cdpr

REMIT | Revenue Mobilisation, Investment & Trade

CLIMATE CHANGE STARTEGY FOR REMIT

Ali Habib

Contents

Climate Change Strategy for REMIT

The Foreign Commonwealth and Development Office (FCDO) commits to mainstream Climate Change as a cross cutting dimension in the Revenue Mobilisation, Investment and Trade (REMIT) program. This brief provides an initial overview of the process of developing this strategy. A country context for Climate Change is established, an assessment is made of impacts on the mitigation and adaptation aspects of Climate Change during REMIT implementation, and finally principles to follow and practical recommendations for integration into the REMIT work plan are provided, being more specific for year 1 interventions. An associated framework of monitoring implementation of these climate change provisions is provided.

1. FCDO Climate Change compliance requirements

The FCDO Programme Operating Framework[1] (PrOF) requires all FCDO projects in Pakistan to comply with Rule 5 for Climate and Environment. The key principle is to “do no harm” by assessing how climate change and biodiversity loss will be impacted by the planned project delivery. In addition, FCDO is expected to find pioneering ways to mainstream opportunities for positive impact for climate change and biodiversity. The UK has committed to spend £11.6bn on International Climate Finance over the next five years to help developing countries adapt to climate change and promote low-carbon growth. FCDO, The Department for Business, Energy and Industrial Strategy (BEIS) and The Department for Environment, Food and Rural Affairs (DEFRA) are the three UK entities responsible to disburse these funds.

The four priority themes for UK climate finance are:

1. **Nature for Climate and People:** Conserving most biodiverse ecosystems, managing land and marine resources sustainably while enabling enough food production for a growing population.
2. **Resilience:** Assisting communities cope with damaging effects of climate change, giving special attention to those living in poverty, women and girls, and other vulnerable groups.
3. **Clean Energy:** Accelerating the energy transition to affordable, reliable and clean energy and avoiding high emissions pathways.
4. **Sustainable Cities, Infrastructure and Transport:** In the context of rapid urban development, focus on low-carbon urbanisation, along with *transport*, *building* and *waste* sectors.

It is expected that all senior staff within the REMIT project are familiar with the provisions of this Rule 5 of PrOF to plan compliance. At the programme level there are four main considerations, as described below:

Table 1: FCDO’s two dos and two don’ts for climate change compliance

DOs	DON’Ts
1. Undertake climate risk assurance (CRA) 2. Use shadow carbon pricing in programme appraisals (unless exempt)	1. Invest in fossil fuels (subject to limited exemptions) 2. Develop programming that goes against a country’s climate plans.

Two of the 11 KPIs for ICF are relevant for REMIT related to any additional finance levered by the project intervention for climate change from public or private sources compared to the business-as-usual scenario:

[1] PrOF Guide FCDO. https://www.gov.uk/government/publications/fcdo-programme-operating-framework

- KPI 11 Public climate finance mobilized.[2]
- KPI 12 Private climate finance mobilized.[3]

3. Why a Climate Change Strategy for REMIT?

The FCDO PrOF recognises that *"Without urgent action, climate impacts could push an additional 100 million people into poverty by 2030"*, referring to World Bank sources, while on the positive side, it states *"There is huge potential to invest in greater, greener growth"*.

In alignment with these FCDO principles, having a Climate Change Strategy for REMIT will provide early guidance to avoid macroeconomic policies that harm the environment, and design those that may make a net positive contribution.

The most recent UN Climate Change conference chaired by the UK and held in Glasgow (COP-26) in November 2021 concluded with pledges to reduce greenhouse gas (GHG) emissions. The UN Secretary General stated[4] his disappointment that the existing pledges combined will still lead to a 2° C warming by 2050, well above the catastrophic tipping point of 1.5° C warming. UK remains the chair till the next conference, COP-27 and thus will be expected to show a proactive role in enhancing the global ambition for climate change.

4. Country context: Climate Change considerations in Pakistan

Pakistan is included amongst the ten most affected countries in the Global Climate Risk Index[5], thus adaptation to climate change is a priority for Pakistan.

