SUSTAINABILITY IN EXPORT FINANCE

Leveraging Export Finance to support the delivery of the SDGs

White Paper | September 2021 | Short Version
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IMPORTANT INFORMATION

This document constitutes a short version of the ICC White Paper on Sustainability in Export Finance presenting mainly the summaries of key findings and recommendations. The full report which includes the comprehensive analysis including results from stakeholder interviews and surveys can be accessed under the following link:

LETTER FROM ICC EXPORT FINANCE SUSTAINABILITY WORKING GROUP

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) Global Export Finance Committee set up the 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. The commissioning of this White Paper is an important milestone for 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 scenario², 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 List, 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 is supported by The Rockefeller Foundation and GuarantCo a Private Infrastructure Development Group (PIDG).

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.
ACKNOWLEDGEMENTS

The International Chamber of Commerce (ICC), International Financial Consulting Ltd. and Acre Impact Capital would like to thank the members of ICC’s Global Export Finance Committee Sustainability Working Group and The Rockefeller Foundation for their support. We would like to extend a special thanks to each member of the Steering Committee for their leadership, guidance and support:

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> James Pumphrey, Deutsche Bank AG
> Adam Connaker, The Rockefeller Foundation
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> Tomasch Kubiak, International Chamber of Commerce


We would like to thank Mariane Sondergaard-Jensen, Stephanie Sfakianos and Sylvain Augoyard for reviewing this white paper and for their insightful input and comments.

Finally, we would like to thank the numerous market participants who have generously contributed their time, insights and perspectives in their response to our electronic survey and in individual interviews.
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.

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 program 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 organizations and associations, regulatory bodies, academics, and media professionals.

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.
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 Authorities**

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.

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4 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.
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.**
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 **Milestones in Sustainable 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 (CCSU), which allowed extended tenors (up to 18 years) and more flexibility for such projects.

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.” 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.

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5 UK Parliament Environmental Audit Committee, 10 June 2019, [MPs Call for end of taxpayer support for fossil fuel projects from 2021](https://en.wikipedia.org/wiki/Climate_change). (Accessed 6 June 2021)
Figure 1: Timeline of key sustainability-related developments for ECAs and banks

- 1992: Statement by Banks on the Environment and Sustainable Development
- 1995: Agreement on Environmental Information Exchange for Larger Projects
- 1997: Draft Recommendation on Common Approaches on Environment and Officially Supported Export Credits
- 1999: Revised recommendation on Common Approaches on Environment and Officially Supported Export Credits
- 2001: Statement of Principles on Debt Sustainability and Responsible Lending
- 2003: Revised Council Recommendation on Bribery and Officially Supported Export Credits
- 2005: Revised Council Recommendation on Common Approaches on Environment and Officially Supported Export Credits
- 2007: Revised recommendations on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence
- 2008: Revised OECD Recommendation on Bribery and Officially Supported Export Credits
- 2009: Revised version comes into force
- 2011: Revised version comes into force
- 2012: Revised version comes into force
- 2013: Revised version comes into force
- 2014: Revised version comes into force
- 2015: Revised version comes into force
- 2016: Revised version comes into force
- 2017: Revised version comes into force
- 2018: Revised version comes into force
- 2019: Revised version comes into force
- 2020: Revised version comes into force
- 2021: Revised version comes into force

A network of banks committed to advancing positive change in the banking sector

Global Alliance for Banking on Values

A network of banks committed to advancing positive change in the banking sector

Global Export Finance Committee Sustainability Working group

Katowice Commitment: 5 global banks pledge to align their portfolio with Paris

Green Bonds issuance reaches $1tn

First GLP-aligned ECA Loan

OECD Council Recommendation on Bribery and Officially Supported Export Credits

Scope of RESU enlarged to include climate change mitigation projects into a new Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Water Projects (CSSU)

UNEP FI Principles for Positive Impact Finance

Ten global FI adopt the Equator Principles

First GLP-aligned ECA Loan

Statement of Intent on Officially Supported Export Credits and the Environment

Agreement on Environmental Information Exchange for Larger Projects

Statement of Principles on Unproductive Expenditures and Officially Supported Export Credits

