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ESG Financing Policies and Practices from an International Comparative Perspective

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Abstract:

In the contemporary era, environmental issues are intensifying at an alarming rate. Against this backdrop, Environmental, Social, and Governance (ESG) financing has emerged as a crucial catalyst for sustainable development in global capital markets. Various nations have implemented diverse policies and practices to foster ESG-oriented financing. This, in turn, has presented a spectrum of opportunities and challenges for investors and companies alike. This paper employs the method of literature review to compare ESG financing policies and practices across developed and emerging markets. It first examines policy frameworks in regions such as the European Union, the United States, and Asia, highlighting variations in regulatory approaches and disclosure requirements. It then analyzes firm-level practices, including the use of green bonds, sustainability-linked loans, and the role of ESG ratings in influencing financing costs and capital accessibility. The paper finds that while developed markets have established comprehensive regulatory frameworks, emerging markets are still in the process of institutionalizing ESG standards and face greater challenges in disclosure consistency and risk of greenwashing.

Keywords: ESG financing, environmental issues, SME

1. Introduction

Environmental, Social, and Governance (ESG) financing has evolved from a niche operation mode to a core organizing logic in global capital markets, guiding investments toward climate and social objectives while reshaping disclosure, assurance, and risk management. Policymakers and market institutions have introduced diverse standards, exemplified by the European Union's Taxonomy, SFDR, and CSRD, to channel funds toward sustainable activities. At the firm level, instruments like green bonds and sustainability-linked loans have proliferated, with empirical studies indicating that ESG performance and disclosure are linked to financing costs, although results vary across different industries and regions [1].

Emerging economies are adopting distinctive structure that blend development priorities with market discipline. China's expansion of green credit and labeled bond markets has lifted issuance volumes

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but still faces challenges of indicator consistency and greenwashing risk at the micro level [2]. India's mandatory BRSR/BRSR-Core disclosures for listed firms signify a shift from soft guidance. Meanwhile, Latin American are developing local pricing benchmarks to attract investors, as seen in Mexico's national sustainable taxonomy and Chile's sovereign sustainability-bond program [3–4]. These initiatives create sufficient possibility for cross-country comparison of how policy design transmits to firm-level financing outcomes.

However, existed evidence over-represents Europe and China while under-covering other EMS and SMES. Additionally, disclosure heterogeneity, uneven assurance, and weak integration of S/G like value-chain reporting, third-party assurance, anti-green washing and board accountability obscure financing channels and any greenish [5]. This paper explores the comparative policy analysis of ESG financing, focusing on policy design, instruments, and outcomes across different countries. It aims to extend evidence to under-covered markets and SMEs, providing practical steps for interoperable disclosure, credible assurance, effective anti-greenwashing controls, and improved access for SMEs.

2. Regulatory Architectures and Disclosure Regimes

2.1 Taxonomies and Scope

Firstly, the EU Taxonomy establishes technical screening criteria for determining environmentally sustainable economic activities, complemented by safeguard measures and the Do No Significant Harm (DNSH) requirements [6]. Moreover,The SFDR requires financial institutions to disclose their sustainability policies and principal adverse impacts (PAI) at both the entity and product levels, reporting on indicators such as the proportion of sustainable investments and alignment with the EU classification system [7]. The CSRD further enhances sustainability reporting at the entity level through a gradual approach [8]. Together, these regulations link activity definitions with issuer and product disclosures, allowing investors to compare returns and key performance indicators (KPI) across funds.

Outside the European Union, various countries have adopted different regulatory paths. The U.S. emphasizes climate information disclosure under the Securities Law [9]. China has tightened the restrictions on the use of funds by establishing a unified green bond directory and a carbon green bond program which called CGBP targeted with nearly 100% use of green funds [10]. India's BRSR core standards extended key performance indicators and introduced guarantee mechanisms [3]. Mexico has adopted a comprehensive economic sustainability classification system [4]. Chile's sovereign sustainability/sustainable bond framework serves as a market benchmark [11]. These differences shape which actions are deemed "green" and the portability of data across markets.

2.2 Assurance and Enforcement

Besides, Assurance is an important factor to increase the reliability of ESG information used in financing decisions, and is divided into two common levels which are limited assurance and reasonable assurance. At the engagement level, the IAASB's ISSA 5000 sets cross-framework requirements for both limited and reasonable assurance, clarifying evidence thresholds, independence, and quality control for audit firms and accredited verifiers [12]. The EU's CSRD is gradually introducing limited assurance in phases and is expected to gradually transition to reasonable assurance, mainly targeting sustainability reporting at the corporate level [8]. However, more policies have been implemented to address the issue of greenwashing.The fund name guidelines of the European Market Authority require that products using ESG/sustainability terms must pass tests on portfolio composition and information disclosure (for example, a threshold of "80%") and must have clear key performance indicators/goal designs as well as verifiable data [13]. The Financial Conduct Authority of the United Kingdom, on this basis, has added an anti-"greenwashing" rule, which can more clearly and quickly find evidence that is consistent with the facts [14].

