CHAPTER 6:

Funding and finance

Funding and finance

Lead

MINISTER OF FINANCE

HON GRANT ROBERTSON

MINISTER OF CLIMATE CHANGE

HON JAMES SHAW

SECRETARY TO THE TREASURY

CARALEE MCLIESH

SECRETARY FOR THE ENVIRONMENT

VICKY ROBERTSON

Supporting

- Chief Executive of the Ministry of Business, Innovation and Employment
- Secretary for Internal Affairs (Local Government)

Contribution to our long-term vision

Robust funding and financing settings support investment that aligns with our climate change objectives.

Funding and finance

Why funding and financing is important

Well-designed funding and finance initiatives are key enablers of the transition to a low-emissions economy. Initiatives in this chapter will help to accelerate the transition, including by supporting effective decision making, mobilising private capital and aligning investment and spending with climate objectives.

Key actions

- Establish the Climate Emergency Response Fund (with initial down payment of NZ$4.5 billion).
- Issue Sovereign Green Bonds.
- Build on the success of the New Zealand Green Investment Finance.
- Issue the Crown Responsible Investment Framework to Crown Financial Institutions.
- Support high-quality investment decisions.
- Support investor decisions through world-first climate reporting legislation.
- Support responsible investment through default KiwiSaver providers changes.
- Support an integrated financial system.
- Collaborate with the finance sector to accelerate sustainable finance.
- Implement the Carbon Neutral Government Programme to lead by example.
- Apply the Government procurement rules to reduce emissions.

Funding and financing are key catalysts for the transition

Finance is an important catalyst for lowering emissions and increasing climate resilience. It can reduce emissions directly and support others to invest in and undertake low-emissions activities.

There is no single 'right' way to direct the flow of finance towards climate goals. Instead, our transition to a low-emissions Aotearoa New Zealand will require a range of changes across the economy – changes that require significant and sustained investment over the next 30 years.

The public and private sectors need to work together to provide the funding and financing that will be necessary to reduce our emissions. This approach to funding and financing will complement other measures to drive emissions reductions, such as regulation.

The Government's approach to funding and financing the transition is guided by four main objectives.

- **Adequacy –** There will be enough money available, at the right time, to meet the challenge of the transition.
- **Certainty –** It is clear who is responsible for providing funding and financing. Central government's role in direct investment will also be clear.
- **Durability and flexibility –** Systems and processes supporting climate change actions are durable, fiscally sustainable and flexible to the dynamic nature of climate change.
- **Private capital –** Private capital is effectively mobilised towards climate objectives, and public spending does not 'crowd out' investment from the private sector.

We need an integrated approach to funding and financing

To reduce our emissions, we will need to change the way we invest and how we use different technologies. These changes will involve financial costs, but will result in benefits and opportunities that make them worth the investment. The Government, private sector and households all have a role to play.

- The Government directly funds and finances projects, ensures its own investments and spending align with climate objectives and ensures that the wider investment landscape supports Aotearoa New Zealand's transition.
- Local government is responsible for funding and financing local projects, including infrastructure. Councils will need to ensure that their investments and spending align with climate objectives.
- Private business and household activities and spending drive our economy. In doing so, they can use sustainable finance mechanisms to deliver the scale of change we need and support our transition.

The Treasury has analysed some of the possible impacts of climate change in its statement on the Government's long-term fiscal position *He Tirohanga Mokopuna 2021*. Fiscal impacts from the transition are likely to include increased spending and changes to government income, such as increasing revenue from the New Zealand Emissions Trading Scheme (NZ ETS) or declining revenue from fuel excise duty receipts.

Actions to ensure effective funding and financing systems

The NZ ETS is one of our most important established tools for supporting investment in climate objectives. The NZ ETS is a key example of a regulatory regime that sends a strong price signal to industry and the market to support low-emissions choices.

However, price signals alone may not be enough to overcome barriers to decarbonisation. To accelerate the pace of change and support an equitable transition, the Government has a direct role in investment and a role in supporting private sector investment. This includes actions relating to:

- government-led funding and financing initiatives to accelerate low-emissions investment
- system settings to support low-emissions decision-making
- achieving a carbon neutral public sector.

