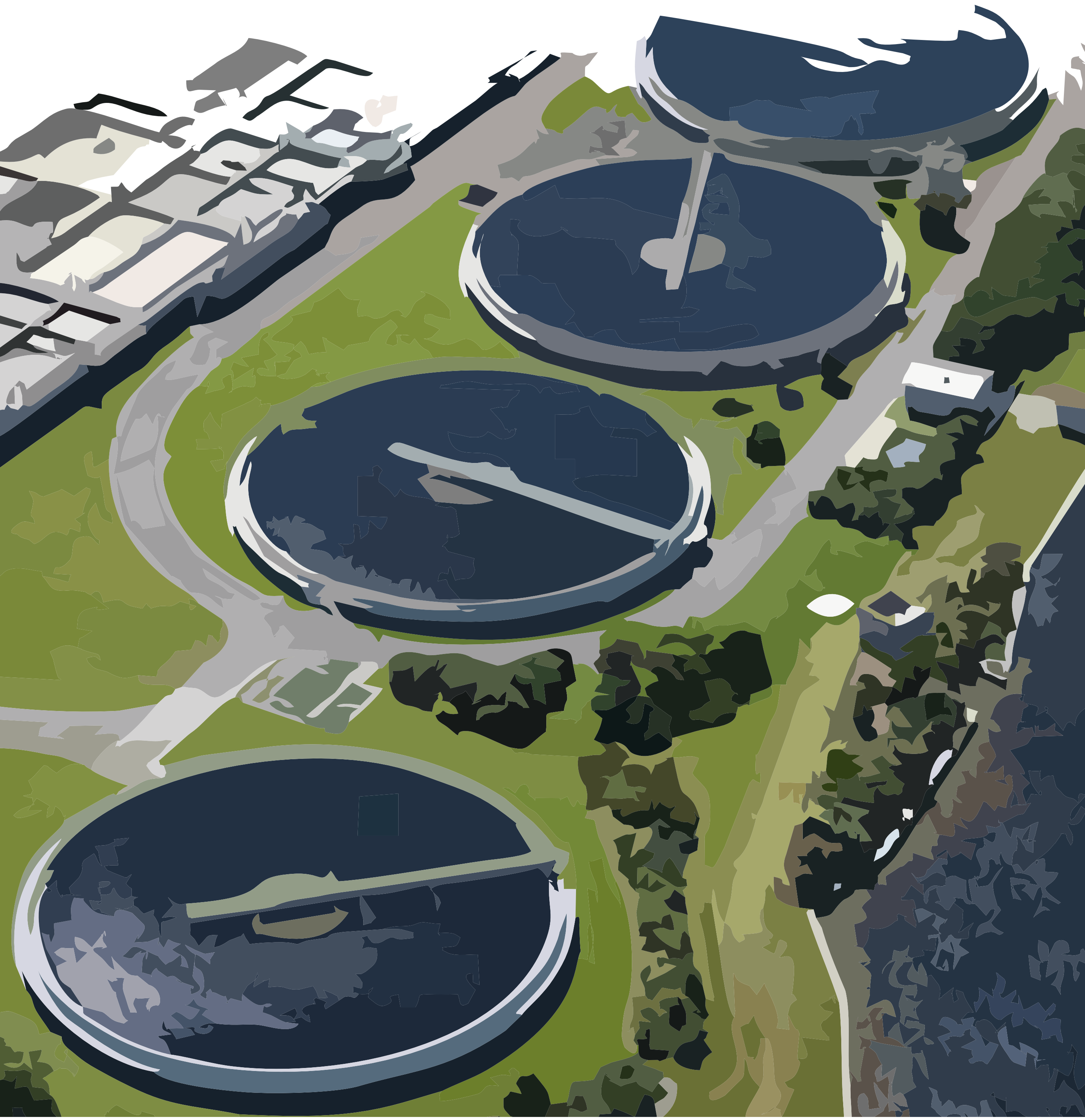
Sustainability in export finance

2020 edition



TXF INTELLIGENCE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For the second year, TXF Intelligence is proud to present the sustainability report in export finance.

In this edition, we have improved the information and date in three ways:

- We have improved the level of detail in the classification of sustainable deals, making it easier to identify the reasons behind why a deal was identified as sustainable.

- For the first time, this report includes market sentiment data collected from our surveys to give you a better idea of the latest challenges and issues hat the export finance market is currently facing.

- In addition, we asked some market leaders to share their opinion with us, including challenges that they have faced lately and strategies that they thought to overcome them.

Hacina Py tells us the path that Societe Generale is following to reach the top of the sustainable deals league table, and the importance of export finance in making finance more sustainable.

Richard Simon-Lewis explains how UKEF has been dealing with sustainable deals with the added difficulty of being in a pandemic.

By combining closed deal data with market sentiment, this report presents the most detailed picture and insights of sustainability in export finance.

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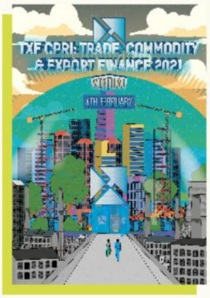
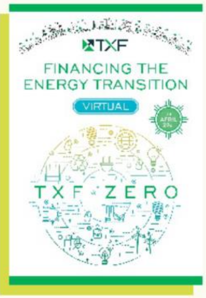


4 February
TXF CPRI: Trade, Commodity & Export Finance Virtual 2021
VIRTUAL

25 February
TXF Sustainable Export Finance and Resilient Infrastructure 2021
VIRTUAL

30-31 March
TXF Americas 2021: Export & Project Finance
VIRTUAL

21-22 April
TXF Africa 2021 Virtual: Export & Project Finance
VIRTUAL



29 April
TXF Zero: Financing the Energy Transition
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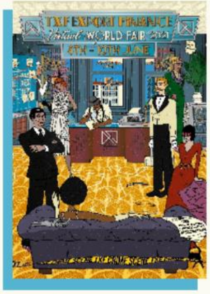

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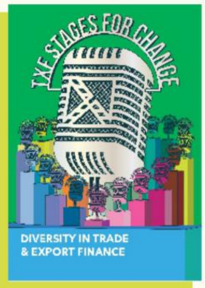
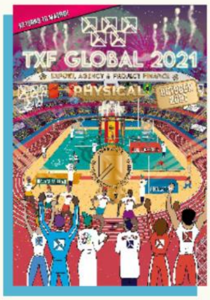
VIRTUAL



11 June
TXF Future of Export Finance 2021
VIRTUAL



October
TXF Global 2021: Export, Agency & Project Finance
PHYSICAL

October
TXF MENA 2021: ECA, Project, Trade & Commodity Finance
VIRTUAL

November
TXF Asia Export, Agency & Project Finance 2021
HYBRID: VIRTUAL & PHYSICAL

December
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HYBRID: VIRTUAL & PHYSICAL

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Opinion

Sustainable development is in the DNA of export finance

Hacina PY
Global Head of Export Finance and Head of Impact Finance Solutions

"Export finance plays a big role in sustainable development and will be a key enabler to unlock financing for the energy transition"

We are very proud to be the top performing bank in the export finance sustainability league tables for 2020! Our teams are very much focused on sustainable development and have been for a few years now, which is why this recognition means a lot to all of us.

If you think about it, **sustainable development is in the DNA of export finance,** as a great deal of our activity translates into the development of infrastructure projects, with tangible social impact in emerging countries. We are very proud when we look back at the hospitals, water treatment plants, roads, bridges and rail infrastructure that we have financed.

We analyse the impacts of our projects using the UNEP FI Positive Impact Finance methodology. If a project generates an impact on one of the pillars of development (economy/social/environment), and the negative impacts can be correctly identified and mitigated, we consider the project as Positive Impact Finance.

Innovation drives us. Innovating is key and this will be the case more and more going forward. We are looking to broaden the scope of our mainstream buyer credit offer with a tool box fit for development, including: local currency facilities, innovative structures with DFIs, joining forces with our colleagues to develop impact based models, and to venture into new types of technologies with our project finance team to contribute to the energy transition.

