

Scaling up investment into nature-related projects in New Zealand

Findings and recommendations

August 2024



Ministry for the
Environment
Manatū Mō Te Taiao



EY

Building a better
working world

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Setting the scene: The biodiversity crisis and finance gap

The biodiversity crisis and finance gap

Global biodiversity crisis

The global biodiversity crisis, driven by habitat loss, pollution, overexploitation of natural resources and climate change, is leading to unprecedented species extinction rates and the degradation of ecosystems worldwide^{1,2}.

Since 1970, global wildlife populations have plummeted by 69% on average³.

Actions to protect nature and achieve net zero emissions are mutually reinforcing.

Limiting global temperatures to well below 2°C is not possible without reversing nature loss and enhancing nature-based carbon sinks, and protecting and restoring nature is not possible without ambitious global and local action on climate change.

Continued rapid biodiversity loss could lead to catastrophic impacts for both the economy and society, with the World Economic Forum's Global Risks Report 2024 ranking **biodiversity loss and ecosystem collapse are in the top 3 threats to humanity over the next 10 years⁴.**

Aotearoa's biodiversity crisis

Biodiversity in Aotearoa New Zealand is facing an unprecedented challenge. **63% of New Zealand ecosystems are threatened.** In addition, New Zealand's birds (82%), sea birds (90%), reptiles (94%), freshwater fish (76%), amphibians (78%) and mosses (68%) are classified as threatened or at risk⁵.

Nature and biodiversity hold significant cultural, spiritual and social value, while the ecosystem services it provides underpin the health and wellbeing of people.

Biodiversity loss threatens taonga species and key practices related to an inextricable connection to te taiao (the natural environment), including mahinga kai (traditional food gathering) and rongoā Māori (traditional healing), and the intergenerational transfer of mātauranga Māori⁶.

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Investments in nature-based solutions would likely need to triple by 2030 and increase fourfold by 2050.

UN Environment Programme, State of Finance for Nature 2021.

Sources

1. Diaz et al., Pervasive human-driven decline of life on Earth points to the need for transformative change, *Science*, vol. 366, no. 6471, 2019.
2. IPCC, *Climate Change 2022: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*, 2022.
3. WWF, *Living Planet Report*, 2022.

4. World Economic Forum, *Global Risks Report 2024*.
5. Stats NZ, "Extinction threat to indigenous species," 2023, Stats NZ website.
6. Ministry for the Environment, *Impacts on Biodiversity, and Our Cultural, Social and Economic Wellbeing*, 2023.

The biodiversity crisis and finance gap

Biodiversity commitments & policy

The Convention on Biological Diversity ('CBD'), established in 1992, seeks to address the biodiversity crisis by setting international biodiversity targets and promoting financial instruments to support conservation efforts. **New Zealand has committed to the '30 by 30' target under the CBD's Global Biodiversity Framework, which is to protect 30% of land, water and ocean areas by 2030.**

New Zealand's biodiversity objectives are guided by Te Mana o Taiao, the Aotearoa New Zealand Biodiversity Strategy, which outlines ambitious goals to protect and restore the nation's unique ecosystems and native species.

Since 2020, funding of environmental projects to help achieve New Zealand's biodiversity goals has been helped by the NZD \$1.2 billion Jobs for Nature programme¹. This funding is set to cease by 2025, which will leave a significant gap in funding for nature related projects².

The biodiversity finance gap

Rapid nature loss represents a significant financial risk, with **55% of the world's GDP being moderately or highly dependent on nature** and the services it provides³.

The global biodiversity finance gap, estimated to be between USD \$598-824 billion annually⁴, highlights the significant shortfall in funding needs to effectively restore and conserve biodiversity worldwide.

If the world is to meet the climate change, biodiversity, and land degradation targets, it needs to close the estimated USD \$4.1 trillion financing gap in nature by 2050. The current investments in Nature-based solutions amount to USD \$133 billion - most of which comes from public sources⁵.

More broadly, uncertainties in long-term financing and funding streams, driven by a lack of secure, direct financial returns from nature-related projects, put at risk achieving both domestic and international biodiversity objectives.

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Some 55% of global GDP – the equivalent of USD \$58 trillion per annum – is estimated to be moderately or highly dependent on nature, and among assets held by global financial institutions, between 35% and 54% are estimated to be highly or very highly dependent on the ecosystem services Nature provides.

Green Finance Institute and Sustainable Markets Initiative, Investing in Nature: Opportunities for Institutional Investors, 2024.

Sources

1. Jobs for Nature, "Mō te hotaka About the programme," 2024, Jobs for Nature website.
2. Ministry for Primary Industries, Jobs for Nature, 2024, MPI website.
3. Green Finance Institute and Sustainable Markets Initiative, Investing in Nature: Opportunities for Institutional Investors, 2024.
4. Deutz et al., Financing Nature: Closing the Global Biodiversity Financing Gap, 2020, accessed August 2024.
5. UN Environment Programme, State of Finance for Nature 2021.



Project overview

Project overview: Aim and methodology

Project aim: to provide insights and recommendations to MfE to help scale investment into nature-related outcomes in New Zealand.

Development of Investor Needs Framework

- ▶ **Desktop Research:** Research to identify investor types and analyse investment characteristics of different types of investor.
- ▶ **Investor Interviews:** 23 interviews with both domestic and global investors to obtain additional insights into their investment characteristics and preferences.
- ▶ **Framework Development:** Creation of an Investor Needs Framework to encapsulate the needs of different investor types, based on the findings from the research and interviews.
- ▶ **Investor Decision-Tree:** Development of an Investor Decision-Tree to match different investor types against different nature-related project characteristics.
- ▶ **Validation:** Validation workshop with the Ministry for the Environment (MfE) to provide feedback on the the Investor Needs Framework and the investor decision-tree.

