AAAG
AFRICAN ASSOCIATION OF ACCOUNTANTS GENERAL

POSITION PAPER

EMBEDDING CLIMATE AND SUSTAINABILITY TARGETS INTO PUBLIC FISCAL SYSTEMS

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EXECUTIVE SUMMARY

As climate change, resource scarcity, and socioeconomic inequalities reshape global development priorities, African governments must integrate climate and sustainability targets into public financial management (PFM). This paper explores how sustainability initiatives can transform national budgeting, procurement, and reporting systems into engines of resilience and inclusive, sustainable growth. Drawing on country case studies, evidence from international frameworks, and insights from African public finance leaders, the paper argues for a bold shift toward green budgeting, climate-responsive fiscal policies, and digital innovation. It concludes with actionable recommendations for Accountants General, Ministries of Finance, and oversight bodies to embed environmental stewardship and social equity into the core of financial practices across the continent.

1. Introduction

The urgency of climate action, the promise of inclusive development and the quest to achieve the Africa 2063 Agenda converge in the realm of Public Financial Management (PFM). PFM systems influence how governments allocate resources, assess risks, implement policies, and deliver services to the population. When shaped by sustainability principles, these systems become levers for long-term resilience, equity, and efficiency. In Africa, the continent that is significantly affected by climate change and where climate vulnerability and fiscal constraints intersect, the integration of Environmental, Social, and Governance (ESG) principles into public finance is an existential necessity.

2. Context

While it accounts for less than 4% of global emissions, Africa is disproportionately affected by climate change: Seven out of the world's ten most vulnerable countries to climate change are in Africa. Climate Change and related impacts cost Africa between 5% and 15% of its GDP per capita growth; and the continent needs up to USD 1.6 trillion to meet its Nationally Determined Contributions, according to an estimate by the African Development Bank. Unfortunately, Africa receives around 2 percent of total global climate – a slight fraction of the over $250 billion it needs each year to finance its climate actions and adapt to the devastating impacts of climate change, according to the African Union. The cost of climate change is extremely huge for the continent.

At the same time, fiscal pressures and post COVID-19 pandemic recovery needs demand more efficient, transparent, accountable and sustainable governance of public resources. Sustainability-focused PFM anchored in green budgeting, climate risk disclosure, and sustainable procurement offers a path forward for the continent.

A recent discussion hosted by the African Association of Accountants General (AAAG) highlighted the growing recognition that sustainability must be an integral role of modern fiscal governance in Africa. Strategies such as green procurement frameworks, infrastructure funds with private co-financing, innovative climate finance instruments (such as green, social and sustainability (GSS) bonds and blended finance mechanisms) and cross-government climate disclosure standards are becoming a standard across the continent. These insights align with global best practices for Green

Budgeting, an essential tool to embed and mainstream sustainability into national budgets.

3. Problem Statement

Despite growing awareness, most African governments have yet to fully mainstream sustainability into their fiscal systems. Without deliberate, structured and strategic interventions, African economies risk underinvesting in climate resilience and missing out on climate finance opportunities. Challenges include:

- **Resistance to change**: Resistance to reform and lack of incentives for adopting and integrating sustainability frameworks into national budgets.
- **Capacity gaps**: Limited technical expertise in climate risk assessment, green accounting, and ESG reporting. The continent also faces limited capacity to develop and deploy climate finance tools and frameworks.
- **Fragmented systems**: Disconnected PFM systems that hinder cross-sectoral sustainability integration and continent-wide collaboration
- **Data and disclosure**: Inadequate data systems to support climate-informed fiscal decisions and policies.

4. Policy Solutions

To build resilient economies through sustainable finance frameworks, governments can adopt the following strategies:

a) Green Budgeting and Climate-Responsive Public Expenditure

- Introduce budget tagging to track climate-relevant spending.
- Align public investment plans with Nationally Determined Contributions (NDCs) under the Paris Agreement.
- Conduct Climate Budget Statements to inform parliamentary scrutiny.

b) Tap into climate finance and green investment

- Mobilize climate finance, both from public and private sources to fund initiatives aimed at emission reduction, climate adaptation and mitigation as well as address loss and damage. Countries can explore

tools such as green, social and sustainability (GSS) bonds, blended finance, debt-for-nature swaps, carbon markets, public-private partnerships, etc

c) Sustainable Public Procurement (SPP)

- Embed environmental and social criteria in procurement regulations.
- Use procurement as a lever for innovation and green job creation.
- Integrate lifecycle costing to assess environmental criteria.

