



Is sustainable finance growing sustainably?



As the focus on sustainability and Environmental, Social and Governance (ESG) gains pace across the globe, why has the global sustainable finance market slowed?

With ESG becoming more prevalent on board agendas, why is the flow of capital not following suit? We know that significant volumes of capital need to be unlocked and directed differently if we are to mitigate global threats such as climate change, which is only getting more urgent.

Internationally, the sustainable finance market appears to have reduced slightly during 2022 following a period of significant growth. Exchange-traded funds with an ESG theme dropped below 2020 levels and the GSSS¹ debt markets slowed dramatically during 2022, with the issuance of GSSS debt products down 15.5% in 2022 when compared to 2021².

See Figure 1 & Figure 2

Political rhetoric, a shift in focus due to Covid-19 and increased scrutiny on the quality of ESG funds have all played a part in cooling the growth of the sustainable finance market around the world.

There may also be a lack of investable products available to fund managers, despite strong demand.

New Zealand, however, has not seen the same trends. In particular, it has not experienced the same slowing of GSSS debt issuance.

Last year, we evaluated the local sustainable finance market and summarised its total value exceeded \$13 billion³. We saw an encouraging increase in both the quantity and diversity of products and actors.

“ At the end of 2022, the value of publicly announced sustainable debt transactions exceeded \$23 billion.

Figure 1
GLOBAL SUSTAINABLE DEBT MARKET BY YEAR AND PRODUCT

- GREEN BONDS (LHS)
- SUSTAINABILITY BONDS (LHS)
- SOCIAL BONDS (LHS)
- GREEN LOANS (LHS)
- SUSTAINABILITY LINKED LOANS (LHS)
- SUSTAINABILITY LINKED BONDS (LHS)
- CUMULATIVE ACTIVITY (RHS)

