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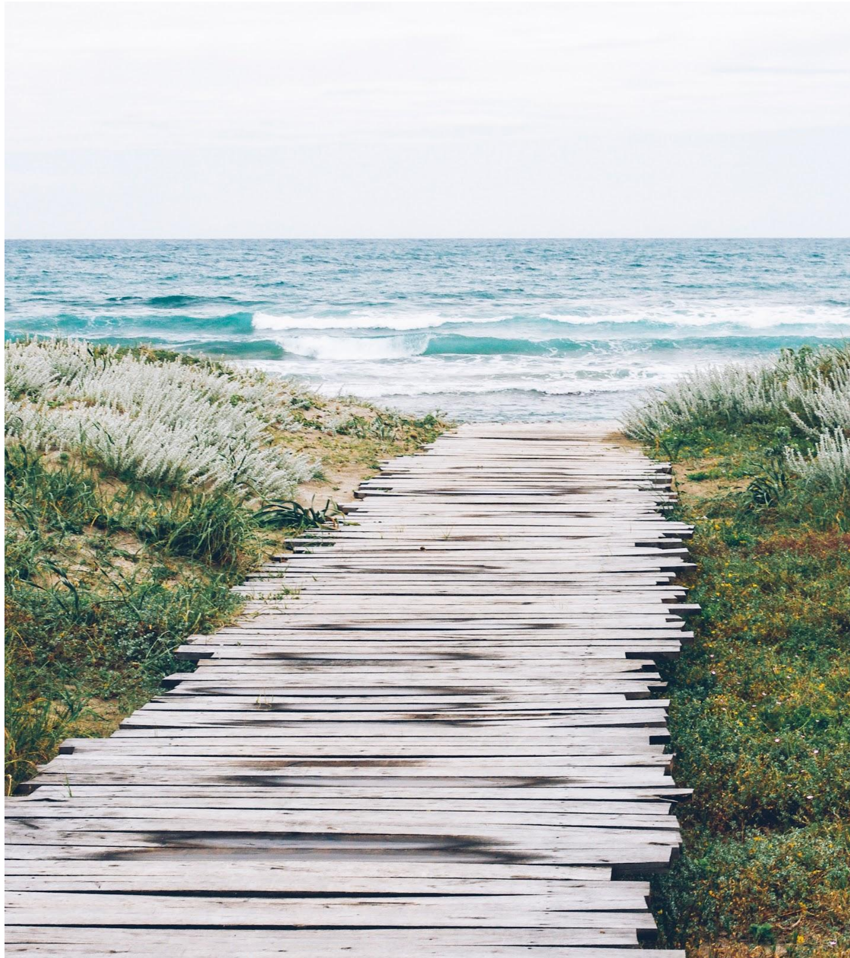
# Climate Governance in Philanthropy



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This resource offers an overview of **Climate Governance** for board members and senior management In philanthropy. Slides with text can act as speaker notes or more detailed info. This deck demonstrates why Climate Governance is relevant to all Boards and how you can get started. It is for readers who have heard about ’climate governance’ but want to learn more about how it is relevant to their priorities.
It has been produced by Esther Whitehead and can be used as a resource or can be presented to your board by Climate Action Aotearoa.

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# Contents in 5 Steps

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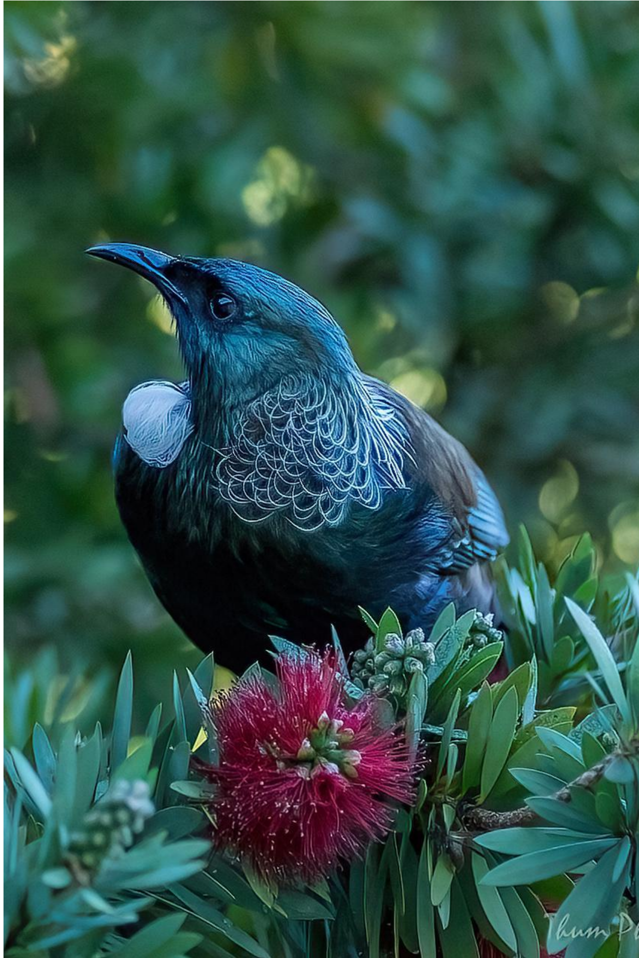
# Why?

Philanthropic sector boards and/or trustee committees have climate related responsibilities as part of their governance role.

There can be serious legal and practical repercussions for a lack of understanding of climate risk and opportunities.

