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Policy Brief

Analysis of Pakistan Policy Guidelines for Carbon Markets-2024

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Glossary

BTR	Biennial Transparency Report
CAF	Corresponding adjustment fee
CER	Certified Emission Reduction
CMWG	Carbon Market Working Group
LOI	Letter of Intent
MO	Mitigation Outcomes
MoCC&EC	Ministry of Climate Change and Environmental Coordination
MRV	Measuring, Reporting, and Verification
NDA	National Designated Authority
NDC’s	National Determined Contributors
NOC	No Objection Certificate
PDD	Project Document Design

Executive Summary

Pakistan's Policy Guidelines for Carbon Markets – 2024 are a critical step towards the application of carbon credits and emissions trading to fulfil the country's climate goals and achieve sustainable development objectives. The policy is consistent with the Paris Agreement and seeks to create an integrated regulatory framework for voluntary and compliance-based carbon markets, with a focus on environmental integrity, economic growth, and private sector engagement. The guidelines emphasise institutional coordination, legal frameworks, and financial mechanisms to increase market scalability.

While its strengths are notable, the policy has numerous challenges, including institutional inefficiencies, regulatory over-complication, absence of private sector incentives, and gaps in implementation. Bureaucratic barriers, uncertain fund allocation procedures, and ineffective enforcement mechanisms can undermine its effectiveness. To address these issues, it is necessary to streamline regulatory procedures, improve inter-agency coordination, and develop transparent financial arrangements. Moreover, offering incentives like tax exemptions, subsidies, and grants can encourage private sector involvement and encourage long-term investment in low-carbon activities.

To ensure effective implementation, Pakistan should adopt international best practices, as utilised by the EU Emission Trading System, and create strong monitoring, reporting, and verification (MRV) systems to avoid double counting and ensure compliance. Capacity-building programs should also prioritise developing local expertise to minimise dependence on foreign consultants. With well-planned reforms and policy reforms, Pakistan's carbon market policy has the potential to generate economic opportunities, attract investments, and contribute to international efforts in climate change mitigation.

Problem Statement

The problems within the Carbon Market Policy 2024 like Institutional inefficiencies, regulatory complication, private sector incentive deficits, and weak enforcement mechanisms are major impediments to its adoption in the carbon market policy 2024. Overlapping jurisdictions, lengthy fund allocation schedules, and bureaucratic obstacles further stifle the market's scalability. Without specific policy reforms, improved governance architecture, and greater financial transparency, the source of carbon market-facilitated economic growth and sustainable climate action is underleveraged.

Introduction

The creation of carbon markets serves as a fundamental solution for international climate change reduction through emission-reduction financial rewards. Entitles participate in these markets through the exchange of carbon credits that establish their right to discharge certain carbon dioxide emission amounts or equivalents. carbon market policies has been extensively studies to obtain valuable understanding of how they work together with their achievements and difficulties alongside improvement potential. Institutions along with market-dependent instruments structurally form climate change policy frameworks and regulatory frameworks need to be strengthened alongside market-based instruments to successfully create emission reduction targets. The need for empirical research emerges to measure the success of present-day policy approaches together with policy market performance[1].

The concept of carbon markets has been at the center of the global fight against climate change. Carbon markets enable the trading of carbon credits, through which countries and companies can offset their emissions by investing in activities that reduce greenhouse gas emissions elsewhere. Article 6 of the Paris Agreement establishes a framework for such cooperative approaches, facilitating international cooperation in achieving emission reduction objectives. During the 29th Conference of the Parties (COP29) in Baku, Azerbaijan, Pakistan launched its first Carbon Market Policy, a significant milestone in its quest for climate action and sustainable development. The policy aims to establish a transparent regulatory framework for voluntary and compliance-based carbon market activities within the country, ensuring adherence to international best practices and standards. In this way, Pakistan aims to drive the uptake of clean technologies and mobilise investments into high-potential sectors for emissions reduction, such as energy, agriculture, waste management, and forestry[2].

