How financial institutions are approaching nature



Australian Sustainable Finance Institute

FARMING FOR THE FUTURE

MACDOCH FOUNDATION

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The Australian Sustainable Finance Institute acknowledges the Traditional Custodians of Country throughout Australia and recognises their continuing connection and responsibility to land, water, species and culture. We acknowledge their ongoing status as the First Peoples of Australia and pay our respects to their Ancestors and Elders past and present.

Artwork story

"Unity in Diversity" stands as a testament to ASFI's commitment to reconciliation and collaboration. It inspires and invites viewers to recognise the beauty and strength that emerge when we acknowledge and embrace our differences, fostering a future of inclusivity, respect, and harmony.

Through this artwork, we are reminded that by taking that first step together, we have the power to create a ripple effect that extends far beyond our immediate circle, inspiring others to join us on the journey towards a better future and further improve outcomes for First Nations people.

Artist: Tarni Jane Designs

About ASFI

The Australian Sustainable Finance Institute (ASFI) is a not-for-profit organisation working to align the Australian financial system with a sustainable, resilient, and inclusive Australia.

Our members are 43 of Australia's leading financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms. 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.

About Farming for the Future

Farming for the Future (FftF) is a public good research and change activation program initiated by philanthropic foundation, Macdoch Foundation.

It has been established as a response to the increasing urgency for agriculture to play an active role as a nature-based solution to climate and biodiversity loss for Australia whilst continuing to produce high quality food and fibre. The program has a bold vision to transform Australia's agriculture sector into one that empowers producers to evolve their farm businesses in ways that maintain and enhance their natural capital to build resilience and improve profitability.

FftF believes that the financial contribution of natural capital to core farm production is large relative to the economic opportunity presented by alternative natural capital income streams like carbon and biodiversity markets. FftF believes that increasing producers' knowledge about the nature of benefits that natural capital can deliver to core farm production will help to drive large-scale industry adoption of improved natural capital management practices and enable the agriculture sector to play an active role as a nature-based solution to climate and biodiversity loss for Australia.

FftF envisages a near future where all levels of the agricultural sector, from producers to the financial services sector and retail brands, understand, and can quantify, the benefits on-farm natural capital delivers to their businesses. FftF aims to create the conditions where members of the agricultural value and supply chains will collectively deliver outcomes that serve their private commercial interests, whilst also delivering public benefits.





Contents

Disclaimer 5

Executive Summary 6

The Valuing Natural Capital program 7

What we heard 8

- Insight 1 9
- Insight 2 9
- Insight 3 10
- Insight 4 11
- Insight 5 13
- Insight 6 14
- Insight 7 16
- Insight 8 18

Appendix 19

Disclaimer

This report has been prepared as part of the Australian Sustainable Finance Institute (ASFI) and Farming for the Future's 'Valuing Natural Capital' partnership.

Neither ASFI, Farming for the Future, nor any of ASFI's Natural Capital Advisory Group (NCAG) participants or ASFI's members undertake responsibility arising in any way from reliance placed on this report; any reliance placed is the reader's sole responsibility.

The views expressed in this report do not necessarily represent the views of ASFI, individual NCAG participants or ASFI members.



Executive Summary

In 2023, the Australian Sustainable Finance Institute (ASFI) and Macdoch Foundation's Farming for the Future (FftF) entered a partnership, 'Valuing Natural Capital' (VNC), with the aim of bringing together Australia's agricultural producers and financial institutions to better integrate natural capital into the decision-making of financial institutions.

Responding to growing global recognition of the importance of nature to our economy, and recommendations set out by the finance sector in the Australian Sustainable Finance Roadmap, the partnership focuses on using an evidence-based approach to natural capital to enable tangible, positive on-farm outcomes. This includes research demonstrating the links between on-farm natural capital and productivity, profitability, and resilience.

To support and shape the partnership outcomes, ASFI and FftF established a Natural Capital Advisory Group (NCAG), comprising representatives from Australia's largest agricultural lenders and investors, as well as academia, government, and the agriculture sector.[1] The diverse nature of the NCAG ensures a broad value chain perspective on the topic, including covering the majority of bank lending to the agriculture sector in Australia.[2] NCAG participants were interviewed to understand their unique perspectives regarding ambitions, needs and challenges to integrate natural capital considerations in decision making, and focused on:

- appetite to invest in natural capital and nature-related strategies, targets and initiatives;
- internal level of knowledge about natural capital;
- existing assessments, efforts or plans to identify nature-related issues;
- opportunities to influence change and understand, engage with and/or invest in nature in the land sector;
- barriers to integrating natural capital considerations into business and financial decision-making;
- internal and external enablers that would help increase focus and efforts on nature; and,
- experience interacting with the metrics proposed for financial institutions in v1.0 of the Taskforce on Nature-related Financial Disclosures (TNFD).

The insights from these interviews (set out below) will inform ASFI's ongoing work across the finance sector on natural capital. They are also relevant to a broader audience – including financial institutions, actors across the agriculture value chain, and policy makers – to support economy-wide efforts to restore and regenerate nature and increase economic resilience.