2015 was a turning point. It brought opportunities to change the future, with the objective to produce a set of universal goals that meet the urgent social, environmental and economic challenges facing our world. The **Sustainable Development Goals** (SDGs) are a common roadmap for development, followed by a joint commitment by the MDBs to grow financial support "**from billions to trillions**" to meet the SDGs. Then, later that year, **the Paris Agreement** to fight climate change was introduced. These have been transforming events for our industry and our team has started to rethink its mandate from then.

Understanding how to best serve exporters by meeting the evolving needs of importers is at the centre of our strategy, and **the orientation towards sustainability is fundamental in achieving this**. The proportion of deals in our origination that can be considered as sustainable finance (positive impact, green loans, transition loans, etc) has grown from 31% over 2015-2017 to 46% over 2018-2020. The proportion of positive impact loans with social positive impacts is higher today than those with positive impacts on climate change mitigation or adaptation. However, we see that this will change in the coming years.

The Export Credit Agencies (ECAs) will be key to unlocking financing for the energy transition, which is a mega trend with no precedent in terms of size and timing. All sectors are concerned, in all geographies. The technical challenge is huge, and the investments needs for each year to follow will be in trillions of dollars on a global basis.

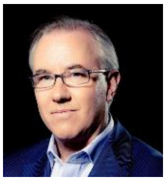
The risk appetite of the financial community must adapt to new participants, new structures, and new trade patterns. Some start-ups and SMEs will become emerging champions in the energy transition and will require support to invest in R&D in order to grow. Usual "OECD to emerging world" export transactions will evolve. Mega factories will start developing again in Europe, while smaller decentralised projects will be needed in emerging countries. As re-localisation becomes a key question for some sectors, we see a growing need for domestic solutions to build the future.

It becomes obvious that the export finance mission tomorrow will not be the same as it is today. ECAs have a key role to play in this mission, with a need to be flexible, to take new types of risks, and to put weight on social and environmental benefits when issuing an insurance for a new transaction with specific risk features. ECAs are already on the move and have started to shift their portfolios and are keen to consider incentives to develop sustainable business, to work on sustainable chains to help smaller participants develop.

We have a great ecosystem contributing to sustainable development and export finance is an exciting place to be!

Opinion

Sustainable finance in the age of COVID



Richard Simon-Lewis
Director & Head of Business Development, Marketing & Communications, UK Export Finance

The COVID-19 pandemic has had a profound effect on the world of sustainable and clean growth. The financial shock from global restrictions reduced the capacity of the private sector to support overseas projects in emerging markets, putting projects vital for the prosperity of millions at risk.

In the best of times, a lack of private sector finance is a constraint on business activity in emerging markets. However, at the outbreak of the pandemic it was unclear how many projects critical to the wellbeing to billions of people across the world would be financed.

The developing world has significant infrastructure gaps in transportation and in provision of healthcare, which were identified in the United Nation's 2030 Agenda for Sustainable Development. These include inadequate roads, a lack of modern public transportation and weak healthcare coverage – all of which act as a brake on growth and prosperity

The market needed export credit agencies (ECAs) to fill this gap and ensure credit continued to flow – helping to build roads, hospitals and provide reliable energy. As this report shows, UK Export Finance – along with many others – stepped up to the plate and acted as counter-cyclical providers of restorative liquidity.

UKEF financed over £3.3 billion worth of sustainable deals last year, which is over 50% of all the deals we supported in 2020. These have included two new monorail lines through the centre of Cairo, connecting one of the world's most congested cities to its suburbs and neighbours with affordable public transportation. We've also helped bring clean drinking water to rural Ghana, a new regional hospital and build four new wind farms in Taiwan – all with substantial sustainable benefits to millions of people.

Of course, here at UKEF we also recognised that the pandemic has required us to be more flexible in deciding what to support. That's why we are now resolutely focused on identifying overseas projects with robust fundamentals and long-term growth potential that could benefit from UK expertise.

In particular, we are seeking out renewable energy and clean growth projects overseas, with a significant pipeline identified, and £2 billion dedicated to financing clean growth projects. Our internationally based country heads are specifically focusing on supporting UK exports in the renewables and clean growth sectors.

We currently have 11 of these representatives, based in Africa, the Middle East and Asia, and are looking to significantly increase this number this year, spreading them to every continent. The value of this network, in combination with a greater focus on raising awareness of our services, has allowed us to remain connected to overseas markets and finance major projects during the pandemic.

All of this work is bearing fruit, demonstrated by TXF's latest report, which placed us second in the world in sustainable finance.

Such a global crisis has required an international response, and so, alongside the brilliant work of global ECAs, measures were also taken to ensure vital infrastructure and power projects in developing economies did not suffer. A wider G20 initiative through the Paris Club helped countries dedicate all available resources to respond to COVID 19 by halting debt repayments. I am proud to say that UKEF worked closely with the Paris Club and the IMF to support developing countries facing financial difficulties as a result of the pandemic.

As part of this global effort, UKEF has been central to the government's strategy to boost trade and support jobs during the pandemic. In financing these projects, we have fulfilled our ultimate purpose which is to support UK exports and help businesses to fulfil the opportunities presented by overseas trade.

COVID-19 has been one of the biggest challenges we have faced in a century, but tackling climate change and creating a sustainable world may prove even greater. By helping the global economy build back better, we can make this a truly sustainable recovery, helping to support the capabilities of our exporters, developing nations and our planet.

Market analysis

Sustainability in export finance 2020
Highlights

Highlights

32.1bn	87 deals	Renewables	Africa
▲ Total Vol	▲ No of deals	Top sector	Top region

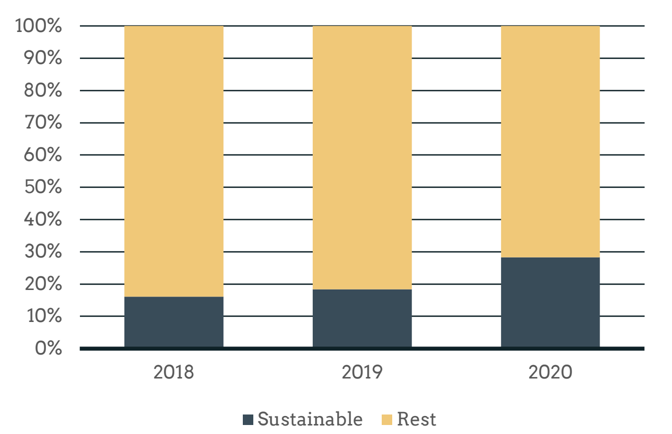
General info

Attention to sustainability in the export finance market has made significant advances since TXF started keeping records in 2018. Sustainable deals' market share improved in 2019, but only a little, and this increase in share took place alongside a sharp fall in total volumes – sustainable transaction numbers and volumes both fell in absolute terms. In 2020, however, both volumes and numbers of sustainable transactions increased sharply, even as the market shrank yet again. Sustainable deals got bigger, but it is also now possible to discern a real increase in the importance of sustainability to the export finance market as well.

Priorities for banks and ECAs have changed dramatically when it comes to sustainability in the past two years, and lenders are now willing to consider larger and riskier deals if those deals can be clearly identified as sustainable. ECAs, on the other hand, are keen to participate in sustainable deals when they have the opportunity, although they are limited by the range of exporters that operate in their home countries.

The volume of deals that can be classified as both green and social has increased dramatically ($7.4bn in 2020 vs $0.6bn in 2019), driven by a small number of large financings in Africa and South East Asia.