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[1] World Bank. (n.d.). A Review of Carbon Market Policies and Research. Retrieved from https://openknowledge.worldbank.org/handle/10986/4664

[2] Ministry of Climate Change and Environmental Coordination. (2024). Pakistan Unveils Carbon Market Policy at COP29, Baku. Retrieved from https://mocc.gov.pk/SiteImage/Misc/files/PakistanCarbonMarkets.pdf

The given policy guidelines for trading carbon markets describes an inclusive framework with aim to establish and operate carbon markets to comprehend Pakistan’s Climate national objectives, and international agreements, and commitments. These guidelines seek to secure the rights and interests of all key stakeholders while leveraging the carbon markets both voluntary and compliance based as a tool that fosters sustainable development, transition of net zero economy, and ensure environmental integrity. Policy framework encourages the private sector financial engagement and international collaboration to attain the objectives. Although, these objectives are commendable, however, there is a need to evaluate the specific progressive measures and indicators to ensure effective implementation of said goals. This policy brief is an attempt to assess the approved guidelines by using the policy content analysis framework keeping eye on its legal, institutional, and implementation dimensions.

Policy Content Analysis

The content analysis provides in-depth analysis framework in terms of strengths and weakness of the said policy guidelines.

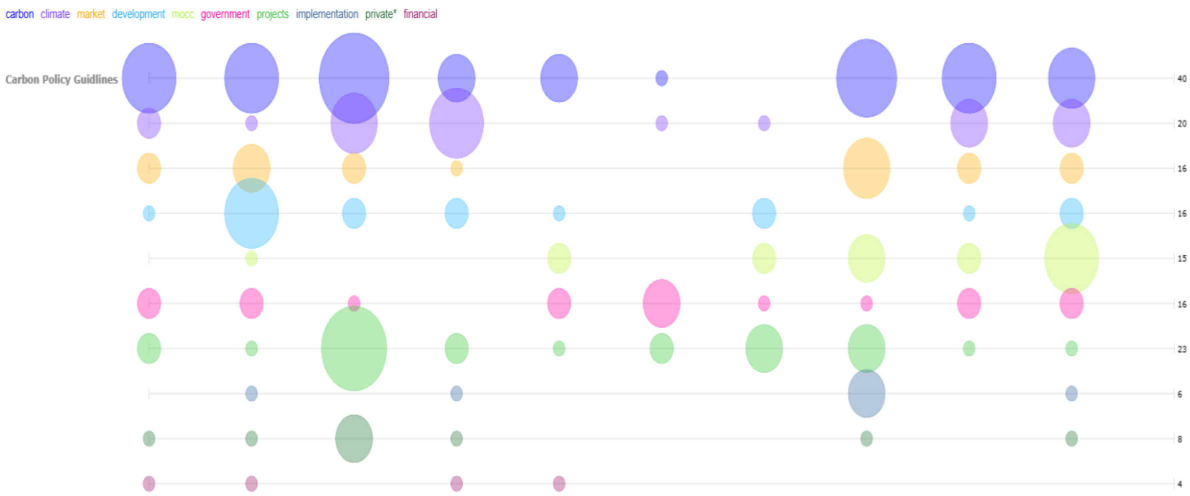

Figure 1 Bubble lines Approved Carbon Policy Guidelines
Source: Author’s Own Construct

The bubble line term frequency-based chart of the carbon policy guidelines gives insight into key themes of the document. Bubble size and location convey relative terms frequencies in a neutral presentation of policy priorities. Carbon and climate bubbles of greater size represent high priorities on carbon markets and climate actions, while market and development represent priorities on economic possibilities and sustainability. The Ministry of Climate Change (MoCC) stands out as the institutional driver, with government and projects emphasising the policy implementation role of public agencies. Smaller bubbles for private and financial, however, reflect less emphasis on financial incentives and private sector involvement, even though these are key to market scalability and mobilisation of investment.

The graphical depiction depicts regulatory, institutional, implementation, and market-driven characteristics of policy with evidence of compliance to international goals for climate and economic advantages. Although global legal commitments are strongly established, procedural complexity and the gap in enacting laws exist. The institutional framework is sound with evidence of attempts towards active governance and building capacities, but private sector incentives and inter-institutional coordination need to be enhanced. The strategy of implementation, especially MRV integration, is to be appreciated, but bureaucratic inefficiencies and equitable distribution of resources are unresolved issues. Pakistan's main challenges, such as institutional duplication, intricate regulations, financial constraints, and limited private sector engagement, are recognised in the policy, but additional refinements must be made to make carbon markets a success.

