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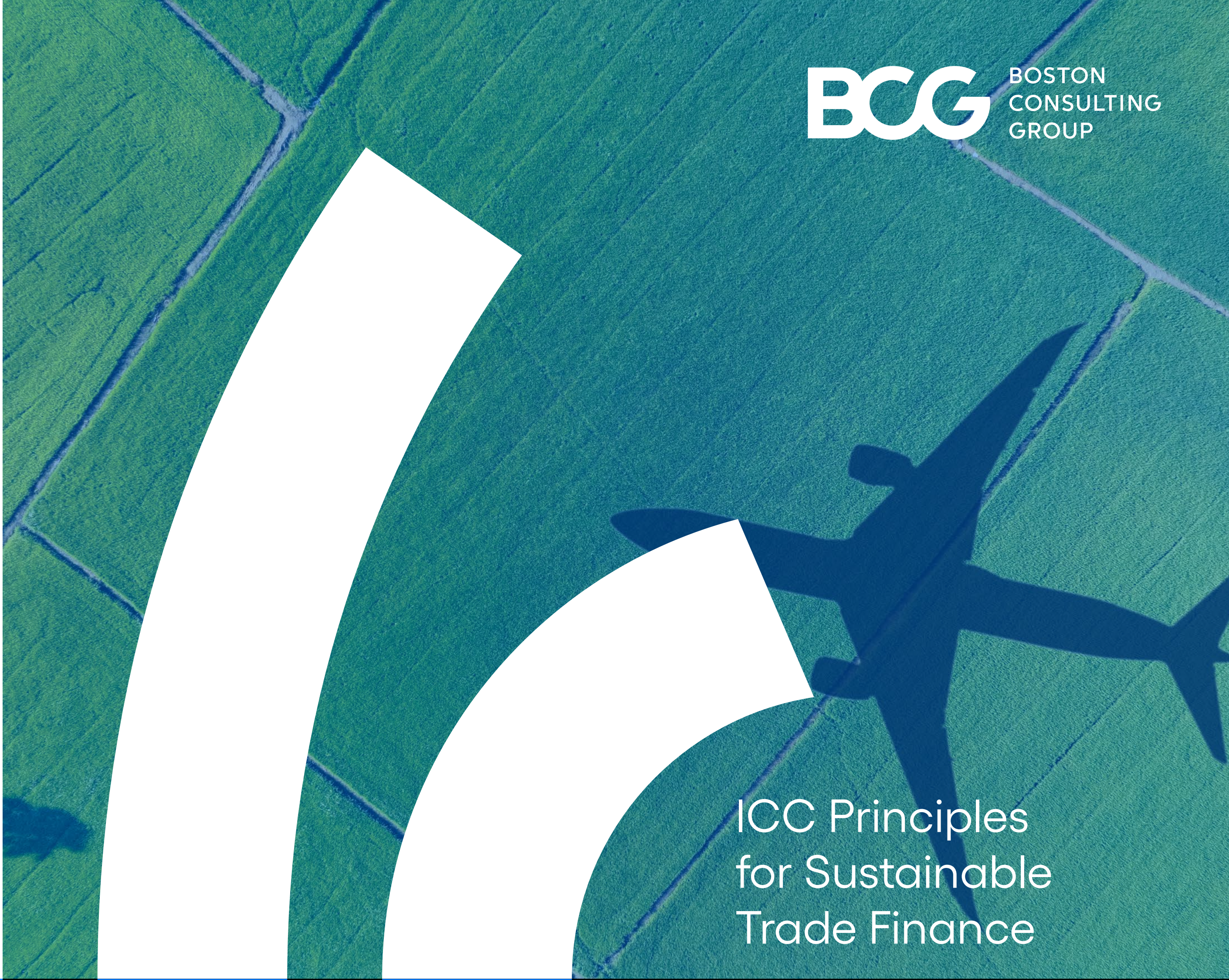

ICC Principles for Sustainable Trade Finance

OCTOBER 2024

ICC

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Printed in October 2024

Introduction to ICC Principles for Sustainable Trade

Assessing the sustainability of Trade Finance is complex due to the "flow" nature of the product; often, the intended primary or end purpose of a good or service is not known at the point of origination. As such, it is often challenging, and highly subjective, to apply existing green finance frameworks to Trade Finance products. As a result, there is **a clear need for industry-wide consensus, and a common definition** of Sustainable Trade Finance that supports the overall objective of existing green finance frameworks. Such a definition must be transparent and consistent across financial institutions, corporates, and governments. The primary objective of these principles is to enable the direction of capital towards sustainable and inclusive facilities within the Trade Finance industry, whilst managing greenwashing risks.

