KPMG

Powered by

Toitū Tahua Centre *for* Sustainable Finance

Mobilising capital for impact

2022 KPMG New Zealand

Contents

Introduction **3**

Methodology **5**

Executive summary **6**

Scale and innovation **8**
- Quality 10
- Demand 11
- Supply 12
- Products 13
- Public and private collaboration 17
- Skills and workforce 21

Ambition **23**
- Ambition and integrity in financial services 24
- Addressing the problem 28

Defining frameworks **29**
- Reporting 31
- Data 34
- Communicating the change 35
- Redefining value 37
- Taxonomies 38

Conclusion **43**

Glossary **44**

Introduction

The Centre and KPMG are pleased to present our Mobilising Capital for Impact report which is based on findings from research conducted with major stakeholders in the New Zealand sustainable finance market, as well as relevant observations from both domestic and offshore markets. This work builds upon the 'Financing the Transition' segment of the 2030 Roadmap for Action. We are seeking to inform both private and public sector participants of the obstacles being faced in the deployment of sustainable finance and to identify opportunities to maximise the collective environmental and social impacts of our funding and financing activities.

Aotearoa takes pride in its international reputation which centres around our unique natural environment that underpins the most financially important sectors in our economy, including agriculture and tourism. It is, however, becoming increasingly clear that we cannot expect to maintain our strong global standing unless financiers in both our public and private sectors invest in initiatives that drive genuine impact and progress towards addressing our pressing climate change and social challenges.

It is easy to paint a picture of steady growth of sustainable finance in New Zealand. The total value of sustainable debt instruments exceeded $13 billion in 2021, with rapid growth continuing in 2022 and sustainability-linked loans seeing the highest of any lending product last year.[1] This is not, however, the whole picture.

Greenwashing and the prevalence of 'do no harm' products are masking the extent of the change still required and much of the growth is attributable to the relabelling of existing debt, which does not necessarily achieve positive incremental impact. We need to make significant shifts in the way we allocate capital if we are to meet the commitments made in the Paris Agreement. He Pou a Rangi – the Climate Change Commission clearly stated in its 2021 advice to the Government that "current government policies do not put Aotearoa on track to meet the Commission's recommended emissions budgets or the 2050 targets."[2]

> **"New Zealand needs to protect its aspirational status to attract both talent and investment, by substantiating our image and deciding what we want to be known for.**

1. How sustainable is New Zealand's finance (assets.kpmg)
2. Ināia tonu nei: the time is now for climate action » Climate Change Commission (climatecommission.govt.nz)

Under the Paris Agreement, 193 parties have committed to limiting the global rise in greenhouse gas emissions to "well below" 2°C, and preferably 1.5°C, relative to preindustrial levels. In an effort to assess the global fund market's contribution to this, S&P Global analysed 12,000 equity funds worth over US$20 trillion and found that only 11% align with the Paris Agreement goal of limiting global warming to "well below" 2°C. They also analysed over 300 funds that use green or environmental language; only 12% of these are on budget to meet the same goal.[3] Many institutional investors may not have adequately factored transition risks into fund targets, asset allocation decisions and performance benchmarking.

As the engine of our economy, the financial system has the power to enact real change. If the system supports better deployment of capital to social and environmental challenges, it can enable and accelerate the transition to a low-emissions, climate-resilient and equitable New Zealand. For this to be achieved, environmental, social and economic factors must be integral to lending and investing processes, re-directing capital to where it can have the most impact.

We can be more ambitious in holding ourselves to account and driving real change. New Zealand should explore opportunities to not only follow international best practice but set it. Sustainability is becoming interlinked with economic success; what is good for the planet is also good for our prosperity.

In KPMG's 2022 CEO Outlook report, 87% of New Zealand CEOs surveyed believed that major global challenges such as income inequality and climate change are a threat to their company's long-term growth and value.[4]

New Zealand needs to protect its aspirational status to attract both talent and investment, by substantiating our image and deciding what we want to be known for.

Recent research found that bold and non-binding national climate commitments are more credible and lead to greater change than less ambitious but binding pledges.[5] Aiming high but allowing some flexibility in how we get there, periodically reviewing and adapting as we go, is key.

We know that significant volumes of capital need to be unlocked and directed differently. This report has been created with the objective of identifying the barriers to the expedient mobilisation of sustainable capital and offering tangible, real-world solutions to address them. The opportunities to evolve our financial system to make a genuine difference are enormous –

and the time to do it is now.

"87% of New Zealand CEOs surveyed believed that major global challenges such as income inequality and climate change are a threat to their company's long-term growth and value.[4]

3. Green funds have a Paris alignment problem (spglobal.com)
4. KPMG NZ 2022 CEO Outlook (assets.kpmg)
5. Ambitious Climate Change Plans Are the Most Credible (bloomberg.com)

Methodology

This report draws on insights and experiences from banks, non-bank lenders, crown entities, fund managers, impact investors, legal firms, wealth managers and not-for-profits. We have interviewed players from across New Zealand's sustainable finance market to establish the current state and the obstacles faced as well as canvas views on potential solutions. We also undertook research surveying the market to identify commonly shared issues, themes and trends.

It is important to acknowledge that the issues that sustainable finance aims to address are not unique to New Zealand. Critics of carbon offsetting will point out, for example, that emissions do not have a nationality and should be measured on a global level. The United Nations' 2030 Sustainable Development Goals (SDGs) are international aims.

While this report concentrates on the New Zealand market and therefore focuses on our financial system as a vehicle to enacting change, there are considerable learnings to be taken from international examples. The European Union, the UK and Canada are in some ways all further along in their journeys to a sustainable financial system. We will draw on case studies from both larger, advanced economies and those on a similar scale to New Zealand to inform how our financial system might adapt and move beyond the status quo.

Executive summary

The Intergovernmental Panel on Climate Change (IPCC) estimates that financial flows globally are 'three to six times lower than levels needed by 2030 to limit warming'.[6]

Our research confirmed that Aotearoa has a part to play in this, with broad consensus that our sustainable finance market is still lacking in both maturity and scale. Despite good progress in recent years, our status quo position is not sustainable and requires more action from both the public and private sectors.

More complex, however, is the question of what levers will drive urgent and effective change. Views tended to be more unanimous around the barriers that exist than the solutions that will address them. In short, market participants know something needs to be done – they just don't necessarily know how.

The barriers the financial system currently faces can be grouped under three major areas: scale and innovation, ambition, and defining frameworks.

Scale and innovation

Over half (60%) believe sustainable finance is only integrated in their organisation's culture, mindset and behaviours to a moderate or limited extent. Sustainable finance teams tend to be separate functions, so capability and capacity are low.

53% of respondents face barriers to allocating or receiving capital targeted at sustainable outcomes.

Government and banks have particular investment remits which often exclude the early-stage funding that decarbonising technologies need, while the impact investing community currently lacks direction and scale.

Ambition

65% of respondents have seen examples of greenwashing in New Zealand's sustainable finance market. Low capability and understanding means that many stakeholders (and even the culprits) do not always recognise it.

The perception of 'value' for stakeholders has not evolved and there is not enough investment in training and education. There is a strong misconception that ESG and financial returns are mutually exclusive.

Defining frameworks

There is too much subjectivity in the market, yet less than half (45%) of respondents receive external reviews over sustainability claims. There is no overarching definition of sustainable activity in New Zealand.

Over a quarter (28%) do not perform regular checks of ESG claims used as the basis for sustainable lending or investing. The new climate standards have potential to drive real change, but not if adoption is seen as merely a compliance exercise.

6. IPCC Press Release, 4 April 2022 (ipcc.ch)

The way forward: our recommendations

There is no silver bullet to be found in the complex and rapidly evolving world of sustainable finance. But there are tangible steps that government, financial institutions and regulators can take to transform how capital is distributed so it can accelerate real change.

International experience tells us the market will not correct itself. New Zealand regulators should continually strive to match international best practice in scrutinising ESG claims made by fund managers, banks and corporates.

New Zealand should develop clear definitional tools that clearly establish what qualifies as sustainable activity through a suitable technical working group. We must learn from our peers and adapt an international taxonomy that is tailored for the unique priorities and values of New Zealand.

When it comes to sustainability reporting, emphasis should be placed on investing sufficient time to do it right and report quality information that drives change, not mere compliance.

Better public and private collaboration is needed to pool capital towards larger projects with greater impact, from utilising proven financing models to exploring joint investment platforms or funding vehicles. Government could be willing to take a high-risk position in blended finance models to better leverage private capital for high impact projects.

