

Submission to:
He Pou a Rangi | Climate Change Commission

On document:
**Draft advice on the second emissions reduction plan
(2026-2030)**



Introduction

Globally, up to two thirds of the capital required to transition to Net Zero by 2050 is expected to come from the private sector.¹

Redirecting the flow of capital toward climate solutions requires urgent action from our private and public sector leaders. In so far as funds are being directed to sustainable long-term investments, for example in infrastructure, transport and housing, investors and banks need policy certainty and confidence in the long run institutional arrangements on which they are basing investment strategies and plans.

The Centre for Sustainable Finance: Toitū Tahua (**CSF**) calls on the Government to remove regulatory barriers, set rules and standards, incentivise and actively facilitate the flow of private capital and ensure that policy enables a strong sustainable finance market in Aotearoa New Zealand.²

Global context

Billions of dollars of private capital are needed alongside public funding for Aotearoa New Zealand to equitably adapt, transition and build an economy that is strong and globally competitive in a low emissions future.

Alongside the Government and regulators, financial institutions have a role both in mitigating long-term economic and financial system risks and enabling the decarbonisation of Aotearoa New Zealand's real economy.

Off-shore bank funding accounts for almost two-thirds of Aotearoa New Zealand's net external liabilities. This makes it vulnerable to disruptions in global financial markets. It is necessary to keep abreast of key developments in the way these markets are oriented and organised.

Galvanised by the advance of standardised Climate-related Financial Disclosures – and changing societal and regulatory expectations – financial institutions around the world have made voluntary pledges to reduce emissions across their lending and investment portfolios to net zero by 2050. These commitments [under the Glasgow Financial Alliance for Net Zero] now cover 450 of the world's largest financial institutions with over \$130 trillion in assets. Signatories are required to demonstrate credible pathways to emissions abatement as well as offset.

Aotearoa New Zealand is no exception.

International commitments have been made by its major companies, banks and investors, who will in turn shift their own expectations of their clients, suppliers and customers. This doesn't

¹ According to the Net Zero Financing Roadmap report by UN Race to Zero and the Glasgow Financial Alliance for Net Zero. See here for more information: <https://climatechampions.unfccc.int/private-investors-could-drive-over-two-thirds-of-the-trillions-in-investment-needed-to-reach-net-zero/>

² See our Recommended Government Priorities for Sustainable Finance 2023 document available here: <https://sustainablefinancenz.sharepoint.com/:w:/s/GovernmentRelations2023/ERzgkAkCbidNqve6GX6nUNsB6ScCAJJ70x8pactLpLp1pg?e=5tHedj>



only affect the coalition of businesses that are self-proclaimed Climate Leaders. It is also changing expectations placed on the small- and medium-sized businesses that are the lifeblood of the economy.

Nonetheless, progress is ad-hoc and the power of these commitments is not yet being fully harnessed.

In other jurisdictions, Governments are partnering with civil society and financial sector practitioners to develop the climate information architecture – disclosures, data and definitions – that will accelerate sustainable finance. The US, Europe, UK, ASEAN, Japan, China and Canada are all progressing this architecture. Of note are recent Australian commitments to develop a Government-led sustainable finance strategy and sustainable finance taxonomy, and introduce climate-related disclosures. We are encouraged by the New Zealand Government's recent commitment to the Ministers' 2+2 Climate and Finance Dialogue (**2+2 Dialogue**) and positioning the region as a robust green finance market.³

While there are unique aspects to Aotearoa New Zealand's transition and adaptation journey, interoperability and alignment with global accounting standards and capital markets are crucial to this country's economic proposition. As well as meeting international obligations, a rapid but managed domestic transition is the best way to position Aotearoa New Zealand favourably in international trade and financial markets.

Climate change Commission's Draft advice to the Government on the second emissions reduction plan

Much of the '2023 Draft advice to inform the strategic direction of the Government's second emissions reduction plan' (the **Draft Advice**, and the final version to be released later this year being the **Final Advice**) is aligned with the CSF's Roadmap and 2023 recommendations to the Government.⁴ We commend He Pou a Rangī (the **Commission**) on this work.

We are pleased to see recent developments relating to funding and financing the transition, including the Sovereign Green Bonds framework, Climate Emergency Response Fund, and the 2+2 Dialogue.⁵

There is still a lot of work to be done to develop credible plans to fund and finance the transition. A transformation of the economy is required at pace. For this reason, the Centre's submission is focused on the key funding and financing 'system enablers' required to accelerate the required capital flows.