Since the release of an initial positioning paper at COP26 in 2021, the International Chamber of Commerce (ICC), in collaboration with Boston Consulting Group (BCG), industry experts, financial institutions, and corporates, has developed complimentary frameworks to define both Sustainable Trade Finance and Sustainable Trade more broadly. This document addresses four distinct types of Trade Finance products:

- Green Trade Finance (GTF)
- Sustainability-linked Trade Finance
- Sustainability-linked Supply Chain Finance
- Social Trade Finance (not defined in this document for reasons outlined below)

ICC's Principles for Green Trade Finance (PGTF) are a set of detailed, fully implementable principles that provide a common language and set of processes for banks to utilise when conducting a Use of Proceeds-based assessment for green-labelled Trade Finance products. These principles are closely aligned with the Loan Market Association's (LMA) Green Loan Principles (GPLs) and International Capital Market Association's (ICMA) Green Bond Principles (GBPs) but allow assessment based on the purpose of a transaction, or its goods in addition to project-based evaluations.

ICC's guidance on Sustainability-linked Trade Finance provides tailored advice based on the principles set out in the Sustainability-Linked Loan Principles (SLLPs) for Trade Finance products. Specific ICC principles are not required given the clear applicability of the principles in the LMA's SLLPs.

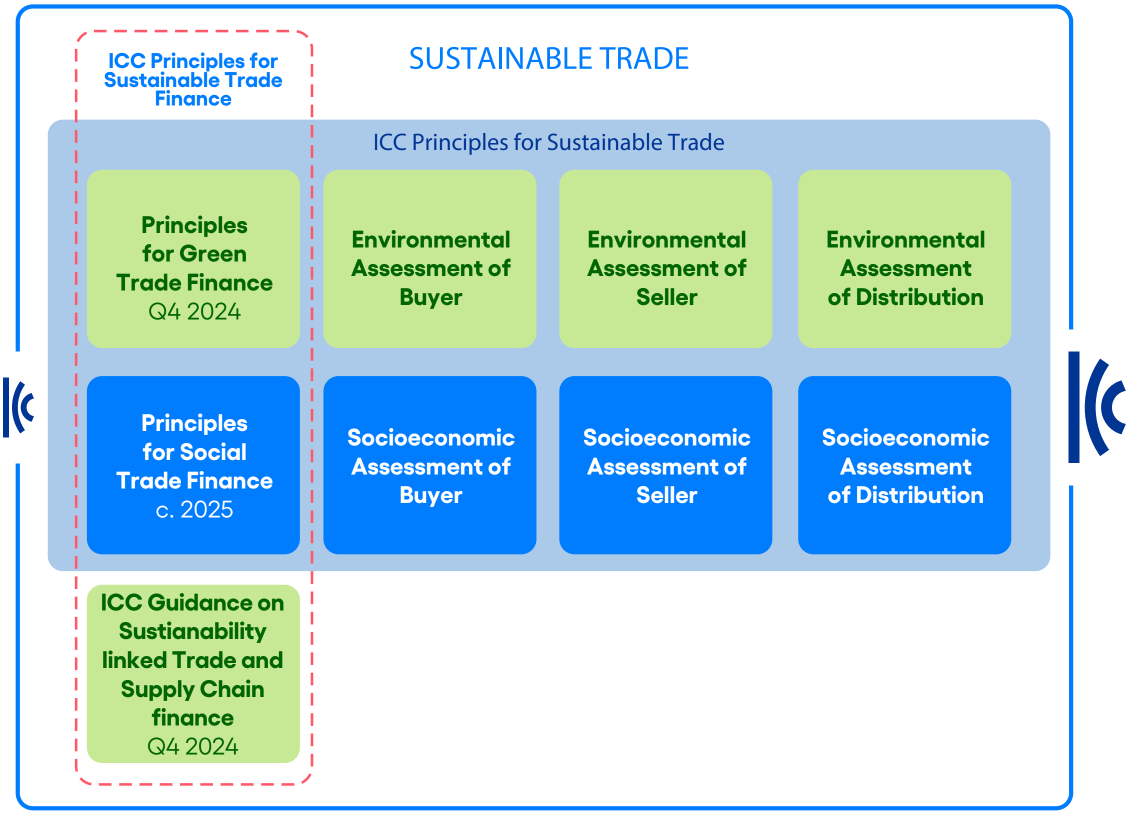
ICC's guidance on Sustainability-linked Supply Chain Finance provides additional clarity on ownership of KPIs in relation to Sustainability-Linked Supply Chain Finance programmes. Again, specific ICC principles are not required given the clear applicability of the principles LMA's SLLPs.

Principles for Social Trade Finance remain an area of focus for ICC, yet due to the nascence of Social Trade Finance within the market, this document will primarily set out ICC's ambition to develop a specific set of Principles for Social Trade Finance in near future.

