ORBIAN

Trading on Better Terms

ORBIAN ANNUAL ESG & SCF REPORT

April 2024

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EXECUTIVE SUMMARY

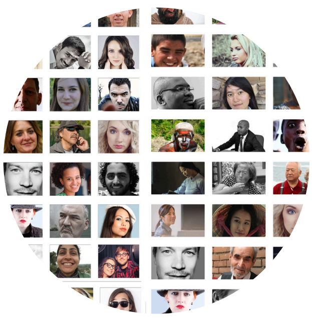
Welcome to the fourth edition of Orbian's annual ESG report. Drawing upon polling of several thousand of Orbian's clients, located around the world, we're delighted to publish this benchmark report in celebration of Earth Day, the 54th annual celebration of the amazing planet we all call home.

This year's survey results show encouraging progress in all aspects of our clients' consideration of ESG topics. In some cases, this marked a reversal of the less positive sentiment in the immediate wake of the Covid pandemic. For many companies, the urgent priorities of recovering from pandemic disruptions necessarily reduced focus on perceived longer-term ESG challenges. That this focus is now returning is to be celebrated. As we have noted in the past, and as the underpinning philosophy of this report, we believe that buyers, suppliers and Supply Chain Finance (SCF) firms working together can leverage supply chains to achieve global sustainability goals and build long-term resilience in their value chains. This makes the opportunity for all stakeholders to engage with sustainable SCF vast. Despite these opportunities, there are several challenges associated with sustainable SCF, which has meant adoption remains nascent.

It is our role as an SCF firm to provide a suite of services that allows buyers and their suppliers to overcome these challenges to meet their mutually established ESG objectives. It is critical that a key component of this support is the provision of financing to ensure that firms can engage meaningfully with ESG initiatives. Merely performative approaches designed to "tick ESG boxes" are, at best, irrelevant and can in fact do harm as they become a lightning rod for criticism by sceptics of the ESG agenda.

Over the next 25 years, as the global economy continues a transition away from fossil fuels, it is estimated that the total investment requirements will (substantially) exceed $100 trillion. This is an enormous opportunity that offers a compelling "Win-Win-Win-Win" alignment between buyers, suppliers, investors and the Planet.

At Orbian, we take both the challenges and opportunities of Transition Finance, finance raised or deployed by corporates to implement their net-zero transition (OECD Transition Finance Tool Kit), seriously. In 2023, we provided over $2.5billion in finance to companies engaged in the renewable energy industry. In 2024, we expect to increase this amount by at least 50%. We are proud of this performance in this area but can only strive to improve. It draws upon one of the many recommendations with which this report concludes: i.e top down/coercive approaches to Sustainable SCF do not work and are detrimental to buyer-supplier relations. Finding a pathway that incorporates meaningful sustainability considerations while working closely with suppliers is a core recommendation of this report. A bottom up, inclusive approach that deploys technology when creating SCF programs cannot resolve all challenges, but they can build common ground and enhance understanding while significantly supporting the push towards effective Transition Finance across industries.



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.

Orbian's research was developed to measure our client's perspectives and outlook on ESG with the aim of building a set of annual benchmarks by which to mark progress. It represents the voices of 500 firms across goods and services, from small businesses to large multinationals. The data points captured herein, along with underlying trends, provide insight for anyone looking to understand the ESG landscape in SCF, including the progress, developments, opportunities and challenges. This report marks the fourth of these annual studies. Supply chains will play a crucial role in this shift. According to a report from the McKinsey Institute, over 80 percent of the environmental damage of a company comes from its supply chains (McKinsey, 2016). Orbian recognizes the increasing importance of transparent ESG engagement in supply chain finance and aims to position itself at the forefront of the industry while gaining a wider understanding of its social impact and responsibility.

This report is made up of two parts. Section 1 is a review of the results received in this year's questionnaire to clients, showing our clients' current level of ESG engagement as well as how this dynamic is changing over time. 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 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 Survey 2024

The 2024 ESG Survey is the fourth annual survey conducted by Orbian evaluating the outlooks and perspectives of our supplier base towards ESG. Invitations to complete the online survey were sent to client companies in December 2023.

