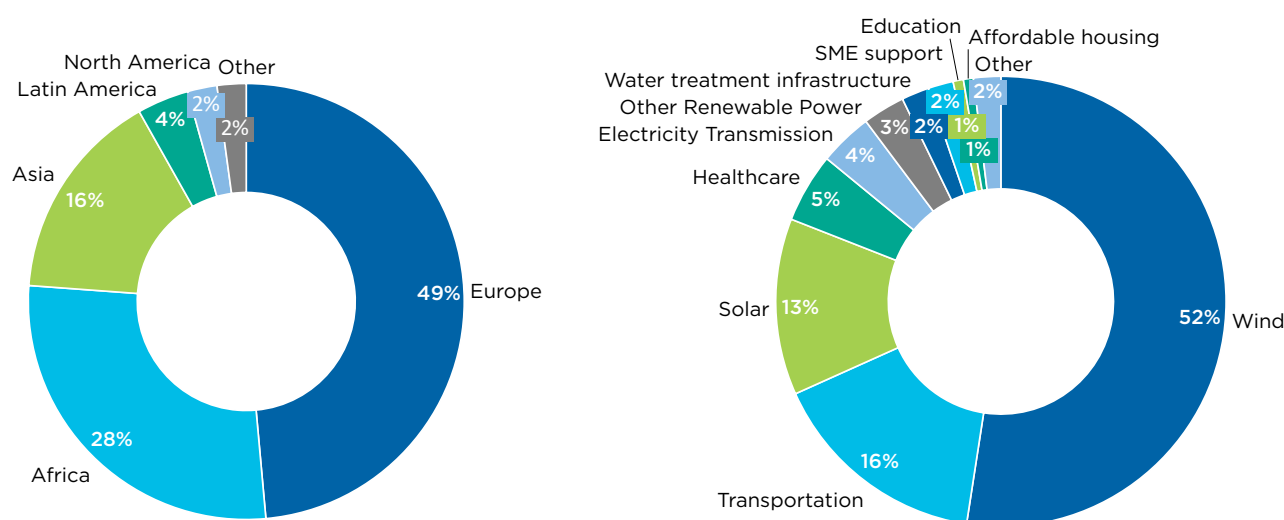
To better understand the size of the Sustainable Export Finance market, data from TXF—one of the largest trade publications in the export and trade finance industry—was used. TXF's data is self-submitted by market participants and is the basis of industry-wide league tables. While this dataset does not represent the entire Export Finance market, it is the only publicly available industry dataset which allows for granular analysis at the transaction level. The **market sizing methodology is described in Annex A** and relies on a granular analysis of 1,129 transactions, representing \$384 billion worth of Export Finance transactions.

Figure 5: Size of the Sustainable Export Finance market (analysis of TXF dataset)



The analysis reveals that the volume of sustainable transactions jumped significantly in 2020—at 21% of industry volumes or roughly \$28bn—from 16% in 2018 and 2019. The average size of sustainable transactions has been increasing over time. In 2018, the average Sustainable Export Finance transaction was 23% smaller than other transactions. This has increased over time and in 2021 the average sustainable transactions size is larger than other transactions. The increasing average size of transactions could be a consequence of an overall increase in project size, due to increased efforts and focus on sustainability in importing countries, as well as technological improvements (e.g. the development of large offshore wind farms powered by increasingly powerful wind turbines). This development may also positively correlate with the expected profitability of sustainable transactions for arranging banks, making these transactions potentially more interesting to finance.

Figure 6: Regional and Industry split of sustainable transactions—2020 (analysis of TXF dataset)



From a regional perspective, Europe represented 49% of sustainable transactions, driven by a significant volume of offshore and onshore wind transactions in 2020. Africa was the second largest region, representing close to 30% of industry volumes followed by Asia (16%).

From an industry perspective, wind power generation, both onshore and offshore, was the largest segment in 2020, representing a bit more than half of industry volumes. This was followed by transportation projects (e.g. public transportation infrastructure, supporting technology for electric vehicles, etc.). Perhaps reflecting the flexibility of Export Finance as a financing product, it is worth highlighting the diversity of industries represented, which range from solar PV, water treatment infrastructure, healthcare facilities, affordable housing and even educational facilities in low-income countries.



CHAPTER 2

The Sustainable Finance Market

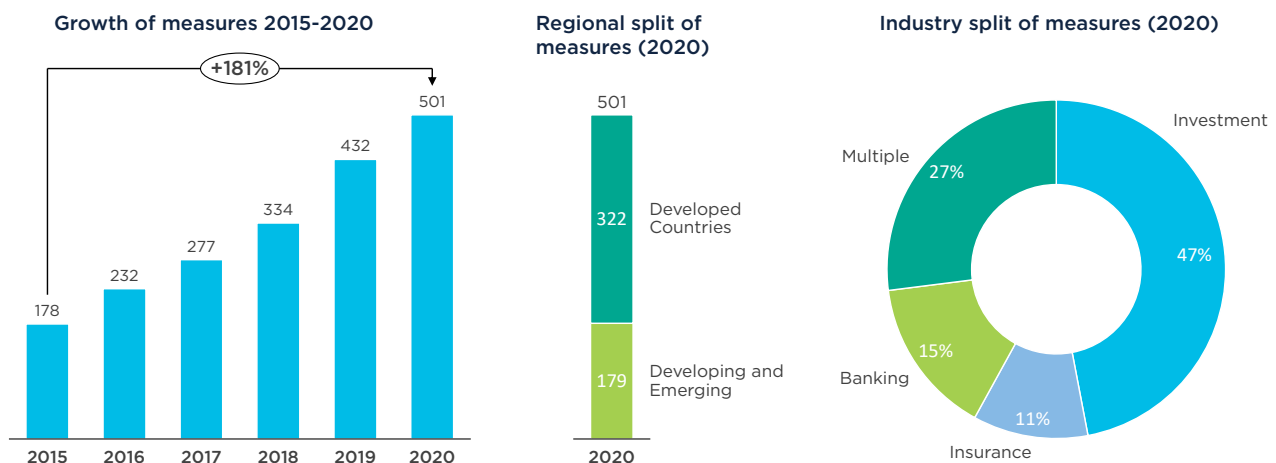
The purpose of this Chapter is to provide Export Finance professionals with an introduction to the Sustainable Finance market and situate Export Finance as a potential Sustainable Finance product within the broader industry landscape. Sustainable Finance professionals are encouraged to skip over sections that they are familiar with.

2.1 Principles, Taxonomies, Frameworks

Over the past few decades, interest in the impact that economic activities have on the environment and society has led into an increased appreciation of the connection between finance and sustainability. Perhaps the most influential initiatives to shape the Sustainable Finance landscape in recent years has been the United Nations 2030 Agenda adopting the Sustainable Development Goals and the Paris Agreement on climate change. Both landmark international agreements put finance at the centre of sustainability governance schemes and accountability patterns, highlighting the **important role that the financial sector plays in successfully meeting ambitious global sustainability goals**. Indeed, Article 2 (c) of the Paris Agreement specifically states: “This Agreement [...] aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by: (c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”.

As **Sustainable Finance has grown in importance**, governments in both developed and developing markets have introduced policy and regulatory measures aimed at encouraging the implementation of sustainability policies, strategies, processes, products, and services of institutions and businesses. **To date, more than 500 policy and regulatory measures¹⁶ have been issued globally**, across developed and emerging markets, impacting the investments, banking and insurance industries.

Figure 7: Policy and regulatory measures issued by public authorities, including governments, central banks, financial regulators, and public financial institutions



Source: Green Finance Platform

As is often the case with new and emerging disciplines, **a plethora of innovation characterises the Sustainable Finance market**. As a result, new initiatives in the form of voluntary (and increasingly mandatory) principles, standards, definitions, taxonomies and reporting tools are frequently introduced, leading to a fragmented and sometimes confusing landscape. Some initiatives have been widely adopted and have already demonstrated their scalability, while others are still in the early stages of development. Ultimately, these initiatives aim to create a common language and provide a set of tools that help operationalise market participants shift towards a more sustainable business model.

The list below proposes a classification of various Sustainable Finance initiatives and tools in a structured manner. We propose five archetypes described below:

- 1. High-level principles / industry platforms.** High-level principles allow industry participants to rethink their activities to incorporate sustainability considerations in their decision-making processes. Industry platforms allow participants to make public commitments towards common goals and share lessons learned and best practices to achieve these goals.
- 2. Target / objective setting** frameworks and tools allow industry participants to set quantifiable impact targets for the transition towards more sustainable activities.
- 3. Definitions / taxonomies** provide a classification system identifying activities, assets, and/or project categories that deliver on key climate, green, social, or sustainable objectives with reference to identified thresholds and/or targets. In doing so, taxonomies help set standards, create common understanding and help address accusations of green or sustainability washing.
- 4. New products** related frameworks codify under what circumstances a product can be labelled as sustainable. They help create a common market for such products by setting standards that are expected to be met to qualify a product as sustainable.
- 5. Reporting and disclosure.** These initiatives encourage disclosure and reporting by industry players on the impact of their activities, increasing transparency and accountability.

This analysis is not intended to be comprehensive, but rather aims to cover a subset of key industry initiatives (Table 1), which are further developed in detail in Annex B.

Table 1: Overview of key Sustainable Finance initiatives

	High-level Principles / Industry Platforms	Target / Objective Settings	Definitions / Taxonomies	New Products	Disclosure and Reporting
Banking	  			  	 
Investments / Capital Markets	     	   	    	   	     
Insurance					

Significant effort is ongoing to ensure the integrity and quality of sustainability initiatives.

Indeed, some critics claim that existing frameworks and definitions still allow far too much subjectivity as market participants can (and do) take very different views on the same transaction. In this context, calls for increased transparency and disclosure as well as the emergence of accreditation systems, independent verification and audits are important trends. Independent verification and audits are increasingly emerging as a ‘gold standard’ across the industry. For example, green bond issuers are used to obtaining a ‘second-party opinion’ which reviews and confirms the alignment of the issuer’s green bond framework against the Principles. ICMA also recommends that an issuer should appoint an external auditor or other third party to “verify the internal tracking and the allocation of funds from the Green Bond proceeds to eligible Green Projects.”¹⁷ The third-party assessment should be publicly disclosed on the issuer’s website, thus increasing transparency. Similarly, Principle 9 of the IFC’s Operating Principles for Impact Management (OPIM) calls for the independent verification of an organisation’s impact management system with the Principles. Such independent verification should be publicly disclosed, providing an unprecedented level of transparency to the market.

Given the plethora of Sustainable Finance initiatives, it is perhaps unsurprising that there are calls for convergence and alignment. The industry is responding through attempts at harmonization. For example, in March 2020, the EU's Technical Expert Group (TEG) presented four common design principles for international harmonization and mutual recognition of taxonomy frameworks. The European Commission's International Platform on Sustainable Finance has a dedicated taxonomy workstream (led by the EU and China) which is expected to release its guidance on a Common Ground Taxonomy in 2021. Finally, both the World Bank and the OECD are active in providing guidance on the development of taxonomies, including international alignment.

Another area of convergence is related to impact reporting. For example, 11 International Financial Institutions (IFIs) have come together to publish a Harmonized Framework for Impact Reporting¹⁸ for project categories eligible under the Green Bond Principles. The framework provides core principles and recommendations for reporting, impact reporting metrics, sector specific guidance and reporting templates. The Global Impact Investing Network's (GIIN) IRIS+ provides investors with a 'generally accepted impact accounting system'. Developed with broad stakeholder input, it aligns with more than 50 standards and / or analytics platforms.¹⁹

In Chapter 3, we highlight the most common initiatives used by market participants in the Export Finance industry.

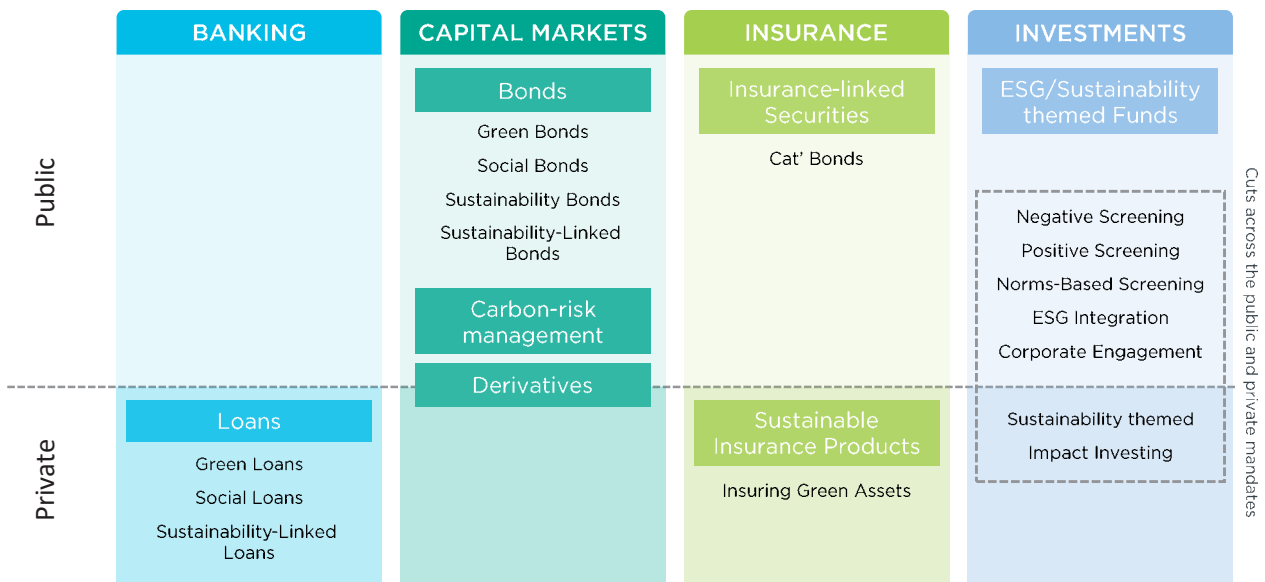
¹⁸ ICMA Handbook, Harmonized Framework for Impact Reporting, June 2021

¹⁹ GIIN IRIS+ "Aligned Standards"

2.2 The Sustainable Finance Product Landscape

In order to situate Export Finance in the context of the broader Sustainable Finance landscape, we define a product-driven framework (Figure 8) across the investment, banking, capital markets and insurance industries, with a distinction for public (on-exchange) markets and private markets. As we will see in this chapter, **Export Finance already contributes in many ways to this rich ecosystem of Sustainable Finance products.**

Figure 8: The Sustainable Finance product landscape



Source: Acre Impact Capital / IFCL

2.3 Banking Products

Sustainable Finance has risen to the top of many banks' agendas in recent years in response to regulatory pressure, stakeholder concerns and client demand. These pressures and demands have led to initiatives that integrate sustainability into a bank's policies, strategies, processes, products, and services with the intention of delivering positive ESG impacts and managing ESG risks. In response, the industry has innovated with several dedicated products as highlighted in Table 2.

Table 2: Key banking Sustainable Finance products

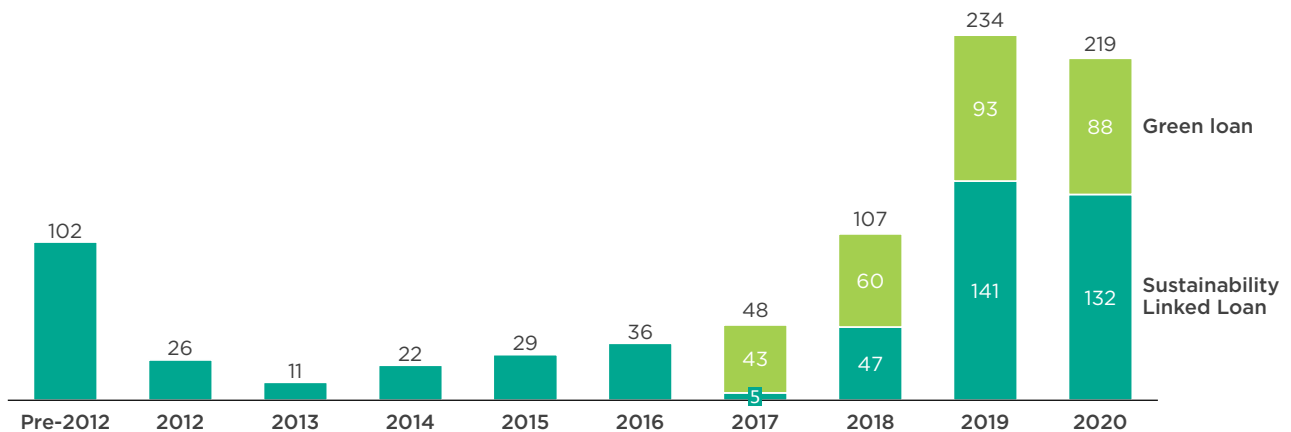
PRODUCT	2020 ISSUANCE (\$BN)	DEFINITION
Green Loans	120	<p>Green loans are type of a loan instrument that finances or refinances eligible green projects, as defined by the Loans Markets Association (LMA) Green Loans Principles (GLP).</p> <p>In order to be eligible, green loans must align with the four core components of the GLP:</p> <ul style="list-style-type: none"> i. Use of Proceeds. The loans must be used for green projects as defined in the GLP and have clear environmental benefits. ii. Process for Project Evaluation and Selection. The borrower should have a formal process by which it determines how its projects fit within the eligible categories of the SLPs. iii. Management of Proceeds. The proceeds of a green loan should be credited to a dedicated account or otherwise tracked by the borrower in an appropriate manner, so as to maintain transparency and promote the integrity of the product. iv. Reporting. Borrowers are encouraged to report on the use of proceeds of the loan, including the projects to which loan proceeds have been allocated, the amounts allocated and their expected impact. <p>The GLP provide examples of eligible use of proceeds categories which include renewable energy, energy efficiency, clean transportation, sustainable water and wastewater management, climate change adaptation, etc.</p>
Sustainability-Linked Loans	80	<p>Sustainability linked loans are any types of loan instruments which incentivise the borrower's achievement of ambitious, predetermined sustainability performance objectives. The borrower's sustainability performance is measured using sustainability performance targets (SPTs), as set against key performance indicators, external ratings and/or equivalent metrics and which measure improvements in the borrower's sustainability profile.</p>

Social Loans	n.a.	<p>In April 2021, the Social Loan Principles were published opening the door for the issuance of a new type of product. Social Loans finance projects which aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes. A social issue threatens, hinders or damages the well-being of society or of a specific target population.</p> <p>The Social Loans Principles (SLP) provide a definition of project categories that are eligible, which include amongst others: affordable basic infrastructure, access to essential services, affordable housing, etc.</p> <p>In addition, these projects should support vulnerable populations. Examples include those living below the poverty line, excluded and/or marginalised populations and communities, migrants or displaced persons, etc.</p>
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Source: LMA Green Loan Principles (2021), LMA Sustainability-Linked Loans Principles, (2019), Social Loan Principles (2021); Bloomberg NEF

The sustainable loan market is relatively nascent but showing high growth rates. The Green Loan Principles were initially published in 2018 and the Sustainability-Linked Loan Principles were only published in 2019. In April 2021, the Social Loan Principles were published opening the door for the issuance of a new type of product. As seen in Figure 9, sustainable banking products have grown significantly over the past few years.

Figure 9: Sustainable Loan Issuance, by Instrument (\$ billion)



Source: BloombergNEF, Bloomberg L.P.

Export Finance transactions that support projects with environmental and social benefits could be eligible to be classified as green, social or sustainability-linked loans as per the relevant principles and issuer framework. This is already happening with a handful of banks and ECAs having issued green Export Finance loans. For example, in 2020, National Grid announced the first ever multi-ECA covered green loan, guaranteed by SACE, the Italian ECA, and Euler Hermes, on behalf of the German government.

The \$743 million ECA-backed financing package, made up of \$488 million from SACE and \$255 million from Euler Hermes, was structured under National Grid's Green Financing Framework. It marked the first project in which multiple ECAs have come together to finance a green project of this size.

The loan which follows the guidelines set by the Loan Market Association's Green Loan Principles will fund a €2 billion subsea electricity cable between the UK and Denmark. Named Viking Link, the 1,400 MW cable will supply renewable energy to 1.4 million households. Once completed in 2023, the interconnector will enable more effective use of renewable energy, access to sustainable electricity generation and improved security of electricity supply, resulting in material environmental and socioeconomic benefits for both Denmark and the UK as well as the rest of Europe.

2.4 The Capital Market

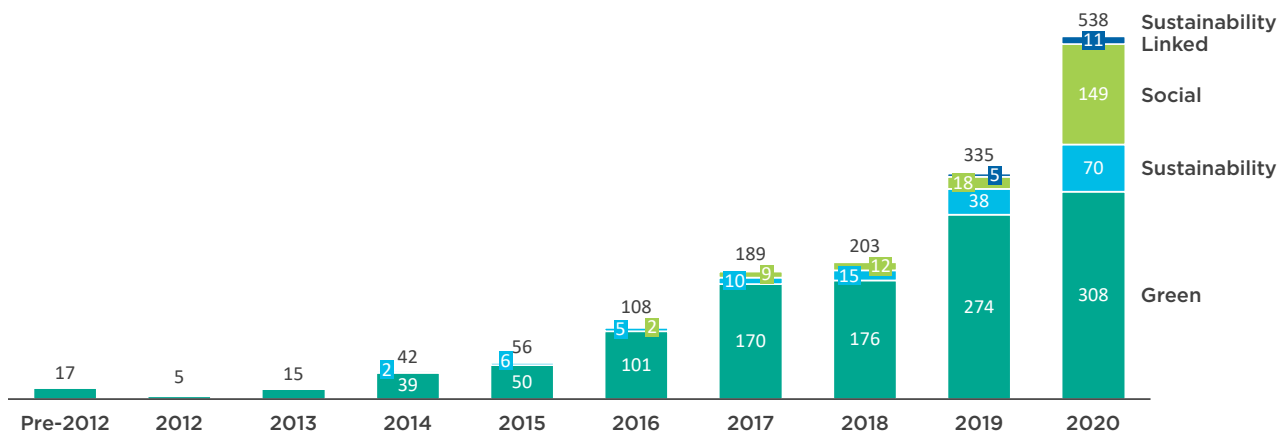
2.4.1 SUSTAINABLE BONDS

Ever since the European Investment Bank issued the first Green Bond in 2007, the market for green, social and sustainable debt securities has increased significantly. In 2020, Green, Social and Sustainable bond issuance stood at ~\$700 billion, almost double the prior year's issuance. **While green instruments were the largest source of issuance, social and sustainability bonds grew dramatically and achieved higher volumes than all previous years combined.**

Table 3: Key sustainable bond products

PRODUCT	2020 ISSUANCE (\$BN)	DEFINITION
Green Bonds	227	<p>Green bonds were created to fund projects which have positive environmental and/or climate benefit. The Green Bonds Principles (GBP) provide a number of examples of eligible use of proceeds categories which include renewable energy, energy efficiency, clean transportation, sustainable water and wastewater management, climate change adaptation, etc.</p> <p>The GBP recommend that issuers report on the use of proceeds, which ensures transparency and facilitates tracking of funds into environmental projects.</p>
Social Bonds	249	<p>Social bonds are use of proceeds bonds that raise funds for new and existing projects with positive social outcomes. The Social Bond Principles (SBP) provide a definition of project categories that are eligible, which include amongst others: affordable basic infrastructure, access to essential services, affordable housing, etc.</p> <p>In addition, these projects should support vulnerable populations. Examples include those living below the poverty line, excluded and/or marginalised populations and communities, migrants or displaced persons, etc.</p>
Sustainability Bonds	160	<p>Where projects achieve both green and social objectives, an issuer can choose to issue a sustainability bond. The Sustainability Bond Guidelines recognises that certain social projects may also have environmental co-benefits, and vice-versa.</p>

Figure 10: Sustainable Bond Issuance, by Instrument (\$ billion)



Source: BloombergNEF, Bloomberg L.P.

