

# Strengthening the Role of Ministries of Finance in Driving Climate Action

A Framework and Guide for Ministers and Ministries of Finance

Anika Heckwolf

2050 Pathways Platform 2023 Annual Meeting Series: Session 2 - Operationalising LT-LEDS



# Introduction: context and purpose of the new guide

The **Coalition of Finance Ministers for Climate Action** is a global initiative established in 2019, with now over 84 member countries and 26 Institutional Partners.

Its 2022 Work Programme identified the idea to **develop a Guide** on recognizing and strengthening the roles of Ministries of Finance in driving climate action.

## The guide is designed to:

- Connect the Coalition's **six Helsinki principles and workstreams** with guidance on implementation
- **Showcase examples 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 **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.

**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**.

# Who has been involved

**The guide is the product of a collaborative effort by many actors.** It benefitted from input and advice from:

- LSE/Grantham Research Institute as key Institutional Partner
- Interviews of Members and Partners
- Country Steering Group (15+ Coalition members)
- Institutional Partners of the Coalition
- Expert Advisory Group
- External contributors and reviewers
- A global consultation launched at COP27

## The report in figures

- ~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 (review + consultation)

# 1 Why Ministries of Finance matter for climate action and economic transformation



# 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 will need to be channelled into four priority areas:



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



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



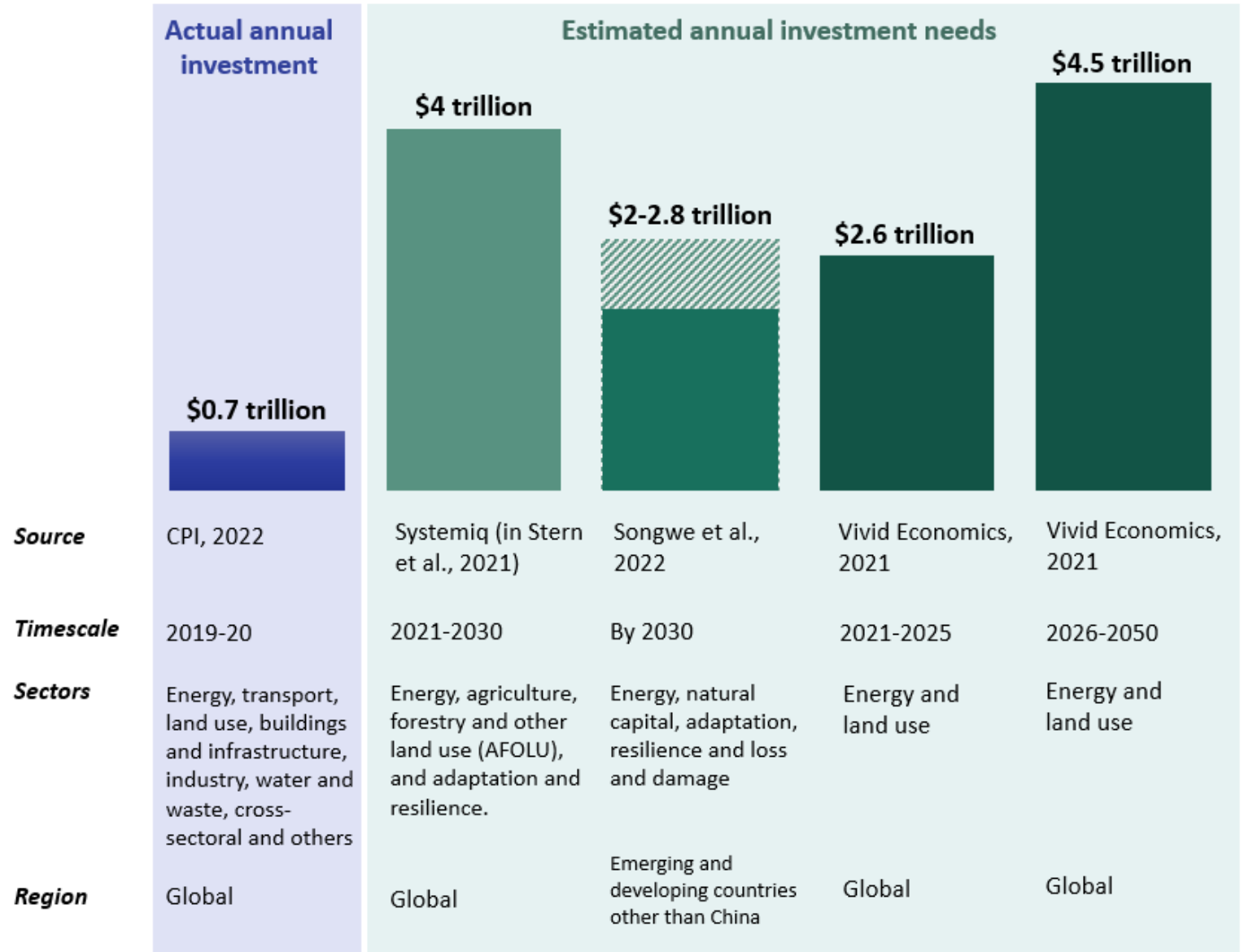
**Protecting and restoring natural capital,** including through sustainable land use practices and conservation of biodiversity