Legal Framework

The policy guidelines are grounded in robust legal frameworks, consistent with Pakistan's international climate obligations under the Paris Agreement. By following Articles 6.2, 6.4, and 6.8, the framework guarantees carbon credit creation, verification, and trading while avoiding double counting and strengthening emission reduction pledges. It incorporates measurement, reporting, and verification (MRV) systems to promote transparency and accountability. Also, it lays out a disciplined legal structure for communities, businesses, and taxpayers with a stipulated procedure for NOC and LOI, in order to promote the facilitation of project authorisation and mechanisms of carbon trade.

Nonetheless, a few shortfalls are there. There is a lack of definition in terms of independent validation of Paris Agreement stipulations' compliance and mechanisms that would compel them in the long term. Bureaucratic delays in NOC issuance, LOI submission, and Project Document Design (PDD) procedures can delay implementation and introduce inefficiencies. Furthermore, the lack of stringent penalties for non-compliance undermines enforcement, which can compromise market credibility. An explicit grievance redressal mechanism is also lacking, exposing stakeholders to procedural delays. Without effective enforcement mechanisms, investor confidence and market stability can be undermined, curtailing the efficacy of Pakistan's carbon market programs.

Institutional Framework

The institutional framework consists of the National Designated Authority (NDA) and Carbon Market Working Group (CMWG) to ensure policy goals, transparency, and governance of carbon markets. The Ministry of Climate Change will initiate a National Carbon Registry to facilitate MRV system development. The structure also prioritises capacity building for government, private sector, and environmental organisations, ensuring extensive stakeholder training. Moreover, it introduces a coordination system between federating units, such as GB and AJK, to facilitate integration and fair contribution.

Notwithstanding this formal method, coordination remains a problem. Institutional overlap in roles and weak direction can lead to task replication, wastage of resources, and low-level stakeholder involvement. Institutional inefficiencies have often caused water and energy projects to be delayed as a result of control and authority disputes. To prevent such problems, the Ministry of Climate Change (MoCC) must act as a central coordinating authority, like AEDB for renewable energy, to simplify governance, improve coordination, and facilitate effective implementation based on pre-defined roles and procedures.

Implementation Framework

The implementation framework strategically targets climate-related sectors like forests, agriculture, water, transport, energy, and industry in line with Pakistan's Nationally Determined Contributions (NDCs). It incorporates policy guidelines for the collection of revenue, like the Corresponding Adjustment Fee (CFA), to complement provincial climate action and national development priorities. By combining MRV systems with biennial transparency reports, as per Article 13 of the Paris Agreement, the framework strengthens accountability and ensures global carbon credit standards compliance.

Nonetheless, some challenges will undermine effective implementation. Inadequate allocation of funds, improper financial management, and poor transparency can undermine stakeholders' trust as well as the effectiveness of the policy. High administrative expenses and mandatory revenue withdrawal could deter the development of projects, market entry, and activism. Moreover, uncertain mechanisms of fund utilisation in CFA fuel concerns of corruption and mismanagement. Moreover, infrastructural inefficiencies in decentralized carbon registries and MRV systems could jeopardise policy implementation, undermining its intended effect.

Conclusion and Policy Recommendations

Pakistan's Policy Guidelines for Carbon Markets – 2024 provides a basis for the utilisation of carbon credits and emissions trading to support the country's climate goals. The policy framework is in line with international climate commitments, such as the Paris Agreement, and integrates key elements such as regulatory structures, institutional roles, and implementation mechanisms. It shows a strong commitment to market-based solutions for emissions reduction, focusing on compliance-based and voluntary carbon markets to attract both domestic and international investments.

Although the policy has a well-defined framework, it lacks mechanisms for institutional cooperation; has no incentives or facilities to engage private sector participation; and fails to include an effective evaluation system to monitor its implementation. Regulatory complexities, administrative inefficiency, and poor enforcement mechanisms could limit the scaling up of carbon market projects and delay the impact of the policy implementation. Moreover, uncertainties in fund allocation and bureaucratic bottlenecks may exist along with infrastructural gaps in decentralised MRV systems, which creates challenges towards effective execution.

