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Treasury and Trade Solutions

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Trade Working Capital Viewpoints

Navigating global uncertainty:

Global perspectives on supporting supply chain resiliency by optimizing working capital

Following the challenges that emerged during Covid, global trade and its impact on supply chains has been in the headlines ever since and for good reason. Be it geopolitical challenges or supply chain disruptions, no longer do people assume that trade just 'happens.' The situation at hand has reinforced the need for access to capital as we help our clients solve challenges and support their business."

Chris Cox

Global Head of Trade and Working Capital Solutions,
Treasury and Trade Solutions, Citi

"For our clients, being able to navigate the next normal rests on being able to rely on their working capital and liquidity management capabilities. As corporates assess what they need to plan for in the future, Citi TTS has been a reliable advisor in finding solutions that meet our clients evolving objectives.

Shahmir Khaliq

Global Head of Treasury and Trade Solutions,
Citi

Last year, Citi Treasury and Trade Solutions (TTS) in partnership with Citi GPS published *Supply Chain Finance: The Complexities Multiple*. In today's landscape, that title remains true as ever. Continued high inflation, elevated interest rates, the failures of several regional banks in the US, including Silicon Valley Bank and Signature Bank as well as the sudden acquisition of Credit Suisse by UBS and a potentially slowing economy have presented global corporates with a series of new challenges.

To provide greater insight into the unique operating landscape corporates face, this publication is a continuation of our most recent report, *Citi GPS Supply Chain Finance: Uncertainty in Global Supply Chains Is Going to Stay*. This publication seeks to marry insights gathered through two surveys, one focused on small and medium enterprise (SME) suppliers produced by Citi Research and one done in partnership with East & Partners, a global business-to-business (B2B) financial markets research firm, focused on the world's largest corporates, with insights from our local experts to provide an in depth look at some of the unique challenges and opportunities in each of the world's regions.

After enduring vast physical supply chain disruption and confronting the ensuing financial supply chain effects which were exacerbated by rising costs and dwindling margins, corporates continue to rethink what resilience means to their organizations. The pandemic feels largely in the rearview as geopolitical concerns and uncertainty around the global economy have become the driving forces behind impacts to organizations' working capital. This publication will share some best practices and solutions that companies may utilize to help meet their goals.

Many business models are transitioning. We combine data driven observations with insight from our local experts to offer best practices that can be incorporated in a path forward in operating in each of the world's regions.

John Monaghan
Global Head of Trade Working Capital Advisory, Treasury and Trade Solutions, Citi

Pauline Kontos
Global Trade Working Capital Advisory, Treasury and Trade Solutions, Citi

Ian Kervick-Jimenez
Global Trade Working Capital Advisory, Treasury and Trade Solutions, Citi

Global

Global trade participants have endured varied challenges as of late but following best practices in working capital management can help corporates navigate the next normal with success.

Quantifying the Challenges

Central banks across the globe have implemented a range of measures to address persistently high inflation with several choosing to raise interest rates in an attempt to quell inflation.

After prolonged disruptions caused by Covid-19, much of the treasurer's attention has shifted to managing through the complexities caused by the adverse effects of above target range inflation. Treasurers find themselves concerned with rising recessionary risks, contracting margins and the potential of supplier defaults.

82%

eight in ten
global corporates report
customer credit profiles are weakening[1]

After extreme energy shocks to start 2022, energy prices have shown signs of stabilizing though remain above pre-pandemic levels[2]. And despite initial optimism for export growth in 2023 from survey respondents, global demand is showing signs of slowing as export volumes from China have shown a decrease in the beginning of the year[3].

Best Practices for the Next Normal

Looking back over the last three years, corporates have had to endure a varied set of challenges. 66% of suppliers surveyed indicated that increased costs of goods sold and increased costs of raw materials were causing meaningful supply chain disruption[4]. Furthermore, as corporates become increasingly focused on their Scope 3 emissions, or emissions created by the activity of assets not own or controlled by the corporate itself, suppliers in all parts of the world are increasingly being asked of their environmental, social, and governance (ESG) practices. As a result, corporates have placed a premium on flexibility and having their working capital stack in order is an essential part of that.

Prudent working capital management is arguably the most important element for achieving growth in an uncertain operating environment.

94% of global corporates declare they must ease ingrained working capital constraints in order to position themselves to hit revenue targets[5].

> "With weighted average cost of capital increasing for corporates, habitual discipline as it pertains to working capital is paramount as there's a newfound premium on being able to be agile with cash management in the current environment."

Steven Elms
Global Sales Head of Corporate, Commercial, and Public Sector, Treasury and Trade Solutions, Citi

When asked specifically how improved access to working capital finance would help stimulate growth, one in four CFOs and treasurers said it would help bridge cash flow needs impacted by delayed receivables collections (24%).[6]

[1] East & Partners-Citi Large Corporate Survey, 2022

[2] S&P Capital IQ

[3] CPB Netherlands Bureau for Economic Policy Analysis, World Trade Monitor, January 2023

[4] Citi SME Supplier Survey, October 2022

[5] East & Partners-Citi Large Corporate Survey, 2022

[6] East & Partners-Citi Large Corporate Survey, 2022

> "Definitely seeing stress across our smaller supply partners and their ability to debt fund their operations. Not so much with our bigger partners but even there, some early signs around them giving up margin for quicker payment terms; bit of a balancing act for us given we want them to still be profitable and trading."
>
> **Corporate Treasurer, US2.0Bn**
> UAE Construction Materials Group

94%

of global corporates confirm relieving working capital constraints would help **stimulate revenue growth**[7]

