The Role of Finance and Treasury in ESG:

Opportunity for Value Creation in a Rapidly Changing World

Michael Guralnick
Global Head, Marketing, Proposals, Intellectual Capital Management & Digital Client Advisory, Treasury and Trade Solutions, Citi

Swati Mitra
Global Practice Lead, Digital Client Advisory, Treasury and Trade Solutions, Citi

In a climate of global disruption, which the world has not seen in decades — many companies around the globe are re-evaluating their business models and strategic priorities.

For forward-thinking companies, adopting sustainable practices is proving attractive because they are generally more resilient to shocks, more financially robust, and exhibit greater long-term growth potential. Environmental, social and governance (ESG) agendas are fast becoming a way of demonstrating a company's value and potential.

During this period of rapid change, finance and treasury organizations should embrace the opportunity to play a more strategic role in pursuing initiatives related to ESG. An acceleration of digitization initiatives, along with the post COVID-19 implications for supply chains, workforce and corporate culture, is creating an environment where ESG will become an even more important consideration.

Making the case for ESG: Impacting overall financial performance

For many companies, ESG programs have been proving their worth by delivering measurable financial impact. A few examples include:

- In the telecom sector, ESG initiatives have been instrumental in attracting more B2B and B2C customers. A recent study projected that $3.5 trillion in new revenue streams will be generated by 2030 in ESG-related areas, such as education, health and financial inclusion.[1]
- In the consumer goods industry, ESG programs have effectively lowered the use of energy, limited spending on packaging, and improved employees training on safety standards – all of which have shown a direct impact on improving margin premiums and reducing costs. In fact, a BCG study found the average margin premium improved by 12.4% due to the impact of ESG-friendly products and packaging.[2]
- For a leading ride hailing company, positioning itself as socially responsible resulted in an increase in market share of 15%.[3]

[1] https://www.gsma.com/betterfuture/wp-content/uploads/2020/03/GSMA_TheFutureofMobile-1.pdf

[2] https://media-publications.bcg.com/BCG-Total-Societal-Impact-Oct-2017.pdf

[3] https://www.measurabl.com/what-are-the-business-implications-of-esg/

A holistic ESG framework for treasury

Treasury's core ESG focus has been on responsible finance and investments and ecosystem sustenance, however a more holistic approach encompassing topics such as operational resilience, risk management and regulatory compliance is needed. Below is a potential framework to consider to help empower treasury to become an ESG champion.

Treasury steps into the spotlight: Delivering responsible finance and investments
Whilst treasury's core responsibilities typically remain centered on liquidity, funding and risk management, as business models and the competitive landscape have changed, treasury's role has increasingly evolved into an advisory and collaborative one intersecting with functions such as sales, procurement and technology.

Financing products that link to sustainability performance are becoming more prevalent. For example, a borrower's interest rate may rise or fall depending on whether the company meets sustainability targets that have been agreed upon with the lender. In this way, loans can help companies link their financing terms to their ability to generate positive outcomes.

A tool for fostering responsible investing is the development of a sustainability scoring mechanism for supply chains, such as evaluation metrics with ESG components. For instance, Money Market Fund (MMF) providers might analyze underlying securities against social considerations, such as activities related to human rights or an ethical culture, while governance criteria might include factors such as minority ownership or board composition.

Framework developed by TTS Digital Analysis and Insights & Digital Client Advisory

Treasury enabling ecosystem sustenance
One area with significant potential for ESG impact is managing a company's supply chain. Trade finance can play a pivotal role in facilitating sourcing policies that are more sustainable, both in terms of their environmental impact and the working conditions of those involved in production. Supply chain finance (SCF) can be used to help incentivize suppliers to adopt more sustainable practices, helping to meet corporates' ESG objectives.

Treasury has a key role to play in not only addressing the financing needs within the supply chain, but also in ensuring that suppliers comply with ESG standards. SCF programs may offer an effective means of encouraging suppliers to embrace environmental audits and SCF platforms, such as Citi's, are capable of assigning individualized pricing per supplier. This platform can also utilize an independent auditor's assessment of a supplier to qualify them for preferential pricing, which not only mitigates the cost of compliance, but also creates a desirable financial benefit for the supplier, further encouraging ESG-compliant behavior.

