

SUSTAINABILITY CASE STUDY:

IMAGINE CO-OPERATING FOR SUSTAINABILITY

Incorporating Environmental, Social and Governance (ESG) factors into investments has become more than just a nice to have, it's now a central element in many agreements. In our work advising Co-op, we helped negotiate a £400m Sustainable Revolving Credit Facility that incentivised reducing CO₂ emissions - and meant that, whatever happened, sustainability would be the winner.





THIS AGREEMENT HAS DOVETAILED PERFECTLY WITH CO-OP'S VISION. IT'S NOT ONLY GIVEN US THE CREDIT FACILITY WE NEED; IT HAS PUT SUSTAINABILITY FRONT AND CENTRE. IT'S BEEN GREAT TO WORK WITH ORGANISATIONS WHO UNDERSTAND OUR GOALS AND SHARE OUR VALUES.

Simon Nuttall, Head of Tax,
Treasury & Insurance, Co-op

WHAT WAS THE CHALLENGE?

Co-op has a long history of responsible, ethical trading. It's led the way with Fairtrade, compostable plastic bags, and renewables. And it continues to set itself stringent targets, including cutting emissions by 50% by 2025.

So when it came to refinancing their banking facilities, sustainability and green lending were high on the agenda. The question was, how could they structure an arrangement that would put the environment first?

HOW WE HELPED

Typically, the way that these arrangements work is that the borrower (in this case Co-op) pays a lower interest rate if they hit their sustainability target – and a higher one if they don't. However, if the latter were the case, the banks would take home the additional profit. And this didn't sit well with Co-op's aims.

Instead, all parties including the group of five lenders (Natwest, Barclays, Handelsbanken, Bank of Ireland and Lloyds) worked collaboratively to agree a mechanism where, rather than paying an increased interest rate to the banks, the equivalent amount of money would be put towards further sustainability projects of Co-op's choosing.

THE RESULT

The £400m revolving credit facility is Co-op's second tranche of funding to be sustainability linked, and now more than half of their financing contains sustainability linked targets. This shows that financing facilities can be far more than that.

By working in partnership with lenders, it's possible to create an arrangement where, whatever happens, the planet and society as a whole can benefit.

As more businesses consider the wider impact they have on the environment, this agreement shows that there's a genuine appetite for a more ethical, green way of lending – with decisions that are led by purpose as much as profit.

LEARNINGS

Despite the media clichés, even the largest corporates and lenders are looking for ways to be better corporate citizens. So first, consider how you can build ESG into your arrangements.

Then make sure you find clear ways to measure, incentivise and reward performance. And if this can be used to benefit the environment too, it's a true win-win situation.