d) Climate Risk Assessment and ESG Integration

- Mandate scenario analysis and climate risk disclosures across ministries and agencies
- Adopt accrual accounting to capture long-term environmental liabilities.
- Utilize internationally recognized frameworks like TCFD (Task Force on Climate-related Financial Disclosures) for climate-related financial risks and opportunities disclosures.

e) Technological Innovation in PFM

- Leverage digital PFM systems for real-time monitoring of sustainability metrics.
- Use predictive analytics for climate risk forecasting and green investment planning.
- Promote interoperability across financial, environmental, and infrastructure databases.

f) Capacity building, knowledge sharing and peer learning

- Establish sustainability units within the National Treasuries and Accountants General offices to drive environmental sustainability initiatives, track progress and capture lessons and best practices.
- Facilitate regional peer learning and technical assistance through AAAG.
- Collaborate with universities, research centres, think tanks and multi-lateral organizations for ESG training.

5. Evidence-based cases

- **Green budgeting:** Countries across Africa have become cognisant of the need to integrate sustainability components into their budgets. Most countries in West Africa, for instance, have made progress in integrating climate change issues into their economic policies and budget processes. Countries like Nigeria, Benin and Rwanda have issued green bonds to finance climate-related investment projects (and issued guidelines to drive the issuance of GSS Bonds). Ghana and Uganda have set up a climate change unit within the Ministries of Finance to lead on climate finance initiatives and guarantee integration of climate change concerns into the PFM system.
- **Sustainable Procurement:** South Africa has embedded environmental criteria in its Preferential Procurement Policy Framework. The shift has already yielded tangible environmental benefits, for instance, through reduced water use, energy consumption, waste generation and emissions.
- **Climate risk disclosure**: The UK Government has endorsed the TCFD framework for climate disclosures and has mandated aligned disclosures for large entities in the private sectors. This has improved the quality and breadth of climate-related information in public sector annual reports and aligned climate-related reporting with the private sector.
- **Transparency:** Tanzania is developing an integrated e-procurement platform that enables real-time sustainability audits. Kenya tracks its green and climate-related expenditure for effective planning and budgeting.
- **Peer learning and capacity building:** The African Union's Climate Change and Resilient Development Strategy (2022–2032) encourages regional cooperation and supports the realization of this vision by setting out principles, priorities and action areas for enhanced climate cooperation and long-term, climate-resilient development. AAAG webinars (and other learning and capacity development events) have already become a key platform for knowledge sharing and experience exchange and can be further leveraged to drive collaboration, enhance knowledge sharing, strengthen peer-learning and enhance capacity development.

6. Prioritising citizen-centred approach

Mainstreaming climate change and sustainability criteria into national budgets and fiscal systems have direct implications on the lives of the population. For instance, drought-affected farmers in Kenya, flood-displaced families in Mozambique or Malawi, and unemployed youth across the Sahel all feel the daily effects of unsustainable policies. A public procurement system that prioritizes solar-powered schools over diesel generators, for instance, does not just cut emissions but also extends learning hours for children. A solar-powered irrigation scheme in drought affected areas does not only contribute to meeting national emissions target but provides a lifeline for farmers to improve their productivity and living conditions.

Additionally, transparent reporting on climate spending and sustainability indicators means that citizens know whether governments are building sea walls or subsidizing fossil fuels; or if the investments being made is resilient to withstand climate shocks. This transparency reinforces and strengthens citizens' trust into governments.

7. Conclusion and Recommendations

Public financial management must evolve to confront the most significant challenges of the 21st century: climate change and achieving sustainable growth. Integrating climate and environmental sustainability into fiscal systems is the foundation for resilience. For African countries, this transformation is both a responsibility and an opportunity.

Recommendations:

i. **Adopt green budgeting frameworks**: Ministries of Finance should pilot climate tagging and publish climate budget statements annually detailing sustainability expenditure.

ii. **Institutionalize Sustainable Public Procurement (SPP)**: Ministries of Finance should develop SPP guidelines aligned with national ESG and climate goals.

iii. **Invest in digital infrastructure:** Develop interoperable PFM systems that support real-time sustainability tracking.

iv. **Integrate climate risk in financial reporting**: Transition to accrual-based accounting to capture long-term environmental liabilities.

v. **Build capacity and foster learning opportunities**: Leverage platforms like AAAG for training, peer learning, knowledge sharing and capacity building to enhance cooperation and collaboration and achieve policy harmonization across countries.