IFC and McCormick & Company

A Case Study on Responsible Supply Chain Financing in Viet Nam

ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture, and Forestry
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Executive Summary

This case study outlines the journey of IFC’s partnership with McCormick & Company (“McCormick”), and Citibank, to provide discounted interest rates on short-term working capital financing for black pepper suppliers in Viet Nam and Indonesia linked to their improvements in environmental and social (“E&S”) performance.

The project is under IFC’s Global Trade Supplier Finance program (“GTSF”). Through the GTSF facility, McCormick’s suppliers (“Suppliers”) in emerging markets can qualify for discounted rates on open account terms¹ when they meet sustainability standards accepted by McCormick. Financing rates are linked to Suppliers’ E&S performance, which financially incentivizes them to improve in these areas. The financing partnership draws on a revolving credit facility² starting with black pepper suppliers in Indonesia and Viet Nam. The facility is currently being expanded to other countries for other agricultural commodities.

The financing partnership aims to improve access to finance for McCormick’s Suppliers in emerging markets (pricing of the financing is based on McCormick’s credit risk which makes it highly affordable for suppliers) and to strengthen their E&S performance. Furthermore, the facility offers proof of concept for other local and international financial institutions to offer supplier finance aligned with McCormick’s commercial and sustainability objectives. The partnership also includes an advisory component in Viet Nam, where IFC is helping McCormick through capacity development for black pepper Suppliers and producers, as a way for McCormick to reach its goals to sustainably source 100% of its branded black pepper by 2025.

Key learnings emerging from the investment include:

- The benefits of Supplier Finance (“SF”) as an innovative financing tool to promote responsible investment by both domestic small and medium-sized enterprises (SMEs) and multinational corporations (MNCs)
- The need for an enabling framework in emerging markets to increase demand for this type of financing.

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¹ An open account transaction is a sale where the goods are shipped and delivered before payment is due, which in international sales is typically in 30 to 180 days.
² A revolving credit facility is a line of credit that is arranged between a bank and a business. It comes with an established maximum amount, and the business can access the funds at any time when needed.
Viet Nam

McCormick’s supply chain spans over 3,000 agricultural products sourced from more than 85 countries. The scope of IFC’s partnership with McCormick is planned to focus on selected Suppliers (or vendors as called by McCormick’s management system) involved in supplying all McCormick herbs and spices, beginning with the top five branded iconic ingredients (black pepper, cinnamon, oregano, red pepper and vanilla).

Phase 1 covers four black pepper suppliers (three in Viet Nam and one in Indonesia), as well as vanilla and other spices in Indonesia. At the time of interview, the partnership with McCormick included an advisory program for black pepper suppliers in Viet Nam.

Timeline

2018

Discussions started between IFC & McCormick

2019

The Project is being implemented concurrently with an IFC Advisory Services project that started in 2019

2021

Discussions started between IFC & Citi

IFC announces partnership with Citi

21 Apr 2021

First transaction made under the facility

Project duration: 2021 - 2026
Financing Partnership Profile

About IFC

IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2021, IFC committed a record $31.5 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of the COVID-19 pandemic. For more information, visit www.ifc.org.

About McCormick

McCormick & Company, Incorporated is a global leader in flavor. With over $6 billion in annual sales across 170 countries and territories, we manufacture, market and distribute spices, seasoning mixes, condiments and other flavorful products to the entire food industry including e-commerce channels, grocery, food manufacturers and foodservice businesses.

McCormick’s supply chain spans over 3,000 agricultural products sourced from more than 85 countries. Through its Purpose-led Performance strategy, McCormick has committed to sourcing all herbs and spices sustainably, beginning with its top five branded iconic ingredients (black pepper, cinnamon, oregano, red pepper and vanilla) by 2025.
Investment Profile

The Global Trade Supplier Finance

IFC’s Global Trade Supplier Finance (GTSF) program, a USD 500 million multicurrency investment and advisory program was established in 2011. GTSF provides short-term financing to small and mid-sized emerging market suppliers selling to large domestic buyers or exporting to international buyers, by discounting invoices once they are approved by the buyer.

As global supply chains stretch across the globe, with multinational buyers on one side and a diverse group of suppliers in numerous countries on the other, corporations are under pressure to unlock the trapped working capital inside their supply chains. While the use and awareness of SF in developed economies has increased significantly over recent years, its application in emerging markets is still very limited.

