



THE COALITION OF FINANCE MINISTERS FOR CLIMATE ACTION

AN OVERVIEW

CONTEXT: COALITION OF FINANCE MINISTERS FOR CLIMATE ACTION

Finance Ministers know most clearly the economic consequences of climate change: both the risks posed by its mounting impacts to their economies, as well as, increasingly, the opportunities of climate action which could unlock \$26 trillion globally in investments and create 65 million more jobs through 2030. They can also play a leading role in tackling climate change, incentivizing climate-informed public expenditure, and utilizing climate-fiscal tools such as carbon taxes and emissions trading systems to cut emissions and prioritize low-carbon growth.

At the 2018 Annual Meetings of the World Bank Group and the International Monetary Fund, governments from nearly 40 countries convened to boost their collective engagement on climate. The group recognized the challenges posed by climate change, the unique capacity of the world's finance ministers to address them, and ways in which these efforts could be strengthened.

Several governments expressed strong support for the development of a Coalition of Finance Ministers which would promote cohesion between domestic and global action on climate change, boost ambitions, reaffirm commitments, and accelerate actions to implement the Paris Agreement.

In December 2018, the Finance Ministers of Finland and Chile, supported by the World Bank's Climate Action Peer Exchange (CAPE) initiative, agreed to co-lead the Coalition and invited other governments to meet and discuss its structure, focus, and goals for the coming 2 years.

The Helsinki Meeting

In February 2019, the Finance Ministry of Finland convened the first technical meeting for Sherpas from 19 countries in Helsinki. The meeting built consensus on key documents that would guide the goals and actions of the Coalition, including a set of common principles – the Helsinki Principles – designed to support Finance Ministers to share best practices and experiences on macro, fiscal, and public financial management policies for low-carbon, climate-resilient growth.



The Helsinki meeting

HELSINKI PRINCIPLES

We, as Finance Ministers from around the world:

Cognizant that climate change poses a significant threat to our economies, societies, and environments, including risks to economic growth and macroeconomic stability, and that there is an urgent need to accelerate action;

Recognizing that climate change is also an opportunity, and that taking action can generate substantial benefits for our societies by stimulating technological innovation, improving human well-being, and accelerating economic growth;

Noting our unique position as Finance Ministers to help accelerate a just transition to a low-carbon and climate-resilient economy through macroeconomic and fiscal policy, public financial management and, where applicable, financial regulation;

Acknowledging that such policies and actions will support global collective action on climate change under the Paris Agreement;

Cognizant that Finance Ministers have a common purpose, and can benefit from a forum for sharing experiences and facilitating the adoption of best practices and policies for low-carbon and climate-resilient growth; and

Supported by technical assistance from development partners.

Hereby establish a Coalition of Finance Ministers to demonstrate our leadership in the response to climate change, wherein we will operate within our national framework, competencies, and mandate to support the following principles:

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

EXPLANATORY NOTE TO THE HELSINKI PRINCIPLES

This note provides explanatory information for potential signatories ('Members', comprising Finance Ministers¹) to the Coalition Principles, as drafted during the Sherpa meeting of 21–22 February 2019 in Helsinki, Finland, and subsequently refined.

The Helsinki 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 objectives of the Paris Agreement. The Principles are aspirational and serve 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 exhaustive, nor does it imply an order of importance or priority, nor is it 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.

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.

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 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;

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

- 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.

CASE STUDIES

INDONESIA

Over the last decade, Indonesia has taken decisive action to integrate climate change in planning and budgeting systems, improving its resilience against the adverse impacts of climate change, and its capacity to meet its ambitious target of reducing greenhouse gas emissions by over 29% by 2030. Since 2016, the Indonesian government has developed and implemented a Climate Budget Tagging (CBT) Process to monitor and track expenditures on climate change actions in the national budget system. The CBT involves detailed assessments of climate-related expenditures undertaken by key line ministries associated with Indonesia's national climate change action plan (RAN GRK), including the ministries of agriculture, environment, industry, energy, transportation, and public works. The mechanism assigns a 'tag' to climate mitigation and adaptation initiatives, classifying them as key performance indicators, and improves the measurability, transparency, and accountability of line ministry allocations and national development programs. The CBT helped increase in climate-informed budgeting in Indonesia, from over \$5 billion in 2016 to nearly \$9 billion in 2018, and enhanced allocations towards climate adaptation to the tune of \$3.5 billion. The success of the CBT enabled the development of innovative financial instruments such as green sukuk, an Islamic/Shari'ah-compliant green bond that exclusively finances or refinances sustainable and climate-friendly investments. The green sukuk appeals to both traditional and Islamic investors and unlocks greater green investment opportunities in support of Indonesia's national climate change targets. Introduced in 2018, Indonesia's five-year sovereign green sukuk was the first of its kind to be issued in US dollars, raising \$1.25 billion towards investments in mitigation (sustainable transport, waste management, waste to energy management, and renewable energy) and adaptation (resilience to climate change for highly vulnerable areas and sectors). The Green Bond and Green Sukuk Framework defines the types of projects eligible to receive investments, based on four categories in order of their 'green-ness': dark green, medium-to-dark green, light-to-medium green, and light green. The CBT then identifies tagged projects that are eligible for investment under the framework, and which are consistent with the tenure of the sukuk. Indonesia's success with climate budget tagging and green sukuk demonstrates the advantages of embedding climate change metrics in national budgeting systems. Together, these mechanisms can be instrumental in helping countries identify gaps in green investments and mobilize finance to top-priority sectors that can steer the transition towards long-term sustainable development.