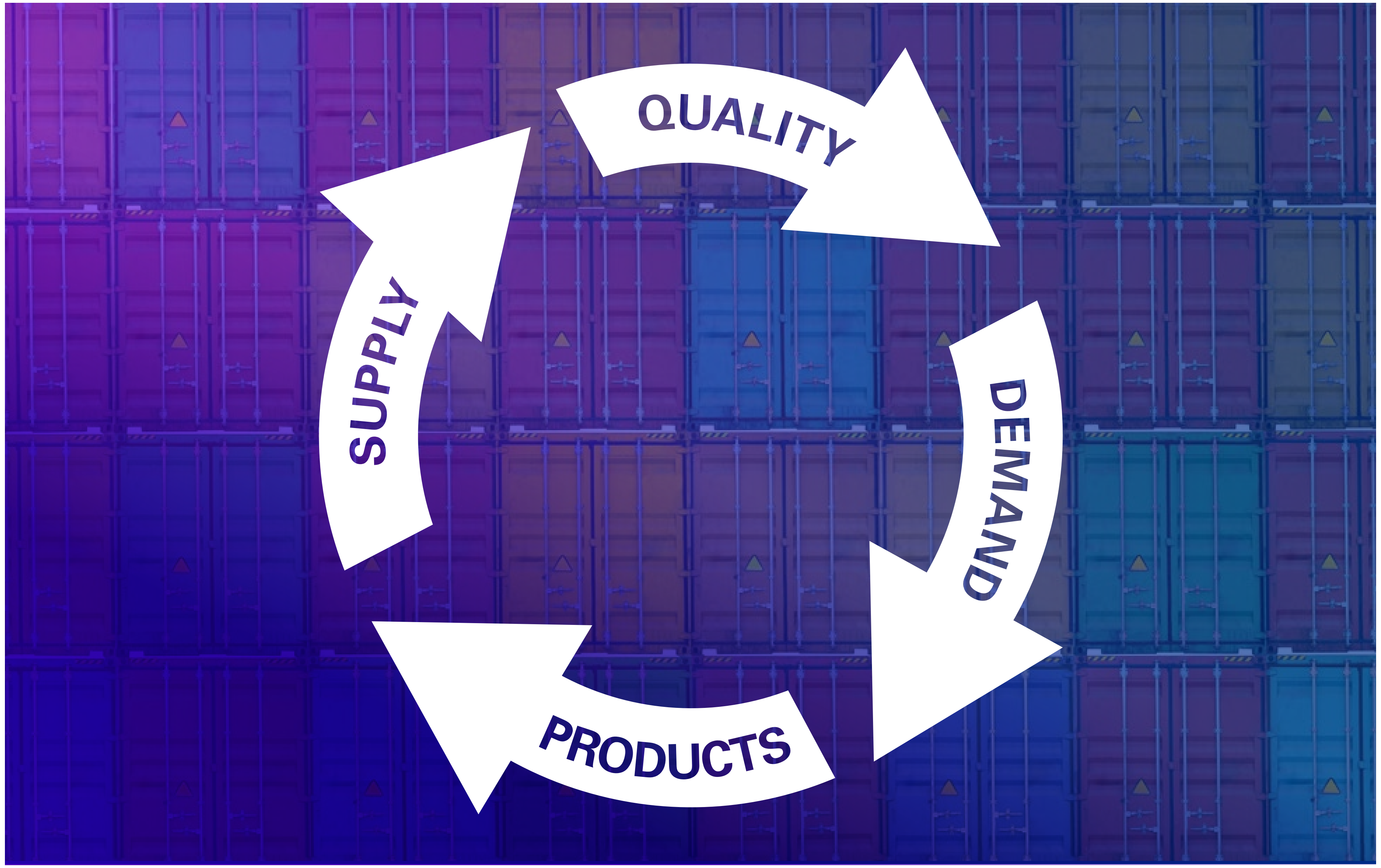
Scale and innovation

Scale and innovation

A lack of scale in the sustainable finance market of Aotearoa was highlighted in every one of our market interviews. There is a strong consensus that our sustainable finance market is a long way off the volumes required to support our current commitments under the Paris Agreement, a point He Pou a Rangi – the Climate Change Commission outlined more broadly earlier this year.[7] Incremental progress will not be sufficient.

It is of little comfort to know we are not alone in this respect. A report last year by Force for Good outlined that, in terms of the estimated US$116-142 trillion needed to meet the SDGs, there is a US$84-101 trillion global funding gap.[8] While the report acknowledged that finance industry leaders had significantly increased funding, it also highlighted the reactivity of the sector: 44% of total current spending is focused on climate change and related goals, while climate change represents only c.20% of the overall SDG funding requirement.

Both our research and interviews revealed a breadth of reasons that the market is currently well below the required scale. From insufficient investible products to a lack of direct capital in the market to low sustainable finance capability in financial institutions, there are several systemic issues. The good news is that many of the issues are interlinked, so uplifting maturity or scale in one area may have a ripple effect on the others.



7. Ināia tonu nei: the time is now for climate action » Climate Change Commission (climatecommission.govt.nz)
8. 2021 Capital as a Force for Good Report (forcegood.org)

Quality

Quantity, but only with quality

There is a significant volume of 'do no harm' products in New Zealand's market. These funds are often labelled as sustainable and may avoid tobacco or arms companies, for example, but do not direct capital towards clear environmental or social outcomes. Greenwashing is covered in more detail in this report (page 24), with stronger guidance and scrutiny from the regulators a vital component in market maturity.

Improving the quality and ambition of our sustainable finance products should be an ongoing intention across the board. As we look to increase the volume of sustainable financing, the quality and impact of products must be a strong focus. Many of the market influencers we spoke to highlighted low confidence in the current effectiveness of sustainable finance as an obstacle to scaling it.

There have been encouraging signs of growth in the sustainable finance market of Aotearoa, particularly in debt. Over the past two years, around 10% of all debt instruments (loans and bonds) have been classified as sustainable debt, embedding sustainability principles into the loan criteria or tying the loan proceeds to green assets or social projects.[9]

The challenge now lies in ensuring that the promised positive impact eventuates in real economy outcomes and is captured in reporting.

The key performance indicators (KPIs) and sustainability performance targets (SPTs) which sustainability-linked products are set against have a broad definition. Terms such as 'ambitious' and 'greater than business-as-usual' are used to determine eligibility. Disclosure of the contractual detail and targets around sustainability-linked loans are generally low and there is wide variation in the amount of information shared. Use of proceeds projects can also be mapped to a broad list of activities which can be difficult to measure the impact of.

Accountability and the opportunity for knowledge-sharing are, therefore, lower than desired.

A set of criteria that defines sustainable economic activity would help lift the standard and remove subjectivity in this space. In Hong Kong and Singapore, governments are also offering grants to support with the cost of external reviews to help lift standards without piling on costs. It is worth considering where cost supports or incentives could similarly raise the bar in New Zealand, where less than half our respondents said they receive external reviews over sustainability claims.

The private sector also has the opportunity to raise the bar and demonstrate a market-leading position:

Issuers could:

- Publish the SPTs to which their margin benefit will be aligned.
- Publish annual progress towards targets.

Borrowers could:

- Publish the metrics by which they measure sustainability progress.
- Publish eligible asset registers to clearly link the funding to outcomes (in the case of property or infrastructure).

> **"The challenge now lies in ensuring that the promised positive impact eventuates and is captured in reporting.**

9. NZ finance industry changing – sustainability, green momentum (sustainablefinance.nz)

Demand

Improving the quality and standardisation of sustainable debt and other finance will increase confidence and market adoption. Increased transparency and guidance around how to execute sustainable finance as well as demonstrate its impact will likely generate more interest in these products. We are seeing more companies announcing sustainability-linked loans in the media, driving awareness and showcasing them as a part of their ESG approach.

New Zealand's regulators could consider other avenues to encourage demand for sustainable finance as well as drive supply of capital. The UK and Europe have introduced rules requiring intermediaries to take into account ESG and sustainability issues when advising clients. Independent financial advisers (IFAs) will now raise ethical and sustainable funds with their pension clients, for example. The Financial Conduct Authority's (FCA) intention is to build trust in the market, enhance transparency for consumers, and meet the information needs of institutional investors.[10] This move brings sustainable finance into far more discussions, helping to make it a standard part of financial conversations. Private companies can also embrace their role in advancing the market while maintaining their social licence to operate by focusing on better integrating sustainability in customer conversations.

If we can address the lack of volume of investible products, in the future New Zealand could explore going a step further and making sustainable investments under the likes of superannuation and KiwiSaver an opt-out rather than opt-in model. Being ambitious in the mainstreaming of sustainable finance will help guide the short-term steps we want to take.

Maturing our demand

Encouraging demand in the most effective sustainable finance products is an international challenge. To develop a more mature sustainable finance market, New Zealand capital providers need to explore the concept of ESG inputs and outputs. Currently, portfolio managers, analysts and data companies broadly understand ESG investing as taking into account the risk-adjusted returns of an asset or loan. Provided the correct process is followed in assessing, for example, the credit risk resulting from physical and transition risk, most investing or lending can be classed as ESG activity. This has been the direction in the TCFD framework, and a critical starting point.

The issue that arises is that the focus is on process rather than outcomes. It also does not necessarily lead to different decision making when evaluating investing or lending opportunities. An approach focused on ESG outputs concentrates on the activity being funded, such as lending to a company producing solar panels. If we are to achieve net zero by 2050, we must prioritise environmental and social outputs and create demand here. Regulators and policy makers will likely need to lead this evolution in views to keep the market maturing.

Assessing climate risk is not the same as addressing climate change.

10. FCA to introduce ESG rules for advisers 'in due course' (ftadviser.com)

Supply

Another challenge New Zealand faces is the size of its financial market in general. Compared with some of our key trading partners, we are relatively small not just in terms of financial flows but also financial professionals. Introducing non-traditional or 'niche' investible products is harder than in large markets, as we default to proven products. The funding available to renewable energy is a prime example; we are comfortable it works and so it receives capital. We haven't, however, used it as a success story and explored more opportunities to replicate it.

Sustainability, twice removed

New Zealand has a smaller number of groups focused on directly investing capital than other larger and more mature international markets. Outcomes of investment can be hard to track as they are often several stages removed from the original investment. This makes impact of investment hard to quantify. While collective investor action groups such as Climate Action 100+ exist to drive change in large corporates worldwide, we have not yet created this on a local level. If we want to finance New Zealand's transition, there needs to be clearer visibility and a shorter path between the investor and the outcomes.

With limited direct capital providers in the New Zealand market, the question becomes how can we attract more foreign direct investment? Our 'clean, green image' remains an important asset, so long as we can substantiate it. An internationally aligned taxonomy, tailored to the unique priorities of Aotearoa, will also help attract overseas investment by offering confidence in our market.

Given that Aotearoa experiences the constraints of illiquid markets, it is important to boost the range and quality of our investible products in sustainability, giving investors choice and scale.

> “Our 'clean, green image' remains an important asset, so long as we can substantiate it.

Products

There was a clear call for more sustainable finance products in our market interviews. A number of influencers felt that New Zealand has too few opportunities to direct capital towards impact or sustainable causes, particularly when it comes to investible products.

Making sustainable mainstream

The most advanced banks in the world are now at the point where climate risk is scored and fully integrated into their credit decision making process, and where lending in every sector is tracked against carbon reduction pathways aligned to the bank's net zero commitments.

Barclays Bank, for example, has recognised that environmental factors are a mainstream credit risk issue and has incorporated climate considerations into its credit processes via a dedicated global Environmental Risk Management team. Environmental and social risks are required considerations in risk assessment for credit facilities and capital market transactions, with the team reviewing any project finance application for more than US$10m, as per the Equator Principles, and also reviews applications below this threshold if the deal involves sensitive sectors or regions.

New Zealand's lenders are moving in this direction, but if we are to catch up with the world leaders then acceleration is needed.

We have seen that a combination of regulatory, policy and supervisory action has helped to accelerate change in finance and investment firms. Increased reporting and disclosure of climate risks help to equip these financial institutions with the information they need to evaluate sustainability factors. It also drives more effective management of these factors inside the institutions themselves.

Rabobank's response to the Dutch government's plan to slash nitrogen oxide emissions from the country's livestock sector is an interesting example of where the European financial sector may be heading. It downgraded the credit worthiness of its entire €10.3 billion dairy farm loan portfolio.[11] While the financial consequences to the sector are not to be underestimated, the bank is not alone in acknowledging high transition risk sectors (HTRS).

Even for sectors without such pressing concerns, there is an uplift needed to provide lenders with the information needed to evaluate sustainable finance proposals. Some of our interviewees believed that banks have a real responsibility to support their clients on this journey and have a unique position to share knowledge and best practice. There are already examples of banks stepping into this role through partnerships and products.

