

The Treasury

New Zealand Sovereign Green Bonds Programme Information Release

November 2022

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Treasury Report: New Zealand Sovereign Green Bond Framework

Date:	4 August 2022	Report No:	T2022/1641
		File Number:	DE-10-6-3

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree to the contents of the Framework Commence Ministerial consultation	8 August

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Karina Witty	Project Lead, NZ Sovereign Green Bond Programme	[39]	[35]
Chris White	Head of NZ Sovereign Green Bond Programme	N/A (wk)	✓

Minister of Finance's Office actions

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosures: Yes

[Draft Cabinet paper - NZ Sovereign Green Bond Framework for Ministerial consultation FINAL \(Treasury:4685239v1\)](#)

[Annex 1 - NZ Sovereign Green Bonds Framework \(Treasury:4685205v1\)](#)

[Annex 2 - New Zealand Sovereign Green Bond Framework Second-Party Opinion \(Treasury:4685201v1\)](#)

Treasury Report: New Zealand Sovereign Green Bond Framework

Recommended Action

We recommend that you:

- a **agree** to the contents of the New Zealand Sovereign Green Bond Framework
Agree/disagree.
- b **agree** to seek Cabinet's agreement to finalise and publish the Framework
Agree/disagree.
- c **agree** to commence Ministerial consultation on 8 August ahead of lodgement with the Cabinet Office on 25 August for Cabinet Economic Development Committee consideration on 31 August and Cabinet approval on 5 September 2022
Agree/disagree.
- d **agree** to seek Cabinet agreement that each agency with current or future expenditure in the Programme will provide the Treasury with:
- information about potential new expenditures that may be eligible for inclusion in the Programme
 - quarterly financial information on each expenditure included in the Programme
 - annual impact (outputs and outcomes) information on each expenditure included in the Programme, commencing in 2024, and
 - information on material risks and issues on each expenditure included in the Programme.
- Agree/disagree.*
- e **agree** to provide feedback on the proposed launch event and publication of the Framework
Agree/disagree.
- f [34], [37]

Chris White
Head of NZ Sovereign Green Bond Programme

Hon Grant Robertson
Minister of Finance

Treasury Report: New Zealand Sovereign Green Bond Framework

Purpose of Report

1. We have finalised drafting the New Zealand Sovereign Green Bond Framework (Framework), which reflects changes made as part of the Second Party Opinion (SPO) assurance process. We recommend you seek Cabinet's agreement to finalise and publish the Framework. This report attaches the draft Cabinet paper, including the Framework and SPO opinion (Annex 1 refers).
2. The report also updates you on the proposed launch and publication of the Framework, and the ongoing delivery arrangements for the Programme. [34], [37]

Background

3. In November 2021, Cabinet agreed to establish the New Zealand Sovereign Green Bond Programme (Programme) [CAB-21-MIN-0454 refers]. Treasury has been developing the Programme and Framework.
4. The Framework is an essential foundation to the Programme. It outlines the Government's climate and environmental priorities and sets the basis for identifying, evaluating, selecting, and reporting on included expenditures. The Framework also outlines the Programme governance and operational arrangements.
5. Potential investors use the Framework to inform investment decisions. Together with the SPO, the Framework provides investors with confidence in the credibility of the issuer and programme, and alignment with the International Capital Market Association (ICMA) Green Bond Principles, which are considered market best practice.
6. On 9 June 2022, Treasury provided you with a near-final Framework ahead of providing it to the SPO for independent assurance.

