Toitū Tahua
Centre *for* Sustainable Finance

Submission to:

Manatū Mō Te Taiao | the Ministry for the Environment

On discussion document:

Te hau mārohi ki anamata | Transitioning to a low-emissions and climate-resilient future.

24 November 2021

Tēnā koe Ministry for the Environment,

Thank you for the opportunity to comment on your Emissions Reduction Plan (ERP) discussion document, Te hau mārohi ki anamata | Transitioning to a low-emissions and climate-resilient future.

At the close of COP26 earlier this month, countries were urged to raise ambition and deliver on their pledges and commitments, in order to keep the Paris target of limiting global warming to 1.5 degrees Celsius alive. In light of the IPCC's sixth assessment report - described as "code red for humanity" – the stakes could not be higher. This is recognised by this Government's declaration of a national 'climate emergency'.

We urge swift follow-through by the Government with an ERP that meets New Zealand's first emissions budget and lays the foundations for the broader and longer-term structural and systemic changes needed to achieve a net-zero, equitable and inclusive transition. As well as meeting New Zealand's international commitments, a rapid but managed domestic transition is the best way to manage economic and financial system risks and position New Zealand favourably in international trade and financial markets.

With leadership from Government, we must create one kaupapa that everyone can get behind. This means genuine collaboration and co-design with stakeholders – starting now.

We agree on the critical importance of funding and financing to drive the climate transition. We need to get carbon pricing right and increase, by an order of magnitude, allocation of public money for funding and financing of the transition including for the purposes of enabling and accelerating private sector investment.

We offer our support and engagement to work with Government and other stakeholders on this.

Ahakoa ko hea tāua haere atu ai. Ka kōkiri tahi tāua.
Regardless of where we go on this journey, we'll go together.

Toitū Tahua: Centre for Sustainable Finance

Toitū Tahua: Centre for Sustainable Finance (TTCSF/the Centre) was established to implement the Sustainable Finance Forum's 2030 roadmap for a sustainable financial system in Aotearoa New Zealand. This requires significant acceleration of public and private sector initiatives.

The Centre acts as an independent conduit between public and private sector organisations, providing leadership, coordination and a centralised clearing house to distribute data and other resources. Through Implementation Groups the Centre convenes and drives major cross-sectoral sustainable finance projects.

If you would like to discuss this submission please contact:

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Toitū Tahua Centre *for* Sustainable Finance

Key recommendations

- The most urgent and critical message we hope to convey is the need for private and public sector leadership and collaboration in funding and financing the transition.

- Maximum ambition and minimised delay in domestic emissions reduction and investment in the local economy and infrastructure (over purchase of international abatement) should be a key principle of the Emissions Reduction Plan.

- Widespread mindset change across the nation is fundamental in the achievement of the transition. Nothing will change unless we all change.

- Develop a whole of Government sustainable finance strategy with climate finance as a priority.

- Getting carbon pricing right should be among the Government's top priorities.

- Increase (by order of magnitude) allocation of public money for funding and financing of the climate transition including for the purposes of enabling and accelerating private sector investment. This needs to be secure and ring-fenced funding; it should not be subject to budgetary appropriations to ensure it is enduring and depoliticised.

- Government needs to play a stronger role in market creation, building the pipeline of investment opportunities and products and enhancing access or commercial viability for different private sector investor types. This will require institutions, funds and partnerships that can undertake investments at a much larger scale and across the commercial maturity spectrum.

- The net-zero transition can be enabled through a flexible, networked approach to funding and financing. Government should convene and draw on the perspective, knowledge and expertise of the many individuals and organisations advancing this agenda.

- Create a kaupapa that everyone can get behind. Collaborate with stakeholders from the beginning to set an agreed ERP national vision, strategy and plan for an equitable transition.

- Develop an open-source portal of climate-related physical and transition risk data and information [at a reasonable resolution] to enable business and civil society to assess key climate risks to specific assets and properties and start to plan and adapt accordingly.

- Consider options for more effective and efficient funding of climate innovation and infrastructure.

- Enable businesses, especially SMEs, Iwi and Māori businesses to put in place appropriate sustainability strategies, governance structures, data, measurement and reporting capabilities so they can access sustainable finance.

Question 1: Do you agree that the emissions reduction plan should be guided by a set of principles? If so, are the five principles set out above, the correct ones? Please explain why or why not.

We broadly support the proposed ERP vision and guiding principles.

A rapid but managed domestic transition is the best way to manage economic and financial system risks and position New Zealand favourably in international trade and financial markets. Maximum ambition and minimised delay in domestic emissions reduction and investment in the local economy and infrastructure (over purchase of international abatement) should be a key principle of the Emissions Reduction Plan.

