April 2024

National Adaptation Plan Issues Paper – ASFI Submission

The Australian Sustainable Finance Institute (ASFI) welcomes the publication of the Government's National Adaptation Plan Issues Paper, alongside the first pass National Climate Risk Assessment. Physical impacts of climate change present a serious risk to the Australian financial system and to Australia's economy and prosperity. It is critical that steps be taken across the economy to support adaptation and increase resilience to climate impacts, alongside meaningful action to reduce emissions in line with Paris Agreement goals.

We welcome the focus in the Issues Paper on both the role of private capital in supporting adaptation and resilience across the economy, and the role and relevance of First Nations' knowledge, experiences, and leadership in informing Australia's response to unavoidable impacts of climate change. We have prioritised these two areas in our response to this Issues Paper:

- Pathways to empower First Nations communities in Australia's adaptation and resilience efforts by elevating and resourcing First Nations-led communities and land management practices. A key messages is that First Nations leadership in climate adaptation can be meaningfully supported providing access to dedicated resources and fostering genuine partnerships for decision-making.
- The role of private capital in supporting adaptation and resilience and in particular the sustainable finance taxonomy as a tool to help identify investable opportunities to catalyse private capital for adaptation and resilience.

1. About ASFI

ASFI is a not-for-profit organisation committed to realigning the Australian financial system to be sustainable, resilient, and inclusive. ASFI's members are large Australian financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms – that support ASFI's mission. ASFI members collectively hold over AU$22 trillion in assets under management and are committed to allocating capital in a way that creates positive social and environmental outcomes.

2. Summary of Recommendations

***Recommendation 1**: Implement FPIC across all Government frameworks and strategies related to First Nations people.*

***Recommendation 2:** Include in the National Adaptation Plan a commitment to mobilise the necessary capital to empower First Nations communities and enterprises to lead climate adaptation efforts. Such actions will address systemic inequities, leverage land for economic ventures, and recognise the vital contributions of First Nations businesses to Australia's economy and sustainability.*

***Recommendation 3:** Government and industry should invest in enhancing their cultural capacity to better partner with First Nations businesses and communities. This involves allocating resources*

to improve cultural understanding and competencies, ensuring equitable, respectful, and mutually beneficial collaborations. Distributing the responsibility for cultural education more evenly among stakeholders will lay the groundwork for sustainable and effective partnerships.

Recommendation 4: *The Government should deepen partnerships with First Nations organisations to jointly develop capacity-building initiatives for climate adaptation. This collaboration should focus on technical development, co-creation of educational programs, and technical assistance tailored to the diverse needs of Indigenous communities, with respect for FPIC principles. A commitment to resource allocation and a partnership approach is essential for enhancing resilience and ensuring the sustainability of Indigenous lands and resources.*

Recommendation 5: *The Government should consider expanding the Australian sustainable finance taxonomy to include adaptation and resilience. Taxonomy criteria for adaptation and resilience could be developed under the existing governance arrangements, while longer term governance and institutional arrangements for the taxonomy are being established.*

Recommendation 6: *The Government should consider expanding the mandate of the Clean Energy Finance Corporation to include adaptation. In doing so, the Government should explore options to ensure that the CEFC is willing and able to take an appropriate level of risk and is supporting First Nations-led enterprises.*

Recommendation 7: *The Government should ensure that adaptation and resilience are built into Government budget and procurement policies and decisions.*

3. First Nations and adaptation

ASFI's commitment to elevating First Nations' voices in all our work on sustainable finance shapes our evaluation of the National Adaptation Strategy. We have reviewed it with a focus on contributing insights that align with our vision of fostering inclusivity, environmental stewardship, and economic self-determination in the climate adaptation agenda, recognising the need for significant capital and technical capacity building.

