Climate Finance for Resilient Pakistan: Challenges and Opportunities

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December 2023
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ABSTRACT

For adaptation and mitigation of climate change phenomenon, sustained and adequately resourced actions are required. The Paris Climate Agreement 2015 explicitly recognizes the demand for climate finance. Article 9 of the Agreement calls upon the developed countries to fulfil their global obligations and provide financial resources to assist developing countries in their adaptation and mitigation efforts. Pakistan requires an estimated $7-14 billion annually for climate adaptation. Since the countries like Pakistan do not have sufficient resources to fund their adaptation efforts, the Paris Agreement declares it a global obligation of the rich countries, being the polluters, to pay to the underdeveloped countries. Pakistan in its revised NDCs (2021) has committed to reducing its carbon emission by 50% by the year 20230 through both domestic (15%) and international resources (35%) resources. So, accessing climate finance is important for Pakistan to make itself resilient to climate change.

This study finds that Pakistan somehow is deficient in capacity, technical expertise, and other requirements that matter a lot in accessing international finance. Therefore, being a vulnerable and climate finance seeking country Pakistan needs to develop its capabilities- a comprehensive framework for accessing climate finance, transparency in financial management, and focus on public-private partnership so that it might build a strong case to seek finance from domestic and international entities. To build a position for Pakistan, the study relies on a combination of primary and secondary data and qualitative analysis benefitting from the communities’ perspectives from Sindh, Punjab, and Balochistan provinces along with the federal capital. This study suggests that a concerted effort to enhance governance and transparency can bolster Pakistan’s appeal as an investment hub for climate-related ventures.

Keywords: Climate finance, Paris Agreement, NDCs, UNFCCC, Climate resilience
## Table of Contents

1. **INTRODUCTION**  
   - Sources of Funds  
   - Financial Intermediaries in Climate Finance  
   - Financial Instruments  
   - Pakistan’s Experience with International Climate Finance Forums  
   - Pakistan’s Institutional Landscape  
   - Pakistan’s Policy Landscape on Climate Action  
   - Community Voices  
   - Pakistan’s Challenges and Hindrances in Accessing Climate Finance  

2. **METHODOLOGY**  

3. **LITERATURE REVIEW**  

4. **DISCUSSION AND ANALYSIS**  
   - Sources of Funds  
   - Financial Intermediaries in Climate Finance  
   - Financial Instruments  
   - Pakistan’s Experience with International Climate Finance Forums  
   - Pakistan’s Institutional Landscape  
   - Pakistan’s Policy Landscape on Climate Action  
   - Community Voices  
   - Pakistan’s Challenges and Hindrances in Accessing Climate Finance  

5. **POLICY RECOMMENDATIONS**  

7. **CONCLUSION**  

References
1. INTRODUCTION

The journey towards climate resilience necessitates adaptation and mitigation efforts for any country to tackle climate change related challenges. These transformative efforts demand substantial funding. The United Nations Framework Convention on Climate Change (UNFCCC) related instruments emphasize the need to mobilize financial assistance from the rich Parties being the polluters to the vulnerable Parties bearing the brunt of climate change impacts. Article 9 of the Paris Agreement explicitly calls upon the developed countries (Parties to UNFCCC as part of their global obligations) to provide financial resources to assist developing countries (Parties to the Convention) in their mitigation and adaptation efforts. This collective drive for resource mobilization is based on the realization that the developing world requires financial assistance and support in transitioning towards a climate resilient future.

Despite setting up a number of institutions to mobilize, channelize, and implement climate change funds, global climate finance flows are relatively low and insufficient to meet the overall needs of developing countries. For instance, global climate finance in 2019–2020 was estimated to be around US$ 803 billion, which is just 31-32% of the investment essential for maintaining temperature rise well below 2 °C or a 1.5 °C pathway, (UNFCCC Report of the Standing Committee Addendum 2022). A much-touted pledge of US$ 100 billion per year by 2020 to address the needs of developing countries for meaningful mitigation action was not fully met in 2020 (ibid). The Ukraine conflict is likely to further reduce and restrict European and North American climate funds for developing countries.

In the backdrop of this shrinking financial pool internationally, the Government of Pakistan (GoP) envisions to draw down its greenhouse gas (GHG) emissions by 50% by 2030. In economic sense, if a reduction of up to 20 per cent occurs by 2030, approximately US$ 40 billion worth of investment will be required. Similarly, for a 15 per cent drawdown in GHG emissions, around US$ 15.6 billion, and a 10 per cent drawdown is calculated at US$ 5.5 billion (NDCs 2022). To fund this ambitious transition, the GoP seeks a 15% investment from domestic sources and a 35% augmentation from international sources (ibid).

