Introduction – Script

Hello I'm Nick Parkin and I'm Emma Whitehall, and we're Associates in the Finance team here at Addleshaw Goddard.

Welcome to the first in our series of podcasts where we are going to be discussing sustainable finance. Over the series, we'll be speaking with a number of experts in this field encompassing lenders, borrowers and sustainability advisors who will each be sharing their views with us on sustainable finance, what their thoughts are on current trends and where they see the future lying for sustainability linked finance. We'll be exploring how a business' approach to sustainability will almost certainly impact on its access to funding in the not too distant future, while ultimately having a look at some of the findings from AG's recent sustainability survey of 1000 business and finance leaders across the UK, Germany, France and the Netherlands.

But first, we thought that it'd be useful to go back to basics and have a quick look at why having a sustainability strategy is so important for a business.

As you might have gathered, sustainability is a hot topic and it's definitely here to stay. Every business should have a sustainability strategy and set sustainability targets. Aside from the impact on the environment and on society, businesses that don't take urgent action run significant business risks including jeopardising their future access to funding, losing their competitive position and potentially damaging their reputation and relationship with customers.

So let's start with access to funding. Access to funding, whether equity or debt, is becoming increasingly linked to the sustainability of a business and therefore its ability to thrive in the medium term. The government's Build Back Better campaign shows just how much importance is being attributed to driving growth that is green. We're seeing more and more that evidence of a business' sustainability performance is a prerequisite to it securing funding. In fact, as part of our survey, 100% of funders said that by 2025, they will stop funding businesses in certain sectors which have not adequately addressed the transition to a sustainable economy. That's just 4 years away – so within the timeframe for the next refinancing for many borrowers.

For a lot of businesses, over the last 12 months attention has understandably been turned to the more immediate threat of coronavirus and the impact that the restrictions relating to the pandemic are having. Despite this, a sustainability strategy is not something that should be put off until a business recovers its pre-pandemic strength. According to our research, 74% of the financial community view a business' sustainability strategy as being a key indicator of future profitability. COVID has prompted more and more businesses to seek to improve their sustainability and ESG credentials as it has presented a unique opportunity to work on this - there is no better time than when a business is in a "recovery" phase to tackle these large but important issues. Understandably, many businesses might not really know where to start and without some sort of coherent sustainability strategy they risk getting lost and end up not making as impactful a change as they could otherwise do. One major issue which our research has highlighted is that there is a gap between medium and large organisations and how much resource they can throw at tackling this issue. With 81% of business leaders believing that the pandemic has been a driver for their organisation to act more sustainably, we need to ensure that all businesses, both large and small, are properly equipped to adapt to a more sustainable future and to take advantage of the benefits that this would bring.

Pressure is also being applied by both customers and employees, as a commitment to sustainability is becoming increasingly relevant to the war for talent. People want to work with and for businesses whose values align with their own. Regulatory stress testing for banks now takes account of their direct and indirect climate related risks and there is also upcoming regulation which will implement the Task Force on Climate-Related Financial Disclosures recommendations, which will require businesses to measure and report on their progress towards sustainability targets. For most businesses, this won't be optional and these disclosures cannot be made without proper understanding of the unique range of risks and opportunities facing each business.

So, that just about sums up how important it is for a business to implement a sustainability strategy, but what will that implementation involve I hear you ask? The biggest thing will be change. This could relate to a number of things, such as improving diversity and equality within a business. It might involve swapping to rail freight, bikes or electric vans. It could be retrofitting an existing building to make it more energy efficient. It might relate to a business moving to sourcing its own renewable energy supply and potentially selling any excessive generates, or it might involve reviewing its supply chain and tracking its environmental and societal impact. A lot of these changes may well involve large capital costs and an increase in funding requirements. We are seeing that capital is flowing in an increasing pace into ESG and sustainable strategies, and a carefully thought through ESG programme can attract investors and increase a borrower’s access to these growing pools of capital. It might be hard to start with but overall the results should pay dividends. In fact, in our recent survey, it was shown that 95% of business leaders say that sustainability-driven initiatives represented either a net gain or a cost neutral position for their business in 2020.

So, you know you need to do something about your businesses' sustainability and you might want to access finance to help achieve that or just generally link your financing to sustainability targets. But what exactly is "sustainable finance"? Well, there is currently no single, agreed definition of what constitutes sustainable finance in the market, but it is essentially finance with a focus on delivering positive social and/or environmental impact. There are many different products out there, but one of the most accessible is sustainability linked loans. With a sustainability linked loan, the borrower is incentivised (largely through margin reductions) to meet measurable, but testing, sustainability targets. These targets may relate to climate action or to social impact and many businesses may link them to one or more of the UN's Sustainable Development Goals. One of the benefits of sustainability linked loans is that the funding may be used for any purpose, including working capital. This contrasts with green finance, which is only available to fund a specific "green" purpose.

The drive to achieve a more sustainable future for all is happening now and there is no time to waste. With finance providers poised to turn the tap off to unsustainable businesses by as early as 2025, many companies could find themselves cut adrift. Now is the time for businesses of all sizes to develop, articulate and embed their sustainability strategy across their business. Ultimately, sustainability represents a range of business risks and opportunities and should be considered and managed holistically alongside other business risks and opportunities.

Throughout this series we're going to be discussing some of the key issues relating to sustainability linked loans and sustainable finance. Upcoming episodes will look at why you should care about sustainability and sustainable finance, setting sustainability targets and whether sustainability and sustainability linked finance is a flash in the pan or if it's here to stay. We are really excited to share that our upcoming guest speakers will include Tim Claire a director of sustainability consultancy at Anthesis Group, Jayne Cottam who is the CFO of Assura, Benjamin Rick one of the Co-Founders at Social & Sustainable Capital and Kate Lawlor CEO at Bruntwood SciTech.

So, if there is one thing you should take away from listening to us today, it should be to act now or risk paying the price.

Thanks for listening to our first episode on sustainable finance. Hopefully we've given you some food for thought. If you'd like to discuss anything we've talked about in this episode or sustainable finance generally, please do not hesitate to get in touch with one of us, we'd love to talk to you and see how we can help. In the meantime, if you'd like to check out our research findings, head over to AG's website and search for the Sustainability Research Hub.