SOURCE: BLOOMBERG, 31 DECEMBER 2022

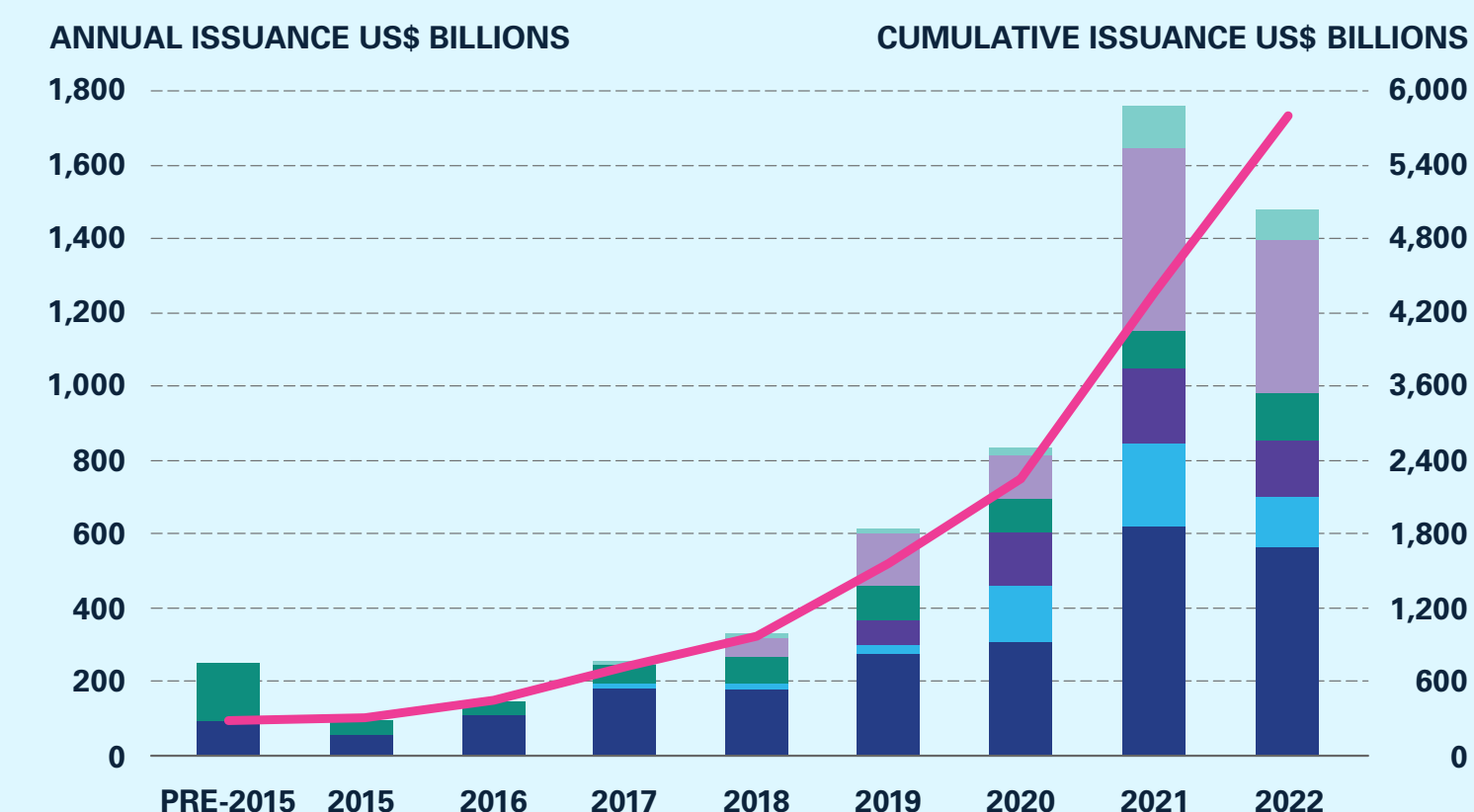
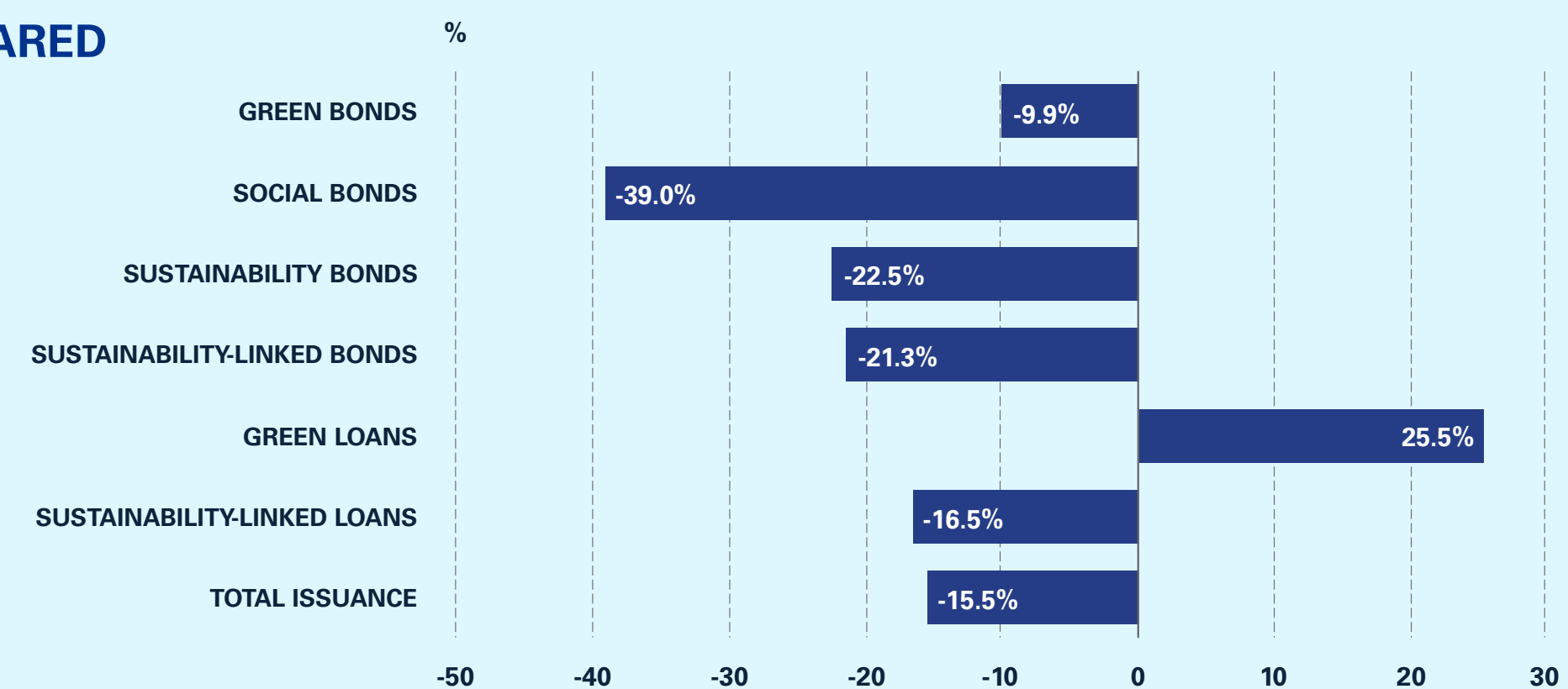


Figure 2
DIFFERENCE IN GLOBAL GSSS ISSUANCE IN 2022 WHEN COMPARED TO 2021



The significant increase was not the only change in New Zealand’s sustainable finance market; we also found measuring the value of sustainable finance in 2022 more challenging, due in part to the considerable increase in activity. As the announcements increased, the media coverage of sustainable finance issuance decreased meaning the total value issued is likely higher than we have calculated. This in itself may be an encouraging sign – sustainable finance in New Zealand is becoming more normalised and less newsworthy.

