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# Trade Finance Program

# Sustainable Trade Finance Defined

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*Finance which supports goods or services produced in a manner that minimises adverse environmental or social impacts or risks, or that promotes environmental protection or social benefit*

- The ICC Banking Commission

# Sustainable Trade Finance Context

## Drivers of Change in Trade Finance

### **Regulations:**

More local, national and international authorities recognize the need to combat and adapt to the impact of climate change, support the Paris Agreement, and realize the UN's Sustainable Development Goals (SDGs).

### **Credit and reputational risks:**

Banks do not want their image tarnished, or to risk greater losses, due to the unsustainable practices of a customer or a company in its supply chain.

### **Market forces:**

Consumers are more aware of and concerned about the environmental and social footprint of the products they buy and corporates are reacting.

## Potential Risk of Inaction

Regulations will likely get tougher, and penalties bigger for non-compliance.

Beyond reputational damage, bank customers failing to manage these risks are vulnerable to protests, litigation, regulatory fines, liability for damages, or losses.

Banks that ignore fundamental long-term shifts in demand – or finance transactions linked to impacts, such as the destruction of tropical forests, excessive use of water or pesticides, or child labour – face losing business and putting their profits at risk.

# TFP Sustainability Journey

- Environmental and social **safeguards are a cornerstone** of ADB's support to inclusive economic growth and environmental sustainable growth.
- As the nature and speed of **TFP transactions are unique** in the context of ADB's other activities, the ADB's TFP realized it should identify ways to implement an environmental and social (E&S) safeguards approach that were in line with and potentially additional to ADB's safeguards policies but specific to TFP's operations.
- Coordinating **safeguards efforts with other market players closely** - including other MDBs, commercial banks and international organizations - to identify industry standards, development of a due diligence tools, and ways to spread best practices.

# TFP Sustainability Journey

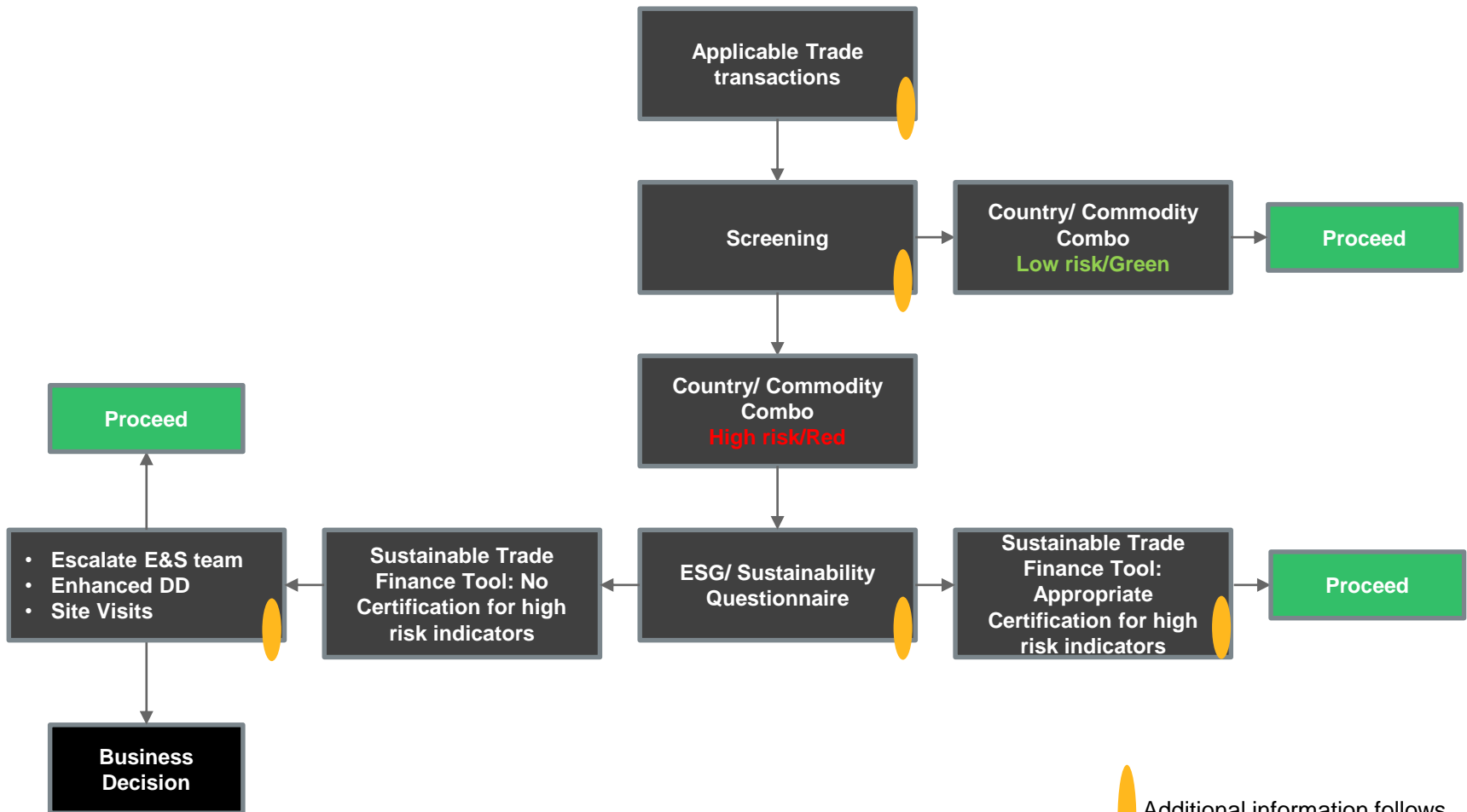
- Developing decision making tree for TFP operations and our partner banks
- Continuation of the development, piloting and role out of environmental and social guidelines for TFP
- Role out of automation updates to allow TFP team to systematically screen for high risk transactions
- Participating in the ICC's sustainable trade working groups related to standards, development of a due diligence tool, and ways to spread best practices.
- Further knowledge support activities in 2019 – online trainings, seminars, cooperation with local regulators
- Implementation of guidelines by partner banks by 2020 – Due diligence

