



Seventh on the list of most vulnerable countries, Pakistan has the least climate finance provision to control or manage the outcomes of climate change. Need and necessity-based priorities, such as poverty eradication take over long-term investments in climate change. Given a low domestic capacity to finance climate change related investments, Pakistan depends upon funds from outside world to fight climate change.

The country's climate adaptation needs range between \$7 billion and \$14 billion a year, according to an ADB report of 2017. Pakistan's Nationally Determined Contribution (NDCs) submitted to the 2015 Paris Agreement, aims to reduce up to 20 percent of its 2030 projected GHG emissions. The country intends to do this mainly using international grants of approximately \$40 billion. This seems unachievable as the flow of climate finance to Pakistan has been much lower than expected.

According to *Pakistan Economic Survey (2020)*, Pakistan has received a grant of \$3.8 million since 2015 for reduced emission from deforestation and Forest Degradation (REDD+) through a competitive process by Forest Carbon Partnership Facility (FCPF) of the World Bank, Pakistan secured some funding to prepare documents for the four elements required to complete the REDD+ readiness phase. Meanwhile, in 2018, FCPF provided an additional grant of \$4.01 million to further support the preparedness activities in Pakistan until June 2020.

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*Parliamentary Research Digest of June 2019* shows that The Global Environment Facility had provided Pakistan \$234.42 million in total financing and \$626.68 million in co-financing by June 2019. This includes financing of projects at national as well as regional/global level. The GCF dashboard shows that its total funding to Pakistan is \$121 million as of August 2020, increasing from \$89 million in April 2019. These funds are in no way close to the financing needs of the country. Pakistan, therefore, must put in place a plan to raise climate finance.

Conventional tools to raise climate finance include: climate fees, loans and taxes. While revenues from climate fees are hardly enough to cover the cost of the climate programme, a carbon tax may be a less efficient option in developing countries like Pakistan because of already weak industry and high costs of production. Pakistan is thus left to rely on loans to fill the climate finance gap. Meanwhile loans are drying up on one hand and public debt is soaring on the other.

Given a very small fiscal space, shrinking further due to the economic meltdown, Pakistan's public sector does not have the capacity to finance climate action. Meanwhile the private sector is unable to contribute much on account of poor incentives and lack of trust (distrust). Another reason is that the capital market of Pakistan has average efficiency to issue green bonds to attract foreign and local capital finance from the private sector.

In the short run, incentivising commercial banks is the most efficient policy option to raise climate finance from domestic sources. Green banking has emerged as an important player in the fight against climate change. A recent study shows that Pakistan is currently at the very initial stages of Green Banking adoption.

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This indicates a higher margin for improvement on this front. The SBP must incentivise commercial banking sector for green finance. Financing to environmentally unfriendly projects should be discouraged in the first phase and restricted in the later stages even in cases of a higher rate of return or net present value.

The global green bond market had grown to roughly \$200 billion in 2019, from nothing five years ago. SBP must pay increased attention to developing the local and international market for green bonds as they are the most innovative instruments of climate finance that tie up the bond issuance proceeds to climate-friendly investments.

Pakistan must design policies to tap local and international green finance available for energy efficiency, climate change adaptation, waste management and sustainable energy investments. Bond issuance can be done by private companies or public entities, especially private sector must be engaged in order to reach out to public for green bonds. The cause of green revolution is sellable as we can see in the growth of TESLA. It is important to highlight that imposing a carbon tax may be the least efficient way in raising domestic resources for climate finance.

Finally, Pakistan must design policies to attract bilateral climate finance by issuing green Sukuk and Euro bonds. This method is being applied by many countries, including the UAE. In Pakistan, the WAPDA has proposed to issue long-term dollar-denominated green bonds of up to \$500 million.

All this requires that public policy attach a high value to climate change. In addition to a green monetary policy, the government must adopt climate-informed fiscal planning. This means that it should integrate climate change adaptation and mitigation policies in its macro-fiscal policies including planning and development, budgeting, and public investment policies. Climate informed fiscal planning can be improved by raising awareness among the masses and parliamentarians.

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