2.3 Interoperability and Crossborder Comparability

Multinational issuers often face multiple rule sets. For instance, in a certain area, the criteria for classification are met, while in other areas, the ISSB unified benchmark is adopted. Without a reliable channel, the same asset may be eligible in one market but ambiguous in another, fragmenting investor demand and adding rereporting costs. Current global standards for sustainability and climate disclosures aim to standardize reporting requirements, while regional taxonomies specify which activities qualify as sustainable. Public information and guidance on data mapping—covering KPIs, scopes, and revenue/capex/opex attribution—assist issuers in translating between dif-

ferent rule sets.

To facilitate mutual accessibility of disclosed information, various parties are actively creating "bridges" and digital pipelines. The IFRS Foundation and EFRAG have issued interoperability guidelines that map ISSB standards to the European Sustainability Reporting Standards (ESRS), enabling dual reporters to minimize duplication while adhering to their respective frameworks [15]. At the same time, the IFRSF released the IFRS Sustainability Disclosure Taxonomy (SDT), enabling S1/S2 reporting documents to be machine-readable, allowing data providers and exchanges to search, extract, and compare facts in different repositories; this supports the concept of "reporting once, using multiple times" [16]. In terms of classification, the updated Common Ground Taxonomy (CGT) by the International Platform on Sustainable Finance (IPSF) provides a collection of audit overlaps between the EU and Chinese classification systems, providing investors with a transparent "common subset" for cross-border portfolio construction and issuer self-mapping [17]. Regulatory authorities, such as ESMA, have also improved product-level comparability by establishing an 80% threshold for term usage in fund names, ensuring consistency with investment portfolios and reducing label arbitrage [18]. The EU's European Single Access Point (ESAP), effective January 9, 2024, will provide a unified portal for sustainability reporting across the EU, enhancing discoverability of information [19].

While this interoperability reduces friction and enhances ESG financing availability, it does not imply complete uniformity; rather, it represents a multi-level integration of rules, data, classifications, and policies, ultimately improving investability.

3. Evidence & Mechanisms

Building on previous sections, the financing outcomes are influenced by pricing, access, and investor composition. When the disclosed information has the value of decision-making reference and meets the minimum guarantee threshold, and is supplemented by reliable product-level controls (pricing advantages), such as fund usage governance, continuous reporting and verifiable KPI/step-up clauses, the pricing advantage can be sustained across cycles. Specifically, this can manifest as narrower initial issuance spreads, where the difference between new green bonds and their benchmarks is reduced, leading to lower financing costs and the emergence of a sustainable "green premium''. In the secondary market, green bonds typically exhibit lower yields and higher prices compared to similar non-green bonds over time. However, the effectiveness of these advantages hinges on robust enforcement of KPIs; lax regulations can undermine the signaling effect, making price differentials short-lived [8].

Access is particularly crucial for new issuers or small and medium-sized enterprises. Lower information and translation barriers can expand order books and enhance successful issuance probabilities. Issuers compliant with dual standards or possessing digital labels are more readily identified by data providers, encountering fewer re-audit requests [15].

Lastly, the investor composition is indispensable. When the data becomes clearer and the labels match the actual assets held by the fund, funds will shift from short-term, highly volatile liquid funds to those that must follow rules or indices [7, 13]. This shift is indicated by a more diverse holder base, including increased participation from pension funds, insurance, and foreign investors.

4. Inclusion Path for SMEs

For SMEs, portability plus public discoverability (ESAP) converts disclosure from a cost center into a demand generator; this thus demonstrates that discovery lags shorten, sell-side coverage widens, and leads to first-time issuance odds increasing without duplicative reporting burdens. From a technical perspective, the bridge mechanism maps the various contents of ESRS/ISSB correspondingly, enabling the same information to be transmitted between different regulatory systems [17]. For example, the SDT/XBRL tags make the reporting documents machine-readable, allowing data suppliers and index compilers to automatically import the indicator data into screens and model inputs [16]. ESAP collects these labeled reporting documents so that the buyer screening personnel and brokers can query by industry, key performance indicators or classification criteria [15]. This process transforms SMEs from a state of "difficult to discover, difficult to compare" to "filterable, indexable", expands the scope of qualified investors, advances the initial assessment of analysts, and increases the success probability of bookkeeping. Therefore, enterprises only need to make one compliant disclosure, without having to write a new template for each market, to achieve alignment and conversion across markets.

