



## Bank goes green with lending

Financial institutions are bringing sustainable finance to the market in an effort to be a part of the solution, **Penny Clark-Hall** reports.

**F**armers, who have been carrying the financial weight of sustainable farming, will no longer have to go it alone.

Banks are offering sustainably linked loans (SLL) to farmers who are investing in their natural capital.

While BNZ is the first bank to get a sustainability-linked loan product to farmers, SLLs have already been on offer to other industries within New Zealand for a few years. ANZ was the first to offer

one to Synlait back in 2018 and has also announced NZ's largest (\$100 million) to Kathmandu this month, while Westpac entered into a \$50m SLL with Contact Energy last year.

It should also be noted that ASB recently began offering loans for the purpose of investing in on-farm sustainability, but these are not SLLs.

BNZ and Southern Pastures have piloted the first loan of its kind on-farm.

The bank's head of natural capital,

Dana Muir said the loans are designed to incentivise and reward sustainable farming practices.

"BNZ took the global concept of sustainably linked loans and looked at a range of different sectors across the bank to see if there was an opportunity to use them as a tool to help drive change."

She said the bank realised in agribusiness this was the perfect opportunity for it to support farmers to drive environmental social governance (ESG) change within their



Southern Pastures in the Waikato. The dairy company piloted a Sustainably Linked Loan (SLL) with BNZ.



Southern Pastures executive chairman Prem Maan.

businesses. So staff had spent the past 18 months thinking about how it would look and feel, due to the ever changing nature of farming's biological systems.

She said BNZ wanted to partner with farmers that are putting in place ambitious goals in their business.

"They are effectively de-risking their business and creating a future-fit business."

Muir said farming was experiencing a once in a generation change.

"So, it is only fair that we look at ours."

The bank wants an integration of the environment and business plan, because the environmental risks are business risks.

"When we bring that into a banking context, we're now getting more specific about considering ESG factors when investing in and supporting businesses."

The point of difference with its SLL is that they are unconstrained financial products that link ESG ambitions to the price of the business's debt. They also follow internationally recognised frameworks, unlike other "green" labels which don't have a formally recognised structure behind them. By setting some pre-agreed ambitious targets and some measurable key performance indicators (KPI) farmers are rewarded by maintaining access to cheaper debt (lower interest rates) for new or existing projects.

### Sustainable finance in practice

Southern Pastures was chosen to pilot the SLL due to its record of transparency in sustainability initiatives. They rolled their existing \$50m of syndicated debt into a SLL and the parties pre-agreed three ambitious and measurable environmental targets with trackable KPIs along the way.

"We were really lucky because we knew they had a lot of recording already around the types of goals they were trying to achieve, which made it easier to come up with their KPIs," Muir said.

Southern Pastures, which owns Lewis

Road Creamery, seems an obvious choice for its ability to show the value and impact of SLL at scale. Also it shows how innovative finance can complement a farm-system focused on values and the end consumer. The fund owns 20 farms in Waikato and Canterbury, and produces milk under an independently certified 10 Star Certified Values Programme. It stipulates strict environmental, climatic, animal and human welfare requirements. Its Waikato farms also include the largest organic farm in the country.

The targets chosen by Southern Pastures could have been social or governance related.

However they chose to focus on sustainability targets of biodiversity, water quality improvements and greenhouse gas reductions as these were the most material to their business.

Southern Pastures and Lewis Road Creamery executive chairman Prem Maan said BNZ's loan is an effective way to reward farmers for such good behaviour.

He said a big issue facing farm owners was capital spent on improving the environmental sustainability of the farm, its natural capital, was generally lost. This was because farm values are based primarily on what the neighbouring farms sold for and what an average efficient farm would produce. If a farmer spent \$100,000 on native and riparian plantings or shelter-belts, then that value would not be reflected in the farm's balance sheet.

"The farmer will not be able to borrow against it in the future."

While the SLL is used for Southern Pasture's farming operations' and usual business plans, it is worth noting that their "business as usual" plans include about \$6 million a year on environmental social governance related expenditures. How this is used is reported on in their annual ESG report, which is made public via their website. He explains that the benefits of the SLL outweigh the increased reporting requirements.

Maan said there were two main benefits.

