

CONCLUSION



Pakistan's ability to respond effectively to the climate crisis will ultimately be determined by how successfully climate action is devolved to the level where impacts are felt and solutions are implemented. Without binding legislative provisions, predictable fiscal devolution, and innovative climate finance instruments, local governments will remain constrained in their ability to plan, invest, and respond to climate risks. Embedding decentralization in law, while enabling subnational access to capital through instruments such as municipal climate bonds and blended finance facilities, can align authority, accountability, and resources at the local level. A legislatively empowered, financially enabled local government system is therefore not optional but essential for translating Pakistan's climate commitments into resilient, on-the-ground outcomes.



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POLICY BRIEF

Decentralizing Climate Action: Unlocking Local Governments' Role in Climate Finance in Pakistan

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DECENTRALIZING CLIMATE ACTION: UNLOCKING LOCAL GOVERNMENTS' ROLE IN CLIMATE FINANCE IN PAKISTAN

SUMMARY:

Panel discussion titled “Decentralizing Climate Action: Unlocking Local Governments’ Role in Climate Finance” was held at the IBA Karachi, as part of Day 3 of Climate Week Karachi 2026. The session was jointly organized by the Centre for Business and Economic Research (CBER), IBA, and Transparency International Pakistan, with support from the Climate Action Center. The panel brought together policymakers, economists, governance experts, academics, and climate finance specialists to examine how climate resilience in Pakistan can be strengthened by devolving authority and financial access to cities and districts.

Distinguished panelists included Khurram Schehzad, Advisor to the Finance Minister; Khalid Waleed, Sustainable Development Policy Institute; Kashif Ali, Executive Director, Transparency International Pakistan; Zubair Channa, Secretary, Sindh Environment; Ali Tauqeer Sheikh, Climate Finance Expert; Imtiaz Bhatti, Director General, Provincial Ombudsman’s Secretariat, Karachi; Prof. Lubna Naz, Director, Centre for Business and Economic Research, IBA; Sahar Arshad, Assistant Professor, IBA; Naveed Bhutto, Maternal & Child Nutrition Expert, Technical Lead Public Health (NUSP, Sindh).

Advisor to the Finance Minister Khurram Shehzad emphasized the urgency of shifting climate governance and climate finance closer to the communities most exposed to climate risks. He noted that while global climate discourse often focuses on pledges and frameworks, climate resilience is ultimately built through execution, access to finance, and delivery at the local level. He highlighted that Pakistan’s climate

response must move beyond strategy documents toward practical, scalable financing mechanisms that enable households, farmers, MSMEs, and local governments to invest in resilience. Drawing on recent federal initiatives, he pointed to five critical access-to-finance pathways for climate resilience: (i) climate-smart agricultural finance for smallholders through digital, collateral-free lending; (ii) household and MSME energy transition finance, including electric mobility, energy-efficient appliances, and distributed solarization; (iii) affordable, climate-resilient housing finance to reduce vulnerability to floods and heat stress; (iv) outcomes-linked and results-based financing instruments, such as social and skills impact bonds, to crowd in private capital; and (v) risk-sharing and digital public infrastructure to de-risk banks and accelerate last-mile climate investment.

Experts in other panels agreed that local governments must be positioned as central actors in climate action. Key priorities identified included empowering local administrations to directly access climate finance, addressing planning and governance gaps particularly by simplifying approval processes for small-scale adaptation projects and transforming governance reforms into bankable, investment-ready initiatives. The discussion also highlighted emerging challenges, including the rapid expansion of solarization and the need for structured de-risking mechanisms, as well as the importance of rapid-response financing to help local governments respond to climate emergencies such as floods and heatwaves

CONTEXT:

Currently, Pakistani local governments have little power to directly access climate funds or direct adaptation investments to address local vulnerabilities. The majority of climate funding comes from federal or provincial sources, which frequently results in underutilization of available resources, delays, and poor alignment with community needs. Because the current public investment planning methods, especially the PC-1 process, are complicated and ill-suited for small-scale, community-based climate projects, these difficulties are made worse by the lack of planning and implementation capacity at the local level. This hinders the implementation of desperately needed adaptation measures, discourages experimentation, and limits innovation.

The poor bankability of regional climate projects is another significant barrier. The lack of risk-sharing tools, credit upgrades, and outcomes-based financing frameworks prevents many adaptation and resilience projects from having the financial structure necessary to draw in private or blended funding. Pakistan is also confronted with growing climate funding deficits that require immediate attention. Despite its benefits, the quick and mostly unplanned growth of solarization need organized de-risking procedures to guarantee grid connectivity, equity, and long-term financial viability. Similar to this, local administrations are unable to react quickly enough to climate shocks like heat waves and floods, which increases the number of fatalities and financial losses during extreme weather events.



KEY TAKEAWAYS:

- Effective climate action so depends on local governments being empowered. Resilience must be developed in cities, districts, and communities that are most suited to recognize context-specific vulnerabilities, involve citizens, and implement focused responses because climate impacts are essentially local. The efficacy and applicability of adaptation investments can be greatly increased by giving competent local administrations direct access to climate finance through decentralized approval processes and the use of localized climate vulnerability data, as long as explicit fiduciary and governance standards are upheld.
- To better support local climate action, policy reform must also concentrate on streamlining and updating planning and approval processes. The gap between local demands and higher-level planning systems might be closed by streamlining the PC-1 process for small and medium-sized adaption projects, implementing fast-track approval windows, and coordinating local development plans with national and provincial climate pledges. In order to crowd in private capital and de-risk investment at the community level, it is necessary to operationalize tools like the National Climate Resilience Fund, increase the number of blended finance windows, and support nature-based solutions like mangrove-linked carbon credits and coastal resilience bonds.
- Empowering local governments therefore requires embedding decentralization within binding legislative and regulatory frameworks. Climate governance reforms must clearly define the climate-related mandates of local governments, establish statutory rights to access climate finance, and create enforceable obligations for provincial governments to devolve authority, functions, and fiscal resources. Legislative provisions enabling decentralized approval mechanisms, supported by localized climate vulnerability data and minimum fiduciary standards, can strengthen accountability while improving the effectiveness of adaptation investments.
- It is equally important to increase the pathways to financing for households, farmers, and SMEs. Vulnerable populations can invest in resilience while raising private money through climate-smart agricultural finance for smallholders, energy transition finance for households and SME, cheap climate-resilient housing finance, and outcomes-linked financing tools like impact bonds. In order to improve preparedness and lower long-term recovery costs, these actions must be supported by the creation of rapid-response financing mechanisms that give local governments access to emergency funding during climatic shocks.
- A critical and often overlooked constraint is the absence of innovative, legally supported climate finance instruments tailored to local governments. As a result, potentially transformative instruments such as municipal climate bonds, and green Sukuk, remain largely untapped. Without legislative clarity, disclosure standards, and fiscal responsibility frameworks, local governments are unable to mobilize long-term capital for climate-resilient infrastructure, urban drainage, water systems, or energy transition projects.
- Lastly, academic institutions and research centres are essential to facilitating this shift. Academic institutions may help guarantee that decentralized climate action is data-driven, rooted in local realities, and scalable by converting discussions into evidence-based policy recommendations, assisting with project planning, and assessing pilot projects. For Pakistan, bringing climate action closer to communities is a strategic necessity rather than just an administrative change. Climate policy may move from aspiration to implementation by decentralizing authority, financing, and execution. This will allow for a locally driven, financially supported response that is more in line with the scope and severity of the climate crisis.