Your organisation has signed The Funders Commitment on Climate Action

This resource will bring you up to date, plus give you the opportunity to govern with confidence.



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# Lead from the top

Boards of trustees and senior management in Philanthropy are responsible for setting the tone at the top and are privileged as custodian stewards for people and the planet.

A culture of attentive and responsible governance in the face of climate change and its related business disruptions is likely to generate trust with employees, grant recipients, investors, insurers and other stakeholders, which will make the duty of governing climate risk ultimately more compelling and satisfying.

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# Step 1. Understanding Climate Impact

# Climate Impacts

**Extreme Weather Events**: Increased frequency and intensity of weather events such as cyclones, heatwaves, droughts and floods.

**Rising Sea Levels**: Coastal communities are at high risk of inundation potentially causing displacement and loss of livelihoods.

**Food Insecurity**: Even subtle changes in temperature can lead to poor growing conditions and therefore a shortage of crops. With the heightened occurrence of severe weather events we can expect food to become harder to grow and more expensive to buy, leading to increased food insecurity.

**Biodiversity Loss**: As natural habitats continue to be compromised or destroyed, we're witnessing a significant decline in our native wildlife populations and a widespread disruption of ecosystems - this also depletes soil quality or freshwater quality etc.

**Health Risks**: As our weather changes less people will have access to clean, safe drinking water. We will see an increase in heat-related illnesses and respiratory problems due to poor air quality.

**Mental Health**: The impact of increased extreme weather events and resulting negative impacts affect people's livelihoods and exacerbate mental health challenges. We can expect a growing number of people who suffer with post-traumatic stress disorder (PTSD), anxiety and climate-anxiety.

These are just some of the key impacts of climate change that impact communities most vulnerable.

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# Let's explore what's on the horizon

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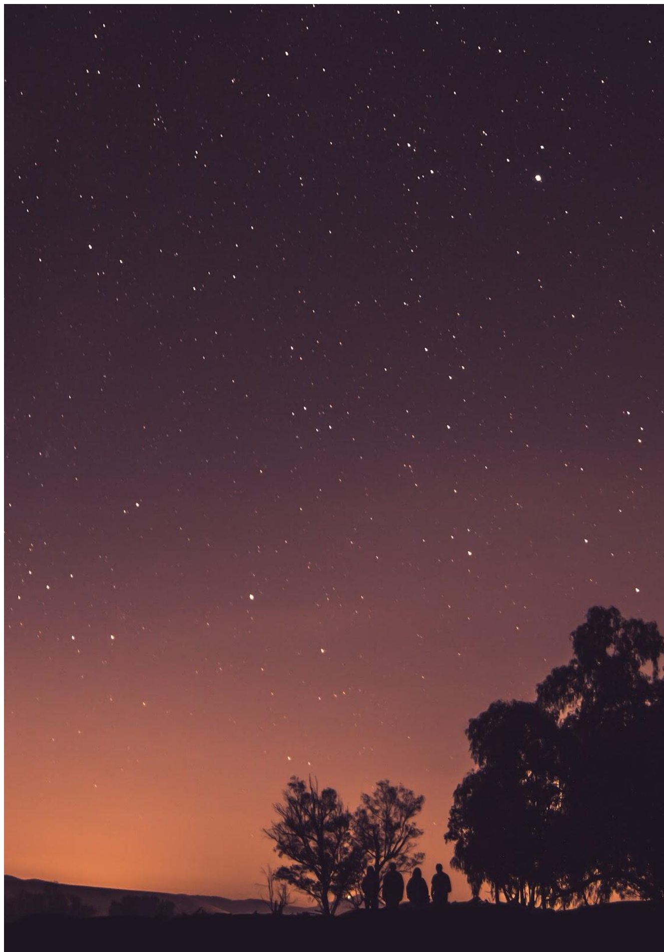
**1.Advocacy** - Philanthropic Trusts are in the position to use their sphere of influence to advocate for climate action and increase education and awareness within their community. We can do more, and go further, advocacy could be championing climate kaupapa, hosting webinars and wānanga to engage the community or socialising the climate initiatives.

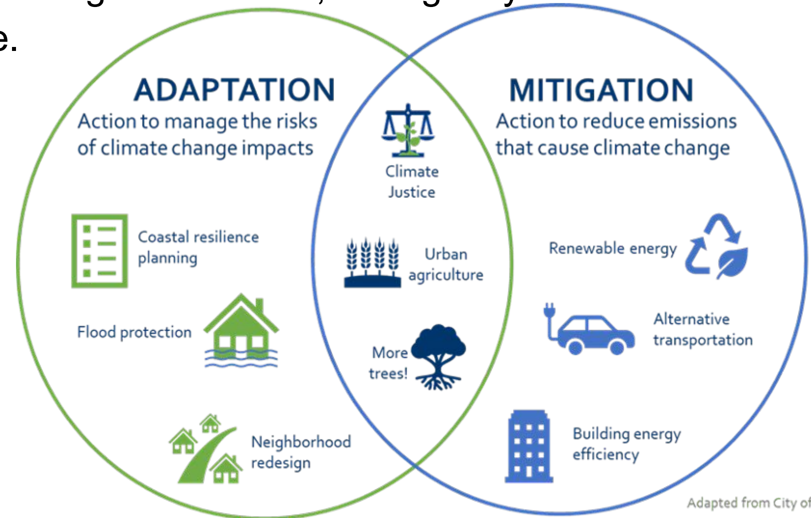
**2.Decarbonise Investments** - Our investments should align with our core values. It’s contradictory to be trying to mitigate and build climate resiliency within our communities whilst simultaneously investing in fossil fuels and carbon intensive industries which we know cause and exacerbate climate change. There are a growing number of lucrative eco-friendly investments out there, set up a meeting with a specialised investment advisor to discuss this further.