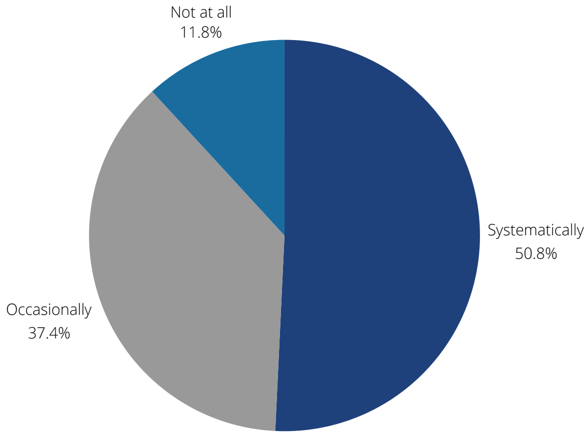
ESG IN GENERAL

Q1. How regularly do you consider ESG issues within your business decisions?

The survey's first question sought to determine the frequency by which business leaders considered ESG in their business decisions.

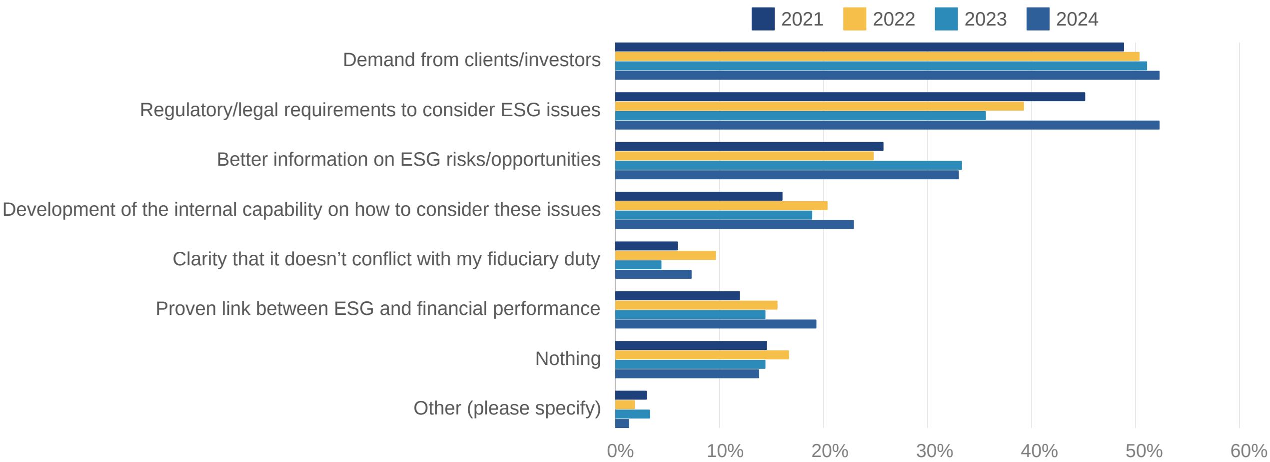
There was a significant increase in the number of suppliers who "Systematically" consider ESG factors, rising from 33% in 2023, to 51% in 2024.

The percentage of respondents who address ESG issues "Occasionally – on a case-by-case basis" decreased from 48% in 2023 to 37% in 2024, indicating a move away from sporadic ESG considerations towards a more consistent approach among Orbian suppliers.



The proportion of suppliers who do not consider ESG factors at all in their decisions decreased by 6%, to 12% in 2024, also showing a greater overall awareness of ESG issues from respondents.

Q2. What, if anything, would cause you to factor more ESG issues in your business decisions?



As has been consistent in the 3 prior years, Orbian suppliers were most likely to be influenced by client/investor demand when it comes to factoring ESG issues in business in 2024.

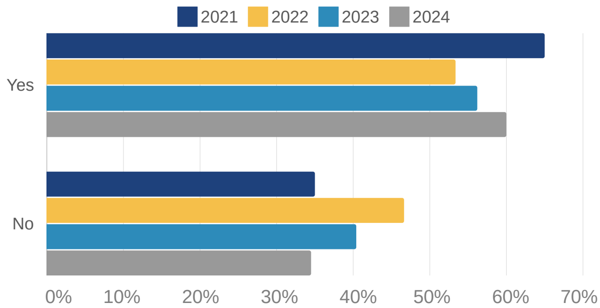
This year "regulatory/legal" requirements were also a key driver in considering ESG issues. The development of internal capabilities on how to consider ESG issues increased from 18% in 2023 to 23% in 2024, suggesting there is a need for better ESG measuring competency within organizations.

