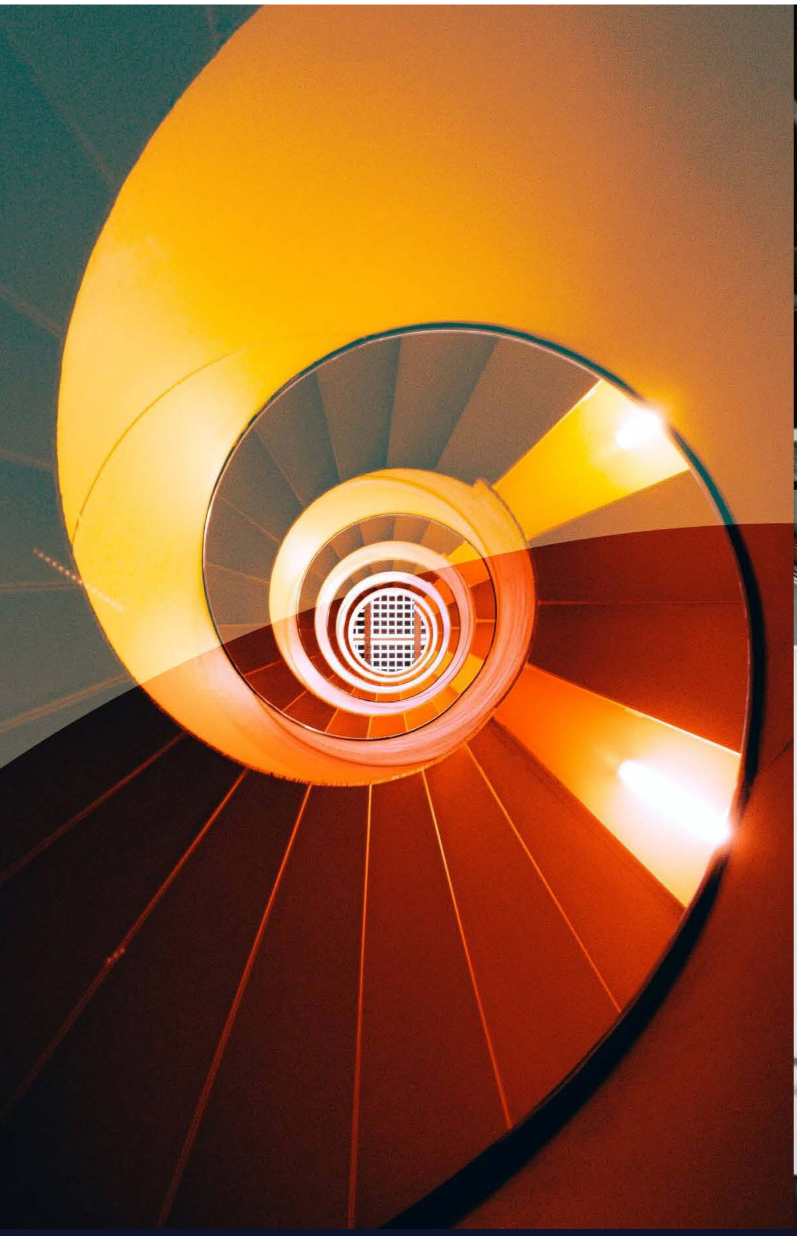
ESG & Sustainability

Strategic Focus: Supply Chain Finance For Sustainable Procurement

By Elisa Molero
With Kim Knickle

May 2025



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Regulatory, operational and reputational pressures have led to increased scrutiny of firms' ESG and sustainability performance across the supply chain. Firms recognize the need for enhanced visibility and engagement with suppliers to improve data collection and sustainability reporting and to meet ESG commitments. Supply chain finance programmes present a powerful opportunity to drive sustainability improvements across the supply chain, creating a scalable, incentive-based approach to align supplier performance with sustainability goals. This report explores the value and challenges of supply chain finance programmes for sustainable procurement, and provides insights into relevant technology options that can support the design, development and implementation of supply chain programmes for ESG and sustainability.

