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Coordinating the net zero transition: a practical framework for policymakers

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Policy report
February 2025

LSE THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Grantham Research Institute on Climate Change and the Environment

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Acknowledgements

The authors are grateful to Oskar Andruszkiewicz, Anika Heckwolf, Matthias Täger, Tanja Popovicki, Bentje Boer, Merdža Handalic Plahonjic, Oleksandra Plyska, and Margerita Topalli for their feedback on an earlier draft of this report. The authors thank Camila Chamorro for her research support. The report also benefitted from insights from two workshops, held in May and November 2024. The authors acknowledge funding from ClimateWorks Foundation.

Georgina Kyriacou edited the report.

The authors declare no conflict of interest in the preparation of this report. The views in this report are those of the authors and do not necessarily represent those of the host institutions or their funders.

This report was first published in February 2025 by CETEx at the London School of Economics and Political Science.

Suggested citation: Reitmeier L, Smolenska A and Dikau S (2025) *Coordinating the net zero transition: a practical framework for policymakers.* London: Centre for Economic Transition Expertise (CETEx), London School of Economics and Political Science

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Summary

Jurisdictions around the world have already developed and implemented policies to transition to a net zero economy. To maximise the impact and effectiveness of such policies a coordinated policy approach is necessary.

A 'building block' framework for effective policymaking

Countries are increasingly developing their own policy effectiveness frameworks to use across various policy areas. Given the unique challenges posed by the transition to a sustainable, net zero economy, they would now benefit from taking a more flexible, modular approach developed with these challenges in mind.

To guide policymakers as they face the challenge of taking financial and economic policy decisions for the transition, we have developed a design approach based on 'building blocks'. The approach can be adjusted in the context of the specific needs of the financial sector in the transition. It incorporates building blocks to better enable the design, implementation and evaluation of financial and economic public policy that supports the integration of climate change and environmental factors, with a particular emphasis on the intricate interrelationship between economic and financial systems, the roles of key economic and financial stakeholders and enabling improved coordination.

We define three main building blocks, described in Figure S1: 1) foundations; 2) adjusting policies; and 3) evaluation and anticipation.

Figure S1. Three building blocks for effective economic and financial policymaking that facilitates the net zero transition

Source: Authors

1. Introduction

Policymakers face challenges in selecting the right policy mix to accelerate the transition to a sustainable, net zero economy. The complexity of policy interdependencies, unclear definitions of sustainability and coordination challenges across institutions deepen the challenge. Without a structured approach, policies risk inefficiency and ineffectiveness. This report addresses these challenges by offering a framework for better policy design, implementation and evaluation, with a particular focus on sequencing and coordination-related aspects.

Navigating policy complexity in the transition – purpose of the report

Faced with a plethora of choices and variations in policies, policymakers often find it challenging to identify the most suitable policy mix to accelerate the transition within their monetary and financial system and national context. For instance, some countries implement policies to encourage sustainable or green investments but do not have an underlying common definition of what constitutes a sustainable activity, creating uncertainty for investors and risking potentially undermining the stated policy goal.

Terminology – the net zero transition
Our use of this phrase refers to the transition towards an economy that is in line with the objectives of the Paris Agreement, which requires a whole-of-government and whole-of society approach. It considers aspects beyond reducing greenhouse gas emissions, such as environmental degradation and justice, ultimately reaching a sustainable, net zero economy.

This report outlines how, in light of the urgency to transition, the complexity of (inter)dependencies across policies, prioritisation and sequencing can be addressed through policy design and preparation, implementation and evaluation in a 'building block' approach for the financial sector. We provide a framework for the structured consideration of key factors, including the institutional context, socioeconomic aspects and policy coordination, within the design process. This modular policy design approach can be adjusted in the context of the specific needs of the transition with regard to the financial sector. It focuses on enhancing processes particularly by enabling improved sequencing and coordination.

The report is intended for use by policymakers engaged in the design, implementation and evaluation of policies aimed at achieving a sustainable, net zero economy. It is particularly relevant for government agencies, including Ministries of Finance, central banks and regulators, but is also valuable for international organisations and financial institutions.

The approach is relevant both for jurisdictions that are in the initial stages of implementing transition-related policies, and those already further along the path. The former will find guidance on how to start designing and implementing comprehensive policies to support the transition. The latter might make use of the framework to evaluate their progress and refine their approach to design complementary policies.

To design the framework we used a mixed methods approach that combined desk research with qualitative insights from experts and policymakers. We have drawn on existing jurisdictional and international organisations' approaches to policy design, implementation and evaluation.

We will use the building block framework to guide future exchanges between CETEx and policymakers, which we will compile into case studies and publish at a later date.

Structure of the report

Section 2 reviews existing effectiveness and evaluation frameworks and outlines the terminology used in the report.

Section 3 introduces the building block framework and key stakeholders, and provides guiding questions for two use cases.

Section 4 provides an in-depth examination of each building block.

Section 5 concludes the report, offering final reflections.

2. Review of existing effectiveness and evaluation frameworks

An understanding of the interactions, trade-offs and coordination issues involved in policy design, implementation and evaluation is essential for decision-makers. While existing policy frameworks provide useful foundations, they are often too broad or retrospective for the complex challenges of the transition to a sustainable, net zero economy, as this section shows. The transition requires targeted, forward-looking policies that account for shifting global economic dynamics, institutional coordination and financial sector complexities.

Context and necessity for a specific framework

Existing policy design, implementation and evaluation frameworks are not well-tailored to designing monetary and financial policies for the transition. Frameworks exist to guide policymakers in developing policies that are effective, equitable and cost-efficient, using consistent criteria for appraising outcomes and decisions, but they do not address issues that are transition-specific. Rather, their aim is to provide a general baseline that can be used across various policy areas.

For example, the Framework for Evaluation published by the Organisation for Economic Co-operation and Development (OECD) in 2021 focuses on identifying the right evaluation criteria, including relevance, coherence, effectiveness, efficiency, impact and sustainability (OECD, 2021). Initially developed to measure the impact of cooperation within international development, the OECD framework is broad, aimed to be applied and adapted to various contexts. In the UK there are complementary resources available to support officials in developing transparent, objective and evidence-based approaches to appraise and evaluate policies, notably the Green Book and the Magenta Book issued by the Treasury. In the EU the Better Regulation Guidelines outline general principles, tools and minimum standards for new policies and proposals at the EU level. The Appendix provides an overview of these and other frameworks often used or referred to and how they influenced the development of the framework we present in this report.

While such general policy design and evaluation frameworks are a useful starting point for designing policies for the transition, they need to be made more specific to address the complexity and institutional features related to financial policies. In contrast to those frameworks, the building blocks approach we take aims to be more holistic, providing guidance not only for the evaluation, but also the design and implementation phases. At the same time, our framework is more targeted, as it focuses on the transition to a net zero economy and its unique challenges, such as coordination and sequencing.

Policies for the transition to a sustainable, net zero economy face unique challenges. They intersect with complex shifts in global political economies, including changes in the levels of globalisation, socioeconomic structures and technological advancements, creating a difficult landscape for policymakers to navigate.

There are six factors informing the need for a transition-specific framework:

- **Shifts in global political environment.** Rising protectionism, as seen in reshoring and onshoring trends, not only impacts industrial policy but also has implications for central banks, as protectionist taxation can have inflationary effects.
- **Increasing physical risks.** Extreme weather events can disrupt food prices, which is relevant not only to Ministries of Environment supporting agricultural resilience but also to central

banks, as reduced yields and higher food prices have inflationary effects, potentially impacting financial stability (Barmes, 2024). Such events also challenge the insurance sector, with rising premiums and geographical areas possibly becoming uninsurable, illustrating the need for coordinated supervision between banking and insurance regulators.

- **Rising debt servicing costs.** Additionally, after decades of low interest rates conducive to financing climate initiatives, after the COVID-19 pandemic inflation began to surge, leading to rising debt servicing costs, which present further challenges. However, the transition still requires vast capital investment. Inflation and the rising cost of living, especially as real wages stagnate, impact the way people live and their experiences. In this higher-cost environment, effective and targeted policy implementation is more critical than ever to ensure that available resources are maximised in driving a prompt and economy-wide transition to net zero.
- **Backlash against sustainability interventions.** Growing public and political backlash against elements of sustainability transition policies in some countries creates a challenging environment for decision-makers. At the same time, any rollback of commitments does not decrease the risks that societies and the economy face, given the climate-related financial risks that have been well documented (BCBS, 2021; ECB, 2022; NGFS, 2024). Rollback on sustainability commitments by companies, whether voluntary or mandatory, will only increase risks in the long run. In this context, policymakers concerned with climate change and environmental impacts need to strengthen their case through effective policy intervention design.
- **Interconnectedness of transition policies.** Addressing transition challenges requires policy intervention by different branches of government responsible for environmental, social, industrial, financial and fiscal policies. The first *OECD Review on Aligning Finance with Climate Goals* reviewed climate-related financial policies from 2000 to 2023 and found that governments are responsible for 30% of these policies, supervisory and regulatory authorities for 26%, central banks for 28%, and stock exchanges and securities exchanges 9%, with the remainder being adopted by a combination of these actors (OECD, 2024). The resultant complexity requires cooperation between ministries and institutions and new approaches to coordination across the policy cycle.
- **Intermediary role of the financial sector.** The financial sector plays a vital intermediary role that balances risk and impact-related considerations. This dual position can create tensions in aligning financial practices with net zero and facilitating the transition. Depending on the mandate, central banks have a role beyond maintaining price stability to support sustainable development (Dikau and Volz, 2021), such as incentivising green investments (e.g. via a green credit easing scheme [Colesanti Senni et al., 2023]) or requiring the disclosure of climate-related financial risks (Smoleńska et al., 2025). Via their oversight of banks, central banks and financial supervisors' decisions influence the real economy. This can support – directly and indirectly – transition policies pursued through fiscal spending and industrial policies.