Key insights heard are summarised in this report:

Insight 1: While financial institutions' motivations to understand, engage with and/or invest in natural capital are varied, common motivations include the need to find solutions to reduce financed greenhouse gas emissions in the sector and increase resilience to physical climate change risks.

Insight 2: There is growing appetite to deploy capital to nature assets and activities and manage nature-related risk but the current demand for these opportunities and level of understanding on how to do this is low.

Insight 3: The journey to identify nature-related risks, opportunities, impacts and dependencies has started, but as yet there are no clear solutions on how best to understand, address and manage them.

Insight 4: Sustainable management of natural capital in the agriculture sector could open new financial opportunities; but clearly defining and articulating the commercial value proposition will be key to realising these opportunities and influencing broad scale adoption of good land management practices.

Insight 5: All participants of the agriculture value chain (including farmers, financial institutions, processors, and retailers) have a role in encouraging the adoption of sustainable natural capital management practices in the agriculture sector; these roles need to be defined and aligned.

Insight 6: There are significant internal and external barriers to integrating natural capital considerations into business and financial decision making; including competing interests within financial institutions, diversity of clients and evolving standards and expectations.

Insight 7: Government has an enabling role to play in helping to facilitate investment in natural capital and drive uptake of good land management practices in the agriculture sector; by providing the architecture for financial institutions and farmers to understand, measure, act and report on natural capital, and identify and de-risk opportunities for investment.

Insight 8: The TNFD in its current form is not yet decision-useful for financial institutions; further work is required to encourage strong uptake by financial institutions and support their needs.

[1] Refer to Appendix 1 for a list of NCAG member organisations and observers.
[2] According to the latest agricultural lending statistics provided by the Australian Prudential Regulation Authority (APRA) for the 2022-23 period, the aggregate value of loans outstanding to the farm sector of $115.7 billion as of 30 June 2023, an increase of 5.3% from 30 June 2022, see ABARES, Agricultural lending data: https://www.agriculture.gov.au/abares/research-topics/surveys/farm-debt

The Valuing Natural Capital program

In 2021, leading Australian financial institutions recognised in the Australian Sustainable Finance Roadmap the importance of having a resilient natural environment and working collaboratively to implement nature-related financial disclosures.

The 'Valuing Natural Capital' program of work responds to this and brings together Australia's agricultural producers and financial institutions to enable the integration of natural capital considerations into financial decision-making – while enabling positive on-farm outcomes.

The partnership is supported by the Natural Capital Advisory Group, which is comprised of expert participants and observers from financial institutions, academia, government, agriculture, and property valuation specialists. The participant financial institutions are comprised of seven banks collectively representing the majority of all lending to agriculture in Australia[3], and five major asset owners, including superannuation and government investors.

As part of the activities under the partnership, ASFI's natural capital team held interviews with each of the NCAG participant financial institutions to understand their perspectives on ambitions, needs and barriers to overcome in the natural capital space. Insights from these interviews will guide further work under the VNC program, this includes:

- identifying cooperation opportunities with other participants of the agriculture value chain; and
- developing effective and usable tools to help financial institutions upskill in and operationalise natural capital to eventually incorporate natural capital considerations into financial decision-making and reporting while enabling positive on-farm outcomes.

In addition, the insights can support stakeholders across finance, agriculture, and government to both understand the status quo regarding integration of nature in decision-making and inform future approaches to transition to a nature positive economy.

The Australian Sustainable Finance Roadmap recognises the importance of natural capital to a resilient and sustainable economy. It makes several recommendations that will enable the finance sector to recognise, value and incorporate nature into capital allocation decisions and risk analysis (recommendation 18); provide guidance on nature-related financial disclosures that take into account Australia's unique environment (recommendation 14), and facilitate the development of natural capital markets (recommendation 35).



[3] Australian Bureau of Agricultural and Resource Economics (ABARES), 2023: ABARES, Agricultural lending data: https://www.agriculture.gov.au/abares/research-topics/surveys/farm-debt



What we heard

Insight 1

While financial institutions' motivations to understand, engage with and/or invest in natural capital are varied, common motivations include the need to find solutions to reduce financed greenhouse gas emissions in the sector and increase resilience to physical climate change risks.

Motivations to understand, engage with and/or invest in natural capital are varied. For the most part, financial institutions are conscious that they have a role to play in managing, minimising, and restoring impacts on nature to ensure long-term stability and profitability for their institutions, clients, and the economy.

Financial institutions consider the agriculture sector at the forefront of the climate-nature nexus and therefore a primary focus for understanding their portfolios' exposure to nature-related risks. Sustainable management of natural capital is seen as a gateway to:

- Understanding and reducing agricultural greenhouse gas (GHG) emissions, which form part of financial institutions' financed emissions footprint (scope 3). The sector is considered hard to abate and the adoption of sustainable farming and good land management practices is seen as the key pathway to unlock impactful decarbonisation progress.
- Increasing the resilience of agricultural assets and businesses, and hence of their clients, to the physical impacts of a changing climate.
- Boosting on-farm profitability and business viability.

