

# CLIMATE BUDGET AS A GOVERNANCE SYSTEM

## A review of Pakistan’s integration of climate considerations into the budget process for ensuring resilience through economic diversification

The unabated pace of climate change continues to set new records as the planet observes extraordinary surface temperatures culminating in extreme events across the world in various forms and shapes.

The World Meteorological Organization (WMO) *State of the Global Climate 2024* report records the highest levels of atmospheric CO<sub>2</sub> concentrations in 2023 compared with the last 800,000 years. As of now, 2024 has been marked as the warmest year in a 175-year observational record. In fact, each of the last ten years, i.e. 2015-2024, was the warmest year on the observational record, given that the temperature was 1.5°C±0.13°C above the pre-industrial level. As per the WMO *Global Annual to Decadal Climate Update 2025-2029*, there is an 80% likelihood that in the next five years this record will again be broken at least one time. Climate emergency necessitates a corresponding response on a war footing from all stakeholders irrespective of national, regional, continental or institutional boundaries.

### Pakistan’s climate change profile

During 2024, Pakistan recorded temperatures that were 0.71°C higher than normal as the average increased to 23.52°C. Almost 31% more rainfall than usual corresponding to 390.0mm was measured last year. Climate change manifests itself in the South Asian country in the form of extreme heat, flooding, significant changes in precipitation, melting glaciers in the Himalayan mountains, and growing intensity of vector-borne diseases such as dengue as it stands among the countries most vulnerable to climate change.

The ensuing climatic changes further exacerbate economic challenges which

hamper sustainable socio-economic development in an emerging economy. Ironically, the greenhouse gas (GHG) emissions profile of Pakistan stands among the lowest as it contributes not more than 0.9% to the global emissions.

Pakistan has devised various legislative and policy measures at the national as well as international level to curb the effects of climate change. The *Pakistan Climate Change Act 2017* is the key legislative instrument meant to steer the country’s national policies and plans as well as meeting international commitments with regards to climate change.

The National Climate Change Policy formulated in 2012 and revised in 2021 serves as the prime document to lead the country’s efforts in combating climate change. Climate change retains major position among the priorities Pakistan identifies for its socio-economic policy planning, such as the 13<sup>th</sup> five-year plan (2024-2029), termed as URAAN Pakistan.

Pakistan submitted its first NDC (Nationally Determined Contributions) in 2016, and the updated version was

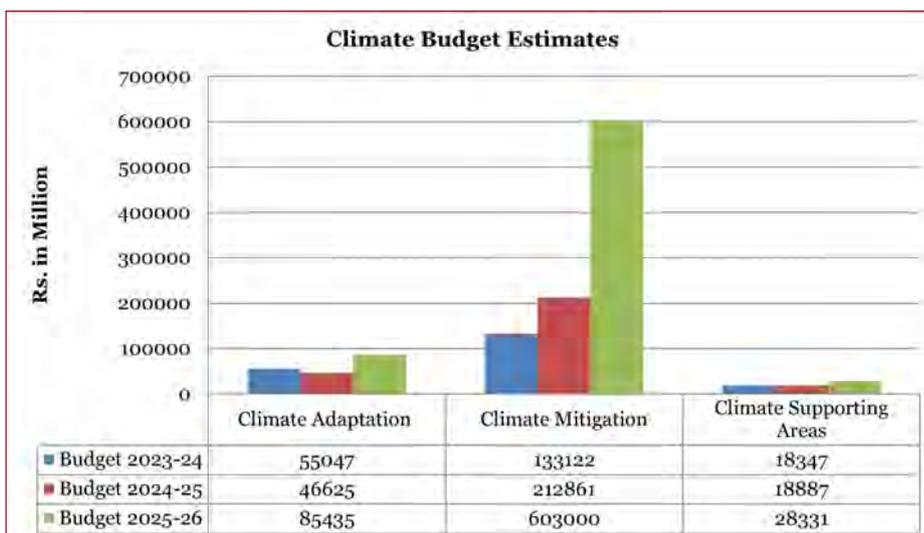
submitted to the UNFCCC Secretariat in 2021 in which a target of a 50% reduction overall in projected emissions was set, conditional upon the provision of 35% international grant finance and 15% from indigenous resources. Pakistan identified its adaptation ambitions in the National Adaptation Plan unveiled in 2023. More recently, the *Biennial Transparency Report* (BTR) was submitted in 2024 under the *Enhanced Transparency Framework* (ETF) of the Paris Agreement.