Table of contents

Table of figures

Organizations mentioned

Achilles, apexanalytix, ASDA, Assent, Avetta, EcoVadis, Exiger, Fairtrade, HSBC UK, IntegrityNext, LRQA, Morningstar Sustainalytics, Nasdaq, Prewave, PUMA, Rainforest Alliance, S&P Global, Santander, Schneider Electric, Sedex, Standard Chartered, Sustainable Fitch, Tesco, Zero Circle.

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Supply chain finance programmes incentivize suppliers' ESG performance

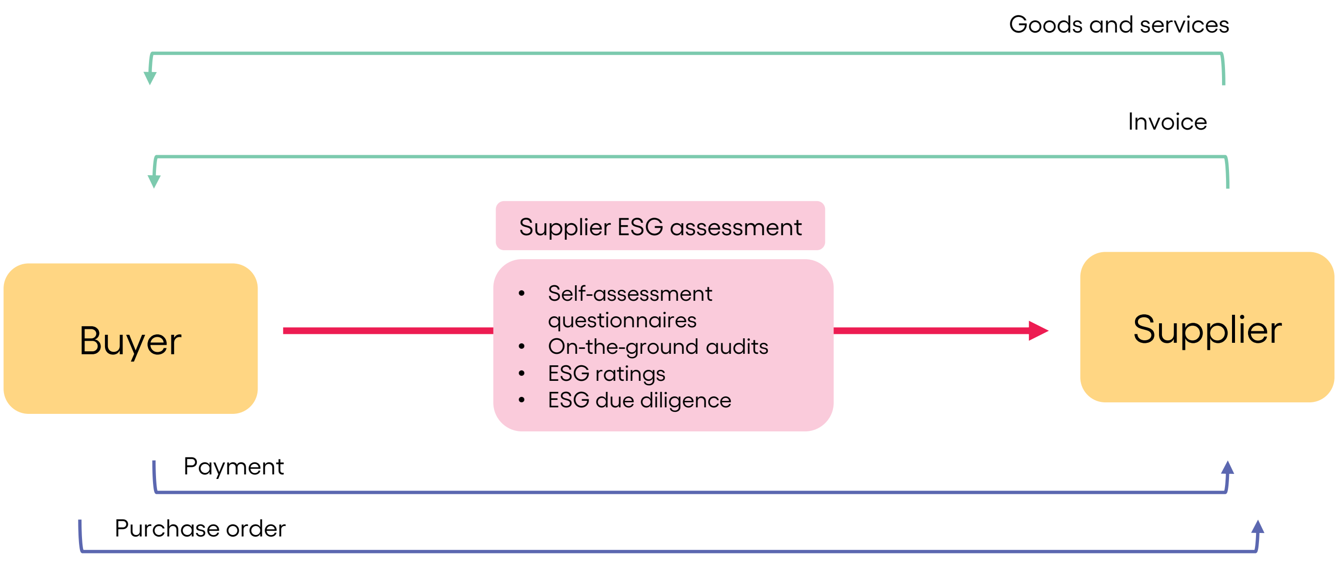
Due to increased scrutiny of suppliers' overall sustainability impact, firms may provide a supplier with preferential contracts or contract terms based on its sustainability commitments and achievements. Indeed, more than 40% of firms have discontinued or are likely to discontinue a relationship with a supplier due to dissatisfaction with its overall sustainability performance (see Verdantix Global Corporate Survey 2025: Supply Chain Sustainability Analysis). As the focus on their ESG performance intensifies, suppliers often face limited bandwidth, resources and expertise, hindering their ability to improve their sustainability footprint. In this context, a growing number of firms integrate sustainability factors into procurement, including supplier sustainability assessments within the procure-to-pay processes (P2P). This helps firms strengthen their engagement with suppliers on sustainability matters, while ensuring the smooth flow of goods and services and managing costs (see **Figure 1**).

