Sustainable Finance Strategy consultation paper
Sustenance Asia submission

1 December 2023

Thank you for the opportunity to provide this submission.

Sustenance Asia is a specialist agrifood sustainability consultancy I founded in 2014. I began working in sustainability in 2002, which makes me one of the most experienced sustainability practitioners in Australian agrifood. I previously worked in investor relations and corporate communications.

The following are views on the draft Sustainable Finance Strategy that I think must be considered before and while answering the specific questions in the consultation paper, especially the questions relating to Priorities 1 – 4 (within the Improve transparency on climate and sustainability pillar) and Priority 7 (within the Financial system capabilities pillar).

For nature-based sustainable finance, prioritise input from agriculture and environmental stakeholders over finance stakeholders.

- In any engagement process, feedback from a broad range of stakeholders is essential. But not all stakeholders are equal, and their input must be weighted
- Counter-intuitively perhaps, finance sector stakeholders are not the most important for nature-based sustainable finance
- The agriculture sector will have an outsized impact on the success of, and be most impacted by, environmental sustainability policies and financial instruments
- Nature-based financial systems and processes that make perfect theoretical sense in Martin Place or Collin Street boardrooms are often unworkable in reality when the complexities of natural systems and challenges of accurate data are applied
- Designing a sustainable finance system that incorporates temporal and spatial variability and allows land managers to choose appropriate place-based practices most relevant for their business that deliver desired sustainable outcomes is essential. This can only be achieved by deep, practical engagement and design with agriculture and environmental stakeholders to develop a sustainable finance infrastructure that achieves the government's intended outcomes.

Understand that accepting the financial system status quo will be a potential tragedy for nature.

- The design of TNFD, SBT, ISSB and other investor-focused sustainability frameworks and standards have been heavily influenced by financial institutions and multinational advisory firms
- This has created overly complicated frameworks. TNFD alone has 546 pages just in its three core documents, which has anecdotally led to an extremely limited understanding among corporations and financial institutions – all of whom are time-poor and many of whom appear to very little knowledge of fundamental agricultural systems – how to apply TNFD in their operations, on top of all their other competing priorities
- The obvious way for corporations to fill this gap is to hire the advisers who helped design TNFD (or other sustainability frameworks/standards) to implement and assure it for them. This would see an astonishingly high – and arguable immoral – transfer of resources to private consultants and third party assurance providers
- A 2022 NASDAQ survey found the average annual cost of climate assurance alone was US$82,000. Assuming Australian corporations are broadly equivalent to US corporations, scaling that up to advising on climate disclosure, scaling it up again to advise and assure broader sustainability disclosures (which are inherently more complex and harder to measure than greenhouse gas emissions) … and by any conservative estimate, the 2,771 ASX companies alone would collectively spend well over a billion of dollars per year on private advice. This is largely time and money that could otherwise be invested in truly transformative environmental change in Australia

- Mandatory reporting aligned with TNFD is supported. But it must be simple enough to allow sufficiently robust data to be disclosed in a way that minimises the need for teams of reporting experts, and maximises the amount of time and money spent on building internal capability and investment in material sustainability risks and opportunities
- Mandatory third party assurance is not supported. Third party assurance is used in finance because people in business make mistakes, or lie and cheat and steal to get ahead. The problem with that logic is auditors are also human, and they make mistakes, or lie and cheat and steal to get ahead. Assuming that third party assurance should be the default position for something as complex as nature, just because “it’s what we’ve always done”, must be challenged to avoid unnecessary transfer of resources to achieve likely poor outcomes. There must be a better way in the 21st century to give investors confidence. That better way must be centred around transparency, not assurance
- The commonly stated value from third party sustainability assurance (commonly stated at least by third party assurance providers) include helping companies identify and mitigate risks by adopting improved data systems and policies and reducing greenwashing risk. This value could be achieved by transparency and good internal systems, which would have the added benefit of building internal capacity and capability instead of outsourcing it to a third party.

Don’t reinvent the wheel.