The requirement for clarity on the alignment of ESG with fiduciary duties saw an increase, albeit a more moderate one, from 4% in 2023 to 7% in 2024. There's was a gradual shift towards the recognition of the importance of ESG factors shown by the decrease in the percentage of respondents who believe nothing would influence them to factor in more ESG issues.
There remains a strong consensus that the pursuit of ESG does not conflict with one's fiduciary duty with only 6% of respondents suggesting that it may.

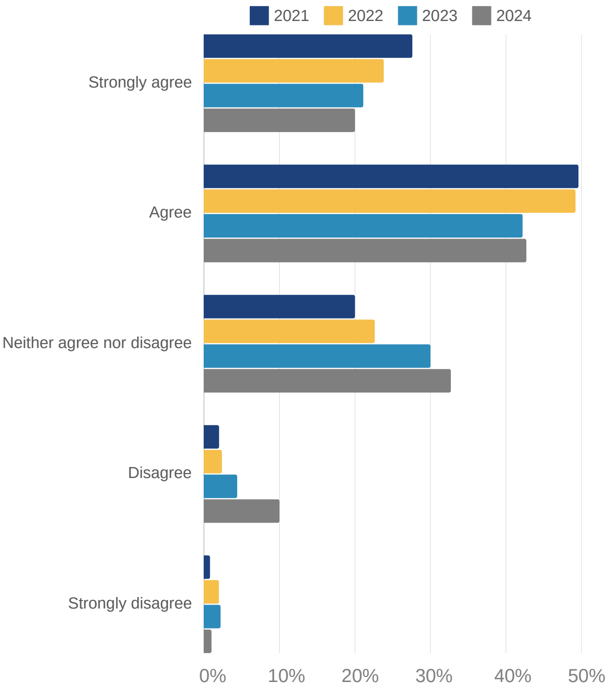
ENVIRONMENT

Q3. Do you measure the environmental impact of your business?

Despite being difficult to measure the environmental impact of a company, 60% of respondents stated that they made some attempt to do so.
This is the highest 'Yes' response since 2021. The increase suggests a growing commitment to environmental responsibility within the Orbian supplier base.



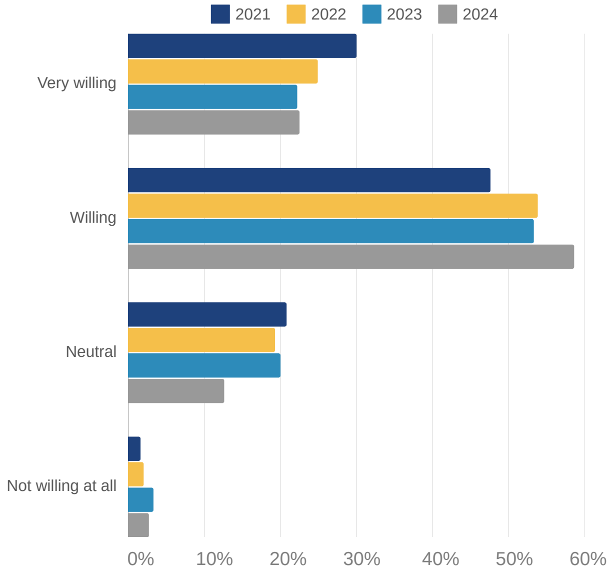
Q4. To what extent do you agree with the statement: "This company's leadership team are very concerned about the environmental impact of the business?"



This survey question sought to assess company leadership perspectives on ESG. There was a small decrease in the percentage of respondents who "Strongly agree" with the statement from 21% (2023) to 20% (2024) implying a slight decline in leadership's concern over their company's environmental impact. Notably, a greater proportion of "Disagree" responses, from 4% in 2023 to 10% in 2024, may indicate there is a growing doubt at the level of concern the leadership team has towards environmental issues.
In summary, while a majority still agrees or strongly agrees with the statement, the increase in the "Disagree" category and the higher proportion of neutral responses could be indicative of other emerging priorities for supply chain finance suppliers.

