ORBIAN

Trading on Better Terms

ORBIAN

Environmental, Social and Governance Research Report

CONTENTS

EXECUTIVE SUMMARY

The globalisation of supply chains has made their management both an opportunity and risk for large buyers. Supply chains are one of the most important levers for businesses to have a positive impact across a broad Environmental, Social and Governance (ESG) agenda. They have a transformative developmental impact as they draw local communities into the global economy. At the same time, however, the consequences of this pattern of development have provoked significant controversies for buyers engaging with poor social and environmental practices.

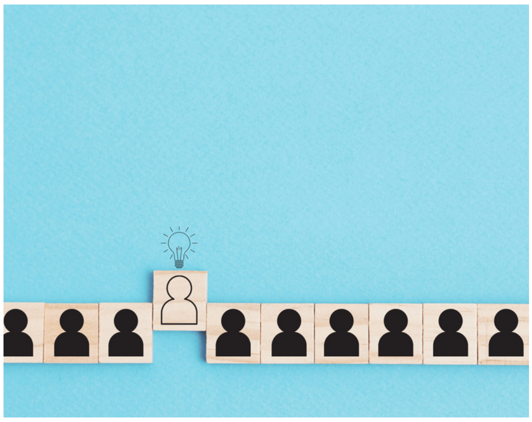
Sustainable supply chain finance is a way to align corporate goals and incentives across supply chains with important economic, social and ethical standards. By working together with a focus upon ESG objectives within their supply chain finance program, buyers, suppliers and Orbian can improve outcomes and protect against risks associated with less sustainable business practices.

The opportunity for all stakeholders to engage with sustainable SCF is vast. For buyers, it means they can integrate ESG considerations in procurement to achieve their sustainable sourcing goals, increase the resilience of supply and improve their reputation. For suppliers, sustainable SCF presents an opportunity to access working capital improve relationships with their customers and participate in the transition to a sustainable economy. Supply chain finance providers can accompany their clients in meeting their sustainability objectives and differentiate product offerings from competitors.

Despite these opportunities, there are a number of challenges associated with sustainable SCF. Implementing ESG within supply chains is complex and requires extensive intra and intercompany cooperation. There is also a need for a classification system to create a common language for sustainable supply chain finance. In order to improve, an understanding of the current levels of ESG engagement is crucial.

In this report, Orbian has carried out research on ESG initiatives and perspectives within its client base. This research was developed as a way to measure the ESG levels among Orbian clients with the aim of building a set of annual benchmarks by which to mark progress.

As the conversation around sustainable SCF develops, Orbian hopes to provide companies with the assistance they need to improve their ESG performance and strengthen supply chain resilience. Working together buyers, suppliers and SCF firms can leverage supply chains to achieve global sustainability goals.



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INTRODUCTION

Integrating Environmental, Social and Governance (ESG) considerations into a firm's decision-making process has become an increasingly important mission for corporates. Landmark international steps have been taken with the adoption of the UN Sustainable Development Goals and the Paris Climate Agreement. For the business community, that means no longer hiding behind growth and shareholder value as the sole measurements of success.

Supply chains will play a crucial role in this shift. According to a report from the McKinsey Institute, over 90 percent of the environmental damage of a company comes from its supply chains (McKinsey, 2016). Orbian recognises the increasing importance of transparent ESG engagement in supply chain finance and aims to use its position at the forefront of the industry to broaden the understanding of supply chain social impact and responsibility.

This report is made up of two parts. Section 1 is a benchmark for Orbian to develop an understanding of its client's current level of ESG engagement to be compared against in the future. Section 2 focuses on the role that Orbian and other SCF firms can play in improving ESG outcomes among clients through Sustainable SCF.

WHAT IS ESG?

Every company, to differing degrees, has a basic understanding of its environmental, social, and governance impact and responsibilities. A central feature of ESG is the identification and analysis of the societal impact of a company, along with the related risks with the aim of continually developing fields of ESG activity and associated measures. Including ESG aspects in the development of a corporate strategy opens up opportunities to develop risk management processes and improve a company's long-term prospects for success.

ESG metrics are not commonly part of mandatory financial reporting, though companies are increasingly making disclosures in their annual report or in a standalone sustainability report. Numerous institutions, such as the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), and the Task Force on Climate-related Financial Disclosures (TCFD) are working to form standards to facilitate the incorporation of these factors into the business process.

SECTION 1: ORBIAN ESG RESEARCH

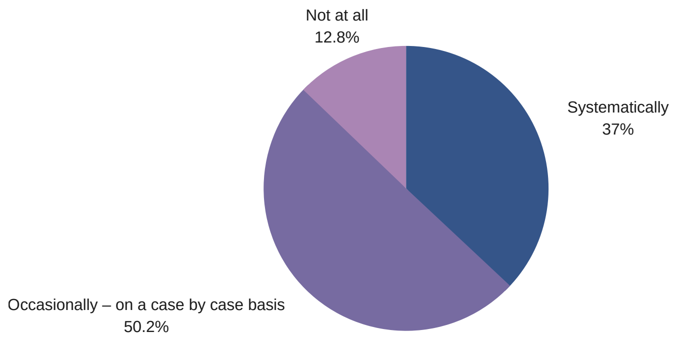
In this section Orbian has sought engagement to understand the current ESG initiatives pursued by its clients.

