Strengthening the Role of Ministries of Finance in Driving Climate Action

A Framework and Guide for Ministers and Ministries of Finance

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Ministry of Finance, Austria | 18 September 2023

The Coalition
of Finance Ministers
for Climate Action

Contents

1. Introduction and overview

The Coalition of Finance Ministers

The Coalition of Finance Ministers for Climate Action is a global initiative established in 2019.

- Co-chairs from Netherlands and Indonesia
- The World Bank Group/International Monetary Fund host the Secretariat
- 90+ members
- 26 Institutional Partners
- Representing 40% of global CO_2 emissions and 65% of global GDP

The Coalition's 2022 work programme identified the idea to develop a guide on strengthening the roles of Ministries of Finance in driving climate action.

The Coalition of Finance Ministers for Climate Action

Context and purpose of the guide

The guide is designed to:

- **Provide practical guidance** on the implementation of the six Helsinki Principles and workstreams, including the connection between them.
- **Showcase examples and case studies** of positive action by Ministries of Finance.
- **Shape the debate** around the future role and mandates of Ministries of Finance.
- Shift discourse to give as much attention to the **net benefits and opportunities** of climate action as to the **costs and risks**.
- Inform the ongoing plans to build **capability and capacity** of Coalition members in climate action.

The guide is not prescriptive: it aims to provide a comprehensive '**menu of options**' to help members to mainstream climate action into economic, fiscal and financial policy according to their **specific national circumstances**.

The guide in numbers:

- 30+ countries and 10 institutional partners involved
- 15+ other partners
- 30+ expert contributions
- 50 consultation submissions
- 140+ country case studies and examples
- 800+ comments received in review and consultation

The Coalition of Finance Ministers for Climate Action

Who has been involved?

The guide is the product of a **collaborative effort** by many actors.

It has benefitted from input and advice from:

- Interviews with Members and Partners
- Country Steering Group (15+ Coalition members, led by Finland and Rwanda)
- Institutional Partners of the Coalition
- Expert Advisory Group
- External contributors and reviewers
- A global consultation launched at COP27
- The Grantham Research Institute on Climate Change and the Environment at London School of Economics as the key Institutional Partner

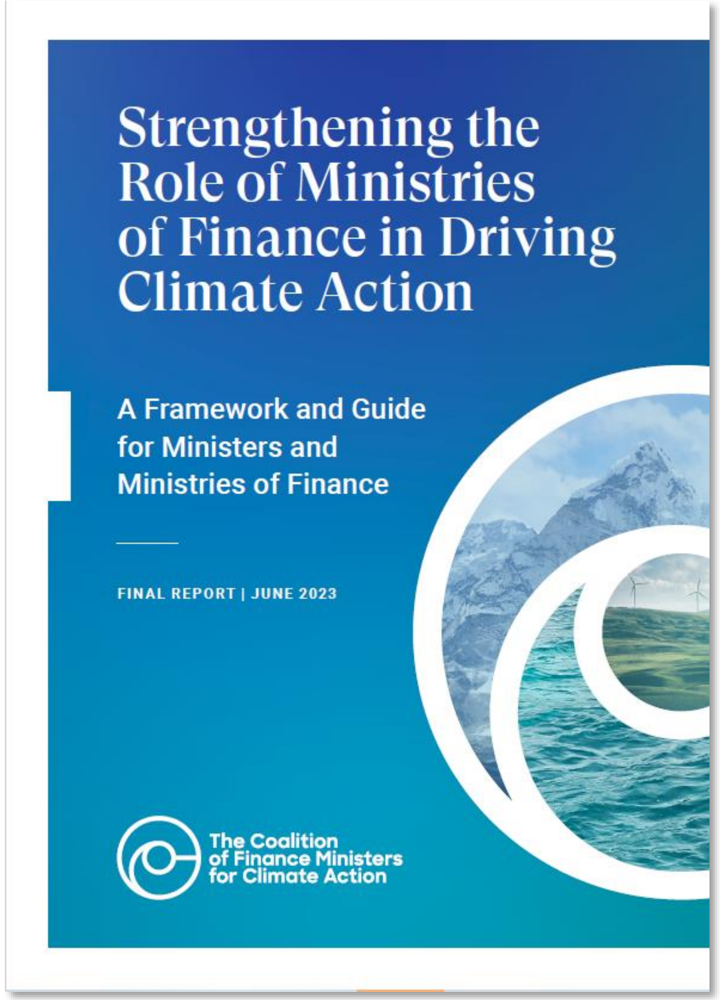
Structure of the guide

The guide consists of three products:

- The full guide (250 pages)
- Synthesis report (75 pages)
- Summary for policymakers (8 pages)

The full guide is split into three parts:

- **Part A:** Why Ministries of Finance matter for climate action and economic transformation
- **Part B:** Practical framework for Ministries of Finance to mainstream climate action in core functions and capabilities
- **Part C:** Agenda and priorities for action for Ministers and Ministries of Finance for climate mainstreaming

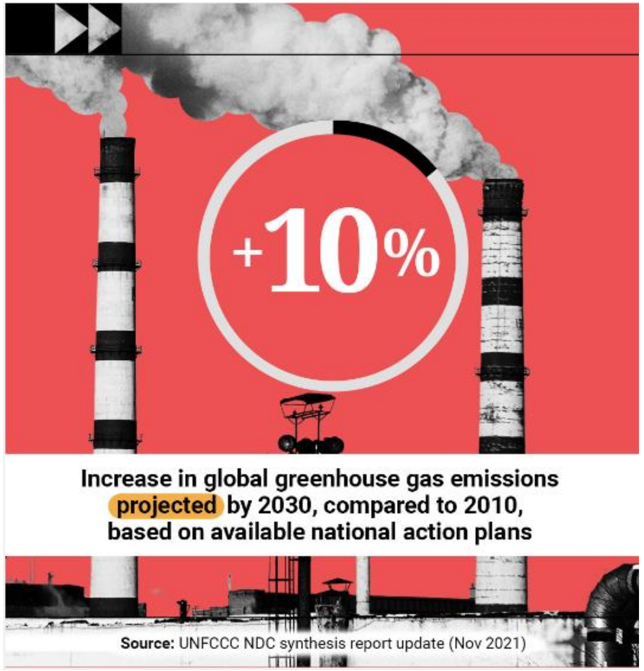


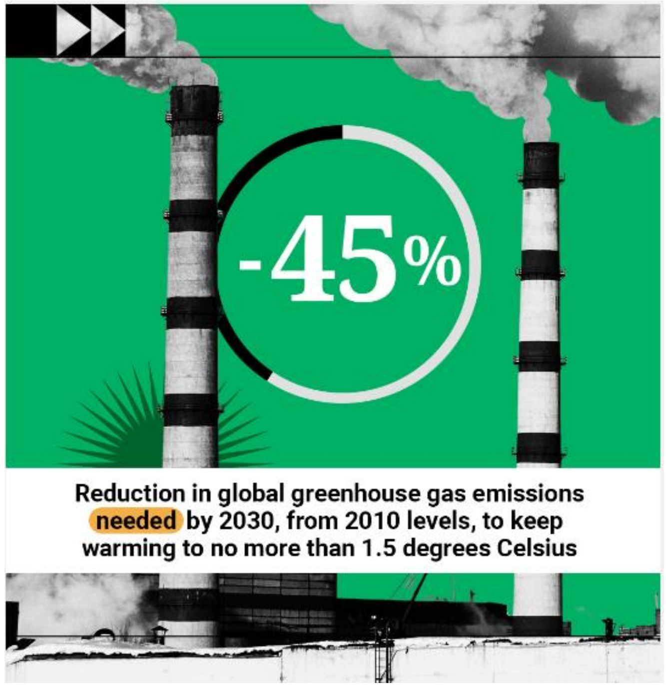
Part A. Why Ministries of Finance matter for climate action

Urgency to act

The window for avoiding dangerous climate change is narrowing rapidly, with a large gap:

- between national climate strategies and temperature targets; and
- between strategies and the policies and financial resources to deliver them.





The need for economic transformation

Reaching zero emissions by 2050 and adapting to the fast-changing climate will require no less than a fundamental reorganization of the global economy.