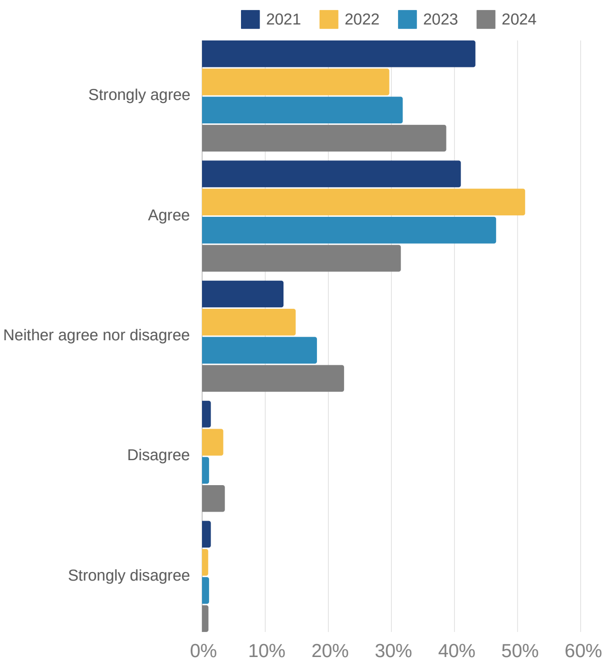
Q5. How willing are you to make changes to your operations / processes to reduce your environmental impact?

Overall, the data indicates an increased willingness to make changes to their operations to reduce their environmental impact from 2023 to 2024. The largest proportion of suppliers selected the "Willing" category showing that there is a considerable openness to adapt operations for environmental considerations.
The "Neutral" category showed a decrease from 7% in 2023 to 12% in 2024, which suggests that respondents have greater conviction in their willingness to make changes. The percentage of respondents who are "Not willing at all" has decreased from 3% in 2023 to 2% in 2024 which also supports the thesis that there's a growing willingness to make environmental change.



SOCIAL & GOVERNANCE

Q6. To what extent do you agree with the statement: "A diverse workforce has a positive impact on business performance?"

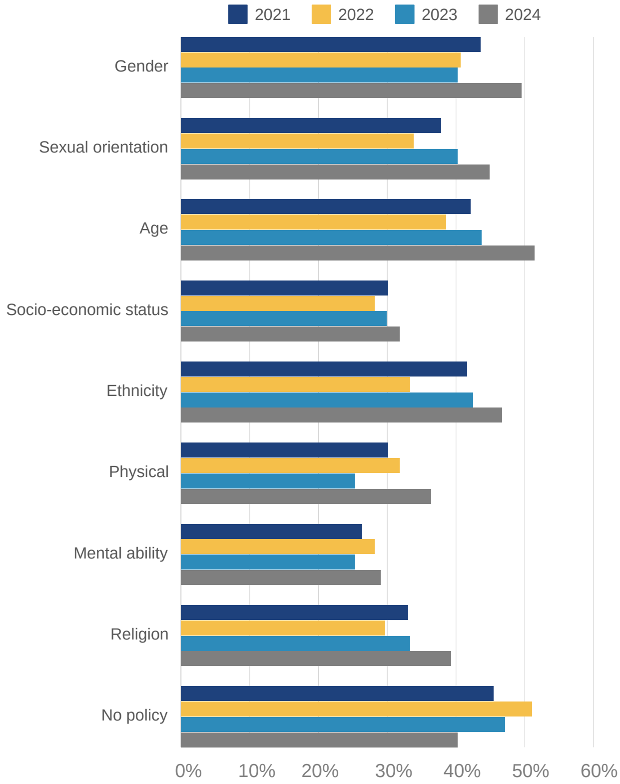


Although it can be difficult to assess the impact of encouraging greater diversity and inclusion in workplaces, overall, the data shows a growing strong conviction among supply chain finance suppliers that diversity in the workforce positively impacts business performance. There was an increase in the percentage of respondents who "Strongly agree" with the statement from 32% in 2023 to 39% in 2024.
This increase in "Strongly agree" may imply a shift from general agreement towards a stronger conviction as indicated. Over the four years of survey responses, there has been a continued increase in the number of respondents who were neutral on the topic to 24% in 2024. The proportion of "Disagree" responses remains relatively low at 4% in 2024.

