Financing the sustainability transition

A strategic investment for your business

WHITE PAPER

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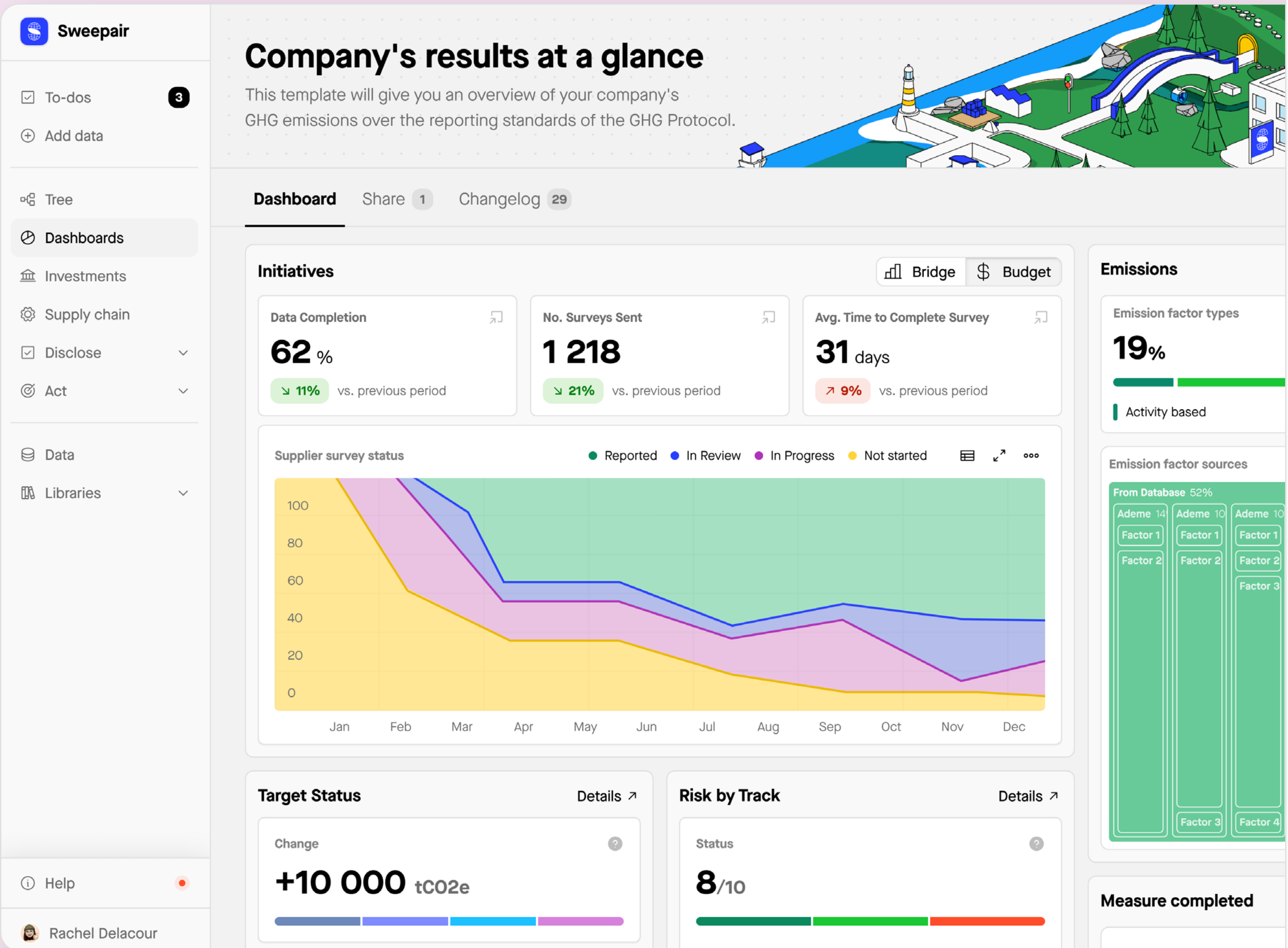
Introduction

As environmental, social, and governance (ESG) issues are growing in strategic importance across many businesses, the role of finance departments in driving sustainability has become crucial. For CFOs and financial directors, the challenge is no longer whether to invest in sustainability, but how to effectively finance and measure the return on these critical investments.

