



MOBILISING FINANCE FOR SUSTAINABLE COMMODITY FLOWS: ADDITIONAL LIQUIDITY THROUGH COMMODITY TRADE FINANCE

Sustainability-linked loans (SLLs) have become mainstream in the loan markets. The effectiveness of the SLL model to mobilise capital in support of sustainable activities and businesses has been examined in depth elsewhere. The focus here is on commodity trade finance, and specifically how established trade finance structures can be structured to maximise liquidity for commodity traders, whilst also incentivising capital to flow towards sustainably

certified commodities. This article considers whether qualifying certified commodity flows could generate additional borrowing capacity under a borrowing-base facility, and whether Development Finance Institution (DFI) credit support could be used to support the resulting incremental exposure¹.

Sustainable commodity trade finance: the SLL context

The SLL market has evolved through several phases and labelled facilities are subject to significantly more robust documentation than at the inception of this market. In principle, an SLL incentivises a business to take into account sustainability considerations and to shift behaviour to satisfy relevant, suitably ambitious, and independently verified sustainability targets. The incentives are typically in the form of a margin reduction, often accompanied by the 'stick' of a margin ratchet where targets are not met. The structuring of the incentive is key to the integrity of the SLL model: the incentive itself needs to be a genuine incentive for a change in behaviour, and the linked sustainability targets should be sufficiently material such that satisfying the targets represents a genuine improvement on the borrower's sustainability performance compared to business-as-usual. These elements are critical to a credible SLL market, and to minimising the risks of greenwashing concerns by regulators and other stakeholders. SLLs are now an established part of the loan markets, but the usual model may need to be adapted or supplemented to work effectively in particular financing contexts. Commodity trade finance is one example.

The commodity trade finance context

Commodity trade finance has distinctive features. Financing is often short-tenor and revolving in nature, in order to finance the short-term purchase, storage, processing or transport of commodities. Financing is often repaid from sale proceeds, creating the so-called self-liquidating nature of trade finance. Both the ICC *Principles for Sustainable Trade Finance*², and the recent BAFT *Trade Finance Sustainability Guidelines for Transaction Banking*³, recognise that typical SLL structures, and related guidelines, may need to be adapted or supplemented to suit these distinctive features of commodity trade finance. For example, SLL targets are typically structured over annual timeframes and apply on a portfolio or business-wide basis. The short-term nature of commodity trade finance, multiple counterparties, and extended supply chains, may not easily align with these types of SLL targets. Similarly, the incentives under traditional SLL structures may need to be supplemented or adapted to suit commodity trade finance structures. The typically modest reduction in borrowing costs achieved by satisfying SLL targets may not, on its own, be sufficiently material to influence behaviour in every context. For a commodity trader, additional borrowing capacity may offer a more meaningful incentive.

Borrowing-base structures and sustainable commodity flows

Borrowing-base facilities are classic commodity trade finance structures where the amount of financing available to a borrower fluctuates according to the value of a borrowing base of eligible assets. The availability of finance can therefore adjust over time, depending on the specific risk profile of the assets owned or controlled by the borrower, and subject to security in favour of the lender. Typically, different categories

of assets will be subject to different advance rates, depending on the risk profile of that category. Qualifying inventory in a warehouse owned by the borrower may represent a different level of risk to that of receivables, or inventory in transit, depending on aspects such as the degree of control, title, insurance, location and other factors.

When combined with sustainability certification, borrowing base structures could be used to more effectively channel capital towards sustainable commodity flows. New categories of borrowing base assets could be structured around commodity flows that receive sustainability certification; a sustainable commodity flow could therefore be made eligible for a more favourable advance rate than a conventional flow. This would increase the borrowing base and, where there was sufficient committed headroom, make additional liquidity available to the borrower.

It would not, however, mean that the certified inventory had a higher realisation value or was better collateral. The lender would instead be making a deliberate credit decision to accept greater exposure against the same collateral value in support of the sustainability objective. A lender may be willing to do so within its existing credit appetite, as part of its sustainable-finance strategy or in the context of the borrower's wider sustainability commitments. To the extent the incremental exposure falls outside that appetite, it could be supported through DFI risk-sharing, as discussed below.

