

The background of the slide features a collage of financial and business-related imagery. It includes a close-up of a calculator with orange and grey buttons, several line graphs with green data points showing upward trends, a donut chart with segments in various shades of green and yellow, and a table with numerical data. The overall theme is financial analysis and business operations.

Climate Change and Sustainability Responsiveness

Greening Policy Instruments and The PFM Cycle

Richard Sutherland
Senior Governance Specialist
The World Bank

The Climate Governance Challenge

Effective Climate Action Needs Strong Institutions

- Climate change impacts are cross-sectoral and require coordinated responses
- Siloed approaches lead to policy inconsistencies and inefficient resource allocation

To overcome these challenges, public sector institutions, including Finance Ministries and departments, must operate differently.

- **Coordinate** across sectors and other boundaries
- **Manage** increased time pressure, uncertainty, and more frequent shocks
- **Understand and use science** for informed decision making and implementation
- **Increase support** to stakeholders and facilitate compromises, cohesion, and communication

Where do we start?



Identifying Institutional Weaknesses

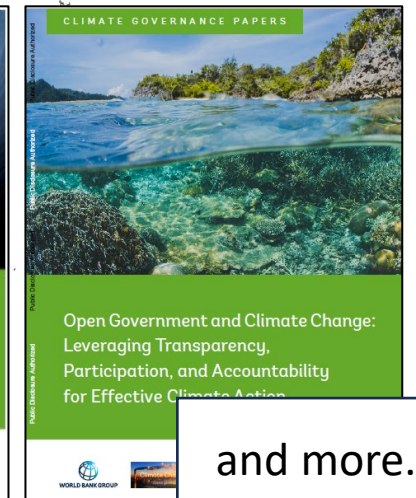
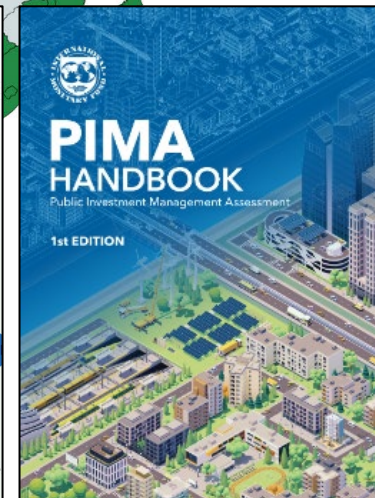
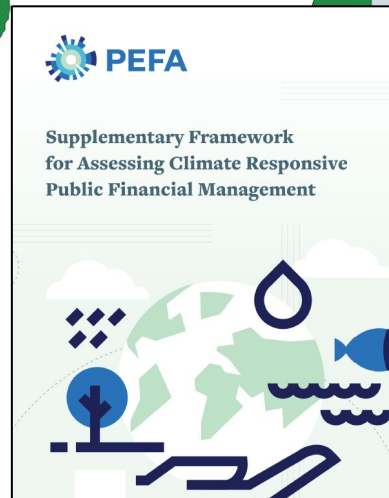
1. Organization

2. Planning and
Evaluation

3. Public Finance

4. Subnational
Governments and
SOEs

5. Accountability



and more...

Greening PFM as a Solution Pathway



Why integrating Climate Goals into Fiscal Policy?

- Closing Climate Gaps
- Resource Allocation
- Tracking and Financing
- Policy Evaluation
- Raising Awareness



The Emergence of Green PFM

- Green PFM - implement climate action and inform policy & strategy to combat climate change
- Asia-Pacific region forerunner, first concrete examples in late 2000s
- Since 2019 promoted by the “Coalition of Finance Ministers for Climate Action” (Helsinki Principle 4)
- Green PFM practices remain nascent, there exists a diversity of approaches and perceptions

Uniform terminology?

- Not really a concise framework, but variety of guidance and handbooks
- To be reconciled with practice
- Climate – green – environmental – disaster

Any preconditions?

- Some functionality helpful, such as program structure, PBB or IFMIS
- Institutional setting highly relevant (e.g., CFA's role...)

Just priority-based budgeting?

- IMF: Green PFM **does not require a novel approach** to PFM, but rather an adaptation of existing PFM processes and tools

Climate spending or mainstreaming?