The data collection process for section 1 is made up of 3 elements:
1. A survey to obtain data from a wide range of clients
2. Secondary web-based research
3. Structured interviews

The Orbian ESG Survey 2020 is the first survey conducted by the firm on clients' ESG initiatives. The survey measures the perspectives of suppliers operating around the world towards ESG. Invitations to complete the online survey were sent to a randomly selected group of clients in December, resulting in over 450 responses (6% response rate). Complete anonymity of all respondents, both in terms of organization and individuals, is maintained throughout the publication of information.

ESG SURVEY RESULTS

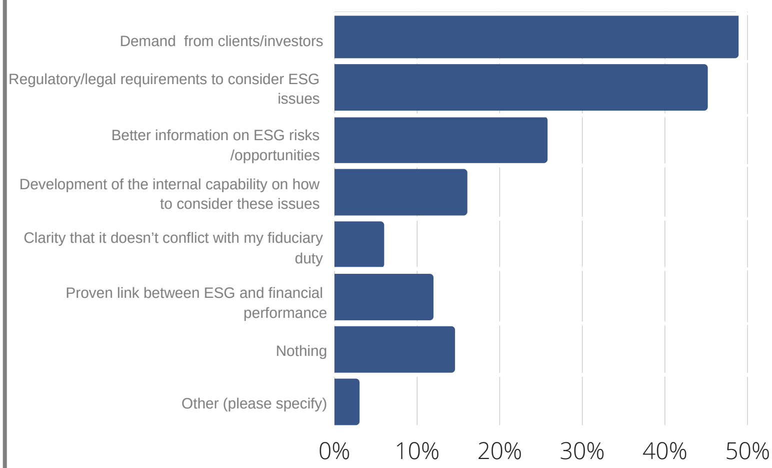
How regularly do you consider ESG issues within your business decisions?



The survey's first question sought to determine how frequently if at all, business leaders considered ESG factors.

The vast majority of Orbian clients consider ESG issues in their business decisions. This consideration is systematic for 37%, while 50% selected that they do so occasionally on a case-by-case basis. 13% do not consider ESG at all. These views are encouraging and generally align with the increasingly progressive attitudes on ESG globally.

What, if anything, would cause you to factor more ESG issues in your business decisions?

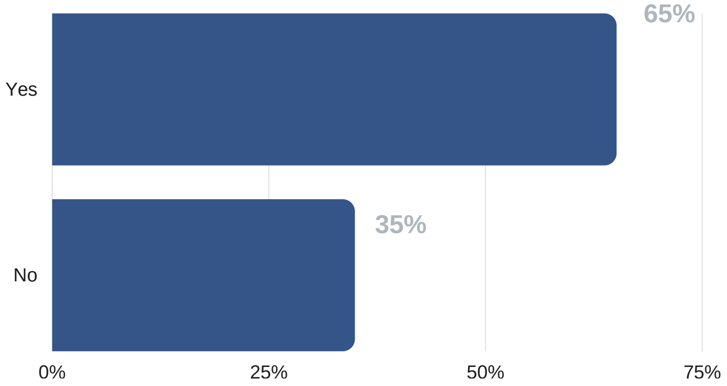


By far the largest driver of ESG is demand from clients/ investors with 49%. Regulatory/legal requirements suggest is second with 45% of respondents saying this would cause them to factor in more ESG issues.

14% stated nothing would cause them to factor ESG into business decisions. The reluctance to embrace the concept is usually on the grounds that company objectives should be limited to the maximization of shareholder value irrespective of environmental or social impacts, or broader governance issues. Given the changing tides around the topic of ESG globally, it will be interesting to monitor the movement of this figure in future surveys. There appears to be a strong majority consensus that the pursuit of ESG does not conflict with one's fiduciary duty with only 6%, the lowest, suggesting that it may.

ENVIRONMENTAL

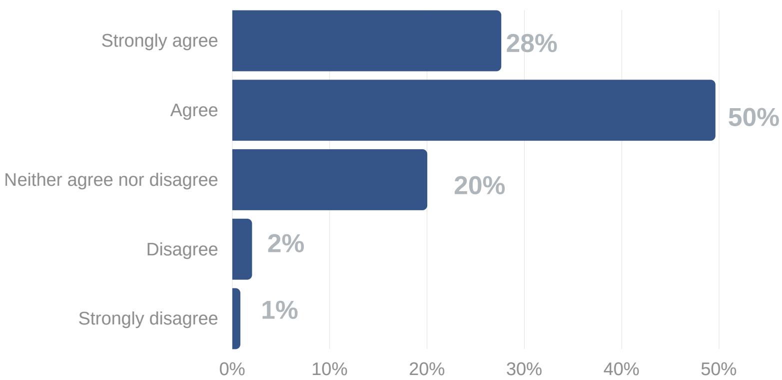
Do you measure the environmental impact of your business?



Although it can be difficult to measure the environmental impact of a company, 65% of respondents stated that they made some attempt to do so.