Investment needs to be channelled into four priority areas:

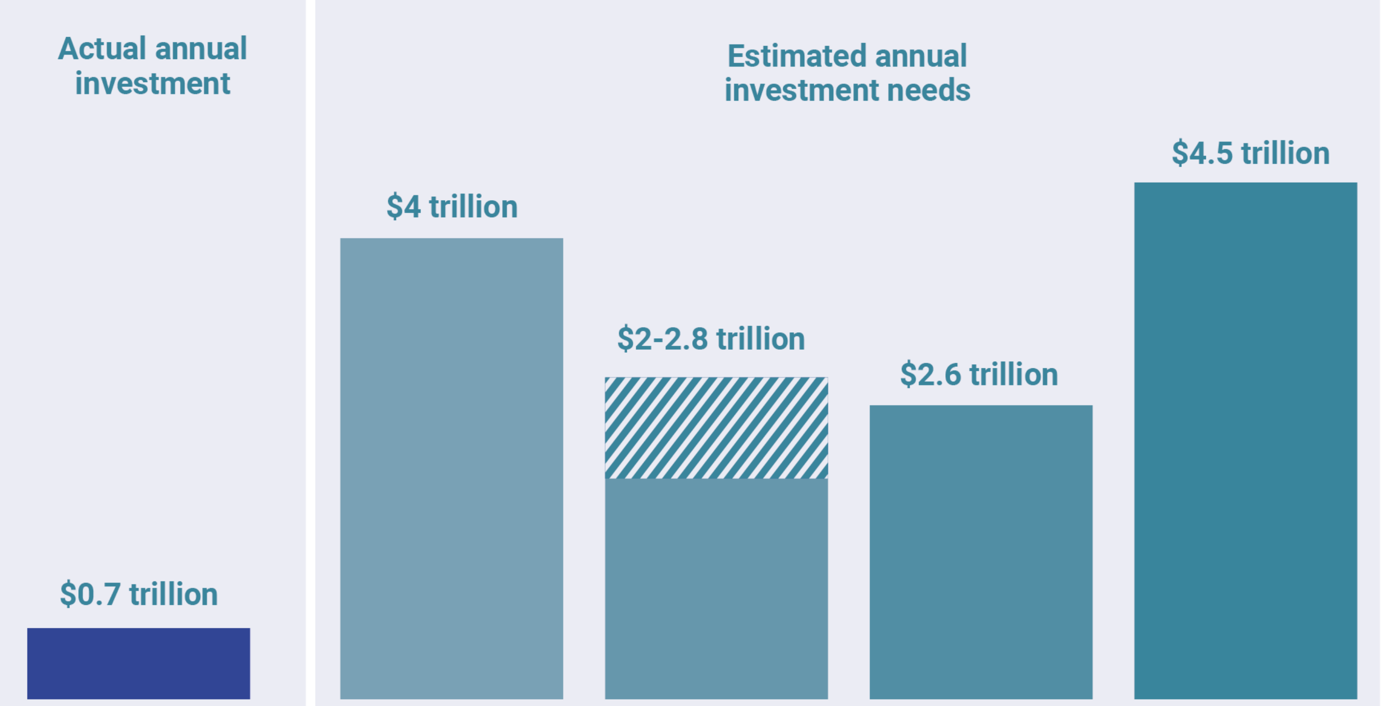
Transforming major emitting sectors: total decarbonization of energy production, buildings, transportation, industry and agriculture

Protecting and restoring natural capital, including through sustainable land use practices and conservation of biodiversity

Strengthening adaptive capacity and **building resilience**, and financing loss and damage

Fostering a just transition

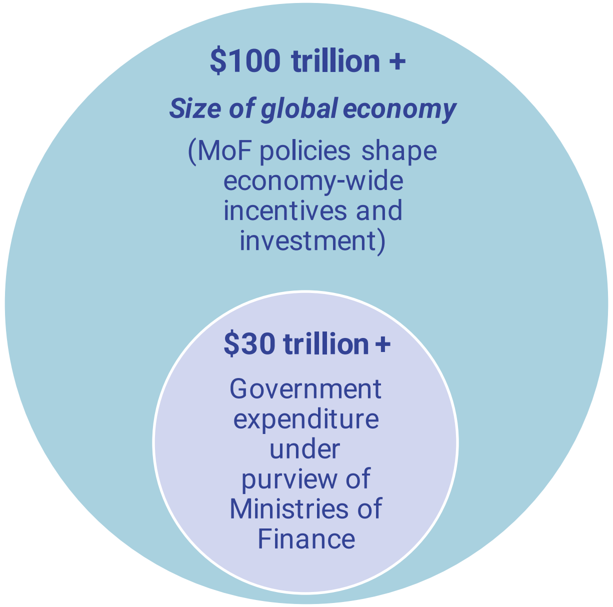
Investment needs to be increased and sustained above pre-COVID levels by 2% of GDP per year, and closer to 4–5% in emerging markets and developing countries.



Source	CPI, 2022	Systemiq (in Stern et al., 2021)	Songwe et al., 2022	Vivid Economics, 2021	Vivid Economics, 2021
Timescale	2019-2020	2021-2030	By 2030	2021-2025	2026-2050
Sectors	Energy, transport, land use, buildings and infrastructure, industry, water and waste, cross-sectoral and others	Energy, agriculture, forestry and other land use (AFOLU), and adaptation and resilience	Energy, natural capital, adaptation, resilience and loss and damage	Energy and land use	Energy and land use
Region	Global	Global	Emerging and developing countries other than China	Global	Global

Ministries of Finance will be key to a successful transformation

- As **centre-of-government bodies** at the crux of coordinating economic, fiscal, and financial policy, mobilising investment, and managing implementation
- With their **overview of a country's economy** and role shaping national visions, strategies and investment plans
- In **overseeing expenditure** of government departments, giving them direct or indirect control over one-third of global GDP
- As **regulators or shareholders** in state-owned enterprises, development banks, sovereign wealth funds, and the financial sector
- As members of the **global family and network** of Finance Ministers and ministries, shaping the global economy



The four major benefits of climate action

Climate action is essential for Ministries of Finance to achieve their core priorities of macro stability, growth and responsible management of public finances. It can help to:

- avoid escalating risks with macro-critical consequences
- unlock a 'triple resilience dividend': for the economy, society and environment
- unlock significant growth and development benefits, while generating cost savings
- deliver cheap, secure and clean energy and fight inflation

The benefits and opportunities of action and costs and risks of inaction mean climate action can be the **development and growth story of the 21st century.**

An opportunity to drive economic prosperity

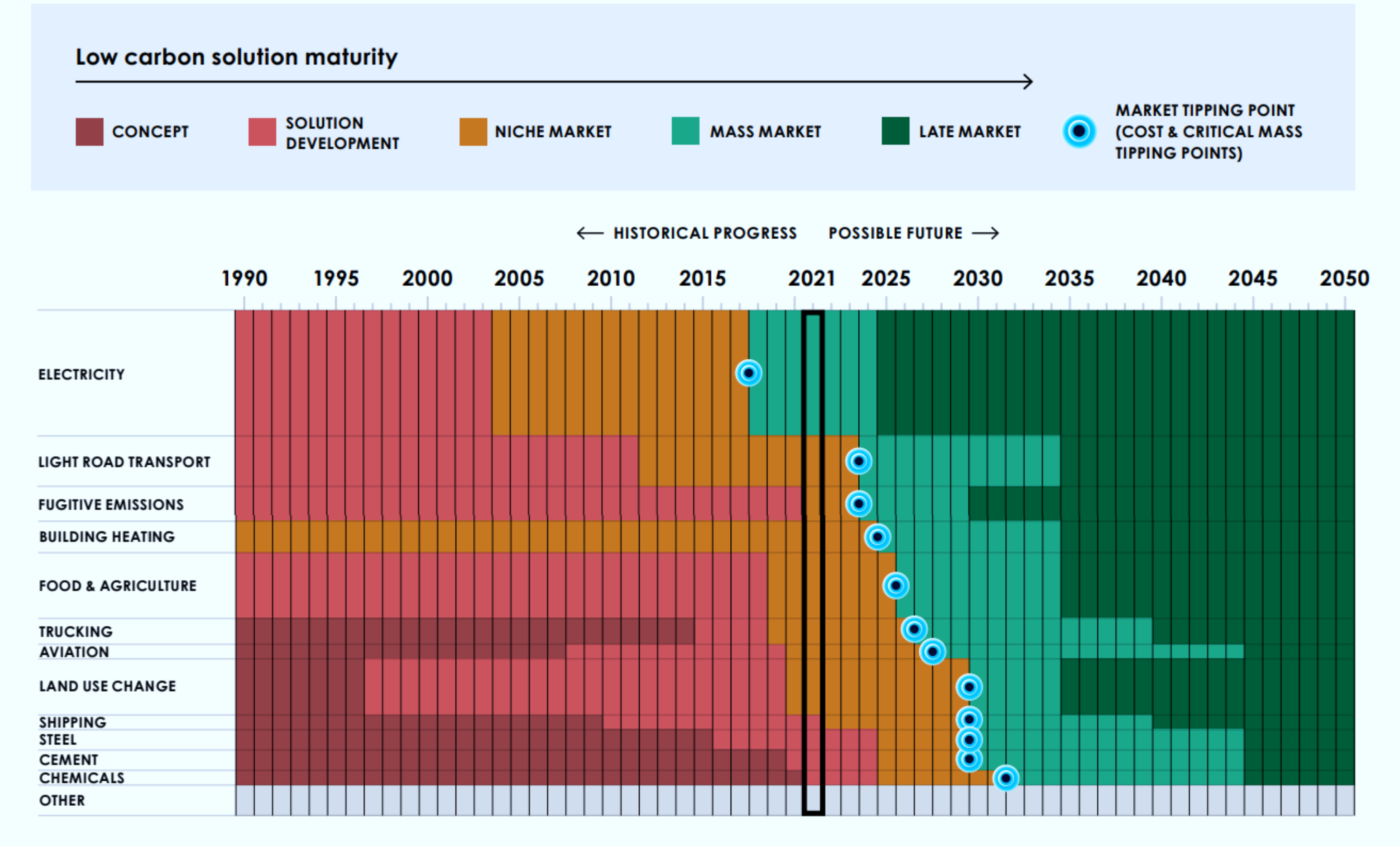
Ministries of Finance should be mindful that failure to act on climate is likely to have **growing impacts on revenues and the cost of capital**…

