Frequently Asked Questions

PAKISTAN GREEN TAXONOMY (2025)

GENERAL QUESTIONS ABOUT GREEN AND SUSTAINABLE FINANCE TAXONOMIES

1. What is a green taxonomy?

According to the International Capital Markets Association (ICMA), a green taxonomy is a classification system for identifying activities or investments that will move a country toward meeting specific targets related to priority environmental objectives.[1] A green taxonomy aims to help financial market participants and others determine which investments can be labelled "green" or environmentally friendly for specific jurisdictions. This support for making informed decisions on environmentally friendly investments can encourage the undertaking of projects and activities that contribute to specific environmental objectives and help scale up environmentally sustainable economic development.[2] It is also important to understand ***what green taxonomy is not***:

A mandatory list of investments
A tool for classifying activities into "good" and "bad"
A tool to assess the financial performance of an asset or an activity
A rating system for green investments
A financing instrument

2. Why is a green taxonomy necessary?

In the absence of formally agreed-upon definitions, market actors tend to introduce their own. The result is a lack of comparability, reliability, accountability, and higher transaction costs. A national green taxonomy is useful to provide guidance to the overall financial market. It establishes a clear connection between the economy, the financial market, and national climate and broader environmental goals, attracting investments from stakeholders interested in promoting sustainability. A green taxonomy is expected to help avoid "greenwashing" in the market and reduce market fragmentation.

3. What are the benefits of a green taxonomy?

A green taxonomy delivers significant benefits to a wide range of stakeholders, including financial regulators, policymakers, bankers, investors, issuers of green bonds, and society as a whole[3]. Amongst other things, the Pakistan green taxonomy is expected to:

[1] ICMA, "Sustainable Finance." International Capital Market Association, "Sustainable Finance: High-Level Definitions" (ICMA Sustainable Finance Committee, May 2020), https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Sustainable-Finance-High-LevelDefinitions-May-2020-110520v4.pdf;

[2] World Bank, 2020

[3] (UNEP, 2023)

- Help the financial sector with clarity and certainty in selecting green investments in line with international best practices and Pakistan's national policies and priorities.
- Reduce financial risks by providing clear definitions of green and sustainable activities and through enhanced management of environmental and social performance.
- Reduce the costs associated with identifying green investments, labelling and issuing green financial instruments.
- Unlock potential investment opportunities for Pakistan in a broad range of green and climate-friendly assets.
- Promote transparency and support regulatory and supervision oversight of the financial sector.

4. Are there green/sustainable taxonomies in other countries?

Currently, over **50 jurisdictions** have developed or are in the process of adopting a green or sustainable finance taxonomy. Examples of taxonomies in Asia include the ASEAN Taxonomy for Sustainable Finance,[4] Bangladesh, Malaysia[5], Singapore-Asia Taxonomy for Sustainable Finance[6], Sri Lanka Green Finance Taxonomy [7], Thailand Taxonomy, etc. The taxonomies established by the European Union, Climate Bonds Initiative, and ASEAN are commonly used as benchmarks for the development of taxonomies.

Importance of interoperability (SBFN, 2024)

Taxonomies must respond to two conflicting demands:

- The need for convergence and interoperability to facilitate cross-border investment.
- Reflecting national development priorities and industry standards.

Interoperability is a **strategic element** in the **development and implementation** of sustainable taxonomies as it promotes a **coherent global approach. Most taxonomies aim to ensure some level of interoperability with other taxonomies**, and several ways of ensuring such interoperability are highlighted for **taxonomy design**:

- **Structure of the taxonomy**: ensure a clear governance structure, which is essential to enable the taxonomy to be designed with a vision for future implementation within the national sustainable finance ecosystem. Define clear objectives and the principles for the taxonomy development.
- **Taxonomy methodology**: ensure a similar methodology for determining the substantial contribution criteria for sectors, activities, selection of the economic classification system (industrial codes) and determination of other eligibility elements.
- **Taxonomy metrics and thresholds**: ensure that all taxonomies have the same ambition (International Energy Agency (IEA), CRREM- Carbon Risk Real Estate Monitor)

5. Who develops taxonomies?

[4] AT V2 Main Rpt Draft_08Jun23_1700BKK
[5] Principles-based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market
[6] singaporeasia-taxonomy-updated.pdf
[7] sl_green_finance_taxonomy.pdf

Governance structures vary across jurisdictions and depend on national needs and contexts. Typically, financial regulators (financial system supervisors) lead the process, with support from environment, agriculture, energy, and other technical ministries.