11. Interim Report 2022 (rabobank.com)

Some sustainable finance offerings enabling access to scale in New Zealand

Good energy home loans

ANZ is offering its good energy home loan product to qualifying customers. This is a maximum of $80,000 in lending at a 1% interest rate to purchase solar power systems, batteries, sustainable water systems and electric vehicles.[12]

Rural Sustainability Loans

ASB has an innovative funding solution for the agricultural sector that supports food and fibre growers to improve on-farm sustainability, meet environmental compliance, and reduce emissions.[13]

Supporting 50% of SME customers to measure and reduce emissions by 2025

Bank of New Zealand has set an interim sustainability target to support 50% of its SME customers with a Digital Climate Change Toolkit. This will enable a large segment of New Zealand's economy (not captured by XRB's Climate-related Disclosure requirements) to measure and reduce emissions and the bank to more fully understand SME emissions profiles and develop specific financial support for customers to transition.[14]

Sustainable Supply Chain Financing

HSBC offers customers in New Zealand a Sustainable Supply Chain Financing (SCF) proposition, where HSBC can make early payments to a customer's suppliers on terms that take into account the suppliers' sustainability performance. It aims to service the customer's needs of ensuring sustainable sourcing and reducing the carbon footprint within their supply chain (e.g. scope 3 emissions).[15]

Sustainable Business Loan

Kiwibank is offering preferential pricing to eligible businesses for approved sustainability purposes. This will enable companies to implement sustainability initiatives that will assist in reducing their carbon footprint.[16]

Warm Up Loans

Westpac is offering retail customers up to $40,000 interest-free for five years to invest in insulations, heat pumps, double glazing, ventilation, wood burners, solar power and electric vehicle chargers.[17]

There are a number of mainstream sustainable debt products offered by our major banks to SME or retail borrowers, with several more currently under development. The proliferation of such products is a welcome innovation that encourages borrowers to prioritise climate actions by rewarding them with lower funding costs.

12. ANZ Good energy home loans (anz.co.nz)
13. Rural Sustainability Loan for farmers (asb.co.nz)
14. BNZ launches Carbon Emissions Calculator (bnz.co.nz)
15. HSBC sustainable supply chains (hsbc.co.nz)
16. Kiwibank Sustainable Business Loans (kiwibank.co.nz)
17. Westpac Warm Up loan (westpac.co.nz)

Financing the 'S'

It is easy to forget that ESG does not only refer to environmental issues. Our research found an alarming gap in social financing from private providers compared to green or climate financing.

Since many of our barriers to scale are New Zealand-specific, capital providers should explore solutions that are similarly unique to our market. Respondents believe that innovative solutions that address our social inequities, such as a lack of access to finance, are vital in meeting our national SDG goals.

Spotlight: Tāmata Hauhā[18]

Why

Around 80% of Māori land is non-arable.[19] This limits its usability and the opportunity for returns, which is particularly problematic given the systemic barriers that prevent many Māori from accessing finance to develop their land when it has multigenerational ownership.

This partnership offers strategies and funding to help develop landholdings into productive assets, while maintaining Māori ownership. It offers a commercially viable model that directs finance to reducing carbon and empowering Māori prosperity. This alternative funding model allows landowners to utilise lands with limited production capacity and use the cash flow for other investment activities.

What

Tāmata Hauhā is a private company that works in partnership with Māori landowners to help turn unproductive and marginal lands into profitable holdings. Its staff are Māori landowners, focused on land-development projects.

They do this by planting forests and utilising the financial returns from the carbon Emissions Trading Scheme (ETS).

Carbon offsetting from forestry is losing favour as a strategy for climate action, as it typically offers non-permanent sequestration and can distract from the real work of cutting emissions. Tāmata Hauhā, who plant a range of exotics, say they have shared aspirations with Māori landowners to be planting 100% native forestry. But with returns from exotics up to ten times greater than those from natives, they say Māori should be able profit from carbon forestry of exotics today in order to resource social needs and deliver intergenerational benefits tomorrow, with the option of gradually phasing in natives.

How

Tāmata Hauhā utilises carbon and the ETS to create cash flow and the capital to allow landowners the opportunity to develop their land into profitable forestry, agricultural or horticultural units. It provides the upfront capital and the expertise, while clients provide the land. It takes out a short-term lease on unproductive land and works with the landowner(s) to plant. Once planting is complete, Tāmata Hauhā seeks a forestry right for the partnership period, allowing it to enter the ETS and the authority to manage forestry and carbon credits on the landowners' behalf.

The carbon credit units are then traded on the ETS secondary market, for purchase by emitters. The landowner(s) receive 50% of the profits for around twenty years and 100% after the project is completed.

18. https://tamata.co.nz/
19. Part 2: Māori Land – What Is It and How Is It Administered? — Office of the Auditor-General New Zealand (oag.parliament.nz)

Public and private collaboration

The public sector also has a particular responsibility to lead New Zealand's efforts in funding and financing the transition. It is a significant asset owner and also the largest 'investor' in addressing social issues, across public housing, healthcare, infrastructure and more.

Government has a leading role to play in both providing funding and offering direction where coordination is lacking.

Challenges and opportunities:

- Government funding and financing alone cannot address the scale of the challenges.
- Many of the large-scale infrastructure projects the country needs to help meet our SDG-related commitments (such as emissions targets) require significant upfront funding as well as continued finance across a long period of time.
- Particularly in sectors like agriculture where emissions are hard to abate, new technologies are expected to offer meaningful solutions to their GHG emissions. However, there is a gap in directing funding to early-stage tech development as it is difficult for both Government and banks to invest in this space due to the level of risk.
- Whilst impact investing has increased by $5 billion to a total of $8 billion during 2021[20], the impact investing space in Aotearoa is small relative to the total investment market. It currently lacks consistently-applied impact measurement and coordination, with projects that address national issues often focused only on specific regions.

Potential solutions:

- Government could consider further incentivising investment in underserviced areas of the financial markets via a tax relief or direct subsidisation, building on the R&D tax credits. Respondents indicated that investing alongside Government can direct more capital to systemic solutions.
- New Zealand needs to be better at leveraging existing public and private funding models, as well as exploring new avenues. There are lessons to be learnt from domestic projects to date, and we should look for more opportunities to fund sustainability-related infrastructure. We can also learn from the successes of innovative funding and financing models in other jurisdictions.
- Government could provide more direction as to where the market should prioritise investment, again to pool resources for greater impact, expanding on sector-level transition strategies.
- The industry should consider creating a joint sustainable investment platform which could potentially be led by an existing government-owned institution. The purpose of this platform would be to leverage private finance for initiatives or projects that are traditionally funding by Government, thereby enabling greater impact on a larger scale.
- The fund management sector could utilise its unique position to progress New Zealand's SDG targets, working on a more coordinated active ownership approach to influence positive ESG outcomes. This is in line with the recently released Stewardship Code, which advocates for signatories to "work collaboratively to amplify investor influence on ESG matters with issuers, policy makers, index providers, standard setters, and other key stakeholders."[21]

Partnerships for progress

Mobilising private finance with public funding is not a new model, and we know that private finance is needed alongside public funding to allow a significant and equitable transition towards the goals we have set as a country.

Previously, private capital has been deployed for public projects through public and private co-investment structures. These allow large and complex projects to benefit from private sector innovation and funding which can increase certainty of delivery and drive better value-for-money. There can also be savings in all aspects of the project – design, build, maintenance and operational management.

20. RIAA Benchmark Report (responsibleinvestment.org)
21. Stewardship Code Aotearoa New Zealand (stewardshipcode.nz)

Global spotlight: Green for Growth Fund (GGF)[22]

Why

The fund aims to bridge knowledge gaps and act as a local market enabler, comprising of international donors and financial institutions and private investors. The involvement of these parties enables a tiered risk-sharing structure which allows for low-risk financing for private investors investing commercial capital.

What

The GGF is a public-private partnership, based out of Luxembourg, that was set up with the aim of reducing energy consumption by 20% and/or CO_2 emissions in target countries by 20%. Operating in nineteen markets, it provides direct financing loans to non-financial institutions, as well as refinancing of partner financial institutions by establishing credit lines for on-lending.

How

The fund, a blended finance structure, leverages risk-capital provided by public institutions with additional private capital to substantially increase investment volumes to regions and sectors that do not normally attract such flows, and is an early and successful example of blended finance in action.

Since its inception, GGF has enabled overall savings of over 4.03 million MWh of energy and reduction in CO_2 emissions by 1.04 million tons on an annual basis in targeted countries.

22. Green for Growth Fund (ggf.lu)

Spotlight: Milldale Housing Development

Why

This model is innovative as, instead of increasing the cost to the end consumer immediately, each purchaser has the option to either pay the full cost upfront or to pay it through their rates over a 30-year period. It unlocked the ability for a significantly longer repayment window for the services that support Milldale than a usual debt financing structure offers.

While this particular project does not have sustainability as a main focus, future projects certainly can. Wellington's proposed sludge minimisation facility is expected to use the same financing structure, and will reduce the amount of waste going to landfill by more than 80%. It also aims to help the Council meet its targets of halving its emissions by 2030 and becoming a net zero carbon capital by 2050.[23]

The financing model used for the Milldale Housing Development formed the basis for the IFF Act 2020. The IFF funding model takes the debt off councils' balance sheet, meaning they can fund more infrastructure projects that are paid for by the users of the service without breaching the covenants imposed on them as a local council body.

What

The Milldale Housing Development project involves the greenfield development of approximately 4,000 sections north of Auckland. The finance for the services to support the development were the first national example of what has subsequently become known as the IFF model.

How

To create efficiency and increase the project's speed, Crown Infrastructure Partners (CIP) sourced financing which was used to develop the supporting infrastructure for the development, including the roading, wastewater and other services. The financing structure involved the development of a special purpose vehicle to hold the finance, which could then be drawn on as necessary. While this would normally be paid for by the developer and added to the cost, the end consumer (i.e., the owners of each section) will ultimately pay for the services that have been implemented.

23. News and information - Business case approved for Wellington's new sludge minimisation facility (wellington.govt.nz)

The IFF: applying a sustainability lens

The Milldale Housing Development formed the basis for the development of the Infrastructure Funding and Financing Act (IFF) 2020. The IFF allows for the use of a long-term financing model where the users of the infrastructure repay the cost of development through levy payments, unlocking greater private capital for infrastructure projects.

Find out more about the IFF here

Raising capital for public direction

Another way in which private finance has been used to fund public initiatives is through bond placement on the debt markets. The Government announced in 2021 that it will issue Sovereign Green Bonds to help raise finance for New Zealand's low carbon transition.[24] The Sovereign Green Bond Framework was published in September 2022. While we await final details of how the proceeds will be used, it is positive to see the Government exploring new options for raising capital and enabling the private sector to contribute to projects that will benefit New Zealand.

Public entities such as Auckland Council, Christchurch City Council and Housing New Zealand Limited (the main subsidiary of Kāinga Ora) have all used the NZX debt markets to issue green or sustainability-labelled bonds.