This white paper explores how finance departments can lead the sustainability transition and evaluates the ROI of financing sustainability initiatives, using tools and strategies to ensure that investments align with both financial and strategic goals.

Drive cost efficiency through sustainability performance



The finance department's role in sustainability transition

What exactly does ESG cover?

ESG (Environmental, Social, and Governance) covers specific areas: environmental factors include carbon emissions, waste management, and resource conservation; social factors focus on employee welfare, diversity, human rights, and community engagement; governance examines board structure, executive pay, shareholder rights, and corporate transparency in decision-making processes.

In recent years, the role of the CFO has expanded significantly beyond traditional financial management. While setting decarbonization targets and sustainability strategies is typically the domain of the Chief Sustainability Officer (CSO), the CFO plays a crucial role in making these initiatives actionable and credible. By allocating resources for ESG projects and integrating sustainability considerations into financial planning and decision-making, CFOs ensure that sustainability efforts are not just strategic but also tangible and impactful. Their ability to provide financial backing and credibility is key to turning sustainability strategies into real, measurable outcomes.

By becoming more involved in the transformation of companies towards more sustainable models, CFOs are influencing the way in which CSR is conducted. The same standards that apply to the management of financial data will also apply to non-financial data: reliability and audibility, forecasts and projections, and even budgeting. Like ERP finance, only a digital ESG data management platform can enable the CSO/CFO duo to steer an effective transformation of the company.

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Understanding the scope of financing

When discussing financing for sustainability, it's important to understand the two primary approaches: optimizing existing financial practices, and transforming the business model.

Optimizing financial practices

This approach involves reallocating resources within existing financial structures to support sustainability goals. This could include investing in energy-efficient technologies, improving supply chain sustainability, or achieving ESG certifications. The aim being to both enhance operational efficiency and integrate sustainability into the current financial framework without overhauling the entire business model.

Transforming the business model

Transforming the business model involves more profound changes, such as radically changing the revenue base by developing new products or services and discontinuing others. This requires a significant capital investment and strategic overhaul, reflecting a long-term commitment to sustainability. Such transformations often necessitate substantial shifts in financial planning and resource allocation.

