


Sustainability in Trade Finance

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Minsk, 28-29 March 2019



Banks and Sustainability



Environmental & social responsibility in day-to-day operations:

Environmental...

- ❖ Resource efficiency
- ❖ Preventing pollution
- ❖ Promoting best available technologies

Socially responsible...

- ❖ Improved human resource practices
- ❖ Worker and Community health & safety

Integration of sustainability into core business - product design, policies and strategies.

Examples include...

- ❖ integration of environmental and social criteria into lending and investment strategy
- ❖ development of new products – focus on better behaviour or focused products.
- ❖ promoting Green economy transition / Circular Economy approaches
- ❖ Promoting climate change adaptation and mitigation

Finance initiatives to set standards include...











EBRD transition qualities



<p>Competitive</p> <p>Building dynamic and open markets that stimulate competition, entrepreneurship and productivity growth.</p>	<p>Well-governed</p> <p>Promoting the rule of law, transparency, and accountability, and stimulating firms to adequately safeguard and balance the interests of their stakeholders.</p>
<p>Inclusive</p> <p>Building inclusive market economies which ensure equal economic opportunity for all and leave no group behind.</p>	<p>Integrated</p> <p>Building geographically integrated domestic and international markets for goods, services, capital and labour.</p>
<p>Resilient</p> <p>Building resilient market economies that can withstand turbulence and shocks.</p>	<p>Green</p> <p>Building green, sustainable market economies which preserve the environment and protect the interests of future generations.</p>

Green Economy Transition (GET) & SDGs



GET investments fall into 3 categories: climate change mitigation, climate change adaptation and other environmental improvement areas.

In 2017, the Bank invested €9.7 billion into 412 projects, with 43% of investments in 'green' finance.

EBRD Sustainability Report 2017
<http://2017.sr-ebd.com/>

EBRD supports the implementation of the 17 UN Sustainable Development Goals (SDGs) to transform societies and economies into a safe, equitable and sustainable future. Our projects bring positive change in people's lives across the economies where we invest and support these 9 SDGs particular:



Trade finance – E&S issues



Issues associated with traded goods/product itself



Issues associated with conditions of production



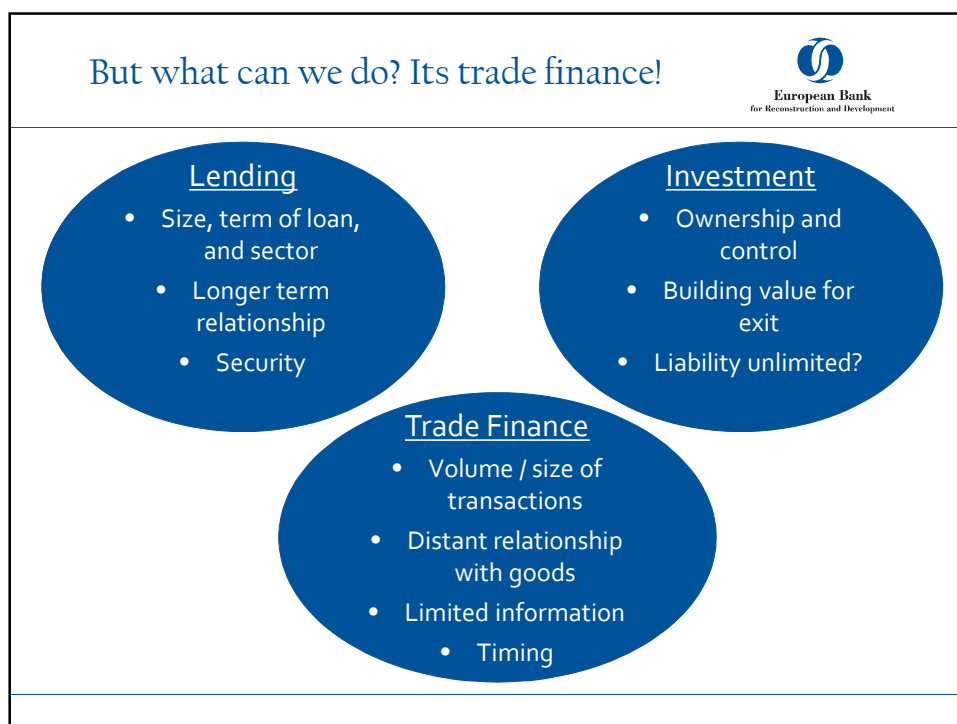
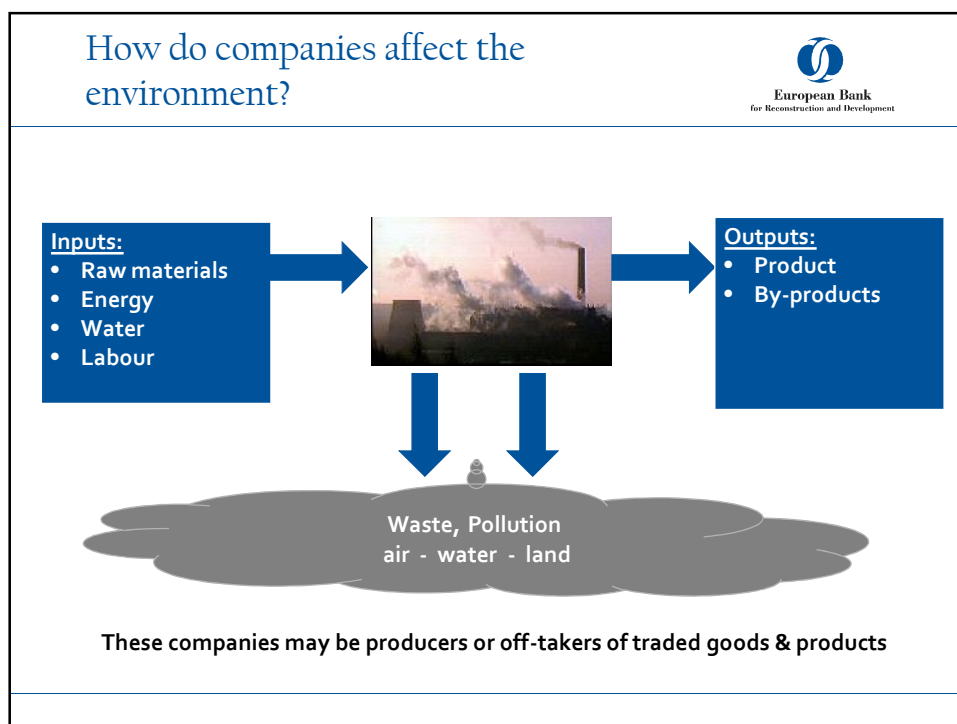
Issues associated with transport