That said, it would be remiss to assume quantity and quality always go hand-in-hand. Our deep dive into New Zealand’s sustainable finance market, *Mobilising Capital for Impact* powered by Toitū Tahua: Centre for Sustainable Finance, explored the challenges around scaling up issuance and the risks of greenwashing. From the need for regulation around ESG claims to the finite number of sustainable finance professionals, the challenges to establishing a mature and flourishing sustainable finance market are numerous. But so are the opportunities that come with it.

One theme in the report was ‘scale and innovation’, looking at the products, supply and demand currently in the market.

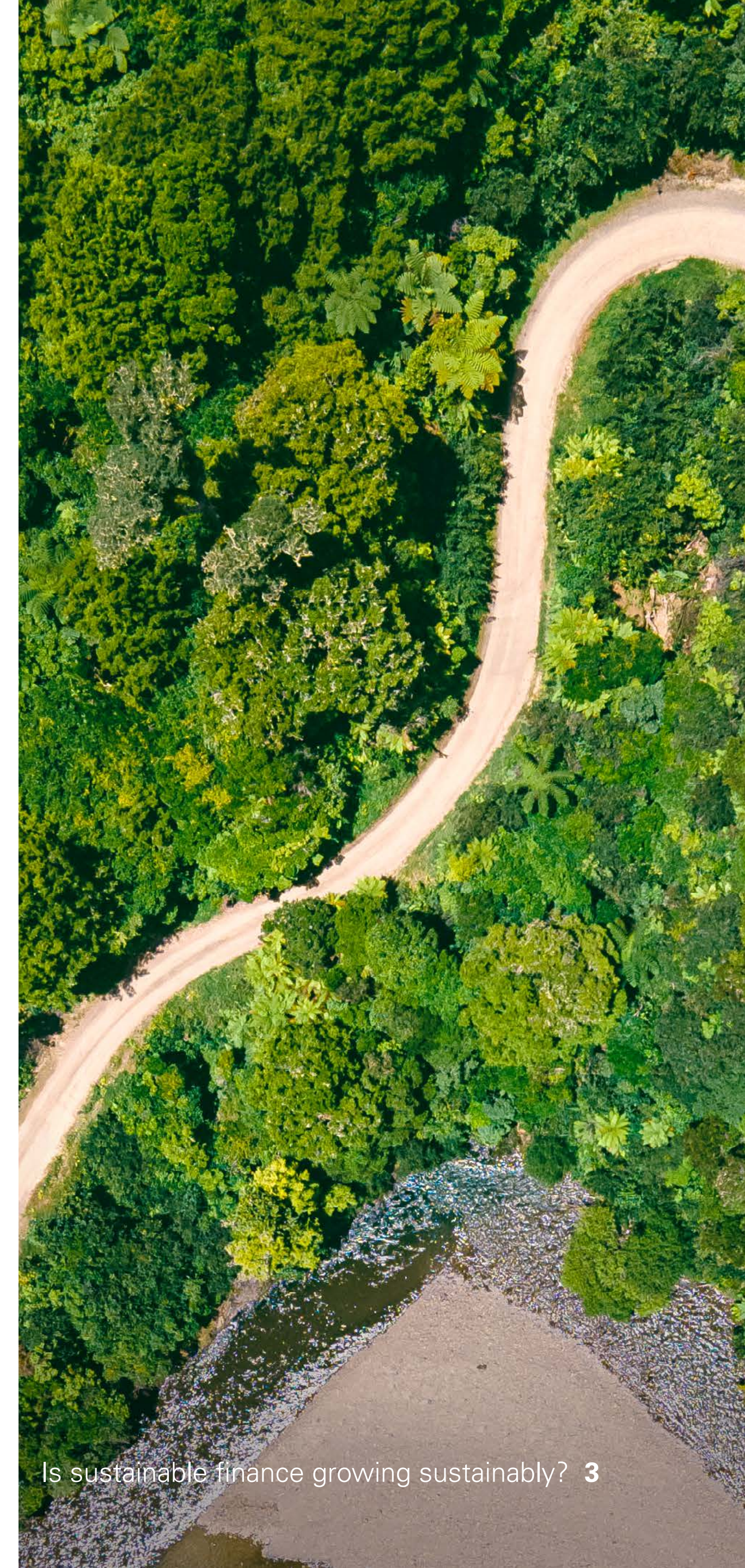
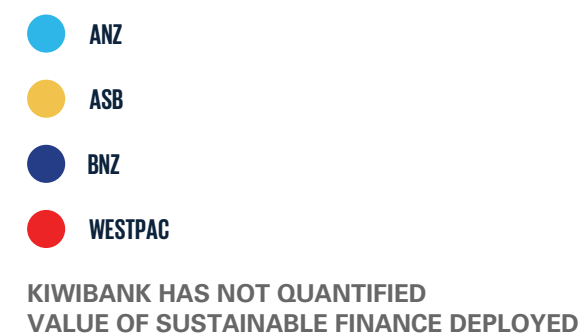
Even since it was published, we’ve seen progress. 2022 saw increased diversification in the types of sustainable debt products issued. New Zealand bond issuers like Auckland City Council are beginning to issue green bonds overseas⁴. Companies, such as Contact Energy and Meridian Energy, have issued US Private Placements (USPP) which align with the requirements of their respective green financing frameworks^{5, 6}. ESG-linked derivatives were issued for the first time in New Zealand in 2022⁷. These are all good signs that the sustainable finance market in New Zealand is beginning to expand.

