

## Frequently Asked Questions (FAQs)

### Who is the Coalition of Finance Ministers for Climate Action?

The Coalition of Finance Ministers for Climate Action brings together financial, fiscal and economic policymakers from over 80 countries in leading the global climate response and in securing a just transition towards low-carbon resilient development.

All members of the Coalition have signed up to the six **Helsinki Principles** that promote national climate action, especially through fiscal policy and the use of public finance:

- Principle 1: Align our policies and practices with the Paris Agreement commitments.
- 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.
- Principle 3: Work toward measures that result in effective carbon pricing.
- Principle 4: Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices.
- Principle 5: Mobilize private sources of climate finance by facilitating investments and the development of a financial sector which supports climate mitigation and adaptation.
- Principle 6: Engage actively in the domestic preparation and implementation of Nationally Determined Contributions (NDCs) submitted under the Paris Agreement

More information can be found on the website: <https://www.financeministersforclimate.org/>

### Why has the report been produced? What impact are you hoping for with this report?

In February 2022, the Helsinki Principle 2 (HP2) workstream of the Coalition of Finance Ministers for Climate Action published a *Report on Strategies for Mainstreaming Climate Action in Ministries of Finance: Governance, Capacities, and Research Practices*. The report found that many Ministries of Finance currently lack the capacity and expertise to mainstream and drive climate action at the speed and scale required. The HP2 workstream identified the need for a guide to mainstreaming climate action and so commenced a major collaboration between a wide range of stakeholders.

A review of the literature reveals only a limited number of structured papers or detailed contributions that articulate what the new and evolving role of Finance Ministers will need to look like. This guide aims to make a contribution toward closing this gap, by providing a holistic framework that Ministries of Finance can use to mainstream climate action into their operations.

Specifically, the guide has been produced in order to:

- **Raise awareness of Finance Ministers** on actions to be utilized to address climate change and manage green transition; and offer guidance on how Ministries of Finance can implement them.
- Shape the debate nationally and globally around the **future role and mandates of Ministries of Finance in achieving climate objectives** by taking into account economic, fiscal and financial perspectives.
- Shift the climate change discourse so that as much attention is given to the **net benefits and opportunities** of action while at the same time enhancing understanding the costs and risks of climate change as well as those of inaction.
- **Showcase examples and case studies of positive action** by Ministries of Finance, including ways in which actual or perceived trade-offs can be actively managed and barriers overcome.
- Inform the ongoing plans of the Coalition to build the **capability and capacity** of Coalition members under Helsinki Principle 2.
- **Signpost readers** to more detailed reports, guides and literature.

- **Highlight the nexus between climate and linked agendas and global challenges**, in particular nature and biodiversity loss and sustainable development, while retaining its focus on climate action—hence the majority of the measures, case studies and recommendations are climate-focused.

**Who has been involved in producing the report? What countries have been involved most active with in the process?**

The report is a product of the Coalition of Finance Ministers’ Helsinki Principle 2 workstream, led by Finland and Rwanda. The Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science (LSE) was the key Institutional Partner supporting this work.

This guide has been a collaborative effort of more than 30 Ministries of Finance and other organizations. Its preparation was supported by a country steering group that met four times to advise on the guide. The steering group was made up of Ministries from the following countries: Finland and Rwanda (country leads), Bahamas, Chile, Denmark, Egypt, Germany, Indonesia, Ireland, Jamaica, Malaysia, Rwanda, Spain, Uganda, United Kingdom, United States, Uruguay. Most of the Ministries also participated in interviews for the report and contributed case studies.

In addition, an expert advisory group consisting of 15 experts on Finance Ministries and/or green fiscal policy or finance supported the preparation of the guide. All members and institutional partners of the Coalition of Finance Ministers had the opportunity to review the guide and to provide additional case studies. Many other Finance Ministries, organizations and individuals contributed to the guide, including through a global public consultation on an early draft. A full list of contributors can be found in the acknowledgements.

**How will the agenda set out in the guide now be implemented? What are next steps for the Coalition?**

The Coalition of Finance Ministers is committed to supporting its members to implement the actions from the guide. Ways it might do so include via a program of strategic engagement to enhance awareness and recognition of the important role of Ministries of Finance; through enhanced training and technical assistance programs; by developing knowledge and research partnerships; deepening awareness and dialogue on implementation of the guide using regional workshops or country ‘roadshows’; organizing global or regional debates with stakeholders in areas of contestation to enhance global consensus; receiving ministerial feedback and sharing of experiences, using the late 2023/early 2024 Ministerial Meetings; and enhancing engagement of Ministries of Finance in national and global climate processes in the run-up to COP28 on climate and COP16 on biodiversity.

The guide will be refined and updated over time, to ensure relevance. We have already recognized that biodiversity loss and nature-related challenges have significant economic and financial consequences that will need to be better taken into account in further updates.

**What are the World Bank, IMF, and Institutional Partners other actors such as the World Bank and IMF doing to support this agenda?**

The World Bank and IMF host the Secretariat of the Coalition of Finance Ministers. The Coalition is supported by 26 Institutional Partners, many of which provide dedicated research and/or technical assistance to Ministries of Finance.