**Fostering a just transition**

# The need for an economic transformation

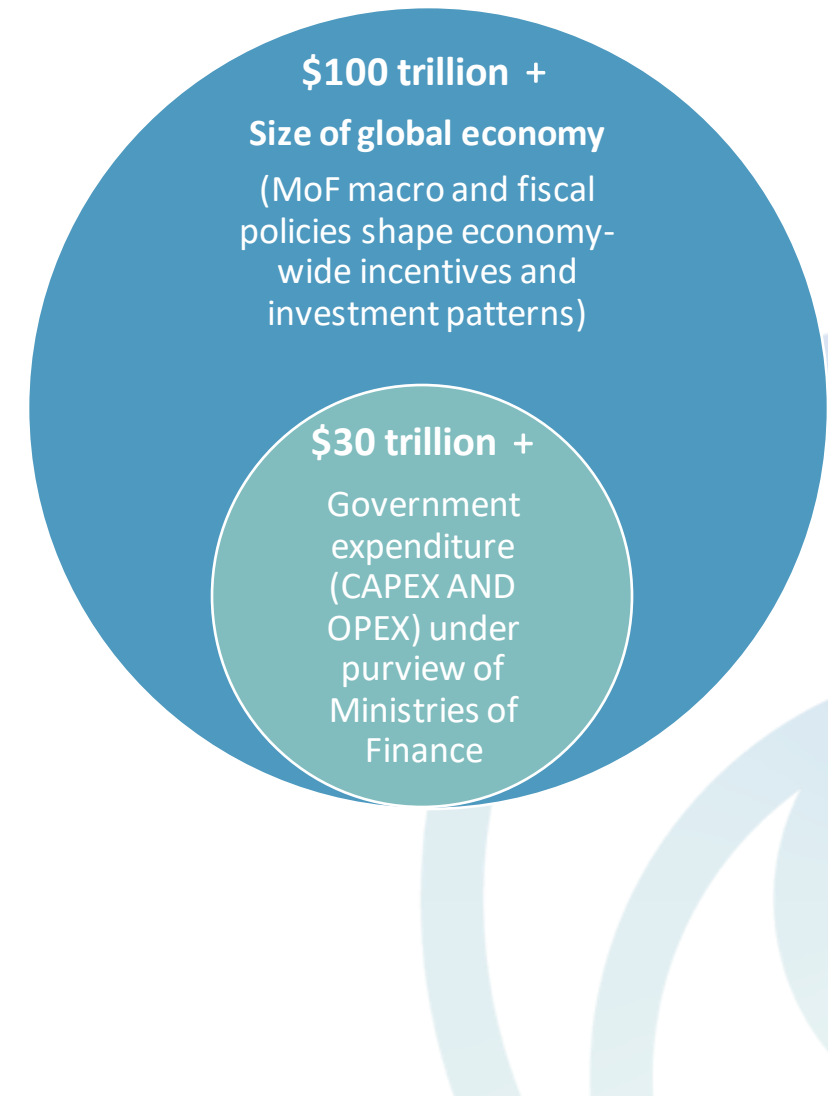
Investment needs to be increased & sustained above pre-COVID levels by 2% of GDP per year, closer to 4–5% in emerging markets and developing countries