- Does a climate budget constitute green PFM?
- Expenditure management versus PFM

Identifying Green PFM Entry Points

PEFA Climate assessment indicators

CRPFM-1. Budget alignment with climate change strategies

CRPFM-2. Tracking climate-related expenditure

CRPFM-3. Climate-responsive budget circular

CRPFM-4. Legislative scrutiny

CRPFM-5. Climate-responsive public investment management

CRPFM-6. Climate-responsive non-financial asset management

CRPFM-7. Climate-related liabilities

CRPFM-8. Climate-responsive public procurement

CRPFM-9. Climate-responsive tax administration

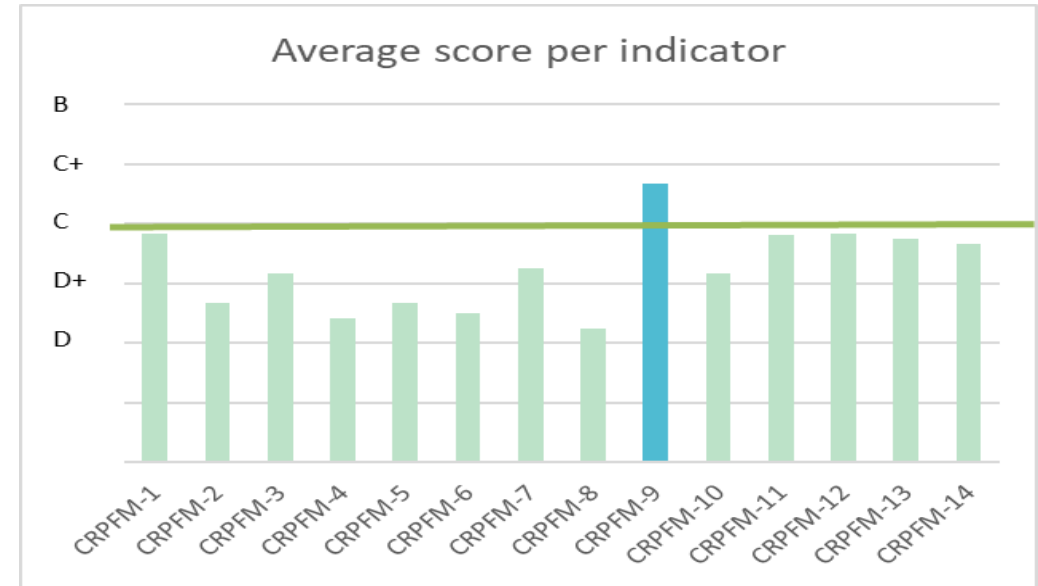
CRPFM-10. Compliance of climate-related expenditure

CRPFM-11. Climate-responsive fiscal decentralization

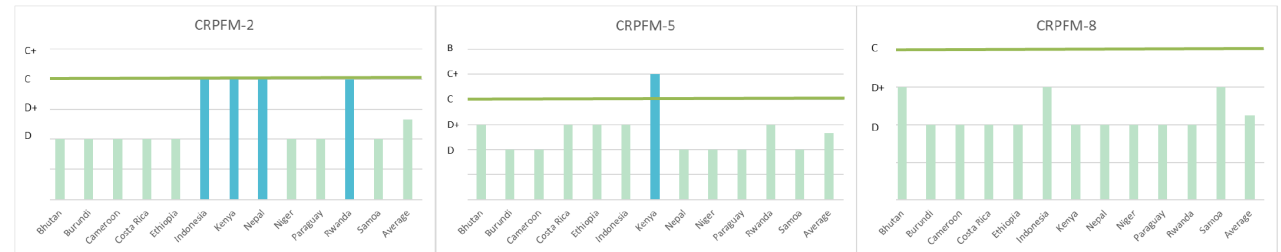
CRPFM-12. Climate-related performance information