The SPO provides a positive opinion on the Framework (after changes were made based on international market practice and investor preferences)

7. We engaged Sustainalytics, an independent company that provides environmental and social ratings, to review the Framework and provide a SPO report on the credibility of the Framework. Sustainalytics has provided a positive opinion of the Framework (the full SPO report is attached to the Cabinet paper):
 - "Sustainalytics is confident that the New Zealand Government is well positioned to issue green bonds and that the New Zealand Sovereign Green Bond Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021."
8. Sustainalytics provided strong direction on excluding certain internationally uncommon expenditures from the Programme on the grounds that they do not sufficiently align with internationally recognised green bonds expenditures in the sustainable finance sector. To achieve a comprehensively positive opinion, Sustainalytics advised us to exclude:

- Any expenditures, other than research and development, that support the production of red meat, milk and wool at scale as these are not deemed to be appropriate candidates to receive financing from green bonds.
 - Predator control initiatives that use sodium fluoroacetate (1080) - despite the acknowledged net positive environmental benefits, this remains problematic for investors (the EU taxonomy has a guiding principle of do no harm).
 - Just transitions expenditures that primarily focus on social outcomes, which Sustainalytics do not consider to be green expenditures. However specific expenditures with clear climate or environmental benefits, which arise because of the Just Transitions Programme, are eligible.
9. We advised Sustainalytics that these expenditures play a crucial role in delivering the Government's climate change, environmental and indigenous biodiversity priorities. However, Sustainalytics was uncomfortable moving beyond well-established international precedents, and while supportive of the activities and their objectives, was unwilling to opine positively on their inclusion in a sustainable finance context.
10. We have accordingly excluded these expenditures from the Programme to avoid any negative commentary in the SPO, as this would diminish the Programme for international investors and could reduce demand for the bond and generate negative press. The Treasury's structuring advisors, Deutsche Bank and Bank of New Zealand, support this approach.
11. The final Framework has been amended based on the SPO feedback, graphically designed, and is ready for Ministerial consultation and subsequent Cabinet consideration. Any significant changes to the Framework at this stage would require a revised SPO which would necessitate deferring the Programme launch and bond issuance to 2023.

Framework launch and publication

12. Once approved by Cabinet, the Framework, investor presentation and SPO can be published and referred to in a public Programme launch. The available launch window is from Tuesday 6 September (the day after Cabinet) to Thursday 15 September 2022. This window allows some flexibility to execute the launch, while also ensuring that sufficient time is allowed for investor engagements prior to the inaugural issuance. Due to the market sensitivity of the launch, investor engagements cannot begin to be organised until after the public announcement.
13. We need to allow one week after the launch for investors to digest the Framework and materials prior to commencing domestic and virtual investor engagements on 23 September 2022. The international roadshow then commences on 29 September 2022 (and runs until mid-October). [37]
14. We recommend a media stand-up led by the Minister of Finance and the Minister for Climate Change between 6 and 8 September 2022 to launch the Programme and Framework. We will work with your office to determine the preferred format, day and timing of the launch and the associated logistics and attendees.

Administering the Programme

15. Treasury will continue to administer and deliver the core functions of the Programme (high-level work programme milestones are annexed to the draft Cabinet paper).
16. Over the next two weeks, the Treasury is evaluating expenditures for inclusion in the Programme in collaboration with our joint structuring advisors (Bank of New Zealand and Deutsche Bank). This process culminates in recommendations to the cross-agency Green Bond Committee (GBC) for endorsement on 1 September 2022. Once our expenditure recommendations are finalised for the GBC, we will share them with you for inclusion in the final Cabinet paper as indicative expenditures, prior to the Cabinet paper lodgement date (25 August 2022).
17. We are establishing the enduring cross-agency GBC to oversee the Framework and support the Treasury to deliver the Programme. The GBC membership includes the Treasury and agencies that are responsible for the Government's core climate and environmental strategies, and/or significant expenditures included in the Programme, and one independent member.
18. The ongoing success of the Programme requires input and support from government agencies who manage and deliver expenditures included in the Programme. To ensure we receive this information from agencies, we recommend that Cabinet agree that each agency with current or future expenditure in the Programme provide Treasury with:
 - information about existing and new expenditures that may be eligible for inclusion in the Programme
 - quarterly financial information on each expenditure included in the Programme
 - annual impact (outputs and outcomes) information on each expenditure included in the Programme, commencing in 2024, and
 - information on material risks and issues on each expenditure included in the Programme.
19. From 2023, the Treasury will run an annual evaluation and selection process for new expenditures that will be integrated with the Budget process. This will provide Ministers with visibility over proposed Budget initiatives that could be included in the Programme before Budget decisions are taken.

