HELSINKI PRINCIPLE 6
Ministries of Finance Engagement in NDC
Discussing Guidelines and Good Practices
OUTLINE

1. Background to NDCs, Principle 6, and Country Needs

2. Why MoFs Should Engage?
   • Macroeconomic Impact of CC
   • Opportunities

3. How MoFs Can Engage?
   • Aligning the NDC cycle with the National Budget Cycle and Creating an Enabling Environment

4. Draft Guidelines

5. Way Forward: Questions for Sherpa’s / Feedback
BACKGROUND

What are Nationally Determined contributions (NDC)?
Principle 6 and Country Needs
WHAT ARE NATIONALLY DETERMINED CONTRIBUTIONS (NDC)?

At the heart of the Paris Agreement and the Agenda 2030

NDCs are actions to address climate change and support sustainable development goals

In practice related to sector investments

- **Mitigation**
  - Renewable Energy investments;
  - Energy efficiency;
  - Public transport, cargo infrastructure, e-mobility;
  - Sustainable forest management;
  - ....

- **Adaptation**
  - Agriculture prepared to droughts and changing climate patterns;
  - Infrastructure adapted to floods and extreme events;
  - Water Resource Management;
  - ....
PRINCIPLE 6

Finance Ministries

- Active engagement in NDCs
- Working with other ministries and financial institutions
- Supporting the integration into budgeting
- Providing technical input to other Ministries
- Coordinating technical assistance and financing
NEW NDCS TO BE DEVELOPED, MUST BUILD AND IMPROVE ON EXISTING NDCS

Assessment of NDCs:

• Good documents on Climate Chance issues, agenda setting

• However: Cost of NDC not aligned with available budgets; i.e. no realistic budgeting

• Often, weak link between planning - budgeting - M&E; i.e. no feedback loop to policy impact or wider economy
WHAT DO NDC FINANCE NEEDS LOOK LIKE?

What kind of request do the countries ask NDCP for support?

% Countries with demands related to Finance

- With Finance Demands: 85%
- Without 15%

Type of finance request by region

- Unspecified finance requests
- Project and program financing and resource mobilization
- Integrating NDCs into national planning, budgets and revenue streams
- Developing bankable projects and pipelines
- Climate finance strategies and financial roadmaps

Source: NDC Analysis, 65 countries submitting requests of support
MOFS NEED TO BE INVOLVED IN DEVELOPING NDCS

2019 Coalition of Finance Minister Survey:

1. NDCs lacking MoFs macroeconomic underpinning, e.g. forecasting and costing of policies;

2. But there are varying degrees of understanding of how to engage, MoFs are unsure who/what NDCs are, Why this is relevant, What they are being asked to do.

Expertise of MoFs required to:

- Place NDCs within national development context and develop feasible goals
- Forecast and integrate NDCs into national budget cycle

Address this with guidelines to identify entry points and support for MoFs
WHY MOFS SHOULD ENGAGE?

Macroeconomic Impact of CC and Economic opportunities
CLIMATE CHANGE - NOT JUST ABOUT OFFSETTING ENVIRONMENTAL RISKS

Evidence of growing problem affecting wider economy, macro-fiscal indicators and derailing growth and development

• **Australian** wildfires estimated to reduce GDP in 2020 by 1% (Reserve Bank of Australia, 2020)

• Economic cost of floods in **Thailand** 2011: Losses $15-20 billion, $22 billion including opportunity cost (UNDP GEF, 2020)

• Direct, immediate reduction in employment in the areas affected by Hurricane Katrina in **USA** between 280,000 and 400,000 jobs (Congressional Budget Office, 2005)

• 2000 flood in **Mozambique**: annual GDP growth dropped from 7.8% to 1.7% in 1999 (Teneo, 2019)
NEED TO MITIGATE WIDER CLIMATE CHANGE RISKS

- Increasingly diverse linkages from climate change to macroeconomic growth and stability => “Climate policy should not be seen in isolation, but should rather be considered an integral part of the broader policy agenda to promote economic growth” (Bank of England, 2018)

- Risks:
  - Drought / Flood
    - Agricultural productivity
    - Knock on to Industrial (Bakeries, Coffee exports)
  - Financial
    - Insurance Market
    - Inflation
    - Exchange rate
  - GDP
    - Reduced Consumption
    - Reduced Investment
AND OPTIMISE OPPORTUNITIES

- Energy efficiency provides cheaper production costs;
- New technologies create opportunities for net job creation;
- Rising Global Climate Finance Flows can address poverty and inequality if used well; i.e. utilise not only for Climate Change but wider development and growth needs

WHY IT IS IMPORTANT FOR MOFS TO ENGAGE?