As part of this strategy, supply chain finance programmes support P2P processes by enabling technology-driven solutions that optimize working capital and allow suppliers to receive early payment on their invoices via a financial institution or a Fintech provider. By integrating sustainability factors into financial processes, supply chain finance programmes ease supplier access to favourable terms and pricing, and incentivize sustainability performance and collaboration across all players involved in the supply chain.

However, firms often face limited access to supplier ESG impact data, which can impede the success of supply chain finance programmes. Technology vendors and service providers play a vital role in ensuring visibility and data accuracy on supplier assessments, helping firms improve supplier engagement and incentivize ESG performance across the supply chain.

Figure 1

Traditional procure-to-pay with supplier sustainability assessment



Source: Verdantix analysis

Firms must address sustainability information asymmetry challenges

Buyers must consider suppliers' ability to improve their sustainability performance to create effective supply chain finance programmes. However, the supply chain network often offers only opaque insights, reducing firms' ability to assess suppliers accurately and understand their capacity to meet ESG goals. Indeed, Verdantix identifies that the two key challenges that must be addressed to achieve successful supply chain finance programmes for sustainability are:

- **ESG information asymmetry throughout the supply chain network.**
  Fifty per cent of firms recognize supplier engagement as the main challenge to improving supply chain sustainability performance (see Verdantix Global Corporate Survey 2025: Supply Chain Sustainability Analysis). Poor communication and infrequent collaboration with suppliers can lead to blind spots in the supply chain. ESG information gaps reduce suppliers' ability to demonstrate their sustainability performance, allowing buyers and financial institutions to set less favourable financial conditions for suppliers.
- **A lack of standardized assessments of sustainability performance and impact.**
  ESG and sustainability performance can be difficult to quantify, as it requires vast amounts of on-the-ground and context-specific information. Additionally, there is an absence of standardized metrics across different regions and industries, which impacts the quantity and quality of the information on supplier performance. This can limit firms' ability to evaluate the overall improvement in their supply chain, as well as individual supplier progress on sustainability initiatives. Yet, supply chain finance programmes require the ability to set interest rates depending on suppliers' performance against ESG targets.

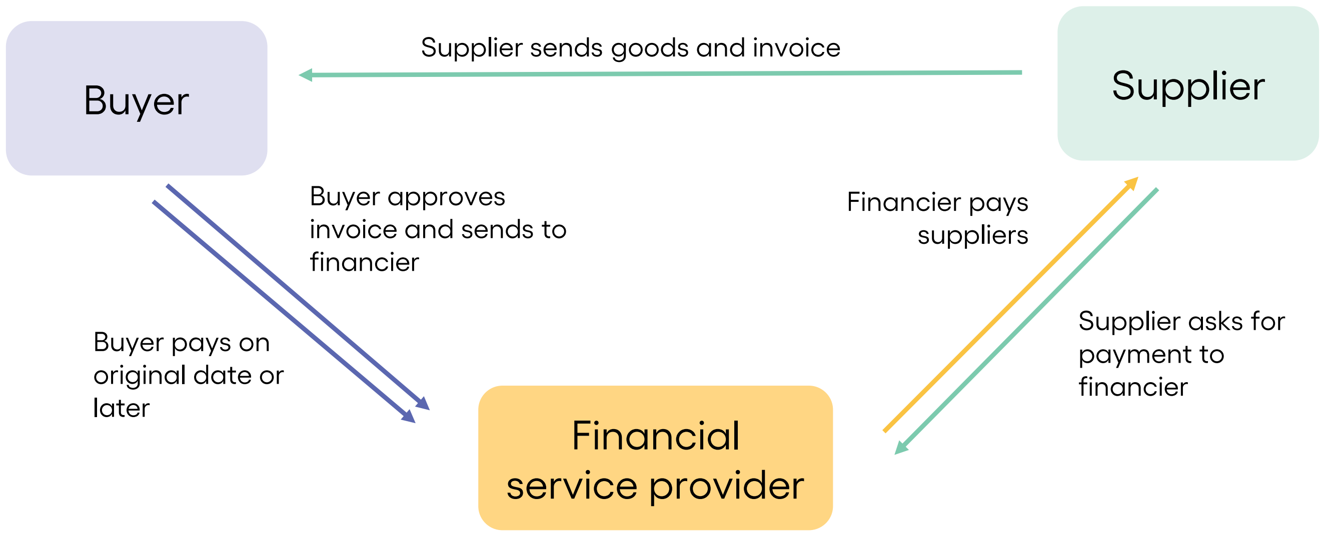
Supply chain finance programmes improve supplier sustainability performance

