

Rapid Review Research Funding

Finance & Investment Challenge

CONTACT

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BACKGROUND

The NSW Circular Taskforces bring together industry and research to help secure the social, economic and environmental benefits of transitioning to a circular economy. Cross-sector collaboration with industry, government, social enterprises, investors, and local communities will drive innovation and the development of new products, services, businesses and skills. NSW Circular has set out the value proposition for the state and its citizens (The circular economy opportunity in NSW) and has begun producing regular updates on sectors and trends.

NSW Circular is commissioning four Rapid Reviews, setting out the evidence - state of play, opportunities and next steps - on priority topics to advance the circular economy in New South Wales.

FINANCE & INVESTMENT TASKFORCE

The NSW Circular Finance & Investment Taskforce was established to tackle the insufficient understanding of circular business models, in order to:

- Provide better access to traditional forms of credit
- Develop finance solutions uniquely suited to circular economy systems
- Provide advisory services, circularity measurement and risk management solutions
- Enable fund managers to better classify circular economy businesses as a sustainability investment class akin to other sustainable investment classes (eg. impact investment, zero-carbon investment)

The Finance & Investment Taskforce has active members from some of Australia's leading financial institutions and organisations, including Commonwealth Bank of Australia, ANZ and ING.

RAPID REVIEW PROCESS

In 2021, an initial tranche of Rapid Reviews will focus on problem statements or challenges identified by four of NSW Circular's Taskforces: Precincts & Infrastructure; Finance & Investment; Government; and Industry.

NSW Circular is dedicating \$68K (\$17K each) to four of its Taskforces to catalyse research that will assist in the delivery of the Taskforce's agreed Objectives. This research will be conducted by four research teams selected based on research proposals submitted through an EOI process.

Our Rapid Review calls for EOIs from researchers and universities across NSW, in response to Research Questions determined by each of the four Taskforces. These EOIs will be reviewed by a Research Assessment Panel (the Panel), to determine the most suitable candidate to undertake the work.

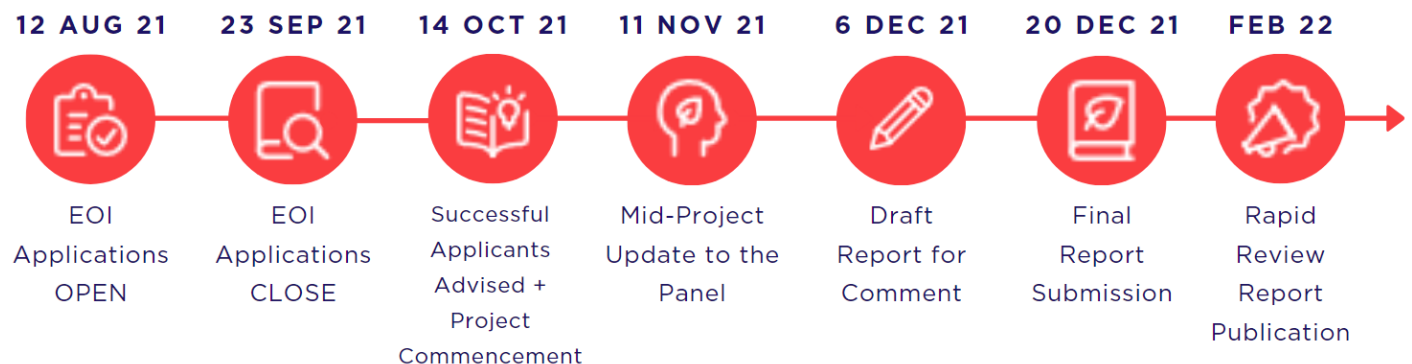


The core Panel will consist of:

- Ms Jodie Bricout (Panel Chair, Member of the NSW Circular Board)
- Ms Lisa McLean (CEO NSW Circular)
- Dr Donald Hector AM (nominee of The Royal Society of NSW)
- Dr Suzanne Pierce (Office of the NSW Chief Scientist & Engineer)
- Clare Nickson Havens (Special Advisor, Business Council for Sustainable Development In 2021, an initial tranche of Rapid Reviews will focus on problem statements or challenges identified by four of NSW Circular's Taskforces: Precincts & Infrastructure; Finance & Investment; Government; and Industry.

