Catering INSIGHT

EDITOR'S VIEW March 14, 2024

EDITOR'S VIEW: Should manufacturers pay their supply chains quicker if they're greener?

There is a possibility that sustainability-linked finance programmes could become a more common feature of the catering equipment space as the net zero race intensifies

By Andrew Seymour

Could we see sustainability-linked finance programmes become a more common feature of the catering equipment space as the net zero race intensifies?

It is a question worth pondering after it emerged that Italian refrigeration counter and coldrooms supplier Epta is among the companies venturing down this route.

The group has partnered with Deutsche Bank to launch a scheme that provides financial incentives to its suppliers to improve their sustainability performance – in other words the greener they are, the quicker they will get paid.

It claims the programme is the first of its kind in the refrigeration industry and it plans to roll it out globally as it looks to make sure that it is meeting and exceeding ever-changing sustainability expectations from its own customers, investors and stakeholders.

The supply chain finance (SCF) programme means that Epta's suppliers can receive payment immediately after it has approved an invoice, with the financing costs for the suppliers being based on Epta's creditworthiness.

An added benefit of this sustainability-linked SCF is that suppliers can further reduce financing costs in the supply chain if they improve their ESG rating – in this case an ESG rating by the global sustainability rating platform EcoVadis. The more sustainable a supplier operates, the greater the pricing benefit.

Epta is working with EcoVadis to encourage virtuous growth in environmental, social and governance terms. The partnership is aimed at shaping a responsible ecosystem along the entire supply chain and represents a crucial pillar of its sustainable procurement project.

Through EcoVadis' evaluation model, Epta is able to analyse the performance of each supplier in order to identify its strengths and areas for improvement.

Meanwhile, the extent of Deutsche Bank's investment in sustainability-linked financing hints at just how big an arena this could become.

From the beginning of 2020 to the end of 2022, it exceeded its target of €200 billion (£170 billion) in sustainable financing and investments by €15 billion (£13 billion), even after bringing this target forward by three years.

Its target is to enable a total of €500 billion (£430 billion) in sustainable financing and investments by the end of 2025.

To meet this goal, Deutsche Bank intends to implement several measures. This includes the conversion of traditional supply chain financing of international companies to a supply chain financing linked to environmental and social criteria.

These solutions will support the bank's €5 billion (£4.3 billion) sustainability-linked working capital financing commitment by the end of 2025.

The objectives of sustainability-linked finance programmes – namely to build responsible and resilient supply chains – stand to reason.

It is now just a question of whether other suppliers in the catering equipment and refrigeration sector think the benefits that Epta has identified are significant enough to follow suit.