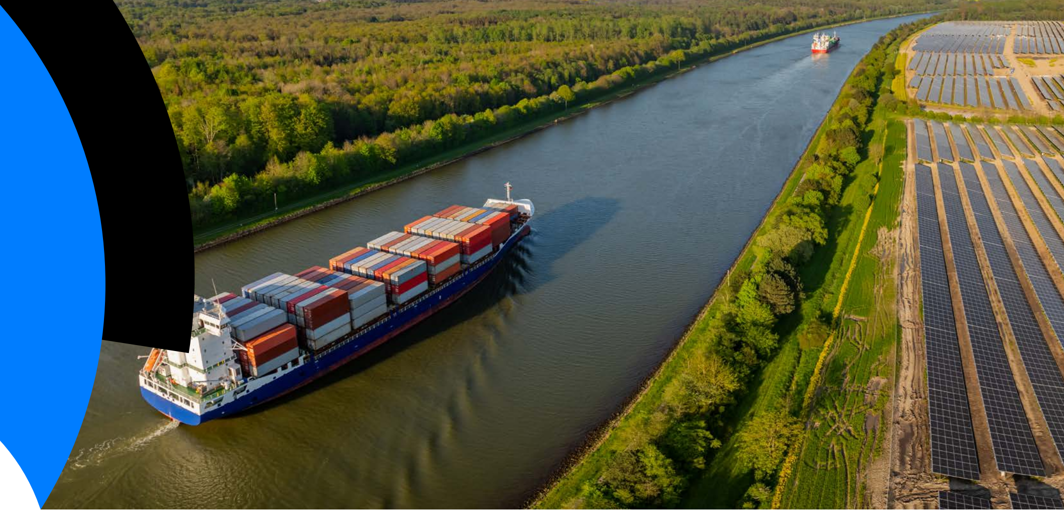
The Principles for Green Trade Finance and future Principles for Social Trade Finance will form the two Use of Proceeds components of the wider ICC Principles for Sustainable Trade (PST).

The PST framework represents a broader and more holistic approach to assessing sustainability in Trade Finance transactions by addressing both environmental and socioeconomic factors. It evaluates sustainability across four core components of trade: the **Use of Proceeds**, the **buyer**, the **seller**, and the **distribution** of goods or services. These components are graded along two sustainability dimensions: **environmental sustainability**, which includes factors such as climate change mitigation and biodiversity, and **socioeconomic sustainability**, which focuses on human rights, labour practices, and promoting sustainable economic development.

For more information on the ICC PST program, see here.



ICC would like to recognise the work done by the Loan Market Assocation (LMA) on the Green Loan Principles, for which this work is heavily influenced by. ICC would like to also take the opportunity to reference the work completed by the Bankers Association for Finance and Trade (BAFT) on their Product Matrix, enabling institutions to determine the optimal assessment methodology for each product type, closely aligning to and complementing the ICC Principles for Sustainable Trade Finance.



Section A: ICC Principles for Green Trade Finance

A.1 Introduction

ICC, through the development of PGTF, aims to help trade banks and their customers:

- Reduce greenwashing risks from the varying interpretations of green trade today
- Increase the proportion of green trade that is formally recognised so that finance can be more effectively channelled to green activities and goods
- Provide clear, transparent, and consistent guidelines that allow corporates to understand what qualifies as green Trade Finance through a uniform application across banks

The aims of the PGTF are to complement and support the LMA's Green Loan Principles in the assessment of Trade Finance transactions and to ensure that the threshold for sustainability in green Trade Finance is comparable to that of other green financing.

A.2 Green Trade Finance Definition

Green Trade Finance (GTF) refers to Trade Finance products designed exclusively to finance or mitigate financial risk from activities where the Use of Proceeds is clearly and verifiably allocated to green purposes, or, where the purpose is not known, to green goods.

A.3 Principles for Green Trade Finance

The PGTF consist of **four** key pillars: Use of Proceeds, evidencing, safeguarding and standardisation, and reporting.

A.3.1 Use of proceeds

Use of Proceeds can be assessed through two lenses in the PGTF: purpose and goods. There are specific Trade Finance products where the purpose is not known. In these cases, users must undertake an assessment of the good itself.

Trade Finance products for which the user typically has visibility on the **purpose** of their Use of Proceeds include:

- Guarantees
- Standby letters of credit
- ECA-covered export finance (in some cases)

The user should assess the transaction based on its purpose where possible, seeking to attribute the purpose based on the nature of the goods or any additional available information.

In other products, where typically only the **good** can be known, users should undertake a goods-based assessment. These products include:

- Import letters of credit
- Export letters of credit
- ECA-backed export finance (some)
- Payables finance
- Dynamic discounting
- Receivables finance
- Receivables discounting
- Factoring
- Loans for import/export

When the **purpose** of the Trade Finance product is known or can be evidenced, for it to be **considered GTF**, it must align to or support a **green activity** (**see Appendix A**).

In cases where **only** the **good** is known, the good itself must be aligned with or support a **green activity** to be considered green Trade Finance. Even so, where possible, users should endeavour to determine the good's purpose.

ICC provides a list of green activities, built upon that of the LMA's Green Loan Principles and EU Taxonomy (**see Appendix A**). However, users may choose to specify additional green activities in line with their internal sustainability policies or external frameworks, like the International Energy Agency's (IEA) Green Technologies, as long as they pass Do No Significant Harm checks and support **one** or more of the environmental UN Sustainable Development Goals (SDGs).

Where users cannot directly infer the sustainability of the purpose or goods, it must be evidenced as sustainable **and** pass Do No Significant Harm checks (see sections **3.2: Evidencing**, and **3.3: Safeguarding**).