Business benefits of financing the sustainability transition

Business development and innovation

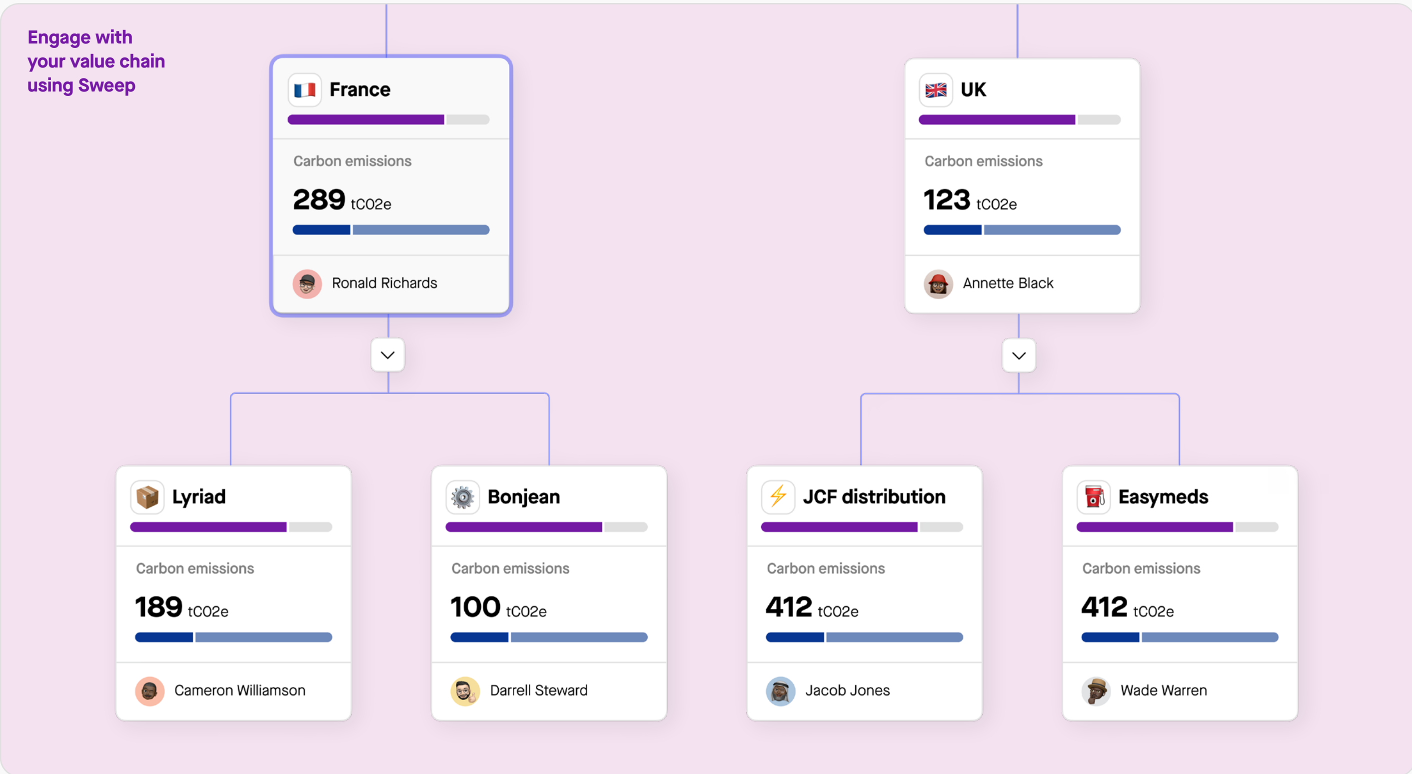
Financing the sustainability transition offers significant opportunities for business development and innovation. By developing products and services that are compatible with global carbon neutrality in 2050, companies can create new revenue streams and explore new markets. Such investments often lead to breakthroughs in technology and operational efficiency. An example of this is one of Sweep's clients, Oxford Photovoltaics, a UK company, spun out from Oxford University. It has recently begun large-scale production of perovskite solar cells which have been found to be considerably more efficient and cost-effective than other solar panel materials.

The adoption of, the adoption of renewable energy sources and waste reduction processes not only reduces operational costs but also opens up new revenue streams through the development of innovative, eco-friendly products. A good example of this is Iberdrola, a leader in renewable energy, which has focused on decarbonization for over 20 years, reducing emissions significantly and closing coal plants. The company aims to triple its renewable capacity to 60GW by 2025 and 95GW by 2030, investing heavily in network infrastructure and expanding its global customer base to 70 million with advanced energy solutions.

Furthermore, companies that embrace sustainability are better positioned to access emerging markets and attract investment.

2050 target for global carbon neutrality

The global carbon neutrality target for 2050 aims to reduce net carbon emissions to zero, balancing emissions with carbon removal. This goal, adopted by countries and businesses, aligns with efforts to limit global warming to 1.5°C, requiring widespread renewable energy use, carbon capture technologies, and sustainable practices across all sectors.



Sustainable supply chains

A sustainable supply chain integrates environmentally and socially responsible practices across all stages, from sourcing raw materials to product delivery. It aims to minimize environmental impact, promote fair labor, reduce waste, and ensure ethical sourcing, while maintaining economic viability and long-term resilience for businesses and communities.

Competitiveness

Financing sustainability is shown to enhance a company's competitiveness by differentiating it in the marketplace. A recent OECD report reveals that the European carbon market, which covers over 40% of emissions from European Union states, has led to increased revenues and asset values for the companies involved, contrary to fears of reduced competitiveness. The study found that while achieving a 10% reduction in greenhouse gas emissions over a seven year period, these companies also increased their revenue by 7% to 18% and asset growth by 6% to 10%, without negatively impacting either employee numbers or profits. These results challenge the notion that carbon regulations hinder economic performance and instead suggest potential benefits from investing in carbon reduction technologies.

