Standard Chartered

INSIGHTS

# Embracing values-driven investment

## Financing sustainable communities, economies and supply chains

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Corporate and institutional treasurers and investors have always employed a range of criteria in their decision-making, most commonly balancing investment security, liquidity and yield. For a growing number of investors, however, sustainability has become an essential fourth investment pillar.

No longer are individuals and organisations separating their values from their investment decisions, preferring instead to support, encourage and reward companies that adopt sustainable business models, practices and values, across a spectrum of environmental, social and governance (ESG) issues. This article considers what the emphasis on this 'fourth investment pillar' means in practice for investors, not only for cash investment, but for corporate treasurers in particular, and for trade finance too.

### The time for sustainable finance

Sustainable finance reflects a new way of investing that brings money and purpose together. A growing number of investors who wish to reflect their concerns about issues such as climate change, clean water, ethical treatment of communities and employees in their investment choices. The trend for selecting investments that have strong ESG credentials was already apparent before the current pandemic, but the crisis has further fueled this development. While traditional funds saw an outflow in net funds, ESG funds attracted record inflows during the first quarter of 2020.[1] There are also sound financial as well as ethical reasons to adopt an ESG investment strategy. According to recent research by Morningstar, the majority of sustainable strategies have outperformed non-ESG funds over one, three, five and ten years.[2] In March 2020, although the MCSI World Index dropped by 14.5%, 62% of large-cap ESG funds outperformed the index.[3] Furthermore, industries that tend to perform better in ESG terms, such as healthcare and technology, have proved to be the most resilient during the pandemic.

1 https://www.cnbc.com/2020/06/07/sustainable-investing-is-set-to-surge-in-the-wake-of-the-coronavirus-pandemic.html
2 https://www.ft.com/content/733ee6ff-446e-4f8b-86b2-19ef42da3824
3 https://www.ecmi.eu/sites/default/files/ecmi_commentary_no_67_july_2020.pdf

The financial markets are adapting rapidly to investor, and wider stakeholder investment preferences around sustainability. Green bonds, first issued in 2007, have been followed by social bonds, ESG, sustainability and SDG bonds to reflect the wider ESG agenda. Sustainability-linked and transition bonds were first launched in 2019 to offer investors more bespoke choices. Some commentators expect issuance of sustainable bonds to reach USD1 trillion in 2022.

## The need for sustainable finance

Sustainability is at the heart of our decision-making at Standard Chartered. The United Nations' Sustainable Development Goals (SDG)[4] provide a common reference point on which many organisations, including Standard Chartered, base their sustainability objectives and strategies. Despite significant consensus and commitment to these goals, however, there remains a substantial funding gap. In emerging markets alone, the UN estimates that USD3.9 trillion per year will be required to achieve all 17 SDGs by 2030, but the funding gap is around USD2.5 trillion per year.[5] Sustainable finance has a major role to play in this. Earlier in 2020, we announced Opportunity 2030,[6] Standard Chartered's SDG[7] Investment Map illustrating USD10 trillion in investment opportunities for the private sector to deliver clean water and sanitation, affordable, clean energy, and industry, innovation and infrastructure across only 15 of the fastest-growing economies.

Together with governments, corporations, export credit agencies, development finance organisations and supranationals, we are investing in projects that help towards the SDGs and empower communities to grow their local and national economies. For example, we co-ordinated a USD1.46 billion financing transaction in export credit agency (ECA)-backed long-term financing, including commercial and development finance investors, to fund the new Tanzania railway, the country's largest ever infrastructure project. The project brings enormous benefits to the people of Tanzania and its neighbours. Freight costs are estimated to reduce by 40 per cent. Every train takes 500 lorries from the road, significantly cutting pollution, congestion and risk to people and vehicles using the highway. More than 8,000 new jobs have already been created as a direct result of the project.

