TRANSPARENCY INTERNATIONAL - PAKISTAN

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February 18, 2026 TL2026/0218/1A

Advisor to the Prime Minister,
PM House, Islamabad

(For the Attention of the Honorable Prime Minister)
Subject: Transparency International Pakistan's Recommendation for Notifying the Draft Rules on Carbon Market Activities to Operationalize the Carbon Market Ecosystem in Pakistan in line with Article 6.2 and 6.4 of the Paris Agreement

Dear Sir,

Transparency International Pakistan would like to draw your attention to the ***"Development of a Carbon Market Framework in Pakistan: Draft Rules on Carbon Market Activities"*** pending approval and notification for many months. TI Pakistan appreciates that a significant effort has been put in by the government for the preparation of the draft rules including inviting civil society input.

The draft rules emphasize integrity, transparency, public disclosure of information, inclusion of local communities and national stakeholders. In order to further strengthen integrity in key areas (supply side, demand side, social and environmental safeguards and benefit sharing), TI Pakistan had earlier recommended key areas to be added in the draft rules on carbon market activities in Pakistan. The detailed recommendations in this regard are enclosed as **(Annex-A)**.

Since early 2025, Pakistan has made milestone progress on operationalizing Article 6.2 and 6.4 through the approval of the National Carbon Market Policy and the significant rise in international interest that positioned the country as a credible future supplier of high-integrity carbon credits. However, the operational gaps have presently slowed the momentum as the notification of Carbon Market Rules remain pending approval for many months. The absence of the rules also mean that a functional national registry is affected which can potentially delay the issuing of Letters of Intent and Authorization. Addressing these areas in a timely and coordinated manner will be essential to maintain investor confidence and protect Pakistan's credibility in international carbon markets.

Transparency International Pakistan's latest assessment titled *"Carbon Markets Readiness in Pakistan: Addressing Governance Gaps and Safeguarding Against Integrity Risks"* highlights Pakistan's potential to generate 40–75 million tons of tradable carbon credits per year, if even 10–15% of Pakistan's annual greenhouse gas emissions were addressed through carbon projects. At current voluntary market prices, this translates to a potential revenue stream of USD 400 million to USD 2.25 billion annually for the country. With enabling ecosystems in place, Pakistan holds the potential to mobilize substantial climate finance through carbon markets while reinforcing long term economic and environmental gains.

In order to ensure strong integrity measures in the draft rules, TI Pakistan also highlights the need to integrate equitable benefit-sharing mechanisms as a mandatory part of the carbon markets regulatory framework. In this regard, TI Pakistan has prepared draft framework titled

"Equity and Inclusion Strategy for Equitable Benefit-Sharing in Carbon Markets" to enhance inclusivity, transparency, and community participation in carbon market activities **(Annex-B)**

Transparency International Pakistan requests the honorable Prime Minister to issue directives to the Ministry of Climate Change & Environmental Coordination to notify Carbon Market Rules, establish and launch National Carbon Registry, Operationalize LoIs and LoAs, Finalize MRV, accreditation, integrity safeguard and benefit sharing mechanisms, all of which are necessary for a high-integrity and high-value carbon markets in the country.

Transparency International Pakistan remains available for any technical assistance that may be required to support integrity and anti-corruption safeguards in the operationalization of carbon markets in the country.

Regards,

Advocate Daniyal Muzaffar
Trustee/Legal Advisor
Transparency International Pakistan

Copies forwarded for the information with request to take action under their mandate:

1. Federal Minister, Ministry of Climate Change and Environmental Coordination (MoCC), Islamabad
2. Coordinator to Prime Minister of Pakistan on Climate Change and Environmental Coordination (CC&EC), Islamabad
3. Federal Secretary, Ministry of Climate Change and Environmental Coordination (MoCC), Islamabad
4. Chairman, Climate Change Authority, Islamabad
5. Chairperson, National Assembly Standing Committee on Climate Change, Islamabad
6. All Members of National Assembly Standing Committee on Climate Change, Islamabad
7. Chairperson, Senate Standing Committee on Climate Change, Islamabad
8. All Members of Senate Standing Committee on Climate Change, Islamabad
9. Chairman, NDMA, Islamabad
10. Chief Minister, Government of Punjab, Lahore
11. Chief Minister, Government of Sindh, Karachi
12. Chief Minister, Government of Khyber Pakhtunkhwa, Peshawar
13. Chief Minister, Government of Balochistan, Quetta
14. Provincial Minister, Environment Protection and Climate Change Punjab, Lahore
15. Provincial Minister, Environment, Climate Change & Coastal Development Department Sindh, Karachi
16. Provincial Minister, Climate Change, Forestry, Environment & Wildlife Khyber Pakhtunkhwa, Peshawar
17. Advisor, Climate Change & Environment Balochistan, Quetta
18. Provincial Secretary, Environment Protection and Climate Change Punjab, Lahore
19. Provincial Secretary, Environment, Climate Change & Coastal Development Department Sindh, Karachi

20. Provincial Secretary, Climate Change, Forestry, Environment & Wildlife Khyber Pakhtunkhwa, Peshawar
21. Provincial Secretary, Climate Change & Environment Balochistan, Quetta
22. Representative, United Nations Environment Programme, Asia Pacific Regional Office, Bangkok
23. Country Representative, UNDP, Islamabad
24. Country Representative, GIZ, Islamabad
25. Country Representative, IMF, Islamabad
26. Country Representative, World Bank, Islamabad
27. Country Representative, ADB, Islamabad
28. Program Manager, SPAR6C Pakistan
29. Ambassador of Germany, German Embassy, Islamabad
30. Registrar, Supreme Court of Pakistan

Copies forwarded for the information to:

1. Federal Minister for Climate Change and Environmental Coordination in Pakistan, Islamabad.
2. Federal Minister for Finance & Revenue Government of Pakistan, Islamabad.

Note:

This is to clarify that Transparency International Pakistan is not a complainant, it acts as a whistleblower and operates under Article 19-A, of the Constitution of Pakistan which gives the right to public to know how government is being run by public officers. Article 19-A makes the right to access of information pertaining to a public authority a fundamental right, and a three-member bench in case of Mukhtar Ahmad Ali vs the Registrar, Supreme Court of Pakistan, Islamabad, headed by Chief Justice Qazi Faez Isa in the landmark judgment on 16 October 2023, in CP No. 3532/2023, has declared that

> *"What previously may have been on a need-to-know basis Article 19A of the Constitution has transformed it to a right-to-know, and the Access to information is no longer a discretion granted through occasional benevolence. but is now a fundamental right available with every Pakistani which right may be invoked under Article 19A of the Constitution"*

Annex-A

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October 10, 2024

TL2024/1010/1A

Principal Secretary to PM,
Prime Minister House,
Islamabad.

(For the attention of the Honorable Prime Minister)

Subject: Transparency International Pakistan Recommendations for Pakistan's First Carbon Credits Guidelines, Policy Framework for Trading in Carbon Markets Being Developed by the Ministry of Climate Change and Environmental Coordination (MoCC&EC)

Dear Sir,

Transparency International Pakistan appreciates the initiative of the federal government for developing policy guidelines/ framework for Trading in Carbon Markets 2024. Pakistan contributes the least to global GHG emissions (0.8%), however, it continues to remain as one of the countries hardest hit by climate (5th most vulnerable). Carbon markets are considered as an effective mechanism to help address climate change by targeting the reduction of greenhouse gases (GHG) in the atmosphere as envisioned in Article 6 of the Partis Agreement. Carbon markets provide economic incentives for transitioning to more sustainable sources, which are crucial for Pakistan to meet its targets as set out in the Nationally Determined Contributions (NDCs) 2021.