Technical expert groups, and in emerging markets, international organisations often provide technical assistance. Private organisations, academia, and NGOs may also contribute, particularly during consultations and expert technical groups.

6. How is a green taxonomy developed?

The key steps involved in the development of a taxonomy is shown below:

Taxonomy development process (UNEP, 2023)

7. What are the key elements of a green taxonomy?

A green taxonomy is developed around six core elements[8]:

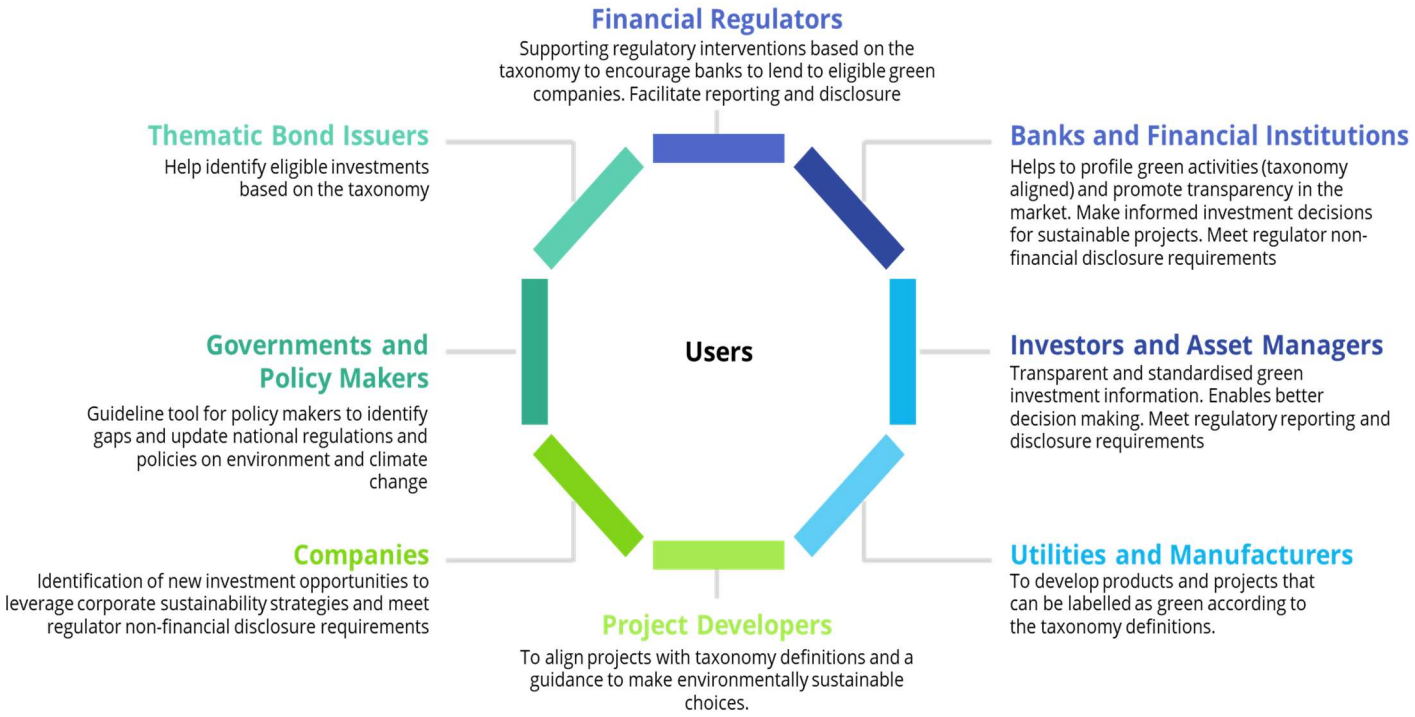
- **Environmental Objectives:** Clear goals (typically climate mitigation and adaptation first) that guide sector and activity selection.
- **Sectors:** Economic sectors linked to GHG emissions, decarbonisation potential, climate adaptation needs, or other environmental objectives.
- **Activities:** Specific economic activities within each sector, identified through ISIC (and PSIC in Pakistan) that meaningfully support the objectives.
- **Technical Screening Criteria (TSC):** Metrics and thresholds that determine whether an activity makes a substantial contribution to an objective.
- **Do No Significant Harm (DNSH):** Requirements ensuring activities do not significantly harm other environmental objectives.

