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Contact:

Jannis Perzlmeier
jannis.perzlmeier@urgewald.org

www.urgewald.org

urgewald-Geschäftsstelle Berlin
Immanuelkirchstr. 24
10405 Berlin

Tel.: +49 (0)30/8632922-51

Don't Lose Sight of Trade: IFC's Chance to Improve Environmental and Social Safeguards in Trade Finance

The ongoing review of the International Finance Corporation's (IFC) Sustainability Framework (SF) provides a crucial opportunity to close a long-standing gap: The insufficient regulation of trade finance. While the SF is designed to ensure that IFC investments are environmentally and socially responsible, its application to trade finance has remained inconsistent and unclear. Strengthening the SF in this area is essential to build a solid foundation for IFC's growing trade finance portfolio. It would also reinforce the framework's credibility for the many other institutions worldwide that rely on it.

Trade finance matters. It has become the largest component of IFC's own-account operations, representing over half of all own-account commitments since 2018. In FY2024 alone, IFC invested over \$18 billion in trade finance products.¹ These activities are executed through a model of rapid disbursement within 24 to 48 hours to a network of pre-approved banks. While this speed is valuable for liquidity

in global markets, it leaves little room for meaningful environmental and social (E&S) due diligence at the transaction level.

Given trade finance's scale and rapidity, the absence of clear and enforceable safeguards within the SF poses significant risks. This is particularly concerning because, as a public institution with the mandate to end poverty on a livable planet, IFC must ensure that each of its investments demonstrates additionality (delivering benefits that would not occur without IFC involvement) and contributes to a lasting development impact. Without adequate environmental and social due diligence, IFC's trade finance operations may replicate private sector behavior rather than address market gaps and support sustainable outcomes. Therefore, the ongoing review of the SF presents a critical opportunity to close this gap and establish robust, transparent, and development-oriented E&S standards for IFC's trade finance investments.

Key Recommendations

- Add fossil fuel financing to the IFC exclusion list for trade finance.
- Include robust E&S requirements for pre-approved banks as recipients of IFC's trade finance activities in the SF.
- Publish major determinants of E&S risks, such as industry sectors and the locations of trade finance activities, on the IFC disclosure website.
- Strengthen "additionality" requirements: ensure IFC financing addresses structural financing gaps, not just liquidity gaps.²



¹ https://www.urgewald.org/sites/default/files/media-files/urgewald_Unequal%20Support_IFC-Trade-Finance-Spring-2025.pdf

² <https://www.urgewald.org/en/shop/unequal-support-ifc-2025>

Overview and Relevance of the Sustainability Framework

The Sustainability Framework (SF) of the International Finance Corporation (IFC) is the institution's central policy architecture for managing environmental and social (E&S) risks in its investments. It consists of three interrelated components:

1. The Performance Standards (PS) set out detailed requirements for IFC clients to identify, assess, and manage E&S risks.
2. The Sustainability Policy (SP) defines IFC's commitments and responsibilities to ensure its investments have no harmful E&S impacts.
3. The Access to Information Policy (AIP) establishes rules for disclosure and public access to IFC's investment information.

Together, these policies form the core of IFC's approach to ensuring that its financing contributes to sustainable development while avoiding or mitigating harm to people and the environment. They also provide the foundation for IFC's accountability framework, as communities and stakeholders use the SF as a benchmark to assess whether IFC and its clients align with E&S commitments.

Within IFC's SF, the Performance Standards are particularly relevant. According to IFC, these standards, or principles derived from them, have been widely applied.³ For example, the PS built the basis for developing and improving the Equator Principles.⁴ Today, the Equator Principles are adopted by more than 120 financial institutions⁵ (e.g., BNP Paribas, Deutsche Bank AG, UBS Group AG, and others). IFC reports that the PS have influenced investments of "\$4.5 trillion across evolving markets over the past decade."⁶ This highlights the global importance of the SF as a standard-setter of environmental and social risk management in international finance.

For trade finance, the SF is supposed to play a crucial role in ensuring that the rapid, high-volume trade investments do not bypass safeguards. Adequate coverage of trade finance within the SF is therefore vital not only to IFC's accountability but especially to people negatively affected by IFC's intermediate financing for short-term trade transactions.