It is evident from the above list that a more targeted framework is required to reflect the unique challenges inherent to the transition to a sustainable, net zero economy. Such a framework should facilitate the design, implementation and evaluation of policies. There is a growing need to establish new forms of coordination and cooperation, to enable prompt and adequately sequenced policy responses: for example, through forward-looking transition strategies that integrate climate risk management across both the public and the private sectors.

Establishing a shared understanding – terminology

In the context of this report, we define **'policy instrument'** as a targeted intervention by a government agency to achieve a specific objective. They can be classified according to their type: demand-side policies, supply-side policies and linking policies (Bhandary et al., 2021). Given the focus on transition-related policies in the context of the specific needs related to the financial sector and the transition, we use the term 'financial policies' to refer to policies in this space (see Box 2.1 and Table 2.1).

Box 2.1. Driving the net zero transition: financial policy interventions

Aligning financial sector policies with the objectives of net zero is a vital aspect in achieving economy-wide shifts. This requires science- and evidence-based policymaking to scale up financing for climate solutions and transition activities while redirecting finance away from activities that undermine net zero objectives. This box provides an overview of the policies for the transition to a sustainable net zero economy, which are simply referred to in this report as 'financial policies'.

Real-economy policies play a foundational role in aligning such financial flows with climate goals and shaping the broader economic environment. These policies influence the attractiveness of investments that are beneficial to the climate and environment and directly affect market incentives for decarbonisation. However, financial sector policies are also crucial as climate risks increasingly affect financial stability, market integrity or inflation. Since the Paris Agreement such policies have grown significantly, mainly through transparency and information policies led by regulatory authorities and governments. Private financial sector actions complement public policies by leveraging market-based mechanisms like engagement, divestment and voluntary commitments (OECD, 2024). Despite the growing uptake and proliferation of financial policy interventions, their effects remain understudied, with current evidence relying on conceptual models and assumptions. While some measures (e.g. risk management) are expected to support both financial and climate goals, trade-offs persist, particularly in areas like capital requirements and credit operations. To enhance the alignment of finance with climate objectives, policymakers should adopt both individual and coordinated actions while improving the evidence base through ongoing monitoring and evaluation. This will enable more informed policy design and smoother implementation of bold objectives.

The **'effectiveness' of a policy** is of particular interest to policymakers and hence features prominently in many frameworks but its conceptualisation is challenging. Since Brainard's (1967) seminal paper that explored effectiveness as "policymakers' performance in meeting [their] objectives" in the context of uncertainty, the discussion has evolved considerably. At a high level, there is agreement that effectiveness refers to the extent to which stated goals are achieved (Ellis et al., 2013). However, there are different views of what effectiveness means in terms of transitioning to a sustainable, net zero economy, depending on the policy, stakeholder groups and institutional context. Therefore, the need to engage a diverse range of stakeholders, including climate scientists, non-governmental organisations (NGOs) and the public and private sectors, to conceptualise effectiveness and to address the multifaceted challenges of the transition, should be highlighted.

In this report we recognise that given the multifaceted nature of policy impact and stages, designing a holistic framework requires the consideration of multiple dimensions. We focus on **effectiveness** understood as the extent to which a policy makes a contribution to specific and pre-defined objectives in the context within which the intervention occurs. **Policy objectives** describe what a policy is intended to achieve. Such objectives may be operational, directly linked to a policy instrument (e.g. capital requirements to financial stability) or understood as contributing to broader societal goals (e.g. growth; sustainable development).

Several other relevant benchmarks exist to assess policy intervention. **Efficiency** refers to the use of resources – such as financial, human and time – to achieve different milestones within the policy intervention. **Coherence** relates to the alignment of a policy with other policies and regulatory frameworks across different levels (e.g. local).

An important part of assessing policy effectiveness is recognising trade-offs between these benchmarks. For example, a policy may be effective in achieving its operational objectives but fail to address evolving economic, technological or environmental challenges. Ensuring coherence is particularly important in the transition to net zero, but achieving it across policy interventions requires proactive engagement and swift action as otherwise the effectiveness of a policy would be undermined. Therefore, establishing clear objectives at the outset is essential to then design, implement and ultimately evaluate policies based on these criteria.

Table 2.1 Overview of financial policy interventions relevant to this report

Themes		Policy instruments and measures	Objectives			
			Reducing information asymmetries	Sustainable corporate governance	Aligning capital flows	Financial stability
Real Economy	Economic policies	Subsidies			x	
		Taxes			x	
		Tariffs			x	
		Trading systems			x	
		Public-private partnerships		x	x	
		National transition plans	x	x	x	x
	Regulatory policies	Performance standards		x		
		Technology standards		x		
		Environmental and social standards		x		
		Bans on harmful activities		x	x	
	Government investment and consumption	Public investment		x	x	
		Public procurement		x	x	
		Guarantees and insurance arrangements		x	x	
	Information policies	Capacity-building and awareness	x	x	x	x
		Disclosure requirements	x		x	
	Firm initiatives	Voluntary targets	x	x	x	
		Voluntary trading systems	x	x	x	
		Voluntary information systems	x	x	x	
Financial sector	Prudential policies	Capital requirements			x	x
		Risk management and supervision		x		x
		Liquidity ratios				x
		Large exposures			x	x
		Disclosure requirements				x
	Credit allocation regulations	Direct credit guidelines			x	x
		Direct lending quota			x	x
	Monetary policies	Credit operations				x
		Scenario analysis and stress testing				x
		Collateral framework			x	x
		Asset purchases			x	x
	Transparency and information policies	Finance guidelines	x		x	x
		Financial instrument standards	x	x	x	x
		Disclosure requirements	x		x	x
	Private financial sector actions	Engagement		x	x	x
		Divestment and exclusion			x	
		Other portfolio construction practices			x	x

Source: Authors, adapted from OECD (2024)

In the context of the transition to a sustainable, net zero economy, several different types for objectives have been identified. The academic literature has focused on the assessment of effectiveness in achieving objectives including: mobilisation of finance (Banga, 2019; Becker et al., 2022; Ameli et al., 2021), economic efficiency (Butler and Neuhoff, 2008), green growth such as through renewable energy production (Alharbi et al., 2023; Rasoulinezhad and Taghizadeh-Hesary, 2022), and investor perspectives (Polzin et al., 2019). Other aspects that are particularly prominent in the recent literature are employment (Zhang, 2021) and innovation (Yu et al., 2021; Huang et al., 2022). Often, environmental criteria are also used as an objective to assess the effectiveness of a transition policy. The metrics frequently used for this are changes in emissions (Fatica and Panzica, 2021; Bauckloh et al., 2022; Al Mamun et al., 2022), environmental ratings (Flammer, 2021) or installed capacity for renewable projects (Gumber et al., 2024; IRENA, 2024).

In policy documents, a distinction is often made between different levels of objectives. The EU differentiates its **'general objectives'**, which contribute to some high-level EU objectives, while its 'specific' or **'operational objectives'** are more targeted at the particular policy in discussion. To provide an example, the EU defines three general objectives that its sustainable finance policies should contribute to, namely: 1) foster transparency in financial and economic activities on sustainability, 2) ensure companies are accountable for impacts on society and environment, 3) reorient capital flows towards sustainable investments. The EU Taxonomy aims to contribute particularly to the third objective, but also to the second. The operational objective of the Taxonomy is to develop technical screening criteria that are calibrated to provide clarity about what counts as sustainable economic activities (European Commission, 2021).

To assess and measure the effectiveness of policy interventions that contribute towards reaching an objective, context-specific **metrics** are needed for evaluation. A key consideration for the choice of metrics is their measurability, in terms of data availability, granularity and timeliness. For example, reaching the general objective of mobilising finance for the transition could be supported by a policy that classifies assets. The operational objective of such a policy would be to develop criteria or thresholds that identify eligible assets. In the policy design phase this classification could be linked to the issuance of sustainable finance instruments such as green bonds and the associated metric to measure progress could be the amount of green bonds issued. Measuring the effectiveness of a policy, however, should not be determined by a single metric.

Effective policy design requires a clear and coherent relationship between the general objectives, operational objectives and policy design, to ensure that the policies in question are able to achieve their intended outcomes effectively (see Figure 2.1). The structure and focus of policy interventions, such as the creation of regulatory mechanisms or financial incentives, are directly influenced by the operational objectives that are chosen during the policy design process. It is important for policymakers also to consider how metrics can be monitored and used to measure progress towards these objectives. Furthermore, considerations of time, particularly how long-term impacts or financial risks evolve, are of paramount importance in ensuring that policy design is adaptive and future-proof, aligning short-term actions with long-term goals. This holistic alignment of objectives across different levels is crucial for both the effectiveness of policy interventions and their adaptability in a dynamic environment.

Figure 2.1. Relationship between objectives and policy design options

Source: Authors

3. A new framework for effective policy implementation

A structured, modular approach is essential for implementing effective policies that drive the transition to a sustainable, net zero economy. Our proposed 'building block' framework outlines key phases from preparation to execution and evaluation, while emphasising coordination among stakeholders. By focusing on policy implementation, taking a forward-looking as well as retrospective approach and accounting for financial sector complexities, this framework is designed to support navigation of the policy challenges of the transition.