The Government and finance sector are critical in positioning First Nations communities at the forefront of climate adaptation. Achieving this involves revising investment mandates to secure targeted funding, boosting the cultural and technical capacities within both sectors, tailoring financial products to the specific needs of First Nations' adaptation efforts, and establishing partnerships based on Free, Prior, and Informed Consent (FPIC), thereby respecting Indigenous self-determination. By facilitating access to climate finance and allocating the necessary capital for Indigenous-led initiatives, these actions can empower First Nations communities to lead the creation of adaptation strategies that are both culturally informed and financially sustainable.

As a non-First Nations-led organisation, our **First Nations Reference Group** – a diverse and nationally represented group of First Nations Traditional Owners, First Nations finance and industry professionals and ASFI members – is critical to ASFI's First Nations initiatives. The Reference Group provides advice to ASFI, and Traditional Owners are remunerated for their knowledge, skills, and guidance. ASFI's First Nations Reference Group members are listed on our website here. We invite the Government to consider partnering with ASFI to draw on the expertise of the First Nations Reference Group as appropriate to inform the development and implementation of the Government's National Adaptation Plan in a way that meaningfully considers and integrates First Nations perspectives, knowledge and practices.

3.1 First Nations equitable partnerships

The road to net zero is through Indigenous lands. It is imperative the Government and finance sector form equitable partnerships with First Nations communities grounded in FPIC to meet our nation's sustainable development goals.

Upholding FPIC ensures that Indigenous communities have the autonomy to make decisions about projects that affect their lands and resources in accordance with their cultural, social, and environmental values. By prioritising FPIC, the Government can foster equitable partnerships that respect Indigenous sovereignty and promote genuine collaboration in climate adaptation efforts.

FPIC is not merely a procedural guideline: it is a fundamental expression of sovereignty and self-determination for Indigenous peoples, particularly in climate adaptation. At its heart, FPIC acknowledges the inherent rights of Indigenous communities to govern their lands, resources, and cultural heritage, which are often intricately tied to their identity, spirituality, and social structures. This principle is enshrined in international law, notably in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). It serves as a testament to the global recognition of these intrinsic rights.

FPIC is critical because it empowers communities to make informed decisions about their future and the future of their ancestral lands. While beneficial in combating climate change, adaptation projects can profoundly impact the land and resources that Indigenous peoples have stewarded for generations. Without FPIC, these projects risk perpetuating a legacy of colonisation and disenfranchisement, where decisions are made without the meaningful involvement of those most affected.

When the principles of FPIC are not respected, it can negatively affect the health and well-being of Indigenous communities. A recent example of this neglect occurred in Sabah, Malaysia. Here, the state government made an agreement with a Singaporean company regarding carbon trading. This deal gave the company exclusive rights to manage carbon and other natural resources in two million hectares of Sabah's forest for 100 years, with an option to extend this period. The concerning aspect of this agreement is that it was made without the consent of the Indigenous people of Sabah[1]. This situation highlights a significant issue: even climate positive projects, which are generally seen as providing significant benefits, can lead to injustices if they overlook the rights of Indigenous people to participate in decisions about their traditional lands.

Implementing FPIC in climate affirms respect for Indigenous communities and traditional knowledge systems which hold invaluable insights into sustainable land and resource management. When Indigenous peoples are given the respect and space to lead and provide input to these projects, they achieve outcomes that are both environmentally sustainable and culturally congruent and supportive of Indigenous self-determination.

***Recommendation 1**: Implement FPIC across all Government frameworks and strategies related to First Nations people.*

3.2 Mobilising capital for meaningful participation

ASFI strongly supports the Australian Government's recognition of the essential role of First Nations people in climate adaptation efforts and stresses the importance of providing necessary capital resources to make these partnerships truly effective and respectful of First Nations rights. With over half of Australia under Indigenous title[2], mobilising capital for Indigenous-led projects, particularly in renewable energy, is both equitable and strategic. It utilises the Indigenous estate's potential to advance sustainable development and climate adaptation. This approach is critical for empowering First Nations communities to lead initiatives that combat climate change and aid in restoring the Country to a healthy and sustainable state, contributing significantly to Australia's broader adaptation and sustainability goals.