However, one in three companies indicated that they make no attempt at measuring the environmental impact of their company.

To what extent do you agree with the statement: "This company's leadership team are very concerned about the environmental impact of the business?"



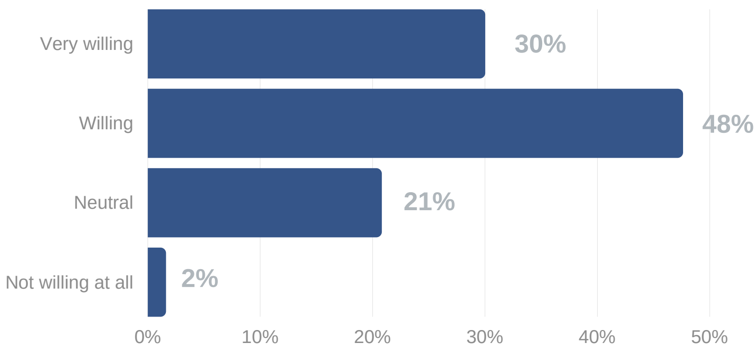
This survey question sought to assess company leadership perspectives on ESG. Leadership teams will ultimately determine if ESG will be a business priority in the future.

Half of the respondents "agree" with the statement "This company's leadership team are very concerned about the environmental impact of the business?". 28% of respondents stated they "strongly agree" with the statement suggesting a long term willingness to drive environmental change within their organization. This indicates there is an understanding among business leaders that a company's environmental externalities carry both a reputational and financial risk.

A small minority (2%) either disagreed or strongly disagreed with the statement.

78% of respondents showed a long term willingness to drive environmental change within their organization.

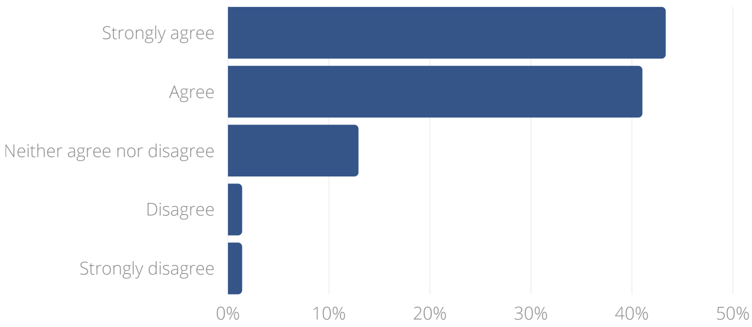
How willing are you to make changes to your operations / processes to reduce your environmental impact?



The majority of respondents stated they were either very willing or willing to make changes to reduce the environmental impact of their company. Around 20% were neutral on the topic. These views are encouraging and generally align with increasingly progressive attitudes toward ESG programs. A small minority at 2% stated they would be unwilling to make such a change.

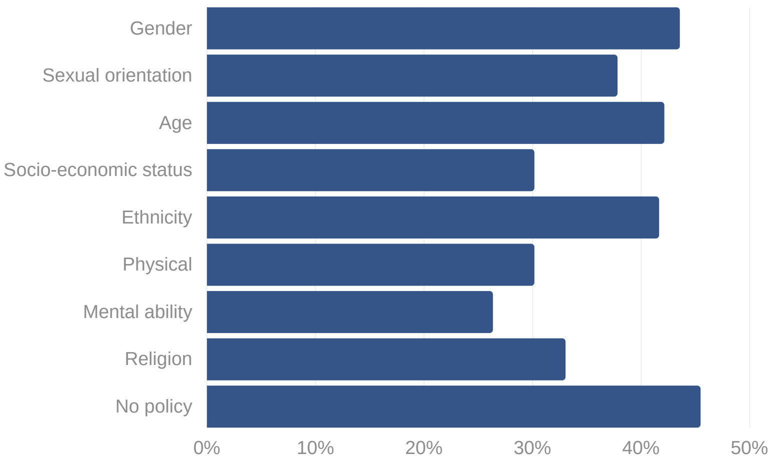
SOCIAL & GOVERNANCE

To what extent do you agree with the statement: "A diverse workforce has a positive impact on business performance?"



Although it can be difficult to assess the impact of encouraging greater diversity and inclusion in workplaces, most of the companies surveyed believe that doing so will have a positive impact on their business performance. 43% strongly agree while 41% agree. 12% of respondents were neutral on the topic and a small minority disagree with the statement, believing that diverse workforces have a neutral or detrimental impact on business.

Which of the following areas are covered in your organization's D&I policy (if it has one)?



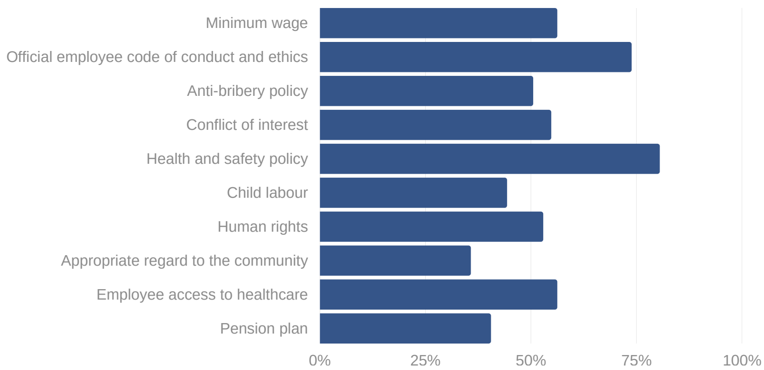
Promoting and supporting diversity in the workplace is an important aspect of good people management; it's about valuing everyone in the organisation as an individual. While in some countries, legislation sets minimum standards, an effective diversity and inclusion policy goes beyond legal compliance and seeks to add value to an organisation, contributing to employee well-being and engagement.

