TRADE FINANCE GLOBAL

UK Export Finance

FUTURE-PROOFING TRADE FINANCE WITH SUSTAINABILITY

This guide examines how applying environmental, social, and governance (ESG) principles to trade finance can help organisations stay competitive in the long run.

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AUTHOR

Andrea Frosinini

LAYOUT DESIGN

Sakshi Tyagi

THANKS TO

Venu Borra
Emmanuelle Dot
Rosie Batten-Stevens
Josh Bloom
Fleur Boos

TFG EDITORIAL & MARKETING TEAM

Mahika Ravi Shankar
Dana Diakova
Duygu Karakuzu
Silvia Andreoletti

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Introduction

When we think of sustainability, we tend to first imagine oil spills, Greta Thunberg, and the mantra to 'reduce, reuse, and recycle'. A less understood and less covered, but equally crucial to the global journey towards sustainability and net zero, is its application in trade finance.

In this industry, sustainability is the integration of environmental, social, and governance (ESG) considerations into the systems, instruments, and policies that govern global trade and finance. It is not limited to reducing emissions or producing annual ESG reports. Instead, sustainability entails a fundamental shift in how trade and capital flow. Since risks associated with the climate grow, inequality in society remains the same, and regulatory frameworks change, including ESG in financial and trade-related decisions, is now a strategic need.

This guide has been developed to support a diverse group of stakeholders. We've considered regulators, financial institutions, multinational enterprises, small and medium-sized enterprises (SMEs), digital trade platforms, and sustainability experts.

The intention is to add to the current body of literature with a clear connection between sustainability and incorporating the views of the stakeholders we are looking to assist while providing practical tools to act on ESG opportunities and mitigate risks throughout global value chains.

This guide presents a straightforward methodology for implementing sustainability in trade finance, including designing financial instruments linked to ESG performance, applying ESG screening tools in trade transactions, and adhering to responsible sourcing and procurement standards.

Whether users are structuring ESG-linked guarantees, supporting transition finance in high-emission sectors, or ensuring deforestation-free supply chains, this guide offers insights grounded in real-world practices and evolving regulatory expectations.

Additionally, it addresses the accelerating transformation of regulatory expectations and how this shapes consumer and information behaviour.

For the first time, we compile all the conflicting compliance information from all around the world in Chapter 2; we go continent by continent, sifting through regulations so you don't have to. New reporting frameworks - such as the EU's Corporate Sustainability Reporting Directive (CSRD), the International Sustainability Standards Board (ISSB) standards, and global initiatives on nature and biodiversity – are redrawing the service line for accountability.

We are grateful for the contributions of the Export Credits Guarantee Department, or UK Export Finance (UKEF), the export credit agency and a ministerial department of the Government of the United Kingdom. The team has helpfully explained to the writing team how the UK is incorporating these values in various initiatives.

This report comes at a time when investors are demanding greater accountability from companies on climate- and nature-related risks; trade financiers face increasing public scrutiny of the ESG credentials of their portfolios; and regulators and buyers alike are calling for supply chains that are transparent, ethical, and verifiable.

This compendium is both an instructional resource and a strategic call to action.

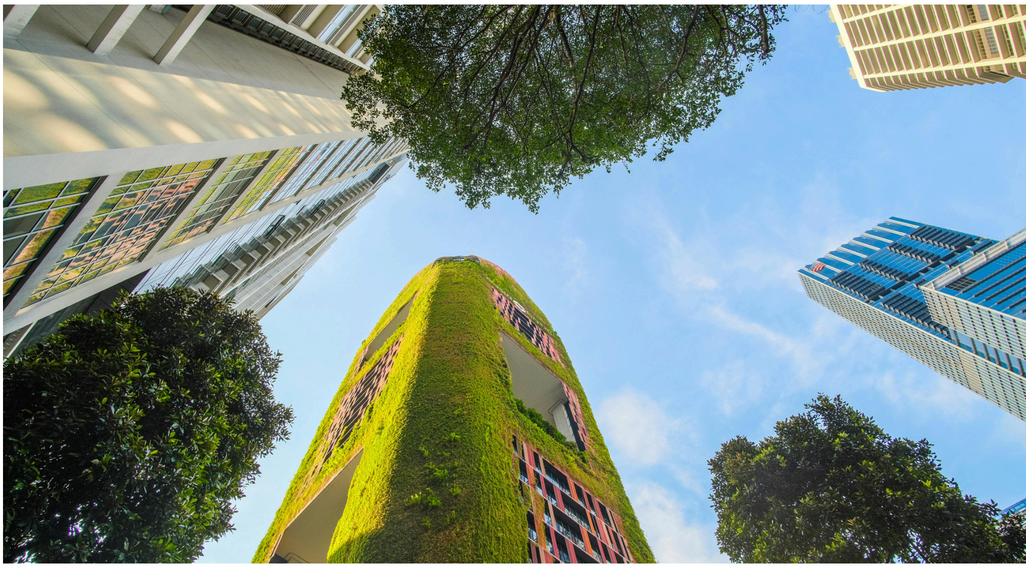
It urges leaders across sectors to help build trade and finance systems that are inclusive, resilient, and future-ready. By embedding ESG at the core of trade finance, we can create pathways for economic growth that also safeguard our shared environmental and social future.

1

What is sustainable financing, and how is it driving sustainable trade?

Stripped down, 'finance' looks at financial returns when making decisions about lending and investing. Where 'sustainable finance' differs is that it also looks at environmental, social, and governance (ESG) aspects. It assists enterprises and programs that promote excellent business practices, people's health, and taking care of the environment for a long time.

Sustainable funding is very important in the world of business finance. Traditionally, trade financing helps products flow across borders; sustainable trade finance makes sure that these deals are in line with sustainability goals, such as getting goods from ethical suppliers, employing low-emission transportation, and making sure that environmental criteria are met. For instance, banks could give special rates on letters of credit that are tied to certified sustainable goods or services.



There are three foundational ideas that make up sustainable financing:

1 ESG integration:
This involves looking at a company's social responsibility (i.e., how it treats its employees), environmental effect (i.e., how much carbon it puts into the air), and governance processes (i.e., how diverse and open its board is).

More and more, banks and investors utilise ESG indicators to look at how sustainable and risky their portfolios are.

2 Green bonds:
These are fixed-income investments made just to collect money for environmental projects, including renewable energy, climate adaptation, and sustainable infrastructure.

Green bonds have become quite popular as investors look for ways to encourage growth that is good for the environment.

3 Transition finance:
Not all businesses are presently environmentally friendly, but transition finance grants money to businesses in high-emission industries (like steel or shipping) who seek to minimise their environmental impact over time.

This strategy makes it easier to accomplish sustainability goals and makes the overall sector less carbon-intensive.

Each of the involved entities comes together carrying various roles:

- **Companies** establish goals for being environmentally friendly, seek to make their supply chains more efficient, and look for money that aligns with their social and environmental ideals.
- **Banks** and other **financial institutions** generate long-term loans and other forms of finance that meet green standards, such as ESG-linked loans and trade credit products.
- **Regulatory frameworks**, tax rebates, and standard-setting tools like the EU Taxonomy are used by **governments** and **regulators** to promote sustainable behaviour.

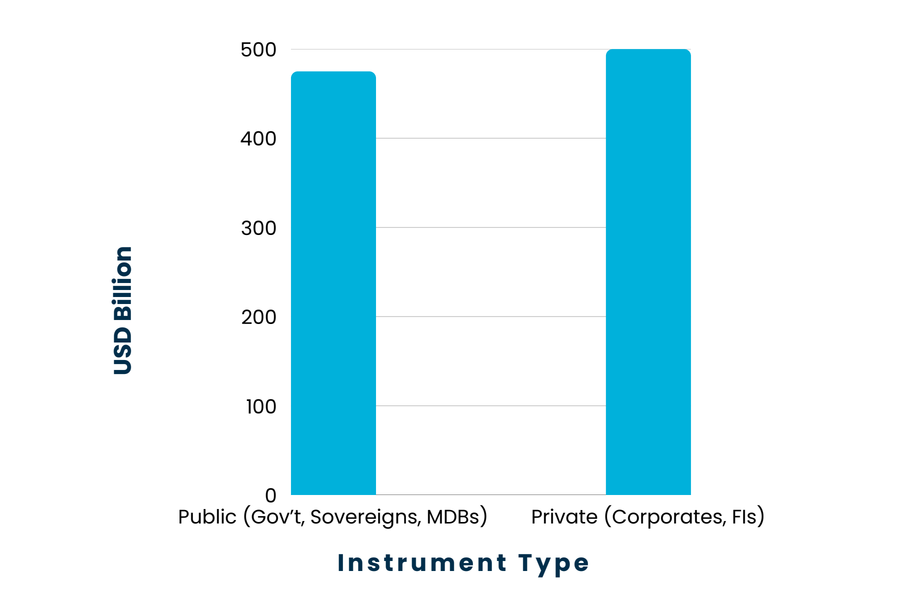
Stripping right back to basics, while the word 'sustainable' is used in this industry largely in reference to ESG, its actual definition is *'able to be maintained at a certain level'* or *'able to be upheld or defended.'*

In light of this, sustainable finance doesn't entail giving up on generating money.

