Factsheet 2: Products and opportunities with sustainable finance in agriculture

This factsheet provides producers with information on the different sustainable finance products available today, plus emerging opportunities to be aware of for the future. Some guidance for measurement, reporting and verification is also provided.

Key messages

- Sustainable finance products currently available to support producers with sustainable agricultural practices include green equipment and vehicle finance, green loans and sustainability-linked loans
- Less common sustainable finance products to be aware of, that are increasingly becoming available to the agricultural sector include sustainability-linked insurance, sustainable trade-finance and social loans
- Financial institutions are also expected to incorporate the measurement of on-farm natural capital and ecosystem services into their sustainable finance products in future
- Accurate and reliable measurement, reporting and verification (MRV) is essential for producers to access sustainable finance products and demonstrate the impact of their sustainable practices.

What sustainable finance products are available now?

Australian financial institutions are expanding their offerings to support sustainable agricultural practices. They now provide products like green equipment and vehicle finance, green loans, sustainability-linked loans, sustainable trade-finance, sustainability-linked insurance and social loans.

These products reward producers for demonstrating sustainable practices with benefits including discounted interest rates or premiums. Sustainable finance products can be used for a specific project with eligible expenditure or general business purposes with agreed sustainability outcomes.

Green Equipment and Vehicle Finance

A finance product where the proceeds must be used for the purchase of green equipment or vehicles, such as more fuel efficient equipment, electric vehicles or solar panels. It can offer discounted interest rates.

Social Loan

A loan product where the proceeds must be used to deliver eligible projects with beneficial social outcomes. It can offer lower interest rates 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 eligible projects with beneficial environmental outcomes or to improve energy efficiency. It can offer lower interest rates 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 that meet ESG performance targets are provided advanced payments or lower interest rates.

Sustainability-Linked Loan

Loans where the achievement of specific ESG targets determine the interest payable. Interest rates can 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 premium reductions. Farmers who implement sustainable management practices, often defined by a third-party framework, receive premium discounts.

Figure 1. Overview of labelled sustainable finance products. Source: Ernst & Young

The following provides a summary, including examples, of the most common sustainable finance products currently available to Australian producers.

Green equipment and vehicle finance

Overview: Green equipment and vehicle finance offers favourable terms for acquiring equipment, electric vehicles and technologies that support sustainable agricultural practices and generate measurable environmental or social benefits.

Examples of eligible activities or projects:

- **Renewable energy:** on-farm solar projects, wind and hydro-powered equipment
- Energy-efficient agricultural equipment
- **Water:** improving water efficiency, rainwater harvesting systems, drip irrigation and water recycling technologies
- **Waste and recycling:** equipment that improves the management of waste and recycling
- **Reduce greenhouse gas emissions:** electric and plug-in hybrid vehicles, manufacturing equipment dedicated to zero-emission technology
- **Construction of facilities:** for the processing and storage of sustainably produced agricultural products

Examples of available products:

- CBA Green vehicle and equipment finance
- NAB Green equipment finance

Note: this is not a fully exhaustive list. New products are entering the market frequently and producers are encouraged to conduct their own research on available products.

Case study examples:

- **Albany Farm Fresh Foods:** Colin and Beau Ford, owners of Albany Farm Fresh Foods used a green vehicle and equipment finance loan to fund the installation of a mobile solar-powered system mounted on a shipping container, to power free-range chicken sheds for egg production. The loan offered an interest rate reduction compared to a conventional loan. For more information visit: https://agrifutures.com.au/resource/albany-farm-fresh-foods-integrates-sustainable-finance-into-diverse-free-range-business/

Requirements and eligibility*: In addition to standard business credit requirements, producers must provide information about the proposed activity or equipment to be eligible and proof of purchase, such as invoices, project proposals and photos. Annual inspections of the equipment and vehicles may also be required.

Green loan

Overview: A green loan (also known as a sustainability loan) is a secured fixed or variable-rate loan that can be used by producers for projects that deliver measurable environmental or social benefits. These are the most common types of sustainable finance products. Financial institutions offer these loans with lower interest rates to encourage borrowers to undertake projects focused on sustainability or to achieve specific environmental outcomes. The loan must be used for a specific activity agreed upon by the financial institution and the activities that the producers undertake must meet certain guidelines set by the financial institution or an external standard. Benefits can extend to other favourable loan terms, for example, interest-only periods.