Trade Finance in the Sustainability Framework

Performance Standards

IFC's Performance Standards (PS) on Environmental and Social Sustainability set requirements for clients to identify and manage environmental and social (E&S) risks. While not all eight Standards apply to every project, PS 1 applies universally to any project with potential E&S impacts.⁷ In principle, this means that the PS should cover all IFC business activities with such impacts, including short-term financial products such as trade finance.

Despite this clear mandate, applying the PS to trade finance remains highly limited.⁸ Trade finance is a form of financial intermediary (FI) lending, and should therefore fall under the rules in the Guidance Note on FIs. Yet, the Guidance Note explicitly excludes trade finance from the asset class approach,⁹ IFC's primary operational tool for applying the Performance Standards on FIs.

³ <https://www.ifc.org/en/what-we-do/sector-expertise/sustainability>

⁴ <https://www.kfw-ipex-bank.de/Nachhaltigkeit/%C3%84quator-Prinzipien/>,
<https://www.ifc.org/en/pressroom/2020/equator-principles-association-and-ifc-join-forces-to-build-capacity-of-banks-on-environmental-and-social-risk-management>

⁵ <https://equator-principles.com/signatories-epfis-reporting/>

⁶ <https://www.ifc.org/en/what-we-do/sector-expertise/sustainability>

⁷ <https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standards-en.pdf>

⁸ <https://www.ifc.org/content/dam/ifc/doc/2023/202309-ifc-guidance-note-on-financial-intermediaries.pdf>

⁹ Footnote 3: <https://www.ifc.org/content/dam/ifc/doc/2023/202309-ifc-guidance-note-on-financial-intermediaries.pdf>

The asset class approach requires FI clients in higher risk categories (FI-1 and FI-2) to establish an Environmental and Social Management System (ESMS). By excluding trade finance from the asset class approach, the IFC misses the opportunity to ensure even minimum safeguards for transactions that may involve high-risk sectors such as fossil fuels, mining, or agricultural commodities linked to deforestation. Instead, PS applicability is determined on a case-by-case basis.¹⁰

Testing the applicability of the PS on a case-by-case basis is particularly problematic given the fast-moving nature of trade finance. IFC typically issues trade finance guarantees within 24 to 48 hours to commercial banks that have been pre-approved through a non-transparent assessment process. Such short timeframes make meaningful, transaction-level E&S risk assessment impossible. It is therefore even more critical to include trade finance in the asset class approach and to make it compulsory for pre-approved banks to implement a portfolio-wide ESMS.

A well-designed ESMS should integrate E&S standards across all management and decision-making processes, including lending decisions, investment approvals, and continuous monitoring, while assigning clear responsibilities, establishing consistent procedures, and ensuring public reporting on performance. Although PS1 outlines the main elements of an ESMS: (i) policy; (ii) identification of risks and impacts; (iii) management programs; (iv) organizational capacity and competency; (v) emergency preparedness and response; (vi) stakeholder engagement; and (vii) monitoring and review, PS1 lacks concrete checklists and sector-specific guidance for assessing environmental and social risks. Moreover, limited public disclosure and the absence of clear consequences for non-compliance further weaken transparency and accountability.

A more robust, portfolio-wide application of ESMS requirements to financial intermediaries involved in trade finance would ensure consistent long-term oversight of E&S standards, close existing accountability gaps, and demonstrate IFC's global leadership in sustainable finance.

Key Recommendations for the Performance Standards

- Institutionalize the PS in all trade finance investments.
- Implement trade finance as an asset class in the PS.
- Require that all trade finance clients establish an ESMS with portfolio-wide coverage and clear thresholds for fossil fuel exposure aligned with Paris Agreement goals.
- Strengthen ESMS implementation by adding precise requirements and capacities for E&S risk assessment, clarifying consequences for non-compliance, and improving public disclosure.

Sustainability Policy

IFC's Policy on Environmental and Social Sustainability (Sustainability Policy, SP) lays out IFC's commitment to social and environmental sustainability. The policy commits the IFC to conduct all investments to "do no harm" to people and the environment, support sustainable private sector growth, address pressing challenges such as climate change and respect human rights, in accordance with IFC's mission.¹¹ Trade finance is included in the policy as one of IFC's investment products

with shorter tenor and as part of the investments made through financial intermediaries (FIs). According to the SP, environmental and social due diligence is required for all IFC investments, including FI investments.¹² FIs must implement an Environmental and Social Management System (ESMS) in line with Performance Standard 1 and comply with the IFC's Exclusion List.¹³