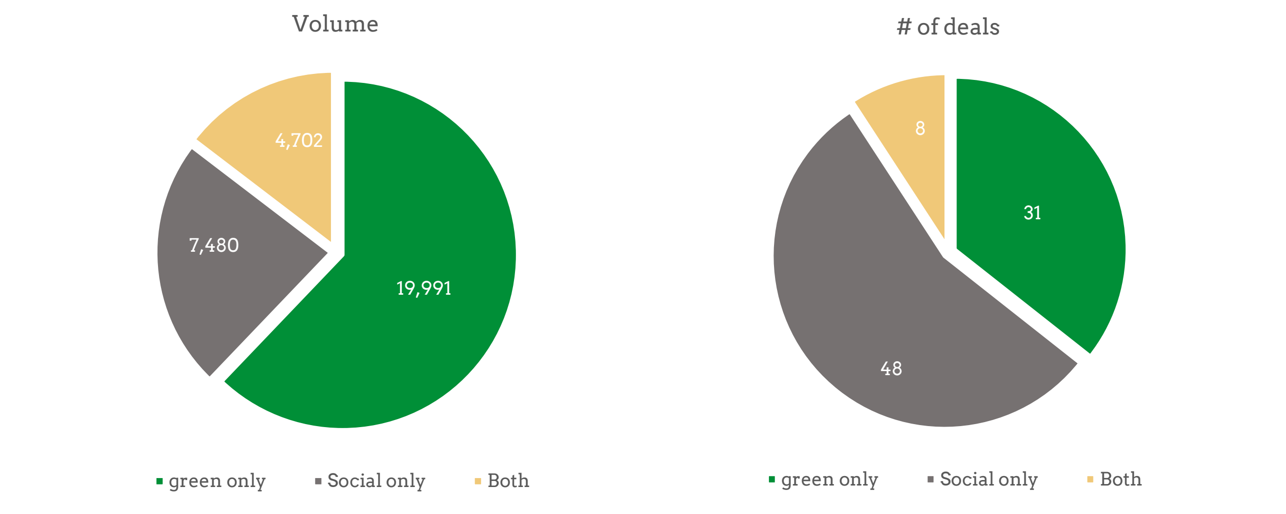
Share of sustainable deals 2018-2020



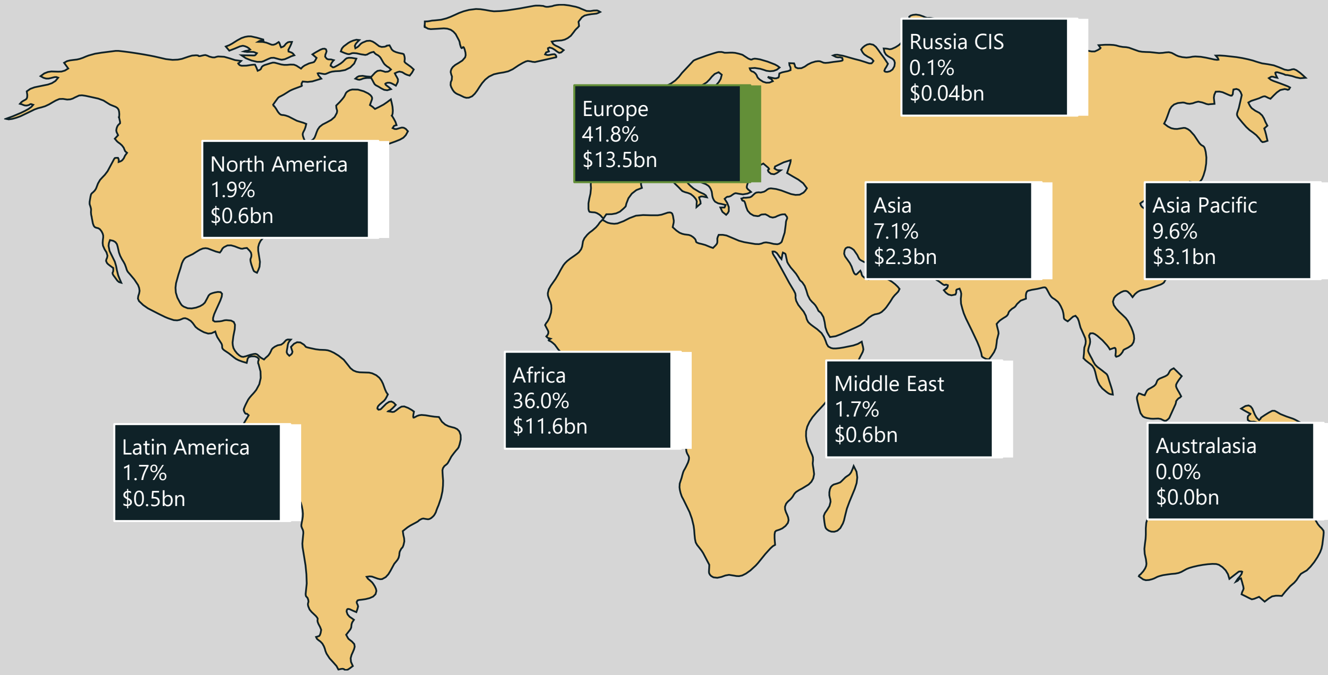
Share of sustainable deals by year

	2018		2019		2020	
	vol	#	vol	#	vol	#
Sustainable deals	22,608	86	20,164	70	32,349	89
Rest	117,956	330	89,700	281	84,092	209

Sustainable deals by type. 2020



Regions

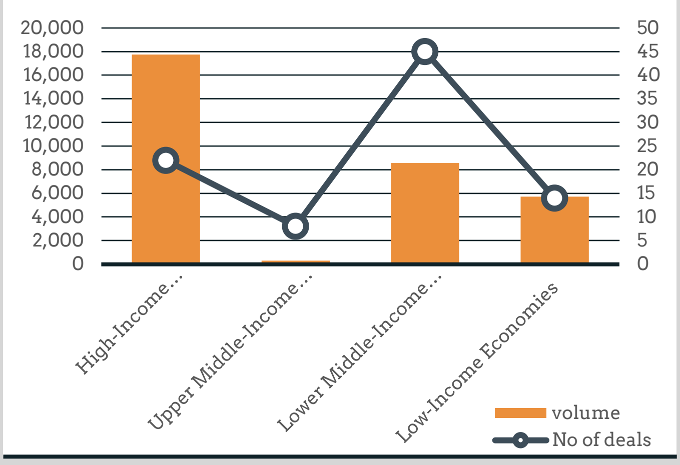


Regions & country types

Europe was the biggest region for sustainable deals in 2020 by total volume, but this was driven by three big renewables projects: the Dogger Bank ($7.3bn) and Seagreen ($1.6bn) offshore wind famrs and the Northvolt battery factory ($1.6bn each). By number of sustainable deals, Europe lags Africa by some distance, 18 to 41. Given that Europe is hardly a core market for ECAs, given its abundance of low-cost private capital, the volume figure is perhaps more surprising than the number. The market in Africa has gone in just a few years from being oil & gas-dominated to being much more diverse. Out of the top three deals two were in rail (Cairo Monorail and Gov of Tanzania) and one was for a hydroelectric project (the Souapiti & Kaleta plants). Infrastructure is now the biggest sustainable export finance market in Africa, with 25 deals, of which 10 were for healthcare facilities.

Africa is now starting to host large renewables projects such as Angola Solar ($759m), suggesting that it might be possible to deploy large amounts of capital for the energy transition outside high-income markets. Large and complex renewables projects have probably become more appealing to lenders and insurers based on the experience of a clutch of offshore wind projects that closed financing in Taiwan in 2018 and 2019.

Sustainable deals by WB classification



WB classification	volume	# of deals	% of vol
High-Income economies	17,756	22	17,756
Upper Middle-Income economies	296	8	296
Lower Middle-Income Economies	8,574	45	8,574
Low-Income Economies	5,724	14	5,724

Industries

Renewables dominated the market and it is expected to continue to do so for the foreseeable future, considering the increase in project size in the past few years. Transit projects have the potential to drive similar volumes to renewables, but take so long to develop and are so vulnerable to political interference – and currently to the COVID-19 pandemic – that they will take time to catch up.

Power & renewables

Conventional, traditional, fossil fuel-fired. Non-renewable power, whatever it is called, is increasingly struggling to attract capital. Coal-fired power is difficult for most commercial lenders to finance, and now only a small number of Asian ECAs are still financing coal, and even they are promising to scale back.