The Pakistan Nationally Determined Contributions (NDC) 2021[6] is the main reference document that outlines Pakistan's plans for climate change mitigation and adaptation. National plans for GHG emissions reduction are summarised below:

Table 2: Pakistan GHG ($MtCO_2e$) emissions reduction plans

Scenario	2018	2030	2030 (Reduction from BAU)
Business As Usual-BAU (no intervention)	490	1603	0
15% Reduction with own resources	490	1363	240
50% Reduction with international technical and financial assistance	490	801	801

High priority and priority actions for mitigation and adaptation are summarised in the table below:

Table 3: High priority actions

[2] Public finance methodology 2018. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/821279/KPI-11-volume-public-finance-mobilised-climate-change-purposes.pdf

[3] Private finance methodology 2018. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/813597/KPI-12-volume-private-finace-mobilised.pdf

[4] UN Secretary concluding statement at COP-26. https://unfccc.int/news/secretary-general-s-statement-on-the-conclusion-of-the-un-climate-change-conference-cop26

[5] German Watch 2021. https://germanwatch.org/sites/default/files/Global%20Climate%20Risk%20Index%202021_1.pdf

[6] UNFCCC Pakistan NDC. https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Pakistan%20First/Pakistan%20Updated%20NDC%202021.pdf

Mitigation	2030
Renewable Energy	60% of energy production from renewables, including hydropower.
Transportation	Electric Vehicles (EV) will comprise 30% of all new vehicles sold
Coal	No new coal power plants from 2020 (propose buying out relatively new Thar coalmines)
Land-use change & Forestry	10 billion trees to be planted

Adaptation	2030
Recharge Pakistan	Reduce flood risk, build resilience for 10 million people
Protected Areas	Enhance total protected areas from 12% to 15% of land area

The NDC recommends, "Climate proofing risk assessment for new public/private sector finance projects", and thus provides a broad framework for reviewing all interventions planned under REMIT.

5. REMIT Climate and Environment Risks

The REMIT project is primarily providing technical assistance to selected government organisations, thus has inherently low risk of any negative impact upon climate change and the environment. There are, however, opportunities to create positive impact by mainstreaming various climate change aligned interventions as explained in this document.

The table below ascertains potential risks if any linked to the main interventions of the REMIT project.

REMIT Reform Interventions	2024 Achievement Target (for REMIT)	Climate Change Adaptation Impact Risk	Climate Change Mitigation Impact Risk
Revenue Mobilization	Help raise tax/GDP ration from 13% to 18% by increasing number of taxpayers	No risk	There is ***some risk*** that there is excessive reliance (44%) upon customs duty from vehicles and POL products (fossil fuels) at Rs. 205 billion for 2020-21
Investment	Help Pakistan improve their ranking in ease of doing business to within the top 50 countries to address challenges faced by local and UK business	***Some risk*** if investments are not screened for impact upon ecosystems, such as quarrying, mineral extraction and road building	***High risk*** if investments in coal, fossil fuels, and combustion engine vehicles continue to be prioritized
Trade	Help increase goods export by 35%	No risk	No risk

Table 4: Climate risk assessment for REMIT interventions

Where there is some or high risk of negative impact, the REMIT interventions will need to be fine tuned to minimise these.

6. UK Government recent policies related to Climate Change

It is important to recognise that 2021 was in some ways a watershed year for the UK as it enhanced its commitment related to Climate Change. Partly this was catalysed by the UK being Chair of the UN climate conference, COP-26 in November 2021. A number of new UK government policies and strategies were issued in 2021. Considering the REMIT project was designed well before these new initiatives, it is recommended that this REMIT Climate Change Strategy be a catalyst for REMIT leadership to adapt project work plans for enhanced Climate Change integration. More details on the revised climate change policies of the UK are shared in **Annex 1.**

7. REMIT Climate and Environment Opportunities

While the risks of negative impact for Climate Change are low, there are considerable opportunities for positive impact from the REMIT project interventions.

