Accelerating the Green Transition Through Sustainable Supply Chains

What is a Sustainable Supply Chain?

• Global buyers have desire to extend sustainability efforts beyond their own operations as a company. A sustainable supply chain finance solution provides an opportunity to integrate sustainability criteria and targets into a supply chain finance program.

• A sustainable supply chain finance solution would enable corporations to not only achieve sustainable sourcing goals, but also help drive change down their supply chains.

• Sustainable supply chain finance takes the traditional supply chain finance product and integrates ESG considerations, using consistent methodology and targets to monitor supplier sustainability performance, by a third party verifier. The sustainability performance information must be consistent and robust.

• Sustainable supply chain finance is a financing solution with a large potential for financial providers. Due to the lack of a clear market offering, many corporates have started their own supply chains initiatives, or are looking for guidance to begin their journeys.

What is the business case for a Sustainable Supply Chain Finance Offering?

ESG has become a popular topic in the market and with clients, specifically within the past year. A sustainability-aligned corporate strategy can strengthen brand value, attract investors and valuable talent, improve efficiency and meet customer demand. According to McKinsey, companies with higher ESG ratings consistently outperform markets in both the medium and long term. Moreover, ESG KPIs are becoming a popular additive investors use to evaluate a company, and/or decide whether to invest or not.

Many companies already have robust strategic initiatives at the corporate level, but are now looking at how to push initiatives beyond their own direct operations. Going deeper into the territory of supply chains will have a greater sustainability impact in all of those countries that are heavy providers of goods and services, and it is a preferred route for corporates to drive change beyond their own direct operations.

Impact of Net Zero Targets and COVID-19 on Supply Chains

• Net zero targets, coupled with COVID-19 have put a lot of pressure on supply chains.

• Net Zero targets have highlighted the growing importance of scope 3 emissions and the key role supply chains play in the transition to net zero (Deloitte estimates that for many businesses, scope 3 emissions account for more than 70% of their carbon footprint).

• At the same time COVID-19 has put the social aspect of ESG in the spotlight, highlighting societal imbalances and the importance of strong and resilient supply chains with diversity and inclusion becoming determining factors.

• These are some of the reasons why in recent months we have seen an acceleration of the process of integrating ESG considerations into the procurement policy of our clients, already driven by a number of factors (pressure from investors and regulators, increased customer’s scrutiny, etc.).
Suppliers are now being asked to comply with certain ESG standards and performance criteria, all of which involves them taking action that incurs upfront costs. Monitoring and assessing their alignment with these standards and criteria needs to be monitored, which also comes at a cost.

That’s where sustainable supply chain finance comes in, linking the ESG performance of suppliers with financial incentives that facilitate their adoption of more sustainable practices and technologies that improve the impact of their businesses on the environment and local communities, as well as resilience of the supply chains to which they form part.

What makes Citi and EBRD's Supply Chain Finance Offering Unique?

Citi’s program, developed in partnership with the EBRD, leverages our traditional Citi Supplier Finance solution to empower clients willing to present special financing or pricing incentives to suppliers who comply with sustainability performance criteria that is previously agreed upon and (later) validated by a third party verifier. Third party compliance’s verification and targets are an integral part of the success of the SSCF program.

Citi and EBRD are creating a program with industry specialization and firstly starting with the Consumer, Industrials and High-tech sectors. These three sectors are all at varying levels of maturity in their focus and strategy on sustainability. Whilst the Consumer and Industrials are very advanced in their sustainability journey, the High-tech sector is becoming a developing focus now with most of the activity in the diversity space.

How does the Collaboration with EBRD work?

• Established in 1991 and owned by 69 countries, in addition to the EU and the European Investment Bank (EIB), EBRD invests to achieve sustainable, entrepreneurial economies with opportunities for all.

• EBRD can bring additional credit capacity and be an important participant in supply chain financing programs, particularly in times of economic and financial instability.

• In addition, EBRD will bring the added value of facilitating direct, technical assistance to suppliers constituting small- and medium-sized enterprises via its Advice for Small Businesses Programme, active in 30 EBRD countries of operations. Through its ASB programme, the EBRD mobilizes local consultants and international advisors to support SMEs in a wide variety of areas, including (but not limited to): strategy, operations, quality management, digitalization, financial reporting, and energy efficiency and resource planning.
Other Relevant Content

- Citi Perspectives Article, by Jessica Cavalletto: *What Does the Rise of ESG Mean for Trade Finance?*
- Euromoney Podcast Series, featuring Courtney Lowrence, Parvaiz Dalal, Jessica Cavalletto and Mehwish Jangda: “Treasury and Turbulence” series on ESG and supply chains
- Politico Podcast, featuring Naveed Sultan: *EB6 - Unlocking Global Supply Chains*
- Xylem and Citi Podcast and Article on Sustainability and Trade: *Transparency is Key*
- McKinsey on Sustainability & Resource Productivity, Sheila Bonini and Steven Swartz: *Profits with purpose: How organizing for sustainability can benefit the bottom line*