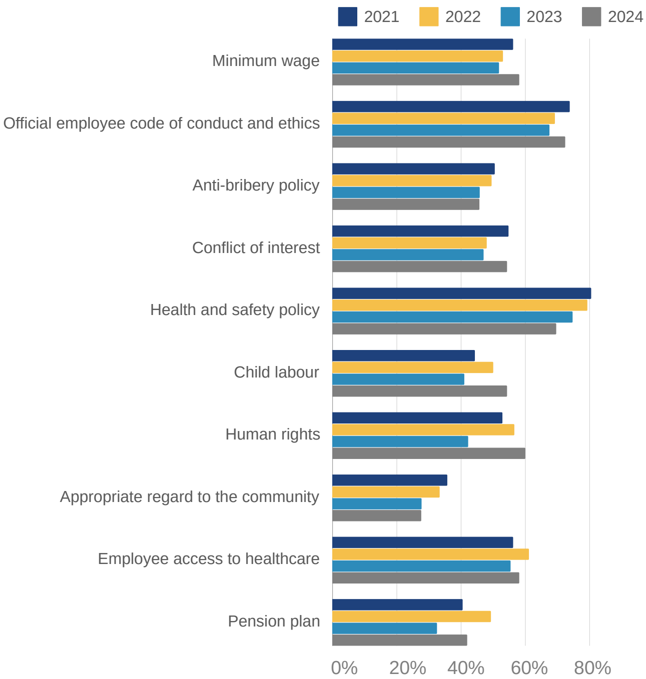
Q7. Which of the following areas are covered in your organization's Diversity & Inclusion (D&I) policy (if it has one)?

Given the global nature of Orbian's client base, this question sought to better understand which areas of diversity and inclusion were valued. 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. These results indicate an overall trend toward increasing inclusion across various diversity aspects in D&I policies among supply chain finance suppliers from 2023 to 2024.

Since we started this survey, the dominant result was that the majority of Orbian's clients did not have D&I policies in place. However this year, and for the first time, not only this result does not come first, it also arrives in 5th position.



Q8. Which of the following does your organization have an official governance policy on?



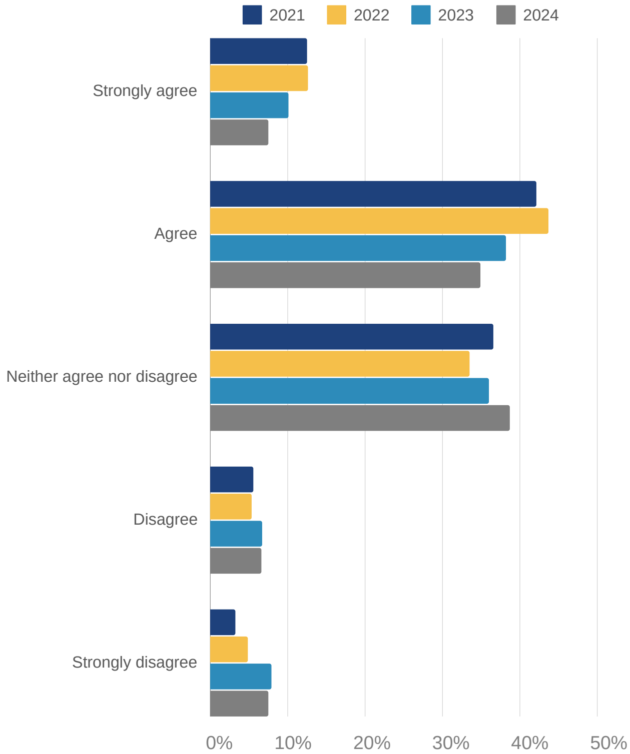
Question 8 asked respondents to consider their company's governance policy. This refers to the way in which companies are governed and to what purpose. It ensures that businesses have appropriate decision-making processes and controls in place so that the interests of all stakeholders (shareholders,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

The second most common policy was "Health and safety policy," at 69%. It is evident from these figures that supply chain finance suppliers are giving more attention to certain governance areas, particularly those that directly impact their employees and operational integrity. On the low end of the spectrum, "Appropriate regard to the community" is the least emphasized policy, with 27% of organizations having one. This may indicate a lower focus on social responsibility compared to other ESG governance areas.

