

# Climate Change Governance

## Entry Points

September 2022



[Click for climate change governance resources](#)



# Objective

## Put in place the institutions that incentivize and enable effective climate action

- ☀️ Key actors are businesses and households: key tools information, regulation, taxation and – as last resort - public spending
- ☀️ Climate action builds on essential foundations (risk assessment, long-term strategy, PIM and PFM basics)
- ☀️ Requires long-term vision and multi-year commitment - but can be broken down into steps
- ☀️ Need to experiment, adapt and see what works ... actions may be a technical rather than political level

# Government Failures

# Governance Solutions

Information gaps

Strengthen evidence, independent scientific advice, dissemination

Perceived trade-offs

Identify co-benefits - employment, energy and food security, resilience ...

Uncertainty

Integrate flexibility

Leadership, coordination

Center of government and central finance agency – not environmental - mandate

Moral hazards, free-riding

Define institutional mandates, strengthen incentives and oversight

Credible commitment

Plan - and ideally legislate - long-term and intermediate targets

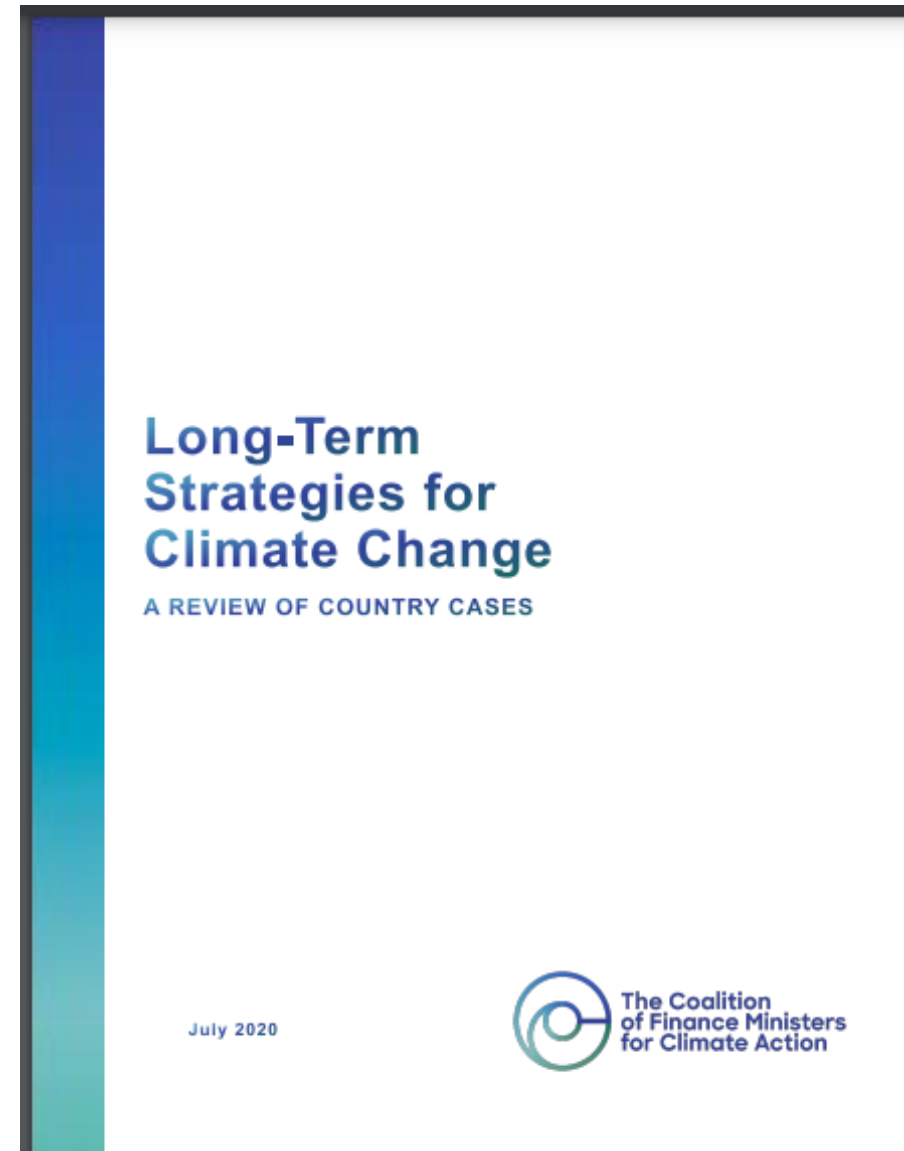
Public spending bias

Define role of state and explore role of information, regulation and taxation

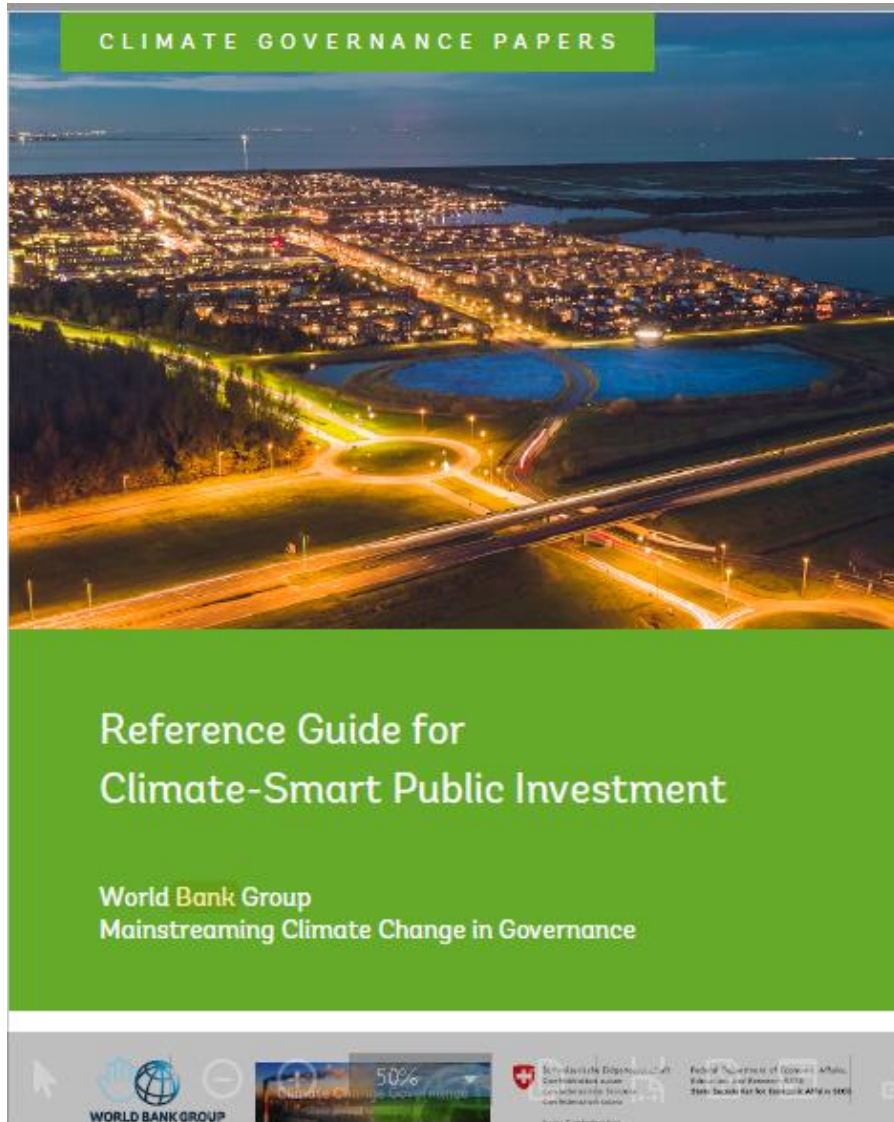
# Planning

**Objective: define policy goals and role of state, align policy with resource constraints and guide CC action**

- ☑ **Risk Assessment:** identify short term and long-term physical and transition risks
- ☑ **LTS:** goals and targets, define role of state and identify policy instruments (information, regulation, taxation, public spending) ... and institutions
- ☑ **Planning instruments:** development, sector, territorial
- ☑ **Measurement, Reporting and Verification:** UNFCC commitment, internal reporting
- ☐ **Financing strategy:** external resource mobilization



