

## Proactive Release

Date: 11 March 2022

The following Cabinet paper and related Cabinet minutes have been proactively released by the Minister of Foreign Affairs

Title	Reference
Aotearoa New Zealand's International Climate Finance Commitment 2022-2025 Minute of Decision	CAB-21-MIN-0410 CBC-21-MIN-0112

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to redaction codes:

- 6(a): to avoid prejudicing the security or defence of New Zealand or the international relations of the New Zealand Government;
- 6(b)(i): to protect the passing of information from another government on a confidential basis;
- 9(2)(f)(iv): to protect the confidentiality of advice tendered by Ministers of the Crown and officials; and
- 9(2)(j): to avoid prejudice to negotiations.

**Restricted**

Office of the Minister of Foreign Affairs

Cabinet Business Committee

**Aotearoa New Zealand's International Climate Finance Commitment  
2022-2025**

**Proposal**

- 1 This paper seeks Cabinet's agreement on New Zealand's approach to climate finance in advance of COP26 in Glasgow in November. It provides several options regarding a new New Zealand commitment for Cabinet to consider.

**Relation to government priorities**

- 2 Taking decisive action on climate change is a key priority for this Government. Along with strong action at home on climate change, the Government has committed to taking leadership to influence an effective global response to climate change to secure New Zealand's future [CAB-18-MIN-0218 refers]. This requires New Zealand to meet its obligations under the Paris Agreement and to take ambitious action to support and build trust in the multilateral climate change system.
- 3 The Government has also expressed a commitment to the Pacific as a top foreign policy priority and to stand with the Pacific on climate change. Climate change remains the most significant security and development issue facing the Pacific region. Reflecting this, building resilience remains at the heart of New Zealand's engagement with the Pacific as we move through COVID-19 response and recovery phases. Access to adequate climate finance is key to this resilience.

**Executive Summary**

- 4 Both developing and developed countries will need to set more ambitious emissions reduction targets to ensure the Paris Agreement's 1.5 degrees temperature goal remains attainable. New Zealand has a significant national interest in ensuring 1.5 degrees is not exceeded.
- 5 Climate finance is a critical part of the multilateral response to climate change and meeting this global temperature goal. Access to finance was a pre-condition for developing countries agreeing to set mitigation commitments under the Paris Agreement.
- 6 Developed countries agreed in 2009 to meet a collective US\$100 billion per annum climate finance goal from 2020 to assist countries meet their mitigation and adaptation efforts. This goal is yet to be met and remains well off track, leading to a fear amongst countries – including the Pacific and other donors – that the 26th Conference of the Parties (COP26) in November 2021 will be derailed and not set the stage for much needed ambitious mitigation action.
- 7 New Zealand's current climate finance commitment (NZ\$300 million over four years) ends in December 2022. However, there is a general expectation amongst international partners that New Zealand will announce a new commitment before



COP26. s6(a)  
s6(a)

- 8 There is no agreed method to determine how much each developed country should contribute to the US\$100 billion goal. It is up to each developed country to decide its own contribution and New Zealand has been criticised by NGOs for not meeting its “fair share”. New Zealand will want to ensure the quantum of a new commitment represents a credible contribution towards the goal.
- 9 In this context, I am asking Cabinet to:
  - 9.1 Agree to announce a new climate finance commitment before November to support a successful outcome at COP26;
  - 9.2 Agree an amount for this commitment, considering options that range from \$1 billion to \$1.3 billion over four years
  - 9.3 Agree to provide new and additional funding to New Zealand’s International Development Cooperation (IDC) appropriation to deliver this commitment (noting that \$500 million of a new commitment would be drawn from the current IDC baseline, with the remainder being new finance).
- 10 Renewing New Zealand’s commitment now would support a successful COP26, help preserve New Zealand’s influence and interests in global and regional fora, and better support the expectations and increasing needs of our Pacific Island partners. In doing so this will protect New Zealand’s broader interests in building a safer, more prosperous and more sustainable future for New Zealanders.

## Background

### *Climate finance*

- 11 “Finance for action” is a cornerstone of the Paris Agreement. New Zealand, as a developed country Party to the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement, has an obligation to provide financial resources to assist developing countries’ mitigation and adaptation efforts. These efforts are increasingly urgent and the scale of finance needed is in the trillions of dollars.
- 12 The Agreement sets the expectation that finance mobilised will demonstrate a progression beyond previous efforts and scale up over time, in line with the expectation that all countries will increase their ambition with regards to their international emission reduction targets (Nationally Determined Contributions, NDCs). Making high-level climate finance commitments is one way to demonstrate that we are responding to these obligations.
- 13 The climate finance obligations were a pre-condition for developing countries agreeing to their own mitigation and reporting commitments and ensuring the Paris Agreement has global application.
- 14 As a developed country, New Zealand’s finance obligations are separate and independent to its obligations to set an NDC that “reflect[s] its highest possible ambition”. New Zealand’s climate finance commitment does not lessen the obligation and need for ambition within the NDC and vice versa. They cannot be traded off against each other.



- 15 At COP26, New Zealand will present a revised NDC. Together with a new climate finance commitment (if agreed) these commitments will be the key components of the overall package of commitments and statements New Zealand will make.  
New Zealand will be assessed on these as to our level of climate ambition.

