Navigating environmental and social lending opportunities

A guide for Australian producers

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Navigating environmental and social lending opportunities: A guide for Australian producers

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AgriFutures® National Challenges and Opportunities

Foreword

The Australian agriculture sector is undergoing significant transformation, driven by the global environmental, social and governance (ESG) landscape. With increasing pressures for enhanced sustainability, there is a growing need for innovative financial solutions to support producers in adapting to these changes.

This *Navigating environmental and social lending opportunities: A guide for Australian producers* report addresses this critical need by exploring sustainable finance options tailored for the agriculture sector.

The primary problem this report addresses is the lack of accessible and practical sustainable finance options for Australian producers. As the ESG landscape evolves, producers face challenges in meeting new regulatory requirements and market demands for sustainability. This report aims to bridge this gap by providing insights into sustainable finance opportunities and practical considerations for their implementation.

Key findings highlight the central role of ESG considerations in strategic business planning and decision-making within the financial services sector. The report identifies significant developments in ESG regulations, laws and standards that are reshaping the way financial institutions operate. For Australian producers, this means greater scrutiny of their operations and increased demand for ESG data and disclosures.

The key recommendations emphasise the need for producers to engage with their banks about sustainable finance offerings, plan and prepare for ESG measurement and reporting, and collaborate with research and industry groups. These actions will help producers navigate the evolving regulatory landscape, remain competitive and retain market access.

This report was produced under AgriFutures Australia's National Challenges and Opportunities focus area. Work in this space aims to identify, understand and respond to cross-sector issues impacting Australian rural industries.

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Contents

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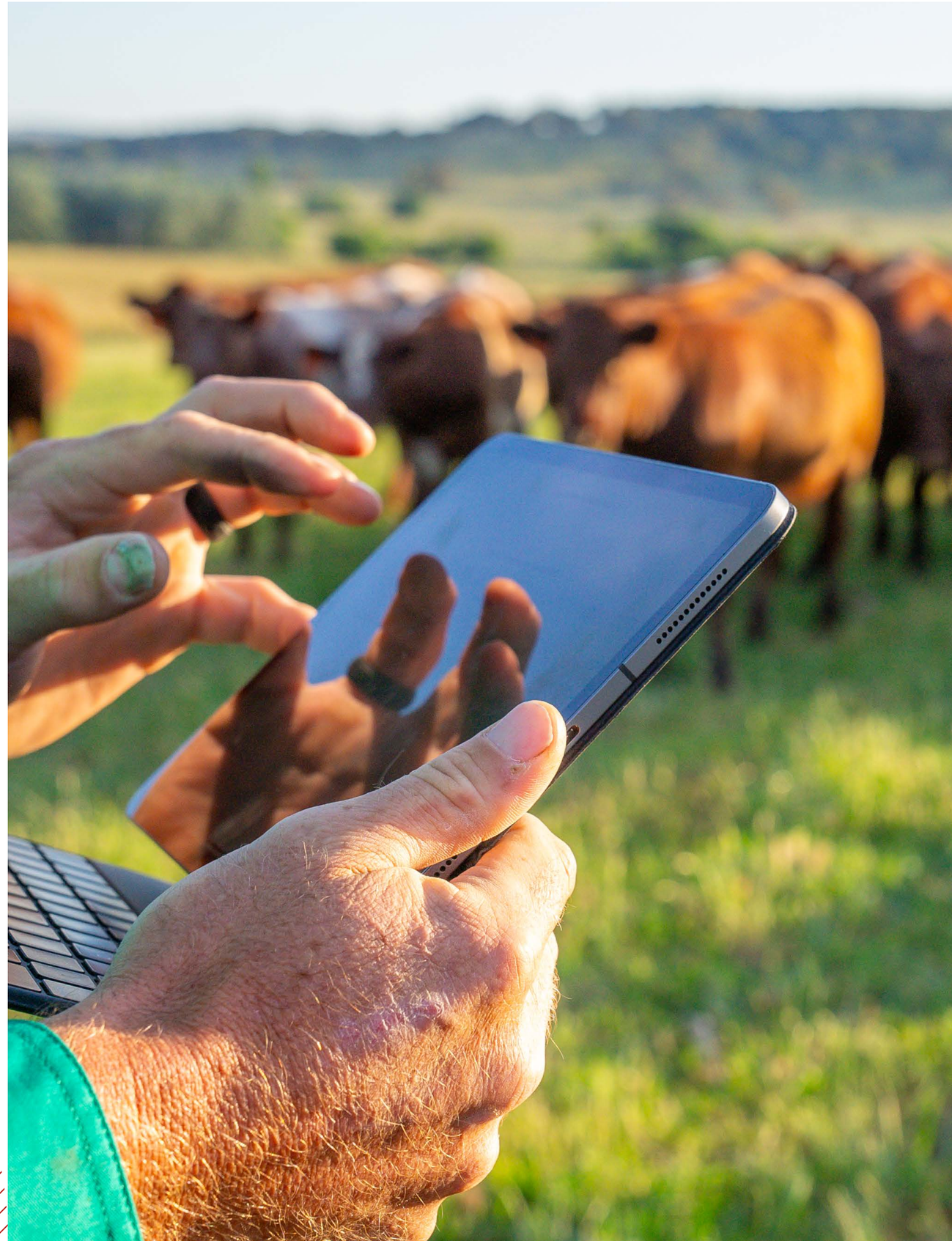


Purpose

The global environmental, social and governance (ESG) landscape is in a state of dynamic change, with increasing pressures for enhanced sustainability transforming the way we do business and access finance.

Sustainable finance in agriculture is still in its early stages, but this is set to grow and evolve as market, policy and regulatory developments drive demand for ESG data and accountability across the economy.

This report updates the 2023 *Banking on sustainability: Environmental and social lending in rural industries* report (KPMG Australia, 2023), which provided a detailed overview of the global ESG landscape and sustainable finance in the context of Australia's agriculture, forestry and fishing industries (herein referred to as the 'agriculture sector'). The report examines recent developments, how they are shaping the way financial institutions do business, and what this means for Australian primary producers. The report also explores key considerations for advancing sustainable finance in the agriculture sector.

Approach

The findings in this report were drawn through a combination of desktop research and targeted stakeholder consultation. Dissecting the complex and rapidly evolving ESG landscape can help producers understand how recent market, policy and regulatory developments affect their operations, and how to address the challenges and opportunities arising from them.

Twelve interviews were carried out with individuals involved with a diverse group of financial institutions, government departments, rural Research and Development Corporations (RDCs), and rural industry associations. Stakeholder interviews supplemented the desktop research by providing perspectives on current sentiments towards sustainable finance within the agriculture sector; how recent ESG landscape developments are shaping the industry; what this means for primary producers; and what needs to be considered to scale sustainable finance within the sector.

Key findings at a glance

ESG considerations have become central to strategic business planning and decision-making within the financial services sector.

This shift is largely driven by heightened awareness of climate and environmental risks, consumer demand for sustainably produced goods, and increased demand for better ESG transparency and corporate accountability. This is leading to ESG topics, such as climate change and nature loss, becoming material risk factors – and global financial markets are responding. Additionally, **ESG regulations, laws and standards are evolving rapidly.** The 2023 *Banking on sustainability* report provides a detailed overview of market dynamics driving an increased focus on sustainability across the Australian financial services sector. In the year since publication, several significant developments have fundamentally changed the way financial institutions do business:

- Many countries, including Australia and its major agricultural export markets, are introducing mandatory reporting on climate-related issues.
- Demands are increasing for companies to report on nature-related issues. This has been accelerated by publication of the Task Force on Nature-related Financial Disclosures (TNFD) recommendations in September 2023 (TNFD, 2023).
- The Australian Government is directing efforts toward supporting the economy's net-zero transition, including consulting on a range of measures shaping sustainable finance markets; developing national sectoral emissions-reduction pathways; and partnering with industry to develop an Australian Sustainable Finance Taxonomy, which will provide ESG definitions and performance thresholds to underpin all sustainable finance products and services.
- Sustainability performance is increasingly a key factor for market access and competitiveness. As of November 2023, half of the world's 2,000 largest publicly listed companies have committed to net zero (Net Zero Tracker, 2023). The European Union (EU), a leading force in shaping global ESG standards and rules, has implemented regulation preventing products linked to deforestation from entering the EU market from December 2024, which may signal broader regulatory changes across global markets.
- Carbon and biodiversity certificate markets are becoming a prominent sustainable financing opportunity. Demand for carbon credits is expected to grow significantly as companies work towards meeting their net-zero commitments. In parallel, the *Nature Repair Act 2023* (Cth), which was passed in December 2023, has created the legislative framework for establishing a national biodiversity certificate market in Australia, making it easier for businesses, government and individuals to invest in projects that enhance or protect native biodiversity.