CRPFM-13. Climate-related evaluation

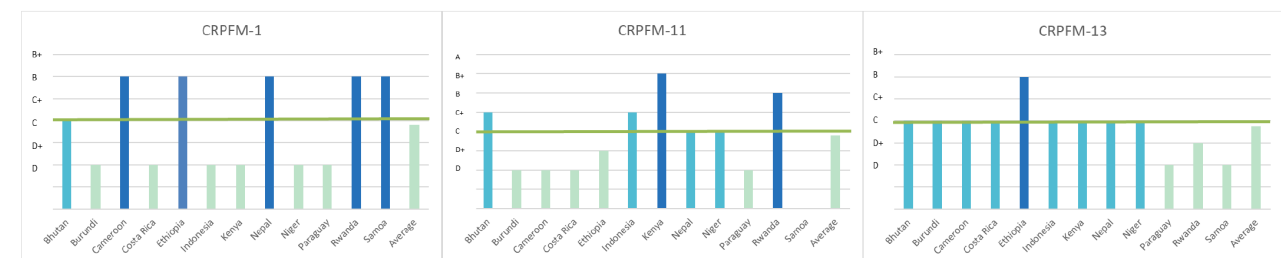
CRPFM-14. Expenditure outturn for climate activities



Main gaps



Initial efforts and beyond

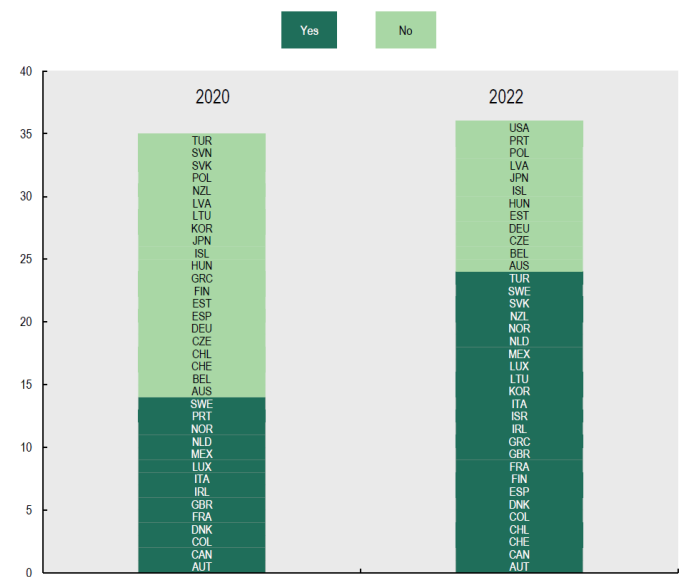


Global Trends in Green PFM Practices

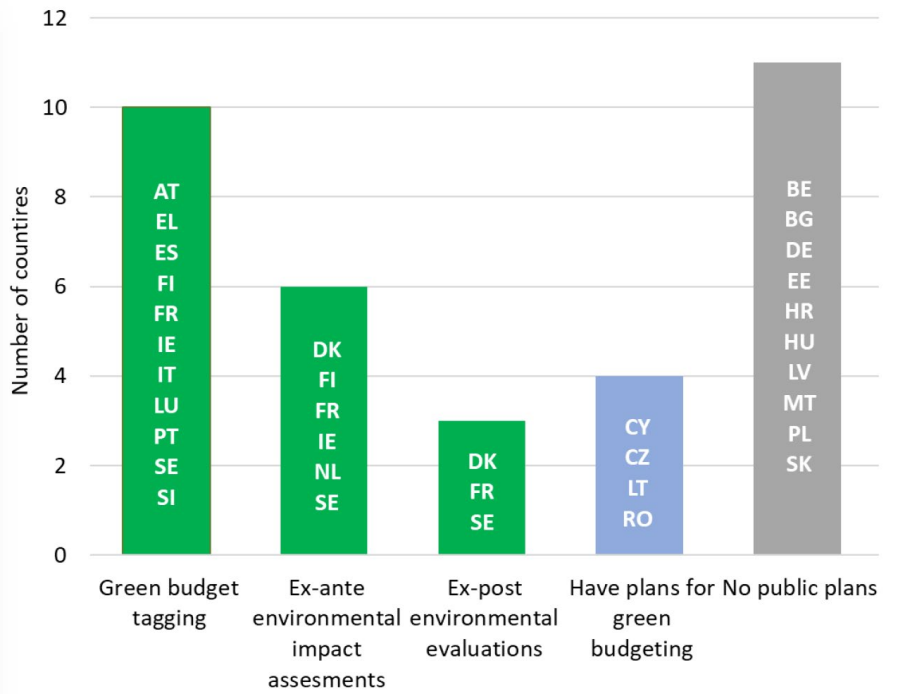
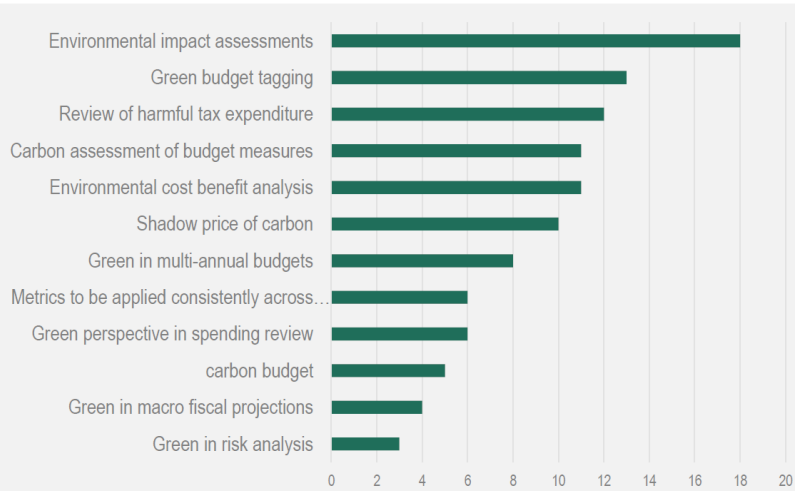
Green Budgeting practices in OECD countries