Supply chain finance programmes are financial agreements that enable buyers to optimize their working capital and use financial levers, such as favourable payment terms and loans, to support their suppliers. Suppliers can use the additional funding in ways that will provide demonstrable social and environmental improvements, for example by upgrading infrastructure, implementing clean technologies and complying with ESG and sustainability regulations.

These programmes may operate directly between buyers and suppliers, or with the addition of a third-party financial institution (see **Figure 2**). When designing the programme, buyers and financial institutions can integrate ESG and sustainability considerations into payment terms, enhancing operational efficiency and sustainability performance and reducing financial risks. Based on the nature, dependency and ESG maturity of the supply chain, buyers and financial institutions can offer five main supply chain finance tools for sustainability, namely:

- **Reverse factoring programmes to support supply chain stability and ESG performance.**
  Reverse factoring is a financial solution that enables suppliers to receive an early payment through a third-party financier, while allowing buyers to extend their payment terms. Suppliers send an invoice to the financial institution, which provides an early payment to suppliers on behalf of the buyer. This way, suppliers access liquidity while buyers defer payment until a later date. Reverse factoring programmes can involve a digital platform that connects buyers, suppliers and the financial institution, streamlining data collection and improving information accuracy. Reverse factoring programmes can integrate sustainability criteria, offering better financing terms to ESG-aligned suppliers. For example, sports apparel brand PUMA developed a sustainable payables finance programme to award better financial conditions to suppliers with demonstrated sustainability performance.

Figure 2
Players involved in sustainable supply chain finance programmes



Source: Verdantix analysis

- **Dynamic discounting to set fair payment terms and promote supplier diversity.** Supply chain finance programmes can be based on dynamic discounting, a financial strategy where buyers pay suppliers earlier in exchange for a discount, without relying on a third-party financier. Dynamic discounting provides suppliers faster access to working capital, improving their financial health and incentivizing investment in sustainable practices. It promotes supplier relationships and diversity by engaging small and medium-sized enterprises (SMEs) and smaller suppliers, which might otherwise struggle to access affordable financing. In dynamic discounting programmes, buyers pay from their cash reserves, with the discount rate varying based on how early the payment is made. Early payment discounts reduce the costs of the goods sold and can promote reinvestment in sustainability initiatives.
- **Sustainability-linked financing for suppliers with aligned sustainability commitments.** Buyers and financial institutions can set suppliers' payment terms based on predefined sustainability criteria, for example, carbon emissions reduction. Lenders can rely on ESG and sustainability ratings such as those provided by Morningstar Sustainalytics, Nasdaq, S&P and Sustainable Fitch to set suppliers' pricing grids. For example, in 2021 Tesco launched its sustainability-linked supply chain finance programme in partnership with Santander, to offer suppliers preferential financing rates via the Santander supply chain finance platform. Interest rates may depend on the performance of the borrower against stated ESG targets; suppliers with higher sustainability scores enjoy better financial conditions, which can foster investment and commitment to long-term ESG and sustainability performance.

- **Sustainable trade loans for suppliers seeking improved sustainability performance.**
  A financial institution can provide a loan to a supplier with proven sustainability attributes in their sourcing, manufacturing and processing operations. Suppliers rely on ESG and sustainability certifications such as Fairtrade and Rainforest Alliance to prove their ESG performance. For example, in 2023 Standard Chartered launched a sustainable trade loan offering to support the trade of flows associated with sustainable development, such as the purchase of solar panels and the installation of wind turbines. These financial choices support suppliers' expenditures in sustainable options such as sustainable raw materials or resource-efficient machinery.

