In collaboration with

How to invest in longer-term supplier decarbonization

AREAS TO DISCOVER

Types of investment

Where to start

How to implement

What to consider

Investing in initiatives that support supplier emission reduction plans, or providing favorable loan terms, can help suppliers overcome capital expenditure barriers to decarbonization.

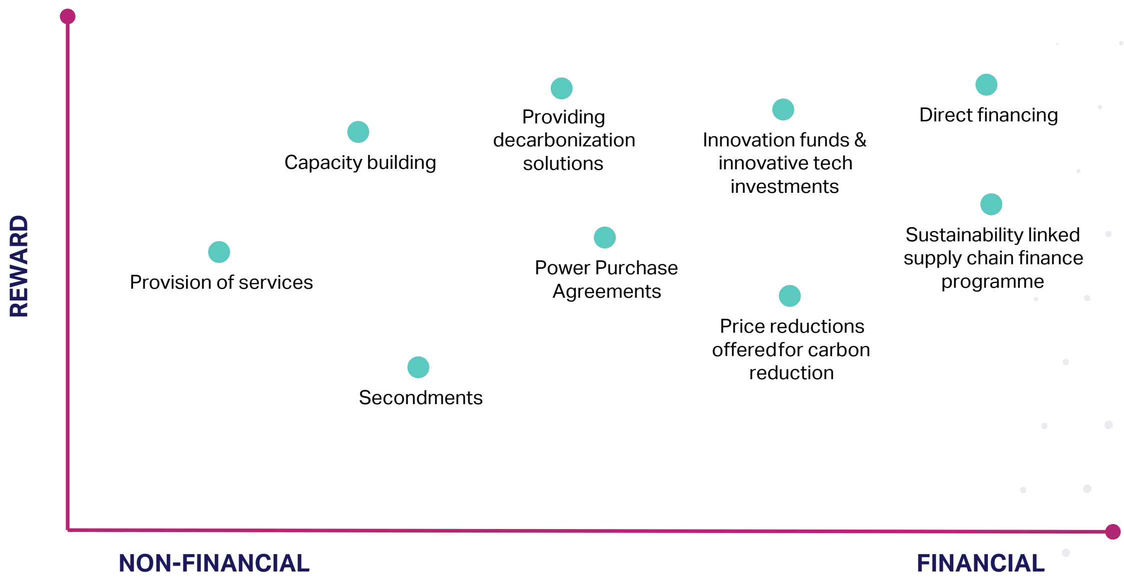
Organizations may choose to leverage longer-term investments to provide financial support and reassurance, build trusted supplier relationships, reduce scope 3 emissions, and help meet net zero targets. Effective supplier relationship management and robust partnerships through longer-term investments is key to building resilience and achieving decarbonization in supply chains.

Types of investment

Longer-term investments range from non-financial to financial. The following are common benefits from longer-term investments:

- Preferential payment terms
- Low-cost capital and early payments
- Lower interest rates
- Supply chain finance - loans and bonds
- Direct investment in suppliers
- Joint ventures that share risk / reward

These are the most common types of longer-term investments businesses in the SOS 1.5 working group:



Where to start

1
Build trusted buyer-supplier relationships

Investing in initiatives that support suppliers to decarbonize in the longer term not only provides financial support and reassurance, but also helps build trusted buyer-supplier relationships, given extended longevity. This increases the effectiveness of investments and forms a part of supplier relationship management (see Source to Pay cycle in Issue 2).

2
Explore types of longer-term investments

Find investments that are relevant to suppliers dependent on emission hotspots and supplier maturity. Such initiatives can include power purchase agreements or carbon insetting projects, that demonstrate longer-term sourcing commitments from buyers. Investments can also be non-financial such as investments in time or resources to support capability building.

3
Consider Green financing

Many banks have introduced supply chain finance programs that are linked to the ESG ratings of the borrower's suppliers. Companies can work with financial partners who provide green bonds or sustainability-linked loans (see page 3), as well as technical partners to provide sustainability assurance (see next section). This can enable deeper decarbonization and help to reduce scope 3 emissions.

