CLIMATE FINANCE: PROSPECTS AND PERILS

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Economists now believe that non execution of the climate change agenda would have catastrophic consequences for the global economy. Climate change is in fact a major opportunity for promoting sustainable economic growth. There are no trade-offs involved between economic growth and climate risk mitigation and adaptation and firms can reduce emissions without sacrificing profits. A recent study has shown that 33 countries containing 1.1 billion people have reduced Carbon emissions and had positive growth rates. The question is as to how this positive link can be exploited by the developing countries which are not major emitters but are vulnerable to climate risks and that includes Pakistan.

Public awareness about climate risks has grown over the last several years as new evidence and scientific reports are disseminated at regular intervals. So the resistance by those are still in denial has become less intense. I am not sure as to what would happen if Trump wins the US Presidency.

My first submission is that the agenda of managing climate change and environmental disasters for developing countries should be

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scrutinized in the larger context of the present and future challenges facing them—Poverty, Inequality, Geopolitical tensions, rapid technological advances, Demographics. The aim of mobilizing finances should not therefore be at the expense of reallocation of funds for Development and poverty alleviation. Repackaging the existing finances and labelling them as Climate Finance should not simply be acceptable. Reduction in GHG emissions, adaptation, prevention of environmental hazards , air pollution and other risks and dislocations should be comanaged with the goals of raising living standards of the poor, marginalized, vulnerable, deprived segments of the society, minimizing Gender, income and regional disparities, increasing opportunities for educational and labour mobility, optimizing water-food-energy nexus by increasing farm productivity , conserving water and shifting towards renewable energy. If this comanaged strategy is not pursued we can have cascading impacts that may dampen growth and thus accentuate economic fragility , population displacement and migration, and stalling human capital formation. . Response to Climate change requires a serious attention to the needs of the poor who have less protection against economic upheaval than the rich do. Thus the cost of adaptation would be easier for the affluent and safeguards be built in that these are not passed on to those unable to bear it. Carbon Tax is one of the instruments where the incidence falls upon the relatively well to do classes. Climate Finance should therefore be used wisely and judiciously to achieve this balance between adaptation, mitigation, resilience and sustained growth rates that generate productive employment for the youth, alleviate poverty and invest in human capital formation. .

For my second submission allow me to be candid and provocative. There are people in Pakistan who believe that throwing money after a problem leads to solution. Our 77 year history tells us that this is a flawed belief. We spend trillions of rupees every year on our development projects but have only seen retardation, regression and retrogression not progress. I would humbly argue that those of you who think that Climate risks would be taken care of if we are able to mobilize additional resources -domestic or international public or private are sadly mistaken. Climate Finance can only work if our governance structure, underlying institutions, regulatory framework , capacity for policy formulation and execution are all in place. More than that there is a broad political ownership that provides continuity and consistency as climate risks are not coterminous with electoral cycles.

We have had 11 national policies related to climate change between 2010-2021. But their implementation record is dismal as there is no accountability for holding individuals or organizations responsible for non performance. The Most glaring example is that of National Water Policy 2018 which was endorsed by all the provinces after difficult negotiations. The National Water council hasn't met even once and the disputes between the provinces are lingering on. The Climate Change Act 2017 had envisaged the formation of a Climate Change Authority . It has seven years to notify the Authority and I understand the selection process of key personnel is under way. I can go on with such a disconnect between rhetoric and reality.

We have a plethora of institutions dealing with climate and disaster management. At last count we had 13 departments of the Provincial Government in Punjab each of them working on its own pace and direction without collaborating with each other and acting on synergies and interlinkages.

What does this imply in practical terms? We talk about " the whole of Government" and " the whole society " approach. The reality is much different . There is too much fragmentation. The present silo like structure with great preoccupation with turf preservation and battle between the Federal sectoral ministries , unending tussles between the Federal and the provincial governments on delineation of boundaries and jurisdiction, the neglect of the private sector from active participation in agenda setting , lack of capacity in formulating and executing policies, programs and projects and keeping the civil society at bay would just keep us in the Business as usual mode even if large chunk of Climate Finance is poured in. Having worked on reorganizing the Federal Government , I am afraid the Ministry of Climate Change does not have that much clout to lead multi sectoral coordination. Under Business as usual mode , Climate Finance would become an additional unbearable burden on top of all the debt we have so far incurred. This is the number one priority on which we have to work whatever our NDC commitments say.

A vivid example of our capacity to prepare and execute the projects and of coordination failures is our inability to get disbursements out of $ 10 billion pledged after the floods at Geneva donor conference. We may embark upon vigorous campaigns and obtain commitments from international donors but if we are unable to utilize them for the purposes we had specified the donors would become cautious in their future commitments.

Each Ministry/ Department/Agency should have in house experts who are familiar with the modalities and processes of access to

Climate Finance facilities, and are able to meet the compliance requirements of the donors/ financial institutions.

Another example where policy lapses, poor governance and institutional failures have combined to create a horrendous situation is that of the Energy sector. Large amounts of budgetary subsidies, high tariffs that make industrial sector uncompetitive, Price hikes that the residential consumers cannot afford , harassment of the investors have made no dent. Here is a sector where there is convergence between climate resilience and consumer welfare if the governance and institutions are set right. At last count there were more than 20 institutions involved in this sector.