Green Budgeting practices in EU countries

Green budgeting in OECD countries, 2020 vs. 2022



Green budgeting methods and tools in OECD countries, 2022



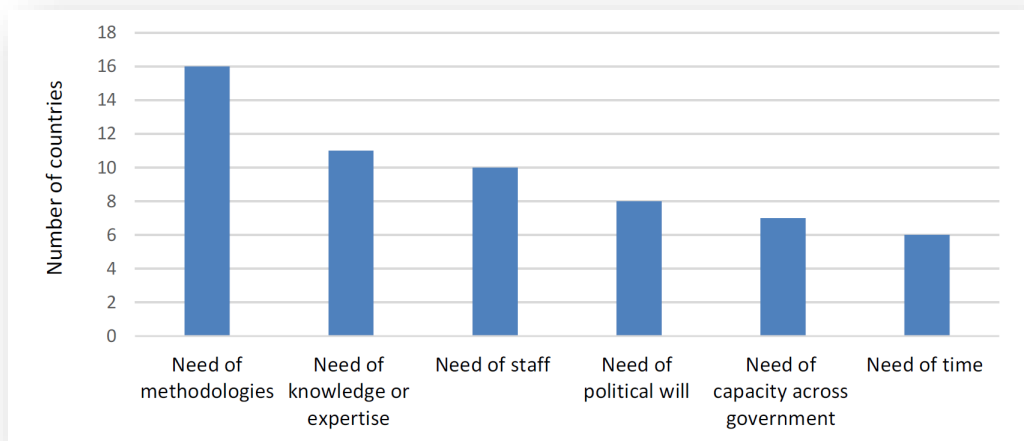
Source: OECD (2024), Green Budgeting in OECD Countries