The most common area for Orbian clients to have an official D&I policy on is gender at 43% closely followed by age (42%) and ethnicity (41%).

45% of respondents stated they have no D&I policy. Although there's no legal requirement to have a written diversity policy, it may be beneficial to demonstrate the organisation takes its moral obligations towards being a diverse employer seriously.

There is also business case. According to a Deloitte survey from 2015, "companies with an inclusive culture have 22% lower employee turnover" (Deloitte, 2015). Combine that with McKinsey's (2018) inclusion and diversity report finding that companies with higher gender diversity in their executive teams are 21% more profitable. An even greater increase of 33% higher revenue is attributed to ethnic/cultural diverse executive cultures (Mckinsey, 2018).

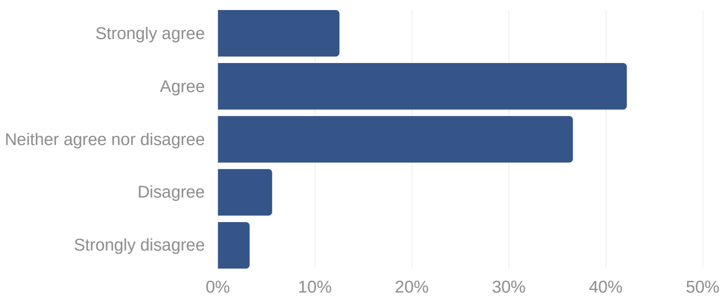
Which of the following does your organization have an official governance policy on?



Question 8 asked respondents to consider their company's governance policy. This refers to the way in which companies are governed and to what purpose. It ensures that businesses have appropriate decision-making processes and controls in place so that the interests of all stakeholders (shareholders, employees, suppliers, customers and the community) are balanced.

The most common area to have a governance policy on is health and safety policy 80% closely followed by an employee code of ethics. The least common area to have an official policy on was with regard to the community with just 36% of respondents.

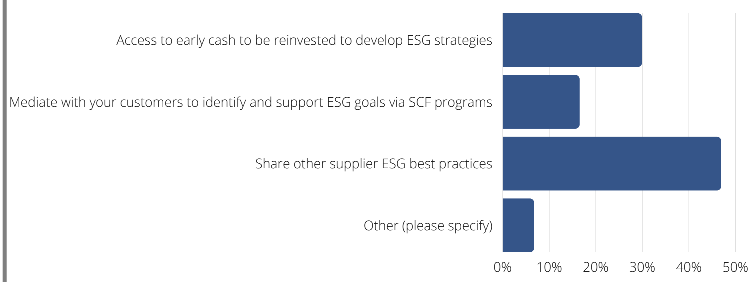
To what extent do you agree with the statement: "Meaningful ESG reporting should be integrated as a core aspect of financial reporting?"



The survey's 9th question looked at whether Orbian clients are supportive of regulators making the consideration of ESG factors part of financial reporting, a controversial idea among some stakeholders.

Over 50% of respondents either agree or strongly agree that meaningful ESG reporting should be integrated as a core aspect of financial reporting. With only a small minority at 8% either disagreeing or strongly disagreeing. Assessing the performance of companies against ESG criteria requires corporate disclosures of non-financial information. From the response to survey question 9, there is consensus among clients that environmental and other non-financial related disclosures should be included rather than allowing companies to self-report non-financial information on a voluntary basis.

How could Orbian help you achieve your ESG goals?



Question 10 asked respondents about the role Orbian could play in facilitating a shift towards achieving their ESG goals.

46% of suppliers would like Orbian to share other supplier ESG best practices. 30% would like access to early cash to reinvest into developing ESG strategies showing the powerful role that SCF can play in this space. The role of SCF in sustainability is further expanded on in section 2.

