Sustainable finance in the food and fibre sector

Facilitating the transition to a low-emissions and sustainable future

Sustainable finance

Access to capital is hugely important in the agricultural economy and is also a critical enabler for the transition to a low-carbon, inclusive, equitable economy and society in Aotearoa New Zealand.

The Climate Change Commission estimates New Zealand will need $34 billion of new capital in the next 12 years to finance our low-carbon transition. Therefore, financing the transition to a low-emissions, climate-resilient economy is a challenging task. Globally, sustainable finance is a fast-developing catalyst and enabler of environmental and social development transitional goals.

Sustainable finance refers to the process of taking environmental, social, and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects[1]. Incorporating these ESG factors into decision-making processes is increasing, according to *The Responsible Investment Benchmark Report by Aotearoa New Zealand 2022* by Responsible Investment Association Australasia, which states that New Zealand's responsible investment market grew by 26 percent over 2021.

Developing a sustainable financial system is about enabling a thriving and prosperous society in a lower-emissions future. If the financial system supports better deployment of capital to social and environmental challenges, it can enable and accelerate the transition to a low-emissions, climate-resilient and equitable New Zealand.

The Aotearoa New Zealand banking sector has demonstrated a variety of sustainable finance activities such as the sustainability-linked loan instrument. A sustainability-linked loan commits a borrower to meeting key ESG targets. The borrowing costs under the loan facility are adjusted up or down depending on the performance of the borrower to deliver against predetermined sustainability targets. According to a 2022 report released by the Centre for Sustainable Finance and KPMG, *Mobilising Capital for Impact*, the total value of sustainable debt instruments exceeded $13 billion in 2021, and some of this activity is focused on the primary sector.

[1] **www.finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en**

Case studies

Sustainability-linked lending in the agriculture sector

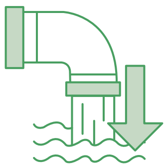
STORY 1

ANZ New Zealand – Silver Fern Farms

ANZ NZ Institutional wrote 22 sustainable finance deals in FY 2022, totalling more than $10 billion towards sustainability. This includes acting as Joint Sustainability Coordinators alongside BNZ and Rabobank, with ANZ as the Sole Mandated Lead Arranger and Bookrunner, for the $320 million sustainability-linked working capital financing for Silver Fern Farms. Launched in June 2022, this established one of the largest syndicated sustainability-linked facilities in New Zealand.

The facilities are linked to Silver Fern Farms achieving certain sustainability performance targets:

Adoption of the comprehensive New Zealand Farm Assurance Programme Plus (NZFAP+) by Silver Fern Farms suppliers.



Reduction of water used at processing sites.

Reduction of processing emissions in line with its Science-Based Targets initiative (SBTi) target of 42 percent Scope 1 and Scope 2 greenhouse gas emissions reduction by 2030 from 2020 baseline year.

Enhanced environmental monitoring and reporting.

Reduction of total waste to landfill (including organic waste) from processing sites.

As part of the sustainability-linked financing, Silver Fern Farms will receive financial incentives as it delivers pre-agreed and pre-defined sustainability targets, and if the targets are missed, Silver Fern Farms will pay a higher interest rate.

STORY 2

Rabobank NZ and ASB – Craigmore Sustainables

Craigmore Sustainables, the largest diversified rural investment company in New Zealand, has highlighted its commitment to achieving better environmental outcomes across its primary sector portfolio with a new $142 million sustainability-linked loan agreement for one of its first investment portfolios – Craigmore Farming Partnership.

The loan facility, which is provided through a club deal arrangement by Rabobank and ASB, is one of the largest of its type for a New Zealand agribusiness company operating inside the farmgate.

It will see Craigmore Farming Partnership, which operates dairy farms and horticulture properties across New Zealand, receive financial incentives as it delivers on targets linked to its sustainability strategy. This includes greenhouse gases, people and leadership, animal welfare and biodiversity areas.