[8] For more details, please refer to page 19-35 in the PGT document

- **Minimum Social Safeguards (MSS):** Social standards (e.g., labor rights, land tenure, human rights), ensured in Pakistan through SBP's ESRM Framework[9] or IFC Performance Standards[10].

8. How can a green taxonomy be used?

A green taxonomy provides guidance for users to classify and identify green economic activities that contribute substantially to specific environmental objectives. In addition to this, the taxonomy can be used to comply with disclosure and reporting requirements, structure green financial products, identify use of proceeds for green bonds/sukuk/loans, identify opportunities for attracting global climate finance, contribute to sustainability strategies of companies, modulate decarbonisation and transition plans, policies, etc. See figure 1 below.



9. Does a green taxonomy prohibit investment in activities that are not aligned with the taxonomy?

No. A taxonomy is not a mandatory directive for financiers and investors to allocate funds to specific economic activities. Instead, the taxonomy functions as a labelling framework, offering guidance to economic and financial stakeholders on identifying which activities qualify as green and which do not.

While the taxonomy may encourage governments and policymakers to introduce additional measures to promote green activities and potentially discourage non-aligned ones, this outcome is not an inherent or automatic consequence of a green taxonomy. In the absence of global mandatory

[9] https://www.sbp.org.pk/smefd/circulars/2022/CL12-Annex-4.pdf
[10] Performance Standards on Environmental and Social Sustainability | International Finance Corporation (IFC)

investment standards, financiers and investors retain the freedom to define their own investment strategies and priorities.

10. Why do the green taxonomies exclude activities such as oil extraction or oil-power generation?

The international climate science underpinning the taxonomies is clear: to meet the objectives of the Paris Agreement and avert the catastrophic impacts of climate change, the phase-out of all fossil fuels must occur as swiftly as possible. The taxonomies include only activities directly aligned with climate goals—namely, climate change mitigation and adaptation.

GENERAL QUESTIONS ABOUT THE DEVELOPMENT OF THE PAKISTAN GREEN TAXONOMY

1. Which entities led the development of the Pakistan Green Taxonomy?

1. State Bank of Pakistan
2. Ministry of Climate Change
3. Ministry of Finance & Revenue
4. Ministry of Planning Development & Special Initiatives
5. Securities Exchange Commission of Pakistan (SECP)
6. Pakistan Stock Exchange
7. National Energy Efficiency and Conservation Authority (NEECA)
8. National Electric Power Regulatory Authority (NEPRA)
9. Private Power and Infrastructure Board (PPIB)
10. Environmental Protection Department, Punjab
11. Sindh Environmental Protection Agency
12. Environmental Protection Agency, KPK
13. Environmental Protection Agency, Balochistan
14. Environmental Protection Agency, AJK
15. Environmental Protection Agency, Gilgit Baltistan
16. Pakistan Bankers Association (PBA)
17. Federal Board of Revenue
18. Board of Investment (BoI)
19. Ministry of Communications
20. Ministry of IT and Telecom
21. Ministry of Maritime Affairs
22. National Disaster Management Authority
23. Pakistan Tourism Development Corporation
24. Ministry of Energy (Power Division)
25. Ministry of Housing and Works
26. Ministry of Industries and Production
27. Ministry of Commerce
28. Pakistan Council of Research in Water Resources (PCRWR)
29. National Disaster Management Fund
30. Global Climate Change Impact Studies Centre (GCISC)
31. Pakistan Agricultural Research Council (PARC)

In addition, the Pakistan Green Taxonomy has been developed with technical assistance from the World Bank with Ambire Global as technical consultants.