Specifically, opportunities for First Nations leadership can be identified in areas such as:

- **Land and Water Management:** Traditional ecological knowledge is used to restore and preserve ecosystems, including fire management practices, revegetation projects, and water conservation techniques.
- **Sustainable Agriculture and Food Security:** Implement Indigenous-led agricultural practices that enhance food security, support biodiversity, and improve resilience to climate impacts.
- **Cultural Heritage Protection:** Projects aimed at protecting and preserving sites of cultural significance from the impacts of climate change, ensuring the continuation of Indigenous knowledge and traditions.

Supporting First Nations communities to lead climate adaptation projects on their lands can help address the systemic inequities created by colonisation. By stimulating First Nations businesses and enterprises, land can be leveraged for economic ventures, and wealth can be transferred to the next generation. The adaptation process presents a chance for economic expansion for First Nations businesses, whose substantial economic, social, and cultural contributions to Australia

[1] The International Working Group for Indigenous Affairs, A Secret carbon trading agreement in Malaysia, can reap dire consequences for Indigenous Peoples for generations to come, 2023.

[2] https://www.anu.edu.au/news/all-news/first-nations-estate-can-boost-australian-agriculture

often remain overlooked.[3] Indigenous businesses in sectors such as renewable energy, eco-tourism, sustainable agriculture, and cultural heritage preservation are particularly well-placed to contribute to adaptation objectives.

For these Indigenous businesses to thrive and contribute effectively to climate adaptation, they need targeted support in the form of access to capital, technical assistance, policy frameworks that value Indigenous-led traditional knowledge, and partnerships that offer mentorship and market access. This targeted support not only acknowledges the substantial economic, social, and cultural contributions of First Nations businesses to Australia but also leverages these enterprises as vital agents of sustainable development and climate resilience.

This can be achieved by supporting Indigenous-led organisations. There is opportunity to bolster First Nations-led land and sea management by resourcing existing organisations such as the Aboriginal Carbon Foundation and the Firesticks Alliance to lead climate adaptation projects. Resourcing can look like providing technical expertise and capital to ensure the success and sustainability of equitable partnerships with First Nations organisations.

Recommendation 2: *Include in the National Adaptation Plan a commitment to mobilise the necessary capital to empower First Nations communities and enterprises to lead climate adaptation efforts. Such actions will address systemic inequities, leverage land for economic ventures, and recognise the vital contributions of First Nations businesses to Australia's economy and sustainability.*

3.3 Invest in capacity-building initiatives

- **Invest in the cultural capacity building of government and industry agents forming partnerships with First Nations businesses and communities.**

Cultural capacity building is required in order to foster long-term, equitable partnerships. This entails dedicating resources and effort to enhance the cultural understanding and competencies of those involved in initiating and nurturing collaborations with First Nations businesses and communities. First Nations communities typically bear the burden of educating government and industry counterparts about their language, protocols, and custodianship principles. This responsibility should be more evenly distributed. By investing in cultural capacity building, stakeholders can create a foundation for partnerships that are not only sustainable but also respectful and mutually beneficial.

Recommendation 3: *Government and industry should invest in enhancing their cultural capacity to better partner with First Nations businesses and communities. This involves allocating resources to improve cultural understanding and competencies, ensuring equitable, respectful, and mutually beneficial collaborations. Distributing the responsibility for cultural education more evenly among stakeholders will lay the groundwork for sustainable and effective partnerships.*

- **Invest in technical capacity development to enable First Nations businesses and communities to participate fully in climate adaptation opportunities.**

Tailored capacity-building initiatives are imperative for effectively empowering First Nations communities to adapt to climate change. The Government should actively partner with First Nations organisations to identify and address Indigenous communities' diverse needs and contexts through a local, place-based approach. Such collaboration is critical, as Indigenous communities are at varying stages of understanding climate adaptation opportunities and impacts. This partnership

[3] University of Melbourne, Indigenous Business Sector Snapshot 1.1, 2021

should ensure a contextual grounding before initiating projects, enabling communities to make informed decisions based on Free, Prior, and Informed Consent (FPIC) principles.