What this means for producers

These trends will reshape the operational, financial and strategic frameworks within which Australian producers operate. Mandatory sustainability reporting will drive financial institutions and large corporates to apply greater scrutiny to the impact of their direct operations, supply chain and financing activities. These regulations, although not directly capturing most primary producers, will indirectly impact the entire value chain of reporting entities. For instance, ESG data collection will become a central part of doing business in agriculture, driven by financiers and downstream customers demanding sustainability metrics, including greenhouse gas emissions, to meet their own reporting requirements. Producers ready to measure and report ESG data will be better equipped to navigate the rapidly evolving regulatory landscape, remain competitive and retain market access.

Supporting producers in adapting to the evolving landscape is the growing number of sustainable finance options. Recognition of sustainable agriculture's role in maintaining food security, conserving biodiversity and addressing climate change is making the sector a key area of focus for the Australian Government and financial institutions.

Sustainable finance in the agriculture sector is still emerging. Australian financial institutions are developing tailored products for the sector, such as green loans, green vehicle and equipment finance, social loans, sustainability-linked loans, and sustainability-linked insurance. These products reward producers who demonstrate sustainable practices with discounted interest rates or premiums, saving them money.

Environmental certificate markets have emerged as a significant sustainable finance opportunity in the agriculture sector. Managing more than half of Australia's land, producers will be critical in halting and reversing nature loss, and combatting climate change through soil carbon sequestration. The rising demand for carbon credits and biodiversity certificates presents an opportunity for farmers to unlock new markets and diversify revenue streams. However, participation in environmental markets can impact producers' ability to use credits to meet their own net-zero or nature-positive commitments in the future. These issues are discussed further in the section *Practical considerations for sustainable finance in the agriculture sector*.

Lastly, **unlocking sustainable finance in the agriculture sector will require practical consideration of key issues.** Engagement with industry revealed there is strong desire to integrate sustainability into agricultural practices and financial mechanisms, but scaling sustainable finance in the sector requires:

- Greater clarity for producers on the costs and benefits of engaging in sustainable finance;
- Clarity regarding the ownership and privacy of sustainability data to address producer concerns and assist data security;
- Credible yet practical standardised and cost-effective tools and methods for measuring, verifying and reporting sustainability outcomes;
- Financial and market mechanisms that are designed with a deep understanding of rural industries, considering factors such as production cycles and environmental risks; and
- Standardised definitions and criteria for sustainable agricultural practices globally.

Addressing these structural issues will require collaboration among policymakers, financial institutions, academia, rural RDCs and producers.

Three key takeaways for producers

The evolving ESG landscape presents challenges and opportunities for the agriculture sector. It is important for producers to understand the key drivers of profitability and sustainability. This report points to three keys areas of focus to help producers in the future:

1. **Engage with your bank about their sustainable finance offerings:** Explore opportunities for loans or incentives that support sustainable practices and investment in your operations.
2. **Plan and prepare for ESG measurement and reporting:** Understand what your customers and financiers need to meet their sustainability reporting requirements, and develop a strategy to capture the ESG data important to them.
3. **Engage research and industry groups:** Collaborate with research and industry groups to stay informed about the latest sustainability trends, technologies, practices and opportunities that can enhance your business's environmental and social impact, productivity, and profitability.

Sustainability considerations and reporting requirements will increasingly become central to the lending, investment and underwriting decisions of financial institutions, and the purchasing behaviours of commodity buyers. Proactively shifting to incorporate sustainability monitoring and reporting as part of business-as-usual activities, and engaging with key stakeholders to better understand the sustainability and financing options available, will best position producers to be future ready.

Trends shaping the future of sustainable finance

ESG has firmly moved from the margins to the mainstream, becoming central to strategic business planning and financial decision-making.

Recent ESG landscape developments have been driven by:

- **Growing awareness of environmental risks and nature's contribution to people and the economy.** Environmental and social risks have been identified as seven of the top 10 most material global risks within the next decade (WEF, 2024).
- **Growing consumer demand for sustainably produced goods and services.** Recent studies by EY revealed that on average, 80% of global consumers take sustainability into account when buying fresh fruits, vegetables and packaged foods, and 36% are willing to spend more on sustainable products (Nijssen-Smith and L'Huillier, 2021; Rogers, 2023). However, due to barriers related to price, accessibility and information, attitudes do not always directly result in purchasing behaviour (Schäufele and Janssen, 2021). This sentiment has led to ESG being a strategic focus, with many companies making public commitments to improve their sustainability performance.
- **Investors and other stakeholders demanding better ESG transparency and reporting** to support informed financial decision-making and management of ESG issues.
- **Emerging market access regulations** requiring that companies meet minimum sustainability standards to operate in certain jurisdictions. Examples are the European Union Deforestation Regulation and Japan's MIDORI Strategy.
- **Increasing regulatory focus on greenwashing,** with governments and regulators implementing stricter guidelines and enforcement measures to prevent companies from making misleading claims about their ESG performance.

This section provides an overview of recent landscape developments since the *Banking on sustainability* report was published, and how these trends are shaping the future of sustainable finance. Refer to section *What this means for Australian producers* for more detail on how these developments will impact producers.

Integrating ESG into decision-making

Incoming mandatory reporting requirements are supporting ESG integration into financial decision-making. Many countries, including Australia, are introducing mandatory reporting on climate and/or sustainability-related issues. This is driven by investor demand for greater transparency on ESG performance, risks and opportunities. Reporting will sit alongside current financial reporting and auditing requirements, and is generally limited to large organisations. However, there will be ripple effects throughout the entire value chain of these regulated entities. This will result in broader impact, with greater demand for ESG data and disclosures extending to producers.

The International Sustainability Standards Board (ISSB) released its inaugural sustainability reporting standards in June 2023 – *International Financial Reporting Standard (IFRS) S1 General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2 Climate-related Disclosures*. IFRS S1 covers the disclosure of information about a company's sustainability-related governance, strategy, risk management, and metrics and targets. IFRS S2 is the first topic-based standard covering specific information on climate-related risks and opportunities (IFRS, 2022; IFRS, 2023). These standards were informed by the Task Force on Climate-related Financial Disclosures (TCFD) recommendations (TCFD, 2017).

As of March 2024, five jurisdictions have adopted the ISSB standards for national climate-related reporting on a voluntary or mandatory basis, and an additional 11 plan to adopt them in the future (S&P Global, 2024). This includes many of Australia's largest agricultural export markets, such as China, Japan, the United States and Korea Republic (Table 1).

In March 2024, the Australian Government introduced the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* (Cth) (Parliament of Australia, 2024). The Bill, which outlines mandatory climate-related reporting, will be implemented in Australia from January 2025 with entities gradually phased in based on their size and emissions (Parliament of Australia, 2024).

Under Australia's proposed mandatory climate-related reporting requirements, financial institutions and large corporates will be obligated to report their operational emissions (scope 1 and 2) and the emissions they are indirectly responsible for within their value chain (scope 3). This will have flow-on impacts for producers (Figure 1).

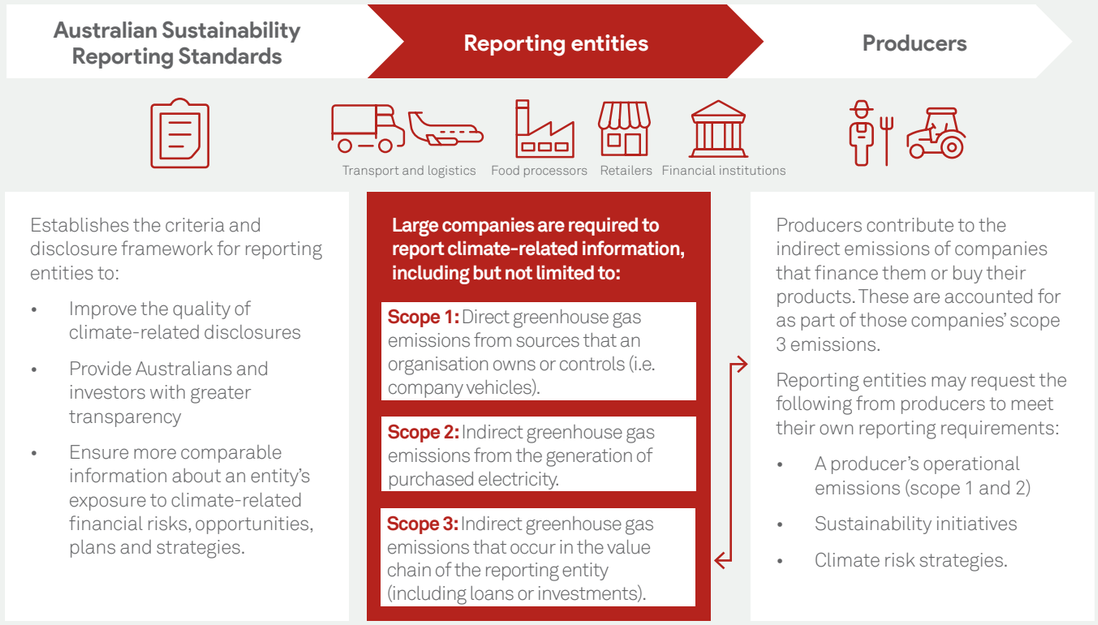


Figure 1. How mandatory sustainability reporting standards relate to producers.