Application of Framework to NZ environmental projects

- ▶ **Project Documentation Assessment:** Analysis of the characteristics and supporting documentation of selected New Zealand nature-related projects.
- ▶ **Framework Analysis:** Analysis of how each project aligns with the Investor Needs Framework and its positioning within the Investor Decision-tree.
- ▶ **Project Proponent Interviews:** Four interviews with project proponents to provide feedback on the initial assessment of their projects within the Investor Needs framework, and to assess barriers and opportunities to attract additional sources of finance.
- ▶ **Recommendation Development:** Synthesize insights from all phases to formulate strategic recommendations aimed at scaling up nature-related investments in New Zealand.
- ▶ **Findings Validation Workshop:** Workshop to present and provide feedback on findings and recommendations with MfE and other Government departments.



Overview of Investor Needs Framework and Investor Decision Tree

Overview of Investor Needs Framework: Information collected

“Investor Type”

For each investor type, the following information has been collected.

“Investor Type”		General information	Investment characteristics	Nature-related investment characteristics	Investor needs for a nature project
INV1	Government investors	<ul style="list-style-type: none"> ▶ A general description of the Investor Type ▶ Descriptions of all sub-investor types included within investor type ▶ Size of markets (international and domestic) ▶ Project locations and scope 	<ul style="list-style-type: none"> ▶ Investment mechanisms ▶ Size of investments ▶ Return thresholds sought/required ▶ Holding period sought/required ▶ Scope of current investment in nature 	<ul style="list-style-type: none"> ▶ Barriers to investment in nature ▶ Potential nature projects within investment universe ▶ Metrics currently sought by investors ▶ Opportunities for co-financing/ blended finance 	<ul style="list-style-type: none"> ▶ <i>What specific information would an investor in this investor type need to know before considering any investment?</i> ▶ <i>What project details can MfE pull together to attract this investor type towards a project?</i>
INV2	NFP/High net-worth individuals				
INV3	Banks				
INV4	Investment managers				
INV5	Sovereign investment vehicles				
INV6	Private equity/ Venture capital				
INV7	Corporates				
INV8	Iwi				

Note that the term “Investment Universe” (above) refers to the spectrum of investment options that meets an investor’s mandate, including financial returns, risk tolerance and any sectoral focus or screening.

Overview of Investor Needs Framework: Investor Categories for nature-related investments

The research identified that the key characteristic determining an investor's appetite for nature-related projects was the degree it was willing to sacrifice financial returns or take increased investment risk when considering nature-related investments.

The EY team identified four 'Investor Categories' based upon investors willingness to sacrifice financial returns or take increased investment risk for positive nature related outcomes

Deep Green Givers	Investors where the primary objective is environmental outcomes . In this category, there is generally no expectation for a financial return on investment.	Niche Investors: Limited capital available
Deep Green Investors	Investors who are willing to invest in projects or companies that provide environmental benefits and some have the potential to provide high-risk financial returns . These investors require some level of potential revenue stream (albeit higher risk or lower return) in order to attract investment.	
Sustainably Conscious Investors	Investors that require investments to manage environment and social risks, without the need for investments to primarily achieve environmental or social outcomes. These investors require commercial returns from their portfolio of investment .	Traditional/ Mainstream Investors: Significant capital available
Strategic Green Investors	Investors where the primary objective of investment is superior financial returns. Investors engage in climate/biodiversity outcomes only where they see them as a strategic and financial advantage .	

Overview of Investor Needs Framework: Investor Types

Investor Types have been grouped where there are numerous investment characteristics that link Sub-Investor Types. These Sub-Investor Types demonstrate similarly profiled investors that have a difference in Investment Category requirements.

"Investor Type"		"Investment category"			
		Strategic green investor <i>Primary objective is strategic financial returns</i>	Sustainably conscious investor <i>Primary objective is financial return and low risk</i>	Deep green investor <i>Will compromise risk/return profile to a small degree</i>	Deep green giver <i>Primary objective is green outcomes</i>
INV1	Government investors	1.1 Green government investment funds		1.2 Government start-up investment funds	1.3 Government grants
INV2	NFP/High net-worth individuals			2.1 Biodiversity focused high net-worth individuals/ family office	2.2 Philanthropic grants
INV3	Banks	3.1 Commercial banks		3.2 Development banks	
INV4	Investment managers	4.1 Biodiversity institutional investment managers/funds			
		4.2 Green institutional investment management/funds			
INV5	Sovereign investment vehicles	5.1 Sustainably focused sovereign wealth funds			
INV6	Private equity/ Venture capital	6.1 Green focused private equity/venture capital		6.2 Biodiversity focused private equity/venture capital	
INV7	Corporates	7.1 Corporate sustainability strategy investments		7.2 Corporate compliance buyers	7.3 Corporate community programmes
INV8	Iwi	8.1 Iwi investment arms			8.2 Iwi cultural arm

← Sub-Investor Types →

Key investment and nature-related attributes of nature-related projects

From the Investor Needs Framework, key investment and nature-related attributes were identified. These are outlined in the table to the left.

