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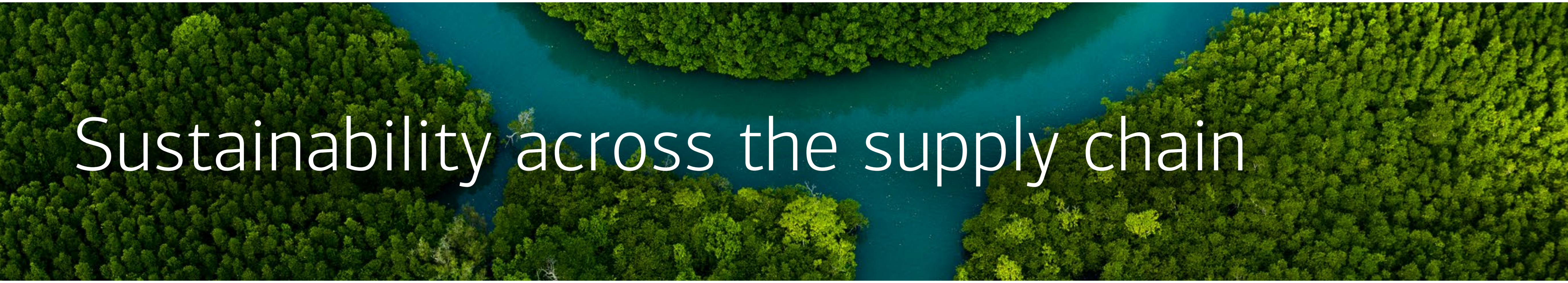

Sustainability across the supply chain

Sustainability has become a business imperative in light of the huge environmental and social challenges we face today. Bank of America believes that treasuries can help the world move toward a better future by supporting companies to embed sustainability throughout their supply chains.

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Top of the agenda

Sustainability is a boardroom priority for businesses right across the world. That's because they know it's the right thing to do. As businesses are closely connected with both the environment and the communities where they operate, they can help policymakers to address the major environmental and social challenges we face as a planet.

In 2015, the Paris Agreement aimed to avoid dangerous climate change by attempting to limit the global temperature increase this century to 1.5°C above pre-industrial levels. A study by the UK Met Office and the World Meteorological Organization, however, has warned there is a 50-50 chance of the annual average global temperature increasing by 1.5°C in the next five years alone.

To prevent global warming, and the likely associated rise in extreme weather events, it is necessary to transition to a net-zero economy (an economy where the amount of greenhouse gases produced are balanced with the amount removed from the atmosphere). Limiting the global average temperature increase to 1.5°C will require a 50%–80% reduction in CO_2 by 2030 and a 100% reduction by 2050, according to Bank of America research. Meanwhile, the transition to net zero will require $150 trillion in total investment over 30 years.[1]

Furthermore, the climate crisis is not the only major sustainability-related challenge we face today. From a societal perspective, the COVID-19 pandemic has exacerbated existing inequalities and rising inflation is hurting livelihoods in many markets.

Sustainability as a business issue

Alongside the moral imperative to act on ESG (environmental, social and governance) issues, businesses recognize their own dependencies on the environment and society. They also understand that ignoring these dependencies exposes them to significant economic and reputational risks. Both the pandemic and the current geopolitical unrest have highlighted the vulnerability of global supply chains and emphasized the need for companies to prioritize sustainability as a means of building greater supply chain resilience. Furthermore, consumers are increasingly refusing to buy from businesses that neglect diversity and inclusion or are prepared to compromise the future of the planet in the sole pursuit of short-term profits.

Pressure around sustainability is also coming from institutional investors, who want to invest responsibly and believe that sustainable businesses will outperform their peers. This helps to explain why the total value of ESG assets is on track to exceed $50 trillion by 2025, representing more than a third of the projected $140.5 trillion in global assets under management, according to research by Bloomberg Intelligence.[2]

Embedding sustainability into the supply chain

Companies know that if they want to meet the ESG expectations of their customers, investors and other stakeholders, they need to have sustainable supply chains. This can be a major challenge, however, since it's not unusual for large businesses to have thousands of first- and second-tier suppliers, including SMEs. What's more, these suppliers may be distributed in numerous markets around the world, including in markets where ESG is not well supported by legislative and regulatory frameworks.