While climate-reporting is the current focus, it is expected that nature-related reporting is not far behind, which may introduce further reporting requirements for producers. The TNFD published global guidance in September 2023, which provides organisations with a framework and recommendations for identifying, assessing and reporting on nature-related dependencies, impacts, risks and opportunities. Nature covers the full spectrum of environmental issues, including biodiversity, water, soil, waste and pollution, invasive species, and land use. In January 2024, 320 organisations from more than 46 countries committed to start making TNFD-aligned disclosures by the end of the 2024-2025 financial year (TNFD, 2024). The ISSB has also announced plans to incorporate reporting standards relating to nature and human capital (ISSB, 2024).

Mandatory nature reporting is beginning to emerge in some markets. The EU has introduced the Corporate Sustainability Reporting Directive (CSRD), requiring companies to disclose sustainability information, including related to biodiversity, ecosystems and ecosystem services (Segal, 2024). In China, three stock exchange markets have announced plans to introduce similar mandatory requirements (China Briefing, 2024). The Australian Government has not announced plans to introduce mandatory nature reporting. However, it has indicated nature is an important focus for its global engagement on sustainable finance, including supporting the work of the TNFD as a key strategic partner (The Treasury, 2023).

The rise of mandatory and voluntary reporting will drive greater demands on producers to measure and report ESG data. Australian and international regulators' increasing focus on corporate greenwashing amplifies pressures for accurate and reliable information (ACCC, 2023; ASIC, 2024; Durkin, 2023; Wootton, 2023). The capacity for agribusinesses to provide credible and verifiable ESG data is expected to be increasingly factored into commercial competitiveness considerations.

Table 1. Status of sustainability-related financial disclosures in the top 10 export markets for Australian agriculture commodities.

Export market	Status of sustainability-related financial disclosure requirements
China	In April 2024, the Shanghai Stock Exchange, Shenzhen Stock Exchange and Beijing Stock Exchange issued self-regulatory guidelines on sustainability reporting for publicly listed companies (BSE, 2024; SSE, 2024; SZSE, 2024). The topics in scope include greenhouse gas emissions, landfill and pollution management, and environmental protection.
Japan	Japan implemented the first stage of mandatory reporting in March 2023; this required listed companies to disclose sustainability-related information using the TCFD pillars. The Sustainability Standards Board of Japan (SSBJ) approved the issuance of three secondary exposure drafts in March 2024 to consult on until 31 July 2024 (SSBJ, 2024). The exposure drafts incorporate all requirements in the standards published by the ISSB, with some additional jurisdiction-specific options. The requirements include all sustainability and climate-related risks and opportunities expected to affect an entity's cash flow over the short, medium and long term.
United States	In March 2024, the United States Securities and Exchange Commission (SEC) adopted rules that require registrants to provide climate-related disclosures in their annual reports and registration statements (US SEC, 2024). Specifically, the rules require the registrant to disclose information about climate-related risk management processes and the actual and potential impact of risks, what activities have been undertaken to mitigate or adapt to risks, actions taken to progress towards climate-targets and goals, and governance of climate risks.
Korea Republic	The Korea Sustainability Standards Board has published an exposure draft, proposing the implementation of three sustainability disclosure standards, which are based on IFRS S1 and IFRS S2. Key elements include climate and sustainability-related issues, industry-based metrics, internal carbon prices and greenhouse gas emissions. At the time of writing this report, the exposure draft was under review, with consultation ending on 31 August 2024 (KSSB, 2024).
Indonesia	Sustainability reporting is required under Indonesia Financial Services Authority (IFSA) regulations for listed companies and financial institutions. Guidelines are developed by the IFSA (IFSA, 2017). Companies are required to disclose their environmental, social and governance performance, as well as sustainability strategies, annually in a sustainability report. The IFSA does not have a specific set standard that companies must follow, and companies can adopt international frameworks to meet the reporting requirements.
Philippines	The Philippines Securities and Exchange Commission (PSEC) has announced it will revise its existing Sustainability Reporting Guidelines for publicly listed companies to reflect the development of global frameworks, including IFRS S1 and IFRS S2 (PSEC, 2023). The guidelines were introduced in 2019 and mandate publicly listed companies to submit sustainability reports.
New Zealand	In April 2024, New Zealand introduced mandatory disclosures for large publicly listed companies, large insurers, banks and investment managers. Reporting is required against climate standards issued by the External Reporting Board (XRB). They are based on the TCFD pillars and provide a framework for entities to consider climate risks and opportunities (NZ MfE, 2023). Under the XRB requirements, a climate reporting entity's scope 1, 2 and 3 greenhouse gas emissions must also be independently assured.
Vietnam	Vietnamese public and listed companies are required to include an ESG report in their annual reporting (VMoF, 2015). The Ministry of Finance provides guidelines on disclosure information. The ESG report's content must include sections on strategy, management approach and performance, and must focus on material issues regarding specific environmental and social issues, such as energy, greenhouse gas emissions, water, biodiversity, waste, employee health and diversity.
Thailand	The Thai Securities and Exchange Commission requires listed companies to disclose information concerning their environmental, social and governance performance across their entire business value chain (Stock Exchange of Thailand, 2022). Companies must comply with the guidelines set out by the Thai Security Exchange reporting guide, which includes information on social, governance and environmental aspects, such as climate change, the environment, carbon footprint and inequality. Companies are encouraged to align with international standards, but are not required to. The Bank of Thailand has also released a policy for financial institutions to raise the standard of governance, strategy risk management and disclosures, to align with international standards (Bank of Thailand, 2023). Although not currently mandatory, ESG disclosures may expand in the future.
UAE	In 2022, the United Arab Emirates (UAE) Securities and Commodities Authority (SCA) mandated ESG reporting for listed companies (UAE SCA, 2023). The regulation includes minimum requirements for sustainability reporting, including disclosure of the company's long-term sustainability strategy and environmental environmental and social impact, use of a recognised sustainability framework, and independent assurance of the sustainability report.

Australian Sustainable Finance Taxonomy developments

The Australian Government has committed to partnering with industry to develop an Australian Sustainable Finance Taxonomy. A taxonomy is a set of criteria to evaluate whether economic activities, assets or industries are aligned with, or contribute to, sustainability objectives (The Treasury, 2023). Taxonomies facilitate the adoption of uniform standards, guiding markets towards sustainability-aligned investments, without enforcing specific investment strategies or directing how capital should be allocated (The Treasury, 2023).

The Australian taxonomy will provide standard definitions and performance thresholds to underpin all sustainable finance products and services. This will provide clarity on the appropriate metrics, data and standards for substantiating sustainability claims. Engagement with industry for this study highlighted the current lack of standard criteria and definitions as a particular challenge for scaling sustainable finance in agriculture (refer to the section *Practical considerations for sustainable finance in the agriculture sector* for more detail).

Internationally, taxonomies underpin the market, policy and regulatory architecture for sustainable finance. More than 20 jurisdictions have introduced, or are developing, taxonomy frameworks, including many of Australia's key economic partners, such as the EU, China, Japan, Korea Republic, Indonesia, Singapore, the United Kingdom and Canada (ASFI, 2022; The Treasury, 2023).

Australia's taxonomy currently has no formal regulatory status. The Treasury and the Clean Energy Regulator (CER) will consider options for embedding the taxonomy within Australia's regulatory architecture (The Treasury, 2023). Notably, certain large European companies must disclose the percentage of their turnover, capital expenditure or operational expenditure that aligns with the sustainability criteria contained in the EU Taxonomy (European Parliament, 2020).

On 28 May 2024, the Australian Sustainable Finance Institute (ASFI) commenced the first round of public consultation for the taxonomy's initial development phase (ASFI, 2024). The initial phase focused on developing climate change mitigation criteria for the electricity generation and storage; minerals, mining and metals; and built environment sectors. The Australian Government's 2024-2025 Budget included commitments to extend the taxonomy to the agriculture sector.