First Nations organisations' involvement in creating and delivering educational programs is fundamental in bolstering First Nations peoples' capacity to understand climate change impacts and adaptation strategies. These educational endeavours must be co-created with First Nations communities to ensure they are culturally appropriate and relevant, maximising engagement and effectiveness.

Furthermore, the Government must work closely with First Nations organisations to design and implement technical assistance programs. These programs are pivotal in providing practical support and guidance as First Nations communities navigate the complexities of climate adaptation. This includes facilitating access to technical experts, consultants, and advisors who can offer specialised knowledge and advice on various aspects of adaptation planning, implementation, and monitoring. By involving First Nations organisations in this process, the Government can ensure that the support provided is tailored to Indigenous communities' specific needs and aspirations.

A collaborative approach to working with First Nations communities is crucial for building resilience to climate change impacts and ensuring the long-term sustainability of their lands and resources. ASFI strongly advocates for deepened government partnerships and dedicated resource allocation with First Nations community organisations, recognising that such collaboration is key to the success of capacity-building programs.

Recommendation 4: *The Government should deepen partnerships with First Nations organisations to jointly develop capacity-building initiatives for climate adaptation. This collaboration should focus on technical development, co-creation of educational programs, and technical assistance tailored to the diverse needs of Indigenous communities, with respect for FPIC principles. A commitment to resource allocation and a partnership approach is essential for enhancing resilience and ensuring the sustainability of Indigenous lands and resources.*

4 The role of private capital in supporting adaptation and resilience

As acknowledged in the Issues Paper, private capital is critical in supporting adaptation and resilience in the Australian economy. The scale of finance and investment required to transition the Australian economy in line with our climate, environmental sustainability and social objectives is well beyond what governments can deploy alone, especially under tight fiscal conditions. Unlocking private finance and investment will be critical to achieving the Government's agenda for this term and beyond.

4.1 Private finance and investment for adaptation is lagging

Globally and in Australia there is a significant finance shortfall for adaptation and resilience. Internationally, almost all adaptation finance comes from public sector sources including development finance institutions. According to the Climate Bonds Initiative, less than 10 per cent of capital from the sustainable bond market flows to climate resilience activities, and most of these bonds are issued by local governments or other government backed entities.[4]

A significant proportion of public funding for adaptation and resilience is directed toward disaster recovery, including supporting private citizens and businesses to recover from uninsured or underinsured losses resulting from natural disasters. According to the Australian Disaster

[4] Climate Bonds Initiative "Designing a climate resilient classification framework: to facilitate investment in climate resilience through capital markets" available at https://www.climatebonds.net/files/reports/resiliencewhitepaper_climatebondsinitiative_undrr.pdf.

Resilience Index, the vast majority of Australia currently has low to moderate capacity for disaster resilience, defined as the "capacity to prepare for, absorb and recover from natural hazards, and to learn, adapt and transform in ways that enhance these capacities in the face of future events".[5]

Climate change not only increases the risk of natural disasters and extreme weather events, it threatens to undermine the proper functioning of the financial system. The Insurance Council of Australia estimates that climate-related extreme weather events are expected to cost Australia $35.2 billion a year by 2050[6], making it increasingly challenging to provide insurance to households and businesses.[7] Climate change also threatens to impact the banking sector: uninsured homes are not eligible for mortgages, making finance increasingly unavailable for higher-risk residential areas, and physical risks and impacts from climate change can undermine the mortgage value of assets even if they are insured. Increasing examples of climate and other natural disasters undermine local governments' ability to repay loans as their rate-paying bases relocate.[8]

ASFI welcomes the Australian Government's $1 billion Disaster Ready Fund which seeks to shift the focus from disaster recovery to preparedness.[9] Ongoing government funding – along with better planning frameworks and other supportive policies – will be required in a range of areas to support adaptation and resilience. However, it is essential to also find ways to increase private investment in adaptation and resilience for households and businesses to reduce the risk profile in these areas and slow upward pressure on insurance costs. The Government has a key role in developing and implementing well-designed policy and regulation to increase the flow of capital for adaptation and resilience.

