Sustainable Deals Export finance 2019

Presented by TXF DATA and ACRE IMPACT CAPITAL

THIS REPORT

Alfonso Olivas
Data and art editor
alfonso.olivas@txfmedia.com

Jonathan Bell
Editor-in-chief
jonathan.bell@txfmedia.com

Sean Keating
Content editor
sean.keating@txfmedia.com

ACRE IMPACT CAPITAL

Hussein Sefian
Founding Partner
hussein.sefian@acre.capital

TXF DATA

Alfonso Olivas
Head of data and analytics
alfonso.olivas@txfmedia.com

Ana Jovanovic
Analyst
ana.jovanovic@txfmedia.com

Sergio Lopez
Analyst
sergio.lopez@txfmedia.com

Dan Sheriff
Managing director
dan.sheriff@txfmedia.com

Dominik Kloiber
Co-founder
dominik.kloiber@txfmedia.com

Mailing address:
Canterbury Court
1-3 Brixton Road
London, SW9 6DE
Tel: +44 (0) 20 3735 5180

Registered office:
TXF Limited
7-10 Chandos Street
London W1G 9DQ
Registered in England & Wales.
Registered No: 08421624

Sustainability has grown as one of the most important core values for every institution in the export finance community in recent years, and as such TXF Data is committed to report all the key stats and metrics for sustainable deals. One of the main challenges is the lack of standards and methodology in terms of deal classification, so we decided to find an expert partner in the market to help us: **Acre Impact Capital.**

We have considered deals that have a positive impact for the environment or significantly improve the lives of communities globally. The aggregation of green and social deals shape what we consider sustainable deals. Please read page 4 for additional information about our criteria and methodology within this report.

Lack of information has been one of the main challenges in classifying sustainable deals, and we want to encourage the market to help us to identify these deals which would otherwise not be categorised as such. We have updated the TagMyDeals deal submission portal to allow submitters to identify their deals as sustainable and provide more information on the transaction.

About Acre Impact Capital

Acre Impact Capital is an impact focused venture aspiring to help fill the growing financing gap for socially and environmentally friendly infrastructure in the developing world. Acre believes that the most attractive investment opportunities exist in spaces where attention and capital are scarce. By identifying opportunities where our ability to add value is truly transformational, Acre Impact Capital can deliver sustainable returns for our investors while fulfilling our vision of achieving measurable impact. Acre is launching an impact credit fund focused on down-payment financing for impactful transactions in the Export Credit market.

Acre is a proud grantee of The Rockefeller Foundation's Innovative Finance Zero Gap Program. The Foundation's Zero Gap Program aims to create the next generation of innovative finance vehicles capable of mobilizing capital from the private sector to fund the United Nations Sustainable Development Goals (SDGs), and to create large-scale blended finance funds to accelerate investment toward achieving the SDGs.

TXF/Acre sustainable classification methodology

About the Sustainability League Tables

Acre is proud to partner with TXF, in our mutual commitment to bring increased focus towards the financing of the SDGs in the Export Credit Agency (ECA) market. We believe that the ECA market is already active in the financing of projects that contribute positively to the SDGs and has the potential to significantly scale its contribution towards financing projects that deliver environmental and social benefits. As such, Acre is collaborating with TXF to establish a methodology to identify "Sustainable" transactions, in order to size and track the development of the "Sustainable" ECA market.

Methodology

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

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

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

Methodological caveats

The classification of transactions as Green, Social or Sustainable was largely driven by the information available in the TagMyDeals database. Acre/TXF looks forward to engaging with the industry to improve the quality and accuracy of these league tables. TXF has updated its database to include a new field that allows market participants to self-certify transactions as Green, Social or Sustainable. Submitters are also encouraged to provide more detailed information on the use of proceeds to justify the classification.

Evolving the sustainability league tables

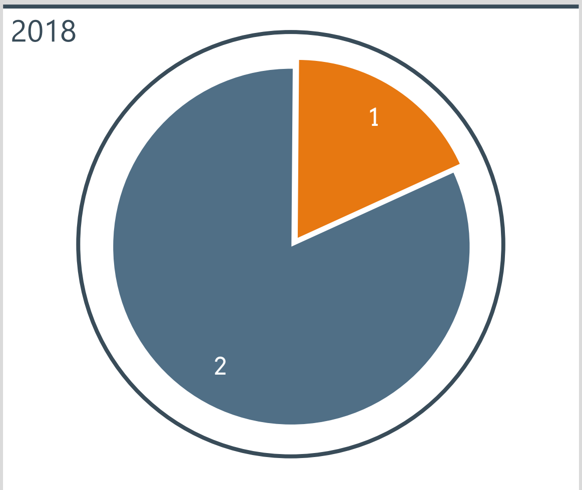
Acre/TXF recognises that as the sustainable finance market matures further and taxonomies are refined and updated, these guidelines and principles may evolve over time. Acre/TXF will closely follow these developments and ensure that the league tables reflect the latest taxonomies and market consensus.