The Australian taxonomy will provide clarity on how to validate sustainability claims in the agriculture sector. This will help pave the way for increased sustainable finance flows to the sector by mitigating the risk of greenwashing and bolstering investor confidence in the credibility of ESG claims.

Advancing sustainable finance in Australia

The Australian Government released its S*ustainable Finance Roadmap* in June 2024. The Roadmap sets out the Australian Government's plan to implement sustainable finance reforms and measures to help mobilise the private capital required to achieve net zero; maximise the economic transition opportunities; and modernise our financial markets (The Treasury, 2024). The Roadmap identified 10 priorities (Figure 2).

A key action outlined in the Roadmap is supporting credible net-zero transition planning. This will include consideration of the how the government's upcoming *Net Zero Plan* and sector decarbonisation pathways may support or interact with corporate transition planning guidance (The Treasury, 2024). In May 2024, the Australian Government announced it will invest $63.8 million in the *Agriculture and Land Sector Plan* to support initial emissions-reduction efforts (DAFF, 2024).

The 2024-2025 Budget reinforced the government's focus on advancing sustainable finance in Australia, with $17.3 million committed to supporting the mobilisation of private sector investment in sustainable activities (Australian Government, 2024).

Many proposed reforms are in the early development stages, and their full impact on the agriculture sector remains to be seen. It is important the sector be actively involved in these policy discussions to ensure the evolving frameworks reflect and support the unique needs and opportunities of Australian agriculture.

Pillar 1: Improve transparency on climate and sustainability

Priority 1: Implementing the climate-related financial disclosures

Priority 2: Developing the Australian Sustainable Finance Taxonomy

Priority 3: Supporting credible net-zero transition planning

Priority 3: Developing sustainable investment product labels

Pillar 2: Financial system capabilities

Priority 5: Enhancing market supervision and enforcement

Priority 6: Identifying and responding to systemic financial risks

Priority 7: Addressing data and analytical challenges

Priority 8: Ensuring fit-for-purpose regulatory frameworks

Pillar 3: Australian Government leadership and engagement

Priority 9: Issuing Australian sovereign green bonds

Priority 10: Stepping up Australia's international engagement

Figure 2. Summary of pillars and priorities outlined in the *Sustainable Finance Roadmap*.

Role of sustainability in market competitiveness

Consumers are increasingly expecting and valuing sustainably produced goods. Recent studies by EY revealed on average, 80% of global consumers take sustainability into account when buying fresh fruits and vegetables, including 71% of Australians, 67% of Americans, 86% of Chinese and 72% of British consumers (Nijssen-Smith and L'Huillier, 2021; Rogers, 2023).

On average, 36% of global consumers reported they are willing to spend more on sustainably produced products and sustainably delivered services. However, due to barriers related to price, accessibility and information, gaps between reported consumer attitudes and actual purchasing behaviour exist. For example, in a study of more than 8,000 German consumers investigating the attitude behaviour gap in organic foods utilising spend data, about one in four consumers held very positive attitudes, but only 4% of households directly translated these attitudes into purchasing behaviour (Schäufele and Janssen, 2021).

Businesses that make sustainable choices available, convenient and easy for people to understand could benefit from evolving consumer values. Aligned with the need for transparent information, consumer labelling systems can help buyers understand the ESG credentials of the goods they purchase. Consumer labelling systems for sustainably sourced food and fibre have emerged, including Global GreenTag Certification and Regenerative Organic Certified (Global GreenTag International, n.d.; ACO Certification Ltd, n.d.). These labels indicate sustainable practices and are becoming increasingly influential in guiding consumer choices (NIQ, 2023).

Companies demonstrating their commitment to sustainability are more likely to attract and retain customers who prioritise ESG performance (Kim and Li, 2021). As of November 2023, half of the world's 2,000 largest publicly listed companies have committed to net zero by 2050 or sooner (Net Zero Tracker, 2023). Companies are also beginning to make broader environmental commitments. This trend is particularly evident in the food manufacturing sector, with industry giants such as Marks & Spencer and PepsiCo taking steps to shift their supply chains towards regenerative agricultural practices and circular business models (Marks & Spencer, n.d.; PepsiCo, n.d.).

Sustainability is becoming a core element of market competitiveness, leading to increased demand for sustainably produced food and fibre. This can create opportunities for Australian producers who meet high sustainability standards to capture new markets and realise benefits from green premium pricing.

Environmental certificate markets

Environmental certificate markets have emerged as a significant sustainable financing activity in the agriculture sector (S&P Global, 2022). These markets channel investment into projects that deliver tangible environmental outcomes, such as carbon sequestration or biodiversity conservation.

Recent estimates valued international carbon and nature certificate markets at more than US$5 billion per year, with growth estimates as high as a 15- and 100-fold by 2030 and 2050, respectively (NatureFinance, 2023). Recent reforms to the Safeguard Mechanism (SGM) requiring emissions-intensive industries to reduce their emissions are expected to drive significant growth in Australia's national carbon markets (DCCEEW, 2024a).

Under the Australian Carbon Credit Unit (ACCU) Scheme, two categories of methods for generating carbon credits are accessible to Australian producers:

- **Agriculture:** Including efficient fertiliser use, reduced enteric methane emissions, beef cattle herd management, animal effluent management and soil carbon sequestration; and
- **Vegetation management:** Including savanna fire management, reforestation, avoided clearing and plantation forestry (DCCEEW, 2024b).

EY modelling suggests marginal land sector removals will provide close to half the abatement required in 2035 under the SGM (Herd *et al.*, 2023). When effectively managed, these projects can fetch premium prices in the Australian carbon market due to their added biodiversity benefits (Herd *et al.*, 2023).

For example, emissions-reduction activities, such as reforestation and savanna fire management, can improve habitats for species and increase landscape connectivity. However, active and responsible management is essential to ensure the ecological integrity and success of such projects. Soil carbon sequestration projects can also help restore degraded soils, leading to increased crop yields and reduced fertiliser costs. However, research suggests the ability of soils to retain carbon is significantly influenced by rainfall, making soil carbon a potentially risky asset for farmers (Grace *et al.*, 2022).

Landholders undertaking projects that combat global warming and safeguard nature in parallel may be able to access additional financial incentives by selling biodiversity certificates under the Nature Repair Market (DCCEEW, 2024c). *The Nature Repair Act 2023* (Cth), which was passed in December 2023, provides the legislative framework to establish a national and voluntary biodiversity certificate market in Australia. Under the Act, producers can generate and sell certificates for undertaking projects that enhance or protect native biodiversity.

Australia's ACCU Scheme and Nature Repair Market provide opportunities for producers to diversify revenue streams while simultaneously boosting farm productivity and resilience, and enhancing agricultural social licence. However, selling carbon and biodiversity credits has implications that producers should be aware of, including long-term maintenance liabilities and potentially inhibiting their ability to use those credits to meet their own sustainability targets as the industry moves towards net zero and nature-positive in the future (Grace *et al.*, 2022). These issues are discussed further in the section *Practical considerations for sustainable finance in the agriculture sector*.

Regulatory changes in the EU

Regulatory changes in the EU could herald regulatory developments globally, which may impact Australian agriculture and sustainable finance practice. The EU is implementing rigorous policies and regulations to improve environmental protections and promote sustainable practices. Noteworthy developments include:

- **The EU Deforestation Regulation (EUDR),** which comes into effect December 2024. The EUDR is a legislative measure designed to prevent products linked to deforestation and forest degradation from entering the EU market (DAFF, 2023);
- **The EU's Corporate Sustainability Due Diligence Directive (CSDDD).** This directive mandates that companies address environmental and human rights impacts across their supply chain within and outside Europe (European Commission, 2022); and
- **Approval of new rules on environmental crimes and related sanctions.** These rules include tougher penalties for individuals and entities convicted of an updated list of criminal offences, including illegal timber trade, depletion of water resources and other qualified offences that result in severe environmental harm equivalent to 'ecocide' (European Parliament, 2023).

While the EU is not a major market for Australian agriculture, its regulatory activities can be viewed as a lead indicator for global markets, which may follow suit in shifting towards more stringent environmental accountability. Should this eventuate, the outcome for producers would be a need to manage, monitor and report ESG impacts to maintain market access.