A big focus is to support the teams to identify, test and adapt greenhouse gas (GHG)-reduction solutions to integrate into real-world farming and orcharding operations. Craigmore seeks to materially exceed the GHG-reduction targets set by the Climate Change Commission through land-use change and changes to existing operations. This includes supporting one of New Zealand's first carbon-neutral dairy farms by 2035.

Craigmore's commitment to investing in new technologies and practices is also driving improvements in key areas beyond GHG emissions such as water-use efficiency and water quality, with nitrogen loss on Craigmore-managed dairy farms decreasing by six percent in 2022 and positive scores in visual soil assessments.

A key part of the new loan focuses on native restoration projects and further developing team leadership skills within its businesses.

Rabobank New Zealand and ASB work closely with clients in New Zealand to help them achieve their sustainability goals. KPMG New Zealand provided limited assurance and a second-party opinion to ensure that the sustainability targets of the loan align with the Asia Pacific Loan Market Association Sustainability-Linked Loan Principles.

STORY 3

BNZ – scalable agri sustainability-linked loan

BNZ has delivered New Zealand's first scalable on-farm sustainability-linked loan (SLL), which is available to all New Zealand farmers. The SLL offers interest cost savings for achieving environmental and social targets. Farmers can choose from a range of options they want to tackle, but emissions reduction is non-negotiable. The product has been developed in line with the Sustainable Agriculture Finance Initiative guidance.

Sustainable Agricultural Finance Initiative (SAFI)

Government and the financial sector have an interest in encouraging investment to flow to farmers and growers engaged in or transitioning to, more-sustainable activities. To enable this, MPI and financial sector organisations came together to develop voluntary guidance through the Sustainable Agriculture Finance Initiative (SAFI). The SAFI guidance defines sustainable agriculture risks and opportunities, reflects domestic and international best practice and outlines various sustainable agriculture practices. These include practices to reduce emissions (climate mitigation), improve long-term resilience (climate adaptation) and deliver more-sustainable outcomes in terms of water, waste, pollution and ecosystems.

Launched in 2021, the SAFI guidance provides a consistent framework for the finance sector to integrate sustainability considerations into funding for New Zealand's agricultural sector. The guidance draws on international frameworks and local good farming practice and takes note of sustainable agriculture standards already used by Aotearoa New Zealand farmers and growers. It covers environmental and social factors of on-farm operations involving livestock and crops such as climate change adaptation, water use, waste minimisation, labour rights and animal welfare. In keeping with international frameworks, a farm is required to meet the minimum practices (Do No Significant Harm principle) for each environmental aspect, comply with social safeguards and make a substantial contribution to both or at least one climate change mitigation or adaptation.

The SAFI guidance is open source and voluntary. It was developed in consultation with stakeholders from finance, rural businesses, corporates, industry bodies, government and research organisations.

The SAFI steering group is comprised of ASB, ANZ, Westpac, BNZ and Rabobank in collaboration with MPI and the Centre for Sustainable Finance: Toitū Tahua. The group was formed initially by The Aotearoa Circle, a public-private partnership that commissioned EY to develop the initial guidance.

Centre CEO Jo Kelly says, "The SAFI guidance is a principles-based definitional tool for sustainable agricultural practices in New Zealand. It helps banks and investors identify practices that are aligned to a low-emissions transition and direct capital towards them. There are numerous examples of the SAFI guidance being used as a tool to develop sustainable lending products for farmers and growers.

"The SAFI guidance aims to do what sustainable finance taxonomies aim to do generally – that is, create alignment on what constitutes sustainable economic activity and make it easier for banks and investors to shift capital in that direction.

"Given that primary industries make up more than half of New Zealand's land use and directly or indirectly employ around one in five New Zealanders, improving climate resilience and emissions reduction in the agriculture sector can also improve the resilience of New Zealand's economy as a whole."