For this case study, IFC engages McCormick as the Buyer to identify their Suppliers in emerging markets to participate in the GTSF Program and partners with Citibank. The financing partnership leverages Citi’s global Supplier Finance infrastructure, which is made available to McCormick’s suppliers in Viet Nam and Indonesia with environmental, social, and governance credentials set by McCormick, so that the suppliers may benefit from preferential rates based on their sustainability performance.

Figure 1: How Global Trade Supplier Finance Operates (authors’ adaption from Citibank’s Supplier Finance)
Investment Profile

Name of investor
International Finance Corporation (IFC)

Commodity/Crop
Black pepper, vanilla, oregano and cinnamon

Total amount of the investment
Revolving credit facility (amount is confidential)
USD 2,525,000 IFC Advisory Service Project (project budget includes all project-funded activities)

Percentage invested by each investor type
(agribusiness, government, financiers, etc)
100% by financiers

Under the GTSF facility, IFC links financing rates to suppliers’ E&S performance, as determined by McCormick. Suppliers’ sustainability performance is assessed against McCormick’s Sustainability Supplier Matrix, with three levels of pricing discount (from 0.25% to 0.50%) based on their rating: (i) G4G Communities: Best in class practices to improve farmer resilience, in addition to G4G level requirements; (ii) G4G: sustainable, equivalent to FSA Silver or above by the SAI Platform plus SMETA audit in the factory; and (iii) Engagement (on its way to sustainable, including complying with McCormick’s Global Supplier Code of Conduct. The three McCormick pepper suppliers in Viet Nam have a target to achieve G4G rating for 100% of its branded volume by 2025.
Investment Profile

The facility provides post-shipment finance to suppliers based on receivables approved by McCormick. This allows suppliers to improve working capital by converting sales receivables to immediate cash and to access lower-cost financing based on the superior credit risk of McCormick. Supplier finance also enables emerging market suppliers to finance open account transactions at competitive rates without collateral requirements, thereby leveling the playing field among large and small suppliers, both domestic and international, in accessing finance. IFC highlights that the partnership with McCormick represents the first GTSF projects in the agriculture sector.

The Viet Nam Pepper Sector

Black pepper is one of the key national agricultural products of Viet Nam, together with rice, coffee, rubber, cashew, vegetables, and tropical fruits. With over 280,000 tons (2020), Viet Nam’s exports represent 60% of the total global trade in black pepper. However, the industry faces several sustainability challenges. Based on the IFC Global Map of Environmental & Social Risk in agro-commodity production (GMAP) risk assessment, pepper production is associated with occupational health safety risks (Performance Standard 2)³ and conversion of natural/critical habitats (Performance Standard 6) issues in Viet Nam. Excessive use of water, chemical residues above allowed maximum residue levels (MRL), quick wilt disease due to intensive farming, and deforestation are the sustainability issues of pepper production in Viet Nam.

³ IFC’s Environmental and Social Performance Standards define IFC clients’ responsibilities for managing their environmental and social risks. IFC’s Sustainability Framework, which includes the Performance Standards, applies to all investment and advisory clients whose projects go through IFC’s initial credit review process after January 1, 2012. For more information, visit: www.ifc.org/performancestandards.
Investment Objectives

The financing partnership’s objectives are to (i) improve access to finance for McCormick suppliers, (ii) improve the E&S performance of McCormick suppliers; and (iii) demonstrate how local and international financial institutions can similarly offer Supplier Finance products in emerging markets for international buyers to utilize this instrument.

As a major purchaser of black pepper from Viet Nam, McCormick expects the initiative to create a new and rewarding mechanism incentivizing supplier sustainability performance, so as to reach its goal of building a 100 percent sustainable, traceable, certified, and quality compliance pepper supply chain in Viet Nam by 2025.

In addition, the SF financing partnership is being implemented concurrently with an IFC Advisory Services project over a 3-year period from July 2019 to September 2022. IFC-led activities will assist McCormick’s partner companies in Viet Nam in establishing systems, testing and documenting improved production practices, applying integrated pest management (IPM), and tracing these changed patterns to support sustainability certification of black pepper farmers.

“Participating suppliers will have access to IFC’s Global Trade Supplier Finance facility implemented via Citibank, which offers financial incentives/lower cost financing based on levels of improvements in terms of social and environmental sustainability.”