2. What is the strategic objective of the Pakistan Green Taxonomy?

The strategic objective of the Pakistan green taxonomy is to Scale up green/climate/sustainable financing as well as mitigate climate related financial risks.

3. What are the environmental objectives of the Pakistan Green Taxonomy?

The environmental objectives covered in the Pakistan Green Taxonomy are:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water resources
- Protection of healthy ecosystems & biodiversity
- Pollution prevention and control
- Promotion of circular economy
- Sustainable land management

In the first phase of the Pakistan Green Taxonomy, Pakistan has prioritised the identification of economic activities that substantially contribute to **climate change mitigation and adaptation.** A **separate approach was adopted for the agriculture, forestry and fishing sector (including livestock and aquaculture)** specifically, where identified activities not just support climate change mitigation and adaptation, but also the sustainable use and protection of water resources, and protection of healthy ecosystems & biodiversity. In subsequent phases of the taxonomy, other environmental objectives such as Promotion of circular economy; Protection of healthy ecosystems & biodiversity; Sustainable use and protection of water resources; Pollution prevention and control; and Sustainable land management will be considered. These objectives are currently addressed through Do No Significant Harm (DNSH) requirements, i.e., the eligible activities contribute to climate change mitigation and adaptation, and do no significant harm to the other environmental objectives.

4. Which sectors and activities are covered by the Pakistan Green Taxonomy?

In the first phase of taxonomy development, the following sectors and activities are covered:

Environmental Objective	Sectors	Number of activities
Multiple Taxonomy objectives	Agriculture (crops) and livestock	2
	Forestry	3
	Fishing and aquaculture	2
	Tourism	7
	Manufacturing	15

Climate change mitigation	Transport	9
	Energy	14
	Construction	4
	Water and Waste	11
	Information and Telecommunications	2
Climate change adaptation	Water	21
	Transport	5
	Information and Telecommunications (ICT)	9
	Construction	12
	Disaster Risk Management	11
	Manufacturing	7
	Energy	6
	Waste	5

5. How were activities and thresholds and criteria established?

The activities and criteria were developed based on a benchmarking exercise involving a number of globally recognized green finance taxonomies, including the ASEAN Taxonomy for Sustainable Finance, EU Sustainable Finance Taxonomy and taxonomies of Bangladesh, Colombia, Malaysia, Singapore, Sri Lanka and Thailand and **adapted to the Pakistan context**. The eligible activities and defining criteria (technical screening criteria) were **reviewed and validated** by the Taxonomy Working Group **as well as sector technical experts in Pakistan**.

6. What is the Traffic Light System?

The Traffic Light System distinguishes between green, amber (transition), and ineligible activities under climate change mitigation and multiple objectives (such as that used in the land use sectors).

7. Does the Taxonomy incorporate transition activities?

The Pakistan green taxonomy uses the traffic light system to define substantial contribution for economic activities that contribute to climate change mitigation. The amber category represents activities that are not currently on the 1.5^{o} C pathway but are either moving towards a green transition pathway or facilitate significant emissions reduction in the short term. Examples of transitional activities include the manufacturing of cement and wastewater treatment.

8. How should I calculate my emissions for using the Taxonomy? What scope should I consider?

Unless specified otherwise, the emission thresholds in the taxonomy pertain to Scope 1 and Scope 2 emissions. This means the activity owner must calculate both the direct emissions from the activity and those associated with electricity, heating, cooling, and water supply. All greenhouse gas emissions must be expressed in CO_2 equivalent.

If the requirements specify that emissions should be calculated using a Lifecycle Assessment (LCA) approach, the activity owner must extend beyond Scopes 1 and 2 and calculate emissions using an LCA methodology, such as the GHG Emission Protocol or any equivalent international standard.