



A GROWING POOL OF ESG CAPITAL

Better together to unlock Scope 3 value.

Sustainability-linked loans now make-up a quarter of the total loan volume in Australia, equating to around \$7 billion in the first quarter of 2022, according to ANZ.

Beyond the financial challenges and opportunities, physical risks associated with unpredictable weather events are having drastic impacts on supply chains and industries.

Cost of net zero supply chains

55%

of required investment must reach SME suppliers

Source: BCG

Although regulation in Australia is lagging, the SEC in the United States released draft rules in March which would require firms to report Scope 3 emissions, covering suppliers' carbon footprints.

According to CSIRO, Australia's fire season could extend by between 11 and 36 days by 2100. By the end of January this year, the NSW construction industry had already exhausted a typical budgeted allocation for lost weather days twice over, due to the rain bomb.

Corporate supply chains

95%

of suppliers are SMEs

Source: Earlytrade

This will have implications for Australian firms with US compliance exposure, even before domestic regulation catches up.

Suppliers: 'What's E.S.G.?'

The challenge for even the most bullish corporates on ESG is low awareness and understanding among the fragmented but important SME tail in their supply chains.

Low awareness

92%

don't understand the acronym

Source: SEC Newgate

In terms of delivering net zero supply chains, more than half of the investment required to decarbonise supply chains must reach the highly diverse cohort of SMEs which make-up over 90% of corporate supply chains.

Research by SEC Newgate showed that 70% of people haven't heard of ESG and 92% don't understand what the acronym means.

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Survey of Australian corporate finance specialists

83.3 %

believe supply chain operations are important to ESG goals

16.7 %

have strong influence over supplier performance; 58.3% have minimal or moderate influence

66.7 %

agreed incentivising suppliers' ESG performance would improve influence

Source: Earlytrade

As regulation continues to take shape, much of corporate Australia appears intent on pushing forward, but they will only be able to go so far without government-led terms of reference to help guide and motivate SME business owners.

Infrastructure Partnerships Australia has urged the federal government to deliver an actionable nation-wide decarbonisation agenda or risk missing the "wall of private capital" looking for a home in net zero emissions innovations.

However, in a new higher cost environment, many medium-sized private or family-owned businesses supplying Australia's large corporates will have little spare capacity to proactively comprehend and comply with reporting requirements.

Earlytrade's liquidity marketplace has proven a highly effective model for corporates needing to incentivise engagement from suppliers, especially small and medium businesses.

Corporates will need to do more to motivate and educate suppliers around reporting, such as introducing preferential payment terms and ESG-linked early payments, rather than waiting for evolving regulations.

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About Earlytrade

Earlytrade helps corporate buyers address their biggest challenges through their supply chains by creating a more valuable and more productive use of liquidity.

Earlytrade's verticalised liquidity marketplace solutions empower subcontractors and suppliers with on-demand payments, and give large buyers the tools to drive sustainability outcomes in their businesses and in their supply chains.

Now connecting nearly 100,000 suppliers with billions of dollars in on-demand liquidity, Earlytrade is the largest working capital marketplace in Asia Pacific.



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