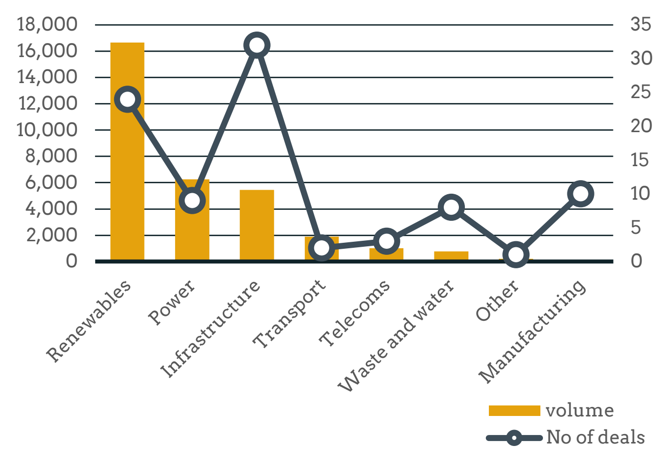
Gas fired power – and oil and gas in general – are still comparatively acceptable, though some investors with strict ESG mandates are increasingly turning away from any and all hydrocarbons. But renewable power is now mainstream power, attracting large amounts of debt and equity capital, and strong ECA support. While solar is starting to overtake wind in terms of cost, [particularly in warmer and sunnier jurisdictions, wind still accounts for the majority of ECA-backed transactions, and turbine and project sizes are both still getting larger. Battery storage is a promising new subsector in power and is growing rapidly. Storage improves the reliability of electricity networks, allowing them to accommodate greater quantities of intermittent renewable energy. But storage can also improve the use of off-grid and distributed renewable generation, and may be key to bringing renewables – or any electrification at all – to the more remote parts of the world.

Battery manufacturing facilities like Northvolt can also be the source of sustainable export financings, though battery storage facilities are likely to be the main source of financings in the long term.

Infrastructure & waste and water

Large African infrastructure projects were one of the most significant components of the 2020 sustainable deals market. Following a strong slate of financings in Egypt in the past 5 years the market has become more comfortable supporting large projects such as the Tanzania railway ($1.6bn), even without the support of development finance institutions.

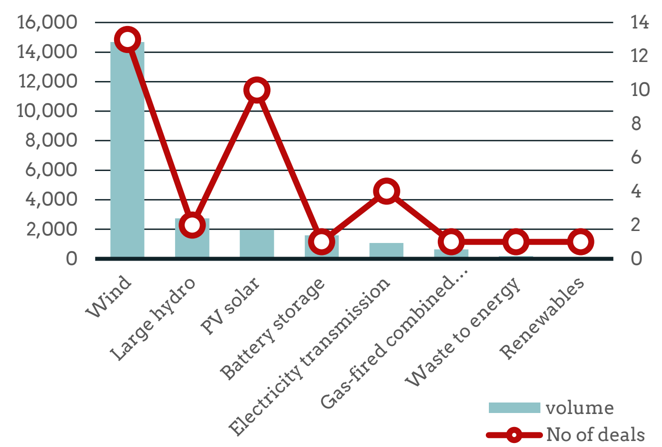
Sustainable deals by industry



Breakdown by industry

		$m	No	Share (%)
1	Renewables	16,667	24	51.5%
2	Power	6,254	9	19.3%
3	Infrastructure	5,440	32	16.8%
4	Transport	1,899	2	5.9%
5	Telecoms and Communications	1,005	3	3.1%
6	Waste and water	778	8	2.4%
7	Other	200	1	0.6%
8	Manufacturing & equipment	106	10	0.3%

Power & renewables

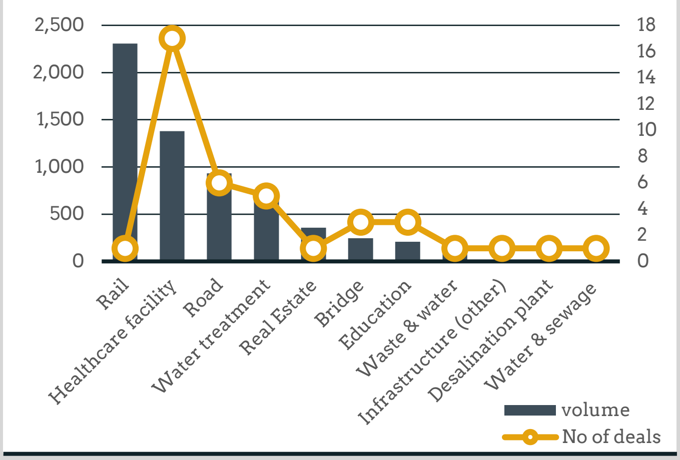


Sustainability in export finance 2020
Industries & lender types

Chinese ECAs and policy lenders are still active in African infrastructure despite some setbacks for the Chinese government's Belt & Road initiative. European ECAs such as Bpifrance and UKEF are starting to become more active, though their financings are likely to be structured slightly different to those of the Chinese institutions.

Sustainable social infrastructure projects represent a huge opportunity for ECAs and DFIs to collaborate. Until recently, sustainable projects were often too small to require the participation of both types of lender, and combining the two can often create documentation challenges. Larger numbers of deals – and especially larger deals – might increase the opportunities for collaboration.

Infra & waste and water



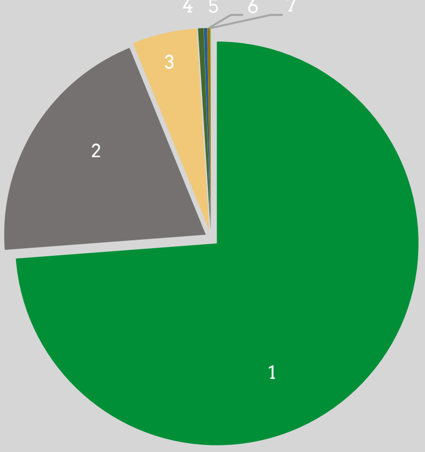
Lender types

Banks dominated lending volumes in 2020 – with financial institutions accounting for, almost exactly three-quarters of the total. This is a higher proportion than in the wider export finance market, where banks accounted for nearer 60%. This suggests that ECAs in particular are having to cover a larger proportion of the debt requirement of non-sustainable financings with direct loans because banks are increasingly wary of supporting those transactions. While sustainable deals may feature a greater proportion of technology risk than established assets classes, ECA cover is likely to mitigate some of these issues.

DFI presence on sustainable export finance deals is low, though this is the result more of challenges in combining ECA and DFI debt than any lack of DFI interest in sustainable assets.

Breakdown by lender type

		$m	No	Share (%)
1	Financial institution	23,284	76	73.8%
2	ECA	6,318	27	20.0%
3	MFI/DFI	1,633	8	5.2%
4	Private company	141	1	0.4%
5	Government owned company	83	1	0.3%
6	Investment Manager	74	1	0.2%
7	Insurance Company	16	1	0.1%



Green deals

24.7bn
Total Vol

29 deals
No of deals

Renewables
Top sector

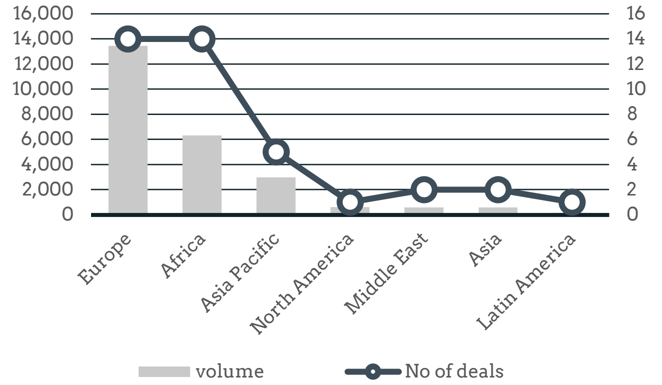
Europe
Top region

TXF uses a new granular classification for sustainable green deals derived from the Green Loan Principles. Renewable energy projects account for 62% of deals classified as green. Large offshore wind projects such as Dogger Bank and Seagreen in Europe and Changfang and Xidao in Taiwan ($2.7bn) explain most of this dominance.