Structuring a borrowing base facility with these features could allow eligible sustainable flows to be linked directly to additional liquidity. It may also be possible to structure the additional availability as Green Trade Finance or a Green Loan under existing frameworks, although this

¹ For earlier HFW commentary on SLLs in the commodities sector, see, for example, our briefing from July 2025: [Hot topics in sustainable lending: Insights from the sugar and agri-sectors](#) | HFW

² ICC, *Principles for Sustainable Trade Finance* (December 2025)

³ BAFT, *Trade Finance Sustainability Guidelines for Transaction Banking* (August 2026)

would typically require ringfencing or monitoring of loan proceeds which may not necessarily be the objective.

A practical question is how qualifying flows would be identified and monitored. Existing sustainability certification and chain-of-custody schemes could provide the eligibility framework for that purpose.

Defining qualifying flows: certification and chain of custody

Certain commodities already have established certification and chain-of-custody schemes. Agricultural commodities are well represented, including through widely recognised certification schemes for sugar, cotton, coffee and soy, for example those developed and administered by Bonsucro, Better Cotton, Rainforest Alliance, and the Round Table on Responsible Soy (RTRS), amongst others. These voluntary certification standards are diverse and address different sustainability and environmental characteristics across the production and supply of the relevant commodities. Certification could provide an external basis for determining whether a flow qualifies for the additional financing benefit. Certification would not mean that the commodity was sustainable in every respect, or that it was better collateral. Eligibility would also have to follow the relevant chain-of-custody model. Where certified and non-certified material can be mixed under a mass-balance model, only the corresponding certified volume or sustainability claim should qualify.

SLLs may in some cases incorporate annual or similar volume targets for such certified commodities. Sustainable letters of credit can also require evidence of sustainability certification as a documentary requirement for financing of a particular shipment of commodities. Borrowing base facilities could also be structured to directly link advance rates to existing sustainability certifications.

This would present opportunities to channel capital towards sustainable commodity flows, and to maximise liquidity for businesses producing and trading eligible flows.

DFI support and blended finance

Certain banks may be able to finance additional availability for eligible sustainable flows on the basis of their existing credit models. Others might support the sustainability objectives but be unable to increase exposure to a trader, jurisdiction, warehouse or commodity. In those cases, borrowing base structures could be combined with DFI risk-sharing, through guarantees or risk participation or, where concessional capital is involved, blended finance, to support eligible sustainable commodity flows.

Existing DFI programmes provide financial or credit support to the private sector, including to advance economic development or other societal goals. For example, the IFC Global Trade Finance Program helps to address the trade finance gap by offering confirming banks partial or full guarantees to cover payment risk on banks in emerging markets. Other examples of DFI risk sharing include a recent partnership between the IFC and the Global Agriculture and Food Security Program (GAFSP) that provides up to USD 67 million in unfunded risk-participation facilities to Access Bank Ghana to expand financing for the Ghana cocoa sector⁴. DFI risk-sharing and, where concessional capital is deployed, blended finance, could also be structured to support eligible commodity flows. For example, a DFI could provide first-loss guarantees for additional availability under a borrowing base facility in relation to eligible sustainable flows. The support could take the form of a guarantee or funded or unfunded risk participation, including first-loss protection where appropriate and within the DFI's mandate.

Conclusion

It may be possible to use existing commodity trade finance techniques to channel additional finance towards sustainable commodity flows. Combining three elements in particular could create a direct connection between qualifying commodity flows and additional borrowing capacity:

- Borrowing-base structures tie the availability of financing directly to defined categories of assets, which could include inventory or receivables arising from sustainable commodity flows;
- Existing sustainability certification schemes provide tools for defining eligible flows; and
- DFI programmes and blended finance techniques offer existing models for using credit support to mobilise private capital to achieve sustainability and other societal goals.

If commercial lenders were unable to take the resulting additional exposure within their existing credit appetite, it could be supported by a DFI guarantee or risk participation. This structure would give the trader a direct liquidity incentive to finance more qualifying commodity flows.

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