In addition, other motivations for financial institutions include:

- The aspiration to have a positive impact as an organisation on the environment, safeguard their reputation and respond to stakeholder expectations (especially given increasing interest and focus on ESG – and nature – from local and international investors, customers, and other stakeholders).
- Addressing exposure to nature-related risks – which are not yet well understood – and meeting due diligence requirements to consider their clients' exposure to nature-related risks.
- Increasing preparedness to comply with emerging regulation and policy in the nature space.

In the specific case of asset managers, there is also motivation to develop the 'nature asset class' to align with federal and local government aspirations, especially regarding decarbonisation and land management.

Financial institutions are starting to explore how best to assess the exposure of their portfolios to nature-related risks (see Insight 3). At the same time, there are significant barriers to increasing investment in natural capital assets (see Insight 6).

> "The outcome of natural capital is not reporting, the outcome is creating more resilient landscapes and communities." – **NCAG participant**

Insight 2

There is growing appetite to deploy capital to nature assets and activities and manage nature-related risk but the current demand for these opportunities and level of understanding on how to do this is low.

Appetite and interest in natural capital

The NCAG includes participants of highly motivated asset owners and managers who specialise in responsible investment and natural capital. However, such investors are not necessarily representative of the current interests of the broader investment market, and opportunities to invest in natural capital remain limited.

At present, in Australia there is limited supply of investible opportunities and limited capability among investors to understand the unique characteristics of these types of assets. For example, superannuation funds, on average, allocate just 0.3% of their asset base to agriculture.[4] From a banking perspective, those interviewed indicated a medium to high appetite to broaden their lending offering to agricultural customers to include natural capital or green lending products, but not necessarily with the intention to grow their exposure in the sector.

There is a widespread understanding that 'managing nature' is increasingly important, but for many the level of awareness and understanding of the topic is still nascent across all levels of their organisation (including senior management and Boards).

Current readiness

Many organisations, especially from the banking sector, consider they are at the beginning of their nature journey, although this varies depending on the lender.

[4] BDO, 2015: https://uniquest.com.au/survey-highlights-opportunities-for-investment-in-agriculture/

Some asset owners and managers – who have significant control over their assets, including implementing management actions to drive natural capital – have a deeper understanding of sustainable management of natural capital and are generally further along the journey both in terms of risk management and investment in opportunities.

Broadly, initiatives underway to support ambitions in natural capital include:

- Participation in forums (e.g. ASFI's NCAG and the Principles for Responsible Banking Nature Working Group, among others).
- Commitments to globally recognised pledges (e.g. the Biodiversity Pledge, the Natural Capital Declaration and Nature Action 100).
- Partnerships with academia and other research organisations.
- Piloting of the TNFD recommendations.
- Development of nature reporting roadmaps.
- Development of nature-focused strategies (often linked to climate).
- Specifically for asset managers, identification of nature as a potential standalone asset class.

Immediate priorities

Commonly cited priorities for financial institutions to continue their nature journeys include:

- Raising internal awareness and knowledge on natural capital (with a focus on ESG/sustainability teams, agriculture teams and client facing teams; executives; and the board).
- Supporting decarbonisation of the agriculture sector as part of net zero efforts.

Nature-related targets

While only one of the interviewed organisations has a public nature-related target, all of those interviewed expect to have similar targets in place in the medium to long term. Many acknowledged that multiple targets might be needed, either to address specific nature outcomes or to cater to specific sectors' characteristics. Topics of particular interest that may form the focus of targets include deforestation; water health, use and efficiency; waste; soil health impacts on native species; and the impacts of invasive species. To support development of these targets and build organisational confidence, some are likely to first establish internal Key Performance Indicators (KPIs) (not necessarily aligned to TNFD metrics).

Materiality

A commonly cited priority for financial institutions is understanding what is most material for them from a nature perspective. Some have already identified priority sectors, but most are yet to undertake comprehensive nature-based materiality assessment. Further work is required to understand priority sectors, themes and locations from both a risk and opportunity perspective.

Insight 3

The journey to identify nature-related risks, opportunities, impacts and dependencies has started, but as yet there are no clear solutions on how best to understand, address and manage them.

A number of financial institutions have already piloted, or are planning to pilot, the TNFD (in particular the LEAP assessment framework). For those who have already done so, many performed a high-level portfolio assessment using the ENCORE tool[5] to assess their exposure to nature in terms of impacts and dependencies.

Significant challenges came to light through the pilots, especially in relation to data availability and quality during the 'Locate' phase of the LEAP approach. This is important given the Locate phase is the first in the LEAP approach, meaning the granularity and quality of findings during this stage impact the subsequent phases of the assessment.

Another common concern is in relation to how to address the results of the pilots, especially where assessments indicate 'Very High' or 'High' nature impacts and dependencies across multiple sectors. Many are struggling to understand the magnitude and severity of these findings, and what should be their subsequent responses (for example the integration of findings into enterprise-wide risk management systems and frameworks).

