

### Pakistan's National Green Taxonomy: Framework and Integration

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## Introduction

Pakistan is at a critical juncture in its climate resilience efforts, with climate finance playing a pivotal role in its sustainable development strategy. The introduction of the National Green Taxonomy Draft by the State Bank of Pakistan (SBP), developed in collaboration of Ministry of Climate Change with technical assistance from the World Bank, marks a significant step in aligning financial investments with climate goals.<sup>1</sup> Furthermore, Pakistan's engagement with international financial institutions, such as the International Monetary Fund (IMF) and the World Bank, underscores the importance of structured climate financing mechanisms. Additionally, the country's entry into the global carbon markets offers new opportunities and challenges in leveraging carbon trading for economic and environmental sustainability.

## Understanding Green Taxonomy

A green taxonomy is a classification system that defines which investments are environmentally sustainable. It provides a structured approach to assessing financial activities based on

<sup>1</sup> "Pakistan-Green-Taxonomy," SBP, January 2025, <https://www.sbp.org.pk/greentaxonomy/Annexure-I-Draft-Pakistan-Green-Taxonomy.pdf>

environmental, social, and governance (ESG) considerations. By aligning investments with sustainability goals, green taxonomies help direct capital flows toward environmentally friendly projects while reducing climate-related financial risks.<sup>2</sup>

SBP introduced a draft National Green Taxonomy on February 4, 2025, to enhance transparency in green investments and financial products. This initiative aims to mobilize capital for projects that contribute to the country's climate and environmental objectives. The taxonomy is expected to play a crucial role in mobilizing an estimated \$348 billion required for climate response efforts by 2030, providing clarity for financial institutions, investors, and policymakers to facilitate sustainable economic growth while meeting international climate commitments.<sup>3</sup>

### **Objectives and Environmental Goals<sup>4</sup>**

Pakistan's green taxonomy establishes seven core environmental objectives:

1. Climate Change Mitigation
2. Climate Change Adaptation
3. Sustainable Use and Protection of Water Resources
4. Protection of Ecosystems and Biodiversity
5. Pollution Prevention and Control
6. Promotion of a Circular Economy
7. Sustainable Land Management

Economic activities must contribute meaningfully to these objectives while complying with the 'do-no-significant-harm' principle and minimum social safeguards.

### **Sectoral Coverage and Classification<sup>5</sup>**

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<sup>2</sup> Dan Byrne, "What is green taxonomy?" Corporate Governance Institute, Accessed on March 5, 2025, <https://www.thecorporategovernanceinstitute.com/insights/lexicon/what-is-green-taxonomy/?srsltid=AfmBOoonA8gA6JxN6IQJ7YQe30McaglaC7MU5XN-CryFjxVI8IfpRu8X#>

<sup>3</sup> "SBP releases draft national green taxonomy to spur green projects," The News, February 5, 2025, <https://www.thenews.com.pk/print/1279479-sbp-releases-draft-national-green-taxonomy-to-spur-green-projects>

<sup>4</sup> Ali Tauqeer Sheikh, "Guiding climate investments," Dawn, February 27, 2025, <https://www.dawn.com/news/1894574>

The taxonomy identifies key sectors that significantly contribute to climate change mitigation and adaptation. A traffic light system is used for classification:

- **Green:** Activities that substantially support environmental objectives.
- **Amber:** Transition activities moving toward sustainability but not fully green.
- **Red:** Activities causing significant environmental harm.

Mitigation sectors include energy, manufacturing, transportation, construction, water and waste management, ICT, tourism, and agriculture, with high-emission industries such as chemicals, cement, iron, steel, and textiles having specific emission thresholds. Adaptation sectors focus on water management, disaster risk management, and urban resilience, ensuring a practice-based transition towards sustainability, particularly in agriculture and livestock management.

### Potential Impacts on Financial Institutions, Businesses and Other Stakeholders

The evolving landscape of climate finance and sustainability initiatives in Pakistan is set to reshape financial institutions, businesses, and various stakeholders by influencing their practices, investment decisions, and risk management strategies. The introduction of a National Carbon Market Policy, the Green Banking Framework, and the Green Taxonomy will create both challenges and opportunities across sectors.<sup>6</sup>

#### 1. Financial Institutions: A Shift Towards Green Finance

The financial sector, particularly banks and investment funds, will need to align their lending and investment portfolios with green finance principles. SBP's Green Banking Guidelines and Renewable Energy Scheme have already set the precedent for integrating environmental considerations into financial decision-making.<sup>7</sup> These initiatives will likely lead to Enhanced Green Investments, New Financial Instruments and Risk Management Adaptations. However, financial institutions may face regulatory challenges in implementing the Green Taxonomy, which requires robust monitoring, reporting, and verification mechanisms. The need for capacity building among banking professionals to assess and manage climate risks will also become crucial.