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KEY FINDINGS

87% OF CLIENTS CONSIDER THE ESG IMPACT OF THEIR COMPANY

46% OF SUPPLIERS WOULD LIKE ORBIAN TO SHARE ESG BEST PRACTICES

1/2 OF RESPONDENTS AGREE THAT A COMPANY'S ENVIRONMENTAL EXTERNALITIES CARRY SIGNIFICANT REPUTATIONAL AND FINANCIAL RISK

84% AGREE THAT A DIVERSE WORKFORCE HAS A POSITIVE IMPACT ON BUSINESS PERFORMANCE

78% OF COMPANIES SAID THEY WERE WILLING TO MAKE CHANGES TO OPERATIONS TO REDUCE THEIR ENVIRONMENTAL IMPACT

45% OF RESPONDENTS STATED THEY HAVE NO D&I POLICY

54% AGREED THAT ESG REPORTING SHOULD BE INTEGRATED AS A CORE ASPECT OF FINANCIAL REPORTING

65% OF COMPANIES INDICATED THAT THEY MAKE AN ATTEMPT TO MEASURE THE ENVIRONMENTAL IMPACT OF THEIR COMPANY

WEB BASED KPI RESEARCH

Web-based research has been carried out to develop an understanding of Orbian client's current level of ESG engagement. The research was conducted to better understand member perceptions concerning ESG issues and ESG data. The research team constructed a 9-point KPI scorecard to measure client environmental, social and governance engagement. A representative sample of 800 clients in a variety of sectors were assessed against the 9 point KPI scorecard. Information was collected by the research team based on publicly available sources such as company websites, annual reports, and corporate social responsibility reports or produced by firms.

ENVIRONMENTAL

- Environmental claim on website
- Existence of an environmental management program
- Statement on supply chain engagement

SOCIAL DIVERSITY & INCLUSION (D&I)

- D&I training for staff
- Official D&I policy
- Stated claim on diversity

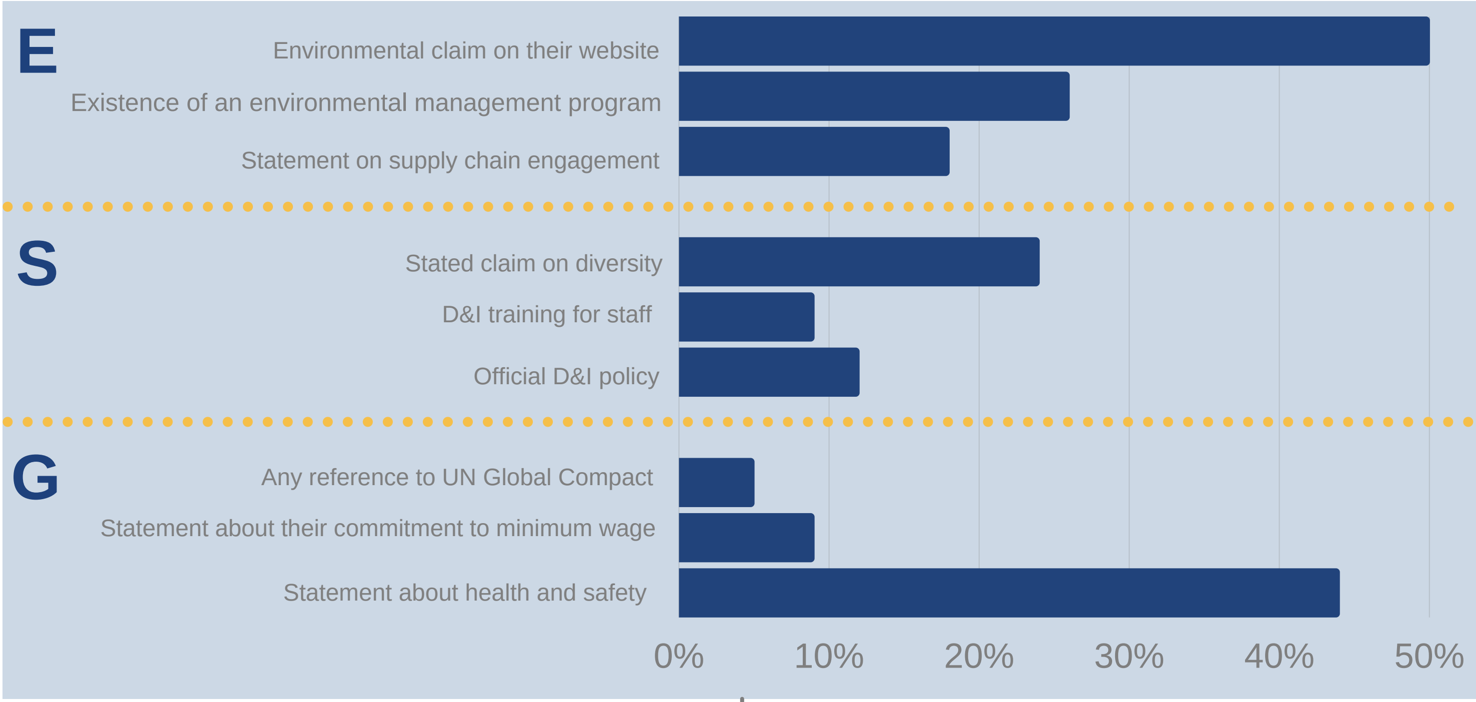
GOVERNANCE

- Any reference to UN Global Compact
- Statement about their commitment to minimum wage
- Statement about health and safety

"We are committed to continue the important thought leadership work we have started in 2020 on sustainable Supply Chain Finance and to become a key player in the ESG agenda in the financial sector."

Thomas Dunn
Chairman, Orbian

ORBIAN SUPPLIER SAMPLING



A KPI is a measure used to define and evaluate how successful an organization is at a specific point in time. The above research serves as a benchmark for future comparison and it is hoped the KPI attainment level will be improved across the board as the trend towards ESG engagement increases.

