

Frequently Asked Questions

Pakistan Green Taxonomy

January 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 is a 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 whole³. Amongst other things, the Pakistan green taxonomy is expected to:

- Help the financial sector with clarity and certainty in selecting green investments in line with

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)

- 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, Malaysia⁵, Singapore-Asia Taxonomy for Sustainable Finance⁶, Sri Lanka Green Finance Taxonomy⁷, 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)

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

5. Who develops taxonomies?

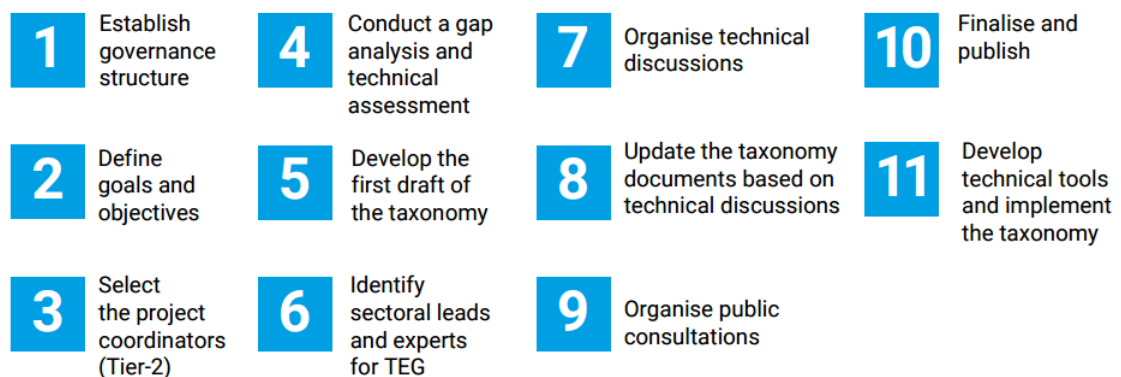
Governance structures vary across jurisdictions and depend on national needs and contexts. Typically, financial regulators (financial system supervisors) lead the process, with support from environment, agriculture, energy, and other technical ministries.

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?

Typically, the key structural elements of a green taxonomy include:

- **Environmental Objectives** (e.g., climate change mitigation): clear environmental objectives to guide the selection of sectors, and activities. Most taxonomies have prioritized climate change mitigation and adaptation in the in the initial stages of taxonomy development; other environmental and rarely social objectives have been developed in subsequent phases.
- **Sectors** (e.g., energy): for climate change objectives, taxonomies cover economic sectors that are responsible for GHG emissions, with potential for decarbonisation, or that needs to be adapted to the effects of climate change. For other environmental objectives, sectors will have to demonstrate, through qualitative and/or quantitative analysis, that they contribute substantially to the improvement of the said environmental objective (example: waste sector for circular economy objective).
- **Activities** (e.g., installation, maintenance and operations of solar PV): the economic activities within each sector are identified by applying certain selection filters. All economic activities have a role to play in relation to the different environmental or social objectives. However, not all processes, technologies, assets, or economic activities

contribute *substantially* to the fulfilment of the objectives. The International Standard Industrial Classification of All Economic Activities (ISIC) is commonly used to identify economic activities. Many financial market participants use such codes. In the case of the Pakistan green taxonomy, the activities are mapped to both ISIC and Pakistan Standard International Classification System (PSIC).

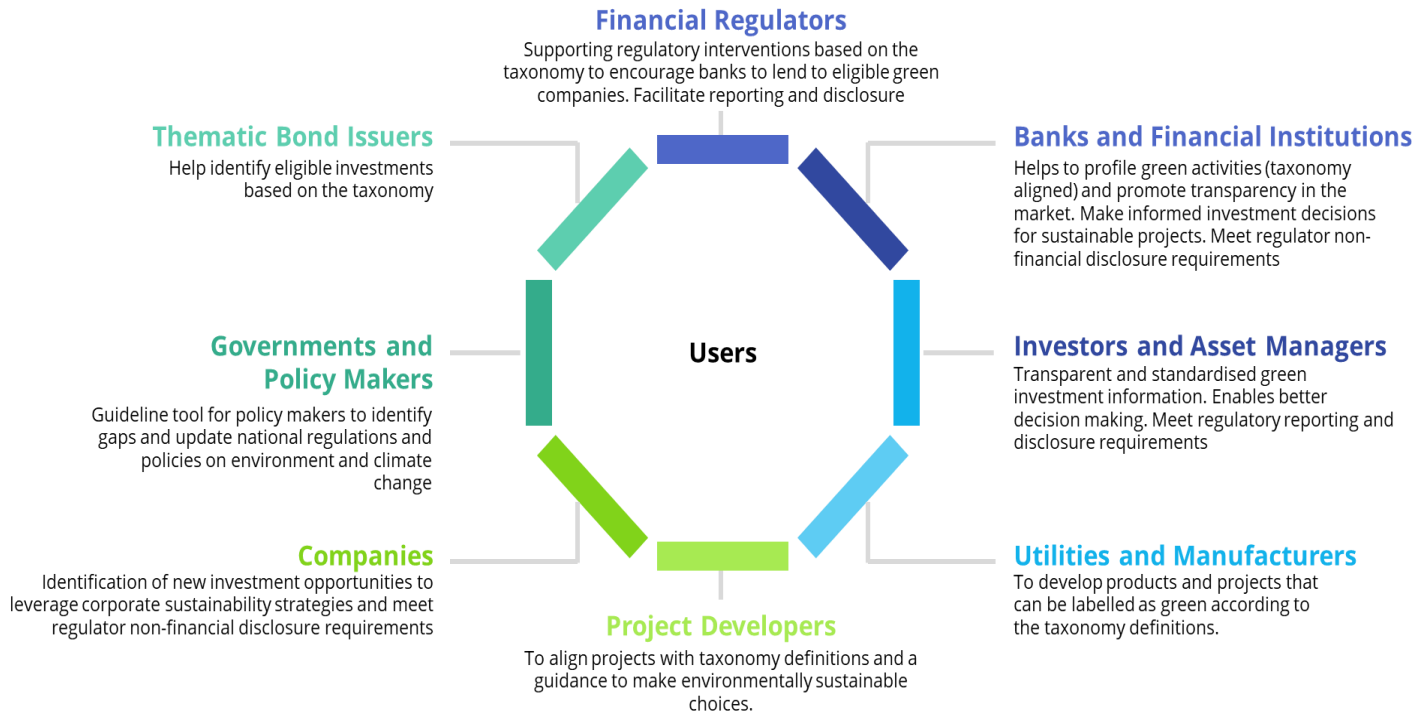
- **Technical screening criteria:** the technical screening criteria define if the economic activity contributes *substantially* to an environmental objective. These criteria are based on metrics and thresholds which help determine the alignment of an economic activity under the taxonomy.
- **Do No Significant Harm (DNSH) requirements:** the DNSH requirements are a list of recommendations that guide and ensure that the activities listed in the taxonomy do not cause *significant* negative environmental impacts (e.g., the installation of a solar power plant in a special protected natural area).
- **Minimum Social Safeguards (MSS) criteria (MSS):** the MSS in the context of a green taxonomy are expected to ensure that the economic activity is also in line with minimum social conventions, for example, labour laws, land tenure rights and international human rights commitments. In the case of the Pakistan green taxonomy, MSS is ensured through the application of the Environmental and Social Risk Management (ESRM) framework⁸ developed by SBP for the banking sector, or the IFC Performance Standards⁹.

