[**Climate smart finance bill**](https://www.dawn.com/news/1840780/climate-smart-finance-bill)

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THE finance bill or [proposed budget](https://www.dawn.com/news/1839433/finance-minister-aurangzeb-presents-rs189tr-federal-budget-in-line-with-imf-guidelines) for the next fiscal year has refused to commit any resources or even set the national direction for climate resilience.

It has failed to acknowledge that Pakistan is one of the world’s most climate-vulnerable countries, and perhaps the least prepared. It has missed, once again, the opportunity to determine the course of action for Pakistan’s sustainable economic development. Worse, the proposed budget has not outlined a vision for climate-resilient investments.

The finance bill has not shown any particular appetite for institutional or policy reforms that could help stop the economic bleeding caused by repeated climate-induced disasters or the slow onset that is threatening GDP growth rate and per capita incomes. Ironically, despite heavy losses, Pakistan has not explicitly adopted climate considerations into the budgetary process.

The government has, instead, [opted](https://www.dawn.com/news/1839555/allocation-for-climate-change-to-be-higher-than-last-fiscal) for a simplistic formula for [generating tax](https://www.dawn.com/news/1839582/sweeping-tax-measures-target-salaried-class-real-estate-and-other-assets) and non-tax revenues, particularly by [cutting subsidies](https://www.dawn.com/news/1839590/budget-2024-25-tax-breaks-on-hybrid-luxury-evs-ended-to-boost-local-industry). Economic development is a secondary target, and climate-resilient development is not even on the horizon. As seen in several other countries, the government can ensure that public finance is aligned with climate change mitigation and adaptation goals.

The Planning Commission has still not embedded adaptation and mitigation in PC-1s that are the backbone of annual public sector investments. The finance ministry has not initiated the tracking of climate expenditures, despite attempts over the years by several development partners. The office of the Accountant General Pakistan Revenues has not climate-proofed reporting of federal transactions, nor has the Auditor General upgraded its auditing standards and disclosure rules.

The FBR is not tracking and reporting climate-related tax expenditures, nor has it supported the development of climate-resilient infrastructure by ensuring that tax policies and regulations promote investments in climate-resilient projects and infrastructure. In fact, none of the major government players have strengthened climate-smart budgeting by embedding climate considerations into their processes. These lacunae are mirrored in the provincial budgets.

We must integrate climate considerations into the overall budget-planning processes.

Some of Pakistan’s neighbours have begun to climate-proof their annual budgets. Bangladesh is now graduating from least developed country status to become, like Pakistan, a low-middle income country. It stands out for its long journey towards human development and climate resilience. As part of broader efforts to mainstream climate finance across its public financial management systems, Bangladesh set up the Climate Change Trust Fund in 2010 with a governmental equity of $350 million. Designed to help communities recover from climate disasters by supporting the construction of houses in cyclone-affected areas, the CCTF has supported the construction of embankments and provision of solar home systems.

While our finance bill has announced the government’s intent to set up a similar fund, following the [Climate Change Act of 2017](https://www.dawn.com/news/1321164), the finance minister has clouded its future by not committing any equity from the government, without which it will remain a fictional fund.

Another example is the Climate Fiscal Framework that Bangladesh has implemented since 2014. Revised in 2022, the CFF emphasises institutional coordination between the planning, finance and other divisions to ensure effective implementation of climate fiscal policies and programmes. The CFF is designed to ensure that their vulnerabilities are integrated into national development and resource mobilisation strategies. It made way in 2018 for a budget-tagging system that tracks and reports on all climate-related expenditures, enabling them to identify, classify, and mark climate-relevant allocations in the budget system. There is a lesson for Pakistan: such tracking systems not only help improve policymaking to address climate vulnerabilities, but also add to transparency and accountability in its budgeting.

A climate-smart budget would typically rest on five anchors: i) an assessment of the potential impacts of climate change on different sectors and regions, ii) a mechanism to track and report on related expenditures, iii) an alignment with national policies and targets, such as the Nationally Determined Contributions, iv) prioritising resource allocation for mitigation, adaptation, and resilience-building, and v) accessing domestic and international climate finance to fill the resource gaps.

In other words, rather than treating it as a stand-alone issue, Pakistan needs to integrate its climate considerations into the overall budget-planning processes. Governments across the world are routinely focusing on domestic financing through national budget reallocations, the establishment of national/ subnational climate funds, and partnerships with the local private sector, civil society, and local authorities. No such intent is outlined in the proposed budget. Likewise, the budget bill has not committed to systematically pursuing innovative green finance mechanisms, such as green bonds, green loans, and green guarantees to mobilise climate finances.

True, Pakistan’s fiscal space is narrow, yet we still follow traditional debt relief involving rescheduling, forgiving, or reducing a portion of a country’s debt, often through bilateral or multilateral agreements. This approach focuses on reducing debt burdens without necessarily addressing environmental and climate concerns. Debt-for-climate swaps, on the other hand, involve converting debt into funds dedicated to environmental conservation and climate mitigation. This approach addresses both debt distress and climate change by redirecting debt payments towards climate-smart projects.

Several developing countries have used debt-for-climate swaps to finance climate projects. This approach focuses on reducing debt burdens without necessarily compromising environmental or climate concerns. Debt-for-climate swaps, on the other hand, involve converting debt into funds dedicated to environmental conservation and climate change mitigation. This can help address both debt distress and climate change by redirecting debt payments towards climate projects.

Some similarly placed economies are trying to manage their debt burdens by exploring such measures as [debt-for-nature swaps](https://www.dawn.com/news/1812956), debt-for-climate swaps, green bonds, and domestic financing through national budget reallocations, partnerships with local private sector, or public-private partnerships to develop and finance climate change projects. The proposed budget is silent on these options, leaving matters to the imagination of our federal and provincial economic managers. Instead of having a simplistic, linear approach to macroeconomic stabilisation, it’s time to set the direction for a climate-resilient country. The finance bill can still provide us the space to accelerate our journey towards a resilient economy.

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