The three most achieved ESG KPI's from the full sample assessed were: environmental claim on the website (49%), followed by a statement about health and safety (43%) and having an EMS (Environmental Management System) program (26%). Many of the firms that make a claim about environmentally aligned behavior on their website also back this up with an environmental management system in place.

Of the 3 strands of ESG, the Social KPI's had the lowest level of attainment with a score of 15% attainment on average with Environment and Governance showing 31% and 19% respectively.

Within the Social KPI's: while 24% have a D&I claim on their website, only 9% of firms have D&I training in place for staff and 12% have an official D&I policy. The low levels of achievement in this space suggest there may be scope for codifying the leadership views into clear statements, given that in the Orbian survey, over 80% of respondents agreed that having a diverse workforce has a positive impact on business outcomes. If an organization wants to leverage the benefits of diversity and inclusion, it needs to align diversity dimensions with its strategy.

The least achieved was KPI being a signatory of the UN Global Compact at only 5% of the firms in the sample. Research both within the UN Global Compact and externally has shown that smaller and medium-sized enterprises (SMEs) face greater barriers than large companies in meeting sustainability standards, let alone taking actions to pursue and promote sustainability. This is supported by this research, as when we compare the top 200 largest (by sales volume) Orbian clients in this KPI, 17% were signatories of the UN Global Compact, a significant increase vs just 5% of the total sample.

The average of the KPI scored by companies of the sample was 2.9 of 9 is achieved. Of top 200 largest clients (by sales volume) the average score achieved was 3.9 further illustrating that smaller firms are at a disadvantage compared to larger firms in achieving ESG benchmarks as they lack have the resources to build an online presence.

24 companies in the sample achieved a full score in all 9 of the KPI's, being capable of communicating every desirable aspect on their website/ publishing material.

There was an improvement across all 9 KPI's when analysing the top 200 clients by Orbian revenue. The top three remain the same: environmental claim on the website being the most common, followed by a statement about health and safety followed by having a stated claim on diversity.

SECTION 2: THE ROLE OF SCF IN ESG

Finance is a powerful lever to improve ESG outcomes in business

The resilience of sustainable finance tools such as green bonds and green loans in recent years has illustrated they have a role in the transition to a sustainable economy. Recently, there has been a growing interest in what is still a nascent funding tool: sustainable supply chain finance.

Sustainable
Supple chain
Finance

WHY?

Typically a supply chain accounts for more than 80% of greenhouse-gas emissions in a company (McKinsey, 2016).

In an increasingly accountable business environment, global buyers are increasingly looking for ways to incentivise and support their suppliers to adhere to sustainable and ethical standards.

As such there has been a renewed focus on how corporations can build their supply chains in a more resilient and sustainable way.

> ***"Sustainability is an unventured area in Supply Chain Finance with high potential"***
> Professor David Wuttke,
> Technical University of Munich

ESG CRITERIA

There is no single standard for ESG criteria meaning the supplier performance should be based on the buyer's own supplier assessment program.

Alternatively, it can be provided through industry assessments or certifications, such as the IFC-ILO Better Work Program, the Responsible Business Alliance's Self-Assessment score.

Each buyer may have different supplier sustainability targets depending on the sector. ESG objectives should be appropriate to provide preferential terms to suppliers that set ambitious targets to improve, to incentivize continuous improvement in their supply chain, and to help provide working capital to fund these improvements.