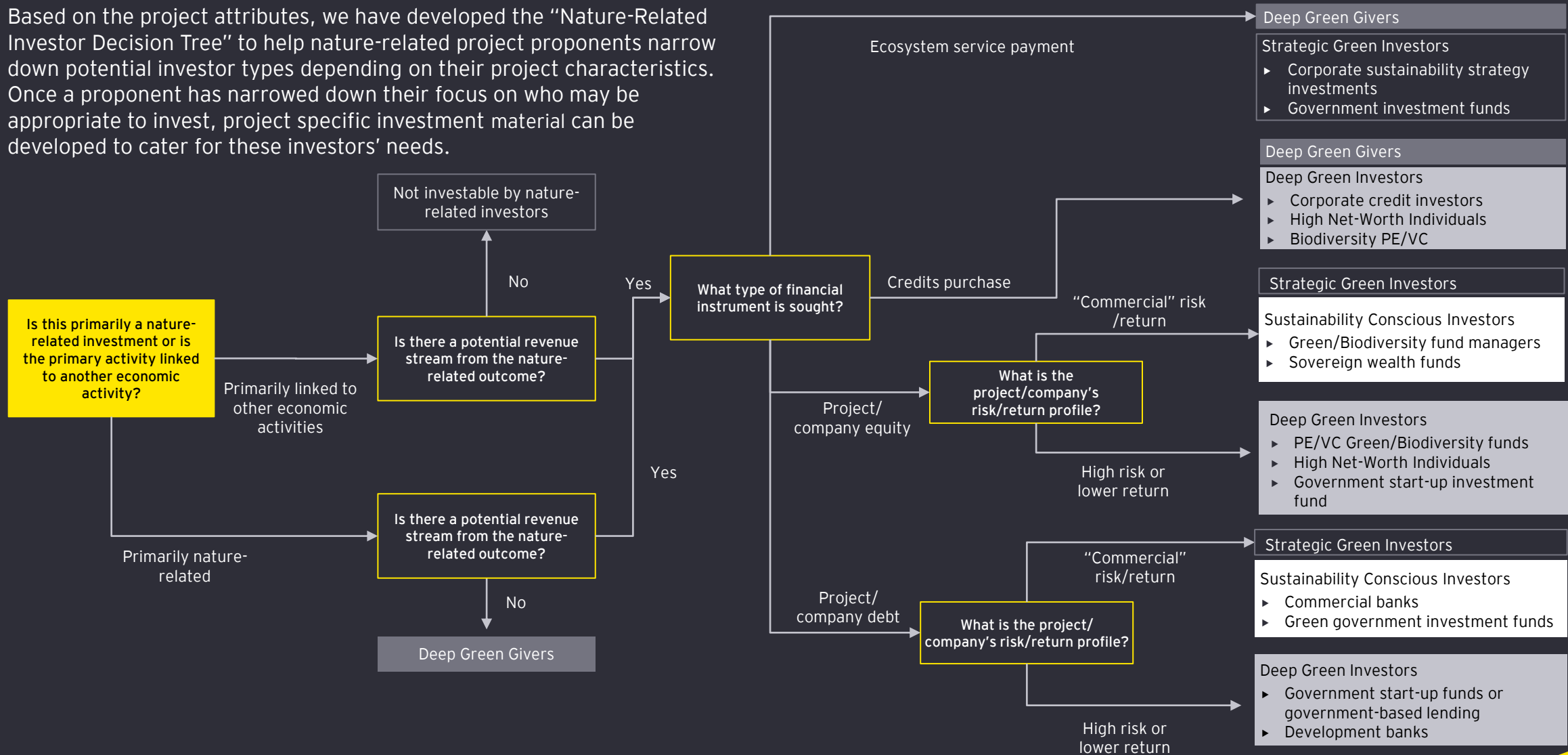
A proponent of a nature-related project would need to consider these attributes and determine a “nature-related investment profile” for their project. Once this profile has been established the proponent would be able to determine which Investor Types might be suitable to invest in their project and what types of information they would need to develop in order to attract these Investor Types.

From our research, the key investment and nature-related attributes that would form as a “nature-related investment profile” are as follows:

Nature-related project attribute	Information that would be required to develop a “nature-related investment profile”
Primary outcome of the investment	Options: <ul style="list-style-type: none"> ▶ Nature-related outcomes ▶ Other economic activity
Financial return potential and risk profile	Options: <ul style="list-style-type: none"> ▶ Yes, financial return potential (revenue from carbon/biodiversity credits or other economic activity) <ul style="list-style-type: none"> ▶ Mainstream, established risk/return profile (for example: 5-15% with low-moderate investment/liquidity risk) ▶ High risk, high return profile (for example: 10%+ with moderate-high investment/liquidity risk) ▶ No financial return potential
Financial instrument	Options: <ul style="list-style-type: none"> <li style="width: 50%;">▶ Grants <li style="width: 50%;">▶ Credit purchase <li style="width: 50%;">▶ Outcomes payments/ Ecosystem service payments <li style="width: 50%;">▶ Equity investment <li style="width: 50%;">▶ Debt investment
Types of nature-related outcomes	This could be a broad range of outcomes, such as water quality improvements, carbon sequestration, sediment reduction, pest control, habitat restoration, stormwater retention
Biomes and ecosystem impacted and identification of beneficiaries	Identifying the biomes and ecosystems impacted by a project's nature-related activity aids the identification of beneficiaries and the potential shared value from project investment
Nature-related outcome measurement method	List any carbon or biodiversity measurement and/or crediting methods deployed

Nature-related Investor Decision Tree

Based on the project attributes, we have developed the “Nature-Related Investor Decision Tree” to help nature-related project proponents narrow down potential investor types depending on their project characteristics. Once a proponent has narrowed down their focus on who may be appropriate to invest, project specific investment material can be developed to cater for these investors’ needs.