The Government of Pakistan is pursuing all available international financing avenues aligned with climate change initiatives. Pakistan has been slow in accessing international climate finance. Despite an already restricted availability of finance, concessional financial assistance is even lower.

This study examines Pakistan’s future climate goals and the corresponding fiscal outlays crucial for realizing reductions in GHG emissions. The evaluation encompasses a thorough exploration of available channels for climate finance, challenges in accessing these funds culminating in a series of policy recommendations aimed at facilitating Pakistan’s access to these pivotal funds.
Pakistan’s endeavour for climate resilience must embrace a multifaceted strategy. This study underscores the imperative of nurturing a robust domestic green bond market, increased public private partnerships to attract private funding, capacity building of intermediaries within Pakistan that can help generate essential capital to bolster climate goals. As the study mainly revolves around the climate finance, it aims to:

To analyze Pakistan’s access to climate finance;
To assess government policies and plans that address access to climate finance; and
To provide a way forward to make Pakistan climate resilient by accessing climate finance.

2. METHODOLOGY

The study draws information from both primary and secondary sources. Primary sources include government officials at the Ministry of Climate Change and Environmental Coordination, Planning Commission, Ministry of Finance, National Disaster Risk Management Fund, and leading voices from academia in the climate finance space. These stakeholders were identified in a mapping exercise conducted prior to this study based on relevance, influence, and role in accessing climate finance. Moreover, primary information from communities was gathered in Sindh province (Sukkur, Ghotki, Sanghar, Badin and Mirpur Khas districts), Punjab province (Muzaffargarh district) and Balochistan province (Sohbatpur and Jaffarabad districts). People who were directly affected due to floods were interviewed, and inquired about rehabilitation and resettlement process as well as the financial support required. Separate semi structured questionnaires were employed for primary respondents (government officials, academia, and community). The questionnaires were based on literature review of recent government plans around accessing climate finance. Secondary sources include reports from development partners and government ministries, interviews, newspaper articles, United Nations documents, and journal articles. The paper is based on qualitative data and is descriptive in nature.

3. LITERATURE REVIEW

Climate change presents substantial challenges to countries across the world, affecting their economies, ecosystems, and societies in diverse ways. Developing nations, such as Pakistan, face increased susceptibility to the negative impacts of climate change due to their constrained capacity to manage and adjust to these outcomes (IPCC 2023). The international response to climate change rests on two main pillars: climate adaptation and mitigation. Climate adaptation assists communities in dealing with the consequences of climate change, such as severe weather and rising sea levels. Climate mitigation reduces or removes the GHGs that cause temperature rise through the use of clean energy and protection of forests (European Environment Agency 2021).

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1 Total FGD conducted in Punjab are 4 (2 with men and 2 with women). Total FGDs conducted in Sindh province are 8 (4 with women, 2 including both men and women and 2 with men). Total FGDs conducted in Baluchistan are 6 (4 with women and 2 with men). Total FGDs conducted for the study are 18.
Climate finance assumes a vital role by providing essential support to the countries vulnerable to the negative impact of climate change, enabling them to strengthen their climate resilience and effectively minimize the impact of climate change. The United Nations Framework Convention on Climate Change (UNFCCC) refers to climate finance as “local, national or transnational financing drawn from public, private, and alternative sources of financing, which seeks to support mitigation and adaptation actions thus addressing climate change” (Global Impact Investing Network 2023).

In accordance with the UNFCCC, developed nations had undertaken the commitment to raise a substantial $100 billion annually by 2020, extending support to developing countries in their efforts to address the challenges posed by climate change. However, the commitment remains unfulfilled with only $79.6 billion being provided and mobilized in 2019, falling short of the initial pledge (Organization for Economic Cooperation and Development [OECD] 2021). The commitment of $100 billion holds significance for developing nations, as they require financial assistance to mitigate their GHG emissions and effectively respond to the repercussions of climate change, to which they are particularly susceptible. Climate finance can help them shift to low-carbon and climate-resilient development pathways and achieve multiple co-benefits for sustainable development.