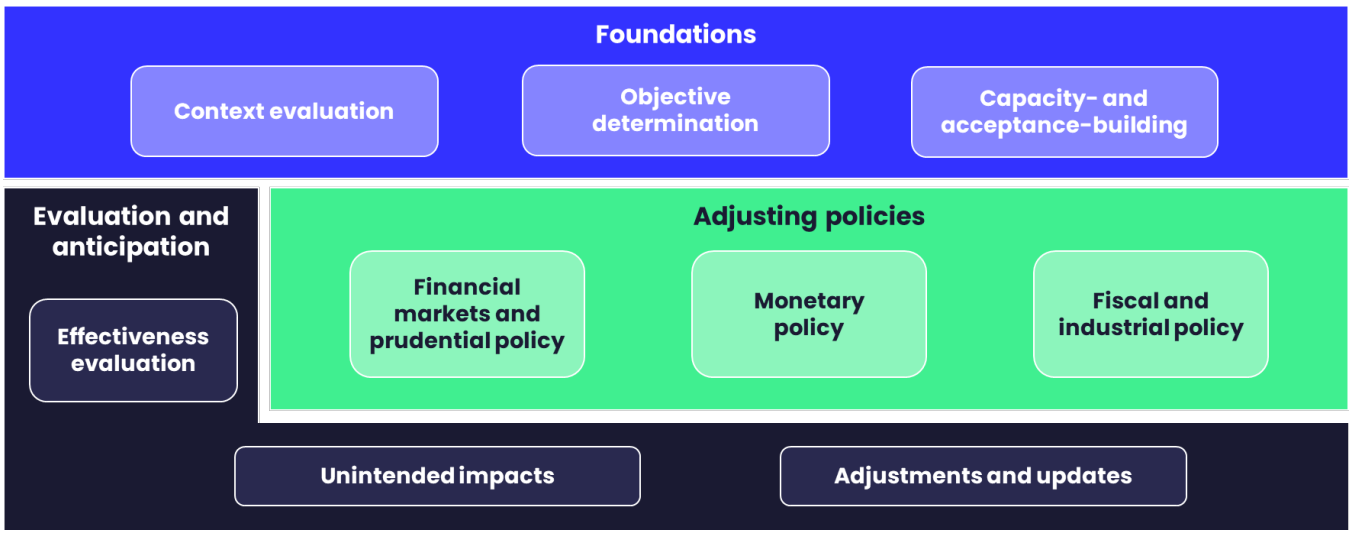
Building block framework

Framework design

We propose a building block framework to guide the implementation of effective policies in line with the evolving needs and implications of the transition to a sustainable, net zero economy. The included building blocks encompass a specific, well-defined set of actions – for example, related to diagnostics, implementation or coordination of public authorities. The ensemble of building blocks can inform the coordinated sequencing of policies with the aim of ensuring their effectiveness, and aid navigation of the complexities of the transition while facilitating the urgent shift towards net zero.

The building block framework also aims to account for the intricate interplay between economic and financial systems and different stakeholders and focuses on policy execution: in other words, the blocks focus on the role of the executive in designing, implementing, monitoring and evaluating policies. As a result, the legislative or democratic processes involved in formulating those objectives are not the focus of this report, although the broader effort oriented at capacity- and coalition-building is addressed. The building block structure is presented in Figure 3.1.

Figure 3.1. Building blocks for policy effectiveness in the transition to a sustainable, net zero economy



Source: Authors

The blocks are intentionally staggered rather than simply stacked horizontally to illustrate how interconnected and cyclical the policymaking process is, and that it is iterative rather than linear, enabling – even necessitating – ongoing refinements and adaptive learning.

The building blocks should be used as an integrated framework throughout the entire policy process, from design through implementation and evaluation, to provide policymakers with a structured yet flexible approach to navigate the complexities of the transition.

Each phase of the policy process benefits from the building blocks in distinct ways:

- In the **foundations** phase the building blocks help policymakers to systematically consider key factors such as stakeholder engagement, institutional capacity and socioeconomic impacts. This aims to broaden perspectives and contributes to well-targeted, ambitious but still feasible policies that are aligned with broader sustainability goals. It also aims to identify policy trade-offs, potential impacts and unintended consequences at an early stage. Additionally, incorporating diverse viewpoints early in the process helps build acceptance, anticipate constraints and ultimately create a robust foundation for successful implementation.

- The **adjusting policies** building block serves as a practical guide to addressing challenges proactively and ensuring effective coordination across agencies. Countries have faced challenges during implementation such as unclear responsibilities, inadequate coordination, misallocation of resources, inadequate measurement systems or a lack of institutional capacity. To address these issues, the framework encourages the identification of obstacles to implementation and better coordination from the outset and facilitates policy adjustments in response to real-world developments.

- In the **evaluation and anticipation phase**, the building blocks help structure assessments of policy effectiveness. Assessments aim to identify if the policy has achieved its operational and general objectives. This is not merely a retrospective exercise but a mechanism for continuous improvement — ensuring lessons learned are fed back into refining existing policies or inform the design of new ones. Establishing a structured feedback loop ensures that necessary adjustments can be made, strengthening the resilience of policies over time.

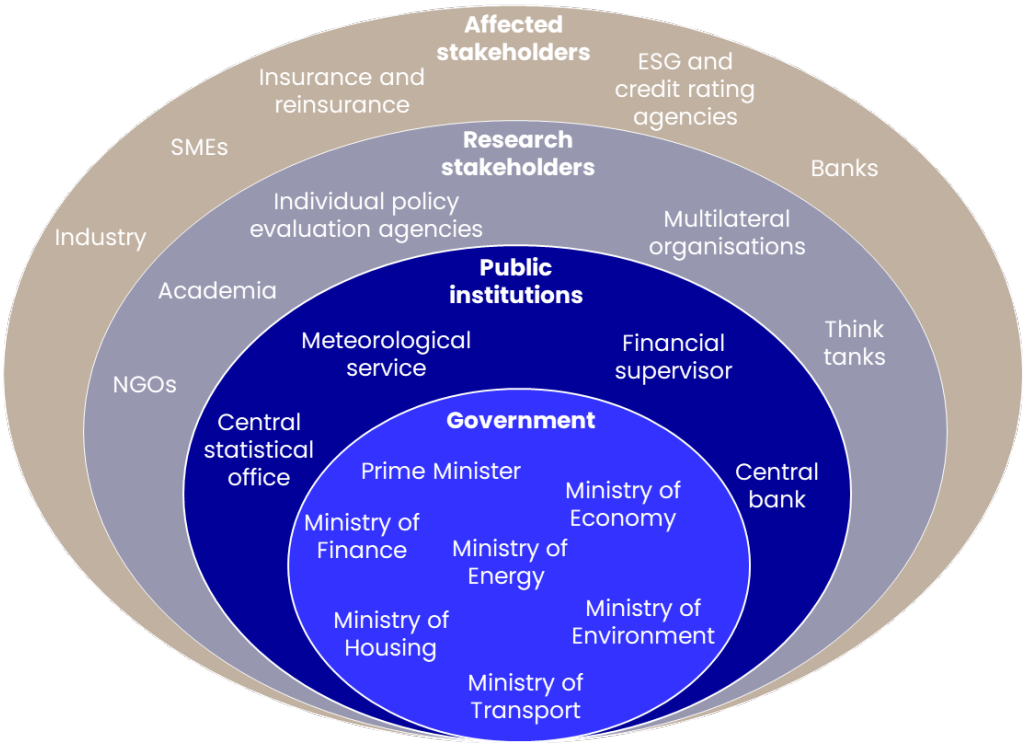
By using the building blocks holistically across all stages, policymakers can enhance policy resilience, improve decision-making and ensure a structured yet adaptable approach to achieving a sustainable net zero economy.

Stakeholders

The development and implementation of effective policies requires the involvement of a diverse range of stakeholders, underscoring the importance of coordination among them. Figure 3.2 presents an overview of some of the stakeholders usually involved in policies for the transition to a sustainable, net zero economy. The two inner circles illustrate the coordination within a government and select public institutions. The two outer circles depict stakeholders external to the decision-making circles, which can provide the input, guidance and pressure essential for a holistic picture of policy implementation. In the past, stakeholders from outside the direct remit of a public institution, yet with access to decision-makers, have been identified as key agents in the promotion of climate-related issues, notably within central banks (Quorning, 2023). Similarly, stakeholders with interests that are not aligned with the transition to net zero have influenced policymakers, significantly slowing down the transition process. It is therefore important to take a broad view and consider all stakeholders with an interest, whether supportive or obstructive.

Information asymmetry in the policymaking process can be reduced by facilitating exchanges between different stakeholders. Such exchanges should go beyond government and public institutions to also include the institutions that will be affected by the policy and technical experts. These exchanges can take a relatively more formal role, such as consultations, or be more informal.

Figure 3.2. Overview of selected stakeholders and their role in coordinating the implementation of transition policies



Source: Authors

The clustering of the sub-themes of the building blocks has also been guided by the role of different stakeholders in each phase. Different actors have different roles within each building block, and not everyone is needed for each step. However, it remains essential to delineate responsibilities clearly. For example, one institution should be responsible for overseeing and guiding the policy process. This is reflected as 'ownership of process', as shown in Figure 3.3.

Figure 3.3. Heatmap of selected stakeholders and their role in coordinating the implementation of transition policies

Building blocks	Government				Public institutions			
	Prime Minister's Office	Ministry of Finance	Ministry of Economy	Ministry of Environment	Central banks	Financial supervisors	Meteorological service	Central statistical office
Context evaluation		P			S	S	S	S
Objective determination	O	S	S	S				
Capacity- and acceptance-building	O	P		P				
Financial markets and prudential policy		S			O	P		
Monetary policy		S			O			
Fiscal and industrial policy		O	P		S	S		
Effectiveness evaluation	O		S	S				
Unintended impacts			O	S	P			S
Adjustments and updates	O	P						

Notes: *O = Ownership of process; P = Primary stakeholders; S = Secondary stakeholders*

Source: Authors

The lead institution works in close alignment with primary stakeholders — i.e. those crucial for implementing the policy. Secondary stakeholders, while playing a more supportive role, contribute by informing and often amplifying the impact of the policy. Due to the interconnectedness of net zero policies and financial policy characteristics, the policy design may be the responsibility of one public institution, while implementation and monitoring may be the responsibility of another, creating additional coordination challenges.