The most urgent and critical message we hope to convey is the need for private and public sector leadership and collaboration in funding and financing the net-zero transition.

Government, Business, Iwi/Māori and Civil Society leaders all have a role to play and must act now together with urgency. There is already evidence that we can act in concert, quickly and collaboratively. To delay risks further 'lock-in' of carbon intensive industry/business operations and subsequent path dependencies.

We support a holistic, intergenerational approach that considers environmental and social impacts in addition to emission reductions, with biodiversity among key priorities.

Question 2: How can we enable further private sector action to reduce emissions and help achieve a productive, sustainable and inclusive economy?

Widespread mindset change across the nation is fundamental in the realising the transition.

We support the recommendation of the Sustainable Business Council [1]to deploy a communications strategy of similar scale as the COVD response to drive behaviour change, building awareness and buy-in to the value of an equitable transition to a zero carbon, climate resilient society.

We support the CCC's recommendations in this area:

- Including behaviour change in the design of climate change policies and programmes, in order to enable New Zealanders to make choices that support low-emissions outcomes.
- Identifying a lead agency and establishing a dedicated, well-resourced fund for education and information to promote and socialise the wide-scale behaviour changes needed.

Through our stakeholder interviews in developing the Sustainable Finance Forum's 2030 Roadmap for Action, we identified widespread sustainability and sustainable finance capability gaps. This was particularly identified with directors, trustees, financial advisers, lenders and retail investors.

The SFF Roadmap[2] makes clear recommendations with respect to capability building. The government has a clear role to play here in enabling and providing:

- Sustainable finance capability of professionals and Financial Services Licensees.
- Sustainability and sustainable finance capability of the public sector, prioritising policymakers initially.
- Education and training for directors, management and trustees – both public and private sector
- Incorporation of sustainable finance into the formal education system.
- Education, capability and mindset change of consumers and the public.

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[1] https://www.sbc.org.nz/news/2021/Its-time-to-turn-climate-ambition-into-action
[2] https://www.sustainablefinance.nz/

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Question 5: Are there any other views you wish to share in relation to the Transition Pathway?

The private sector is looking to government to set the long-term strategic direction and transition pathway.

The net-zero transition can be enabled through a flexible, networked approach to funding and financing.

The skills needed for governance and oversight of the Government's various policy strands relating to climate are different to those needed for financing the transition. Government should convene and draw on the perspectives, knowledge and expertise of many individuals and organisations advancing this agenda. In addition to the banking and investment community in Aotearoa and beyond, this especially includes iwi/Māori who have the necessary experience to ensure Te Ao Māori meaningfully informs the transition.

There is a clear role for Central Government in establishing the necessary foundation for a networked approach including:

1. Developing a strategy for funding and financing ERP implementation
2. Setting enabling policy and regulation
3. Kick starting private/public partnerships
4. Convening communities of practice
5. Providing centralised oversight and coordination of public institutions involved in the delivery of climate transition funding and finance.

The public sector needs to work at scale. From a financial stability perspective, starting now to get on the path to a low emission, climate resilient economy as part of the global effort will help reduce the risks to the stability of the financial system. There is a need to rapidly scale up and diversify private sector investment to transition.

Increase (by order of magnitude) allocation of public money for funding and financing of the climate transition including for the purposes of enabling and accelerating private sector investment. This needs to be secure and ring-fenced funding; it should not be subject to budgetary appropriations to ensure it is enduring and depoliticised.

A sustainable economy must be an inclusive economy in every sense. The climate transition should not exacerbate inequality. We support the Sustainable Business Council's recommendation for Government to work in partnership with affected stakeholders ensure the transition is equitable.

In addition, we propose:

- Access to affordable and fair finance – including in the context of climate transition consequences – should be regarded as an essential service.
- Low income households need to be supported to make the transition.
- Workers and regions need to be supported to make the transition

Question 21: In addition to the Climate Change Commission monitoring and reporting on progress, what other measures are needed to ensure government is held accountable?

The SFF 2030 roadmap for action explicitly calls for a Whole of Government sustainable finance strategy, capturing central and local government, and outlines a number of necessary medium term government actions, including:

- Explicitly embed climate change risks and impacts into the mandates, strategic priorities, performance metrics and reporting requirements of all public sector agencies, financial institutions and funds.
- Develop an all-of-government climate risk appetite framework and apply shadow carbon pricing to all public sector expenditures.
- Treasury to require collection and reporting of key non-financial data related to government expenditure as well as on the climate impacts of all government expenditure.
- Regulatory agencies actively collaborate with the TTCSF Governance Implementation Group on embedding the principle of valuing social, environmental and cultural outcomes – alongside financial returns – across public and private sectors.
- Public sector entities establish a norm of explicitly applying stakeholder governance/ESG policies, practices, procedures in alignment with the opinions provided by Chapman Tripp and Minter Ellison Rudd Watts. Among other adjustments, this may involve inclusion of environmental and social purposes within their Constitution, Statement of Intent (with supporting Letter of Expectations), or publicly disclosed Mission and Values statements

Question 22. How can new ways of working together, like mission-oriented innovation, help meet our ambitious goals for a fair and inclusive society and a productive, sustainable and climate resilient economy?