- **Economic and budgetary shocks** from growing climate impacts on critical infrastructure
- **Increased cost of capital** through climate impact on sovereign risk ratings
- **Erosion of the tax base** with inevitable global shift towards electrification and new technologies
- **Exposure** of key sectors and current account balance to **volatility** in global oil and gas markets

… while slow action can **undermine the scale of opportunities and benefits**:

- **Early-mover and competitiveness advantages** from spurring innovation and new green sectors
- New **job opportunities**
- Wide ranging **co-benefits**: social, health, and natural capital
- ‘**Triple resilience dividend**’ – avoided losses / economic benefits / social & environmental benefits

… and to further propel existing low-carbon solutions



Note: sectors sized according to 2019/20 emissions impact

There is potential for technology to reach tipping points in sectors that are responsible for over 80% of global emissions.

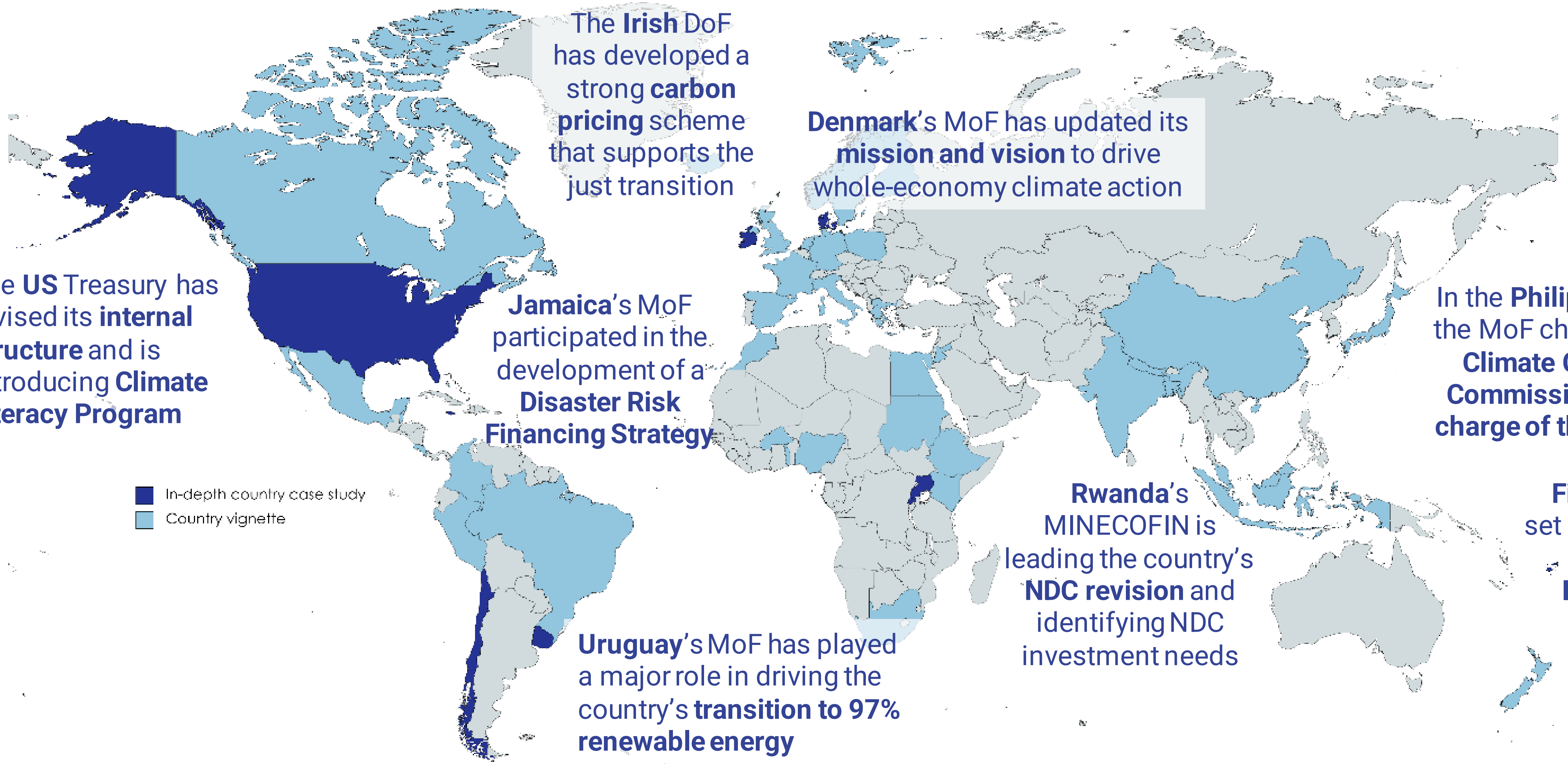
Ministries of Finance that create the conditions for these tipping points in their economies will benefit from:

- Lower cost energy and transport
- Reduced exposure to volatile fossil fuel pricing
- Net job creation (3:1 job creation for clean energy vs. fossil fuels)
- Broader ancillary benefits such as reduced healthcare costs

Source: Systemiq , 'The Paris Effect – COP26 edition' (2021)

Ministries of Finance are stepping up

There are a growing number of examples of visionary leadership by Finance Ministers, including 100+ featured in the guide



The **US** Treasury has revised its **internal structure** and is introducing **Climate Literacy Program**

The **Irish** DoF has developed a strong **carbon pricing** scheme that supports the just transition

Jamaica's MoF participated in the development of a **Disaster Risk Financing Strategy**

Denmark's MoF has updated its **mission and vision** to drive whole-economy climate action

Uruguay's MoF has played a major role in driving the country's **transition to 97% renewable energy**

Rwanda's MINECOFIN is leading the country's **NDC revision** and identifying NDC investment needs

In the **Philippines,** the MoF chairs the **Climate Change Commission is in charge of the NDC**

Fiji's MoE has set up a **Climate Change and International Cooperation Division**

But more needs to be done. Systemic reform is yet to happen in many ministries

There remains a substantial disconnect between the ambition of national climate strategies and the supporting policies and resources provided.

Only:

¼ of the members of the Coalition are actively involved in all stages of the **NDC development and implementation process** (CFMCA, 2020)

< $1 trillion provided in **additional investment** to mitigate and adapt to climate change per annum (CPI, 2022)

<10 Ministries of Finances have dedicated **climate strategies**, or have incorporated climate into their organisational strategies (own research)

Meanwhile:

- **Fossil fuel subsidies**, both explicit and implicit surged to a record $7 trillion in 2022, the equivalent of 7.1% of global GDP (IMF, 2023)
- **Carbon pricing** initiatives cover **less than a quarter of global emissions**, with prices not high enough to shift economy-wide incentives (World Bank, 2022)

Ministries of Finance everywhere need to push further to **overcome barriers to action** and **systematically integrate climate** into core functions and capabilities.

Ministries of Finance will need to overcome many barriers to action

- **Limited awareness and willingness** within Ministries of Finance to engage on climate change issues
- **Weak institutional basis** for proactive involvement in the government's climate agenda, including a lack of specific **mandates** for climate action
- **Lack of strategic vision** of the required changes and opportunities and risks of transformation
- **Lack of vertical and horizontal coordination** within government
- **A lack of cross-sectoral thinking**
- **Limited expertise** and technical capacity
- **Conservative economic thinking** and hesitancy to make active use of fiscal policy
- **A natural skepticism** toward new spending commitments
- **Preoccupation with current macroeconomic challenges**

The guide presents a **framework** that Ministries of Finance can use to overcome barriers to action and inspire and inform mainstreaming climate action within core functions and capabilities.

