Coalition of Finance Ministers for Climate Action
Explanatory Note to the Coalition Principles

This note provides explanatory information to potential signatories ('Members', who are Finance Ministers[1]) to the Coalition Principles, as drafted during the Sherpa meeting of 21-22 February 2019 in Helsinki, Finland, and subsequently refined.

The *Coalition Principles* ('Principles') are the shared principles of the *Coalition of Finance Ministers for Climate Action* (the 'Coalition'). The Coalition is a grouping of Finance Ministers committed to taking collective and domestic action on climate change and achieving the Paris Agreement's objectives. The Principles are aspirational, and serves to give common purpose to countries.

This note clarifies language contained in the Principles to guide Finance Ministers in their understanding of the Principles and provides illustrative examples of actions that can be taken. This note does not bind signatories to specific measures, nor does it form part of the Principles themselves. The list of potential measures mentioned below is not intended to be exhaustive, does not imply an order of importance or priority, and is not prescriptive. The specific responsibilities of Finance Ministers may differ from one country to another, and it is acknowledged that Coalition Members work within their respective mandates to implement the Principles.

The Principles mention the support of technical assistance from development partners. The World Bank has relevant programs such as CAPE and the NDC Support Facility. Other institutions like the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), UNFCCC Secretariat, UN Development Programme (UNDP) and other UN agencies, and the NDC Partnership also provide technical assistance and analytical support to countries and have been following the Coalition as observers.

[1] 'Ministers of Finance' broadly refers to ministers leading government departments with responsibility for fiscal policy and public finance. In some countries the portfolio of Finance Ministers may include other functions, e.g. financial regulations, economic affairs, or planning. Reflecting their portfolio, they may be called Ministers of 'Finance and Economy', Ministers of 'Finance and Planning', or Ministers of 'Economy'. The Principles are applicable only to the Finance Minister's scope of responsibility in fiscal and economic policies in their respective national context.

Principle 1. '*Align our policies and practices with the Paris Agreement commitments*'

'Paris Agreement commitments' refer to countries' respective commitment and contribution to the Paris Agreement and its objective to hold the increase in the global average temperature to well below 2° C and pursue efforts to limit the temperature increase to 1.5° C above pre-industrial levels. Countries' commitments to prepare, communicate and maintain a Nationally Determined Contribution (NDC) contribute to this objective. It also refers to the commitment to make finance flows consistent with a pathway towards this objective and increasing countries' ability to adapt to the adverse impacts of climate change.

Principle 2. '*Share our experience and expertise with each other in order to provide mutual encouragement and promote collective understanding of policies and practices for climate action*'

'Policies and practices for climate action' refers to actions supporting climate change mitigation and adaptation and spurring investments. Sharing of experiences and expertise between Members could take place at regular ministerial or working-level meetings, bilateral or multilateral visits, exchanges of staff (secondments), and other ways to generate peer learning and collective understanding among Members. Members or groups of members could also take up the role of global or regional "Champions', hosting workshops and other peer-exchange mechanisms among finance ministries of other countries supported by development partners.

Principle 3. '*Work towards measures that result in effective carbon pricing*'

'Carbon pricing' refers to measures which put a price on the emissions of carbon dioxide or other greenhouse gases. Such measures provide incentives for emitters to reduce emissions, through energy conservation, increases in energy efficiency, or innovation and dissemination of low-carbon technologies. Effective carbon pricing means that countries adopt measures to achieve carbon price levels that are sufficient to incentivize the emission reductions needed to meet their own emission reduction targets, subject to their national circumstances, and with a view to reaching carbon price levels consistent with the Paris Agreement's long-term objectives.

Such carbon pricing measures could include:

- Reducing or eliminating fossil fuel subsidies;
- Taxes and tax-like measures, in particular carbon taxes but also including fuel taxes, environmental duties, levies, and charges which are scaled in accordance with carbon emissions;
- Emissions trading systems (ETSs) and similar permit-based or crediting mechanisms; and
- Regulatory policies which result in an implicit marginal price on carbon, such as tradeable performance standards.