*The US\$100 billion / year climate finance goal*

- 16 To support the delivery of developed countries' financial obligations under the UNFCCC, developed countries made a collective political commitment in 2009 to mobilise (from a wide variety of sources, including public and private) US\$100 billion a year by 2020. This commitment has been central to the climate accords since its inception. Delivering on this commitment is seen by developing countries as an indicator of good faith.
- 17 Delivery on the goal is well off track. It is almost certain that developed countries' efforts have fallen short of the US\$100 billion / annum goal in both 2020 and 2021. Current OECD figures released in September calculate developed countries collectively mobilised US\$79.6 billion in 2019<sup>1</sup>.
- 18 Current<sup>s6(b)(i)</sup> projections have developed countries meeting the goal in 2023, three years late, following most recent G7 commitments.
- 19 <sup>s6(b)(i)</sup>  
<sup>s6(b)(i)</sup> Criticism from developing countries is increasing in the lead up to the COP. <sup>s6(b)(i)</sup>  
<sup>s6(b)(i)</sup>

*New Zealand's current commitment*

- 20 New Zealand's current climate finance commitment (at least NZ\$300 million over four years, 2019 – 2022) was announced by Prime Minister Ardern at the UN General Assembly in 2018. At least two-thirds of New Zealand's climate finance is targeted at the Pacific and at least 50% for adaptation, aligning with the Pacific's priorities.
- 21 New Zealand delivers on this commitment primarily through the New Zealand Aid Programme, through grant-based finance. In July this year, New Zealand met its commitment, 17 months early. While exact forecasts are uncertain, current projections suggest a spend of around \$500 million over 2019-2022.
- 22 There is no formal requirement that New Zealand make a new climate finance commitment this year. However, New Zealand is under pressure to significantly increase its climate finance ambition prior to COP26. <sup>s6(a)</sup>  
<sup>s6(a)</sup>
- 23 <sup>s6(a)</sup>

<sup>1</sup> This suggests that a more than US\$20 billion annual jump would be required for the goal to be met in 2020, with final OECD calculations for 2020 expected in mid-2022.



## Analysis

### *New Zealand's objectives*

- 24 New Zealand has three primary objectives in relation to a new climate finance commitment:
  - 24.1 Meeting the goals of the Paris Agreement through supporting its long-term health and integrity;
  - 24.2 Maintaining and enhancing New Zealand's influence in climate negotiations and protecting our wider international interests; and,
  - 24.3 Standing with the Pacific to support their resilience challenge and climate change objectives.
- 25 Providing a timely, credible climate finance commitment and supporting collective developed country partner efforts to ensure a successful COP26 are fundamental to achieving these objectives.

### *Upholding the goals of the Paris Agreement*

- 26 New Zealand has a compelling national interest in championing faster and more far-reaching global action to reduce emissions. New Zealand's future prosperity, security, and wellbeing largely depends on the speed of others' decarbonisation efforts, including developing countries as their economies grow.
- 27 Central to New Zealand's interests is an effective rules-based international system. For the Paris Agreement to be effective for climate action, all Parties need to comply with what they have committed to under the Agreement, including on climate finance.
- 28 However, the multilateral mechanism and response embodied by the Paris Agreement is in jeopardy due to the perception that developed countries, including New Zealand, cannot be trusted to live up to their collective mitigation and finance commitments.
- 29 COP26 in November 2021 represents a critical juncture in the multilateral climate system. It is taking place at a time when the science is painting an increasingly alarming picture of climate change, emphasising the need to act with even greater urgency and ambition this decade. It is the fifth COP since the Paris Agreement was concluded and the first test of the Agreement's ability to ratchet up ambition over time.
- 30 Climate finance, along with updated NDCs, will be central to the discussions. Assessments will be made on whether countries' NDCs collectively committed enough emissions reductions through to 2030 to keep the Paris Agreement's 1.5 degrees temperature limits in reach.
- 31 But without movement on finance, developing countries<sup>s6(a)</sup> are unlikely to agree to enhance their own mitigation ambition, which will be critical in keeping the Paris Agreement's 1.5 degrees temperature limit within reach.
- 32<sup>s6(a)</sup>

s6(a)

- 33 A Delivery Plan is being prepared by the Canada and Germany to show how the US\$100 billion will be met through new and increased commitments from developed countries. This is expected to be released on 21 October. A new New Zealand commitment included in this Delivery Plan would demonstrate New Zealand is a reliable partner and can be counted on to step-up when needed in support of collective interests.