The significant growth in 2020 was fueled by governments, supranational entities and corporates ramping-up issuance in response to the pandemic.

For example, in March 2020, Pfizer issued a \$1.25 billion sustainability bond, with proceeds earmarked to support access to medicines and vaccines in particular among underserved populations and mitigate the company’s climate impact and waste from manufacturing.

In June 2020, ICMA issued the Sustainability-Linked Bond Principles (SLBP).

Bonds issued under the SLBP incentivise an issuer’s achievement of material, qualitative, pre-determined, ambitious, regularly monitored and externally verified sustainability objectives through key performance indicators (KPIs) and sustainability performance targets (SPTs). Incentives take the form of a reduction of interest, if KPIs and SPTs are achieved by the borrower.

In December 2020, ICMA released a *Climate Transition Finance Handbook*, which outlines the expectations of capital markets investors on climate change disclosures by issuers. The recommendations include four key elements: (i) disclosure of an issuer’s climate transition strategy and governance (ii) a climate transition trajectory that focuses on the environmentally material aspects of the issuer’s business model (iii) a transition strategy which references ‘science-based’ targets and pathways, (iv) transparency to the market around implementation, including independent review, assurance and verification.

However, ICMA did not release “Transition Bonds Principles”, taking the view that existing sustainable bond instruments (green, social, sustainability-linked) coupled with increased discipline and transparency as recommended in the Climate Transition Finance Handbook were sufficient to meet the objectives of market participants.



Taking a different approach, the Climate Bonds Initiative, in collaboration with Credit Suisse published a White Paper entitled “Financing Credible Transitions” which includes a framework for “defining ambitious and credible transition pathways for companies that will collectively reduce global emissions and deliver the goals of the Paris Agreement”.

The paper puts forward five principles for an ambitious transition:

1. Align with zero carbon by 2050 and nearly halving emissions by 2030;
2. Be led by scientific experts and not be entity- or country-specific;
3. Be sure that credible transition goals and pathways don’t count offsets;
4. Include an assessment of current and expected technologies which can be used to determine a decarbonization pathway;
5. Be backed by operating metrics rather than a commitment or pledge.

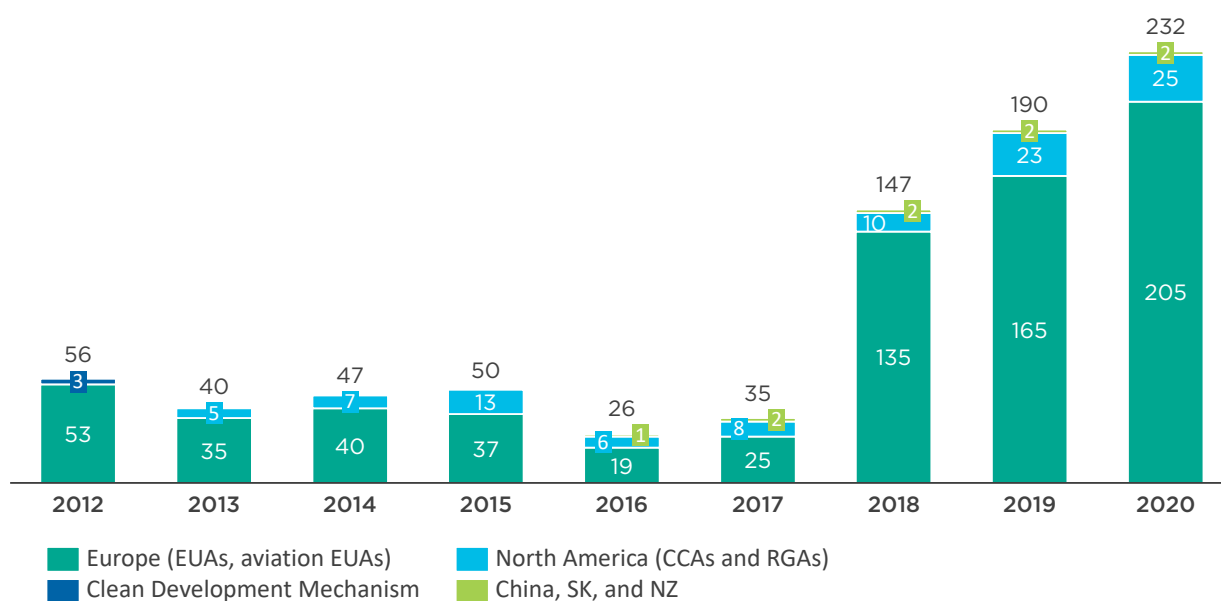
While a handful of issuers have issued transition bonds, volumes remain very low. It is yet to be seen whether an active market for transition bonds will emerge.

2.4.2 CARBON RISK MANAGEMENT

By the end of 2021, 31 regional, national and subnational emission trading systems (ETSs) will be operational, covering close to 18% of global greenhouse gas emissions.²⁰ By the end of 2020, the total value of global carbon markets represented €229 billion according to analysis from Refinitiv. Traded volume reached 10.3 billion tonnes (Gt) of allowances.²¹

An emissions trading system (ETS) – sometimes referred to as a cap-and-trade system—caps the total amount of greenhouse gas emissions and allows industries with low emissions to sell their extra allowances to larger emitters. By creating supply and demand for emissions allowances, an ETS establishes a market price for greenhouse gas emissions and allows corporates to manage their greenhouse gas emission risk, while ensuring overall policy objectives to cap total greenhouse gas emissions.

Figure 11: World Carbon Markets 2012-2020, total value by segment (Euro billion)



Source: Refinitiv, Global Carbon Market Report 2021

2.4.3 DERIVATIVES

The use of derivatives to support sustainability objectives is still nascent, although innovative products are launched regularly.

For example, on publicly traded exchanges, new equity index futures and options allow institutional investors to hedge risk and implement investment strategies efficiently. Examples include options on the S&P 500 ESG Index or the Euro STOXX 50 ESG Index.

Similarly, the sustainability-linked over the counter (OTC) derivatives market is still nascent, with the first trade having been executed in August 2019. In these transactions, the payment of one counterparty can increase or decrease depending on the achievement of pre-agreed sustainability targets. To date, a handful of bespoke sustainability-linked contracts have been executed through foreign exchange and interest rate derivatives contracts.

²⁰ WorldBank Carbon Pricing Dashboard, https://carbonpricingdashboard.worldbank.org/map_data, accessed 17/5/2021

²¹ Carbon Market Year in Review, 2020, Refinitiv

Export Finance already supports many projects in industries and sectors that would be considered green or sustainable by most capital markets participants. These include projects in renewable energy (e.g. solar or wind power generation), water infrastructure, green transportation, etc. Some of these assets find their ways in Green, Social and Sustainability bonds in which institutional investors can invest.

Export Finance projects in Green, Social, Sustainability Bonds issued by banks

Banks that are issuers of Green, Social and Sustainability bonds may allocate an Export Finance loan as an asset for which the bonds proceeds have been used. As we will see in Chapter 3 in more detail, some banks are offering small pricing incentives for Export Finance loans that are allocated to green bonds.

Green, Social, Sustainability Bonds issued by ECAs

Some ECAs are already issuers of Green Bonds and others of Social Bonds. For example, KEXIM²² has issued five green bonds and one social bond, raising \$2.3bn from institutional investors all of which has been disbursed through 17 projects across five sectors as of March 2021:

- > Solar Power
- > Secondary Cell
- > Fuel Cell
- > Electric Vehicles
- > Small and Medium Enterprise (SME) Financing



KEXIM reports that it disbursed \$1.7 billion to renewable energy projects, thus avoiding 7.5 million tonnes of CO2 and supporting the construction and operation of 3,844MW of renewable energy capacity.

In addition, KEXIM reports that it has disbursed \$592 million to support 348 SMEs adversely affected by COVID-19 thanks to the proceed of its Social Bond.

22 Korea Exim Bank, Sustainable Finance Report, March 2021

2.5 The Insurance Market

As early as 2012, several major insurers and reinsurers committed to the UNEP FI Principles for Sustainable Insurance (PSI), which serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities. Today, over 140 organisations globally have adopted the Principles for Sustainable Insurance, representing more than 25% of world premium volume and \$14 trillion in assets under management. PSI participants must disclose their annual progress on its four principles: (i) embedding ESG issues in insurance decision making (ii) raising awareness about ESG factors, managing risk, developing solutions (iii) working with governments and regulators to promote action across society on ESG issues and (iv) demonstrating accountability and transparency by regularly and publicly disclosing progress in implementing the Principles.

Insurers and reinsurers are particularly sensitive to risks related to unabated climate change. In its Global Risks Report 2020, the World Economic Forum identified the failure to mitigate climate change as the top risk in terms of worldwide potential impact. As the threat comes more clearly into view, insurers are increasingly pushing for action. It is perhaps unsurprising that some of the world’s largest constitute 12 of the 42 members of the Net-Zero Asset Owners Alliance.

2.5.1 INSURANCE PRODUCTS

Despite this heightened risk awareness, the insurance industry is still at an early stage of developing its own sustainable products and services. Unlike other markets, there is no standard definition for sustainable insurance products. For example, in its 2020 Sustainability Report,²³ Allianz states that it has developed 106 sustainable insurance solutions generating €1.3bn in revenue. This represents a mere -2% of its 2020 property and casualty revenues.

Table 4 proposes a definition of sustainable insurance products based on observed products in the market. This definition excludes traditional insurance products such as cover for natural catastrophes or cover for environmental pollution events, which have historically covered environmental risks.

Table 4: Types of sustainable insurance products

PRODUCT	DEFINITION
Insuring “Green” assets	Insuring the construction / operation of green power generation assets (solar, wind, etc.). This may also include the insurance of fleets of electric vehicles which sometimes include premium incentives relative to traditional technologies.
Rebuilding “Green” assets	Insurance cover which supports the replacement of “green certified” assets, buildings and materials after a loss. This includes energy efficient electrical equipment and interior lighting, water conserving plumbing and nontoxic, low odour paints and carpeting.

2.5.2 INSURANCE-LINKED SECURITIES (ILS)

The insurance-linked securities market is estimated to be around \$104 billion.²⁴

Approximately one-third of the market is composed of catastrophe bonds or “cat” bonds. These instruments are usually tradeable and normally have a life span of three to five years. “Cat” bonds transfer a specific set of risks (typically catastrophe and natural disaster risks) from an issuer or sponsor to capital market investors. In this way, the investors take on the risks of a catastrophic loss or named peril event occurring in return for attractive rates of investment return. Should a qualifying catastrophe or named peril event occur, the investors will lose some or all of the principal invested and the issuer (an insurance or reinsurance company) will receive these monies to cover their losses.²⁵

The other two-thirds of the insurance-linked market consist of non-tradable, “over-the-counter” contracts, mostly with a 12-month lifespan.²⁶ This market gives investors access to a wider range of insurance perils than those available in the cat bond market, including marine, aviation and specialty risk and a broader range of investment structures.

Box 5: Innovative ECA-backed insurance solutions

Africa Energy Guarantee Facility

The Africa Energy Guarantee Facility (AEGF) is an initiative that brings together commercial insurance, trade and development finance providers to address existing financing gaps for sustainable energy projects in Africa. Through the Facility, the African Trade Insurance Agency (ATI), in partnership with Munich Re and the European Investment Bank can provide long-term investment insurance for sustainable energy projects on the African continent.

Climate Investor One

In 2017, the Dutch ECA provided a guarantee to institutional investors investing in Climate Investor One, a blended finance facility seeking to spur renewable energy projects in Africa, Asia and India. While this was a one-off support, it shows that ECAs can creatively support climate finance beyond the traditional Export Finance products.

²⁴ Artemis: <https://www.artemis.bm/ils-fund-managers/>

²⁵ Artemis: <https://www.artemis.bm/library/what-is-a-catastrophe-bond/>

²⁶ Schrodgers: <https://www.schrodgers.com/en/bm/asset-management/insights/fixed-income/what-are-insurance-linked-securities-and-how-do-they-work/>

2.6 Investment Products

The investment market is probably one of the most advanced financial markets in terms of integrating ESG and sustainability considerations. The United Nations launched the Principles for Responsible Investments (UNPRI) in April 2006 based on the notion that integrating ESG issues into investment analysis and decision making was in the best long-term interests of beneficiaries and fully consistent with institutional investors' fiduciary duties. Since then, the number of signatories has grown from the original 63 to 3,038 at the end of 2020, which collectively managed or owned assets worth \$103 trillion.²⁷ Signatories to the UNPRI commit to integrate ESG considerations in their investment analysis and decision-making processes over time.

Figure 12: Examples of Environmental, Social and Governance factors



The sustainable investment industry continues to evolve very rapidly, both in terms of size, scope and ambition. For example, in 2019, the UN convened the Net-Zero Asset Owner Alliance,²⁸ a group of 42 asset owners and institutional investors representing as of May 2021 \$5.7 trillion assets under management (AUM) who are seeking to align their portfolios with a 1.5°C scenario. Similarly, in December 2020, asset managers representing over \$9 trillion of AUM announced the launch of the Net Zero Asset Managers²⁹ initiative, which commits to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.

Various approaches exist to integrate ESG and sustainability considerations in investment decisions. The Global Sustainable Investment Alliance (GSIA) provides a classification of various investment approaches (Table 5). These range from screening potential investments through various filters to actively integrating ESG considerations in decision-making or taking an activist approach to investing through corporate engagement and shareholder action.

²⁷ UN PRI: <https://www.unpri.org/pri/about-the-pri#growth> accessed 17/5/2021

²⁸ <https://www.unepfi.org/net-zero-alliance/>

²⁹ <https://www.netzeroassetmanagers.org>

Table 5: Archetypes of sustainable investment strategies

PRODUCT	2018 AUMS (\$BN)	DEFINITION	SCOPE
Negative Screening	19,770	Excluding from a fund or portfolio certain sectors, companies or practices based on specific ESG criteria	Public markets mainly
ESG integration	17,543	Systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis	Public and Private markets
Norms-based screening	4,679	Assessing investments against minimum standards of business practice based on international norms, such as those issued by the OECD, ILO, UN and UNICEF	Public markets mainly
Positive / best-in class screening	1,841	Investments in sectors, companies or projects selected for positive ESG performance relative to industry peers	Public markets mainly
Corporate Engagement / shareholder action	9,834	The use of shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by a comprehensive ESG guideline.	Public markets
Sustainability-themed investing	1,017	Investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture).	Public and Private markets
Impact / community investing	444	Targeted investments aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose.	Private markets mainly

Source: Global Sustainable Investment Alliance, 2018 Global Sustainable Investment Review; Acre Impact Capital; IFCL

Box 6: Where does Export Finance fit in the investment ecosystem?

Institutional investors can already get exposure to Export Finance loans through green or social bonds issued by both ECAs and banks active in the Export Finance market (see capital markets section above).

While investing in a green or social bond issued by an ECA provides direct exposure to Export Finance loans, investors can obtain indirect exposure to Export Finance loans through a green or social bond issued by a bank. Such exposure is often indirect, as the green or social bond may reference an Export Finance loan. However, this Export Finance loan will be often bundled with other loans across other lines of business within a bank (e.g. project finance loans, green mortgages, etc.).

2.7 Benchmarking Export Finance

Export Finance complements the existing arsenal of Sustainable Finance products, while addressing two important questions related to the labelling of sustainable transactions:

1. Does labelling a transaction as sustainable necessarily imply that the financing is additional? Would the transaction have happened anyway?
2. How can the use of proceeds of a labelled product be ascertained?

The unique features of Export Finance transactions are described below:

- > **Additionality:** As we have seen in Chapter 1, ECAs address market gaps and encourage the participation of the private sector in financing exports and cross-border transactions. This implies that Export Finance is 'additional' meaning that, but for the involvement of an ECA, the transaction is not viable. As a result, ECAs encourage the flow of financing in emerging markets, help finance large scale infrastructure projects in developed markets, such as several recent very large wind projects in Europe and Taiwan and support the rollout of new and disruptive technologies which are needed to support the transition (electric batteries, hydrogen technologies, carbon capture and storage, etc.).
- > **Use of proceeds:** Unlike bonds and loan instruments which are typically general-purpose financing instruments, Export Finance loans are dedicated to a specific transaction. As explained in Chapter 1, the disbursement profile ensures full transparency on the use of proceeds, which is a core aspect of Sustainable Finance products.
- > **Tenor:** While some bond instruments can go out to 30 years, this is usually reserved for the most credit-worthy issuers. Export Finance is a unique financing instrument that can offer tenors of 10-18 years (after the construction period) in emerging markets, where other forms of commercial finance are unable to extend maturities to that extent.
- > **Cash-flow profile:** The issuer of a bond instrument receives all the proceeds of the bond immediately after issuance and starts to accrue interest at that moment, whether the funds are deployed on productive projects or not. In Export Finance transactions, the drawdowns on the facility are chiseled to the requirements of the project, following key milestones agreed by both the lender(s) and the buyer.

Combining these unique features with a Sustainable Finance label, such as the Green or Social Loan Principles, creates a Sustainable Finance product uniquely suited to support investments into infrastructure, clean energy, water and sanitation, etc. in particular in emerging markets.



CHAPTER 3

Key Findings and Recommendations

3.1 Introduction

During the time in which this White Paper was developed, it has become evident that the focus on the topic of sustainability in the Export Finance industry has accelerated dramatically. The many conversations with market players confirmed that the industry is moving very rapidly in responding to international commitments made by governments, increased regulatory pressure and increased awareness and demands for transparency from broader stakeholder groups and the general public.

The following Chapter therefore presents the key findings that emerged from our market research and offers recommendations that address some of the challenges outlined by market participants.

The findings and recommendations are presented and discussed according to the following dimensions:

- > **Policy and Regulation.** This sub-section discusses the policy and regulatory framework impacting on Export Finance and its market players from a sustainability perspective.
- > **Frameworks.** This sub-section assesses the use of common frameworks by Export Finance market participants to define and classify sustainable transactions.
- > **Demand side.** This sub-section explores the demand side for Sustainable Export Finance. It identifies the factors that are shaping demand for Sustainable Export Finance from the perspectives of exporters, buyers, banks and ECAs. Furthermore, it highlights the challenges and opportunities that banks and ECAs are facing to originate more sustainable deals.
- > **Supply side.** This sub-section provides an overview of the supply side of Sustainable Export Finance, particularly with regard to existing products and incentive mechanisms.
- > **Transaction life cycle.** This sub-section analyses to which extent sustainability factors are considered at the transactional level, particularly with regard to the industry's due diligence, monitoring and reporting practices.

3.2 Policy and Regulation

This section discusses the emerging opportunities and challenges to grow the share of Sustainable Export Finance which are linked to the policy and regulatory frameworks that are governing Export Finance and its market participants.

3.2.1 SUMMARY OF KEY FINDINGS

- > Some ECAs can face challenges to align their mandate of promoting national exporters and jobs with global commitments such as the Paris Agreement and the SDGs.
- > However, ECAs and their Guardian Authorities are experiencing mounting political pressure to support the shift away from carbon-intensive energy generation and industries and to start 'greening' Export Finance.
- > During the development of this White Paper, the industry saw some dynamic developments involving several governments and ECAs forming political alliances (i.e. Export Finance for Future) and announcing ambitious commitments to exit fossil fuel industries.
- > Given the regulated nature of officially supported export credits, most market participants which were consulted still consider the OECD Arrangement as one of the key policy levers that can shift the industry towards more sustainable transactions.
- > The current efforts to modernise the Arrangement may therefore present an opportunity to strengthen sustainability-related incentives and disincentives and to foster better alignment with today's global commitments.
- > The tightening regulation for financial institutions and corporates through sustainable finance initiatives being developed by various countries and voluntary initiatives such as the Task Force on Climate-related Financial Disclosures (as referred to in Chapter 2) is further expected to support the shift towards more Sustainable Export Finance transactions.
- > The increase of disclosure requirements due to the adoption of TCFD and the EU Taxonomy will improve the availability and quality of data and facilitate product innovation in the Sustainable Finance space—with knock-on effects for Export Finance.

3.2.2 INTEGRATING ECAs INTO GLOBAL COMMITMENTS

A coherent whole-of-government approach related to official finance and global commitments such as the Paris Agreement on Climate Change and the 2030 Agenda for Sustainable Development is implemented with varying degrees with respect to ECA mandates.

Governments worldwide have made global commitments such as the Paris Agreement on Climate Change which is a legally binding international treaty adopted by 196 Parties at the COP 21 in Paris in December 2015 and the 2030 Agenda for Sustainable Development (including 17 Sustainable Development Goals) which was adopted by all United Nations Member States in 2015.

