



Update on the ICC Sustainability Working Group Activities

March 2022

1. ICC-SWG Members



Deutsche Bank



2. ICC-SWG White Paper on Sustainability

- **Detailed snapshot** of SDG/Climate practices in the Export Finance and other debt capital markets.
- Culmination of over **one year's work** by the ICC Export Finance Sustainability Working Group (ICC SWG)
- **16 leading banks involved** up to Global Head level
- **Unprecedented** in the Export Finance market - is designed to **inform and empower discussion and action**
- Funded by the **ICC** and **The Rockefeller Foundation**
- **Independently authored** by International Financial Consulting and Acre Impact Capital
- **500** survey responses and **150** in depth interviews
- **Global** in reach.
- Makes **recommendations on how export finance may help contribute to delivery of SDGs**

3. White Paper Launch Initiatives - Examples

- Sep 21: **Official Launch @United Nations General Assembly**
International press coverage including FT
GTR MENA, Dubai
- Oct 21: GTR White Paper Steering Committee Roundtable podcast
EBF ExCred WG Meeting
Berne Union MLT Committee Meeting, Budapest
TXF Podcast
TXF Global Export Finance Conference, Madrid
Business Live TV, South Africa
- Nov 21: GTR Africa Panel, London
OECD ECG
E3F Government / ECA meeting
Article @ACT Treasurer Magazine
- Dec 21: French MEDEF & CCE
National Banking Federations (FBF, British BA, Belgian BA, BASA)
- Jan 22: ITFA, Switzerland
FEX (Future of Export Finance) with all international chapters (> 100 participants)
- Feb 22: **OECD Practitioner's** workshop
EBF ExCred Expert Group presentation
- Mar 22: **BU Climate Working Group** presentation

4. Examples of Questions / Comments raised

- What can we do NOW to respond ?
- What might a responsible exit from carbon-intensive transactions look like ?
- What, in practice, do the next steps have to be to implement those recommendations? How do we get market participant and stakeholder buy-in on the recommendations?
- How do we ensure a whole government approach, with the ECAs (including aid agencies), to have strategic alignment regarding sustainability, and how do we get these stakeholder to work better together?
- How likely is it that the OECD Consensus will be amended in time to help achieve the SDGs by 2030 / keep below 1.5 degrees? What can be done to accelerate that process of modernization and ensure reflection of the SDGs ?
- Why is EU/BU/OECD focus principally on Green/carbon ? Social infrastructure is also critical to delivering the SDGs. Hospitals only get 10 year repayment terms vs 18 for renewable power under OECD rules.
- Are loan price incentives are being advanced for Green / SDG compliant transactions by banks / ECAs ?

5. Take aways from recent work

- **General awareness raised of Export Finance:**
 - Inside the industry about it's unique features to help deliver on SDGs
 - Outside the industry that it the market exists (low awareness) and is underleveraged / has growth potential
- **Industry stakeholders are all taking individual action to respond:**
 - Vital, but clear action is quite disparate – co-ordination limited to date
 - Notable exceptions = E3F / BU Climate Working Group
 - Mostly Climate focussed
- **General agreement on need for industry standard definitions / framework for what is Green or Social and framework for consistency**
 - Minimises risk of mis-classification leading to Green/Social washing perception

6. ICC Trade Register Report Update



- Latest report published in Nov 21
- 21 major international banks submitted data
- default rates in export finance still very low despite COVID

Figure 15
Export finance default rates by obligor, exposure, and transaction, 2007-2020 (vs. 2007-2018)

	Defaults by obligor	Defaults by exposure	Defaults by transaction
	2007-2018	2007-2020	2007-2018
Default rate	1.00%	1.01%	0.62%

Source: ICC Trade Register Report 2021

- the findings supported the process of CRR implementation (and exemptions) for ECA covered financings
- it can also provide a good basis to measure the performance of sustainable export finance transactions in the future