# Ministries of Finance will be key to unlocking investment

## Ministries of Finance will be crucial to delivering this economic 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 entire economy and role shaping national visions, strategies and investment plans
- in **overseeing expenditure** of all main government departments, giving them direct or indirect control over one-third of global GDP – over US\$30 trillion
- 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





# 2 A framework and guide for Ministers and Ministries of Finance





# A Ministry of Finance Framework for Climate Action

A **framework** to support Ministries of Finance to strengthen their role in driving climate action by **enhancing typical core functions and capabilities**

## MAINSTREAMING CLIMATE ACTION INTO MINISTRY OF FINANCE CORE FUNCTIONS AND CAPABILITIES



# Overview of the framework

## Function 1: Economic strategy and vision

### 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

## Capability 1: Leadership capability

- 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

### 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

## Capability 2: Collaborative capability

- 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

- 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

## Capability 3: Human and analytical capability

- 3a. Enhancing skills and expertise of ministerial staff
- 3b. Enhancing economic decision-making tools and data-driven analysis to inform decision-making

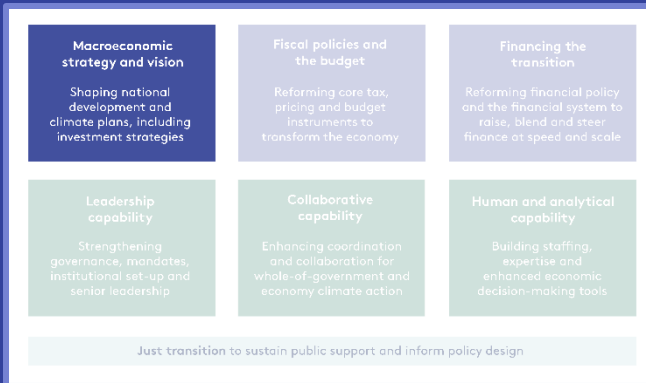
# Supporting and accelerating action by other actors is a big part of the role of Finance Ministers

Primary authority or influence of MoF	Co-leadership or shared responsibility	Supporting line ministries and other actors*
<ul style="list-style-type: none"> <li>Mainstreaming climate action within multi annual expenditure frameworks and annual budgets</li> <li>Greening public investment strategy.</li> <li>Greening public procurement.</li> <li>Carbon taxes and pricing, subsidy reform and other forms of environmental taxation.</li> <li>Domestic resource mobilization and future-proofing the public finances through tax reform.</li> <li>Disaster risk financing and insurance.</li> </ul>	<ul style="list-style-type: none"> <li>Shaping national climate strategies (LTS, NDCs, NAPs)</li> <li>Greening national development, sector strategies and industrial/innovation strategies.</li> <li>Developing climate investment strategies</li> <li>Fiscal incentives and regulation for transforming key economic sectors.</li> <li>Reforms to regional and local fiscal powers to facilitate climate action.</li> <li>Greening the financial sector.</li> <li>Innovations in financing approaches and sustainable finance roadmaps.</li> <li>Reforming remits and responsibilities of central banks, NDBs, SWFs, and SOEs</li> <li>Establishing frameworks for debt financing and green bonds</li> <li>Financial and insurance products for enhancing resilience.</li> <li>Leveraging international climate finance.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable and resilient infrastructure provision.</li> <li>National electric charging infrastructure.</li> <li>Vehicle and fuel efficiency standards.</li> <li>National grid upgrades to integrate renewables.</li> <li>Building and utility performance standards.</li> <li>Retrofit and energy efficiency programs.</li> <li>Extension services for agriculture.</li> <li>National forest protection programs.</li> <li>R&amp;D for innovation.</li> <li>Retraining, regeneration, social protection schemes.</li> <li>Disaster risk warning systems.</li> </ul>

\*Including through the budget

# Function 1

## Economic Strategy and Vision



## MoF participation in long-term strategies is key for a successful transition

**Ministries of Finance can use LTS as tools to plan and forge consensus on a roadmap to a net zero** and to clarify the actions needed in the medium and long term.