New Zealand banks

While it is pleasing to see sustainable finance coming from a range of organisations, our banks are critical drivers of change. In 2022, each of the five major banks in New Zealand reported on sustainable finance activity. The self-reported total of the sustainable funding or financing activity for the 2022 financial year (FY22) was \$16.5 billion, a substantial increase when compared to the \$9.05 billion reported in the 2021 financial year (FY21)⁸.

See Figure 3

Figure 3
SELF-REPORTED VALUE OF SUSTAINABLE FINANCE OF THE MAJOR NZ BANKS

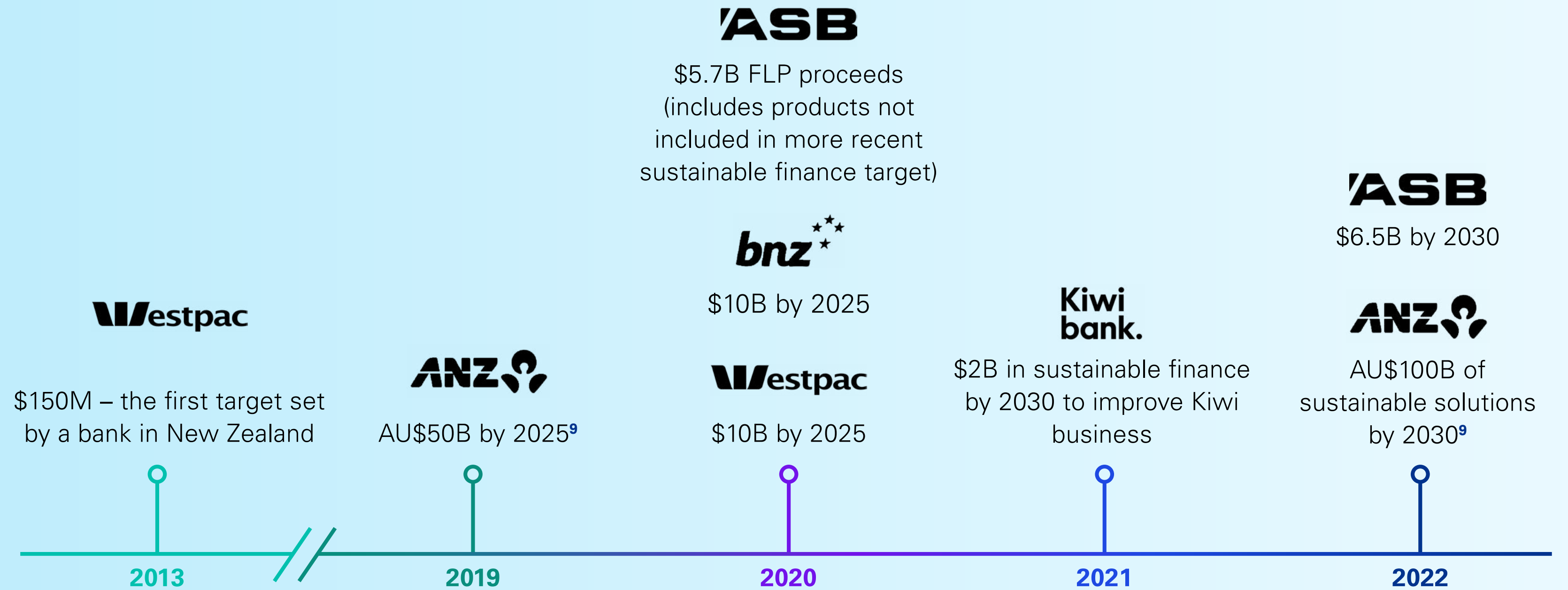


At the end of FY22, all of the five major banks have set themselves sustainable finance targets. These targets have evolved over time, with the level of ambition increasing as new targets are set. Some of the targets to date are included in Figure 4.