Application of Investor Needs Framework: Te Wahapū o Waihi case study

Overview of selected Ministry for the Environment nature-related projects

8

Projects

≈\$250m

In total funding

>1,000

Hectares of biodiversity enhancement to-date

≈7,000

Hectares of biodiversity enhancement targeted

4 Projects selected for interview

Types of Ecosystems

- ▶ Freshwater
- ▶ Marine
- ▶ Wetlands
- ▶ Freshwater
- ▶ Afforestation
- ▶ Species recovery

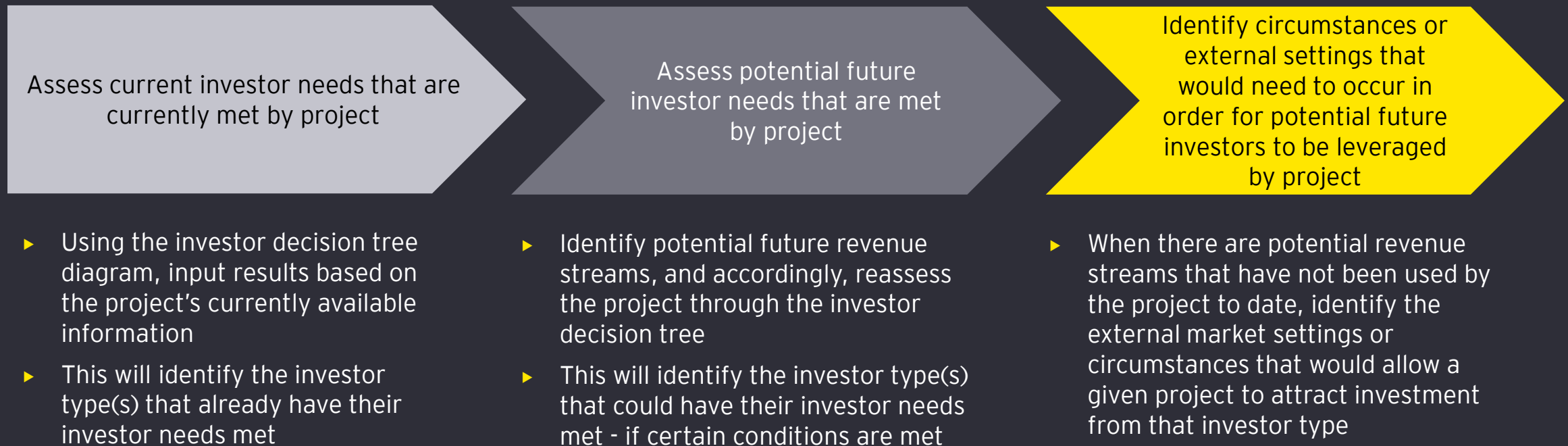
Project and investment size

- ▶ 3 hectares to 307 hectares in size
- ▶ NZD \$2.9 million to \$200 million in investment
- ▶ 3 to 10 years in funding duration

Overview of Approach: Application of Framework to Projects

The information provided on each MfE project allowed for an assessment of projects against the Investor Needs Framework, including the investor decision tree.

The below process was followed to determine the current and potential investor's that have/could have their investor needs met:



Te Wahapū o Waihi Project Applicability

To demonstrate how this investor decision tree works, Te Wahapū o Waihi has been assessed through the model.

The **solid yellow lines** indicate the types of investor needs that are met through the current level of information provided. These investors include:

Deep Green Givers

- 1.3 Government grants
- 2.2 Philanthropic grants
- 7.3 Corporate community programmes
- 8.2 Iwi cultural arm

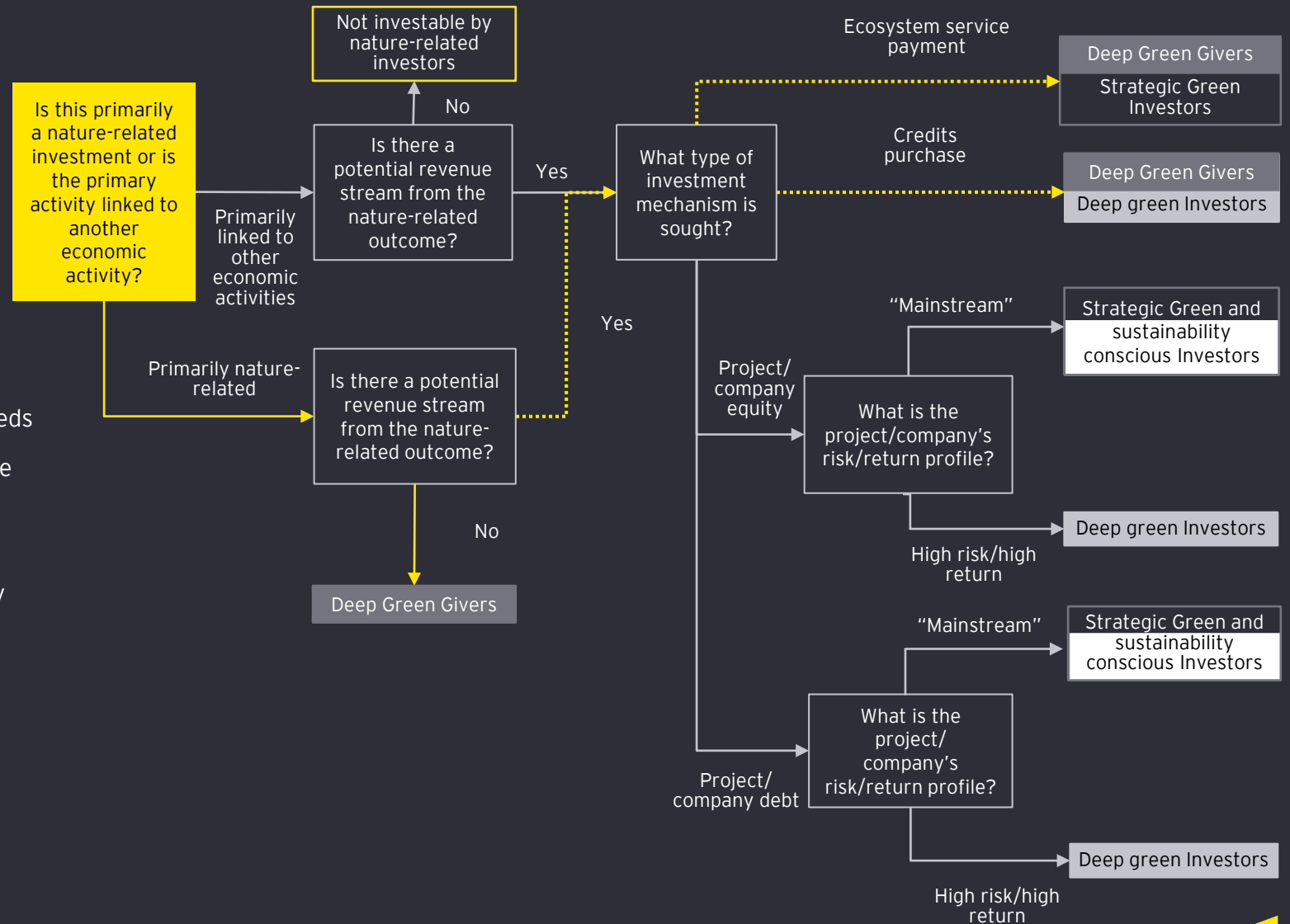
The **dashed yellow lines** indicate the types of investor needs that could be met if specific additional information can be gathered or potential revenue streams associated with the nature-related outcomes are developed. These investors include:

Deep Green Investors

- 2.1 Biodiversity focused high net-worth individuals/family office
- 6.2 Biodiversity focused private equity/venture capital
- 7.2 Corporate compliance buyers
- 8.1 Iwi investment arm

Strategic Green Investors

- 1.1 Green government investment funds
- 7.1 Corporate sustainability strategy investments
- 8.1 Iwi investment arm



Te Wahapū o Waihi Project Applicability

Project Information

Project	Te Wahapū o Waihi
Investment size	\$7.2M
Return on investment (ROI)	<i>Financial return not calculated</i>
Project size	30ha
Length of project	4 years
Time until ecological benefit	2026
Additional grants provided	Yes
Investment mechanism identified	Outcomes payment (grant equivalent)
Stakeholder engagement	Iwi-led project
Type(s) of Ecosystem	<ul style="list-style-type: none"> ▶ Freshwater ▶ Wetlands ▶ Estuary
Project metrics	<ul style="list-style-type: none"> ▶ Hectares of land improved ▶ Number of trees planted ▶ Length of waterways fenced ▶ GHG emissions sequestered (tCO₂e)
Investment risk	<i>High - assessment of investment risk not completed</i>

The Investor Types identified as being potential investor sources for this project, Te Wahapū o Waihi were:

Deep Green Givers

- 1.3 Government grants
- 2.2 Philanthropic grants
- 7.3 Corporate community programmes
- 8.2 Iwi cultural arm

Te Wahapū o Waihi currently meets the needs of this investor type.

Project proponents could increase understanding of **project beneficiaries and potential shared value opportunities** to better target investors that may be interested in providing additional funding.

Deep Green Investors

- 2.1 Biodiversity focused high net-worth individuals/family office
- 6.2 Biodiversity focused private equity/venture capital
- 7.2 Corporate compliance buyers
- 8.1 Iwi investment arm

To appeal to this investor type, Te Wahapū o Waihi will need to develop a **credit purchase methodology or other revenue stream from the environmental outcomes**.

Further information required:

- ▶ Alignment of credit methodology to recognised crediting standard (e.g., Verra, NZ ETS)
- ▶ Assessment of investment risk
- ▶ Identification of shared value beneficiaries

Strategic Green Investors

- 1.1 Green government investment funds
- 7.1 Corporate sustainability strategy investments
- 8.1 Iwi investment arm

To appeal to this investor type, Te Wahapū o Waihi will need to develop an **understanding of strategic value the ecosystem service outcomes of the project could provide to these investors**.

Further information required:

- ▶ Identification of shared value and beneficiaries of this value and willingness to pay
- ▶ Identification of provider(s)/landowner(s)

For all the above potential investor types reached, the idea of *shared value* is important to understand on a case by case basis. For example, if a project increases the water quality of streams and rivers, local council and water treatment plants may see a reduction in the cost of drinking water treatment, demonstrating a shared value with the projects success.

Project prospectus recommendations

Below are some general recommendations for MfE's current nature-related projects. These recommendations provide increased investor specific information that may be used when approaching some investor types. The yellow boxes indicate specific financial information that is required by most investors.