Responding to an Evolving Risk

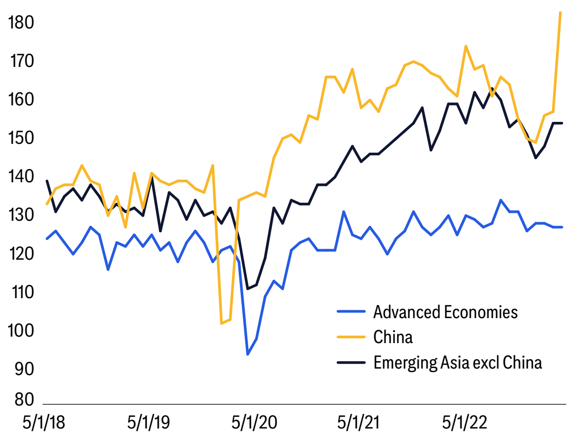
As a bevy of shifts in monetary policy take hold to help clamp down on inflation, borrowers are increasingly facing a more challenging credit environment. In the Federal Reserve's Senior Loan Officer Opinion Survey (SLOOS) published for April 2023 reported a "significant net shares of banks reported having tightened standards on C&I (Commercial and Industrial) loans to firms of all sizes."[8] Similarly, the ECB's April 2023 Euro Area Bank Lending Survey reported that "the pace of net tightening in credit standards remained at the highest level since the euro area sovereign debt crisis in 2011."[9]

Rising costs have been a detriment to corporate margins and corporates are finding that they are reaching the upper limit of how much cost can be passed onto buyers. Corporates may find that increased costs may reduce their credit capacity and some ratings professionals expect pressure on ratings intensify in the near term[10].

Figure 1. S&P GSCI Energy Index (^SPGSEN), 5 Years

Source: S&P Global

Figure 2. Merchandise World trade, Volumes, seasonally adjusted Fixed base 2010=100



Source: CPB Netherlands Bureau for Economic Policy Analysis

[7] East & Partners - Citi Large Corporate Survey, 2022

[8] FRB, Senior Loan Officer Opinion Survey on Bank Lending Practices, May 2023

[9] ECB, April 2023 euro area bank lending survey, May 2023

[10] S&P Global Ratings, Global Credit Outlook 2023: No Easy Way Out. 2023

One in two global corporates (48%) are grappling with trapped liquidity of between 20% to 40% in Days Payable Outstanding (DPO).

> "We saw a squeeze coming two years ago and have managed to keep our liquidity pretty much stable by drawing down on existing credit lines. Not cheap but it means we have healthy cash balances across the business which we're starting to deploy in chasing new export markets."

Treasurer, US$7.5Bn
USA Manufacturer/Wholesaler

> "Managing working capital through the supply chain is now business critical for many corporate treasurers."

Andrew Betts
Global Head of TTS Trade Sales & Client Management at Citi

82% of global corporates report customer credit profiles are weakening. When surveyed on how they will manage receding margins, 29% of large corporate said they will increase bank financing against receivables. 21% plan to use traditional trade financing and one in ten will either extend discounts for early payments (12%) or negotiate shorter trade terms (12%).[11]

[11] East & Partners - Citi Large Corporate Survey, 2022

Pauline Kontos from Citi's Global Working Capital Advisory practice, recommends that global corporates have some best practices on their radar:

48% of global corporates responded that they are grappling with trapped liquidity in DPO

- **Standardizing Terms with Industry Peers:** Buyers can free cash trapped in payables and improve DPO by benchmarking and aligning payment terms with best in class peers.

Supporting supply chain resiliency is a top priority

- **Supply Chain Finance:** To help suppliers facing higher financing costs, Buyers can partner with Citi to implement an SCF program which allows suppliers to accelerate receivables, reducing Days Sales Outstanding (DSO) and access financing at more efficient rates, leveraging the credit strength of the strong buyer.

- **Dynamic Discounting** can also provide accessible liquidity to suppliers while helping the buyer reduce cost and improve margins.

- **Purchase Order (PO) Financing:** Further support suppliers in need of working capital to procure inventory and inputs by providing working capital finance when the Purchase Order is received.

- **Commercial Letters of Credit:** For new buyer/supplier relationships Commercial LCs help mitigate risk, particularly with new counterparties and/or new markets/geographies.

Capitalizing markets and distributors

- **Trade Working Capital Loans can be leveraged for entities in markets with high capital costs, or in lieu of intercompany funding to procure inventory and inputs.**
  For companies operating in multiple regions with varied capital controls, Trade and Trade Working Capital Loans can serve the same purpose as an in-house bank, by centralizing liquidity.

- **Accounts Receivable finance helps infuse liquidity into sales channels while improving the seller's liquidity and DSO**

Europe, Middle East, Africa

After weathering an energy crisis EMEA can continue its progress on digitization in trade and strengthen the buyer-supplier relationship.

The Shifting Energy Paradigm

The emergence of the war in Ukraine was cause for shockwaves in global energy markets as Europeans found themselves in the throes of an energy crisis. By December 2022, Russian gas supplies were cut by nearly 80%. Consumers reckoned with dramatic price increases for wholesale electricity and gas[12].

Today, EMEA already is a leader in digital trade and in many cases is a pacesetter in adopting environmental, social, and governance (ESG) measures into standard operating procedures. Sue Kingman, Global Head Trade Client Success, Treasury and Trade Solutions, Citi explains "The good news is that many corporates were already examining their ESG footprint prior to the conflict in Ukraine but these efforts have a newfound sense of urgency" as EMEA has weathered challenges well but is cognizant that risks still remain.

Limiting impacts to margin and preparing an organization for the capital expense needed to transition business models are both an exercise in managing working capital. To limit the effects of margin pressure, many seek to free cash trapped in the cash conversion cycle, while monetizing receivables can be an effective way to fund capital expenditures.

When a large European telecommunications firm was thinking about how to meet its emissions targets and particularly its Scope 3 targets, it realized that the path forward requires the help of its own suppliers.

The solution for the telco provider was to deploy a sustainable supply chain finance program where suppliers can gain access to preferential supply chain finance rates in exchange for disclosing and showing improvements in their environmental data. The hope is the program will give suppliers reason to reduce their carbon footprint and as a result help the firm meet its own Scope 3 goals.

To help with the ambiguity of ESG criteria the client enlisted the help of a global non-profit, experienced in helping the world's institutions with their environmental disclosures, to jointly develop a framework to help encourage suppliers to reduce their own carbon emissions.