However, the lack of coherence and consistency between national commitments and activities supported internationally continues. While climate change is accepted as a global issue, support for overseas projects that are incompatible with transition pathways consistent with the Paris Agreement continues to undermine commitments taken within national borders (as the GHG emissions of foreign projects are not accounted for in national accounting methodologies) and threaten climate mitigation efforts in recipient countries by locking in carbon-intensive infrastructure. Interviews confirmed that many Export Finance industry actors still perceive these global as well as national commitments to be unrelated to the export promotion mandate of Export Credit Agencies. This is particularly true for some countries with a strong exporter base in the fossil fuel sectors which still represent around a quarter³⁰ of Export Finance supported by ECAs today. Aware of this gap, the EU Parliament in its COP25 resolution already called upon Member States to end support to fossil fuel projects through export credit guarantees.³¹ With regard to the SDGs, many ECAs and their Guardian Authorities point to the mandates of their sister organisations—namely development finance institutions. Despite—or maybe because of—the overlap and increasing convergence of both export and development financing instruments (see Box 8), many ECAs still hesitate to link their activities to specific SDGs.³²

³⁰ Acre/IFCL analysis of TXF Data

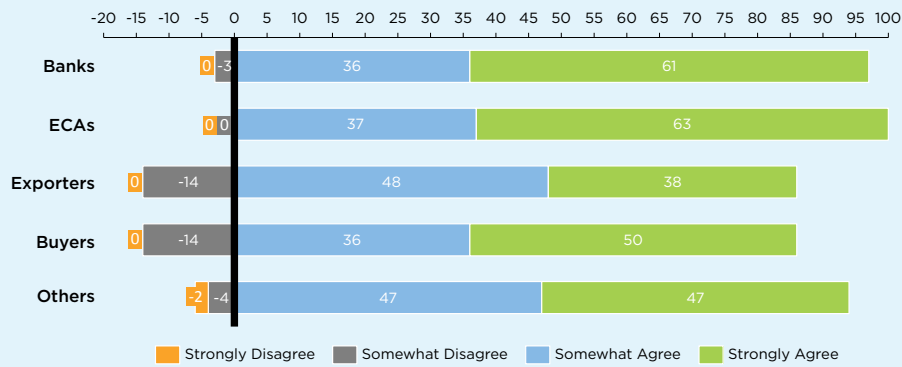
³¹ https://www.europarl.europa.eu/doceo/document/TA-9-2019-0079_EN.html

³² IFCL, Convergence of Export and Development Finance, May 2019

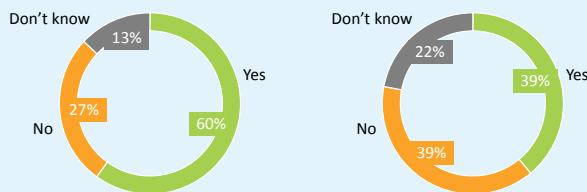
Box 7: Survey respondents' views on financial institutions' roles in shifting the industry towards a higher share of Sustainable Export Finance.

Industry participants, in particular those in ECAs, are in agreement that Export Finance should become more sustainable. Interestingly, ECA survey respondents from ECAs feel that their institutions could still do more to support the sustainability agenda.

Export finance should become more sustainable (in %)

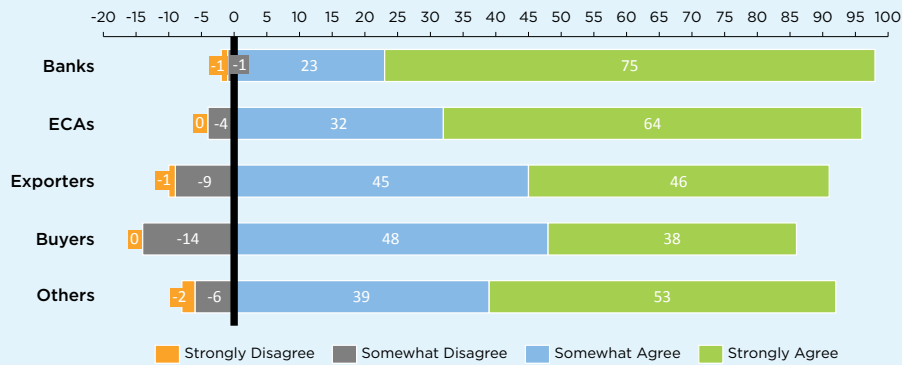


Is your institution doing enough to support the sustainability agenda? (in %)

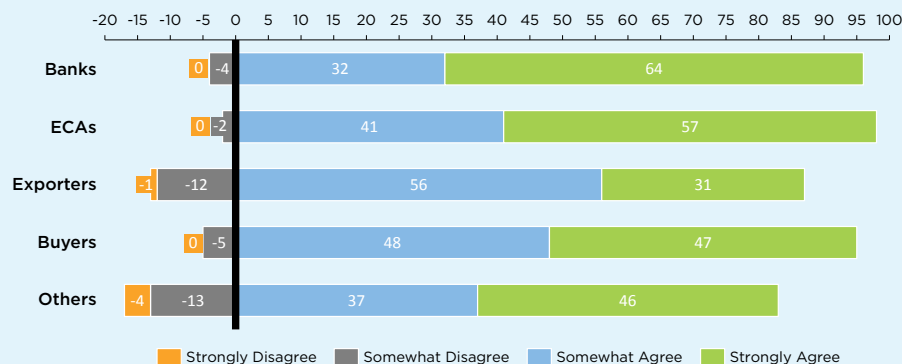


This is in alignment with the widely shared expectation that financial services organizations, including ECAs, should play a proactive role in shifting the industry towards a higher share of sustainable Export finance.

Financial services organizations should play a proactive role in contributing to the delivery of the Sustainable Development Goals (SDGs) and the goals of the Paris Agreement (in %)



Export Credit Agencies should play a role in shifting the industry towards a higher share of sustainable export finance (in %)



A recent study on the convergence of export and development finance conducted by IFCL in 2018 found that DFIs, MDBs and ECAs have different mandates and follow different rules and regulations. However, the principles of additionality, as well as catalytic and demonstration effects apply to most DFIs, MDBs and ECAs. Particularly with regard to bilateral DFIs (i.e. CDC, DEG, DFC, FMO, Proparco) and ECAs numerous indicators for convergences were identified. While ECAs gradually shift from national content to national interest requirements, strategies of bilateral DFIs are placing more emphasis on their support to national companies to fulfill their development mandates. At the same time, ECAs are expanding their untied product offerings—a product domain previously led by bilateral DFIs. The analysis of the institutions' financing portfolios further showed the significant intersection with regard to supported clients, geographies and sectors. However, the main barriers to increase cooperation were identified to be different Guardian Authorities and a missing whole-of-government approach as well as lower levels of transactional transparency among bilateral DFIs as compared to the ECA community.

Some countries have started to direct their respective ECAs to exit carbon-intensive sectors. In the wake of COP26, pressure is growing on governments to align their official export credit promotion schemes with their own climate change commitments. Since 2019, the number of countries that are providing specific direction to Export Credit Agencies with regard to the support of fossil fuel sectors is accelerating. For example, Sweden was one of the first countries to proclaim that it will cease support for the extraction and exploration of fossil fuels by 2022. Recently more countries have followed suit, though with varying levels of clarity around specific sectors and timelines (see Box 9). Another prominent initiative highlighted in Chapter 1 is the launch of the “Export Finance for Future” (E3F) in April 2021. The signatory governments have committed to review “trade and export support to fossil fuels and assess how to best phase out such support”. Finally, in May 2021, G7 governments agreed to stop international financing of carbon-emitting coal projects by the end of 2021 and phase out financing support for all fossil fuels.³³

Virtually all ECAs interviewed stated that they are working on a climate policy. At the time of writing, only a handful of ECAs have a publicly communicated climate policy. The upcoming COP26 event in November 2021, where governments are expected to reiterate their climate commitments appears to be an important trigger for this activity. In May 2021, the International Energy Agency (IEA) issued a flagship report³⁴ which provides a new global pathway to net-zero emissions by 2050. This traditionally conservative organisation has stated that the world cannot afford any new oil and gas fields beyond projects that are already committed in 2021. As the ECAs develop their climate policies in the coming months, it will be interesting to observe whether the recommendations of the IEA pathway will be taken into consideration.

³³ <https://www.reuters.com/business/energy/g7-countries-agree-stop-funding-coal-fired-power-2021-05-21/>

³⁴ “Net Zero by 2050, a Roadmap for the Global Energy Sector”, International Energy Agency

A handful of ECAs have recently made significant commitments as it relates to climate change, by specifically excluding fossil fuel projects (including coal, oil and gas) from official support. Some examples of recent developments are highlighted below.

-
- Sweden**
- > The Swedish government has announced that it will no longer support the extraction and exploration of fossil fuels after 2022.
 - > Perhaps uniquely amongst ECAs, EKN adopted a new sustainability policy in September 2019 which requires it to contribute to the realization of the UN SDGs and the Paris Agreement, adopting a “restrictive stance for transactions with high negative climate impact”.³⁵ This is a significant development as it clearly sees no conflict between its export promotion mandate and the objectives of the Paris Agreement and the SDGs. In fact, EKN sees its role as contributing to the “long-term sustainable business models of Swedish exporters and their customers”.³⁶
 - > EKN and SEK have phased out the financing of transactions pertaining to the extraction and transportation of coal at the end of 2020.
 - > Both EKN and SEK will start reporting the impact of their activities in line with the TCFD recommendations from 2022.
-
- UK**
- > In December 2020, the Prime Minister announced that the UK will end direct government support for the fossil fuel energy sector.
 - > This represents a major policy shift for the UK: in the previous four years, the UK had supported £21 billion of oil and gas exports.
 - > UK Export Finance has formally adopted the recommendations of the TCFD in 2020.
-
- France**
- > In its 2021 report to the Parliament, the French government proposed a progressive phase-out of public support for fossil-fuel export projects, with the following timeline:
 - 2020: No new support for coal power plants and non-conventional hydrocarbon exploration
 - 2021: No new support for conventional oil exploration and exploitation
 - 2035: No new support for conventional gas exploration and exploitation
 - > In addition, it is proposed that there will no longer be support for gas-fired power plant projects where the expected life-cycle carbon intensity of the project is higher than the average carbon intensity of the electricity mix of the recipient country (with some exceptions where (i) the plant is necessary for grid stability, (ii) the use of low-carbon sources of power is impossible (iii) the country has a low-carbon transition strategy for the power sector and the project is aligned with that strategy).
 - > A first amongst Export Credit Agencies, BPI France published an analysis of the carbon intensity of its portfolio, covering Scope 1, 2 and 3 emissions. This provides an unprecedented level of transparency on the carbon impact of its export guarantees.

³⁵ EKN: Summary of the Report: An Export Finance system that contributes to the climate transition

³⁶ EKN Sustainability Policy, adopted

Canada

- > In 2019, EDC released a Climate Change Policy, in which it makes a number of commitments:
 - Setting targets to reduce the carbon intensity of its lending portfolio
 - Increasing its focus on clean and low carbon technology
 - Implement the recommendations of the TCFD
 - Integrate climate-related risks and opportunities in its risk assessment processes
 - > In addition, EDC committed that it will no longer finance:
 - Coal-fired power plants (unless equipped with carbon capture and storage technology)
 - Coal mines and projects solely focused on supplying coal-fired power plants (incl. coal terminals, rail links, etc.)
 - Companies which derive more than 40% of their revenue from coal power generation / mining
 - Financing of existing coal fired power plants, unless the financing will be used for carbon capture and storage
 - > In July 2021, EDC announced its commitment to Net Zero by 2050.
 - > By July 2022, the Canadian ECA plans to set and publicly disclose 2030 science-based, sectoral emission intensity targets and a Sustainable Finance target.
-

US

- > On January 27th, 2021, President Biden issued an Executive Order on Tackling the Climate Crisis at Home and Abroad, which called for the preparation of a Climate Finance Plan.
- > The Plan calls for the US Treasury to “spearhead efforts to modify disciplines on official export financing provided by OECD Export Credit Agencies, to reorient financing away from carbon-intensive activities.”
- > In addition, the Plan³⁷ calls for US EXIM to “identify ways to significantly increase, as per its mandate, its support for environmentally beneficial, renewable energy, energy efficiency, and energy storage exports from the United States.”

Some of the recently introduced sector restrictions by some ECAs go well beyond the commitments of commercial banks. At the time of writing of this report, the full exclusion of fossil fuel exploration projects by a handful of ECAs goes well beyond the commitments of commercial banks, which have so far focused sector exclusions on coal and unconventional oil and gas exploration.

3.2.3 OECD ARRANGEMENT

Given the highly regulated space of officially supported Export Finance, market participants consulted considered changes to the OECD Arrangement to be critical to better support sustainable transactions and alignment with international commitments. Export Credit Agencies are public policy instruments and operate in a highly regulated space, particularly for participants to the OECD Arrangement, as explained in Chapter 1. In its current form, the regulatory framework governing ECAs and officially supported export credits leaves little room for flexibility. It is therefore not a surprise that the market feedback gathered as part of this project has been consistent in demanding changes to the Arrangement. These are considered an important factor in growing the share of sustainable transactions over time.

As part of our consultation and analysis, certain limitations of the OECD Arrangement were identified that restrict the promotion/facilitation of sustainable transactions.

These include (1) local costs requirements, (2) continued support for coal-fired power generation as part of the CFSU, (3) pricing inflexibility and (4) no sector understanding for social infrastructure.

Local costs

The OECD Arrangement includes a requirement that Export Finance contracts cannot finance more than a certain percentage of local costs, defined as the goods and services procured in the buyer's country. These local cost rules are doubly damaging from a sustainability perspective. Firstly, they prevent local economic development, which is negative particularly for emerging market buyers which cannot sub-contract to locally based firms and thus support jobs and their economies. Secondly, these local costs rules can contribute to an increase in GHG emissions when inputs—which may be available locally—have to be imported only to comply with local cost thresholds. Notably, there are no restrictions on third-country content, which means that materials can be imported from a third country which is unrelated to the buyer or exporter country. The threshold for local costs has been permanently increased to 40% in High Income OECD Countries and to 50% in all other countries of as of 20 April 2021, which is a welcome step in addressing this issue.

Continued support for coal-fired power generation a part of the CFSU

The CFSU was initially implemented in 2016 and has not changed substantially since then. While the CFSU significantly reduced the scope of official export credit support for coal-fired power generation, some exemptions remain, particularly for “super-critical” coal-fired power plants. However, since the CFSU was implemented, the world's perspective on coal-fired power generation has changed dramatically. Many of the world's largest banks have policies in place that restrict and phase-out support for such assets. Similarly, many ECAs now also have such policies in place. The CFSU stands out as ‘out of touch’ with existing market consensus.

Pricing inflexibility

Market participants consistently pointed out that while the longer tenors provided for by the Climate Change Sector Understanding and Rail Infrastructure Sector Understanding are generally appreciated, they are not always helpful in emerging markets as premium costs are too prohibitive in practice. The overwhelming feedback is that the premium calculation methodology should be adapted for longer tenors. Furthermore, an introduction of premium discounts for projects classified as sustainable is regarded as an important incentive mechanism.

No sector understanding for social infrastructure

It was also noted that public social infrastructure projects (i.e. construction of hospitals, schools or social housing) do not yet benefit from preferential terms. Most of these projects—which provide a public good to citizens—are not commercially viable and require significant investments by governments not only to build the infrastructure but also for operations and maintenance. The affordability of debt is therefore a key consideration for these—mainly emerging—economies. Furthermore, imported content in social infrastructure is usually lower, making it problematic for ECAs to support.

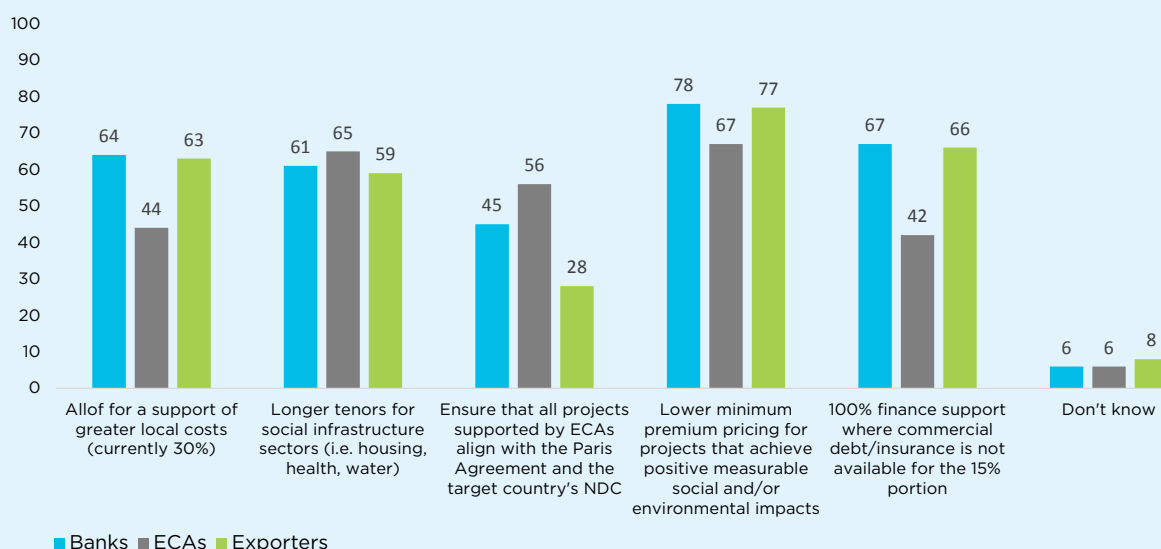
The ongoing industry discussion to modernise the OECD Arrangement may present a new opportunity to address some of these limitations and further integrate global sustainability commitments into the Export Finance regulatory framework. The OECD Arrangement in its current form is facing various challenges in fulfilling its purpose to protect the level-playing field and avoiding a race to the bottom. Official export credit support from non-OECD countries has steadily grown over the past decades; globalization has complicated the definition of export and national interest and bilateral development finance is increasingly pursuing national business interests.³⁸ As a result, a growing share of export credit support is taking place outside of the Arrangement, thus raising questions about the need to modernise the Arrangement rules in order to safeguard the Arrangement's stated purpose to create a level playing field.

As part of this general discussion around the modernisation of the Arrangement, some governments and their respective ECAs are also exploring how to improve alignment with the Paris Agreement and other international climate commitments. This is underpinned by the various political signals from Participant countries in relation to Export Finance and sustainability topics (see Box 10). While no specific proposal has been tabled yet, it appears that both incentives (i.e. increased flexibility, premium discounts, longer tenors) as well as disincentives (i.e. exclusions, premium surcharges) might be explored. At the same time, addressing SDGs in the Arrangement is a task many governments (still) shy away from as it requires widening its scope and applying a whole-of-government approach to international financing of trade and development. It is therefore not surprising that these sustainability-specific discussions appear to remain secondary to the primary objective of the overall modernisation of the Arrangement. Judging from historical precedents and results achieved so far, market participants are not hopeful for rapid outcomes.

³⁸ [Sondergaard-Jensen, Global Policy Volume 10, Issue 3](#), September 2019

Based on our survey, 87% of the ECA survey respondents believe that the OECD Arrangement should be adapted to support more sustainable projects. The top three changes to the OECD Arrangement selected by ECA respondents include (1) lower minimum pricing for projects that achieve positive measurable environmental and/or social impacts, (2) longer tenors for social infrastructure projects and (3) ensuring that all projects supported by ECAs align with the goals of the Paris Agreement and the target countries intended national contributions. While bank and exporter respondents overwhelmingly agree with the top change, both consider “100% ECA finance support where commercial debt/insurance is not available” as second most important change, perhaps highlighting the scale of the financing gap on that tranche.

How should the OECD Arrangement evolve to support the sustainability agenda? (in %)



3.2.4 BROADER REGULATORY DEVELOPMENTS

Two Sustainable Finance initiatives introduced in Chapter 2 are worth developing further due to their potential to influence the Export Finance ecosystem: (i) the Task Force on Climate-related Financial Disclosures (TCFD) and the EU Taxonomy.

TCFD

As the Task Force on Climate-related Financial Disclosures (TCFD) is becoming the predominant public and regulatory policy response to climate risk, it is likely that the resulting awareness and transparency around climate-related risks and opportunities of corporates and financial institutions is also going to impact and ultimately shift Export Finance towards more sustainable transactions. The TCFD recommendations, published in 2017, are voluntary and aim to encourage and guide companies, financial institutions and investors to assess and disclose climate-related risks and opportunities. Since then, the TCFD framework is rapidly shifting from being a voluntary approach to the predominant public and regulatory policy response to climate risk. For example, the TCFD framework forms a key pillar in UK’s policy and regulation to transition to a decarbonised economy. The UK Prudential Regulation Authority has started to apply the framework to banks and insurers and the Financial Conduct Authority requires premium listed companies to start meeting “comply or

explain” TCFD disclosure requirements as of January 2021. Similarly, New Zealand was the first country to introduce mandatory TCFD “comply or explain” disclosure for its financial sector. Regulators in Switzerland, Brazil and Chile are also in the process of introducing mandatory TCFD requirements. Finally, in June 2021, in a historic decision, the G7 backed a move to make TCFD reporting mandatory for all companies and financial institutions. With the rapidly growing awareness and transparency around climate-related physical and transition risks, wide-ranging ramifications across sectors and borders—including in the Export Finance space—can be expected. As banks and ECAs which are signatories to the TCFD review their financing portfolios to assess climate-related risks and opportunities, the transition of the industry towards supporting more sustainable projects is likely to accelerate.

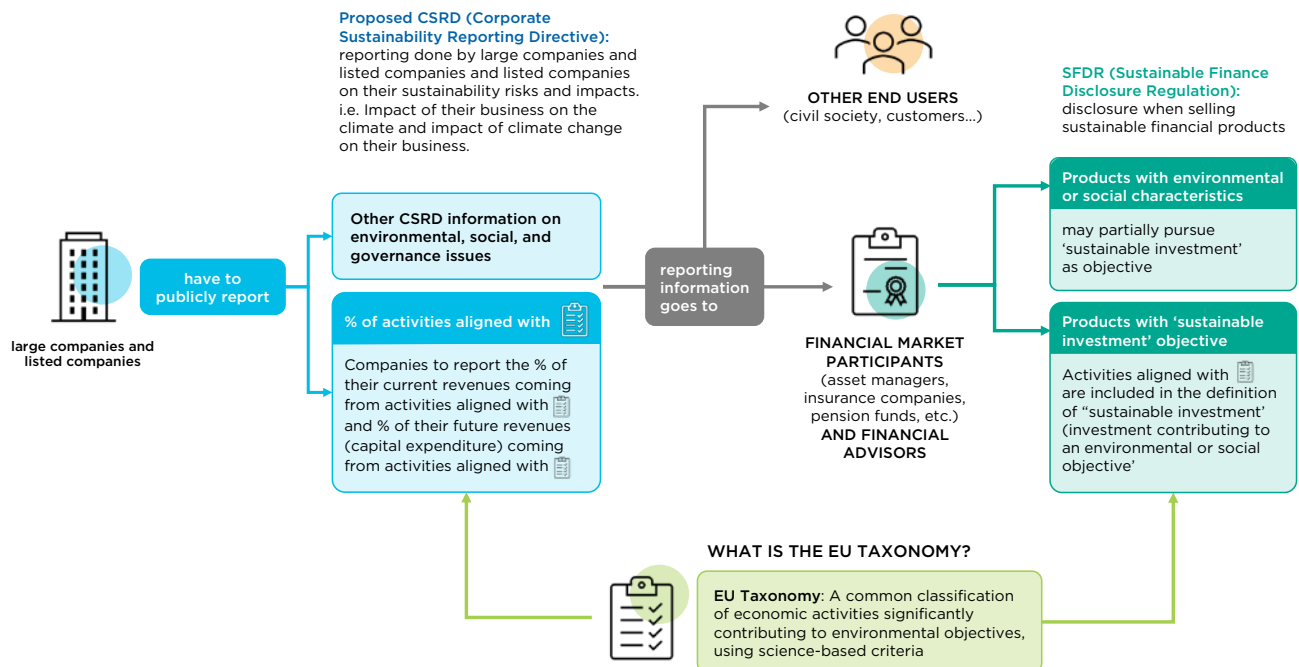
EU Taxonomy

Similarly, in the European Union, the Commission’s action plan on financing sustainable growth, is another policy that has the potential to shape Sustainable Export Finance, at least in Europe. The action plan operationalizes the objectives stated in the European Green Deal. One of its key elements forms the EU Taxonomy. The Taxonomy was developed to be a robust, science-based tool. It classifies sustainable economic activities towards six environmental objectives. For an economic activity to be considered sustainable, the EU Taxonomy requires a substantial contribution to reaching EU environmental objectives. A first EU legislation (delegated act) on sustainable activities for climate change adaptation and mitigation objectives was published in April 2021. A second delegated act for the remaining four objectives, namely sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control and protection and restoration of biodiversity and ecosystems is expected in 2022. In combination with the Corporate Sustainability Reporting Directive (directed at large and listed companies), the Non-Financial Reporting Directive and the Sustainable Finance Disclosure Regulation (directed at financial market participants), the EU Taxonomy aims to improve transparency, discourage greenwashing and promote responsible and sustainable investments. Figure 13 displays how the EU Taxonomy is meant to channel and increase the flow of financing towards sustainable economic activities.

