SUMMARY of the Article "Climate-smart finance bill," by Ali Tauqeer Sheikh, Dawn, June 20th, 2024

The article criticizes Pakistan's proposed finance bill for the next fiscal year for its lack of commitment to climate resilience, despite the country being highly vulnerable to climate change. The bill does not set a direction for sustainable economic development or climate-resilient investments and overlooks the need for institutional and policy reforms to address economic damages from climate-induced disasters. The government has instead chosen a simplistic approach to generate revenue by cutting subsidies, with little focus on economic development or climate resilience. Key government entities, such as the Planning Commission and the Finance Ministry, have failed to integrate climate considerations into their budgeting and reporting processes, resulting in a lack of climate-smart budgeting. Comparisons are drawn with Bangladesh, which has made significant strides in climate-proofing its budget and establishing climate funds and frameworks to support climate resilience. Pakistan is urged to adopt similar measures, including tracking climate-related expenditures, aligning budgetary processes with national climate policies, and exploring innovative green finance mechanisms like green bonds and debt-for-climate swaps. The article emphasizes the need for Pakistan to integrate climate considerations into its overall budget planning to ensure sustainable development and to address the dual challenges of debt and climate vulnerability. The absence of such measures in the proposed budget is seen as a missed opportunity to set a clear direction for a climate-resilient future.

Easy/Short SUMMARY:

The article criticizes Pakistan's new budget for not focusing on climate change, even though the country is very vulnerable to it. The budget doesn't plan for sustainable development or climate-friendly investments. Instead, the government is cutting subsidies to generate revenue. Key government departments haven't included climate concerns in their budgeting, unlike Bangladesh, which has made good progress in this area. The article suggests Pakistan should track climate-related spending, align budgets with national climate policies, and explore green finance options like green bonds and debt-for-climate swaps to ensure a climate-resilient future.

SOLUTIONS of The Problem:

Integration of Climate Considerations in Budgeting

Incorporate climate resilience into the budgeting process by assessing the potential impacts of climate change on different sectors and regions, and allocate resources accordingly.

Establishment of Climate Funds

Create national and subnational climate funds, similar to Bangladesh's Climate Change Trust Fund, to support climate-resilient infrastructure and recovery projects.

Tracking and Reporting Climate Expenditures

Implement a system to track and report all climate-related expenditures within the budget, ensuring transparency and accountability in climate finance.

Alignment with National Policies

Align budgetary allocations with national climate policies and targets, such as the Nationally Determined Contributions, to ensure a coordinated approach to climate resilience.

Promotion of Green Finance Mechanisms

Develop and promote innovative green finance mechanisms, such as green bonds, green loans, and green guarantees, to mobilize funds for climate-smart projects.

Debt-for-Climate Swaps

Explore debt-for-climate swaps to convert debt into funds dedicated to environmental conservation and climate change mitigation, addressing both debt distress and climate concerns.

Public-Private Partnerships

Encourage public-private partnerships to finance and implement climate change projects, leveraging private sector resources and expertise.

Capacity Building and Training

Invest in capacity building and training for government officials and stakeholders to enhance understanding and implementation of climate-smart budgeting and finance.

Learning from International Examples

Study and adapt successful international examples of climate finance frameworks and mechanisms to the Pakistani context, ensuring local relevance and effectiveness.

Strengthening Institutional Coordination

Improve coordination between planning, finance, and other relevant government departments to ensure a cohesive approach to implementing climate fiscal policies and programs.

IMPORTANT Facts and Figures Given in the Article:

- Pakistan is one of the world's most climate-vulnerable countries.
- The finance bill lacks a vision for climate-resilient investments.
- Key government entities have not integrated climate considerations into their processes.
- Bangladesh established the Climate Change Trust Fund in 2010 with $350 million.
- Bangladesh implemented the Climate Fiscal Framework in 2014, revised in 2022.
- The Climate Fiscal Framework includes a budget-tagging system to track climate-related expenditures.
- Pakistan's finance bill does not commit to innovative green finance mechanisms or debt-for-climate swaps.

MCQs from the Article:

1. What is a major criticism of Pakistan's proposed finance bill for the next fiscal year?

A. It focuses too much on climate resilience.
B. It allocates excessive resources to sustainable development.
C. It lacks commitment to climate resilience and sustainable development.
D. It increases subsidies for economic development.

2. Which country is highlighted as a model for climate-proofing its budget?

A. India
B. Bangladesh
C. Sri Lanka
D. Nepal

3. What mechanism did Bangladesh implement in 2014 to track climate-related expenditures?

A. Climate Change Trust Fund
B. Climate Fiscal Framework
C. Green Bonds Initiative
D. Debt-for-Nature Swaps

4. What innovative green finance mechanism is suggested for Pakistan to explore?

A. Carbon Credits
B. Green Bonds
C. Renewable Energy Subsidies
D. Traditional Debt Relief

5. What is a proposed solution to address both debt distress and climate change?

A. Reducing public sector investments
B. Debt-for-climate swaps
C. Increasing tax rates
D. Cutting subsidies

VOCABULARY:

1. **Climate Resilience** (noun) (□□□ □□ □□□ □ □□): The ability to anticipate, prepare for, and respond to hazardous events, trends, or disturbances

related to climate.

2. **Mitigation** (noun) (□□□): The action of reducing the severity or seriousness of something.
3. **Adaptation** (noun) (□□□□□□): The process of adjusting to new conditions, particularly in the context of climate change.
4. **Institutional** (adjective) (□□□□□□): Related to an organization or institution.
5. **Policy Reforms** (noun) (□□□□□□□ □□□□□□): Changes made to improve policies.
6. **Sustainable Development** (noun) (□□□□ □□□□□□□): Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
7. **Simplistic** (adjective) (□□□□): Treating complex issues as if they are much simpler than they really are.
8. **Revenue** (noun) (□□□□□): Income, especially when of a company or organization and of a substantial nature.
9. **Subsidies** (noun) (□□□□□□): Financial support extended to an economic sector.
10. **Economic Development** (noun) (□□□□ □□□□□□□): The progress in an economy, or the qualitative measure of this.
11. **Tracking** (verb) (□□□□): Monitoring the progress or movements of something.
12. **Expenditures** (noun) (□□□□□□□): The action of spending funds.
13. **Disclosure** (noun) (□□□□□□): The action of making new or secret information known.
14. **Tax Expenditures** (noun) (□□□□□□□ □□ □□□□): Government spending through tax code provisions.
15. **Lacunae** (noun) (□□□ □□□□): Gaps or missing parts.
16. **Mainstream** (verb) (□□□ □□□□□ □□□□□): Bring into the mainstream.
17. **Vulnerabilities** (noun) (□□□□□□□□): Weaknesses or susceptibilities to damage.
18. **Framework** (noun) (□□□ □□□□): A basic structure underlying a system, concept, or text.
19. **Mobilisation** (noun) (□□□□□): The action of making something movable or capable of movement.
20. **Green Finance** (noun) (□□□□□□ □□□): Financial investments that provide environmental benefits.

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Climate-smart finance bill

Ali Tauqeer Sheikh

THE finance bill or proposed budget 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 for a simplistic formula for generating tax and non-tax revenues, particularly by cutting subsidies. 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, 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

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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, 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.

The writer is an Islamabad-based climate change and sustainable development expert.

Published in Dawn, June 20th, 2024