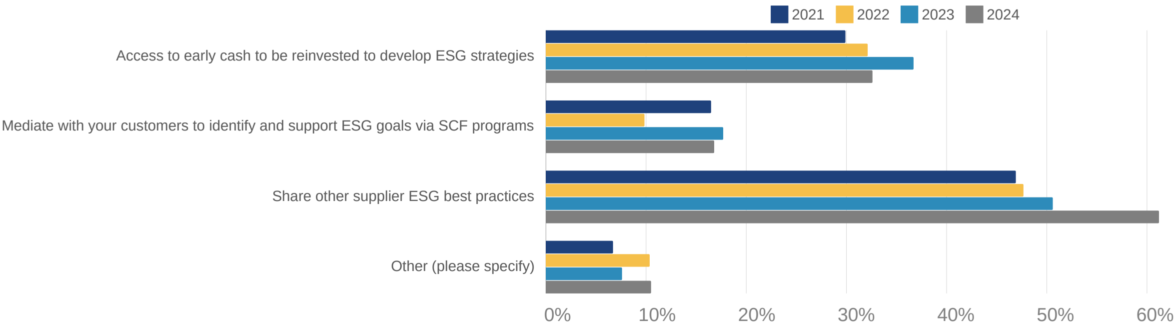
Analyzing the survey results from 2024, an "Official employee code of conduct and ethics" policy is the most prevalent, with 72% of organizations having such a policy in place. This results analysis indicates most suppliers place significant importance on setting clear ethical guidelines and standards for their employees' conduct.

Q9. 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 assessed the extent to which Orbian suppliers would be supportive of ESG considerations being an aspect of financial reporting. A small percentage of respondents "Strongly agree" with the statement, at 7%, which represents a decrease from 10% in 2023. There was a growing number of respondents without a firm view on the integration of ESG reporting illustrated by the neutral stance being the most selected category with 39% in 2024, up from 36% in 2023. These results indicate a shift towards a more neutral stance on the integration of ESG reporting into financial reporting among respondents in 2024, with a slight reduction in both agreement and strong disagreement. It suggests that while some suppliers recognize the importance of ESG reporting, they have less conviction in making it a core aspect of financial reporting, or there may be uncertainties or challenges perceived in its implementation.



Q10. How could Orbian help you achieve your ESG goals?

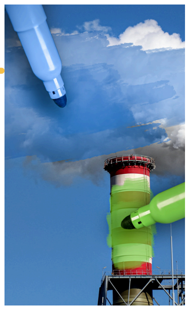


Question 10 asked respondents about the role Orbian could play in facilitating a shift towards achieving their ESG goals. 51% of companies would like Orbian to share other company ESG best practices. 36% would like access to early cash to reinvest into developing ESG strategies demonstrating the powerful role that working capital can play in enabling ESG initiatives. Across the board, these results suggest there is a growing expectation from suppliers for SCF firms to play an active role in supporting them to achieve their ESG objectives.

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 that they have a role in the transition to a sustainable economy. Recently, there has been a growing interest in what is still a promising funding tool: sustainable supply 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 incentivize 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.