Source: 2023 European Commission survey on green budgeting & recent developments

Limitations to Consider

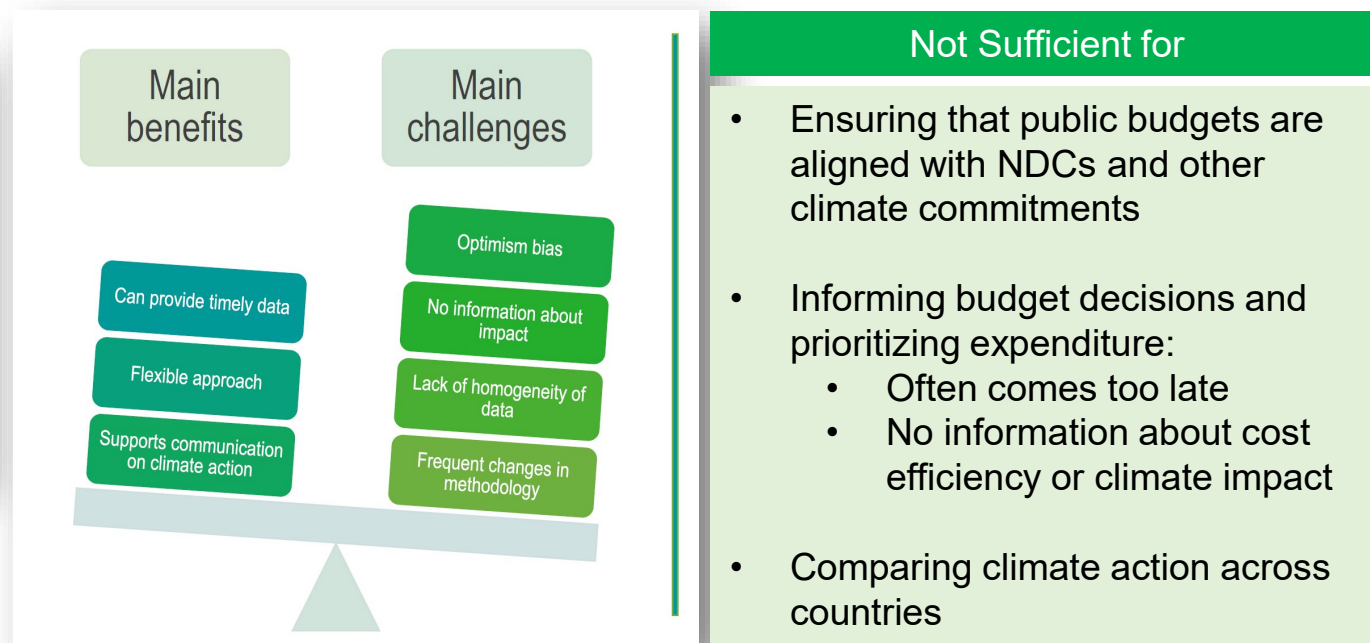
Key challenges in the EU

...to introduce and/or implement green budgeting



Source: 2023 European Commission survey on green budgeting

Main benefits and challenges of budget tagging

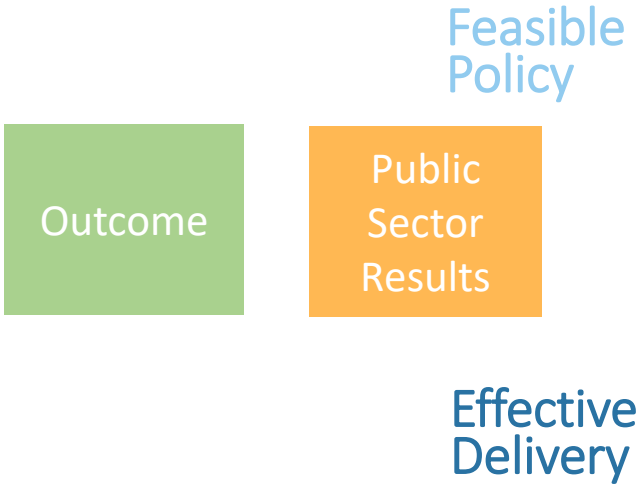


Source: OECD (2024), Beyond Green Tagging: Linking budgets better with climate goals

Green PFM Roles and Institutional Bottlenecks

✓ Roles ✓

! Bottlenecks !



A. Commitment to Feasible Policy

1. Insufficient Commitment or consensus on priority climate policy actions

B. Fiscal sustainability

2. Medium-term budget strategy and expenditure ceilings do not reflect climate policy objectives

C. Effective Resource Mobilization & Distribution

3. Departments are not able to translate climate policy into budget proposals

D. Performance & Accountability in Delivery

4. Unsustainable fiscal positions of governments and organizations

5. Funding for climate action does not reflect actual costs of proposals

7. Climate action is not being implemented on time or within budget

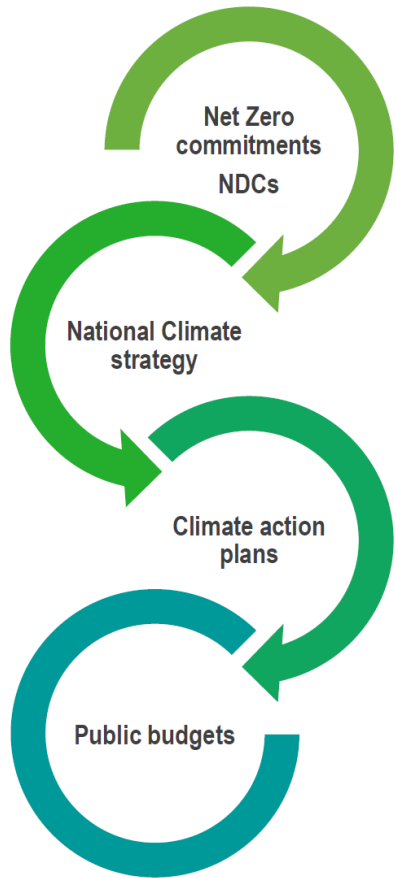
6. Unreliable, delayed and fragmented funding for delivery