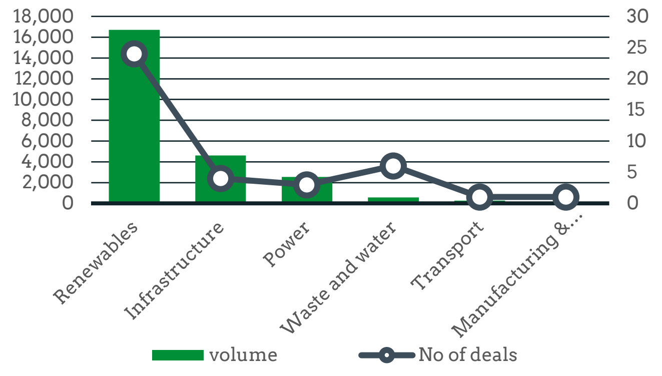
The second category was pollution prevention, with two significant railway deals like the $2.3 billion Cairo Monorail and the $1.6 billion railway in Tanzania.

Energy efficiency could be a significant source of new sustainable deals, particularly if battery storage projects take off. The Northvolt battery factory was an impressive first of its kind manufacturing project that benefited from ECA support. Given the investment requirements jusat for manufacturing, the $1.6 billion equivalent Northvolt deal could be the first of several.

Green deals by region



Green deals by industry



Breakdown by type

		$m	# of deals	Share of vol (%)
1	GL1: Renewable energy	17,036	26	69.0%
2	GL3: pollution prevention and control	4,402	4	17.8%
3	GL2: Energy efficiency	2,343	2	9.5%
4	GL7: Sustainable water and wastewater	552	5	2.2%
5	GL10: green buildings	357	1	1.4%
6	GL4: Natural resources & land sustainable management	4	1	0.0%

Social deals

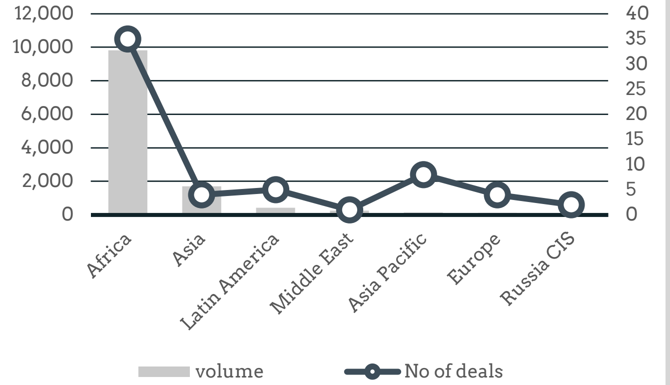
12.2bn	57 deals	Infrastructure	Africa
Total Vol	No of deals	Top sector	Top region

The bulk of the volume of social deals was accounted for by basic infrastructure, including deals like the $2.3b Cairo monorail project and the $1.6bn Tanzanian railway. However, telecoms financings with a social angle are starting to feature more prominently, as mobile internet is becoming more crucial to social outcomes in developing countries. Reliance closed two deals worth almost $1bn in 2020 to improve network access in India.

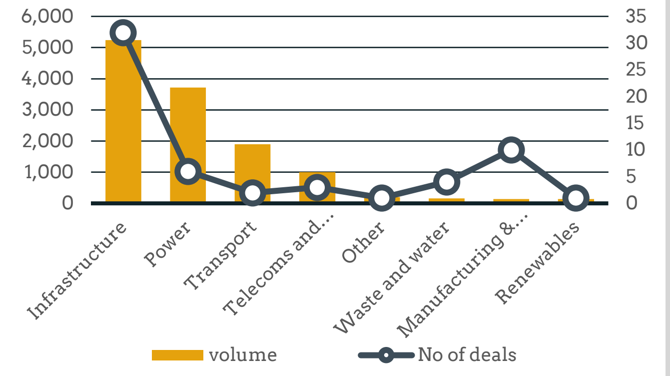
Financing volumes for hospitals and healthcare facilities also increased in 2020, with 19 deals worth $1.4bn closing. Africa was a particular focus for healthcare financings. Education was the source of only 3 financings, perhaps because schools generally require fewer imports of high-value equipment.

Social deals are an obvious source of greater collaboration (or competition) between ECAs and DFIs. ECAs may be obvious successor sources of debt for these assets as DFIs step aside, though in emerging markets both are likely to be crucial to closing transactions for the foreseeable future.

Social deals by region



Social deals by industry



Breakdown by type

		$m	# of deals	Share of vol (%)
1	SL1: Affordable basic infrastructure	10,424	27	83.5%
2	SL2: Access to essential services (health, education...)	1,629	25	13.0%
3	SL3: Affordable housing	200	1	1.6%
4	SL5: Food security & sustainable food systems	27	3	0.2%
5	SL6: Socioeconomic advancement to vulnerable groups	11	1	0.1%

Sustainable deals league tables

Lenders

		$m	No	Share (%)
1	Société Générale	1,441	10	6.0%
2	BNP Paribas	1,185	7	5.0%
3	Santander	1,133	9	4.8%
4	JP Morgan	1,000	4	4.2%
5	SMBC	985	11	4.1%
6	Crédit Agricole CIB	967	6	4.1%
7	ING Bank	856	6	3.6%
8	Lloyds Bank	841	2	3.5%
9	KfW IPEX-Bank	816	6	3.4%
10	National Westminster Bank	794	5	3.3%
11	MUFG Bank	769	6	3.2%
12	Standard Chartered	753	7	3.2%
13	CaixaBank	677	7	2.8%
14	BBVA	630	11	2.6%
15	HSBC	610	7	2.6%

ECAs

		$m	No	Share (%)
1	China EXIM	3,636	7	16.2%
2	UK Export Finance	3,346	11	14.9%
3	EKF	2,761	8	12.3%
4	EKN	1,689	4	7.5%
5	Euler Hermes	1,522	13	6.8%
6	KEXIM	1,242	3	5.5%
7	Bpifrance	1,095	4	4.9%
8	Sinosure	976	5	4.4%
9	SACE	784	5	3.5%
10	JBIC	776	4	3.5%
11	NEXI	712	4	3.2%
12	GIEK	693	3	3.1%
13	KSURE	481	2	2.1%
14	SEK	468	3	2.1%
15	ICIEC	421	3	1.9%

Sustainable deals methodology

The methodology used by TXF to identify Green, Social and Sustainable transactions is closely aligned with ICMA's (International Capital Markets Association) Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainable Bond Guidelines (SBG). These principles and guidelines are the most widely accepted set of voluntary governance structures that bring a level of transparency and disclosure into this fast-evolving space. These governance structures are underpinned by four main pillars: (i) use of proceeds, (ii) project selection, (iii) management of proceeds and (iv) impact reporting. We have classified transactions as being Green, Social or Sustainable where the "Use of Proceeds" can be clearly identified as such as per ICMA's GBP, SBP or SBG. For simplicity, we have classified as `sustainable' any transaction that fits the above categories.

As the data available for such a market sizing exercise is self-submitted by market participants, the choice of classification methodology was largely driven by the need to drive a common approach across the ECA industry. A large number of Arranging Banks active in the ECA market are already Green Bond issuers and, in some cases, Social and Sustainability Bonds issuers. In addition, ECAs such as EDC and the Exim-Import Bank of Korea (KEXIM) are also Green Bond issuers. As issuers, these institutions have in place the expertise and governance mechanisms to classify ECA transactions as Green, Social or Sustainable in line with the Principles and Guidelines. Likewise, it is hoped that as more ECA assets are earmarked against Green, Social or Sustainable bonds, it will encourage institutions to increase sustainable bond issuance, thus creating a virtuous cycle which will increase the size of sustainable debt capital markets.

The Sustainability League Tables have been developed using a methodology which is consistent with market practice in the Sustainable Finance universe. We believe this approach will help harmonize sustainability classifications across various sustainability products/markets within banking and finance.

Methodological caveats

The classification of transactions as Green, Social or Sustainable was largely driven by the information provided by the participants. TXF asks participants for further information on deals that could be sustainable according to our methodology, but sometimes we do not gather enough details to consider a deal sustainable. We are looking forward to engaging with the industry to improve the quality and accuracy of the data.