It relies on the principle that assisting people and the environment will be beneficial to the economy in the long run.

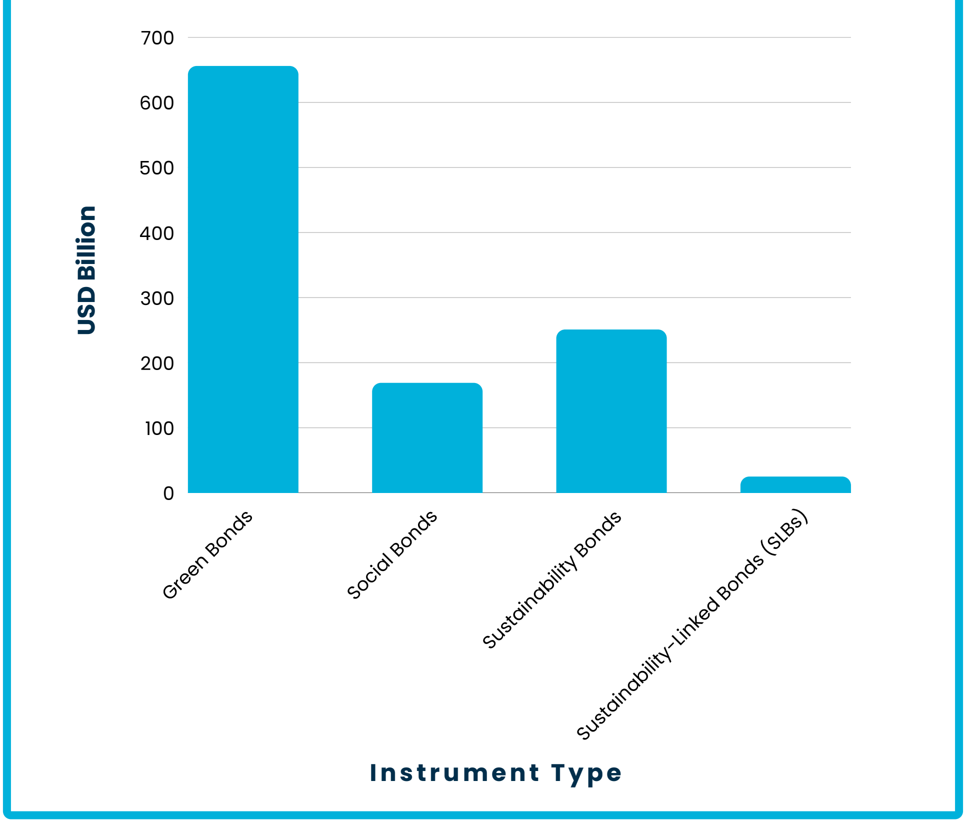
It lowers systemic risks while encouraging creativity across different areas, such as global trade.

Figure 1: Sustainable bond issuance by sector (2024)



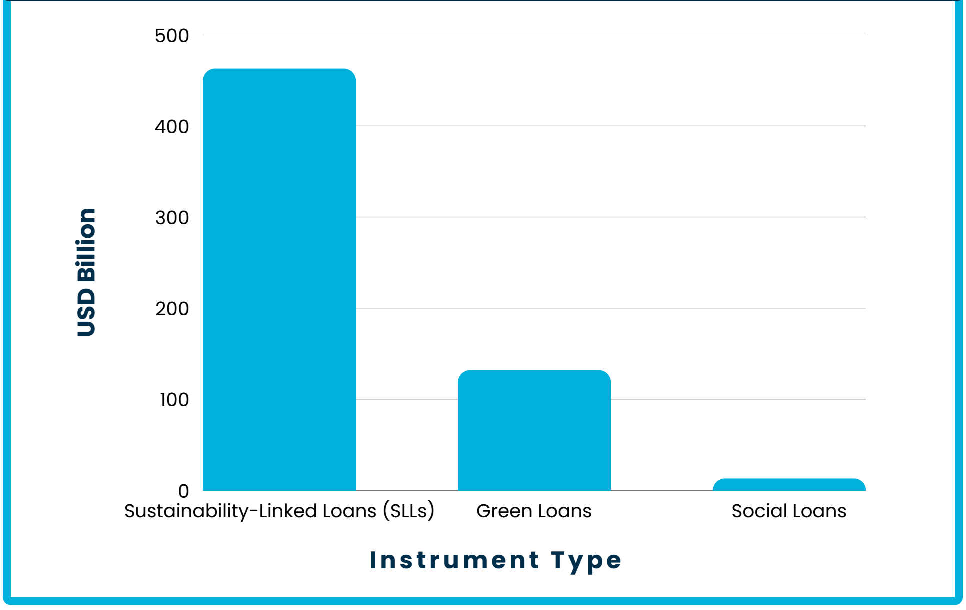
Source : UNCTAD, OECD, IFC

Figure 2: Sustainable bond issuance by instrument type (2024)



Source : Natixis, S&P Global, World Bank, ICE, ABN AMRO

Figure 3: Sustainable loan issuance by instrument type (2024)



Source : Natixis, BBVA

2

Global rules, local impact: A region-by-region guide to sustainable finance regulation

As environmental, social, and governance (ESG) issues become more important in investment and policy choices, the global regulatory environment for sustainability is both expanding and transforming.

This chapter of our guide looks at what these trends mean for trade finance institutions. We also consider harmonisation efforts like ISSB, TNFD, and GRI and give a summary of regulatory changes that will happen by 2025 on each continent.

In short:

- **ISSB** refers to the **International Sustainability Standards Board**, which develops global sustainability disclosure standards for financial markets.
- **TNFD** refers to the **Taskforce on Nature-related Financial Disclosures**, which provides a framework for organisations to report and act on nature-related risks and opportunities.
- **GRI** refers to the **Global Reporting Initiative**, an international organisation that provides widely used standards for sustainability reporting.

The ISSB was set up by the FRS Foundation to set a global standard for sustainability disclosures. IFRS S1 (general sustainability disclosures) and IFRS S2 (climate-related disclosures) went into effect in January 2024. Adoption is picking up speed in Asia, Europe, and Oceania. According to the IFRS Foundation (2025), more than 30 countries have said they want to implement or align with the ISSB standards.

The TNFD announced its last set of recommendations in September 2023. These suggestions help people find and deal with risks and dependencies that have to do with nature.

The highest adoption rates are in Europe, Australia, and some parts of Asia.

TNFD says that more than 250 firms will have started testing its architecture by 2025.

GRI remains the most popular voluntary standard for sustainability reporting, especially among small and medium-sized businesses and organisations in developing markets. It is typically used with financial-materiality-focused standards like the ISSB's IFRS S1 and S2, and stresses the need to be open with stakeholders and the consequences of decisions.

2.1 The Middle East

Several governments in the Gulf Cooperation Council (GCC) have established sustainable financing frameworks to serve as regulatory underpinnings for green finance policies. These encompass the UAE's Sustainable Finance Framework (2021–2031), Oman's Sustainable Finance Framework (2024), and Saudi Arabia's Green Financing Framework (2024).

Such policy frameworks are significant as they underpin GCC nations' climate objectives and reflect governmental commitment to decarbonising their financial systems.

GCC nations demonstrably care about financing the energy transition; Oman and Saudi Arabia are targeting 30% and 50% renewable energy, respectively, by 2030. Islamic finance plays a role in this transition. Since 2017, economic diversification has transformed green finance instruments, particularly sustainable loans and sukuk (Islamic law-compliant debt instruments), into standard approaches for governments, banks and corporations. The growth in sustainability sukuk continued throughout 2024 despite declining ESG bonds.