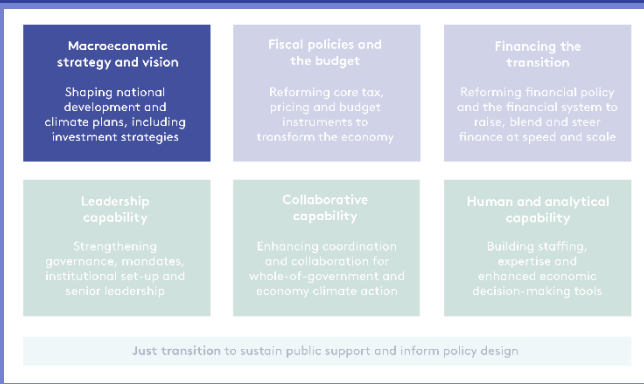
In particular, they can improve Ministries' understanding of the net zero transition in **5 key areas**:

- 1) macroeconomic opportunities and risks from the transition
- 2) fiscal impacts of physical and transition risks
- 3) budgetary and fiscal reforms needed to achieve LTS
- 4) investment needs to reach net zero
- 5) sources of international financing

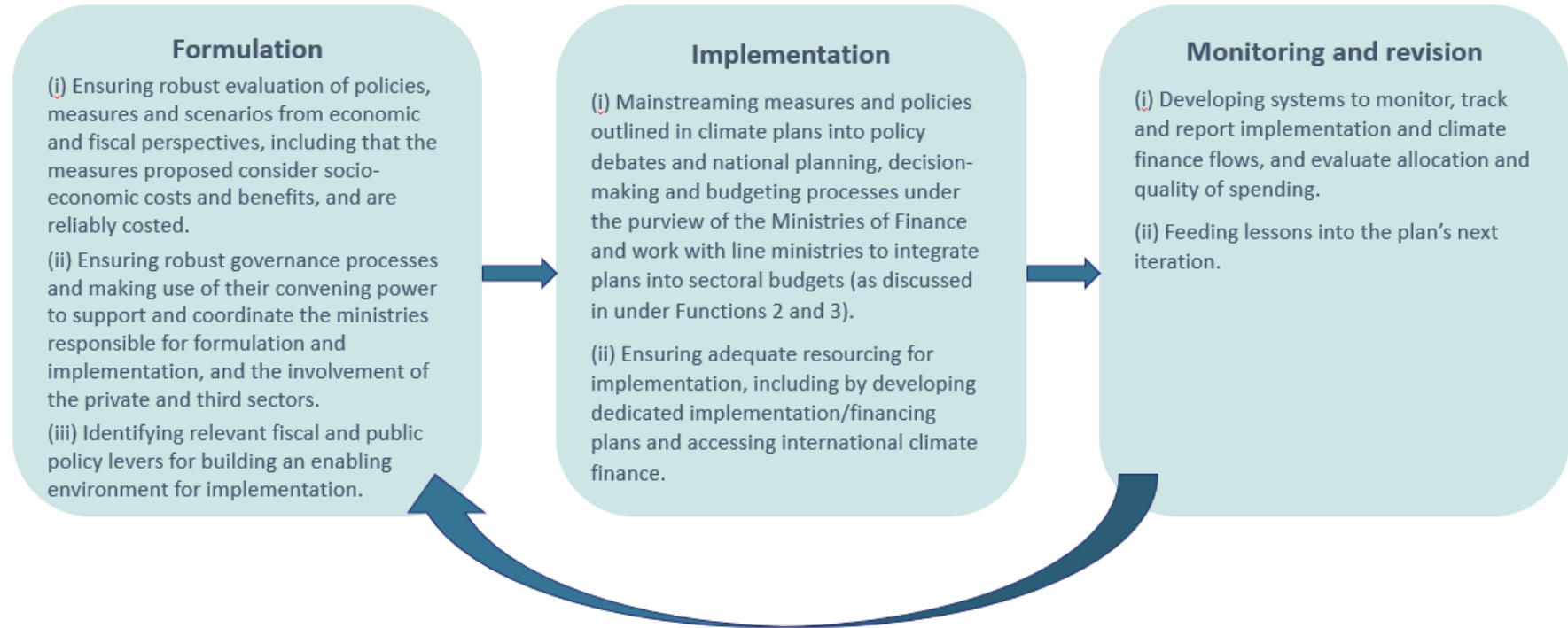
In turn, Ministry of Finance engagement in the LTS process can help to ensure the full economic benefits of decarbonization are realized, that proposed measures are costed and can be financed, that economic trade-offs can be identified, and that decarbonization acts as an accelerator of national development.