While pilots supported the high-level identification of nature-related risks, impacts and dependencies, they also allowed financial institutions to stocktake their existing initiatives and processes to leverage in progressing a nature agenda moving forward (including identifying limitations). Most importantly, assessments helped raise awareness that active engagement with customers is needed to make progress and generate tangible outcomes in the nature space. The reliance on customers' information and cooperation has raised multiple considerations regarding feasibility, costs, and time burdens across the value chain.

[5] ENCORE tool: https://www.encorenature.org/en

Insight 4

Sustainable management of natural capital in the agriculture sector could open new financial opportunities; but clearly defining and articulating the commercial value proposition will be key to realising these opportunities and influencing broad scale adoption of good land management practices.

Financial institutions consider agriculture a key opportunity sector to operationalise natural capital due to the strong correlation between the health of natural assets and on-farm financial performance. There is strong empirical evidence that shows good land management practices present multiple benefits to both business profitability and nature. FftF's research has aimed to scientifically determine this link, with findings suggesting a positive connection between natural capital and farm productivity, profitability, and resilience.[6]

This focus in agriculture is further augmented by the net zero aspirations of financial institutions, particularly in relation to livestock farming operations. There is a clear opportunity to leverage initiatives already in place for climate and to integrate nature in a joint approach. This would involve going beyond energy focused initiatives to include sustainable land management practices, which also have the potential to significantly reduce GHG emissions.

In line with this thinking, key opportunities identified by financial institutions include:

- *Nature-related financial products.* Asset managers are exploring nature as a new asset class; meanwhile, banks are exploring opportunities to integrate nature into existing financial products such as sustainability linked loans (SLLs) and/or green loans for agriculture. There is a growing view that new nature-focused products may be developed as understanding of natural capital – and its potential benefits for on-farm productivity and investment returns – increases.
- *Valuations.* Historically, for financial institutions, the agriculture sector tends to have a low cash yield but high capital appreciation. This presents an opportunity, particularly in the valuation space. Understanding how to include nature considerations in asset valuations was highlighted as a necessity for financial institutions. Defining the monetary value of the contribution of natural capital to productive outcomes, and reflecting this in asset valuations, would more accurately reflect the long-term condition of the asset and send a clear signal to the market that sustainable nature management is valued and important. Additionally, incorporating nature-related considerations in valuations can help to better understand land resilience and productive capacity, thus facilitating more responsible lending practices.

Importantly, consideration should be given to time horizons when considering natural capital in both financial products and valuations, as there is an inherent time lag to reap the benefits of active natural capital management.

Whole-of-farm approach

Any efforts in both the climate and nature space should be considered from a whole-of-farm perspective (i.e. holistically) to drive abatement and sequestration outcomes, as well as broader biodiversity and natural capital benefits. This approach also allows for a more accurate assessment and monitoring of progress.

Fair distribution of benefits and incentives

There is strong appreciation that increased focus on nature will result in time and resource burdens for producers, who will increasingly be expected to adopt measures to protect and regenerate nature. The time and costs associated with these measures should be distributed across the value chain, and not fall solely on farmers.

Good natural capital management can provide significant productivity, financial and business resilience across the value chain, and thus there is an opportunity (and responsibility) for the finance sector to ensure there are incentives in place for farmers to invest in natural capital management practices on farm. Importantly, where there are no immediately obvious benefits for farmers, time and resource burdens need to be shared. This is particularly relevant in relation to measuring and reporting obligations.

Clearly articulating the commercial value proposition of natural capital management will be important to support development of financial mechanisms such as incentives, valuations, and nature-based lending products. There is an opportunity to articulate this value based on the outcomes of FftF's research by linking natural capital management to farm performance and to the materialisation of potential private financial benefits (such as lower input costs and resource efficiency).[7] This will naturally incentivise the incorporation of natural capital considerations into farm management and strategy.

This value proposition should highlight benefits to farm productivity, the ability to demonstrate sustainability credentials to external stakeholders, and attract capital.

[6] FftF, 2024: mla_fftf_project-final-report_updated.pdf
[7] Ibid.

Operationalising the approach to natural capital

Interviewees identified a number of opportunities to help articulate the value proposition for investing in nature. These include:

