**ICC White Paper on Sustainability in Export Finance – Leveraging Export finance to support the delivery of the SDGs - UPDATE**

As discussed at the last working group meeting, the group seeks to produce a **brief update paper** on progress towards the recommendations of the White Paper. As this is supposed to be a **collaborative effort**, we kindly ask you to provide **comments and insights** regarding latest developments – at your bank, at ECAs, in the industry – that you are aware of. All contributions are treated anonymously, and bank-specific information will be generalized/aggregated.

Thank you for your time!

# Policy and Regulation recommendations

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| **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 scrutinized 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. |
| Your comments/updates: |
| **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 incentivize other countries and financing institutions by setting a new global standard. |
| Your comments/updates: |
| **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. |
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| **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. |
| Your comments/updates: |
| **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. |
| Your comments/updates: |
| **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. |
| Your comments/updates: |
| **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. |
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# Frameworks

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| **Formalize ICMA/LMA Principles as the *de facto* framework used by banks for identifying and defining sustainable projects.** Export Finance banks, as represented by the ICC Export Finance Working Group, 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. |
| Your comments/updates: |
| **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 “greenwashing”. |
| Your comments/updates: |

# Demand-side

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| **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 activity. 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. |
| Your comments/updates: |
| **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. |
| Your comments/updates: |
| **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 incentivized 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.** |
| Your comments/updates: |

# Supply-side

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| **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) |
| Your comments/updates: |
| **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). |
| Your comments/updates: |
| **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. |
| Your comments/updates: |
| **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. |
| Your comments/updates: |

# Transaction Life Cycle

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| **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. |
| Your comments/updates: |
| **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) and may help motivate and retain talent within individual organisations. |
| Your comments/updates: |
| **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)](https://indicators.ifipartnership.org/). |
| Your comments/updates: |