³ <https://www.sustainablefinance.nz/updates/media-release-trans-tasman>

⁴ See our Recommended Government Priorities for Sustainable Finance 2023 document available here: <https://sustainablefinancenz.sharepoint.com/:w:/s/GovernmentRelations2023/ERzgzAkCbidNqve6GX6nUNsB6ScCAJJ70x8pactLpLp1pg?e=5tHedj>

⁵ <https://www.sustainablefinance.nz/updates/media-release-trans-tasman>



Before setting out these recommendations, we first note the following statements as overarching context that guide both our recommendations and, we hope, any climate-related actions both the Commission and the Government take going forward:

A low emissions economy is core to Aotearoa New Zealand’s economic value proposition.

Sustainable Finance is a critical enabler for the transition.

Enabling system transformation

1. A credible Emissions Reduction Plan includes a detailed net zero funding and financing plan for key transition sectors

From Chapter 14 of Draft Advice: Funding and Finance

“Market frameworks featuring agreed standards, definitions, and performance indicators can support potential public and private investors to make strategic low emissions investments and provide the basis for verifying and reporting on climate goals and outcomes in a consistent manner. Climate finance providers and recipients could use the measures to improve the tracking, reporting, and dissemination of best practices, and help to ease growing concerns about ‘greenwashing’ amongst private investors.”

The Sustainable Finance Forum’s Roadmap for Action recommends that the Government position Aotearoa New Zealand internationally as a leader in sustainable finance by developing a Whole of Government sustainable finance strategy. This strategy would seek to drive a broad spectrum of outcomes beyond emissions reduction, including unlocking adaptation finance, restoring nature and strengthening Aotearoa New Zealand’s economic value proposition.

In May 2023 CSF convened its partners with the Minister of Finance and key public, private sector and iwi/Māori leaders facing into decisions that will determine the long-term adaptation, resilience and risk profile of New Zealand.

Key messages from that discussion include:

- Collaboration is necessary and welcome. Major banks, insurers and investors have the appetite to collaborate more, and more meaningfully, to fund and finance both mitigation and adaptation.
- A coordinated, transparent national strategy would help to provide certainty around principles and investment priorities.
- Practical over perfect: we need to act with urgency.

Global demand for low carbon investment opportunities is evident and increasing. An outcome of a credible emissions reduction plan should be to unlock this investment, supported by science-based market signals, targeted public investment, and transparent policies. Clarity from the government on sector-specific transition pathways and regulatory frameworks/standards (e.g., climate transition plans and taxonomy disclosures) is vital for redirecting finance flows



and instilling market confidence. This will also provide greater clarity for the Government to understand the progress they are making and where challenges remain.

There are numerous important workstreams occurring across the Government, including He Waka Eke Noa and The Infrastructure Action Plan 2023, each of which reference funding and financing tactics but do not provide robust plans.

We recommend each sector that is key to the transition (i.e., chapters seven to 13 of the Draft Advice) has its own net zero by 2050 funding and financing plan. These plans will summarise the transition pathway specific to that sector, and the investment required to achieve that pathway.⁶ Aotearoa New Zealand banks and investors are working internationally to progress sector level transition pathways through voluntary net zero commitments. Collaboration with these institutions will facilitate the Government's understanding of where and how these are aligned to domestic priorities. The Commission should include initial sector specific guidance on developing these plans in the Final Advice.

2. Partner strategically with the Centre for Sustainable Finance to ensure the second Emission Reduction Plan benefits from the expertise that sits within Aotearoa New Zealand's leading financial institutions.

CSF exists to remove barriers to funding and financing an equitable green transition.

Established by major financial institutions, Crown entities and strategic philanthropists, CSF follows a model pursued successfully in other jurisdictions such as the UK, Canada, Europe, Australia and Singapore.

The rapid establishment of the Cyclone Gabrielle Recovery Taskforce following Cyclone Gabrielle sets a precedent for effective, Government-enabled collaboration with the private sector in Aotearoa New Zealand. Reducing emissions is no less urgent than responding to their effects. We encourage similar urgency and confidence from the Government in building formal partnerships to inform the second emissions reduction plan.

Globally, there are several strong examples of government and private sector collaboration on sustainable finance, including these recent examples:

1. The Canadian 'Expert Panel on Sustainable Finance' specifically established by the Government to engage with business experts about investments that benefit the environment.⁷
2. The formal collaboration between the Australian Government and the Australian Sustainable Finance Institute to develop a Taxonomy and enable the Government's Sustainable Finance strategy.⁸

⁶ <https://www.e3g.org/news/investors-managing-3-trillion-in-assets-call-on-uk-government-to-deliver-net-zero-investment-plan/>

⁷ <https://www.canada.ca/en/environment-climate-change/services/climate-change/expert-panel-sustainable-finance.html>

⁸ <https://www.asfi.org.au/media-centre/government-to-back-asfi-led-australian-sustainable-finance-taxonomy>



3. The UK Green Finance Institute was established in 2019 as a direct response to a key policy recommendation made by the industry-led Green Finance Taskforce to the UK Government in March 2018. *“The institute is an independent, commercially focused organisation backed by government and led by bankers. We are fuelled by science and data and propelled by the creativity and ingenuity of the finance sector.”*⁹

The CSF similarly seeks to clarify the role of private capital in achieving Aotearoa New Zealand’s commitments under the Paris Agreement, which includes “making sure that financial flows support the development of low-carbon and climate-resilient economies.”