How the Australian finance sector is responding

Recent ESG developments are significantly shaping the way financial institutions do business. Australian producers should be particularly aware of the following responses underway in the finance sector:

- **Preparing for mandatory climate reporting:** Many Australian financial institutions already voluntarily report on their climate impact. However, mandatory reporting requirements will lead institutions to improve scope 3 greenhouse gas emissions reporting and substantiate claims with verifiable data provided by the businesses they finance, including producers.
- **Expanding public ESG commitments, including natural capital:** Many financial institutions have public climate commitments; Australia's five largest banks have committed to net-zero emissions by 2050 or sooner (ACF, 2023). Financial institutions are expected to expand their commitments to include natural capital as it gains traction as a material ESG topic. This trend is already underway, evidenced by Westpac's *Natural Capital Position Statement*, outlining agricultural loan targets and pledges to halt the conversion of natural forests to agriculture within farm systems, starting from 31 December 2025 (Westpac, 2023). It is important for the 63% of agricultural businesses that use debt to understand how these commitments may impact their access to capital (ABARES, 2023).
- **Integrating ESG considerations into credit risk rating and underwriting processes:** As more detailed spatial and temporal data linking ESG performance to financial returns becomes available, financiers will be better equipped to integrate ESG into credit risk and underwriting assessments. For Australian producers, this means sustainability efforts – or lack thereof – could in the future directly influence their ability to access capital, the interest rates they pay and the overall terms of financing. Producers with robust ESG profiles may benefit from favourable financing conditions, while those lagging in sustainability may encounter higher costs of capital.
- **Setting sustainable finance commitments:** Australian financial institutions are setting sustainable finance commitments and establishing 'responsible investment' funds. Producers who adopt sustainable practices will be better placed to access the growing pool of finance earmarked for fostering a greener, low-carbon economy.
- **Developing products to reduce costs for sustainable companies and projects:** Many banks are developing products, such as green loans, social loans and sustainability-linked loans, that reward customers with discounts for adopting sustainable practices (Box 1). These products direct capital into equipment, projects or businesses that meet specific eligibility criteria and demonstrate verifiable environmental and social outcomes. Sustainability-linked insurance products, which offer premium discounts to customers engaging in activities that improve their sustainability performance and/or climate resilience, are also beginning to emerge.

These shifts are set to embed sustainability at the core of financial decision-making. While there will be initial challenges with establishing processes to meet growing demand for ESG data, these developments create a transformative opportunity for the agriculture sector. By embracing sustainable practices, primary producers can improve their ability to attract investment and reap benefits from the economic transition to a more sustainable future.

Box 1. Emerging labelled sustainable finance products in the agriculture sector

Labelled sustainable finance products are emerging in the agriculture sector. Examples of the different types of products developed and offered by the finance sector are outlined below. Refer to KPMG Australia's *Banking on sustainability* report for a detailed description of these products and case study examples.

Emerging labelled sustainable finance products

Green equipment and vehicle finance

A finance product where the proceeds must be used to purchase green equipment or vehicles, such as electric vehicles or solar panels. The product might offer a discounted interest rate for the purchase of eligible assets.

Social loan

A loan product where the proceeds must be used to deliver an eligible project with beneficial social outcomes. The loan might offer a lower interest rate for eligible projects as defined by the financier or in a third-party framework.

Green loan

A loan product where the proceeds must be used to deliver an eligible project with beneficial environmental outcomes. The loan might offer a lower interest rate for eligible projects as defined by the financier or in a third-party framework.

Sustainable trade finance

A loan product that establishes a partnership between a bank and a partner downstream in the supply chain, such as a retailer, to provide suppliers with working capital. Suppliers who meet ESG performance targets are provided advanced payment or a lower interest rate.

Sustainability-linked loan

A loan where the achievement of specific ESG targets determines the interest payable. The interest rate might be discounted when ESG targets are met or exceeded, and penalties may apply for poor performance against ESG targets.

Sustainability-linked insurance

Insurance products where sustainable on-farm management practices are incentivised through lower premiums. Farmers who implement sustainable management practices, often defined by a third-party framework, receive a premium discount.

What this means for Australian producers

This section dives deeper into the impact of recent ESG developments on Australian producers. It also explores how producers can navigate the complex landscape, adapt to evolving regulatory requirements, maintain market access and contribute to a sustainable future.

Financial institutions are increasingly focused on the agriculture sector

Sustainable finance in the agriculture sector is still emerging. Historically, sustainable finance has targeted the clean energy transition. During the 2022-2023 financial year, energy, buildings and transport collectively accounted for more than 75% of the green debt volume issued in the Asia-Pacific region through the Climate Bonds Initiative (Climate Bonds Initiative, 2023).

Increasingly, the finance sector is shifting its focus towards agriculture. The volume of green debt issued globally to the land use sector[1] grew 142% between 2020-2023; this included $9 billion of growth in the Asia-Pacific region alone (Climate Bonds Initiative, 2023). In 2020, sustainable agriculture emerged as one of the top five ESG priorities for US money managers, with $2.38 trillion directed towards sustainable agriculture projects (US SIF Foundation, 2020).

The shifting focus is driven by:

- Recognition of the role sustainable agriculture will play in maintaining future food security, conserving biodiversity and addressing climate change;
- Significant opportunities for growth and innovation through the global food and agriculture sector's sustainability transition, with research suggesting the transformation could unlock US$2.3-4.5 trillion in annual business value by 2030 (BSDC, 2017; Food and Land Use Coalition, 2019); and
- Reducing the agriculture sector's carbon footprint, as this is a critical step for the finance sector in meeting its own net-zero finance commitments.

These factors contribute to agriculture emerging as a key area of interest for the finance sector.

There is a growing number of financial incentives for sustainable practices

There is a growing number of financial incentives encouraging uptake of sustainable practices. In Australia, financial institutions are launching agriculture-specific products that reward sustainable practices, reduce emissions and build resilience to climate change.

Current offerings tailored and marketed specifically for the agriculture sector include:

- **Commonwealth Bank of Australia's (CBA)** Agri Green Loan, which finances eligible new environmental projects on a farm, such as planting trees, implementing regenerative farming practices or promoting biodiversity (CBA, 2024).
- **National Australia Bank's (NAB)** Green Finance for Agribusiness, which enables investment in eligible on-farm practices and projects, such as the establishment of legumes in livestock-pasture systems, on-farm solar projects or the sustainable use of crop residues (NAB, 2024).
- **Achmea Australia's** insurance reward for cotton growers who are certified through myBMP, Cotton Australia's voluntary farm and environmental management program (Achema, 2021).

Common examples of projects that may be eligible under agriculture green loans include:

- Installation of renewable energy systems on farms;
- Implementation of energy-efficient irrigation and water management systems;
- Conversion to organic or regenerative farming practices;
- Upgrades to more efficient and low-carbon machinery and equipment;
- Restoration of natural ecosystems and habitat conservation on agricultural land;
- Investment in precision agriculture technologies to reduce inputs and increase yields;
- Initiatives to reduce greenhouse gas emissions from agricultural operations;
- Initiatives to improve soil health and increase carbon sequestration;
- Construction of facilities for the processing and storage of sustainably produced agricultural products.

Eligible activities and specific criteria for green loans can vary between banks and may change over time. Producers should consult their bank for the most current eligibility requirements.

Several of the projects above can create opportunities for producers to access additional or alternative financial incentives of carbon or biodiversity certificate markets. Producers can earn certificates to sell in these markets, creating an alternative revenue stream, by implementing projects that reduce or sequester greenhouse gas emissions or improve native biodiversity. Accessing environmental certificate markets can be challenging due to high upfront costs. However, green loans can be tailored to mitigate these barriers (Box 2).

The financial incentives provided by sustainable finance products are bolstered by the additional co-benefits from adopting sustainable practices. These co-benefits deliver value beyond the immediate financial gains, contributing to a more compelling incentive to adopt sustainable practices. Co-benefits include:

- **Productivity improvements:** Growing evidence demonstrates sustainable practices that improve soil organic matter can deliver on-farm productivity gains and reduce the cost of inputs, such as fertilisers or pesticides (Gosnell *et al.*, 2019; Meyer *et al.*, 2015). A recent study also found farms with high natural capital are more profitable (National Farmers' Federation, 2023).
- **Increased resilience:** Sustainable farming practices can improve the resilience of production systems to environmental risks (Khangura *et al.*, 2023). Alternative revenue streams delivered through carbon and biodiversity certificate markets may also improve the sector's resilience to crop yield and livestock production risks arising from poor weather conditions, pests or diseases.
- **Market access:** By adopting sustainable practices, producers can be better prepared to navigate future environmental standards that may be required by certain markets, and thus maintain access to a wide range of potential buyers. For example, Tesco, one of the largest global retailers, has announced it will implement the LEAF Marque environmental assurance scheme for growers across its global produce supply chain by 2025 to strengthen environmental standards (LEAF, 2021).

[1]The Climate Bonds Initiative defines the land use sector as agriculture and forestry.