Highlights

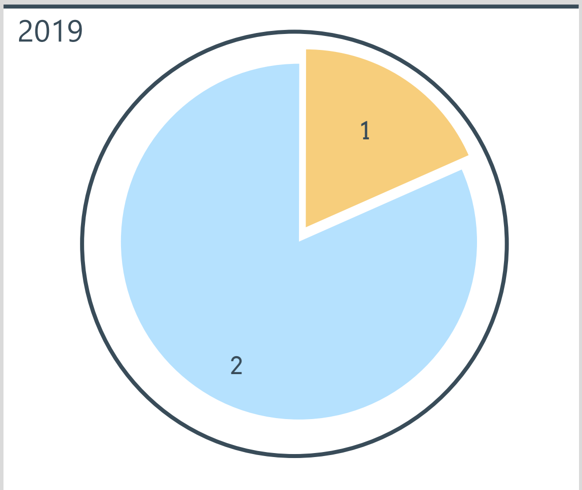
Sustainable deals

Overall dollar volume of sustainable deals declined to $18.8 billion, in line with the dynamics seen in the broader ECA market. Despite this, the market share of sustainable deals increased in 2019 to 17.2% of the total ECA market – an increase of ~1% over 2019. This suggests a consistent pattern of market support for sustainable transactions over the year and highlights the potential for export finance to become a key sustainable finance product and play a leading role in financing the energy transition and contributing to the Sustainable Development Goals (SDGs), in particular in emerging economies.

Over the year, ECAs continued to embrace the sustainability agenda with a number of organisations phasing out support for certain sectors (e.g. coal mining) while others are actively reviewing how their support contributes (or not) to the transition required to achieve the goals of the Paris Agreement. Meanwhile, export finance banks continued to highlight their capabilities and ambition to finance sustainable transactions.



		USDm	%
1	Sustainable	22,506	16.3%
2	Non-sustainable	115,559	83.7%



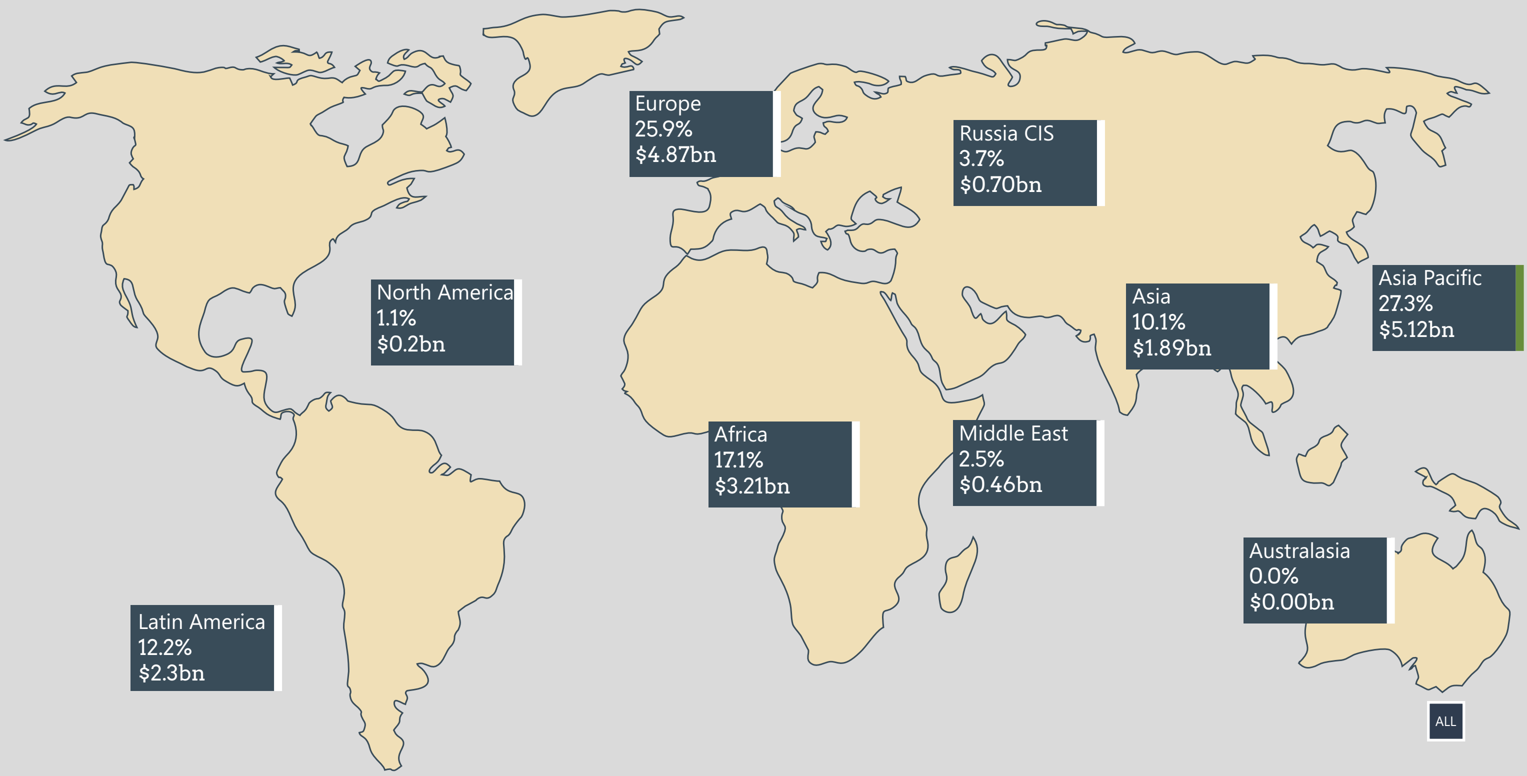
		USDm	%
1	Sustainable	18,783	17.2%
2	Non-sustainable	90,461	82.8%

