

# SUSTAINABLE TRADE FINANCE

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## 1. The Significance of Sustainable Trade Finance

<b>25% global GDP</b> comes from Int. Trade	<b>20% - 30% global GHG emissions</b> are associated with Int. Trade	<b>80% - 90% Int. Trade activities</b> rely on Trade Finance
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Source: [WTO, 2021](#) and [UNEP](#)

## 2. Sustainable Trade Finance in Practice

### Foundations

- **UNEP Finance Initiative:** working on global harmonization of standards and performance benchmarks, and scoping ways to support Sustainable Trade and Export Finance.
- **ICC** published [Standards](#) and [Principles](#) for Sustainable Trade and Trade Finance providing a definition, standards and principles for assessing Sustainable Trade and Trade Finance.

### Use Cases

[ICC Global Survey 2020](#) (Figure 2.1 in Annex) shows **banks' increasing awareness and considerations of ESG and sustainability** in their operations with **76%** integrated sustainability risks in credit risk management and due diligence for Trade Finance products.

**Singapore** is among the pioneers in promoting STF:

- Issued the Green & Sustainable Trade Finance and Working Capital ([GTF](#)) Framework in 2021 to help Banks & Non-Bank FIs assess eligible short to medium-term green trade finance transactions.
- Under the framework, 4 successful pilot projects have been conducted by [HSBC](#) and UOB.
- [SGTraDex](#) successfully piloted a data exchange platform supporting Green TF transactions.

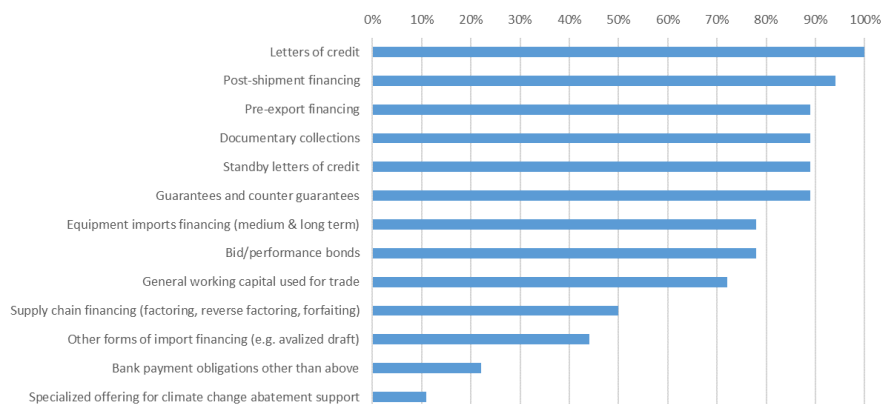
### The Vietnamese Market

- **US\$ 150b** bank-intermediated trade finance market, equivalent to **over 20%** total merchandise trade value of the country. (Table 2.1)
- **5** largest banks by assets account for **over 50%** of the trade finance market by USD value.
- **10** largest banks account for **over 2/3** of total estimated trade finance assets.
- Commonly financed projects lie among emission-intensive industries including Agriculture, forestry, fishing, Construction, and Metals ([WTO, 2023](#)). (Table 2.2)

>> *The Vietnamese Trade Finance Market appears to be a rather concentrated one.*

## Trade Finance Instruments and Products

Trade finance instruments offered by banks in Vietnam, 2022  
(as a share of banks in per cent)

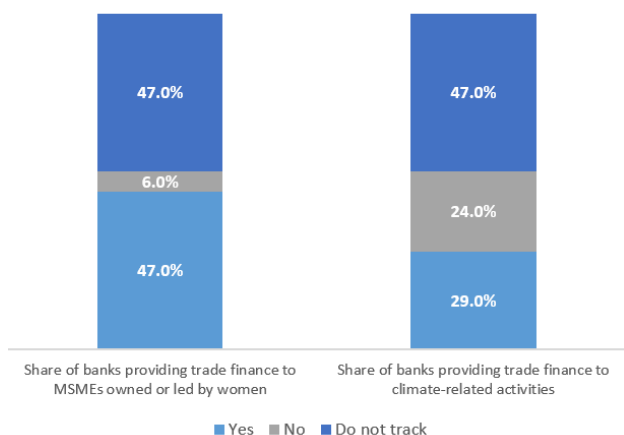


*L/C, post-shipment and pre-export financing, documentary collections, and guarantees are among the most commonly offered instruments.*