While the EU Taxonomy is one of the most detailed taxonomies available in the market, it is acknowledged that other countries have also prepared or are in the process of preparing their own national taxonomies. Examples include:

- > In 2019, China published a Green Industry Guidance Catalogue, which lists six broad categories: energy conservation and environmental protection sectors, clean manufacturing sectors, clean energy sectors, ecological environment sectors, green upgrade of infrastructures, and green services.
- > In April 2021, Malaysia finalized its Climate Change and Principle-based Taxonomy which builds on a discussion paper issued in December 2019. The taxonomy creates a classification system for assessing economic activities that promote transition towards a low carbon and climate resilient economy.
- > Bangladesh Bank published a Sustainable Finance Policy for Banks and Financial Institutions in December 2020 with a taxonomy which defines what is considered sustainable and green finance in Bangladesh.
- > Mongolia published its Green Taxonomy in 2019 which outlines seven overall categories of activities considered environmentally sustainable.
- > Other countries such as Australia, Canada, Colombia, Singapore and South Africa are currently in the process of developing their national taxonomies.

Figure 13: The EU Taxonomy Regulation at play



Source: EU Commission

EU-regulated financial market participants as well as large and listed EU corporates will have to report on their alignment with the taxonomy. Increasing regulation around non-financial reporting is considered as key enabler for Sustainable Finance. Increased transparency on the degree of alignment with the EU Taxonomy is expected to encourage institutional investors, banks and large corporates to shift their business model to become more aligned with the Taxonomy over time. This trend is already apparent as European institutional investors and banks are increasingly shifting their business towards a more sustainable model. European exporters, in particular in energy-intensive industries have highlighted how they are developing new products and services that are compliant with the Taxonomy.

European ECAs are currently not legally required to comply with the Taxonomy. Despite being public financing instruments, European ECAs are currently not obliged to report on their alignment with the EU taxonomy. This exemption for European ECAs constitutes another example of a gap in the whole-of-government approach when it comes to officially supported export credits and has been criticised by some in civil society as ‘exporting GHG emissions’. However, some ECAs such as BPI France are applying the EU Taxonomy to qualify transactions for sustainability-linked incentives and EKF in Denmark is applying the Taxonomy to transactions that qualify in the newly established Green Future Fund.

Box 13: Assessing the compliance of Export Finance transactions with the EU Taxonomy

According to the study “Testing the application of the EU Taxonomy to core banking products” conducted by the EBF and the UNEP Finance Initiative and released in January 2021, several challenges with regard to the EU Taxonomy application to an ECA-guaranteed buyer credit were identified. For example, E&S due diligence did not fully integrate the principle of “do no significant harm”.

In order to facilitate the EU Taxonomy due diligence process for Export Finance transactions going forward, the study recommends mapping the discrepancies between the EU Taxonomy requirements and the most-used Export Finance standards (i.e. Common Approaches, IFC Performance Standards). This will help define which background information needs to be collected during the structuring phase to assess compliance with the Taxonomy. Furthermore, EU Taxonomy-related considerations should be integrated into standards such as the Equator Principles and included in the E&S consultants’ scope of work.³⁹

³⁹ EBF and UNEP Finance Initiative, Testing the Application of the EU Taxonomy to core banking products, January 2021

3.2.5 RECOMMENDATIONS

- > **Develop a coherent government-wide policy with regard to ECAs and global commitments such as the Paris Agreement and the Sustainable Development Goals.** To date, it appears that governments have not fully integrated the activities of their official ECAs in their commitments towards the Paris Agreement and the Sustainable Development Goals. However, public finance institutions and instruments are increasingly scrutinised with regard to the sectors and businesses they are supporting. This creates an urgency but also opportunity for ECAs and their Guardian Authorities—both in OECD as well as non-OECD countries—to take a clear stand regarding their alignment with global commitments and the support available to certain sectors and stakeholder groups.
- > **Consider definite commitments towards phasing out support for coal.** Leading up to COP26, the pressure on governments to make strong pledges towards the long-term temperature goals is amounting. A handful of ECAs and their Guardian Authorities have recently made ambitious commitments to exit coal and other fossil fuel sectors—inviting other ECAs to follow suit and spur the movement. The upcoming revision of the OECD Coal-Fired Sector Understanding (CFSU) offers the opportunity to further cement the international trend away from coal and to incentivise other countries and financing institutions by setting a new global standard.
- > **Expand and grow momentum of international leadership coalitions and strategies to phase out support for fossil fuels.** In order to strengthen the political will to end Export Finance for fossil fuel sectors and increase international pressure, signatories of international initiatives such as Export Finance for Future should grow the momentum by delivering on commitments and mobilizing other countries to join forces. Countries not yet engaged should consider joining such initiatives or issue similar commitments. As outlined in the latest IEA scenario, no new oil and gas fields beyond projects that are already committed in 2021 should be developed to limit global warming to 1.5°C.
- > **Broaden the scope of the sustainability conversation from climate-focused considerations to also include social impacts.** While the international and national political discussion in Export Finance is currently mostly focussed on climate-related aspects, most banks are implementing broad sustainability strategies that also encompass social impacts of financed projects/transactions, in particular for essential infrastructure projects in emerging markets. The COVID-19 pandemic has demonstrated the significant demand for investments in social infrastructure, particularly in the healthcare sector. These projects could benefit from a dedicated policy framework—similar to the Sector Understanding on Climate Change—which would take into account the specificities of this sector, particularly in emerging markets.
- > **Seize and accelerate the modernisation of the OECD Arrangement to reflect and deliver on global sustainability commitments.** Given increased focus and mounting urgency to deliver on sustainability-related pledges, Participants will feel the pressure to explain how they address these commitments within the framework of the OECD Arrangement. The ongoing modernisation efforts as well as the upcoming revision of the CFSU present a unique opportunity to adapt the Arrangement to

this current and future realities of Export Finance. Sector restrictions are already a proven approach which could be applied beyond the scope of the Arrangement to all ECA financing instruments (including untied ones). Another opportunity to align with and support the global sustainability agenda are the introduction of incentives for agreed upon projects and transactions. These incentives may take the form of more attractive and flexible financing conditions ranging from tenors, pricing, repayment profiles and down payment requirements. In light of the accelerating global developments, Participants will have to speed up consensus building—despite the complexity of the matter. Temporary solutions may therefore present a compromise to send important market signals and refine piloted approaches based on experiences and feedback gathered. COP 26 offers a natural impetus to write the sustainability chapter of the OECD Arrangement.

- > **Acknowledge the existing overlap between development and Export Finance, particularly the resulting positive development contributions of projects/ transactions financed through officially supported export credits.** Despite the different primary mandates of ECAs as compared to development finance institutions (DFIs), both public finance instruments are increasingly financing the same or similar types of projects/transactions. Recognizing, measuring and promoting positive contributions towards the SDGs does not contradict the ECAs' mandate, but instead creates opportunities to foster increased cooperation and product innovation to address persisting financing gaps and grow the share of Sustainable Export Finance.
- > **Adopt new sustainability-related initiatives within the existing export regulatory framework (e.g. TCFD, Taxonomies).** EU-based ECAs should assess how the EU Taxonomy can be incorporated into their operations and reporting. At the global level, ECAs that have not done so already, should consider adopting the TCFD framework to better assess, manage and report on climate risks and opportunities.

3.3 Frameworks

This section assesses which frameworks Export Finance market participants commonly use to define and classify sustainable transactions.

3.3.1 SUMMARY OF KEY FINDINGS

- > There appears to be a clear divergence in approach between banks and ECAs in adopting a common framework for defining sustainable transactions.
 - Banks have de facto adopted ICMA and LMA's Green, Social, Sustainability and Sustainability-Linked Bonds and Loan Principles.
 - By contrast, ECAs are developing their own approaches and definitions, mainly focused on climate topics.
- > While the EU Taxonomy does not apply to European ECAs, it is starting to be used by some ECAs to provide incentives to taxonomy-aligned transactions.

3.3.2 BANK PERSPECTIVE

At banks, divergent views exist between Export Finance and Sustainable Finance professionals on the type of framework required to assess and classify Sustainable Export Finance transactions. During our interviews with Export Finance professionals within banks, there was an overwhelming view that the industry needs its own definition of what should be considered a Sustainable Export Finance transaction. These export financiers pointed out to the unique structure of the product, the fact that much of their activity is in emerging markets and that the industry overwhelmingly finances discrete projects.

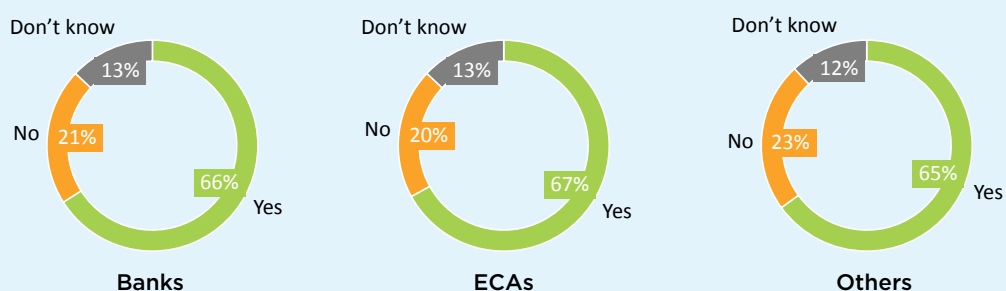
However, when we interviewed the Sustainable Finance professionals within the same banks, they pointed to the fact that such a common framework already exists, in the form of the ICMA and LMA Green, Social and Sustainability Bonds and Loans Principles. In their view, these principles already provide a widely accepted framework that underpins the sustainable bond market and increasingly sustainable loan issuance. In addition, it was highlighted the sustainable finance industry is already blessed with a plethora of initiatives, frameworks, and definitions (as discussed in Chapter 2) and there is no need to add yet another framework specific to Export Finance. In fact, export financiers who have already issued a Green Export Finance loan in line with the Green Loan Principles were comfortable with the Principles and suggested that these should form the basis of a common industry-wide definition. They also pointed to the fact that most banks—and some ECAs—are already issuers of Green, Social and in some cases Sustainability Bonds and facilitate these types of loans for clients on a regular basis.

Finally, as we will see in section 3.5.3, banks are starting to offer incentives for Export Finance loans that can be tagged against a Green / Social / Sustainability Bond.

Most survey respondents are concerned about the risk of “washing” in the industry, which is the practice of making unsubstantiated or misleading claims about the environmental or social benefits of a project.

Some interviewees highlighted that even when a certain standard is applied, such as the Green Loan Principles, individual institutions can have different interpretations on whether a project could be considered green or social. This is sometimes due to legitimate differences in views and preferences. For example, some may assess a project to invest in green buildings differently depending on whether the sponsor operates in the airline industry or in retail, even though the project will lead to reductions in GHG emissions.

Are you concerned about the risk of green/social/sustainability/transition “washing” in the industry? (in %)



To preserve the integrity of the relevant labels, Sustainable Finance standards are moving towards increased transparency and independent verification of environmental and social claims (see Chapter 2).

In addition, Export Finance transactions typically involve several players: the exporter, borrower, one or multiple lending banks and ECAs. As these institutions start to adopt internationally accepted Sustainable Finance frameworks, the participants will likely gravitate towards the institutions with the highest standard on any given transaction. Otherwise, questions may be raised as to why one party to the transaction chose not to sign-up to the environmental, social or sustainability claim.

3.3.3 ECA PERSPECTIVE

ECAs are generally at an earlier stage of defining, assessing and promoting sustainability beyond the scope of ESG/the Common Approaches. As noted in Section 3.2.2, many ECAs are in the process of developing a climate strategy for publication in the coming months. ECAs bound to the OECD Arrangement are reporting on their GHG emissions at the transaction level, while BPI France has taken a step further to also report on Scope 1, 2 and 3 emissions at the portfolio level. Contrary to banks, most ECAs appear to primarily focus on climate aspects, while the social aspects of sustainability are not yet widely considered, perhaps due to a lack of capabilities or agreed framework. For example, only a handful of ECAs are starting to map their transactions and portfolios against SDGs (i.e. GIEK, EDC).

Despite ongoing discussions and knowledge sharing among ECAs through the OECD, bilateral exchanges or the Berne Union, many ECAs are developing their own frameworks and methodologies to define sustainable transactions (see Box 15) Only a few lending ECAs appear to have experience with the ICMA Green Bonds Principles (i.e. UKEF, KEXIM, EDC). However, European ECAs interviewed reported that there is an effort to harmonize approaches and to leverage the EU taxonomy—at least at European level.

Box 15: ECAs apply a range of frameworks to define sustainable transactions

The Dutch export credit facility implemented by **Atradius Dutch State Business** (ADSB) has developed a **Green Label** methodology to identify “what is green”. The methodology is built on the IFC’s Definitions and Metrics for Climate Related Activities, as well as FMO’s methodology, CICERO’s shades of green and Atradius’ practice and insights. As a result, transactions are classified into three shades of green, namely “dark”, “medium” and “light” green.

The Norwegian ECA **GIEK** has developed an **SDG toolkit**. The toolkit is used to map out individual transactions against the seventeen SDGs to identify SDG-friendly projects. To assess a transaction, each relevant Goal and Target is reviewed qualitatively and assigned a value ranging from -2 to +3. Transactions that qualify as “SDG-friendly” may benefit from possible incentives.

BPI France applies the **EU Taxonomy** to classify sustainable transactions and provide incentives for such transactions (see section 3.5.4).

UKEF applies the **Green Bond Principles** to assess if transactions may benefit from its Clean Growth Direct Lending Facility.

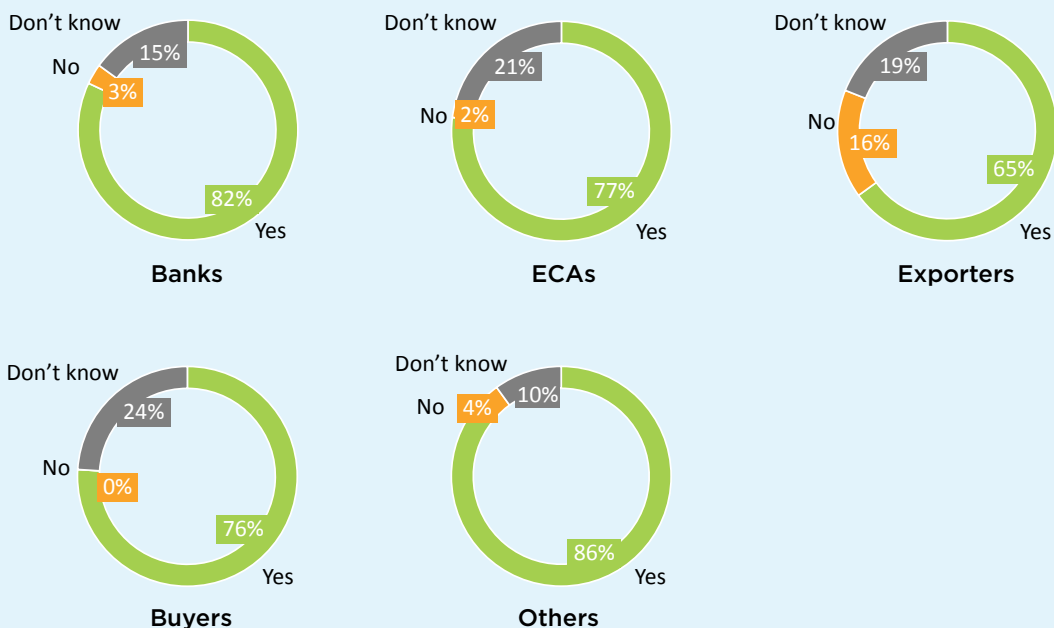
As Green Bond issuers, both **KEXIM** and **EDC** also have long-standing experience with applying Green Bond Principles. Furthermore, in 2020, KEXIM issued its first Social Bond confirmed to align with the 2020 Social Bond Principles.

EKF applies the **EU Taxonomy** to all deals that fall under the **Green Future Fund**.

For evaluation and risk management purposes, **Sinosure** applies a green label to classify clients and projects. Details regarding the underlying framework and methodology are not yet publicly available.

Many others have not yet formally defined a preferred framework for assessing sustainable transactions.

Would an industry-wide accepted use of proceeds framework which explicitly defines green, social, and SDG transactions be helpful to support the shift towards Sustainable Export Finance? (in %)



3.3.4 RECOMMENDATIONS

- > **Formalize ICMA/LMA Principles as the de facto framework used by banks for identifying and defining sustainable projects.** Export Finance banks should formalise the existing consensus view amongst banks by adopting the ICMA / LMA Principles as the de-facto framework for identifying and defining sustainable projects and engage with other market participants to establish a consensus at the industry level. The adoption of an industry-wide framework should be flexible. As new standards emerge or current frameworks and standards are strengthened, banks should proactively adopt the latest developments.
- > **Seek alignment among ECAs on a shared framework to define sustainable projects and transactions.** There is an opportunity for ECAs to combine efforts and agree on a shared framework, ideally by aligning with the bank / investor market. The obvious platforms for this type of international alignment are provided by the Berne Union or the OECD. The Agreement on a shared framework will contribute to safeguarding the level playing field and will reduce transaction costs given that banks and increasingly institutional investors collaborate on an Export Finance transaction. Aligning with commonly used industry frameworks will reduce reputational risks which may be caused by “washing”.

3.4 Demand Side

This section explores the demand side for Sustainable Export Finance. It identifies the factors that are shaping demand for Sustainable Export Finance from the perspectives of exporters, buyers, banks and ECAs. Furthermore, it highlights the challenges and opportunities that banks and ECAs are facing to originate more sustainable deals.

3.4.1 SUMMARY OF KEY FINDINGS

- > Sustainability has become an increasingly strategic issue for all market participants in the Export Finance ecosystem—a source of new revenues for some and at the same time, a threat to existing business models for others.
- > Industry stakeholders are increasingly developing transition strategies to demonstrate their alignment with the Paris Agreement goals.
- > Different exporters are facing different challenges. Exporters of green technologies are often less competitive from a pricing perspective (vis-à-vis traditional technologies) and call upon subsidies, while exporters in energy-intensive and fossil fuel industries are having a harder time obtaining financing for their transactions. Exporters in social infrastructure sectors are calling for longer tenors, in particular for emerging markets borrowers. These sustainability-related challenges all occur against the backdrop of increasing global competition and a deteriorating level-playing field.
- > Energy-intensive and fossil fuel industries are also concerned about the implications of increasing regulation on the level-playing field.
- > Both banks as well as ECAs aspire to originate more sustainable transactions. At the same time, banks are not reporting any significant changes to their origination strategies, particularly in Export Finance; and pure-cover ECAs mainly rely on banks and exporters to originate transactions.
- > In line with the previous finding, increased competition is reported for 'green' transactions.
- > At the same time, more banks are starting to engage on transition plans with their existing clients, particularly in carbon-intensive sectors.
- > Further growth in the sustainable segment is expected to stem from smaller innovative exporters. Fostering SME export growth is a high (policy) priority for ECAs and some have already forged ahead to provide tailored solutions for small and innovative exporters of sustainable goods and services.

3.4.2 EXPORTER PERSPECTIVE

For exporters, sustainability is seen as an opportunity to grow and identify new revenue streams. More than 80% of exporters globally who participated in the survey agreed with this statement (see Box 20). However, for some industries sustainability is also viewed as a threat to traditional revenue streams—as stated by more than a third of exporters. For these businesses—particularly those based in the EU—transition strategies are important. Almost 50% of exporter survey respondents stated that their company already has a transition policy in place. However, many exporters also noted that transition will not happen overnight and that a rapid shift of business model or exit

of certain sectors would cost jobs. Furthermore, much of the Export Finance business is taking place in less advanced markets and economies with fewer resources and lower environmental and social standards—making it less attractive to invest scarce resources into the latest and more expensive technologies.

Meanwhile, various exporter categories are reporting challenges for very different reasons. These include:

- > Exporters of ‘greener’ technologies
- > Exporters in energy-intensive and fossil fuel industries
- > Exporters in Social Infrastructure sectors

Exporters of ‘greener’ technologies are facing significant pricing competition from more traditional technologies when bidding for contracts, particularly in sectors such as industrial processes, equipment, and machinery. Indeed, developing GHG efficient technologies requires significant research and development investments. As a result, exporters of ‘green’ technologies report that the capital expenditure required for more climate-friendly technologies is often (still) higher than for traditional (more polluting) technologies, even though these projects often deliver savings in operating expenses. For buyers, particularly those in emerging markets, the additional CAPEX requirement may cause the project to become unaffordable and/or more difficult to finance. Such exporters are calling for subsidies and/or incentives to off-set the higher cost of these emerging technologies. The French Government, for example, has recognized the problem and is exploring the introduction of a “climate reward mechanism” to support green sectors or technologies that have not yet achieved a mature stage.⁴⁰

In addition, **commercial finance is not always available for the latest green technologies that are not yet proven at scale.** Historically, ECAs have filled this gap in areas such as the early stages of mobile communication technology, wind power, etc.

Box 17: Tied aid

Many exporters of ‘greener’ technologies complain that tied aid—offering aid on the condition that it be used to procure goods and services from the country of the provider of the aid—⁴¹ makes their exports even less competitive relative to traditional technologies. The OECD highlights that tied aid can increase the costs of a development project by as much as 15 to 30 percent and has been pushing to untie aid, through the Development Assistance Committee (DAC).