The UK has shown considerable leadership in the area of Climate Change and has been successful in reducing to half its national GHG emissions compared to 1990 levels, and is on track to reach the binding target of "net-zero" GHG emissions by 2050. The UK government document[7] "Build Back Better" articulates these plans in detail, and provide an excellent positive precedent for other countries to follow.

The energy and transport sectors are the two most important from both future economics, and those that generate the most GHG emissions. Greening both these sectors provide both enhanced economic opportunities for Pakistan, and the opportunity to reduce emissions by following carefully crafted policies, regulatory frameworks and tax regimes.

The table below provides examples of positive opportunities for the REMIT project to benefit Climate Change. Only a few examples are provided as indications of the type of interventions REMIT could enlist based upon a consultative session with key government departments.

Table 5: Opportunities to contribute to Climate for REMIT interventions

REMIT reform interventions	2024 achievement target	Climate Change Adaptation contribution	Climate Change Mitigation contribution
Revenue mobilisation	Help raise tax/GDP ratio from 13% to **18%** by increasing the number of tax payers	a) Calculate "shadow carbon pricing" linked to the target 5% increase in tax/GDP ratio.	a) Review climate budget tagging approach outlined in 2017 UNDP[8] assisted study. b) Study subsidy for electric transport from tax on coal, fossil fuel use
Investment	Help Pakistan improve their ranking in ease of doing business to within the **top 50** countries to address challenges faced by local and UK businesses	a) Study 10 billion tree project as a tool for international climate finance	a) Accelerate adoption of renewables, clean energy initiatives through blended climate finance b) Facilitate investment in electric vehicle industry and charging infrastructure c) Facilitate investment in rail transport for passenger and

[7] UK Govt. Build Back Better Oct 2021. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1033990/net-zero-strategy-beis.pdf

[8] CEPIR 2017 UNDP. https://www.climatefinance-developmenteffectiveness.org/sites/default/files/publication/attach/Pakistan-CPEIR-2017.pdf

			freight d) All UK companies investing in Pakistan to report their GHG emissions and set reduction targets e) Facilitate all UK companies in Pakistan to join “net-zero” by 2050 f) Encourage existing UK investments in coal to transition to cleaner fuels
Trade	Help increase goods Export by **35%**	a) Assist Pakistan meet standards for green products and services, e.g. organic cotton, fruit & nuts, rice. b) Facilitate voluntary carbon markets to fund adaptation projects in Pakistan	

8. Suggested interventions for the REMIT work plan for year-1

While the REMIT project is primarily a government capacity building intervention, strategic adaptations to its objectives and work planning provides a substantial opportunity to positively impact the climate change plans in the country.

An example of the list of potential interventions is provided in Table 5 above, and in this section a more detailed proposed work plan for year-1 implementation is elaborated upon. It is suggested that this work plan be reviewed, revised if needed and formally adopted for implementation in the first steering committee meeting of REMIT.

1. Training sessions on climate change

The climate change agenda is a rapidly changing phenomenon, especially after the recent COP-26. It is thus important for professionals within the project management teams of ASI, CDPR and FCDO to be fully informed through a series of professional training sessions.

Once the REMIT project management staff has this enhanced knowledge, similar trainings on climate change are proposed for selected government senior professionals. These could be in the departments of FBR, Tax, Customs and Trade.

2. GHG emissions inventory exercise

For key decision makers to appreciate and understand the dynamics of GHG emissions, it is proposed that modest initiatives to measure emissions within the REMIT project and for selected government agencies is undertaken. A selected office space of REMIT, and a few government facilities will be selected to calculate GHG emissions based upon the World Resources Institute standards.

3. Knowledge exchange amongst selected FCDO projects

The FCDO has a substantial project portfolio within Pakistan, with an increasing number of climate and environment initiatives. The leadership of the REMIT project will benefit from learning about such initiatives and enable creating synergies and linkages when formulating the REMIT work plans.