- **Green premiums:** Studies suggest primary producers could potentially access 'green premiums' for their sustainably produced goods, as consumers increasingly seek out eco-friendly products (Nijssen-Smith and L'Huillier, 2021; Rogers, 2023). For example, this is evidenced through the financial incentives Cargill is offering to producers who adopt sustainable practices under its SustainConnect program (Cargill, n.d.). However, stakeholder interviews suggested green premium opportunities haven't yet materialised across all rural industries.
- **Supply chain competitive advantages and reputational capital:** Sustainable practices are increasingly valued by commodity buyers and financiers looking to reduce their own environmental impact. A strong reputation for sustainability can attract investment, partnerships and customer loyalty.

Box 2. Green loan enables soil carbon project and access to carbon credits

A sheep and cattle operation in New South Wales used CBA's Agri Green Loan to launch a soil carbon project aimed at increasing soil carbon levels, productivity and carrying capacity (CBA, 2023).

The farm implemented a range of soil management practices, including fixing soil constraints, rotational grazing and carefully matching stock rates to carrying capacity. After these activities yielded healthier soils and increased soil organic carbon, the station owners were encouraged to pursue a full-scale soil carbon project, anticipating they could generate several million dollars in carbon credits over 25 years through soil carbon sequestration activities on farm.

Initial financing of the soil carbon project was a major hurdle. The rigorous soil carbon testing, including soil sampling and pasture improvement, was a significant cost. The Agri Green Loan provided an attractive interest rate and was easy to administer, allowing the station owners to get the project up and running on a wider scale.

Reporting ESG performance will become a central part of doing business

Measurement, reporting and verification (MRV) is a central element of sustainable finance. Global frameworks, such as the Green Loan Principles, Social Loan Principles, Sustainability-Linked Loan Principles and Climate Bonds Standard, set explicit requirements for borrowers to report the environmental and/or social outcomes linked to sustainable debt instruments, and seek independent assurance over the reported outcomes.

In addition to standard business credit requirements, producers engaging with sustainable finance products will typically be required to provide the following to qualify:

- Documentation demonstrating the proposed project aligns with the purpose of the sustainable finance product (e.g. confirming the project meets the eligibility criteria); and
- Ongoing verification that funds have been used as intended; this could include providing invoices, before and after photos, or detailed evidence of the environmental or social outcomes.

MRV is also a central element of participating in environmental certificate markets. These markets are backed by robust regulations, standards and methods to help prevent companies from making false or misleading environmental claims. This is necessary to mitigate greenwashing risks, assist the supply of high-integrity certificates and de-risk purchasing decisions for buyers.

With that said, all forms of business finance are expected to increasingly be tied to ESG reporting. As previously discussed, the introduction of mandatory climate reporting means financial institutions and large corporates will be obligated to report not only their direct emissions (scope 1 and 2) but also the emissions they are indirectly responsible for within their value chain (i.e. scope 3 and financed). These requirements, coupled with increasing regulatory scrutiny on greenwashing, mean financiers and buyers will seek credible, evidence-based emissions data from their suppliers, customers and investees.

Producers' ability to report their ESG performance will increasingly be factored into commercial competitiveness considerations. Producers may be required to track and report emissions to retain access to capital and markets as the regulatory environment continues to evolve.

The finance sector's immediate focus is emissions reporting. However, there is growing recognition of the importance of measuring and reporting natural capital. As nature reporting continues to emerge, the agriculture sector will be an increasing priority; this is because the sector is highly dependent on nature. Long-term success depends on continued access to land, healthy soils, pollinators, clean water and stable climate conditions. Conversely, the sector can negatively impact nature if poorly managed. Agriculture is identified as the third-most common threat to threatened species listed under Australia's national environmental law, the *Environment Protection and Biodiversity Conservation Act 1999* (Cth) (EPBC Act) (Kearney *et al.*, 2019).

In time, there may be additional expectations on Australian producers to report on more environmental metrics, such as changes in land, freshwater and ocean use; pesticide and fertiliser use; water consumption and wastewater discharge; waste generation; and impacts on local biodiversity and ecosystem health. Nature issues are already translating into market access considerations. This is evidenced by the EU Deforestation Regulation and Westpac's *Natural Capital Position Statement*.

The trend towards transparency will likely prompt changes in the agriculture sector, as better data not only supports compliance but can help the sector identify innovative opportunities to implement more sustainable practices. Improved data is vital to support the development of sustainable finance products tailored to the sector's unique needs.

Considerations for sustainable finance in the agriculture sector

Engagement with industry shed light on practical considerations for advancing sustainable finance in the agriculture sector. Industry insights revealed a strong desire to integrate sustainability into agricultural practices and financial mechanisms, but scaling sustainable finance in the sector remains a challenge.

Scaling sustainable finance will require:

- Greater clarity for producers on the costs and benefits of engaging in sustainable finance;
- Clarity regarding the ownership and privacy of sustainability data to address producer concerns and assist data security;
- Credible yet practical standardised and cost-effective tools and methods for measuring, verifying and reporting sustainability outcomes;
- Financial and market mechanisms that are designed with a deep understanding of rural industries, considering factors such as production cycles and environmental risks; and
- Standardised definitions and criteria for sustainable agricultural practices globally.

This section explores practical considerations for addressing these issues.

Understanding the costs and benefits of sustainable finance

As previously mentioned, sustainable finance in the agriculture sector is still emerging. As such, there are few case study examples demonstrating the full costs and benefits of participating in different types of sustainable finance activities across regions and commodity types.

Financial incentives from environmental certificate markets and discounted rates can help promote uptake of sustainable practices. However, to access these incentives, producers need to prepare applications, conduct feasibility studies, negotiate terms and meet ongoing reporting requirements. Complex legal arrangements can also be a significant barrier to participating in environmental certificate markets (Chubb *et al.*, 2022; Donnelly *et al.*, 2023). For instance, certificates could lead to producers being locked into long-term maintenance liabilities for the lifetime of the project. Selling carbon and biodiversity credits to third parties may also mean producers are unable to claim the project outcomes to meet their own commitments and supply chain demands.

With that said, there is growing evidence demonstrating sustainable agriculture can deliver farm productivity gains and improve farm profitability (Gosnell *et al.*, 2019; Meyer *et al.*, 2015; National Farmers' Federation, 2023). This suggests there may be a compelling business case for adopting sustainable practices without needing to engage in sustainable financing activities. The report *Financing sustainable agriculture: Understanding the benefits and costs for Australian producers*, produced as part of phase 2 of this project, explores the costs and benefits for producers in measuring and reporting on sustainability, and the economic value of natural capital and ecosystems services across agriculture, fisheries and forestry.

Methods and technologies for monitoring, verification and reporting

The availability of practical and cost-effective tools and methods for collecting ESG data remains a challenge for scaling sustainable finance in the agriculture sector. However, the sector has made progress on emissions tracking and reporting. Various industry bodies, associations and academic organisations have developed carbon calculators tailored for the sector, including:

- Sheep and Beef Greenhouse Accounting Framework (MLA, n.d.)
- Australian Dairy Carbon Calculator (Dairy Australia, 2023)
- Emissions calculator for the poultry industry (Australian Eggs, n.d.)
- Greenhouse Accounting Framework (PICCC, n.d.)
- Cool Farm Tool utilised by the Cool Soil Initiative (CSU, n.d.)
- HortCarbon Info (QDAF, n.d.)
- Landscape Options and Opportunities for Carbon Abatement Calculator (LOOC-C) (CSIRO, 2024)
- FarmPrint (in development) (CSIRO, n.d.)
- Environmental Accounting Platform (in development) (AIA, n.d.)

Tools and guidance to help producers monitor other types of environmental metrics, such as tree cover, groundcover, biodiversity stewardship and climate resilience, are emerging. For example, Meat & Livestock Australia (MLA), the World Wildlife Fund and The University of Queensland have co-developed the Environmental Credential for Grass-fed Beef platform (MLA, 2024a; MLA, 2024b), while CSIRO has developed guidance on how to measure natural assets, such as clean air, water, soil and living things (Pinkard and O'Grady, 2023).

However, measuring natural capital can be complex and resource intensive, requiring various methods, data sources and assumptions across different environmental metrics. For example, market entry costs for the New South Wales Biodiversity Offset Scheme can reach the tens of thousands of dollars; largely driven by the complexity and specific ecological integrity required for biodiversity assessment methods (Donnelly *et al.*, 2023).

Digital technologies, such as space-based observational analytics, farm machinery automation, artificial intelligence and blockchain, are transforming traditional agricultural practices and supply chain management (Box 3). These innovations offer promising opportunities to improve productivity while simultaneously streamlining ESG data collection and reporting. Further research and investment is required to commercialise these emerging technologies.