¹⁰ Table 1: <https://www.ifc.org/content/dam/ifc/doc/2023/202309-ifc-guidance-note-on-financial-intermediaries.pdf>

¹¹ Page 2-3: <https://www.ifc.org/content/dam/ifc/doc/mgrt/sp-english-2012.pdf>

¹² Page 4: <https://www.ifc.org/content/dam/ifc/doc/mgrt/sp-english-2012.pdf>

¹³ Page 7: <https://www.ifc.org/content/dam/ifc/doc/mgrt/sp-english-2012.pdf>

The policy also categorizes FI investments based on environmental and social risks, from FI-1 (significant impact) to FI-3 (minimal impact). These categories influence disclosure obligations and the scope of the ESMS.¹⁴

However, the Sustainability Policy's treatment of trade finance is notably limited. Trade finance transactions often require rapid approval. Yet, the policy provides no tailored guidance for conducting adequate environmental and social risk assessments under such time constraints. The brief and vague categorization system offers little clarity on how risks should be evaluated in fast-moving trade finance deals. This raises serious questions about whether IFC or its FI clients can realistically perform meaningful due diligence on individual trade finance transactions under current regulations. In addition, there is little clarity on what happens if FIs or clients fail to comply with the Performance Standards or if environmental and social harms occur. Supervision mechanisms are described as periodic¹⁵ but lack details on frequency or consequences for non-compliance.

A key step to reducing environmental and social harm from trade finance would be to apply stricter eligibility criteria for IFC's pre-approved network of partner banks. Banks with significant fossil fuel exposure and no credible transition strategy should be excluded from IFC's trade finance programs. Clear and measurable standards could guide this process, drawing on best practices

from commercial banks such as Danske Bank and Handelsbanken. Both institutions have introduced robust climate policies that exclude financing new coal, oil, and gas projects and require clients to maintain Paris-aligned transition plans.¹⁶ Danske Bank, for instance, plans to drop all its fossil fuel clients by 2030 and already excludes companies deriving more than 5% of their revenue from coal or unconventional oil and gas extraction, with limited exceptions for renewable energy, carbon capture, or credible phase-out strategies.¹⁷ Adopting similar criteria for IFC's pre-approved banks would help ensure that its trade finance operations align with its sustainability commitments and the goals of the Paris Agreement. Compliance with such eligibility criteria should be subject to regular performance reporting obligations for pre-approved banks, aligning with existing requirements of other FI clients.¹⁸

Clarifying due diligence requirements for trade finance and establishing transparent, sustainability-aligned criteria for pre-approved banks should be a key outcome of the ongoing Sustainability Framework review. Doing so would strengthen the credibility of the Sustainability Policy, enhance accountability across IFC's trade finance portfolio and would position IFC as key actor in helping their clients to finance a sustainable transition.

Key Recommendations for the Sustainability Policy

- Adopt best practice criteria for bank pre-approval, drawing on examples such as Danske Bank and the Swedish Handelsbanken.
- Mandate regular performance reporting by trade finance clients on E&S compliance.
- Implement precise regulation in cases where clients do not comply with the PS. Possible exclusion from IFC's trade finance portfolio and list of pre-approved banks.



¹⁴ Page 8: <https://www.ifc.org/content/dam/ifc/doc/mgrt/sp-english-2012.pdf>

¹⁵ Page 10: <https://www.ifc.org/content/dam/ifc/doc/mgrt/sp-english-2012.pdf>

¹⁶ <https://danskebank.com/-/media/danske-bank-com/file-cloud/2017/5/danske-bank-position-statement-fossil-fuels.pdf?rev=2ff4984388ff495a8af3699668b913b4&hash=0C08FFF767CDD3D20DF036039F9B3C0B> and <https://www.handelsbanken.com/tron/xgpu/info/contents/v1/document/72-164377>

¹⁷ Page 2-3: <https://danskebank.com/-/media/danske-bank-com/file-cloud/2017/5/danske-bank-position-statement-fossil-fuels.pdf?rev=2ff4984388ff495a8af3699668b913b4&hash=0C08FFF767CDD3D20DF036039F9B3C0B>

¹⁸ Page 7: <https://www.ifc.org/content/dam/ifc/doc/2023/202309-ifc-guidance-note-on-financial-intermediaries.pdf>

Access to Information Policy

IFC's Access to Information Policy (AIP) aims to enhance transparency and accountability by defining which environmental, social, and financial information IFC discloses to the public. The policy should ensure that stakeholders, including affected communities, civil society organizations, and member governments, can assess whether IFC's activities align with its mission to promote sustainable private sector development.