The practice of mixing an Export Finance loan with a grant is sometimes called a ‘mixed credit’, which represents up to 25% of all tied aid volume. While a discussion on the merits of tied aid is beyond the scope of this white paper, it is clear that in order to increase the volume of Sustainable Export Finance, donor governments should (i) avoid using mixed credits for projects that are not aligned with the Paris Agreement and (ii) avoid using mixed credits in a way that distorts competition for cleaner technologies.

⁴⁰ [Plan Climat pour le Financements Exports, Rapport au Parlement](#), last accessed on 28/06/2021

⁴¹ OECD

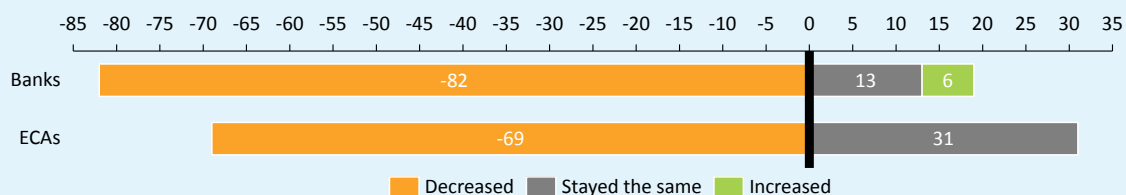
Northvolt, founded in 2016, is a European supplier of sustainable battery cells and systems with the mission to deliver the world's greenest lithium-ion battery with a minimal CO2 footprint. For the development of two lithium ion battery gigafactories in Sweden and Germany, Northvolt succeeded to raise a US\$1.6 billion debt financing from a consortium of global financial institutions with support of the German and Japanese ECAs Euler Hermes and NEXI. Northvolt's CFO states that "the fact that we have these world-class financial institutions supporting a new industry in Europe is a clear sign of where markets are headed and the opportunity that brings for sustainable projects."

Exporters active in social infrastructure sectors such as healthcare, education and water and sanitation, where buyers are often public sector entities in higher risk countries, are reporting a shortage of funding. They note that the OECD Arrangement in its current form does not take sufficiently into consideration the useful life of these assets. For such buyers, longer tenors would help increase the affordability of essential infrastructure projects.

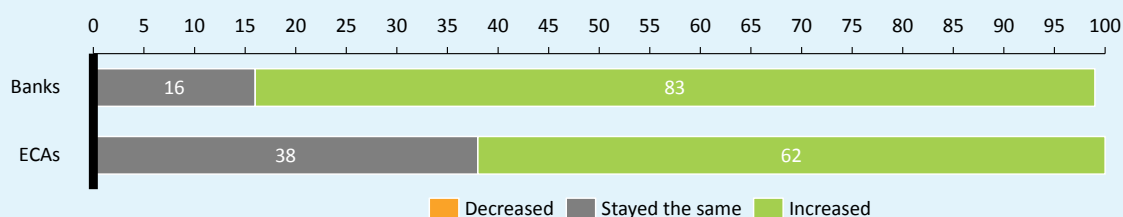
Exporters in energy-intensive and fossil fuel industries are concerned that they will struggle to secure financing for their transactions, as banks and ECAs have a reduced appetite for projects that have negative environmental and social impacts. Such exporters are concerned that possible disincentives and exclusions will negatively impact the level-playing field that the OECD Arrangement seeks to maintain. They point to the fact that these projects will get done anyway with official support from other countries, and possibly with lower E&S standards. Some European exporters fear that their competitiveness will be limited by the EU Taxonomy. If the Taxonomy was also applied to exports, they fear that they will become uncompetitive compared to non-EU exporters. These exporters are also concerned that thresholds identified in the EU Taxonomy are not adapted to emerging and developing markets.

Box 19: The sustainability agenda has impacted the appetite of banks and ECAs to finance certain transactions

How has your institution's appetite for supporting projects in certain sectors associated with negative environmental and social impacts (e.g. coal, oil and gas, defense, etc.) evolved in the past two years? (in %)



How has your institution's appetite for supporting projects in certain sectors associated with positive environmental and social impacts (e.g. solar, wind, etc.) evolved in the past two years? (in %)



Box 20: Supporting small and innovative sustainable export transactions

Growth in sustainable transactions is likely to stem from smaller but innovative exporters.

According to OECD analysis, radical innovations will be important to achieving green growth. A large share of these innovations emerges from new firms, as these are typically more prone to seizing technological or commercial opportunities neglected by more established companies.⁴² However, for the most part, banks' Export Finance teams do not appear to have a strategic approach to supporting this type of clients (yet). For ECAs supporting SMEs is a high policy priority. As such, it is not surprising that both the French Government as well as Atradius Dutch State Business offer programmes/incentives targeted at innovative/small exporters.

The **French Government** has issued a public call to finance **innovative export projects** that are addressing the decarbonization of essential services in developing countries. An amount of €10 million has been set aside to finance demonstration projects of these innovative exports with a maximum individual amount of €500,000. The aim is to support "market maturity" of new technologies.

A green instrument piloted by **Atradius Dutch State Business** offers **relaxed acceptance underwriting criteria for small green transactions up to €5 million**. The facility targets green transactions (i.e. renewable energy, or transactions that otherwise contribute to a reduction in CO2 emissions) that are assessed risky under the ECA's regular criteria. A total of €50 million has been made available for the pilot. A case-by-case approach is being applied.

EKF has introduced a **Green Accelerator programme** to provide seed-funding for sustainable exports.

42 OECD (2011b), Fostering Innovation for Green Growth, OECD Green Growth Studies

3.4.3 BUYER PERSPECTIVE

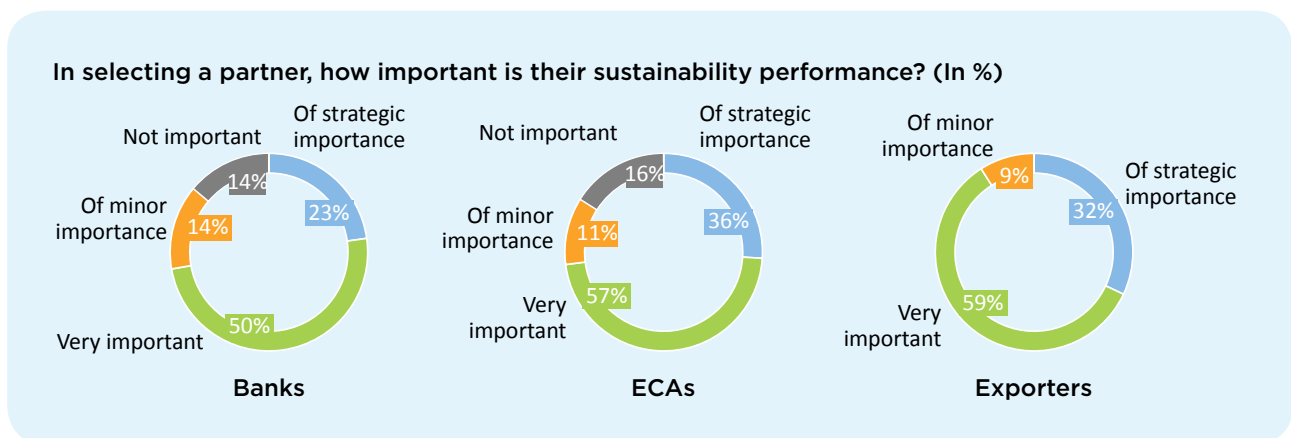
Some buyers are increasingly gearing up to respond to stakeholder expectations around sustainability.

Responding to investor and stakeholder pressure, they are adapting their business models and transition strategies and improving policies, practices and internal systems to be able to report on ESG performance and impact. However, a number of buyers in energy-intensive and fossil fuel industries have declined to be interviewed for this white paper, perhaps reflecting that they are not yet ready to discuss their transition pathway.

Buyers are increasingly taking into consideration the sustainability track record of their suppliers, banking partners and ECAs in making purchasing decisions.

This was highlighted both in survey results (see Box 21) as well as in interviews with buyers. Driven by their own sustainability strategies and investor preferences, buyers are making informed decisions based on the sustainability performance of suppliers as well as financing partners.

Box 21: Importance of sustainability track-record in selecting partners



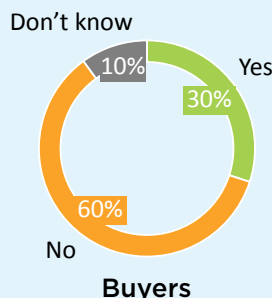
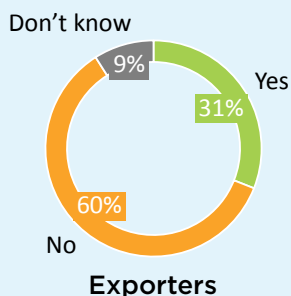
Buyers are not always aware of the increased demand from banks and ECAs to finance sustainable projects and some of the incentives that may be available to them (see Section 3.5). It is perhaps unsurprising that exporters of 'green' technology report that buyers do not sufficiently take into consideration environmental objectives in bid preparation. As a result, exporters or EPC contractors are discouraged to offer more climate-friendly solutions as these are often associated with higher CAPEX costs which could lead them to potentially lose the bid. Interestingly, buyers that we have interviewed indicated that they are open to adjusting project design to ensure that sustainability requirements of financiers are met, in particular if this is linked to increased capacity, longer tenors, access to ECA direct-lending facilities or pricing incentives. This is clearly a missed opportunity for all parties to support more sustainable transactions. To overcome this challenge, BPI France is exploring opportunities to provide stronger support during pre-financing stages.

Box 22: BPI France aiming to provide stronger support during pre-financing stages of project approval

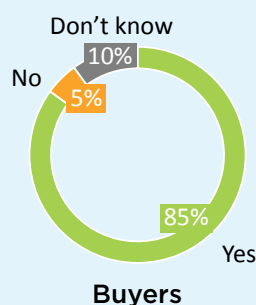
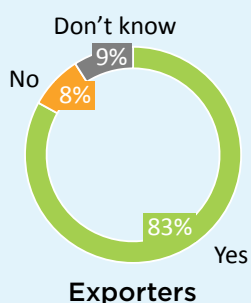
In many industries and for most infrastructure projects, the upstream phase is decisive in defining the environmental and social objectives of a project. During this phase foreign buyers conduct feasibility studies and develop tender documentation that define decision criteria and environmental thresholds. In other words, this phase decides if a project will attract low-carbon technologies or more sustainable companies. To incentivise the inclusion of environmental criteria and more ambitious environmental thresholds, BPI France is exploring to provide a stronger support by financing the study phase or impact assessments.⁴³

⁴³ Plan Climat pour le Financements Exports, Rapport au Parlement, last accessed on 28/06/2021

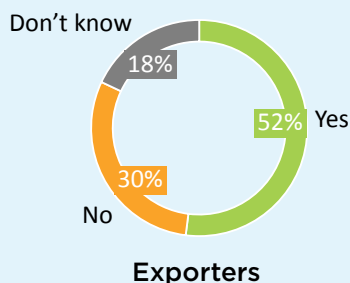
Do you view sustainability as a threat to your business and traditional revenue streams? (in %)



Do you view sustainability as an opportunity for your business to grow and identify new revenue streams? (in %)



Does your institution/business have a transition policy? (in %)



3.4.4 BANK PERSPECTIVE

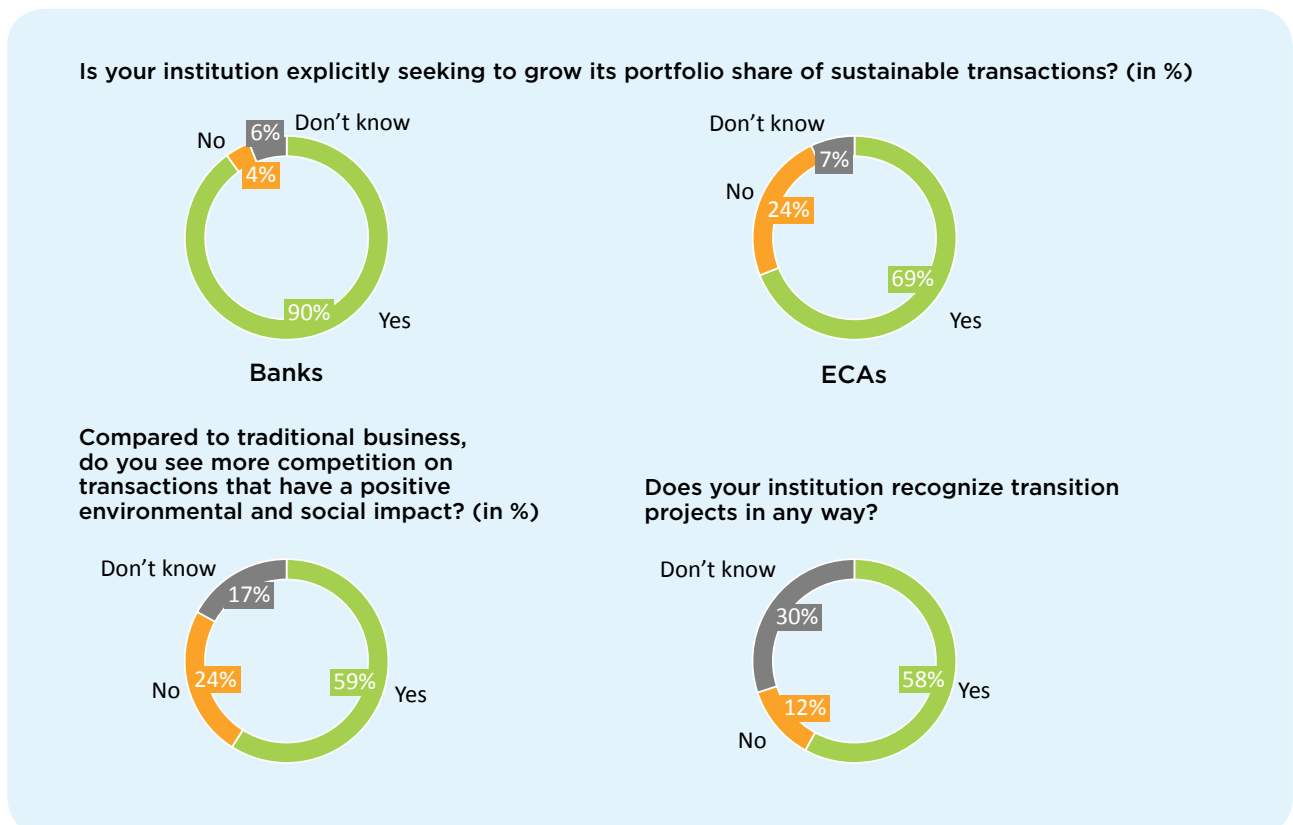
With 230 banks joining the UNEP FI Principles for Responsible Banking, financial institutions are progressively aligning their business operations and strategies with the Sustainable Development Goals and the Paris Agreement. Particularly in the past few years, many banks have announced quantitative sustainability goals and targets. In a few cases, mainly for European banks, these goals are linked to the incentive structure of senior management. In line with these commitments, banks have substantially grown their sustainability expertise, resources and product offerings. The most advanced banks are engaging their corporate clients on a conversation related to their transition strategies. These banks are looking to support clients through their transition journey. However, they also clearly stated that if clients are not willing or able to demonstrate a credible transition plan, then the banking relationship may be impacted.

However, banks are failing to actively shape the flow of sustainable transactions through their origination activities. On the one hand, banks originate Export Finance transactions by engaging with their corporate clients who are active exporters. On the other hand, they also engage with buyers who seek to arrange Export Finance transactions. With both origination channels, banks are not doing enough to shape demand:

- > **Corporate clients.** Banks are not actively engaging with new exporters, in particular innovative exporters with greener (and potentially unproven) technology solutions. This is partly driven by the size of these new exporters: lower turnover means that they do not qualify as ‘corporate banking’ clients, where the Export Finance teams usually sit.
- > **Buyers.** Banks are not actively engaging with buyers to shape the demand for sustainable projects and highlighting their preference—and related incentives—for financing sustainable transactions. As a result, opportunities to actively influence project design are missed. For example, one buyer interviewed stated that a bank had offered longer tenors and improved financing terms if the project design could be altered to include various sustainability features. However, the project was too advanced and changes in design would have led to significant delays.

As a result, banks are reporting increased competition on sustainable transactions. 90% of bank survey respondents highlight that their institution is seeking to grow its share of sustainable transactions and 59% of bank respondents report more competition on such transactions (see Box 24). Through our interviews, banks indicated that this increased competition is putting pressure on margins for these sustainable deals.

Box 24: Survey respondents’ views on the origination of sustainable transactions



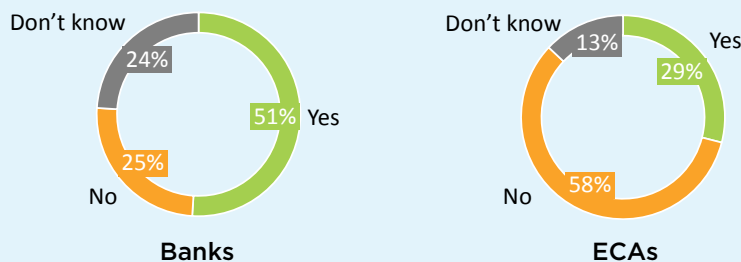
3.4.5 ECA PERSPECTIVE

Most ECAs' sustainability strategies that go beyond the well-established ESG risk management practices described in Chapter 1 are driven by their respective governments' Export Finance policy announcements. Only a few ECAs are driving the topic without a direct mandate from their Guardian Authorities. Further, interviews revealed that it is unclear to what extent the pursuit of sustainability beyond ESG risk management practices is a senior management priority (compared to the unanimous feedback from banks). Interviewees hinted at resistance to fully embracing the sustainability agenda, particularly given the perceived dichotomy with the ECAs' primary mandate of export promotion. In most ECAs the conversation related to the introduction of classification systems and incentives/disincentives appears to be led by the respective E&S teams. Furthermore, ECAs are less likely to have set financial targets around sustainability (see Box 25), as they perceive a lack of control on the type and volume of deals presented to them (particularly for pure cover ECAs).

Instead, ECAs, (in particular pure-cover ECAs) report that they are still governed by a demand-driven framework and mainly rely on banks and exporters for deal origination. In addition, the availability of sustainable transactions is linked to their respective country's export sectors and industrial policies.

Box 25: According to survey respondents, quantitative targets for sustainable transactions are less common in ECAs

Has a quantitative target been set?



3.4.6 RECOMMENDATIONS

- > **Develop targeted origination strategies for the Export Finance product to grow the share of sustainable transactions.** While the majority of banks have identified sustainability as a key strategic driver, this is not yet fully reflected at the operational level in day-to-day activities. Instead, banks largely continue to pursue the same types of clients and transactions, while applying their institution's sector restrictions. To grow the share of Sustainable Export Finance, banks should consider targeting new clients in new sectors, even though structuring these first transaction may prove time consuming. This additional investment may well prove worth it. As these new clients grow, banks will have helped develop their future flagship clients.
- > **Broaden support towards emerging companies that are exporting innovative solutions to environmental and social problems.** ECAs are set-up to address market failures and gaps. It is well known that SMEs often experience difficulties in obtaining access to Export Finance. This is likely more so the case for those that are exporting innovative solutions which are not yet proven in the market. ECAs and their Guardian Authorities should assess opportunities to provide targeted export support to these firms that is ideally linked to existing domestic promotion schemes (innovation schemes, etc.). Guardian Authorities should be prepared to revisit the set-up, structure and potential synergies of their various support schemes to allow the best effect on supporting sustainability.
- > **Structure projects by taking account of sustainability aspects.** One of the root causes identified in originating more sustainable transactions is that sustainability elements are not sufficiently taken into account by businesses, sponsors or governments when designing a project and preparing procurement. Buyers—especially in emerging markets—should be made aware and incentivised to structure bids with sustainability in mind. If possible, Export Finance participants are encouraged to raise awareness on their demand for sustainable deals (and possible incentives linked to them). A crucial enabling factor for projects to be structured towards sustainability is the integration and cooperation of support mechanisms/instruments. For example, the Export Finance industry should explore cooperating with development agencies to set-up dedicated technical assistance funds that would support prospective buyers during the design phase (i.e. through feasibility studies). Governments may also want to explore offering financing mechanisms that would help offset some of the additional costs linked to cleaner technologies. In order to do so, **ECA mandates and regulations also need to become more flexible to be able to swiftly and easily respond to market demands in a cooperative manner.**

3.5 Supply Side

This section provides an overview of the supply side of Sustainable Export Finance, particularly with regard to existing products and incentive mechanisms.

3.5.1 SUMMARY OF KEY FINDINGS

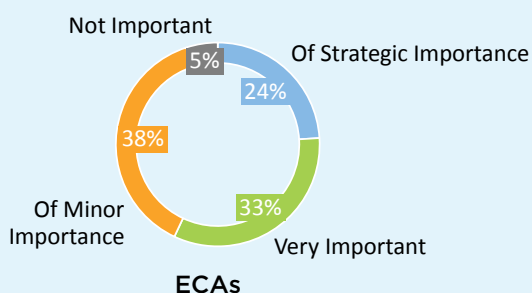
- > Product development for Sustainable Export Finance transactions is accelerating.
- > Various non-financial and financial incentives for Sustainable Export Finance transactions already exist within banks and ECAs.
- > Management encouragement and smoother internal approval processes are the most common non-financial incentives among banks. Improved internal and external pricing for sustainable transactions exists in many banks.
- > Several ECAs have developed or are currently in the process of developing targeted 'green' export instruments or facilities to incentivise such exports. Given the tight regulatory corset for officially supported export credits, most common policy levers applied include (1) the percentage of country content that is required, (2) risk appetite, (3) access to direct lending facilities and (4) growing financing support outside of the OECD Arrangement.

3.5.2 PRODUCT DEVELOPMENT

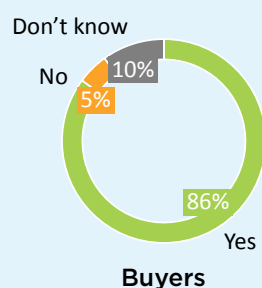
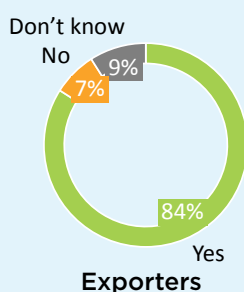
Product development for Sustainable Export Finance transactions is accelerating.

Banks and ECAs are reporting of various efforts to integrate Sustainable Finance elements into the existing Export Finance product offering. The first Green Export Credit (as per LMA Principles) have already closed and some examples of sustainability-linked export-related loans were reported by ECAs. Over 50% of ECA survey respondents also confirm that sustainability plays a very important to strategic role in their product development. Furthermore, exporter and buyer survey respondents confirm interest in a sustainability-linked export credit.