[12] IFM, *Beating the European Energy Crisis, Dec. 2022*

> “The biggest risk for our export businesses is clearly a possible recession; on the one hand our suppliers have been chasing changes/advances in payment terms with us for a few months now and on the other customers are seeking longer payment terms on their orders.”
>
> **Corporate Treasurer, US$2.2Bn**
> Italian Manufacturing Group

Leaning on Distribution Channels

The effects of restrictive monetary policy from both the European Central Bank and the Bank of England have been wide and varied. Growing costs have curtailed margins and have had real impact on creditworthiness.

#1

Impact of Rising Interest Rates in EMEA[13]

Negative Margin Impacts **(33%)**[14]

Corporates are increasingly looking at accounts receivable financing solutions to help suppress the adverse effects on elevated costs. According to research carried out by Citi, in partnership with East & Partners, 20% of EMEA corporates responded that they will increase bank financing against receivables. “We’re seeing an up-take in accounts receivables solutions due to the efficiency and flexibility they afford. Besides the portfolio approach, credit enhancement through insurance channels is assisting corporates not only to monetize their entire portfolio for efficiency but also provides them cross border coverage across their buyer base.” Sanjeev Ganjoo, Global Head of Trade Receivable Finance and CCB Trade Product, Treasury and Trade Solutions, Citi.

Outside of receivables finance, 21% plan to use traditional trade financing and one in ten will either extend discounts for early payments (12%) or negotiate shorter trade terms (12%).

> “For Cross Border trading, Letters of Credit with extend payment terms and bank confirmation can help and are proving to be an important tool during the current economic cycle due to their ability to mitigate risk.”
>
> **Pauline Kontos**
> Global Trade Working Capital Advisory, Treasury and Trade Solutions, Citi

Three out of four corporates in EMEA report that customer credit profiles are weakening (77%). This has put a renewed premium on liquidity and the importance of a strategic approach to liquidity management.

[13] East & Partners-Citi Large Corporate Survey, 2022

[14] East & Partners-Citi Large Corporate Survey, 2022

> "The good news is that many corporates were already examining their ESG footprint prior to the conflict in Ukraine but these efforts have a newfound sense of urgency."

Pushing the Digital Agenda

While many EMEA based corporates were already well on the way on their digital journey, pandemic disruption and the rising costs that followed added further urgency for corporates pursuing their digital agenda. Still, tremendous whitespace exists for EMEA and represents an area of significant opportunity for corporates. Digitizing the end-to-end trade process remains a significant area of opportunity for EMEA based and global, corporates to gain operational and working capital efficiencies.

Digital Technology Uptake Leaders

One in three global corporates are using **emerging digital tech (31%), headed up by EMEA (43%) and North America (31%)**

The good news for EMEA corporates is that they are already some of the global leaders when it comes to the adoption of emerging technologies. Still, less than half of EMEA survey respondents, 43%, are currently using new emerging technology such as marketplaces and distributed ledger technology.

"Technology implementation and digitization are the right investments to be made and require not just resources, but a very good understating of process enhancements coupled with risk mitigations. On a standalone basis it is tough to justify expense when the outcome and efficiencies with a lower risk environment are not fully understood" explains Parvaiz Dalal, Global Head of Payables, Treasury and Trade Solutions, Citi, however "there are multiple areas of digitization which if properly adopted could achieve real tangible outcomes with operational efficiencies in a secured environment."

> "Big barrier to engaging with blockchain has been the readiness of our global suppliers. We're good to go as is our trade bank but maybe only 20% of our supply partners are "there".
>
> **Treasurer, US$3.7Bn**
>
> UK Wholesale Distributor

One such area is digital onboarding for suppliers. Only 24% of respondents in EMEA have digital supplier onboarding, compared to 45% in North America. The reality is transacting with a new vendor isn't just a simple flip of the switch and can often be a fragmented process. Reducing the time it takes to onboard a new vendor allows corporates to pivot between suppliers, adding additional resiliency to their supply chain.

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North America

Transitioning business models continues to provide new sources of opportunity and offers corporates the chance to streamline legacy processes.

ESG Behavioral Shift

Like other regions, North American corporates feel that their progress on ESG has been impaired by lack of clear ESG definitions. According to research carried out by Citi, in partnership with East & Partners, 27% of survey respondents from North America felt that a lack of consistent definitions impeded their progress on ESG related measures, more than their EMEA peers at 25%. When asked what's the important aspect of ESG when it comes to running a business, 30% of North American respondents felt that it was improving the proportion of renewable energy that powers their operations.

Sustainable supply chain finance programs, such as the one offered by Citi, are one of the many tools corporates can utilize to help them meet their ESG related goals. Suppliers are able to access financing at favorable rates in exchange for meeting defined ESG criteria. "It's not a one size fits all solution; corporates can customize and zero in on what matters to them." Ian Kervick-Jimenez, Global Trade and Working Capital Advisory, Treasury and Trade Solutions, Citi.

"For better or worse, ESG covers such a broad array of possibilities. Sure, environmental considerations are one aspect, but social and governance are very much components as well and there are opportunities to progress on these measures as well."

Pauline Kontos
Global Trade Working Capital Advisory, Treasury and Trade Solutions, Citi

To help meet the fast-growing demand for electric vehicles in the North American markets, Solus a major producer of copper foil used in EV batteries, set out to build a copper foil manufacturing facility in Canada, the first of its kind in North America.

To bring Solus's ambitions to fruition, Solus sought to employ an Export Credit Agency (ECA) financing structure. The transaction was supported by a consortium of financial service firms and was unique in that it involved a partnership between K-SURE, the Korea Trade Insurance Corporation and EDC, Export Development Canada, a first for the two ECAs.

The transaction was a win as copper foil is a key component in EV battery production and provides stable supply for an essential component that's growing in demand. It also represents substantial foreign direct investment in Canada and will support the creation of high skill and high wage jobs.

> "Our supply chain digitization efforts started with real time tracking. Both we and our suppliers can get anytime updates on the same platform which is saving us a lot of administrative work arounds and improved our supplier relationships bigtime."
>
> **Treasurer, US$5.5Bn**
> USA Distributor/Wholesaler

Modernizing the Supply Chain

The worlds hyper efficient supply chains, including those of US corporates, began to show their fragility as they came under stress following the pandemic.

