



UN  
DIP

Pakistan

## Policy Brief

# Why Pakistan Needs a Climate Change Financing Framework?

As the effects of climate change become increasingly apparent, governments around the world are trying to understand the threats they face. Pakistan is one of the most vulnerable countries to climate change: it ranks 8th in the world in terms of long-term risks, and was the fifth worst affected country in 2014<sup>1</sup>. Pakistan along with Philippines features in the German watch list both in the long term index and in the last 4 years' lists of countries most affected. With a poverty rate of 21 percent<sup>2</sup> and a large proportion of the population dependent on agriculture (which contributes 23 percent to GDP) Pakistan must take the threat of climate change seriously.

The impacts of climate change cut across several aspects of life. Water, health, energy and food security are increasingly stressed, and in some areas can pose genuine concerns for livelihoods and even survival. These concerns particularly affect the poorest in society.

## The Need for Change

Climate change is now a core part of the global development agenda and governments are recognizing the need to adopt low

Between 1995-2014 Pakistan's annual average economic loss because of climate change related incidents amount to US\$3.9 billion (USD PPP). In the same period the annual average lives lost to climate change stands at 03 individuals per million inhabitants.<sup>3</sup>

carbon economies and build resilience of the poor and vulnerable to climate change. Pakistan faces particularly stiff challenges in adaptation and developing community resilience.

Important steps have already been taken. Pakistan now has a Ministry of Climate Change. The country has formulated a National Climate Change Policy and developed an

1. Global Climate Risk Index 2016 - Germanwatch

2. World Bank's Poverty Head Count Analysis 2014. [finance.gov.pk/survey/chapters\\_14/15\\_Poverty\\_Social\\_Safety\\_Nets](http://finance.gov.pk/survey/chapters_14/15_Poverty_Social_Safety_Nets)

3. Global Climate Risk Index 2016- Germanwatch

implementation framework, and the Lahore High Court has established a commission for its implementation. But given the challenges Pakistan faces, a far more proactive approach is required. Because of the wide ranging impacts of climate change, there is a need to mainstream climate change in sectoral policymaking, particularly for core areas such as energy, water management and agriculture.

## Mainstreaming Climate Change

For a systematic response to climate change, which links policy frameworks with budgeting and efficient and transparent allocations and utilization of financial resources,<sup>4</sup> climate change must be integrated into budgeting and planning. This requires a careful understanding of the impacts of climate change on the country's finances.

The need to embed climate change into budgeting and planning is accentuated by the increased international funding available for climate change related activities. At the Climate Change Conference held in Copenhagen in 2009 developed countries that were party to the United Nations Framework Convention on Climate Change committed to mobilizing US\$ 100 billion per year by 2020. To access this international finance, countries such as Pakistan should be able to demonstrate:

- A transparent public financial management system which ensures that resources are utilized efficiently and transparently.
- Their own financial contributions to addressing climate change.

However, Pakistan's readiness to face climate change is affected by a lack of reliable data on the extent of financial losses due to climate change, and its impact on GDP. To help address this, in 2015, a Climate Public Expenditure and Institutional Review (CPEIR) was carried out to identify climate change related expenditures by the federal government and Khyber

Pakhtunkhwa province. This was the first attempt to provide reliable data on climate change expenditure, and is an important basis for informed decision making by policymakers.

While the CPEIR provided extremely useful data, it took more than a year to carry out the exercise and required the services of a team of consultants and data analysts. Thus, while CPEIR is a useful methodology, it is an expensive exercise and cannot be repeated every year. Moreover, CPEIR alone does not make climate change a formal part of public financial management, as it is not part of the planning or the budgetary process. Informed policy response is possible only if climate change is mainstreamed into the planning and budgetary system across sectors, and is an intrinsic part of development policies.

## The Solution: A Climate Change Financing Framework

In order to provide a structured response to climate change, it is necessary to establish a framework which focuses on climate change starting from the planning stage, and creates a robust monitoring system which can gauge the volume and effectiveness of climate change related expenditures. Developing a Climate Change Financing Framework (CCFF) is an effective way to mainstream climate change into the planning and budgeting cycle.

## Climate Change Financing Framework Cambodia

In 2014, Cambodia became one of the few countries to have developed a CCFF. This presents a framework for managing climate change finance across government and includes specific guidelines. It brings the focus towards results based programming and performance based budgeting. Through a cost benefit analysis, it concludes that investment in climate change gives positive economic results. It also analyses the role of government, private sector and NGOs in climate change finance, and explores the sources of financing. Finally, it provides a profile and costing of the proposed response for the next five years. After having adopted the strategic climate financing framework that UNDP supported, the Ministry of Economy and Finance agreed to integrate climate change into the Budget Strategic Plan and related budget circulars. It's also being integrated into a revision to the Annual Budget Law.