# Public Investment Management



**Objectives: mitigate physical and transition risks to and from investment projects, align resource allocations with CC policy and mobilize private capital**

- ☑ **Planning:** network transition plans, financing strategy
- ☑ **Screening:** identify physical and transition risks early in preparation of all projects
- ☑ **Appraisal:** CC impacts, alignment, for largest and highest impact projects, social cost of carbon
- ☑ **PPPs:** risk assessment and assignment
- ☐ **Asset management:** inventory, assess physical and transition risks, identification of critical infrastructure, risk management strategy

# Public Financial Management

**Objectives: manage fiscal risks and align resources with government climate change policy objectives**

- ☑ **Fiscal Risk Management:** physical and transition risk assessment reduction, retention and transfer
- ☑ **Spending Review:** alignment, impact, efficiency
- ☑ **Program framework:** define CC programs (and projects), objectives and impacts
- ☑ **Budget guidance:** integration of CC policy objectives
- ☑ **Financial reporting:** monitor policy alignment, identify contingent liabilities and impaired assets
- ☐ **Expenditure Tagging:** track expenditures aligned with CC policy goals
- ☐ **Financing:** sovereign bond framework



# Public Procurement

**Objective: use public procurement to achieve environmental policy goals**

- Environmental Criteria:** voluntary (mandatory) criteria; life-cycle costing for durables and works
- Procurement approaches:** e-catalogs, framework contracts, joint procurements
- Monitoring and Reporting:** application and impacts
- Pricing:** price preferences and set asides
- Market development:** green SME promotion



# Sub-National Governance

**Objectives: provide incentives for SNG climate action and address moral hazards and free riding**

- ✓ **Functional mandates:** define functional responsibilities of SNGs for climate action
- ✓ **Planning:** risk mapping, territorial, development and land use plans
- ✓ **Coordination:** vertical and horizontal
- ✓ **Conditional transfers:** aligned with national CC policies
- ✓ **Reporting:** MRV, performance and impacts