Additionally, companies that proactively adopt green technologies report gaining a competitive edge by staying ahead of regulatory requirements and responding more effectively to shifts in consumer preferences. This proactive approach helps companies avoid the costs of late compliance and potential penalties, reinforcing their position in the market.

Resilience

Financially supporting the transition to sustainability builds organizational resilience. Companies that integrate sustainable practices are better equipped to handle environmental and regulatory risks. For example, businesses that invest in energy-efficient technologies or sustainable supply chains are less vulnerable to fluctuations in energy prices or raw material shortages. During the energy crisis caused by the ongoing war in Ukraine, the companies that switched to local energy sources have been the most resilient, maintaining operational stability while others faced supply disruptions and soaring costs.

Recent research from Accenture shows that companies with consistently high ESG performance achieved 2.6 times higher total shareholder returns and 4.7 times higher operating margins compared to those with medium ESG performance. These top-performing companies are also more resilient, effectively managing ESG risks and resources while seizing growth opportunities in a low-carbon economy.

By anticipating and addressing potential disruptions, these companies can ensure continuity and stability in their operations.

Moreover, enhanced resilience through sustainability can improve a company's reputation and reliability, making it a more attractive partner for investors and stakeholders who prioritize long-term stability and risk management.

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Talent attractiveness

Investing in sustainability not only benefits the company but also makes it more appealing to top talent. A recent study by Deloitte, found that 69% of employees want their companies to invest in sustainability efforts, including reducing carbon, using renewable energy, and reducing waste.

Aligning with employee values can lead to higher job satisfaction, lower turnover rates, and a more engaged workforce. In a competitive job market, being recognized as a leader in sustainability can significantly enhance a company's ability to attract and keep skilled professionals.

Strategies for financing the transition and boosting ROI

For Chief Financial Officers and Finance Directors, the return on investment (ROI) from financing the transition to a low-carbon economy can be substantial. Let's take a closer look at how strategic investments in sustainability can deliver impressive financial returns and support long-term growth.

Energy efficiency strategies

Energy efficiency strategies for businesses that align with ESG principles include adopting renewable energy sources like solar or wind, upgrading to energy-efficient lighting and equipment, optimizing heating and cooling systems, and implementing smart energy management tools. These efforts reduce carbon emissions, lower operational costs, and demonstrate a commitment to environmental sustainability, benefiting stakeholders.

Optimizing operations for cost efficiency and risk reduction

Energy management

One of the most straightforward ways to save money and reduce your environmental footprint is through energy efficiency. Implementing practices like upgrading to energy-efficient lighting, optimizing heating and cooling systems, and investing in energy management technologies can lead to immediate cost reductions.

Furthermore, transitioning to renewable energy sources, such as solar or wind power, is increasingly cost-effective. As fossil fuel prices rise and renewable technologies become more affordable, investing in renewables not only supports your sustainability goals but also shields your company from price volatility.

Engaging in a Power Purchase Agreement (PPA) can provide long-term stability, allowing you to lock in favorable rates and avoid the unpredictability of energy markets.

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Material use

Reducing material consumption and waste directly impacts your expenses. By focusing on more efficient use of resources, you can lower material costs and potentially reduce operational overhead.

This approach not only helps in cutting costs but also aligns with broader environmental goals by minimizing waste and lowering your carbon footprint. Implementing practices such as recycling, using less material-intensive products, and optimizing production processes can lead to substantial savings and environmental benefits.