In certain trade finance transactions, particularly those involving the financing of exporters (such as, negotiation of letter of credit proceeds), the proceeds received by the seller may not be allocated specifically to a green purpose. In these cases, 'Use of Proceeds' within the context of Green Trade Finance refers to the financing of green goods or services, and the environmental benefit derived from the nature of the goods or services being financed rather than the specific allocation of proceeds by the recipient.

A.3.2 Evidencing

Where the sustainability of a purpose or good is not clear with a high degree of confidence, **robust** sustainability **credentials** should be used as evidence. Acceptable forms of evidence can be seen in **section 6: Data & Evidences**.

Users are encouraged to ensure that credentials align with ICC's sustainability criteria, which require industry relevance and alignment with one or more of the environmental UN (SDGs). Users should be satisfied that any external sources of evidence exhibit the following five key attributes:

- Widely accepted[1]
- Fact-based
- Independent
- Measurable
- Comprehensive[1]

ICC also provides a **sustainable credential library** for users of the PGTF to leverage, the details of which can be seen under section **5: Data and Evidences**.

A.3.3 Safeguarding

Whilst the purpose of a trade transaction may not always be clear, users should seek to assess client-level **Do No Significant Harm (DNSH) principles** in high-risk transactions, and are encouraged to assess DNSH at a facility level.

High-risk transactions can be associated with specific industries, geographies, or client profiles such as fossil fuels, textiles manufacturing, and mining. Users may exercise discretion regarding this designation based on their internal sustainability and risk policies.

Users should conduct DNSH checks according to industry-recognised frameworks. ICC recommends the following as suitable methodologies:

- Equator Principles
- EU Taxonomy DNSH
- IFC Performance Standards
- Local market regulations

For certain products characterised as contingent liabilities, there is inherent ring-fencing of proceeds whereby the proceeds can only be used for the green purpose or good, as with Import letters of credit, where the proceeds may only be released upon receipt of the specific goods. However, for other products where proceeds are not inherently ring-fenced, ICC recommends adhering to the guidelines set out in the LMA's GLPs. For products that are not contingent liabilities, users must ensure that there is rigorous tracking and management of proceeds at a facility level to ensure green funds are either clearly identified and segregated into dedicated accounts/facilities or, where applicable, that green tranches are distinctly separated from non-green ("brown") funds.

In Trade Finance products where the client may not directly receive the proceeds, the client is responsible for ensuring that disbursements to counterparties are diligently monitored and

1. See glossary for definition

comply with the Use of Proceeds requirements as per the LMA's GLPs.

A.3.4 Standardisation & Reporting

In setting users' thresholds for environmental sustainability, GTF should be comparable to that of other green finance products, so as to not disincentivise the adoption of GTF.

The threshold for environmental sustainability set out in the PGTF is the minimum requirement users should meet in order to label a Trade Finance product as green. This ensures that Trade Finance transactions are uniformly assessed across users, and it increases transparency on GTF for borrowers/clients. Users may wish to add additional requirements alongside those set out in the PGTF for their GTF products.

There must be **standardised** reporting and disclosure practices to ensure **transparency** and **comparability** of sustainability assessments where the borrower/client has the responsibility of reporting and the user, typically a bank, has the responsibility of to ensure that reporting guidelines are met.

Reporting in the ICC PGTF closely aligns with the standards of the LMA's GLPs and ICMA's GBPs; users are asked to adhere to these principles in conjunction with ICC's specific recommendations for scenarios where short-term facilities are offered, allowing for one-time reporting or validation, guidance upon which can be seen under section **6: Reporting**.

A.4 Guidance on Methodology

The PGTF have been created in such a way that they act as the minimum acceptable threshold for GTF. Institutions may utilise the methodology below as a framework upon which to assess a transaction, and the threshold an institution sets can always be higher than the one described here.

Where the financier has the ability to determine the purpose, they should endeavour to verify this in favour of a goods assessment.

In situations where users know both the purpose and goods, they should give priority to the purpose. If the goods themselves are not classified as "green" but their **purpose** is aligned with a green activity, this may qualify as green Trade Finance as long as the goods pass DNSH principles (laid out in section **A.4.1: Safeguarding**). However, if the purpose is non-green, the transaction cannot be considered Green Trade Finance, even if the goods themselves are green.

A.4.1 Purpose

Green definition: The purpose of the Trade Finance Use of Proceeds is aligned with a green activity (see appendix A).

A.4.2 Goods

Green definition: The goods financed through the Use of Proceeds of a Trade Finance product are aligned with, or the production of which has supported a green activity (see appendix A).