*Maintaining and enhancing New Zealand's influence and protecting our interests*

- 34 Along with emissions reduction targets, climate finance commitments are a key indicator of whether countries are carrying their fair share of the burden. To date, New Zealand's credibility on climate action and relative influence on international negotiations has generally been well regarded internationally.
- 35 Maintaining and enhancing climate credibility is not only a priority for this Government, s6(a)  
s6(a)
- 36 s6(a)

*Standing with the Pacific*

- 37 Pacific island countries are long-standing champions of ambitious climate change action. Their moral high ground is bolstered by their willingness to make and deliver on mitigation and adaptation commitments in their NDCs.
- 38 The importance of COP26 in setting the trajectory of emissions reductions is not lost on the Pacific. For them, it is vital that this COP is a success.
- 39 New Zealand has made strong statements about standing with the Pacific on climate change. Climate finance – and efforts to ensure the Paris Agreement works – is a critical component of this support. s6(a)  
s6(a)
- 40 Further, the Pacific's capacity to make critical climate-related investments has been undermined by the economic impact of COVID-19. Adapting to climate change imposes an additional burden on already fragile economies. Mitigation objectives have been overtaken by other priorities. Regardless of the COP26 imperatives, there is an absolute need to increase climate finance for the Pacific both to support a successful transition to low-emission and climate-resilient futures and to build a safe and secure region.

*Renewing New Zealand's climate finance commitment later*

- 41 s6(a)

- 42 New Zealand would be one of a small group of developed countries to not have stepped up on climate finance, and will be placed near the bottom of developed



countries in terms of our ambition<sup>2</sup>. s6(a)  
s6(a)

- 43 While the success of Glasgow will rely on larger countries committing new funding, rather than New Zealand, the sense of urgency and momentum could also be impacted in the event that a number of countries come to Glasgow unable to commit new ambition.

44 s9(2)(f)(iv)

44.1 s9(2)(f)(iv)

44.2 s9(2)(f)(iv)

44.3 s9(2)(f)(iv)

### Establishing the quantum of a new commitment

- 45 To date, New Zealand's climate finance commitments have been determined using an ad hoc balance of political expectation and consideration of how these commitments could be delivered within the budget of the New Zealand Aid Programme, while also balancing New Zealand's other international development priorities.

- 46 Several methods have been developed by a number of donor countries, as well as academics and NGOs, to estimate each developed countries' 'fair share' of the collective finance goal (see Appendix 1). s6(b)(i)  
s6(b)(i)

- 47 Based on the various fair share methodologies available, New Zealand's share of the goal ranges from 0.35 percent - 0.75 per cent (or NZ\$2.06 billion to NZ\$4.38 billion over four years).

- 48 New Zealand has not established a formal position on what its 'fair share' of the US\$100 billion goal should be. Like emissions reductions goals, it is up to each developed country to decide its own contribution to the goal.

- 49 Cabinet has a choice whether to apply one of the existing fair-share methods to determine a climate finance commitment, or use them – along with assessments of other countries' commitments, domestic political expectations, Government spending priorities and implementation readiness – as a reference to assess the reasonableness of a proposed new commitment.

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<sup>2</sup> Over the past year many donors have made renewed and increased finance commitments through to 2025.

- 50 Regardless of approach used, it is clear from the various fair share assessments that for a commitment to be considered credible by others, it will need to go well beyond New Zealand's current grant-based commitment of \$300 million over four years.

*Fair share of the global goal*

- 51 While the range of the "fair share" calculations for New Zealand described above are high, a commitment based on the provision of public finance would not need to be made at the full "fair share" value to be credible.
- 52 All methodologies assume the "fair share" will include and be met from a variety of sources. This includes a combination of grant-based finance and mobilisation of other financial flows such as public finance provided through Multilateral Development Banks (MDBs) or mobilising additional private finance through our public finance.
- 53 Officials assess that a credible fair share of the collective US\$100 billion per year climate finance goal for developed countries as being around 0.38% of the total goal (or NZ\$2.25 billion over four years) comprising a balance of grant and non-grant finance, and including both public and private sources.
- 54 On this basis, officials estimate that a grant-based commitment of about NZ\$1.3 billion over four years, when combined with mobilisation of other finance streams<sup>3</sup>, would credibly deliver on New Zealand's fair share of the US\$100 billion goal. A grant-based commitment of NZ\$1 billion over four years could also meet the lowest fair share calculation if there was sufficient mobilisation of other finance.
- 55 A commitment at a lower level would be unlikely to enable New Zealand to meet a fair share of the global goal. It would also mean that New Zealand's ability to meet a fair share of an increased goal in 2025 (by which time a new and likely higher goal is expected to have been set) would be more difficult as it would start from a lower base.

*How does New Zealand compare to others?*

- 56 The relationship of real financial 'effort', or total assistance, between countries is difficult to determine and compare. However, even when New Zealand's relative size and the fact that our climate finance commitments are provided entirely in grants rather than loans is taken into account, New Zealand's current climate finance commitment and spend is lower, often significantly lower, than those of other developed countries (see Appendix 2).
- 57 The UK, Denmark and Japan have all made future commitments that are roughly four times higher than New Zealand's current commitment (based on current grant equivalent estimates). Norway provided roughly six times this in grant equivalent terms in 2018<sup>4</sup>.
- 58 Above its US\$500m per year grant-based commitment, in September Denmark pledged to contribute at least one percent of the US\$100 billion goal.

<sup>3</sup> MDB finance attributed to developed countries mobilised US\$30 billion, mostly concessional loans, and around US\$8 billion in private finance towards the US\$100 billion goal in 2019. Estimates of the amount of finance New Zealand can consider it has mobilised through our MDB contributions are around \$250m - \$300 million / annum although these figures are based on the face value of the loan rather than grant equivalent values.