See Figure 4

While it is pleasing to see sustainable finance coming from a range of organisations, our banks are critical drivers of change.

Figure 4
BANK'S ANNOUNCED SUSTAINABLE FINANCE TARGETS TIMELINE



In addition to the increase of sustainable financing for institutional customers, banks are at the forefront of main-streaming sustainable finance by creating products to suit the needs of either small and medium-sized enterprises (SMEs) or retail borrowers. Some of the range of offerings to date include:

	Good energy home loans¹⁰	ANZ is offering its good energy home loan product to qualifying customers. This is a maximum of \$80,000 in lending at a 1% per annum interest rate to purchase solar power systems, batteries, sustainable water systems and electric vehicles.
	Rural sustainability loans¹¹	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.
	Agribusiness sustainability-linked loans¹²	BNZ is offering farmers of all sizes the ability to set up a sustainability-linked loan to encourage them to become more sustainable. Farmers can select three to five of six approved target areas (with greenhouse gas (GHG) emissions reduction a mandatory target).
	Sustainable supply chain financing¹³	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 by ensuring sustainable sourcing and reduction of the carbon footprint within the customer's supply chain.
	Sustainable business loans¹⁴	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.
	Warm up loans¹⁵	Westpac is offering retail customers up to \$40,000 interest-free for five years to invest in insulation, heat pumps, double glazing, ventilation, wood burners, solar power and electric vehicle chargers.

First published in [Mobilising Capital for Impact](#) in 2022.

Sustainable debt markets

At the end of December 2022, the value of green and sustainable bonds on the NZX debt markets (NZDX) totalled \$13.9 billion, which represented a \$4.6 billion¹⁶ increase compared to 2021. In addition to bonds issued through the NZDX, some notable private bond placements, including the New Zealand Government's issuance of \$3.0 billion worth of sovereign green bonds¹⁷, occurred in 2022.