Box 1
A few initiatives supported by FCDO are mentioned as examples:

Karandaz Pakistan: Offers grants to develop energy efficiency, water use efficiency initiatives that are financially feasible

Sustainable Energy & Economic Development (SEED): Being implemented by Adam Smith International in the KPK province

Climate Smart Agriculture: as part of the ACT project, proposes agricultural practices to adapt to climate change

Pak Suzuki motor company: Is being provided financial support. Could be a lever to encourage transition to electric

NRSP Agri Processing Company: Assistance provided to enhance rice export. This could be linked with certification with the Sustainable Rice Platform and UK food brands such as Uncle Ben's Rice

Pakistan Microfinance Investment Company (PMIC): The UK government holds equity in this framework funding provider along with the German government. The PMIC operates a climate finance programme to support solar home system sales through microfinance borrowers. There may be an opportunity to enhance this scheme to larger renewable energy infrastructure such as solar or hydro micro-grids that have a component of community ownership and management

Nizam Energy: This company is being provided UK assistance towards a 4.62 megawatt solar installation

WWF-Pakistan: is being provided assistance for biodiversity enhancement

Net-Zero Pakistan: The FCDO facilitated the announcement by 30 Pakistani companies at the UN Glasgow conference to commit to net-zero GHG emissions by 2050. Most of these companies are textile exporters to the UK

4. Revenue Mobilization

Based upon the indications in this REMIT Climate Change Strategy, evaluate existing government policies, frameworks linking climate change considerations to revenue mobilisation. Examples are potential for carbon pricing/tax, green climate finance.

Box 2

An assessment of the "quality" of tax in relation to climate change is proposed, as it will bring to the surface anomalies such as an overdependence on fossil fuels (35%) and vehicles (15%) for collection of 50% of sales tax in Pakistan for the year 2020-21.

A Ministry of Climate Change study of 2019[9] analyses the feasibility of carbon tax and emissions trading schemes in Pakistan. A few key findings are:

- -An Emissions Trading Scheme in Pakistan has more promise than a carbon tax
- -A cap on emissions could be placed for certain sectors such as cement
- -In case a carbon tax is imposed, the revenue collection should only be spent on addressing climate changes issues

The broad principle is that any tax collected from activities harmful towards climate change such as vehicles and fossil fuels should be allocated towards addressing climate change mitigation or

[9] http://mocc.gov.pk/SiteImage/Misc/files/Study%20Pakistan%20July%202019%20FINAL.pdf

adaptation. It is suggested that some tax schemes following these principles be started. An example would be that a proportion of the Rs 205 billion import tax collected from vehicle and fossil fuel imports be allocated to the Climate Change Ministry.

5. Investment

A number of climate finance opportunities are available for Pakistan that can be assessed and selected for further facilitation. The transport and energy sector are the two most important ones for a market transformation.

For the transport sector transition to electric vehicles is a stated priority in the Pakistan NDC 2021, which has an ambition that 30% of all new vehicles being sold in 2030 should be electric. This will be a challenge considering the fossil fuel based automobile sector creates hurdles for transition to electric, and unfortunately over the past few years the trend of launching new SUV brands has gained momentum. The government also retracted on its earlier reduction in duty on electric vehicles. Electric motorcycle manufacturers are an important sector to encourage, as local Pakistani companies have launched these within the last few years, whom should be supported further with national and international technical and financial support.

Rail transport for passenger and freight needs much reform, as it creates much less GHG emissions compared to road transport. A number of government plans for improving the rail infrastructure such as the Karachi Circular Rail, Lahore Tram Line and the 6.8 billion USD ML-1 project are yet to be implemented.

Box 3

Examples of international climate finance that Pakistan can benefit from are listed below:

UK Climate Finance: Scope opportunity for Pakistan to benefit from the £11.6b UK government climate finance initiative

WWF blended climate finance: WWF has recently announced this opportunity in Pakistan through the chambers of commerce, inviting business ideas for the Euro 150 million WWF International managed fund provided by The Netherlands government.

UNIDO Private Finance Advisory Network: This UNIDO sustainability financing marketplace invites proposals from Pakistan on a regular basis

World Bank energy efficiency finance: The World Bank is supporting the National Energy Efficiency and Conservation Authority (NEECA) to develop a portfolio of energy efficiency finance projects.