- Marta Bogdanic, Senior Operations Officer, Manufacturing, Agribusiness and Services, IFC
Investment Objectives

The Advisory Services seek to track impact by the end of project implementation period on:

- number of entities (SMEs) receiving advisory services
- number of farmers or SMEs reached (direct and indirect)
- number of farms certified
- number of female farmers reached (direct and indirect)
- number of entities reporting improved performance (e.g., improvements in productivity, accountability, operations, loan terms, valuations)
- number of hectares of sustainably managed land
- average share of produce upgraded by at least one grade

“With this structure, we can finance SMEs in Viet Nam and other countries, which is difficult for IFC to do directly. Not every SME can borrow directly from IFC, or maybe they can borrow but we will not be comfortable with the risks. So in this structure, we can finance SMEs based on McCormick’s creditworthiness and increase the outreach to SMEs in countries like Viet Nam.”

- Andrey Gurevich, Product Lead, Global Trade Supplier Finance, IFC
Investment Process

Investment Screening Process

In Viet Nam, McCormick had a network of vendors from whom they’ve been sourcing pepper in the past and for whom they wanted to improve their production practices and pepper quality. Among those, three suppliers were selected to be involved in the GTSF project.

Feasibility Study - Due Diligence

IFC has a Sustainability Policy - known as the IFC’s Policy on Environmental and Social Sustainability, Performance Standards (IFC PS). The IFC PS provides guidance on how to identify risks and impacts and is designed to help avoid, mitigate and manage risks and impacts as a way of doing business in a more sustainable way. The tool encompasses eight sustainability standards including (1) Risk management, (2) Labour, (3) Resource efficiency, (4) Community, (5) Land resettlement, (6) Biodiversity, (7) Indigenous People, and (8) Cultural Heritage. For the financing partnership with McCormick, the whole investment process, supported by IFC’s advisory staff based in the field, follows the IFC PS.

IFC’s due diligence involved the development and implementation of an E&S performance scoring methodology, to rate the overall E&S performance of suppliers as part of McCormick’s internal sustainable sourcing policy.

According to its Environmental & Social Review Summary (ESRS), IFC’s due diligence involved (i) the review of McCormick’s Sustainability Strategy (known as Purpose-led Performance - PLP), Sustainable Agriculture Policy, Global Supplier Code of Conduct (2019), Sustainable Sourcing Framework (known as Grown for Good – G4G) and Sustainability Supplier Matrix, and also telephone and/or e-mail communication with McCormick’s management team, including its sourcing team; (ii) a review of internal procedures and audit reports (Sedex Members Ethical Trade Audit); and (iii) a risk screening of country-commodity combinations for Viet Nam/pepper through IFC’s Global Map of Environmental and Social Risks in Agro-Commodities Production (GMAP). Audit reports (SMETA) and corrective action plans (CAPs) reviewed for a sample of the black pepper suppliers cover both McCormick’s Global Supplier Code of Conduct and Labour, OHS, and environmental issues from suppliers (factory-level).

IFC’s appraisal considered the E&S management planning process and documentation for the Project and gaps, if any, between these and IFC’s requirements. Where necessary, corrective measures intended to close these gaps within a reasonable period of time were proposed and documented in an agreed Environmental and Social Action Plan (ESAP). Through the implementation of these measures, the Project was designed and operated in accordance with PS objectives.
Investment Process

Consultation

No consultation with local communities was required. Currently, there are no regulatory requirements regarding the Supplier Financing mechanism or the early payment of the supplier’s invoices.

Negotiation and Final Agreement

Discussions between IFC and McCormick started in 2018. In 2020, amid the emergence of the COVID-19 pandemic, IFC separately partnered with Citi on a USD 800 million risk-sharing deal to support emerging market trade and commodity flows and finance businesses that are struggling to cope with the devastation caused by COVID-19. This led to Citi’s Supplier Financing infrastructure being enhanced to help meet Citi’s clients’ environmental, social, and governance requirements globally. The financial partnership between IFC and McCormick thus leveraged Citi’s global Supplier Finance platform, which is made available to McCormick’s suppliers. The negotiation of terms and agreement were finalized amongst IFC, McCormick, and Citi and signed on March 16, 2021.

Implementation and Monitoring

The project is still at an early stage and no impact data has been collected yet. Since its launch, weekly transactions have been made and processed by the facility. Counterparts at McCormick are also tracking the performance of the project. At a later point of the project implementation, the partners would have a joint discussion on the outcomes.
**Investment Results**

The project is currently working with three supplier companies with over 2,000 farmers (718 women). The end-line study will only be done in end-2022.