Dedicated funding and financing initiatives

In 2021, the Government established the Climate Emergency Response Fund (CERF). The CERF has an initial NZ$4.5 billion down payment, proportional to forecast cash proceeds from the NZ ETS over the 2022/23 to 2025/26 financial years.

The ongoing recycling of NZ ETS cash proceeds into the CERF will ensure certainty of a minimum level of public investment in climate change mitigation and adaptation over the medium term. It will also provide a signal to the private sector that the Government is taking climate change spending commitments seriously.

Recycling NZ ETS cash proceeds into the CERF over time will not be enough to tackle the intergenerational wellbeing impacts of climate change. Therefore, the total size of the CERF will be subject to Ministerial review through annual Budget processes.

Climate Emergency Response Fund

The CERF is designed as an enduring, multi-year fund so that it can help address the long-term challenges of climate change. It provides funding certainty over multi-year periods and a dedicated source of funding for public investment in climate change-related initiatives that is distinct from the main budget allowances. This will ensure that longer-term climate change objectives are not 'crowded out' by shorter-term priorities as part of the annual budget process.

In its first funding round, an initiative seeking CERF funding needed to meet one of the following criteria:

- be included in the emissions reduction plan
- directly reduce emissions
- include removing barriers to or accelerating emissions reductions as a main objective
- support an ao Māori approach to climate response
- facilitate the development of such proposals in the future
- address the distributional impacts of emissions reduction policy.

Action 6.1: Establish the Climate Emergency Response Fund

The Government expects to review the CERF, alongside the main Budget allowances, and increase the funding available to invest in high-value initiatives as necessary.

Sovereign Green Bonds

In November 2021, the Government announced plans to issue Sovereign Green Bonds (Green Bonds) from 2022 onwards. Green Bonds provide financing for low-emissions or environmental projects. They are issued globally to support climate-friendly initiatives, including by the World Bank since 2008.

Action 6.2: Issue Sovereign Green Bonds

Money raised from Green Bonds will support projects that help reach our climate objectives. Green Bonds do not mean the Government takes on new unplanned debt but represent a change to the way some bonds are issued. Subject to market conditions and progress of establishment activity, final details of the Green Bond programme will be announced mid-2022. Following this, Green Bonds will be issued in late 2022.

New Zealand Green Investment Finance

New Zealand Green Investment Finance (NZGIF) is Aotearoa New Zealand's green investment bank. It was established by the Government in 2019 to accelerate investment that supports decarbonisation. Four objectives underpin NZGIF's mandate:

- make investments that lower domestic emissions
- attract private finance
- make investments on a commercial basis
- undertake a market leadership and demonstration role.

To date, the Government has committed over NZ$400 million of capital into NZGIF, including over NZ$300 million through the 2021 budget process. NZGIF invests this money in a range of target sectors, including transport, agriculture, plastics and waste. This helps attract co-investors to green objectives and further develops the market for green investment in Aotearoa.

As of February 2022, NZGIF had invested NZ$77.1 million in capital and committed a total of NZ$122.7 million to accelerate investment to enable our low-carbon future. See the NZGIF website for further information.

Action 6.3: Build on the success of the NZGIF

NZGIF has played a key role in the first steps of our transition. It has accelerated and facilitated investments in emissions reductions across a variety of sectors. The Government expects the NZGIF to continue to play a transformational role across the economy and will work with NZGIF to support its success.

Crown Responsible Investment Framework

The NZ Super Fund, Accident Compensation Corporation, the Government Superannuation Fund, and the National Provident Fund manage over NZ$100 billion on behalf of New Zealanders as Crown Financial Institutions (CFIs). The Government has committed to a new Crown Responsible Investment Framework (the Framework) for CFIs to transition their portfolios and commit to net-zero emissions by 2050.

Action 6.4: Issue the Crown Responsible Investment Framework to Crown Financial Institutions

CFIs will advise on how they will give effect to the Framework up to 2025 and explain how they expect to transition from 2025 to achieve carbon neutrality by 2050. The Government will review progress made by CFIs and consider if any additional measures or guidance are needed to help them maintain or accelerate their transition and commitments.