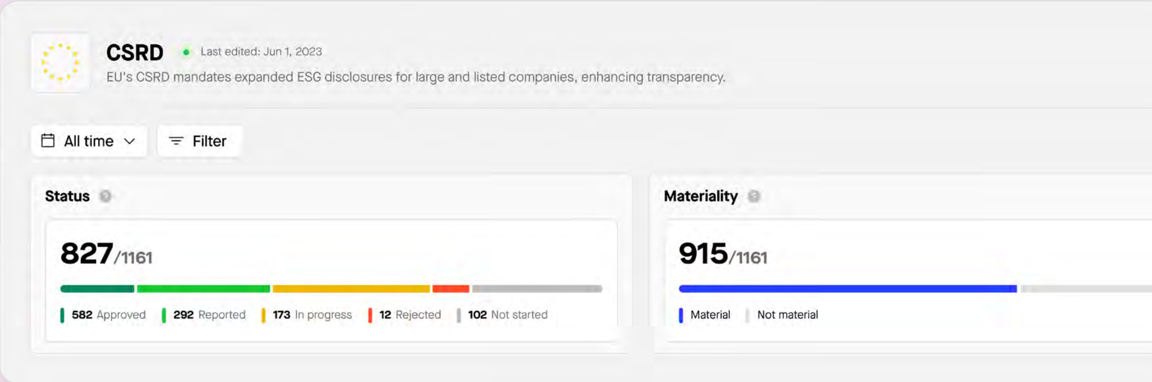
Working conditions

Reassessing and optimizing your working conditions, including telecommuting policies and business travel, can lead to both financial and environmental gains.

Encouraging remote work can reduce the need for office space, lower utility costs, and cut down on business travel expenses.

Implementing a robust business travel policy that favors virtual meetings over physical travel can further reduce costs and CO_2 emissions. These practices not only contribute to your sustainability goals but also enhance employee satisfaction and productivity.

Comply with the CSRD using Sweep



The Corporate Sustainability Reporting Directive (CSRD)

The CSRD is an EU regulation that mandates companies to report on sustainability and ESG factors, such as environmental impact, social policies, and governance practices. It expands the scope of previous directives, requiring more detailed, standardized, and audited non-financial disclosures from large companies, fostering transparency and accountability in sustainability efforts.

Find out more here.

Supply chain management

Your supply chain represents a significant portion of your carbon footprint and financial risk. It's crucial to identify and manage these risks effectively to avoid issues such as stock-outs and lost revenue. Approximately two-thirds of your risks come from your supply chain, making it essential to assess and address potential vulnerabilities.

Regulations like the Corporate Sustainability Reporting Directive (CSRD) assist in identifying and managing these risks. By improving supply chain transparency and resilience, you can uncover opportunities for cost savings, efficiency improvements, and risk mitigation.

Navigating carbon pricing and taxes

Internal carbon pricing

Implementing an internal carbon pricing mechanism can help you put a financial value on emissions within your organization. It can also send out a clear message around the price linked to carbon footprint reduction. This practice involves setting a price per ton of carbon emitted, which can drive internal efforts to reduce emissions. Companies with lower emissions will incur lower costs, creating a financial incentive to invest in cleaner technologies and practices. Internal carbon pricing can also help in making more informed investment decisions and aligning with broader carbon reduction goals.

External carbon taxes and mechanisms

Understanding and preparing for external carbon pricing mechanisms, such as carbon taxes, Emission Trading System (ETS) and the European Union's Carbon Border Adjustment Mechanism (CBAM), is critical. The CBAM, set to be implemented in 2026, introduces a levy on the importation of carbon-intensive products such as cement, steel, and aluminum. This mechanism aims to reduce the carbon intensity of imported goods and incentivize local industries to lower their emissions. Preparing for these changes can help manage costs and ensure compliance. By reducing your carbon footprint, you can also minimize the impact of such taxes and potentially benefit from incentives associated with lower emissions.

The Carbon Border Adjustment Mechanism (CBAM)

CBAM is an EU policy designed to prevent carbon leakage by imposing a carbon price on imports from countries with less stringent climate regulations. It ensures that imported goods are subject to the same carbon costs as those produced within the EU, promoting fair competition and reducing global emissions.

Climate Dividends

Climate dividends are new, standardized, extra-financial indicators. They represent the positive climate impact generated by a company that can be claimed by its shareholders.

Sweep is proud to be one of the founding members.

Find out more

Ensuring compliance and avoiding penalties

Regulatory compliance

Compliance with climate regulations is essential to avoid financial penalties and reputational damage. For instance, the UK's climate disclosure regulation requires medium-sized companies to report on their emissions, with penalties for non-compliance ranging from £2,500 to £50,000. In France, non-disclosure penalties have increased significantly, with fines reaching up to €50,000 and even higher for repeat offenses. Staying compliant with these regulations is crucial to avoiding costly fines and ensuring that your company meets legal requirements.