Nonetheless, based on an EY survey of 20 major banks in the Middle East and North Africa (MENA) region, whilst 70% have published ESG strategies, implementation remains patchy with significant gaps in governance structures and risk management frameworks.

Only 45% have established sustainable finance frameworks, and most banks lack proper climate risk policies, with over 80% having no climate risk commitments despite the region's high vulnerability to climate change. Although banks are making operational improvements to reduce their environmental footprints, few are measuring their financed emissions or setting net-zero targets, indicating substantial room for improvement in aligning with global ESG expectations.

2.2 Africa

Africa's rules for sustainability are in their nascent stages and getting stronger thanks to regional and continental frameworks.

The African Union's Agenda 2063 puts climate action and development that includes everyone at the top of its list of goals. However, ESG rules at the national level are, as of now, not very well defined.

The Johannesburg Stock Exchange (JSE) and the King IV Code of Corporate Governance, which follow GRI criteria, require companies in South Africa to be open about their sustainability practices. The Securities and Exchange Commission of Nigeria has also given publicly listed firms advice on how to report on sustainability.

According to the United Nations Economic Commission for Africa (UNECA), African nations still have trouble getting climate money and attracting investment. They need to help nations build their ability to create and carry out coherent, climate-responsive financial plans.

African countries have a hard time getting climate finance because they are underfunded, have a lot of debt, don't have the skills they need, investors are afraid of risk, they rely too much on loans, there are global systemic biases, and their own priorities are changing.

It's a positive sign that UNECA is now focusing on pilot projects in Comoros and Cabo Verde with the help of new finance mechanisms. But to make these methods work throughout the whole continent, there will need to be more international cooperation, changes to finance systems, and better planning and technical skills at home.

Most African authorities are slowly starting to use global standards like ISSB's IFRS S1 and S2, as well as voluntary frameworks like the GRI. Kenya has started to use TNFD-aligned frameworks to look at biodiversity and nature-related risks. Rwanda's 2024 investment plan under the Nature and Climate Investment Platform includes biodiversity certifications and measures to protect natural capital, which shows that they are following TNFD principles.
This rising convergence shows that Africa is moving toward more responsible, resilient, and investment-friendly economic governance, based on internationally accepted principles for sustainability and risk disclosure.

Trade financing institutions have a hard time because of the different ways that countries on the continent disclose information. Still, there are chances in green trade financing, especially in the areas of renewable energy and agriculture, being harnessed by the likes of the African Export-Import Bank (Afreximbank).

2.2 Asia

In Asia, rules and regulations are an amalgam of new ones (such as in Indonesia and India) and old ones (like in Singapore and Japan).

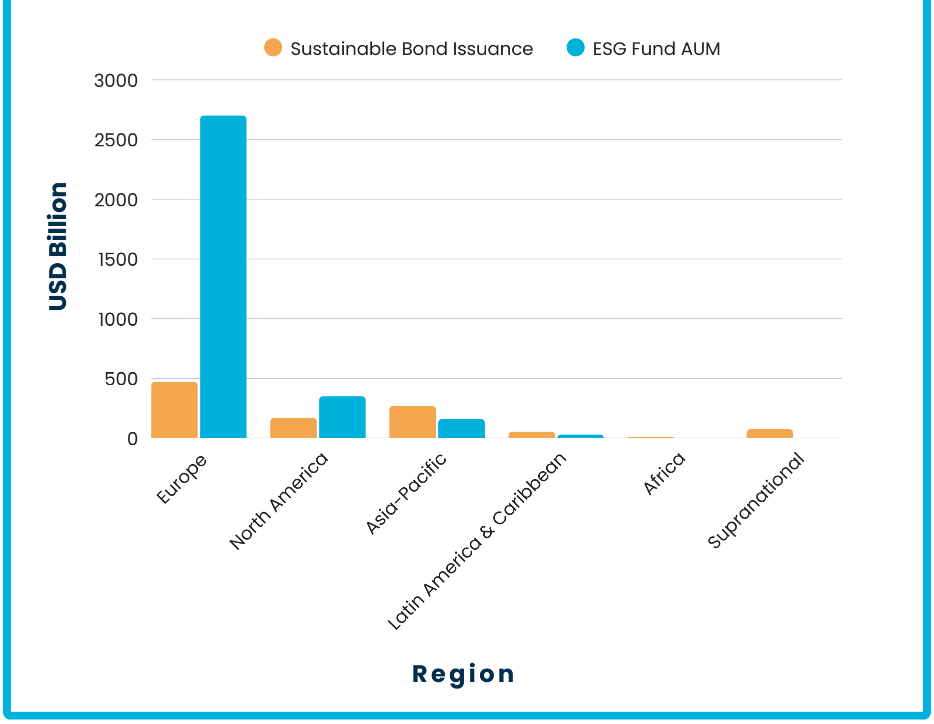
China's Green Bond Endorsed Project Catalogue and its ESG disclosure standards, which have been required for publicly listed enterprises in key industries since 2023, are big steps forward.

Since FY 2022–23, the Securities and Exchange Board of India (SEBI) has made business responsibility and sustainability reporting (BRSR) mandatory for the top 1,000 listed businesses in India.

The third version of the ASEAN Taxonomy for Sustainable Finance was published in late 2024 and took effect in December 2024. The goal of a single, region-wide framework is accurate, and it is designed to be interoperable with the national taxonomies of member states like Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Japan and Singapore were the first countries to ensure that their laws follow the ISSB criteria. In late 2024, Singapore became a regional hub for sustainability reporting after adopting ISSB's IFRS S1 and S2.

Figure 4: Sustainable bond insurance and ESG fund AUM by region (2024)



Source : ESG Today, ISS Governance, ALFI, Harvard Law School Forum on Corporate Governance, IEEFA

The Asian Development Bank (ADB) helps make sure that the TNFD and GRI frameworks are used in the same way by offering programs to enhance capacity.

The Sustainability Standards Board of Japan (SBBJ) officially linked its new sustainability standards with ISSB's IFRS S1 and S2 in March 2025. The goal was to encourage Japanese Prime Market issuers to voluntarily adopt them starting in April 2025 and to make them mandatory in the future. In late 2024, Singapore's authorities (MAS/ACRA) proactively accepted IFRS S1 and S2. They did this by creating a handbook and training programs, making Singapore a regional hub for sustainable reporting.

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The Trade and Supply Chain Finance Program (TSCFP) from ADB has added ESG due diligence to partner banks in countries like Bangladesh (for example, ESG workshops in Dhaka) and other countries in the region, including environmental and social management systems (ESMSs), better screening (for subjects such as child and forced labour), and the Green Equipment Facility to support companies in upgrading their equipment in reducing their carbon footprint.

2.3 Europe

The European Union (EU) Green Deal is the primary reason why Europe is still at the forefront of sustainability policy.

The Corporate Sustainability Reporting Directive (CSRD) declares that companies must use the European Sustainability Reporting Standards (ESRS) when they provide information about their sustainability. These guidelines have been in effect since the beginning of 2024 (in force since 2023, effective for reports published from 2025).

The EU Taxonomy Regulation is a set of rules that tells investors which economic activities are beneficial for the environment and which ones aren't. This helps the EU reach its climate and environmental goals while making it clearer what kinds of economic activity are good for the environment.

After the UK left the EU during Brexit, it has shown signs of regulatory divergence. The UK has declared climate reporting in accordance with the TCFD rules mandatory, and it is working on creating UK Sustainability Disclosure requirements based on ISSB requirements. Such requirements should be in place by 2025. The UK government and the Financial Conduct Authority are working together to lead the development.

EFRAG, which describes itself as 'Europe's voice in corporate reporting', has worked closely with the ISSB to ensure that ESRS and ISSB standards can work together.

Many European firms are choosing to use the TNFD framework, which is becoming increasingly popular in industries which rely heavily on biodiversity, such as agriculture and fashion. It works well with the GRI Standards.

It is true that European trade financing institutions, both public (such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) and private, have to follow more ESG rules.

- The EU Taxonomy Regulation is the cornerstone classification system for environmentally sustainable economic activities.
- The Sustainable Finance Disclosure Regulation (SFDR) requires financial market participants to disclose sustainability risks and impacts in their. investment decisions.
- The CSRD expands the scope and depth of sustainability reporting requirements for companies operating in the EU.
- The Benchmark Regulation (BMR) includes climate benchmarks and ESG disclosures for benchmark administrators.