Climate change in government decision-making

The Government has a responsibility to use its funds wisely. Government expenditure should always offer good value for money and should not crowd out investment that the private sector could make more effectively.

Initiatives funded through the CERF must meet various information requirements, including a robust value for money analysis and a Climate Implications of Policy Assessment analysis.

Action 6.5: Support high-quality investment decisions

To support high-quality decisions, officials have updated the Government's guidance for use of its cost benefit analysis tool: CBAx.

Officials use this tool to compare the costs and benefits of different decisions, including through determining a financial value for – or monetising – certain impacts of a decision. This helps the Government take a consistent approach to decisions, using common values and assumptions. It also supports a broad, long-term view of societal impacts, costs, and benefits.

The recent update allows more robust considerations of the climate impacts of decisions through updated 'shadow emissions values' for Budget 2022. These reflect the anticipated cost of emissions, or benefit of emissions avoided or reduced, in the context of our 2050 targets and emissions budgets.

Climate-related financial disclosures

Financial markets require consistent, comparable and reliable information to enable investors to make good decisions. However, information about the risks and opportunities of climate change to Aotearoa entities is often limited.

Aotearoa has become the first country in the world to require public disclosure of climate-related risks and opportunities, in line with robust climate standards. These standards will be issued by the External Reporting Board (XRB). The XRB develops and issues Aotearoa-specific financial and climate reporting, accounting, and auditing and assurance standards. The disclosure requirements currently apply to around 200 large financial institutions.

Action 6.6: Support investor decisions through world-first climate reporting legislation

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 ensures that the effects of climate change are routinely considered in business, investment, lending and insurance decisions. This will help the market to allocate investments in a way that contributes to a low-emissions and climate-resilient economy.

Key initiatives

- Explore the extension of the mandatory climate-related disclosure regime to cover a broader range of activities, for example, public entities at national and local levels.
- Explore how non-listed entities or companies consider climate change risks and opportunities.

Integrated financial system

The Financial Markets Authority (FMA) also supports Aotearoa New Zealand's transition to an integrated financial system. An integrated financial system requires organisations to consider the impact of their activities on the environment, communities and individuals, alongside traditional financial factors.

In late 2020, the FMA published its disclosure framework for integrated financial products to support the growing market for these products. Integrated financial products incorporate non-financial factors (such as natural, social and human capitals). This can include products like 'green bonds', which fund projects or organisations claiming positive environmental impacts.

Action 6.7: Support an integrated financial system

The FMA will support an integrated financial system by continuing to implement its disclosure framework for integrated financial products. This enables organisations to describe the unique features of their products, such as greenhouse gas emissions reductions and climate resilience impacts, while ensuring investors can make informed investment decisions.

Default KiwiSaver funds

In 2021, the Government made rule changes so that investments in fossil fuel production are excluded from the portfolios of default KiwiSaver funds. These are funds that people are automatically enrolled into when they have not actively chosen a fund and begin new employment.

Action 6.8: Support responsible investment through default KiwiSaver provider changes

Supporting responsible investment through changes to default KiwiSaver providers will encourage finance away from high-emitting sectors, such as fossil fuels, towards greener alternatives. In the longer term, this will also support the funds themselves by reducing their risk of investing in 'stranded assets' that become less valuable as we reduce emissions.

Default providers are also required to maintain a responsible investment policy. This must set out how investments support sustainable investment objectives and be made public on providers' websites.

Working with the finance sector

A number of the actions in this chapter support both the 'greening' of finance and the 'financing' of green. This is an area of real interest for the finance industry.

For example, the Sustainable Agriculture Finance Initiative (SAFI) was developed in 2021 as part of a public and private collaboration. It is led by the Aotearoa Circle, to accelerate further investment and support for sustainable agriculture. SAFI has developed guidance for sustainable agriculture finance. This takes note of emerging international frameworks as well as existing good farming practice used by farmers and growers.