Reputational risk

The financial impact of reputational damage can far exceed the cost of regulatory fines. Studies have shown that reputational losses can amount to 5.49% of a company's market capitalization, compared to fines that typically represent only 0.045%. Protecting your company's reputation by adhering to climate regulations and demonstrating a commitment to sustainability can safeguard your market position and enhance your brand value.

Part 3

Gaining or maintaining market share

Competitive advantage

Your commitment to sustainability can significantly impact your market position. Major companies are increasingly requiring their suppliers to demonstrate green credentials. For example, Carrefour has mandated that its suppliers commit to Science-Based Targets (SBTi). Similarly, Microsoft has shown that focusing on sustainability can coincide with business growth. Despite a 25% increase in purchased goods and services, Microsoft achieved a 0.5% reduction in emissions due to improvements in operations and sustainable practices.

Winning tenders

Suppliers seeking to work with major companies must showcase their environmental credentials. By integrating sustainability into your business model, you not only enhance your competitive edge but also align with the growing demand for eco-friendly practices. Demonstrating your commitment to sustainability can help you win tenders and retain valuable partnerships.

Science-based targets

Science-based targets are emission reduction goals set by companies, aligned with the latest climate science to meet the objectives of the Paris Agreement. These targets aim to limit global warming to well below 2°C, ideally 1.5°C, by providing a clear, measurable pathway for businesses to reduce greenhouse gas emissions in line with scientific evidence.

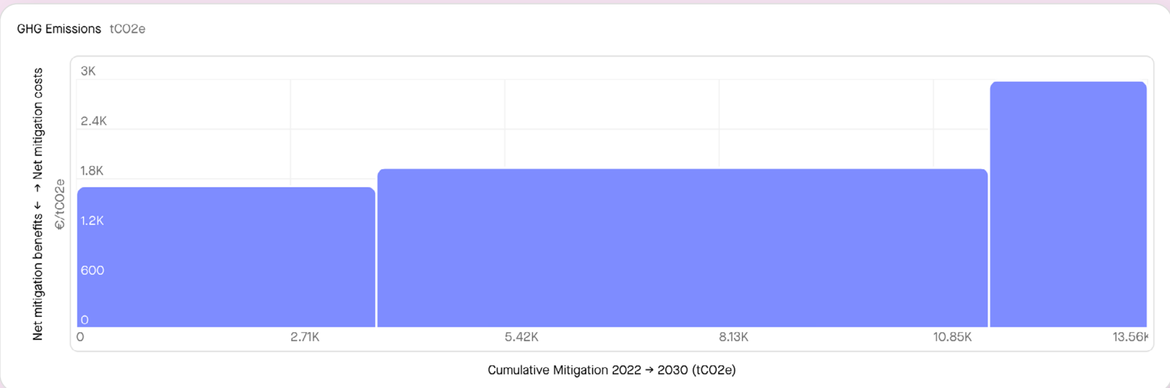
Find out more here.

How the MAC curve can guide your sustainability investments

A Marginal Abatement Cost (MAC) curve is a key tool for prioritizing your sustainability efforts. Here's how it can help:

- Identify cost-efficient actions: Spot the most impactful and cost-effective emissions reduction measures.
- Optimize budget allocation: Focus resources on initiatives with the best financial returns.
- Support strategic decisions: Use the curve to back up sustainability discussions with stakeholders.
- Ensure compliance and growth: Meet regulations while positioning your company as a sustainability leader.

The MAC Curve on the Sweep platform



Sustainability transition – the key to future-proofing your business

The finance department is crucial in steering the sustainability transition by not only financing green initiatives but also identifying new growth opportunities that ensure long-term resilience. CFOs and financial directors must balance profit maximization with responsible management of natural resources, aiming for growth that sustains both the company and the environment.

Effectively integrating sustainability into financial planning enhances competitiveness, resilience, and talent attraction while maintaining the company's viability. By focusing on investments that promote both financial success and environmental stewardship, finance leaders can support sustainable growth and ensure the company's positive impact and longevity in an evolving market. That way, they can make sure that their businesses become Forever Companies.

How Sweep can help

1. Simplifying carbon and ESG tracking

Sweep is built to make carbon and ESG tracking simple. You'll start with a base understanding of your company's carbon emissions, using CDP data models to footprint your organization and value chain.