These rules are affecting how banks and other financial institutions assess, report on, and align their actions with sustainability goals, including in trade financing. Both the EIB and the EBRD are working hard to make sure that their lending activities are in line with the EU Taxonomy.

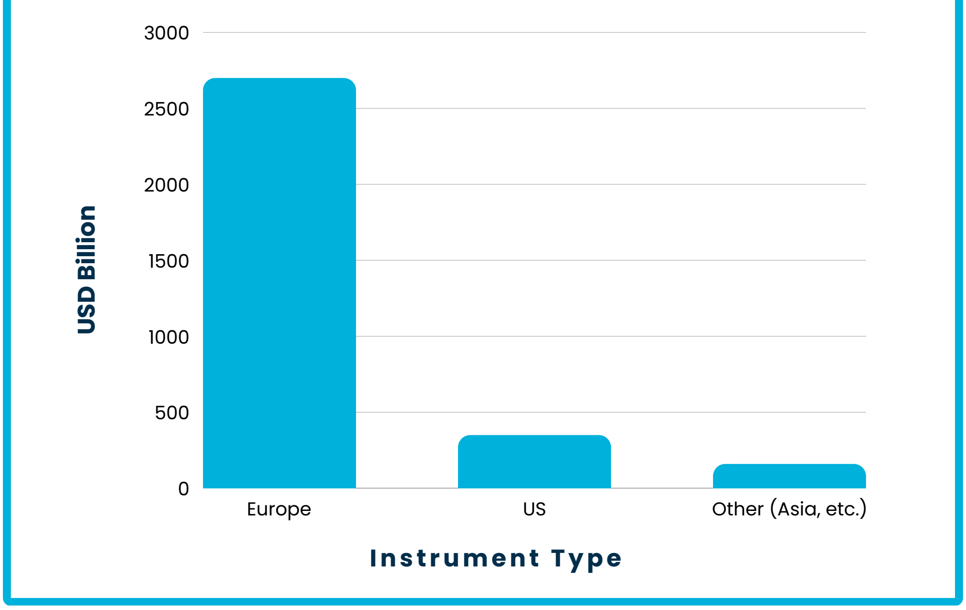
- The EIB announced that half of its loans will promote climate action and environmental sustainability, and it is pushing for investments that are in line with these specifications.
- The EBRD is increasingly using taxonomy and ESG standards in its initiatives, notably in green finance and building infrastructure that lasts.

Costs for complying with ESG reporting, supply chain due diligence, and taxonomy alignment are going to increase, and small and medium-sized businesses (SMEs) are facing a greater challenge than larger companies because they lack as many internal resources, do not have as much technical knowledge, and are having trouble getting thorough ESG data.

Nevertheless, multiple support systems, such as technical help and green assurances, are being put in place to make this easier, mostly through EU projects.

There has been a big increase in ESG-linked trade credit insurance, including price breaks for exporters and importers who are environmentally friendly. Additionally, there have also been new sustainable trade finance tools, like sustainability-linked guarantees and sustainable supply chain finance programs. These tools are meant to encourage beneficial ethical business practices, yet they fail to get rid of the rising cost of complying with ESG rules, which is still a big problem for many companies.

Figure 5: ESG fund AUM by region (2024)



Source : UNCTAD

2.4 North America

The US shows a broken approach. The US Securities and Exchange Commission (SEC) finalised its rule on climate-related disclosure in March 2024.

It says that big public businesses must report their Scope 1 and 2 greenhouse gas emissions, emissions from sources owned or controlled by the organisation, and emissions from energy the organisation buys and uses, respectively.

But Scope 3 emissions were not required, perhaps since these emissions are extremely complicated to report on. Consider a bank providing trade finance to a client exporting commodities from Nigeria to Germany: Scope 3 emissions include maritime shipping or air freight emissions from transport, port handling and warehousing emissions, and emissions from suppliers involved in manufacturing.

Having said this, complexity is no longer an excuse when considering that rules are not applied across all 50 states. California, for instance, has passed stricter climate disclosure legislation, SB-253 and SB-261, which require significant corporations doing business in the state to publish their Scope 3 emissions and climate risks.

Canada is moving toward more consistent rules in sustainable finance. The federal sustainable finance action plan has a national green bond structure and a transition taxonomy to help major industries cut their carbon emissions. The Canadian Securities Administrators (CSA) have also backed ISSB-aligned reporting, which shows that there is a move toward having the same criteria for sustainable disclosure.

Many big US companies voluntarily disclose their sustainability efforts using frameworks like the GRI and the ISSB. However, the US has been sluggish to implement these standards at a legislative level. On the other hand, Canada is progressively moving toward complete ISSB alignment, and regulatory talks are already underway.

The country is also actively engaged with both the GRI and TNFD, especially in the energy, mining, and forestry sectors, where nature-related disclosures are becoming more and more important.

In the US, trade financing companies face uncertainty as a result of inconsistent ESG rules. While bigger organisations develop their own internal frameworks, the absence of common standards makes it harder to conduct a uniform ESG risk assessment. On the other hand, Canada is becoming a leader in sustainable trade financing. Export Development Canada, for instance, offers green trade credit lines and ESG-linked guarantees to help the country move toward a low-carbon economy.

2.5 Latin America

Several Latin American nations have introduced regulations to strengthen ESG disclosure, especially in the banking industry. In Chile, pension funds and big enterprises are required to conduct climate risk assessments, while Brazil's Securities and Exchange Commission (CVM) has made it mandatory for listed companies to include ESG information in their annual reports. The Inter-American Development Bank is providing technical help to Colombia and Mexico as they develop ecological taxonomies.

As Latin America progresses toward more consistency, the GRI is still the most popular standard for sustainability reporting in the area. By 2026, both Brazil and Chile have promised to follow ISSB criteria for public enterprises. The Latin American Sustainable Finance Task Force is an example of regional cooperation that aims to help countries follow global disclosure standards.

Development banks like CAF and BNDES are issuing green and social bonds to help businesses in Latin America that are in line with ESG. But SMEs still have trouble getting ESG-linked trade finance, primarily due to limited data availability and difficulties in meeting reporting requirements.

2.6 Oceania

Australia and New Zealand are now the leaders in climate disclosure rules in Oceania. The Australian Treasury is putting the finishing touches on a required reporting system that follows ISSB requirements. It will start being used in July 2025.

New Zealand has compelled big financial institutions to provide TCFD-aligned climate disclosures from 2023.

This makes it one of the first countries in the world to do so by law. Both nations are strongly behind the TNFD effort and are committed to using the ISSB's S1 and S2 standards. The Australian government also uses GRI indicators in projects it pays for, especially in the natural resource industry.

Export Finance Australia (EFA), which oversees the country's trade finance, has incorporated included ESG criteria in its lending approach. The agency places particular emphasis on green hydrogen projects and renewable energy exports. EFA currently uses ISSB-compliant frameworks to look at trade loan applications for climate risk, which shows its commitment to sustainable financing.

2.7 Consequences for trade finance institutions

There is a growing expectation that trade finance institutions will assess ESG risks in transactions, especially in industries with an adverse environmental impact.

In the EU and Asia, lenders must either establish that their investments belong in a given category or explain why they don't. Despite efforts to unify standards, many organisations continue to face challenges. One key issue is bridging the gap between financial materiality, as emphasised by the ISSB, and impact materiality, central to the GRI - particularly in cross-border deals, where regulatory expectations can diverge.

From sustainability-linked guarantees and supply chain finance to green trade loans, sustainable trade finance instruments are gaining traction. Banks that offer a full range of sustainable trade finance include Standard Chartered, BNP Paribas, and HSBC.

Climate and environmental issues are increasingly being integrated into credit risk models. Riding on the momentum created by the TNFD, companies are spending money on AI tools, satellite monitoring, and ESG data platforms to aid with evaluations of natural impacts.