Climate finance is essential for both adaptation and mitigation because it supplies the required funds to accomplish the Paris Agreement’s aims of keeping global warming significantly below 2°C and aiming for 1.5°C (UNFCCC 2016). According to some estimates, developing countries alone will need about $4 trillion per year by 2030 to implement their nationally determined contributions (NDCs), which are their voluntary pledges to reduce emissions and adapt to climate change under the Paris Agreement 2015 [UNFCCC 2021a].

Pakistan is ranked 8th most affected country globally based on data spanning from 2000-2019 (Eckstein, Kunzel and Schafer, 2021). During this period, Pakistan experienced 173 climate-related events, 0.3% life losses per 100,000 inhabitants and incurred economic losses of US$3.8 billion due to recurrent floods and climate change-induced catastrophes, resulting in economic losses amounting to US$ 3.8 billion (ibid).

Pakistan faced a big calamity in 2022, when monsoon rains unleashed massive floods that swept away lives, livelihoods, and infrastructure. The disaster left a trail of destruction worth over $40 billion and demanded a staggering $16 billion for rebuilding and recovery (Government of Pakistan 2022). This has further exposed the urgent need for Pakistan to strengthen its climate resilience and prepare for looming threats of a warming world.

Pakistan has developed and put in effect a plethora of policies and plans that address its funding needs from international and local partners. Being a country that has experienced chronic fiscal shortages and deficits, Pakistan requires a significant $7-14 billion for its annual mitigation purposes (Pakistan Economic Survey, 2022).
The literature around climate finance in Pakistan’s context suggests that vulnerability has remained constant with recurring floods reaching higher rates of economic and social destruction. In the coming years, financial support to Pakistan climate change related adaptation and mitigation efforts will be the key to climate resilience.

4. DISCUSSION AND ANALYSIS

The United Nations Framework Convention on Climate Change (UNFCCC) puts in place a financial mechanism aimed at delivering climate finance resources to developing countries. The Global Environment Facility (GEF) has functioned as an operational body within this mechanism since 1994. In 2010, at Conference of Parties-16 (COP16), the Green Climate Fund (GCF) was established and designated as another financial support operating entity. The GCF holds responsibility for financial mechanism, decision-making on policies, setting programme priorities, and qualifications for funding. Furthermore, the Parties have established two distinct funds - the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF) - both under the management of the GEF. Additionally, the Adaptation Fund (AF) was established in 2001 as part of the Kyoto Protocol. During the 2015 Paris Climate Change Conference, a consensus was reached to designate operational bodies of the financial mechanism (GCF and GEF), as well as the SCCF and the LDCF, to support the goals of the Paris Agreement (Aslam and Rizwan 2022).

Financial instruments play a vital part in motivating and channeling funds toward investments that tackle climate change. Across the globe, governments have employed various financial mechanisms to encourage climate-related initiatives, backed by funding from a variety of sources (Wijeweera and Ali 2022). The climate finance ecosystem includes:

Sources of Funds

A. International Public Finance Sources:

- Multilateral Funds: These funds support endeavours focused on international collaboration through projects, policy initiatives, and technical assistance. Prominent instances of such funds encompass the Green Climate Fund and the Least Developed Countries’ Fund.
- Multilateral Development Banks: The financial institutions stimulate progress in developing countries by providing funding for projects that might involve adaptation strategies. Multilateral development banks, including the World Bank, International Finance Corporation, Asian Development Bank, European Investment Bank, and European Bank for Reconstruction and Development are part of this effort.
- Bilateral Cooperation: This mechanism involves two governments exchanging technical and financial support for policies and projects, often financed through bilateral development banks and national organizations. Examples include the Nordic Development Fund and the European Union’s Global Climate Change Alliance program.
B. Private Finance Sources

- Non-profit Organizations: National and international foundations and NGOs operate on various scales and contribute to climate finance efforts.
- Market Debt: Investment and financial lending operations, particularly through Green Bonds, represent a significant potential source of private finance for climate change adaptation.

B. Domestic Public Sources

- National Adaptation Funds: These funds, set up by either national or sub-national governments, offer financial and technical backing for activities focused on adaptation. Usually integrated into a country’s strategy or development plan, they acquire funding from both domestic and international channels. An example is the Peoples’ Survival Fund operating in the Philippines.