- **Benefit to suppliers:** Suppliers receive an earlier payment than the contractually agreed payment, which typically takes from 30 to 180 days. Since the discount rate offered by the GTSF is calculated based on the credit profile of McCormick, it can lower Suppliers’ cost of capital by 25-50 basis points, in addition to the difference in local interest rates in Viet Nam vs. interest rates in the US. It also helps to increase the resiliency of the smallholder farmers that grow their key herbs and spices.

- **Benefit to McCormick:** Helps McCormick reach its Purpose-led Performance Goals by financially incentivizing its Suppliers for improvements in their sustainability performance as determined by McCormick. It also improve McCormick’s performance through more efficient supply chains.

- **Benefit to IFC:** enabled the financial institution to provide support to SME suppliers that could not be reached directly. For example, not many SMEs can borrow money directly from IFC. At the same time, the initiative demonstrates the benefits of supplier finance in emerging markets.

> Rewarding our suppliers to incentivize broader sustainability performance fastens source community impact and resilience building. It also enables us to further accelerate our journey toward achieving our Purpose-led Performance sourcing commitments.

- Donald Pratt, Chief Spice Buyer and Managing Director, McCormick Global Ingredients Limited
Alignment to ASEAN RAI

The ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry (ASEAN RAI) is a regionally adopted, voluntary framework to guide investment decision-making for both private and public sector actors.

ASEAN Member States have agreed to use these Guidelines to create or update legally-binding policies – which means agribusinesses and investors who demonstrate alignment to the ASEAN RAI are better prepared for these future policy changes.

The 10 principles of the ASEAN RAI (Figure 2) describe the impacts those agricultural investments may have at the community, local, or national level.

Applying the lens of the ASEAN RAI principles to the IFC and McCormick partnership shows alignment with (some aspects of) 8 out of 10 Guidelines.

The table below outlines potential alignment between McCormick’s practices and the ASEAN RAI principles along the IFC’s financing partnership.

Figure 2. 10 Principles of the ASEAN RAI

1. Food security & nutrition
2. Economic development
3. Women & young people
4. Tenure rights
5. Natural resources
6. Technology
7. Climate change
8. Rule of law & governance
9. Impact assessment & accountability
10. Regional approaches
Alignment of IFC’s and McCormick’s Investment to the ASEAN RAI

Guideline 2
Sustainable, inclusive economic development and poverty eradication, including: improved producer livelihoods, fair contracts, employment and wages, worker health and

To date, over 1,300 black pepper farmers have been trained on innovative agricultural farming techniques, responsible use of agrochemicals, and Rainforest Alliance standards. Almost 3,000 ha of pepper farms are being managed sustainably and certified by Rainforest Alliance (RFA).

Guideline 3
Equality, engagement and empowerment of women, indigenous communities, youth, marginalized communities

More than 30% of black pepper farmers receiving training on sustainable farming practices are women.

McCormick is committed to helping women thrive across its broader supply chain. Since 2018, McCormick partnered with CARE Impact Partners (“CIP”), a division of CARE International, to map the roles of women in the farming communities from which it sources. McCormick and CIP have developed and launched the McCormick Women Empowerment Framework (“M-WEF”):

1) Assess the level of women empowerment in key sourcing communities, including black pepper in Vietnam
2) Design programming to address the opportunities to reduce inequality, with the support of IFC’s gender team in Vietnam
3) Continuously track the level of women’s empowerment within the community, adjusting programming as needed

Guideline 4
Respect for tenure of land, fisheries and forests

The suppliers to be financed within this Project all entail existing processing facilities and procurement from existing smallholder farmers. Since no new processing facilities nor farms will be financed, no related land tenure impacts are expected.

Guideline 5
Conservation of natural resources, especially forests

McCormick’s Global Supplier Code of Conduct is aligned with IFC PS’ requirements, including PS 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources) and with Guideline 5 (Natural resources).

Guideline 6
Sustainable and appropriate use of technologies

Demo farms have been set up to showcase the benefits of appropriate use of agro chemicals and drip irrigation systems with the aim to increase uptake of water-saving practices.
Alignment of IFC’s and McCormick’s Investment to the ASEAN RAI

Guideline 7

**Guideline 7**
Resilience to climate change, natural disasters and other shocks

McCormick is committed to combating the effects of climate change across its operations by adhering to targets for the reduction of air emissions, energy consumption, waste, and water use. See details on the goals related to climate change mitigation in Guideline 9 below.