**3. Grant-making** - We have the ability to fund 'green' initiatives which benefit all of us! Localised grassroot initiatives like native tree and shrub planting/pest control or we can support research, data capturing, green energy, and food security. In our granting we should be acutely aware of a tika or just transition and the importance of participatory funding. There is huge opportunity to collaborate on grants which are nationally significant and scalable.

**4. Building Resilience** - We have a responsibility to network and build relationships with community leaders, council and key stakeholders to prepare for what's ahead. We should be acutely aware of the needs and risks threatening our community, this could look like gathering relevant, local data and having an emergency plan and having resources stocked and available for ready distribution, if needed.
Climate action shouldn’t be confined to a box. It can look like a range of things from supporting food banks, gathering relevant data, decolonisation practices, mātauranga Māori projects, participatory grantmaking, decarbonising investments, emergency planning, research and innovation and much more.

**See our Climate Action 101 resource for more.**



# Step 3. What is a tika transition?

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***"A [tika transition] to a low-emissions economy is one that embraces tikanga Māori as a source of solutions, upholds the principles of te Tiriti o Waitangi and is consistent with the United Nations Declaration on the Rights of Indigenous Peoples".***

Associate Professor Maria Bargh, 2019

Which of these groups are most likely to be impacted by Climate Change?

- Elderly
- Middle aged
- Young people
- Wealthy
- Middle class
- Poor people
- New Zealanders
- Maori
- Pacific peoples
- Rural communities
- Migrants
- Tangata Whaikaha (disabled)

**Who is most impacted?**

Evidence suggests that Māori, rural communities and people from low-socio-economic backgrounds are and will continue to be disproportionately impacted by climate change.

This is because these groups are more likely to live in low-lying, coastal areas which are sensitive to flooding or extreme heat. These groups are also more likely to work in climate-sensitive primary industries, making them more vulnerable to job insecurity and economic loss.

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**What are the opportunities?**

There are many opportunities that will arise from a Tika Transition.  Trusts should be prepared to seize these. These could include:

- An increase in green businesses, opportunities and jobs, boosting the green economy.
- Support training and upskilling workers to transition into green jobs.
- Engage in proactive transition planning and training with community members, staff, iwi and Māori, regions and small businesses.
- Provide educational opportunities to encourage informed public participation.

# What does a successful Tika Transition look like?

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1. **A successful Tika Transition upholds Te Tiriti o Waitangi.**

Invest in upskilling your board and staff members. Everyone in your organisation should have an understanding of Te Tiriti o Waitangi and its key principles. This helps us understand the document on which our nation was founded and how to move forward in partnership with both tangata whenua, tangata moana and tangata tiriti.

2. **Engages the whole community** in a way that is collaborative and inclusive.

A Tika Transition requires us to be mindful of the barriers to community engagement.Things like transport, venue, technology limitations, wifi availability, and kai requirements should be considered. It should be effortless and mana-enhancing for the community to engage.

**3. Aim to be a koha, not a hōhā!**

Prioritises support to those most in need

Evidence shows that Māori, Pasifika, rural, elderly, children and low-income households will be most impacted by climate change. Recognise the need in your community and channel resources and support to address that need.

**4. Works in partnership with Te Ao Māori.**

Develops relationships with local Māori leaders in your community. Support the use of te reo Māori across the board and advocate for workshops that boost mātauranga Māori through practising and teaching the art of weaving, carving, te reo Māori, kapa haka or rongoā Māori. Relationships with iwi, hapū, whānau and local rūnanga should be mutually beneficial.

**Real success would be to run everything through a 'Tika' lens, including your organisation's investment portfolio.**

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**Prompts for discussion**

1. Do we have relevant data on who will be most impacted in our community?
2. Has our Climate Action Plan accounted for a Tika Transition?
3. Has my organisation done proactive transition planning?
4. How are climate and nature linked in our short- and long-term action plans?
5. Do we have a Māori engagement plan/strategy?
6. Have we had a discussion about what we see our role as during times of local emergencies?
7. Who is responsible for transition planning and impact reporting?
8. Who at board level has climate competencies or do we use external advisers?

Have we included local whānau, iwi, hapū and community groups in these discussions & decision-making processes?