A.4.3 Purposes and Goods which are green with a high degree of confidence

Specific purposes are clearly aligned to green activities, and thus can be classified as green without the need to supply additional evidencing. A non-exhaustive list includes:

- Renewable energy creation or solar panels
- Sale of energy efficiency products or smart meters
- Construction of a recycling facility or trading recyclable/scrap materials
- Construction of electric vehicles

A.4.4 Purposes and goods which are not green with a high degree of confidence

Specific purposes are not eligible for GTF due to their negative impact on the environment. A non-exhaustive list includes:

- Coal mining
- Crude oil extraction
- Natural gas extraction (note: users may choose to classify natural gas as green when its role in supporting energy transition pathways is clearly demonstrated)

A.4.5 Purposes and goods that require additional evidencing to be deemed green

Purposes that can be aligned to either green or "brown" activities require additional evidence to be classified as GTF (**see section 6: Data and Evidence**). A non-exhaustive list include:

- Agriculture and subsequent products

- Textiles manufacturing and subsequent products
- Aquaculture and fish
- Forestry

A.5 Data & Evidence

Sources that can evidence environmental sustainability of a purpose or good include:

- ICC-recognised standards
- Third-party certifications
- Industry standards
- Government and regulatory approvals
- Sustainability reports and audits
- Academic and research publications
- Verified environmental metrics and data
- Sustainability indices and ratings
- Commercial records for the verification of goods, including but not limited to: Bills of Lading, Invoices and Contracts.
- Alignment to environmental UN SDGs or Paris Agreement goals
- Taxonomy Regulation such as the EU Taxonomy and its technical screening criteria
- Local market regulations

Any credentials should be sufficiently rigorous to avoid potential greenwashing. ICC recommends evaluating credentials under the five criteria listed below:

- Widely accepted
- Fact-based
- Independent
- Measurable
- Comprehensive

Users are encouraged to reflect ICC's methodology for rigour testing standards, where ICC evaluates the environmental sustainability of standards through their alignment to at least one of the environmental UN SDGs.

In collaboration with the ITC Standards Map, ICC offers data resources to accelerate any assessments made under the PGTF. Users may wish to use these or develop internal resources under the above methodologies. These include:

- HS and NACE code mapping to green activities, with c. 6,000 goods and 600 activities mapped to green activities
- 300+ sector specific ICC-recognised standards that have passed rigour assessments
- HS and NACE code mapping to ICC-recognised standards, allowing users to see potential standards for a specific purpose or good

Should users require mapping exercises to additional categories or resources, please reach out directly to ICC.

A.6 Reporting

ICC recommends adhering to the LMA's GLP guidance on reporting for information on descriptions, confidentiality, aggregation and sharing for the majority of reporting requirements. However, ICC provide additional guidance for Trade Finance products.

Trade finance products often involve revolving facilities or one-time usage where the specific end purpose of a good may not be clear at the time of financing. In these situations, the ICC PGTF recommend that users maintain readily available information on the types of goods financed and update this information as necessary in the event of significant changes. The reporting cadence should be tailored to the nature of the facility; ICC recommends periodic reviews for revolving facilities, whilst annual reporting may be more appropriate for long-term products.

ICC recommend the use of qualitative and, where feasible, quantitative performance indicators (such as greenhouse gas emissions reduced/ avoided). They also encourage the disclosure of key methodologies and assumptions used in such assessments. Borrowers capable of monitoring achieved impacts should include these metrics in regular reports to participating institutions.

ICC recognises that reporting on GTF may have characteristics different from normal lending. Consequently, banks may, only where necessary, choose to differentiate the means by which volumes are measured, so long as doing so does not increase any greenwashing risks in accordance with their internal ESG Risk policies.

Section B: ICC Guidance on Sustainability-Linked Trade Finance

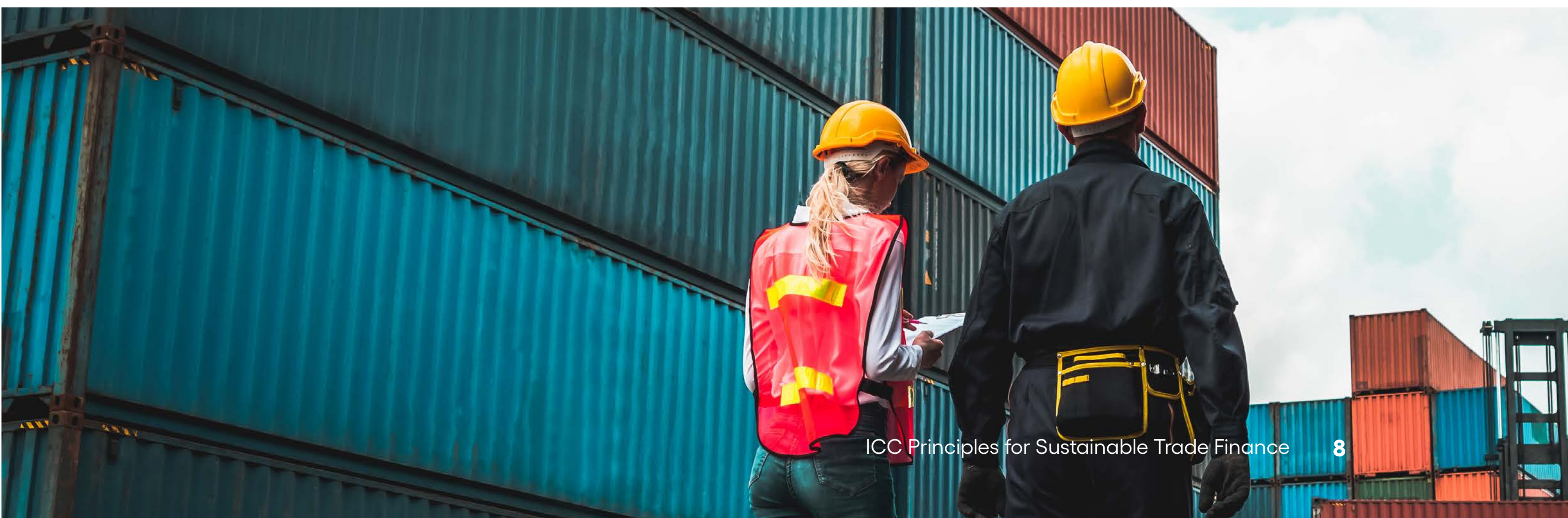
Sustainability-linked finance measures improvement in one or more KPIs at a client level. Where lenders may wish to offer **Sustainability-linked Trade Finance (SLTF)**, ICC recommends utilising the pillars of the LMA's SLLPs as guidance for assessments.