Examples of eligible activities or projects:

- Initiatives that improve soil health and soil carbon sequestration
- Converting degraded land to improve soil quality
- Planting trees or installing shelterbelts
- Improving the management of waste
- Switching to regenerative farming practices
- Establishing legumes in livestock pasture systems
- Sustainable use of crop residues
- On-farm solar projects
- Establishing trees to generate on-farm benefits
- Land management changes to increase ground cover and crop or pasture diversity
- Controlled traffic cropping systems to improve soil and water conservation
- Implementation of energy-efficient irrigation and water management systems
- Restoration of natural ecosystems and habitat conservation on agricultural land
- Investment in precision agriculture technologies to reduce inputs and increase yields
- Projects that reduce greenhouse gas emissions from agricultural operations

Examples of available products:

- CBA Agri Green Loan
- NAB Green Finance for Agribusiness
- ANZ Green Loan
- Westpac Green Loan

Note: this is not a fully exhaustive list. New products are entering the market frequently and producers are encouraged to conduct their own research on available products.

Case study examples:

- Old Man Creek owner Michael Gooden utilised a green loan to finance their soil carbon project. The green loan offered a reduced interest rate. For more information visit: Link to written case study, podcast and video.
- A sheep and cattle operation in NSW used a green loan to launch a soil carbon project to increase soil carbon levels, productivity and carrying capacity. For more information visit: Navigating environmental and social lending opportunities.
- Aimee and Blake, farmers in South Australia, secured a green loan to establish a shelter belt on their property to create windbreaks for livestock. For more information visit: Financing sustainable agriculture.
- Baxter Family Farm used a green loan to invest in sustainable waste and water management practices. For more information visit: Financing sustainable agriculture.
- Cheyenne Pastoral Partnership: Are seeking sustainable finance to support a carbon soil project. So far, they have been unsuccessful in finding a banking partner, however, his experience can provide valuable insights for producers navigating access to sustainable finance. For more information visit: Financing sustainable agriculture.

Requirements and eligibility*: In addition to standard business credit requirements, including the annual loan review, the producer must provide information demonstrating that the proposed project meets the eligibility criteria and provide ongoing verification that funds have been used as intended.

Sustainability-linked loans

Overview: A Sustainability-linked loan (SLL) is a product in which the interest rate changes based on the producer's performance against defined sustainability targets. Targets are typically linked to an issuer or borrower's sustainability strategy and could include improving a farm's energy efficiency, enhancing biodiversity, or reducing overall emissions through specific agricultural practices. Social targets are also possible such as targeting an increase in indigenous employment.

Sustainability-linked loans can be used for any operational purpose while working towards agreed criteria whereas a green loan can only be used for a specific 'green' activity such as those previously mentioned.

Examples of eligible activities or projects:

- Improving a farm's energy efficiency
- Enhancing biodiversity
- Reducing overall emissions through specific agricultural practices
- Social targets such as increasing indigenous employment

Examples of available products:

- Sustainability-linked loans are still an emerging area of sustainable finance. Contact your bank to discuss this if of interest.

Case study examples:

- Macka's Group is pursuing sustainable finance to support the expansion of its sustainable practices to help the business achieve its carbon-neutral goal without offsets. For more information visit: Financing Sustainable Agriculture.

Requirements and eligibility*:

- **Identifying sustainability targets:** the lender and producer agree on specific sustainability targets that the producer needs to meet, often aligned with international standards and frameworks.
- **Monitoring, verification and reporting:** regular monitoring and assurance are needed to check if the targets are being met. The borrower must report progress, which may require on-farm monitoring technology and third-party assurance.
- **Interest rate adjustment:** if the producer meets the agreed-upon sustainability targets, the interest rate on the loan decreases. If the targets are not met, the interest rate increases or remains the same. This creates a financial incentive to achieve the targets.

**The eligible activities and specific criteria for sustainable finance products can vary between banks and may be subject to change over time. Producers need to consult their banks for the most current eligibility requirements.*

Emerging sustainable finance opportunities to be aware of

The sustainable finance landscape is continuously evolving. Producers should stay informed about emerging products and opportunities and begin preparing for these to best take advantage of them in future.

