

Finance Watch response to the The Coalition of Finance Ministers for Climate Action Global Consultation: Strengthening the Role of Finance Ministers in Driving Climate Action

[Consultation page](#)

[Link to edit our response](#)

Submitted on 3 February 2023

1. ROLE:

What role should Ministries of Finance play in driving climate action? Are their mandates and roles sufficiently well defined?

One key part of the report that needs to be better defined is the inclusion of an explicit mandate to tackle climate risk. Ensuring financial stability and tackling associated risks is already a key part of Finance Ministries' mandates. However, climate change poses a new challenge and it is not being properly addressed for the moment. This undermines the foundation for the rest of the framework that is proposed in the Report. Finance Ministers need to be explicitly empowered to address climate change within their respective remit taking a macroeconomic perspective, as it does not only represent an environmental challenge (which is undoubtedly a primary remit of the respective environmental ministries) but also a major threat to the stability and very existence of economic and financial systems. Climate-related financial risks need to be tackled to avoid a financial crisis that would significantly impair, or even eliminate the possibility for the climate action outlined in the Report to take place.

Not only "Ministries will need to work closely with central banks and financial supervisors to prevent the financial system from becoming a major source of financial instability", in most of the countries they play an important role in the rule-making process defining the remits and mandates of supervisors.

An explicit role and mandate for Ministries of Finance to tackle climate risk should include the obligation to act based on precautionary principle when it comes to addressing the threat climate change poses to financial stability. Given that past data cannot provide a clear picture of how these risks will materialise, Ministries of Finance should look to different solutions to guarantee economic and financial stability taking a forward-looking long-term perspective.

For the private finance part, Finance Watch has researched policy proposals to amend EU regulation that show the need to take a precautionary approach to addressing climate risk. Please see the following Finance Watch reports, letters and consultation responses for more information:

[Report: A 'silver bullet' against Green Swans – Incorporating climate risk into prudential rules](#)

[Report – Insuring the uninsurable: Tackling the link between climate change and financial instability in the insurance sector](#)

[Report – A safer transition for fossil banking: Quantifying capital needed to reflect transition risk](#)

[Report – Breaking the climate-finance doom loop](#)

[Open letter calling on the G20 for a #SafeTransition](#)

[Response to the FSB Consultation on Supervisory and Regulatory Approaches to Climate-related Risks](#)

[BCBS Consultation response on the principles to effectively manage and supervise climate-related financial risk](#)

[Response to the EBA Discussion Paper on Environmental Risks in the Prudential Framework](#)

On the public finance side, the enhanced mandate of Finance Ministries should guarantee that climate-related fiscal risks - the fiscal impacts of failing to do the precautionary investment and reforms required to mitigate and adapt to climate change - are taken into account when setting macroeconomic and fiscal policy and analysing public debt sustainability.

Please see the following Finance Watch publication for additional information: [Breaking The Stalemate: Upgrading EU economic governance for the challenges ahead](#).

2. FRAMEWORK:

How do you view the usefulness of the proposed framework? What additional evidence should be considered?

The proposed framework can be extremely useful and essential to drive change and cooperation in Ministries of Finance on issues related to climate change. Taking international action and harmonised regulatory approaches are needed to address these issues. IN this regard Ministries of Finance need to ensure that they ensure the mandates for the work of central banks and supervisory authorities in different standard-setting bodies also cover tackling climate risks.

Much of the evidence outlined in the report is rightly identified, but should also be used and viewed from the financial stability perspective. The same evidence, such as IPCC reports, indicates the scale of climate-related financial risks and the urgency needed to address it.

3. ACTIONS:

What steps in the 15 action areas and beyond outlined in Part C of this report are the most critical to achieving progress? Are there any missing?

An additional area is missing and needs to be included. Ministries of Finance must explicitly aim to address climate risks as soon as possible. They also need to ensure that central banks and supervisory authorities have a mandate to tackle these risks at international level. As outlined in the responses above, key priorities must be to upgrade prudential regulation, fiscal rules and economic governance to deal with these risks.

4. CAPABILITIES:

Which organizational reforms are most important for strengthening the capability of Ministries of Finance to act on climate? How should Ministries of Finance prioritize their efforts?

See response to question 1.

5. CHALLENGES:

What are the key challenges that hold back progress by Ministries of Finance? How can these be overcome?

Ministers of Finance operate within the existing national and international financial architecture with its compartmentalised approach to dealing with economic, societal and environmental issues. Ministers of Finance can and should be a driving force for larger change, as in the view of climate change representing an existential threat to our society and economy, Ministers of Finance alone will not be able to deliver on their mandates without a global holistic action to address climate change.

Within the existing remit of Ministers of Finance, one of the key challenges that needs to be addressed is how to overcome the tendency to rely on past data and evidence to inform developments in prudential regulation, as well as a short-terministic view to setting private and public financial policy. This is not a compatible approach to capture climate risk and ensure a precautionary approach. Ministries of Finance should take the perspective that rule changes are needed to prevent financial crises and ensure financial stability, not to respond to crises and recover from them.

6. IMPLEMENTATION:

What key actions can the Coalition of Finance Ministers for Climate Action take to most effectively support its members to deliver on the agenda proposed in this guide?

7. REPORT/EVIDENCE:

Do you have any suggestions for strengthening the report? What additional evidence should be considered?

8. OTHER:

Do you have any additional feedback?