

# Climate-smart Public Financial Management MENA Conference

February 26–29, 2024  
Cairo, Egypt



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# Institutional Foundations for Climate Smart Policies: Entry Points for Planning and Finance Agencies

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# Key Messages



**“We need a new framework that integrates climate and disaster risk in all aspects of finance, planning and budgeting”**

António Guterres, UN Secretary General, Annual Meetings 2018, Bali

- Businesses, households and communities will bear most of the cost of adaptation and the transition to a zero/low carbon economy
- Governments guide climate action across the economy using information, regulation, taxation and public spending
- Planning and finance agencies play a leadership role in the government’s response to climate change
- Planning and finance agencies can guide climate change policy using **public expenditure management tools and routines**: risk management, fiscal plans, public investment programs and management system; budgets and financial reports



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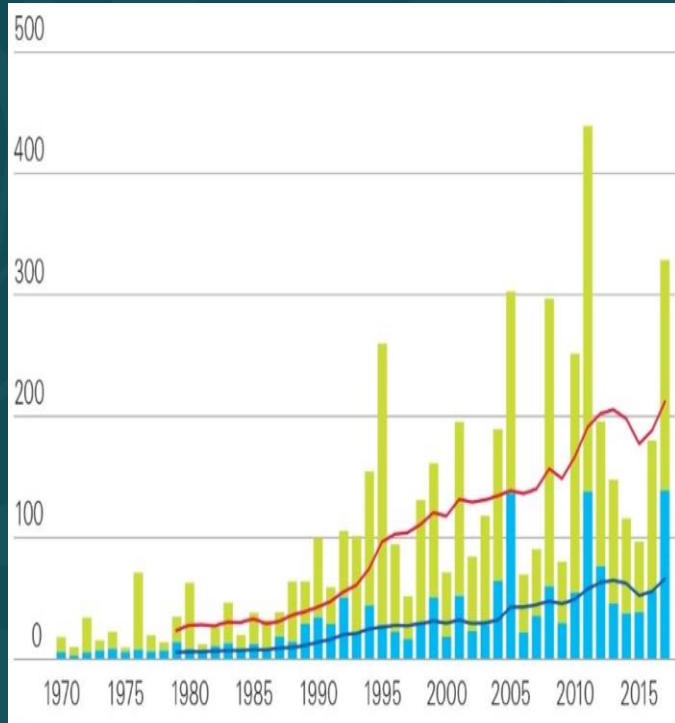
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# Entry Points

1. Risk Management
2. Long and Medium-Term Climate Change Strategies
3. Green and Resilient Budgeting
4. Climate-Smart Public Investment Management
5. Green Public Procurement
6. Green and Resilient Inter-Governmental Transfers
7. Green and Resilient State-Owned Enterprises



# Risk Management



Insured and Uninsured Cost of Disasters  
(US\$ billion, Constant 2017 prices)

**Objectives:** assign CC risks to the entity best able to manage them and manage the state's liabilities cost-effectively

- ✓ **Risk Assessment:** identify short term and long-term physical and transition risks with potential fiscal impacts
- ✓ **Risk Management:** identify risk reduction priorities and risks retained by government, cap contingent liabilities (local government, households, businesses)
- **Financial Layering:** define risk retention, risk transfer.
- **Financial management:** planning for extreme events, agile procedures for disaster response and recovery

# Long and Medium-Term CC Strategies



**Objectives:** define goals, align policy with resource constraints and guide CC action

- ✓ **Modelling:** assess economic and fiscal impacts of physical and transition scenarios and climate change policies (with Central Bank, Planning Agency)
- ✓ **Policy framework:** define role of state and identify policy instruments used to achieve goals (information, regulation, taxation, public spending)
- ✓ **Program framework:** define the government's key CC programs
- ✓ **Fiscal framework:** allocate resources within fiscally sustainable envelope