"The extent to which supply chains became disrupted really caught people off guard as strong demand, transportation issues, and geopolitical concerns caused the perfect storm for supply chains" says John Monaghan, Global Head of Trade Working Capital Advisory, Treasury and Trade Solutions, Citi, as "highly efficient supply chains were contingent on being able to procure goods at a moment's notice and then suddenly that was just not the case."

Today about 45% of North American corporates offer the end-to-end digital onboarding of suppliers. The lack of digitization makes executing a pivot from one supplier to another a greater challenge as manual and paper-based processes are both drags on efficiency.

As supply chains remain under the microscope, the conversation has shifted from one of resiliency to one of transitioning business models. Traditional trade finance has been as much a financial tool as a risk mitigation tool. Today, an enormous amount of latent capacity exists for innovation in trade finance.

"Trade and supply chains has long been supported by a complex infrastructure but that's rapidly changing" notes Ozgur Akdeniz, North American Trade Sales & Client Management Head, Treasury and Trade Solutions, Citi, "On a daily basis our conversations with our clients are increasingly rooted in improving on what's been accepted as the status quo for decades. Financing working capital has become a priority for many companies, given the change in cost and availability of liquidity."

Cross Border Trade

In the wake of pandemic disruption, North American corporates found themselves suddenly confronting the fragility of their supply chains. Corporates are reexamining the global footprint of their supply chains and the concept of redrawing supply lines as a tool to add resiliency continues to grow in popularity.

Reexamining where corporates produce and procure from makes sense for organizations. For some products, large in size and/or with arduous production processes, it makes sense to produce closer to their final destinations, limiting shipping costs and minimizing the potential for disruption as additional contract production may not be readily accessible. For North American corporates, Mexico presents much opportunity, including the USMCA agreement and proximity to the US and Canada. Companies like Tesla[15] and Mattel[16] have already taken note.

As an example, in 2022 Citi implemented a program to provide Purchase Order (PO) finance to a supplier of The Gap. This was helpful in the case of supplier who required upfront deposits to support pre-payment to mills. For the supplier PO financing offered a more attractive option than using cash on hand to finance large orders during the order-to-pay cycle.

The arrangement afforded the supplier a competitive new source of working capital liquidity while also accelerating their DSO. Simultaneously, The Gap was pleased to be able to capitalize a key supplier without having to use its own balance sheet. Aside from economic benefits, the solution helped fortify the relationship between buyer and supplier while laying the foundation for future stability.

[15] Reuters, *Tesla could begin producing autos in Mexico next year*, 2023.

[16] Economist, *What Barbie tells you about near-shoring*, 2023.

65%

of **North American Corporates** have either **moved** or **plan to move** some portion of their manufacturing capacity.

"Shifting supply chains can be enormously capital intensive but production costs have changed and for some products, there's an argument to be made that it makes sense to produce closer to their final destination."

Adoniro Cestari
North American Head of Trade and Working Capital Solutions, Treasury and Trade Solutions, Citi

When companies expand to new geographic markets, Ron Chakravarti, Head of TTS Client Advisory at Citi suggests CFOs and Treasurers consider a few key points:

- **Is there benefit in setting up local operations or could purchases and sales initially be completed from offshore?** Key considerations include tax impacts and cross-border currency controls.
- **For commercial acceptance aligned with the company's growth expectations, how should local suppliers be paid, or customers be asked to pay?** This will drive decisions on invoicing currency, local bank account and card acquiring requirements.
- **How will local cash management and funding arrangements link to the company's global banking structure?** As companies expand, organizing this correctly is critical for effective control in treasury management, including cost-efficient payments and collections, visibility over cash, and liquidity upstreaming/down-streaming.

"Getting our supplier onboarding practices "right" has made a big difference to how quickly we can allocate business across the chain and adapt to shifts in customer needs."

CFO, US$10.0Bn
USA Auto Parts Manufacturer

Latin America

Shifts in the global supply chain landscape can provide the tailwind needed to supercharge Latin America's growth story.

Gaining a Working Capital Advantage

Gaining a working capital advantage is an exercise in minimizing disruptions as well as maximizing efficiency. Since the outset of the pandemic, Latin American corporates, like corporates in the rest of the world, have been stuck playing on defense to help mitigate disruptions. According to research carried out by Citi, in partnership with East & Partners, 67% of LATAM based suppliers feel that expanding their supplier network would counter disruption. 47% feel that "financing earlier in the commercial cycle' would help alleviate disruptions which was greater than both their Western Europe (38%) and North American (20%) peers[17].

Maximizing working capital can be both an operational and financial task. Tools like cash flow forecasting are essentials in helping organizations mitigate any adverse operational impacts on their working capital. Establishing a supply chain finance program can be a useful in helping companies effectively manage their DPO.

Agriculture is a major component of the Brazilian economy and is comprised of a network where small and medium sized enterprises play a substantial role. That's why when a global agrochemical producer operating in Brazil was considering financing options, it was important that the solution support distributors and farmers' need for extended payment terms.

Working with Citi, the client determined that a Trade Distribution Finance Program (DF) that utilizes a Fundos de Investimento em Direitos Creditórios (FIDC) structure would be the right structure to satisfy both their needs as well as their customers' needs. In a FIDC structure the client transfers expected receivables to the FIDC fund in exchange for liquidity.

The structure was a win for both the clients and its customers. The program has a five-year tenor and was delivered through a completely digital client experience. And perhaps most important, the cost-efficient nature of the program helped enable the client to support distributors' and farmers' need for longer payment terms.

17% vs 5%

Emerging Markets credit crunch **THREE TIMES** more concerning for Latin American Corporates than global peers.[18]

41%

of LatAm firms have **20 – 40%** of their working capital **tied up in DPO**[19]

[17] Citi SME Supplier Survey, October 2022

[18] East & Partners - Citi Large Corporate Survey, 2022

[19] East & Partners - Citi Large Corporate Survey, 2022

“The opportunity nearshoring offers Latin American countries is tremendous with the Interamerican Development Bank (IDB) estimating that nearshoring could result in USD $78 billion in additional exports and services.”