<sup>4</sup> Based on Oxfam's grant equivalency estimates for 2017-18



New Zealand's current climate finance commitment is similar to the current and recent commitments made by the United States, Australia and Canada.

*Source of finance for a new commitment*

- 59 Officials assess around \$500 million of a refreshed commitment can be drawn from existing International Development Cooperation Programme baselines. This will require reprioritisation of activities, and a strengthened focus on climate change co-benefits.
- 60 Further re-prioritisation towards climate change would require trade-offs to be made against other important development priorities that contribute to meeting the Sustainable Development Goals. This becomes increasingly challenging because:
- 60.1 All IDC Programme discretionary funding (\$188 million over the 2021/22-2023/24 triennium) has been earmarked to support Pacific countries to respond to the economic and health impacts of COVID-19. Only some of this support can include climate co-benefits;
- 60.2 Having no discretionary buffer means any further un-programmed calls on the Programme will need to be met through project reprioritisation (cancellation or delay). <sup>s9(2)(f)(iv)</sup>  
s9(2)(f)(iv)
- 60.3 Most IDC "co-benefits"<sup>5</sup> from existing projects have already been realised and counted as part of our climate finance commitment. At this point, to meet, say, a new \$1 billion commitment would require all aid projects that do not currently have climate co-benefits to be reprogrammed to do so. However many important projects (e.g. in health, education, maritime safety) are unlikely to have avenues to realise significant climate co-benefits.
- 61 Further, the credibility of a new commitment hinges not only on the total quantum of the commitment but also on how much new finance it includes. There is a requirement under the UNFCCC that financial support should be "new and additional" and predictable into the future.
- 62 A new commitment without associated new funding, regardless of quantum, will unlikely be considered credible by other countries, including our key partners in the Pacific, nor will it achieve New Zealand's objectives outlined earlier in this paper.

*Options for quantum*

- 63 Officials have assessed a range of options for the quantum of a new grant-based climate finance commitment.
- 64 The options considered range from making a commitment that would introduce no new funding (i.e. \$500 million over four years), through to signalling New Zealand's aspiration to a \$1.3 billion commitment, with \$500 million new money now and \$300 million new money later.

<sup>5</sup> Most climate change projects provide co-benefits e.g. reducing air pollution from emissions from fossil fuels has environmental and health benefits; increasing renewable energy also can increase access to energy of other important development priorities (business, education, and health).



- 65 The options were assessed against a range of objectives and factors including the credibility of a commitment against a fair share of the global goal; meeting the expectations of international partners that New Zealand step-up on climate finance; the degree to which the option responds to the urgency and need for climate finance by developing countries, in particular the Pacific.
- 66 The options were also weighed against the ability of the Aid Programme to scale up delivery of the commitment.
- 67 I invite Cabinet to consider three plausible options:
- 67.1 **Option 1:** A \$1 billion commitment, comprising \$500 million from existing IDC Programme baselines and \$500 million in new finance.
- 67.2 **Option 2:** A \$1.3 billion commitment, comprising \$500 million from existing IDC Programme baselines and \$800 million new finance.
- 67.3 **Option 3:** Signal New Zealand's aspiration to a \$1.3 billion commitment, allocate \$500 million new finance now, and review New Zealand's commitment in 2023 (for Budget 2024).

1 Significantly increasing New Zealand's climate finance commitment would emphasise the importance to New Zealand of its place in and of the Pacific; demonstrate that New Zealand understands and wishes to respond to the urgency needed on climate action; and, reflect the value that New Zealanders place on doing its part to ensure a sustainable future for New Zealand and the Pacific.

2 A step-change in New Zealand's commitment (\$1 billion plus) would emphasise New Zealand's desire to demonstrate climate leadership; indicate that New Zealand had heard the calls for ambition on climate finance; was fully committed to meeting its international obligations; and is an international partner that can be relied on to step up when needed.

## Implementation

### *Outcomes sought*

- 68 The overarching outcomes New Zealand pursues through the delivery of climate finance are to reduce global GHG emissions and build resilience to the impacts of climate change in developing countries, in particular in the Pacific.
- 69 For New Zealand's new climate finance commitment I propose to focus on:
- 69.1 ensuring at least 50 per cent of New Zealand's climate finance is delivered in the Pacific and at least 50 per cent is used to support adaptation efforts;
- 69.2 increasing the mobilisation of other finance including private finance in order to expand the climate finance "pie";
- 69.3 pursuing impact at scale, through the use of modalities such as <sup>s6(a)</sup>  
s6(a)
- 70 New funding will be ring-fenced for climate change-specific activities, noting that all activities will also have significant development co-benefits, improving value for money of the investments. This will complement current mainstreaming of climate change across the New Zealand Aid Programme.



*Delivery approach*

71 If agreed by Cabinet, the quantum of a new commitment proposed represents a significant step up for the New Zealand Aid Programme. This will require a change in approach.

72 In order to support efficient and impactful delivery <sup>s6(a)</sup>  
<sup>s6(a)</sup> there will need to be a shift towards fewer and much larger initiatives in areas of priority such as food and water security, renewable energy, transportation, disaster risk reduction and climate mobility.