# 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



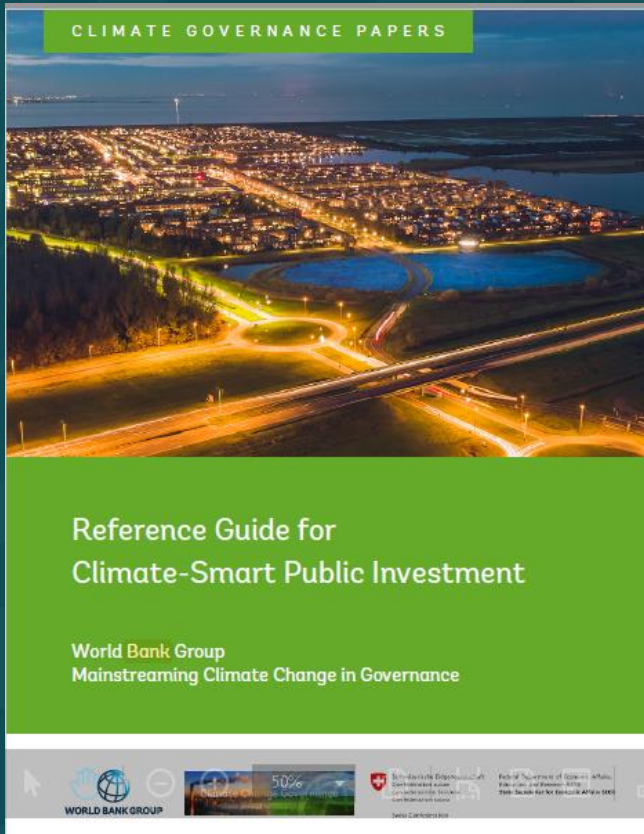
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# Public Investment Management



**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
- ✓ **PPPs:** risk assessment and assignment
- **Asset management:** inventory, assess physical and transition risks, identification of critical infrastructure, risk management strategy



# 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

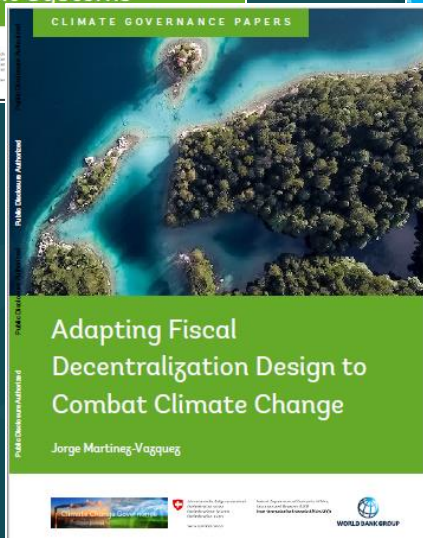
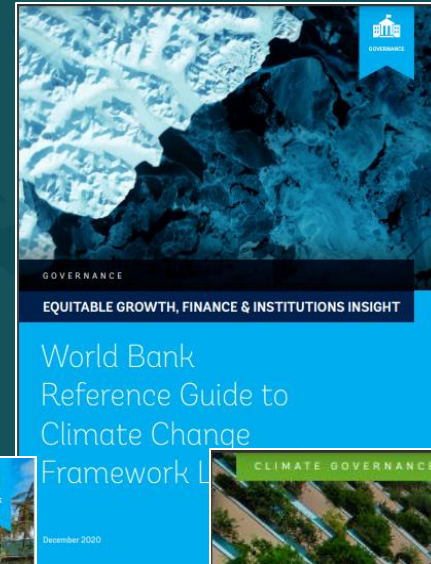
# State-Owned Enterprises

**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.



# Recent Publications



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# Governance Failures : Governance Solutions

<p><b>Unclear accountability</b> environmental agency leadership, uncertain roles of other agencies</p>	<p><b>Define functional mandates</b> for climate action across government and between levels of government</p>
<p><b>Information Gaps</b> limited understanding of CC risks, policies and their fiscal implications</p>	<p><b>Strengthen Evidence</b> using fiscal risk assessments, spending reviews test CC policy alignment, transparency</p>
<p><b>Perceived trade-offs</b> favor short-term benefits of growth, brown jobs, poverty reduction over climate action</p>	<p><b>Quantify Co-Benefits</b> from pollution abatement, technological shift, green jobs, sustainability</p>
<p><b>Uncertainty</b> regarding ecological impacts, technology, global policy environment</p>	<p><b>Integrate flexibility</b> by considering scenarios in decision-making, real options in program design</p>
<p><b>Moral hazards and free-riding</b> across government, local government and state-owned enterprises</p>	<p><b>Strengthen incentives</b> define mandates, targets, cap contingent liabilities, align financing with CC objectives</p>
<p><b>Credible commitment</b> to policies over extended horizon across multiple electoral mandates</p>	<p><b>Set long-term and intermediate</b> targets – ideally legislate – and align fiscal plans with targets</p>
<p><b>Public spending bias</b></p>	<p><b>Define role of public sector</b> and consider information, regulation, and taxation and prioritize public goods</p>

