High-level Plenary

Integrating Climate Finance and Climate Budget Tagging (CBT) into Public Financial Management

Climate change is placing an increasing pressure on public finances in developing countries. For Pakistan, floods, heatwaves, water stress and other climate-related events are already affecting infrastructure, agriculture, livelihoods and public service delivery. The 2022 floods alone caused more than USD30 billion in damages and economic losses, while the World Bank estimates that a climate-resilient and low-carbon development pathway could require investment equivalent to around 10% of cumulative GDP till 2030. These pressures come at a time when fiscal space is already limited due to high debt, rising financing costs and competing development needs. The challenge, therefore, is not only to mobilise additional climate finance but also to ensure that available public resources are planned and spent in ways that respond to climate risks.

This issue lies at the heart of the 29th Sustainable Development Conference theme, *'Rethinking Development in an Age of Disruption.'* By placing development finance at the centre of the three Es: Economy, Environment and Equity, the conference highlights the need to strengthen domestic resource mobilisation, advance innovative financing, address mounting debt pressures, and reinforce the role of public institutions in directing finance towards sustainable development. Therefore, climate finance should not be managed separately from the wider public budgeting process. Climate priorities need to be reflected in national development plans, annual budgets, public investment decisions and expenditure management so that climate action becomes part of regular government decision-making.

Pakistan has already taken steps towards this approach. Climate-related expenditure reviews were undertaken in 2015 and 2017, covering federal and provincial expenditures. A climate change financing framework was developed in 2017 and Climate Budget Tagging (CBT) was piloted during the 2018-19 budget cycle. The CBT methodology was subsequently integrated into Pakistan's Development Planning Manual, revised in 2019. These steps provide a basis for identifying climate-related spending within government budgets. The next question is how this information can be used more effectively: Does tagging influence budget decisions? Can it help identify financing gaps? Can it improve the quality of climate expenditure? And can it strengthen the case for mobilising international climate finance?

Hence, the focus needs to shift from asking, 'How much is being spent on climate?' to examining, 'How are climate-related public resources being planned, allocated, and utilised?' This distinction is important for both accountability and effectiveness. CBT should not become simply another reporting requirement. If properly integrated into Public Financial Management (PFM), it can support decisions on where public resources should be allocated, which programmes require additional financing, how climate risks are considered in public investments and whether expenditure is reaching areas most vulnerable to climate change. It can also strengthen coordination between ministries of finance and planning, climate institutions, line ministries, provincial governments and development partners.

This session seeks to bring together policymakers, public finance and planning experts, climate institutions, development partners and practitioners to discuss how climate finance can be better integrated into PFM and how CBT can be strengthened as a tool for budgetary decision-making. The session aims to:

- Examine how climate priorities can be integrated into the full PFM cycle, from planning and budget formulation to expenditure, reporting and evaluation;
- Discuss the experience of CBT in Pakistan and identify how CBT can move beyond tracking expenditure to informing budget allocations and public investment decisions;
- Explore how climate budget information can help identify financing gaps, investment priorities and opportunities for mobilising international climate finance;
- Consider how climate-responsive budgeting can improve coordination between federal and provincial governments, finance and planning institutions, climate authorities and sectoral ministries;
- Discuss the institutional, technical and data requirements for making CBT more effective, including classification, monitoring, reporting and verification; and
- Identify practical steps for developing a more climate-responsive PFM system that connects public budgets with national climate commitments and development priorities.

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