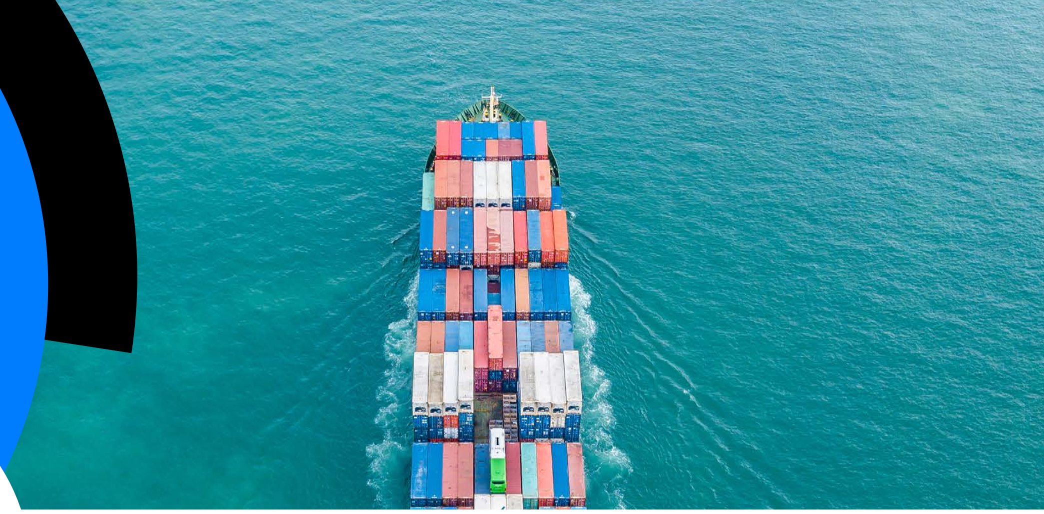
As seen in the LMA's SLLPs, sustainability-linked assessments occur at a client level: the borrower/client selects KPIs and subsequently sets sustainability performance targets (SPTs). As long as the SPTs are met, the client will not be penalised. Even if the SPTs are not met, banks retain the ability to continue to label the facility as sustainability-linked, in order to promote ambitious SPTs.

The LMA's SLLPs require that users ensure KPIs are relevant, aligned to the client's core sustainability objectives, and measurable. The borrower/client is responsible for selecting KPIs and SPTs. The user of the framework—typically a bank—is responsible for verifying and validating the selection of KPIs and SPTs to ensure compliance with ICC/LMA principles

Reporting for any SLTF facilities should take place at least annually, or at a shorter cadence to reflect that of shorter-term instruments, if agreed between the bank and the client. Any price impacts of performance against targets should also be documented by the bank.

In the case of sustainability-linked Trade Finance, users may also consider using ESG scorers as a KPI to measure sustainability performance, acting as an externally verified form of evidence/verification.





Section C: ICC Guidance on Sustainability-Linked Supply Chain Finance

ICC also recommends utilising the pillars of the LMA's SLLPs as guiding principles for sustainability-linked SCF programs. As seen in section B, sustainability-linked assessments are based on KPIs and SPTs and should undergo the same rigour described previously.

ICC has provided guidance specific to supply chain finance:

- Users of the LMA's SLLPs for SLSCF should ensure that the "anchor buyer" establishes common and rigorous KPIs, and subsequently determines the SPTs that will be set for their respective suppliers.
- Users of the LMA's SLLPs, namely banks, should ensure that the setting of the KPIs and SPTs are appropriate, fair and aligned to the buyer's ESG strategy including relevance to their respective industry.
- Users may also consider using reputable ESG scorers as a KPI to measure sustainability performance, acting as an externally verified form of evidence or verification. Where clients wish to utilise scoring or ranking methodologies, users should assess the buyer's ability to validate the scores or ranks.
- Reporting for any SLSCF facilities should take place annually, or at a shorter cadence if agreed between the bank and the obligor.

Section D: Ambition for ICC Principles for Social Trade

ICC recognises the paramount importance of introducing bespoke principles for social Trade Finance. Due to the nascence of Social Trade Finance offerings in the market, ICC will provide guidance on this product category in the near future.