Ministries of Finance cannot act alone: strategic partnership with other agencies is critical

Primary authority or influence of MoF	Co-leadership or shared responsibility	Supporting line ministries and other actors*
• Mainstreaming climate action within multi-year expenditure frameworks and annual budgets • Greening public investment strategy • Greening public procurement • Carbon taxes and pricing, subsidy reform and other forms of environmental taxation • Domestic resource mobilization and future-proofing the public finances through tax reform • Disaster risk financing and insurance	• Shaping national climate strategies (LTS, NDCs, NAPs) • Greening national development, sector strategies and industrial/innovation strategies • Developing climate investment strategies • Fiscal incentives and regulation for transforming key economic sectors • Reforms to regional and local fiscal powers to facilitate climate action • Greening the financial sector • Innovations in financing approaches and sustainable finance roadmaps • Reforming remits and responsibilities of central banks, NDBs, SWFs, and SOEs • Establishing frameworks for debt financing and green bonds • Financial and insurance products for enhancing resilience • Leveraging international climate finance	• Sustainable and resilient infrastructure provision • National electric charging infrastructure • Vehicle and fuel efficiency standards • National grid upgrades to integrate renewables • Building and utility performance standards • Retrofit and energy efficiency programs • Extension services for agriculture • National forest protection programs • R&D for innovation • Retraining, regeneration, social protection schemes • Disaster risk warning systems *including through the budget

Part B. A framework and guide for Ministries of Finance

A framework for climate action

MAINSTREAMING CLIMATE ACTION INTO MINISTRY OF FINANCE CORE FUNCTIONS AND CAPABILITIES

THREE FUNCTIONS	1 6 **Economic strategy and vision** Shaping national development and climate plans, including investment strategies	3 4 **Fiscal policy** Reforming tax, pricing and budget instruments to transform the economy	5 **Financing the transition** Reforming financial policy and the financial system to raise, blend and steer finance at speed and scale
THREE CAPABILITIES	2 **Leadership capability** Strengthening governance, mandates, institutional set-up and senior leadership	2 **Collaboration capability** Enhancing coordination and collaboration for whole-of-government and economy climate action	2 4 **Human and analytical capability** Building staffing, expertise and enhanced economic decision-making tools
CROSSCUTTING	**Just transition** to sustain public support and inform policy design		

ENHANCED ABILITY TO DRIVE CLIMATE ACTION

HPs

1
2
3
4
5
6

HPs = Helsinki Principles. Read more at: www.financeministersforclimate.org

Function 1: **Economic strategy and vision**	Capability 1: **Leadership capability**
Shaping national climate and development strategies 1a. Participating in the development and implementation of climate strategies 1b. Greening national development and sector strategies 1c. Shaping 21st century industrial and innovation strategies Shaping investment strategies 1d. Developing investment strategies and assessing investment needs 1e. Identifying and developing bankable projects and programs	1a. Strengthening the mandate of Ministries of Finance 1b. Developing organizational climate strategies 1c. Formalizing governance structures and organizational set-up
Function 2: **Fiscal policies**	Capability 2: **Collaborative capability**
Reforming fiscal policy 2a. Transforming macroeconomic incentives 2b. Future-proofing public finances Mainstreaming climate in the budget 2c. Using the budget to drive transformation 2d. Greening public investment management 2e. Greening public procurement	2a. Ensuring a whole-of-government approach to climate change in which Ministries of Finance play a central role and develop collaborative relationships between Ministries of Finance and key line ministries
Function 3: **Financing the transition**	Capability 3: **Human and analytical capability**
3a. Mobilizing domestic revenue to finance investment 3b. Greening publicly backed financial institutions 3c. Accessing deep pockets of private capital 3d. Providing disaster risk financing and insurance for all 3e. Leveraging international climate finance and the global financial architecture	3a. Enhancing skills and expertise of ministerial staff 3b. Enhancing economic decision-making tools and data-driven analysis to inform decision-making
Cross-cutting: **Fostering a just transition**	

Function 2: Fiscal policy

The budget process is usually most important entry point for driving climate action

Ministries of Finance need to understand the climate impacts of public spending *and* use the budget process to drive transformation and new investment across all sectors of the economy.

- **The initial strategic phase of the budget process** is a key opportunity to drive the **climate action policy debate.**
- Ministries of Finance should provide **clear guidance to line ministries on strategic budget submissions.**
    - Assess impacts of new climate policies and investments.
    - Consider different policy options and the trade-offs.
    - Strategically assess fiscal and budget implications.
    - Address strategic barriers to proposed implementation.
    - Assess key shifts in sectoral budget allocations.
- Existing processes and tools for green public financial management (PFM) and budgeting can be adapted and factored into reform agendas.

60% of OECD countries reported using green budgeting in 2020–2021

(OECD, 2023)

5% of the $18 trillion in COVID-19 rescue and recovery packages was ‘green’.

(O’Callaghan et al., 2022)

Delivering national climate strategies requires a wide-ranging role for fiscal policy

There are no silver bullets to climate policy. Unlocking the needed investments require complementary packages of policies to overcome and target a range of market and non-market barriers.

Example market failure	Description	Example policy options
Greenhouse gases	Negative externality due to damage that emissions inflict on others.	Carbon tax, cap-and-trade, fossil fuel subsidy reforms
Research, development and deployment (R,D&D)	Supporting innovation and dissemination.	Green fiscal incentives, tax breaks, support for demonstration/deployment, publicly funded research
Imperfections in risk/capital markets	Imperfect information and assessment of risks and understanding of new projects and technologies.	Risk sharing. reduction through guarantees, blended finance, other risk mitigation mechanisms, long-term contracts
Networks	Coordination of multiple supporting networks and systems.	Investment in infrastructure to support integration of new technologies in electricity grids, public transport, recycling.
Information	Lack of awareness of technologies, actions or support.	Regulations covering labelling and information requirements on cars, domestic appliances, products more generally.
Co-benefits	Consideration of benefits beyond market rewards.	Reforms to national accounting approaches to value ecosystems and biodiversity, recognising impacts on health.

Source: Adapted from Stern (2022)

Carbon pricing and fossil fuel subsidy reform are central pillars of fiscal policy

- **Over 40 countries** have implemented carbon pricing through carbon taxation or emissions trading.
- The macroeconomic effects tend to be **modest or positive**, and tax yields considerable.
- **Global subsidies** are worth ~$7 trillion or around 7% of global GDP when including environmental costs and foregone consumption taxes (IMF, 2023).
- Pricing carbon and subsidy removal could **generate $2.8 trillion** in government revenues in 2030 (New Climate Economy, 2018).

Table B1. Summary comparison of carbon taxes and emissions trading systems (ETSs)

Design issue	Instrument	
	Carbon tax	ETS
Administration	Administration is more straightforward (for example, as extension of fuel taxes)	May not be practical for capacity constrained countries
Uncertainty: price	Price certainty can promote clean technology innovation and adoption	Price volatility can be problematic; price floors, and cap adjustments can limit price volatility
Uncertainty: emissions	Emissions uncertain but tax rate can be periodically adjusted	Certainty over emissions levels
Revenue: efficiency	Revenue usually accrues to finance ministry for general purposes (for example, cutting other taxes, general investment)	Free permit allocation may help with acceptability but lowers revenue; tendency for auctioned revenues to be earmarked
Revenue: distribution	Revenues can be recycled to make overall policy distribution neutral or progressive	Free allowance allocation or earmarking may limit opportunity for desirable distributional outcomes
Political economy	Can be politically challenging to implement new taxes; use of revenues and communications critical	Can be more politically acceptable than taxes, especially under free allocation
Competitiveness	Border carbon adjustment more robust than other measures (for example, threshold exemptions, output-based rebates)	Free allowances effective at modest abatement level; border adjustments (especially export rebate) subject to greater legal uncertainty
Price level and emissions alignment	Need to be estimated and adjusted periodically to align with emissions goals	Alignment of prices with targets is automatic if emissions caps consistent with mitigation goals
Compatibility with other instruments	Compatible with overlapping instruments (emissions decrease more with more policies)	Overlapping instruments reduce emissions price without affecting emissions though caps can be set or adjusted accordingly
Pricing broader GHGs	Amenable to tax or proxy taxes building off business tax regimes; feebate variants are sometimes appropriate (for example, forestry.)	Less amenable to ETS; incorporating other sectors through offsets may increase emissions and is not cost effective
Global coordination regimes	Most natural instrument for international carbon price floor	Can comply with international price floor; mutually advantageous trades from linking ETs but does not meet global emissions requirements

Note: Green indicates an advantage of the instrument; blue indicates neither an advantage nor disadvantage; white indicates a disadvantage of the instrument.
Source: Parry et al. (2022), reproduced with permission

Additional policies will be needed to form 'smart policy packages'

Complementary fiscal measures are needed to promote the system changes needed to transform a wide range of sectors, particularly hard-to-decarbonize sectors (IPCC, 2022).

