

Green Trade Finance: Enabling Sustainable SMEs in Emerging Markets

Graham Bright, Compliance Director, Euro Exim Bank
(graham.bright@euroeximbank.com)

In recent years, sustainable and green trade practices have become a crucial part of global economic development. Emerging markets, particularly in India and Africa, face unique challenges in adopting green practices due to limited access to funding and expertise. However, with the rise of green trade finance, small and medium enterprises (SMEs) in these regions are finding new opportunities to grow sustainably while addressing environmental concerns.

With \$30.3 trillion invested in sustainable assets globally, including \$789 billion in green finance opportunities for SMEs, the potential for growth is immense. Yet, despite 73% of financial institutions offering green finance, only 2.8% of SMEs have applied in the past three years.

The Role of Green Trade Finance

Green trade finance refers to financing trade transactions that have a positive environmental impact or align with broader sustainability objectives. This can include the purchase or supply of goods and services adhering to environmental standards. Crucially, such financing complies with the Green Loan Principles (GLPs), introduced by the Loan Market Association in March 2018. The GLPs set the standard for defining "green" trade activities, ensuring that the funded activities provide measurable environmental benefits that can be assessed and reported on.

The GLPs four core principles,

1. Use of Proceeds: Funds must be allocated to environmentally sustainable activities, such as renewable energy or sustainable agriculture.
2. Evaluation of Underlying Activity: A clear environmental assessment is required, including meeting relevant criteria and certifications.
3. Management of Proceeds: Transparent tracking and recording of fund allocation is mandatory.
4. Reporting: Annual reports must be provided on the allocation and environmental impact of the financed activities.

Green trade finance facilities also include trade loans, accounts receivables, confirmed payables, guarantees, stand-by letters of credit (LCs), export LCs, and trade-based lending, all of which are linked to Environmental, Social and Governance (ESG)-eligible use of proceeds in the underlying legal documentation. Additionally, sustainability-linked commodity trade finance provides greater flexibility, enabling

businesses to integrate sustainability goals into their supply chains. These financial tools are vital for SMEs in emerging markets, helping to bridge the sustainability gap and enabling them to innovate and compete in the global green economy.

Beyond their environmental benefits, these products enhance a company's reputation, open up growth opportunities, and improve access to investors. By supporting green projects, businesses can reduce their carbon footprint, attract eco-conscious customers, and position themselves for long-term success in the green economy.

Real-World Impact: Success Stories from India and Africa

In India, green trade finance has gained significant momentum, exemplified by a small textile company that embraced sustainable practices. By adopting eco-friendly dyes and reducing water consumption in its production processes, the company was able to secure a green bond, financing its transition to renewable energy. This shift not only reduced carbon emissions and operational costs but also enhanced the company's market position, attracting international buyers interested in eco-conscious products. The success of this transformation underscores the growing importance of sustainability in the fashion industry.

In Africa, SMEs in the agriculture sector are also benefiting from ESG-linked trade financing. A Kenyan coffee exporter, for example, accessed affordable financing based on its sustainability performance, including water conservation efforts and fair trade certifications. By meeting the required ESG standards, the company secured a low-interest loan, enabling it to expand operations and reduce its environmental footprint. This success highlights the increasing global demand for sustainable products and illustrates how trade finance is empowering SMEs to meet these evolving market expectations.

Financing the Future of Green Trade

The potential of green trade finance to transform emerging markets cannot be overstated. It empowers SMEs to adopt sustainable practices, compete in international markets, and contribute to global environmental goals. With the support of financial institutions like Euro Exim Bank (EEB), SMEs in India, Africa, and beyond can unlock new opportunities for growth while addressing pressing environmental challenges.

The EEB's Role

EEB is at the forefront of facilitating sustainable trade finance for SMEs in emerging markets. Through a variety of green financing solutions, EEB supports businesses adopting eco-friendly and socially responsible practices. EEB enables SMEs to secure the capital needed to thrive in a green economy.

Additionally, EEB provides tailored advisory services, helping SMEs navigate green certifications, supply chain sustainability, and environmental risk management. As sustainability gains global recognition, EEB's role in supporting green finance is crucial for businesses to succeed and contribute to a cleaner, more sustainable future.

As green trade finance evolves, collaboration between businesses, investors, and financial institutions is key to building a more sustainable global economy. With the right tools and support, SMEs can drive the green trade revolution.

Relevant Data Sources:

- *International Finance Corporation (IFC) – Green Bonds & Sustainable Finance*
- *World Bank – Trade and Sustainability*
- *Global Trade Review (GTR) – Green Trade Finance*
- *International Chamber of Commerce (ICC)*