



Digital Transformation and Environmental, Social & Governance

A Perfect Synergy for Today's Rapidly Evolving World



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All eyes are on the topic of environmental, social and governance (ESG) practices, which are becoming a major strategic imperative for nearly all corporations and public sector organizations these days, particularly in the wake of the recent 2021 United Nations Climate Change Conference, also known as COP26.

Disruptions to supply chains, damaged infrastructure, reduced crop yields and a decline in biodiversity are some of the more pressing issues we face today. The resulting impacts are made all the more devastating by growing inequality and unsustainable economic development, which put additional pressure on land, water, forests and other natural resources. These interconnected challenges endanger the vitality of communities the world over and present a threat to global prosperity if not managed properly.

The aforementioned issues have given rise to an increased focus on ESG programs, which are broadly seen as beneficial. According to a recent McKinsey report, 55 - 75% of corporations stated that ESG programs are assisting them in creating short-term value, while 90 - 98% are confident such programs will enhance long-term value.¹

Equally, the pandemic has accelerated the focus on digital transformation and according to Gartner's 2021 CEO and Business Executive Survey, 36% of CEOs placed a technology-related priority as their second most important priority after growth with 20% specifically mentioning "digital" priorities.²

The growing importance of ESG is evident in a recent report from Bloomberg, which revealed assets under management in ESG products may exceed US\$53 trillion by 2025, a figure which will be more than 30% of global assets under professional management.³

¹ Source: McKinsey -The ESG Premium, 2020

² Source: <https://www.gartner.com/en/newsroom/press-releases/2021-05-11-gartner-survey-reveals-most-ceos-anticipate-an-economic-boom-rather-than-stagnation-over-the-next-two-years>

³ Source: <https://www.livewiremarkets.com/wires/it-s-time-to-dissect-esg-as-smart-money-floods-the-sector>



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Digitization is fast becoming an important ESG enabler

Digital transformation encompasses a wide range of technologies across digital, physical and biological fields and their application, individually or in combinations, to build new markets, businesses and also potentially address ESG and other socioeconomic problems. Both digital and ESG initiatives aim to address changing stakeholder expectations and how evolving business and operating models impact the world and meet society's needs.

There is a growing convergence between the adoption of digital technologies and their potential to impact ESG priorities. The most immediate impact is improved data collection, reporting and analysis, which can feed into every aspect of the business. In addition, finance and treasury organizations are embracing next-generation technology such as cloud infrastructure, robotics for shared service center operations, artificial intelligence (AI), machine learning and blockchain to digitize supply chains, and they are deploying new data and collaboration tools to meet critical goals, such as regulatory compliance, data protection, workforce productivity, etc.

The key to success in harnessing the power of digital as an ESG enabler is to help ensure that a holistic strategy is in place with collaboration across an ecosystem of partners, including corporations, governments, banks, multilateral agencies and other third-party providers, who can provide solutions and share information in pursuit of critical goals.



Demonstrating Digital and ESG progress

For finance and treasury organizations, there is a need to focus on developing a more holistic dashboard or metrics which captures both digital and ESG progress; ultimately linking the two to financial performance is an important step. Some companies are evolving key performance indicators which incorporate items such as volume of digital transactions processed, online account opening, digital audit confirmations, use of APIs, automated payments or receivables reconciliation rates, use of virtual cards, etc., to demonstrate their commitment to operational resilience, ecosystem sustenance and governance.

As part of the push to facilitate holistic financial statements, there is a growing emphasis on disclosure by banks and supply chain partners. Data and reporting requirements have resulted in complicated information flows and the need for standardized data across the supply chain. To help address this need, banks are playing an important role in collaborating with third-parties to facilitate supplier reviews for sustainable supply chain finance programs.

Leveraging a banking partner for digitally enabled ESG solutions

As treasury organizations look to advance ESG initiatives, collaboration with banking partners can be crucial to achieving important objectives. Given the many challenges and disruptions being felt across today's global supply chain, banks can deliver vital insights into how to better manage financing costs through the use of sustainable supply chain finance solutions. Sustainable solutions, such as Citi's Sustainable Supply Chain Finance (SSCF), are helping transition to and embed sustainable procurement practices, which are aligned to reduce greenhouse gas emissions, as well as achieve other UN Sustainable Development Goals targets. For example, Citi has launched its first Sustainability-linked Supply Chain Finance (SSCF) program in Asia Pacific, partnering with a large global consumer industry client, with the aim of supporting their ESG priorities, improve the resilience of their supply chains and manage their working capital needs. Citi Asia Pacific has also announced an ESG trade loan for a leading food and agri-business client to support a large number of farmers in Northern India adopt sustainable rice farming practices.