TIMEFRAME

The four Rapid Review Challenge Statements are being released gradually during August 2021, and so each review will hold a unique project timeline, though with consistent time allowances for each component of the project. The timeline for the Finance & Investment Rapid Review is as follows:



SELECTION CRITERIA

To be eligible for the Rapid Review Research Funding research teams must be connected to a NSW university.

Proposals will be assessed on the following criteria:

1. Team Strength: Demonstrated knowledge and understanding of the problem/challenge to be addressed
2. Approach: Proposed approach to undertaking the review
3. Experience: Quality and experience of the team in undertaking reviews of this type and published works
4. Value: Time commitment and value for money
5. Collaboration: Weighting will be given to EOIs of equal merit which involve collaboration between two or more universities.



DELIVERABLES

- A verbal presentation mid-project to confirm progress and report any findings of note
- A draft report in electronic format six weeks from project initiation
- A final report eight weeks from project initiation
- The Review Team must be available to present their research findings to the relevant NSW Circular Taskforce

NOTE: Researchers will be encouraged to publish in international journals, conference proceedings, or other media.

FINANCE & INVESTMENT CHALLENGE STATEMENT

CHALLENGE DESCRIPTION

Identification and measurement of circular assets and risks for the finance and investment sector in the transition to a circular economy.

Finance for circular business models, products and services is needed to achieve NSW net-zero emissions and sustainability goals and to secure associated social, economic and environmental benefits. Notwithstanding data and modelling challenges, frameworks and tools for responding to climate risks in the finance and investment industry are more advanced than for the transition to a circular economy. There is an opportunity to leverage and adapt this work, as well as building on international circular finance initiatives.

Globally, changing shareholder expectations, jurisdictional policies and the climate risk appetite of credit rating agencies are driving institutional investment choices. Following recommendations from the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD), in April 2021 the Australian Prudential Regulation Authority (APRA) released draft guidance to banks, insurers and superannuation trustees on managing the financial risks of climate change (CPG 229). The proposed changes will require entities to monitor and report on climate change risks in terms of:

- risks to physical assets - damage from events (fire, flood, sea level rise)
- transition risks - industry disruption in the move to a low emissions economy (stranded assets and businesses)
- liability risks - litigation from stakeholders, regulatory fines.

Compliance with CPG 229 includes identifying industries, sectors, asset types and geographic locations likely to be adversely affected and calculating risks and credit impacts under different scenarios. A core challenge in responding is the current lack of adequate ESG data. This also increases the risk of flawed assumptions underpinning models and forecasts relied on by the sector.



The shift to a circular economy entails similar transition and liability risks and impacts. However, lack of standard definitions and metrics for circular assets and businesses impedes exercises such as those required for emissions under CPG 229, even where circularity is incorporated in sustainability agendas and portfolios.

A priority for application of circular finance metrics is established structures in equity and debt markets (e.g. sustainable linked loans and green bonds), enabling growth and maturity. In the longer term, this would also facilitate the development of other markets (e.g. circular derivative markets).

Establishing circular finance definitions and metrics relevant to the Australian context can also:

- help address the risk of ‘greenwashing’ in the funds management sector. Absent definitions, the current reliance on ‘exclusion criteria’ to assess sustainability facilitates investment choices that may not be ‘dirty’ but are also not ‘green’. This might be addressed through development of ‘inclusion criteria’ that define ‘circular’ and ‘non-circular’ assets and practices
- support assessment and comparison of risk and value in emerging circular products and business models, and the structure of financial services and products appropriate to manage them. For example, new technologies; growth of shared resource business models (e.g. leasing/hire of assets) and impact on both risk and returns along the value chain.
- provide insights into investor responses to the spread of benefits from circular supply chains and businesses e.g. a broad spread of returns may dampen venture capital appetite where historically decisions have been driven by high returns from specific parts of the value chain.