Guideline 8

**Guideline 8**
Respect for the rule of law and incorporation of inclusive and transparent Governance structures, processes and grievance mechanisms

McCormick expects its suppliers to comply with all applicable laws and regulations of the countries where they conduct business and to adhere to employment practices stated its Global Supplier Code of Conduct related to: child labor; forced labor, slave labor, and human trafficking; working hours and wages; compensation; non-discrimination; and workplace conditions. These principles are adopted across McCormick’s origin countries, including Viet Nam.

Guideline 9

**Guideline 9**
Assess and address environmental and social impacts and monitor performance

McCormick is scaling up its Grown for Good standard or equivalent benchmarked certification schemes. The certification requires third-party audit and verification of these criteria. The approach is being piloted with farmers of three suppliers’ (a.k.a vendors) supply chains and expects to expand and scale this up to more farmers, including additional suppliers.

The company is committed toward the following goals: 42% absolute reduction in greenhouse gas emissions (Scope 1, 2 & 3) by 2030 and Net Zero by 2050, 20% reduction in water use from its facilities by 2025 and 25% reduction by 2030, 85% recycling and recovery of solid waste from its facilities by 2030 and reduce packaging carbon footprint by 25%.

Soil Management: McCormick expects its agricultural producers to take steps to minimize soil loss and contamination, prevent negative impacts on water quality, and maintain and improve the fertility of the soil.

Management of Pesticides and Fertilizers: McCormick expects its agricultural suppliers to use all chemical products (for crop protection and nutrient support) in accordance with applicable laws and regulations and the guidance of product manufacturers, and to minimize the potential harmful impacts on water quality and air quality. In instances where such products are in use, the supplier is required to have a management plan in place for phasing these products out over time.

Water Conservation: McCormick expects agricultural suppliers to continuously improve their water use efficiency and conservation through better management, and where applicable, to develop water management plans and investment in technologies to support responsible water use.
Public policy recommendations

Businesses need financing either for investment or as working capital for daily operations. Thus, access to suitable instruments to manage working capital requirements is key in global efforts to reduce the finance gap, particularly for small and medium-sized enterprises.

SF products have the potential to improve the prospects for entrepreneurs who are held back by a lack of fixed collateral and limited offerings of appropriate credit products by financial institutions. Due to its unique structure, SF enables suppliers to larger global buyers to receive faster payment of invoices raised via a finance facility that is supported by using the creditworthiness and the strength of the buyer’s business as security for the lender, making it a win-win situation for all parties.

Still, IFC noted that financial institutions in many emerging economies find it challenging to offer these products due to a lack of financial infrastructure, technological capacity, resources, and awareness. Regulators and policymakers in emerging countries should develop the enabling framework to increase demand for this type of funding.
Long-term sustainability of the investment

The largest challenge of SF comes in the onboarding of suppliers, specifically, if such suppliers are not clients of the bank which is running the payables finance program.

Since a comprehensive assessment of McCormick’s E&S management system and procedures has now been conducted, IFC and other financiers can ascertain with reasonable confidence that suppliers are in compliance with McCormick’s standards. To encourage further improvement in E&S performance, IFC provides advisory services directly to suppliers of McCormick to help them achieve better environmental and social results, which is then rewarded by differential pricing mechanism offered through SF financing partnership.

“Through our partnership with IFC and Citi, we’re enabling our suppliers to sustainably source our herbs and spices more easily. Through our Purpose-led Performance approach, we’re going beyond the industry standard to ensure that we’re improving farmer resilience, elevating women’s empowerment, and mandating ethical behavior at every level of our supply chain.”

- Michael Okoroafor, Chief Sustainability Officer at McCormick & Company
Learnings for the future

The project is still at an early stage, thus a comprehensive assessment of the investment has not yet been conducted. IFC notes that local suppliers need access to growth capital, but often face significantly greater challenges to accessing affordable credit than their foreign-invested counterparts. This constrains working capital and creates a risk-averse attitude towards adopting socially and environmentally responsible practices. Development and ‘impact’ finance can help bridge the gap, but significant private capital will be needed to achieve scale. IFC already has successful experience working with garment producers on SF mechanisms and are keen to see the results as applied to agriculture.

Future investments may look into the potential of utilizing supplier financing for low-carbon investment plans.

“Promoting sustainable business starts with clear incentives, That's why we're proud to support McCormick’s sustainability goals and build upon IFC’s sustainability goals and work with them to enhance IFC’s trade finance offering. Such initiatives help make sustainable business good business for emerging market players.”

- Rana Karadsheh, Regional Industry Director, Manufacturing, Agribusiness and Services, IFC
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