Financial Intermediaries in Climate Finance

Intermediaries are gaining recognition for their crucial role in catalyzing climate finance. They helped shape climate change policies, putting them into action, and assisting developing countries in improving their preparedness for climate finance by strategizing, gaining access to, innovating, executing, and overseeing climate finance initiatives.

i. Public domain intermediaries: In the year 2021, National and Multilateral Development Finance Institutions (DFIs), Governments, Bilateral DFIs, and State-Owned Enterprises collectively contributed 51% (equivalent to $321 billion) of the total annual climate finance, as outlined in the Global Landscape of Climate Finance report (Buchner et al. 2021).

ii. Private domain intermediaries: Commercial Financial Institutions, Corporations, and Households and Individuals, accounted for 49% (amounting to $310 billion) of the annual climate finance (Global Landscape of Climate Finance 2021).

Financial Instruments

Financial instruments are the tools or mechanisms that provide or mobilize funds for climate action. They can have different characteristics, such as type of provider, type of recipient, type of return, type of risk, and type of impact. Some of the common financial instruments for climate finance are:

- Grants: These non-repayable funds are provided by the donors or funders to assist climate related projects and programs. They have a high impact and low risk but can only be acquired under strict conditions and requirements. Grants can be utilized for technical support, capacity development, research, and innovation.

- Loans: These are repayable funds that are lent by lenders or creditors to finance climate investments. Loans usually have a fixed or variable interest rate and a maturity date. Loans can have different levels of concessions, which means the degree to which they are offered below market terms. Concessional loans have lower interest rates, longer repayment periods, or grace periods than commercial loans. Loans can be used for infrastructure, energy, transport,
agriculture, and other sectors (Meirovich, Sofia and Rios 2013).

- **Bonds**: These are debt securities that are issued by borrowers or issuers to raise funds from investors or buyers. Bonds usually have a fixed interest rate and a maturity date. Bonds can be classified into different types based on their features, such as green bonds which are the bonds that finance environmental projects; social bonds which are the bonds that finance social projects; and resilience bonds which are the bonds that finance disaster risk reduction projects (ibid).

- **Equity**: This is a type of ownership or share in a company or project that is involved in climate action. Equity investors or shareholders provide capital in exchange for a portion of the profits or losses of the company or project. Equity usually has higher risk and higher return than debt instruments. Equity can be used for start-ups, innovation, technology transfer, and scaling up (The World Bank 2021).

- **Carbon markets**: These are systems which allow the trading of GHG emission reductions or removals between the entities that have emission targets or caps and the entities that have emission reductions or removals. Carbon markets can operate at different levels, such as international, regional, national, or subnational. Carbon markets can create incentives for mitigation actions and generate revenues for climate finance (ibid).

- **Insurance instruments**: These are the products or services which provide protection or compensation for losses or damages caused by climate risks, such as droughts, floods, storms, etc. Insurance instruments can involve different actors, such as insurers, reinsurers, brokers, intermediaries, and beneficiaries. Insurance instruments can reduce vulnerability and enhance the resilience of individuals, communities, and countries to climate shocks.

**Pakistan’s Experience with International Climate Finance Forums**

Being a climate-vulnerable and energy-deficient country, Pakistan’s access to international climate finance has been quite restricted, with only two projects funded by the Adaptation Fund and five were funded by the Green Climate Fund (GCF), as shown in Table 1 below. Out of 18 approved projects, 11 were completed with the support of Global Environment Fund (GEF) as mentioned in Table 2.

Pakistan has not yet utilized Climate Investment Funds (CIFs) and most of the significant bilateral climate funds or facilities, apart from one project under Nationally Appropriate Mitigation Actions (NAMAs). By the year 2020, the Green Climate Fund (GCF) had granted approval to projects totaling approximately $7.2 billion. Meanwhile, Pakistan had successfully secured approximately $122 million for three projects, utilizing intermediary funding sources, including UNDP, ADB, and FAO.
Table 1 below provides Pakistan’s access to GCF.