Principle 4. '*Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices*'

Taking climate change into account in policies and practices referred to here could, inter alia, include:

- 'Macroeconomic policy' – consideration of climate change targets, risks, vulnerabilities and policy objectives in economic forecasts, debt sustainability analyses, fiscal risk assessments and other macroeconomic policy instruments; tracking of tax expenditures on fossil fuels and tax incentives for the consumption and production of fossil fuels, feed-in tariffs, investments in low-carbon technologies, and other relevant incentive measures;
- 'Fiscal planning'– consideration of climate change targets, risks, vulnerabilities and policy objectives in the formulation and implementation of fiscal plans and frameworks and when undertaking expenditure reviews and program evaluations used to inform fiscal policies;
- 'Budgeting' – integration of climate change policy considerations in budget guidelines, pre-budget statements and budget documents and the tagging of climate-related expenditures, including those that have either a positive or adverse impact on climate outcomes, such as fossil fuel subsidies;
- 'Public investment management' – integration of climate change considerations and policies in the guidance, procedures and methodologies used for program and project selection and appraisal, including the use of a shadow price of carbon in economic analysis and appropriate assessment of climate change risks and vulnerabilities; and
- 'Procurement'– integration of climate change considerations in the guidance, procedures and methodologies for public procurement, including appropriate measures to improve energy-efficiency and favor low-carbon solutions.

Principle 5. '*Mobilize private sources of climate finance by facilitating investments and the development of a financial sector which support climate mitigation and adaptation*'

'Climate finance' in this context refers to finance which aims at reducing emissions, enhancing the removal of greenhouse gases, or reduces the vulnerability of human, infrastructure, and ecological systems to negative impacts of climate change. A financial sector which supports climate change mitigation and adaptation is one which incorporates the risks and opportunities resulting from climate change into investment decision-making and leads to increased flows of climate finance. Measures which Finance Ministers could take to mobilize private sources of climate finance could include policies and practices which:

- promote or develop a financial sector that supports climate change mitigation and adaptation, such as the voluntary disclosure of exposure of financial institutions and real sector companies to carbon-intensive sectors and climate risks;

- promote cross-border investments supporting climate change mitigation and adaptation;
- promote financial flows through loans, guarantees, grants and other risk-sharing instruments, long-term credit lines, by engaging institutional investors, as well as through tax-advantaged provisions for financial instruments such as green bonds, capacity-building for financial sector stakeholders, and provision of data;[2]
- promote climate finance in the real sector through grants, blended finance, R&D exemptions, national procurement policies, direct fiscal stimulus, development and dissemination of rules for the disclosure of greenhouse gas emissions, risks and opportunities due to climate change, and capacity-building efforts, in addition to the incentives provided by carbon pricing (Principle 3) and other measures which seek to provide an enabling environment for the private sector;
- encourage domestic public financial institutions or funds to include climate change mitigation and adaptation in their key strategic frameworks, or to consider climate change objectives in their investment risk assessment and decision-making, or to support relevant public private partnerships;
- support an active role for international financial institutions (IFIs) in mobilizing finance for climate change mitigation and adaptation and aligning their activities with the objectives of the Paris Agreement.

Principle 6. '*Engage actively in the domestic preparation and implementation of Nationally Determined Contributions (NDCs) submitted under the Paris Agreement*'

Active engagement in domestic preparation and implementation of NDCs could include:

- taking a leading role in the formulation and update of NDCs or supporting government entities responsible for NDCs;
- working with other ministries and financial institutions to ensure that policies are coordinated, coherent and aligned with the achievement of the NDCs;
- providing technical input relevant to NDC formulation, such as macroeconomic forecasting, least-cost pathways for emissions reduction, and costing guidelines for specific measures;
- supporting the integration of NDC requirements into climate-informed appraisal and analysis of policies and programs sponsored by other ministries; and
- coordinating technical assistance and financing provided by international institutions for NDC preparation and the integration of NDCs in government's policies, programs and procedures.

[2] For further detail refer to: UNEP/WBG, Roadmap for a Sustainable Financial System, 2017