73 It will also require greater use of multilateral and regional finance mechanisms. For example, <sup>s9(2)(j)</sup>  
<sup>s9(2)(j)</sup>

74 There will also need to be significant collaboration with other New Zealand agencies and Crown research institutes who hold expertise across a range of sectors. <sup>s9(2)(j)</sup>  
<sup>s9(2)(j)</sup>

75 It will also require increased collaboration with our development partners  
<sup>s9(2)(j)</sup>

76 See Appendix 3 for further details.

77 COVID-19 could have an impact on the pace of implementation. However, it is envisaged that spend will increase to peak in the 2024 and 2025 years by which time implementation challenges posed by COVID-19 restrictions are expected to have eased. Further, while it was expected that COVID-19 would have an impact on delivery of New Zealand's current commitment this did not in fact materialise.

*Sustaining Climate Finance*

78 To date New Zealand's climate finance has largely been delivered through the International Development Cooperation Appropriation within Vote Foreign Affairs.

79 However for New Zealand to meet its commitments for continued climate financing increases into the future, there is a risk that considering climate finance within development financing begins to crowd out other development priorities.

80 Officials are exploring options for more sustainable approaches to climate finance. I propose Cabinet directs an inter-agency group of officials be established to consider options for sustainable sources of finance in advance of the next climate finance commitment period from 2025.

81 This would recognise that solutions for predictable and increasing finance do not rest solely with the New Zealand Aid Programme. Private finance, loans and other policy changes will need to be considered as part of a sustainable solution.

## Financial Implications

82 To meet the financial costs of a new climate finance commitment, \$500 million will be drawn from existing IDC baselines. For a \$1 billion dollar commitment \$500 million in new finance will be required on top of baselines plus Departmental Output Expenses discussed below (\$25 million over 4 years).

83 For a \$1.3 billion dollar commitment, \$800 million in new finance will be required on top of baselines plus Departmental Output Expenses (\$40 million over 4 years).

### *Departmental Output Expenses*

84 Usually, of the total funding sought for bids for additional International Development Cooperation (IDC) funding, part of that funding goes to the management of the IDC appropriation for planning and governance (9.75%) and the balance to the IDC appropriation.

85 However, I plan for MFAT to make greater use of higher order modalities to implement this new climate change commitment. These were outlined in paras 75 and 76. This approach will create some efficiencies in management overheads. For this reason I do not propose seeking the usual percentage of total funding for management of IDC funding.

86 Rather I propose that only 5% for Departmental Output Expenses: Management of Development Cooperation be sought to support the scale up in finance for the Aid Programme. This will be used to increase capacity within MFAT, in New Zealand and in its offshore post network, to plan for, govern and monitor the additional activities that will be delivered with the proposed new funding.

### *Summary of financial costs of this proposal*

87 Depending on the option chosen by Cabinet, the new funding required is as follows:

	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
\$800 million new finance plus 5% Departmental overhead	0	210.00	262.50	262.50	105.00
\$500 million new finance plus 5% Departmental overhead	0	105.00	157.50	157.50	105.00

88 If Cabinet agrees a commitment be announced before COP26, this will require an out-of-cycle funding commitment (i.e. outside of the Budget 2022 process)

89 I propose that any new funding required to give effect to Cabinet's preferred option be charged against the Climate Emergency Response Fund (CERF), which was established when Cabinet agreed to the Budget 2022 Strategy [CAB-21-MIN-0349 refers]. The level of funding available in the Climate Emergency



Response Fund is to be determined through Budget 2022, so until this happens and this new funding can be charged against it, the expenses will impact on the operating balance and net core Crown debt.

## **Legislative Implications**

- 90 There are no legislative implications.

## **Impact Analysis**

### **Regulatory Impact Statement**

- 91 Not required

### **Climate Implications of Policy Assessment**

- 92 Not required

### **Population Implications**

- 93 New Zealand's climate finance will be primarily targeted towards populations in Pacific island countries. At least 50% of New Zealand's climate finance will be spent in the Pacific over 2022-2025.

### **Human Rights**

- 94 New Zealand applies a human rights based approach to ensure inclusive development. Delivery of New Zealand's climate finance will seek to apply this human rights base approach and facilitate the participation of women, children and youth, as well as other people and groups at risk of being left behind, in climate action and climate change decision-making. This reflects the fact that climate change disproportionately affects women, children and youth, people with disabilities, indigenous people, and people of diverse sexual orientation and gender identity, in a manner that exacerbates gender and other inequalities differently and disproportionately.

### **Consultation**

- 95 Consultation has been undertaken with the Treasury, Ministry for the Environment, Department of Prime Minister and Cabinet, Ministry for Pacific Peoples and Ministry for Primary Industries.

### **Communications**

- 96 Subject to Cabinet approval I propose that the Prime Minister announce New Zealand's next international climate finance commitment at the earliest opportunity following Cabinet's decision.
- 97 A communication plan will be developed in line with the final decisions made by Cabinet.

### **Proactive Release**

- 98 I propose to release this paper and appendices proactively, subject to redactions as appropriate under the Official Information Act 1982, on the website of the Ministry of Foreign Affairs and Trade.