The first is a decrease in the credit margin as the bank recognises businesses who are at the forefront of practising environmental sustainability represent a lower risk profile. The second was it assists in getting the message across that BNZ and other farmers were doing the right things for environmental sustainability. That dairying can be a force for positive change. The only disadvantage was that there is some added reporting and compliance work.

AssureQuality audits the farms each year to

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Some of Southern Pastures' milk products.

track their performance against the SLL targets, with the costs borne by Southern Pastures.

Maan said the SLL was beneficial even after paying for the costs of the audit.

"For us, it will be a part and parcel of our normal operations as this loan was an extension and recognition of our business as usual practices.

"We are already on the path that BNZ feels comfortable with."

Muir assured farmers that the cost of the audits will 'wash its own face' and said this was a new way of looking at finance.

She said farmers had been receptive to it. Some said it was about time a bank was able to offer an incentive-based product.

"We're aware it's a new tool so we've been trying to warm the market, but farmers have been positive and they're excited to have the opportunity to partner with the bank.

She said the key question asked was, could this be for every farmer? The mum and dad?

She said the answer is yes.

"We just really need to see that level of sustainability maturity from them and that they are ready to take this step."

Once the ESG targets have been agreed to by the bank, how the farmer goes about meeting those targets is totally up to them. The bank simply needs to see assurance that their targets are reducing over time to reach the overall goal. The reward? Incremental pricing benefits along the way and an overall pre-agreed pricing benefit at the end if they achieve their targets

"Effectively, there is a portion of your cost of lending that is yours to win or

lose based on whether you achieve those ESG targets or not.

"If you fall back beyond where you started from there would be the mirror opposite pricing impact."

### Global picture

BNZ has a goal by 2050 to have done \$10 billion dollars of sustainable finance and they're starting with their leading farmers who are doing more than just environmental and social compliance work. The hope is that other ambitious farmers will see it benefiting the first group and they'll work towards joining.

To be environmentally sustainable requires capital. A group called The Aotearoa Circle recognised this and established a working group to identify how to support this thinking for the rural sector. The co-operation and leadership of this working group SAFI (Sustainable Agriculture Finance Initiative) has allowed for the opportunity for NZ's food and fibre sector to capitalise on sustainable finance.

SAFI, which is made up of ASB, ANZ, Westpac, BNZ, Rabobank, Ernst Young and MPI representatives, is working to align sustainability standards used by NZ growers and farmers with emerging international frameworks and global standards (including the EU taxonomy and climate bonds standard).

Muir said SAFI had drafted standards for the NZ agricultural finance sector. They align with global sustainable agricultural finance standards. That's important because NZ's finance sector would be able to enter the global market aligned to the same standards for SAFI. ●

## BANK LOANS FOR A LEG UP

BY: LYNDA GRAY

**ANZ HAS DRAWN DOWN MORE THAN \$100 million in environmental compliance type loans over the last seven years.**

Farmers can borrow up to \$300,000 paid back over five years at a concessionary rate. The loan can be used to invest in infrastructure to help mitigate or manage environmental risk such as water quality monitoring; paying for the services of a qualified environmental adviser to prepare a farm environment plan; riparian fencing and planting; water and energy conservation farm projects; or investing in new land based ventures to create a more diverse farming system.

ANZ South Island regional manager Mark Grenside, says a pasture and production loan up to a maximum of \$100,000, also paid back over five years at a concessionary rate could also fit under the environmental sustainability umbrella.

"The efficiency of how grass is established how it grows and how it is used and harvested is critical to sustainability."

He says the loans are part of ANZ's wider mandate of supporting NZ households, business and financial practices that improve environmental sustainability. The development of these farm-related loan products will continue and evolve.

"The push is from our overseas markets and consumers. It won't stop and their expectations of what environmental sustainability looks like will change over time. Farmers will need time and support to adapt their systems and to transition and in a lot of cases they'll need to access capital to do that."

ASB offers a similar low interest loan to help farmers make a positive difference to the environment.

ASB general manager for rural, Ben Speedy says significant progress is being made, however "we know compliance and environmental concerns continue to keep farmers up at night."

The bank's goal is to get \$100 million of farm sustainability projects underway in the next five years.

He says the bank is keen to back a range of projects such as solar panels powering milk sheds, precision fertiliser application to reduce emissions, and biodiversity restoration.

The bank's farming customers have already invested millions of dollars in environmental upgrades.

"We want to give more of a leg up, to help create a more sustainable rural sector." ●