# Function 1

## Economic Strategy and Vision



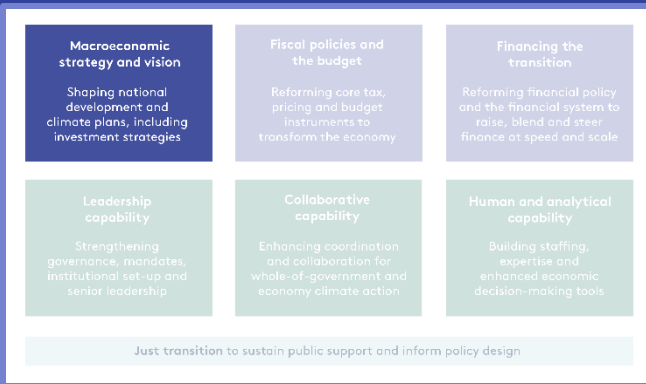
## Ministries of Finance have a role to play in all steps of the LTS process





# Function 1

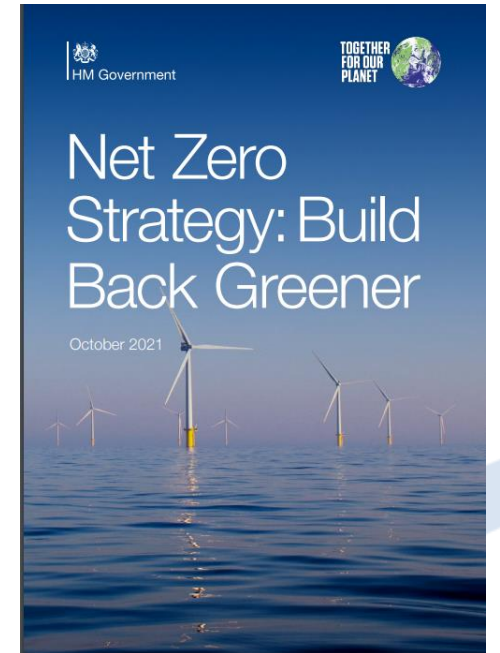
## Economic Strategy and Vision



## Case Study – UK: Net zero strategy and review

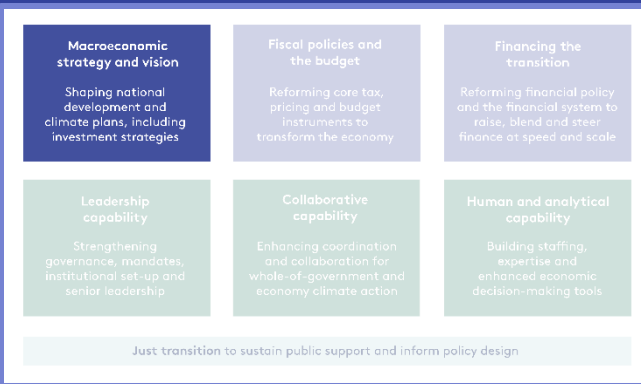
The **UK** launched its [Net Zero Strategy](#) in 2021 with the goal of lowering greenhouse gas emissions to ‘net zero’ by 2050. Support from the Treasury included:

- assessing fiscal implications, transition risks and social impacts of the strategy
- investment needs assessment, including additional public and private capital investments required to achieve net zero.
- publishing the **Net Zero Review**; assessing costs and benefits of the transition, impacts on households and government finances, and the economy’s competitiveness.



