Resilience Investment Vehicle Project Summary

Purpose

IAG and NAB formed the Resilience Investment Vehicle (RIV) Project to work with government and explore how private and public investment could be used together to fund community resilience projects. Financial return on investment was a key focus as a clear return is required for any private investment.

Background

In 2019, the Resilient Investment Working group formed. It was made up of IAG, NAB, CSIRO, The National Emergency Management Agency (NEMA, formerly National Recovery and Resilience Agency), The ANZEMC Mitigation and Risk subcommittee, Resilience NSW) and Queensland Reconstruction Authority (QRA). Over three years the group worked to bring together a vehicle for this investment. The group developed:

- A roadmap for how a resilience investment deal might be reached
- A project evaluation framework to prioritise potential projects for investment
- Three resilience pilot projects, to practically explore ways of bringing in private sector investment to resilience funding.

Pilots explored

The Household Resilience Program	The Cobargo Resilience Project	The Bushfire Resilience Star Rating System
• An existing QLD government program to retrofit houses to be resilient to cyclone. IAG and NAB considered running pilots based on this model using private finance. However, the costs of administering were significant, and the reach of the program would be limited to just IAG and NAB customers. Ultimately, the group found that it was not commercially viable for a single bank and insurer to undertake without government support	• The Cobargo Clean Energy Transition project involved creating a community led renewable energy microgrid, to increase energy security and resilience in Cobargo. The RIV working group and Arup (sustainability consultants) contributed seed funding to Australia Business Volunteers (ABV) to work with the Cobargo community. Through this community-led process, the idea was not progressed. As well as logistical challenges around aligning with local and regional energy strategies, it became clear that the community ownership of the microgrid and the development of the project by late 2020 was not "investment ready" and that there were other projects better met community's needs and priorities. The process highlighted that communities be the ones to identify, prioritise and implement community resilience projects.	• The Resilient Building Council (formerly the Bushfire Building Council of Australia - BBCA) are developing and testing a bushfire resilience star rating system. The working group explored the opportunity to provide debt financing for property owners to upgrade the resilience of their homes, with these mortgages acting as collateral for future resilience themed bond issuances. The scale of homes needed for a private sector return on investment was not there. This model may still be useful and is being progressed in a pilot and an app funded by NEMA through the Disaster Risk Reduction Package

Findings

The pilots were not successful at getting a return on investment. However, the experience of the working group and the reasons why these pilots did not work are useful to understand and to inform future work in this area. The main findings of RIV project were:

1. **Two main barriers to private sector resilience investment were repeatedly identified**
   - **Revenue -** no clear pathway for return on investment that could be attached to measurable resilience outcomes, and
   - **Scale -** Good resilience projects are place-based to meet community needs but are also often small-scale and diverse, making it difficult to get to the scale needed for private investors.

2. **These barriers were seen at each level of resilience projects**
    - **At household level** - ***revenue*** is theoretically possible with ***scale***, by packaging up 1000s of individual retrofitted homes into a resilience bond but this relies on a consistent product to be packaged, all homes and communities have different resilient needs.
    - **At a community level** – Community level projects are often in the cost range of $10k to $10M. Small projects like this again may be capable of ***revenue*** with ***scale***, where community level projects are aggregated, (similar to the process of packaging individual household loans together) to create the size needed for private investment. As with household level there needs to be a consistent product to be packaged and at this level there are administration and analysis costs which would further reduce any return.
    - **At large scale infrastructure level** – The ***scale*** is finally right to get ***revenue*** however large infrastructure projects do not allow for community resilience outcomes to be part of any cost benefit analysis. Measuring and demonstrating resilience is not standard practice[1] as there is no standard approach to defining and measuring it.

3. **Cross sector collaboration is new and difficult and requires people who are motivated to empower and drive change**. During the RIV, the participants found ways of working collaboratively across sectoral and organisational rules in some contexts, but still faced significant delays and barriers to overcoming silos. We saw the RIV progress only through motivated people empowered to drive change that formed relationships and pushed this work to continue.

4. **Good data is required for effective decision-making and innovation such as data on hazards and physical climate risks**

5. **Intermediary organisations are needed to bridge the gap between finance sector, government, and the community.** Intermediaries were needed to engage communities and create a bridge between community needs and values and those of the finance or government sectors. Intermediary organisations are a major support for communities to develop place-based, locally driven project ideas, while also having high level oversight of the resilience-building landscape to aggregate projects to an investable size.

Recommendations for continued work

The insights from the RIV project can be used to focus on the way forward including

- **A whole of industry approach to household resilience**, to achieve broad uptake of resilient homes.

- **Continued innovation from finance providers, infrastructure, and property developers**. The RIV project showed that existing investment frameworks are not sufficient for community level resilience/adaptation infrastructure investments. Both public and private sector stakeholders will need to work together to develop mechanisms that allow community level resilience/adaptation projects to be bundled together

- **Continued cross sector collaboration to find projects that will meet the scale and revenue requirements** – Cross sector collaborations must continue to pilot, problem solve, share work, find gaps and opportunities, and avoid duplication.

[1] Since the finalisation of the RIV project, we understand this work is evolving and changing and QRA are doing work in this space through their betterment program.

- **Continued work on innovative investment frameworks and methodologies** to enable this new type of investment.

- **Systems shift in the finance industry** - the RIV experience demonstrated that that two organisations acting unliterally will not create the level of change needed

- **A coalition of willing collaborators is needed** as well as clear leadership from government at national, state, and local levels to continue this work.

Finding the mechanisms to bring private finance alongside public capital to invest in resilience requires more experimentation and flexibility from all stakeholders in the resilience finance ecosystem. The will and interest are now here. People are talking about this issue and can see why we need to find new ways to finance our future resilience. IAG and NAB will continue to support communities to reduce their risk and build resilience, learning through pilots and seeking broader industry support.

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