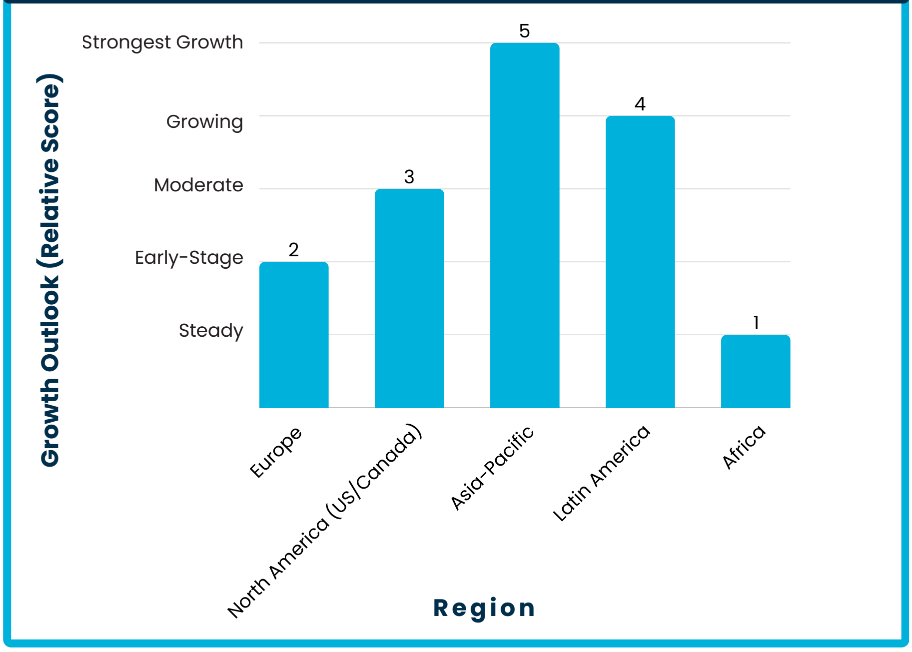
Smaller enterprises, particularly those located in Africa and Latin America, often struggle to meet complicated disclosure requirements.

In response, more trade finance facilitators are offering technical assistance and simplified reporting pathways to help these firms participate in sustainable finance initiatives.

While ESG regulations continue to evolve all across the world, and fast, progress remains uneven. Europe makes the rules, as it were, but the Middle East, Asia, and Oceania are advancing quickly with coordinated regional efforts, and while Africa and Latin America are improving, they still lack sufficient resources.

The ISSB, TNFD, and GRI are collaborating to enhance alignment, interoperability, and interdependence; however, complete convergence remains an ongoing process.

Figure 6: Sustainable finance growth outlook by region (to 2030)



Source : Grand View Research, National Law Review, Harvard Advanced Leadership Initiative, Thomson Reuters, IMF, Cleary Gottlieb

Case study: UKEF export credit guarantees enable £1 billion EV battery manufacturing investment

AESC's second gigafactory in Sunderland demonstrates how export credit agencies can leverage their trade finance instruments to support domestic manufacturing capacity that strengthens national supply chain resilience while advancing decarbonisation objectives. The £1 billion project represents a landmark application of government-backed trade finance guarantees to catalyse private sector investment in strategic green infrastructure that positions the UK as a competitive player in the global electric vehicle battery supply chain.

Trade finance structure: UK Export Finance deployed its guarantee facilities in partnership with the National Wealth Fund to provide £680 million in credit enhancements that enabled a syndicate of five international commercial banks – Standard Chartered, HSBC, SMBC Group, Societe Generale, and BBVA – to extend financing at commercially viable terms.

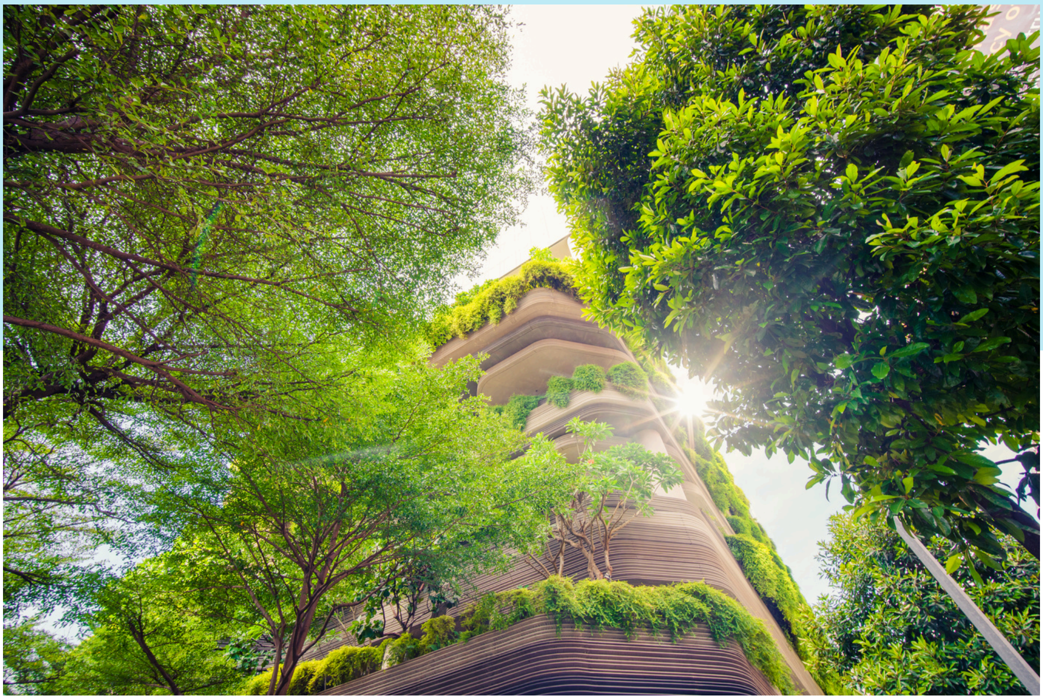
This blended finance approach demonstrates how export credit agencies can use their trade finance toolkit to de-risk investments in domestic manufacturing capabilities that support export competitiveness, while the remaining £320 million was mobilised through conventional private financing mechanisms and equity contributions from AESC.

Sustainable trade finance impact: The gigafactory will generate substantial manufacturing capacity of 15.8 GWh at full operation, representing a six-fold increase in UK battery production capability that reduces dependence on imported components while creating over 1,000 skilled manufacturing jobs.

By supporting the production of batteries for up to 100,000 electric vehicles annually, this trade finance intervention directly facilitates the UK automotive industry's transition toward sustainable export products that meet evolving global market demands for low-carbon transportation solutions.

This transaction marked the first collaboration between UKEF and the National Wealth Fund, establishing a precedent for how multiple government financing institutions can coordinate their trade finance instruments to address strategic economic priorities while achieving environmental objectives.

The structure demonstrates how export credit agencies can expand their traditional mandate of supporting overseas trade to encompass domestic manufacturing investments that enhance long-term export capacity and supply chain security in critical green technology sectors.



3 Lessons from the roadblocks

3.1 Inconsistencies in reporting and data gaps

Businesses, industries, and governments continue to encounter significant issues related to data gaps and inconsistencies, which hinder their ability to make informed decisions and accurately report on sustainability.

To look at environmental, social, and governance (ESG) risks and possibilities, data must be reliable and comparable. However, the way things are done today shows that there are major challenges with making data available, making sure it is accurate, and making sure it is standardised.

One of the main reasons ESG reporting isn't always the same is the lack of clear rules on what sustainability information should be shared. The International Sustainability Standards Board (ISSB) and the European Financial Reporting Advisory Group (EFRAG) are two global groups that are trying to make ESG disclosure practices more consistent.

However, companies still use various frameworks, such as GRI, SASB, TCFD, and CDP, each with its own set of metrics and levels of detail. According to OECD research from 2023, these discrepancies often require corporations to provide information to paint them in a positive light, making it more challenging to assess investments and trust the investment ecosystem (OECD, 2024).

Additionally, as per UNEP FI and PRI research (2022), asset managers often have trouble analysing ESG concerns: they lack the required information, reports are late, and terminology is unclear. For example, despite some improvement in climate-related discourses, indicators for biodiversity, pollution, and circularity are often not fully disclosed.

The consequence? As laid out in the World Economic Forum's Global Risks Report (2024), when sustainability disclosures evolve, decision-makers are faced with a lot of data but without a clear narrative, making it harder for them to make sound policy and investment decisions.

Without standardised taxonomies and a digital infrastructure for data validation, the danger of inconsistent or incorrect disclosures increases. The EU's ESRS XBRL Taxonomy project aims to fix this by making sustainability reporting more organised and easier for machines to interpret.