4 United Nations Sustainable Development Goals https://www.un.org/sustainabledevelopment/sustainable-development-goals/
5 https://unctad.org/en/PublicationChapters/wir2014ch4_en.pdf%23page=6
6 https://www.sc.com/en/insights/opportunity2030/
7 United Nations Sustainable Development Goals https://www.un.org/sustainabledevelopment/sustainable-development-goals/

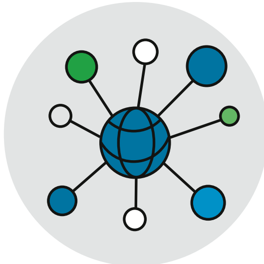
## The success of this approach is predicated on three key issues

### Sustainability metrics

The need for a set of universally accepted, accessible, and independently monitored sustainability metrics.

### Collaborative tools

Collaborative tools to leverage ESG performance data, which is currently held in separate silos, to unlock finance and commercial opportunities.



### Connectivity

The ability for SCF programmes to connect not only tier 1 suppliers, but smaller suppliers and farmers throughout the ecosystem. For example, we are engaged in a project in Africa to streamline e-procurement and allow clients to connect more directly with end suppliers.

### Sustainability across ecosystems

Our corporate clients are also looking at ways to achieve their own sustainability ambitions. One of the ways we are helping them to do this is through our trade financing solutions, such as supply chain finance (SCF) programmes. Strong ESG performance reduces supply chain risks, such as environmental pollution, labour disputes, corruption and bribery, and reliable natural resources supply. As a result, it is essential to supply chain resilience. Currently, many companies are working across their supply chains to improve ESG performance; however, this is not followed through into SCF programmes, and the terms under which supplier financing is offered. This is changing, however, with companies demanding that supply chain finance providers integrate finance and sustainability more closely.

We are therefore working with clients to build a sustainable trade finance proposition, which will in turn become a pillar of our overall sustainable finance commitment. This includes linking financing terms to the sustainability of goods and services, offering preferential terms to suppliers with strong ESG credentials as part of supply chain finance programmes, and supporting transitional industries, such as oil & gas and mining. Through these measures, we can help our clients achieve their own sustainability objectives, and use financing as a catalyst of greater sustainability across ecosystems.

## Sustainability through innovation and collaboration

Data, digitisation and collaboration are key to resolving these challenges, but these are themselves closely related. Data-driven analysis of ESG credentials can provide clarity to organisations defining their ESG strategies, offer greater confidence to investors, and facilitate sustainable supply chain finance programmes. Digitisation and data can also enable new trade financing solutions. For example, most supply chain finance programmes today are based on approved invoices. With consistent, and integrated data and connectivity, we are increasingly able to offer pre-shipment financing and deep tier financing to engage suppliers and producers across ecosystems.

Collaboration is key to the production of compelling, reliable and actionable data. For example, earlier in 2020, we announced a partnership with Imperial College London that explores climate change risk management, and helps embed climate risk into financial decision-making.[8] We are a key member of the United Nations-supported Global Investors for Sustainable Development Alliance, which comprises 30 of the world's leading investment organisations to provide decisive leadership in mobilising resources for sustainable development and identifying incentives for long-term sustainable investments.[9]

No single organisation can shape or deliver on the sustainable finance agenda alone, but achieving the SDGs is a common objective for corporations, banks, ESG rating agencies, technology providers, governments and regulators. This common aspiration is key to achieving effective collaboration, both bilaterally and in consortia, to build momentum, credibility and consensus on sustainable finance goals, metrics, and financing mechanisms. By leveraging expertise, data and resources, and connecting ecosystems, private and public organisations can together close the SDG financing gap, creating a virtuous cycle in which communities and nations can thrive, socially, environmentally and economically.

8 https://www.sc.com/en/media/press-release/weve-joined-forces-with-imperial-college-business-school-on-new-climate-partnership/

9 https://www.un.org/esa/ffd/wp-content/uploads/2019/10/GISD-1015.pdf