Kāinga Ora Wellbeing Bonds are sustainability bonds that align with the Living Standards Framework. Kāinga Ora has outlined a list of eligible activities in a sustainable finance framework that supports its bonds, indicating that the proceeds for any placement will be used in the portfolio of public housing, supported housing or urban design and regeneration.[25]

The projects outlined have clear links to eligible green and social categories as allowed by the respective bond principles and show how the impact of each of the project types are measured. As at the start of September 2022, Kāinga Ora has raised $7.4 billion in nominal Wellbeing Bonds and $300m through inflation-indexed wellbeing bonds, enabling them to unlock significant private capital for public housing projects.

24. New Zealand to issue Sovereign Green Bonds (treasury.govt.nz)
25. Sustainability-Financing-Framework.pdf (kaingaora.govt.nz)

Skills and workforce

Investing in the workforce

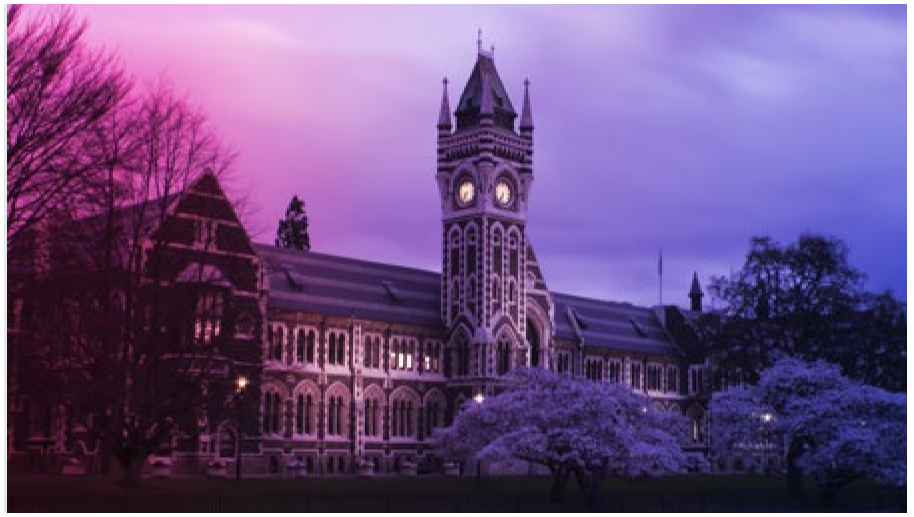
Improving general understanding of the importance of sustainable finance for Aotearoa is the responsibility of every organisation and individual in the sector. While there are a number of prevailing challenges, our conversations with the market uncovered high levels of passion and energy for making real impact. How we move forward and bring others on the journey will define the future of our economy, society, environment and communities. Hopefully, we will also set a leading example for the rest of the world.

Under half of respondents (40%) believed that sustainable finance is highly integrated into their organisation's culture, mindset and behaviours. Our research has found that sustainable finance advisors/managers in banks and funds usually sit in a separate, defined function. In some cases, there was a strong assertion that many banking managers are not even aware of their organisation's sustainable finance products or services. This model is not conducive to the mainstream approach needed for sustainable finance to make the necessary impact in New Zealand.

Our experience with international financial institutions from Europe, the UK and Scandinavia show that getting to the stage where sustainability is part of a firm's entire culture starts with the most senior leadership making clear commitments and driving cultural change across the organisation. Cultural change within firms alone though will not be enough.

The SFF Roadmap has previously called for inclusion of sustainable finance in secondary and tertiary education curricula, starting education early. The ability to analyse the particular set of risks that are inherent in sustainability projects (such as new technology, the variability of returns due to weather or increased timeframes for returns) is also in short supply. This is not a problem unique to New Zealand as there is a worldwide shortage of climate, sustainability and ESG professionals. We must invest in building experts and take an inclusive approach to building a diverse sustainable finance community.

Our universities have made a start offering new courses such as sustainable finance and institutions such as CA ANZ are offering 'Sustainability in Accounting' electives. We need these to result in a dramatic increase in graduates who can drive forward the agendas that will matter over the next thirty years. This means not just sustainable finance, but ecology, biodiversity, the blue economy and the technology that will be required.



Viewing ESG or sustainability as a bolt-on to traditional financial services ignores how integrally they impact concepts of risk and value. And similar systemic approaches should be taken to address the deficit of expertise in the financial system today.

The people who are directing capital right now are, broadly, ill-equipped to make lending and investing decisions that factor in environmental and social considerations. A theme that came out in our interviews was the difficulties in approving sustainable finance lending for a variety of reasons, such as a lack of understanding of climate risks, a mismatch of return horizons and rates of return within project parameters. This lack of understanding, particularly when it resides in leadership, is likely to be an impediment to growth in the sustainable finance market. Effective training in partnering with local communities and community-led engagement will also be important in addressing knowledge gaps.

Both systemic issues in the industry and an under-trained workforce are causing this issue. While 50% of respondents said that their organisation provides training on sustainable finance, it is unclear how wide this training goes. It is also concerning that only 15% said that they also have training on the SDGs, which begs the question of how sustainable finance can be effective if those deploying it are not well-versed on its aims.

Spotlight: Equipping your people

Why

ANZ identified a knowledge gap in its workforce around the Government Investment in Decarbonising Industry (GIDI) Fund and how it might be relevant to customers. This meant some customers who could be eligible for funding for decarbonising their energy usage may not be aware.

What

GIDI was created to offer co-investment and "helps to get projects across the line, and happening faster, unlocking larger and earlier emissions savings."[26] It is administered by the Energy Efficiency and Conservation Authority (EECA), which set up an initiative to introduce GIDI applicants to potential financiers.

How

ANZ worked with EECA to host training across its workforce in New Zealand. Helping its staff understand what funding is available and how they can support customers can increase awareness and uptake.

If we want to achieve a dramatic shift in sustainable finance volumes, we need people able to deploy capital appropriately and stakeholders who understand and care about the change from status quo. Investment in training and education from banks, universities, the public sector, fund managers, professional advisors, assurance providers and others is critical for embedding an informed approach in New Zealand's financial system.

26. EECA Government Investment in Decarbonising Industry fund (eeca.govt.nz)

Ambition

Ambition and integrity in financial services

The term 'greenwashing', first used nearly forty years ago, is a problem for economies around the world. Despite being published in the Oxford English Dictionary before the start of this millennium, regulators are still working on how to identify and prevent it.

Greenwashing is when an organisation makes false or misleading claims in relation to their environmental credentials. Regardless of whether false claims are intentional or unintentional, they have the same outcome of misleading consumers. **Greenwishing** is when a company has good intentions when making environmental claims, but is nonetheless not having the desired positive impact.[27] If unaddressed, greenwishing is likely to change into greenwashing over time.

There are currently $35 trillion of assets under management in ESG-labelled funds.[28] But how does this hold up to scrutiny? In an effort to assess the global market, S&P Global analysed 12,000 equity funds worth over US$20 trillion and found that only 11% align with the Paris Agreement goal of limiting global warming to "well below" 2°C. They also analysed over 300 funds that use green or environmental language; only 12% of these are on budget to meet the same goal.[29]

There are signs that governments and regulators are starting to address this issue, with enforcement starting to emerge and the market watching closely. The most famous current example is that of DWS, which is being investigated by the US Securities and Exchange Commission (SEC) and the Federal Financial Supervisory Authority (BaFin) of Germany.[30] The Group Sustainability Officer is reported to have flagged concerns with the firm's ESG risk management team to the board ahead of the publication of DWS's 2020 annual report which claimed more than half its $900 billion assets were invested using ESG criteria. DWS and Deutsche Bank's offices in Frankfurt have been raided by law enforcement agencies during the investigation.

The UK Advertising Standards Agency has also recently banned two advertisements from HSBC promoting the company's climate change response. It marks the first time the regulator has barred adverts by a bank on greenwashing grounds, stating the omission of HSBC's financing of fossil fuel projects and links to deforestation is misleading.

Greenwashing in the land of the long white cloud

While some view greenwashing and impact washing as unwelcome but unavoidable growing pains in developing sustainable finance markets, if they are left unaddressed the market risks losing trust and limiting its potential impact. The market will function effectively and more transparently if New Zealand regulators present rules that offer enough granularity to increase our capability and set us on a path for high maturity and world-leading practices.

New Zealand currently has guiding principles around ESG claims, but it is worth considering these in comparison to other markets and carefully monitoring where advancements are being made in other regions. These principles set the minimum standard for how organisations present their products to New Zealanders.

As our market evolves and capability increases, we must continuously review our guidance to ensure it is keeping pace with what's happening in the market and consumers' needs.

27. From greenwishing to greenwashing – a growing business risk? (ghginstitute.org)
28. ESG Assets Rising to $50 Trillion Will Reshape $140.5 Trillion of Global AUM by 2025 (bloomberg.com)
29. Green funds have a Paris alignment problem (spglobal.com)
30. Fired Executive Says Deutsche Bank's DWS Overstated Sustainable-Investing Efforts (wsj.com)
31. HSBC ads banned for misleading consumers about green credentials (ft.com)

New Zealand

In July 2020, the Commerce Commission published their "Environmental Claims Guidance" which sets out the requirements for traders to comply with the Fair Trading Act 1986. The principles of the guidance are that claims must:

- be truthful
- be accurate
- be specific
- substantiate claims
- use plain language
- not exaggerate
- take care when relying on tests or surveys; and
- consider the overall impression.[32]

United Kingdom

CMA guiding principles, published in September 2021, assert that:

- claims must be truthful and accurate
- claims must be clear and unambiguous
- claims must not omit or hide important relevant information
- comparisons must be fair and meaningful
- claims must consider the full life cycle of the product or service
- claims must be substantiated.[33]

32. Commerce Commission - New guidelines for making environmental claims (comcom.govt.nz)
33. Making environmental claims on goods and services (www.gov.uk)

While these examples show similar principles, there is a difference in specificity. Given the ambiguity in the market, specifying that claims must cover full lifecycles and not omit information is important. The market requires clear parameters and direction to correct itself.

The CEO of Responsible Investment Association Australasia, Simon O'Connor, has described greenwashing as "a real threat to the future of sustainable finance," offering research showing that while the majority (89%) of the Australian investment market claims to be responsible, only 40% of managers are actually engaged in leading-practice responsible investing.[34]

The story is much the same in Aotearoa. Back in 2020, the FMA released guidance on 'integrated financial products' (IFPs):

- Debt securities such as 'green bonds', which fund projects or organisations claiming positive environmental impact; or
- Managed investment products (including KiwiSaver funds) claiming non-financial impacts.

The guidance set the expectation for statements relating to the other benefits of integrated financial products and outlined the consequences for failure to comply. In July 2022, the FMA completed a review of 14 KiwiSaver and non-KiwiSaver funds that were labelled as integrated financial products. Of the 14 funds examined, all had a weakness in the information disclosed in at least one area and most funds required improvement in several areas.