There are several reasons behind limited private investments in adaptation and resilience. Adaptation and resilience activities often bring broad social benefits but may not result in clear financial returns for a private investor.[10] Where investments in resilience do provide a high return, the business case is often hard because the benefits can be long-term, driven by cost-avoidance as opposed to direct savings, and dispersed across actors.[11]

4.2 The Australian taxonomy could be a key tool for increasing private capital in adaptation and resilience

Entities such as the World Resources Institute and Insurance Council of Australia have identified several measures that could help catalyse more private capital in adaption and resilience:

1. Better measurement of climate change risks, including modelling potential scenarios;

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[5]Natural Hazards Research Australia, Australian Disaster Resilience Index, available at https://adri.bnhcrc.com.au/#!/about (accessed 25 November 2023)

[6] Estimates from Deloitte Access Economics quoted in the National Emergency Management Agency's Second National Action Plan, puts the costs of disasters to the Australian economy at $38 billion a year now, available at https://nema.gov.au/sites/default/files/inline-files/28605%20NEMA%20Second%20Action%20Plan_V10_A_1.pdf (accessed 27 February 2024).

[7] Insurance Council of Australia "Climate Change Roadmap: Towards a net-zero and resilient future", (2023 update) available at https://insurancecouncil.com.au/wp-content/uploads/2023/11/20950_ICA_Climate-Change-Roadmap_FINAL_2311.pdf.

[8] Climate-KIC Australia, "Adaptation finance, emerging approaches to solve the climate adaptation finance gap", available at https://climate-kic.org.au/wp-content/uploads/2020/11/Adaptation-Finance_300ppi.pdf.

[9] National Emergency Management Agency, Disaster ready Fund, available at https://nema.gov.au/disaster-ready-fund.

[10] World Resources Institute Adaptation finance, available at https://www.wri.org/insights/adaptation-finance-explained.

[11] See n 3 above.

2. Better measurement of the financial and economic returns on investments to help justify investments in activities like retrofitting vulnerable properties;
3. Identifying, determining and defining which investments can most effectively reduce risk.[12]

A sustainable finance taxonomy is a key tool to implement measure 3 above. A taxonomy identifies and defines the economic activities, assets and measures that can help households and businesses adapt to more extreme climate conditions and make them more resilient.

Australia is currently developing a sustainable finance taxonomy for climate mitigation. The work is being led by ASFI in partnership and with funding from the Commonwealth Department of Treasury (see **Appendix 1**). The mitigation taxonomy identifies activities and assets across six sectors of the Australian economy that will drive emissions reductions.

It will also establish criteria to ensure investments in mitigation do not *undermine* Australia's other environmental objectives – including adaptation and resilience (see **Appendix 1 Figure 2**). However, the mitigation taxonomy will not identify activities and assets that would actively support adaptation and resilience.

4.3 Key sectors for private finance and investment in adaptation and resilience

Including adaptation and resilience criteria in the Australian taxonomy would help mobilise sustainable themed capital to a suite of assets and activities that would not qualify as sustainable under the taxonomy's climate mitigation criteria because it would not meet the threshold of "substantially contributing to climate mitigation outcomes." This has the potential to unlock capital in four key areas:

- **Built environment:** Mitigation criteria for the built environment will encourage the installation of zero emissions energy sources and energy efficiency equipment for homes and commercial building stock. Likewise, adaptation and resilience criteria could be developed to adapt Australia's existing building stock to make it more resilient to future climate change and incentivise the development of new resilient homes and buildings. This will enable banks, insurers, and financiers to offer new products and services to incentivise households and building managers to invest in adaptation and resilience upgrades and retrofits. These investments would reduce the risk profile of Australia's building stock, lowering the cost of insurance payouts which slows upward pressure on insurance premiums and government disaster recovery costs.
- **Capital investments by businesses:** Identify investments in assets, activities, and measures that businesses can undertake to help them adapt to climate change and increase their resilience in the face of increased climate-related business disruptions. For example, installing water efficiency equipment or other infrastructure that would enable a production facility to be more resilient to increased physical climate change risks.
- **Agriculture, land management and nature-based solutions:** Identify activities and assets in the agriculture and land management sectors that have adaptation and resilience benefits. Identify and elevate initiatives led by First Nations communities which often incorporate traditional land management practices such as firestick farming and Indigenous land stewardship methods that have proven effective over millennia in enhancing ecosystem health and resilience. Examples include regenerative practices; precision

[12] See n6 above.

equipment; and drought resilient crops. There are also several categories of nature-based solutions that can replace or complement adaptation infrastructure and drive nature restoration outcomes, for example, wetland restoration, revegetation plans and reef restoration to protect infrastructure and communities against flooding.

- **Infrastructure**: Identify large adaptation and resilience infrastructure investment projects, where blended finance models can be applied to attract co-investment from the private sector and increase funding available for resilience outcomes. For example: infrastructure to protect coastal communities from inundation; or upgrades to road, rail, and transmission infrastructure to make them more resilient to increased severe weather events.

4.4 Australia's taxonomy can improve on existing international frameworks to create a model that is world leading

Internationally, most jurisdictions' taxonomies have already developed substantive criteria for both climate mitigation and adaptation and resilience. Australia can draw on emerging best practice frameworks to develop adaptation and resilience criteria in its taxonomy focused on mobilising capital to new economic activities that drive resilience outcomes. This moves beyond many existing taxonomy frameworks that have historically focused on risk management processes in investment decision-making rather than new asset classes. We expect this approach could set an example for other countries' taxonomy development, reinforcing Australia's emerging leadership position on sustainable finance internationally.

Recommendation 5: *The Government should consider expanding the Australian sustainable finance taxonomy to include adaptation and resilience. Taxonomy criteria for adaptation and resilience could be developed under the existing governance arrangements, while longer term governance and institutional arrangements for the taxonomy are being established.*

Broadening the scope of the taxonomy beyond climate mitigation is one way to support the goal outlined in the Issues Paper of driving private sector investment towards adaptation and resilience. It is in line with the Australian Government's stated objective to establish Australia's sustainable finance policy framework in a way that allows other sustainability-related issues to be incorporated or added over time.[13] It is also aligned with the Government's objectives to increase finance to this area and make investment in resilience more accessible by optimising regulatory frameworks, standards and guidance.[14]

Clean Energy Finance Corporation

The Issues Paper identifies a potential role for the Clean Energy Finance Corporation in supporting finance and investment for adaptation and resilience. ASFI notes that the CEFC already actively considers co-benefits in its investment processes, including adaptation. Nevertheless, there may be some opportunities to support adaptation and resilience that do not have a clear mitigation benefit and therefore fall outside the CEFC's existing mandate.

It is important to note that markets for adaptation and resilience finance are relatively nascent. Investing in less established markets typically requires a higher risk tolerance because projects

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[13] Australian Government Sustainable Finance Strategy Consultation Paper, November 2023, available at: Sustainable Finance Strategy - Consultation paper (treasury.gov.au) (accessed 25 November 2023).

[14] National Emergency Management Agency's Second National Action Plan, available at https://nema.gov.au/sites/default/files/inline-files/28605%20NEMA%20Second%20Action%20Plan_V10_A_1.pdf (accessed 27 February 2024).

and companies are often less 'investment-ready', deals can take longer to close which results in higher transaction costs (and therefore lower returns), and there may be a lower success rate.