<table>
<thead>
<tr>
<th>Project</th>
<th>Cost</th>
<th>Accredited Entity</th>
<th>Theme</th>
<th>Financing Instrument</th>
<th>Approval Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recharge Pakistan</td>
<td>$66 million</td>
<td>WWF Pakistan</td>
<td>Adaptation</td>
<td>Grant</td>
<td>13 July 2023</td>
</tr>
<tr>
<td>Pakistan Distributed Solar Project</td>
<td>$10 million</td>
<td>JS Bank</td>
<td>Mitigation</td>
<td>Loan</td>
<td>19 May 2022</td>
</tr>
<tr>
<td>Transforming the Indus Basin</td>
<td>$35 million</td>
<td>FAO</td>
<td>Adaptation</td>
<td>Grant</td>
<td>8 July 2019</td>
</tr>
<tr>
<td>Green BRT Karachi</td>
<td>$49 million</td>
<td>ADB</td>
<td>Mitigation</td>
<td>Grant</td>
<td>20 Oct 2018</td>
</tr>
<tr>
<td>(GLOF) Risk Reduction</td>
<td>$37 million</td>
<td>UNDP</td>
<td>Adaptation</td>
<td>Grant</td>
<td>14 Oct 2016</td>
</tr>
</tbody>
</table>

Source: GCF Funds Website

Table 2 below provides Pakistan’s access to GEF.

<table>
<thead>
<tr>
<th>Project</th>
<th>GEF Grant (USD)</th>
<th>Approval Date</th>
<th>Closing Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sixth Operational Phase of the GEF Small Grants Programme in Pakistan</td>
<td>2,659,726</td>
<td>13-02-2017</td>
<td>28-01-2021</td>
<td>Completed</td>
</tr>
<tr>
<td>GEF UNIDO Cleantech Programme for SMEs</td>
<td>1,369,863</td>
<td>08-09-2013</td>
<td>29-11-2019</td>
<td>Completed</td>
</tr>
<tr>
<td>Fifth Operational Phase of the GEF Small Grants Programme in Pakistan</td>
<td>2,777,778</td>
<td>29-11-2011</td>
<td>15-02-2018</td>
<td>Completed</td>
</tr>
<tr>
<td>Promoting Sustainable Energy Production and Use from Biomass in Pakistan</td>
<td>1,820,000</td>
<td>25-04-2012</td>
<td>21-09-2020</td>
<td>Completed</td>
</tr>
<tr>
<td>Pakistan Sustainable Transport Project</td>
<td>4,800,000</td>
<td>17-08-2010</td>
<td>17-08-2018</td>
<td>Completed</td>
</tr>
<tr>
<td>Productive Uses of Renewable Energy in Chitral District, Pakistan (PURE-Chitral)</td>
<td>950,000</td>
<td>12-05-2008</td>
<td>09-10-2014</td>
<td>Completed</td>
</tr>
<tr>
<td>Promotion of Energy Efficient Cooking, Heating and Housing Technologies (PEECH)</td>
<td>975,000</td>
<td>14-10-2007</td>
<td>09-10-2014</td>
<td>Completed</td>
</tr>
<tr>
<td>Expedited Financing for Interim Measures for Capacity Building in Priority Areas (Phase II)</td>
<td>100,000</td>
<td>10-12-2003</td>
<td>08-09-2010</td>
<td>Completed</td>
</tr>
<tr>
<td>Sustainable Development of Utility-Scale Wind Power Production (Phase 1)</td>
<td>3,100,000</td>
<td>20-03-2005</td>
<td>28-10-2015</td>
<td>Completed</td>
</tr>
<tr>
<td>Enabling Activities for the Preparation of Initial National Communications Related to the UNFCCC</td>
<td>274,300</td>
<td>01-12-1998</td>
<td>31-05-2015</td>
<td>Completed</td>
</tr>
<tr>
<td>Fuel Efficiency in the Road Transport Sector</td>
<td>7,000,000</td>
<td>01-05-1992</td>
<td>12-03-2010</td>
<td>Completed</td>
</tr>
</tbody>
</table>

Source: GEF website
Pakistan’s Institutional Landscape

The role of institutions while engaging with such international climate finance platforms is to identify, access, and utilize the available funding sources and mechanisms to support the country’s climate action plans and priorities. Some of the key institutions that are involved in this process are:

- The Ministry of Climate Change (MoCC), which is the focal point for the United Nations Framework Convention on Climate Change (UNFCCC) and the Green Climate Fund (GCF) in Pakistan. The MoCC is responsible for developing and implementing national policies, strategies, and programmes related to climate change mitigation and adaptation (Nabi 2022).
- The Ministry of Finance (MoF) serves as the hub for GEF in Pakistan. It has been given the responsibility to mobilize and manage all the resources, both external and domestic, for climate action. It is also responsible for undertaking coordination with the ministries concerned and stakeholders on the issues related to climate finance (Mako et al. 2022).
- The Planning Commission (PC) deals with the Adaptation Fund (AF). It oversees incorporating climate change issues into national development planning and budgeting procedures as well as overseeing project implementation and monitoring (NDC 2021).
- The National Disaster Management Authority (NDMA) plays an important role in Pakistan’s National Adaptation Plan (NAP) process. It bears the responsibility of coordinating and expediting creation and execution of the NAP, alongside strengthening the nation’s capabilities to effectively manage climate-induced disasters.
- The above-mentioned institutions in Pakistan played a crucial role in effective engagement with international climate finance platforms. To ensure that Pakistan’s climate action is effective, efficient, and equitable, these institutions collaborate with other ministries and departments concerned, CSOs, private sector entities, and local communities.