When interpreting the heatmap of Figure 3.3, it is essential to keep the various governmental and institutional contexts in mind. The roles and influence of different institutions and stakeholders vary significantly depending on the specific structure and dynamics in each country. The figure serves only as a high-level, illustrative example, offering a general overview rather than a definitive guide. Effective coordination requires tailoring approaches to reflect the actual roles, responsibilities and influence of stakeholders within each specific governance framework and context.

Use cases for the building block framework

The framework can be applied in two primary use cases, which are explained below. Policymakers can use the table and guiding questions as a practical tool to implement the framework effectively. By structuring key policy themes and posing targeted questions, the framework helps identify critical connections between different aspects of policy design, implementation and evaluation. This approach not only sparks ideas but also ensures that policies are well-coordinated, sequenced effectively, and aligned with broader transition goals. By systematically working through these questions, policymakers can anticipate challenges, integrate diverse perspectives and enhance policy coherence to drive a successful and sustainable transition.

Stocktake of existing transition efforts

The framework can help policymakers in a particular country to assess their overall situation and coordination for the transition, including overall interaction between policy interventions. It identifies gaps, emphasises alignment across ministries and public bodies, and supports the development of a cohesive and holistic strategy.

Table 3.1 presents an overview of the different building blocks and guiding questions designed to guide such a stocktake. More detailed guidance on each building block is provided in Section 4.

Policy-specific application

For a specific policy, involving single policy objectives such as developing sustainable debt markets, the building blocks provide a step-by-step guide to ensure the policy is effective and coherent with other policies and regulatory frameworks. The broad nature of the guiding questions is intended to encourage creative thinking in all phases of the policy cycle, including design, implementation and evaluation.

Table 3.2 provides guiding questions tailored for this use case.

Table 3.1. Guiding questions to take stock of existing efforts

	Building block	Context
1	Context evaluation	**What is the economic context?** Reliance on specific industries, exposure to fossil fuels and existing commitments (e.g. EU regulations). **Who are the major stakeholders?** National ministries, local governments, businesses, civil society.
2	Objective determination	**What are the national goals?** E.g. carbon neutrality by 2050, a 30% reduction in emissions by 2030. **What are interim objectives?** Cross-sectoral policy alignment, financing roadmaps, measurable milestones. **What is the timeframe?** Milestones every 5–10 years, with mechanisms for review.
3	Capacity- and acceptance-building	**What needs to be understood for a successful transition?** The overall economic, social and environmental opportunities of the net zero transition, and costs/risks of inaction. Key areas where capacity is limited (e.g. data collection, financial literacy, stakeholder engagement). **Who needs to be engaged?** Ministries (Finance, Environment, Industry), local governments, central banks, industry representatives, meteorological service and NGOs. **What are the political/social constraints?** Public scepticism, pushback from affected sectors, regional inequalities, media coverage, political polarisation. **Where does capacity need to be built?** Banks, real economy, supervisors.
4	Financial market and prudential policy	**What relevant policies and structures exist?** Stock-taking of regulations, investment frameworks and market-readiness. **What is needed?** Identify gaps across ministries and public bodies.
5	Monetary policy	**What relevant policies and structures exist?** Stock-taking of policies, guidelines and frameworks. **What is needed?** Identify gaps across central bank policies. **Who else is needed?** Coordination with fiscal authorities for broader impact.
6	Fiscal and industrial policy	**What relevant policies and structures exist?** Stock-taking of policies, subsidies and mechanisms. **What is needed?** Identify gaps across Ministries of Economy, Finance and Environment mandates (e.g. tax incentives, subsidies, carbon pricing, investment plans for green technologies, sectoral transition plans). **Who else is needed?** Coordination with research institutions.
7	Effectiveness evaluation	**How to measure progress?** Emissions reductions, renewable energy capacity, share of renewables in energy mix, jobs created or share of green, social, sustainability and sustainability-linked (GSSS) bonds in total issuance in domestic bond market. **What monitoring mechanisms exist for accountability?** Regular reports to parliament, independent oversight bodies, monitoring reports, accession progress reports, international peer reviews.
8	Unintended impacts	**Are there risks of inequitable impacts?** E.g. job losses in certain regions, rising energy prices for vulnerable groups. **What mitigation measures can be introduced?** Social safety nets, retraining programmes, targeted subsidies.
9	Policy refinement	**What adjustments are required?** Refining targets, introducing new tools, expanding focus-based on evolving contexts. **How to ensure adaptive governance?** Continuous monitoring, feedback loops, stakeholder consultations.

Source: Authors

Table 3.2. Guiding questions to apply the framework to specific policies

	Building block	Context
1	Context evaluation	**What is the economic, social and environmental context?** National and regional economic conditions (reliance on imports, export-oriented), employment share in the sector, energy mix, political priorities. **Who are the relevant stakeholders?** Which actors need to be consulted or informed for context-specific analysis, e.g. ministries, corporates, SMEs, central banks, labour unions, municipalities, NGOs.
2	Objective determination	**What is the goal?** Net zero emissions, biodiversity gains. **What are the specific objectives?** Measurable outcomes such as reallocation of capital flows, production growth or reduction of costs in specific markets. **What additional considerations are there?** Identify potential unintended impacts on vulnerable social groups, align projects with other environmental and social objectives. **What is the time horizon?** Timeframe for implementation and evaluation. **What policy intervention is needed?** Identify the type of intervention (e.g. policy, guideline, framework) and the required details (e.g. criteria for eligible green projects, sustainability disclosure requirements, improved reporting standards).
3	Capacity- and acceptance-building	**What knowledge needs to be built?** Knowledge of sustainable finance principles, climate science, transition costs. **Who are the key stakeholders?** Ministry of Finance, banks, investors, local governments, international financial institutions. **What are the political or social constraints?** Pushback from high-emitting industries or underdeveloped financial markets. **Where does capacity need to be strengthened?** Which sectors, organisations or institutions such as banks, real economy.
4	Financial market and prudential policy	**What existing relevant infrastructure is in place?** Are there legal or regulatory frameworks already in place that need to be considered or can be built on, e.g. sustainable lending guidelines, regulations against financial misconduct.
5	Monetary policy	**What existing monetary tools can support the policy?** Understand if there are already adjustments made to include sustainability aspects, e.g. preferential interest rates, liquidity measures, or central bank asset purchase programmes to promote sustainable investments.
6	Fiscal and industrial policy	**What fiscal policies can support the transition?** Understand existing tax incentives, subsidies or compensation structures. Identify sectoral transition plans necessary to align policies with (e.g. transition plans for heavy industry, building sector, agriculture) and exemptions (e.g. for SMEs).
7	Effectiveness evaluation	**Has the policy been effective in contributing to reaching the goal?** Understanding the policies contributions and effectiveness as part of the broader policy mix. **Has it been effective in reaching the policy-specific objectives?** Measuring progress through metrics such emissions data, project-level assessments, investment flows; and through consideration of costs and analysis of other qualitative aspects.
8	Unintended impacts	**What are the unintended impacts of the policy?** Measuring effectiveness necessitates consideration of negative economic, social or environmental consequences (e.g. reduced access to capital for municipalities or SMEs, job losses in carbon-intensive industries, regional disparities). **Who is disproportionately negatively affected?** Identification of regions, social groups or industries that are specifically vulnerable (e.g. low-income households or communities, fossil-fuel workers, small businesses).
9	Policy refinement	**Where are adjustments and updates needed?** Capture the lessons learned, identify avenues to improve the policy (e.g. clarify eligibility criteria for green financing, better account for socioeconomic regional differences). **How can the scope be expanded?** Identify new opportunities or areas to include in the policy (e.g. additional sectors or objectives such as biodiversity conservation alongside climate objectives). **How can interconnectivity between policies be improved?** Identify if new policies, guidelines or frameworks have been developed in the meantime that could be linked to the policy.

Source: Authors

Box 3.1. Boosting policy effectiveness without losing ambition

The urgency of the transition has led to a rapid emergence of regulations and guidance from various bodies over the past few years in many countries. Differences in institutional objectives, mandates, stakeholder interests (such as investor protection, corporate governance and risk management), and timelines have resulted in a complex and often poorly aligned regulatory landscape (Smoleńska, 2025). Without sufficient coordination or consideration of sequencing and overlaps, policy coherence is undermined and complexity increases. However, just as uncoordinated policy growth can create challenges, the rapid reduction or scaling back of policies can also lead to unintended consequences, particularly given the interconnected nature of these transition-related policies.

Policymakers increasingly face pressure to cut red tape, simplify regulations and improve the overall efficiency of government institutions. Policy effectiveness, a core criterion outlined in this report, gains relevance in this context. Furthermore, growing public and political resistance to the net zero transition in some countries creates a challenging environment for policymakers, public institutions and private sector companies to navigate. However, responding to these pressures by scaling back the scope or timeline of individual policies increases uncertainty, making it harder for businesses to plan long-term and risking further deviation from national net zero targets.

By breaking down the policy process into modular, interconnected steps, the building block framework highlights critical aspects that may be overlooked in day-to-day decision-making. This approach supports policymakers in enhancing policy effectiveness while preserving ambition and staying aligned with the goals of the Paris Agreement.

Simply reducing the scope or timeline of policies may have unintended consequences in areas where policies are highly interconnected and rely on each other to provide incentives or granular data. Therefore, efforts to reduce unnecessary complexity should prioritise:

- **Enhanced coordination** across institutions to align objectives and actions.
- **Consistent interpretation** of regulatory requirements to reduce uncertainty.
- **Closing regulatory gaps** and uncertainties to facilitate better implementation.
- **Aligning processes** to maintain coherence across the broader policy landscape.