Updated Recommendation on Common Approaches on Environment and Officially Supported Export Credits

Sustainable lending: Statement of Principles on Unproductive Expenditures and Officially Supported Export Credits

Updated Recommendation on Common Approaches on Environment and Officially Supported Export Credits

Statement of Principles on Debt Sustainability and Responsible Lending

Principles and Guidelines to Promote Sustainable Lending Practices

Recommendations on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence

CSSU enlarged to include climate change adaptation projects

Stricter terms for coal-fired electricity generation agreed in CFPSU

Updated Recommendations on Environmental and Social Due Diligence

Guidance note: Use of E&S Consultants by ECAs

Guidance note: Good Practice Note for Environmental and Social Due Diligence

Updated OECD Recommendation on Bribery and Officially Supported Export Credits

Updated edition of Principles and Guidelines to Promote Sustainable Lending Practices

Recommendations on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence

Scope of RESU enlarged to include climate change mitigation projects into a new Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Water Projects (CSSU)

1992-2021: Timeline of key sustainability-related developments for ECAs and banks.
Over the same time period, the arranging banks active in the Export Finance market were mainly followers of the practices implemented by OECD ECAs. 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 2: Coal and Oil & Gas restrictions by globally significant banks**

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal restrictions</th>
<th>Oil &amp; Gas restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>2016</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>2018</td>
<td>15</td>
<td>3</td>
</tr>
<tr>
<td>2019</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>2020</td>
<td>14</td>
<td>21</td>
</tr>
</tbody>
</table>


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

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6 Defined as banks with more than $10 billion in assets
### 1.2 Sizing the Sustainable Export Finance market

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 of the full report and relies on a granular analysis of 1,129 transactions, representing $384 billion worth of Export Finance transactions.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Sustainable Transactions ($bn)</th>
<th>Other Transactions ($bn)</th>
<th>Sustainable Transactions (#)</th>
<th>Other Transactions (#)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>141 118</td>
<td>134 106</td>
<td>16% 33</td>
<td>20% 285</td>
</tr>
<tr>
<td>2019</td>
<td>23 92</td>
<td>28 106</td>
<td>16% 64</td>
<td>18% 287</td>
</tr>
<tr>
<td>2020</td>
<td>134 106</td>
<td>28 285</td>
<td>21% 77</td>
<td>21% 285</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Sustainable Transactions (%)</th>
<th>Other Transactions (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>16%</td>
<td>23%</td>
</tr>
<tr>
<td>2019</td>
<td>16%</td>
<td>23%</td>
</tr>
<tr>
<td>2020</td>
<td>21%</td>
<td>23%</td>
</tr>
</tbody>
</table>
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 of 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.

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 measures have been issued globally, across developed and emerging markets, impacting the investments, banking and insurance industries.

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. 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 of the full report.

Table 1: Overview of key Sustainable Finance initiatives

<table>
<thead>
<tr>
<th>High-level Principles / Industry Platforms</th>
<th>Target / Objective Settings</th>
<th>Definitions / Taxonomies</th>
<th>New Products</th>
<th>Disclosure and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td></td>
<td></td>
<td>Green Loan Principles</td>
<td>TCFD</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Social Loan Principles</td>
<td>SASB</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sustainability Linked Loan Principles</td>
<td>CDP</td>
</tr>
<tr>
<td>Investments / Capital Markets</td>
<td></td>
<td></td>
<td>The Green Bond Principles</td>
<td>CDP</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Social Bond Principles</td>
<td>CDP</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Sustainability Bond Principles</td>
<td>GIIN, IRIS+</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Sustainability Bond Guidelines</td>
<td>PCAF</td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
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 5) across the investment, banking, capital markets and insurance industries, with a distinction for public (on-exchange) markets and private markets. **Export Finance already contributes in many ways to this rich ecosystem of Sustainable Finance products.** The detailed assessment can be found in the full report.