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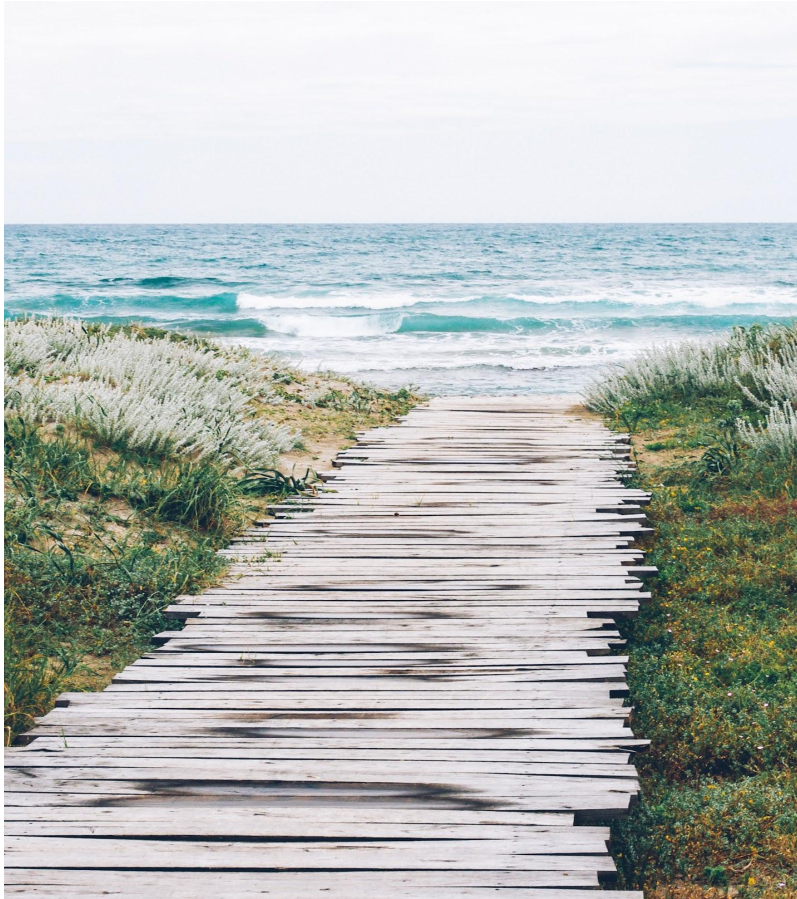
# Step 5. Your ability to influence climate action in your board.



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## Setting the scene

There are a number of political, legal and scientific developments that will impact how we talk about climate governance. **So, where do I start if I don't have any experience?** Begin by asking some broad questions about your whole organisation. Start with understanding the commitment your organisation has stated it is working towards. To honour that commitment, what is the cost to the organisation and how do we publicly disclose how we will try to reach the target?

# Your ability to influence climate action on your board.

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The future of Climate Governance is moving towards **stricter disclosures.**

Set direction as a board for effective **integration of climate action, risk and opportunity** into the organisation.

So that change in board membership doesn't unduly affect good governance.

# Why?



Another way to think about it is, how is this commitment expressed financially and in terms of resources in our organisation?

It’s worth noting that where organisations spend their most money is often where the greatest carbon exposure is found (operationally and in the value chain).  As trustees of a Community Trust (or other charitable trust) you are mandated to fulfil your role in promoting purposes beneficial to society.

Many organisations state they are committed to Net Zero by 2050. Does your organisation state that (or something similar) as a target in its published material (website, annual report, etc)? If so, what exactly does that mean and how will you get there?

# There are two main pathways.

Most Community Trusts (and many other charitable entities) hold tens of millions of dollars, or much more. Together our sector has billions of dollars of capital that could be used more cleverly to achieve purposes beneficial to society - what we are mandated to do. This can be thought of as achieving impact.

Achieve impact through two broad paths illustrated in the slides below.

**ESG exclusion screening** and/or **Impact investment**

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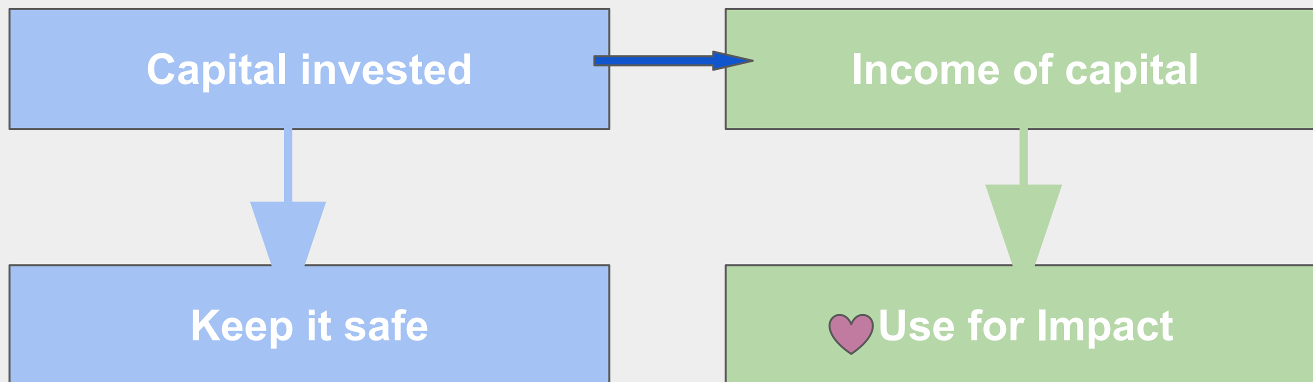
# 'Traditional fund management' Grow money, then gift

## Portfolios include:

- ESG exclusions
- and non-ESG exclusions (may invest in some 'bad')




Example:
Mainstream bank term deposits - these are perceived safe,financially driven