ESG CRITERIA

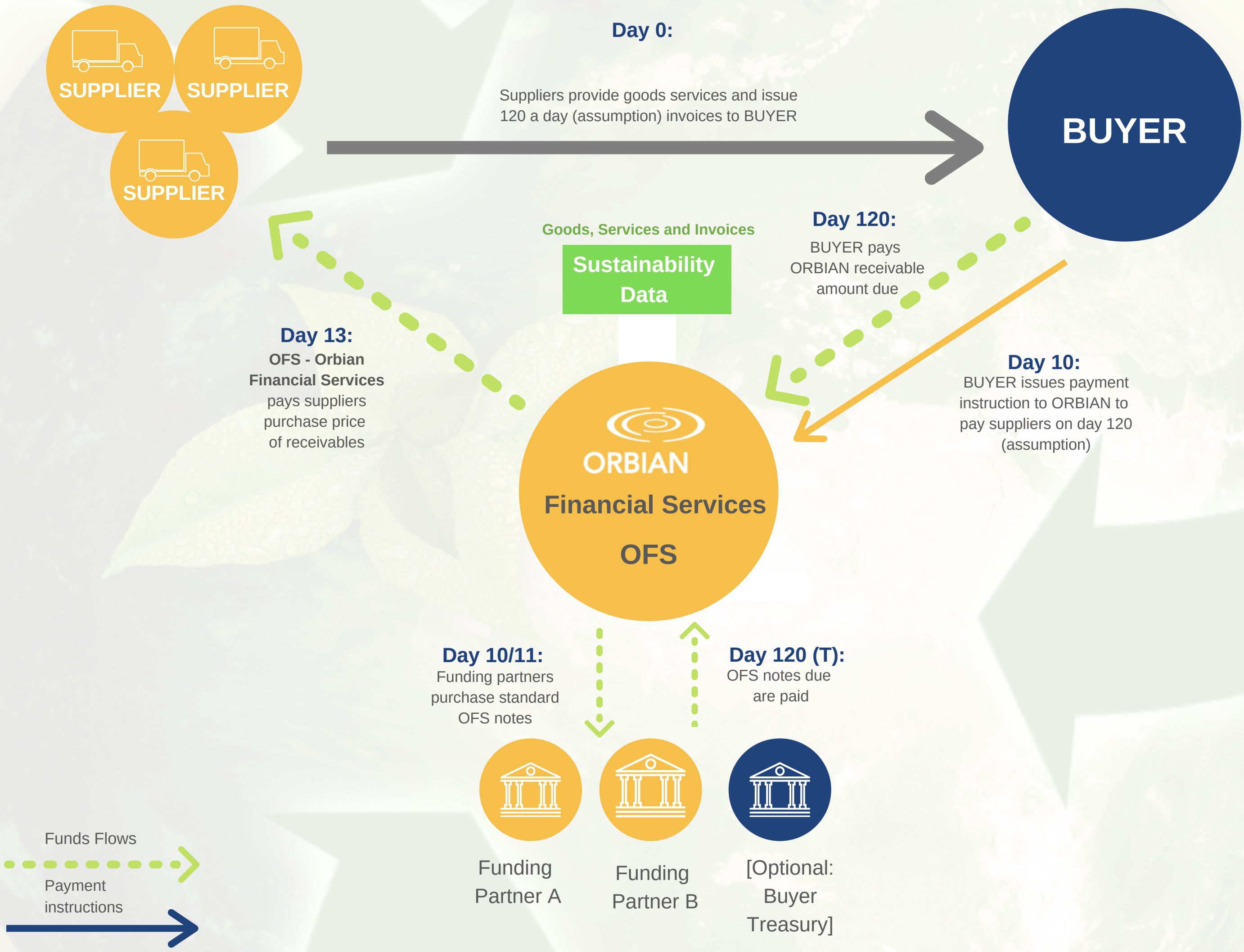
There is no single standard for ESG criteria, meaning the supplier performance should be based on the buyer's own supplier assessment program. Alternatively, it can be provided through industry assessments or certifications, such as the IFC-ILO Better Work Program, the Responsible Business Alliance's 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

HOW DOES SUSTAINABLE SCF WORK?

Sustainable SCF 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 (Source BSR, 2018).

A recent Asian Development Bank (ADB) study estimated that the gap in trade finance availability had reached $1.7 trillion (15 percent higher than the ADB's 2019 estimate of $1.5 trillion (Asian Development Bank Briefs, October 2021). The BSR estimate the sustainable supply finance market will reach one third of the market, hence a $600 billion asset opportunity for sustainable SCF providers. This maybe compared with the existing $260 billion already identified as ESG investments across European markets alone.

Sustainable Supply Chain Finance Process Flow



BENEFITS OF ESG IN SCF

There are several benefits to sustainable SCF

Long Term Resilience of a Supply Chain Program

Sustainable supply chain finance offers a unique solution to increase the security of supply and improve relationships with suppliers by rewarding and incentivizing sustainable behaviors. 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.