### FEDERAL GOVERNMENT CLIMATE CHANGE RELATED EXPENDITURES<sup>5</sup>

Climate change related expenditure as percentage of total expenditures

**7.52%**      **6.52%**

2010-11

2011-12

**5.78%**      **6.22%**

2012-13

2013-14

4. Effective and transparent utilization of the climate change finance requires:

- Identifying the climate change finance available, both from international sources and the funds governments reserve for climate change related activities;
- Classifying climate change expenditures and determining the expenditures actually being made by the government;
- Tracking climate change related expenditures to analyse their coverage and effectiveness.

5. Climate Public Expenditure and Institutional Review (CPEIR) 2015.

CCFF can be thus a useful instrument to help in systematically tracking, managing and publicly reporting climate-related expenditure in national budgets - so that the risks are transparent. This can provide a number of important fiscal and economic benefits, many of which have multiplier effects such as increased employment, poverty reduction and disaster management, include:

- Ensuring existing public investments in climate-change initiatives are being used efficiently and effectively;
- Helping to protect the country's sovereign credit rating against downgrades by providing greater fiscal transparency at a time when credit agencies are factoring in climate change initiatives;
- Attracting greater foreign direct investment by creating a more transparent (and consequently lower-risk) investment climate for increasingly climate-sensitive corporations and fund managers;
- Attracting additional international climate finance by satisfying donor's public financial management requirements;
- Identifying green growth opportunities in different sectors;
- Encouraging the private sector, notably the insurance sector, to share the risks by, again, providing the necessary transparency of the risks and reassurance that adaptation and mitigation strategies are in place.

In Pakistan, the CCFF will build upon the National Climate Change Policy and the Medium Term Budgetary Framework (MTBF)<sup>6</sup> and their links with sectoral policies. Within the policy parameters of the National Climate Change Policy, the CCFF will begin by recommending a framework which will help to create an enabling environment for mainstreaming climate change, and identify the systems required to integrate climate change into public finance management. It will also capture different sources of financing for climate change and any gaps between the financing required and that which is available.

An agreement on answers to these questions will mean that a structure of CCFF has been formulated outlining systems and processes necessary for integration of CC in budgetary and

## Answers that CCFF is expected to provide

- What constitutes climate change finance?
- What are the sources and types of finance available, and what are their formal entry points into the public financial management system?
- How can climate change finance be integrated into budgeting?
- What are the climate change related ministries and departments across government?
- How can climate change expenditure be tracked?
- What is a suitable process for recording climate change related expenditures and revenues?
- What types and formats of financial statements and disclosure requirements should be implemented?
- What are the sources of financing and the gaps between available and required policy financing?
- What are the roles and responsibilities of various stakeholders?

planning systems. After this the next stage will be to create an integrated CCFF, which means integrating climate change into the MBTF. Specific steps include:

- The Ministry of Finance approaches all federal ministries and divisions through a Budget Call Circular to help identify allocations related to climate change.
- The Ministry of Planning and Reforms is supported to incorporate climate change into the planning cycle.
- The Government's planning formats, such as the PC1, are revised to ensure climate change sensitive planning.
- Climate change actions are costed as per the National Climate Change Policy and sectoral policies.
- Key performance indicators are established for climate change. Using the MTBF's output-based budgeting system, all federal ministries prepare a medium-term strategic plan linking planning and budgeting processes.
- The MTBF incorporates inputs and outputs relating to climate change.

6. The Medium Term Budgetary Framework is an approach to preparing annual budgets at the federal level that integrates policymaking, planning and budgeting over a three year time period.

## Moving Forward

Mainstreaming climate change requires a whole-government approach with robust policy frameworks, and a coordination mechanism backed by budgetary resources. In order to integrate climate change into budgeting and planning the Ministry of Finance, in partnership with the Ministry of Climate Change, the Controller-General of Accounts, Ministry of Planning, other ministries for sectors related to climate change, and the United Nations Development Programme (UNDP) may propose to proceed as follows:

Apr 16 - Mar 17

- The Ministries of Finance and Climate Change with assistance of UNDP project authorities conceptualise the CCFF.
- The Ministries of Finance and Climate Change, the Controller-General of Accounts and relevant line ministries will agree on how to code and track climate change related expenditures, and create a typology and classification system.
- With UNDP, the Ministry of Finance will support the development of the CCFF through consultations with the Ministry of Climate Change and engagement with line ministries.

Conceptualisation  
and Consultation

Apr 16 - Mar 17

- The Ministry of Finance will issue guidelines on the Budget Call Circular and the inclusion of climate change in ministerial budgets.
- The Ministry of Planning and Reforms will incorporate climate change into government planning formats including the PC1.
- The Ministries of Finance and Planning, with UNDP, will assess the changes required to the government public financial management system and legal instruments.

Aligning the PFM  
and Planning  
System

Oct 16 - Apr 17

- o The Ministry of Finance will work with line ministries to incorporate climate change into the MTBF.
- o The Ministry of Climate Change will partner with the Ministry of Finance to enhance the climate change monitoring components of the MTBF/budget processes.
- o The Ministries of Finance and Climate Change, UNDP and the Controller-General of Accounts will assess and build capacity of existing staff responsible for implementation.
- o The CCFF will be applied across the CC relevant ministries.

Implementation  
and Evaluation



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