Options include:

- **Direct tax incentives** in the form of tax deductions or credits, reductions in import taxes, lower taxation on fuels, or accelerated depreciation to defer tax liability e.g. on EVs, efficient boilers
- **Loan programs, guarantees and credit enhancements** to provide subsidized or lower interest loans or reduce risk associated with loans, e.g. for on-site renewable energy.
- **Grants and performance-based incentives** to provide a direct cash incentive that do not require repayment, e.g. for retrofitting buildings.
- **Indirect or non-monetary incentives,** e.g. exclusive access to vehicle lanes for e-buses.

Note: all these options have their own set of benefits and drawbacks.

A wider review of the tax system should be considered to ensure it is ready for net zero

In some countries, tax revenues from fossil-fuel production can account for over 50% of government revenues and 15% of consumption, requiring steps to diversify revenue sources over time.

Ministries of Finance have options to diversify revenue sources while enhancing energy security and reducing balance of payments volatility:

- Domestic production and export of low-carbon energy.
- Enhancement of general tax base from economic activity in new low-carbon sectors.
- Ensuring proceeds from fossil fuels are invested into alternative economic pathways.
- Revenues and savings from carbon pricing and subsidy reforms.

New forms of taxation can be considered:

- Well-designed motoring taxes based on distance.
- Enhancing road pricing and feebates.
- Adjusting electricity tariffs.
- Taxes on land and property.
- Use of other forms of environmental taxation.
- Reforming general forms of taxation.
- Identifying new revenue sources (financial transactions, wealth, digital services).

Countries such as Denmark, Uruguay, Morocco, Chile, Nicaragua, Norway, and Sweden show it is possible to dramatically increase shares of renewable energy in the mix with limited base erosion impacts.

Function 3: Financing the transition

Ministries of Finance will play a critical role in financing the transition at speed and scale

In line with Article 2.1c of the Paris Agreement, this involves two linked pillars:

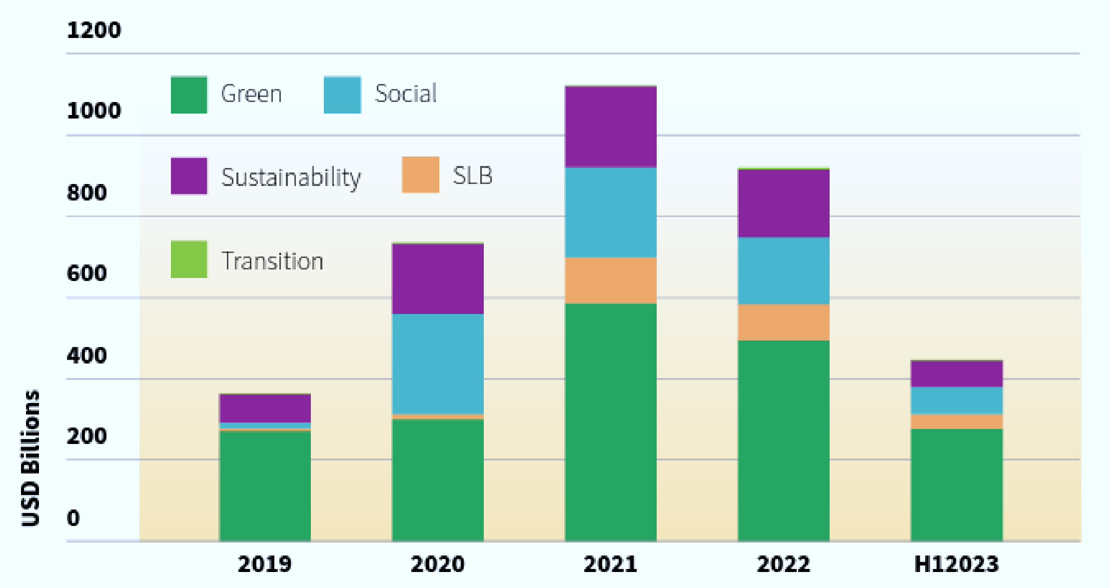
Financing Green	⟷	Greening Finance
Drawing on all sources of capital for green investment		Transforming the financial system itself

All sources of capital are important: public, private, domestic, international (concessional/non-concessional)

Ministries of Finance have a critical role in ensuring that financing sources match the spending purpose, required maturity and local context. They need to work 'upstream' (stability in climate policy), 'midstream' (identifying pipelines of bankable projects), and 'downstream' (new financial instruments).

Sovereign green and other thematic bonds can be good sources of domestic financing for investment

The cumulative aligned green and other thematic bonds volume reached $4.2 trillion in 2023



Source: Climate Bonds Initiative (2023)

Finance Ministries can use debt markets to fund investment and be rewarded for hitting environmental benchmarks through reductions in the cost of capital.

Uruguay issues the first bond aligned to climate change indicators for 1.5 billion dollars

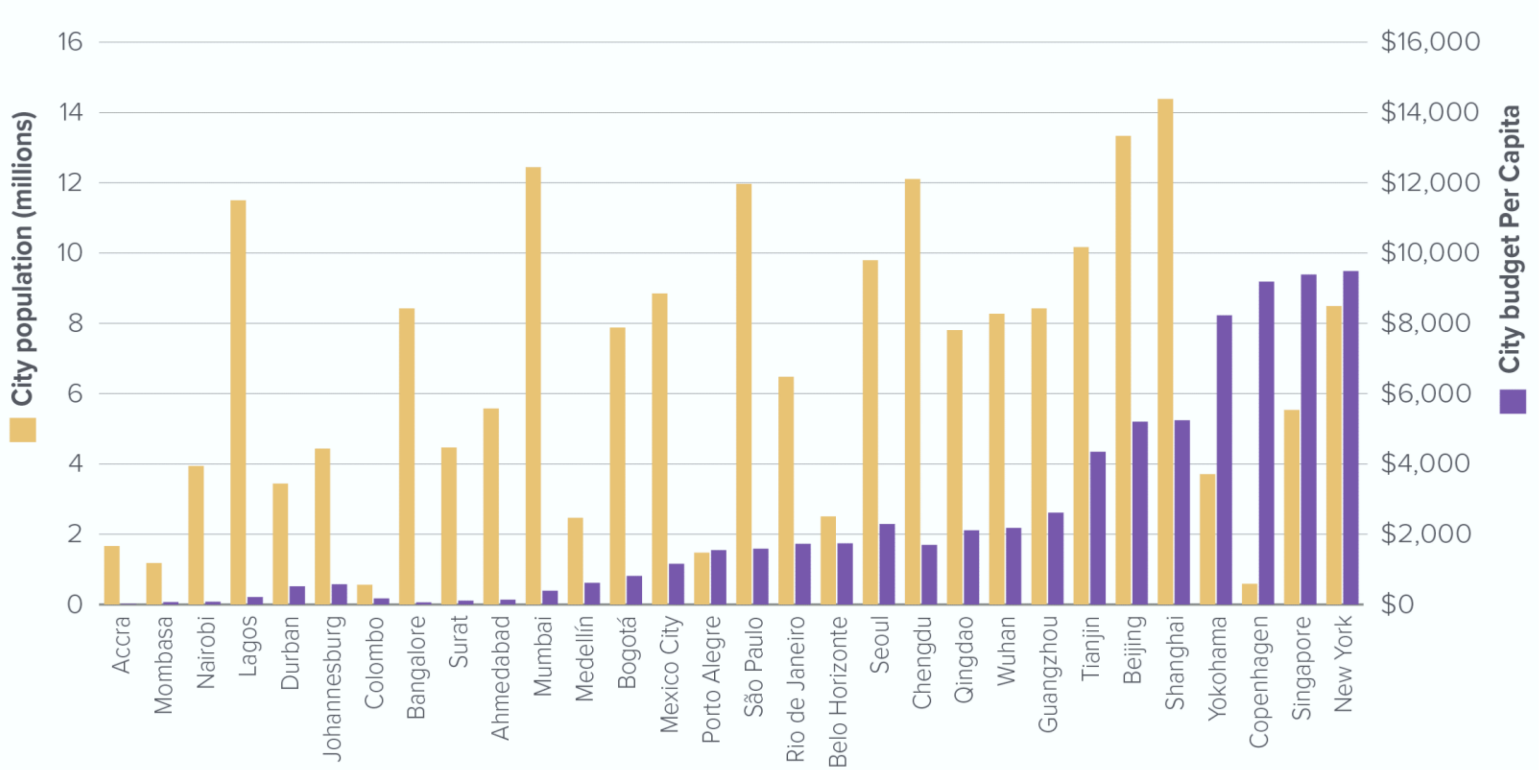
Historical financial tool to deal with climate change and contribute to global public goods

NOVEMBER 16, 2022

Ministries of Finance should consider debt financing for investment within the context of an assessment of the impact of investments on short- and longer-term debt sustainability.