Transparency International has pointed out that there are integrity, transparency and accountability risks in the carbon markets. As Pakistan develops its first policy guidelines for Trading in Carbon Markets, it is important that the framework includes robust oversight and transparency measures based on global best practices. In this regard, TI Pakistan recommends the following to mitigate the potential integrity risks in carbon credits and offset projects in Pakistan.

Recommendation 1: Market Oversight, Project Approvals and Monitoring

Given a relatively new nature of carbon credits market, there is a need to address governance arrangement around authorization of projects, in the guidelines for Trading in Carbon Markets being developed by MoCC&EC. Transparency International has pointed out that the risk of fraud, embezzlement and conflict of interest in the authorization of projects remain high. To address these integrity risks, TI Pakistan recommends the following in line with Article 6.2, 6.4 and 6.8 of the Paris Agreement which provides the guidelines for the creation and verification of carbon credits and safeguards against double counting. The MoCC&EC must put in place a measurement mechanism whereby it is imperative that the verification is not contracted by the project developers, which raises potential risk of "Conflict of Interest". In this regard, a mechanism like Pakistan Public Procurement Regulatory Authority (PPRA) Rule 7 (Integrity Pact) shall be enforced whereby if either the a) project approving agency at the national level, b) project implementer trading carbon credits or c) the intermediary, if engaged in any corrupt practice, shall be subject to sanctions and penalty.

Recommendation 2: Participation of Local Communities in REDD+ Projects

The Trading in Carbon Markets Guidelines must emphasize on the inclusion of the local communities in the design of the projects. Reducing Emission from Desertification and forest Degradation (REDD+) must particularly include forest-based communities in the decision-making process and share the benefits of these projects. For example, Transparency International has highlighted that an offsetting project in Mikoko Pamoja in Kenya, works to protect mangrove forests while also directly benefitting the community. In this project, carbon revenues have financed the purchase of hospital equipment and schoolbooks as well as the construction of freshwater wells among other community benefits. The MoCC&EC shall establish a **"Benefit Sharing Mechanism"**, ensuring that local communities receive a fair share of the financial and social benefits from carbon offsetting projects. Key areas such as infrastructure, access to clean energy, and community development programs which uplift communities shall be prioritized.

Recommendation 3: Environmental Integrity in the Carbon Market

The integrity of the carbon market depends on its efficacy and effectiveness to reduce carbon emissions. This requires accounting for every tonne of carbon (or carbon equivalent) emitted, saved and removed from the atmosphere. In this regard, The Climate Change Authority, as mandated under the Climate Change Act 2017 to oversee climate finance projects, must establish an effective oversight mechanism as a regulatory body to validate the quality of the credits traded in the market as well as monitor the approval and the implementation of the projects.

Recommendation 4: Robust Third-Party Validation and Verification

There is a need to put in place, monitoring and reporting mechanisms that can help verify carbon offsetting claims through a robust third-party validation and verification. In this regard, MoCC&EC must establish the "Carbon Registry", a centralized database to provide open information on climate projects and emission reduction credits. For instance, Ghana has launched 'Carbon Registry' to collect, verify and track transactions from mitigation activities – a bottom up approach to quantify and verify the GHG emissions reductions and their carbon credits. This will not only ensure an oversight on the companies eligible to trade in the carbon market, but also improve transparency and allow civil society and local communities to track the allocation and use of carbon credits, reducing opportunities for corruption. The Guidelines must also establish Whistleblower Protection Mechanisms to encourage reporting of corrupt practices without fear of retaliation.

Transparency International Pakistan requests the honorable Prime Minister to issue directives for the inclusion of the key recommendations based on global best practices, in the Carbon Markets

Trading Guidelines, to ensure that integrity risks are addressed and Pakistan can take full benefit from carbon mitigation projects to address the effects of climate change.

Transparency International Pakistan is striving for across the board application of Rule of Law, which is the only way to stop corruption, and achieve Zero tolerance against corruption.