From a liquidity management perspective, many corporates are beginning to explore options around green deposits that invest responsibly in a portfolio of environmentally friendly projects. Citi offers clients a range of solutions that allow them to access products such as green deposits and multi-currency notional pooling with automated ESG investments options.

Commercial cards are also playing an important role in facilitating sourcing policies that are more sustainable, in terms of their environmental impact and the working conditions of those involved in production. Corporates who use commercial cards for business purposes, including travel and B2B purchases, can turn to new solutions that are geared to ESG objectives. One such solution is Citi's engagement in MasterCard's Priceless Planet Coalition. Under this program, corporates have the option to invest a percentage of their rebate in reforestation projects through the World Resources Institute and Conservation International.

Another example of how commercial cards are meeting ESG objectives is in the case of a Southeast Asian government entity that needed to issue physical cards to facilitate urgent purchases for their COVID-19 support efforts. Citi's Treasury and Trade Solutions (TTS) was able to issue the cards within an incredibly short span of 24 hours in keeping with its commitment to social responsibility.

In each of the above examples, Citi TTS' commitment to investment in digital technologies, infrastructure and innovation ensured that the transactions were processed in an agile and secure manner.

Focusing on the “S” in ESG

As more and more job applicants, employees and customers express a desire to work for and with organizations where “purpose” is clearly defined, it is a growing imperative for organizations to demonstrate the effectiveness of their efforts toward ESG goals. Attracting and retaining talent and meeting the needs of customers and suppliers may depend on it.

While ESG has taken on an increasingly important strategic role for many corporates, the social aspect of these programs is truly impacting peoples’ lives. One prominent example of this is an emerging market organization that develops off-grid solar solutions for low-income households that do not have access to energy. With more than 600 million people in sub-Saharan Africa living without electricity, the need for innovative finance programs that can support entrepreneurial business approaches to the problem was needed. In 2019, Citi Inclusive Finance and several international partners launched a US\$100m loan guarantee facility, which enables Citi to provide earlier-stage financing in local currency to companies that expand access to products and services for low-income communities in emerging markets. This program aligns with the UN’s Sustainable Development Goal 7 to “ensure access to affordable, reliable, sustainable and modern energy for all and the target of achieving universal electricity access by 2030.”

Another good example is how sustainable funding is addressing the affordable housing crisis in India. Studies have shown that approximately 22% of the region’s total population is unable to acquire quality housing, and 90% of the housing shortages are for low-income households. To address this problem, an international organization signed a significant term financing arrangement with the proceeds targeting lending for affordable housing for the economic weaker sections and low-income group populations of India. Citi supported the financing with a two-year committed local currency facility to help with short to medium-term liquidity needs.

A final example highlights how ESG is championing women in business via supply chain finance in Africa. A large corporate in the region realized that women-owned businesses were not well represented. In response, the company’s procurement team started a Women in Business (WIB) program. While the program provided more opportunities for women-owned businesses, the true challenge for micro, small and medium-sized enterprises in Kenya is a lack of access to affordable financing. The company worked with Citi and two other local banks to structure a supply chain finance program that would allow suppliers to unlock their working capital. To help ensure the program catered to and supported women-owned suppliers, the organization placed preferential discount pricing for all suppliers that were majority-owned by women, allowing them to access much-needed liquidity and working capital support at an affordable rate.

Combining ESG and digital technologies can deliver critical treasury objectives

As digital technologies rapidly transform today’s treasury function, many corporates are finding such next-gen tech offers a true synergy with ESG objectives. Rather than conflicting with each other, they can be complementary, serving to help organizations achieve critically important priorities that are becoming increasingly crucial to employees, constituents and customers alike.

ESG has the power to help evolve business and operating models in a way that positively impacts the world and better meets society’s needs. And that’s good news for everyone.