Source: Fiscal Policy Agency, Ministry of Finance, Indonesia

THE UNITED KINGDOM

For over 40 years, the United Kingdom has implemented a framework for evidence-based appraisal and evaluation of policies, programs, and projects. The UK Treasury's Green Book, which serves as the basis for the framework, helps policy practitioners analyze the economic, strategic, and financial feasibility of a proposal while objectively accounting for social and environmental costs and benefits under different scenarios. The Green Book provides a stepwise toolkit for identifying the rationale for policy intervention, generating options to meet the government's objectives, conducting detailed social cost-benefit analysis (CBA) and in some cases social cost effectiveness analysis (CEA), to select the best 'social value for money' option.

It also requires provision of a budget and arrangements for management of a proposal for its own monitoring and evaluation (M&E) to improve future decision making. Through detailed supplementary guidance notes on valuation of energy use, carbon prices, natural ecosystems, and greenhouse gas emissions, the tool facilitates the incorporation of environmental and climate impact assessments in the appraisal process. By embedding evidence-based good practice in government decision making, the appraisal framework promotes transparent, climate-informed fiscal policy making and helps signal greater commitment to decarbonization, adaptation, and resilience.

Source: HM Treasury, United Kingdom

FINLAND

For nearly three decades, Finland has been leading the world in utilizing fiscal policy instruments to address climate change. More recently, the Finnish government has cemented this leadership role through the integration of climate change issues in the national budgetary process. During its initial phases, the integration process required government ministries to explain their priorities, actions and expenditures related to sustainable development issues during the budgetary year. In 2019, the national budget proposal expanded the sustainable development-informed budgetary process to include a separate chapter on sustainable development. The chapter specifically focuses on promoting a carbon-neutral and resource-wise Finland as a priority area, which includes actions taken to address climate change such as enhancing renewable energy use, and funding bio-economy and cleantech solutions. The chapter in the budget proposal also examines, on the revenue estimates side, the main taxation questions that are significant to achieving a carbon-neutral and resource-wise Finland. The analysis helps identify appropriations that represent specific advances towards the aims of this priority area and focuses on the number of changes to be introduced. To promote transparency, Finland's approach also includes a qualitative assessment of elements of public funding and their impacts on the environment. According to government analyses, the budget proposal contains approximately €1.7 billion of appropriations that are beneficial to carbon-neutral and resource-wise goals. However, Finland also has a significant amount of environmentally harmful subsidies, amounting to nearly €3.5 billion. Widespread political support across Finland was vital in initiating this process and is a key prerequisite for any policy implementation in the country. Finland adopted a step-by-step approach which helped control the administrative burden. The government also decided to engage different ministries and non-governmental organizations along the way, as a means of increasing awareness and enhancing commitment to the process. Though still in its earliest stages, the approach has proved successful in mainstreaming sustainable development issues across the country, holistically, and transparently.

Source: Budget Department, Ministry of Finance, Finland

SWEDEN

Sweden's carbon tax was instituted in 1991 to curb CO₂ emissions and incentivize clean energy, in a country with significant fossil fuel consumption. To prevent unintended consequences on job growth and competitiveness, this strategy was complemented by tax relief in other areas of the Swedish economy. Implementing tax rate changes in a stepwise manner gave firms and households time to adapt, reduce dependency on fossil fuels, and shift toward using clean technologies and low-emission fuels such as biofuels, heat pumps, and district heating. The carbon tax is administered in the same way as the general excise duty on the same fuels. This simplifies and lowers costs of administration and collection for tax authorities. Tax rates are calculated using average CO₂ emissions based on the carbon content for different fossil fuels, without the need for measuring of actual emissions. However, critical to the success of the carbon tax is its broad acceptance as one of the most cost-effective instruments to reduce CO₂ emissions in the country. Public support has remained strong even as the carbon tax rate has gradually increased, from \$30 per ton of CO₂ emitted (tCO₂e) in 1991 to \$142/tCO₂e in 2019 – the highest in the world. Since its introduction, the carbon tax has been central to Sweden's pioneering success in reducing carbon emissions. Domestic carbon emissions have fallen by 26 percent over 1990–2017, placing Sweden among the lowest emitters in the EU and the OECD. Over the same period, Sweden's GDP has grown by nearly 78 percent, illustrating the positive environmental effects of carbon taxation, and decoupling economic growth from carbon emissions. In 2018, revenues from carbon taxes added \$2.85 billion to Sweden's economy, and together with revenues from energy taxes, comprised a 1.4 percent share of the country's GDP, and 3.4 percent of total national tax revenues. Despite accounting for less than 0.2 percent of global carbon emissions, Sweden aims to bring down CO₂ emissions by 40 percent by 2020 outside the EU Emissions Trading Scheme, and to decarbonize its vehicle fleet by 2030. In 2017, Sweden passed a New Climate Act, formalizing its strengthened ambition to achieve net zero emissions by 2045.