8. Regulation, oversight and accountability does not enable and encourage performance

9. Inadequate use of fragmented sector and financial data in decision making and accountability

Turning Challenges into Opportunities

Driving Climate Action Through the Budget: An Outcome-Led Approach



1. Translating Climate Goals into Action—Are climate risks understood, and are climate goals translated into a set of costed, jointly prioritized climate actions?

2. Budgeting for Climate Action—Are budgetary choices being made to enable, finance, and encourage climate action (e.g., through Budget Circulars, Sector budget proposals, Project Selection and Appraisal, Climate Budget Tagging/tracking, performance reports)?

3. Implementing Climate Action—Is budget execution enabling or impeding climate actions (e.g., sufficient mobilization of climate finance; timely/predictable budget releases; green public purchases; established emergency expenditure / procurement rules)?

4. Monitoring and Adaptive Learning—Is climate action reported on, accounted for, jointly reviewed, and adjusted when needed (e.g., through in-year tracking of climate spending)?

5. Evaluating and Evolving the System—Is performance being evaluated with follow up actions being taken when appropriate (e.g., annual climate budget reviews, and the use of audits and oversight mechanisms)?

Sample tools to ensure alignment of budgets and climate goals

- Climate impact assessment of budget proposals
- Embedding GHG emissions in budget proposals
- Developing tools to estimate the impact of policies on GHG emissions:
 - Development of standard calculations tools
 - Development of guidelines and methodologies
 - Capacity building

Key Takeaways: Green PFM & Climate Action

- **Message 1: PFM as a Tool for Climate Goals**—PFM can and does play a significant role in driving climate action, enabling the use of budgetary policy tools to align funded public activities with climate and environmental objectives.
- **Message 2: Diverse Approaches, Common Challenges**—Many countries are advancing Green Budgeting, but policy misalignment, weak monitoring, and implementation failures hinder effectiveness.
- **Message 3: Turning Challenges into Opportunities**—Through data driven diagnostics such as CCIA and Climate PEFA, it is possible to strategically identify and overcome institutional constraints to integrate climate considerations into fiscal governance, enabling governments to accelerate meaningful climate action and build a more resilient, sustainable future.

Thank you!



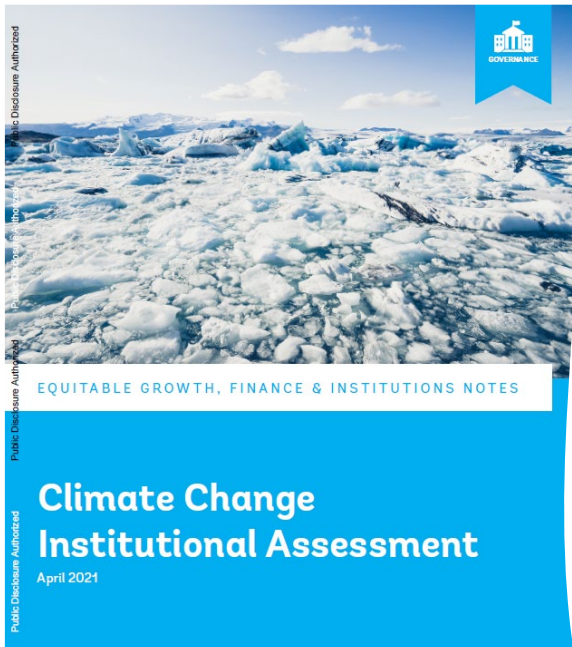
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Governance



Annex

Identifying Institutional Weaknesses

The World Bank's Climate Change Institutional Assessment (CCIA) identifies the strengths and weaknesses of a country's institutional framework in addressing climate change governance challenges.