Pakistan’s Policy Landscape on Climate Action

To cope with the challenges of climate change, Pakistan has formulated and put into effect a range of policies, strategies, plans, and legal frameworks.

![Figure 1: Chronology of policy steps for climate finance in Pakistan](image)
National Climate Change Policy (NCCP) 2012 provides a comprehensive framework to address the potential causes and consequences of climate change in Pakistan. It covers various sectors and themes, such as water resources, agriculture, forestry, biodiversity, disaster preparedness, and socio-economic measures. The NCCP also highlights the need for substantial funding, which is required to deal with the climate change related challenges and to expedite the effective use of opportunities, particularly financial, available both nationally and internationally to tackle these challenges.

Framework for Implementation of National Climate Change Policy NCCP 2014-2030 outlines the priority actions, indicators, timelines, and responsibilities for implementing the NCCP. It also identifies the potential sources and mechanisms of financing for climate action.

National Disaster Risk Management Fund (NDRMF) 2016 is created as a financial institution separate from banks as an independent organization. Its purpose is to give money by matching grants up to 70% for various actions done by United Nations Agencies, International or National Non-Governmental Organizations, and Public Sector Entities. The main task of the Fund is to decide who gets the money, oversee investments, and provide direction. The goal is to use investments to reduce risks and threats from climate change and natural disasters.

National Climate Change Act 2017 established the Pakistan Climate Change Council and the Pakistan Climate Change Authority as the apex and executive bodies for overseeing and coordinating climate action in Pakistan. It also empowers the federal and provincial governments to take necessary measures to mitigate and adapt to climate change.

Climate Change Financing Framework 2017 represents a fusion of strategies and actions that enable a methodical approach to addressing climate change. The framework achieves this by bridging gaps between climate actions committed in the policy framework and the available budgetary allocations, ensuring transparent allocation and efficient utilization of public funds. This framework outlines a tactical approach to integrating climate change considerations, identifying points of entry through a comprehensive analysis of the prevailing legal, institutional, and procedural landscape. Furthermore, it aids in establishing a robust monitoring mechanism, enabling reporting of quantity and impact of climate change-related expenditures.

Nationally Determined Contribution (NDC) 2021 reflects Pakistan’s revised undertaking to the Paris Agreement concerning climate change. It provides an overview of Pakistan’s perspective, circumstances, policies, measures, and objectives aimed at curbing GHG emissions and strengthening climate resilience by 2030. Additionally, it elaborates on Pakistan’s financial requisites for emissions reduction and addressing the impact of climate change.
Resilient Recovery, Rehabilitation, and Reconstruction Framework 2022 (4RF) is a strategic document that delineates Pakistan’s approach to addressing the consequences of the 2022 floods (Government of Pakistan 2022). Its objective is to facilitate a robust recovery process and mitigate the impact on developmental achievements. The framework establishes focal programme priorities, policy structure, institutional setup, funding tactics, and execution strategies for various sectors affected by the floods. It endeavours to garner global assistance and establish enduring collaborations to enhance Pakistan’s climate resilience and adaptation efforts.

National Adaptation Plan (NAP) 2023 is a comprehensive and systematic national plan that identifies the priority adaptation themes, actions, and indicators for enhancing climate change resilience. The NAP process is supported by the United Nations Environment Programme (UNEP) and the Green Climate Fund (GCF). The NAP greatly emphasizes the promotion of the active involvement of the private sector, civil society, and local communities in the opportunities related to climate finance. By encouraging their participation and engagement, it aims to foster partnerships and collaboration that can lead to innovative solutions and equitable distribution of climate finance benefits. This inclusive approach recognizes the different knowledge and finances that these stakeholders may bring to the table, resulting in a more robust and long-term framework for dealing with climate concerns.