What role does the sustainability agenda play in your institution in regard to product development? (in %)



Would your business/institution be interested in a sustainability-linked export credit with lower all-in costs if certain environmental and social impacts are achieved? (in %)



3.5.3 BANK INCENTIVES

Non-financial incentives for sustainable transactions are not systematized. Over 90% of bank survey respondents stated management encouragement and support as the key internal incentive for sustainable transactions. In line with the survey result, most Export Finance professionals interviewed also report a smoother internal approval process for transactions with positive environmental and social impacts. However, bank interviewees stated that credit risk remains the key consideration in approving of transactions—irrespective of the extent of positive environmental and social impact the project.

Financial incentives for sustainable transactions exist, although these incentives are small. More than 50% of bank survey respondents report improved internal pricing and more than 40% state that improved external pricing exists for sustainable transactions. The quantum of savings—around 10 to 20bp—is usually linked to the negative new issue premium achieved by bank treasuries on Green or Social bonds relative to traditional bonds. These savings are then passed to the Export Finance desk and sometimes to the end client. However, most bankers interviewed do not consider these incentives to be decisive given the quantum of savings at play. Instead, ECA premium discounts are believed to be a much more impactful incentive.

3.5.4 ECA INCENTIVES

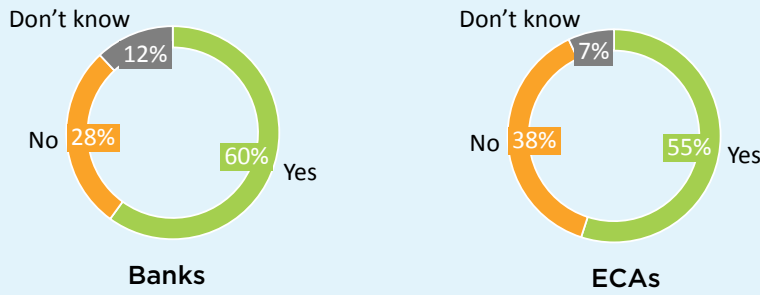
Levers that can be used by ECAs and their Guardian Authorities in the context of the WTO rules, OECD Arrangement and EU State Aid rules to incentivise certain sectors and/or transactions are limited—but more ECAs are starting to make use of them. Certain ECAs are moving beyond sector restrictions and are starting to develop incentive mechanisms to support green exports. While the scope of these incentives is limited by the rigidity of the OECD Arrangement, a handful of ECAs are pulling on the levers at their disposal to incentivise sustainable projects. These mainly consists of (1) the percentage of country content that is required, (2) risk appetite, (3) access to direct lending facilities at an attractive CIRR (Commercial Interest Reference Rate) and (4) growing financing support outside of the OECD Arrangement. Table 6 provides an overview of the published incentives offered by ECAs for sustainable transactions.

Table 6: Overview of selected ECA incentives for sustainable transactions

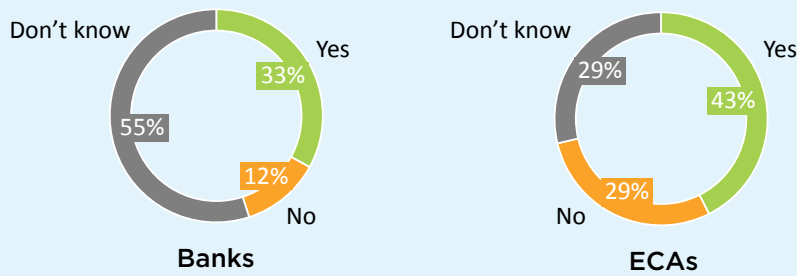
COUNTRY	DESCRIPTION	APPLICABLE LEVERS
Germany	<ul style="list-style-type: none"> > The German Official Export Credit Guarantee Scheme launched a special initiative for the promotion of renewable energy > Eligible transactions have a reduced national content threshold of 30%. > The German local cost rule is relaxed, as the required down payment portion for the local cost is omitted > Credit processes are fast-tracked > Exporters may benefit of enhanced market support from regional ECA staff 	<ul style="list-style-type: none"> > National content > Support outside of OECD Arrangement
France	<ul style="list-style-type: none"> > The French Government is currently planning to introduce a Climate Reward for sustainable export projects. > The projects are classified using the EU Taxonomy. > The climate reward is currently envisaged to consist of: <ul style="list-style-type: none"> — A stronger (financial) support during the pre-financing stages of export projects (i.e. reimbursable expenses or grants to finance feasibility studies) — Direct loans or tied aid 	<ul style="list-style-type: none"> > Access to Direct Lending > Support outside of the OECD Arrangement
Japan	<ul style="list-style-type: none"> > JBIC's business operation GREEN (Global Action for Reconciling Economic Growth and Environmental Preservation) under which it provides loans, equity participation and guarantees to environmental projects (i.e. photovoltaic power plants, energy-saving equipment). No details on specific incentives are available online. 	<ul style="list-style-type: none"> > Support outside of the OECD Arrangement

COUNTRY	DESCRIPTION	APPLICABLE LEVERS
Netherlands	<ul style="list-style-type: none"> > Atradius Dutch State Business, the Dutch ECA, offers a number of green incentives to transactions/projects that qualify as green (all three shades). The green incentives entail: <ul style="list-style-type: none"> — A broader Dutch content policy for green project finance — Increased coverage (up to 95%) for green project finance transactions — Relaxed underwriting criteria for small green transactions up to €5 million (pilot stage). Relaxed underwriting criteria are defined on a case-by-case basis but may entail higher risk appetite, longer repayment terms, relaxation of regulatory standards. — Broader definition of export 	<ul style="list-style-type: none"> > National content > Risk appetite > Increased risk coverage > Support outside of the OECD Arrangement
UK	<ul style="list-style-type: none"> > UK Export Finance launched a Clean Growth Facility in 2020 > Through the facility, UKEF can provide direct loans to oversea buyers for clean growth projects that align with the Green Bonds Principles. > The overall amount of the facility is GBP 2 billion. > Each prospective deal is considered on a case-by-case basis. 	<ul style="list-style-type: none"> > Access to Direct Lending
US	<ul style="list-style-type: none"> > US EXIM's Environmental Exports Programme exists since 1994 and currently applies to the following sectors amongst others: <ul style="list-style-type: none"> — Renewable energy equipment, energy efficiency technologies, air pollution technologies, wastewater treatment projects, waste management systems > The enhanced financing made available through the programme includes capitalized interest during construction as well as the automatic availability of the local cost financing threshold. > In addition, US EXIM has announced the establishment of a \$ 250 million renewable energy facility linked to a range of incentives. 	<ul style="list-style-type: none"> > Relaxation of internal policies

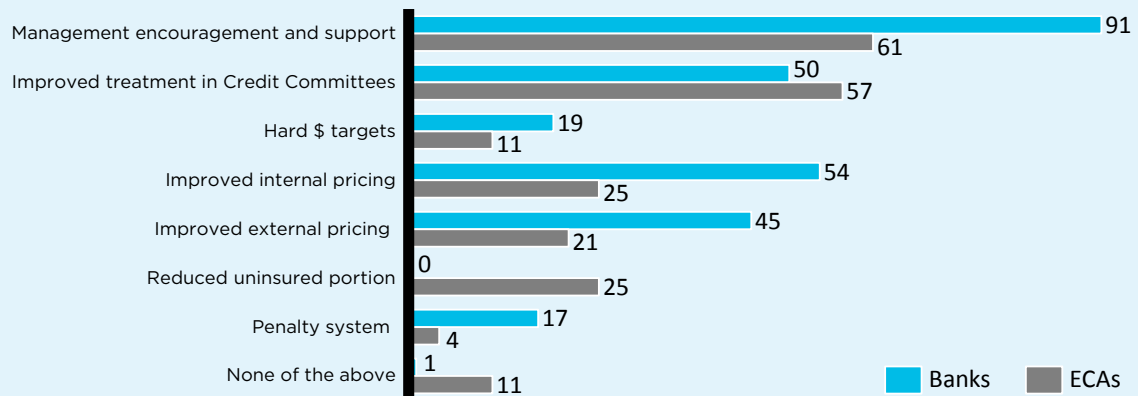
Does your institution currently incentivise sustainable projects in any way? (in %)



Are there plans to implement an incentive scheme? (in %)



What incentives exist to originate projects that have a positive environmental and social impacts? (in %)



3.5.5 RECOMMENDATIONS

- > **Better communicate to buyers and exporters about existing sustainable financial products and incentives.** In order to bridge the knowledge gap identified on the demand-side of Sustainable Export Finance (see section 3.4) banks and ECAs should better market to buyers and exporters the type of support they might receive for sustainable transactions (i.e. increased appetite, faster approval processes, pricing).
- > **Develop more incentives, ideally embedded in the OECD Arrangement, to promote the transition towards a sustainable economy and export structure.** ECAs should further develop and grow incentives for sustainable export transactions in a consistent and coordinated manner. Ideally, incentives can be offered through the OECD Arrangement (see Section 3.2).
- > **Broaden the eligibility criteria for incentives.** ECAs that are currently offering incentives, are mainly focussed on certain 'green' sectors, while social sectors or SDG-alignment is mostly discarded. Furthermore, the focus is on specific transactions and not on the exporting business. While Export Finance remains a transaction-driven product, ECAs may also consider supporting the transition of their national exporters to be part of their mandate to promote national exports and jobs.
- > **Leverage sources of blended finance, such as the Green Climate Fund or the Climate Investment Funds, to cover the increased capital expense of technologies with improved environmental and social performance.** Particularly emerging economies who are facing more resource constraints, tend to opt for lower capital expenditure options in their investment decisions. Developing financing structures that combine development and Export Finance can therefore be effective to facilitate the growth of new, clean and innovative technologies, while supporting emerging markets in achieving their own Paris Agreement and/or SDG commitments. Ideally, these blended finance structures are developed together with multilateral development financiers, such as the Green Climate Fund, to ensure the level-playing field and avoid an increase in tied aid. An important precondition however is that developed countries deliver on their COP16 pledge of mobilizing at least \$100 billion a year for developing countries. This is particularly critical if their ECAs cease support for certain essential infrastructure projects with high GHG emissions such as coal or gas-fired power generation. Structuring such blended finance deals will require early engagement with buyers to identify such opportunities in time.

3.6 Integrating Sustainability in the transaction life cycle

3.6.1 SUMMARY OF KEY FINDINGS

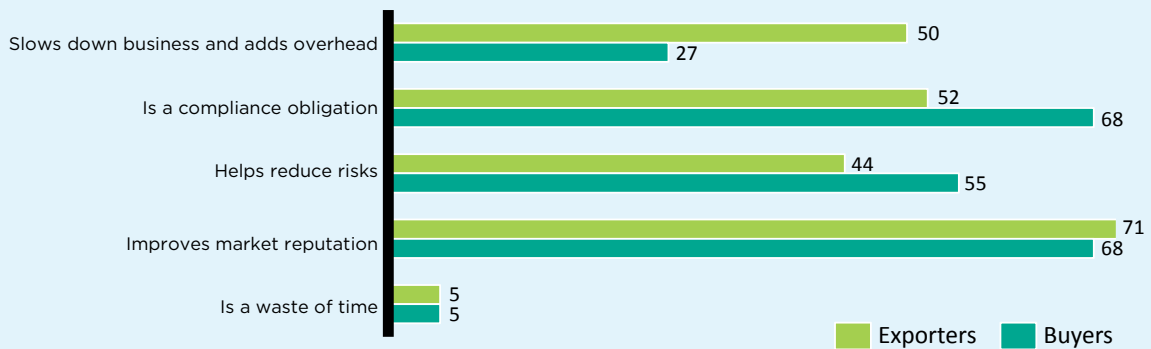
- > E&S due diligence is a required element of an Export Finance transaction and is generally considered a key component of a risk framework.
- > Some ECAs interpret the increased focus on sustainability as needing to conduct more stringent E&S due diligence. However, in some cases, staffing of E&S teams has not kept up with this increased focus, leading to delays.
- > Meanwhile, positive environmental and social impacts of projects are not systematically assessed, despite buyers expressing interest in sharing impact metrics.
- > Not many banks and even fewer ECAs are measuring the positive environmental and social impacts during the project life cycle and beyond.
- > ECAs still lag behind banks when it comes to measuring and reporting on the positive and negative sustainability impacts of their portfolios.

3.6.2 E&S DUE DILIGENCE

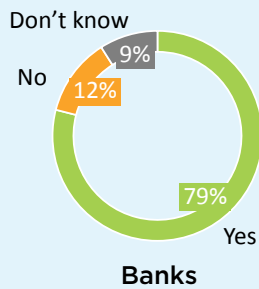
E&S due diligence is a required element of an Export Finance transaction and is generally considered as a key component of a risk framework.

Interviews with market participants confirm broad acceptance of environmental and social due diligence processes, in line with the OECD Recommendations and the Equator Principles which many arranging banks and some of the ECAs have adopted. Close to 70% of exporter and buyer survey respondents are in agreement that the E&S due diligence process improves market reputation and more than 50% of the buyer survey respondents believe that it helps reduce risks. At the same time, exporters—which bear the brunt of the cost for such diligence—also feel that it slows down business and adds overheads.

How do you perceive an increased focus on Environmental and Social aspects in due diligence processes? (in %)



Is there an increased acceptance for detailed Environmental and Social due diligence and monitoring requirements from clients? (in %)



Increased focus on sustainability has been translated into more stringent E&S due diligence by some ECAs.

Many exporters, banks and some buyers stated that the increased industry focus on sustainability has been interpreted by some ECAs as needing to apply more stringent E&S due diligence processes, even for projects that have clear environmental and social benefits. Project and local contexts are thereby not sufficiently taken into consideration, leading to a “tick-boxing” approach. The different levels of intensity and focus in due diligence also impact the level-playing field according to some exporters. Furthermore, the impression of interviewees is that the staffing in E&S teams for certain ECAs has not kept up with the increased requirements of the E&S due diligence process. As a result, the process is sometimes a bottleneck for Export Finance transactions.

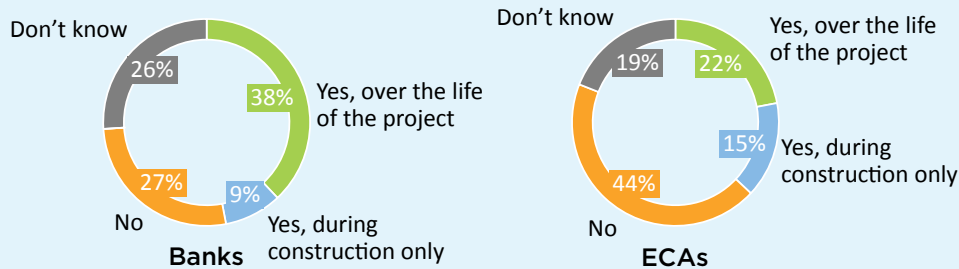
3.6.3 POSITIVE IMPACT MONITORING

Banks and ECAs do not systematically consider the positive environmental and social impact of transactions in their due diligence process.

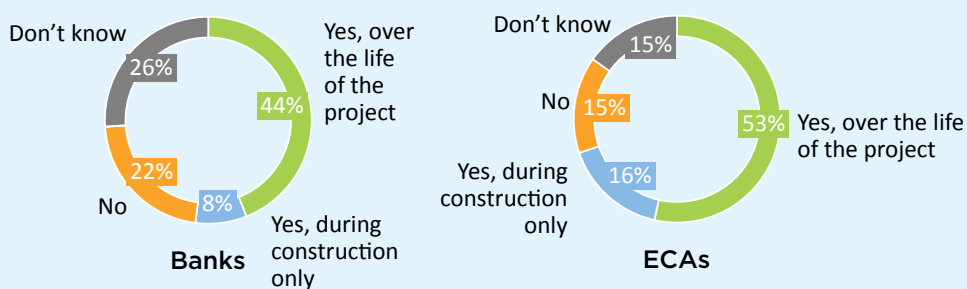
Most financial institutions have policies in place to monitor the environmental and social (E&S) risks of the transactions in their portfolios. However, a key element in Sustainable Finance is the measurement and reporting on positive environmental and social impacts. This practice is not yet well established in the Export Finance space, except in rare situations where the transaction is labelled as a Green, Social, or Sustainability Loan. About 40% of bank survey respondents state that they measure and monitor positive impacts over the life of a project and only 22% ECA survey respondents state that they do the same. In interviews, ECA respondents often stated that the measurement of positive environmental and social impact is a complex task that is best left to development finance institutions.

Box 29: Bank and ECA survey respondents' views on impact measurement

Does your institution measure and monitor the positive impacts of the projects they finance in a systematic, structured way? (in %)



Does your institution measure and monitor the negative impacts of the projects they finance in a systematic, structured way? (in %)

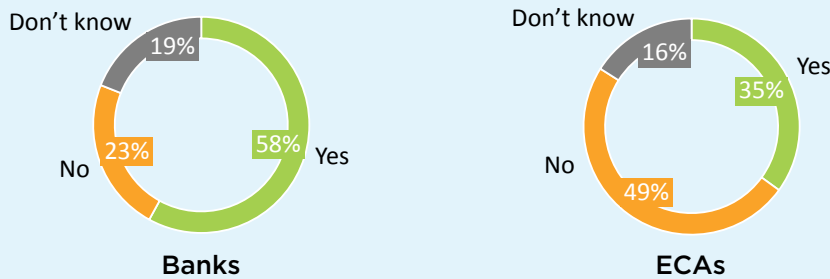


Buyers are interested in reporting on the positive impacts of transactions. Interviewed sovereign buyers expressed interest in providing access to relevant impact metrics of projects with relevant parties to the financing, as long as these requirements do not delay financial close. Corporate buyers interviewed shared that they are increasingly being approached by financial institutions to report on sustainability milestones and impacts. There is general willingness and interest to comply with these requests.

ECAs are still behind the curve when it comes to monitoring and reporting sustainability impacts of their portfolios. Some ECAs have started to measure the GHG emissions of their portfolios, although there is little alignment across institutions and the methodologies used for monitoring vary greatly. Of the few that measure and monitor their portfolios' GHG emissions, even fewer publish the full GHG impacts of their portfolio. Some ECAs measure the impact of their activities in terms of economic activity or jobs created in their home countries, but very few ECAs are systematically measuring the positive and negative impacts of their activities in the export market in the way that other financial institutions are. A study conducted by Perspectives in 2020 finds this gap worrisome for two reasons. Firstly, the amount of ECA financing is particularly large when compared to development financing from MDBs and DFIs and secondly, this issue has already been flagged by researchers and NGOs since the early 2000s.⁴⁴

Box 30: According to survey respondents, banks are more advanced in assessing the level of sustainability of their portfolios

Has your institution put in place a system to assess the level of sustainability of its portfolio (historic and new transactions)? (in %)



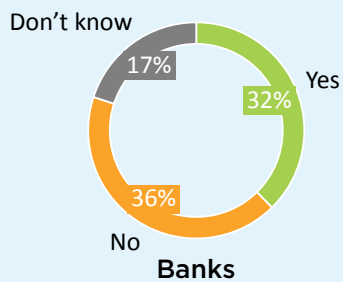
⁴⁴ Perspectives, Study on external and internal climate change policies for export credit and insurance agencies, 2020

3.6.4 CREDIT PERFORMANCE OF SUSTAINABLE EXPORT FINANCE TRANSACTIONS

Currently no representative data or analysis exists on the linkage between credit performance and the sustainable nature of a client or transaction. According to survey respondents, only some banks appear to be integrating E&S performance into their client credit rating systems,⁴⁵ while more seem to be open to it (see Box 31). While approximately a third of bank and ECA respondents believe that transactions with positive environmental and/or social impacts perform better from a credit perspective, this hypothesis has not yet been systematically tested.

Box 31: Survey respondents' perspectives on the interlinkage of E&S performance and credit risk

Has your institution incorporated E&S performance into its client credit rating system?



⁴⁵ The May 2020 EBA guidelines on loan Origination and Monitoring provide guidelines to incorporate ESG factors in risk processes for European banks.

3.6.5 RECOMMENDATIONS

- > **Leverage the ICC trade register to analyse the credit performance of transactions with positive environmental and social impact.** The ICC trade register contains transaction-level data dating from 2007 submitted by a number of banks, including default history by borrower type and related recovery rates. This data could be analysed to identify transactions with positive environmental and social impacts and test whether these transactions have a better credit performance. If this proves to be the case, this could provide the necessary evidence for increased appetite for such transactions and support of existing initiatives such as the EBF green supporting factor.
- > **Consider analysing and measuring the positive environmental and social impacts of transactions and projects as part of the due diligence process—from both an ex-ante and ex-post basis.** As we have seen in Chapter 1, about 20% of the Export Finance market could qualify as sustainable. However, the positive impact of these transactions is not systematically captured or reported. Both banks and ECAs should consider expanding existing systems and processes to cater for also capturing positive environmental and social impacts of projects and clients. The information can be used to increase transparency towards shareholders and stakeholders. In many interviews, it was stated that sustainability is of strategic importance at the organisational level and an area of individual interest, in particular for younger professionals. Analysing the positive impact of these transactions may qualify them for better financing terms (see section 3.5) and may help motivate and retain talent within individual organisations.
- > **Develop/agree on a set of harmonized indicators to assess the positive environmental and social impacts of projects/transactions as well as their alignment with buyer countries' NDCs.** Establishing a harmonized reporting on positive impacts at an industry level would not only reduce transaction costs by exporters and buyers, but also support the ongoing product innovation in the market. Being able to report on the positive impacts of the Export Finance industry with regard to sustainability may increase the profile of Export Finance and trigger opportunities to collaborate more effectively with development finance institutions to off-set the additional costs that the Paris Agreement Commitments represents for many countries. A similar initiative—that can be leveraged—has already been successfully implemented by the Development Finance community and is referred to as [Harmonized Indicators for Private Sector Operations \(HIPSO\)](#).



CHAPTER 4

Conclusion

The fact that 16 *competing* banks in the Export Finance market have come together under the auspices of the ICC to support the development of this White Paper underscores the strategic importance of sustainability for these institutions and the collective desire to shift industry volumes towards more sustainable transactions. The involvement of The Rockefeller Foundation also signals that there is a broader audience within the Sustainable Finance landscape wishing to engage and showcase how Export Finance is well placed to contribute to solutions.

As we explain in this paper, to achieve these objectives all market participants have a role to play. For example, banks need to better communicate their appetite to finance sustainable projects and some of the incentives that may be available to buyers. They should also support new and innovative companies and export technologies that help address the world's most pressing problems. Buyers should structure tenders in a way that thoughtfully incorporate lifecycle sustainability considerations. They should also explore the sources of blended finance which may be available to them to make the adoption of greener solutions more affordable. Exporters should articulate a clear business case for more sustainable solutions, with a focus on any savings in running costs from deploying more efficient technologies.

Much of the impetus needed to propel the Export Finance industry towards a more sustainable path falls to the ECAs and their Guardian Authorities. Exports should no longer be considered adjacent to governments' commitments to the SDGs and the Paris Agreement, but fully integrated in a government-wide strategy to deliver on these global commitments. Some countries have taken decisive steps in that direction. Others are lagging.