Treasury leveraging digital solutions for operational resilience
The digital revolution, which has reduced friction and transaction costs for years, has accelerated in recent years with tremendous increases in electronic data, ubiquity of mobile interfaces, and the growing power of artificial intelligence (AI), robotic process automation (RPA), cloud and other advanced technologies. Much of the impetus behind this digital transformation has been the demand to deliver an exceptional customer experience.

For treasury, digital transformation efforts have primarily focused on improving productivity, reducing costs and driving efficiencies. More and more treasurers are exploring the potential of new technologies, such as RPA and AI to reduce manual processes and improve resource deployment. Treasury can eliminate paper-based processes by utilizing solutions such as electronic signatures and digital onboarding tools to complete account opening, digitized letters of credit and virtual cards – all of which drive "greener" treasury efficiency. In addition, initiatives such as open banking, use of application programming interfaces (APIs) and blockchain solutions are helping improve transparency, security and information flows.

Treasury's commitment to risk management and regulatory compliance
Treasury organizations play an important role in managing risks and ensuring compliance with regulatory changes. A wide range of risks need to be managed including counterparty, operational and settlement risks, and increasingly cyber risks.

It is important for treasury to stay abreast of the latest updates and adhere to regulatory standards. Regulatory scrutiny around ESG has picked up pace over the years, and is likely to increase in a post-COVID-19 world. For example, initiatives such as the EU taxonomy for sustainable activities aims to build policies around disclosure of sustainability practices and integration of sustainability risks in the decision-making process of corporates, financial institutions and investors. In addition, regulatory bodies are requiring regular reporting updates for green loans, necessitating documentation of process for project evaluation and selection.

As treasury organizations seek robust data governance mechanisms to automate regulatory and tax reporting, establishing relationships with banks and third-parties in a quest to stay abreast of the latest regulatory updates and deployment of digital tools that help automate regulatory filings, is prudent.

To meet risk management goals, treasury teams can leverage bank expertise and digital tools which are designed to help protect assets, enable digital identity solutions, detect potential payment anomalies, reduce manual authentication and authorization and achieve straight-through processing of transactions.

Partnering for sustainability
Citi has a long-standing history of embracing corporate social responsibility standards and practices in promoting business and progress worldwide. Citi was the first major U.S. bank to endorse the 'Principles for Responsible Banking,' which were developed by the banking industry itself, as part of the United Nations Environment Program Finance Initiative. Citi's 2019 Environmental, Social and Governance (ESG) Report highlights the ways in which Citi is enabling progress and sustainable growth in communities around the globe. While this report and related summary cover the period before the COVID-19 pandemic, its broad themes – fighting climate change, addressing the affordable housing crisis and reducing economic inequality – continue to be key priorities for Citi.

An example of Citi Treasury and Trade Solutions' (TTS) efforts in supporting ESG objectives can be found in its recent support of a major renewable energy multinational during the pandemic. This company faced challenges in opening a Malaysian Ringgit (MYR) account for a new entity to support the bidding process for their renewables business. Citi leveraged its innovative digital on-boarding process to open a new MYR account in two-days to meet the company's working capital needs and intercompany funding from the parent entity.

Another example is Citi Commercial Cards which has teamed up with Mastercard to become the first global issuer to promote the Mastercard Priceless Planet Coalition. This coalition allows corporates to achieve positive climate action through reforestation and it is has pledged to plant 100 million trees over five years. Corporates who use commercial cards for business purposes, including travel and B2B purchases, can earn a rebate based on spend levels. Under this program, they have the option to invest a percentage of their rebate in reforestation projects through World Resources Institute and Conservation International.

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Citi TTS is committed to becoming "the" financial platform for global commerce, underpinned by responsible finance and digital solutions that support the ESG goals of corporates. The bank is dedicated to meeting the needs of an expanding number of companies who are embracing the opportunity to focus on sustainability as a means of transforming their businesses as the divide between "doing well" and "doing good" rapidly narrows.

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