7. Outlook: Key future focus of ICC-SWG

- Includes:
 - Continued **socialization of White Paper** to Stakeholders – many have not read it or heard about it.
 - 4th **ICC SWG Workshop on Sustainability** in Export Finance planned
 - Increased engagement with OECD including on **Modernisation of the Consensus**
 - Advocacy for a **standard definition / framework for Green / Social transaction classification and verification process**
 - Look into **ICC Trade Register data** to potentially inform on performance of loans for Green / Social projects for projects, corporates, sovereigns

Annex: White Paper Key Recommendations – Policy and Regulation

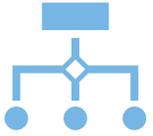


- Develop a coherent government-wide policy with regard to ECAs and global commitments such as the Paris Agreement and the Sustainable Development Goals
- Consider definite commitments towards phasing out support for coal
- Expand and grow momentum of international leadership coalitions and strategies to phase out support for fossil fuels
- Broaden the scope of the sustainability conversation from climate-focused considerations to also include social impacts

Key Recommendations – Policy and Regulation

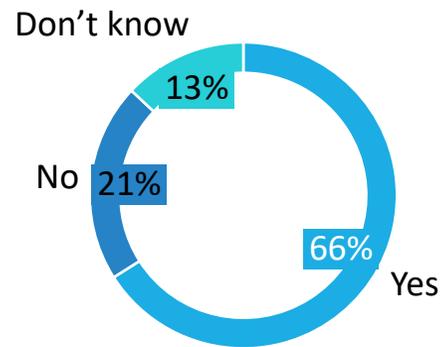


- Seize and accelerate the modernisation of the OECD Arrangement to reflect and deliver on global sustainability commitments
- Acknowledge the existing overlap between development and Export Finance, particularly the resulting positive development contributions of projects/transactions financed through officially supported export credits
- Adopt new sustainability-related initiatives within the existing export regulatory framework (e.g. TCFD, Taxonomies)

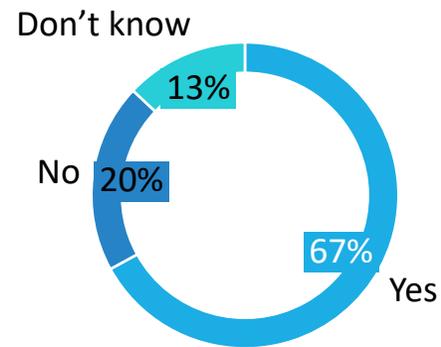


Addressing “washing”

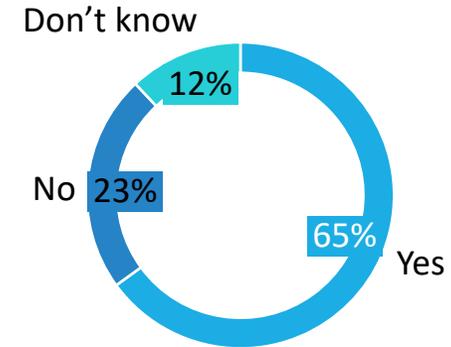
Are you concerned about the risk of green/social/sustainability/transition "washing" in the industry? (in %)



Banks



ECAs



Others

Key Recommendations – Frameworks



- Formalize ICMA/LMA Principles as the de facto framework used by banks for identifying and defining sustainable projects
- Seek alignment among ECAs on a shared framework to define sustainable projects and transactions

Key Recommendations – Demand Side



- Develop targeted origination strategies for the Export Finance product to grow the share of sustainable transactions.
- Broaden support towards emerging companies that are exporting innovative solutions to environmental and social problems
- Structure projects by taking account of sustainability aspects
- Make ECA mandates and regulations more flexible to be able to swiftly and easily respond to market demands

Key Recommendations – Supply Side



- Better communicate to buyers and exporters about existing sustainable financial products and incentives
- Develop more incentives, ideally embedded in the OECD Arrangement, to promote the transition towards a sustainable economy and export structure
- Broaden the eligibility criteria for incentives
- 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

Key Recommendations – Transaction Life Cycle



- Leverage the ICC trade register to analyse the credit performance of transactions with positive environmental and social impact
- 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
- 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

Thank You.