THE MARKET SIZE

US $2 TRILLION
IN FINANCEABLE HIGHLY SECURE PAYABLES GLOBALLY

US $660 BILLION
POTENTIAL SUSTAINABLE SUPPLY CHAIN FINANCE MARKET

US $6 BILLION
REVENUE OPPORTUNITY FOR FINANCIAL SERVICE PROVIDERS

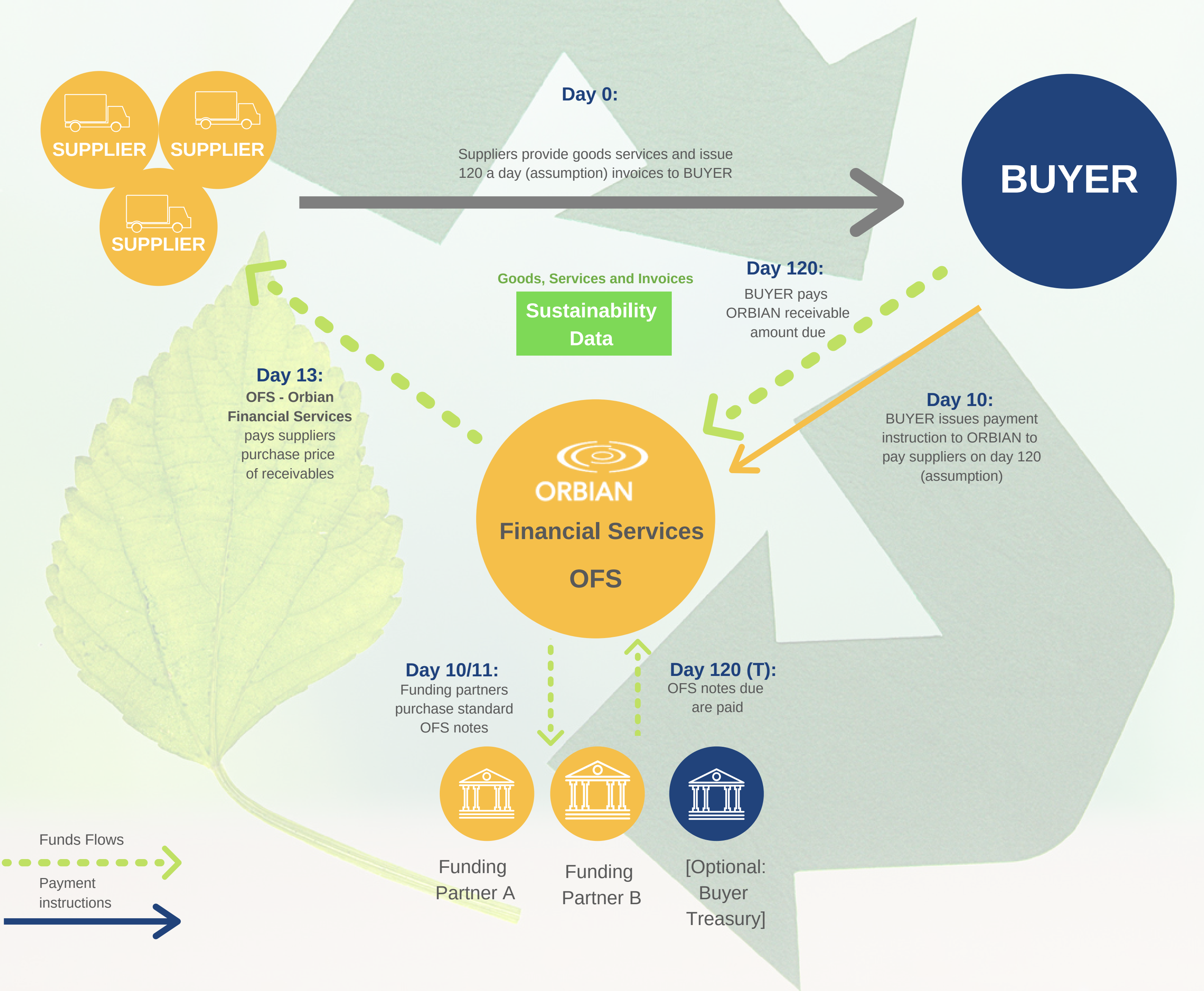
There are US $2 trillion in financeable highly secure payables globally, and an estimated trade finance gap of US $1.5 trillion (ADB, 2017) (McKinsey, 2015).

The BSR estimate the sustainable supply finance market will reach one third of the market: over $1 trillion of financeable short term assets.

Source:(BSR 2018)

HOW DOES SUSTAINABLE SCF WORK?

Sustainable supply chain finance typically involves incorporating ESG criteria into funding conditions. Suppliers are rewarded if they perform well against certain ESG criteria getting access to better rates or access to the financing program in the first place. This is a "carrot" approach that uses existing SCF solutions to incentivize or reward, ESG-compliant suppliers.



The buyer asks the SCF platform provider to use supplier sustainability information to offer preferential terms to suppliers that show strong sustainability performance. The facility utilizes innovative models, with mechanisms directly linked to ESG societal ambitions around diversity and climate as well as a strong commitment to transparency and accountability. Supplier ESG efforts will be compared with pre-set KPI targets. The more ESG progress the supplier companies demonstrate, the better the financing terms the supplier will receive.

BENEFITS OF ESG IN SCF

SECURITY OF SUPPLY

For buyers, sustainable supply chain finance offers a unique solution to increase the resilience of supply and improve relationships with suppliers by rewarding and incentivizing sustainable behaviours. Companies face significant commercial and physical challenges to managing risks throughout their supply chains. As supply chains fall outside of a company's core operations, they expose them to hidden and uncontrollable risks typically driven by ESG factors, such as natural resource depletion, human rights abuses and corruption which could have a potentially material impact on company performance risk profile.

IMPROVED BRAND IMAGE

Consumers are increasingly sensitive to sustainable products that can help grow market share and increase brand loyalty. Being sustainable is seen as very important by businesses around the world. According to the latest HSBC Navigator survey, 81% of global companies say ethical and environmental sustainability is important to them and 83% aspire to be a genuinely ethical or environmentally sustainable company (HSBC,2019).

INNOVATION

Including social and environmental considerations in decision-making naturally necessitates innovation. This innovation creates positive spillovers into products and technologies. For suppliers, it increases their access to working capital and provides them with an opportunity to monetise sustainability performance and build a business case for improving sustainability within their own operations.

MOTIVATED EMPLOYEES

A sustainable workplace is a competitive advantage when recruiting and retaining talent. As with consumers, both employees are aware of their company's societal impact. Employees like to be part of a company that is being engaged in value creation beyond mere profit.

CHALLENGES OF ESG IN SCF

FINANCIAL

Making the shift towards ESG will be costly for some suppliers. Over the coming decade, trillions of dollars worth of infrastructure will be required to address the climate crisis and achieve environmental sustainability in companies. It is imperative that the rewards for suppliers of aligning with ESG criteria are sufficient to meaningfully offset these costs.