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.

⁸ <https://www.sbp.org.pk/smefd/circulars/2022/CL12-Annex-4.pdf>

⁹ [Performance Standards on Environmental and Social Sustainability | International Finance Corporation \(IFC\)](#)



9. How will the taxonomy be used in Pakistan?

The Ministry of Climate Change & Environmental Coordination (MoCC&EC), being the focal ministry regarding climate change, will govern the implementation of the green taxonomy in Pakistan. SBP, as the regulator of the financial sector, will play its facilitative role in implementing the green taxonomy in the financial sector, including the potential use of the taxonomy for climate-related/sustainability reporting and disclosure of information by financial institutions with the aim of enhancing the financial system's resilience towards climate-related financial risks.

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

11. 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 and implementation of the first phase of the Pakistan Green Taxonomy?

The governance structure for the development of the Pakistan Green Taxonomy was designed to ensure the taxonomy is inclusive, technically robust, science-based, interoperable and strategically aligned with Pakistan's climate and sustainable development commitments while fostering collaboration among diverse stakeholders.

The State Bank of Pakistan (SBP) and Ministry of Climate Change (MoCC) co-led the working group that spearheaded this initiative. A **Working Group** comprising line ministries, associated agencies and stakeholder groups was formed with the following institutions:

- **Working Group Members**
 - State Bank of Pakistan
 - Ministry of Climate Change
 - Ministry of Finance & Revenue
 - Ministry of Planning Development & Special Initiatives
 - Securities Exchange Commission of Pakistan (SECP)
 - Pakistan Stock Exchange
 - National Energy Efficiency and Conservation Authority (NEECA)
 - National Electric Power Regulatory Authority (NEPRA)
 - Private Power and Infrastructure Board (PPIB)
 - Environmental Protection Department, Punjab
 - Sindh Environmental Protection Agency
 - Environmental Protection Agency, KPK
 - Environmental Protection Agency, Balochistan
 - Environmental Protection Agency, AJK
 - Environmental Protection Agency, Gilgit Baltistan
 - Pakistan Bankers Association (PBA)
 - Federal Board of Revenue
 - Board of Investment (BoI)

Other **Technical Experts** reviewed and provided feedback to ensure that the taxonomy meets Pakistan's needs and challenges.

- **Technical Experts**
 - Ministry of Communications
 - Ministry of IT and Telecom
 - Ministry of Maritime Affairs
 - National Disaster Management Authority
 - Pakistan Tourism Development Corporation

- Ministry of Energy (Power Division)
- Ministry of Housing and Works
- Ministry of Industries and Production
- Ministry of Commerce
- Pakistan Council of Research in Water Resources (PCRWR)
- National Disaster Management Fund
- Global Climate Change Impact Studies Centre (GCISC)
- Pakistan Agricultural Research Council (PARC)

The **State Bank of Pakistan (SBP)** served as the **Secretariat** during the development of the taxonomy, coordinating project activities and overseeing the smooth operation of the Working Group. The Ministry of Climate Change & Environmental Coordination (MoCC&EC), being the focal ministry regarding climate change, will govern the implementation of the green taxonomy in Pakistan. Further, SBP, being the regulator of the financial sector, will play its facilitative role in implementing the green taxonomy in the financial sector. Lastly, the Government of Pakistan will decide the incentives to facilitate the implementation of the taxonomy, once the taxonomy is rolled out and the capacity of stakeholders is developed.

Finally, 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
Climate change mitigation	Manufacturing	14
	Transport	8
	Energy	15
	Construction	4
	Water and Waste	11
	Information and Telecommunications	2
	Guide for a Tourism Sector	7
Climate change adaptation	Water	21
	Transport	5
	Information and Telecommunications (ICT)	9
	Construction	12
	Disaster Risk Management	10

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° 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 CO₂ 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.