It is the only organization in Aotearoa New Zealand wholly dedicated to financing transformation and transforming finance - and does this through deep partnerships with private sector finance leaders.

The first emissions reduction plan notes one of the key actions in relation to funding and finance is to “collaborate with the finance sector to accelerate sustainable finance”. It also recognises the importance of engaging with the CSF to “mobilise private finance”. There has been encouraging collaboration between the CSF and the Government on taxonomy. Formal partnership is a logical next step.

3. Prioritise developing essential climate information architecture

CSF supports the alignment of sustainable finance frameworks with Australia. There is work to be done to position the region as a robust sustainable finance market as stated in the 2+2 Dialogue.

Data infrastructure and a robust, interoperable taxonomy are key levers for directing capital towards economic activity that is aligned with Net Zero by 2050. Government leadership and investment into these tools supports Aotearoa New Zealand’s sustainable finance market to be seen as legitimate and credible to global investors.

CSF has partnered with the Ministry for the Environment to scope key considerations for an Aotearoa New Zealand taxonomy. We strongly encourage the Government to continue its leadership in this regard through appropriate resourcing and participation in the taxonomy process.

We refer to the following resources for further information about the critical role and many benefits of taxonomies:

- GFANZ ‘building blocks of a net zero economy’ diagram noted below¹⁰
- Climate Bonds Initiative 101 Sustainable Finance policies for 1.5 degrees¹¹

⁹ <https://www.greenfinanceinstitute.co.uk/about-us/>

¹⁰ https://assets.bbhub.io/company/sites/63/2022/06/GFANZ_Towards-a-Global-Baseline-for-Net-Zero-Transition-Planning_June2022.pdf

¹¹ https://www.climatebonds.net/files/reports/cbi_101_policyideas.pdf



- IMF 'Strengthening the Climate Information Architecture' paper¹²

CSF commends the Climate Technology Roadmap project with NZTech¹³ and encourages the government to ensure the scope and resourcing is of sufficient scale to meet the challenge of enabling emissions reduction at pace. Useable, consistent climate and nature-related risk and resilience data supports a common baseline understanding of risks and helps to avoid game theory, whereby an organisation may act in its own self-interest but against the common good due to lack of consistency or transparency in data.

CSF has offered its support to NZTech through its roadmap development process. We encourage urgency and scale given the crucial role of this information in investment and lending decisions.

4. Emissions Trading Scheme

If the Emissions Trading Scheme (ETS) is seen as a key lever for emissions reduction, then the June 2023 review of the ETS is both timely and necessary. CSF will submit separately on this.

Closing comments

We continue to offer our support and engagement to work with the Government and other stakeholders on this vital transition, and thank you for this opportunity to provide feedback on the Draft Advice.

If you'd like to discuss anything in this submission, please contact Christian Bonnevie, Strategic Advisor at the Centre for Sustainable Finance, at christian@bonnevieco.com or Catherine Jeffcoat, Communications Advisor at cj@sustainablefinance.nz.

About The Centre for Sustainable Finance: Toitū Tahua

The Centre for Sustainable Finance: Toitū Tahua was set up in 2021 to accelerate progress toward an equitable, inclusive and sustainable financial system.

It pursues this purpose through implementation of the Sustainable Finance Forum's 2030 Roadmap for Action.

Established by major financial institutions, Crown entities and strategic philanthropists, with support from The Aotearoa Circle, the Centre follows a model pursued successfully in other jurisdictions such as the UK, Canada, Europe, Australia and Singapore.

¹² <https://www.imf.org/en/Publications/staff-climate-notes/Issues/2021/09/01/Strengthening-the-Climate-Information-Architecture-462887>

¹³ <https://www.sustainablefinance.nz/updates/technologyroadmap>



Appendix

Building blocks of the Net Zero financial system: The Glasgow Financial Alliance for Net Zero (GFANZ), co-chaired by Michael Bloomberg and former Bank of England head Mark Carney, is a group representing \$130 trillion in assets (more than the combined GDP of the US, China, and UK). GFANZ has developed a comprehensive work programme aimed at tracking financial sector progress toward meeting Net-Zero commitments. It's 2022 guidance on Net-Zero transition planning outlines the building blocks of a Net-Zero economy in the diagram below.