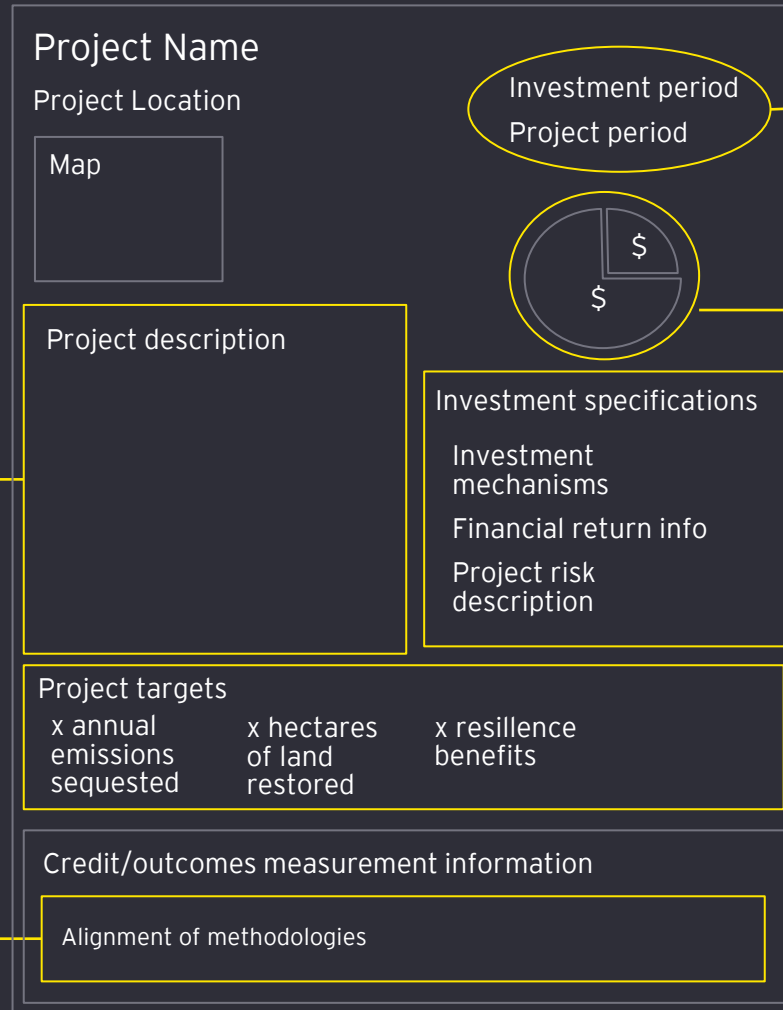
Investment specifications

Project information should contain the specific information required by most investor types. This includes:

- ▶ Investment types sought: debt, equity, outcomes payment, credit purchase
- ▶ Financial return information such as potential revenue stream
- ▶ Project risk description that covers information on risks such as the uncertainty associated with delivering the environmental outcomes, timing mis-matches in investment and outcomes, risks of project costs exceeding expectations.

Alignment of methodology

The project prospectus should also identify what (if any) methodologies have been used to calculate project metrics. Methodologies that align to leading practice standards (domestic or international) should be used where relevant.



Investment period

Projects should clearly state what the end date of the investment requirement is. The time horizon in which the ecological benefit will be felt should also be identified. This will help to determine potential investment holding periods and the subsequent project risk.

Breakdown of investment

Projects should clearly identify the funding to date and the total investment requirements and the type of investment required (equity, debt, outcomes payment, credit purchase etc).

*Some types of investment legally require certain investment documentation. For example, financial products require Product Disclosure Statements. Project proponents need to understand their legal requirements which is outside the scope of this project.



Models for scaling nature-related investment

Models for scaling nature-related investments: Company investment models

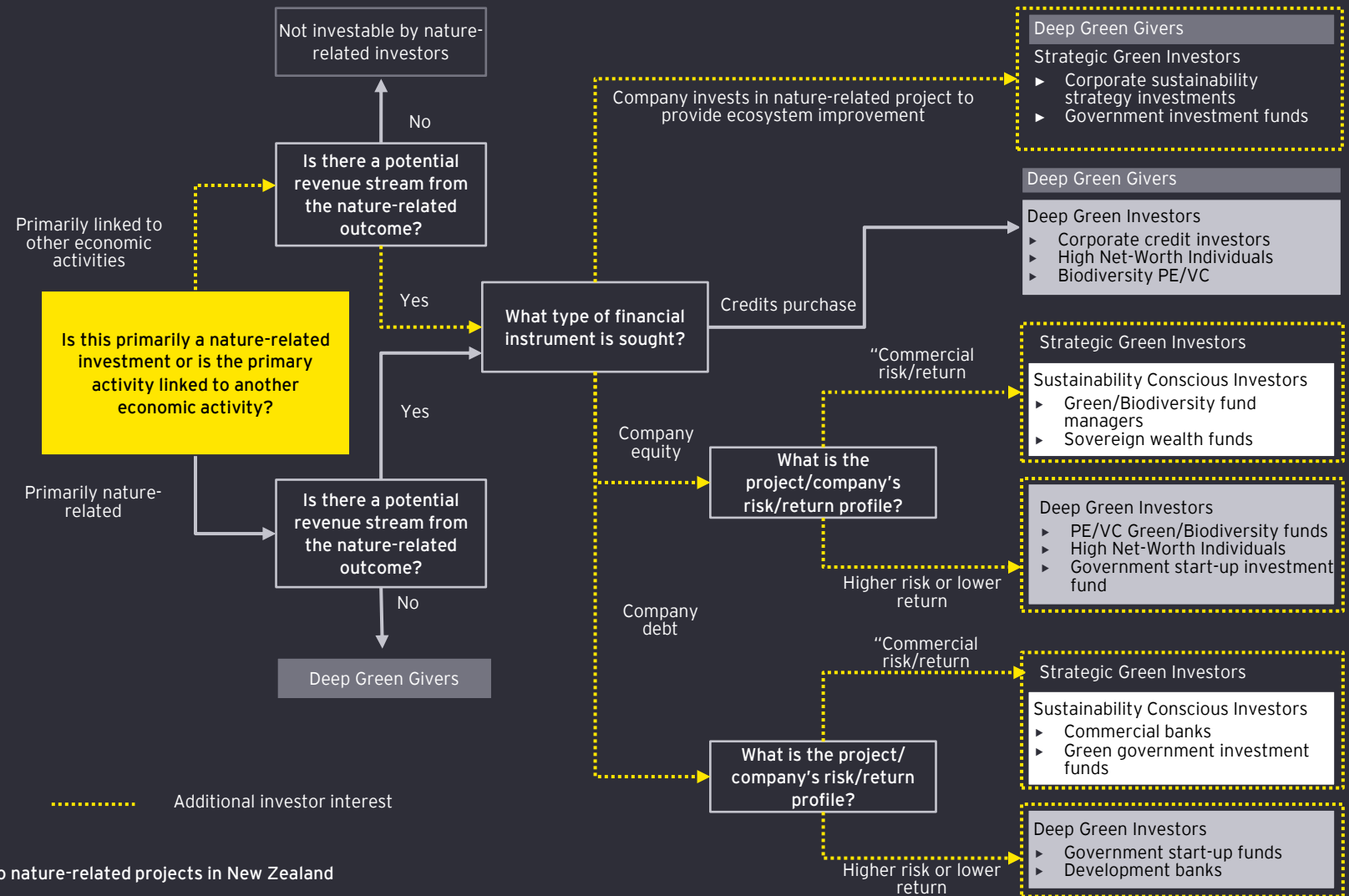
Based on our investor interviews and research, four models were identified to transform nature-related project into investable structure. These two models are focussed on an investible company (with a broader focus than nature-related outcomes) seeing value in undertaking the project:

1. Valuing ecosystem service improvements

- ▶ Companies' dependent on ecosystem services see shared value in enhancing these ecosystem services, they undertake nature-related projects directly or pay a company to do so on their behalf. This makes the project investable, as the company seeking to gain from the shared ecosystem services value is investable
- ▶ Additional Investor Types may finance these companies' nature-related projects through debt and equity instruments with the company to support their investment in ecosystem services.

2. Nature-positive companies

- ▶ Nature-positive companies' main economic activity may not be nature-related, but companies adopt nature-positive strategies for the perceived strategic advantage (branding, financial advantage, or social responsibility) often allowing companies to charge a premium for their products.
- ▶ Nature-related projects become investable as companies invest in projects to fulfil their nature-positive goals, which in turn, opens opportunities through debt and equity in these companies.



Models for scaling nature-related investments: Crediting models

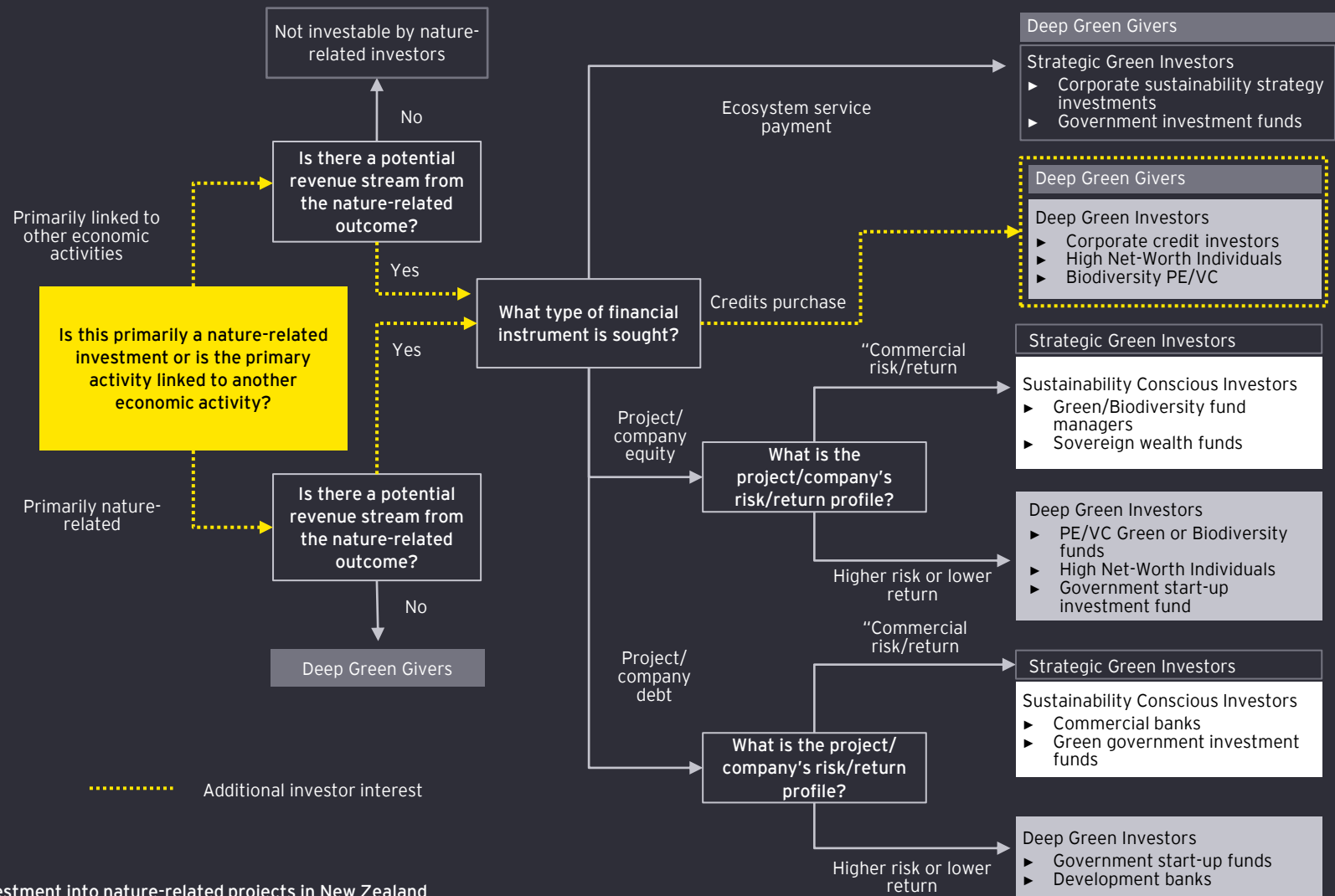
Based on our investor interviews and research, four models were identified to transform nature-related project into investable structure. These two models are focussed on developing crediting systems which then provide a potential nature-related revenue stream and can make projects themselves investable:

3. Expanding the NZ ETS to include nature-based removals

- ▶ Including nature-based removals into the Emissions Trading Scheme ('ETS') allows a financial value of nature outcomes to be integrated with climate outcomes.
- ▶ The ETS limits supply which provides some long-term price certainty through credit demand.
- ▶ Nature-related projects become investable through providing a new revenue stream associated with the carbon sequestered.
- ▶ Additional Investor Types may be interested in investing for corporate compliance reasons or long-term value appreciation of credits.

4. Establishing biodiversity credit markets

- ▶ Biodiversity credit markets combat biodiversity loss through generating tradeable credits that represent a certain unit of nature-related outcomes.
- ▶ These markets can be voluntary with no regulated demand or linked to legal requirements or consents.
- ▶ Nature-related projects become investable through providing a new revenue stream attached to volume of nature-related outcomes.
- ▶ Additional Investor Types may be interested in investing for corporate compliance reasons or long-term value appreciation of credits.





Summary of findings from investor interview and research

Summary of findings from investor interview and research

The following key findings were developed based on our investor interviews and research:

Key findings

Capital from New Zealand investors into nature-related projects is currently scarce, with a limited appetite for sacrificing financial returns.

New Zealand lags behind international peers in developing infrastructure for nature-related investment revenue models which is impacting investability. Examples of this infrastructure include:

- ▶ Environmental crediting schemes
 - ▶ Development of a green taxonomy
 - ▶ Blended finance investment vehicles
-

Potential immediate investment growth lies with:

- ▶ Corporate investors seeing shared value from improved environmental outcomes
 - ▶ Family offices, high net-worth individuals and philanthropists prioritising nature over returns
 - ▶ Specialist equity investors leveraging nature-based projects for long-term strategic financial benefits and diversification
-

Investment risks in nature-related projects stem from the need for stable policies on emissions trading and biodiversity credits systems to provide clear price signals. These policies are required to ensure reliable financial return forecasts and crediting integrity, reducing investment risk to acceptable levels.

Opportunities investors identified to boost local investments include:

- ▶ Creating biodiversity crediting methods
- ▶ Expanding the NZ Emissions Trading Scheme (ETS) to include nature-based solutions
- ▶ Encouraging TNFD/taxonomy reporting
- ▶ Government support for project pre-feasibility studies and R&D



Recommendations for scaling investment of nature-related projects in New Zealand

Recommendations: Enabling actions

Based on research and interviews, the EY team developed a set of recommendations. The recommendations presented below are provided for the MfE, although the responsibility for acting on, or carrying out these recommendations, may sit with other government departments or Government partners as intermediaries. The recommendations are as follows.

Enabling actions	Investment model it supports
R1. Match projects with suitable investors through a survey capturing investor preferences for environmental impact and investment strategies.	All
R2. Maintain and annually update a list of potential investors with contact details to match project characteristics with investor criteria.	All
R3. Aggregate smaller nature-based projects into diversified portfolios to meet investor size criteria and attract a broader range of investors.	All
R4. Develop high-integrity methodologies for nature-related investments to enhance credibility and investor confidence.	All
R5. Create a 'Getting Investment Ready' tool to help project developers tailor information to meet diverse investor needs.	All
R6. Provide guidance on using carbon credits as collateral and for prepayment lending to facilitate early capital for project developers.	3. Expanding the NZ ETS to include nature-based removals

Recommendations: Regulatory actions

Regulatory actions	Investment model it supports
R7. Consider integrating high-integrity nature-based projects (such as wetlands) into the NZ ETS by “stapling” biodiversity outcomes to carbon units and expanding the carbon credit market.	3. Expanding the NZ ETS to include nature-based removals
R8. Consider establishing a market for biodiversity. Biodiversity credit markets can be voluntary with no regulated demand, or they can be linked to consent requirements or other legal requirement which supports some level of regulated demand.	4. Establishing biodiversity credit markets
R9. Encourage natural capital reporting by mandating disclosures and encouraging uptake of the Taskforce for Nature-related Financial Disclosures (‘TNFD’) reporting. This would drive heightened corporate awareness of the value of nature, and increase the uptake of nature-positive business practices.	1. Valuing ecosystem service improvements 2. Nature-positive companies
R10. Support a New Zealand-specific nature-positive labelling system to further encourage natural capital reporting through in independent, science-based standard and act as a catalyst for increasing investment demand from businesses and consumers seeking to align with sustainable practices.	2. Nature-positive companies
R11. Foster the development of a green taxonomy to define environmentally suitable economic activities, enhancing market transparency and directing capital towards green projects.	1. Valuing ecosystem service improvements 2. Nature-positive companies
Government financing activities	
R12. Create blended finance investment vehicles to mitigate risks and attract private investors by absorbing higher-risk positions.	All
R13. Develop grant programs or private/public partnerships to fund pre-feasibility studies, aiding the initiation of projects and innovation in nascent markets.	All

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