This challenge seeks:

1. A literature review encompassing the following:
 - initiatives to define circular assets, asset classes and metrics relevant to the finance and investment sector, particularly, but not confined to the EU, UK, Asia-Pacific and north America. This should include information about:
 - their status e.g. recommended or required, whether implemented, reporting on influence in decisions or impacts etc
 - key drivers (push and pull factors) for development and adoption, and implications for NSW and the broader Australian context (including factors affecting relevance, adoption and uptake)
 - application e.g. whether relevant to the total sector or particular segments of the financial sector and markets
 - associated resources and tools, including commentary on their relevance for NSW and Australia, and adaptations that may be desirable or required for use domestically.



- approaches and tools used to support or drive the transition to a low emission economy that could be adapted for the purposes of assisting the finance and investment sector to consistently define and assess circular assets and business models, and incorporate these into investment advice, decisions and reporting.
- work (underway or completed) to map circular liability and transition risks in relation to specific industries or asset classes for the finance and investment sector, or which make particular reference to implications to the cost or availability of finance for that industry or asset class.
- as possible, comment on literature highlighting assumptions in risk models used by financial services that incentivise or de-incentivise circular investments or finance.

2. A proposed program of work to give effect to the findings of the review. This should include comment on current initiatives relevant to the sector, industry actions that would impact the trajectory of circular finance, and an education, data and research agenda to address any identified gaps in knowledge and practice.

ALIGNMENT AND PRIORITY

Finance and insurance represent the fourth largest sector in the Australian economy and NSW is well-positioned to capitalise on the global sustainability trajectory. Sydney is a global financial services hub including top 500 companies, venture capital, fintech and strengths in natural capital accounting. 'Green finance' is recognised as key to meeting NSW Government decarbonisation and sustainable resource targets and commitments.

NSW Circular's taskforces bring together leaders in their fields to collaborate, innovate and scale the circular economy. This work will contribute to the development of standardised metrics, data collections and tools to support the growth of circular finance and investments, and through this, meet business agendas and regulatory requirements.

The work aligns with the following Taskforce objectives:

1. Develop the education and understanding of circular economy fundamentals and financing within the Australian Finance Sector
2. develop a set of generally accepted circular economy finance guidelines for Australia aligned with emerging global understanding of investment in circular economy infrastructure and business models
5. develop metrics and measurement methodologies for defining circular economy assets and business models for the finance sector.
6. contribute to the understanding of circular companies and classification as a sustainable investment class and contribute to the definition of performance tracking and benchmarking for these asset classes.



CURRENT KNOWLEDGE

The financial services and investment sector is a key enabler for the transition from a linear to circular economy and there is a growing appetite for sustainable finance and the commercial, environmental and social returns it can provide. However, ‘circularity’ is not necessarily recognised or incorporated in ‘sustainability’ agendas and decisions, and ‘sustainable’ investments remain only a small proportion of financial services and investment activity overall.

Acceleration of circular finance activity and impact requires a shared understanding and metrics agreed by the market to consistently capture and price risks and value at ‘deal’ and systems levels. This in turn would enable a more complete understanding of the relative short- and long- term risks of ‘linear’ and ‘circular’ financial decision-making.

Although work is underway in various jurisdictions to establish common definitions and indicators, less clear are the strategies and pathways for effecting the transition from linear to circular practices and systems, and implications for the finance and investment sector. This includes ‘tipping’ points in the scale or type of finance available to specific industries and asset classes, speed of change required for impact and the response of financial markets to impediments or incentives. Consistent metrics and robust data are prerequisites to these considerations.

IMPACT

The outcomes of this work will:

- provide the financial services and investment sector with a baseline to consider approaches to better define, measure and report ‘circular finance’
- provide a basis for reviewing and calibrating assumptions in standard tools and risk models used by the sector
- inform the need for education and upskilling Taskforce members and the sector more broadly on circular definitions, metrics and models
- provided documentation that can be shared with stakeholders in NSW and other jurisdictions to inform best practice.