- Emphasising and demonstrating the 'climate-nature nexus' and leveraging existing climate efforts as much as possible.
- Raising education and awareness on natural capital:
  - Within financial institutions:
    - Preparing education materials for staff at different levels.
    - Sharing internal research resources to support knowledge building.
    - Establishing internal climate and nature forums.
  - For communication with clients and society:
    - Publication of agriculture-focused natural capital thought leadership pieces and case studies (e.g. making use of the rural press to reach agricultural communities)
    - Facilitating information forums and materials on the value proposition of active natural capital management and farm productivity and resilience.
    - Leveraging the expertise and close relationships with farmers, farm accountants and agricultural advisors.
- Adopting a two-tiered approach to the agriculture sector:
  - Direct face-to-face interaction with clients to raise awareness of emerging frameworks and policies in relation to nature.
  - Strategic portfolio analysis to identify priority sub-sectors and clients.
- Identifying cooperation and partnership opportunities to:
  - Share knowledge and cooperate with other financial institutions and other participants in the value chain in a non-competitive space.
  - Learn from and form partnerships with other organisations and industries that have aligned ambitions in natural capital.
  - Create consensus between financial institutions on consistent approaches to natural capital in the agriculture sector. This may include consensus on definitions, nature-related data, and metrics relevant for financial institutions; approaches to materiality for nature considerations; and understanding of the relationship between farm production activities and good land management activities.
  - Specifically for asset managers, form partnerships with on-the-ground asset managers that have expertise in natural capital management.
- Using existing frameworks and developing fit-for-purpose guidelines and standards to:
  - Build understanding of and experience with available frameworks – such as the TNFD and Accounting for Nature (AfN).
  - Gain understanding of on-farm activities that are aligned with the principles of both natural capital and farm productivity through the development of a guiding list to use when assessing agricultural investments.
  - Guide the natural capital approach of financial institutions with their agricultural clients. This could include topics such as minimum standards for good land management in agriculture, data collection requirements and a clearly articulated value proposition.
  - Inform portfolio prioritisation and boundary setting to focus natural capital efforts.

The Australian sustainable finance taxonomy, currently in development by ASFI, was highlighted by participants as a key enabler for the nature agenda. It is expected that the taxonomy will foster integrity and standardisation of sustainable finance efforts, including natural capital, and that it will be a tool that can help prevent greenwashing.

Interviewees were also supportive of the development of a holistic approach that supports multiple positive environmental outcomes for the design of criteria for the agriculture sector. This in line with the whole-of-farm approach previously mentioned.

- Using tools that support nature-related efforts, such as:
  - Leveraging and expanding the use of existing in-house tools that assess clients on ESG matters to include nature considerations.
  - GIS mapping to help in the identification of nature-related risks.
- Adopting nature-related reporting to help drive and measure progress of nature-related ambitions.
- Specifically for asset managers:
  - Exploring modelling mechanisms to assess potential nature-related returns of investment of an asset.
  - Using Natural Capital Accounting – the use of an accounting framework to measure and report on stocks and flows of natural capital[8] – to better understand the movement and potential economic value of natural capital in assets.

See additional enablers proposed by financial institutions that are specific to the Australian Government under Insight 7.

[8] System of Environmental Economic Accounting (SEEA): https://seea.un.org/content/natural-capital-and-ecosystem-services-faq#What%20is%20natural%20capital?

Insight 5

All participants of the agriculture value chain (including farmers, financial institutions, processors, and retailers) have a role in encouraging the adoption of sustainable natural capital management practices in the agriculture sector; these roles need to be defined and aligned.

Financial institutions recognise they have a role to play in minimising and restoring impacts on nature but are seeking to better understand their specific role in the adoption of natural capital management practices in the agriculture sector.

Although primary producers are at the beginning of the value chain, there are other actors beyond financial institutions to involve in these efforts. Agricultural commodity traders, processors and retailers have all been identified as key stakeholders in the food industry that can impactfully drive nature-related efforts.

Retailers in particular often have decarbonisation commitments and aspirations in the nature space that align to or complement those of financial institutions. Australian retailers have more market concentration than financial institutions and therefore face less competition from other retailers and processors. As a result, they potentially have more ability and influence to set expectations from suppliers, including in relation to data, information, and demonstration of sustainability credentials. By contrast, in the highly competitive environment in which agricultural lenders operate in Australia, there is comparably less ability to impose additional requirements from clients.

Agricultural commodity traders, processors and retailers have the ability to directly converse with farmers and, through their sourcing policies and programs, influence at scale the value chain to make significant changes. They must therefore be allies in the integration of natural capital considerations in financial and business decision making. Doing so will ultimately benefit farmers by standardising and streamlining requests for information and data in relation to natural capital and other sustainability credentials.



[8] System of Environmental Economic Accounting (SEEA): https://seea.un.org/content/natural-capital-and-ecosystem-services-faq#What%20is%20natural%20capital?

Insight 6

There are significant internal and external barriers to integrating natural capital considerations into business and financial decision making; including competing interests within financial institutions, diversity of clients and evolving standards and expectations.

Integrating natural capital considerations in decision making is complex for financial institutions. Commonly cited barriers are outlined below.