## Recommendations

The Minister of Foreign Affairs recommends the Committee:

- 1 **note** New Zealand's core interests with regard to climate finance include:
  - 1.1 Meeting the goals of the Paris Agreement through ensuring the long-term health and integrity of the Agreement
  - 1.2 Preserving and enhancing New Zealand's influence and interests abroad;
  - 1.3 Standing with the Pacific on climate change.
- 2 **note** New Zealand's climate finance commitments established by the United Nations Framework Convention on Climate Change and the Paris Agreement including that climate finance should demonstrate an increase on previous efforts, be predictable, and be new and be additional to existing finance;

### *Timing of a climate finance announcement*

- 3 **note** the importance of ambitious climate finance commitments to a successful outcome at COP26 on global mitigation ambition, the strong expectation by Parties <sup>s6(a)</sup> that New Zealand announce an increased climate finance commitment prior to COP26;
- 4 **note** the expectation that New Zealand will play its part in supporting a successful COP by announcing a new climate finance commitment prior to the event;
- 5 **agree either**
  - 5.1 that New Zealand announces a new climate finance commitment prior to COP26 to be held in Glasgow from 1-12 November 2021;
  - or**
  - 5.2 that a new climate finance commitment should be considered and announced as part of Budget 2022;
- 6 **note** that an announcement prior to COP26 would require an out-of-cycle budget bid, meaning the allocation of funding is not able to be weighed against other Government funding priorities;

### *Quantum of a new climate finance commitment*

- 7 **note** officials assess that a credible fair share of the collective US\$100 billion per year climate finance goal for developed countries as being around 0.38% of the total goal (or NZ\$2.25 billion over four years) comprising a balance of grant and non-grant finance, and including both public and private sources;
- 8 **note** a new New Zealand climate finance commitment based on an increased grant component and expectation of contribution from other sources could deliver New Zealand's fair share;
- 9 **note** that current IDC baselines can contribute \$500 million but that beyond this drawing on further IDC baselines would require substantial and most likely unsustainable reprioritisation;



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*If Cabinet agrees to announce a new climate finance commitment before COP26*

10 **agree** that New Zealand's climate finance commitment will be **either**:

10.1 A \$1 billion commitment over the period 2022-2025, comprising \$500 million from IDC baselines and \$500 million new funding;

**or**

10.2 A \$1.3 billion commitment over the period 2022-2025 comprising either:

10.2.1 \$500 million from IDC baselines and \$800m new funding;

**or**

10.2.2 \$500 million from IDC baselines and \$500 million new funding now, with an intention to review and potentially increase funding in Budget 2024

*Depending on the recommendation agreed, Cabinet*

11 **either**

11.1 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 10.1 above, with a corresponding impact on the operating balance and net core Crown debt:

Multi-year appropriation	\$m – increase/(decrease)
<b>Vote Foreign Affairs Minister of Foreign Affairs</b>	<b>2021/22 to 2023/24</b>
Non-departmental Other Expenses: International Development Cooperation: MYA (funded by revenue Crown)	250.00

Annual appropriation	\$m – increase/(decrease)	
<b>Vote Foreign Affairs Minister of Foreign Affairs</b>	<b>2024/25</b>	<b>2025/26</b>
Non-departmental Other Expenses: International Development Cooperation: Annual Appropriation (funded by revenue Crown)	150.00	100.00

11.2 **note** that the indicative spending profile for the increase to the multi-year appropriation described in recommendation 10.1 above is as follows:

	\$m – increase/(decrease)		
Indicative annual spending profile	2021/22	2022/23	2023/24
Non-departmental Other Expenses: International Development Cooperation: MYA(funded by revenue Crown)	-	100.00	150.00

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- 11.3 **approve** the following changes to appropriations to provide for administering the new climate finance commitment, with a corresponding impact on the operating balance and net core Crown debt:

	<i>\$m – increase/(decrease)</i>				
<b>Vote Foreign Affairs Minister of Foreign Affairs</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Departmental Multi-Category Output Expenses: MCAAct in the world to build a safer, more prosperous and more sustainable future for New Zealanders: Management of New Zealand's International Development Cooperation,(funded by Revenue Crown)	-	5.00	7.50	7.50	5.00

**or**

- 11.4 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 10.2.1 above, with a corresponding impact on the operating balance and net core Crown debt:

	<i>\$m – increase/(decrease)</i>
<b>Vote Foreign Affairs Minister of Foreign Affairs</b>	<b>2021/22 to 2023/24</b>
Non-departmental Other Expenses: International Development Cooperation: MYA (funded by revenue Crown)	450.00

	<i>\$m – increase/(decrease)</i>			
<b>Vote Foreign Affairs Minister of Foreign Affairs</b>	<b>2021/22</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Non-departmental Other Expenses: International Development Cooperation: Annual Appropriation (funded by revenue Crown)	-	-	250.00	100.00

- 11.5 **note** that the indicative spending profile for the increase to the multi-year appropriation described in recommendation 10.2.1 above is as follows:

	<i>\$m – increase/(decrease)</i>		
<b>Indicative annual spending profile</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Non-departmental Other Expenses: International Development Cooperation: Annual Appropriation (funded by revenue Crown)	-	200.00	250.00



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- 11.6 **approve** the following changes to appropriations to provide for administering the new climate finance commitment described in 10.2.1 with a corresponding impact on the operating balance and net core Crown debt:

Vote Foreign Affairs Minister of Foreign Affairs	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Departmental Multi-Category Output Expenses MCA: Act in the world to build a safer, more prosperous and more sustainable future for New Zealanders: Management of New Zealand's International Development Cooperation, (funded by Revenue Crown)	-	10.00	12.50	12.50	5.00

**or**

- 11.7 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 10.2.2 above, with a corresponding impact on the operating balance and net core Crown debt:

Multi-year appropriation	\$m – increase/(decrease)
<b>Vote Foreign Affairs Minister of Foreign Affairs</b>	<b>2021/22 to 2023/24</b>
Non-departmental Other Expenses: International Development Cooperation: MYA (funded by revenue Crown)	250.00

Annual appropriation	\$m – increase/(decrease)	
<b>Vote Foreign Affairs Minister of Foreign Affairs</b>	<b>2024/25</b>	<b>2025/26</b>
Non-departmental Other Expenses: International Development Cooperation: Annual Appropriation (funded by revenue Crown)	150.00	100.00

- 11.8 **note** that, in line with recommendation 10.2.2 above, additional funding to increase New Zealand's climate finance commitment may be sought through Budget 2024;

- 11.9 **note** that the indicative spending profile for the increase to the multi-year appropriation described in recommendation 10.2.2 above is as follows:

Indicative annual spending profile	\$m – increase/(decrease)		
	2021/22	2022/23	2023/24
Non-departmental Other Expenses Multi Year Appropriation: International Development Cooperation: MYA (funded by Revenue Crown)	-	100.00	150.00

- 11.10 **approve** the following changes to appropriations to provide for administering the new climate finance commitment described in 10.2.2 with a corresponding impact on the operating balance and net core Crown debt:

Vote Foreign Affairs Minister of Foreign Affairs	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26
Multi-Category Expenses and Capital Expenditure: Act in the world to build a safer, more prosperous and more sustainable future for New Zealanders: MCA Departmental Output Expense: Management of New Zealand's International Development Cooperation,(funded by Revenue Crown)	-	5.00	7.50	7.50	5.00

- 12 **agree** that, whichever option in recommendation 10 above is selected, the proposed changes to appropriations set out in recommendations 11.1 to 11.10 above associated with that option be included in the 2021/22 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 13 **note** that Cabinet agreed to the establishment of a Climate Emergency Response Fund when it agreed to the Budget 2022 Strategy [CAB-21-MIN-0349 refers];
- 14 **note** that the funding available in the Climate Emergency Response Fund has yet to be established;
- 15 **agree** that, once the funding in the Climate Emergency Response Fund is established, the expenses incurred under recommendations 11.1 to 11.10 above associated with the preferred option in recommendation 10 above will be a charge against the Climate Emergency Response Fund, and that, in the interim, the expenses will impact on the operating balance and net core Crown debt;

*Implementation*

- 16 **agrees** that this new finance will be ring-fenced within the IDC appropriation to be spent on climate-specific initiatives;
- 17 **agrees** that at least 50 per cent of New Zealand's grant-based climate finance should be spent on adaptation and at least 50 per cent should be spent in the Pacific;
- 18 **notes** that further details of how new funding will be allocated will be determined through established IDC Programme planning and programming processes;

*Sustainable finance*

- 19 **note** an intention to start aligning New Zealand's future climate finance commitments with the 5-year Paris Agreement ambition cycle and that our next commitment would be for the five year period 2026-2030;
- 20 **direct** officials to establish an interagency officials working group to consider options for sustainable and progressive increases to climate finance in advance of the next climate finance commitment period from 2025;



*Reporting and measuring the impact of climate finance*

- 21 **direct** officials to report back by December 2022 on the approach New Zealand will use to measure and report on the effectiveness of its climate finance and to mobilise mobilise additional climate finance.

Authorised for lodgement

Hon Nanaia Mahuta

Minister of Foreign Affairs and Trade

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by the Minister of Foreign Affairs

**Appendices – see separate documents:**

Appendix 1: Formulas for calculating New Zealand's fair share of the US\$100bn climate finance mobilisation goal.

Appendix 2: Selected countries' forward-looking climate finance commitments to 2025 ranked by GNI Grant Equivalence

Appendix 3: Climate finance – delivery and scale-up

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Appendix 1: Formulas for calculating New Zealand's fair share of the US\$100bn climate finance mobilisation goal