The Ministry of Finance could establish a working group to conduct a scoping study of climate finance opportunities relevant for Pakistan with support for REMIT. The Ministries of Commerce, Climate Change and Industries could be core members.

6. Trade Enhancement

Export of textiles remains the most important category for Pakistan, though it has been performing below potential. The year 2021 did see an increase of over 25% in textile exports, mainly due to favourable government policies such as reduced electricity tariff for exporters.

Textiles is also the most important export from Pakistan to the UK, with the three categories below accounting for over 70% of all exports of Pakistan; Bed ware (29%), Knitwear (25%), Ready-made garments (19%).

Sports goods, surgical goods, fruits and rice are some of the other exports. Supporting certification to meet international standards, finding niche products relevant to Pakistan and enabling Pakistan's products to be featured at relevant trade fairs are examples of tools to increase exports.

Supporting the continued eligibility of Pakistan to export under the GSP+ preferential trade scheme for Europe will be important. The UK government maintains support for Pakistan under this GSP+ scheme even after Brexit.

Box 4

Pakistan needs to diversify its exports, including products produced in an environment friendly manner. Some examples of potential trade enhancement with climate benefits are:

Organic cotton: Global demand for organic cotton has increased, and the existing trend of growing organic cotton can be accelerated.

Natural coloured cotton: Natural shades of brown & green cotton have a global market and can be encouraged, as this type of cotton requires less energy, water and dyes during production.

Sustainable Rice Platform certified rice: This certification platform incentivises exporters to charge a premium price, and demand is growing globally. This certification platform is present in Pakistan, and its adoption can be accelerated.

Fruits & nuts: Himalayan pine nuts, dried apricots, dates and citrus fruits all have potential for greater exports. Certification and quality grading support will enable enhanced export.

REMIT can commission additional policy research & analysis for selected priority sectors within the first year.

Table 6: Suggested Intervention with corresponding Key Deliverables

Suggested Intervention	Key Deliverable
Training Sessions on Climate Change For knowledge enhancement of the REMIT project management staff.	1.1 3-day in-house trainings for REMIT project management 1.2 4 training sessions of 2-days each for selected government counterparts
GHG Emissions Inventory Exercise To measure GHG emissions from REMIT program	2.1 GHG emissions inventory for ASI/CDPR selected office space 2.2 GHG emissions inventory for 3 selected government organisations/offices 2.3 One-day training for focal persons to continue GHG emissions on an annual basis
Knowledge Exchange Amongst Selected FCDO Projects This will harmonize REMIT with other FCDO	3.1 Conduct scoping to identify the most relevant FCDO initiatives for linkage with REMIT 3.2 Conduct 2-day knowledge exchange session to create cross-learning 3.3 Modify REMIT project plans, and those of other FCDO initiatives to enhance climate change considerations

supported projects	
Revenue Mobilization Linking climate change considerations to revenue mobilisation	4.1 Identify key revenue mobilisation opportunities from green policies, including proposed carbon tax, green bonds, WWF blended climate finance and NEECA Energy Conservation Fund 4.2 Evaluate tax revenue with climate change screening, establishing the "quality" of tax 4.3 Recommend tax enhancement or rebate to accelerate climate friendly initiatives and revenue.
Investment In order to explore climate financing opportunities in Pakistan.	5.1 Identify international climate finance opportunities, including from the UK 5.2 Assist the Ministry of Finance to conduct a scoping study for climate finance, select the 5 most promising financing instruments and conduct awareness and training sessions 5.3 Identify any UK companies with investments in coal, negotiate their transition to phase out coal investments. 5.4 Commission a study of electric vehicles adoption acceleration potential in Pakistan, prioritising 2-wheeler, 3-wheeler and low-cost transport. 5.5 Commission a study for utilisation of rail for freight transport, and passenger transport within the city and suburbs.
Trade Enhancement Exploring priority areas and identifying industries to enhance trade engagements between UK and Pakistan	6.1 Conduct scoping for priority export sectors for policy research & analysis. 6.2 Select 3-4 priority sectors for policy research & analysis. Suggested ones are: a) Organic & Natural Coloured Cotton products, b) certified Sustainable Rice, c) Wild Himalayan pine nuts & dried apricots, d) Himalayan pink salt 6.3 Share recommendations with relevant government organisations for adoption of relevant export enhancement strategies

9. Monitoring and Reporting

The REMIT Steering Committee will be expected to review, revise if needed and approve the first year plan for integration of the REMIT Climate Change Strategy.

