

## **Effective Implementation of Carbon Markets in Pakistan**

Pakistan stands at a pivotal crossroads, where striking the right balance between economic growth and environmental conservation needs to take centre stage. The nation is confronted with urgent challenges, such as the far-reaching effects of climate change, evident in the form of extreme weather events, substantial economic setbacks, and adverse health repercussions. Notably, the year 2022 witnessed a persistent economic crisis, presenting formidable challenges and resulting in economic losses surpassing USD 30 billion (Rajvanshi 2023). As a result, the imperative for implementing reforms and seeking external support to expedite recovery was amplified.

Within this context, climate finance emerges as a promising tool to effectively mobilise financial resources toward climate change mitigation and adaptation efforts. The estimated adaptation needs for the country are projected to be between USD 7-14 billion. In addition, fulfilling climate objectives, particularly those related to the energy transition, demands a substantial investment of USD 101 billion (Mako et al. 2022). Despite securing considerable funding from prominent entities such as the Global Environment Facility (GEF), Green Climate Fund (GCF), Adaptation Fund, NAMA Facility, World Bank, and Asian Infrastructure Investment Bank (AIIB), the scale of these investments remains insufficient to comprehensively address the nation's climate needs.

In the present context, it is crucial to seize untapped opportunities that effectively address both economic and environmental concerns. One such imperative measure is the implementation of carbon pricing mechanisms. By doing so, Pakistan can unlock the potential to generate significant fiscal resources and create green jobs, thus bolstering the nation's sustainable recovery in the medium term. On top of this, it is a process that incentivises investments in renewable energy projects, driving the country's shift towards a low-carbon economy and reducing reliance on fossil fuels. By trading carbon credits with other countries or companies seeking emission offsets, Pakistan can secure additional funds to bolster climate change mitigation and adaptation efforts, effectively meeting its climate targets.

However, Pakistan's progress in the global carbon market realm is limited, necessitating the establishment of a robust and efficient trading system with notable challenges in terms of technical and administrative expertise, particularly concerning industrial decarbonisation, clean energy transition and electric vehicles that are highly pertinent to the country's context. Therefore, a collaborative approach, as envisaged in Article 6 of the Paris Agreement, for the establishment of carbon markets among key stakeholders, is needed.

In this regard, the Sustainable Development Policy Institute (SDPI) and the Embassy of Denmark have engaged in a collaborative effort, jointly undertaking projects pertaining to carbon markets and carbon trading. The primary objective of these initiatives is to drive the discourse surrounding

carbon trading, while concurrently bolstering resilience as well as advancing strategies that reinforce societal adaptability in the face of climate challenges.

Moreover, there is an urgent requirement for complementary non-market approaches, such as financial support and capacity building initiatives. These measures should be geared towards equipping policymakers, regulators, businesses, developers, potential validation/verification bodies, as well as buyers, retailers, and traders with the necessary knowledge and skills related to carbon markets. By strengthening their capabilities, Pakistan can accelerate its progress in effectively navigating and participating in these markets, promoting sustainable development and climate mitigation efforts.

Hence, this panel aims to explore potential pathways for the effective implementation of carbon markets in Pakistan by leveraging knowledge sharing and crucial lessons learnt from Denmark's well-established carbon market framework. Specific objectives will include:

- To highlight the need for a functional carbon market in Pakistan, enabling private entities to trade carbon credits and promote low-carbon projects.
- Integrate carbon pricing strategies into economic policies to support and advance multiple Sustainable Development Goals (SDGs), such as clean energy, sustainable cities, responsible consumption, and climate action.
- Strengthen institutional capacity and awareness about carbon pricing among policymakers, businesses, and local communities.
- To learn from global best practices on existing carbon markets in use, various pricing options available and monitoring/verification mechanisms.

## References

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