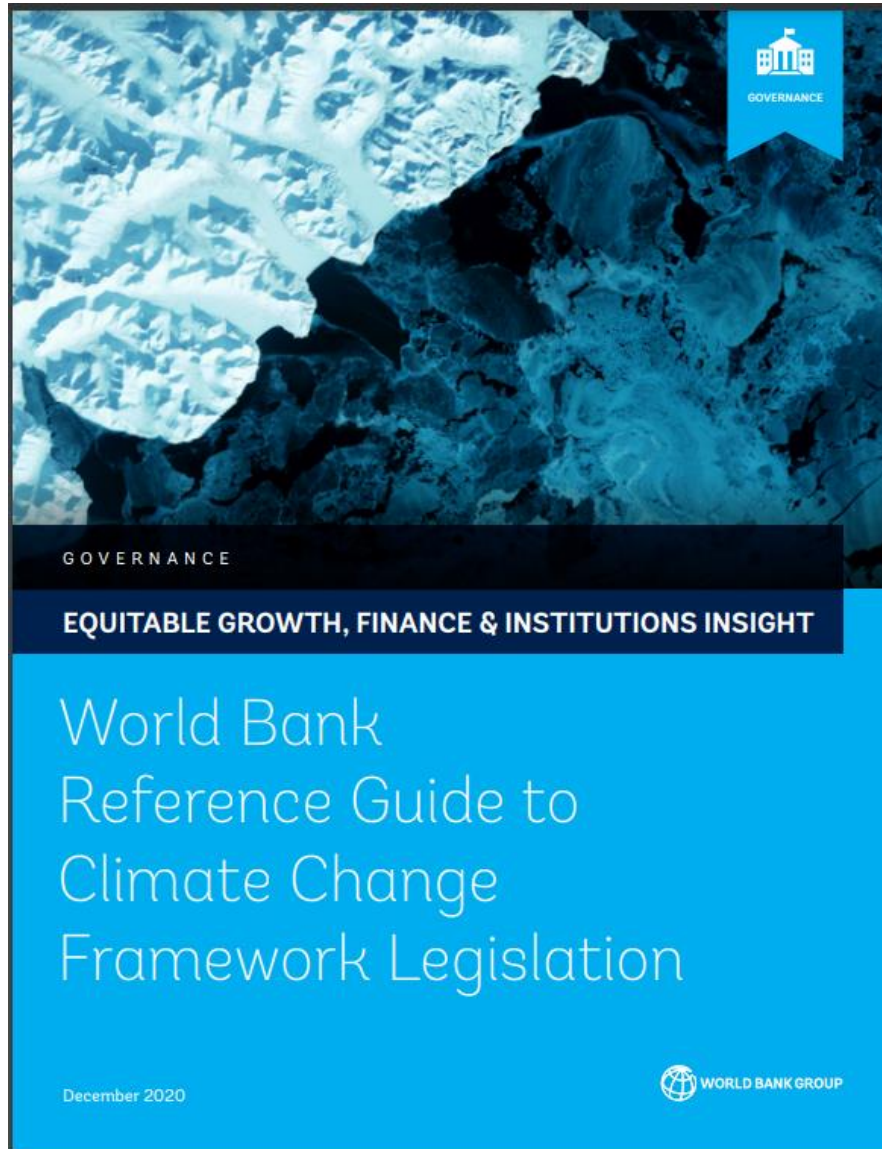
# State-Owned Enterprises



**Objectives: as shareholder align SOE business practices with national climate change objectives and monitor enterprise and portfolio CC risks and impacts**

- ☑ **Governance:** organizational arrangements to manage CC risks and opportunities.
- ☑ **Risk Management:** identify, assess, manage and report on CC risks.
- ☑ **Metrics and targets:** set CC-related targets and use of metrics to monitor progress and impacts
- ☑ **Strategy:** assess CC impacts on business and financial plans and align strategy with targets.

# Accountability Framework



**Objective: establish the institutional arrangements for the formulation, implementation and oversight of climate policy across political mandates**

- ✓ **Framework legislation:** long-term commitments and targets, planning instruments, mandates, accountability
- ✓ **Independent expert advice:** consultative or oversight.
- ✓ **Coordination:** horizontal and vertical coordination
- ✓ **Stakeholder engagement:** consultative, mandatory
- ✓ **Oversight:** legislative, audit, expert, judiciary
- ✓ **Access to information:** scenarios, risks, policies, performance and outcomes

## More information

World Bank Climate Change Governance

<https://www.worldbank.org/en/programs/climate-change-governance>

Coalition of Finance Ministers for Climate Action

<https://www.financeministersforclimate.org/>

# Climate Change Budget Tagging

**A government-led process of identification, measurement, and monitoring of climate-relevant public expenditures.**

## PROCESS

### Purpose and application

- Risk management
- Reporting
- Resource alignment
- Resource mobilization

### Stakeholder roles

- Centralized: finance agency
- Delegated approach: line ministries
- Mixed: delegated and independent review

### Integration

- Expenditure and or program review
- Budget circular to instruct line ministries on how to tag
- Agency budget submissions (Ex-ante vs. ex-post)
- Reporting (budget documentation, execution)

## METHODOLOGY

### Definition of climate relevance

- Objective-based: intended impact (OECD Rio Marker)
- Policy: activities referenced in climate change policy
- Mixed
- Taxonomies

### Coverage

- All vs. selected line ministries
- Capital vs. recurrent
- SNGs and SOEs

### Measurement

- Cost estimation
- Relevance weights (e.g., 100 %, 50 %, and 0%)

# Tagging: Lessons Learned

- 🔔 Principal benefit so far is **awareness raising** in planning, finance and line agencies
- 🔔 Appropriate method depends on **objectives and who will use information to inform what kinds of decisions**
- 🔔 Information most useful where **budgets are already structured by programs**, if budget is administrative start with investment projects
- 🔔 **Program level expenditure review** an alternative or a starting point
- 🔔 **Aggregation** misleading: focus on alignment and impacts **NOT** total spend
- 🔔 **Avoid greenwashing**: include expenditures with **adverse climate impacts**
- 🔔 **Get the right people involved**: line agency and GP technical staff are best placed to inform and use analysis; agency senior leadership support essential
- 🔔 Trade-offs between **comprehensiveness** and ease of implementation from **targeted application**