Factsheet 1:
What is sustainable finance and what does it mean for Australian producers?

This factsheet provides producers with the latest information on sustainable finance, including what it is, why it is an important opportunity, examples of some of the benefits it offers producers and some tips to get started with it.

Key messages

- Sustainable finance is a rapidly evolving opportunity for Australian producers that rewards the implementation of sustainable practices with discounted interest rates or premiums.
- Australian financial institutions are increasingly offering products to support sustainable agricultural practices, such as green equipment and vehicle finance, green loans, sustainability-linked loans, sustainable trade-finance, sustainability-linked insurance and social loans.
- Mandatory sustainability reporting for large corporations in Australia will begin in January 2025 which will indirectly impact the entire value chain, including producers who will be expected to capture and share sustainability data to retain market access.
- Producers who are actively embracing sustainable practices, proactively engaging with financial institutions and collaborating with research and industry groups can unlock financial rewards, improve market access and contribute to a more sustainable and resilient future for Australian agriculture.

What is sustainable finance?

Sustainable finance refers to financial services that incorporate environmental, social, and governance (ESG) criteria into business or investment decisions for the lasting benefit of both clients and society. It aims to promote economic growth while also addressing environmental and social challenges. In agriculture, this means supporting farmers, foresters, and fishers in adopting practices that are environmentally sound, socially responsible and economically viable.

Sustainable finance in agriculture

Sustainable finance is a rapidly growing concept in the agriculture sector, although it is still in its early stages. This growth is due to the increasing demand for food and fibre products that meet high sustainability standards. As financial institutions and investors increasingly prioritise sustainability, they are developing financial products and services tailored to support sustainable practices in the agricultural sector.

While sustainable finance in agriculture is still emerging, Australian financial institutions are progressively developing tailored products for producers. These products reward producers for demonstrating sustainable practices with discounted interest rates or premiums, saving them money compared to conventional financial products.

- **Green equipment and vehicle finance:** this type of financing offers favourable financing terms for acquiring equipment, electric vehicles and technologies that generate measurable environmental or social benefits such as solar projects and energy-efficient agricultural equipment.
- **Green loan:** this type of loan can be used for projects that have measurable environmental or social benefits. Examples include loans for initiatives that improve soil health and soil carbon sequestration, regenerating degraded land and planting trees or installing shelterbelts.
- **Sustainability-linked loans:** these are loans where the interest rate is linked to the producer's performance against defined sustainability targets. These targets are aligned with international sustainability standards and frameworks to ensure credibility. If producers achieve or exceed their targets, they can receive a discount on their interest rate, but failing to meet the targets may result in an interest rate penalty.
- **Sustainability-linked insurance:** similar to sustainability-linked loans, this type of insurance involves adjusting insurance premiums based on the producer's sustainability performance, rewarding those who adopt sustainable practices.
- **Sustainable trade-finance:** this type of financing helps buyers promote sustainability throughout their supply base by providing working capital to upstream suppliers who meet pre-determined sustainability criteria.
- **Social loans:** this type of loan is used for projects that deliver positive social outcomes, such as improved labour standards or community development.

For more information on the different types of sustainable finance products and opportunities, refer to Factsheet 2.

What does sustainable finance mean for Australian producers?

Sustainable finance encourages and financially incentivises producers for adopting sustainable practices. For example, producers can access lower interest rates on loans or receive premium discounts on insurance. By implementing practices that enhance environmental stewardship, social responsibility, and economic resilience, producers can attract investment, access favourable financing and enhance their market competitiveness.

Mandatory sustainability reporting for large corporations in Australia will begin in January 2025. This means that financial institutions, large processors and retailers will begin applying greater scrutiny to 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 the demand for sustainability metrics, including greenhouse gas emissions, from financiers and downstream customers 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.