Sustainable deals categories

For more information on the specific categories that we consider sustainable, please visit our methodology page.

Sentiment analysis

Findings

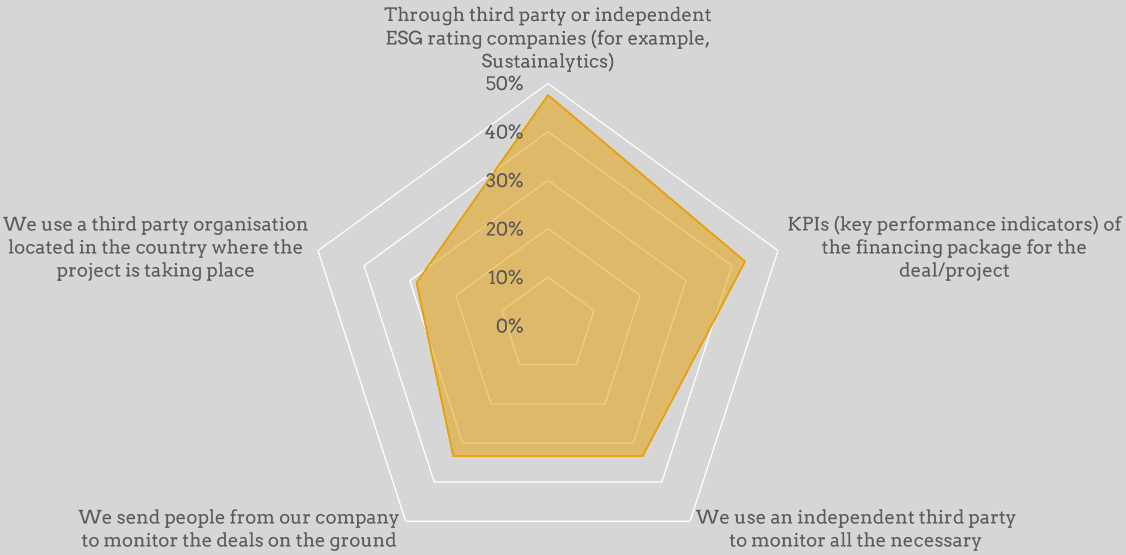
Across the total sample[1], having some form of physical presence on the ground was preferential. For instance, nearly half of the sample reported using a third party or independent ESG rating company (for example, Sustainalytics) as their primary method for measuring their sustainability-related key performance indicators (KPIs). A third also noted that they physically send people from their own company to each project (33%), with 29% opting for a third party organisation located within the country where the project was taking place.

For those respondents who did not have physical checks carried out, KPIs related to the financing package for the debt/project (43%) and the use of the latest technology (33%) were the two most reported measures of sustainability-related KPIs (figure 1). Technology, while it is currently not sufficient to monitor sustainability-related KPIs, was often reported across the interviews as the most viable way to monitor it in the future:

"Technology is the future... it is not possible both financially or practically to keep putting boots on the ground... but the technology is not quite there yet... it doesn't give us the granularity that we need and it is very environment focused." (Corporate; Europe)

[1] *Under normal circumstances where international travel is not restricted.*

Figure 1: Methods of monitoring export finance activity sustainability-related KPIs



	%
Through third party or independent ESG rating companies (for example, Sustainalytics)	48%
KPIs (key performance indicators) of the financing package for the deal/project	43%
We use an independent third party to monitor all the necessary	33%
We send people from our company to monitor the deals on the ground	33%
We use a third party organisation located in the country where the project is taking place	29%

Just over 70% of the total sample reported that they monitor their sustainability-related KPIs at least once a year, with 29% reporting that they do so every quarter. Just under one-fifth of the respondents noted that they do not monitor their export activity at all (figure 2).

A need for more knowledge

When the sample were asked about their level of knowledge of the leading frameworks used to measure sustainability across export finance, the Equator Principles and the OECD Arrangement and sector understandings were the only two frameworks where at least 50% of the respondents were very knowledgeable (figure 3).

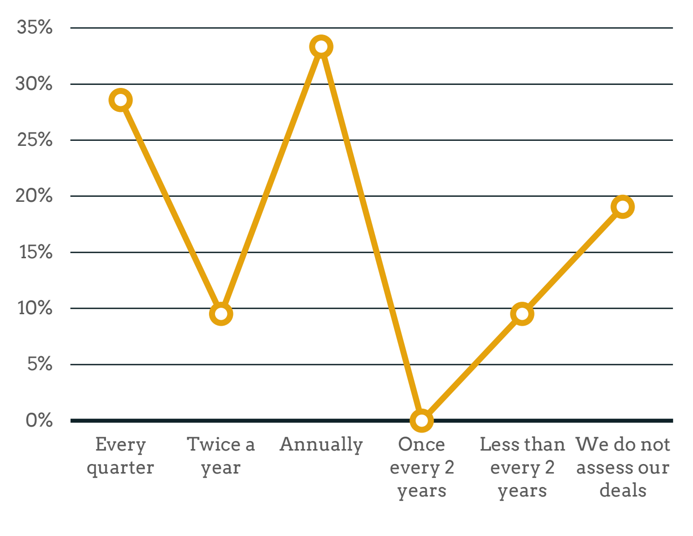
Across the remaining frameworks, the modal response was somewhat knowledgeable. Given that all of these frameworks are well established within export finance, it is somewhat concerning that a fairly low level of knowledge was reported[2].

Exploring why this might be the case, several of the respondents suggested it could be because there are too many frameworks to interpret and understand, none of which have more merit than the other:

"There are dozens of frameworks we are expected to follow… it is too much. I think we are strong on ESG… we do what we can but other things we just put to one side until we need to address it." (Bank; Europe)

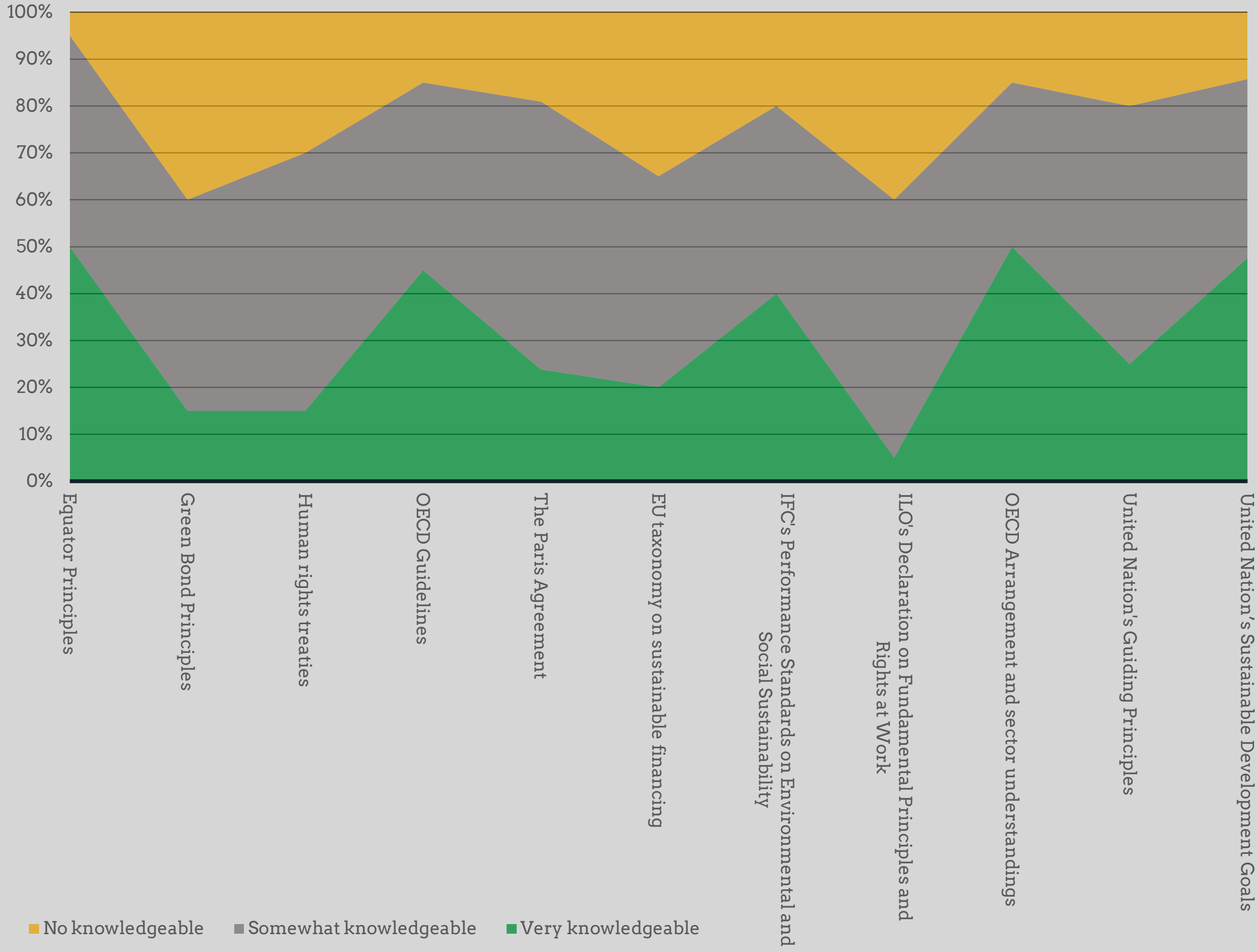
As figure 4 and 5 demonstrate, this sentiment holds merit. The greatest sustainability-related challenge facing the export finance industry is a lack of any standardised procedure or process to measure and/or monitor export finance sustainability activity.