Ministries of Finance can also boost finance for sustainable infrastructure at the local level

The finance challenge is particularly acute for small, poor urban areas given the size of municipal budgets



Source: Beard et al. (2016)

Finance Ministries can work with local governments using common tools for green financing, including:

- Land-based financing
- Property tax reforms
- Municipal green bonds

And work with public financial institutions to drive green financing

Ministries of Finance can leverage their shareholder positions in public financial institutions and state-owned enterprises to finance climate action by:

- Reviewing and revising their mandates.
- Engaging with boards and shareholders.
- Reforming management incentives.
- Using NDBs as fiduciary agents to attract and manage international climate finance.
- Applying carbon pricing regimes to State-owned enterprises.
- Joining multilateral initiatives to green export and trade finance.
- Setting up green investment banks (GIBs), where NDBs do not exist.

$5 tn assets held by 250+ national development banks (NDBs) globally

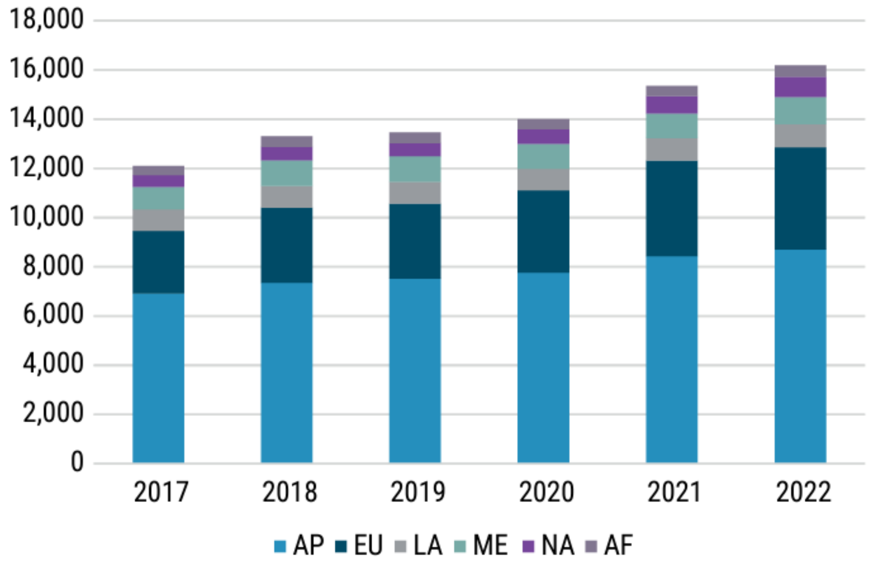
$9.3 tn assets collectively managed by 128 sovereign funds across 68 countries

70% of oil and gas production assets are state-owned

Finance Ministries should work with central banks to green the financial system

Central banks typically play critical role in overseeing economy and financial system.

They manage sizeable reserve portfolios, amounting to over $15 trillion which could be invested in the transition.



Global reserve assets, $bn, Source: OMFIF 2022

At the same time, they face several risks from climate change…

- to macroeconomic variables
- to transmission of monetary policy
- to balance sheets

While respecting their independence, **Ministries can update central banks' remits in line with governments' climate commitments.**

They can also consider:

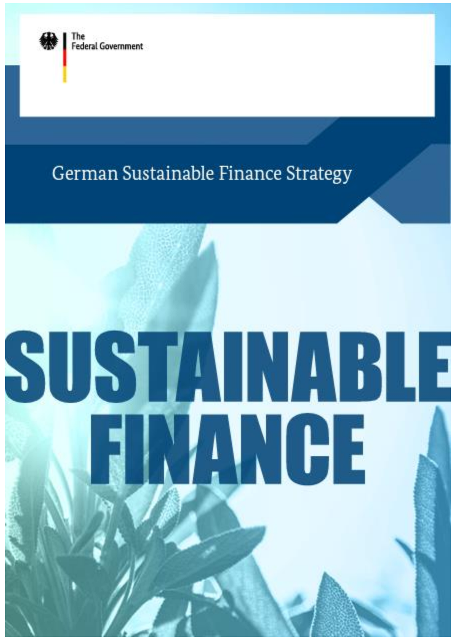
- Investment objectives for reserve-management
- Encouraging sovereign green bonds
- Green fiscal and monetary policy coordination
- Climate expertise in senior positions of central banks

Sustainable finance roadmaps are one way to bring together all parts of the financial system

Sustainable finance roadmaps can be used to organize all actors in sustainable finance around a common conception of their roles and responsibilities.

For success and impact, roadmaps should consider the following features:

1. **Inclusivity** of all actors involved in financial system
2. **Accountability** through voluntary and mandatory commitments to decarbonization and reducing risk.
3. Adequate **resourcing** of the process.
4. Strong **investment pipelines** and mechanisms for private sector engagement
5. Developing **platforms** in high-risk contexts to de-risk private investment.
6. Identifying and addressing climate-related **risks** to the financial system.
7. Encouraging the financial sector to participate in relevant **networks**
8. Including **climate resilience** / **disaster risk financing** and mobilizing **international climate finance**.
9. Providing **transition finance** for relevant sectors.



The German SF strategy – one of over 40 roadmaps drafted to date

Capabilities
Leadership – Coordination – Skills & Expertise

An explicit mandate for climate action can give Ministries of Finance greater authority to act

The **benefits** of an explicit mandate are threefold. It can:

- enable necessary reforms
- enhance collaboration with other agencies and
- mobilize capacity internally

A mandate can come from **outside the ministry**, for example:

- Through legislation (e.g. a climate law)
- From a government program

Or it could be initiated by the leadership of the ministry through an **internal process**, for example:

- A strategy on climate change
- A mission statement

"

Lack of strategy and leadership on climate issues in the Ministry has caused delays in taking work forward. Limited internal resources have not grown, delaying and prolonging discussions, reasoning that climate is not part of the mandate, and issues are so complicated that there are not enough resources to consider them.

Interview with Ministry of Finance official from a developing country

Coordination and collaboration with other government entities is crucial

Climate change requires a whole-of-government approach with a strong role for Ministries of Finance.

As a 'horizontal' issue, climate change covers all sectors of the economy, nearly always with significant economic and fiscal impacts and trade-offs.

Active participation of the Ministry of Finance in **inter-agency coordination** mechanisms (e.g. climate councils) can:

- improve **policy alignment** – including through strategic use of the **budget** process
- avoid **duplication** of tasks
- maximise **capacity** and build joint expertise
- lead to more informed **cross-sector policy** decisions

> "The role of Ministries of Finance moving forward will be crucial in trying to bring all this together, yet without stepping on the toes or stepping into the territory set by others. So, it really is a collaboration issue.

Interview with Ministry of Finance official from a developing country

Collaboration with Ministries of Environment is particularly important

A variety of models of inter-institutional collaboration exist:

Ministry of Finance leadership

For example:

In **Denmark,** the Ministry of Finance chairs the Climate Task Force, where the Ministry for Climate, Energy and Utilities is a member.

Ministry of Environment leadership

For example:

In **Chile**, the Ministry of Environment is the NDC lead agency, but a strong institutional framework enables the MoF Finance to participate throughout the process.

Joint leadership

For example:

Uganda established a tripartite arrangement on climate between the Ministry of Finance, Planning and Economic Development, the National Planning Authority and the Ministry of Water and Environment (Climate Change Department)

Ministries of Finance will need to develop and utilize new skills and expertise

Skill area	Examples of required skills and expertise
Developing climate and development strategies	National adaptation planning, Green industrial policy, MRV frameworks and tools, tracking of financial flows
Taxation, debt and budget management	Fiscal risk management, Carbon pricing, subsidy reform, Green budget planning and reporting
Raising, blending and steering finance	Green financial markets and instruments (incl. debt and bond instruments), Mobilizing and accessing climate finance, Financial sector supervision and stress-testing
Investment planning	Climate investment needs assessments, Green investment planning, Climate investment appraisal
Decision-making tools and models	Climate-economy models, Sector models, Policy and project appraisal tools
Just transition	Distributive impact assessments, Socioeconomic and regional development, Social security systems and reforms
Crosscutting	Fundamentals of climate science, Climate change and environmental economics, Risk management

Case studies

Case study

France - Green budgeting

Function 2: Fiscal Policy

F2c: Using the budget to drive transformation

In 2021, France prepared a **Green Budget** (an environmental analysis of the budget) led by an interdepartmental working group comprising the Ministry of Finance (the Directorates of Budget, Treasury and Economic Analysis, and Tax Policy) and the Ministry of Ecological and Inclusive Transition.