# The ‘new’ approach- invest for impact then gift

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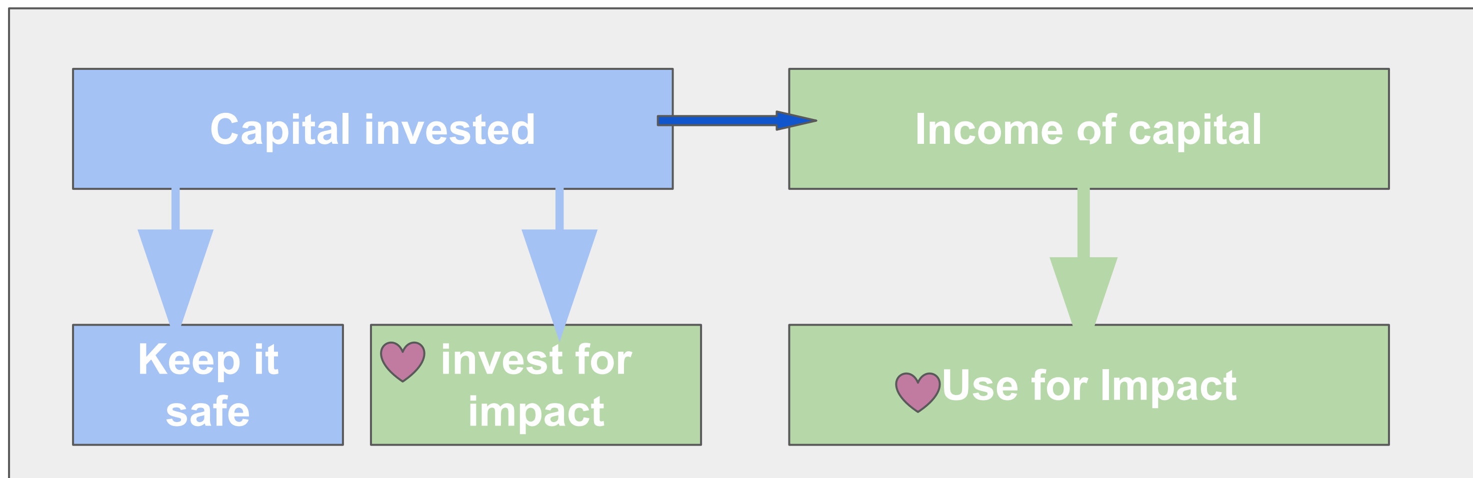


Example:
Impact investment - Direct impact in emissions reduction. Purpose driven

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# Considering statutory duties for charitable trusts.

**Mandatory duties**
**Sections 23 to 27**

- know the terms of the Trust;
- act in accordance with the terms of the Trust;
- act honestly and in good faith;
- hold or deal with the assets of the Trust to further its purpose; and
- exercise their powers for a proper purpose

**Default duties**
**Sections 29 to 37**

- a general duty of care;
- to not exercise power for own benefit;
- to consider exercise of power;
- to not bind or commit Trustees to future exercise of discretion;
- to avoid conflicts of interest;
- impartiality;
- a duty to invest prudently;
- to not profit; to act for no reward.

The game has changed for what a Trustee needs to think about when making decisions. The Trusts Act 2019 outlines the powers and duties of Trustees and opens up new possibilities compared to previous legislation.

## Principle 1: What Trustees should consider

Trustees should be thinking beyond just financial returns. The Law Commission proposed that the Act should clarify that the power to invest does not prevent a Trustee from considering other relevant matters when determining how to manage a trust fund. This might involve buying property for non-investment purposes to help the trust's purpose or objectives[7]. The Act itself, in section 56 and 58, gives Trustees the necessary powers to manage the trust property and invest that property.

7 Law Commission, Review of the Law of Trusts: Preferred Approach (NZLCIP 31, 2012) at 90.

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## Principle 2: The purpose of the act

Section 26: is"... to further the permitted purpose of the trust...", so Trustees do need to consider that.
Trustee must have regard to the context and objectives of the trust."[9]
To consider "the context and objectives of the trust", Trustees should think about the original reason for the trust and its purposes, not just which investment will yield maximum financial return or preserve the capital with the safest investment possible.

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8 Trusts Act 2019, s 59. 9 Trusts Act 2019, s 21. Some matters (among others) that Trustees may consider include8: • the purpose of the trust; • the desirability of diversifying trust investments; and tthe Trustee's overall investment

The game has changed for what a Trustee needs to think about when making decisions. The Trusts Act 2019 outlines the powers and duties of Trustees and opens up new possibilities compared to previous legislation.

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## Principle 3: The ability to modify certain duties

The terms of the trust can modify or remove some duties that are not mandatory, such as:

• The general duty of care[10]. -this requires Trustees to exercise reasonable care in skill in the circumstances, having regard to their special knowledge or experience[11].

• The duty to invest prudently.

This requires Trustees to exercise the care and skill a prudent business person would exercise in managing the affairs of others, when investing[12].Trustees should be thinking beyond just financial returns. The Law Commission proposed that the Act should clarify that the power to invest does not prevent a Trustee from considering other relevant matters when determining how to manage a trust fund. This might involve buying property for non-investment purposes to help the trust's purpose or objectives[7]. The Act itself, in section 56 and 58, gives Trustees the necessary powers to manage the trust property and invest that property.

10 Trusts Act 2019, s 28. 11 Trusts Act 2019, s 29. 12 Trusts Act 2019, s 30

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The game has changed for what a Trustee needs to think about when making decisions. The Trusts Act 2019 outlines the powers and duties of Trustees and opens up new possibilities compared to previous legislation.

## Principle 4: The role of impact in decision making

If impact investing also advances the trust's purpose in light of the context and objectives, then we consider that Trustees may actually have a duty to pursue such opportunities.

When making decisions about investing, the Trustees can now consider other relevant matters, such as whether they should invest in impact. It may be that impact investing can further the trust's purpose, and so Trustees should invest in that way.