In principle, the AIP requires disclosure of relevant project information, such as environmental and social review summaries and categorization details. However, vague notions characterize the AIP, and the information excluded from disclosure is kept broad.¹⁹ The document explicitly states that it does not "provide any contractual or other rights to any party."²⁰ For trade finance, disclosure requirements are minimal. IFC typically releases only general project descriptions, the investment amount, and the client's name (pre-approved bank). Key documents such as E&S assessments, implementation of ESMSs, or information on how risks are mitigated remain undisclosed or incomplete. This lack of transparency often makes it impossible for external stakeholders to evaluate whether IFC's financial intermediary operations meet the institution's environmental and social standards.

The lack of transparency is particularly concerning in the case of trade finance. Due to instrument's short-term nature and high transaction volume, public disclosure is essential to ensure that the IFC upholds its mandate of additionality, providing financing that delivers development benefits beyond what private markets would offer, and brings about long-term development impact. IFC's compliance with this mandate cannot be independently verified without sufficient public information on the environmental and social dimensions

of trade finance activities. This opacity carries significant reputational risks and undermines public trust in the institution's role as a publicly funded development actor.

Moreover, IFC recognizes that "[t]he environmental and social risks of trade finance are associated with the production of those goods being traded and vary by industry sector and location."²¹ This acknowledgment underscores the need to publicize the industry sector and location of trade transactions. Without this information, it is impossible to assess whether IFC's trade finance operations might indirectly support high-risk activities such as fossil fuel extraction, deforestation, or human rights violations in global supply chains.

In addition, financial transparency within trade finance remains inconsistent. Reported project cost data vary significantly between IFC's annual reports and the project cost figures published for the Global Trade Finance Program (GTFP) and the Global Trade Supplier Finance Program (GTSF) on IFC's project website.²² This discrepancy must be clarified to ensure the public's accurate understanding of IFC's exposure and financial commitments. Equally, information on the potential reuse of guaranteed funds, where the same capital may be used for multiple trade transactions, must be publicly disclosed to reveal the scale and cumulative impact of IFC's trade finance operations.

By mandating disclosure of the abovementioned elements, the AIP can strengthen transparency, rebuild public trust, and demonstrate that IFC's trade finance operations align with its mission to end poverty on a livable planet.

Key Recommendations for the Access to Information Policy

- Clearly state what information items on trade finance projects must be made public, including at least industry sectors and the location of the underlying trade transactions.
- Provide clear guidelines on project cost publications.
- Provide information on the reuse or recycling of guaranteed funds.
- Mandate the publication of ESMS management.
- Mandate the publication of pre-approval bank assessment.

¹⁹ Page 3: <https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-access-to-information-policy-en.pdf>

²⁰ Page 1: <https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-access-to-information-policy-en.pdf>

²¹ <https://firstforsustainability.org/understanding-es-risks#Risk-in-Trade1368>

²² <https://disclosures.ifc.org/>, and <https://www.ifc.org/content/dam/ifc/doc/2024/ifc-annual-report-2024-accelerating-impact-en.pdf>

Closing Loopholes, Maximizing Potential

The ongoing review of the Sustainability Framework offers a rare and decisive moment to strengthen the IFC's environmental and social accountability, recognizing trade finance as one of its largest business lines. A reformed framework that closes current loopholes and ensures robust safeguards would enhance the integrity of IFC's operations and set a precedent for the more than 120 financial institutions worldwide that follow its standards.

The IFC and its shareholders are responsible for ensuring that short-term financial instruments like trade finance contribute to long-term sustainable development. This requires moving beyond the logic of rapid disbursement toward one of lasting impact, transparency, and

accountability. Integrating clear environmental and social safeguards, robust exclusion criteria, and meaningful public disclosure would demonstrate that development finance can support global trade and uphold the commitment to end poverty on a liveable planet.

The success of this review will ultimately be measured not by new language in policy documents but by the credibility and consistency of IFC's actions. Strengthening the Sustainability Framework is not merely a technical update; it is a political commitment to climate responsibility, social justice, and the integrity of multilateral development finance.