2. Visualizing and mapping emissions

With a clear map (referred to as an emission 'Tree' in Sweep), you'll be able to visualize exactly what data you'll need and from whom. You can also use this to conduct a baseline measurement of your emissions.

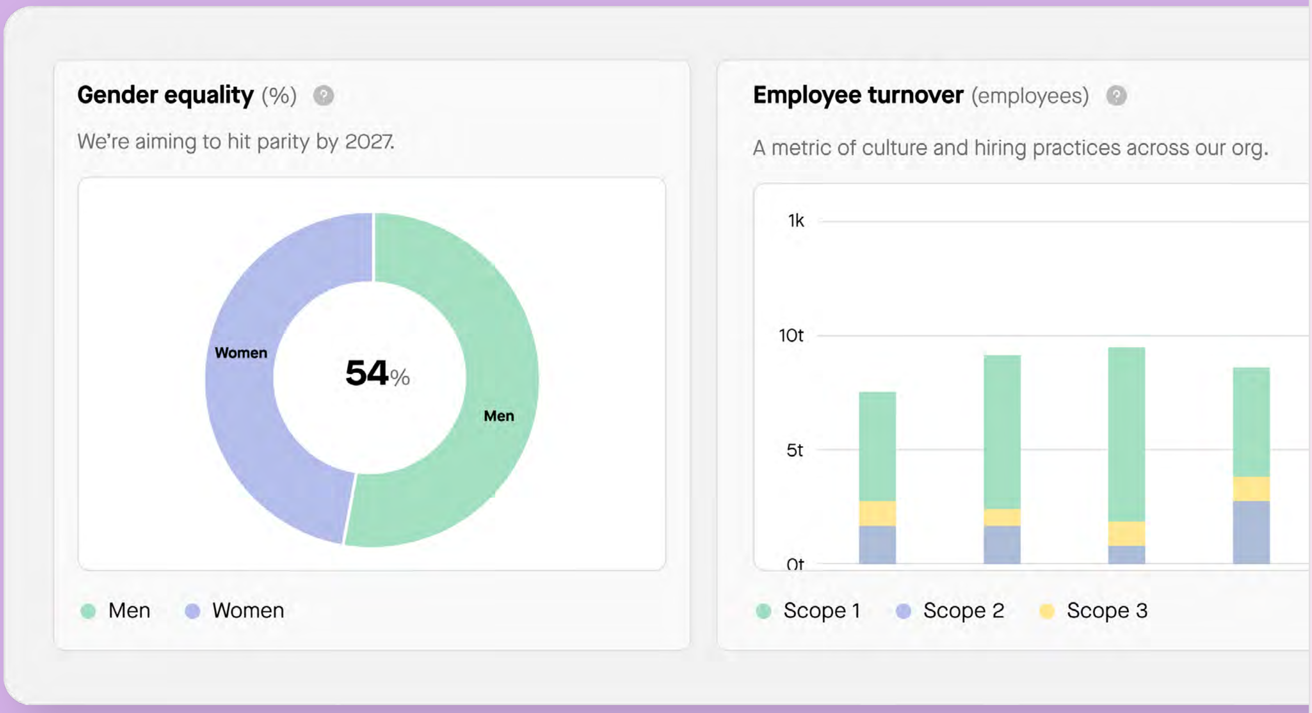
3. Real-time data monitoring

In Sweep's platform, all your measurement data is automatically tied to your targets. You can monitor progress in real time and quickly adjust based on your incoming data.

4. Business intelligence for better decisions

Sweep is steeped in business intelligence, helping you make optimal decisions. Our MAC Curve helps you identify the most cost-effective sources of reduction from a financial and volume point of view.

If you discover an initiative with great momentum, you can deploy it to other business units or geographies for a bigger impact.



Ready to get started?

Get in touch

We're here to support you at every step. And your suppliers can get started for free!

Our software allows you to invite all your suppliers to measure their emissions in Sweep, at no extra cost to you or them.

Trusted by

swisscom

BlackRock

L'ORÉAL

WELLA COMPANY

ManoMano

CAUDALÍE