DISCLOSURES

The starting point for change is a transparent awareness of a company's societal impact through non financial disclosures. These may once have been seen as “non-fiduciary” matters, but they are fast becoming key to all business operations. An increasingly large proportion of the private sector is now beginning to implement the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and in September 2017, the UK became one of the first countries to formally endorse them. This has been endorsed by institutions representing $118 trillion of assets globally (TCFD, 2019).

ESG STANDARDS

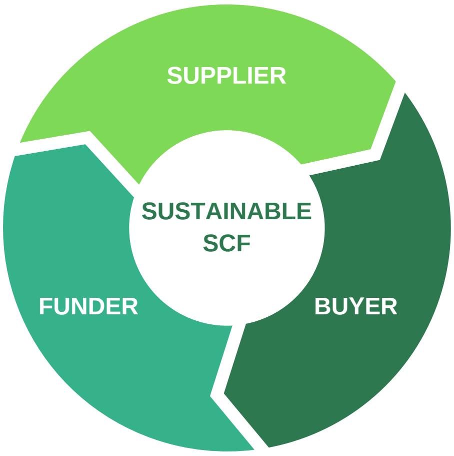
A key challenge is to choose the metric against which suppliers' sustainability performance is measured and currently, there are few widely accepted international ESG standards. There is a lack of consistency and comparability of supplier assessment data. This gets even more complicated for buyers purchasing from several industries. Naturally buyers would like to see a set of standardised credentials in this space. However, introducing global standards around ESG is an incredibly difficult task. There has been progress in certain sectors, such as the food and clothing industries – where goods can carry the Fairtrade label.

COMPANY SILOS

Setting up an effective sustainable SCF scheme requires alignment across a diverse set of internal stakeholders at buyer companies. The often-complex structure of large international companies, can make it challenging for departments such as supply chain, procurement, accounts payable, treasury, sustainability, and logistics to create shared goals. This can result in long decision-making processes before sustainability is finally incorporated into new and existing SCF programs.

SUSTAINABLE SCF FOR: Suppliers, Buyers and Funders

The main parties of the SCF model (the buyer, the supplier and the funders) have a role in crafting a sustainable system.



FOR BUYERS: Launch ESG SCF with a buyer

A successful SCF initiative has to be bespoke and driven by an anchor buyer. Sustainable supply chain management has become an increasing area of focus for large companies (purchasers) as they address competitive pressures arising from new environmental regulations, rising energy costs, workplace standards, together with other consumer and government demands. There is widespread recognition that risks from direct and indirect supply chains of buyers need to be better understood and managed.

Sustainable supply chain finance offers a unique solution for global buyers to achieve their sourcing goals, increase the security of supply and improve relationships with suppliers by rewarding and incentivising sustainable behaviours in the supply chain at a reasonable direct cost to the company.

FOR SUPPLIERS: Guidance on Sustainable SCF Best Practice

Rapid advances in technology and the digitisation of trade are making it easier and less costly to monitor supply chains and implement best practices for ESG-specific supply chain management. However many suppliers are unaware of such technologies or how to best deploy them.

By engaging with sustainable SCF, suppliers can work with buyers to be at the forefront of this technological shift towards transparency and risk management.

This helps suppliers identify sustainability risks and inform the development of their sustainable supply chain strategies. In addition, the convergence of standards is making it simple to develop a consistent approach to measuring the sustainability performance by suppliers

FOR FUNDERS: Sustainable Finance

ESG strategies have moved to the forefront of investors and lenders decision-making frameworks, driven by policymakers, regulators and client demand to facilitate the transition towards sustainable development.

Many financial institutions have made public commitments around supporting sustainable initiatives. Providing capital to sustainable SCF initiatives helps lenders mitigate reputational risk. In addition, research by S&P Global suggests a clear link between ESG alignment and lower credit risk (S&P Global, 2020). A growing number of central banks have also adopted green finance policies or have started to incorporate climate risk into macroprudential frameworks leading to the launch of initiatives such as the Sustainable Banking Network (SBN) and the Central Banks and Supervisors Network for Greening the Financial System (NGFS).

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ABOUT US

ORBIAN is the longest tenure SCF provider and has been providing Supply Chain Finance (SCF) solutions for over 20 years. We are 100% dedicated to Buyer-centric SCF solutions including our Traditional Supply Chain Finance product and, more recently, Express SCF (xSCF) and Virtual Card (e-Card) offerings.

20 Orbian has over 20 years of industry-leading SCF experience

230 Orbian has financed over $230 billion in trade flows to-date for leading Fortune 500 & Global 500 companies

100 Orbian has a 100% integration success rate across all major ERP systems and is a payment method embedded in SAP

1 Orbian's streamlined supplier onboarding process is best-in-class

Fast, Seamless Implementation

Custom Strategy Design & Execution

Flexible Funding Sources

Simple Supplier Enrollment

Protective Contract Structure

Include & Incentivize All Suppliers

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Trading on Better Terms

Award Winning
Supply Chain Finance Provider