

How to create beneficial terms for supplier decarbonization



Organizations can offer suppliers preferential payment terms or access to financing based on carbon reduction targets, disclosure and progress to encourage decarbonization.

What	Why	How
<p>What are beneficial terms</p> <p>There are two types of beneficial terms that buyers can offer suppliers:</p> <p>Preferential payment terms can vary depending on factors such as the value or deposit required, or speed of payment.</p> <p>Financing rates cover the terms of financing (e.g. loan duration and interest rates) provided to suppliers.</p>	<p>Overcome financial barriers</p> <p>Offering suppliers preferential payment terms or financing rates based on carbon reduction progress can encourage suppliers to accelerate rates of decarbonization by improving cash flow and helping to overcome CapEx barriers, whilst also creating a culture of awareness and continuous improvement.</p>	<p>Pay suppliers earlier, or more</p> <p>Earlier payment for goods or interest rates can be linked to the supplier's environmental or social performance. This incentivizes suppliers to improve; the better the performance, the quicker the payment or the lower the supplier's debt interest rate burden. Finance programs can be implemented through a partner platform or bank.</p>

Beneficial terms should strengthen a supply chain for both buyers and suppliers.

ADVANTAGES TO BUYERS

- Build trusted relationships with suppliers.
- Reputational benefit.
- New partnership with the third-party verifying suppliers' decarbonization increases assurance.
- Increased transparency over supply chain.

ADVANTAGES TO SUPPLIERS

- Provides immediate cash flow for decarbonization initiatives and to overcome CapEx barriers.
- Reduces transition risks - suppliers are proactively managing their decarbonization journeys.
- Beneficial for industries dependent on cash flow or for suppliers that have accumulated debt.

Whilst beneficial payment terms are often used in procurement to secure price discounts, there is currently low maturity of using them for decarbonization. A poll of WBCSD SOS 1.5 Incentivizing Supply Chain Decarbonization workstream members showed that only 25% have experience using payment terms for decarbonization. This lever has opportunity to be further deployed through procurement and sustainability collaboration.

Where to start

1

Evaluate the relevance of beneficial terms

Using this lever to incentivize decarbonization requires visibility into your supply chain and the ability to confirm that linked actions are being taken, e.g. GHG reductions against targets are being achieved. Financing rates can only be used for companies providing financing to their suppliers or in partnership with a provider.

2

Segment your supplier base to determine relevance

Providing beneficial payment terms might be less relevant to your largest suppliers. By contrast, your smaller suppliers might find it harder to meet the requirements you set to receive these. Determine which of your suppliers are your target group when offering these terms and ensure you provide support for them to qualify and meet the criteria.

3

Partner to increase effectiveness, and improve outcomes

Partnering with either technical service providers for verification and financial service providers for the financing may allow companies to offer this lever and ensure it delivers desired decarbonization results. Consider using providers that already have fully developed sustainability linked programs.

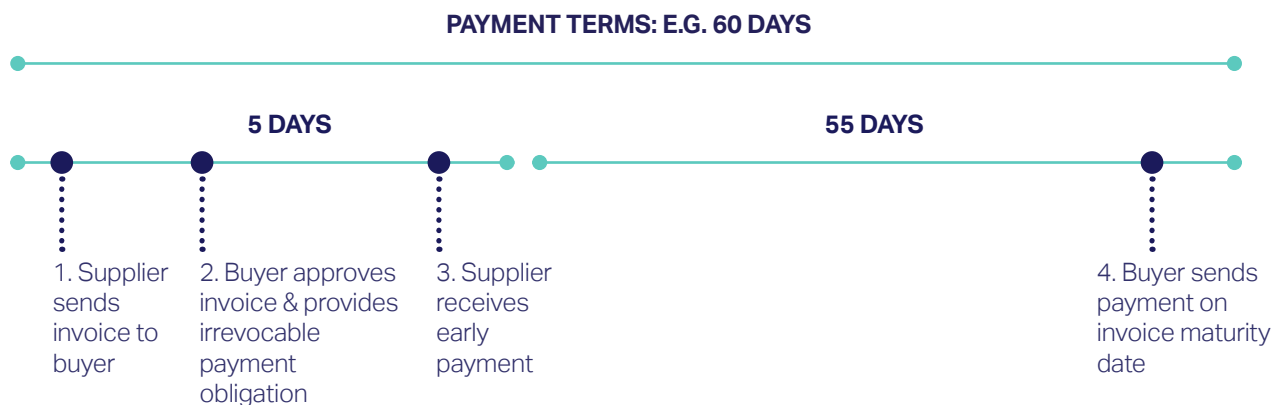


Beneficial payment terms are an existing tool in supplier relationship management, the key is making sure that your payment terms are now linked to your companies decarbonization targets.

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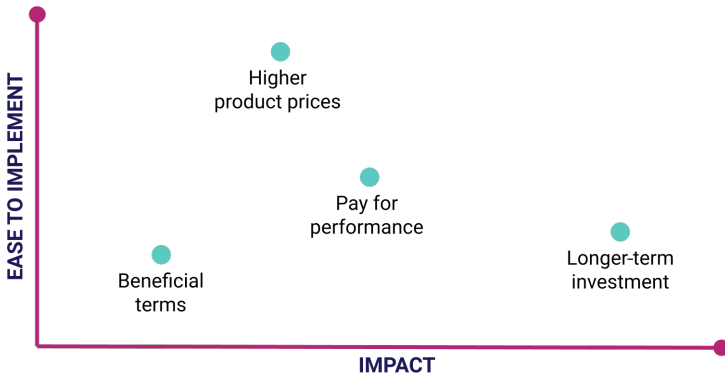
How to pay suppliers faster

Committing to pay suppliers faster improves cash flow and especially helps small businesses. Payment must be done within local regulations e.g. the UK Prompt Payment Code.



What to consider

There are various financial levers for rewarding progress on supply chain decarbonization. Assessing ease of implementation against potential impact of the lever can help to determine where to focus efforts.



Financial reward levers

- **Beneficial terms:** Can be harder to implement as requires verification of suppliers' decarbonization actions.
- **Higher product prices:** Companies pay price premiums for low carbon products. This can have a large impact and is relatively easy to implement.
- **Pay for performance:** Companies may pay a higher price if suppliers have made progress on decarbonization. Requires verification so can be harder to implement.
- **Longer-term investments:** Longer-term investments have the greatest impact since they encourage suppliers to take long-term action on decarbonization.

OTHER CONSIDERATIONS

Potential approach

- Consider which types of payment terms are most favored by suppliers.
- For certain companies, adding linked loans could be quick and easy to implement.

Equity / size

- Consider which companies would find beneficial payment terms particularly attractive based on their type of business, expected decarbonization challenges, working capital needs (need for inventory/cash) or location.

Verification and visibility

- Consider how to monitor and choose which suppliers will have the payment benefit, then how to assess performance.
- Consider the steps required to validate supplier action and progress (using self-verification or external agencies).



We know that decarbonization levers benefit business performance but the payback time is often queried and hard to measure. Beneficial payment or financing terms with decarbonization criteria are advantageous, as they deliver instant commercial competitiveness, and suppliers will prioritize the on-time delivery of quality goods and services for those who offer it.

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For more information on the Supply Chain Decarbonization series, contact: [Hannah Loake, WBCSD](#) or [Annabel Kalmar, PwC](#).

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