International and domestic experience has shown that it can be challenging for special investment vehicles to adopt a higher than commercial level of risk tolerance. This should be taken into account in any expansion to the CEFC's mandate. Some ways to help inculcate an approach to risk that can ensure the CEFC is able to successfully build the market for adaptation and resilience include:

- Setting a lower return target;
- Explicit instructions from government that set expectations regarding the market-building mandate and approach to risk;
- Ensuring the CEFC has the right mix of commercial skills and impact/development skills
- Ensuring that remuneration incentives for CEFC employees are calibrated to encourage appropriate levels of risk (i.e. ensure bonuses are not linked purely to maximising financial returns of projects but are connected to achieving policy outcomes such as adaptation);
- Ring-fencing a portion of CEFC funds to take higher risk and require lower returns.

In considering amendments to the role of the CEFC in adaptation (and the role of the CEFC more broadly), the Government should also consider options to encourage investment into First Nations-led projects and enterprises. In doing so, it should draw on experience from other special investment vehicles, for example the Northern Australia Infrastructure Facility's Indigenous Engagement Strategy.

Recommendation 6: *The Government should consider expanding the mandate of the Clean Energy Finance Corporation to include adaptation. In doing so, the Government should explore options to ensure that the CEFC is willing and able to take an appropriate level of risk.*

Government budgets and procurement

As a significant funder of infrastructure, government has an important role to play in directly supporting resilience. Government should ensure that all projects that it funds or procures are built to high standards of resilience. Government budget and procurement rules, including methodologies for cost benefit analysis, should ensure that long term benefits of resilient builds are recognised and treated favourably in budget allocation decisions.

Recommendation 7: *Government should ensure that adaptation and resilience are built into government budget and procurement policies and decisions.*

Appendix 1:

Introduction to the Australian sustainable finance taxonomy project

In July 2023, the Australian Sustainable Finance Institute (ASFI), in partnership with the Department of Treasury, commenced the initial development phase of the Australian sustainable finance taxonomy. The taxonomy's development forms part of the Government's broader sustainable finance agenda to mobilise private capital towards net zero emissions, Australia becoming a renewable energy superpower and other key sustainability goals.

The core purpose of the Australian sustainable finance taxonomy is articulated in the Terms of Reference between ASFI and the Council of Financial Regulators Climate Working Group (CWG) that govern the initial development phase[15]. It states the taxonomy's purpose is to "support the mobilisation of private finance toward sustainable activities, provide a foundation for further regulatory measures to address greenwashing and promote transparency." Taxonomies can help guide the flow of capital towards sustainable activities and assets by providing clarity for financial institutions as to what constitutes 'sustainable', or taxonomy aligned.

Climate change mitigation has been identified as the priority objective in the Australian taxonomy's initial development phase. This is due to the market's urgent need for credible and usable guidance on the types of activities that align with an Australian net zero transition pathway, and to support interoperability with international taxonomies that also prioritise mitigation.

However, in this initial development phase the full taxonomy framework will be developed including identifying and defining all key environmental objectives of the taxonomy (see **Figure 2**). During this phase, climate mitigation criteria will be developed for green and transition activities while "Do No Significant Harm" (DNSH) criteria will be developed for the other environmental objectives defined in the taxonomy, including adaptation and resilience. Minimum Social Safeguards (MSS) will also be incorporated. The DNSH and MSS criteria aim to ensure climate mitigation activities do not undermine Australia's other sustainability and social goals[16].

The climate mitigation criteria for green and transition activities will cover up to six of the below priority economic sectors:

- electricity generation and supply (energy)*;
- minerals, mining and metals*;
- construction and the built environment*
- manufacturing/industry;
- transport; and
- agriculture.

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[15] The Australian Council of Financial Regulators' Climate Working Group (CWG) is overseeing the initial development phase of the taxonomy project, as part of its role supporting the development and implementation of the Government's Sustainable Finance Strategy. The Terms of Reference between ASFI and the CWG sets out the scope and mandate for the initial development phase. A copy of the Terms of Reference is available on ASFI's website here: https://www.asfi.org.au/taxonomy-governance (accessed 25 November 2023).