- Focuses on **center of government, planning and finance agencies**, and **lead technical ministries**
- Conducted as a **stand-alone assessment** or part of **other analytical exercises** (e.g., CCDRs)
- Identifies **entry points** for policy dialogue with government officials, prior actions, investment opportunities
- Global Coverage (71 CCIA's to Date)

Identifying Entry Points with Climate PEFA



Section 3: Implementation of climate change policies by the government

Section 2: National Level Strategies

7. Is climate change identified as a key issue in the national development plan or

Questionnaire: Preparing the PEFA Climate assessment in [insert country name] - Climate Change Policy Context

This questionnaire is part of the data collection conducted before the PEFA Climate assessment field work starts. It aims at providing the policy context for the PEFA Climate assessment of [insert country name].

This questionnaire must be filled in by the government. This questionnaire may be filled in by the designated agency overseeing and coordinating the implementation of the climate change activities (if applicable) or the Ministry of Finance with the support of the main line ministries in charge of implementing climate change policies.

Section 1: International Commitments for Climate Change Mitigation and Adaptation

- Has the country ratified the United Nations Framework Convention on Climate Change?
 - ☐ Yes, when: _____
 - ☐ No
- Has the country ratified the Paris Agreement?
 - ☐ Yes, when: _____
 - ☐ No
- Has the country submitted Nationally Determined Contributions (NDCs)?
 - a. First NDCs ☐ Yes, when: _____ ☐ No
 - b. Revised NDCs ☐ Yes, when: _____ ☐ No

Box 11: Climate Budget Tagging in Indonesia

Since 2016, the Ministry of Finance (MoF) has been implementing climate budget tagging (CBT) as the national climate budget tagging system. In 2020, the MoF issued the first climate tagging system. The first MoF budget tagging system is a system that allows the MoF to track the amount of public funding that contributes to climate change activities and to track the amount of public funding that contributes to climate change activities.

CBT is carried out at the budget level which provides the most reliable data on climate change activities and corresponding spending in the country. The budget tagging system is a system that allows the MoF to track the amount of public funding that contributes to climate change activities and to track the amount of public funding that contributes to climate change activities.

Box 12: Climate Change Budget Tagging: A Review of International Experience

The purpose of this report is to provide development practitioners and government officials with an understanding of the context and key design features of climate budget tagging systems. It is based on a review of 18 climate budget tagging systems in 18 countries, including Indonesia, which is the focus of the report.

The report defines tagging as "the practice of identifying, documenting, and reporting on climate change expenditures in a budget. It is a system that allows the MoF to track the amount of public funding that contributes to climate change activities and to track the amount of public funding that contributes to climate change activities."

The report identifies the most common use of climate budget tagging as a system that allows the MoF to track the amount of public funding that contributes to climate change activities and to track the amount of public funding that contributes to climate change activities.

Country	System	Key Features
Indonesia	Climate Change Budget Tagging System	Tracks climate change expenditures in the budget, allows for climate change budget tagging, and provides a system for climate change budget tagging.
Kenya	Climate Change Budget Tagging System	Tracks climate change expenditures in the budget, allows for climate change budget tagging, and provides a system for climate change budget tagging.
Malawi	Climate Change Budget Tagging System	Tracks climate change expenditures in the budget, allows for climate change budget tagging, and provides a system for climate change budget tagging.
Mozambique	Climate Change Budget Tagging System	Tracks climate change expenditures in the budget, allows for climate change budget tagging, and provides a system for climate change budget tagging.
Nigeria	Climate Change Budget Tagging System	Tracks climate change expenditures in the budget, allows for climate change budget tagging, and provides a system for climate change budget tagging.
Rwanda	Climate Change Budget Tagging System	Tracks climate change expenditures in the budget, allows for climate change budget tagging, and provides a system for climate change budget tagging.
Tanzania	Climate Change Budget Tagging System	Tracks climate change expenditures in the budget, allows for climate change budget tagging, and provides a system for climate change budget tagging.
Uganda	Climate Change Budget Tagging System	Tracks climate change expenditures in the budget, allows for climate change budget tagging, and provides a system for climate change budget tagging.
Zambia	Climate Change Budget Tagging System	Tracks climate change expenditures in the budget, allows for climate change budget tagging, and provides a system for climate change budget tagging.

Source: <https://www.pefa.org/publications/Climate-Change-Budget-Tagging-A-Review-of-International-Experience>