This paper makes the point that ECAs were once leading the way on the topic of sustainability. In recent years, however, they have fallen behind. While the Sustainable Finance market has grown significantly in size, scope and sophistication, the Export Finance industry has not introduced any meaningful new multilateral initiative since the CFSU in 2016. Yet, this is where the real opportunity to shape the future of the industry lies.

The ongoing process to modernise the OECD Arrangement presents a unique opportunity to integrate the SDGs and the Paris Agreement objectives within the rulebook of ECAs, creating incentives for certain industries and technologies while ensuring that public finance no longer supports projects that are not congruent with these goals.

Many market participants are concerned that changes to the OECD Arrangement will take years to materialise. However, it does not need to be the case. When 130 countries can come to a consensus on a topic as sensitive as a global minimum corporate tax rate in a record time, agreeing on a common framework for Export Finance should also be within reach.

With annual export financing volumes comparable to those of development finance institutions, the world cannot afford a misallocation of this capital on projects that go against the achievement of the global goals. Governments have a responsibility to act fast. Time is running out.

TERM GLOSSARY

List of Acronyms

AEGF	Africa Energy Guarantee Fund
ANZ	Australia and New Zealand Banking Group
ATI	African Trade Insurance Agency
CPRI	Credit and Political Risk Insurance
DSA	Debt Sustainability Analyses
ECA	Export Credit Agency
ESG	Environmental, Social and Governance
ESIA	Environmental and Social Impact Assessment
EU	European Union
GCF	Global Financial Crisis
GIIN	Global Impact Investing Network
GLP	Green Loans Principles
ICC	International Chamber of Commerce
ICMA	International Capital Markets Association
IEA	International Energy Agency
IFC	International Finance Corporation
IFCL	International Financial Consulting Ltd.
IFI	International Financial Institutions
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
NDC	Nationally Determined Contributions
KPI	Key Performance Indicator
LMA	Loan Markets Association
NGO	Non-governmental Organization
OECD	Organisation for Economic Co-operation and Development
OPIM	Operating Principles for Impact Management
SBP	Social Bonds Principles
SLBP	Sustainability-Linked Bonds Principles
SLP	Social Loan Principles
SPT	Sustainability Performance Targets
TEG	EU Technical Expert Group
UKEF	UK Export Finance
UNPRI	UN Principles for Responsible Investments
WTO	World Trade Organisation

ANNEX A

Sustainable Export Finance Market Sizing Methodology

METHODOLOGY

The methodology used to identify Green, Social and Sustainable transactions is closely aligned with LMA's (Loan Markets Association) Green Loans Principles (GLP), Social Loan Principles (SLP) and ICMA's (Internationals Capital Markets Association) Sustainable Bond Guidelines (SBG). These principles and guidelines—underpinning \$456bn of Green and Social loans outstanding as of 2018—provide helpful definitions and categorisation of the types of projects and financings that could be considered Green or Social.

In order to size the Sustainable Export Finance market, each transaction in the TXF TagMyDeals database was classified Green, Social or Sustainable where the use of proceeds could be clearly identified per LMA's GLP, SLP or ICMA's SBG.

As the data available for this market sizing exercise was self-submitted by market participants (in particular, active commercial arranging banks), the choice of classification methodology was largely driven by the need to establish a common approach industry-wide. A large number of arranging banks active in the Export Finance market are already Green Bond issuers and, in some cases, Social and Sustainability Bonds issuers. A subset of these banks have started to issue Green or Social Export Finance loans in line with the GLP or the SLP. In addition, some ECAs such as EDC and the Exim-Import Bank of Korea (KEXIM) are issuers of Green or Social bonds. As issuers, these institutions have in place the expertise and governance mechanisms to classify ECA loans as Green, Social or Sustainable in line with the principles and guidelines.

SCOPE OF TXF TAGMYDEALS DATABASE

As of today, the only data set related to the Export Finance industry that is available at the transaction level is the TXF TagMyDeals dataset. This data is self-submitted by market participants. As a result, it is not a complete overview of the industry. In particular, smaller banks / ECAs may not always wish to submit information as they may perceive fewer benefits (e.g. visibility, league table credit, etc.). from submitting information compared to the larger institutions.

While not providing a complete picture, the TagMyDeals dataset provides a helpful proxy of the industry's activity.

METHODOLOGICAL CAVEATS

The classification exercise was largely driven by the availability of data in the TXF TagMyDeals database, in particular as it relates to the use of proceeds. As a result, the quality of the analysis is only as reliable as the information submitted. In classifying transactions, a conservative approach was taken, specifically as it relates to social use of proceeds. When a project had the potential to provide significant social benefits, but a target beneficiary group could not be readily identified, the transaction was not classified as social.

Principles, Taxonomies, Frameworks

HIGH-LEVEL PRINCIPLES/ INDUSTRY PLATFORMS

EQUATOR PRINCIPLES (EP)

<https://equator-principles.com/>

Year of Launch: The Equator Principles (EPs) launched in 2003. The EPs are updated periodically. The latest iteration, EP4, was released on 18 November 2019 and came into effect on 1 October 2020.

Governance: The Equator Principles (EPs) Association is the unincorporated association of member Equator Principles Financial Institutions (EPFIs) whose object is the management, administration and development of the EPs. The EP Association was formed on 1 July 2010 and was instituted to ensure long-term viability and ease of management of the member EPFIs.

Objective: Provide a minimum standard for due diligence and monitoring to support responsible risk decision-making.

Description: The EPs is a risk management framework, adopted by financial institutions, for determining, assessing, and managing environmental and social risk in projects. The EPs apply globally, to all industry sectors and to five financial products: 1) Project Finance Advisory Services, 2) Project Finance, 3) Project-Related Corporate Loans, and 4) Bridge Loans and 5) Project-Related Refinance, and Project-Related Acquisition Finance. The EPs are based on IFC's Performance Standards.

Target Audience: Public and private financial institutions

Members: 118 Financial Institutions in 37 countries

GIIN: CORE CHARACTERISTICS OF IMPACT INVESTING

<https://thegiin.org/characteristics>

Year of Launch: The Core Characteristics of Impact Investing was founded in 2009.

Governance: The Global Impact Investing Network (GIIN) is led by a Board of Directors.

Objective: Provide clear reference points and practical actions to establish a baseline for impact investing.

Description: The Core Characteristics of Impact Investing, convened by the GIIN in partnership with impact investors, define what constitutes credible impact investing through four high-level principles. It complements the GIIN's definition of impact investing by helping investors understand the essential elements of impact investing, define the credibility of their practices, and consider the quality of the practices of potential investment partners.

Target Audience: Investors

Tools:

- > Four core characteristics of impact investing: 1) Intentionality, 2) Use Evidence and Impact Data in Investment Design, 3) Manage Impact Performance, 4) Contribute to Growth of the Industry

NET ZERO ASSET MANAGERS ALLIANCE

<https://www.netzeroassetmanagers.org/>

Year of Launch: The Net Zero Asset Managers Alliance was launched in December 2020.

Governance: The initiative is managed globally by six Founding Partner investor networks: Asia Investor Group on Climate Change (AIGCC), CDP, Ceres, Investor Group on Climate Change (IGCC), Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI).

Objective: Galvanise the asset management industry to commit to a goal of net zero emissions by 2050 or sooner.

Description: The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner. As signatory, the Asset Manager commits to the aforementioned goals.

Target Audience: Asset Managers

Members: 87 signatories and \$37 trillion in assets under management

Tools:

- > The Net Zero Asset Managers Commitment

NET ZERO ASSET OWNER ALLIANCE

<https://www.unepfi.org/net-zero-alliance/>

Year of Launch: The Net Zero Owner Alliance was founded in September 2019 at the UN Secretary General's Climate Action Summit.

Governance: The Alliance is governed by a steering group, including: Allianz, CalPERS, Caisse des Dépôts, Caisse de dépôt et placement du Québec, Folksam Group, PensionDenmark, SwissRe, Principles for Responsible Investment, and UNEPFI.

Objective: Transition investment portfolios to net-zero greenhouse gas (GHG) emissions by 2050 or sooner.

Description: The Alliance is a group of some of the world's largest investors that have committed to reducing carbon emissions in their portfolio to net-zero by 2050. They will issue their intermediary targets and report on progress in line with Paris Agreement Article 4.9. To become member of the alliance, investors need to sign a commitment i) to transitioning their investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels; ii) to establishing intermediate targets every five years; and iii) to regularly reporting on progress.

Target Audience: Institutional Investors

Members: 42 institutional investors representing \$6.6 trillion assets under management (as of May 2021)

Tools:

- > The Net Zero Owner Alliance Commitment

OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

<https://www.oecd.org/corporate/mne/>

Year of Launch: The Guidelines were adopted in 1976 and were subsequently revised in 1979, 1982, 1984, 1991, 2000 and 2011.

Governance: The OECD Investment Committee is the primary body responsible for overseeing the functioning of the Guidelines and implementation of all OECD investment instruments. The Committee consists of member states' senior officials from treasuries, economics, trade and industry, and foreign affairs ministries and central banks. All OECD member states are members of the Investment Committee.

Objective: Provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards.

Description: The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. The Guidelines are the only multilaterally agreed and comprehensive code of responsible business conduct that governments have committed to promoting. They include the following themes: human rights and labour rights, as well as information disclosure, environment, bribery, consumer interests, science and technology, competition, and taxation.

Target Audience: Multinational Enterprises

Members: 44 adhering governments—representing all regions of the world and accounting for 85% of foreign direct investment

Tools:

- > OECD Due Diligence Guidance for Responsible Business Conduct
- > The Guidelines are supported by a unique implementation mechanism of National Contact Points (NCPs), agencies established by adhering governments to promote and implement the Guidelines.

OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

<https://www.impactprinciples.org/>

Year of Launch: The Impact Principles were launched in April 2019.

Governance: The Impact Principles are governed by an Advisory Board which are elected every two years to provide advice on the implementation and evolution of the Impact Principles.

Objective: Establish a global standard around the management of investments for impact.

Description: The Operating Principles for Impact Management, convened by the IFC, are intended to be a framework for investors for the design and implementation of their impact management systems, ensuring that impact considerations are integrated throughout the investment lifecycle. The nine operating principles provide the building blocks for a robust impact management system across the investment cycle, from strategic positioning to exit. Signatories to the principles are required to publish an annual statement in which they disclose how each principle is incorporated into their investment process. In addition, their alignment with the principles must be independently verified.

Target Audience: Investors, Asset Managers, Asset Owners

Members: 104+ asset managers and owners

Tools:

- > The Nine Operating Principles for Impact Management

POSEIDON PRINCIPLES

<https://www.poseidonprinciples.org/about/>

Year of Launch: The Poseidon Principles were launched in June 2019.

Governance: The Poseidon Principles Association is the governing body of the Poseidon Principles whose object is the management, administration and development of the Poseidon Principles. Signatories to the Poseidon Principles automatically become members of the Poseidon Principles Association.

Objective: Organize a group of aligned and committed financial institutions to take ownership of a set of principles to integrate climate considerations into lending decisions in ship finance, consistent with the climate-related goals of the IMO.

Description: The Poseidon Principles provide a global framework for integrating climate considerations into lending decisions to promote international shipping's decarbonization. The Poseidon Principles are consistent with the policies and ambitions of the International Maritime Organization, a UN agency responsible for regulating shipping globally, including its ambition for GHG emissions to peak as soon as possible and to reduce the total annual GHG emissions by at least 50% by 2050 compared to 2008. Signatories of the Poseidon Principles are required to assess and disclose the climate alignment of their respective shipping portfolios. As a result, the Principles establish a common, global baseline to quantitatively assess and disclose whether financial institutions' lending portfolios are in line with adopted climate goals.

Target Audience: Financial Institutions

Members: Currently 22 financial institutions are Signatories to the Poseidon Principles, representing a bank loan portfolio to global shipping of approximately \$165 billion—more than a third of the global ship finance portfolio. More banks are expected to join in the near future.

Tools:

- > Poseidon Principles

PRINCIPLES FOR POSITIVE IMPACT FINANCE

<https://www.unepfi.org/positive-impact/principles-for-positive-impact-finance/>

Year of Launch: The Principles for Positive Impact Finance were developed and released in 2017.

Governance: The Principles were developed by the Positive Impact Working Group, a group of UN Environment Finance Initiative banking and investment members. As at 1st January 2017, the Positive Impact Working Group includes: Australian Ethical, Banco Itaú, BNP Paribas, BMCE Bank of Africa, Caisse des Dépôts Group, Desjardins Group, First Rand, Hermes Investment Management, ING, Mirova, NedBank, Pax World, Piraeus Bank, SEB, Société Générale, Standard Bank, Triodos Bank, Westpac and YES Bank.

Objective: Provide a high-level framework to enable finance and its public and private stakeholders to analyse and manage impact across the economy.

Description: In October 2015, the UNEP Finance Initiative's banking and investment members called for a new 'positive impact' financing paradigm to support the achievement of the SDGs. The Principles for Positive Impact Finance were subsequently realized to guide investors in increasing their positive impact on the economy, society and the environment. The principles consider both positive and negative impacts across three pillars of sustainable development (economic, environmental and social) and apply to all forms of financial institutions and financial instruments.

Target Audience: Investors, Financiers, Auditors, Corporates, Governments, Civil Society

Members: Nearly 20 leading global banks and investors, totalling \$6.6 trillion in assets

Tools:

- > Principles for Positive Impact Finance
- > The Impact Radar: maps the specific impact areas business and finance can have a positive or negative effect on
- > The Impact Mappings
- > Model Frameworks for Holistic Impact Analysis: provide guidance on integrating impact considerations into business processes and decision-making
- > Tools for Holistic Impact Analysis Tools

PRINCIPLES FOR RESPONSIBLE BANKING (PRB)

<https://www.unepfi.org/banking/bankingprinciples/>

Year of Launch: The Principles for Responsible Banking were launched in September 2019.

Governance: The PRB is implemented by a Civil Society Advisory Body that is composed of 12 organizations each representing a region (Africa & Middle East, Asia-Pacific, Europe, Latin America and North America), key sustainability topic (Biodiversity & Ecosystems, Climate, Human Rights & Gender, Poverty & Social Issues and Transparency & Accountability), and key stakeholder group (Clients & Customers and Employees). The Body contributes to and supports the effective implementation of the Principles by engaging with the Banking Board and the community of Signatory banks, providing inputs in regular progress evaluations and advising on strategy and framework revisions.

Objectives: Provide a reference framework for a sustainable banking system in line with the Sustainable Development Goals and the Paris Climate Agreement.

Description: The Principles for Responsible Banking help banks embed sustainability at the strategic, portfolio, and transactional levels. Signatory banks commit to taking three key steps which enable them to continuously improve their impact and contribution to society: 1) Analyse their current impact on people and planet, 2) Based on this analysis, set targets where they have the most significant impact, and implement them, 3) Publicly report on progress. Eighteen months after signing, signatory banks must report on impact and progress; within four years, signatory banks must have met all these requirements. They are held to account against their commitments through an annual review of their individual progress. A Civil Society Advisory Body will hold the signatories to account for their collective progress.

Target Audience: Financial Institutions

Members: 230 banks representing more than a third of the global banking industry

Tools:

- > Principles for Responsible Banking
- > Guidance on Biodiversity Target-setting
- > Portfolio Impact Analysis Tool
- > Guidance on Reporting
- > Communications Toolkit

PRINCIPLES FOR RESPONSIBLE INVESTMENTS (PRI)

<https://www.unpri.org/>

Year of Launch: The Principles for Responsible Investments were launched in April 2006 at the New York Stock Exchange.

Governance: The PRI Association is a company limited by guarantee which is governed by the PRI Association Board. The board is collectively responsible for the long-term success of the PRI and is supported by the committees which facilitate its workings. The board is composed of: one independent chair (confirmed by a signatory vote); ten elected directors (seven directors elected by asset owner signatories, two directors elected by investment manager signatories, one director elected by service provider signatories); and two permanent UN advisors who are representatives from the PRI's founding UN partners: UN Global Compact and UNEP Finance Initiative. The chair and all elected directors are the statutory members of the company.

Objective: Encourage investors to invest responsibly to enhance returns and better manage risks.

Description: The 6 Principles for Responsible Investment are voluntary and aspirational principles for incorporating ESG issues into investments. In signing the Principles, investors publicly commit to adopt and implement them, where consistent with fiduciary responsibilities.

Signatories are required to report on their responsible investment activities annually, which are then assessed by PRI. The PRI has also implemented minimum requirements for signatories such as having an investment policy that covers the firm's responsible investment approach, covering >50% of AUM.

Target Audience: Investors

Members: 3000+ signatories

Tools:

- > Six Principles for Responsible Investment
- > The PRI produces guides, case studies, webinars and events to inform investors on how to incorporate ESG considerations into investment decision-making and ownership practices in a systematic way, within each asset class.

PRINCIPLES FOR SUSTAINABLE INSURANCE (PSI)

<https://www.unepfi.org/psi/>

Year of Launch: The Principles for Sustainable Insurance were launched in 2012.

Governance: The PSI Initiative is directly governed by a Board comprising representatives from insurance industry signatory institutions and UNEP. Board members from the insurance industry are elected by signatories.

Objective: Reduce risk, develop innovative solutions, improve business performance, and contribute to environmental, social and economic sustainability through sustainable insurance.

Description: The Principles for Sustainable Insurance serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities. The Principles is a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are done in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with environmental, social and governance issues. Signatories must participate in an annual public disclosure process.

Target Audience: Risk managers, Insurers

Members: 140+ organisations worldwide have adopted the four Principles for Sustainable Insurance, including insurers representing more than 25% of world premium volume and \$14 trillion in assets under management

Tools:

- > Four Principles for Sustainable Insurance

UN GLOBAL COMPACT PRINCIPLES

<https://www.unglobalcompact.org/>

Year of Launch: The Ten Principles of the UN Global Compact were launched in June 2004.

Governance: The UN Global Compact is not a regulatory instrument, but rather a forum for discussion and a network for communication including governments, companies and labour organisations, whose actions it seeks to influence, and civil society organisations, representing its stakeholders. The governance framework distributes governance functions among several entities so as to engage participants and stakeholders at the global and local levels in making decisions and giving advice on the matters of greatest importance to their role and participation in the UN Global Compact, and to reflect the initiative's public-private and multi-stakeholder character.

Objective: Align company's strategies and operations with universal principles on human rights, labour, environment, and anti-corruption.

Description: The United Nations Global Compact is a non-binding United Nations pact to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labor, the environment and anti-corruption. Under the Global Compact, companies are brought together with UN agencies, labor groups and civil society. Participants are expected to publish in their annual report or similar corporate report (e.g. sustainability report) a description of the ways in which they are supporting the UN Global Compact and its ten principles.

Target Audience: Corporates

Participants: 12,000+ companies based in over 160 countries, both developed and developing, representing nearly every sector and size

Tools:

- > SDG Compass: explains how the SDGs affect business so companies can put sustainability at the heart of their strategy. This tool was developed by the UN Global Compact, Global Reporting Initiative (GRI), and the World Business Council for Sustainable Development (WBCSD).
- > UN Global Compact Self Assessment Tool: to be used by a company to assess their performance on social and environmental standards through a set of 45 questions with a set of 3-9 indicators for each question.
- > Mandatory Disclosure Framework

IMPACT MANAGEMENT PROJECT (IMP)

<https://impactmanagementproject.com/>

Year of Launch: The Impact Management Project was launched in September 2018.

Governance: The IMP is a global public interest project funded by a diverse group of donors. The IMP core team is from a wide range of countries, including the UK, Norway, USA, Canada, South Africa, Romania and Australia. They are supported by consultants and advisors who contribute to a range of experiences and perspectives. The IMP Team is legally hosted by Bridges Insights, an independent non-profit set up by Bridges Fund Management, exclusively for the purpose of building the market for sustainable business and investment.

Objective: Build consensus among organizations on how to measure, manage and report impacts on environmental and social issues.

Description: The Impact Management Project (IMP) provides a forum for building global consensus on measuring, assessing and reporting impacts on people and the natural environment. It has defined norms that provide a structured framework for understanding impact and a classification of investment by impact characteristics.

Target Audience: Investors, Enterprises

Members: The IMP convenes a community of 2,000+ practitioners to share best practices, delve into technical issues, and identify areas where further consensus is required in impact measurement and management.

Tools:

- > Five dimensions of impact: IMP participants have built consensus around five dimensions of impact performance
- > Data categories: specific types of data needed to understand enterprise performance on each of these dimensions
- > How enterprises can manage their impact: guidance for enterprises on how to manage their impact
- > How investors can manage their impact: guidance for investors on how to manage their impact and that of their investees

PARIS AGREEMENT

<https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

Year of Launch: The Paris Agreement was adopted by 196 Parties at COP 21 in December 2015 and entered into force in November 2016.

Objective: Limit global warming to well below 2 °C (preferably to 1.5 °C) compared to pre-industrial levels to achieve a climate neutral world by mid-century.

Description: The Paris Agreement is a legally binding international treaty on climate change. Implementation of the Paris Agreement requires economic and social transformation, based on the best available science. The Paris Agreement works on a 5- year cycle of increasingly ambitious climate action carried out by signatory countries. By 2020, countries had to submit their plans for climate action known as nationally determined contributions (NDCs). Starting in 2024, under an Enhanced Transparency Framework, countries will report transparently on actions taken and progress in climate change mitigation, adaptation measures and support provided or received.

Members: Adopted by 196 Parties

Tools:

- > Nationally determined contributions (NDCs)
- > Long-term low greenhouse gas emission development strategies (LT-LEDS)

SCIENCE BASED TARGETS—FINANCIAL SECTOR

<https://sciencebasedtargets.org/sectors/financial-institutions>

Year of Launch: The Science Based Targets initiative (SBTi) launched a project to help financial institutions in 2018.

Governance: SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). The SBTi has four layers of governance: Executive Board (includes one high-level representative from each partner and donor organisation); Steering Committee (includes a designated staff member from each of the four partner organisations); Project Core Team (comprised of staff from across partner organisations); and a Technical Advisory Group (a group of volunteer advisors from business, academia, government, non-profit and multilateral organisations).

Objective: Help financial institutions—including banks, investors, insurance companies, pension funds and others—set science-based targets to align their lending and investment activities with the Paris Agreement.

Description: SBTi developed a tool to help financial institutions set targets for carbon reduction emissions. It focuses on the impact of a financial institution's lending and investment portfolio on climate change by linking it to climate stabilization pathways. In addition, financial institutions are required to set targets for their operations consistent with a well below 2°C pathway. Subscribing financial institutions must submit targets for validation and communicate them publicly.