- **Tech-enabled contract solutions to verify ethical sourcing and sustainable performance.**
  Tech-enabled contract solutions leverage blockchain technology and Internet of Things (IoT) to automate contract execution based on predefined conditions. These solutions make transactions traceable and promote sustainable practices by enforcing ESG criteria directly within contracts. They allow loan providers to monitor the progress of suppliers towards any related sustainability goals – rather than on an annual basis – verify ESG compliance and automate rewards for suppliers meeting sustainability targets. Smart contracts can help firms to verify ethical sourcing and tracking of goods across the supply chain using IoT data.

Supply chain finance programmes rely on technology and service solutions to gather accurate supplier data

Firms must develop supply chain finance programmes based on accurate and verified sustainability data. However, firms and suppliers often face limited bandwidth and expertise in ESG and sustainability information management, which compromises the inclusion of high-quality sustainability data in supply chain finance programmes. To solve this, firms can strengthen their supply chain sustainability finance programmes by leveraging services and tech-enabled solutions that offer:

- **Automated supplier ESG and sustainability assessments to gather ESG context data.**
  In supply chain finance programmes, firms need to understand their suppliers' sustainability impact, and suppliers need to demonstrate their commitment to ESG and sustainability. Supplier assessment tools such as those provided by Achilles, apexanalytix and Sedex incorporate ESG and sustainability considerations into supplier screening and allow firms to monitor suppliers' improvement over time (see Verdantix Green Quadrant: Supply Chain Sustainability Software 2024). For example, in 2024 ASDA launched a sustainability-linked feature to its existing supply chain finance programme supported by HSBC UK. The programme incorporates EcoVadis ESG scores and incentivizes over 250 suppliers to share sustainability data and meet sustainability commitments to access preferential financial rates.

- **Supplier engagement programmes to align sustainability commitments and goals.**
  Players involved in supply chain finance programmes might present varying ESG and sustainability maturities. Firms can leverage supplier engagement tools such as those provided by Assent and Avetta to help suppliers collect and disclose sustainability information. For example, Schneider Electric offers Zeigo Hub, a programme and technology platform that streamlines supplier engagement and empowers suppliers to advance their decarbonization journey. Information collected through Zeigo Hub can be used by Zero Circle – a supply chain finance platform for suppliers – to help suppliers access green loans tailored to specific sustainability goals.

- **Supplier ESG risk flagging for real-time performance monitoring.**
  Discounts and loans in supply chain finance programmes are based on risk, with buyers and financial institutions conducting a risk assessment on the supplier's ESG performance. Supply chain ESG risk tools incorporate supplier risk insights into the supply chain finance programme to incentivize sustainability improvements and ensure regulatory compliance. Software providers such as EiQ by LRQA, Exiger and Prewave offer real-time insights into suppliers' exposure to material risks across the supply chain. Firms and financial institutions can incorporate supplier ESG risk insights into the programme design phase, identifying the supplier risk profile before onboarding.

- **Predictive analytics to monitor supplier ESG performance and operations.**
  Supply chain finance programmes require continuous monitoring of suppliers' sustainability performance. Predictive tools assess supplier reliability, delivery performance and ESG compliance by analysing historical and real-time data. For example, IntegrityNext allow firms to conduct double materiality assessments on suppliers and on the effect of sustainability risks or opportunities on supplier financial performance. Predictive analytics tools evaluate supplier practices against social and environmental standards and integrate the analysis into supply chain finance programmes. This way, firms extend financial incentives to suppliers with demonstrated ESG-aligned performance.

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Contact

Verdantix Ltd,
Woolyard, 52-56 Bermondsey Street,
London SE1 3UD, United Kingdom

contact@verdantix.com
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