The Coalition of Finance Ministers for Climate Action

Case study

Function 2: Fiscal Policy

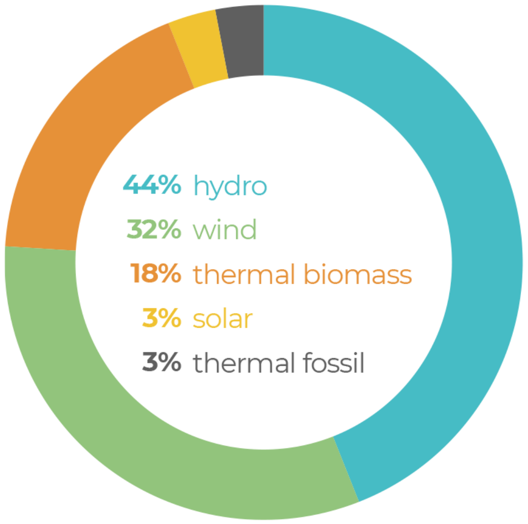
F2a: Macroeconomic incentives

Uruguay – Driving energy sector transformation

The **Uruguayan** Ministry of Finance played a key role in the country's **energy transition** to more than 97% renewable energy production in 2021.

As part of Uruguay's National Energy Policy (2005–30), the Ministry provided a range of fiscal incentives that created a favourable investment environment, accelerating the rollout of solar and wind power.

Uruguay's power energy mix 2017-2020



97%

renewable sources

Source: Uruguay Ministry of Energy, Industry and Mining

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Case study

Ireland – Carbon pricing to fund the just transition

Crosscutting:
just transition

The principle of a **just transition** is deeply embedded in Ireland's approach to driving carbon pricing.

This means:

- protecting the most vulnerable in society from the impacts of the tax
- where possible, ensuring they are better off than before, including through targeted social protection support

Case study

Function 3: Financing the transition

F3b: Greening financial institutions

UK – Coordinating with the Bank of England

In 2020, the **UK** Treasury made a recommendation to the Bank to regard climate change as relevant to its **primary mandate** (promote financial stability) and **secondary mandate** (support the government's economic policy).

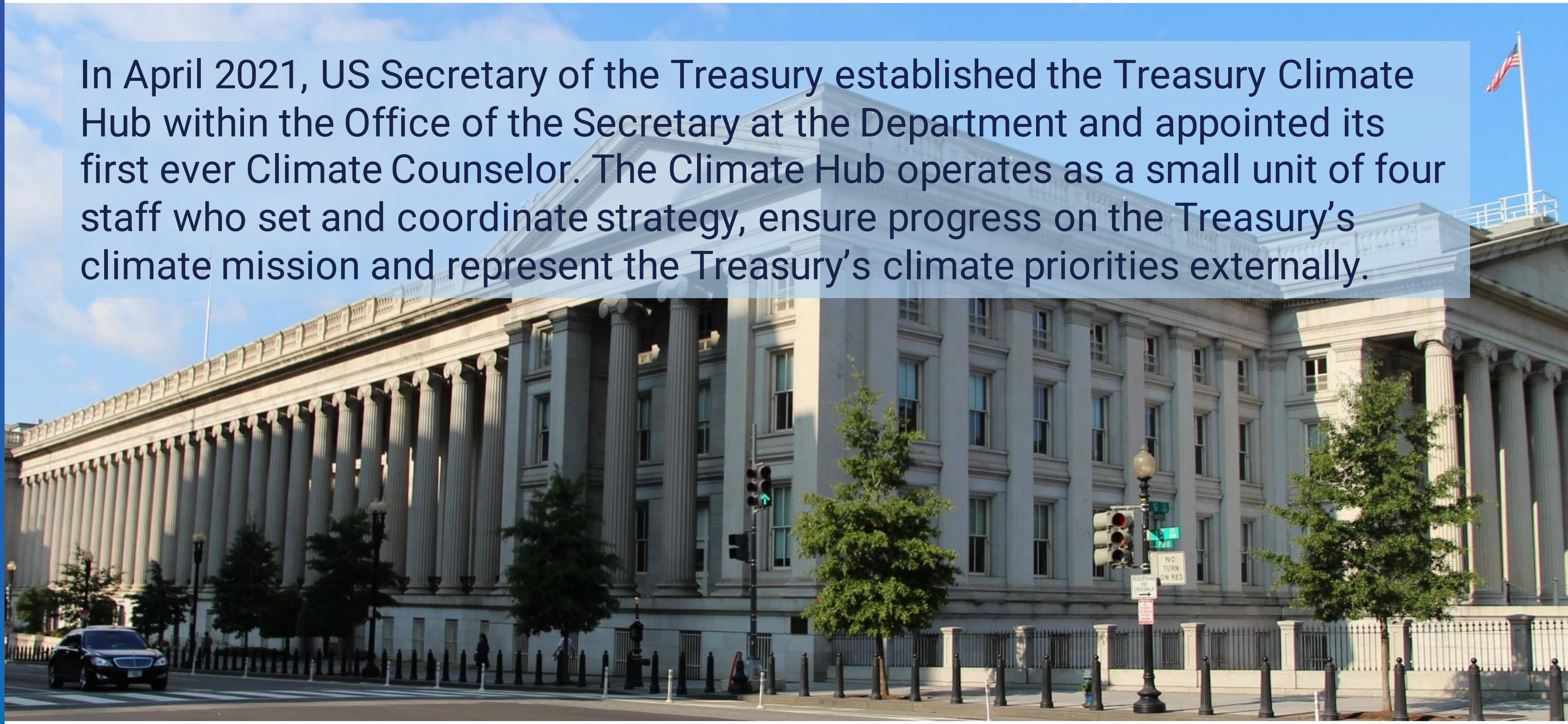
In 2021, the Treasury updated its annual remit letters to the Bank, stating that the government's economic policy includes "structural reform [...] to transition to an environmentally sustainable and resilient net zero economy", enabling the Bank to explore the alignment implications for all of its operations.

Case study

US – Treasury Climate Hub

Capability 1: Leadership Capability

1c: Organizational set-up



In April 2021, US Secretary of the Treasury established the Treasury Climate Hub within the Office of the Secretary at the Department and appointed its first ever Climate Counselor. The Climate Hub operates as a small unit of four staff who set and coordinate strategy, ensure progress on the Treasury’s climate mission and represent the Treasury’s climate priorities externally.

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Case study

Function 3: Financing the transition

F3c: Accessing private capital

Chile – Developing a Green Finance Strategy

Chile published its Financial Strategy on Climate in 2020 to facilitate access to sustainable finance.

The strategy highlights the role of the Ministry in the national climate agenda and sets out an action framework including three pillars:

1. Information generation and data analysis to mobilize capital flows aligned with the country's goals
2. Strengthening green economic and financial instruments and market development
3. Strengthening capacity in the financial sector

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Case study

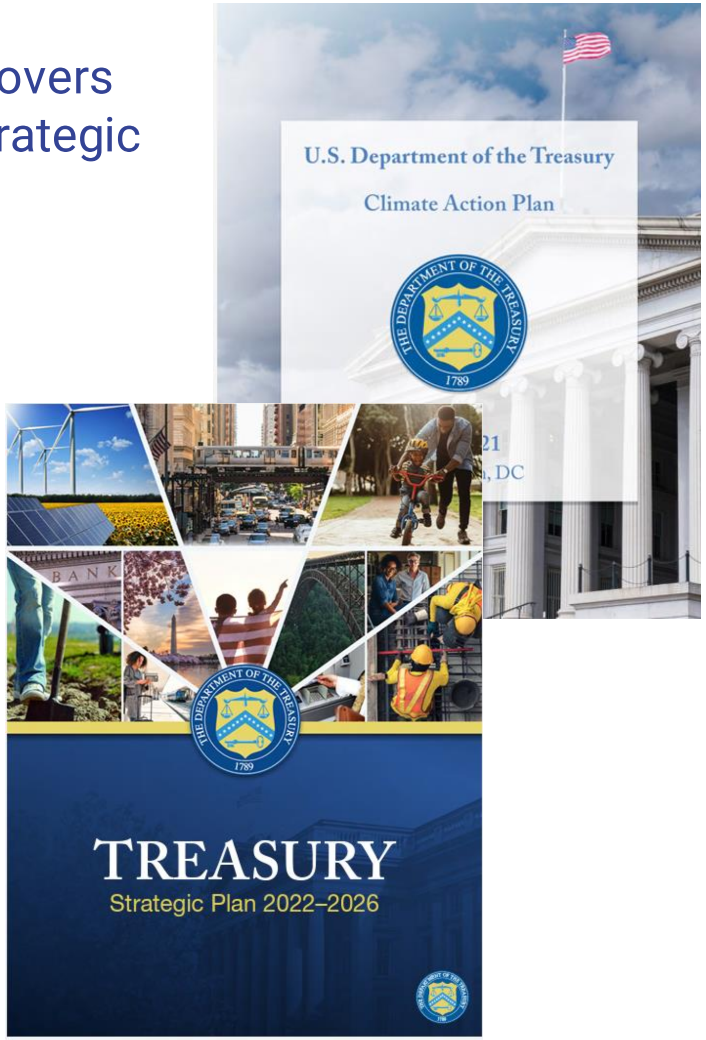
Capability 1:
Leadership Capability

1b: Strategy

US – Developing a Climate Strategy

The **US Treasury' Strategic Plan 2022-2026** covers "combat[ing] climate change" as one of five strategic goals, covering four objectives:

1) global climate commitment and leadership
2) Climate incentives and investment
3) climate-related financial risks
4) sustainable Treasury operations.



