

Reference Note: Sustainable Trade Finance



IFC

International
Finance Corporation
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This reference note serves to communicate areas of agreement between IFC and ADB related to the financing that supports sustainable trade. The objective is to help financial institutions, manufacturers, producers (both corporates and MSMEs) and other stakeholders in the global trade finance market to better understand aspects of sustainable trade and eligibility requirements for trade deals that can be qualified as sustainable, subject to review of detailed circumstances by IFC and ADB.

This reference note applies to trade finance products categorized under two areas: Unfunded Trade Finance and Funded Trade Finance as defined in the *Trade Finance Taxonomy* published by the International Trade and Forfeiting Association.¹

IFC or ADB may wish to set additional criteria according to individual mandates and their specific trade programs or may require further information to demonstrate eligibility of activities to be deemed as sustainable trade. The examples

that follow should not be taken as an exclusive or exhaustive list of goods, equipment, and commodities. The note may be updated as needed and in response to market developments.

This reference note, which has been developed in alignment with relevant market practice in sustainable trade and sustainable trade financing:²

- 1. Identifies** goods, equipment, and commodities which may be considered as sustainable based on the criteria discussed in this paper.
- 2. Outlines** important ways in which parties seeking trade financing related to sustainable trade activity can effectively present their financing requests.
- 3. Reflects** the opportunity for borrowers to engage with and potentially access support through IFC or ADB by demonstrating the sustainable nature of their trade flows.

1. International Trade and Forfeiting Association. 2022. *Trade Finance Taxonomy*.

2. Eligibility principles may not be universally applicable to all activities

Categories of sustainable trade-related goods, equipment and commodities that could qualify³ for financing from IFC and/or ADB may include:

EQUIPMENT THAT EXCLUSIVELY SUPPORTS RENEWABLE ENERGY GENERATION, SUCH AS:



Biomass and biogas: biodigesters, biomass heating systems, biomass combustion boilers, biomass cogeneration, biogas cogeneration, biomass dryers.



Geothermal: heat pumps, compressors, heat exchangers, turbines, generators.



Hydro power: turbines, control systems, pipes, generators, transformers.



Ocean power: turbines, ocean barrages, ocean power generators, ocean hydraulic pumps, ocean oscillating columns.



Solar energy: photovoltaic (PV) solar panels, PV solar cells, solar glass tubes, solar inverter, solar converter, solar water heating, solar support equipment.



Wind power: wind turbines, wind blades, wind poles, wind construction bases, wind control systems, wind energy transmission, wind power transformers.

ENERGY EFFICIENT EQUIPMENT AND GOODS:

Investing in energy efficient equipment and goods can be a crucial component of trade that is sustainable. Energy efficient equipment will have to lead to a reduction in energy consumption and/or reduction in carbon dioxide equivalent emissions to be eligible. For trade finance transactions, IFC and ADB may evaluate regional or national energy efficiency standards and labels for appliances and equipment to demonstrate the eligibility of the equipment for sustainable trade financing.

Hardware, components, and equipment that are exclusively used for energy efficiency improvements and demonstrate a substantial reduction in net energy consumption are vital to advancing trade in technology that supports sustainable trade. Some examples are:⁴

1. Based on international, regional and/or national energy efficiency appliance standards and labelling such as:

- the European Union Energy Label;⁵
- the United States Energy Star label scheme;⁶

- National energy efficiency standards and labelling for appliances and equipment (aiming for the best available technology or match or surpass country-appropriate technology benchmarks in performance).

2. Based on proven improvement in energy efficiency:

- Equipment using technology that supports sustainable trade, such as:
 - Heat pumps;
 - Light-emitting diode (LED) lighting;
 - Induction stoves;
 - Smart metering;
 - Building insulation;
 - Windows with low thermal conductivity;
 - High-efficiency transformers (e.g. high-efficiency copper-wound dry-type transformers);
 - Co-generation and tri-generation systems for e.g. industrial or district heating use;
 - Electric vehicle charging equipment;
 - Battery energy storage systems;
 - High-efficiency electric transmission and distribution cables (e.g. Aluminium Conductor Composite Core (ACCC), High Voltage Composite Reinforced Conductor (HVCRC), cross linked polyethylene (XLPE), etc).
- Replacement capital equipment: IFC and ADB will consider as supporting upgrades in electrical equipment that result in an improvement in efficiency of a significant percentage⁷ compared to the system already in place or the reference baseline.

IFC and ADB will evaluate based on:

- the existing equipment and efficiency or other reference baseline technology (e.g., measured in kilowatt-hour (kWh) per annum or per unit of outcome);
- new equipment and efficiency (e.g., measured in kWh per annum or per unit of outcome);
- percentage improvement in efficiency (based on the existing and new kWh per annum values or per unit of outcome) to evidence a significant percentage improved energy efficiency.