New ways of working together must create space for a wide spectrum of people across our communities and society to be included in the transformation of our economy.

Create a kaupapa that everyone can get behind. Collaborate with stakeholders from the beginning to set an agreed ERP national vision, strategy and plan for an equitable transition.

There are many examples of initiatives and agencies already working in concert to advance to common objectives – for example, Toitū Tahua starting to galvanise the finance and financial markets sector, joint-agency work to fast-track disclosure legislation and guidance (and thus corporate sector understanding of climate risk – investment, risk allocation and pricing will follow). With respect to procurement, infrastructure investment, and governance upskilling, the public sector has a critical leadership role to play. Moving at pace requires trust and transparency across public and private sectors.

Collaborative (including 'mission oriented') approaches may be useful for aligning on key aspects of the transition and could be oriented around particular sectors or themes identified in the ERP for example:

- the nature and quantum of the investment need required for the transition
- the respective roles of public and private sector and different types of investors
- the investment pipeline and public funding gaps and role for private sector
- 'lead' infrastructure needed for value chains and supply chains to wrap around
- Specific barriers to private sector investment
- Specific policy, regulatory or innovative financing solutions

There is a need for clear roles and responsibilities and a coordinated government work programme on ERP development, funding, financing and implementation - ideally with a single focal point for engagement on climate transition across public and private sectors.

Government structures and processes set up for emissions reduction will benefit from genuine collaboration and co-creation with stakeholders, for example:

- Representation of stakeholder advisory groups including TTCSF
- Regular consultation with such groups in a semi-formalised manner
- Participation of stakeholders in sub-working groups

- Collaboration with stakeholders on a bespoke basis, including commissioning or funding of work by government and running joint projects or work programmes.

Question 24: What are the main barriers or gaps that affect the flow of private capital into low-emissions investment in Aotearoa?

Mobilising private capital for the transition is multifaceted. It requires an integrated policy, regulatory and investment response from government.

Clear policy and investment signals from Government. These give private sector funders the confidence to invest in transition/adaptation, for example, investing in enabling technology. We encourage clear policy and investment signals as a matter of urgency. There are huge gains to be made here. Government and policy work programmes should be reviewed and re-purposed to ensure they directly contribute to and advance New Zealand on its path to a zero-carbon economy.

A robust carbon price (as well as price stability and forward visibility on the carbon price trajectory) will be a critical foundation, and the rest of the world will penalise New Zealand otherwise – noting developments on carbon border tax adjustments and proposals for an international carbon price floor for large emitters.

Getting carbon pricing right should be among the Government's top priorities.

***It should be noted that the current structure of the carbon market, specifically the use of carbon offsets, is already driving problematic consequences on land values in rural areas and communities[3].*

Disclosure. We support the CCC recommendation on exploring the extension of the mandatory climate-related disclosure regime to cover a broader range of activities. There may need to be differential reporting requirements and timelines for SMEs as well as support for them to comply. We recommend that climate-related risk reporting requirements and standards cover net-zero targets and transition strategies and plans and that this be an NZX listing requirement, following the UK's lead. We also recommend the introduction of mandatory entity and financial product

[3] https://www.auckland.ac.nz/en/news/2021/11/05/anne-salmon-take-care-of-living-world.html

reporting requirements on alignment with New Zealand's net-zero goals and any specific taxonomy developed or adopted for the New Zealand market, following the EU example.

Common definitions, standards and guidelines. Building on examples such as the Sustainable Agriculture Finance Initiative[4], there is a role for government to provide mandate, leadership and funding for development of guidance and taxonomies of sustainable performance/development for key sectors in alignment with global taxonomies and standards, specifically the European Union Taxonomies[5] for debt and equity capital markets.

For example, there is huge interest in corporate green bond issuance yet there is not yet shared understanding of standards, definitions and guidelines to ensure the bonds are driving sustainable outcomes.

We recommend:
1. An investment approach and guidance for public financial institutions that aligns to international definitions, standards, guidelines
2. A cross-agency investigation of financial impacts of other systemic risks beyond climate change, commencing with biodiversity loss.