Source: Extracted from the report of [WTO, 2023](#)

## Sustainability-linked Trade Finance (STF)

Share of banks in Vietnam providing trade finance to MSMEs owned or led by women and to climate-related activities, combined and by economy, 2022 (in per cent)



[WTO \(2023\)](#) reported that in 2022:

- Only **29%** banks provided trade finance to climate-related activities.
- **47%** provided to MSMEs owned or led by women.
- A large share of banks (**47%**) is not tracking data – revealing a significant gap.

>> *Signifies space for growth of Sustainable Trade Finance in Vietnam*

Source: Extracted from the report of [WTO, 2023](#)

## Recent Sustainable Trade Finance cases in Vietnam:

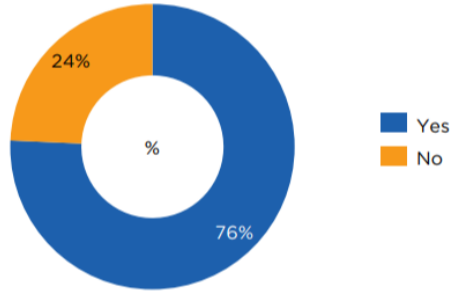
- [Standard Chartered & BIDV](#): **\$100m** Sustainable TF Framework Agreement in 2023
- [HSBC & DOHACO](#) 2022 Green Trade Finance Agreement: HSBC provides a **VND200b** short-term trade facility to support DOHACO's wastepaper import or local purchase for production.

## 3. Eurocham Policy Dialogue and Advocacy Call to Action

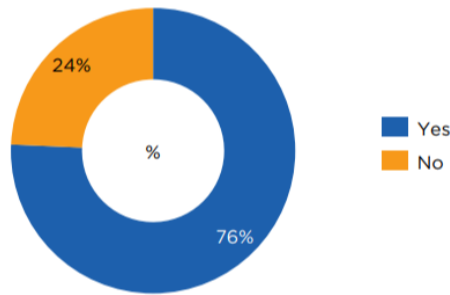
- **Standards Setting.** Provide MOIT with Eurocham position on the TF standards setting the baseline for the determination of transactions' sustainability, as well as requesting the creation of economic incentives both FIs and Clients (e.g. tax break) accessing STF.
- **Capacity Building.** Co-hosting with relevant government authorities roundtable sessions, inviting industry experts to share best practices.

# 1. ANNEX

Is your bank integrating sustainability risks into credit risk management procedures for clients using trade finance/ supply chain finance instruments?



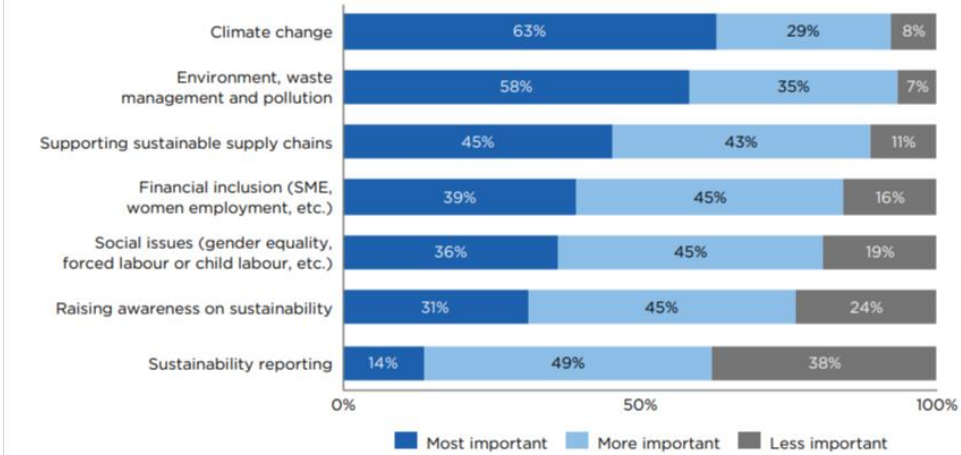
Is your bank conducting sustainability-related due diligence in its trade finance operations as part of KYC procedures?