Target Audience: Financial institutions

Members: 55+ financial institutions

Tools:

- > Science Based Target setting tool (in Excel)
- > Practical guidance
- > Tool for temperature scoring and portfolio coverage
- > Target validation criteria and recommendations

UN SUSTAINABLE DEVELOPMENT GOALS (SDGS)

<https://sdgs.un.org/goals>

Year of Launch: The Sustainable Development Goals (SDGs) were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030.

Objective: Provide a shared blueprint for peace and prosperity for people and the planet, now and into the future.

Description: The Sustainable Development Goals (SDGs) are a collection of 17 interlinked global goals designed to be a blueprint to achieve a better and more sustainable future for all. The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030. They are included in a UN Resolution called the 2030 Agenda.

Members Adopted by all 193 United Nations Member States

Tools:

- > 17 Sustainable Development Goals and 169 targets and indicators
- > Online SDG-Tracker

CHINA GREEN BOND PROJECT CATALOGUE

<http://www.greenfinance.org.cn/displaynews.php?cid=79&id=468>

Year of Launch: The China Green Bond Project Catalogue was launched in 2015.

Governance: Developed by the People's Bank of China (PBOC).

Objective: Identify priority projects with positive environmental impact that can be financed through the issuance of green bonds.

Description: In 2015, the People's Bank of China issued guidelines for green bonds within the inter-bank market. These guidelines stipulate the requirements for projects to qualify as green, the expected management of proceeds and reporting, and a taxonomy in the form of the Green Bond Endorsed Project Catalogue. The Catalogue defines eligible green projects and provides guidelines for project classification and eligibility criteria for six environmental sectors: Energy saving; Pollution prevention and control; Resource conservation and recycling; Clean transportation; Clean energy; and Ecological protection and climate change adaption.

Target Audience: Investors, Chinese domestic issuers

Tools:

- > Green Bond Endorsed Project Catalogue

CLIMATE BONDS TAXONOMY

<https://www.climatebonds.net/standard/taxonomy>

Year of Launch: The Climate Bonds Taxonomy was first released in 2013 and is regularly updated based on the latest climate science, emergence of new technologies, and on the Climate Bonds Standard Sector Criteria.

Governance: Overseen by the Technical and Industry Working Groups of the Climate Bonds Standard Board.

Objective: Encourage and be an important resource for common green definitions across global markets, in a way that supports the growth of a cohesive thematic bond market that delivers a low carbon economy.

Description: The Climate Bonds Taxonomy is a guide to climate aligned assets and projects. The Taxonomy identifies the assets and projects needed to deliver a low carbon economy and gives GHG screening criteria consistent with the 2°C global warming target set by the COP 21 Paris Agreement.

Target Audience: Issuers, Investors, Governments, Municipalities

Tools:

- > Climate Bonds Taxonomy
- > Sector Criteria: provides in depth detail on what assets may be financed with Climate Certified Bonds and Loans.

EU TAXONOMY ON SUSTAINABLE ACTIVITIES

https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

Year of Launch: The Taxonomy Regulation was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020.

Governance: The EU taxonomy is informed by a Technical Expert Group (TEG) on sustainable finance established by the European Commission.

Objective: Create a uniform and harmonized classification system which determines the activities that can be regarded as environmentally sustainable for investment purposes across the EU.

Description: The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities. The EU taxonomy is an important enabler to scale up sustainable investment and to implement the European Green Deal. Notably, by providing appropriate definitions to companies, investors and policymakers on which economic activities can be considered environmentally sustainable, it is expected to create security for investors, protect private investors from greenwashing, help companies to plan the transition, mitigate market fragmentation and eventually help shift investments where they are most needed.

Target Audience: Investors, Companies, Policymakers

Participants: Financial Market Participants, large and listed corporates in the EU

Tools:

- > Taxonomy Regulation
- > Technical Screening Criteria
- > The Taxonomy Compass

PRODUCT-SPECIFIC GUIDELINES

ICMA GREEN BOND PRINCIPLES (GBP)

<https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>

Year of Launch: The latest iteration of the Green Bond Principles (GBP) was updated in June 2021.

Governance: The GBP were developed by the International Capital Market Association (ICMA). The GBP are coordinated by the Executive Committee with the support of the Secretariat.

Objective: Enable capital-raising and investment for new and existing projects with environmental benefits.

Description: The Green Bond Principles (GBP) are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. The GBP recommend a clear process and disclosure for issuers, which investors, banks, underwriters, arrangers, placement agents and others may use to understand the characteristics of any given Green Bond. The GBP emphasise the required transparency, accuracy and integrity of the information that will be disclosed and reported by issuers to stakeholders through core components and key recommendations.

Target Audience: Issuers, Investors, Underwriters

Tools:

- > Green Bond Principles
- > Green Project Mapping

ICMA SOCIAL BOND PRINCIPLES (SBP)

<https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/>

Year of Launch: The latest iteration of the Social Bond Principles (SBP) was updated in June 2021.

Governance: The SBP were developed by the International Capital Market Association (ICMA). The SBP are coordinated by the Executive Committee with the support of the Secretariat.

Objective: Raise funds for new and existing projects with positive social outcomes through use of proceeds bonds.

Description: The SBP are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Social Bond market by clarifying the approach for issuance of a Social Bond. The SBP recommend a clear process and disclosure for issuers, which investors, banks, underwriters, arrangers, placement agents and others may use to understand the characteristics of any given Social Bond. The SBP emphasise the required transparency, accuracy and integrity of the information that will be disclosed and reported by issuers to stakeholders through core components and key recommendations.

Target Audience: Issuers, Investors, Underwriters

Tools:

- > Social Bond Principles
- > Pre-issuance checklist

ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES (SLBP)

<https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/>

Year of Launch: The latest iteration of the Sustainability-Linked Bond Principles (SLBP) was updated in June 2020.

Governance: The SLBP were developed by the International Capital Market Association (ICMA). The SLBP are coordinated by the Executive Committee with the support of the Secretariat.

Objective: Further develop the key role that debt markets can play in funding and encouraging companies that contribute to sustainability (from an environmental and/or social and/or governance perspective).

Description: The Sustainability-Linked Bond Principles provide guidelines that recommend structuring features, disclosure and reporting. They are intended for use by market participants and are designed to drive the provision of information needed to increase capital allocation to such financial products. The SLBP are applicable to all types of issuers and any type of financial capital market instruments.

Target Audience: Issuers, Investors, Underwriters

Tools:

- > Sustainability-linked Bond Principles
- > Illustrative examples for the selection of KPIs

LMA GREEN LOAN PRINCIPLES (GLP)

https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

Year of Launch: The Green Loan Principles (GLP) were launched in March 2018.

Governance: The GLP were developed by an experienced working party, consisting of representatives from leading financial institutions active in the syndicated loan market, with a view to promoting the development and integrity of the green loan product. The GLP were published by the Asia Pacific Loan Market Association (APLMA), the Loan Market Association (LMA), and the Loan Syndications and Trading Association (LSTA).

Objective: Promote the development and integrity of green loan products and facilitate and support environmentally sustainable economic activity.

Description: The Green Loan Principles (GLP) are voluntary guidelines that seek to promote integrity in the development of the green loan market, by clarifying instances in which a loan may be categorized as “green”. Market participants are expected to adopt the GLP on a deal-by-deal basis depending on the underlying characteristics of the transaction. To promote consistency across financial markets, the guidelines build on and refer to the Green Bond Principles administered by the International Capital Market Association.

Target Audience: Financial Institutions

Tools:

- > Green Loan Principles
- > Indicative categories of eligibility for green projects

LMA SOCIAL LOAN PRINCIPLES (SLP)

https://www.lma.eu.com/application/files/1816/1829/9975/Social_Loan_Principles.pdf

Year of Launch: The Social Loan Principles (SLP) were launched in April 2021.

Governance: The SLP were developed by an experienced working party consisting of representatives from leading financial institutions and law firms active in the global loan markets, with a view to promoting the development and integrity of the emerging social loan product. The SLP were published by the Asia Pacific Loan Market Association (APLMA), the Loan Market Association (LMA), and the Loan Syndications and Trading Association (LSTA).

Objective: Facilitate and support economic activity which mitigates social issues and challenges, and/or achieves positive social outcomes through the creation of a high-level framework of market standards and guidelines, providing a consistent methodology for use across the social loan market, whilst allowing the loan product to retain its flexibility and preserving the integrity of the social loan market while it develops.

Description: The SLP comprise voluntary recommended guidelines, to be applied by market participants on a deal by deal basis depending on the underlying characteristics of the transaction, which recommend transparency and disclosure and seek to promote the integrity in the development of the social loan market by clarifying the instances in which a loan may be categorised as being “for social purposes”. The SLP build on and refer to the Social Bond Principles administered by the International Capital Markets Association, with a view to promoting consistency across financial markets.

Target Audience: Financial Institutions

Tools:

- > Social Loan Principles

LMA SUSTAINABILITY LINKED LOAN PRINCIPLES (SLLP)

https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability_Linked_Loan_Principles_V032.pdf

Year of Launch: The Sustainability Linked Loan Principles (SLLP) were launched in March 2019.

Governance: The (SLLP) were developed by an experienced working party, consisting of representatives from leading financial institutions active in the global syndicated loan markets. The SLLP were published by the Asia Pacific Loan Market Association (APLMA), the Loan Market Association (LMA), and the Loan Syndications and Trading Association (LSTA).

Objective: Promote the development and preserve the integrity of sustainability linked loan products, and facilitate and support environmentally and socially sustainable economic activity and growth.

Description: The Sustainability Linked Loan Principles (SLLP) are voluntary guidelines that capture the fundamental characteristics of these loans. Sustainability linked loans are defined as loan instruments or contingent facilities which incentivise the borrower's achievement of predetermined sustainability performance targets. In contrast to the Green Loan Principles, the use of proceeds is not a determinant in the categorisation; in most instances, sustainability linked loans will be used for general corporate purposes.

Target Audience: Financial Institutions

Tools:

- > Sustainability Linked Loan Principles
- > Indicative list of sustainability performance targets

SDG IMPACT STANDARDS FOR SDG BONDS

<https://sdgimpact.undp.org/sdg-bonds.html>

Year of Launch: The SDG Impact Standards for SDG Bonds were launched in March 2021.

Governance: The SDG Impact Standards for SDG Bonds is informed by a Steering Group, Chaired by the UNDP Administrator and comprised of twelve global champions and thought leaders from finance and enterprise.

Objective: Establish a voluntary global standard for a decision making and impact management systems that support positive contribution to sustainable development and achieving the SDGs. Part of a broader harmonized set, these standards apply specifically to SDG Bonds.

Description: The SDG Impact Standards are best practice standards for entities wanting to embed contributing positively to sustainable development and achieving the SDGs into their approach to creating value for themselves and for Stakeholders (people and planet). They focus on the internal management and decision-making practices that are needed to support more informed and accountable internal decision making and choices in line with achieving the SDGs and other sustainable development outcomes.

The Standards embed the SDGs and the Impact Management Project's norms as the shared language to understand, manage and communicate impact. The Standards also embed the United Nations Guiding Principles for Business and Human Rights and the Ten Principles of the United Nations Global Compact, to underscore the importance of respect for human rights and other responsible business practices in contributing positively to sustainable development and achieving the SDGs.

Target Audience: Investors, Issuers, Enterprises

Tools:

- > Standards
- > Practical guidance
- > Assurance framework

CARBON DISCLOSURE PROJECT (CDP)

<https://www.cdp.net/en/>

Year of Launch: The Carbon Disclosure Project (CDP) was first launched in 2002.

Governance: CDP Global is an international non-profit organization comprising of CDP Worldwide Group, CDP North America, Inc. and CDP Europe AISBL. It is directed by a board of trustees and board of directors respectively. As an international organization, CDP receives funding support from a wide range of sources.

Objective: Create an environmental disclosure system that assesses corporates and cities on behalf of investors.

Description: CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. CDP offers support to measure and manage risks and opportunities on climate change, water security, and deforestation. CDP produces an annual “A List” with the names the world’s businesses leading on environmental performance.

Target Audience: Investors, Companies, Cities, States and Regions

Members: Over 590 investors with over \$110 trillion in assets, over 200+ major buyers with a combined purchasing power of \$5.5 trillion, over 9,600 companies, over 810 cities, and over 130 states and regions reported through CDP on climate change, water security, and forests.

Tools:

- > Band rating
- > “A” list of leading companies and cities

CLIMATE DISCLOSURE STANDARDS BOARD

<https://www.cdsb.net/>

Year of Launch: The latest iteration of the Climate Disclosure Standards Board (CDSB) Framework was updated in April 2018.

Governance: The Board sets CDSB's priorities and strategic direction and upholds CDSB's mission, values and vision. CDSB's Board members represent international business and environmental organisations that are working to create the enabling conditions for the reporting and disclosure of climate change, environmental information and natural capital in mainstream financial reports.

Objective: Advance and align the global mainstream corporate reporting model to equate natural capital with financial capital.

Description: The Climate Disclosure Standards Board (CDSB) is an international consortium of business and environmental NGOs that offers companies a CSDB Framework to report environmental information with the same rigor as financial information and integrate such information into mainstream reports (e.g. annual reports, 10-K filings and integrated reports).

Target Audience: Investors, Analysts, Companies, Regulators, Stock Exchanges, Accounting Firms

Tools:

- > CDSB Framework
- > Implementation guides to report in line with the TCFD

GIIN IRIS+

<https://iris.thegiin.org/>

Year of Launch: The IRIS+ system was launched by the Global Impact Investing Network (GIIN) in 2019.

Governance: The Global Impact Investing Network (GIIN), which oversees the IRIS+ system, assembled a formal Advisory Body to support the ongoing development of IRIS+. The IRIS+ Advisory Body is comprised of leaders in impact investing and impact measurement & management with representatives from the different impact investing stakeholder groups including investors, standards setters, data providers, evaluators, and industry networks among others. The GIIN is led by a Board of Directors.

Objective: Create an impact accounting system that impact investors can use to measure, manage, and optimize their impact.

Description: IRIS+ is the generally accepted system for impact investors to measure, manage, and optimize their impact. IRIS+ was developed by the Global Impact Investing Network (GIIN) through extensive market consultation. As a free public good, the IRIS+ system supports the practice of impact investing and promotes transparency, credibility, and accountability in the use of impact data for decision making across the impact investment industry.

Target Audience: Investors, Companies, Fund Managers, Finance Institutions

Members: 11,500+ individual users, and 7,000+ organisation users

Tools:

- > Core Metric Sets
- > Thematic taxonomy
- > IRIS Catalog of Metrics
- > Curated resources and practical how-to guidance

GLOBAL REPORTING INITIATIVE (GRI)

<https://www.globalreporting.org/>

Year of Launch: The Global Reporting Initiative (GRI) was founded in 1997. The GRI Standards, the most recent of GRI's reporting frameworks, was launched in October 2016. The Standards continue to be updated and added to, including new Topic Standards on Tax (2019) and Waste (2020).

Governance: The GRI is made up of the following governance bodies: board of directors, stakeholder council, technical advisory committee, organizational stakeholders, and a secretariat. Diverse geographic and sector constituencies are represented in these governance bodies. All members of the governance bodies contribute their time and expertise on a voluntary basis.

Objective: Produce standards for sustainability reporting to help businesses, governments, and other organisations communicate their impact on issues such as climate change, human rights, and social well-being.

Description: The Global Reporting Initiative (known as GRI) is an international independent standards organization. In 2016, GRI transitioned from providing guidelines to setting the first global standards for sustainability reporting—the GRI Standards. The GRI Standards provide detailed guidance for disclosure for 30+ sustainability topics divided by economic, social, and environmental categories. Each sustainability topic includes several topic-specific disclosure requirements for corporates. GRI does not directly collect data from companies and does not set standards by sector

Target Audience: Corporates

Members: 9,950+ companies reporting

SUSTAINABILITY ACCOUNTING STANDARDS BOARDS (SASB)

<https://www.sasb.org/>

Year of Launch: The Sustainability Accounting Standards Board (SASB) was founded in July 2011. The SASB Standards were launched in October 2018.

Governance: SASB Standards are maintained under the auspices of the Value Reporting Foundation, a global non-profit organization. The Value Reporting Foundation Board of Directors oversees the strategy, finances, and operations of the entire organization, and appoints the members of the SASB Standards Board. The SASB Standards Board is an independent board that is accountable for the due process, outcomes, and ratification of the SASB Standards.

Objective: Help companies disclose financially-material sustainability information to investors.

Description: The SASB developed the SASB Standards to enable businesses around the world to identify, manage, and communicate financially-material sustainability information to their investors. The SASB Standards are available for 77 industries and identify the subset of environmental, social, and governance (ESG) issues most relevant to financial performance in each industry.

Target Audience: Investors, Corporates

Members: 232 institutional investors—representing \$72T AUM and 23 countries—support SASB and/or use SASB Standards to inform their investment decision-making.

Tools:

- > SASB Standards
- > Thinking Principles
- > Integrated Reporting Framework
- > Standard Setting Archive
- > Materiality Map
- > Standards Navigator database

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

<https://www.fsb-tcfd.org/>

Year of Launch: The Taskforce on Climate-Related Financial Disclosure (TCFD) was established by the Financial Standards Board (FSB) in 2015. The TCFD launched a voluntary series of recommendations in June 2017.

Governance: The Task Force consists of 31 members from across the G20, representing both preparers and users of financial disclosures. The TCFD is chaired by Michael R. Bloomberg, founder of Bloomberg L.P.

Objective: Develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

Description: In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation. Its recommendations are clustered under four categories of climate-related disclosures: governance, strategy, risk management, and metrics. Unlike other reporting frameworks, the TCFD also asks companies to disclose forecasts, through scenario analysis, on how climate change may impact their business.

Target Audience: Investors, Corporates, Financial Institutions

Members: 1,000+ supporters in 55 countries, including organizations such as corporations, national governments, government ministries, central banks, regulators, stock exchanges, and credit rating agencies. Included among the supporters are 473 financial firms responsible for assets of \$138.8 trillion. Private sector supporters include asset managers, asset owners, banks, and companies in industries such as chemicals, energy, insurance, metals and mining, oil and gas, and transportation, among others.

Tools:

- > The TCFD Recommendations
- > TCFD Knowledge Hub

UN GUIDING PRINCIPLES REPORTING FRAMEWORK

<https://www.ungpreporting.org/>

Year of Launch: The UN Guiding Principles (UNGP) Reporting Framework was launched in February 2015.

Governance: The UNGP Reporting Framework is a project by the Human Rights Reporting and Assurance Frameworks Initiative, which is overseen by an Eminent Persons Group that consists of leaders from a broad range of stakeholder backgrounds. The Eminent Persons Group provides strategic oversight of the project's process and substance and advice on its overall direction.

Objective: Provide comprehensive guidance for companies to report on how they respect human rights.

Description: The UN Guiding Principles Reporting Framework is the first comprehensive guidance for companies to report on human rights issues in line with their responsibility to respect human rights. This responsibility is set out in the UN Guiding Principles on Business and Human Rights, which constitute the authoritative global standard in this field.

The Reporting Framework provides a concise set of questions to which any company should strive to have answers in order to know and show that it is meeting its responsibility to respect human rights in practice. It offers companies clear and straightforward guidance on how to answer these questions with relevant and meaningful information about their human rights policies, processes and performance.

Target Audience: Investors, Corporates, Government, Civil Society

Members: 80+ companies

Tools:

- > The UNGP Reporting Framework
- > The UNGP Assurance Guidance
- > The UNGP Reporting Database

TRANSITION PATHWAY INITIATIVE

www.transitionpathwayinitiative.org

Year of Launch: The Transition Pathway Initiative (TPI) was launched in 2017.

Governance: The TPI is governed by a Steering Group which consists of representatives from asset owners who are significant sponsors of the initiative. It has two Co-Chairs: one designated by the Environment Agency and the other by the Church of England Pension Board. The Steering Group is collectively responsible for the initiative's long-term success and can co-opt further experts and other partners to ensure the diversity of views needed to achieve the initiative's strategic objectives. TPI's academic, data partners and secretariat representatives are ex-officio Steering Group members.

Objective: The TPI was developed to enable investors to assess against internationally agreed benchmarks a company's performance and its progress towards the low-carbon economy.

Description: The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by investors globally. Assessment of companies' preparedness for transition to a low-carbon economy is made using best-available data and publicly available company information, and an academically rigorous approach, which can be used to not only help inform investment decisions but also as a basis for engagement with companies on their progress towards specific targets.

Target Audience: Investors/asset owners

Members: More than 100 investors

Tools:

- > TPI Tool

PARIS AGREEMENT CAPITAL TRANSITION ASSESSMENT (PACTA) FOR BANKS

<https://2degrees-investing.org/pacta-for-banks/>

Year of Launch: PACTA for Banks launched in 2018.

Governance: In June 2021, the 2° Investing Initiative (2DII) launched an expert-led, multisector Advisory Group to advise on new governance for PACTA. As PACTA's community of users and capacities has expanded, 2DII is keen to address key governance, operational, and conceptual questions in collaboration with a diverse array of climate finance specialists. The Advisory Group's main mission is to propose a long-term governance framework, which in turn will help ensure the methodology's scientific integrity and independence; promote co-ownership of the open-source methodology by its stakeholders; and contribute to the harmonization of the growing number of climate alignment concepts and methodological choices.

Objective: The Paris Agreement Capital Transition Assessment (PACTA) is a free, open-source methodology and tool, which measures financial portfolios' alignment with various climate scenarios consistent with the Paris Agreement.

Description: PACTA compares what needs to happen in climate-relevant sectors in order to minimize global temperature rises, with financial institutions' exposure to companies in these sectors. It employs a dynamic, forward-looking approach, based on the 5-year production plans of companies to which a portfolio is exposed.

The methodology measures alignment per sector or per technology, as what needs to happen to meet the goals of Paris Agreement varies by sector. Some sectors need to move more quickly than others; some sectors need to reform (e.g. power generation); and others need to phase out (e.g. fossil fuels).

Target Audience: Financial Institutions

Members: Financial institutions using the tool 3,000+, Countries represented among users

90+, Securities covered in the database 30,000+, Companies included in the database 40,000+.

Tools:

- > PACTA for Investors, an online interactive tool for investors and others to apply PACTA to their equity and corporate bond portfolios.
- > PACTA for Banks, a stand-alone software package and toolkit that enables banks to apply PACTA to their loan books. As part of this, 2DII and Asset Resolution provide the underlying company production forecast data for free.

ABOUT THE INTERNATIONAL CHAMBER OF COMMERCE (ICC)

The International Chamber of Commerce (ICC) is the institutional representative of more than 45 million companies in over 100 countries. ICC's core mission is to make business work for everyone, every day, everywhere. Through a unique mix of advocacy, solutions and standard setting, we promote international trade, responsible business conduct and a global approach to regulation, in addition to providing market-leading dispute resolution services. Our members include many of the world's leading companies, SMEs, business associations and local chambers of commerce.



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