# Function 1

## Economic Strategy and Vision



## Case Study – Burkina Faso: MoF involvement in the LTS

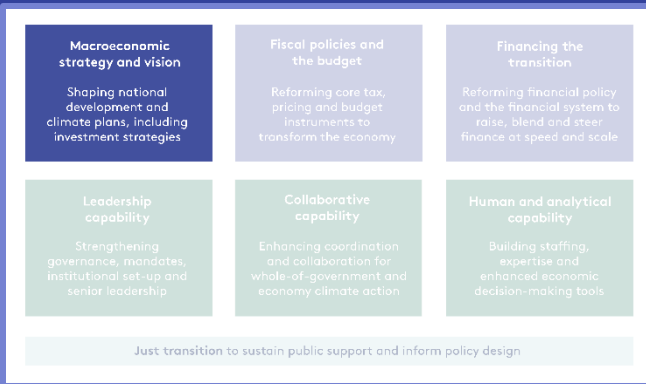
In **Burkina Faso**; the Ministry of Finance was involved in all stages of the LTS preparation process, including:

- Participation in the LTS Steering Committee
- leadership in sectoral groups to ensure the integration of the crosscutting finance in the development of LTS pathways
- Participation in the LTS Technical Monitoring Committee, the scientific and technical body charged with analyzing the quality and relevance of the data and documents collected, and proposing options for LTS implementation
- leading the support and review of technical aspects of the LTS strategy



# Function 1

## Economic Strategy and Vision



## Case Study – Fiji: Overall coordination of the LTS

In **Fiji**, the Ministry of Economy’s Climate Change and International Cooperation Division (CCICD) **was responsible for developing the [LTS](#)** and now holds the main coordination role for its implementation.

The Ministry also acted as the **facilitator between donors, climate funds and recipients** of climate finance to support an integrated proposal design, funding alignment with priorities, and efficient implementation arrangements



# A Ministry of Finance Framework for Climate Action

A **framework** to support Ministries of Finance to strengthen their role in driving climate action by **enhancing typical core functions and capabilities**

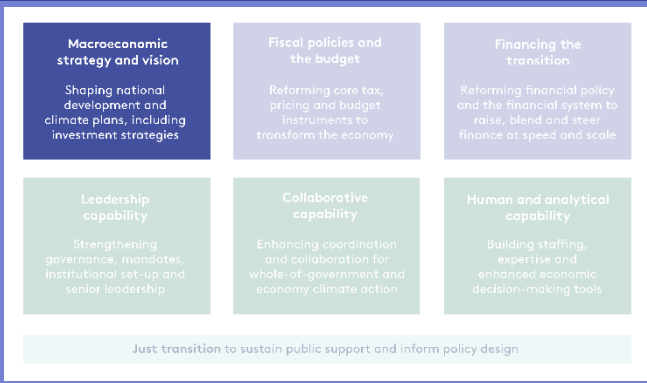
## MAINSTREAMING CLIMATE ACTION INTO MINISTRY OF FINANCE CORE FUNCTIONS AND CAPABILITIES





# Function 1

## Economic Strategy and Vision



## Case Study – Rwanda: NDC revision and investment needs assessment

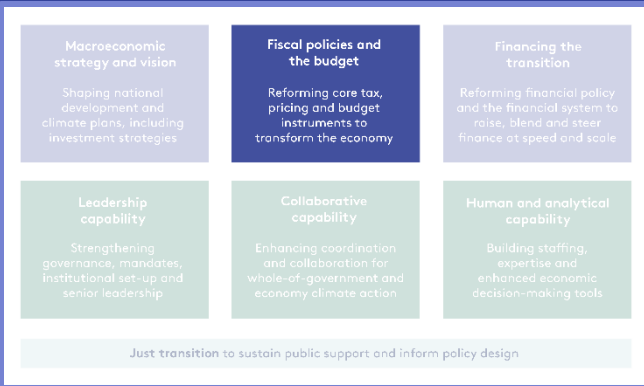
The Rwandan Ministry of Economy and Finance (MINECOFIN), as part of the country's NDC Implementation Plan, identified NDC-related investment needs.





# Function 2

## Fiscal Policy



## Case Study – Costa Rica: Green Tax Reform

Costa Rica’s [Nationwide Decarbonization Plan for 2050](#), includes **green tax reform**, led by the Ministry of Finance, as a cross-cutting ‘strategy for change’.