The EU is trying to make it easier for companies to report on sustainability by making the process the same for everyone. It makes sure that disclosures are consistent, comparable, and machine-readable by using digital taxonomies and structured data formats. This helps cut down on mistakes and makes it easier for regulators, investors, and other interested parties to compare how well companies are doing when it comes to sustainability.

However, for XBRL to work well, it will need a lot of assistance from institutions and capacity-building across sectors, since many companies, especially small and medium-sized businesses and those based outside the EU, don't have the internal processes and knowledge needed to use it.

3.2 Credibility concerns and greenwashing

The credibility of sustainable finance has been significantly diminished by greenwashing.

According to the Progress Report on Greenwashing (2023) of the European Supervisory Authorities (ESAs), greenwashing is defined as "a practice in which the underlying sustainability profile of an entity, a financial product, or services is not clearly and fairly reflected in sustainability-related statements, declarations, actions, or communications." Greenwashing can occur at various points along the investment value chain, including fund labelling, product marketing, risk ratings, and corporate disclosures.

In financial markets, greenwashing distorts capital allocation and misleads investors in this manner, undermining the integrity of the broader ESG movement. The European Central Bank (ECB) has similarly warned that the misrepresentation of sustainability risks due to unchecked greenwashing may pose systemic risks to financial stability (ECB, 2023).

Notable cases, such as green bonds issued without transparent use-of-proceeds tracking and ESG-labelled funds with substantial holdings in high-carbon sectors, have drawn regulatory scrutiny. In its 2021 Final Report, the International Organisation of Securities Commissions (IOSCO) emphasised that "*the robustness of ESG claims is difficult to assess due to the lack of transparency in methodology and quality assurance among voluntary ESG rating providers and data firms*".

To address these challenges, several jurisdictions are advancing regulations aimed at curbing greenwashing.

For example, the UK's Financial Conduct Authority (FCA) has proposed Sustainability Disclosure Requirements (SDR), and the EU's Sustainable Finance Disclosure Regulation (SFDR) classifies financial products under Articles 6, 8, and 9 based on the extent of sustainability integration. However, frequent ambiguities in interpretation limit the SFDR's effectiveness.

3.3 Fragmentation of regulatory requirements

A new challenge has emerged as countries and regions compete to regulate sustainable finance: the fragmentation of regulatory and reporting frameworks, diminishing the effectiveness of sustainable finance initiatives. The International Platform on Sustainable Finance (IPSF) has acknowledged the necessity of convergence among taxonomies, disclosure standards, and product classification systems. Nevertheless, there are still significant disparities in 2024.

The EU Taxonomy, China's Green Bond Endorsed Project Catalogue, the ASEAN Taxonomy, and the US SEC's proposed climate disclosure rule each reflect distinct priorities, definitions, and thresholds.
According to a 2023 report by the Network for Greening the Financial System (NGFS), "a fragmented landscape in ESG disclosures can increase compliance costs, regulatory arbitrage, and pose difficulties for investors who aim to compare performance across jurisdictions."

For instance, the ISSB's IFRS S1 and S2 stress financial materiality, whereas the EU's Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS) mandate sector-specific reporting and double materiality.

Even though the difference in definition is small, it materialises in big differences in conduct, especially when it comes to social and governance issues or reporting on Scope 3 emissions. ISSB adopts an investor-focused approach, emphasising financial materiality, while ESRS applies double materiality – addressing both financial and impact materiality.

The fact that developing countries often lack the capacity to implement intricate ESG regulations further exacerbates the global compliance gap. Sustainability reporting may perpetuate disparities between developed and developing nations in the absence of alignment and support mechanisms, as cautioned by the United Nations Conference on Trade and Development (UNCTAD, 2023).

The effectiveness of international green investment projects is reduced because there is no standard way to organise data, digital systems, and verification processes, which also makes comparative studies more complicated.

3.4 Challenges faced by SMEs

Small and medium-sized enterprises (SMEs) account for over 90% of businesses worldwide and play a critical role in global GDP and employment.

However, they face significant challenges in adopting sustainability reporting practices and integrating ESG principles due to limited resources, expertise, and regulatory pressure.

a. Cost and capacity limitations

The 2023 OECD SME Outlook indicates that a significant number of SMEs are unable to comply with the increasingly intricate ESG reporting requirements due to insufficient financial and human capital. SMEs that operate on narrow margins frequently find that the perceived benefits are outweighed by the cost of sustainability data collection, software, external assurance, and compliance.

In contrast to large corporations that have the ability to deploy sustainability teams and consultants, the majority of SMEs rely on limited resources and encounter difficulty navigating the regulatory landscape.
According to a 2023 survey conducted by the European Commission, over 60% of SMEs perceived the new requirements of the CSRD and ESRS as overly burdensome, citing a lack of clear guidance and resources to support implementation.

b. Restricted financing and incentives

Green finance instruments and ESG-linked loans frequently disregard small and medium-sized enterprises (SMEs) in favour of larger, higher-rated corporations. The SME Finance Forum (IFC) observes that the global SME finance imbalance is $5.2 trillion each year; ESG-related financing represents only a small fraction of the funding that SMEs are able to access.

Additionally, a significant number of sustainable finance taxonomies and product labels specifically cater to large infrastructure or energy transition initiatives. SMEs, particularly those in low- and middle-income countries, are unable to access concessional finance as a result of high thresholds, limited awareness, or the absence of relevant indicators to demonstrate impact.

c. Insufficient standards for fit-for-purpose

The one-size-fits-all nature of many ESG frameworks fails to adequately capture the operational reality of SMEs. Key performance indicators and disclosure formats frequently reflect the complexity and resource base of larger firms. Sustainability metrics must be reevaluated to account for the proportionality, materiality, and relevance of small businesses, as recommended by the International Trade Centre (ITC) in its 2023 SME Competitiveness Outlook.

Initiatives are underway to resolve this discrepancy. The EFRAG SME Sustainability Reporting Standard (ESRS for SMEs) is currently under development with the objective of consolidating disclosure requirements for smaller entities, with a particular emphasis on non-listed SMEs. Nevertheless, its adoption and integration into broader financial ecosystems are still progressing slowly.

d. Data collection challenges and the digital divide

The digital divide further exacerbates the reporting disparity. A significant number of SMEs lack access to digital instruments for the collection, management, and reporting of ESG data.

Consequently, SMEs struggle to substantiate and communicate their impact, despite their motivation to improve sustainability. Without scalable support programmes, public-private partnerships, or ESG-focused technical help, SMEs may be left behind in the shift to a sustainable economy, despite the central role which they play in local development and supply chains.

3.5 In search of comprehensive resolutions

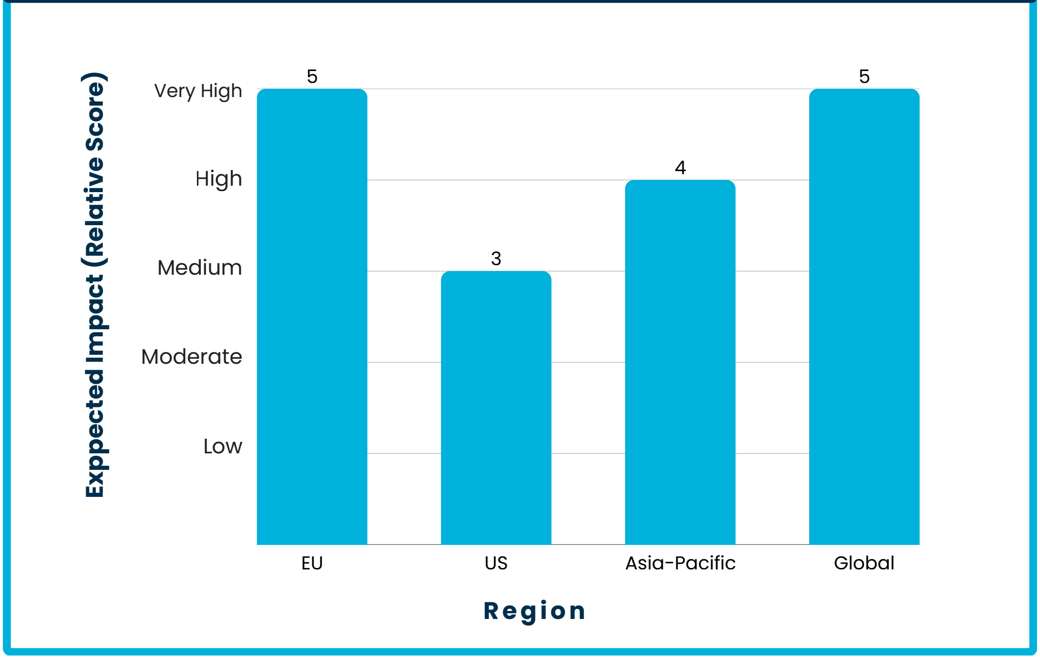
Solving the problems listed above requires regulators, standard setters, financial institutions, and civil society working together. Standardising ESG and digitising sustainability reports, for instance, by using XBRL tags to make disclosures machine-readable, will greatly improve transparency and comparability; additionally, these measures will assist in filling data gaps and correcting errors, improving data quality by enforcing rules and enabling automated checks.