Social deals deals 2018 vs. 2019

Green deals 2018 vs. 2019

Sustainable deals by region

Asia Pacific retook the number one slot in 2019 from Europe with a 27.3% share of total sustainable deal volume globally in 2019. The drop in volumes in Europe during 2019 was largely due to a smaller number of renewable projects, whereas just two large wind projects in Taiwan, YunNeng and Formosa2, accounted for over $4.2 billion.



Sustainable deals by sector

The sector results are largely self-explanatory, with the Power sector dominating the market.

The $2.7 billion decline in ECA-backed Power deal volume seen in 2019 will not be permanent as increased demand for offshore wind in Asia and the US will lead to significant growth in volume. In the long-term, ECA support is likely to become less of a feature in developed economies, as renewable technology continues to improve on price/performance characteristics.

	Sector breakdown	2018			2019		
		$m	%	# of deals	$m	%	# of deals
1	Power	17,031	75.7%	47	14,262	75.9%	40
2	Infrastructure	5,127	22.8%	35	2,522	13.4%	21
3	Manufacturing & equipment	-	-	-	1,536	8.2%	8
4	Transport	-	-	-	176	0.9%	2
5	Telecoms and communications	138	0.6%	1	-	-	-
6	Agri/softs	160	0.7%	2	-	-	-
7	Other	50	0.2%	2	287	1.5%	1

Power + Renewables

Despite only three ECA-backed deals last year, offshore wind still accounted for 50.3% of deal volume in the category, outstripping the nearest other sub-sector (PV Solar) by $5 billion. The sheer scale of financing that will be required by the sector – driven large-scale offshore wind projects in Taiwan and Japan and booming demand in the US – will likely mean that even the strongest credits will tap the ECA-backed market for some pathfinder projects. Over time, as utility scale solar projects get bigger and solar-plus-storage takes off, one can expect a rebalancing of industry volumes towards solar technologies.

As lenders retreat from coal-fired power – albeit slowly in the case of many Japanese banks – we expect financing for other renewable technologies to grow (e.g. hydro, geothermal, etc.)

Sub-industries		$m	No	%
1	Offshore wind	7,174	3	50.3%
2	PV Solar	2,134	11	15.0%
3	Hydro	2,096	6	14.7%
4	Onshore Wind	1,800	12	12.6%
5	Other	405	1	2.8%
6	Waste to energy	352	1	2.5%
7	Electricity transmission	205	2	1.4%
8	Renewables	44	2	0.3%
9	Biomass	28	1	0.2%
10	Geothermal	23	1	0.2%

Infrastructure + waste and water

Of the sub-industries in this sector, healthcare took over from waste and water as the largest user of ECA and DFI-backed debt. The $1 billion volume comprised a total of eight deals of which the biggest was a $427 million UKEF-backed sovereign deal for the Angolan Ministry of Health. With the expectation of increased healthcare spending as a result of the COVID-19 health crisis, we can already see increased demand for healthcare facilities in the future.