Mauricio Tarazona
LATAM Head, Working Capital Products

Steps for Growth

The opportunity nearshoring offers Latin American countries is tremendous with the Interamerican Development Bank (IDB) estimating that nearshoring could result in USD $78 billion in additional exports and services. Mauricio Tarazona, LATAM Head, Working Capital Products, Treasury and Trade Solutions, Citi sees the shift in production yielding increased opportunity for the auto industry, textiles, pharmaceuticals, and renewable energy[20].

Supporting SMEs remains a crucial element to Latin America’s growth story. 61% of survey respondents indicated that they have primarily smaller suppliers, of which 70% were based in LATAM. “Latin America is a region that’s lead by small and medium sized enterprises (SMEs)” says Tarazona and highlights that “banks have developed technology to make SCF more accessible to the large and underserved community of SMEs in Latin America.” Making supply chain finance more accessible has been a crucial step as this funding mechanism provides SME suppliers with access to liquidity should they need it.

Advancing the ESG narrative is growing in importance in Latin America as “Companies in all industries recognize that their activities have a tangible impact on people and the planet” says Tarazona who notes “this is of particular concern in regions such as Latin America where social and environmental challenges are significant.” Corporates have an opportunity to leverage sustainable SCF programs, such as the one offered by Citi, to unlock an incentivized discount rate based on independent certification of ESG metrics.

The Digital Journey

LATAM corporates trail peers in other regions on digital adoption but the good news is that LATAM corporates have an opportunity to bypass the development phase in many

When it comes to progressing on ESG measures it’s a team effort. That’s why a Brazilian aluminum products producer with a keen eye for sustainability turned to Citi as banking partner for help structuring an ESG-linked loan.

The structure put forth allows the firm to receive a premium or discount on margin annually in exchange for meeting CO2 related KPIs for Scope 1, 2 & 3 emissions. For help validating the strength of the company’s defined KPIs, Citi turned to Sustainalytics for a second party opinion.

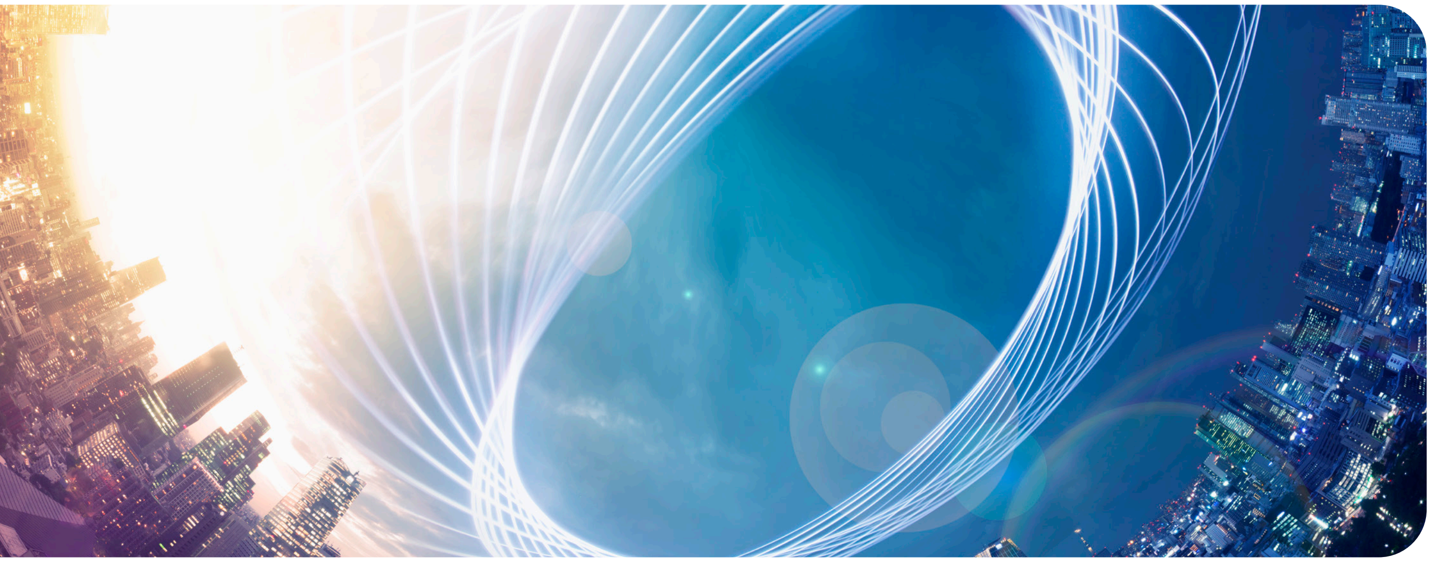
Citi has committed to financing USD $1 trillion in sustainable financing and the structure put forth supports the aluminum producer in their mission to reduce emissions along its aluminum production process.

[20] BCR, Latin America: Trends and Opportunities, 2023.

technologies. Corporates located in LATAM markets are well positioned to take advantage of development in new technologies and leapfrog older ones.

Governments across multiple countries have enacted new legislation focused on preventing fraud. The result has been an overall more positive trading environment, however many companies, in particular those operating across multiple boarders, find themselves having to navigate an increasingly complex environment. For that reason, managing varied regulatory requirements has become an essential component of digitization. Companies operating across multiple borders experience varied reporting requirements.

The Latin America region is led by small and medium-sized enterprises. To help meet the needs of these smaller suppliers, technology providers have taken steps to make supply chain finance more accessible and today, Citi has digital onboarding tools live in eight Latin American countries.



"With the increased demand for more sophisticated and accessible Supply Chain Finance solutions, another set of critical elements are playing an important role, and those are ESG and Global Food Security. Being Latin America is a major commodity producer and exporter, the region gained critical importance in addressing one of the most important topics for the world's population today: food security. While LATAM has been stepping up in helping to address this important topic, it also needs to ensure that commodities are produced in a sustainable way, both socially and environmentally speaking."

Andre Carvalho
LATAM Head of Trade and Working Capital Solutions,
Treasury and Trade Solutions, Citi.