SDG Investor Map 2023 functions as a dynamic tool for impact assessment, uncovering a variety of investment possibilities tailored to Pakistan’s market. The portfolio consists of a private placement and an asset-backed climate bond totaling $1.5 billion with a suggested financial sector alliance for climate financing amounting to $500 million, (PakUN 2023).

Community Voices

Community perspectives from Punjab, Sindh and Balochistan provinces were invited for an informed analysis. The objective behind incorporating community voices in this study is to assess and understand what specific needs and vulnerabilities have been identified over the years by locals and what do they recommend to the government in this regard. They, at local levels, need to adapt to climate change impacts.

In terms of recurring disasters, large-scale floods and torrential rains played havoc and impeded the resilience of flood-affected communities. The respondents/members hailing from the local communities in the provinces opined that though some sort of early warning messages were coming up to them, however, a proper mechanism to relocate them to the established rescue camps was nonexistent. They termed the role of duty bearers improper, which they said created miseries for women, children, and people living with disabilities during the disasters.

While narrating economic impact of floods, the respondents were of the view that major losses were experienced in terms of loss and damage to crops, livestock, income, and houses. Moreover, markets
were crashed, and millions of people were displaced. These impacts incurred substantial costs to the already less endowed. Rehabilitation and resettlement usually mean that they are left to look after themselves. Locals have emphasized the need for a better infrastructure, robust economic compensation, or credit for them to bounce back coupled with livestock and agricultural support to be able to go back to pre-disaster economic situation. Most of the farmers engaged in agriculture do so on credit and are only able to return the amount after harvesting and profits. In case of floods, their ready crops and land are decimated thereby trapping the farmers in a vicious debt cycle. The respondents from the communities suggested starting work immediately around disaster risk reduction measures of vulnerable communities and setting up a process of financial and physical rehabilitation.

The community members stressed the need for a better understanding of the vulnerabilities of each Union Council, rather than one size fitting all policies. They also acknowledged the lack of governments’ fiscal space to provide a comprehensive rehabilitation process. Globally, any initiative or rehabilitation process requires dedicated government attention coupled with a substantial amount of funding to adapt to the impact of climatic hazards. In Pakistan’s case as the climate induced disasters will continue to wreak havoc more regularly, there is a need to rigorously assess avenues to finance its climate change related actions and plans to make the communities and the country resilient.

Pakistan’s Challenges and Hindrances in Accessing Climate Finance

Pakistan’s needs and urgency for climate finance has heightened as it has borne the brunt of multiple recurring climate induced disasters; recent among them is the devastating floods of 2022. Estimates regarding coming years suggest that such incidences will occur with higher intensity and frequency. The above-mentioned policies acknowledge the extent of Pakistan’s vulnerability in relation to climate finance and highlight the need for external financing required to make a transition towards a climate resilient future. Amid vulnerability to climate induced disasters, Pakistan faces several capacity gaps and challenges in accessing and claiming climate finance from various sources and mechanisms.

Some of the major hindrances in accessing climate finance from national and international forums include:

- Lack of a comprehensive and coherent national climate finance strategy and policy framework that aligns with the country’s development goals and climate action plans.
- Limited institutional coordination and collaboration among ministries, departments, and agencies concerned, and stakeholders on climate finance issues and processes.
- Insufficient technical and human resources and skills to identify, design, implement, monitor, and evaluate climate-related projects and programmes.
- Inadequate data and information systems to track, report, and verify climate finance flows.
- Low awareness and engagement of the private sector, civil society, and local communities in climate finance opportunities and benefits.
For this study, government officials from the ministries concerned were interviewed. The officials mentioned called for streamlining coordination among various stakeholders from provinces and federal capital. They say a big challenge in accessing global climate finance is that the available international financial resources are not enough to meet the requirements of all those who need this finance the most; therefore, an intense competition makes it a difficult task for the needy countries. To compete globally, the government officials suggested that Pakistan needs to enhance its technical capacity to pitch strong proposals along with clearly laid-out financial plans, and spending priorities aligning them with donors’ financing strategies and priority areas. They suggested building strong partnership with development banks and international organizations to secure financing opportunities against technically sound documents and scientifically proven propositions.