See Figure 5 & Figure 6

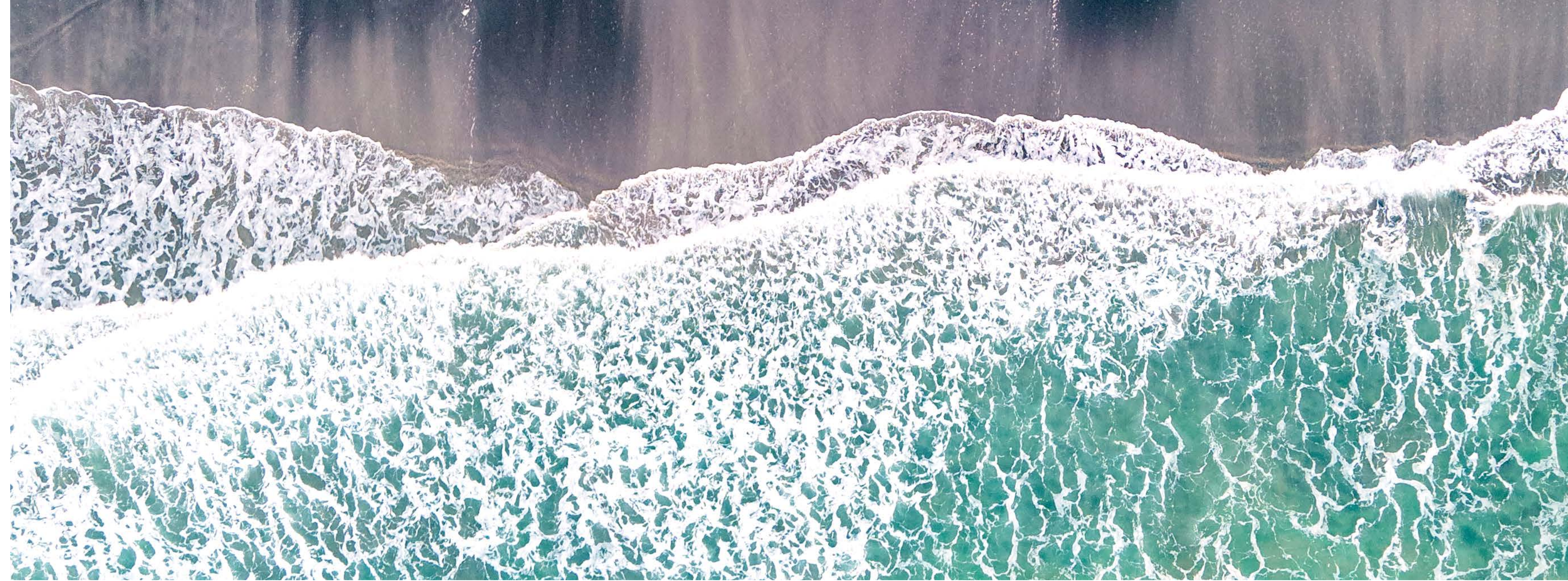


Figure 5

CUMULATIVE TOTAL OF GREEN AND