Sub-industries		$m	No	%
1	Healthcare facility	1,062	8	42.1%
2	Waste & water	962	7	38.1%
3	Education	226	2	9.0%
4	Other infrastructure	111	1	4.4%
5	Bridge	79	1	3.1%
6	Road	74	1	2.9%
7	Urban mobility	8	1	0.3%

Sustainable deals by lender type

The market share of ECA direct lending for sustainable deals was around 22% in 2019, in line with the broader market. Banks provided close to 70% of lending for sustainable deals, while DFIs provided just 8% of lending (vs. 5% for the wider market).

How much bank liquidity will remain for impactful infrastructure and green transactions in the coming year is anyone's guess, given COVID19 related uncertainty. However, 2020 may be the year in which we finally witness more DFI and ECA collaboration to help close essential infrastructure projects.

	Lender type	2018		2019	
		$m	%	$m	%
1	Financial institution	13,734	61.2%	12,885	69.1%
2	ECA*	5,649	25.2%	4,087	22.0%
3	DFI/MFI	1,386	6.2%	1,554	8.3%
4	Investment Manager	915	4.0%	73	0.4%
5	Government. owned Co.	320	1.4%	44	0.2%
6	Other	427	1.9%	0	0.0%

*Direct loans

League tables

Finally, we would like share the sustainable league tables for 2018 and 2019, to give some indication of which institutions are the most active in sustainable deals. These tables are subject to revision as market participants provide more information on their deals to enable a more accurate classification.

2019

Financial Institutions

		$m	No	Share (%)
1	Standard Chartered	923	6	7.2%
2	BNP Paribas	839	7	6.5%
3	ING Bank	709	8	5.5%
4	Banco Santander	672	7	5.2%
5	Societe Generale	658	6	5.1%
6	MUFG Bank	588	7	4.6%
7	Credit Agricole	573	6	4.5%
8	SMBC	432	6	3.4%
9	Deutsche Bank	418	4	3.2%
10	Mizuho	348	5	2.7%
11	KfW IPEX	343	5	2.7%
12	Commerzbank	340	6	2.6%
13	OCBC	331	3	2.6%
14	Natixis	327	4	2.5%
15	HSBC	283	4	2.2%

ECAs

		$m	No	Share (%)
1	EKF	1,898	11	17.2%
2	China Exim	1,701	4	15.4%
3	UK Export Finance	1,572	7	14.2%
4	India Exim	1,079	7	9.8%
5	Euler Hermes	905	8	8.2%
6	Bpifrance	603	7	5.5%
7	SERV	504	2	4.6%
8	Atradius	433	7	3.9%
9	KSURE	397	3	3.6%
10	JBIC	316	5	2.9%
11	CESCE	287	1	2.6%
12	Bancomext	285	2	2.6%
13	Sinosure	192	2	1.7%
14	Credendo	183	1	1.7%
15	EGAP	171	1	1.5%

2018

Financial Institutions

		$m	No	Share (%)
1	Banco Santander	927	21	6.7%
2	KfW-IPEX	851	9	6.1%
3	ING Bank	729	10	5.3%
4	Societe Generale	726	8	5.2%
5	Rabobank	606	5	4.4%
6	MUFG Bank	540	8	3.9%
7	Credit Agricole	472	5	3.4%
8	Caixabank	454	3	3.3%
9	HSBC	433	5	3.1%
10	Nord/LB	429	1	3.1%
11	SMBC	408	7	2.9%
12	Natixis	358	3	2.6%
13	Commerzbank	338	3	2.4%
13	Sumitomo Mitsui Trust Bank	338	3	2.4%
14	The Norinchukin Bank	319	2	2.3%

ECAs

		$m	No	Share (%)
1	EKF	5,135	20	38.6%
2	China Exim	2,720	2	20.5%
3	JBIC	1,487	5	11.2%
4	India Exim	661	4	5.0%
5	Euler Hermes	658	5	4.9%
6	Sinosure	406	3	3.1%
7	Bpifrance	394	4	3.0%
8	Atradius	261	4	2.0%
9	KEXIM	256	2	1.9%
10	BANCOMEXT	174	3	1.3%
11	ECGC	170	2	1.3%
12	SACE	166	3	1.2%
13	ICIEC	152	1	1.1%
14	Sace	146	2	1.1%
15	Cesce	143	17	1.1%