- There is already far too much inconsistency and duplication in sustainability, agriculture and the environment. There is a significant amount of existing work being done, which the Sustainable Finance Strategy can build on or work with to avoid further duplication, inconsistency, confusion, and inefficiency
- The Australian cotton industry, for example, is developing a proof of concept sustainability data framework to provide customers and investors with industry scale TCFD- and TNFD-compliant data (and data aligned to other sustainability frameworks, and applying Capitals Coalition methods to value natural and social capital). The aim is for a single set of industry-level impact and dependency data, with complete transparency to the data sources and, if deemed essential, assured once (ideally by a trusted organisation who will reinvest assurance fees into public good research or actions). This project is taking a phased approach – starting with low cost or free publicly-available data to provide industry averages (I call this “information grade” data – it’s relatively coarse, but it’s repeatable and robust enough to tell a story of change over time), with Phase 2 aiming to provide much finer data from every cotton field, which customers and investors can pay for as data quality moves from information grade to "investment grade". This approach won’t be perfect straight away as this work is new and complex and hard, but it allows agriculture industries, corporations and financial institutions to get started and improve over time
- Other notable work not to be duplicated includes that of the Natural Capital Measurement Catalogue, the Australasian Sustainable Finance Institute’s valuing nature project, and Farming for the Future’s natural capital work. All of these initiatives are currently in contact with the cotton industry to work towards consistency and avoid duplication and confusion
- Government, regulators and industry can best prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD, by working with these existing initiatives to accelerate their development, adoption and improvement. This is directly consistent with the Principle of collaboration and shared responsibility. Genuine collaboration, and a desire for corporations and financial institutions to pragmatically build on existing work, will see farm more rapid uptake of and support for TNFD than thousands of companies hiring teams of advisers to do the work for them
- Competing, duplicating or overlapping Sustainable Finance Taxonomy, TNFD disclosure approaches, or other Sustainable Finance Strategy deliverables would be a terrible outcome.

Other comments

- Key Principles:
  - Australia should take a high-ambition approach. This must relate to climate and environmental ambition, not to “gold standard” reporting and assurance ambition. The complexity of natural capital means needlessly complex mandatory reporting

frameworks will be a barrier to action, and provide multiple opportunities for perverse outcomes
    - New requirements should be as simple and useable as possible for a wide range of actors. As noted above, this principle is essential. Efforts to introduce needless complexity should be rigorously rebutted
- Priority 4: developing a labelling system
    - Following the Principle that new requirements should be as simple and useable as possible, sustainability labelling for investment products is not supported. Greenwashing legislation already covers this.
- Priority 7: Addressing data and analytical challenges
    - As noted above, a great deal of effort is already underway, especially in the agriculture sector, to collect both “information grade” and “investment grade” data, and to use that single set of data for multiple purposes, including:
        - More informed decision-making by businesses and industries
        - Easier access to consistent, credible and comparable TCFD, TNFD, SBT and other sustainability data for corporations and financial institutions
        - Natural and social capital assessments and accounting
        - Enhanced sustainability reporting
        - Reducing the risk of sustainability being used as a trade barrier, by providing science-based and robust data that paints a richer picture of the complexity of environmental sustainability
    - As noted above, Government, regulators and industry can best address data and analytical challenges by building on these existing initiatives and committing to genuine pre-competitive collaboration to benefit nature and society in Australia, and to benefit individual businesses with faster access to high quality consistent data on which to base risk and opportunity management decisions. There is already so much fragmentation and inconsistency and proliferation of data and tools, as noted in the discussion paper, that reinventing this wheel would be an extremely poor decision
    - Given the complexity and cost of accurately measuring nature across the size and variability of Australia, addressing data and analytical challenges will almost certainly require an acceptance that relatively coarse data (what I call “information grade” data) will be good enough to begin this process, as long as its limitations are clearly described and the same information is consistently used across sectors. As data collection technologies improve and the value of reporting natural and social capital data becomes clearer and government investment noted in the discussion paper kicks in, the cost of data collection will reduce and data quality will rapidly move to “investment grade”. Or if individual corporations can justify the cost, they can choose to pay for investment grade data right now. But, and this is a critical but, if the default position is to begin with “gold standard” data, the cost and complexity of this will mean uptake will be incredibly slow.

Thank you for the opportunity to make this submission.

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