The framework presented in this report aims to provide valuable guidance for navigating shifting political and economic pressures without compromising climate objectives, by promoting consistency across regulatory frameworks. Ultimately, enhancing policy effectiveness in this space requires a holistic perspective, thoughtful planning and close coordination with various actors and connected policies.

4. Detailed guidance to the building blocks

The building blocks provide a clear, phased process to navigate the complexities of the transition. They outline key actions across the three areas, aiming to help policymakers sequence their actions effectively, enhance collaboration and adapt policies in response to evolving challenges, ultimately facilitating a well-executed and coordinated transition.

i) Foundations

Successfully transitioning an economy to sustainability and net zero requires an integrated approach and should begin with preparatory work to establish the context and foundations for any effective policy development. The development of policies needs to consider the national, economic and financial context, as every country has unique challenges and opportunities. Building sustainable foundations for policy should encompass building capacity and gauging the degree of acceptance among key internal and external stakeholder groups. Furthermore, policymakers should define clear objectives and timelines to ensure successful implementation and set up a monitoring system that would enable the assessment of the effectiveness ex-ante. Understanding the stakeholder groups needed for all future steps is important not only to build broad acceptance and cooperation but also to ensure that the policy meets its objectives.

Context evaluation

1 Recognise the implications of different economic systems and associated transmission mechanisms, and of institutional policy remits

Tailor transition policies to the unique features of a country, such as the economic system. The effective implementation of transition policies requires approaches to be tailored to the specific economic system, recognising institutional differences and complementarities. Policies must account for the role of markets and governments, shaped by factors like corporate governance regimes, public-private interactions and structural market features. These elements determine the transmission channels of policies and therefore how they translate into impact. Similarly, it is crucial to consider the geographical location of a country, particularly when implementing policies with the objective of reducing physical climate-risk exposure. To encourage a fair and equitable transition, it is also essential to consider the geographical and socioeconomic differences that exist across regions within a country. Impact assessments can evaluate the economic, social and environmental effects of proposed measures and help to understand policy costs, benefits and trade-offs, ensuring that decisions are grounded in a comprehensive analysis of potential outcomes. Additionally, tools such as climate and macroeconomic modelling, place-based analysis and scenario analysis can be employed to identify and refine effective policy options. Such tools provide valuable insights into how policies will perform under different conditions, helping to tailor interventions to a country's specific context.

Clearly define institutional roles and establish effective coordination mechanisms to ensure seamless cooperation across agencies for successful policy implementation. Depending on the economic and political system, institutions hold different responsibilities for policy and economic areas. Policymakers must understand the institutional remits and mandates, especially as policies for the transition require higher levels of cooperation. This requires a clear delineation of the role of each institution and the establishment of coordination mechanisms that reflect the underlying political economy structures to facilitate a seamless policy process. In the past, the impetus for change in the context of net zero has often been contingent upon the actions of a few individuals

who have sought and received voluntary support from other individuals (Lewis and Juravle, 2010; Siderius, 2023). In some cases, institutional mandates may need to be reformed or expanded to enable better collaboration and align with the goals of the transition. While many institutions already have an implicit obligation and authority to act on climate-related topics, having a clear mandate can help to secure internal support and develop required expertise, resourcing and institutional set-up. In addition, clear mandates and roles help to navigate coordination and ensure smoother cooperation with other public institutions.

Identify and understand national and sectoral commitments and the progress and readiness of institutions to align efforts with net zero. In addition to the economic and institutional context, it is crucial to understand the country's position in the transition journey more specifically. This can start with identifying the commitments made at the national level (e.g. ratification of the Paris Agreement) and the sectoral level (e.g. the Energy Charter) to memberships of voluntary networks (such as the UN Environment Programme Finance Initiative [UNEP FI], Principles for Responsible Investment [PRI], the Network for Greening the Financial System [NGFS] and the Coalition of Finance Ministers for Climate Action) and broader sustainable development goals. It is important to understand the strategies and policy implementation stages of the various public institutions involved and anticipate any major future changes or shifting political and economic pressures (see also Box 3.1). Public institutions may also be at different stages of acknowledging the urgency of the climate crisis. Due to the interrelated nature of transition policies, understanding which stages other policies are at will become crucial in the implementation phase.

Objective determination

2 From goals to objectives: Translate your net zero transition goals into economy, financial system and sectoral transition planning.

Set clear, measurable objectives for the transition, with achievable targets that shift financial and economic activities towards sustainable outcomes. National goals and commitments must be translated into specific economic, financial and sectoral objectives. Establishing a set of clear *general objectives* is crucial to developing a narrative and communicating the long-term plan for the country clearly. Setting clear and measurable *operational objectives* with verifiable targets (including for the short and medium term) is essential to measuring the progress of individual policies and monitoring their contributions to the policy mix. Incorporating theory-of-change thinking when defining problems and objectives can strengthen the policy design process. This approach helps map out the pathways that link inputs (such as resources and actions) to activities, outputs and outcomes, providing a clearer understanding of how policies are expected to achieve their intended impacts. Theory-of-change thinking plays a crucial role in informing impact assessments during the policy planning process and in guiding evaluations after implementation. The development of compelling narratives and stories for the implementation of policy is also contingent upon the clear identification of problems, objectives and policy solutions, thus this step also assumes a pivotal role in providing effective communication in later stages.

Establish realistic timelines to determine intermediate goals, to help stakeholders adapt gradually and ensure that policies remain effective over time. As policies address various operational objectives, it is crucial to establish realistic yet ambitious time horizons for their effectiveness. Short-term goals might focus on actions with immediate impact such as emission reductions resulting from relatively straightforward measures, while long-term objectives should aim to pave the way for more structural economic shifts or deep decarbonisation. Clear timelines allow for gradual adaptation and minimise policy fatigue. Defining these horizons ensures that policies are implemented with a realistic understanding of when impacts will materialise, helping to align resources, expectations and stakeholder engagement over the policy's lifecycle. This clarity is essential for sustained success.

Develop transition plans with sector-specific targets, to facilitate the establishment of transparent expectations for each sector in achieving climate goals. Formalising transition planning is essential for driving a structured and effective low-carbon economy (Manning et al., 2024). Top-down sectoral transition guidance can establish transition expectations for different industries, ensuring that both economy-wide and sector-specific objectives are aligned. Clarity on

the included sectors, industries, economic activities or even assets is important to ensure the broken-down climate goals are not being weakened in the process. This is also important as some may have a disproportionate impact on emissions, with certain industries — or even individual plants — being responsible for a significant share of emissions or environmental harm. Given finite resources, policymakers need to prioritise interventions where the potential for the greatest improvements lie, even if these areas are not the easiest or quickest to address.

Capacity- and acceptance-building

3 Identify political and social obstacles to foster capacity and mutual understanding among stakeholder groups for broad acceptance and effectiveness.

Develop understanding of the risks and opportunities associated with the transition. The transition to a sustainable, net zero economy can enhance resilience, align businesses with emerging regulatory frameworks and unlock new and potentially significant economic opportunities. Investing in the transition also offers other benefits such as clean air, gender equality, or catalysing sustainable innovation (Yu et al., 2021; Tang et al., 2023). By contrast, misalignment with the transition and unmitigated exposure to physical climate risks threaten future prosperity. Every policy intervention relies on having a stakeholder that demonstrates strong ownership and several that are supportive (see Figure 3.3). In addition, there will be stakeholders that are affected by the policy and some that could be passive or openly obstruct or oppose the policy (see Figure 3.2). Identifying these stakeholders and adequately articulating the risk of inaction and the benefit of the proposed policy is vital. Creating understanding can follow a top-down as well as a bottom-up approach within organisational hierarchies. Relevant stakeholders can range from personnel within the own organisation to external stakeholders in other public or private institutions, such as corporates, financial institutions, auditing firms or civil society organisations.

Build acceptance early in the process to reduce resistance and foster support throughout the policy cycle. Acceptance-building is crucial for effective policy implementation. When people are consulted and understand the benefits and importance of a policy, resistance decreases, enabling policies to have a more rapid and greater effect. By building on widely accepted voluntary frameworks, which can gradually evolve into formalised mandatory standards, policymakers can leverage established market practices. Regulatory changes can be aligned with such established practices where available, to minimise disruption. When building on existing frameworks it is important to thoroughly assess and identify shortcomings beforehand.

A just transition is essential for ensuring that the shift to a sustainable, net zero economy is both equitable and inclusive. Large-scale policy reforms must integrate workforce retraining and upskilling programmes, particularly for workers in high-carbon industries, alongside social protection measures such as subsidies and unemployment benefits. Additionally, meaningful stakeholder engagement is crucial, to foster broad acceptance and minimise social disruption — including with trade unions, local communities and industry representatives. Embedding these considerations into capacity- and acceptance-building efforts ensures that policies do not only drive environmental goals but also support economic stability and social cohesion.

Identify and address political and social obstacles early in the process, and incorporate measures that mitigate negative impacts on affected groups to strengthen policy resilience. Recognising political and social constraints is key to ensuring policy effectiveness and they need to be identified as early as possible to manage complex trade-offs well. This includes anticipating resistance from certain social groups or economic sectors that may be adversely affected and other negative impacts and incorporating mitigating measures. Failing to address these concerns can lead to backlash that can undermine policy success, whereas considering them early in the process can achieve broader acceptance for the policy, minimising opposition while balancing economic and environmental goals.