The World Bank is launching a new whole-of-government capacity creation program for climate action called C3A, which is targeted at Ministries of Finance and will feature knowledge from the most recent climate-related science and economic research. It addresses demand from Coalition and non-Coalition member Ministries of Finance; evolves as needs and knowledge change over time; and helps to highlight emerging issues across the whole of government. In addition, a live and interacting

community of practice will be launched as a meeting place for practitioners. Priority will be given to knowledge ecosystems in partner countries to service the needs of Ministries of Finance at the country level.

Meanwhile, The IMF has developed a Climate Change 101 course as part of the Fund's increasing engagement on climate issues. It is made up of six modules. In total, there are eight pre-recorded lectures, delivered by 15 economists at the Fund working on climate change from the Fiscal Affairs Department, the Research Department, the Monetary and Capital Market Department, the Strategy, Policy, and Review Department, and the Statistics Department. Apart from lectures, the course comprises videos, graphics, texts, and case studies. Certificates are issued after the learners successfully pass the quizzes at the end of each module. On average, each module takes about one hour to complete. The external version of the course is hosted on the edX platform.

### **How did you arrive at the figure of at least an additional 2% of global GDP and 4-5% in EMDCs needs to be spent on driving climate action?**

It is foreseen that global investment to mitigate and adapt to climate change needs to be significantly increased. In recent years, a number of global estimates for investment needs in both the public and private sector have been published.

In particular, estimates by Systemiq, produced for Stern et al. (2021), find that investment needs for the net zero and climate-resilient global economy amount to up to \$4 trillion per year between 2021 and 2030 in energy, agriculture, forestry and other land use (AFOLU), and adaptation and resilience, amounting to an increase of 2% pa compared to pre-pandemic levels.

In addition, estimates by the Independent High-Level Expert Group on Climate Finance (Songwe et al., 2022), focused specifically on emerging market and developing countries other than China, and covering energy, natural capital, adaptation, resilience and loss and damage, suggest needs of \$1 trillion per year by 2025 and \$2–2.8 trillion per year by 2030 (between 4-6% of GDP, compared with 2.2% in 2019 to ramp up climate action and to deliver on the related sustainable development goals (SDGs)).

### **Aren't Environment Ministers leading the work on climate? Where do Ministries of Finance come in?**

As a rule, other ministries are in charge climate policies, most typically ministries of environment. Role and responsibilities of Finance Ministries in climate policies are usually not clearly defined in the climate governance arrangements. With this, the assessment of economic, fiscal and financial impacts are not sufficiently included in the policy preparation.

Climate change requires societal and economic transformation at a scale that is beyond the remit of individual line ministries and sectoral policies. Climate change is a 'horizontal' issue, in that it covers all sectors of the economy, nearly always with significant economic and fiscal impacts and trade-offs. Tackling climate change therefore requires a whole-of-government approach and in particular Ministries of Finance can play a central and coordinating role.

In fact, a key message of the guide is that a big part of the role of Finance Ministers is in supporting and accelerating action by other government departments, including Ministries of Environment and/or Climate, as well as the private sector and civil society.

On the top of clearly defined roles, strong collaboration between Ministries of Environment and Finance is particularly important. The guide showcases many possible modes of inter-institutional collaboration between Finance Ministries and Environment Ministries – in many, the Environment Ministry leads the climate agenda, with support from the Ministry of Finance, others opt for joint leadership. In some, the Ministry of Finance is in the lead. Each country will have to find a way that works depending on its national and institutional context.

## What is the “Ministry of Finance framework for climate action”?

The core of the guide is a practical framework that Ministries of Finance can follow to mainstream climate action into their operations and drive the shift toward a zero carbon, climate-resilient future. It is designed to guide and support Ministries of Finance to understand how they can enhance their core functions and capabilities, overcome the barriers to action they face, draw inspiration from real-world examples, and identify opportunities for action.

The framework shows how Ministries of Finance can mainstream climate into their **three typical core functions**:

- economic strategy and vision;
- fiscal policies and budget management; and
- financial policy and regulation and oversight of the financial system.

To enhance these core functions, it is equally important that Ministries of Finance build their capability to act. **Three capabilities are critical**:

- leadership capability
- coordination capability; and
- human and analytical capability.

Cutting across these functions and capabilities is the critical need for Ministries of Finance to drive forward a **just transition** to sustain public support and inform effective policy design.

## How is the agenda focused on strengthening capabilities on climate any different to the need to strengthen capacity in Ministries of Finance?

Capability is about more than capacity and the volume of people, money and other inputs—it is about translating inputs into outputs and outcomes through sustained leadership, clarifying roles and responsibilities internally and within other government departments, strong internal coordination and information-sharing, and strengthening skills and human resources. Interviews for this report demonstrate that Ministries of Finance often know ‘what’ strategies and policies are needed but do not know ‘how’ to design and implement them, due to gaps in leadership, coordination, staffing and technical capabilities to act. The guide therefore focuses on strengthening three capabilities – leadership, coordination and skills & expertise.

That said, for many Finance Ministries, there is a strong overlap between strengthening climate-specific and general capabilities. As Ministries work on strengthening the latter, the guide can provide important insights into where the mainstreaming of climate is particularly important.