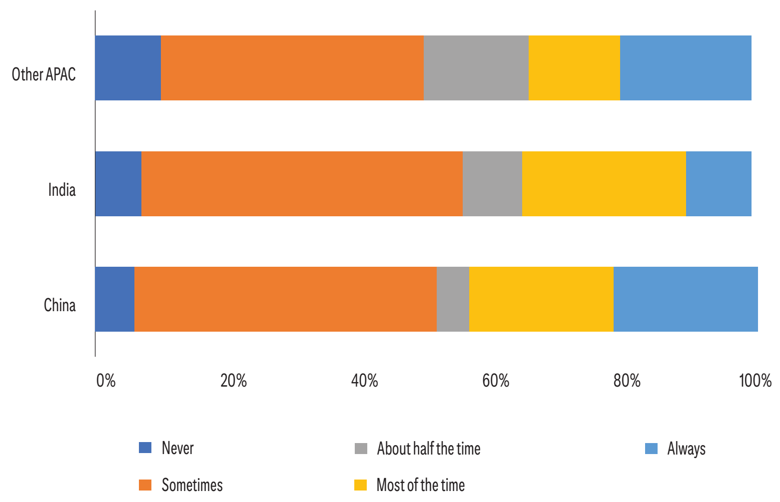
Asia-Pacific

Asia is at the heart of global trade with its rapid ascension as a major trading region and role as the "world's biggest factory." Intra-regional trade represents more than half of total trade in Asia. Hence an important part of navigating Asia is being able to manage multiple markets and leverage the interdependencies between economies. The development of e-commerce and digital adoption of new technologies is driving easier, faster trade flows – both in the B2B and the business-to-customer (B2C space).

Moving Towards a Complete ESG Ecosystem

For many corporates in the Asia-Pacific region, especially those operating across borders, ESG has become a must have. As suppliers to much of the world, suppliers in APAC are increasingly being ask about their ESG standards.

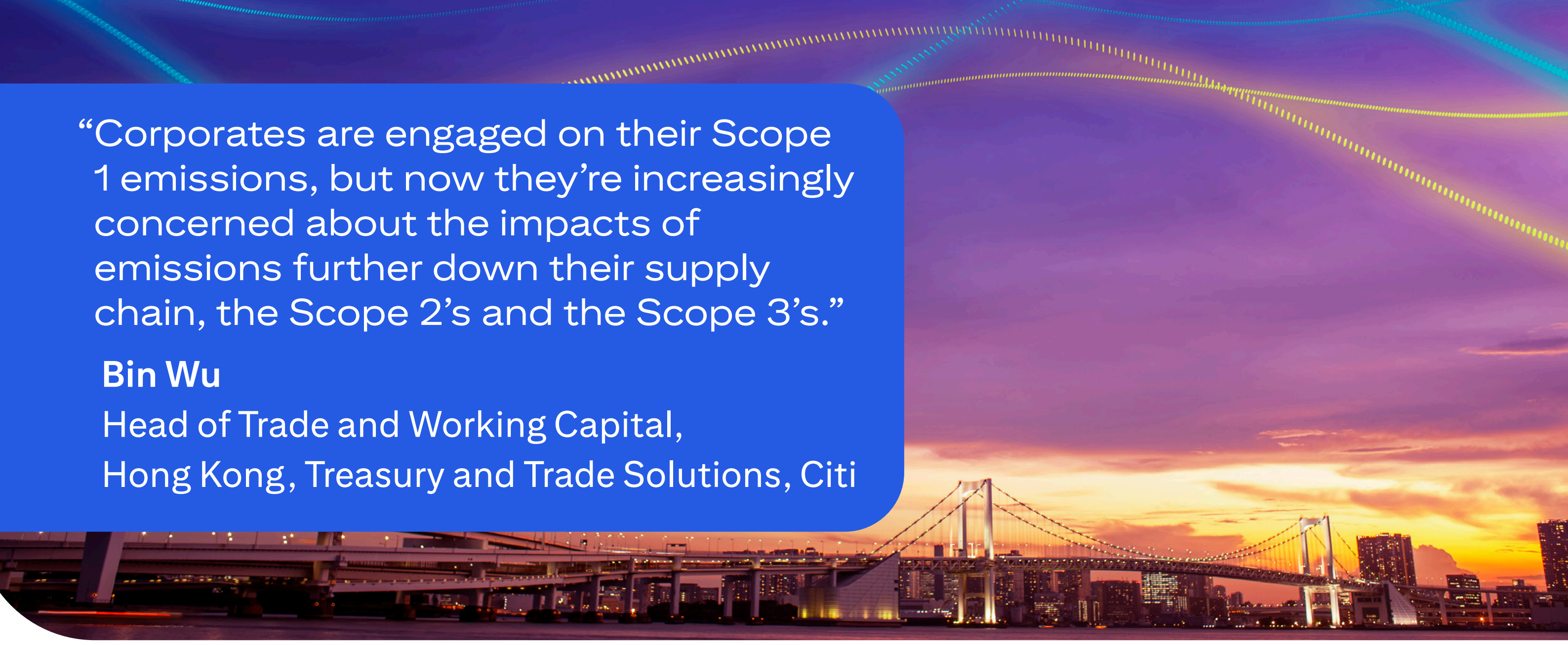
Figure 3. Frequency of Customers' Request for Supplier's ESG Goals and Practices



Source: Citi SME Supplier Survey.