The plan emphasizes the importance of moving away from the state’s gasoline sales revenue from its state-owned oil refinery.

The Ministry of Finance already introduced a **system to categorize tax expenditures** according to their impact on the environment to align the fiscal strategy with its environmental goals.

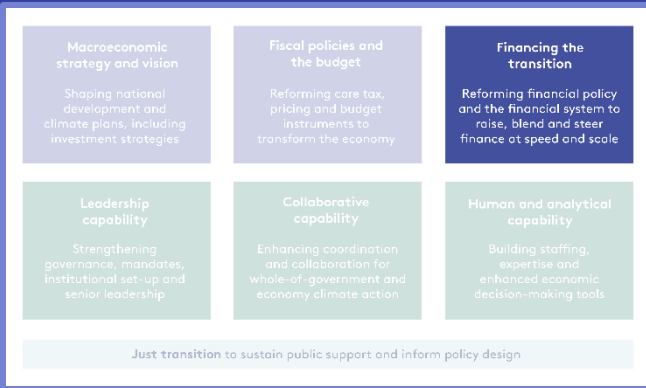


NATIONAL  
DECARBONIZATION  
PLAN | GOVERNMENT OF COSTA RICA  
2018 -2050



# Function 3

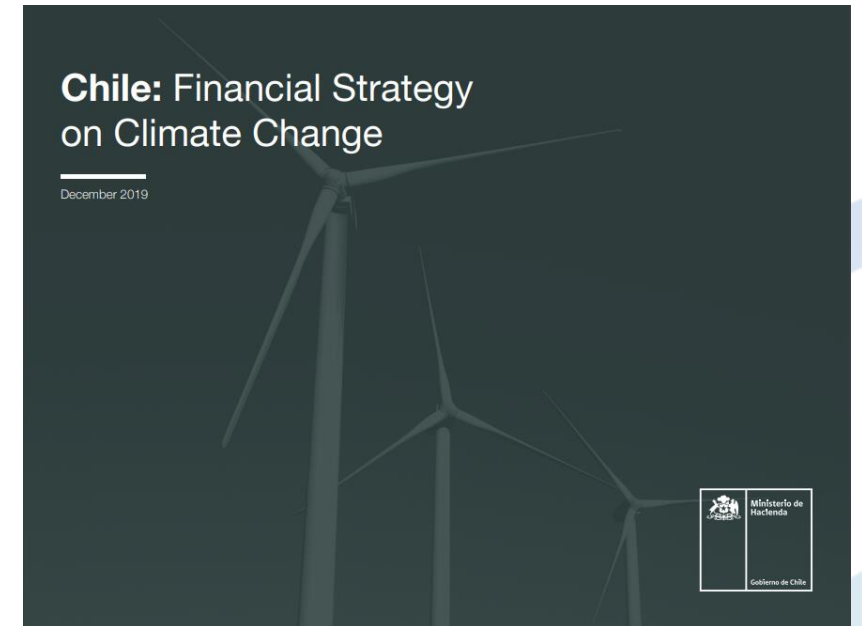
## Finance



## Case Study – 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

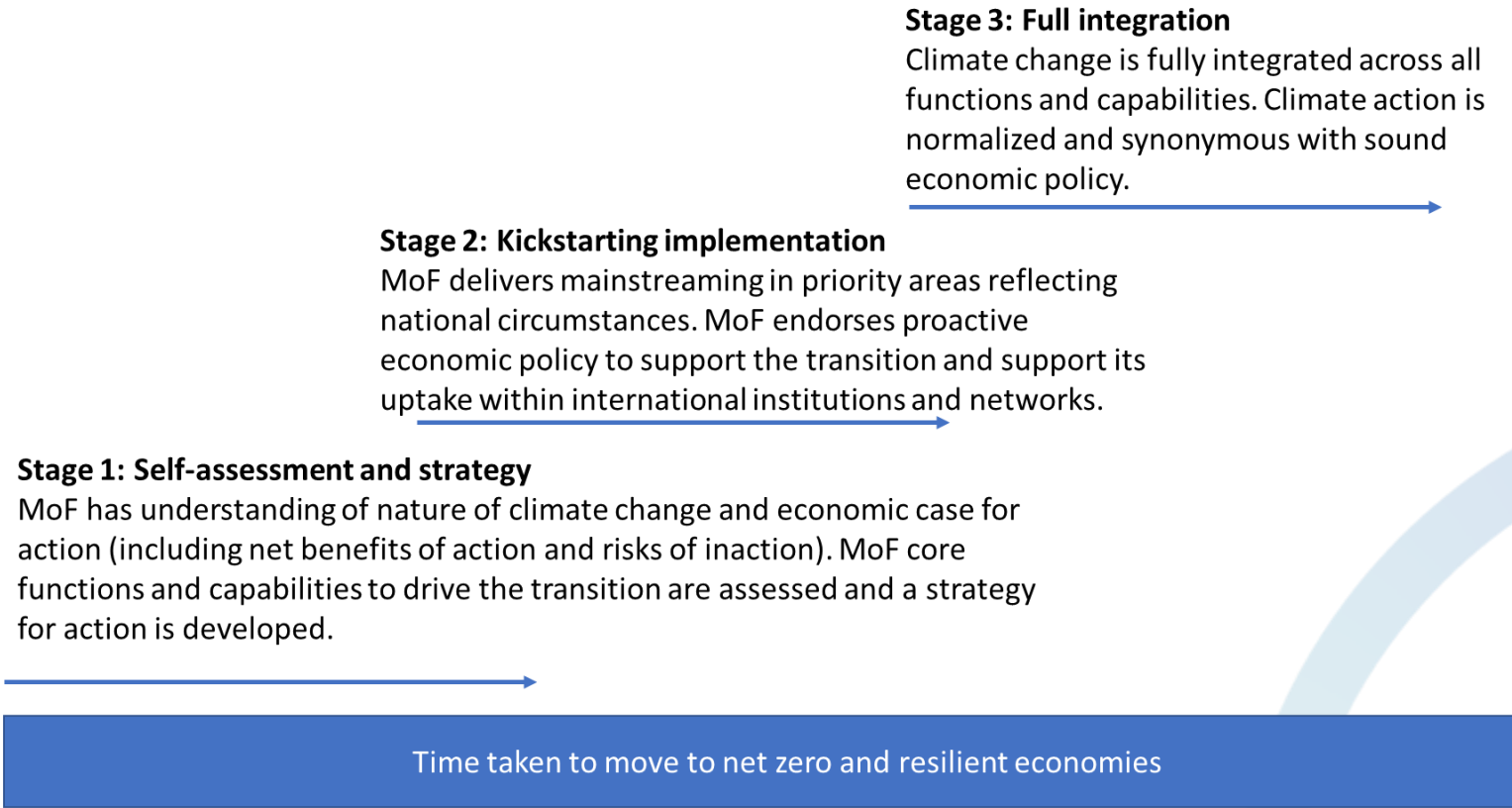


# 3 Next Steps



# A Ministry of Finance vision for the future

## Mainstreaming climate action into Ministry of Finance functions and capabilities



# From guide to action

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

The Coalition can support members through:

## Launch and engagement

A programme of strategic engagement to: increase awareness of the important role of Ministers of Finance in driving climate action; gain recognition of the concrete actions needed to mainstream climate within MoF core functions and capabilities; and deepen dialogue on implementation through regional workshops and country roadshows.

## Capacity creation

Enhanced training and technical assistance programs for Ministries of Finance, starting with the programs offered or being designed by the Coalition's Institutional Partners, including the World Bank, IMF, NDC Partnership, WRI, UN, RDBs and others.

## Knowledge and research network

Developing knowledge and research networks to ensure that Ministries of Finance have available to them high-quality analysis and research. Inspiration can be taken from similar existing networks.

## Global dialogues

Organizing global and regional debates on topics of contention to build consensus around the important role of Ministries of Finance in driving climate action. Gathering feedback in the 2023/2024 Ministerial Meetings on how to enhance Ministry of Finance engagement in global climate processes in the run-up to COP28 and COP16.