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5. Regional Takeaways & Under-covered Markets

In India, BRSR and BRSR-Core aim to incorporate value chain KPI and assurance requirements into the disclosure system of listed companies, enhancing the granularity and comparability of disclosures [3]. Mechanically, this provides more verifiable inputs for funds subject to regulations such as banks and insurance companies. It is expected to first manifest in availability rather than price differences, thereby improving bookkeeping coverage and initial public offering success rates, and increasing participation in pensions and insurance. However, its drawback lies in the difficulty of fully implementing the reasonable assurance process and the coverage breadth for non-large listed companies.

In Mexico, the national-level sustainable classification aligns fiscal and sovereign curves with sustainable tools, establishing a local pricing benchmark and improving investor education [4]. In terms of implementation, the clear "activity standard" reduces the reassessment cost, and is expected to bring more stable local demand and higher foreign investment inclusiveness through observing the proportion of local and foreign holdings or the frequency of corporate-end labeling issuance and refinancing. However, the biggest challenge lies in the depth of labeling by the private sector and the ability to access digital data, which may affect the ESG effect.

Chile's Sovereign Sustainability and SLB framework provides a continuous curve anchor, serving as a reference for corporate pricing and roadshow narratives [11]. Mechanically, the sovereign benchmark attracts diversified long-term funds and spreads to the corporate sector, expected to be reflected in an optimized investor structure and more successful refinancing through the observation of the proportion of foreign and passive funds and repeat issuance. The main drawback lies in the market consistency requirements for the channels and KPI quality of small and medium-sized issuers.

In China, the unified green bond directory and CGBP will converge the use of funds and the scope of activities to a "nearly 100% green use" with strict constraints [10]. This enhances verifiability and transparency in the use of funds and improves the availability and stability of labeled issuance by reducing compliance verification rounds or increasing initial offering size and success rate. Nay, Subsequent costs related to cross-border comparability can be mitigated by adopting public subsets or interoperable approaches.

In the aforementioned market, interoperability and digitization are not unified. Instead, they are achieved through a clearer framework and more verifiable data, which reduces information/review costs and expands the compliance capital pool [15]. This is initially manifested in "availability" and may subsequently affect "pricing". In the short term, deeper bookkeeping and higher success rates for initial public offerings and refinancing are more easily observable, with SMEs benefiting particularly from this combination. Within this framework, policy goals vary, and market structure and institutional differences lead to different focus points in each region. India emphasizes disclosure and guarantees, Mexico emphasizes national classification and benchmarks, Chile emphasizes sovereign curve anchors, and China emphasizes strong usage constraints. However, the common goal is to use verifiable frameworks, digitization, and interoperability to reduce friction, starting with stabilizing availability and then striving for improvement in pricing. However, the common weak points lie in the strength of guarantees and law enforcement, the public nature and readability of data, and the visibility of SMEs; addressing these three points will truly implement ESG policies.

6. Conclusion

This paper reviews how regulatory architectures, assurance and enforcement, and cross-border interoperability jointly shape ESG financing outcomes. Taxonomies and scope choices clarify eligibility and measurement, reducing translation costs for investors and issuers. Assurance and product naming rules convert issuer narratives into verifiable holdings, enhancing mandate eligibility and reducing mislabeling risks. Interoperability tools, such as standard bridges between ESRS and ISSB, digital tagging via SDT/XBRL, and common taxonomy subsets, enable discoverable and reusable filings across regimes. Together, these elements lower information friction, shift demand toward long-term capital, and support tighter price differentials when key performance indicators are robust.

The review also highlights differences across under-covered markets. India prioritizes comparable issuer metrics via BRSR/BRSR-Core. Mexico builds a national taxonomy and sovereign benchmarks to anchor pricing, Chile uses sovereign sustainability or SLB curves as corporate reference points and China emphasizes strong use-of-proceeds constraints to enhance verifiability. These paths

reflect distinct objectives and market structures but converge on the same aim: lowering frictions and scaling investable supply, with SMEs benefiting when portability meets public discoverability.

However, the limitations remain. The evidence outside Europe and China is very weak, and the confirmation of causal relationships is difficult due to cyclical effects and tool heterogeneity. In addition, the S/G indicators and board accountability cannot always be audited consistently, and the quality of penetration rates and digital labels also varies. The data infrastructure of the private sector is uneven, especially for SMEs. Future research can adopt a phased policy implementation approach to analyze the diverse impacts on market changes, continuously track pricing, availability, and investor structure, and evaluate the effectiveness of interoperability in facilitating ESG financing for SMEs.

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