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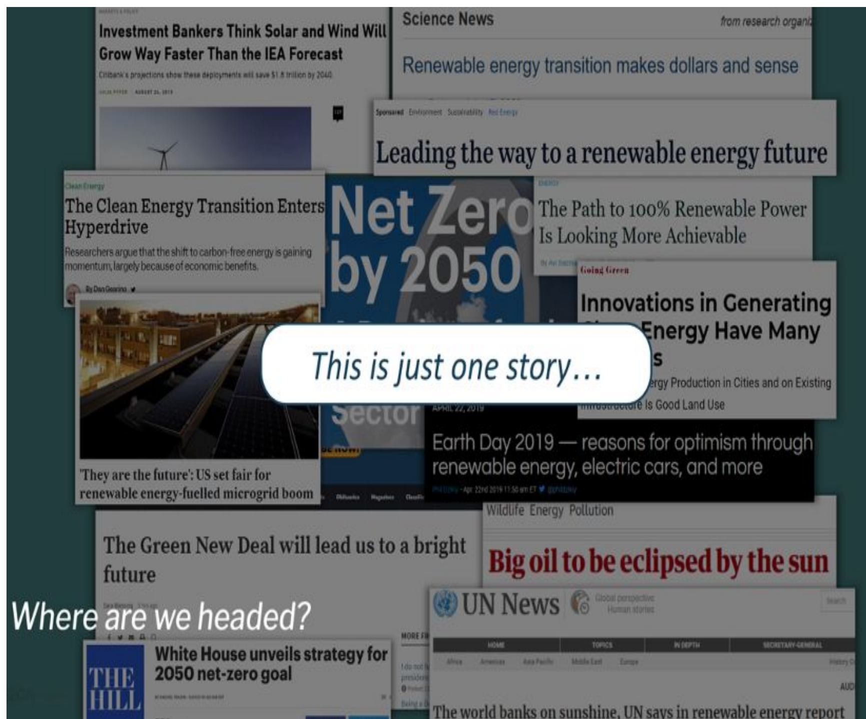
When making investments that would bring in below-market returns or no returns at all, Trustees may be seen as failing their duty to invest as a prudent business person. But that needs to be balanced with the wider considerations and purpose of the trust.

Also, impact investments are likely to be just a piece of a larger portfolio. Trustees should be aware of different risks, returns and liquidity compared to “traditional” investments, so they can consider these along with the trust’s objectives and purposes.

Most impact investments generate returns associated with the impact they have. Such returns may be hard to measure in financial terms, but might be measurable according to other methods that are focused on societal outcomes, such as education, culture, poverty relief, and wellness.

Trusts could even incorporate a new clause allowing Trustees to invest in ways they believe advance the trust’s purposes. A clause amending the normal duty could also allow investments where there may be no financial return, as long as they further the trust’s purpose and objectives.




**Try these suggested first steps to stay on track as a board:**

1. Climate Governance is an emerging field for all. Be open to learning and to adapt as you go. Have an attitude of curiosity.
2. Make a start by understanding your duties and what they enable
3. Add a climate action standing item into EVERY board meeting (even if you don't yet know what you will discuss)
4. Develop your climate literacy and trustee duties/opportunities together. Get support from Climate Co-leads and other professionals/collaborate with others
5. Consider skill gaps and build capability through external support/advice
6. Think long-term - beyond trustee terms.

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# Step 5: Opportunities for climate action in governance

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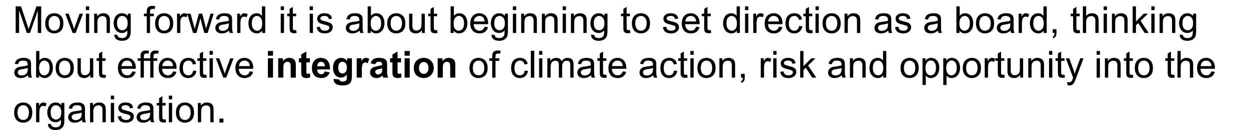

Moving forward it is about beginning to set direction as a board, thinking about effective **integration** of climate action, risk and opportunity into the organisation.

Think of these aspects of business as usual (BAU) and why climate should be integral; When we think about governance we should be integrating climate governance, when we think about reporting, we should be integrating climate reporting…Everyone's job is a climate job (see link)

- Climate governance vs governance
- Climate reporting vs business reporting
- Climate strategy vs business strategy etc
- Climate risk management vs business risk management
- Climate metrics vs business metrics
- Climate scenarios vs business scenarios

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## Understanding Board Risks

Risks can be in many forms and are discussed in later slides, at this stage a relevant risk on this journey is related to greenwashing. Boards with genuine intentions to deliver on clear sustainability/climate strategies will need to protect the organisation from greenwashing risks.

There are two aspects to consider:
**Greenwashing** could be when an organisation states its target of, for example, Netzero 2050 but has its investment portfolio committed to fossil fuels whilst it focuses operations on netzero targets. If the operations are not proportionally material against the organisations net worth it could be viewed as greenwashing. See HSBC example or Z Energy example

**Greenwishing** is when an organisation states its target, for example, of Netzero 2050 but has no transparent pathway to how it will achieve its goal. Simply put, we can’t state something if we don’t have a robust and testable pathway to how we’re going to get there and measure achievements as we go.