<sup>5</sup> "Pakistan-Green-Taxonomy," SBP, January 2025, <https://www.sbp.org.pk/greentaxonomy/Annexure-I-Draft-Pakistan-Green-Taxonomy.pdf>

<sup>6</sup> Kirthisri Rajatha Wijeweera, Hamid Rashid, "Greening the Financial System of Pakistan," UNDP, Accessed on March 5, 2025, [https://www.undp.org/sites/g/files/zskgke326/files/2023-09/policy\\_brief\\_-\\_greening\\_the\\_financial\\_system\\_of\\_pakistan\\_2023.pdf](https://www.undp.org/sites/g/files/zskgke326/files/2023-09/policy_brief_-_greening_the_financial_system_of_pakistan_2023.pdf)

<sup>7</sup> "SBP pushes for increased green financing," Tribune, November 9, 2024, <https://tribune.com.pk/story/2508440/sbp-pushes-for-increasedgreen-financing>

## 2. Businesses: Incentives and Market Transformation

The corporate sector will experience significant shifts in operational strategies due to incentives for low-carbon development and carbon market participation. The policy framework encourages businesses to Adopt Sustainable Practices, Engage in Carbon Trading, and Access Green Financing. Despite these opportunities, sector-specific gaps in the carbon market policy may limit its impact. Industries such as agriculture, forestry, and textiles will require tailored strategies to fully benefit from Pakistan's green finance ecosystem.<sup>8</sup>

## 3. Policymakers and Regulators: Strengthening Governance and Compliance

Policymakers, including the Ministry of Climate Change and the Special Investment Facilitation Council (SIFC), will need to play a proactive role in Strengthening Carbon Market Regulations, Enhancing Public-Private Partnerships, and Improving Climate Data Collection. A key challenge for policymakers will be to bridge the climate finance gap of \$348 billion by 2030 while ensuring that carbon markets do not become tools for greenwashing by wealthier nations shifting emission burdens onto developing economies.<sup>9</sup>

## 4. Civil Society and Environmental Advocacy: Driving Social Impact

The role of civil society in ensuring accountability, public engagement, and sustainable practices will become increasingly important. Climate activists, NGOs, and research institutions will contribute to Monitoring Climate Finance Utilization, Community-Level Climate Resilience Projects, and Advocating for Climate Justice Pushing for fair carbon pricing and inclusivity in climate finance mechanisms. Public participation in Pakistan's Green Pakistan Programme (2024-28) will be crucial for biodiversity conservation, carbon financing, and fostering climate literacy.<sup>10</sup>

## 5. International Alignment and Financial Implications

Pakistan's green taxonomy incorporates insights from international frameworks such as the EU and Chinese taxonomies while maintaining flexibility to suit local economic conditions. It aligns with Pakistan's Nationally Determined Contributions (NDCs), the National Climate Change Policy, and the National Climate Finance Strategy to ensure effective implementation. Institutional coordination

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<sup>8</sup> Dr. Aneel Salman, Sheraz Ahmad Chaudhry, "Operationalising Carbon Credit Markets in Pakistan: Challenges and Prospects," IPRI, June 11, 2024, <https://ipripak.org/wp-content/uploads/2024/06/Carbon-credit-markets-in-Pakistan-11-6-2024.pdf>

<sup>9</sup> "Pakistan Unveils Carbon Market Policy at COP29, Baku," SIFC, November 16, 2024, [https://www.sifc.gov.pk/success\\_stories/details/55](https://www.sifc.gov.pk/success_stories/details/55)

<sup>10</sup> Romina Khursheed Alam, "Translating policies into climate resilience," Dawn, February 7, 2025, <https://www.dawn.com/news/1890339>

among national and provincial agencies is essential for its success.<sup>11</sup> With global markets increasingly requiring sustainable investment standards, aligning the taxonomy with international trade requirements is crucial.

### Key Challenges and Gaps

Despite progress, several challenges hinder Pakistan's climate finance framework:

- Strengthening the SBP's Sustainable Finance Department, providing detailed guidance for financial institutions, and enhancing public-private partnerships are crucial.
- Additionally, a dedicated financial cell within the Ministry of Finance could improve coordination between economic and environmental policies.
- Innovative financial tools, such as green bonds, climate insurance, and sustainability-linked loans, can further expand funding opportunities.
- Private sector engagement, along with regulatory improvements, is essential for mobilizing additional resources.
- However, bureaucratic inefficiencies continue to impede climate fund access, necessitating streamlined regulatory frameworks.

### Conclusion

Despite contributing less than 1% to global greenhouse gas emissions, Pakistan remains one of the most climate-vulnerable nations.<sup>12</sup> Pakistan's green taxonomy is a significant step toward mobilizing sustainable investments and aligning economic growth with climate resilience. By mainstreaming climate action into economic and social frameworks, fostering international partnerships, and mobilizing financial resources, Pakistan can build a resilient and sustainable future. Ensuring a transparent, well-regulated carbon market and a robust climate finance strategy will be key to achieving long-term climate and economic stability.

Pakistan's shift towards green finance and climate adaptation policies is a necessary and timely response to global climate challenges. If managed effectively, these changes will position Pakistan as a regional leader in climate finance while securing economic growth through sustainable investments and international partnerships. However, its success hinges on robust financial backing, strong regulatory enforcement, and active stakeholder participation.

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<sup>11</sup> Ali Tauqeer Sheikh, "Guiding climate investments," Dawn, February 27, 2025, <https://www.dawn.com/news/1894574>

<sup>12</sup> Soha Nisar, "A green vision for Pakistan's survival," The News, January 29, 2025, <https://www.thenews.com.pk/print/1277174-a-green-vision-for-pakistan-s-survival>