The FMA's overall findings were that the industry needs to provide more accurate and high-quality information to support ESG claims.[35] Ensuring this information is easily accessible and reflected in marketing material is critical. Separate research by the FMA found that most investors "do not fully read a Product Disclosure Statement (PDS), instead relying on fund managers' websites and marketing materials, as well as the opinions of friends."[36] When 68% of New Zealanders prefer their money to be invested ethically and responsibly, the risk of misleading investors is high.[37] Equally, the appetite for investments that have real impact is high.

34. FMA plans to crack down on greenwashing (goodreturns.co.nz)
35. FMA review of ethical investing claims in managed funds (fma.govt.nz)
36. FMA Ethical Investment Journey Research (fma.govt.nz)
37. FMA review of ethical investing claims in managed funds (fma.govt.nz)

Greenwashing is a rapidly emerging regulatory focus

Financial Conduct Authority (FCA)

- Despite delays, the UK is due to publish further details on its Sustainability Disclosure Requirements which will bring together UK green taxonomy aligned corporate disclosures, investment product disclosures and asset manager/asset owner disclosure. This will include development of a sustainable investment labelling regime.
- The FCA also added 5 new ESG KPIs into its own performance metrics, including "incidence of misleading marketing for ESG products" and "supervisory cases of... mis-selling of ESG products".

Securities & Exchange Commission (SEC)

- The SEC has issued two proposed rules – the Names Rule and ESG Disclosure Rule. The Names Rule helps to ensure that investors' assets in funds are invested in accordance with their reasonable expectations based on the fund's name.
- The ESG Disclosure Rule proposes various disclosure and reporting requirements to provide shareholders and clients improved information from funds and advisors that consider one or more ESG factors, allowing them to make more informed choices regarding ESG investing and better compare funds and investment strategies.

Monetary Authority of Singapore (MAS)

- Funds sold to retail investors in Singapore under the label of meeting ESG standards will have to back up claims made in disclosures & reporting.
- Newly published guidelines are part of measures announcecd be MAS as it realised its second annual report on how Singapore can build a more climate friendly and sustainable financial sector.
- The new guidelines will take effect from January 2022 and will help to reduce greenwashing risks, as well as enable retail investors to better understand the ESG funds they invest in.

European Union (EU)

- The planned EU Ecolabel for financial products is to be expanded to include both the creation of a label for ESG benchmarks and the establishment of minimum sustainability criteria for financial products that advertise environmental or social characteristics.
- Continued expansion and refinement of the EU Taxonomy, including for social characteristics.
- ESMA's Sustainable Finance Roadmap (2022-2024) also prioritises tackling greenwashing and promoting transparency.

Addressing the problem

Greenwashing can not only mislead customers; it masks the scale of the problem left to tackle.

At a critical point in the battle to minimise global warming, a distorted view of how well the market is responding and the capital directed at addressing the issues could be detrimental. In New Zealand, 65% of sustainable finance professionals we surveyed stated they have seen examples that they consider greenwashing in our market. Many participants also offered specific case studies involving greenwashing during our interviews.

While the FMA has begun looking into ESG claims, New Zealand is behind international regulators who are actively investigating them. The SEC has an ESG taskforce that is actively investigating sustainability claims by investment managers and companies. In May 2022, the SEC announced that it had charged BNY Melon Investment Advisor Inc in relation to statements that implied the fund had undergone ESG alignment, with the firm paying $1.5 million in penalty charges.[38] Furthermore, the SEC has proposed a rule change that would expand the number of funds that must invest 80% of their funds in line with their name and investment policies.[39]

In Aotearoa, the FMA has outlined expectations of integrated financial products, but this has centred around research and there has been little regulatory action to date. The report into IFPs was a positive first step and highlighted multiple areas for improvement. A significant majority of IFP funds failed to provide adequate information on the consequences of breaches. This is indicative of an industry struggling to capture information and, as a result, hold itself to account.[40]

International experience tells us that the market will not regulate itself. New Zealand regulators should continually strive to match international best practice in scrutinising ESG claims from fund managers and banks. Failure to do so may eventually slow or deter foreign investment in New Zealand, which would have negative effects on our economy as a whole.

The FMA has cited a lack of precision and has since stated that it should be up to individual managers to set the standards of their funds and then communicate them. Our conversations with the market were more in alignment with the view of Mindful Money, which has publicly advocated for the FMA to draw up compulsory standards for ethical investing to remove this ambiguity.[41] We concur with this view and note that the newly launched Stewardship Code will assist in providing guidelines for fund managers and hold them more accountable for ESG claims made in relation to their portfolios.

The SFF Roadmap recommended that the FMA, through Part 2 of the Financial Market Conduct Act, provide stronger regulatory oversight on the use of sustainability and responsible investment standards, to ensure greenwashing and misleading claims made by corporates and funds (in relation to financial products) are eliminated.

The private sector can also do more: ESG verification regimes play a key role in creating transparency, standardisation of data, and confidence in sustainable finance markets. Less than half of our respondents said they receive external reviews over sustainability claims, despite acknowledging lower than desired sustainable finance capability across their organisations. Some industries have already stepped forward to create frameworks that avoid greenwashing, such as the Sustainable Agriculture Finance Initiative and the New Zealand Green Building Council.

> **“65% of sustainable finance professionals we surveyed stated they have seen examples that they consider greenwashing in our market.**

38. SEC Charges BNY Mellon Investment Adviser for Misstatements and Omissions Concerning ESG Considerations (sec.gov)
39. SEC Is Investigating Goldman Sachs Over ESG Funds (wsj.com)
40. Integrated financial products: Review of managed fund documentation (fma.govt.nz)
41. FMA ratchets up its campaign for better ESG disclosure from fund managers (goodreturns.co.nz)

Defining frameworks

Defining frameworks

In a landscape as complex as that of ESG and sustainability, standardisation and robust guidance are vital. Without them, we leave our market vulnerable to greenwashing that makes it harder and less appealing to direct capital for real impact.

A lack of confidence from both financial actors and the general public, as well as confusion inside organisations as to how and what they should report, pose significant barriers. In short, we will never reach higher maturity without achieving a greater level of standardisation and definition around what activities qualify as sustainable practice and economic activity.

Reporting

The reporting evolution

83% of New Zealand CEOs surveyed in KPMG's 2022 report are seeing significant demand for ESG reporting and transparency from their stakeholders.[42]

IFRS and NZ GAAP have been the standardised methods for accounting and financial reporting for years. They have made it possible for consumers of this reporting to make informed business decisions, with confidence in the audited information they receive. Their standardisation, stability and clarity have proven to be strengths in driving widespread adoption, alongside, of course, regulation. They demonstrate that setting clear requirements for data and reporting in New Zealand's financial system works.

Sustainability reporting needs to follow a similar trajectory, remembering that informed decision making, transparency and trust are the end goals, not compliance for its own sake. The breadth of potential areas alone is enough to intimidate even the most dedicated of reporters: social benefits, land biodiversity, workforce diversity and energy efficiency to name but a few.

The sheer volume of possible frameworks and reporting standards shows both the clear market need and the overwhelming landscape. Aotearoa was lauded as world-leading when we first announced that reporting in line with the Task Force on Climate-related Financial Disclosures would be mandated for large entities. The XRB's Climate-related Disclosures have since been through three consultation periods, with the issuance of Climate Standards expected in December 2022. To maintain this international reputation, work needs to start on broader sustainability reporting requirements too.

The new climate standards have real potential to drive the change needed in New Zealand, but not if adoption is seen as merely a compliance exercise.

Emphasis should be placed on investing the time to do it right and report quality information that enables change. Requiring entities to present their roadmap to full adoption – and report progress against it – would help build a long-term view concentrated on the impact, not just ticking the boxes. In our interviews, market perception was largely that the standards will help bring clarity and direction for these larger companies. Several interviewees were quick to point out that the mandate applies to only 200 companies – 0.04% of New Zealand's businesses - and has no mention of the 546,000 small businesses in our economy.

Targeting the top-end of town first, however, is a proven approach. When the Bank of England ran its first exploratory scenario exercise on climate risk, it concentrated on a select number of large banks and insurers. The Climate Biennial Exploratory Scenario (CBES) was focused on identifying learnings and establishing methodologies that could be utilised more widely. Increasing capability in the companies with the resources to report in a meaningful way that is focused on driving alignment between their business and the country's net zero targets is important. We expect to see a

"83% of New Zealand CEOs surveyed in KPMG's 2022 report are seeing significant demand for ESG reporting and transparency from their stakeholders.[42]

42. KPMG NZ 2022 CEO Outlook (assets.kpmg)

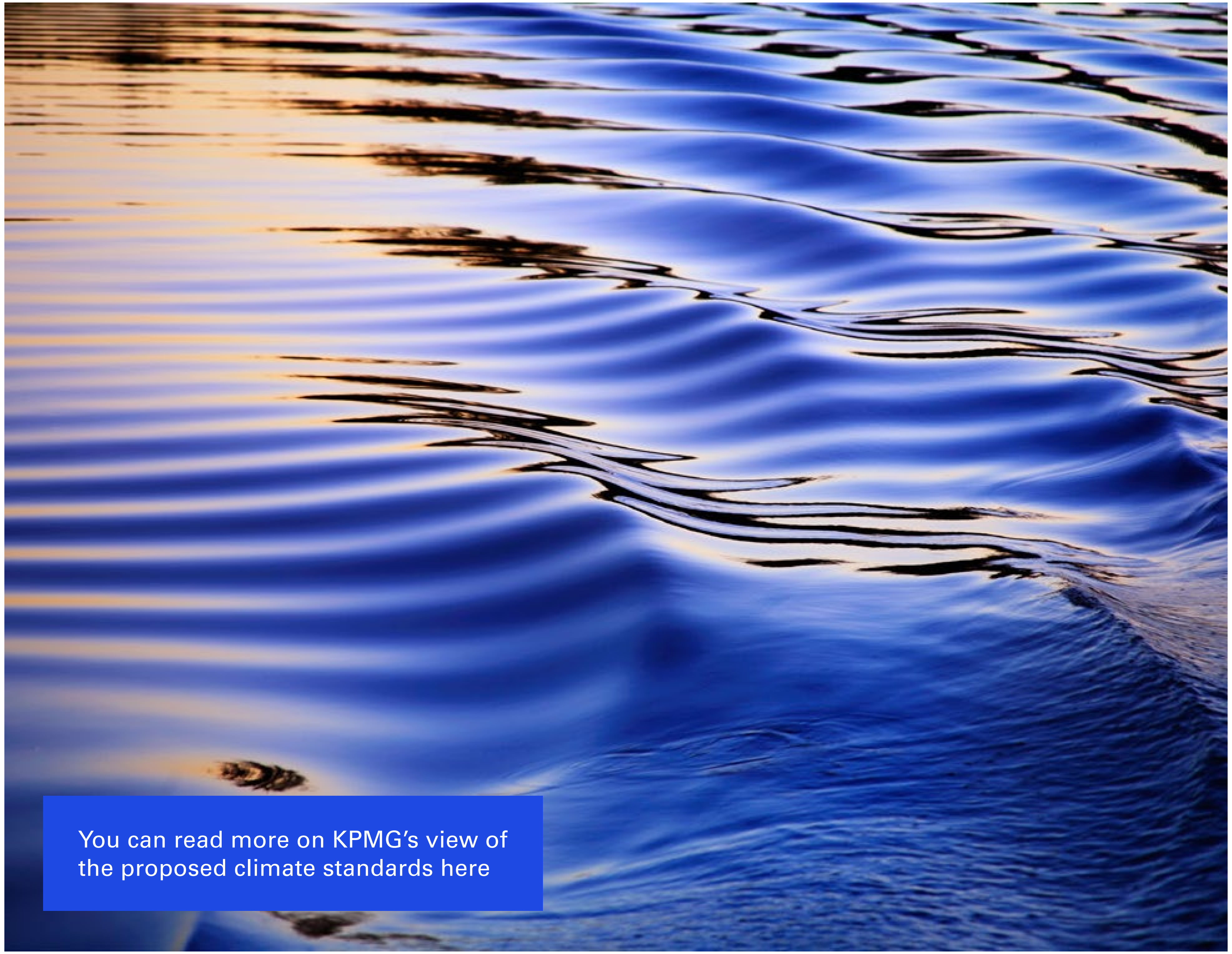
ripple effect as larger companies are required to know the exposure of their value chains when considering their own exposure to climate-related risks and opportunities. This may indirectly end up pushing reporting requirements down the value chain.