Integration of on-farm natural capital

Overview: Natural capital encompasses the natural assets that producers manage on their farms that provide ecosystem services essential for agricultural production. This includes soil health, biodiversity, water resources, vegetation and fauna. Financial institutions are expected to incorporate the measurement of on-farm natural capital and ecosystem services into their sustainable finance products. This integration aims to better assess lending risks, provide more accurate farm valuations and offer insurance products tailored to the unique risks and opportunities associated with on-farm natural capital management. These products will likely provide financial benefits to producers who demonstrate good natural capital stewardship. This trend is further fuelled by the shifting regulatory landscape, with mandatory reporting requirements driving financial institutions to seek more robust data on environmental performance, including natural capital.

Importance: The integration of natural capital into sustainable finance products reflects a growing awareness of the interconnectedness between environmental sustainability and financial performance in the agricultural sector. Producers who actively measure, manage and enhance their on-farm natural capital could receive sustainable finance incentives such as more favourable interest rates on their loans, lower insurance premiums and more accurate assessments of a farm's true worth by incorporating natural capital measures into property valuations. Improving on-farm natural capital will also provide other benefits for producers. A recent study conducted by Farming for the Future on 113 farms, found a positive correlation between natural capital and farm performance by increasing productivity, cutting input costs and boosting resilience to climate and market shocks.

How to prepare: Producers are encouraged to engage with their financial institutions to further understand how they are incorporating natural capital into their products, to be able to meet any future eligibility criteria. Producers can also start to measure and monitor key natural capital indicators on their farms, adopt sustainable practices to enhance and protect their natural capital and collaborate with industry and research groups to learn more. For more information visit: https://farmingforthefuture.org.au/

Other sustainable finance products

There are several other less common sustainable finance products that are increasingly becoming available to the agricultural sector. Producers should consider engaging with their banks, insurance companies or financial advisors to understand the full range of sustainable finance products available to determine which products best align with their specific needs and goals.

Sustainability-linked insurance: these products are beginning to emerge and can offer insurance premium discounts to customers engaging in activities that improve sustainability performance and/or climate resilience. For example, Achmea Australia offers an insurance reward to cotton growers who are certified through the Best Management Practices program.

Sustainable trade-finance: this type of financing (also known as "sustainable supply chain finance (SSCF)" helps buyers promote sustainability throughout their supply base by providing working capital to upstream suppliers who meet pre-determined sustainability criteria. This would likely suit larger agribusinesses with sophisticated data systems. Sustainable trade-finance represents an emerging opportunity for producers to benefit financially from their sustainability practices in their supply chain.

Social loans: this is another sustainable finance product type that may be offered by Australian financial institutions and is targeted at financing social projects such as health, education, housing and access to basic services to help disadvantaged individuals and social groups. This is a new and less developed opportunity for the agricultural sector, however, could provide very beneficial support for producers, their staff and rural communities.

Measurement, reporting, and verification of sustainable finance initiatives

Overview: Accurate and reliable measurement, reporting and verification (MRV) is essential for producers to access sustainable finance products and demonstrate the impact of their sustainable practices. Furthermore, with the introduction of mandatory climate change and sustainability reporting for large companies, due to commence in Australia in January 2025, producers need to be proactive in measuring and reporting environmental, social, and governance (ESG) performance. This is because mandatory sustainability reporting requirements indirectly impact the entire value chain, including producers, who will be expected to provide data to reporting entities (e.g., financial institutions, processors and retailers) who may request information to meet their reporting requirements.

Frameworks also call for independent assurance of the reported outcomes to mitigate greenwashing and ensure credibility. MRV is also essential for producers participating in environmental certificate markets, like the Australian Carbon Credit Unit (ACCU) Scheme for soil carbon projects.

Importance: producers who can meet these MRV data demands will likely have a competitive advantage in accessing sustainable finance and maintaining market access. Moreover, the process of measuring and reporting on sustainability performance can help producers identify areas for improvement in their operations, leading to more efficient and sustainable practices. This can also help to attract customers and get premium prices from having verified sustainability claims.

How to prepare:

- **Engage with inancial institutions and buyers:** producers should talk to their banks, lenders, insurers and key buyers to understand their sustainability requirements and what data they need to see.
- **Familiarise yourself with relevant frameworks:** producers are encouraged to familiarise themselves with relevant agricultural metrics and principles, such as those outlined in their industry-specific sustainability framework and the Australian Agricultural Sustainability Framework (AASF). For more information including a list of industry specific sustainability frameworks visit: Navigating Environmental and Social Lending Opportunities for Australian Producers.

For more information

Environmental Social Lending page

Navigating Environmental and Social Lending Opportunities for Australian Producers.

Fact sheet: Products and Opportunities.

Financing Sustainable Agriculture.