The implementation of these agreed actions should be monitored on a quarterly basis.

Towards the end of year one, a similar detailed work plan for Year-2 of REMIT should be prepared.

Key deliverables:

7.1 REMIT Steering Committee approves CC mainstreaming plan for Year-1
7.2 Monitoring implementation of CC plan for REMIT on a quarterly basis
7.3 Develop a detailed plan for CC mainstreaming for Year-2 of REMIT

Annexure 1: UK Government's Climate Change Policies

Some selected new UK government Climate Change related policies and strategies and their key provisions are mentioned below:

March 2021: Global Britain in a competitive age. The integrated Review of Security, Defence, Development and Foreign Policy

This document describes the global aspirations for Britain till 2030. Some quotes from the document:

"Her Majesty's Government will make tackling climate change and biodiversity loss its number one international priority."

"To promote green trade as part of the solution to climate change and biodiversity loss."

Section 4.2 Tackling climate change and biodiversity loss gives the following priorities:

- Accelerate the global transition to net zero
- Promote agriculture that regenerate ecosystems and provides healthier and more sustainable food.
- Integrating biodiversity into economic decision-making
- Become a world leader in carbon capture technology
- Within the UK: £1bn for greener buildings, £5bn for green public transport, £2.8bn transition to zero-emissions vehicles.

July 2021: Green Trade. A Board of Trade report

A plan for *"lean, green, value-creating trade that is good for developed and developing nations alike."*

October 2021 House of Commons International Development Committee: UK climate action and international development around COP26

The review exercise critiques the role of FCDO to contribute towards meeting global Climate Change goals, and makes key recommendations to improve its operations. Some key recommendations are:

- FCDO to focus on addressing root causes rather than look for fast results
- Marginalized and local communities need to be better understood, leading towards locally-led adaptation plans
- Lengthen programme cycles to 5-10 years for climate adaptation
- Sponsor courses in climate change and development in civil service training institutes
- Shows concern that the current level of international climate finance is over-reported
- Publish a full list of its existing investments in coal, oil and gas and how they intend to divest from fossil fuels by 31 October 2022

October 2021: Net Zero Strategy: Build Back Greener

This UK government comprehensive strategy lays out the UK plans to become a "net-zero" emitter of GHG emissions by 2050, and a reduction of 68% compared to 1990 levels by 2030. It is creditable that by 2021 the UK has halved its GHG emissions compared to 1990 levels. While this strategy is mainly for its national purpose, a section for International Leadership and Collaboration commits to help global efforts for transition to net zero.

Some priorities for international action by UK are:

- **Coal:** To push for an end to new coal power, and to rapidly move away from existing coal.

- **Cash:** Push for developed countries to contribute $100 billion climate finance by 2025.
- **Cars:** Accelerate the shift to zero emissions vehicles, working with the global Energy Transition Council
- **Trade:** Improve market access for green goods and services through our trade policy

The UK Presidency for COP26 will remain till COP27 in November 2022, thus the leadership role of the UK remains critical within 2022.

November 2021: UK International Climate Finance

The document provides details of the UK Government commitment to contribute £11.6bn as a contribution towards the 100bn contributions due from developed countries by 2025. The money will be disbursed through the FCDO, BEIS and Defra.

The four priorities listed are:

- Accelerate phase-out of coal
- Curtail deforestation
- Speed up the switch to electric vehicles
- Encourage investment in renewables

The South Asia region is a priority for improved energy access for reliable and clean energy.