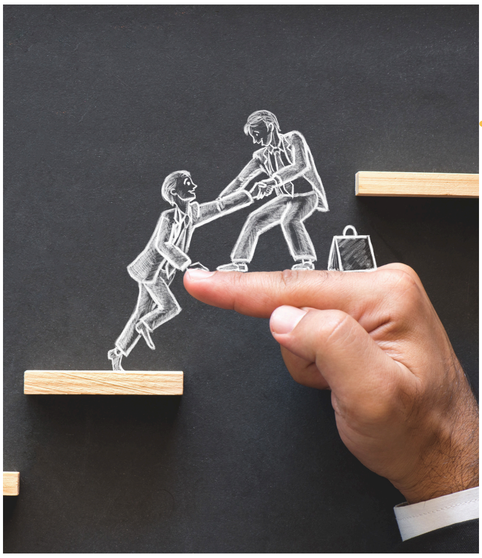
Reputation

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.

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 monetize sustainability performance and build a business case for improving sustainability within their own operations.

RECOMMENDATIONS

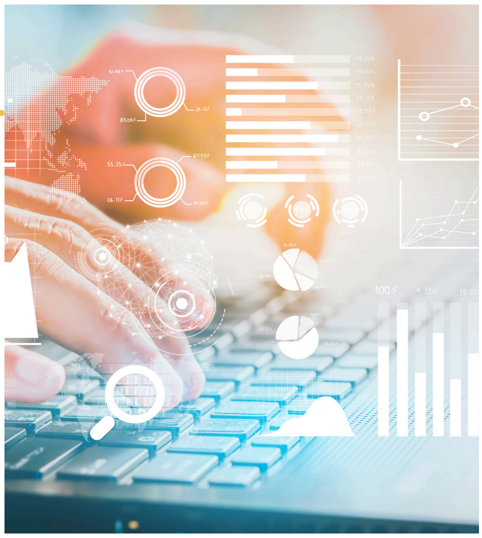


REMEMBER THE "SOCIAL" ASPECT OF EARLY PAYMENTS

Done properly, supply chain finance is a way to unlock cash trapped in the supply chain giving suppliers crucial access to liquidity. The working capital benefits can be critical to operations some suppliers. When designing a sustainable SCF scheme, it's crucial that the importance of the “social” aspects of early payments for smaller suppliers is remembered. Rather than the scheme being imposed on suppliers, the scheme should be set up in coordination with input suppliers with their working capital requirements in mind. In addition, adequate support should be provided to suppliers to make changes to their operations and implement sustainability initiatives.

USE DATA AND TECHNOLOGY TO INCREASE TRANSPARENCY

The first step to improving environmental impact is to measure it, which has previously been challenging due to the highly complex and opaque nature of international supply chains. There are a range of technological solutions that facilitate tracking and tracing to financial tools. The advent of new technology, such as blockchain and smart contracts, is already helping to improve transparency, and verifiability of transactions across long value chains. This, in turn, is reinforcing the ability of larger corporate buyers and supply chain finance firms to reach further down the tiers of suppliers with greater visibility.



SET THE RIGHT TARGETS

Progressive corporate leaders in numerous industrial sectors have set ambitious targets to improve their sustainability performance. In order to achieve these, however, they need to be able to better identify and address changes that can be made. Require first-tier suppliers to set their own long-term sustainability goals. For any new suppliers that are being onboarded, ESG should become part of the selection criteria

UNLOCK WORKING CAPITAL

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About Us

Orbian was founded 1999 by SAP and Citibank, a global software company and a leading global bank and was sold to a private investment group in 2003.

Orbian enables corporate buyers to extend their payment terms, which unlocks working capital, while supporting their suppliers by receiving early payment on their invoices. Orbian clients have access to a combination of bespoke payable solutions, ensuring global program coverage in a single, unified platform offering. Orbian's unique multi funder structure is supported by dozens of leading global banks and therefore can provide dedicated buyer-centric payables solutions including: Reverse Factoring and Express- SCF and the new Orbian Payment on Terms (OPT).

Today, Orbian has offices in California, New York, London and Munich and is the longest tenured and most experienced non-bank SCF program provider in the market.

Our Key Differentiators

- Fast, Seamless Implementation
- Custom Strategy Design & Execution
- Flexible Funding Sources
- Simple Supplier Enrollment
- Protective Contract Structure
- Include & Incentivize All Suppliers

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Award Winning
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