Beyond regulatory requirements, it is worth acknowledging that market and societal pressures are determining who makes disclosures and are also driving the quality of disclosures.

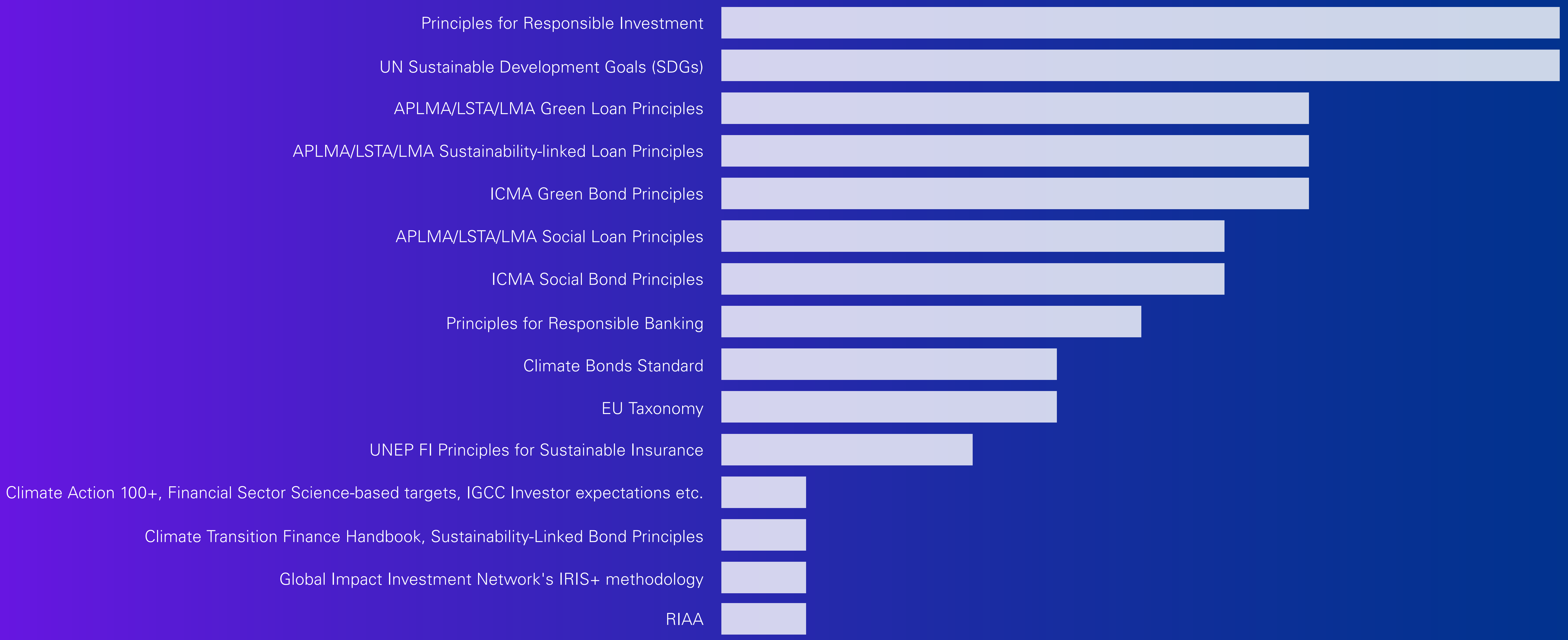
So guidance should not stop here. Voluntary principles have their benefits, particularly when the costs of compliance are put in context of a small businesses size compared to a large corporate. Within Aotearoa, work is currently underway on the development of a framework to allow reporting on Māori business values. The Ngā pou o te kawa ora project, which roughly translates to 'pillars of life', is an XRB-wide project that aims, in the first instance, to create a framework for Māori entities to externally report the intergenerational and interconnected impact of the various activities they undertake. Aspirations for the project include growing the Māori economy and enabling a better reporting framework that incorporates Māori worldviews and knowledge. The XRB aims for the project be relevant in Aotearoa and credible internationally.

Differential reporting requirements should be developed for voluntary reporters to bridge the gap between mandated reporting and no requirements at all, as well as support comparability across the market. It also enables SMEs to make an informed decision around what is currently feasible and what is too costly.

Incentivising out-of-scope entities to start working on their reporting approach ahead of any requirements will allow them time to lift their capability. It would also encourage businesses to view sustainability reporting as a vehicle for real change, rather than a compliance exercise.



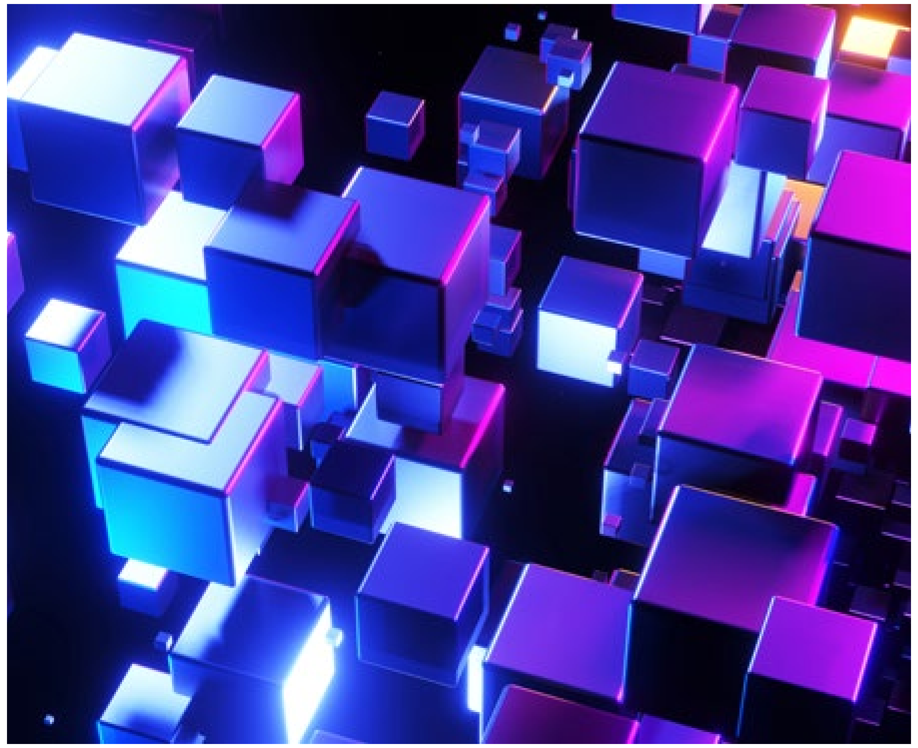
What types of data or KPIs do you measure?



Data

Straight to the source

The Network for Greening the Financial System recognises that reliable and comparable climate-related data are crucial in order for financial sector stakeholders to assess financial stability risks, properly price and manage climate-related risks, and take advantage of the opportunities arising from the transition to a low-carbon economies.



Gaps in climate-related data encompass several dimensions: availability (e.g., coverage, granularity, accessibility), reliability (e.g., quality, auditability, transparency) and comparability.[43]

Indeed, in some instances relevant data are not available. In other instances, the data exist but due to the lack of appropriate granularity cannot be verified or are of poor quality. Finally, in some cases available data sources cannot be compared or are not consistent. However, uncertainties related to evolving climate-related data needs make it difficult to draw definitive conclusions on the data gaps.

These gaps result in barriers to accessing sustainable capital from domestic and international sources as they may limit the confidence of stakeholders and capital providers. The Government could consider providing centralised data measurement hubs to take the brunt of the reporting burden from smaller companies and encourage standardisation of data.

It is worth acknowledging that work has started in this space; both the SFF Roadmap and the SAFI data project made explicit recommendations around the requirements for data that supports sustainable finance. The New Zealand Government has made explicit commitments in the National Adaptation Plan to invest in a data plan project to enhance standardised climate change data.[44] While physical risk data is inherently local, the issue of climate and ESG data to inform the net-zero transition is a global challenge. The Glasgow Financial Alliance for Net Zero (GFANZ) has recently launched its own response to the challenges of climate data.

Competition laws also present a challenge for the level of industry knowledge-sharing needed to tackle ESG and particularly climate issues. The Commerce Commission has explicitly stated its desire to not block collaboration on sustainability - organisations should look to have open conversations with the Commerce Commission around how current systems might evolve to reflect national emissions commitments.

One scheme fits all?

60% of respondents stated that the Emissions Trading Scheme (ETS) or carbon pricing influences their decision making or behaviour in the market. Further discussions with influencers across the market asserted the importance of the ETS to New Zealand's decarbonisation goals, but the phrase 'it cannot do it alone' usually followed.

The OECD also views New Zealand's complementary measures outside of the ETS as being essential to reducing abatement costs with a suite of policies needed to achieve targets. These complementary policies should enable wider decarbonisation outside of the powers of the ETS and hopefully result in ETS participants bearing less of the decarbonisation load. Much of these complementary policies will come through the Emissions Reduction Plan (ERP) and the Climate Emergency Relief Fund (CERF) which has had $2.9 billion of its total $4.5 billion allocated over four years.[46]

43. progress_report_on_bridging_data_gaps.pdf (ngfs.net)
44. Aotearoa New Zealand's first national adaptation plan: Table of actions (environment.govt.nz)
45. Net-Zero Data Public Utility (www.gfanzero.com)
46. Climate investments provide path to economic security (beehive.govt.nz)

Communicating the change

What comes next?