MoFs can reduce risks and gain opportunities through coordination of economic and Climate Change policies

Will ensure feasibility of NDCs: fiscally, macro-economic stability, enabling environment for financing

“Finance ministries have a key role in … integrating climate risks and financing into macro-fiscal frameworks; addressing political economy aspects; and coordinating strategies across ministries”. (IMF, 2019)
HOW CAN MOFS ENGAGE?

Aligning the NDC cycle with the National Budget Cycle
Creating and Enabling Environment
HOW CAN MOFS ENGAGE WITH NDC DEVELOPMENT?

MoFs as Champion in every country regardless of budgeting and PFM systems

• Use national budget cycle – NDCs cannot be isolated process

• Multiple climate change projects ongoing:
  • How do we know how much is spent?
  • By whom?
  • Is it effective?

• Flexible (Annual, MTEF, Decentralised)

⇒ Helsinki Principle 4

Source: Adapted from World Bank (1998).
HOW CAN MOFS ENGAGE WITH NDC DEVELOPMENT?

MoFs to create an Enabling Environment

• Linked to budget cycle integration is the wider PFM Systems for creating an enabling environment:
  • Fiscal policy mechanisms for change and revenue mobilisation (subsidies and taxation) (incl. HP3);
  • Regulation / Legislation for changes to tax system, new financing mechanisms, procurement, and to induce investment (HP4);
  • Accessing financial sources and innovative resource mobilisation (HP5):
    • Private sector;
    • Donor funding;
    • New global climate financing, e.g. green bonds, blended finance, specialized climate funds
SHERPAS GUIDANCE ON WAYS FORWARD TO PRINCIPLE 6

⇒ Need for guidelines for Ministries of Finance to engage in NDC review and implementation process (As per Santiago Action Plan)

⇒ Need to use Q1 and Q2 in 2020 as timeframe for MoFs’ involvement in the NDCs that are due in Glasgow (COP26)

Guidelines:

• Short and accessible document for policy makers, 5-7 pages;

• Using MoFs language and terms

• Uses case studies and lessons from existing studies to develop improved and implementable NDCs

• Reference document that points to other Helsinki Principles
Principle 1 and 6 are interconnected (Long term and NDCs) and
Principle 2 platform of exchange.
Principles 3 (Carbon Pricing), 4 (Climate Change in Macroeconomic Management and Public Finance) and 5 (Financial Sector Development)
1. Introduction to NDCs

2. Why MoFs should engage

3. How MoFs can engage:
   i. NDC Review and Development - Macroeconomic impact of climate change, economic benefits, costing → designing implementable NDCs
   ii. NDC Implementation - Aligning NDCs with the national budget cycle and contributing to an enabling environment (fiscal mechanisms, private sector, new financing sources)

4. Conclusion and avenues for support
MAINSTREAMING NDCS / CLIMATE CHANGE INTO NATIONAL POLICY

PFM legislative regulation requirements

• NDC impacts
• Effective and efficient policy
• Financing options

M&E

Planning

• NDC costing and planning – Inc. Financing options
• Macro impact analysis

Execution

Budgeting

• NDC budget execution
• NDC budget tracking

Tools: Annual reviews, PERs, Parliamentary Budget Committees, Civil Society

Tools: Macroeconomic Framework, Budget Framework Papers, Call Circulars, Budget line tagging

• NDC budget allocation
• NDC budget lines

Guidelines for Ministries of Finance | Feb 2020
PROPOSED PROCESS FOR DRAFTING THE GUIDELINES

20th of March
Draft elaborated and circulated with other WGs and Sherpas

31st of March
Deadline for written feedback

April to July
Launch Africa Climate Week and Latin American Climate Week, Webinars
Uganda and Jamaica Championing

25th of March
Feedback call with Sherpas

13-19th of April
Final Check-in and Drafting
WAY FORWARD
Questions for Sherpas and Feedback
Thank You

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