KEYNOTE INTERVIEW

Decarbonising supply chains: the role of banks

Banks can play a key role in supporting Asian corporates with supply chain decarbonisation efforts, say DBS's Terence Yong and Sameer Khan

Asia, the global manufacturing hub, faces unique challenges in decarbonising its industrial supply chains. To find out more, we spoke with Terence Yong, group head of sales for global transaction services at Singapore-headquartered bank DBS, and Sameer Khan, the bank's sales and solutioning head for ecosystems and sustainable supply chains.

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Q How does DBS approach the issue of decarbonising supply chains?

Terence Yong: DBS, initially established as a development bank, was founded to support Singapore's industrialisation. Embedded in our core is the idea of being sustainable and socially relevant. This is reflected in our vision to be the 'Best Bank for a Better World'. We were one of the first banks in Asia to make net-zero commitments and release a transition finance framework to guide and support clients on the needed transition journey towards sustainability.

Being an Asia-centric bank, operating in the production markets at the manufacturing axis of Greater China, Southeast Asia and South Asia, we have the opportunity to go beyond loans and bonds to amplify sustainability expectations, by influencing and incentivising suppliers in Asia to invest in transition. This extends from raw material purchases to logistics; from sourcing of renewable energy to investing in energy and waste management. We are a financier, adviser and partner to the supplier ecosystem in Asia, in pursuit of Scope 3 decarbonisation.

Q Can you put into context the scale of the challenge in decarbonising supply chains in Asia?

Sameer Khan: Asia is the world's manufacturing hub and houses many critical links in global supply chains. The continent accounts for 60 percent of global CO2 emissions. Reducing emissions can be daunting for sectors with particularly complex supply chains in food and agriculture, automotive, consumer products, chemicals as well as electronics.

While investments in renewable energy infrastructure have increased multi-fold, Asia is still highly dependent on fossil fuels for energy. Its fossil-based energy infrastructure is younger than the global average. This energy dependency, combined with the manufacturing intensity, makes the economic return on decarbonisation a harder trade-off vis-à-vis growth and consumption aspirations.

For Asian suppliers, the challenges with decarbonisation often revolve around cost competitiveness and maintaining margins when investing in cleaner technologies. While these challenges affect both large corporations and SMEs, the impact is more keenly felt by SMEs, as they often lack the access to capital and technical resources to decarbonise.

Q What is the role of banks in enabling transition or decarbonisation?

TY: It's about providing increased financing capacity, as well as financial expertise and innovation in developing financial products directed towards supporting sustainability and decarbonisation. Our goal is to balance long-term environmental benefits with competitive financial returns, ensuring the transition is both sustainable, measurable and economically sound.

By strategically targeting transition financing towards supply chains, banks are inherently de-risking suppliers' relationship with their buyers, bringing the bank closer to procurement goals as well as achievable and measurable sustainability outcomes for the buyers and sellers. This allows the bank to be at the forefront of industry standards, and influencing the economics of low-carbon investments, making greener options more attractive and competitive to undertake.

However, this needs to be complemented by clear and consistent policy frameworks. Banks alone cannot drive the transition; we need policymakers to establish conducive regulations and inter-operable standards. For example, initiatives such as the Monetary Authority of Singapore's Singapore-Asia Taxonomy for Sustainable Finance, which sets detailed thresholds for green and transition activities, are helping to create clarity around what constitutes sustainable investments.

By virtue of our extensive interactions across various industries and sectors, we contribute our views on such industry and policy matters through regular participation in various industry or government-led working groups. Our advocacy efforts focus on supporting the transition, building sustainability-related skills and jobs, and enhancing reporting and disclosures.

Q How can banks support SMEs in the supply chain to transition towards greener practices?

SK: For SMEs, transitioning to greener practices is often constrained by limited financial and technical resources. Banks can play a role in bridging this gap by providing SMEs with access to finance, knowledge and partnerships that help them adopt sustainable practices without compromising their business viability.

For example, we partnered with one of Singapore's largest supermarket chains to help about 1,000 SMEs in its supply chain become more resource efficient and reduce their carbon footprint. This entailed a comprehensive sustainability programme ranging from upskilling workshops and sector-relevant solutions to sustainable financing solutions at preferential rates.

On a regional scale, last year, DBS announced the rollout of a collaborative finance tool with H&M, providing apparel suppliers with direct financing and technical support to improve energy efficiency and reduce carbon emissions. In just seven months, this proof-of-concept yielded a 50 percent reduction in emissions in one of H&M's manufacturing sites, achieved through the installation of solar panels, energy-efficient motors, and water conservation technologies. We have since built on this by partnering with the Future Supplier Initiative to decarbonise the fashion sector.

Partnerships like these incentivise large companies to take on more responsibility for supporting their suppliers – providing funding, training, and resources that can reduce the burden on SMEs to meet stringent sustainability goals.

Q Looking ahead, what innovations or trends do you see shaping the future of supply-chain decarbonisation?

TY: Digitalisation has become a key focus area for corporates. We expect it to play a transformative role in the future of supply-chain decarbonisation. Digitalisation, including the use of artificial intelligence and blockchain, will be essential for creating transparent and traceable supply chains. For example, embedding smart meters can help track emissions data in real-time and incentivise suppliers and logistics partners, as opposed to relying on self-assessment questionnaires to track improvements from baseline emissions.

Using solutions such as purpose-bound money for conditional payments for meeting ESG goals, and using cognitive and disclosed data combined with AI for independent ESG risk-scoring are also innovations that support the faster scale-up of the decarbonisation in supply chains. These provide further assurance to the corporates and banks making sustainable capital commitments.

Enabled by technology, deep-tier supplier supply chain financing is another area which is starting to help corporate clients go beyond Tier 1 suppliers and provide payment assurance and cheaper working capital for SME suppliers. For example, the connectivity at a deeper level of complex and multi-tier supplier chains in the built-environment or automotive supply chains can unlock not just cheaper working capital for SMEs down the value chain but enable the information flow of embodied carbon and sharpen life cycle assessments. ■