In the ICC Principles for Sustainable Trade, ICC set out its current thinking on the socioeconomic dimension of Use of Proceeds. ICC hopes, in the coming year, to develop and iterate these into a document similar to that of the PGTF and ensure that the PSTF remain a comprehensive and rigorous document.

Role of ICC

Following the release of the PSTF, ICC will continue to evolve the framework and provide additional support in the following ways:

Defining principles: Define and maintain clear, consensus-based principles for sustainable trade, green Trade Finance, and Social Trade Finance. ICC will update these principles regularly to reflect evolving industry norms and the increasing availability of sustainable credentials.

Articulating methodology: Continue to articulate a methodological framework for users to apply the framework, which provides sufficient "degrees of freedom" to align with internal processes whilst maintaining rigour so as to avoid any potential greenwashing risks.

Classifying data and evidence: Deliver ongoing guidance on acceptable methods for evidencing the framework, including access to proprietary data sources that support the assessments detailed in section 6: Data & Evidence.

Guiding communication: Maintain guidance on how to communicate outcomes of the PST matrix and PGTF framework and share reporting in a transparent and regular manner whilst ensuring confidentiality as required.

Leading engagement: Lead engagement across banks, regulators, corporates, and industry bodies like BAFT and ITFA to ensure alignment of a consensus view and enable accessible education to expand PSTF usage.

Providing tools and enablers: Provide access to tools that can support users in applying the framework, including a library of approved ICC standards ("Sustainable Credentials Library") and code-mapping tables to enable automation. Rather than serving as prescriptive methodologies, these tools will act as enablers to increase the accessibility and applicability of the framework.

Acknowledgements

ICC would like to thank all those who have contributed towards the development of the ICC PSTF for their time and dedication.

ICC

Andrew Wilson, Deputy Secretary General - Policy
Raelene Martin, Head of Sustainability
Tomasch Kubiak, Policy Manager
Sophie Talarico, Policy Manager - Climate

BCG

Sukand Ramachandran, MD & Senior Partner
Ravi Hanspal, Partner,
Edward Capps, Associate,
Aurelia Aslangul, Associate

The PSTF have been drafted with substantial input from a range of banks whom ICC would like to thank for their time and commitment thus far:

Commerzbank, Deutsche Bank, HSBC, ING, Santander, Standard Chartered.

ICC would like to also thank Joseph Wozniak and the International Trade Centre team for their ongoing support of the program through the ITC Standards Map initiative. For more information, please see here.

Appendix

ICC List of Green Activities

Use of Proceeds assessments are centred around alignment to green activities. Below ICC has provided a list that is an amalgamation of the LMA's GLPs, EU Taxonomy and IEA Green activities.

The list below contains non-exhaustive examples of activities which support the environmental UN SDGs:

Renewable Energy

- Production, transmission, and deployment of renewable energy sources (solar, wind, hydro, geothermal, and bioenergy)
- Innovations in renewable energy technologies.
- Purchase or sale of equipment or construction which supports the development of renewable energy.

Energy Efficiency

- Projects aimed at improving energy efficiency in industrial processes and energy systems, including the replacement of goods with that of more energy-efficient substitutes
- Development of smart grids and energy-efficient infrastructure
- Energy storage technologies (batteries, thermal storage, and pumped hydro)

Circular Economy

- Design and implementation of processes and products that promote resource efficiency, recycling, and reuse.
- Trading of scrap or waste material designated for reuse
- Transition to a circular economy through sustainable production and consumption practices
- Waste management and recycling initiatives

Sustainable Water and Marine Resources

- Sustainable water management and water efficiency projects
- Protection and restoration of marine and freshwater ecosystems
- Sustainable wastewater treatment and urban drainage systems

Sustainable Land Use and Natural Resource Management

- Sustainable agriculture, forestry, and aquaculture practices
- Biodiversity conservation and ecosystem restoration
- Climate-smart land use and natural resource management.

Clean Transportation

- Development and deployment of electric, hybrid, and other clean transportation modes.
- Sale or distribution of clean transportation
- Infrastructure for clean energy vehicles, including charging stations
- Public, rail, non-motorized, and multimodal transportation systems

Sustainable Infrastructure Buildings

- Construction and refurbishment of buildings that meet recognised environmental performance standards, including the replacement of goods with that of more energy-efficient substitutes, like replacing air conditioning units with heat pumps
- Integration of energy efficiency, renewable energy, and sustainable materials in building design
- Development of infrastructure that supports sustainable practices across energy, transportation, water, and waste sectors
- Integration of digital and automated technologies in sustainable infrastructure, like smart grids
- Products adapted for the circular economy
- Green buildings

Climate Change Mitigation

- Projects that substantially reduce greenhouse gas emissions
- Deployment of advanced nuclear power technologies (the utilisation of this green activity may vary across users and geographies, however, it is included due to its role within the EU taxonomy)
- Hydrogen production, storage, and use as a clean energy source

Climate Change Adaptation, Pollution prevention and control

- Enhanced resilience of infrastructure, communities, and ecosystems to climate change impacts
- Projects that support adaptation to climate-related risks, such as flooding or drought
- Activities focused on reducing air, water, and soil pollution
- Greenhouse gas reduction, including Carbon Capture, Utilisation, and Storage (CCUS)

Biodiversity and Ecosystem Protection

- Conservation and restoration of terrestrial and aquatic ecosystems
- Protection of coastal, marine, and watershed environments
- Initiatives to enhance and maintain biodiversity

Glossary

Trade Finance: Products as listed under the International Trade and Forfaiting Association Trade Finance Taxonomy.