Streamlining regulatory processes, coordination among institutions, clear mechanisms for penalty, and transparent financial frameworks are to be established for the successful operationalisation of the carbon market in Pakistan. Incentives like tax incentives, grants, and subsidies for the private sector will be crucial along with capacity building for long-term market growth. It is going to help Pakistan achieve its climate objectives and provide economic opportunities through a well-regulated carbon market by addressing these challenges through strategic reforms and policy adjustments. Government may adopt following policy recommendation to get maximise benefit from the carbon market policy:

- Implement a single-point approval system within a year to minimise bureaucratic inefficiencies.
- Institutionalise the mechanism for non-compliance through a stipulated penalty procedure, to add muscle to the policy guidelines and law framework.
- Introduce an articulation and coordination mechanism of governmental departments, in a structured form, without overlapping or repetition.
- Formulate a viable incentive program (such as green investments) to entice the private sector to join in.
- Learn from successful carbon markets, such as the EU Emission Trading System, by introducing subsidies, grants, and tax exemptions to attract long-term private sector investments.
- Ensure that the collection and allocation of funds are transparent and focused on high-potential sectors such as renewables and forestry through a Corresponding Adjustment Fee mechanism over two years.
- Apply centralised, transparent financial measures to build investor and stakeholder trust.
- Accelerate decentralised development of MRV systems with added traceability that prevents double counting.
- Build capability, train skills, and expand local knowledge, and expertise in the carbon markets away from the trend of foreign consultant dependency.

Action Area	Pathways to Solution	Solution	Actor Responsible	Timelines
Bureaucratic Efficiency	Implement a single-point approval system	Develop a streamlined approval portal with standardised procedures	Ministry of Climate Change (MoCC), National Tariff Commission (NTC)	1 year
Policy Enforcement	Institutionalise non-compliance penalties	Enforce clear fines and legal repercussions for violations	MoCC, Ministry of Law & Justice	1 year
Inter-Departmental Coordination	Establish a structured coordination mechanism	Create an inter-agency council to prevent overlap and ensure effective collaboration	MoCC, Ministry of Finance, Provincial Climate Units	1 year
Private Sector Engagement	Formulate a green investment incentive program	Introduce tax exemptions, green bonds, and financial incentives for low-carbon projects	Ministry of Finance, Board of Investment (BOI)	2 years
Learning from Global Best Practices	Adapt EU ETS-style carbon market strategies	Implement subsidies, grants, and carbon pricing mechanisms	MoCC, Ministry of Commerce, Securities & Exchange Commission of Pakistan (SECP)	2 years
Transparent Fund Allocation	Corresponding Adjustment Fee (CFA) for targeted sectors	Implement digital tracking and public reporting of collected funds	MoCC, Ministry of Finance, Auditor General’s Office	2 years
Financial Transparency & Investor Trust	Apply centralised, transparent financial measures	Develop blockchain or digital platforms for carbon credit transactions	SECP, State Bank of Pakistan (SBP)	2 years
Decentralised MRV Systems	Enhance traceability and prevent double counting	Establish regional MRV centres with technology-driven verification	MoCC, Provincial Governments	2 years
Capacity Building & Local Expertise	Reduce reliance on foreign consultants	Launch training programs and university collaborations for domestic expertise development	Higher Education Commission (HEC), MoCC, Private Sector	3 years

About the Authors

Dr Aneel Salman holds the distinguished OGDCL-IPRI Chair-Economic Security at the Islamabad Policy Research Institute (IPRI) in Pakistan. As a leading international economist, Dr Salman specialises in Monetary Resilience, Macroeconomics, Behavioural Economics, Transnational Trade Dynamics, Strategy-driven Policy Formulation, and the multifaceted challenges of Climate Change. His high-impact research has been widely recognised and adopted, influencing strategic planning and policymaking across various sectors and organisations in Pakistan. Beyond his academic prowess, Dr Salman is a Master Trainer, having imparted his expertise to bureaucrats, Law Enforcement Agencies (LEAs), military personnel, diplomats, and other key stakeholders furthering the cause of informed economic decision-making and resilience.

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