A practical difficulty for many companies is being able to evaluate the sustainability of their supply chains. This is due to differing views around what 'sustainable' means in practice, as well as a lack of high-quality, comparable sustainability reporting.

When companies look to diversify their supply chains, they may onboard small, young suppliers that have a limited track record. It is harder to assess the sustainability of these startups compared with larger, more established suppliers. Furthermore, lower-tier suppliers often lack environmental management systems and have high staff turnover rates, making it difficult to implement viable environmental programs.[3]

Role of treasury

With sustainability a prominent issue for companies, *PwC's 2021 Global Treasury Survey* identified driving ESG as one of the five priorities for today's corporate treasurers.[4] So, how can treasuries support their companies to build more sustainable supply chains going forward?

1. **Identify and encourage sustainable suppliers.** Three out of five (58%) of the corporate respondents to the *PwC Digital Trends in Supply Chain Survey 2022* said that identifying ESG supplier risks remains a challenge.[5] The first step toward a sustainable supply chain is the ability to identify those suppliers that are exhibiting the right behaviors against ESG criteria. A sustainable supply chain requires access to rich data from procurement and, where possible, outside assessments from third-party ESG audit services. Those suppliers that don't reach the required standard can be encouraged to improve while those that do may be offered more favorable terms.

2. **Help sustainable suppliers to access finance, banking and advisory services.** Through the relationships they have with their banks, treasurers are well placed to find out how their suppliers can access finance from banks, as well as banking and advisory services. Banks themselves may be able to provide financing to the suppliers or else they may be able to connect the suppliers with investors who can provide capital for investments in sustainability-related projects and infrastructure. As an example, Bank of America has deployed $250 billion in sustainable finance activity for 2021 as part of its $1.5 trillion by 2030 sustainable finance goal.[6] Also, as banks are always looking for new clients, they may be able to offer banking and advisory services to a company's suppliers.

3. **Implement a working capital management program, such as supply chain finance (SCF).** Over 50% of corporate respondents to the *PwC Digital Trends in Supply Chain Survey 2022* said that supplier financial health is a moderate to major concern for them.[7] Fortunately, SCF can be used to support suppliers with strong ESG credentials, by providing them with finance on favorable terms. Suppliers can then use this funding to invest in growing their business sustainably. A SCF program will also encourage suppliers to be more loyal to the company that provides it, helping to underpin the company's sustainability.

Future trends

The ideal future state is that we will access and use sustainability ratings for businesses based on straightforward, commonly agreed-upon scoring methodology. This will make it easier for large companies to select genuinely sustainable suppliers and to work with banks and investors to secure financing opportunities for those suppliers. In doing so, companies will be able to enhance their own sustainability credentials, which should impact them positively.

A study from *Harvard Business Review*[8] highlighted that global corporations are joining the United Nations Global Compact, an international effort to promote corporate social responsibility. They are also participating in the Carbon Disclosure Project's Supply Chain Program, a data platform that suppliers can use to disclose information pertaining to their emissions. Over time, a comprehensive global rating system will drive transparency and access to sustainable suppliers.

At Bank of America, we work with our corporate clients to help them achieve their supply chain sustainability goals. We also support our clients through the design and implementation of working capital management programs such as SCF, which make financing options accessible to sustainable suppliers.

Sustainability is an imperative today. We believe turning the world into a better place is the biggest difference any of us can make.

[1] "Transwarming" World: Net Zero Primer — Bank of America Global Research, 2021.
[2] ESG Assets Rising to $50 Trillion Will Reshape $140.5 Trillion of Global AUM by 2025, Finds Bloomberg Intelligence, Bloomberg Intelligence, 20 July 2021.
[3] A More Sustainable Supply Chain, *Harvard Business Review*, April 2020.
[4] PwC's 2021 Global Treasury Survey, PwC, 2021.
[5] PwC Digital Trends in Supply Chain Survey 2022, PwC, 2022.
[6] Bank of America Mobilized and Deployed $250 Billion in Sustainable Finance Capital in 2021, April 2022.
[7] PwC Digital Trends in Supply Chain Survey 2022, PwC, 2022.
[8] A More Sustainable Supply Chain, *Harvard Business Review*, April 2020.

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