Integrating external validations and establishing clear standards will collectively help identify missing elements, fix errors, and enhance trust in the data.

To mitigate the risks of greenwashing while making the market more open and clear, we need to set up independent verification systems, coherent science-based taxonomies, and better management of ESG rating agencies. Countries will also need to work together to set up systems that make sure reporting is consistent, data standards are comparable, and taxonomies are compatible so that different rules can be followed.

This will make it easier for green investments to cross borders and speed up the creation of international rules. Finally, it is very important to give small and medium-sized businesses (SMEs) the best financial tools, reporting standards, and technical help, in the move to a low-carbon, strong economy in ways that matter.

Figure 7: Expected impact of key policy initiatives on sustainable finance



Source : European Commission, EEA, Watershed, AP News, Climate Bonds Initiative, TNFD, Energy Shift Institute

4

Building a sustainable future through inclusive and harmonised trade finance: A call to action

A distinct message arises as we approach the conclusion of this in-depth examination of sustainable finance and trade: the sustainability transition is not optional; it is essential.

The contours of a swiftly evolving landscape have been delineated throughout these chapters, as environmental, social, and governance (ESG) criteria are becoming foundational pillars of trade and finance. Sustainable financing methods, such as biodiversity-linked guarantees, transition finance, green bonds, and ESG-linked trade credit, are transforming the flow of money between countries and industries.

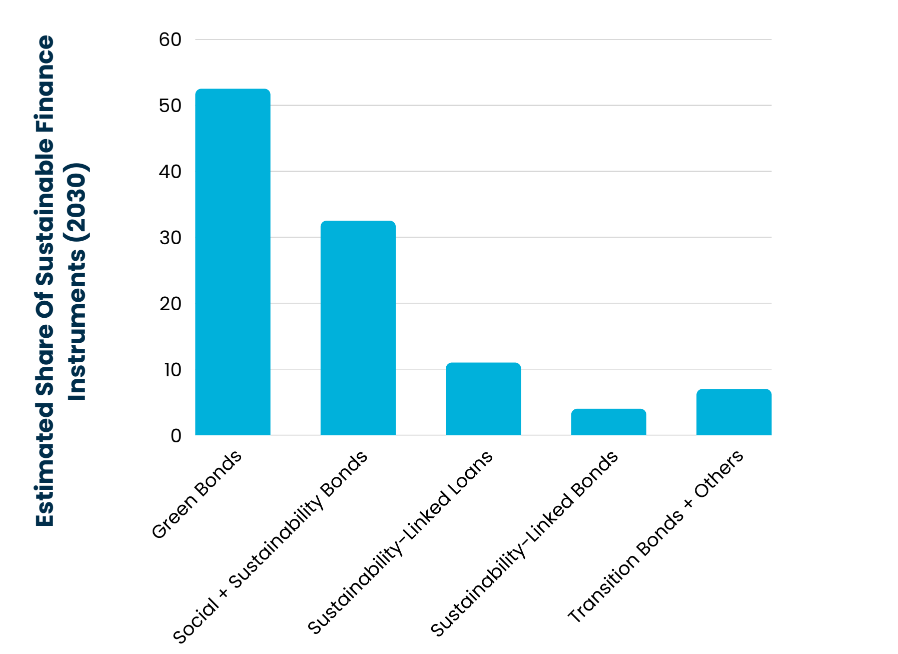
Historically driving global commerce, trade finance institutions now face the challenge of assuming a transformative role. However, as we have observed, this transformation is intricate. While Europe and Asia are leading the way with their detailed systems and unified guidelines – like ESRS, ISSB, and TNFD – other regions struggle due to weak institutions, mixed policies, or poor reporting practices.

For example, Africa and Latin America hold considerable economic promise but have trouble getting funding and meeting global standards. We have also found several structural issues, such as the lack of representation for small and medium-sized enterprises (SMEs), the risks of greenwashing, the rising costs of compliance, and inconsistent data, which may exacerbate the sustainability gap.

The digital gap, for one, makes it much harder for SMEs in developing countries to show how they affect the environment and society.

Even if these problems are common, there is nothing in the way of moving forward.

Figure 8: Projected instrument share in sustainable finance by 2030



Source : *Climate Bonds Initiative*

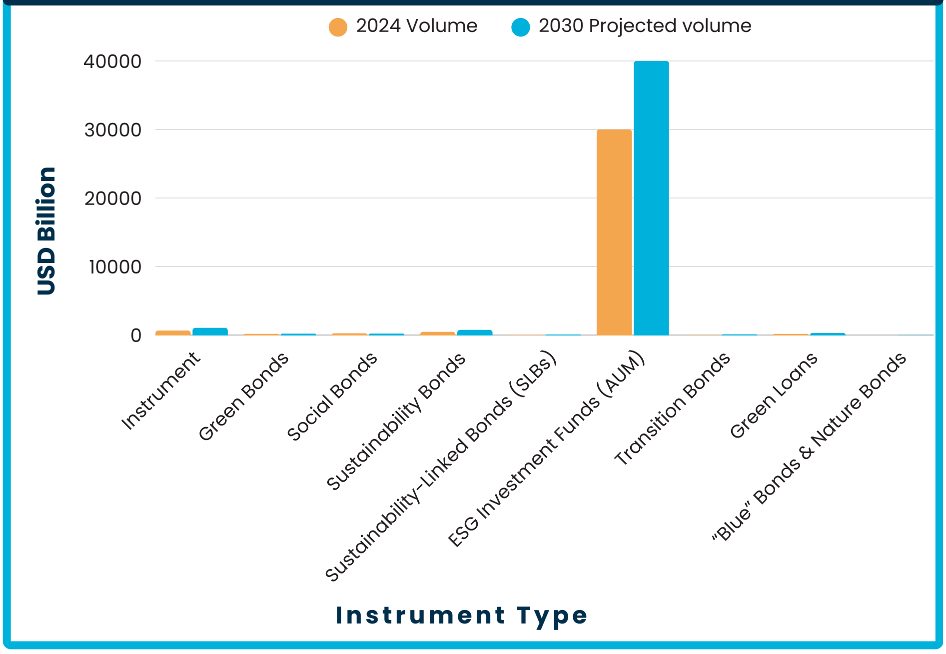
All of these things are helping the industry move toward a future where ESG disclosures are more and more digital (using technologies like XBRL), nature-based risk integration, and financial instruments that are open to everyone. Harmonised standards are also a factor. At present, a collective transition from commitment to execution is necessary.

"Operating at the intersection of (trade) finance, technology, and sustainability, I see a tremendous opportunity for policymakers and regulators to accelerate the push for interoperability across standards and frameworks at a global scale," said Fleur Boos, Founder and Co-owner of The Value Department. *"By aligning our systems, we can unlock the potential of trade finance to drive inclusive growth, enabling smallholders and SMEs to access global markets, build resilience, and thrive. A connected, interoperable future is within reach, and the time to act is now!"*

Yet, more actions are required:

- **Regulators** must accelerate convergence by ensuring that disclosure standards, taxonomy definitions, and assurance methods are uniform in every nation.

Figure 9: Sustainable finance instruments: 2024 vs 2030 projections



Source: *TechSci Research, Natixis, Bloomberg Intelligence, ESG Investing, The World Bank, BNP Paribas, Grand View Research*

- **Financial institutions** need to implement ESG risk assessments as an ordinary component of their work, put money into scalable data infrastructure, and make it easier for SMEs who may require additional sources of funding.
- **Policymakers** must incorporate proportionality into the standards to ensure that ESG frameworks are accessible to everyone and can evolve according to their specific needs.
- To bridge the digital gap, **tech companies** need to make ESG reporting systems that are simple to set up and use effectively for SMEs and emerging economies.