Just as pricing carbon is intended as a vehicle for change, widespread and standardised reporting is not the end goal. It is a critical component of how we better inform stakeholders and increase appetite for sustainable activity.

Several of the industry experts we interviewed cited low public interest in ESG or sustainability products as barriers to mainstreaming and investing more heavily in sustainable finance. They believed that relatively low understanding paired with the hands-off nature of many investors or KiwiSaver participants meant that there was insufficient demand for a real shift. This presents a real opportunity to unlock, given the influence that KiwiSaver funds can have on public awareness and development of sustainable investment strategies.

As with any change management, communication is a vital element. The players who comprise and influence the financial system – from financial institutions, to regulators, to government – do not operate in a vacuum. They are, to differing extents, beholden to the perception of their shareholders, stakeholders, customers, and citizens.

The value that stakeholders place on sustainable activity can have a significant impact on the ambition levels of government and market participants.

In a step forward for active ownership, Sharesies, an online investment platform, has recently announced it will be giving more power to investors. It has launched a shareholder voting system for most NZX-listed companies, allowing investors to contribute to decisions. The technology allows the potential for value-based retail investors to choose to vote together through the app and effect positive change.

In June 2022, Denmark announced the highest corporate carbon tax in Europe. It covers more of its companies than the EU's carbon quota system and is concentrated on helping the country reach its ambitions of reducing greenhouse gas (GHG) emissions by 70% from 1990 to 2030. Companies outside of the EU ETS will see their carbon tax raised from €24 per tonne to €100 per tonne, while companies covered by the EU ETS will pay a carbon tax of €50 per tonne in addition to the cost of a unit within the ETS.[47] The United Nations has recognised Denmark as at the forefront of sustainable development, citing its collaboration across 'parliament, civil society, the private sector, organisations, academic institutions, municipalities, and regions' in voluntary reporting.

The license to be more ambitious than the EU's minimum requirements indicates an appetite for change in Denmark's population. Indeed, in the lead-up to the 2019 general election, 65,000 Danes petitioned for a new climate law with increased ambition.[48]

Part of what can be learnt from countries like Denmark is the importance of public opinion in this space. An informed population can motivate public and private sector actors to be bolder in their ambitions, or reject those who do not reflect their values. Research has found sustainability as the third most important factor in purchase decisions after quality and price.[49] Yet, 72% of New Zealanders confess struggling to identify which products are actually better for the environment.[50] Both companies' marketing functions and the media industry have the power to focus consumer attention on the facts. Increasing transparent and consistent reporting will make it easier to communicate progress with wider stakeholders as well as increase comparability.

The New Zealand Government's Covid-19 response may be a good example of making scientific data accessible and clearly linking it with the impacts on the population. Press briefings focused on providing quantitative updates, guidance from health experts, and the scenarios expected as a result.

Good for business

The perception that ESG and financial returns are mutually exclusive is increasingly being exposed as a misconception. With strong consumer demand, offering sustainable products is a business imperative for many organisations. There is also growing evidence that ESG or impact investing can generate commercial returns. In a 2020 survey, the Global Impact Investing Network (GIIN) found portfolio performance overwhelmingly met or exceeded investor expectations for both social and environmental impact and financial return in investments.[51]

47. Denmark's Green Tax Reform: G20 Countries Should Take Notice (cepweb.org)
48. Denmark's new government raises climate change to highest priority (climatechangenews.com)
49. The influence of sustainability on New Zealand consumers (sbc.org.nz)
50. Consumers still struggle to identify environmentally-friendly products (www.rnz.co.nz)
51. 2020 Annual Impact Investor Survey (thegiin.org)

Global spotlight: FinDev Canada

Why

FinDev supports local private sector activity where it contributes to sustainable development, bringing financial strength to businesses in developing markets to create stability and prosperity for local communities. It is the Canadian Government's direct conduit to the private sector in emerging and developing markets.

What

FinDev is a financial institution with a mandate of providing development financing and other forms of development support in line with Canada's international development policies. FinDev offers financial solutions such as debt, equity and guarantees to clients operating in developing countries that demonstrate sustainable social and economic benefits for local communities.

How

FinDev focuses on three streams for its funding: the financial system, agribusiness value chain and green growth. It leverages partnerships, implements governance and focuses on growing a financially sustainable portfolio with 'an appetite for well-managed risk.' FinDev has provided financing for more than 161,000 SMEs, over a third of which are owned or operated by women. According to its annual report, FinDev has provided the capital to give access to clean, sustainable energy to approximately 3.7 million people.[52]

The key benefit of this model is that it not only meets the development finance goals of Canada, but still provides investors with returns meaning it is a desirable investment, with capital continuously being recycled into new sustainable investments. Whilst New Zealand has some structural constraints that would make the FinDev model difficult to replicate locally, our public sector institutions can seek to learn from such examples and develop innovative financing platforms that are suitable for our market and priorities.

There is also a wider discussion to be had around how we define value. When Supply Nations in Australia investigated the quantifiable benefit of social procurement, for example, it found that for every $1 spent, the social return on investment averaged at $4.41.[53]

52. FinDev Canada – 2021 Annual Report (findevcanada.ca)
53. Sleeping-Giant-Report.pdf (supplynation.org.au)

Redefining value

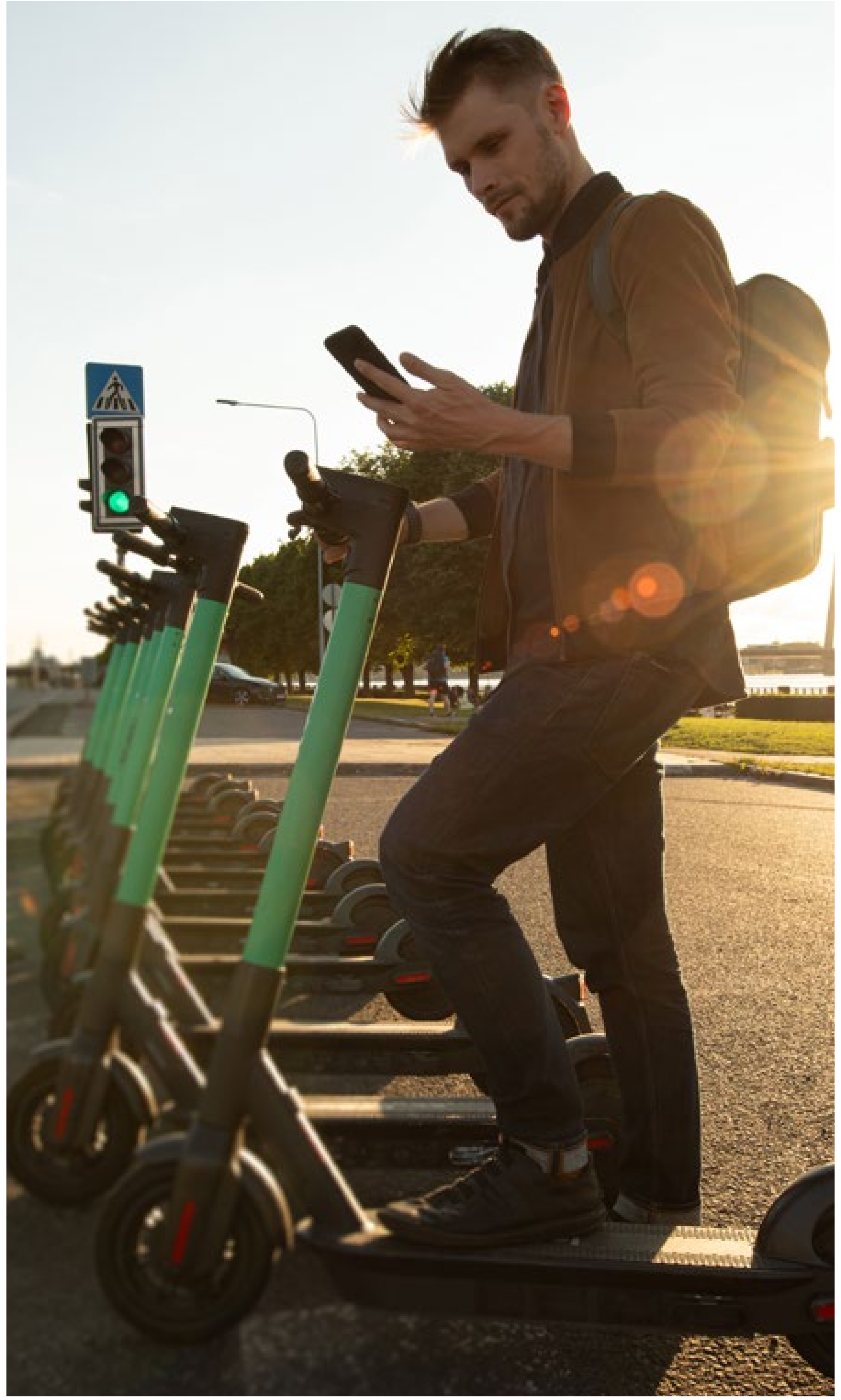
But should we always translate human or environmental benefits into dollars? The World Business Council for Sustainable Development is challenging the current approach to the value of a company. The Council recently appointed a new Executive Vice President to lead its 'Redefining Value' strategic pillar and accelerate the "reinvention of capitalism."[54]

The direction from more mature sustainable finance markets reflects this concept, building on the growing international recognition of stakeholder capitalism. And some responsibility is being placed back on businesses to relay and encourage this shift. The United Nations Principles for Responsible Investment has released an article to help manage the short-termism of investment markets. It calls on companies to more confidently demonstrate how their business strategy, including their approach to sustainability, will create long-term value for their investors.[55] For the responsible investor community, the next big challenge is to migrate from exclusionary measures to specifically direct capital to achieve outcomes and impacts.

Reviewing the structures of financial institutions such as banks and fund managers is also key in helping shift this conversation. In general, they incentivise short-term, financial gains and so that is what their employees prioritise in their work. If we are to change the way capital is distributed, we must change the way those who deploy it are motivated. This is starting to emerge with organisations linking executive pay with ESG metrics.

Every business and financial institution has a role to play in reshaping how we look at value. From acknowledging that the climate crisis changes the viability and context of every sector to integrating wider sustainability issues into the value conversation, how businesses present themselves matters.

54. Big business must reinvent capitalism to address environmental concerns (worldfinance.com)
55. Coping, shifting, changing 2.0 (unpri.org)



Taxonomies

The problem they aim to solve

Over half our survey respondents stated that they face particular barriers or obstacles when allocating or receiving capital targeted at sustainable outcomes. It is clear further action needs to be taken to remove ambiguity and unlock the market. Clear guidance around what sustainable economic activity is would remove subjectivity and enable a larger number of financial professionals to evaluate and distribute sustainable finance.