**Figure 2.1 - Banks' responses to sustainability considerations in credit risk management and due diligence for Trade Finance**

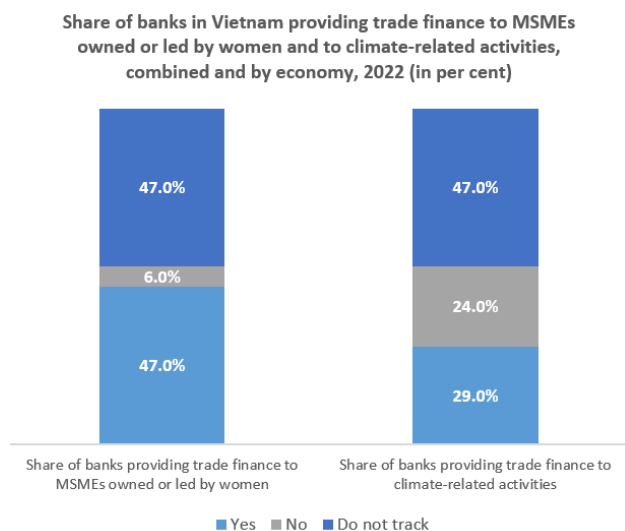
Source: [ICC, 2020](#)

What should be the sustainability priorities for banks in trade finance over the next five years?



**Figure 2.2 - Banks' responses to sustainability considerations in credit risk management and due diligence for Trade Finance**

Source: [ICC, 2020](#)



**Figure 2.3. Share of banks in the Mekong-3 providing trade finance to MSMEs led or owned by women and climate-related activities, combined and by economy, 2022 (in %)**

Source: Extracted from the report of [WTO, 2023](#)

**Table 2.1. Bank-intermediated Trade Finance in Vietnam**

<b>Bank-intermediated Trade Finance in Vietnam</b>	
No. of banks surveyed	43
No. of respondent banks	20
Respondent banks' share of total bank assets	74%
Share of respondent banks involved in trade finance	95%
<b>Total merchandise trade (US\$ billion)</b>	<b>731</b>
<b>Size of bank-intermediated trade finance (US\$ billion)</b>	<b>150</b>
Average share of bank-intermediated trade finance	21%

Source: Extracted from the report of [WTO, 2023](#)

**Table 2.2 - Distribution of TF across the surveyed banks' top three sectors, 2022**

<b>Distribution of trade finance across the surveyed banks' top three sectors, 2022</b>	
Agriculture, forestry, fishing	27.0%
Construction	25.0%
Metals	16.4%
Wholesale and retail trade	15.4%
Textiles	8.2%
Coke & refined petroleum products	3.0%
Electricity, gas, steam & air conditioning supply	2.1%
Plastics	1.6%
Other manufacturing	0.7%
Pharmaceuticals	0.5%
Motor vehicles & transport equipment	0.3%
Chemicals	0.0%
Computer, electronics	0.0%
Food products, beverages	0.0%
Transport	0.0%
<b>Total</b>	<b>100%</b>

Source: Extracted from the report of [WTO, 2023](#)

**All-in prices for confirmed letters of credit, 2022**  
(in per cent)

	<b>All-in prices for confirmed letters of credit (%)</b>
Minimum	1.20%
Average	3.25%
Maximum	5.00%

**Average prices for selected trade finance instruments, 2022**  
(in per cent per annum)

	<b>Average prices</b>
Cost of funds	4.25%
Letter of credit post-financing	6.25%
Export financing	7.00%
Import financing	7.00%

Source: IFC - WTO calculations based on the 2023 IFC survey of trade finance in the Mekong-3

**Table 2.3. All-in prices for confirmed L/C, 2023 (in per cent) and average prices for selected trade finance instruments, 2022 (in per cent per annum)**

Source: Extracted from the report of [WTO, 2023](#)

## 2. REFERENCES

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14. WTO (2021) [Trade and Climate Change – Information brief no 4 - 2021](#)
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