Box 3. Emerging technologies for streamlining ESG monitoring

Emerging technologies, such as artificial intelligence, satellite imagery, blockchain and robotics, offer promising solutions to improve on-farm productivity. Many of these technologies also offer opportunities for streamlining the measurement and reporting of ESG outcomes. The Australian Government's *Digital Foundations for Agriculture Strategy* identified the following key technology opportunities:

- Farm machinery automation to fine-tune and track inputs, enabling efficient and accurate tracking of fertiliser and pesticide use;
- Edge-of-field monitoring for tracking and reporting run-off water quality, which reduces the time taken and resources required compared to traditional sampling methods;
- Enhanced satellite capabilities to enable precise remote monitoring of farmland, facilitating crop management, groundcover ratio measurement, landscape feature mapping and environmental impact evaluation;
- Traceability and digital logistics tools to simplify agrifood supply chains, lighten regulatory loads and deliver reliable data to consumers, producers and supply chain stakeholders; and
- Soil carbon sensors to offer on-demand measurement of soil organic carbon content and other soil properties (DAFF, 2022).

Agtech innovation will be critical for addressing current barriers to scaling sustainable finance in Australia's agriculture sector. The development and uptake of technologies that streamline ESG measurement and reporting will also become increasingly important for maintaining Australian agriculture's competitiveness as global financial markets shift toward heightened ESG data and disclosure requirements.

Products must be tailored to account for agriculture's characteristics

Sustainable financing for rural industries requires a nuanced understanding of the unique characteristics that differentiate the agriculture sector. In the energy, buildings and transport sectors, emissions reductions linked to renewable energy, green building materials and electric vehicles are well understood (IEA, 2019; US Department of Energy, n.d.). This helps facilitate ESG measurement and reporting.

In comparison, the agriculture sector is characterised by a complex interplay of environmental processes and interactions, which makes measuring sustainability outcomes less straightforward. Factors such as production cycles, soil health, biodiversity and climatic conditions introduce a level of variability not as prevalent in other sectors. For example, the potential for soil carbon sequestration in agriculture is influenced by weather patterns and farming practices, which can change from season to season and across different regions (Rabbi *et al.*, 2015).

The agriculture sector is also particularly exposed to the physical risks of climate change and nature degradation due to its dependency on ecosystem services. Leading academics have highlighted potential risks associated with soil carbon as an asset for producers, in part because Australia's high rainfall variability can significantly influence the ability of soils to retain carbon (Grace *et al.*, 2022).

Despite underwriting business models being closely tied to physical climate risks, insurers are less active in the sustainable finance space. There is a significant opportunity for both banks and insurers to expand their sustainable finance product offerings to include incentives for agricultural climate adaptation and natural capital projects. Such initiatives would support the resilience of primary producers and help mitigate the risk profiles of the financial institutions themselves.

By creating mechanisms that are sensitive to the realities of rural industries, financial institutions can more effectively support the agriculture sector's unique path to sustainability.

A standardised definition of sustainability is a key enabler

The agriculture sector faces challenges scaling sustainable finance due to the lack of consensus and a standardised definition of sustainable agriculture across geographies and commodities. This increases the risks of greenwashing and undermines investor confidence in sustainable finance (The Treasury, 2023).

Several industry-specific sustainability frameworks and certification programs have emerged (Table 2). These frameworks demonstrate the sector's commitment to environmental stewardship and social responsibility. While the frameworks provide clarity on material ESG topics, they lack consistency and alignment on metrics and targets.

Some ESG standards and certifications have also been developed separate to sustainable financing frameworks, creating inefficiencies when mapping between the two and potential greenwashing risks. For instance, a producer may invest in meeting the requirements to have products certified as carbon neutral in an attempt to access new markets, however the certification and the activities undertaken may not align with the requirements classified under a sustainable finance taxonomy. The result is the producer having to undertake a separate set of activities potentially duplicative of the ones already performed.

The Australian Agricultural Sustainability Framework (AASF) represents a significant stride towards creating a unified set of sustainability principles for Australian farming industries (Figure 3). However, financial institutions still require more granular detail on metrics and criteria to streamline development of sustainable finance products.

The Australian Sustainable Finance Taxonomy could facilitate a standardised definition of sustainable agriculture, tailored to the unique Australian context. The Australian Government's *Agriculture and Land Sector Plan* will also be critical to supporting credible transition plans. Collectively, these tools could lead to increased investor confidence, enabling more effective allocation of capital towards truly sustainable agricultural practices.

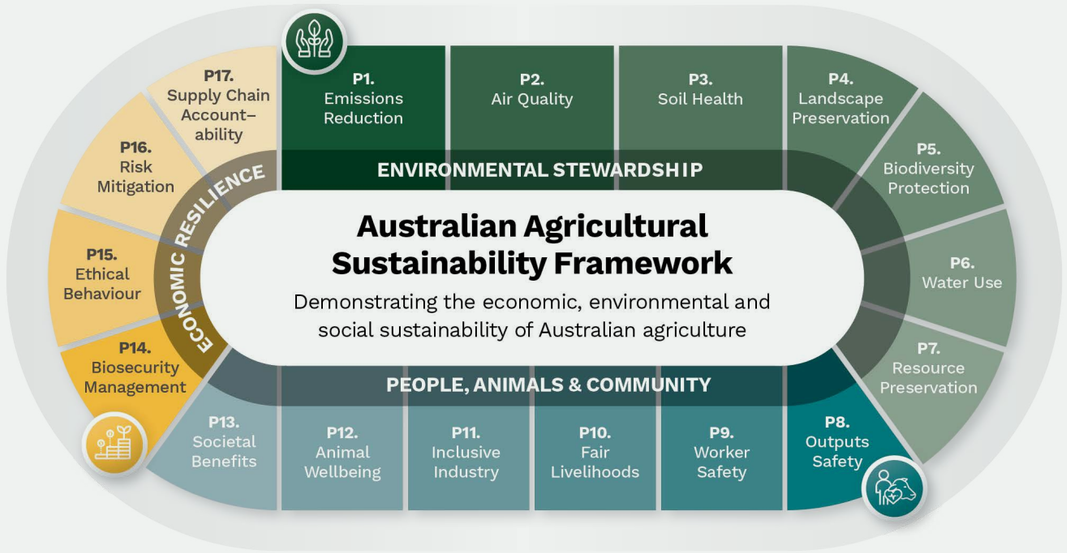


Figure 3. The Australian Agricultural Sustainability Framework. Source: AASF, 2023.

Table 2. **Australian rural industry sustainability frameworks and certification programs.**

Framework or certification	Industry	Description
Australian Agricultural Sustainability Framework	Multiple	A framework for Australian agriculture that identifies 17 overarching principles of sustainability within the key themes of people, animals and community; environmental stewardship; and economic resilience.
myBMP	Cotton	A voluntary environmental and farm management system that supports best practice cotton production by Australian growers through the provision of tools, auditing processes and self-assessment mechanisms.
Smartcane BMP	Sugarcane	An accreditation program for cane farmers across Queensland that allows growers to record and verify practice improvements in managing irrigation and drainage; weeds, pests and diseases; and soil health and nutrients.
Australian Grains Industry Sustainability Framework	Grains	A framework for the Australian grains industry to strengthen sustainability. The framework defines what sustainable grain production is in Australia, monitors industry performance against key sustainability measures, and identifies areas in need of future improvement.
Entwine Australia	Wine	A national sustainability program for the Australian wine industry that supports grape growers and winemakers to improve and demonstrate the sustainability of their business practices.
Australian Beef Sustainability Framework	Beef	A framework for the Australian beef industry that establishes key indicators of performance in sustainability across the key themes of best animal care; environmental stewardship; economic resilience; and people and the community.
Australian Dairy Sustainability Framework	Dairy	An internationally recognised sustainability framework for the Australian dairy industry. The framework has commitments to enhance livelihoods; provide best care for animals; reduce the industry's environmental impact; and improve the wellbeing of people.
Fair Farms	Horticulture	An Australian certification program for ethical and fair employment practices on farms, developed and implemented by Growcom, the peak industry body for horticulture. The program is designed to help growers comply with workplace laws and demonstrate that workers are treated in an ethical, fair and responsible manner.
Australian Chicken Meat Industry Sustainability Framework	Chicken meat	A framework that supports the Australian chicken meat industry in demonstrating its sustainability performance and how it contributes to Australian agriculture's transition to a lower-carbon future. The framework has the key theme areas of chickens; planet; people; and food security and economic resilience.
Australian Egg Industry Sustainability Framework	Eggs	A framework for the Australian egg industry to examine the relationship between the industry, the environment and the community. The framework has the key focus areas of the lives of people; hen welfare; environmental impact; and economic viability.
Responsible Wood Certification Scheme	Forestry	A voluntary certification scheme that provides accountability and guidance to the Australian forestry industry. It includes two standards – Sustainable Forest Management Certification, which assures that forests are conserved and managed responsibly; and Chain of Custody Certification, which tracks forest-based products from sustainable sources to the final product.
Forestry Stewardship Council (FSC) labels	Forestry	An international certification system that verifies the sustainable sourcing of forest-based products from the forest to shelves. FSC-labelled products are certified to have zero deforestation in their production and fair wages and work environments for employees. Additionally, certification demonstrates the producer supports the change from preservation to conservation, and community rights.
Aquaculture Stewardship Council (ASC) labels	Fisheries	A consumer label that certifies seafood products that have been responsibly farmed. ASC-labelled products meet standards for responsible aquaculture and demonstrate to consumers the seafood is sourced from farms that limit impacts on the environment and the community.
Marine Stewardship Council (MSC) labels	Fisheries	A consumer label that certifies wild-caught seafood products and seafood menu items as meeting the MSC Fisheries Standard, which sets out sustainability requirements for fisheries.
Climate Active Carbon Neutral Standard for Organisations	Multiple	A voluntary certification standard established by the Australian Government that helps organisations manage greenhouse gas emissions and achieve carbon neutrality. The standard provides best-practice guidance for organisations to reduce, measure, report, offset and validate their emissions.
Australian Certified Organic (ACO)	Organic agriculture	The largest certification program in Australia for organic and biodynamic produce. ACO-certified produce complies with national and international production standards, and can be traced to its origin.
RSPCA Approved Farming Scheme	Livestock	The largest animal welfare certification scheme in Australia. The scheme mandates a higher level of welfare for farmed animals and aims to improve the quality of their lives.