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# What’s ahead for Aotearoa? The big picture

**Well, it’s heavy stuff and it’s an emerging sector so go easy on yourself**

This section provides high level indicators of the future trajectory of how assets and funds will change through climate impact.

The future of Climate Governance is inevitably moving towards stricter disclosures. Whilst we don’t know what will happen politically or socially, we can make some relevant predictions based on the changes we’re beginning to witness in the allocation of large capital investment as well as insurance retreat.

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The term “**full insurance retreat**” refers to the point when insurers stop offering or renewing insurance policies because properties/portfolios/assets face escalating hazards from climate impact. (Think drought/heatwaves/floods on crops/properties etc, e.g., Cyclone Gabrielle).
This means that assets may no longer hold the same value.

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# What are climate statements and why do we need them?

Theoretically, climate statements, just like financial statements, are supposed to help enable efficient allocation of capital on rational grounds.

With financial statements, investors can analyse them to decide whether to buy, hold, or sell their investments, which influences their portfolio compositions and investment strategies. Climate statements are meant to achieve the same end, but based on a different set of criteria than financial statements rely upon.

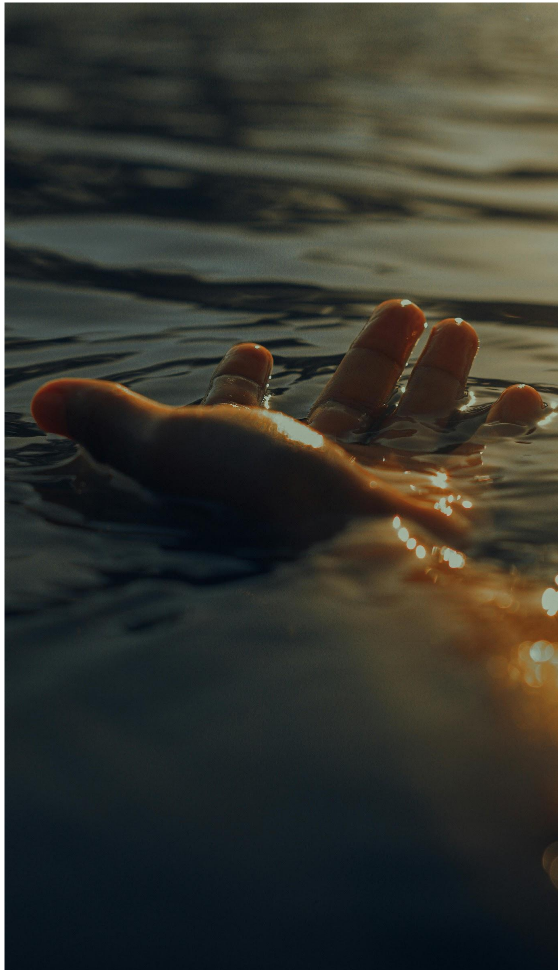
# Looking back to look forward What's the NZ context and its history?

Driven by an understanding of the magnitude of risk presented by climate change, the Task Force on Climate- Related Financial Disclosures (TCFD), developed a framework to guide companies in disclosing their climate-related risks and opportunities.

TCFD was the precursor to the International Sustainability Standards Board's Climate-related Disclosures Exposure Draft standard, and the New Zealand External Reporting Board's ('XRB') Climate Standards (NZ CS) 1,2 and 3 which are now mandated for some NZ businesses.

NZ's XRB is the product of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill passed in October 2021.

New Zealand's first climate standard was issued in December 2022. The Financial Markets Authority (FMA) in New Zealand is responsible for independent monitoring of compliance with the reporting regime.



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**Who is captured by this climate reporting mandate?**

In Aotearoa New Zealand, climate-related disclosures are currently only mandatory for:

- Large, listed companies with a market capitalisation of more than $60 million;
- Large licensed insurers;
- Registered banks;
- Credit unions;
- Building societies and managers of investment schemes with more than $1 billion in assets;
- And some Crown financial institutions (via letters of expectation).

These are all known as Climate Reporting Entities (CRE's) and this is the crux of how they are shifting focus

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# CRE's are shifting from the box on the left to that on the right

**Moving away from this:**

- A voluntary framework (TCFD)
- Backward-looking focus
- Omitting forward-looking statements (e.g. the anticipated financial impact) was OK
- Scope 3 GHG emission disclosures were optional
- Links to capital deployment could be obscured
- No financial accounting for climate
- Claims and statements of commitment could be made without substantiation
- Focus on the impact of the business (i.e. completed as exercise to improve social licence).

**To this:**

- A mandatory, regulated framework
- Forward-looking focus
- Inclusion of forward-looking statements (e.g. the anticipated financial impact)
- Scope 3 GHG emissions disclosure are required
- Clear links to capital deployment are required
- Financial accounting for climate
- Claims and statements of commitment require substantiation
- Focus on the impact to the business (and partly of the business (i.e. business resilience)).

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# You’re still voluntarily disclosing but let‘s follow best practice

To ensure that risks are mitigated, ponder these further questions

1. Are we procedurally clear on how we identify our climate risks?
2. Are we clear on the impacts of climate events (droughts, floods, fires etc) on our value chain?
3. Are risks and opportunities being assessed by the right decision makers, at organisational level, ELT and board level?
4. Have we got a transition plan for our organisation?
5. How is climate risk expressed financially in our organisation?
6. How do/will we structure our climate governance?