***The EU taxonomy work is being used by a number of countries as a benchmark. TTCSF are in favour of adapting this where necessary rather than writing specific NZ standards from scratch. An existing collaboration between TTCSF and the Australian Sustainable Finance Institute has begun scoping this work to be country specific but incorporate localised differences.*

Data. Access to affordable and reliable climate data is a critical enabler for the climate transition and should be among the Government's top priorities for driving private sector action. It is necessary for stakeholders to assess, manage and disclose climate-related risks and impacts, and to inform strategic planning and capital allocation. SMEs face particular cost and resource barriers. The Government is uniquely positioned to invest in the systems and processes that unlock data for decision making, while respecting the sovereignty of various stakeholder groups. We recommend that the Government take ownership of climate data collection and collation, utilising digital technology solutions, to ensure that information is available to enable business and financial decisions to incorporate climate-related risks and impacts.

[4] https://www.sustainablefinance.nz/new-page-5?rq=safi
[5] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

Develop an open-source portal of climate-related physical and transition risk data and information [at a reasonable resolution] to enable business and civil society to assess key climate risks to specific assets and properties and start to plan and adapt accordingly.

Connecting capital with investible projects and products. There is no shortage of private capital or appetite to invest in climate opportunities, but there is a need for investible projects and products that can meet the scale, horizon, risk and return requirements and liquidity constraints along different parts of the capital spectrum. Most climate-focused institutional and retail capital is directed at listed market and already commercialised assets, and the refinancing of existing assets. There is a lack of early stage finance (seed and venture capital) and private infrastructure financing in the New Zealand market generally.

There is a role for government in getting money into new enterprises, innovation and infrastructure. Also, to help raise capability around investor readiness, due diligence, financial structuring and climate risk/impact measurement and reporting.

Government needs to play a stronger role in market creation, building the pipeline of investment opportunities and products and enhancing access or commercial viability for different private sector investor types. –including through blended finance approaches.

This could include:

- Harnessing and steering innovation and infrastructure systems for climate outcomes
- Funding climate projects for market demonstration and confidence building purposes
- Co-investing (including risk off-take) with private investors in climate assets
- Creating fund structures and secondary market products for institutional and retail investors (including fund-of-fund structures as the market matures)
- Providing and funding technical assistance and transaction support to parties
- Making a larger pool of concessional capital available in certain areas

It will require institutions, funds and partnerships that can undertake investments at a much larger scale and across the commercial maturity spectrum.

Funds (any desired mix of public and private) could be established now to start financing the transition. Both The Guardians of NZ Super and ACC, for example, are existing fund managers that have the requisite expertise, oversight and scale. We draw attention to the 'eco-system' maps developed by the Ministry of Business, Innovation and Employment (MBIE) and the Reserve Bank's Climate Working Group (COFR).

Question 26: What else should the Government prioritise in directing public and private finance into low-emissions investment and activity?

Infrastructure will play a critical role in the domestic climate transition. Government should prioritise climate change as a strategic priority in New Zealand's infrastructure system, and provide clear leadership and coordination of climate infrastructure funding and financing and delivery.

Consider options for more effective and efficient funding and financing of national and regional climate infrastructure.

Ground-breaking innovation exists within New Zealand's universities and elsewhere that has the potential to substantially contribute to domestic and global emissions reductions, yet is struggling to raise finance and falling between the gaps. Government should prioritise climate change as a strategic priority in New Zealand's R&D and Innovation system and provide clear leadership and coordination of climate innovation funding and financing and delivery.

Consider options for more effective and efficient funding and financing of climate innovation

Businesses need to be 'ready' to take advantage of sustainable finance products. Much of the net-zero transition will involve changes in business and farming models, products and services, operations and supply chains of established businesses, and changes in consumer and household behaviour and investment decisions**.** Commercial banks are stepping up with 'sustainable finance' debt targets and product innovation (e.g. green bonds and sustainability linked loans) as well as partnership approaches with their customers. Lack of government alignment and structure in developing lending and investment criteria and definitions risks holding back momentum in the private sector.

Enable businesses, especially SME, Iwi and Māori businesses, to put in place appropriate sustainability strategies, governance structures, data, measurement and reporting capabilities so they can access sustainable finance.

Appendix

The SFF Roadmap canvassed interventions that would help mobilise and enable climate investment by institutional and retail investors.

These include: integrating climate change criteria into banks' capital requirements and accepted collateral for liquidity borrowing purposes; incentives or quotas on KiwiSaver [default] providers to offer climate investment product options; addressing barriers to asset class diversification by KiwiSaver providers; incentives for uptake of climate-themed products by [retail] investors; RBNZ support for secondary market product development; and Government-backed [co]investment vehicles and funding programmes and risk guarantees.