Three key takeaways for producers

The evolving ESG landscape presents challenges and opportunities for the agriculture, fisheries and forestry sectors. This report updates producers on recent developments in this space to help them prepare for coming changes and requirements likely to impact how they manage, monitor and report on their business.

Sustainability considerations and reporting requirements will increasingly influence the lending decisions of financial institutions and the purchasing behaviours of commodity buyers. Incorporating sustainability monitoring and reporting as part of business-as-usual activities will best position producers to be future ready.

Three key takeaways for producers on how to navigate the evolving ESG landscape are outlined below.

Engage with your bank about their sustainable finance offerings

Banks and some insurers are beginning to offer targeted products that promote sustainability in the agriculture sector through discounted interest rates or favourable terms. The first step for producers is to speak with their banks, lenders and insurers to understand the sustainable finance products available.

Recommended actions for producers are:

1. Schedule a meeting with your bank manager to discuss sustainable finance options.
2. Clarify the bank's expectations for eligibility criteria and what would be required to meet and maintain the favourable terms provided. This could include the type of data to be provided as evidence and the reporting frequency required.
3. Consider engaging with specialist sustainable finance teams within financial institutions to better understand the details and potential opportunities.

Plan and prepare for ESG measurement and reporting

With the introduction of mandatory climate change and sustainability reporting, it is important for producers to proactively measure and report ESG performance. This is not just about compliance but about seizing the opportunity to demonstrate a business commitment to sustainability, which can shore up market access and potentially better finance terms. Key aspects of planning and preparing include building an understanding of what the market wants and what financiers need to meet their sustainability reporting requirements.

Recommended actions for producers are:

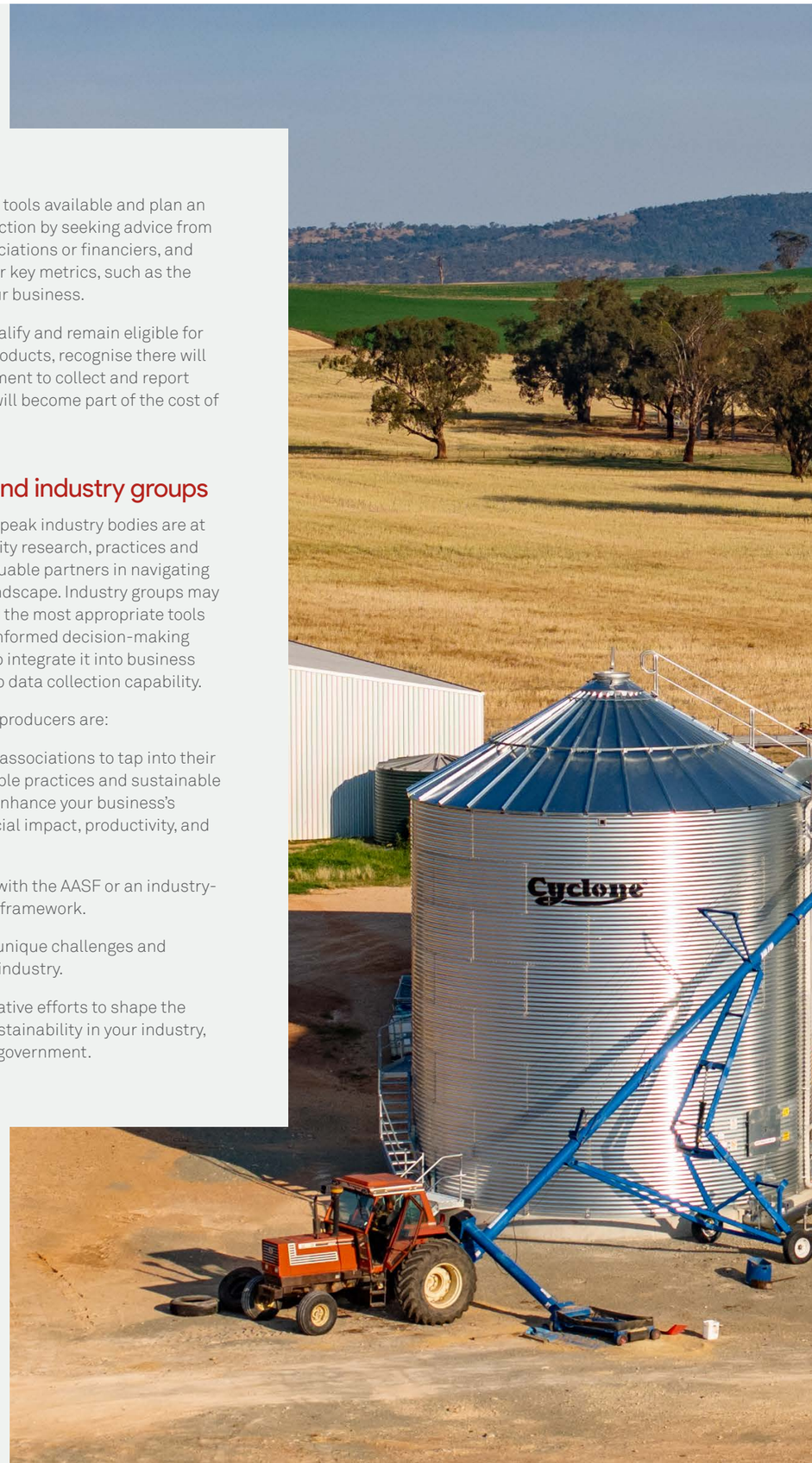
1. Become familiar with relevant agricultural metrics and principles, such as those outlined in the AASF and industry-specific sustainability frameworks.
2. Engage customers and financial institutions to understand their emerging reporting requirements, and develop a strategy to capture the ESG data important to them.
3. Consider the variety of tools available and plan an approach to data collection by seeking advice from relevant industry associations or financiers, and establish a baseline for key metrics, such as the carbon footprint of your business.
4. If collecting data to qualify and remain eligible for sustainable finance products, recognise there will be an ongoing requirement to collect and report information, and this will become part of the cost of doing business.

Engage research and industry groups

Industry groups, RDCs and peak industry bodies are at the forefront of sustainability research, practices and advocacy, making them valuable partners in navigating the sustainable finance landscape. Industry groups may also be able to recommend the most appropriate tools and resources to support informed decision-making about sustainability, how to integrate it into business models, and how to develop data collection capability.

Recommended actions for producers are:

1. Connect with industry associations to tap into their resources on sustainable practices and sustainable finance guidelines to enhance your business's environmental and social impact, productivity, and profitability.
2. Consider how to align with the AASF or an industry-specific sustainability framework.
3. Seek guidance on the unique challenges and opportunities for your industry.
4. Participate in collaborative efforts to shape the conversation about sustainability in your industry, including advocacy to government.



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