Formula	Fair share total	Which countries are included?	Polluter Pays metric	Capacity to Pay metric	Weighting	New Zealand's 'Fair Share'	USD per year	NZD per year <sup>1</sup>	4 year commitment (2022-2025)
<b>Oxfam Responsibility and Capability Index</b>	US\$100bn <sup>2</sup>	Annex II countries	CO <sub>2</sub> emissions, Cumulative (1990-2016)	2019 GDP	50/50	0.35%	US\$350m	NZ\$514m	NZ\$2.06bn
s6(b)(i)	s6(b)(i)	s6(b)(i)	0.3%	0.4%	s6(b)(i)	s6(b)(i)	s6(b)(i)	s6(b)(i)	s6(b)(i)
<b>World Resources Institute Green Climate Fund Calculator</b>	US\$100bn	Annex II countries	s6(b)	s6(b)(i)	50/50	0.43%	US\$430m	NZ\$632m	NZ\$2.53bn
<b>World Resources Institute Indicative Minimum Threshold</b>	US\$100bn	Annex II countries	GHG emissions, cumulative (1990-2016)	2017 GNI	50/50	0.43%	US\$430m	NZ\$632m	NZ\$2.53bn
<b>Environment Research Letters Formula</b>	US\$100bn	Annex I and II countries + 8 additional 'developed' countries <sup>4</sup>	GHG emissions, cumulative (1880-2018)	Adjusted GNI	50/50+ GHG per capita scaling up	0.745%	US\$745m	NZ\$1095m	NZ\$4.38bn
<b>Per-capita of Annex II countries</b>	US\$100bn	Annex II countries	GHG emissions, cumulative (1990-2014)	2017 GDP	50/50	0.386%-0.398% <sup>4</sup>	US\$386m-\$398m	NZ\$567m-\$586m	NZ\$2.27bn-\$2.34bn
<b>Per-capita of OECD definition</b>	US\$100bn	OECD definition (Annex II countries, EU Member States, Liechtenstein, Monaco)	GHG emissions, cumulative (1990-2018)	2030 GDP forecast minus projected climate costs	50/50	0.427%	US\$520m	NZ\$764m	NZ\$3.06bn
<b>Alternative formula (MFAT)</b>	US\$100bn	OECD definition	GHG emissions cumulative; (1990-2018)	2019 Gross National Income	50/50	0.383%	US\$383m	NZ\$562m	NZ\$2.25bn
			0.36%	0.40%	<b>Range</b>	<b>0.35% - 0.745%</b>	<b>US\$350m-745m</b>	<b>NZ\$514m-\$1095m</b>	<b>NZ\$2.06bn-\$4.38bn</b>

<sup>1</sup> Exchange rate is a five year average of the OECD's exchange rates (2016-2020: USD 1 = NZD 1.4698)

<sup>2</sup> To note that Oxfam's briefing 'Standing With The Frontlines' used a US\$67 billion figure. This is based on the suggestion by donors in the 2016 'Roadmap to \$100 billion' that US\$33 billion would be private finance mobilised. It will likely be closer to US\$20 billion, and assessments below take into account New Zealand's contribution to private finance mobilised through multilateral institutions.

s6(b)(i)

<sup>3</sup> Albania, Bosnia and Herzegovina, Israel, Macedonia, Moldova, Montenegro, San Marino, Serbia.

<sup>4</sup> This is based on first NDC pledges to calculate future emissions.

<sup>5</sup> These New Zealand numbers are the range of the four metrics that ERL used. They have not provided their working for each metric.

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**Appendix 2: Selected countries' forward-looking climate finance commitments to 2025<sup>1</sup> ranked by GNI Grant Equivalence**

s6(a)

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### Appendix 3: Climate finance – delivery and scale-up

1. The quantum of a new commitment – if agreed by Cabinet – will require a significant step up in delivery for the New Zealand Aid Programme. A strategic and deliberate approach will be required to achieve both scale and impact, making full use of all available modalities for delivery and building on current initiatives.

2. These include greater use of higher order modalities such as contributions to multilateral organisations and Funds; collaboration with others including New Zealand agencies and other development partners; and looking for opportunities to mobilise and leverage other finance, including private sector finance.

*Greater use of multilateral and regional finance mechanisms.*

3. Impact at scale can be achieved through greater use of higher order modalities such as contributions to multilateral climate funds, multi-donor initiatives, or delivery through budget-support arrangements. Higher order modalities offer opportunities <sup>s6(a)</sup> while reducing delivery transaction costs for New Zealand.

4. Potential opportunities under a new commitment include:

- s9(2)(j)

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*Greater collaboration with other New Zealand agencies and Crown research institutes*

5. New Zealand agencies and Crown research institutes hold expertise across a range of sectors and are implementing climate-related initiatives that New Zealand could provide further support for. For example:

- s9(2)(j)

*Increased collaboration with our development partners* <sup>s9(2)(j)</sup>

6. New Zealand's development partners often have the resources to design and deliver large scale initiatives. New Zealand can leverage these resources through contributing to multi-donor initiatives such as:

- s9(2)(j)

-

- s9(2)(j)

*Look for opportunities to leverage other finance and mobilise private finance*

7 The scale of finance needed to help countries reduce emissions and adapt to climate change is beyond what New Zealand is able to provide through grant funding alone. We want to use our finance to mobilise the finance of others including the private sector in order to grow the total amount of funding available to developing countries.

- 8 Officials will look for new opportunities to leverage private finance. For example:
- s9(2)(j)

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*Extension of current activities*

9 There is a range of activities currently under implementation that could benefit from additional finance while avoiding the need for detailed new design which takes time. This could include:

- s9(2)(j)

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