Trends shaping the future of sustainable finance

- **ESG regulation:** governments worldwide, including Australia, are implementing mandatory reporting regulations on climate and sustainability-related issues. For producers, this means financial institutions and large corporations will seek credible emissions data from their suppliers and customers. This data will help these institutions and corporations meet their own reporting requirements.
- **Growing demand for carbon and biodiversity certificate markets:** producers who adopt sustainable practices may be able to generate carbon credits or biodiversity certificates. They can then sell these certificates to companies seeking to offset their emissions or improve their environmental performance. The Australian Government has highlighted the significant role carbon and biodiversity markets can play in achieving net-zero goals, with the 2024 - 2025 budget including support for the Australian Carbon Credit Unit (ACCU) scheme and the Nature Repair Market.
- **Measuring and reporting ESG performance will become a central part of doing business and maintaining market access:** sustainability considerations and reporting requirements are becoming increasingly important in lending and investment decisions. Producers who can demonstrate their commitment to sustainability will be better positioned to access capital and markets.

Examples of benefits for producers engaging in sustainable finance:

- **Financial incentives:** Access to capital to assist with implementing sustainable activities if sustainable activities cannot be self-funded by producers. Sustainable finance products also come with lower interest rates, favourable loan terms, or premium discounts for producers accessing these.
- **Reputation and brand benefits:** Consumers are increasingly demanding sustainably produced products. Engaging in sustainable finance helps producers demonstrate their commitment to sustainability and build their reputation, which can help them attract customers and command premium prices.

- **Improved market access:** major agricultural export markets, such as the European Union and China, are implementing strict sustainability standards. By adopting sustainable practices, Australian producers can better meet these standards and maintain access to these crucial markets.
- **Access to new revenue streams:** australian producers can generate new revenue streams by participating in environmental markets like the Australian Carbon Credit Unit (ACCU) scheme and the Nature Repair Market. Through these markets, producers can earn carbon credits or biodiversity certificates for implementing practices that sequester carbon, enhance biodiversity, or provide other environmental benefits. They can then sell these certificates to companies seeking to offset their emissions or improve their environmental performance.
- **Productivity improvement and increased climate resilience:** 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. Sustainable agricultural practices can also help producers adapt to the impacts of climate change, such as droughts, floods and extreme temperatures. This resilience can lead to more stable yields and lower production costs over time.

For more information on the benefits and costs for Australian producers with sustainable finance, refer to Factsheet 3.

Key takeaways for producers

Sustainable finance in agriculture is rapidly evolving, creating a dynamic environment full of both challenges and opportunities for Australian producers. By understanding the key trends, benefits, and costs associated with sustainable finance, producers can position themselves to thrive in a future where sustainability is a core driver of success. Embracing sustainable practices, engaging proactively with financial institutions and collaborating with research and industry groups can unlock financial rewards, improve market access, and contribute to a more sustainable and resilient future for Australian agriculture.

Key tips to help producers get started with sustainable finance and get the most benefit from it include:

- **Plan and prepare for ESG measurement and reporting:** familiarise yourself with relevant agricultural metrics and principles, such as those outlined in the Australian Agricultural Sustainability Framework (AASF), and engage with your customers and financial institutions to understand their reporting requirements.
- **Engage research and industry groups:** connect with your industry associations and research organisations to access resources, best practices, and insights into sustainable practices and finance.
- **Determine opportunities across your farming business to implement sustainable activities:** identify existing or planned projects within your long-term business plan that align with sustainability goals then analyse and prioritise these opportunities.
- **Take action and document ESG outcomes:** conduct research, seek advice and begin implementing sustainable projects on your farm. Start with smaller-scale trials before full-scale adoption.
- **Understand the benefits and costs associated with sustainable practices and sustainable finance:** engaging in these activities offers producers many benefits, such as improved productivity, reduced input costs, enhanced brand reputation and access to premium markets, as well as environmental benefits and favourable interest rates and premiums.
- **Engage with your bank about their sustainable finance offerings:** schedule a meeting with your bank manager to discuss your business's sustainability goals and how sustainable finance may benefit your operation.

For more information on how to get started with sustainable finance, refer to Fact sheet 4.

For more information:

- Navigating Environmental and Social Lending Opportunities for Australian Producers.
- Financing Sustainable Agriculture.