Issues associated with use of traded product



Issues associated with facilities at which product is used



...and who cares?



- How many trade finance transactions go public?
 - Smaller transactions
 - Fast moving
 - Often with companies with limited public scrutiny
- A specialist product – who's heard of trade finance outside of banking?
- CSOs / NGOs?
- The media?

Sustainability Initiatives for TF



The Banking Environment Initiative (BEI) and Consumer Goods Forum (CGF)

- 'Soft Commodities' Compact

<https://www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative/programme/sustainable-agri-supply-chains/soft-commodities>

- Sustainable Shipment Letter of Credit

<https://www.cisl.cam.ac.uk/resources/publication-pdfs/the-banking-environment-initiative-sustainable-shi.pdf>

IFC's Global Map of Environmental and Social Risks in Agro-Commodity Production (GMAP)

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/gmap

Examples of challenging issues & cases



- ❖ Palm oil plantations & deforestation
- ❖ Soya beans & large-scale illegal deforestation
- ❖ Timber & illegal logging
- ❖ Hydropower & impacts on aquatic habitat
- ❖ Foie gras production & animal welfare (forced feeding, caged systems)
- ❖ Coal – mining/production/use & associated pollution, global warming and social /worker & community health impacts



A practical process for E&S due diligence



- Screening
- Environmental and social exclusions
- ↓
- Identifying high risk transactions
- Significant, negative and/or long-term environmental or social impacts
 - Consider traded product, size and tenor, end user
- ↓
- Undertaking due diligence
- Written evidence, site visits, third party expertise
- ↓
- Monitoring and control
- Warranties, corrective actions, delayed disbursements, reporting



EBRD's E&S Procedures for Trade Finance

<https://www.ebrd.com/who-we-are/our-values/environmental-emanual-risk.html>

- Import / export trade finance instruments: (Letters of credit, standby letters of credit, Advance payment bonds, other payment guarantees, Bills of exchange, promissory notes);
- Pre-export advances

What industry activities are most significant?



Highly significant:

- Nuclear industry
- Hazardous waste treatment
- Dam/reservoir construction
- Metals industry using old technology
- Companies operating in culturally/environmentally sensitive areas

Cause for concern:

- Mining
- Oil and gas
- Power plants
- Logging
- Metals Production
- Chemicals Industry
- Cement
- Intensive agriculture
- Infrastructure construction

How can E&S issues affect banks providing trade finance?



- Illegal or otherwise harmful goods may be seized or acceptance or payment refused, resulting in financial losses
- Trade support for harmful activities may cause significant health and environmental damage and affect the reputation of the bank (*eg asbestos, etc*)
- Companies with poor environmental performance may suffer fines, operational restrictions or shutdown, affecting their ability to pay.
- Under the TFP, failure to comply with EBRD contract terms, including E&S Exclusion List, general Ex List (*no financing of production and/or trade of arms, alcohol, tobacco and casinos/gambling*), gives EBRD the right to reject applications for support.

You may encounter some obstacles...



Hard to identify particular technical details, eg chemical, species name	Seek technical details (chemical / species name) in the following cases, and refer to EBRD guidance. <ul style="list-style-type: none">) Pesticides / herbicides) Asbestos, insulation, roofing materials) Wildlife products (inc rare leather goods, furs, skins), traditional medicines) Electrical switchgear / transformers
Hard to identify end user	Request information from applicant. If unknown make judgement based on nature of goods.
Hard to confirm whether or not sensitive areas / peoples will be affected	Request further information from applicant or warranty if end user operating in outlying / wild area
Transaction documentation may be falsified	Use your best efforts to verify information, but you are not the police and may not be able to stop such criminal activity.
Hard to identify tanker type (for oil shipment or chemicals)	Require oil shipper to confirm compliance of vessels with IMO requirements, MARPOL Convention.

...but use your judgement and be pragmatic.



- Most TF-related goods are likely to pose little environmental and social risk and require little effort to assess
- Your environmental efforts should remain in proportion to wider risk management effort and to the size of the transaction
- Alertness and good judgement will help protect against environmental/social damage and meet contractual requirements, while adding minimal effort to transaction appraisal process.