3. Subject to application of methodologies and approaches of IFC and ADB for managing ESG risk, such as IFC performance standards and ADB safeguards policy, and consistent with evolving market practice

4. Examples should be interpreted within the specific context and relevance. For example, it is essential to evaluate how each example aligns with specific criteria outlined in relevant guidance and documentation related to sustainability

5. European Commission. [Ecodesign and Energy Label](#)

6. United States Department of Energy; and Environmental Protection Agency. [Energy Star](#)

7. IFC and ADB may have a different approach in defining "significant"

- New capital equipment: IFC and ADB will consider as sustainable the installation of new equipment enabling a significant percentage improvement in system efficiency compared to equipment usually used in greenfield projects. This significant percentage improvement threshold is based on the average system used in the geography being considered. IFC and ADB will therefore perform an independent evaluation based on:
 - Geographical baseline for the region under consideration on an ongoing basis;
 - Information on new equipment and efficiency (measured in kWh per annum or per unit of outcome);
 - Comparison of the new equipment to the regional baseline.
- Equipment aimed at replacement of fossil fuel heat or mechanical energy technology, when switching from a higher emitting fossil fuel (e.g., coal, diesel) to a lower emitting fossil fuel (e.g., gas), leading to GHG emissions reductions. The equipment should completely replace the old equipment within a timeframe agreed with IFC and/or ADB respectively. The new equipment should not be partially replacing the old equipment (i.e., the old equipment is to be decommissioned and no longer used).

AGRICULTURAL COMMODITIES WITH SUSTAINABILITY CERTIFICATIONS

IFC and ADB may qualify transactions that support trade of agricultural commodities as sustainable, where certifications were reviewed and confirmed aligned with IFC and/or ADB sustainability criteria. Examples of such certifications can be found in Annex A.

GOODS AND EQUIPMENT THAT SUPPORT CIRCULAR ECONOMY, REDUCTION OF WASTE, ENERGY STORAGE TECHNOLOGIES AND EFFICIENT ENERGY USAGE:

- 1. Batteries for mobility, electrolyzers, renewable energy storage, and/or hybrid applications;**
- 2. Circular Economy and Recycling: ferrous waste, heavy melting scrap - HMS, scrap metal, remeltable scrap, battery scrap, glass, wastepaper.⁸**
 - Water and wastewater: water quality improvement equipment, water efficiency equipment, drought management equipment, gravity-based irrigation system, renewable powered irrigation system, wastewater treatment (aerobic) technology, wastewater reuse technology;
 - Transport: electric urban mobility equipment, non-motorised urban mobility equipment, electric passenger transport, electric freight transport, port infrastructure electrical equipment, rail infrastructure equipment.



This reference note aims to assist parties in positioning financing requests for transactions and flows that contribute to the advancement of sustainable trade. The intent is to facilitate access to financing programs and solutions linked to sustainable trade that are available through IFC's and ADB's respective trade finance programs.

Any parties applying for financing via IFC or ADB trade finance programs, including clients, partner banks and other stakeholders (e.g. large buyers, small and medium-sized enterprises (SME) suppliers), may refer to this reference note to proactively evaluate if the proposed transactions align with eligibility criteria outlined in this document. These parties may benefit from incentives independently proposed by IFC or ADB⁹ by providing information required to confirm eligibility of trade deals, based on sustainable trade.¹⁰ The minimum required information includes but is not limited to: goods description and origin, name and location of the beneficiary and name and destination of the recipient and/or user of the goods (i.e., exporter name and location, importer name and location).

8. Provided that proof that recycling and material handling capacities can be presented

9. Please refer to IFC's and ADB's respective trade finance program for detailed guidance on potential incentives proposed

10. IFC and ADB will apply relevant Environmental, Social and Governance (ESG) checks for supported goods considered high risk from ESG perspective, before potentially qualifying the transaction as sustainable



Annex A

Examples of Sustainable Certifications for Agricultural Commodities¹¹:

- Biomaterials:
 - [Roundtable on Sustainable Biomaterials \(RSB\)](#);
- Cotton:
 - [Better Cotton Initiative \(BCI\)](#);
 - [Cotton Made in Africa \(CMiA\)](#);
- Farming, agricultural products and fishing:
 - [Aquaculture Stewardship Council \(ASC\)](#);
 - [Bonsucro](#);
 - [Fairtrade Standard for Hired Labour](#);
 - [Fairtrade Standard for Small-Scale Producer Organisations](#);
 - [Forest Stewardship Council \(FSC\)](#);
 - [Friend of the Earth](#);
 - [Global Good Agricultural Practices](#);
 - [Marine Stewardship Council \(MSC\)](#);
 - [Rainforest Alliance](#);
 - [Roundtable on Responsible Soy \(RTRS\)](#);
 - [Sustainable Rice Platform \(SRP\)](#)

Disclaimer:

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This reference note is intended to be used as a reference for ADB's or IFC's borrowers and clients in the global trade finance market to better understand aspects of sustainable trade. It is not intended to be a compliance guide to satisfying the requirements under IFC's or ADB's policies as to what is sustainable and does not modify any such policy requirements. Nothing in this reference note constitutes a commitment by ADB or IFC to issue an ADB or IFC guarantee or provide any financing.

¹¹ The list of eligible certifications is periodically updated and can be expanded as additional certifications are reviewed and confirmed aligned with IFC and ADB sustainability criteria

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