SAFI guidance is an evolving, open-source, voluntary tool for use by banks and wider investors. It supports the finance sector to consider and integrate environmental and social factors in funding decisions, products and processes.

In July 2021, the Aotearoa Circle launched Toitū Tahua: Centre for Sustainable Finance. This new entity is tasked with coordinating the implementation of the Sustainable Finance Forum's Roadmap for Action report – which was released in 2020 – and made 11 key recommendations about sustainable finance.

Action 6.9: Collaborate with the finance sector to accelerate sustainable finance

The Government is engaging with the finance sector to mobilise private finance for the climate transition.

Key initiatives

- Support SAFI to enable better on-farm sustainability outcomes.
- Continue to actively engage with the initiatives of the Toitū Tahua: Centre for Sustainable Finance, including regulatory and institutional levers to mobilise private finance.

Actions to achieve a carbon neutral public sector

The Government launched its Carbon Neutral Government Programme (CNGP) to combat climate change and accelerate emissions reductions within the public sector. The programme aims for the public sector to achieve carbon neutrality by 2025.

The programme is backed by the NZ$219.5 million State Sector Decarbonisation Fund. Investment is focused on replacing coal boilers with low-emissions alternatives, because this will have the greatest impact on emissions. Funding is also available for other energy efficiency or renewable energy projects, including electric vehicles.

Action 6.10: Implement the Carbon Neutral Government Programme

The Carbon Neutral Government Programme will make a number of public organisations carbon neutral from 2025.[1] Among other things, participants are required to:

- measure, verify and report on their emissions annually
- set gross emissions reduction targets, in line with a 1.5°C pathway
- develop and implement an emissions reduction plan for their own organisation
- offset remaining gross emissions from 2025.

The Government is committed to achieving positive environmental outcomes through sustainable procurement by buying low-emissions and low-waste goods, services and works. Changes made to the **Government Procurement Rules** in 2019 place a greater emphasis on using government procurement to support wider social, economic, cultural and environmental outcomes and that go beyond the immediate purchase of goods and services. Supporting the transition to a net-zero-emissions economy is an explicit priority. It requires agencies to support the procurement of low-emissions and low-waste goods and services.

1 As at March 2022, 131 agencies are participating in the CNGP. Of these agencies, 85 will be reporting their emissions, targets and reduction plans from December 2023 onwards and the remaining 46 will be encouraged to report them.

Action 6.11: Apply the Government's Procurement Rules to reduce emissions

One hundred and forty government agencies are required to apply the Government Procurement Rules to reduce emissions and design out waste. They will prioritise:

- transitioning the government fleet to electric vehicles[2]
- low-carbon options for new government buildings[3]
- purchasing low-emissions stationery/process heating systems[4]
- purchasing low-waste office supplies.[5]

These agencies must also consider how they can reduce emissions resulting from other procurement.

2 Transitioning the government fleet includes optimising fleets with a view to reducing the number of vehicles, and prioritising battery electric vehicles or plug-in hybrid electric vehicles if a battery electric vehicle is not appropriate.

3 Low-carbon options for new government buildings using an approved sustainable building rating system and meeting certain standards for new non-residential government-owned buildings. This system and these standards apply to buildings with a capital value of NZ$25 million and over from 1 April 2022, and NZ$9 million and over from 1 April 2023.

4 Agencies are not permitted to purchase coal boilers.

5 When purchasing office supplies from the all-of-government office supplies contract, agencies need to purchase items that produce low amounts of waste and/or are recyclable.

This emissions reduction plan is published by the Minister of Climate Change under section 5ZI of the Climate Change Response Act 2002.

Published in May 2022
by the Ministry for the Environment
Manatū Mō Te Taiao
PO Box 10362, Wellington 6143,
New Zealand

ISBN: 978-1-99-102543-2 (online)
978-1-99-102542-5 (print)

Publication number: ME 1652

This document and the full emissions reduction plan are available on the Ministry for the Environment website: environment.govt.nz.

Ministry for the
Environment
Manatū Mō Te Taiao

Te Kāwanatanga o Aotearoa
New Zealand Government