Determine the necessary skills and knowledge, then create training and capacity development programmes, preferably in collaboration with other public institutions. The transition to net zero necessitates the need for different and new skills for many roles across various institutions and sectors. Having the right skillset and knowledge is essential for policies to be effective. However,

conducting training programmes requires more than just personnel availability and financial resources: it needs strategic oversight and coordination to meet specific needs. The formulation of a deliberate and well-researched strategy that cuts across teams, departments and even public institutions is of paramount importance. Such a strategy should identify gaps in capacity and ensure training collaboration on the same themes across institutions. This also provides the long-term guidance necessary to develop meaningful and tailored training programmes that align training objectives with long-term policy goals.

Building institutional capacity requires a strategic focus on attracting and retaining key talent within public institutions. Empowering staff by involving them across the policy cycle, from design and implementation to enforcement and oversight, fosters a sense of ownership and agency: these are non-financial incentives that also play a significant role in fostering engagement and retention. Establishing climate champions within teams can promote leadership and peer learning, while offering clear career advancement opportunities for staff, leading to improved long-term commitment to the institution and professional growth. Ensuring that individuals are adequately trained and continuously upskilled is also important to fostering leadership and cross-sectoral collaboration skills. Encouraging inter-ministerial exchanges and intra-governmental mobility also helps break down silos, promotes knowledge-sharing, and strengthens collaboration on cross-cutting issues. Ultimately, a strategic approach ensures that the workforce is both resilient and adaptable in driving policy change.

Prioritise clear, inclusive communication strategies to foster public understanding, avoid misconceptions and build support for policies. Communicating with various stakeholders has an important, cross-cutting role. Effective communication strategies are essential, not only to prevent misunderstandings but also to build support for policies. Perceptions of policies as 'elite-driven' or disconnected from everyday realities can hinder public buy-in, highlighting the need for transparency and inclusivity in policy communication. At a time when the way in which people consume information and media is changing so drastically, developing strong narratives is key to guiding engagement with the public. Developing bold storylines can provide additional nuance and support more direct engagement with certain stakeholder groups.

Besides raising awareness about the risks associated with a delayed transition or physical climate risk, consistent messaging across different ministries and public institutions is important to build understanding and trust for different policies. This could include using a common language, science-based evidence, a clear statement of risks and opportunities, identification of effective communication channels and a range of ways to engage with stakeholder groups (e.g. public consultations or citizen assemblies). Involving local governments in the design and implementation of policies fosters bottom-up ownership, making policies more adaptable to regional needs while enhancing their durability. Additionally, aligning business incentives with policy objectives ensures that economic actors remain engaged, reducing the risk of policy reversal and strengthening long-term adherence to sustainability goals.

Ensuring broad acceptance and political support at the outset does not always guarantee long-term policy resilience. Strong political leadership and commitment across different government levels are essential but must be reinforced by institutional mechanisms. By embedding mechanisms such as clearly defined legal mandates, decentralised implementation structures or conditional funding, accountability can be enhanced and risks associated with shifting political or economic priorities reduced. A well-integrated approach, where legislative frameworks set durable objectives and regulatory mechanisms support adaptive execution, strengthens the overall policy design and implementation process.

ii) Adjusting policies

In this section, we explore how policies can be developed and adjusted to consider key institutional factors, including the depth of financial markets, the credibility of broader transition policies, financial sector oversight, and effective public policy coordination. It is important to incorporate these elements in both the initial policy design and in ongoing refinements. In line with the previous section, we provide high-level descriptions and guidance below. Box 4.1 provides a short description and visualisation of how the three policy areas discussed in this section work together.

Financial markets and prudential policy

4 Policy Area 1. Create a comprehensive financial architecture and infrastructure that underpins holistic transition efforts and establishes complementary prudential policies.

Improve transition risk management and facilitate the rechannelling of financial flows to support the transition by making policy interventions in the financial markets. More broadly, the financial sector plays an infrastructural role in the transition by connecting different agents in the economy and – via investment and financing – across time (Steffen and Schmidt, 2021). Policymakers have several types of policy instruments to support the emergence of a comprehensive financial architecture and infrastructure.[1] Such interventions may facilitate the demand for and supply of sustainable and transition finance while also underpinning trust in the broader ecosystem of services. The selection and design of the appropriate combination of policy levers should reflect local institutional features and capital market development (Bailey, 2024).

Develop a common understanding of transition and sustainable activities through policy intervention, e.g. classification systems, standards and taxonomies. Financial product standards, such as those for green or transition bonds, impose requirements such as limiting the scope of eligible assets and mandating governance practices (e.g. disclosure). Taxonomies, meanwhile, provide criteria to identify sustainable business activities. Both types of intervention help to build a common language, a foundational layer to facilitate a shared understanding between market practice and public priorities of the transition. Policy intervention can support trust in sustainable finance instruments by ensuring a high standard of market conduct by providers of services that underpin sustainable finance, such as providers of ratings, verification services and auditors. Further, governments may use their convening roles to create platforms for sustainable finance to further facilitate convergence around common understanding by key actors within the framework.

Reduce information asymmetries as a pre-condition for enabling market participants to integrate climate change and environmental information into their decisions. Policy measures supporting the reduction of asymmetries include mandatory disclosure requirements, often referred to as sustainability, non-financial or impact reporting. However, growing evidence suggests that disclosure alone is insufficient to achieve key policy objectives, such as reducing systemic financial risks or driving meaningful environmental action (Ameli et al., 2021). Policymakers must therefore carefully consider the sequencing and timing of policy instruments, ensuring that disclosure requirements are complemented by broader regulatory measures (e.g. transition plans). Information asymmetries are particularly pronounced in assessing the climate and environmental impact of real economy firms. Financial institutions, in turn, depend on this information to evaluate their own exposure to physical and transition risks. However, excessive reliance on disclosure-based policies can lead to significant reporting burdens. To enhance the usability, accessibility and comparability of sustainability data, policymakers could supplement mandatory disclosure requirements with publicly accessible data repositories. These would facilitate stakeholder access to decision-useful information while reducing inefficiencies in reporting frameworks.

Use prudential policy intervention to address the mispricing of risk related to the transition, to support financial stability in the medium and long term. Financial and monetary authorities should promote high standards of disclosure, conduct and risk management, and support the government through advice and research. Regulators should adapt prudential regulation to mandate adequate identification, mitigation and management of climate change- and environment-related risks. Refinements to the prudential framework may include the extension of supervisory time horizons and methodological adaptations, in particular to remove unnecessary obstacles to the transition. For example, some jurisdictions have begun to treat transition plans as a forward-looking proxy for financial institutions' risk exposure (Dikau et al., 2024; EBA, 2025). Prudential supervisors may also develop climate stress testing and scenario analysis to test the resilience of firms, and the financial sector as a whole, as physical climate risks crystallise across the economy and the transition

[1] Financial architecture here refers to the overall structure and frameworks that shape financial markets and their interactions with sustainability and net zero. In contrast, financial infrastructure focuses on the technical systems and processes underpin the financial system, such as data platforms.

advances. Such exercises can be used to inform macroprudential policy interventions to safeguard financial stability in times of transition.

Monetary policy

5 Policy Area 2. Calibration of monetary policy frameworks to address stability implications associated with the transition to net zero.

Design monetary policy around the foundational financial architecture of a country. This process should take account of the unique aspects of its economic and financial system as well as its broader monetary and financial market policy frameworks. These monetary policy adjustments play a critical role in supporting the transition in addition to ensuring price and financial stability. The primary objective is twofold: first, address potential risks to price and financial stability that are associated with the transition; and second, actively support or, at the very least, avoid hindering the transition.

Carry out careful sequencing and coordination of the various policy instruments. The success of policy adjustments depends significantly on meeting this requirement. For example, the implementation of specific financial market tools, such as enhanced reporting standards, credit allocation guidelines or liquidity regulations, may serve as prerequisites for deploying more advanced monetary measures. These tools can mitigate risks associated with transitions, such as inflationary pressures or market volatility, while promoting the flow of capital towards sustainable investments. Monetary policies must therefore remain adaptable, responding to evolving financial market conditions while maintaining alignment with long-term transition goals.

Build on financial market policies as the structural foundation to ensure that monetary interventions achieve their intended impact across the financial system. In the context of the net zero transition, the stability and functionality of financial markets are essential for the success of many monetary interventions aimed at supporting this shift, such as green lending programmes or climate-related financial incentives. Monetary policies designed to facilitate the transition, such as those promoting sustainable investment or addressing climate-related risks, rely on transparent and well-regulated financial markets to ensure the efficient transmission of policy objectives. A crucial element in this context is providing clear criteria for what qualifies as sustainable, to guide investment decisions. A robust financial market infrastructure, including regulations on sustainability reporting or climate risk management, is essential to maintaining investor confidence and preventing systemic risks linked to the transition that could undermine monetary policy goals. By ensuring that financial markets are equipped to handle the unique challenges and opportunities posed by the transition to net zero, monetary policy can more effectively drive the structural economic changes needed for a sustainable future.

Fiscal and industrial policy

6 Policy Area 3. Calibration of fiscal and industrial policy to channel public and private finance towards the transition.

Enact fiscal, industrial and economic policies for financing the transition to align public and private finance with the objectives of a sustainable and resilient economy. These policies are essential for the allocation of both public and private finance across regional, sectoral and national levels to support the transition.

Make strategic fiscal policy adjustments designed both to mobilise private sector investment and ensure the effective allocation of public resources to support the transition. Under existing budget constraints, the adjustment of fiscal measures — including taxes, subsidies and other financial incentives — must build on the policy framework established in earlier phases. However, regardless of these constraints, fiscal policies must be aligned with transition objectives to drive meaningful progress. This includes not only revising or eliminating existing taxes and subsidies that are misaligned with transition objectives but also introducing new fiscal instruments designed to encourage sustainable investments and behaviours. Moreover, the broader public budget process, covering direct public investments and expenditure planning, should reflect and advance net zero

objectives, ensuring long-term fiscal sustainability. Fiscal policy adjustments must be strategic, targeting areas where public finance can catalyse private sector participation in the transition. This might involve redirecting subsidies away from industries or activities that contribute to environmental degradation and reallocating them towards sectors that support sustainable development. In parallel, tax reforms could aim to impose levies on carbon emissions or provide tax credits for green investments. Such changes would help align market incentives with broader transition goals.