Figure 2: Frequency of monitoring export finance activity against sustainability-related KPIs



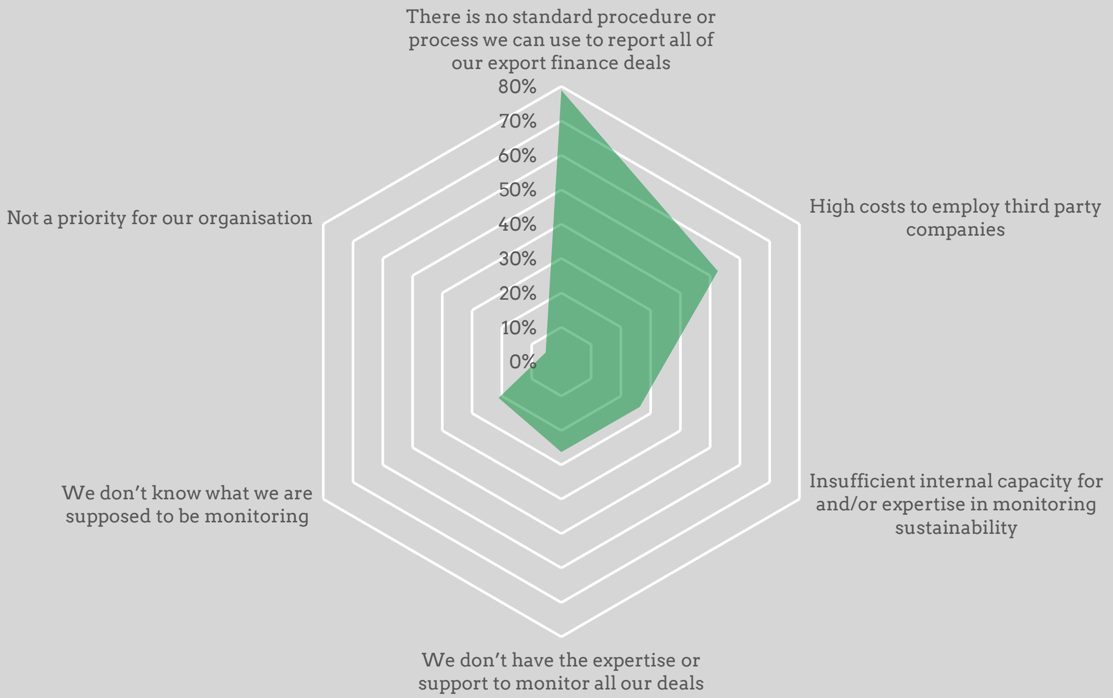
[2] *Interpret with a degree of caution as this data draws on a small cross section of the industry.*

Figure 3: Knowledge of the leading frameworks to measure sustainable export activity



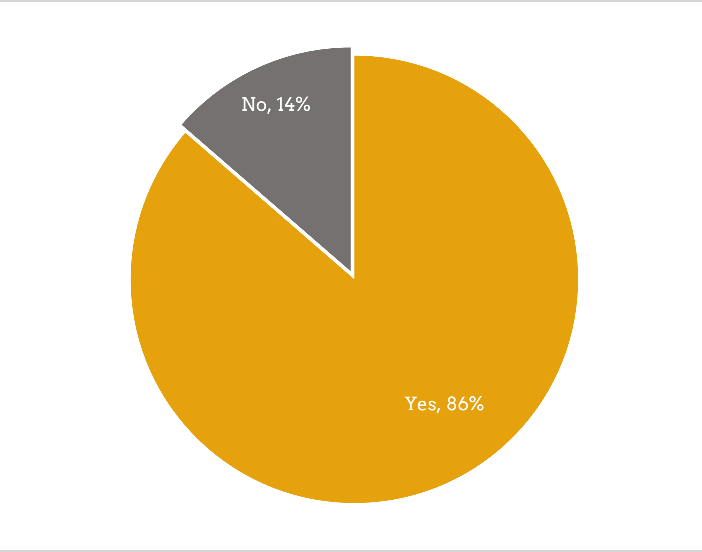
	Very knowledgeable	Somewhat knowledgeable	No knowledgeable
Equator Principles	50%	45%	5%
Green Bond Principles	15%	45%	40%
Human rights treaties	15%	55%	30%
OECD Guidelines	45%	40%	15%
The Paris Agreement	24%	57%	19%
EU taxonomy on sustainable financing	20%	45%	35%
IFC's Performance Standards on Environmental and Social Sustainability	40%	40%	20%
ILO's Declaration on Fundamental Principles and Rights at Work	5%	55%	40%
OECD Arrangement and sector understandings	50%	35%	15%
United Nation's Guiding Principles	25%	55%	20%

Figure 4: Greatest challenges to monitoring sustainability in export finance



	%
There is no standard procedure or process we can use to report all of our export finance deals	79%
High costs to employ third party companies	53%
Insufficient internal capacity for and/or expertise in monitoring sustainability	26%
We don't have the expertise or support to monitor all our deals	26%
We don't know what we are supposed to be monitoring	21%
Not a priority for our organisation	5%

Figure 5: Views to whether the industry lacks a standardised way to measure sustainability



To compound matters, no framework is considered industry-leading across export finance, and none provide a universally agreed definition of sustainability, what should be measured, or best practice for monitoring sustainability across the lifespan of the project.

Furthermore, each individual framework often includes a complex set of parameters, recommendations and reporting standards that make the task of understanding all of the frameworks almost insurmountable. For instance, one of the most well-known frameworks is Sustainable Development Goals (SDG), a United Nations initiative that sets out 17 goals to "transform our world" (United Nations, 2015). Yet within the SDG, there are 231 unique indicators for companies to go ingest and implement.

All of these challenges are likely exacerbated by an absent legislative agenda that does not mandate banks, ECAs, and corporates to either implement sustainability-related KPIs or to publish reports against which export finance activity can be assessed.

For one particular framework, this looks set to change.

Task Force on Climate-Related Financial Disclosures

The Task Force on Climate-Related Financial Disclosures (TCFD) were set up by the Financial Stability Board (FSB), an international body that was established in 2009 by the Heads of State of the G20 countries. The FSB established a 32-member task force[3] to develop voluntary, consistent, climate-related financial disclosures that would:

"Help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities." (Financial Stability Board, 2017)

In 2017, the TCFD outlined its key features and recommendations[4], namely to ensure the TCFD is adoptable by all organisations, is included in financial filings, is designed to solicit decision-useful, forward-looking information on financial projects, and to have a strong focus on risks and opportunities related to transition to a lower-carbon economy. To meet these targets, four core elements of climate-related financial disclosures spanning governance, strategy, risk management and metrics and targets were set out.