This will allow the trade finance ecosystem to provide the basis for the shift to a climate-resilient and fair global economy.

Notes and references

Chapter 2:

- A partnership between the IFRS Foundation and African Development Bank (AfDB) aims to advance sustainability disclosures in Africa, with regulators such as Kenya and Nigeria signalling intent to adopt or use ISSB standards

- In Kenya, the Taskforce on Nature-related Financial Disclosures (TNFD) framework was launched in December 2023. Financial institutions such as Equity Bank and Sanlam Kenya have begun integrating TNFD recommendations to manage nature-related risks.

- The African Export-Import Bank (Afreximbank) has taken deliberate steps to align trade finance with Environmental, Social, and Governance (ESG) principles by promoting green finance mechanisms, including the issuance and support of green bonds

Afreximbank has been actively developing and issuing green bonds to raise capital for climate-friendly infrastructure and trade-related projects. These bonds are typically aligned with the Green Bond Principles (GBP) set by the International Capital Market Association (ICMA), ensuring transparency, environmental impact, and accountability.

In particular:

- Green bonds issued or facilitated by Afreximbank are directed toward renewable energy, climate-resilient agriculture, energy efficiency, and clean transportation projects.

- These instruments aim to mobilise international investors seeking green assets while financing Africa's transition to a low-carbon economy.

The EU Omnibus I Initiative

The European Commission's EU Omnibus I Initiative, launched in February 2025, aims to make the EU's sustainable finance rules simpler and more proportionate - particularly for SMEs - while preserving the goals of the European Green Deal.

It raises reporting thresholds, delays certain deadlines, limits knock-on effects for smaller firms, and streamlines the EU Taxonomy, CBAM, and investment programmes without weakening environmental or transparency standards. By focusing the heaviest obligations on the largest and most impactful companies, Omnibus I maintains high-quality sustainability reporting and supports Europe's green transition.

Sources: European Commission – Omnibus I package: Simplifying sustainability reporting, due diligence, taxonomy, CBAM, and investment rules; European Commission – Explanatory Memorandum, COM (2025) 80, 81; European Commission – Press release on EU Taxonomy simplification; Council of the EU – Press release on CBAM simplification agreement.

Chapter 3:

- **ESG risk assessments in trade finance**

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Citation: ICC, Sustainable Trade Finance: Progress and Prospects, 2022.

- **Taxonomy alignment and 'Comply or Explain' in EU & Asia**

Source: European Commission
"Financial market participants must disclose the degree of taxonomy alignment or explain why alignment has not been achieved."
Citation: European Commission, EU Taxonomy Regulation, Regulation (EU) 2020/852.
Source: Monetary Authority of Singapore (MAS)
"The Green Finance Industry Taskforce developed a taxonomy to guide financial institutions in classifying activities."
Citation: MAS, Green Finance Industry Taskforce Progress Reports, 2022–2024.

- **Interoperability of GRI and ISSB standards**

Source: GRI–ISSB Joint Statement
"The GRI and ISSB are committed to ensuring compatibility. Companies can use the two standards together to report on both impact and financial materiality."
Citation: GRI & ISSB, Interoperability Guidance: GRI and ISSB Standards, July 2023.

- **Sustainable Trade Finance Product Offerings**

Source: HSBC, BNP Paribas, Standard Chartered
"HSBC Trade Finance provides ESG-linked loans and guarantees aligned with clients' sustainability performance."
Citation: HSBC, Sustainable Finance Report, 2023.
"BNP Paribas offers structured ESG-linked supply chain finance for corporates."
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- **Nature risk integration via TNFD and emerging tools**

Source: TNFD
"Organisations are beginning to integrate nature-related risks using satellite data, AI tools, and ESG platforms."
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- **SME disclosure challenges and technical assistance**

Source: International Finance Corporation (IFC)
"IFC and other DFIs are supporting SMEs with simplified ESG tools and capacity-building programmes."
Citation: IFC, *ESG Disclosure for SMEs Toolkit*, 2022.
Source: IDB Invest
"Technical assistance programs help SMEs meet ESG expectations and align with green finance requirements."
Citation: IDB Invest, *Sustainable Business Support Initiatives*, 2023.

- **Global disparities and regulatory leadership**

Source: World Economic Forum (WEF)
"Europe leads on ESG regulation; Asia and Oceania show convergence; Africa and Latin America face data and capacity gaps."
Citation: WEF, *Global ESG Policy Trends* Report, 2023.

- **Convergence efforts by ISSB, GRI, TNFD**

Source: IFRS Foundation
"ISSB, GRI, and TNFD are coordinating to ensure cross-framework consistency, particularly on disclosures and materiality."
Citation: IFRS Foundation, ISSB Adoption Guide, January 2024.
Citation: GRI & TNFD, Alignment for Impact Materiality and Nature-related Disclosures, 2024.

1 Massive funding shortfall and unmet pledges

- *Africa needs approximately **US $2.8 trillion by 2030** for climate goals but only receives around **$30 billion annually**—roughly 1–2% of global flows (CPI).*
- *Developed countries failed to deliver the promised **$100 billion per year** for developing nations; reports show they often fall short by **$20 billion or more annually**, relying heavily on non-grant instruments .*

2 High debt and limited fiscal space

- *Public debt in many African nations has ballooned: **54% of government revenue** goes to servicing debt, crowding out climate investments (uneca.org).*
- *Small island states like Cabo Verde and Comoros have debt-to-GDP ratios over 100%, sharply limiting their ability to take on new, even concessional, loans (uneca.org).*

3 Weak credit ratings

- *Investors see Africa as risky due to weak institutions, policy instability, and volatile economies → leads to **higher borrowing costs** and reluctance to invest .*

- *UNECA officials estimate **subjective credit ratings** cost African countries around **$74 billion** annually (Reuters).*

4 Institutional and technical shortcomings

- *Many countries lack **institutional capacity**: weak data systems, coordination issues, and no cohesive climate-finance strategies (UNDP).*
- *Limited ability to **design bankable projects** and to meet stringent requirements of climate funds blocks access.*

5 Over-dependence on public/loan-based financing

- *Around **85–90%** of climate finance in Africa comes as **loans**, not grants (UNDP, Centro per lo Sviluppo Globale).*
- *Private finance remains minimal (< 15% of flows) due to risks and weak de-risking mechanisms (CPI).*

6 Competing crises result in conflicting priorities

- *COVID-19 and the Ukraine conflict diverted much-needed public funds away from climate initiatives (Centro per lo Sviluppo Globale).*
- *Economic crises force governments to prioritise urgent social and economic issues over climate resilience.*

7 Structural systemic biases

- *The **global financial architecture** favors large economies with robust fiscal systems; African countries face disproportionate **transaction costs**, **currency risk**, and **commodity dependence** (uneca.org).*
- *Unequal global norms - like outdated "developing country" classifications—further hinder equitable access (The Guardian).*

Recent developments and solutions

- *UNECA spotlighted Comoros and Cabo Verde as **pilot countries**, building integrated climate-finance plans and exploring instruments like **debt-for-climate swaps**, **blue/green bonds**, and **blended finance** (uneca.org).*
- *Calls at recent conferences have urged reform: **resetting risk perceptions**, adjusting credit rating biases, and aligning climate funding architecture to Africa's specific needs (Reuters).*

Chapter 4

Sources:

- **World Bank**

"Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide."
Source: World Bank SME Finance

- **OECD (Organisation for Economic Co-operation and Development)**

"SMEs face difficulties in accessing the necessary information, tools and resources to effectively engage in ESG and sustainability reporting."
Source: OECD Report - "Policy guidance on market practices to strengthen ESG investing and finance a climate transition" (2022)

- **European Commission**

"Despite their importance, SMEs often struggle with sustainability due to lack of financial and human resources and the complexity of ESG frameworks."
Source: European Commission – SME Performance Review

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CONTACT

Magazine and Advertising
talks@tradefinanceglobal.com

Editorial and Publishing
media@tradefinanceglobal.com

Enquiries
info@tradefinanceglobal.com

Telephone
+44 (0) 20 3865 3705

Website
www.tradefinanceglobal.com

OUR LONDON OFFICES

TRADE FINANCE GLOBAL
14/15 Hatton Garden
Third Floor
London
EC1N 8AT

TRADE FINANCE GLOBAL
201 Haverstock Hill
Second Floor
London
NW3 4QG