*Figure 5: The Sustainable Finance product landscape*

<table>
<thead>
<tr>
<th>BANKING</th>
<th>CAPITAL MARKETS</th>
<th>INVESTMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>Bonds</td>
<td>ESG/Sustainability themed Funds</td>
</tr>
<tr>
<td>Green Loans</td>
<td>Green Bonds</td>
<td>Negative Screening</td>
</tr>
<tr>
<td>Social Loans</td>
<td>Social Bonds</td>
<td>Positive Screening</td>
</tr>
<tr>
<td>Sustainability-linked Loans</td>
<td>Sustainability Bonds</td>
<td>Norms-based Screening</td>
</tr>
<tr>
<td>DERIVATIVES</td>
<td>Carbon-risk management</td>
<td>ESG Integration</td>
</tr>
<tr>
<td>Sustainable Insurance Products</td>
<td>Insurance-linked Securities</td>
<td>Corporate Engagement</td>
</tr>
<tr>
<td>INSURANCE</td>
<td>Cat' Bonds</td>
<td>Sustainability themed Impact Investing</td>
</tr>
<tr>
<td>Source: Acre Impact Capital / IFCL</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.3 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
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.

### 3.1 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.

#### 3.1.1 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.
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 %)

<table>
<thead>
<tr>
<th>Organization</th>
<th>Strongly Disagree</th>
<th>Somewhat Disagree</th>
<th>Somewhat Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td></td>
<td></td>
<td>61</td>
<td>39</td>
</tr>
<tr>
<td>ECAs</td>
<td></td>
<td>68</td>
<td>63</td>
<td>37</td>
</tr>
<tr>
<td>Exporters</td>
<td>-14</td>
<td>-14</td>
<td>38</td>
<td>48</td>
</tr>
<tr>
<td>Buyers</td>
<td>-14</td>
<td>36</td>
<td>50</td>
<td>47</td>
</tr>
<tr>
<td>Others</td>
<td>4</td>
<td>-9</td>
<td>47</td>
<td>47</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Don't know</th>
<th>No</th>
<th>Yes</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>13%</td>
<td>27%</td>
<td>39%</td>
<td>22%</td>
</tr>
<tr>
<td>Somewhat Disagree</td>
<td>60%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Somewhat Agree</td>
<td></td>
<td>39%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td></td>
<td></td>
<td>39%</td>
<td>22%</td>
</tr>
</tbody>
</table>

### 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 %)

<table>
<thead>
<tr>
<th>Organization</th>
<th>Strongly Disagree</th>
<th>Somewhat Disagree</th>
<th>Somewhat Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td></td>
<td></td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>ECAs</td>
<td></td>
<td>32</td>
<td>64</td>
<td>9</td>
</tr>
<tr>
<td>Exporters</td>
<td>12</td>
<td>45</td>
<td>46</td>
<td>9</td>
</tr>
<tr>
<td>Buyers</td>
<td>-14</td>
<td>48</td>
<td>38</td>
<td>11</td>
</tr>
<tr>
<td>Others</td>
<td>-6</td>
<td>39</td>
<td>53</td>
<td>4</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Organization</th>
<th>Strongly Disagree</th>
<th>Somewhat Disagree</th>
<th>Somewhat Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>-13</td>
<td>32</td>
<td>64</td>
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<tr>
<td>ECAs</td>
<td>45</td>
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<td>57</td>
<td>9</td>
</tr>
<tr>
<td>Exporters</td>
<td>5</td>
<td>56</td>
<td>31</td>
<td>5</td>
</tr>
<tr>
<td>Buyers</td>
<td>-5</td>
<td>48</td>
<td>47</td>
<td>8</td>
</tr>
<tr>
<td>Others</td>
<td>-13</td>
<td>37</td>
<td>46</td>
<td>8</td>
</tr>
</tbody>
</table>
### 3.1.3 ECA COMMITMENTS AND TIMELINES TO END SUPPORT TO FOSSIL FUEL SECTORS

Table 2: Overview of selected ECA commitments and timelines

<table>
<thead>
<tr>
<th>Country</th>
<th>Commitments and Timelines</th>
</tr>
</thead>
</table>
| **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”. 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”. 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. |

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8 EKN: Summary of the Report: An Export Finance system that contributes to the climate transition  
9 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 Plan 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.”
3.1.4 LIMITATIONS OF THE OECD ARRANGEMENT IDENTIFIED BY MARKET PARTICIPANTS

Box 2: Limitations of the OECD Arrangement identified by market participants

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 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.
3.1.5 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 mounting. A handful of ECAs and their Guardian Authorities have recently made ambitious commitments to exit coal and other fossil fuel sectors—in 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.
3.2 Frameworks

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

3.2.1 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.