To strengthen market efficiency and tackle ambiguity and greenwashing (deliberate or accidental), a number of jurisdictions have designed and implemented sustainable finance taxonomies. These are widely adopted sets of definitions in relation to sustainable economic activities, which can be used to make capital allocation decisions and underpin claims about sustainable investing. A taxonomy is essentially a tool to help investors understand whether an economic activity is environmentally or socially sustainable, and to navigate the transition to a low-carbon economy.

The Sustainable Finance Forum's Roadmap identified the need for sustainable financial products and investments to scale-up finance and ensure a smooth transition.[56] In particular, it recommended that sustainable standards for both social and environmental factors be created for the purposes of providing objective definitions of sustainable activities in Aotearoa for investment, lending and insurance. The guidance for these standards is that they should be "harmonised to leading international standards in the finance sector, including the EU Taxonomy and the CBI standards, but differ where appropriate for the Aotearoa New Zealand context". With respect to fund managers and asset owners, it recommended that the RIAA Responsible Investment Certification (or equivalent) should be required to support any responsible investment claims.

The 2022 National Adaptation Plan published by the Minister for Climate Change explicitly supports the development of definitional tools to encourage greater investment in green projects, with a taxonomy to be developed to identify a common definition of climate and nature-positive investments. The feedback from our research on the establishment of a local taxonomy was mixed, with some respondents unsure that this would make a great deal of difference to the efficiency of our financial markets.

56. Sustainable Finance Forum Roadmap for Action (theaotearoacircle.nz)

ASFI international taxonomy analysis[57]

SECTOR	EU	ASEAN	SINGAPORE	CBI	CHINA	CHILE – PROPOSED	KOREA	CGT	NZ	SDG
Agriculture, forestry, and fishing	✓	✓	✓	✓	✓	✓	✓	✓	Agri. only	✓
Buildings, real-estate, and/or construction	✓	✓	✓	✓	✓	✓	✓	✓		✓
CCUS		✓	✓	✓	✓		✓	✓		
Commercial services	✓	✓			✓		✓			✓
Energy	✓	✓	✓	✓	✓	✓	✓	✓		✓
Environmental protection and restoration or remediation	✓			✓	✓		✓			
ICT	✓	✓	✓	✓	✓	✓				✓
Manufacturing	✓	✓	✓	✓	✓		✓	✓		✓
Mining	✓					✓				✓
Transport, postal and warehousing or storage	✓	✓	✓	✓	✓	✓	✓	✓		✓
Water supply, sewerage, waste and/or circular economy	✓	✓	✓	✓	✓	✓	✓	✓		✓

57. Australian Sustainable Finance Institute ASFI Taxonomy Project (asfi.org.au)

The key benefits of greater definition:

1

Establishes a universal basis for defining what is green, which can be adopted by organisations in all areas of the economy, from SMEs to large multinationals.

2

Provides clear guidance to investors or lenders that finance initiatives or projects focused on achieving ESG-related outcomes, including defining what qualifies as climate change mitigation and adaption activities.

3

Ensures that domestic sustainable finance activities are aligned with our national goals of reducing net emissions of greenhouse gases.

4

Provides reviewers or verifiers of sustainable finance activities with clear guidance developed for the New Zealand context.

5

Supports and/or boosts international investment in local sustainable finance markets.

6

Reduces the risk of greenwashing.

Getting us on the same page

It is a notable omission in the sustainable finance landscape of Aotearoa that we have not developed our own approach to taxonomy, which may be as straightforward as analysing and adapting an existing international taxonomy to reflect our particular sustainability challenges. Most of our major trading partners including the EU, UK, China and Singapore either have their own taxonomy or are well advanced in developing one. New Zealand is well positioned to learn from our peers in tailoring definitional tools to our specific sustainability challenges and targets.

Taxonomies are not only applicable for large economies. The World Bank offers, for example, a useful perspective on how Malaysia developed its own taxonomy, driven by barriers identified by local Islamic banks in implementing sustainable finance.[58]

Aotearoa risks increasingly being viewed by global financial markets as an outlier if we do not develop our own well-defined standards. Across the Tasman, the Australian Sustainable Finance Institute (ASFI) is responding to this challenge by undertaking an industry-led initiative to develop an Australian sustainable finance taxonomy, working closely with government and regulatory stakeholders.

There is a clear need for a sustainable finance taxonomy or definitional tool that is tailored to Aotearoa.

A working paper published by The Centre in December 2021, EU and Global Taxonomies, provides robust arguments for the development of a local taxonomy and guidance on how it could be developed.[59]

This could be undertaken in consultation with the International Platform on Sustainable Finance (IPSF) and the Common Ground Taxonomy (CGT), the latter being a joint exercise between the People's Bank of China and the European Commission to develop a mutual approach to green finance taxonomies.

To ensure it delivers for New Zealand, the governance, advisory and technical project teams in a taxonomy effort would naturally need to include Māori practitioners and experts from the outset. Efforts to be interoperable and harmonised to international developments need to be balanced with local perspectives.

58. Defining green: Malaysia's big step towards sustainability (worldbank.org)
59. EU and Global Taxonomies Overview and perspectives for Aotearoa New Zealand (sustainablefinance.nz)

"There is a clear need for a sustainable finance taxonomy or definitional tool that is tailored to Aotearoa.

Our research identified key factors that would need to be addressed to enable this specification:

Purpose and utility

The governance, objectives, sectors and economic activities covered by a taxonomy would need to be carefully determined from the outset to ensure the most suitable framework and best tool is developed for the New Zealand economy.

Structural challenges

Many sectors face structural obstacles that would need to be considered during taxonomy development, such as data availability or conflicting sustainability objectives.

International compatibility

Interoperability and alignment with other international frameworks such as the EU or ASEAN taxonomies will be important, particularly for multinational asset managers that measure sustainable performance across international borders. Drawing on international efforts and adequately including Māori, academic and scientific experts in the development process, would ensure objectivity and help prioritise the environmental and social challenges that are unique to Aotearoa, while protecting Treaty obligations.

Conclusion

The fact remains that Aotearoa is not on track to reach our net zero emissions targets. While there has been encouraging progress and we are one of the few countries to have enshrined our 2050 goal in law, our focus must be on delivering against these ambitions.

The financial system is extremely well placed to help accelerate activities that support our national targets. The intersection of public and private sectors offers significant opportunity for collaborative efforts. We are also not on our own; countries around the world are grappling with similar challenges and we can draw on their learnings.

The long-term nature of the challenges means short-term inputs and activities need to be prioritised based on their long-term impact.

Keeping real impact at the centre of decision making will help us navigate a complex landscape and direct capital to where it can have the most effect.

Investments in sustainability now – both on an organisational and a national level – will reap significant rewards in the future: resilience, self-sufficiency, equitable outcomes. The science is now telling us with conviction that there is no business-as-usual future. If we do not implement systemic change, we are exposing ourselves to enormous risk and sidestepping opportunities.

Our market has expertise, potential, and ambition. We look forward to working with you in mobilising capital for impact in New Zealand.

Glossary

Carbon pricing – The price for avoided or released CO_2 or CO_2-equivalent emissions. This may refer to the rate of a carbon tax or the price of emissions permits

Decarbonisation – The reduction of greenhouse gas emissions, for example, through the use of low-emissions power sources and electrification

ESG – Environmental, Social and Governance

ETS – Emissions Trading Scheme

FMA – the Financial Markets Authority

GHG – Greenhouse gases (gases that trap heat in the atmosphere and warm the planet)

Global warming – Describes the global aggregate average temperature increases of greenhouse gases in the atmosphere which trap more heat, causing warming

Green bonds and loans – Forms of financing that enables borrowers to use the proceeds to exclusively fund projects that make a substantial contribution to an environmental objective

Greenwashing – Greenwashing is when an organisation makes false or misleading claims in relation to their environmental credentials

IFPs – Integrated financial products

Impact investments – Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return

NAP – National Adaptation Plan

Net zero – When the volume of greenhouse gas produced is no more the volume removed from the atmosphere

Paris Agreement – A legally binding international treaty on climate change adopted by more than 190 countries in 2015. Its goal is to limit global warming to well below 2°, preferably to 1.5° Celsius, compared to pre-industrial levels

The Roadmap – The Sustainable Finance Forum's Roadmap for Action

SDGs – The United Nations' Sustainable Development Goals

SMEs – Small and medium-sized enterprises

SPT – Sustainability Performance Target

Sustainable finance – Refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector

Sustainability – Sustainability focuses on our ability to meet our current needs without compromising the ability of future generations to meet their own

Taxonomy – A tool to help investors understand whether an economic activity is environmentally or socially sustainable

TCFD – Task Force on Climate-related Financial Disclosures

XRB – The External Reporting Board

About KPMG New Zealand Sustainable Finance

KPMG New Zealand is deeply committed to the vision of the Sustainable Finance Forum and Toitū Tahua: Centre for Sustainable Finance of a financial system that:

- Serves the long-term needs of our society, the environment and the economy
- Is well informed, transparent and playing its part to facilitate sustainable development, especially New Zealand's transition to a low-emissions, resource-efficient, just and inclusive economy
- Is resilient, robust and agile
- Gives society reason to have trust and confidence in New Zealand's financial system and its actors.

KPMG IMPACT's Sustainable Finance practice integrates skills and expertise drawn from across our Financial Services, Wealth Management, Management Consulting, Risk Consulting, Deal Advisory and Audit teams. KPMG IMPACT works with Māori, public, and private sector organisations to drive positive social and environmental outcomes for Aotearoa and all New Zealanders.

KPMG offers a range of specialised services outlined on its website:
https://home.kpmg/nz/en/home/services/kpmg-impact/sustainable-finance.html

Authors

Simon Wilkins
Head of KPMG IMPACT
↘ LinkedIn

Alton Pollard
Sustainable Finance Lead
↘ LinkedIn

Richard Bernau
Global ESG Banking Lead
↘ LinkedIn

Andre Lemon
Senior Manager – Deal Advisory and KPMG IMPACT
↘ LinkedIn

James Roberts
Manager – KPMG IMPACT
↘ LinkedIn

Jessica Retter
Senior Analyst – Deal Advisory and KPMG IMPACT
↘ LinkedIn

Laura McReynolds
Marketing and Communications Consultant
↘ LinkedIn

Powered by

Toitū Tahua Centre *for* Sustainable Finance

The purpose of The Centre is to accelerate progress towards the Sustainable Finance Forum's 2030 Roadmap for Action which sets out a plan for a sustainable, inclusive and equitable financial system in Aotearoa New Zealand.

Thank you to all our survey and interview participants who contributed to the creation of this report and shared valuable insights and experiences from the New Zealand market.

kpmg.com/nz