SUSTAINABLE BONDS ON THE NZDX

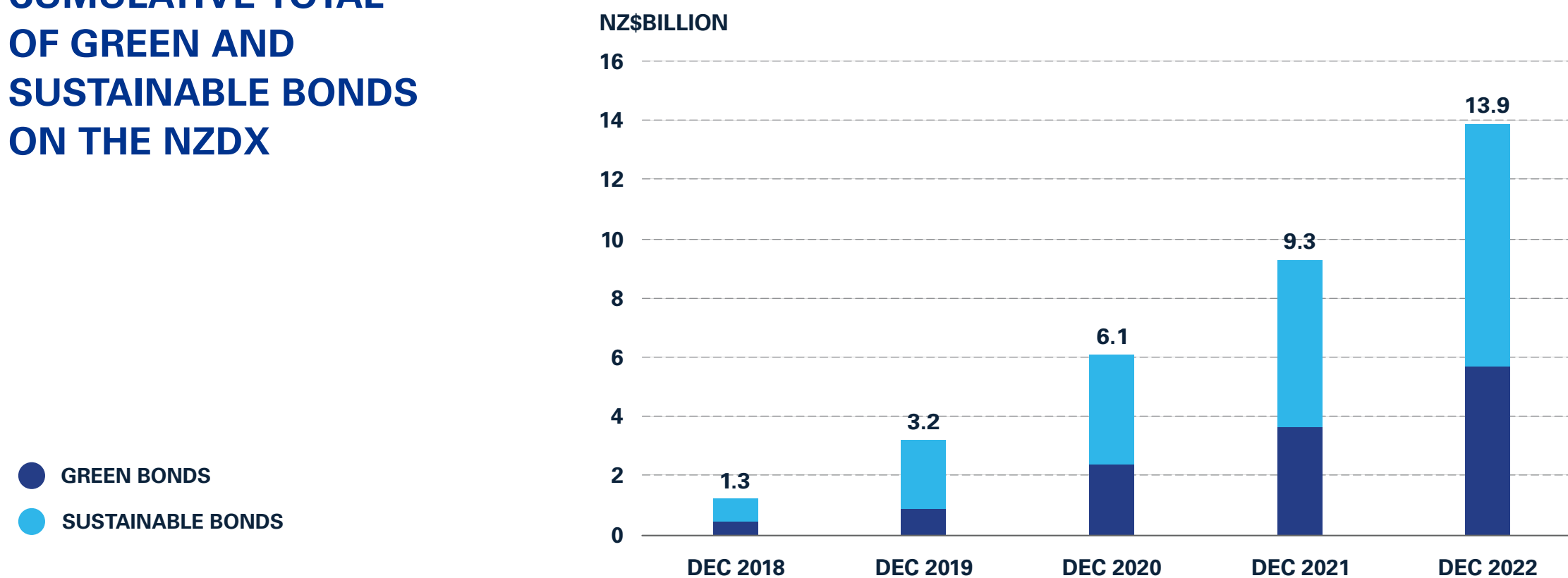
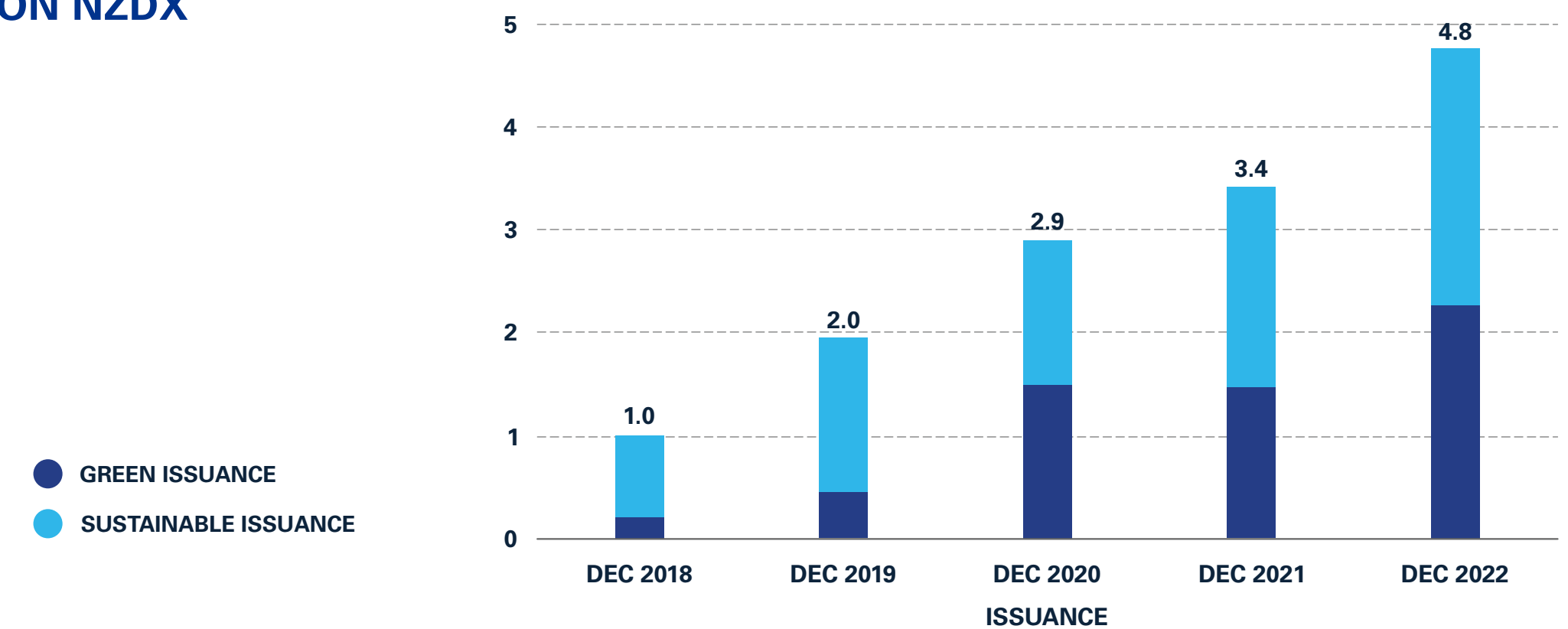