3.2.2 ECAS’ FRAMEWORKS TO DEFINE SUSTAINABLE TRANSACTIONS

Box 3: 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.
3.2.3 RECOMMENDATIONS

> **Formalize ICMA/LMA Principles as the de facto framework used by banks for identifying and defining sustainable projects.** Export Finance banks should formalize 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”.

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**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 %)**

- **Banks**
  - Don’t know: 15%
  - Yes: 82%
  - No: 3%

- **ECAs**
  - Don’t know: 19%
  - Yes: 65%
  - No: 16%

- **Exporters**
  - Don’t know: 19%
  - Yes: 65%
  - No: 16%

- ** Buyers**
  - Don’t know: 24%
  - Yes: 76%
  - No: 0%

- **Others**
  - Don’t know: 10%
  - Yes: 90%
  - No: 0%
3.3 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.

3.3.1 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.
3.3.2 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.**
3.4 Supply Side

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

3.4.1 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.

Table 3: Overview of selected ECA incentives for sustainable transactions

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>DESCRIPTION</th>
<th>APPLICABLE LEVERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>&gt; The German Official Export Credit Guarantee Scheme launched a special initiative for the promotion of renewable energy</td>
<td>&gt; National content</td>
</tr>
<tr>
<td></td>
<td>&gt; Eligible transactions have a reduced national content threshold of 30%.</td>
<td>&gt; Support outside of OECD Arrangement</td>
</tr>
<tr>
<td></td>
<td>&gt; The German local cost rule is relaxed, as the required down payment portion for the local cost is omitted</td>
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<td>&gt; Credit processes are fast-tracked</td>
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<td></td>
<td>&gt; Exporters may benefit of enhanced market support from regional ECA staff</td>
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<tr>
<td>France</td>
<td>&gt; The French Government is currently planning to introduce a Climate Reward for sustainable export projects.</td>
<td>&gt; Access to Direct Lending</td>
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<td></td>
<td>&gt; The projects are classified using the EU Taxonomy.</td>
<td>&gt; Support outside of the OECD Arrangement</td>
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<td></td>
<td>&gt; The climate reward is currently envisaged to consist of:</td>
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<td></td>
<td>— A stronger (financial) support during the pre-financing stages of export projects (i.e. reimbursable expenses or grants to finance feasibility studies)</td>
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<td></td>
<td>— Direct loans or tied aid</td>
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<tr>
<td>COUNTRY</td>
<td>DESCRIPTION</td>
<td>APPLICABLE LEVERS</td>
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<tr>
<td>Japan</td>
<td>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.</td>
<td>Support outside of the OECD Arrangement</td>
</tr>
</tbody>
</table>
| Netherlands | 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: | National content  
> Risk appetite  
> Increased risk coverage  
> Support outside of the OECD Arrangement |
|         | - 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 |                                                                                      |
| UK     | UK Export Finance launched a Clean Growth Facility in 2020  
> Through the facility, UKEF can provide direct loans to overseas 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. | Access to Direct Lending                                                      |
| US     | US EXIM’s Environmental Exports Programme exists since 1994 and currently applies to the following sectors amongst others:  
> 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. | Relaxation of internal policies                                               |
3.4.2 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 of full report) 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 of full report).

> **Broaden the eligibility criteria for incentives.** ECAs that are currently offering incentives, are mainly focused 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 structures will require early engagement with buyers to identify such opportunities early on.

3.5 Integrating Sustainability in the transaction life cycle

3.5.1 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.

### 3.5.2 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 transactions. 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 of full report) 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 country’s 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 represent 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).
## List of Acronyms

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