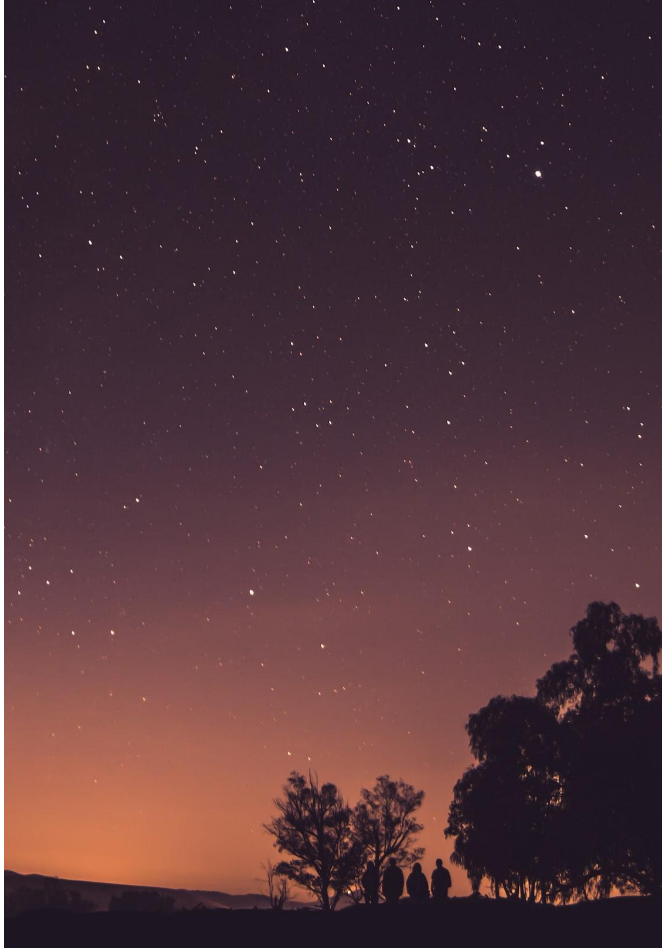
To use a framework, you can follow the World Economic Forum’s Principles for Effective Governance.

# You don’t need to be an expert in this field but you do need to be aware



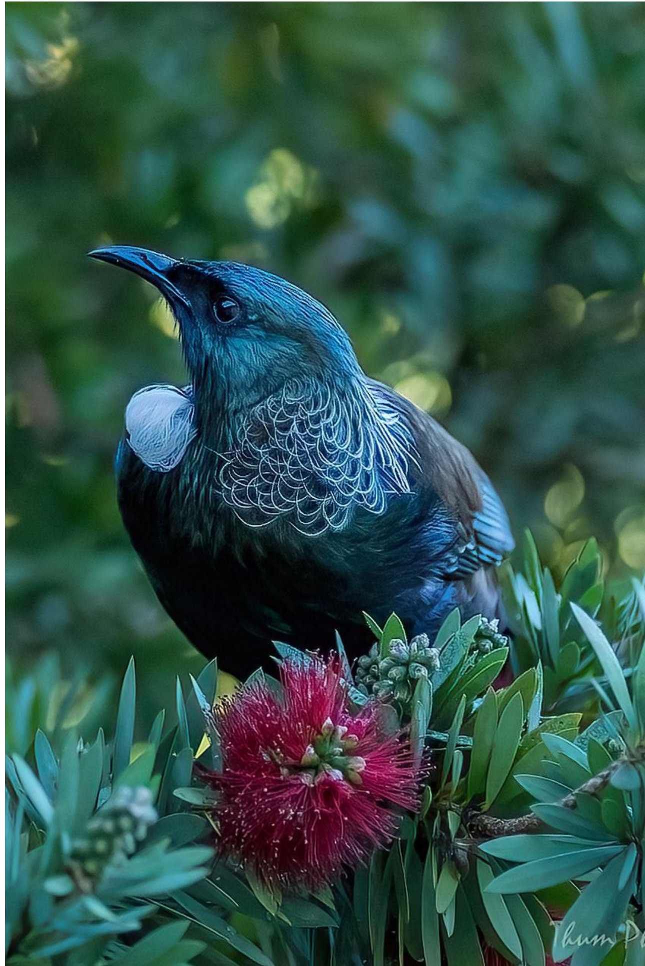
There are many climate change legal experts who provide advice for climate-related risk and opportunities with a focus on:

- directors’ and officers’ legal duties and obligations to manage and disclose climate risk
- policy reform and regulatory requirements – ETS, Climate Change Response Act, climate risk disclosure
- emissions trading issues, contracting and disputes
- mitigating reputational risks
- maximising climate change-related advantages, including advising on emissions offsetting programmes, sustainability claims and marketing, green bonds and ESG financial instruments
- managing ESG disclosure
- global and domestic climate change litigation
- international climate change law (UNFCCC and Paris Agreement)
- responsible investment





For now. The best course of action is to be **aware** and **open** to learning and understanding the relevance of climate impact through your investments and your granting activities, which in turn commits you to the journey of improving the board’s climate literacy and climate competencies.



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# Feel the rewards

You are privileged to be able to set the tone at the top as custodian stewards for allocating capital and gifting funds.

A culture of caring governance in the face of climate change is likely to generate trust with employees, grant recipients, investors, insurers and other stakeholders, which will make the duty of governing climate risk ultimately more compelling and satisfying.

Well done for taking on that responsibility.

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# Thank you

If you would like this to be presented to your board, or to have it as a webinar please contact esther.whitehead@csinz.org