User: The user of the framework who is seeking to offer green Trade Finance, often a bank.

Client: Borrower or applicant of the user of the framework.

Purpose: The economic activity for which the goods, in respect of which the Trade Finance product is provided, are used.

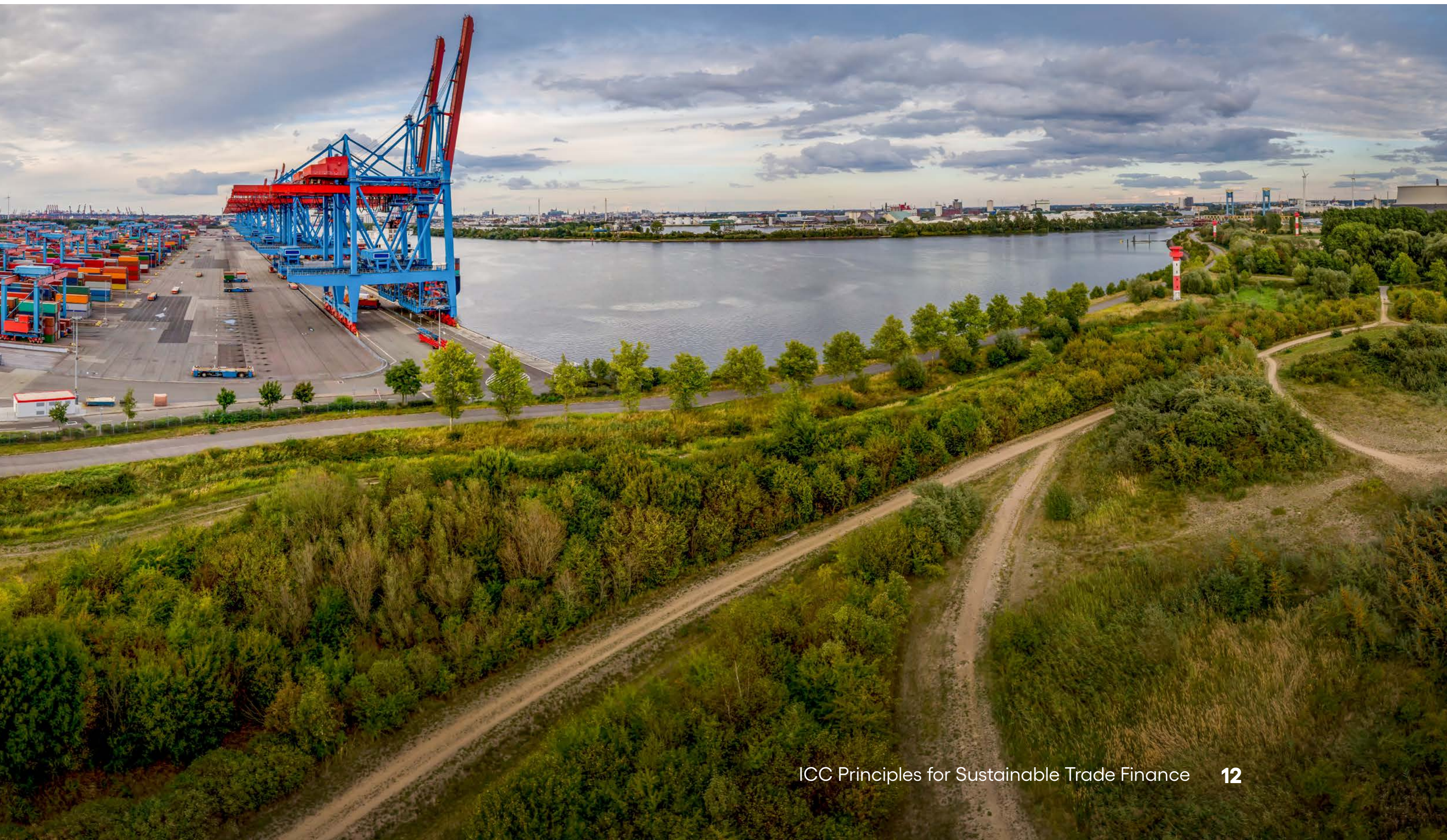
Good: A tangible product that is bought, sold, or financed in a trade transaction.

Do No Significant Harm (DNSH): A guideline to ensure that an activity does not have a substantial negative environmental or social impact.

Green: Refers to activities, goods, or objectives that contribute to environmental sustainability.

Widely Accepted: Regionally recognised/used by corporates and financial institutions or relevant regulations for reporting in place/under development

Comprehensive: Coverage of specific sectors and environmental dimensions



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