How to implement longer-term investments

Some companies can execute all investment aspects in house, while others might partner with a number of actors with specific roles.

1 Company manages in-house

- Conduct in-house assurance on supplier decarbonization
- Provide finance or investment in the supplier directly

Supplier receiving investment

2 Company outsources

Find technical and financial partner

Technical partner

- Provides assurance on supplier decarbonization
- Checks the environment credits (basis for granting the finance / investment etc.)

Financial partner

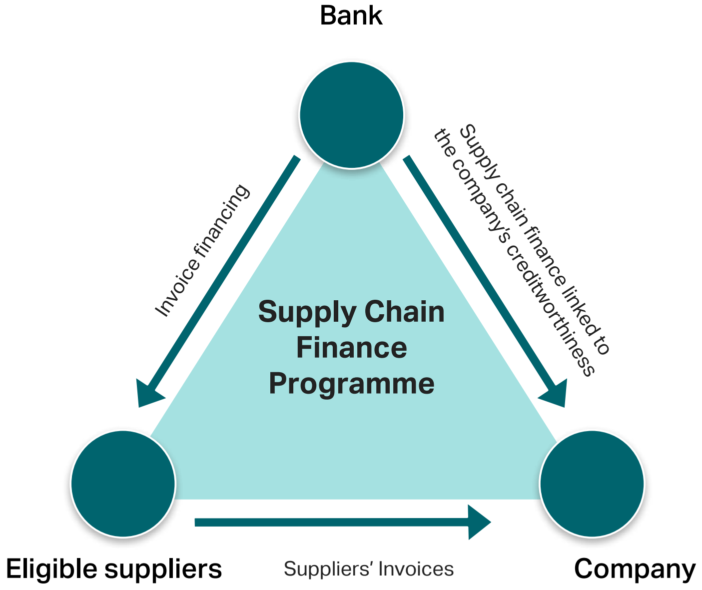
Third party provider who can support by providing the financing and doing the due diligence on the investment

Supplier receiving investment

> **A key benefit of rewarding progress through longer-term investments is that it reduces decarbonization financial and transition risks, and signals committed action in line with longer-term supplier partnerships.**

Annabel Kalmar,
Senior Manager, Sustainability, PwC

HOW DO SUSTAINABILITY-LINKED SUPPLY CHAIN FINANCE PROGRAMS WORK?



- Bank provides sustainability-linked supply chain financing to a company's suppliers from the date of collection of specific goods/ provision of services to the date on which payment is owed to these suppliers.
- The cost of this financing is borne by suppliers at a rate lower than their usual cost of funds (linked to the company's creditworthiness not suppliers').
- As a result, suppliers benefit from cash flow acceleration, quicker payment, and improved financing costs.

What to consider

There are opportunities and challenges associated with different types of longer-term investment:

OPPORTUNITIES

- Resilience and financial efficiency of organizations' supply chains is improved.
- Working capital enables management of organizations' working capital needs.
- Provides start-ups in the value chain with funding and opportunities to test and prove their innovation at scale.
- Rewards suppliers for decarbonization efforts.
- Supports organizations' towards reaching net zero and science based target (SBT) commitments.
- Helps to reach net zero targets that may not otherwise be reached.

CHALLENGES

- Many existing methods of investment benefit those already decarbonizing and are harder to access for those less able to decarbonize (due to capital availability / hard to abate sector / geography)
- If the program is set up for the supplier to either comply or not comply, there can be limited incentive for them to improve further beyond compliance.
- Suppliers may have to go through rigorous (time consuming and expensive) processes (e.g. SBTi) to comply if this is a KPI for investment.

Longer-term investments are an extremely underutilized, high-impact decarbonization lever. Financial investments in particular, when well-managed offer a targeted means to decarbonize scope 3 hotpots and deliver supply chain resilience.

Hannah Loake,
Senior Manager, Climate Action, WBCSD

GET IN TOUCH

For more information on the Supply Chain Decarbonization series, contact: [Hannah Loake], WBCSD or [Rebecca Osmaston], PwC