Barrier	Overview
Complexity of approaching natural capital	• Integrating natural capital into financial and business decision-making – to both invest in nature and identify risks, opportunities, impacts and dependencies – is a nascent space that either lacks or has rapidly evolving approaches and methodologies. At this stage, there is no clear way to achieve this. • The value proposition of natural capital is not clearly understood and has not been articulated yet, for both financial institutions (in the form of investment returns) and agricultural clients (in the form of productivity benefits or access to finance). • It is unclear what 'good' looks like, as there is a lack of proven business cases that make the benefits (i.e. the value proposition) evident. • Lack of clarity around what the on-farm natural capital indicators relevant to financial institutions are, and the monetary value that can be linked to them (i.e. how to accurately value nature). • It is complex to understand and incorporate natural capital considerations into portfolio and asset class development and management. The idea of 'investing in nature' needs to be defined. *Natural capital and agriculture* • There is no clear definition of what the transition to a lower carbon and biodiversity conscious economy looks like for the agriculture sector. • There is an absence of standardised calculation methods and tools to measure GHG emissions and other environmental metrics for the sector's varied operations.
Difficulties obtaining fit-for-purpose data and information	• Data and information limitations – which, among others, include robustness, quality, consistency, and availability – are a major concern. For example: o Robust, complete, and consistently calculated metrics for the agriculture sector at the entity level can be difficult to obtain. o Existing public data sources recommended by the TNFD are often not usable below country level due to their low definition and accuracy. • There is misalignment between local and federal data sets and systems. Integrated and consistent data sets are desirable for decision-making. • Data collection, protection and security entail time and costs. At present it is not clear who should bear the responsibility for this time and cost.
Limited awareness, expertise, and capacity within financial institutions	• Financial institutions commonly cite limited awareness and expertise in natural capital within their teams. • The meaning of natural capital management and its benefits have not been clearly defined for translation into the financial decision making of financial institutions. While the TNFD has provided a set of definitions and guidance documents, the language around nature is still not commonly understood or practiced (refer to Insight 8 for further commentary on TNFD). • Often, the responsibilities relating to natural capital within financial institutions fall to teams that also manage ESG/sustainability matters. These teams are already stretched, adding to capacity constraints. Some financial institutions have dedicated natural capital staff; however, this is not the majority.

Cost and effort burden of natural capital management (including data collection and reporting)	• Whether on farms or within the operations of financial institutions, there are significant time and costs involved in the adoption of natural capital management practices. The business case to absorb these burdens is not clear at this stage. • Practicality and feasibility of adoption needs to be understood and considered.
Characteristics of agricultural clients	• Commercial agriculture has thrived in the absence of stricter requirements and/or regulation in relation to natural capital considerations. This means that the widespread adoption of active natural capital management requires a major shift in the sector that will require efforts from all participants of the agriculture value chain. • Additionally, nature management and impacts on nature differ between sub-sectors in agriculture, making efficient and standardised approaches difficult. • Boundaries for measurement across farming operations have not been defined. Whole-of-farm methodologies are needed (see Insight 4). • Agricultural clients for financial institutions are varied in size and structure and a coordinated approach with farmers is not possible at present without significant process adjustments.
Greenwashing risk	• Financial institutions are highly vigilant to guard against allegations of greenwashing to avoid reputational damage. The lack of standardised definitions, methodologies, and clarity from regulators on 'what good looks like' and 'what is wrong and what needs to be done' increases hesitancy around nature-related reporting, which can result in diminished natural capital efforts and ambitions.
Business strategy not aligned with nature ambitions	• There is a disconnect between aspirations in natural capital and business context and strategy. • Business strategy and the monitoring of its progress, particularly for banks, is primarily focused on profitability and portfolio growth and is not linked to decarbonisation or nature-related outcomes.
Competing internal priorities	• While there is open willingness to adopt natural capital considerations and management within financial institutions, it is only one of their internal priorities. This means that natural capital considerations may compete with other internal priorities and resources, notwithstanding their importance.
Pace of research	• Developments and requirements in the nature space are evolving rapidly, and scientific research on natural capital (e.g. the effects of proactive natural capital management in business performance and resilience) is not moving fast enough to address them.
Australia's land mass characteristics	• Specifically for international investors, investing in nature in Australia is complex due to lack of proven case studies and difficulties in deploying management operations to remote locations in the country.