### Parliament and the budget in Pakistan

The budget process, which is one of the major pillars of parliamentary functions, in Pakistan begins with the publication of the Budget Call Circular around October to December. A fiscal year in Pakistan begins on 1 July and concludes on 30 June. The role of Parliament in the budget process begins in the months of January and February when each Parliamentary Standing Committee receives proposals for Public Sector



Ms Fakiha Mahmood is the Deputy Director (Research) at the Pakistan Institute for Parliamentary Services (PIPS). She has been a member of PIPS Research Wing for more than a decade and has written numerous reports and articles.



Development Programs (PSDP) for detailed discussion and deliberation. A Budget Strategy Paper prepared by the Finance Division, containing the broader contours of the upcoming budget, is shared with the National Assembly and Senate during the last quarter of the fiscal year. The budget is presented in the House during the budget session held late May or early June. The session concludes after hectic discussions over 14 to 17 days with the passing of the Money Bill. After the successful passage of the budget, the Parliamentary Committees continue to oversee the PSDPs of their respective Ministries throughout the year as per their mandate.<sup>1</sup>

## Climate budget

Climate change has been an essential component of the federal budget in Pakistan even prior to the signing of the landmark Paris Agreement. For instance, the Pakistan Climate Public Expenditure and Institutional Review (CPEIR) published by UNDP in April 2015 highlighted that the Federal Government allocated no less than 6% of the total (development as well as current) expenditure of the federal budget in 2013-2014 for climate change. More than half of these allocations were related to mitigation. However, the procedural complexities created difficulties for its definitive assessment.

In the past two years, the government has introduced significant reforms to embed climate change in the budget process in order to make it more apparent and visible for greater efficiency in the policy making process. The Federal Government of Pakistan unveiled a Rs. 17.573 trillion budget for 2026 on 10 June 2025. The country recorded Rs. 114,692 billion GDP at the current market price for the year 2025. The Federal Government allocated 6.9% of the current budget and 8.2% of the development budget for climate change and 1% of the budget for disaster. This year, the Federal Government of Pakistan has “*adopted climate budget as a governance system to mainstream climate considerations into policy decision making.*”<sup>2</sup>



Flooding is a major consequence of climate change and the impact on flood affected areas in Kamber- Shahdadkot, Pakistan can be clearly seen.

Pakistan introduced climate budget tagging from the fiscal year 2023-2024. Initially, the public expenditure with regards to the Running of Civil Government (RoCG) as well as Public Sector Development Program (PSDP) were tagged. In this regard, more than 5,000 cost centers under three main categories (adaptation, mitigation and supporting areas) and forty sub-categories were tagged for climate sensitive data.

With the unveiling of the 2025-2026 Budget, the tagging exercise has been expanded to include expenditures on grants and subsidies as well. No less than 0.2% of grants and 50% of subsidies are climate responsive.

Beyond subsidies, the green component has also been identified for revenues in this year’s budget for greater transparency and accountability in climate related spending. For the fiscal year 2025-2026, the budget includes 35% non-tax revenue and 9.4% gross revenue as green components. Moreover, mainstreaming climate considerations into the budget planning and process is one of the major focuses of the Resilience and Sustainability Facility (RSF) of the IMF which has committed US\$1.4 billion to augment Pakistan’s efforts in addressing climate challenge.

## Way Forward

Over the past few years, Pakistan has significantly reformed its budget

process for greater efficiency in tracking climate change-related allocations. The adoption of a climate budget as a governance system for the fiscal year 2025-2026 demonstrates the political will to integrate climate considerations into the policy process for enhancing climate resilience in an increasing uncertain scenario.

However, the journey to climate resilience is not that simple and several challenges continue to hamper the path to progress. For instance, the overall budgetary allocations for climate change still seem meager, which may be justified in terms of various national compulsions. Similarly, transparency concerning the off-budget funds often remains challenging. In addition, the budgetary reforms may be carried out in a manner that off-budget funds are adequately discernible in budget documents. This is an area where Parliament can play a crucial role, especially through accelerating its oversight function.

Pakistan Institute for Parliamentary Services (PIPS) was established in December 2008 by the Parliament of Pakistan and is located in Islamabad. For more information please visit [www.pips.gov.pk](http://www.pips.gov.pk).

## References:

- <sup>1</sup> Pakistan Institute for Parliamentary Services (PIPS), ‘*Understanding Pakistan’s Public Finance: A Handbook on Budget, Resource Sharing & the Economy*’, June 2024.
- <sup>2</sup> Government of Pakistan, Finance Division, ‘*Federal Budget 2025-2026: Annual Budget Statement*’, p.44.