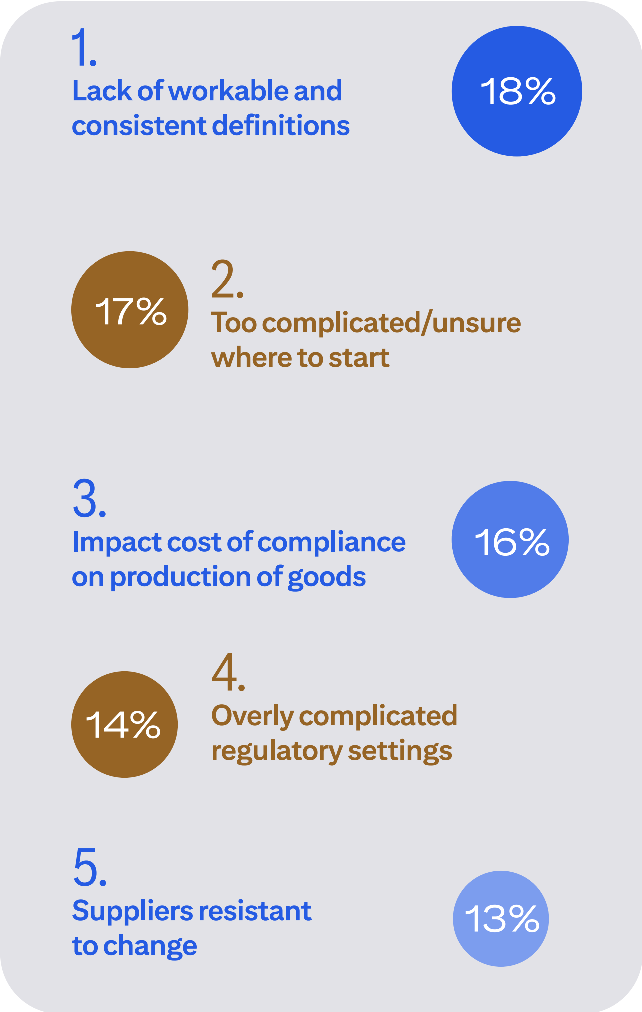
The path forward for progressing on ESG measures is not abundantly clear. According to research carried out by Citi, in partnership with East & Partners, corporates in the region have hit multiple barriers on their sustainability journeys, from struggling with inconsistent definitions and high compliance costs, to an overly complex regulatory environment and suppliers who are resistant to change. "Many of our corporates are suppliers to transactions all over the world, that means having to navigate ESG both home and abroad." Megha Chopra, Asia Pacific Head of Trade Sales and Client Management, Treasury and Trade Solutions, Citi.

[13] Citi SME Supplier Survey, October 2022.

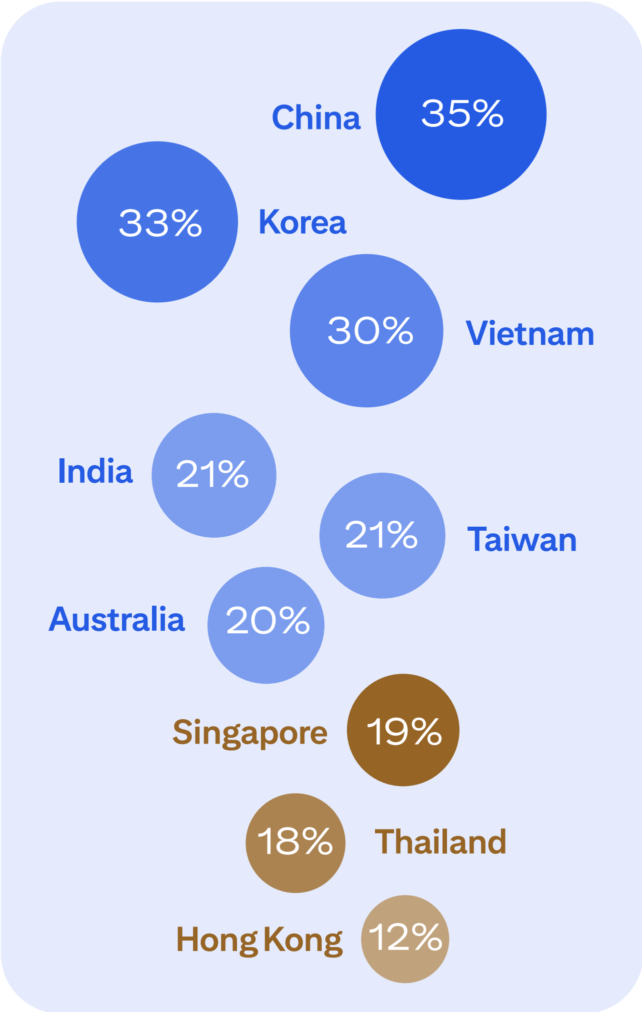


> “Corporates are engaged on their Scope 1 emissions, but now they’re increasingly concerned about the impacts of emissions further down their supply chain, the Scope 2’s and the Scope 3’s.”
>
> **Bin Wu**
> Head of Trade and Working Capital, Hong Kong, Treasury and Trade Solutions, Citi

Top five obstacles to greater ESG supply chain integration



Proportion of Renewable Energy Used in Operations



When considering the day to day of running their businesses, APAC corporates like those in other regions, view improving renewable energy use as the ESG aspect most important to them. 23% of respondents surveyed in Asia indicated that they are keen to improve the volume of renewable energy that powers their operations. Recognizing the challenge and cost associated with improving upon ESG, 10% voiced that accessing government funding and tax relief are crucial to making further progress on their ESG agenda.

In response to the growing demand for ESG factors, corporates are seeking to embed ESG measures within their supply chain. One tool proving useful is a sustainable supplier finance structure (SSCF), like the one offered by Citi, as sponsors can incentive suppliers to adhere to the ESG criteria that matters most to them in exchange for preferable financing rates. The benefits are numerous. Not only does it help corporates progress towards a unified ESG ecosystem, but it helps essential suppliers save on their interest financing expense.

When a German industrial and consumer heavyweight wanted to accelerate its sustainability journey in Asia, it realized that it needed to join forces with its suppliers. In fact, their suppliers had as much impact on its sustainability metrics as the producer's own activities.

The solution was a sustainable supply chain finance program to increase sustainability across the ecosystem by incentivizing environmental and social improvement while also enhancing supply chain resilience.

The buyer already had an existing supply chain financing structure, which its suppliers could access. But it decided to create an enhanced program for suppliers that could demonstrate strong or improving sustainability performance to access financing at a preferential rate.

One of the challenges companies encounter when setting up such a program is the complexity in measuring and monitoring supplier performance against independent sustainability metrics. To address this, the buyer partnered with a specialist company to provide independent assessments, reviewed every three years.