Figure 6

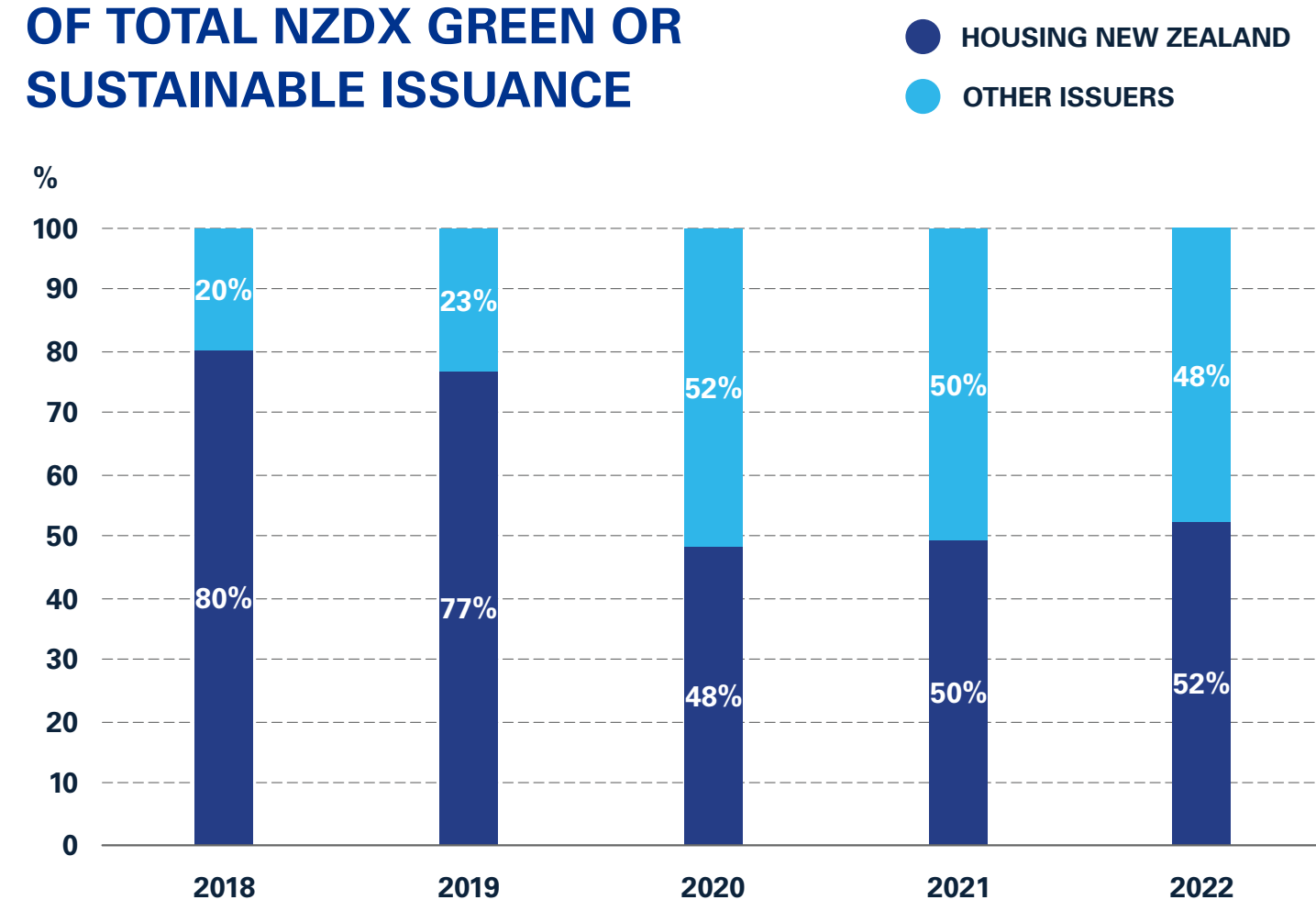
BOND ISSUANCE ON NZDX



Kāinga Ora, through its main subsidiary Housing New Zealand, has been the most active sustainable issuer on the NZDX with over 50% of all issuances each year. In November 2022 it was announced that Kāinga Ora will not be issuing any additional wellbeing bonds on the NZDX, instead opting to borrow directly from the Crown via New Zealand Debt Management¹⁸, with Cabinet noting that this would be cheaper and provide greater certainty than borrowing from private sources. This may signal lower non-public issuance in 2023.

See Figure 7

Figure 7
HOUSING NEW ZEALAND
ISSUANCE AS PERCENTAGE
OF TOTAL NZDX GREEN OR
SUSTAINABLE ISSUANCE



What lies ahead?

As we progress through 2023, we hope to see sustainable finance activity continue to ramp up in New Zealand. Both the demand and supply sides should work to be ambitious in their target-setting, going beyond ESG-related targets that only marginally improve their performance to setting goals that will have a real impact.

Quality and assurance will also be high on the agenda. Our research found that only 45% of sustainable finance professionals surveyed received external reviews over sustainability claims¹⁹. With the new Climate Standards coming into effect and regulators being more active in setting expectations, we hope to see a rise in the integrity of reporting and claims in the ESG space more broadly.

“Transforming how capital is distributed can enact real change for our society, environment and economy. Our Sustainable Finance team is here to help you take tangible steps to accelerate a positive impact in New Zealand.”

End notes

- Green, Social, Sustainability and Sustainability-Linked
- <https://www.bloomberg.com/news/articles/2022-12-15/sustainable-debt-esg-markets-turn-frosty-in-2022?leadSource=uverify%20wall>
- <https://assets.kpmg.com/content/dam/kpmg/nz/pdf/2022/03/fips-banks-interactive-2021-v2.pdf>
- <https://www.kanganews.com/news/14541-auckland-council-reaps-euro-pricing-benefit-from-regular-issuer-status>
- <https://contact.co.nz/aboutus/investor-centre/report>
- <https://meridian-production-media.s3.ap-southeast-2.amazonaws.com/public/Investors/Reports-and-presentations/Annual-results-and-reports/2022/Meridian-Integrated-Report-30June22.pdf>
- <https://blog.bnz.co.nz/2022/02/first-esg-linked-derivative-deal-inked-in-new-zealand>
- Note that BNZ, Westpac and ANZ have 30 September balance dates while ASB and Kiwibank have 30 June balance dates. ASB and Kiwibank did not report on sustainable finance progress in FY21.
- This is an ANZ Group target; it is not specific to its New Zealand business.
- <https://news.anz.com/new-zealand/posts/2022/07/good-energy-home-loan>
- Rural Sustainability Loan for farmers | ASB
- <https://www.bnz.co.nz/assets/bnz/business-banking/Agribusiness/pdfs/Agribusiness-Sustainability-Linked-Loan-SLL-Fact-Sheet.pdf>
- [https://www.business.hsbc.com.cn/en-gb/campaigns/sustainable-finance/sustainable-supply-chain-financing#:~:text=Sustainable%20Supply%20Chain%20Financing%20\(SCF,account%20the%20suppliers'%20sustainability%20performance.](https://www.business.hsbc.com.cn/en-gb/campaigns/sustainable-finance/sustainable-supply-chain-financing#:~:text=Sustainable%20Supply%20Chain%20Financing%20(SCF,account%20the%20suppliers'%20sustainability%20performance.)
- <https://www.kiwibank.co.nz/about-us/news-and-updates/media-releases/2020-08-08-kiwibank-to-mainstream-access-to-sustainable-business-lending/>
- Westpac Warm Up loan | Westpac NZ
- \$200 billion of bonds matured or were recalled during 2022.
- <https://www.beehive.govt.nz/release/new-zealand-sovereign-green-bonds-issued>
- <https://www.nzx.com/announcements/402196>
- Mobilising Capital for Impact (kpmg.com)



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