Source: Ministry of Finance, Tax and Customs Department, Sweden

BANGLADESH

Bangladesh's Climate Fiscal Framework (CFF) is a tool to track, assess, plan, budget, audit, and mainstream climate finance in government decision making. Launched by the Government of Bangladesh in 2014, the CFF helps identify the demand and supply sides (expenditures and revenues respectively) of climate funds, and establish a sustainable, transparent and accountable climate fiscal policy in Bangladesh. The CFF helps determine the equitable distribution and allocation of resources for climate actions and streamline governance of climate finance. Adoption of the CFF marked the beginning of the pursuit of climate finance governance in the country. Based on the recommendations of the CFF, the Government of Bangladesh launched a flagship project titled Inclusive Budgeting and Financing for Climate Resilience (IBFCR) in 2016. Since its inception, the project has helped integrate climate change into the budget-setting process of 20 line-ministries, making it more climate-inclusive and resilient. The CFF has enhanced stakeholder engagement through dedicated climate budget reporting and has introduced performance audits to assess the effectiveness, economy, and efficiency of climate investments.

The framework has also been instrumental in aligning climate finance with Bangladesh's ongoing Public Financial Management Reforms and reflecting climate change in important policy documents such as the Medium-Term Macroeconomic Policy Statement (MTMPS) and the Bangladesh Economic Review. Bangladesh aspires to broaden the remit of existing CFF by incorporating of climate-inclusive debt management, lending, and insurance policies, robust tracking methodologies for climate public finance, and strengthened oversight through the Office of the Comptroller and Auditor General (OCAG) and parliamentary committees.

Source: Economic Relations Division, Ministry of Finance, Bangladesh

FRANCE

France ranks among the top countries leading the fight against climate change using green finance. Internationally, France has played a critical role in fostering commitment to and adoption of the Paris climate agreement and other initiatives such as the Network for Greening the Financial System, and the Task Force for Climate-related Financial Disclosures. At a domestic level, the country has undertaken numerous legislations and initiatives to catalyze green growth and facilitate energy transition through the financial sector. In 2015, leading French banks pledged to limit financing for fossil fuels and align their balance sheets with the 2°C goal of the Paris Agreement. The same year, France enacted Article 173 of the 'Energy Transition and Green Growth' Act, mandating financial institutions and corporates to report, "comply or explain" how they account for environmental, social, and governance (ESG) criteria in their risk assessments and investments. The Article is the world's first legislation to make obligatory disclosure on climate-related impact assessments and risk evaluation for financial corporations and publicly-traded companies. In 2016, France launched two quality labels to spur sustainable, transparent, and responsible investment ecosystems: the SRI Label and the Green label. Supported by the Ministry of Finance, the SRI label is issued to investment funds integrating ESG criteria in their investment process, and currently covers €51 billion in assets. The Ministry of Environment-backed Green label is awarded to investment funds engaged in financing green economic activities, with measurable environmental benefits across specific ecological sectors. The Green label accounts for assets worth €6 billion. In 2017, the French Treasury (AFT) launched the first French sovereign green bond (Green OAT) for an issuance of €7 billion. The Green OAT will finance green eligible expenditure on climate mitigation, adaptation, biodiversity protection, and pollution reduction under the government's "Invest for the Future" program. The bond is compliant with Green Bonds Principles and the Climate Bond Initiatives Framework and will provide consistent and transparent reporting to investors on investment allocations, output indicators, and environmental impacts under the supervision of an independent, international expert-led Evaluation Council. The same year, the Deposit and Consignment Fund, the Public Investment Bank, the French Development Agency and the Public Service Additional Pension Scheme – together accounting for €600 billion in assets under management – signed a climate charter, committing to take climate-related issues into consideration in their investment decisions. The Green OAT has been regularly tapped since January 2017: its size has progressively increased over the last two years. In February 2019, the outstanding amount of the Green OAT was €16.5 billion, confirming the depth and liquidity it brings to the green bond market, and cementing France's role as a leader in the green finance market.

Source: The Treasury, Ministry of Economy, Finance, and Industry, France