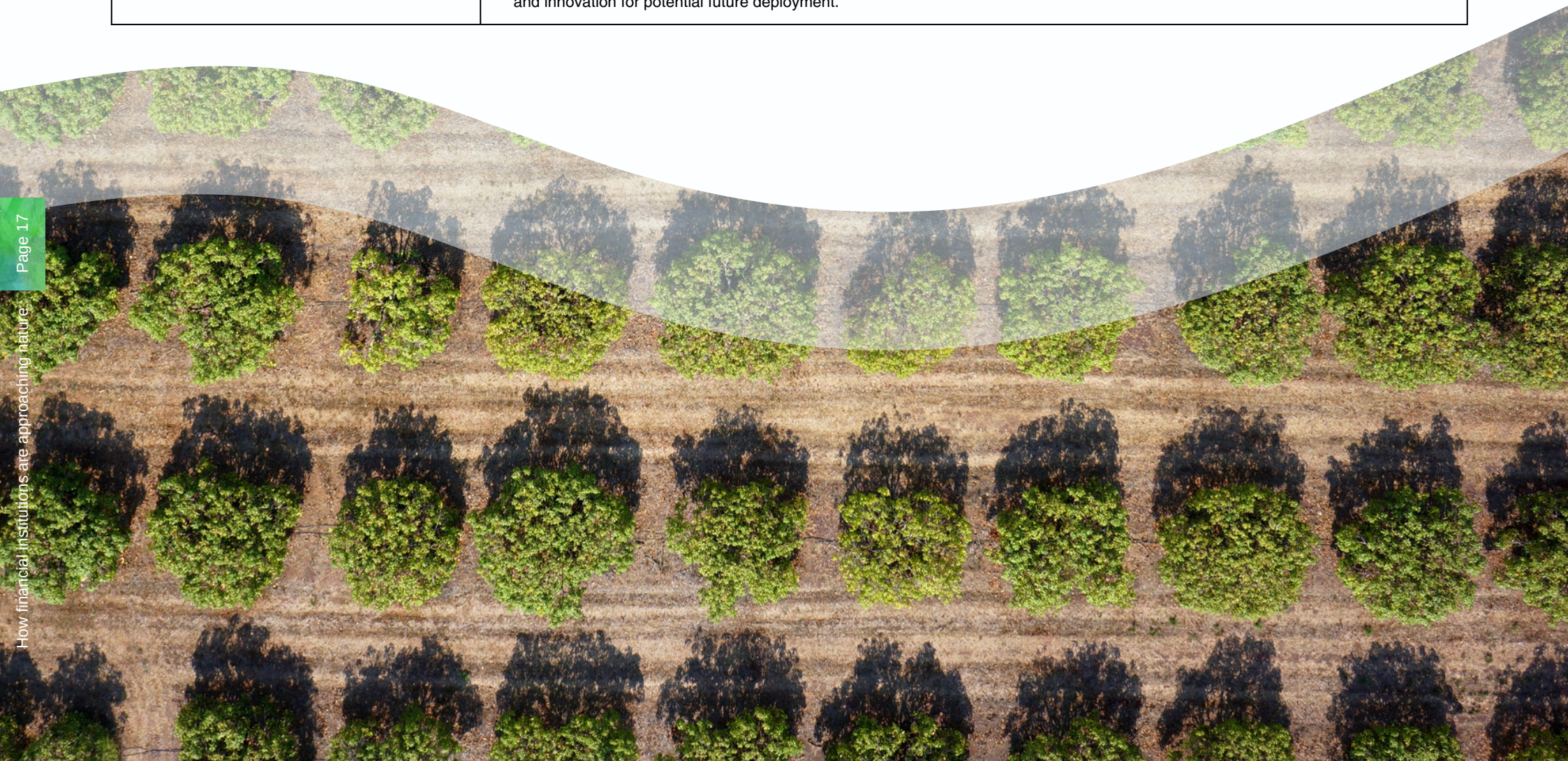
Insight 7

Government has an enabling role to play in helping to facilitate investment in natural capital and drive uptake of good land management practices in the agriculture sector; by providing the architecture for financial institutions and farmers to understand, measure, act and report on natural capital, and identify and de-risk opportunities for investment.

Financial institutions are aligned in underscoring the role the Australian Government can play in facilitating natural capital investment and the adoption of natural capital management practices on farms. The following needs, which Government can support, have been identified by financial institutions:

Need	Overview
Provision of robust data and information	• There is a need for robust, consistent, quality, transparent and verifiable data sets and information that can be used for comparability and decision-making purposes. This includes integration of local and federal data sets. No-go zones • The Australian Government should, at national and regional level: o Define, map out and make accessible information of no-go zones, or areas of ecological importance, in Australia. o Define ecological tipping points (i.e., thresholds). o Identify, and make accessible, nature and climate related risks by region. All data and information should be released, reassessed, and updated periodically.
Leadership and education	The Australian Government should: • Continue to take a leadership role in the natural capital space. This includes setting national aspirations and targets, developing aligned policy and legislation and establishing a robust nature market that provides a signal to investors and decreases investment risk. • Provide education and outreach programs that increase awareness and expertise in natural capital. These programs should be targeted towards different economy participants, including the agriculture and finance sectors. • Increase community awareness of the value and importance of ecosystem services and natural capital. • Develop natural capital sectoral strategies, plans, and guidance materials.
Enabling policy and legislation	• Policy and legislation have a key role to play in the enablement of natural capital investment. The Australian Government should update or replace outdated or unnecessary policy and enable and enforce changes that facilitate investment in natural capital and on-farm natural capital management. Any policy should be aligned with national ambitions and targets in the nature space. • More specifically, there is an opportunity for the Australian Government to ensure that the proposed reforms to Australia's environmental protection laws effectively deliver on local and global ambitions in the nature space and are considered in the development of National Environmental Standards under the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) reforms. Additionally, there is a need to harmonise land clearing laws nationally to help guide anti-deforestation efforts.
Market enablement and incentives to invest in natural capital	• As mentioned in Insight 4, farmers need to be incentivised to make changes to their management practices and collect the required data to verify progress. • Additionally, financial institutions would benefit from government-led incentives to invest in natural capital that de-risk the market by providing certainty of returns.