The **Climate Action Plan** provides more detail on the Treasury's five priority action areas to strengthen its climate resilience and adaptive capabilities.

Part C. From guide to action

Trade-offs are not inevitable

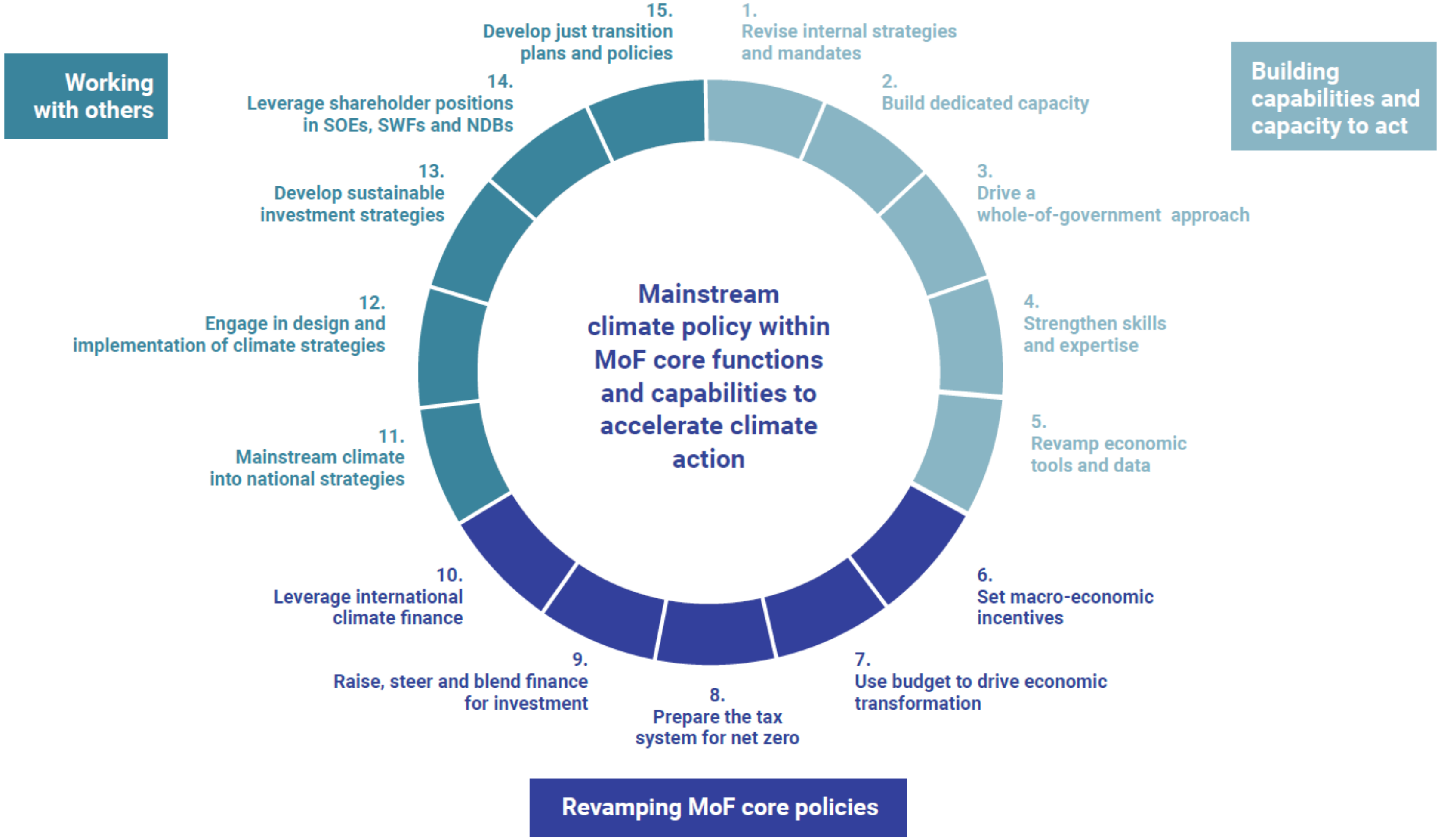
The following principles can assist decision-makers to navigate the challenges of actual or perceived trade-offs:

1. **Search for synergies** before focusing on trade-offs
2. **Do not let uncertainty quench ambition** and consider the risks of business-as-usual
3. **Revise outdated assumptions**, e.g. on the pace of technological change
4. **Account for second- and third-order impacts**, e.g. cheaper electricity, productivity gains, taxable income
5. **Standardize criteria** for ex-ante impact assessments to manage trade-offs

Decision-makers are faced with a complex set of considerations when weighing up spending priorities. But win-win solutions are often possible.

These 15 transformative actions for Ministries of Finance require both short-term action and commitment to longer-term reform

A call to action for Ministries of Finance



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The actions set out in the guide will be supported by scaling up wide-ranging initiatives and programs to build the capability and capacity of Coalition members.

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From guide to action

The Coalition will disseminate the key messages of the guide and support its members through:

1. Events and ambassador network

Dissemination of the guide's key messages through a series of events at country, regional and global level, supported by an ambassador network of Coalition Sherpas.

2. Capacity building support

Enhanced training and technical assistance programs for Ministries of Finance through

- Coalition Capacity Building Catalogue
- Coalition for Capacity Creation on Climate Action (C3A)
- NDC Partnership Mechanism

3. Knowledge and research

Ensuring that Ministries of Finance have available to them high-quality analysis and research. Turning the guide into a periodically-updated document that reflects latest lessons and best practices.

4. Dialogue with Ministers and senior stakeholders

Gathering ministerial and wider stakeholder feedback on how to better utilize the role of Ministries of Finance and their engagement in relevant global, regional and national climate action processes.

Connecting the guide to capacity building

Towards increased impact on the ground by connecting guide and other products to building capacity for climate action in MoFs

Guide and other Coalition work provides a **base of information** to Sherpas and their MoFs to enhance understanding of how climate is relevant and can be acted upon

- **Guide and framework**
- **Country case studies**
- **HP knowledge** (reports/workshops)

→

Working with Sherpas and their MoFs to **identify needs and priorities** for taking transformative action on climate mainstreaming relevant to their respective **country contexts**

→

Leveraging and increasing **support to MoFs** to build capabilities to act through **capacity building support created for members**. Undertaken through the Coalition by building and strengthening collaboration with Institutional partners, facilitated by the Coalition Secretariat

- Capacity Building Catalogue
- C3A Programme
- NDCP Mechanism

Country ambassadors and experts

Assistance from institutional partners and experts

Collaboration with Institutional Partners of Coalition

Capacity Building: Avenues to access support

	1. CFMCA Capacity Building Catalogue	2. Coalition for Capacity Creation on Climate Action (C3A)	3. NDC Partnership Mechanism *(For EMDEs)*
Support	Suite of established climate-related capacity building programs provided by IPs	Tailor-made demand-driven capacity building to build bespoke analytical toolkits	Matchmaking between country needs and technical/financial support from partners

Delivery Approach	• African Development Bank
	• Asian Development Bank
	• The Commonwealth
	• European Commission
	• Grantham Research Institute
	• Green Climate Fund
	• Inter-American Development Bank
	• IMF
	• NDC Partnership
	• World Bank
	• World Resources Institute
		• Program pays particular attention to initial needs assessment
		• Regional and thematic hubs play an essential role in connecting specific capacity-building needs to knowledge providers across regions.
		• Based on demand, leverages targeted material from an independent Knowledge Network for Climate Action to develop analytical tools for Ministries of Finance.
			• Countries submit support request through NDC Partnership mechanism
			• Requests go out to over 80+ implementing and development partners from the network, such as:
			  • Support for MoFs in NDC/LTS process
			  • climate risk modelling
			  • Incorporating climate actions in PFM
			  • Carbon pricing and fossil fuel subsidy phase-out
			  • Greening central banks
			  • Regulations to protect financial stability and align finance with Paris Agreement
			  • Other climate-related needs from MoFs

Thank you

The report 'Strengthening the Role of Finance Ministers in Driving Climate Action' is available here: financeministersforclimate.org/reports