Third, we have to carefully choose our priority interventions and investments. The biggest risk is to the water-food-energy nexus because the lifeline of Pakistan's sustenance is the Indus River which is dependent for more than 65pc of its flows on snow and glacier melting. Floods, droughts and changes in rainfall pattern may affect water availability in the irrigation system which feeds 18m hectares (44m acres) of agricultural land. The Jhelum and Chenab derive 50pc of their flows from glacier melting. "Surface water entitlements are tied to land size–disfavoring smallholder farmers–, and water is supplied during pre-determined time slots. As a result of chronic water shortages and endemic water theft upstream, the system penalizes farmers at the tail (downstream) end of canals." Further, the structure of the irrigation charges (abiana) provides no incentive for conserving water. Most of climate financing should therefore focus on Research and Development in in Climate Smart agriculture to produce drought, heat, pest resistant seed varieties, substituting water intensive crops , building Integrated Water Resource Management containing losses in the irrigation canals, Agro forestry , regeneration of forests, raising the share of renewable energy sources in place of fossil fuels and increasing Productivity of Livestock(which accounts for 55 percent of agriculture value added) . Meat, Poultry and Dairy Demand would rise as incomes rise and these sectors need more water than cereals. Therefore the only feasible way is to increase productivity of Livestock by efficient usage of water, availability of fodder and feed of quality and requisite quantity, protection from disease epidemics, and affordable costs of feed, water, energy and cooling systems. . Resilient transport and buildings would also fit in the scope for Climate funding .

After a long hiatus, an ambitious programme of constructing 10 reservoirs for water storage has been undertaken for water to be released in the winter months and also generating clean hydroelectricity. Small dams and reservoirs, rain water harvesting , solarization of tubewells, recharging the underground water reservoirs would also help in raising productivity and adapting to climate change. Reform in water pricing would help the small farmers and relieve stress on the budget. Public finances are not strong enough to provide funds for early completion of these projects. Climate Finance from multilateral , bilateral and private funds should be mobilized for the completion of these ongoing projects . Wapda has launched a $500m green bond. Pakistan has not yet accessed or tapped other sources of private sector financing either from domestic or global investors for Green bonds or sukuks for which there is a growing demand. . Each dam project can be transformed into a corporate entity in the public-private partnership mode and debt and equity financing can be obtained from domestic and international private markets keen to show their commitment to green finance.

Fourth, the World Bank has commented that the agri-food sector provides perhaps the strongest opportunity for a development-resilience, mitigation triple win. Successful implementation would require a multisectoral , intergovernmental, multi stakeholder approach keeping in mind that smallholder farmers and livestock herders earn higher and more sustainable incomes, and poor urban consumers have better access to affordable and nutritious food. How can this be approach be operationalized is something all of us have to work on diligently. Effective devolution of responsibilities or budgets to local or municipal governments has not yet taken place and has become a significant constraint on the management and development of cities and rural villages without either the resources or the governance necessary for critical investments in municipal services or climate resilience. The urgency of the matter dictates that the sooner we do it , the better off we would be in meeting our NDC commitments.

Finally, we should be more discerning in accepting all modes of financing. The country does not have any more room to take on loan financing as our debt ratios are already high. The pay off from climate financing are most likely to accrue in the long term but the repayments including interest have to be made in short term before the benefits start accruing. This asymmetry between the stream of benefits and costs calls for caution and unvarnished pursuit and contracting loans in the name of Climate should therefore be avoided for the sake of macroeconomic stability. Investment in human capital, gender mainstreaming, drinking water, sewerage and solid waste disposal , social safety nets for those living in remote and difficult terrains are essential but they are long term interventions. Further, we should not always be comparing ourselves with other countries in accessing Global Climate Finance facilities because their absorptive capacity, threshold for risk bearing, the current and future state of indebtedness , endowments and social capital are quite different than our own. Just to catch up with Joneses is not a right approach in my view. Climate finance can be profitably utilized for Region wide , Basin wide, Glaciers wide projects Early warning and Monitoring systems that can minimize the likelihood of disasters such as flooding, drought, Glacier melting, Air Pollution etc.

To illustrate the above points our strategy for Mobilizing Climate Financing should consist mainly of requests from allocations from Loss and Damage Funds, Grants from GEF, GCF, soft term long maturity loans from bilateral and multilateral institutions such as the IMF's Resilience and Sustainability Finance Facility , risk insurance and guarantees, private=public partnerships, private equity funds, Venture capital funds for start ups. Asset managers overseeing $ 9 trillion have announced an agreement to align their portfolios with net zero emissions by 2050. By 2025, Bloomberg projects ESG assets to rise to $50bn out of $140tr global assets under management. Clean energy was the top performing US equity sector with a total cumulative return of 185pc. The energy sector lost 33pc the same year.

In this regard I was happy to read the news about $ 50 million grant by GCF to NRSP and Climaventures, a pioneering initiative " that develops homegrown climate solutions by leveraging Pakistan's growing start-up ecosystem. The project aims to demonstrate that local climate needs can be met affordably, with strong demand for climate products and services, while offering investors financial returns on climate impact.''