[16] The methodology for determining the sustainability objectives and social considerations in the Australian taxonomy are set out in the Methodology report published by the TTEG, available at https://www.asfi.org.au/publications/introducing-the-methodological-design-features-of-the-australian-sustainable-finance-taxonomy (accessed 20 December 2023).

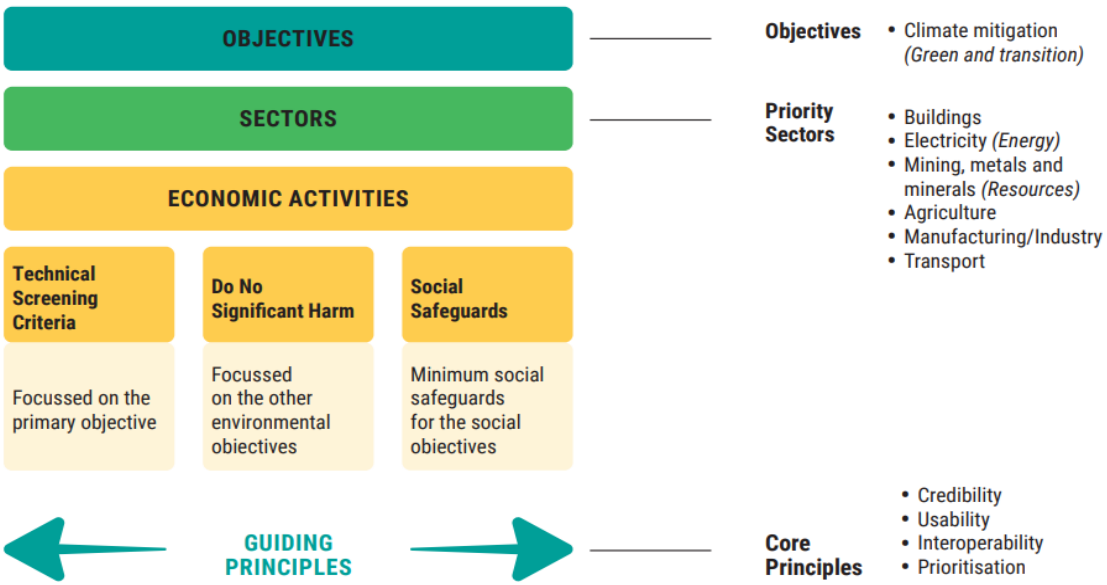
(indicates the first sectors to be developed).*

The sector coverage aligns with the six sector decarbonisation plans that the Australian Government is developing for the Australian economy to help mobilise the private sector investment needed to support net zero, invest in Australia's ability to become a renewable energy superpower, and achieve its other sustainability and social goals.

In accordance with the mandate set by the Australian Government, there are four key principles to guide the development of the Australian taxonomy:

- the taxonomy should be credible and science-based;
- the taxonomy should be usable for a range of different users;
- the taxonomy should be interoperable and broadly compatible with international approaches to sustainable finance taxonomies; and
- the taxonomy should be tailored to Australian priorities. These include supporting the allocation of capital towards transition activities; aligning with broader government climate policy objectives; supporting the foundation for broader regulatory frameworks on sustainable finance; and being adaptable to incorporating other climate and sustainability objectives such as nature in the taxonomy.

Figure 1: Initial development of the Australian Taxonomy



The Australian Council of Financial Regulators' Climate Working Group (CWG) is overseeing the development phase of the taxonomy project as part of its role supporting the development and implementation of the Government's Sustainable Finance Strategy.

ASFI, with endorsement from the CWG, has established a Taxonomy Technical Expert Group (TTEG), comprising 25 experts in sustainable finance; whole-of-economy decarbonisation; climate and environmental science and policy; human rights; and Indigenous rights and perspectives. This group is tasked with providing strategic direction over, input into and endorsement of taxonomy products for consideration by government.

Figure 2: Classification of environmental objectives in the Australian Taxonomy.