Supply Chain Resilience

The operating conditions since the outset of the pandemic, including geopolitical tensions and the rising interest rate environment, have reshaped the importance of resilience in both physical and financial supply chains. The cost of capital has surged across industries with disproportionate effect on those with lower credit ratings. In response to the evolving environment APAC corporates are considering a range of strategies to mitigate the effects of disruption and to build further resilience into their supply chains.

"Corporates are adding more suppliers to reduce concentration risk especially for critical supplies. Another building block for robust physical supply chain is the geographical diversification of supplier base to offset geopolitical risks" says Megha Chopra, Asia Pacific Head of Trade Sales and Client Management, Treasury and Trade Solutions, Citi. Much of the supplier diversification has been within Asian markets, with a few moving closer to the US. As energy costs have risen in Europe, we have also seen manufacturing shifts into Asia for some high energy consumption industries. Overall, the disruptions have been Asia accretive with more supply chains being created in multiple countries in Asia.

Through research completed by Citi in partnership with East & Partners, an estimated one in four corporates in the regions view escalating tensions as a top threat to supply chain stability. Greater supplier integration was a focus for 58% of respondents, who cited it as a way to face down the latest economic headwinds.

To improve supply chain resilience, one in two APAC based corporates are consolidating their inventory holdings by focusing on key items while eliminating others.

If companies across Asia hoped that post pandemic would mean easier times ahead, the first few months of 2023 have signaled otherwise.

"Whether corporates have one or two big suppliers in one country, or many suppliers across different geographies, they have to take extra care of their supply chains," says Chopra, "If they don't, these supply chains could become an acute area of risk."

55% of respondents in APAC indicated that their supply chain partners needed their support in order to expand.

Top strategies companies are using to improve supply chain resilience:

GLOBAL TOP THREE

- 58% Greater supplier integration
- 51% Focusing on our key inventory items
- 37% Increasing inventory buffers using "jc"

OTHER STRATEGIC RESPONSES

- 37% Expand supplier network in new markets
- 26% Lengthening customer supply time
- 24% Reducing number of suppliers in our panel
- 22% Bringing supply chain partner shipment timing closer
- 21% Expand supplier network in existing market

> “We’ve had to become much more proactive with our suppliers and really treat them as partners rather than simply providers.”
>
> **Treasurer, US$1.8Bn,** Indian Manufacturer

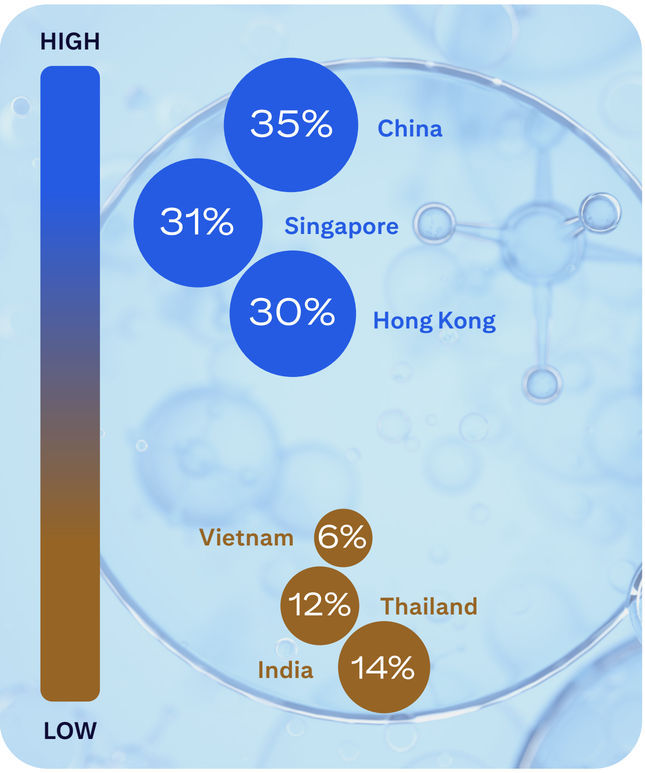
Suppliers, many of whom are typically small in size and of varying creditworthiness, are finding that the difference in investment grade verse noninvestment grade finance can be substantial. Supplier finance programs, not only can help buyers manage payment terms but offers suppliers an opportunity to gain early access to liquidity, financed at the often higher credit rating of the buyer.

The Digital Agenda

Asia’s role is global trade has been solidified ever since the inception of the Silk Road, linking East and West. Long dominated by China who has served as the world’s supplier, other players are slowly joining the conversation. Digital uptake and government push has been enablers.

Digitization is making it easier to trade cross border. “Digitization is on the agenda for many of the governments in the region” explains Pauline Kontos, Global Trade Working Capital Advisory, Treasury and Trade Solutions, Citi “and today much of the historically paper intensive trade processes have given way to new electronic platforms.”

Digital Uptake in Trade



Historically, traditional trade products, such as letters of credit, have served as not only financing instruments, but provided critical risk mitigation when transacting with unknown parties in the different corners of the world. Digitization has help reduced the onerousness of these transactions while enhancing their risk mitigating properties.

Singapore, China, and Hong Kong have accelerated the digital agenda and have seen an uptick in adoption as governments in Asia have been fervent in advancing digitization in cross border trade. Other economies in India and ASEAN are also moving fast on digital adoption for simpler and more efficient cross border trade with global partners. Santosh Dujari, India Sales Head, Treasury and Trade Solutions, Citi, says “in India, improving ease of doing business has been a strategic priority of the government and simplifying cross-border trade has been at the core of this transformation[21].

> “With a two-to-four-week implementation timeline, digital trade loans are growing in favor with both goods and service providers due to their flexibility and ability to support a corporate’s working capital needs online.”
>
> **Bin Wu**
> Head of Trade and Working Capital, Hong Kong, Treasury and Trade Solutions, Citi

> “A stronger financial supply chain results in a more robust physical supply chain.”
>
> **Chris Cox**
> Global Head of Trade and Working Capital Solutions, Treasury and Trade Solutions, Citi

[21] Citi, Supply Chain Synergies, 2023

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