Exploring TCFD in more detail specifically within export finance, TXF Research's Global Export Finance Industry Report 2021 found:

1. Banks (59%), ECAs (59%), and buyers (54%) were most likely to have some knowledge of TCFDs, with more exporters (51%) likely to have no knowledge of the framework. Moreover, when asked about their company's commitment to TCFDs, one-third of ECAs and exporters, 27% of buyers and 13% of banks do not currently follow TCFD reporting standards.
2. More than a third of the banking respondents and nearly half of the exporters and buyers have no intention to implement TCFD reporting standards at any point in the future. For those industry types that will look to implement TCFDs in the future, banks (31%) were most likely to do so within the next 12 months, while ECAs (45%), exporters (30%) and buyers (38%) were most likely to do so within one to three years.
3. Across the total sample of survey respondents, factors that may improve the uptake of TCFD within export finance are those that improve the ease with which the framework can be implemented. Nearly half of all the respondents (49%) not that the most important improvement would be more tools and support when conducting scenario analysis.

A recent article published by TXF suggested that these findings were symptomatic of the export finance industry being in a state of inertia, struggling to understand the nuances of sustainability and the associated importance of climate-related financial disclosures (Parkman & Ghaleigh, 2021[5])

However, the UK's export finance industry could be set for a moment of clarity as TCFD looks set to become a legal requirement.

Following the UK's 2019 Green Finance Strategy[6] set out by the Department for Business, Energy, and Industrial Strategy , the UK has moved forward in becoming the first country in the world to make TCFD-aligned disclosures mandatory (Challis, 2021[7]). Such changes would be applicable to all limited liability partnerships (LLPs), public and large private companies, all of which include different players within export finance.

To date, the evidence suggests that for the banking and insurance sectors, areas of finance where mandatory financial disclosure regulatory action has been introduced, the rate of progress in improving the flow and transparency of information on the risks and opportunities posed by climate change is accelerating (Prudential Regulation Authority (PRA) (2019[8]).

[3] Spanning members from large banks, insurance companies, asset managers, pension funds, large non-financial companies, accounting and consulting firms, and credit rating agencies.
[4] The TCFD publication is available here
[5] Parkman, T. & Ghaleigh, N. S. (2021). TCFD: Too complex for delivery in export finance? Accessed on 25th March 2021. Retrieved from here
[6] Department for Business, Energy, and Industrial Strategy. (2019). Green Finance Strategy: Transforming finance for a greener future. London: HM Government.
[7] Challis, B. (2021). Government sets out plans to mandate climate-related financial disclosures. Accessed on March 24th, 2021. Retrieved from here.
[8] Prudential Regulation Authority. (2019). Enhancing banks' and insurers' approaches to managing the financial risks from climate change. Accessed on 25th March 2021. Available here

The UK is taking a big step in the right direction by making TCFD mandatory and by doing so, it should help the UKs export finance industry to better understand and implement changes that directly tackle climate change. It remains to be seen how quickly other jurisdictions follow but it very much seems a case of when TCFD reporting becomes a legal requirement, not if.

To disclose or not to disclose... that is the question

When respondents were asked to comment on whether they would disclose information that demonstrated their failure in meeting their own sustainability-related KPIs, 70% of the total sample stated that they would not make this information publicly available (figure 6). This, one corporate noted, is a major concern for the export finance industry:

"If we don't know what organisations are really doing, who they are doing it with and how they are doing it, then I don't see how the industry can make any meaningful strides to improve practices and reporting standards." (Corporate; Asia Pacific).

A recent report by the Alliance for Corporate Transparency (2019[9]), a coalition of civil society organisations and experts set up to scrutinise compliance with the EU Non-financial reporting Directive found that only 50% of the companies surveyed appropriately report their environmental impacts, with many providing misleading information on their activities.

Of greatest concern, the report found, were significant gaps relating to climate change. For instance, of the 849 corporations included in the study, 80% include climate-related risks in their public reports. Yet, just 39% use scenario-based analysis to inform strategy, as per best practice. Worse still, just 44 of the organisations have made full use of TCFD. Finally, while 90% of the companies referenced climate change policies, only 47% made any mention as to what the policies were designed to achieve – a major issue for transparency.

While this report was not focused on export finance specifically, there is no reason to suggest that the export finance industry would fare any better than these statistics.

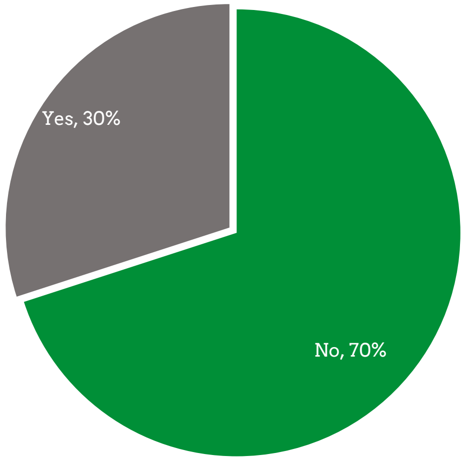
One hundred seconds to midnight

There is no doubt that the export finance industry does not value the importance of sustainability. The doubt appears to creep in when discussing the most viable way forward for the industry to better understand the fundamental priorities of sustainability and how it should be tackled. There appears to be a general lack of understanding of which framework to adopt, principally, because none are considered industry-leading.

TCFD may offer a solution to this problem.

The UK has become the first country to discuss making climate-related financial disclosures mandatory for most company types across all financial sectors within the next five years. For export finance, this would force national exporters, banks and UKEF to improve their reporting standards and their awareness of climate-related risks and opportunities.

Figure 6: Perception on whether information would be disclosed if it demonstrated that they had not met their own sustainability-related KPIs



It is important to state that TCFD is not designed as a punitive measure for traditionally non-green projects. It is designed to improve transparency so that investors can make more informed decisions before entering a project. This presents a unique opportunity for companies and lenders to take the lead in improving reporting standards that directly tackle climate change.

The export finance has some way to go to improve its commitment to tackling climate change and while it is not currently clear what path it will take; it is crystal clear that climate change needs addressing urgently. Action is needed immediately, and it is time for decisive steps to be taken from industry leaders within export finance to tackle one of the driving reasons behind why the doomsday clock is currently at its closest point to midnight.

[9] *Alliance for Corporate Transparency. (2019). Companies failing to report meaningful information about their impacts on society and the environment. Accessed on 25th March 2021.* [Access here]

Research methodology

The data in this report were collected using a mixed methodology research design that combined quantitative data collected through an online survey, with qualitative insights from experts in the field collected through email and telephone interviews. Together, the data presented in the report is an in-depth exploration of the latest market trends (quantitative), contextualised with detailed insights on why these trends are occurring (qualitative).

The survey

In total, 113 respondents from banks, ECAs, exporters and buyers took part in the quantitative component of the data collection.

The survey data were collected using an online survey platform (SurveyMonkey) between November 2020 and March 2021. A group of experts spanning the banking, ECA and corporate sectors, all with a wealth of experience operating within the export finance industry were consulted, to ensure the survey questions were relevant, appropriately worded and detailed for the individual respondent types taking part in the survey.

No duplicate data from the same institution were included. If more than one respondent answered from the same institution, the scores were aggregated and then averaged. This approach ensured that every institution was weighted equally.

The interviews

To explain the quantitative trends, semi-structured interviews were conducted via phone and email with 10 consenting individuals. Participants were identified through a final question on the survey that asked if they wanted to be involved in a follow-up interview.

The topic guide for each respondent was based on their survey responses, ensuring that the interview remained focused. The interviews were conducted between November 2020 and March 2021. Telephone interviews were audio recorded and email interviews were kept on an encrypted hard drive. To protect the identity of the respondents, all qualitative data has been anonymised throughout this report.

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