[34], [37]

20. [34], [37]

[34], [37]

21. [34], [37]

[34], [37]

[34], [37]

22. [34], [37]

23.

24.

Next steps

25. We recommend you seek Cabinet approval on 5 September 2022 to finalise and publish the Framework and to confirm agencies' ongoing reporting requirements. This requires Ministerial consultation to commence in the week of 8 August 2022, ahead of lodgement on 25 August and Cabinet Economic Development Committee consideration on 31 August.
26. **[Market sensitive]** After Cabinet consideration, the Framework will be launched by mid-September, followed by domestic and virtual investor engagements, before an in-person European roadshow in early October. [37]
27. We will provide you with an indicative long list of expenditures that are being evaluated for inclusion in the Programme ahead of the Cabinet paper being lodged.

Annex 1: Cabinet Materials

- Draft Cabinet paper – NZ Sovereign Green Bond Framework for Ministerial consultation
- Annex 1 [to Cabinet paper] – NZ Sovereign Green Bonds Framework
- Annex 2 [to Cabinet paper] – New Zealand Sovereign Green Bond Framework Second-Party Opinion

Annex 2: Draft Green Bonds talking points for launch, including on the inclusion of CERF expenditures in the programme

Proactive

- The bar is rapidly rising both domestically and globally for governments to demonstrate the actions they are taking to mitigate the climate crisis.
- The Government is furthering its commitment to climate change mitigation and environmental protection by launching our NZ Sovereign Green Bond Framework ahead of the Treasury's inaugural bond issuance to global financial markets in the coming weeks.
- Green Bonds are a way to recognise green public sector projects already underway and planned that meet internationally recognised standards and give investors the opportunity to finance projects that contribute to climate and environmental objectives.
- This is a step on a continuing journey to increase transparency and reporting around climate, sustainability and wellbeing outcomes.
- Proceeds from Green Bonds will be allocated to eligible expenditures, being government operating and capital expenditures that meet the green criteria set out in the NZ Sovereign Green Bond Framework.
- Eligible Expenditures for the Green Bond Programme are limited to those that occurred last financial year, in the current financial year, and will occur in the two financial years following issuance. At least 50 per cent of total Green Bond proceeds will be allocated to current and future expenditures.
- You can find the Green Bond Framework in the NZ Debt Management section of the Treasury's website. This foundation document sets out the expenditure categories that New Zealand's Green Bonds will finance, which both align with our climate priorities and recognise our unique national context. The categories include Clean Transport and Biodiversity, among others.
- The climate change portfolio is a high priority, whole-of-government set of plans and actions toward the overall objective of a productive, sustainable and inclusive economy.
- The Government is clearly ramping up its commitment to climate action, with the recent announcement of the National Adaptation Plan and the announcement earlier this year of \$2.9b to fund the Emissions Reduction Plan over the next four years.

Reactive

Funding vs finance

- It's important to understand the key differences between funding and finance.
 - **Funding** is the act of providing financial resources for a project or activity. It refers to the revenue sources from which public expenditure is ultimately met. This can include user charges, levies and general taxation. Funding decisions may be made by Ministers or delegated decision-makers.

- **Finance** refers to borrowed money that is ultimately repaid from future revenue sources with interest to investors. Financing can enable current expenditure to be funded from future revenue sources.
- Green Bonds **are not a new source of funding** for government agencies – they provide financing for funding decisions that have already been made, typically through the Budget or delegated decision-making processes.
- That is, while Green Bonds **are a new source of finance**, they do not represent additional funds for the Crown – they will be issued as part of the overall forecast core Crown borrowing programme run by the Treasury’s NZ Debt Management function.

[34], [37]