# 1. ICC Process and Web Platform for Agro-Commodities

- To help banks operationalize sustainable trade finance, ICC's Sustainable Trade Finance Working Group is developing a set of guidelines applicable to trade finance and supply chain finance transactions with a focus on agricultural commodities, to be followed by a dedicated training module using the following products:
  - Letters of Credit
  - Stand By Letter of Credit
  - Supply chain finance (tool could check suppliers in program)
  - Pre-export Finance
  - Post import loans
- Screening will be done based on country / good combinations via a web based platform (IFC GMAP / ITC Integrated)
- High risk combinations will require further due diligence. Platform provides list of eligible certifications to cover the high risk items

1. *Application to broader commodities will be explored dependent on the success of the process and tools.*
2. *Screening currently in excel, but will be integrated into Sustainable Trade Finance Tool (to ensure current data)*

# 1. ICC Process and Web Platform for Agro-Commodities



Additional information follows

# 1. ICC Process and Web Platform for Agro-Commodities

### Compare with Gmap

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Colombia  Cocoa

By Compatibility  By Indicator

Use tool to determine high risk indicators

High risk indicators  
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- 96 Use of harmful child labor  
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- 88 Presence and impact on high or unique terrestrial biodiversity  
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- 88 Rate of expansion into natural areas  
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### ISCC PLUS

The ISCC PLUS system is built upon a set of obligatory basic requirements. These are amongst others the requirements on sustainability of the production area (ISCC PLUS 202) and the requirements on the chain of custody (traceability: ISCC PLUS 203; mass balance: ISCC PLUS 204-01, physical separation...

### Fair Trade USA APS for Large Farms and Facilities

The purpose of the Agricultural Production Standard (APS) is to set the requirements for all agricultural producers or

### GMAP Compatibility

PS2	PS6
<ul style="list-style-type: none"><li>Use of harmful child labor</li><li>Laws related to child labor</li><li>Use of forced labor</li><li>Laws related to forced labor</li><li>Conditions of Production</li><li>Laws related to the protection of workers from significant safety issues</li></ul>	<ul style="list-style-type: none"><li>Rate of expansion into natural areas</li><li>Impact on protected areas</li><li>Presence and impact on high or unique terrestrial biodiversity</li><li>Presence and impact on high or unique freshwater biodiversity</li></ul>

### GMAP Compatibility

PS2	PS6
<ul style="list-style-type: none"><li>Use of harmful child labor</li><li>Laws related to child labor</li></ul>	<ul style="list-style-type: none"><li>Rate of expansion into natural areas</li><li>Impact on protected areas</li></ul>

Use tool to determine certification compatibility with high risk indicators

- Certifications with 100% compatibility are highlighted
- Where none exist a combination of certifications is required.



## 2. ICC Customer Questionnaire

- One of the main approaches to delivering sustainable trade finance relies on integrating sustainability criteria into customer due diligence processes.
- The working group developed the following customer due diligence sustainability questionnaire after extensive rounds of feedback amongst industry players.
- We encourage all banks providing trade finance services to use it and to integrate environmental and social due diligence in their Know-Your- Customer processes.
- The questions included are recommendations, allowing banks to initiate conversations with clients on their sustainability commitments, capacity, track record and gather more insights into their clients' supply chain sustainability and sourcing of commodities.
- Banks' individual management strategies, reputational and credit risk policies will determine how the outcomes of the questionnaire and answers collected are to be considered.