Development of a taxonomy for the agriculture sector	• Financial institutions welcome the Australian Government's support to the expansion of the development of an Australian sustainable finance taxonomy for the agriculture and land sector. To strengthen its effectiveness, the Australian Government should consider supporting that the sector is considered holistically beyond climate mitigation to include all sustainability objectives, including nature. The development of this taxonomy is likely to accelerate investment in activities that support multiple sustainability objectives and place Australia at the forefront of defining sustainable agricultural production and land management, given most other taxonomies have not developed criteria for the sector. • More specifically in the natural capital space, a taxonomy that reflects the Australian context of the agriculture sector would help financial institutions define and identify sustainable investments that support Australia's climate and nature objectives while helping confirm sustainability claims and enabling comparability between investments.
Research and Development	• The Australian Government should provide leadership in research and development, and assess the viability and impact of technology and innovation for potential future deployment.



Insight 8

The TNFD in its current form is not yet decision-useful for financial institutions; further work is required to encourage strong uptake by financial institutions and support their needs.

Financial institutions have started to engage with the TNFD framework through guided pilots or self-guided efforts. Key insights are set out below:

- The TNFD is a complex framework that, as of version 1.0, seems to be more directly applicable to organisations that produce goods, are structured as corporates, and/or have simpler value chains.

- Materiality and prioritisation:
  - It is complex to assess what is material and what financial institutions should focus on. The sector list proposed by the TNFD to support financial institutions' disclosure in Annex 1 of the sector guidance for financial institutions is too broad to support this prioritisation. For example, assessments performed using the ENCORE tool show significant impacts and dependencies on nature across most assessed sectors. However, the process to narrow down and identify what is most material across sectors and within each sector is not clear. More guidance is needed to help narrow down where organisations should focus their efforts.

- Metrics:
  - Further work is needed on the proposed TNFD metrics – both the core global metrics and those proposed for financial institutions – as most are not decision useful for financial institutions at this stage. Some of the issues are the following:
    - Financial institutions' limited visibility or direct control over the operations of their clients means that obtaining the information needed to report on them is not possible at this stage without clients themselves reporting against them. In the particular case of agriculture, operationalising the collection of this data, particularly for small businesses, is not practical or economic.
    - Absence of consensus on definitions that support the TNFD metrics. For example, the concepts of 'nature-related opportunities' and 'positive impacts on nature', which form part of the core global opportunity disclosure metrics, are in development and constantly evolving. There is no widely recognised reference source to guide a consistent approach to nature-related reporting.
    - It is not clear how to narrow down and identify what is material across sectors and portfolios based on most of the proposed metrics. For example, a complete sector view is not useful to understand where priorities lie and what financial institutions should focus on.
  - Financial institutions widely commented that there seems to be a disconnect between the TNFD and the goals of the Global Biodiversity Framework (GBF), and said it is not clear how to translate the proposed TNFD metrics into the stated outcomes of the GBF.
  - Some participants highlighted that interim metrics, such as educational targets, would be more useful at this stage to pave the way to obtaining more complex metrics in a progressive manner.

ASFI, together with the Australian Council for Superannuation Investors (ACSI) submitted detailed feedback on the TNFD's draft sector guidance for financial institutions in early 2024.

As of v1.0 of the additional guidance for financial institutions, the TNFD is proposing two core metrics for financial institutions:

- *Financial exposure to sectors with material nature-related dependencies and impacts (as mentioned, these sectors have been set out in Annex 1 of the additional guidance for financial institutions).*
- *Financial exposure to companies with activities in sensitive locations (locations where assets and/or activities in direct operations and value chains interface with nature in areas deemed to be ecologically sensitive).*

Both metrics can be represented as follows:

- *For banks – absolute amount or percentage of lending volume.*
- *For asset owners and managers – absolute amount or percentage of invested or owned assets.*
- *For insurers – absolute amount or percentage of net premiums written or total sums insured.*

Source: Taskforce on Nature-related Financial Disclosures (TNFD), Additional guidance for financial institutions, https://tnfd.global/publication/additional-disclosure-guidance-for-financial-institutions/#publication-content



Appendix

Appendix 1

NCAG participant organisations and observers

Australia's leading agricultural lenders:

- Australia and New Zealand Banking Group (ANZ),
- Bendigo and Adelaide Bank,
- Commonwealth Bank of Australia (CBA),
- National Australia Bank (NAB),
- Rabobank Australia Limited (Rabobank),
- Suncorp Group Limited (Suncorp), and
- Westpac Banking Corporation (Westpac).

Significant investors and asset managers of agricultural assets:

- Clean Energy Finance Corporation (CEFC),
- Mercer,
- New Forests,
- National Queensland Investment Corporation (QIC), and
- Rest Super.

And observers from:

- Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES),
- Australian Bureau of Statistics (ABS),
- Certified Practising Accountants Australia (CPA),
- Chartered Accountants Australia & New Zealand (CA ANZ),
- Commonwealth Scientific and Industrial Research Organisation (CSIRO),
- National Farmers' Federation (NFF), and
- Australian Government representatives from the Department of Agriculture, Forestry and Fisheries (DAFF) and the Department of Climate Change, Energy, the Environment and Water (DCCEEW).



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