Put in place a credible industrial policy to facilitate growth towards transition-focused sectors. This can help kickstart or steer economic activity in sectors that are pivotal for the transition, such as renewable energy, technology innovation and sustainable manufacturing. Industrial policy tools, such as government procurement strategies, research and development incentives, and infrastructure investments, can further facilitate the transition by creating favourable conditions for growth in these strategic sectors.

Fiscal and industrial policies can directly shape market conditions, support economic activities, and influence business decisions, and the alignment with financial market policies should be considered as complementary tool to enhance impact. The primary responsibility for the transition lies with broad-based fiscal, industrial and economic policies that shape a cohesive framework for net zero. Many fiscal and industrial policy instruments, such as subsidies, tax incentives and public investment programmes, directly target economic activities and can drive the transition without relying on financial market policies. While financial market policies can enhance capital flows, fiscal and industrial measures can work independently by shaping market conditions, providing direct support and influencing business decisions. Broad-based economic, fiscal and industrial policy frameworks set the stage for a coordinated and systemic transition towards net zero, ensuring the optimal allocation of resources and the alignment of economic incentives with long-term transition objectives.

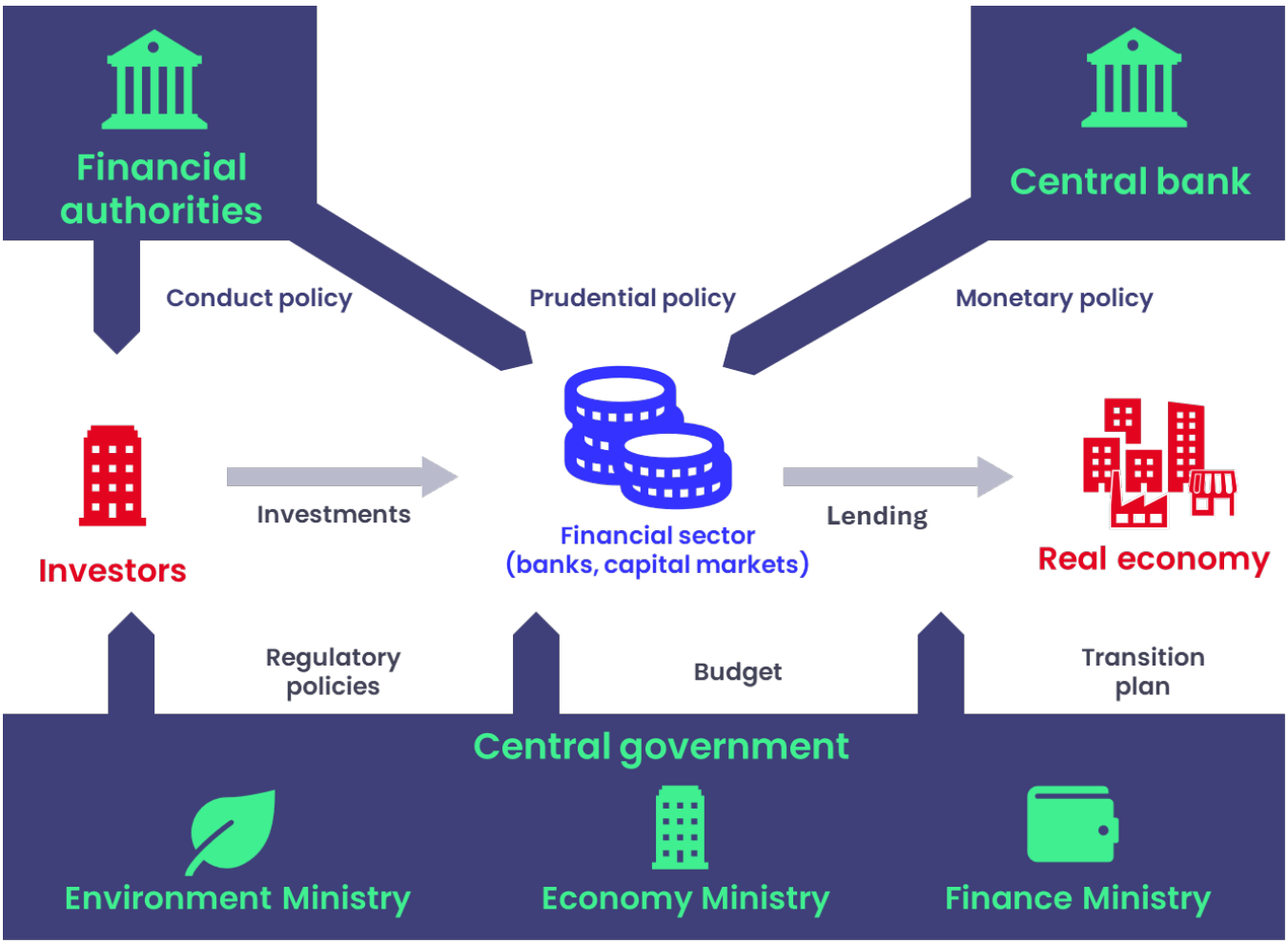
Box 4.1. Further guidance on Building Block 2 – Adjusting policies

Financial markets, prudential policy, monetary policy, and fiscal and industrial policies are deeply interconnected in shaping the transition to a low-carbon economy, thus effective coordination across these areas is crucial to align economic activities with climate goals and maintain financial stability. In particular, the interactions between key public entities such as financial authorities, central banks and the government with stakeholders in the financial and non-financial sector affects the management of the macroeconomic impacts of the transition. Structural differences between countries — such as their dependence on fossil fuels, the adoption of renewable energy, and the composition of their supply chains — can create significant cross-border effects on trade, financial flows and balance of payments (Espagne et al., 2023). Central banks must account for these shifting economic patterns in their monetary policies, particularly as changes in energy trade can affect price stability and financial conditions. At the same time, fiscal policies play a key role in managing these transitions by reallocating resources, supporting affected sectors and stabilising economies (ibid.).

Coordinated action is essential to address the uneven impacts of climate policies and to mitigate risks of policy divergence that could destabilise financial markets.

Figure 4.1 below shows the policy-relevant interactions between financial authorities, central banks, central government and the financial sector. It shows key policy instruments (as outlined in Table 2.1) and the roles of different actors, building on previous parts of this report — particularly the collaborative dynamics between central government and key stakeholders (as shown in Figure 3.3). Figure 4.1 highlights how different policies influence the same actors and emphasises that, without proper coordination, their impact may be reduced, also limiting the effectiveness of individual policy instruments rather than reinforcing one another.

Figure 4.1. Linkages between key actors to adjust financial policies for a sustainable, net zero transition



Source: Authors

iii) Evaluation and anticipation

Policies need to undergo continuous monitoring, evaluation and incremental improvements to ensure they are effective, efficient, relevant and coherent. This ensures the protection of people's livelihoods and communities, a smooth, effective and efficient economic transition, and the wise management of finite public resources, especially given the wide range of competing societal needs. Unexpected or poorly planned policy shifts can lead to heightened social tensions, economic distress and a loss of public trust, while well-thought-out and implemented policy could offer tremendous opportunities. Therefore, a key aspect of effective policy design is anticipating potential impacts before full implementation. This can be achieved through piloting initiatives in specific regions or sectors, and using modelling and scenario analysis to forecast social, economic and environmental effects. Such anticipatory measures allow policymakers to identify unintended consequences early, refine approaches and build evidence-based strategies that balance transition goals with social and economic stability.

Effectiveness evaluation

7	**Monitor and evaluate the policy in terms of effectiveness, efficiency, relevance and coherency.**

Create a robust data strategy as an indispensable tool for capturing and tracking the effectiveness of transition policies. Such a strategy also plays a vital role in facilitating government

accountability and enabling ongoing improvements to policy frameworks. By integrating diverse data sources and anticipating future technological shifts, policymakers can build more responsive and transparent systems to guide the transition process. A logic model – a visual representation that outlines the flow of data – outlines the relationships between policy inputs, activities, outputs and intended outcomes, providing a clear framework to track and assess progress. Such a structured approach facilitates a better oversight of data collection, processing and its use, aiding in the effective sequencing of policy measures, ensuring that interconnected actions work well with regard to the flow of data and information.

Develop a comprehensive approach to data collection and analysis, integrating economic and environmental data to evaluate transition policies. A major obstacle to policymakers in the net zero transition is the lack of detailed and reliable information. While data collection represents a challenge in many policy areas, transition-related policies are faced with particularly pronounced difficulties due to their complexity and novelty. A multifaceted approach is therefore needed, one that incorporates quantitative data such as economic and environmental metrics and qualitative data gathered through stakeholder interviews, focus groups and surveys. Qualitative data is essential to capture in-depth views, contextual insights and potential unintended consequences, particularly around equity concerns, which quantitative data alone may overlook. Environmental data that is collected and analysed in a standardised way to enable comparability is an important complementary source of information.

However, given the recent implementation of many policies and the limited availability of historical data, empirical evidence remains scarce. High quality data is indispensable for the comprehension and monitoring of the effectiveness of policies, but its scarcity should not be used as an excuse for inaction or policy delays. Instead, policymakers should adopt adaptive and iterative approaches that enable continuous learning and policy refinement. Furthermore, rapid advancements in artificial intelligence (AI) are expected to transform how data is collected, analysed and interpreted over the next few years. Policymakers should proactively consider how these emerging technologies can enhance data-driven decision-making and improve the monitoring of policy impacts over time.