The key informant government officials also stressed the need to sensitize stakeholders regarding available international climate funding opportunities and their application procedures. Such a lack of awareness about funding opportunities and donors’ strategic priorities and lack of understanding around criteria and technical know-how on the themes hinder informed decision-making that may lead to sustainable and green investment in the long run. Moreover, the officials emphasized and exhorted the need to develop a robust and effective governance in climate change space regardless of political affiliations. It was recommended that the subject of climate change remains beyond the political realm. That will result in heightened donors’ interest in Pakistan. Similarly, the issue of transparency was raised. Government officials acknowledge the need to develop strong and comprehensive monitoring and evaluation frameworks and plans that make the process of funds utilization more transparent. It is imperative to establish donors’ confidence in Pakistan.

These capacity gaps and challenges impede Pakistan’s ability to effectively mobilize and optimize domestic and international resources for climate action. Therefore, Pakistan needs to address these issues by strengthening its institutional, technical, and financial capacities, as well as enhancing its partnerships and cooperation with various actors in the climate finance landscape.

5. POLICY RECOMMENDATIONS

Following are some of the policy recommendations.

Stakeholders from private and public sectors need to be informed of the existing climate finance mechanisms, instruments, sources, and criteria, and trained to pitch strong proposals that meet the donors’ requirements for an increased access to climate finance.

- Existing policies of various institutions should be aligned and synergies among them should be built to develop a comprehensive and coherent national climate finance strategy that helps fund local level climate actions in line with national and global development goals and climate action plans.
• Technical and human resource capacity issues require serious consideration. The quality and authenticity backed by accurate data in proposals will be a key to success if Pakistan aspires to access climate finance avenues.
• Transparency in utilization of funds is a major priority area for international climate finance institutions. Pakistan must develop a framework that entails actions to incorporate strong monitoring and evaluation of climate funds that have been utilized or will be in the future. A system clearly delineating the impact of previous programmes will also help establish a reputation among donors.
• Domestic private sector funding for climate finance requires almost the similar funding criteria that global entities apply, if not more. Pakistan must improve legal and institutional framework for public private partnerships to attract private domestic or foreign investment.
• Green bonds have shown great potential through WAPDA's raising of $500 million. Guidelines for green bonds require improvement to minimize burden on the investors while assuring that green bond sale proceeds contribute to climate mitigation or adaptation.
• Community perspectives must be invited from vulnerable and often climate-hit communities to share experience and contribute to development of plans and strategies, which address risk reduction through climate finance funds.

7. CONCLUSION

Recurring floods, torrential rains, gradually reducing agriculture yield, and increased warming take a significant toll of Pakistan’s national exchequer. Being a developing country, which is regularly haunted by episodes of climate induced disasters, Pakistan’s coffers do not provide space to singularly execute climate adaptation and mitigation efforts and actions. Pakistan’s needs are more than it can finance on its own. An annual $7-14 billion for adaptation is a significant amount for a country such as Pakistan as global climate finance flows are relatively minute to the overall needs of developing countries. This is where Pakistan needs to really focus on how to meaningfully access a relatively inadequate pool of resources among may other claimants.

Despite the development of several key policies, plans and frameworks Pakistan lacks a comprehensive and coherent national climate finance strategy and policy framework that aligns with the country’s development goals and climate action plans. Upon investigation the study finds that there is a need to streamline and enhance institutional coordination and collaboration among relevant ministries, departments, agencies, and stakeholders on climate finance issues and processes. With regards to a seemingly deficient technical and human resources and skills to identify, design, implement, monitor, and evaluate climate-related projects and programs, there is a need for capacity development among all stakeholders from public and private sectors. Moreover, the prevalence of inadequate data and information systems to track, report, and verify climate finance flows and results remain a hindrance which requires robust and strong frameworks for appropriate reporting and monitoring of climate finances in a transparent manner.
Moreover, the study stresses the need for creating awareness among the private sector, civil society, and local communities regarding climate finance opportunities and benefits. There is a lack of understanding around stringent requirements and criteria of pitching funding proposals at various international climate finance forums.

Furthermore, Pakistan must showcase a culture of financial transparency in utilizations of climate finance and their impacts. Such steps will allow Pakistan to become a hub of climate investment through attracting foreign direct investment in green projects, provided we ensured fair business practices and facilitation for the investors. The SDG Investor Map identifies investment opportunities against each SDG including SDG-13 climate action.

Lastly, the role of domestic private financial institutions cannot be ignored. The legal and institutional framework for public private partnerships needs to be improved and diversified so that it increases trust in green projects, bonds, and carbon taxation and provides market competitive returns on investment. Interactions and engagement of community and wider stakeholders during planning and development phase of policies must be prioritized.
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