Regularly monitor and evaluate policies and share the results to ensure interventions meet objectives in the set timeframe. This necessitates a comprehensive evaluation of the extent to which the policies contributed to the policy objectives within the pre-determined timeline. By maintaining a continuous monitoring of outcomes, policymakers are able to determine whether an intervention is resulting in the desired environmental, social and economic outcomes. The identification of suitable metrics to measure this progress is vital. However, evaluations must be conducted within the context of the policies that were implemented; following a narrow path, by focusing on a single metric, should be avoided. Evaluation results should be shared publicly in a clear and concise manner, for example through the publication of evaluation reports by government agencies. Transparent evaluation processes, including mechanisms for public feedback and stakeholder engagement, are essential to building trust and refining policy interventions over time.

Unintended impacts

8 Assess unintended impacts and consequences.

Assess and mitigate unintended consequences of transition policies early in the process, then implement complementary policy measures and place-based approaches to maintain public support and reduce inequalities. This includes assessing the consequences for the key industries contributing to emissions as well as the stakeholders disproportionately affected by climate change and policy measures. However, many unintended impacts may only become apparent after policies are implemented or evaluated. Iterative improvements and coordination across policies can mitigate such impacts with minimum delay.

The implementation of policies may have negative impacts on specific geographical areas, vulnerable communities or minorities, or result in the misallocation of capital. For instance, an abrupt alteration in financial incentives may result in job losses in a region with high dependence on carbon-intensive industries or generate market turbulence. It is of the utmost importance to

investigate these unintended impacts at the earliest opportunity and to mitigate them through the implementation of complementary policy measures and place-based approaches, such as the provision of retraining programmes or social safety nets to ensure no one is left behind. To maintain public support and guarantee that the process does not result in the exacerbation of social or economic inequalities, a holistic and regular analysis of the consequences of policies is necessary. Based on this analysis, the positive and negative impacts need to be weighed up, while preserving bold ambitions to reach net zero.

Manage side-effects across policy areas, prioritising high-impact instruments even if moderate side-effects are present. Many policies for the transition to net zero need to be implemented in conjunction with other policies to achieve general objectives. While many policies complement each other well, introducing an array of different policies can give rise to unintended consequences or side-effects. To achieve the transition, rather than completely avoiding such side-effects, the emphasis should be on managing them, while aiming for the largest possible benefits. An instrument that offers large transition benefits with moderate side-effects should therefore be preferred to an instrument with moderate benefits but minimal side-effects. Complexity may arise due to the likelihood that benefits and unintended consequences will manifest on different time dimensions. Nevertheless, side-effects should not impair the implementation of instruments but rather be actively considered and therefore included in the conversation from the beginning.

Adjustments and updates

9 If necessary, adjust and update.

Design flexible transition policies that can be adjusted over time to respond to changing market dynamics, technological advancements and policy outcomes. There is a strong case for embedding periodic evaluations within certain policies or instruments from the outset to monitor their effectiveness and enable timely adjustments in response to evolving market conditions and technological developments. As the transition to net zero progresses, it is essential that policies are periodically adjusted and updated in order to remain effective and responsive to evolving economic and environmental conditions. Transition policies must be sufficiently flexible to accommodate changes in market dynamics or technological advancements. For example, if the initial policy design is not producing the desired outcomes, policymakers may refine instruments and adjust strategies to enhance their impact.

Adopt a dynamic, incremental approach to policy updates to facilitate public acceptance, enable greater ambition and ensure alignment with evolving net zero targets. Comprehensive all-encompassing policy takes years to design and is challenging for the public to understand. Meanwhile, simplicity can be very effective. Adjustments and updates can and should be considered within the policymaking timeline from the beginning. Regular revisits and incremental updates to the policy can facilitate acceptance while supporting more ambitious policy goals over time. Furthermore, as global and national targets evolve, incremental policy adjustments may be required to increase ambition and ensure alignment with emerging net zero commitments. By maintaining a dynamic and adaptive policy approach, governments can ensure long-term success in achieving their climate transition objectives.

5. Conclusion

The effectiveness of policy instruments and frameworks that have the objective of facilitating, supporting or enabling the sustainable, net zero transition depends on a multitude of factors. The building block framework we have proposed in this report provides a flexible yet structured approach for governments and policymakers. At the central government level, it fosters a comprehensive understanding of national readiness and coordination for net zero transitions. For specific policies, it ensures a systematic pathway from design to evaluation, reducing risks of unintended consequences and improving overall effectiveness. This dual application makes it a useful tool for both strategic oversight and targeted policymaking and is applicable across both developed and emerging economies.

First and foremost, the effectiveness of a government strategy or specific policy instrument depends on the environment in which it is implemented. In the context of the scale and depth of the economic transition that is needed to build a sustainable, net zero economy, the economic and financial system context, along with the stage of the transition, level of implementation and timeline of other transition-related policy frameworks have to be taken into account. Effectiveness also depends on the capacity of actors to understand the fundamental risks, costs and opportunities, the existence of a supportive financial architecture and infrastructure, and the prevalence of information asymmetries concerning risks and opportunities. To understand the effectiveness of implemented policies, a holistic perspective is necessary, including analysing adverse and unintended consequences and how they can be mitigated.

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Appendix: Overview of selected relevant frameworks

	Focus	Objective	Target audience	Description	Relevance to the building blocks	Publisher (and link)
Better Regulation Guidelines	Design, implementation, evaluation, revision	Outlines concepts, general principles, tools and minimum standards for new initiatives, proposals, or existing policies and legislation at the EU level. Also used to guide policy evaluations.	EU officials involved in regulatory activities and those responsible for quality control and the allocation of resources.	• Forward planning and political validation • Stakeholder consultation • Evaluation and fitness checks • Impact assessment • Quality control • Compliance support and implementation of EU law	• Importance and incorporation of stakeholder consultations and impact assessments	European Commission
Green Book	Design, implementation, evaluation	Guidance for the appraisal of policies, programmes and projects; plus for the design and use of monitoring and evaluation in the public sector, aiming to support decision-making processes early in the policy cycle.	All UK government departments and public bodies with responsibility derived from government.	• Cost-benefit analysis and presenting appraisal results for different policies, programmes or projects • The UK's five-case model provides a comprehensive, step-by-step framework for the implementation of different policy interventions	• Five-case model shows how each can be considered separately, but ultimately cases are interconnected and should be developed together to provide a holistic view	United Kingdom
Better Regulation Framework Guidance	Design, implementation, evaluation	Defines the process to ensure that the principles for better regulation are applied when designing proposals for new regulatory provisions. Also ensures that government regulation is proportionate and used only when alternatives do not achieve the desired policy outcomes or achieve them at disproportionate cost.	UK officials working on regulatory provisions (including acts and legislation related to business activity).	The framework interacts with the regulatory policymaking cycle in three stages: • Initial policy development • Pre-implementation • Post-implementation reviews It highlights the need to consider the costs, benefits and risks of regulatory proposals, as well as the use of alternatives to regulation. It incorporates provisions for earlier and more holistic scrutiny of regulatory proposals and the conduct of impact assessments.	• Holistic policymaking • Delineation of stages in the policymaking cycle	United Kingdom

Framework for Evaluation	Evaluation	Framework that sets different criteria to assess topics and interventions, including policies, programmes, strategies, projects, instruments and activities. Also provides a common and systematic approach to compare interventions.	Applicability for use across a range of interventions, sectors and contexts - local, national and international.	• Relevance: Is the intervention doing the right thing? • Coherence: How well does the intervention fit? • Effectiveness: Is the intervention achieving its objectives? • Efficiency: How well are resources being used? • Impact: What difference does the intervention make? • Sustainability: Will the benefits last?	• Establishing a shared understanding (e.g. language, objectives) across stakeholders early in the process • Conceptualisation of effectiveness	OECD
Impact Evaluation in Practice	Evaluation	Provides practical guidelines for designing and implementing impact evaluations, along with a non-technical overview of impact evaluation methods.	Applicable to World Bank development programmes, projects and policies.	Explains the rationale for impact evaluation in the context of evidence-based policymaking, the factors determining impact evaluation methods, and modalities and techniques of impact evaluation.	• Minimising the technical notations used • Importance of theory of change (incl. causal pathways from policy to outputs and outcomes)	World Bank
Evaluation Policy	Evaluation	Provides an overview of the principles guiding evaluations.	Applicable to strategies, policies, programmes, operations and activities at the EBRD level.	Overall performance is assessed based on: • Relevance (incl. strategic and design relevance and additionality) • Results (incl. outputs, outcomes and impacts) • Efficiency (incl. financial performance, profitability, handling, consultants)	• Role of efficiency measurement	EBRD (European Bank for Reconstruction and Development)
Magenta Book	Evaluation	Focuses on how ex-post policy evaluations should be conducted to ensure accountability.	All UK government departments and public bodies with responsibility derived from government.	Highlights how evaluation interacts in all stages of the policy cycle, emphasising the different steps to perform an evaluation: • Scoping • Design • Selection of an evaluation method • Conduct the evaluation • Dissemination of evaluation results	• Iterative and continuous nature of policymaking • Importance of revising policies to make them effective	United Kingdom

Monitoring and Evaluation Framework	Monitoring and Evaluation (M&E)	Guidance for an integrated approach to M&E, tracking progress on results and enhancing transparency towards achieving the Sustainable Development Goals (SDGs). Aims to enable effective resource allocation and provides tools for country teams to support monitoring.	Applicable to programmes implemented within the UN system.	Guiding principles and the key features of M&E: • Establish an M&E group • Develop a strong results and resources matrix • Develop a costed multi-year M&E plan • Undertake monitoring activities listed in the M&E plan • Review and report on progress • Publish data	• Importance of monitoring throughout the policy cycle • Ensuring effective resource allocation	United Nations