Regards,

Advocate Daniyal Muzaffar
Trustee/Legal Advisor
Transparency International Pakistan

Copies forwarded for the information with request to take action under their mandate:

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10. Advisor, Climate Change & Environment Balochistan, Quetta
11. Federal Secretary, Ministry of Climate Change and Environmental Coordination (MoCC), Islamabad
12. Provincial Secretary, Environment Protection and Climate Change Punjab, Lahore
13. Provincial Secretary, Environment, Climate Change & Coastal Development Department Sindh, Karachi
14. Provincial Secretary, Climate Change, Forestry, Environment & Wildlife Khyber Pakhtunkhwa, Peshawar
15. Provincial Secretary, Climate Change & Environment Balochistan, Quetta
16. Representative, United Nations Environment Programme, Asia Pacific Regional Office, Bangkok

TRANSPARENCY INTERNATIONAL-PAKISTAN

TI Pakistan Recommendations on Equitable Benefit-Sharing Mechanisms as Part of Carbon Market Activity Rules

Context:

In December 2024, the Government of Pakistan introduced its Policy Guidelines for Carbon Markets at the 29th Conference of the Parties (COP 29) in Baku. This policy initiative represents a significant advancement in Pakistan's climate governance architecture, reflecting an institutional shift towards the adoption of market-based mechanisms for achieving national emissions reduction targets. The guidelines articulate a strategic vision for leveraging carbon markets to mobilize climate finance, promote private sector participation, and facilitate a transition to low-carbon development pathways.

Carbon markets function by assigning a monetary value to emissions reductions, thereby creating economic incentives for actors to invest in mitigation activities. Within the context of Pakistan's climate policy, carbon trading is positioned as a complementary instrument to support the delivery of its Nationally Determined Contributions (NDCs) 2021, as submitted under the Paris Agreement.

The policy is explicitly aligned with Article 6 of the Paris Agreement, which provides the legal and institutional framework for voluntary international cooperation through carbon markets. Specifically, Article 6.2 enables the use of Internationally Transferred Mitigation Outcomes (ITMOs), allowing countries to exchange verified emissions reductions in pursuit of their climate objectives. Article 6.4, in contrast, establishes a centralized mechanism under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC), designed to enhance environmental integrity, promote sustainable development, and ensure robust accounting and transparency procedures.

Through the adoption of these guidelines, Pakistan seeks to operationalize its engagement with international carbon markets in a manner that is both environmentally sound and economically viable. The policy also lays the groundwork for integrating social safeguards and equity considerations into carbon market governance, thereby ensuring alignment with both global best practices and national development priorities.

Ensuring equitable benefit-sharing and their management is a key pillar of the carbon markets ecosystem. This draft strategy will be making recommendations to the Ministry of Climate Change & Environmental Coordination on how these mechanisms can be integrated within the upcoming policy documents, in particular rules on carbon market activities in Pakistan.

Within the guidelines and the rules, equitable benefit sharing is recognized as an objective of the carbon markets. It is also recognized as an outcome, with the Ministry (also the National Designated Authority for the carbon markets) responsible for being the primary proponent of the equitable benefit sharing arrangements. Given its importance, the mechanism remains notably underrepresented in the existing guidelines.

Key Definitions:

These terms may not have uniform definitions, but a clear understanding of their context and intent is crucial before moving towards implementation. It is however, pertinent to note that the Forest Carbon Partnership Facility[1] worked on definitions of benefit-sharing terminologies,

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[1] A global partnership of diverse stakeholders focused on activities commonly referred to as the REDD+, with membership spanning over 47 countries and a benefits portfolio of USD 1.3 billion.

which were later endorsed and published by the Integrity Council for the Voluntary Carbon Markets[2].

- Benefit: *Commonly regarded as the revenues from the sale of carbon credits. These revenues may then partially be redistributed to local stakeholders or project implementers. The form of such redistribution may include monetary and non-monetary benefits.*
- Benefit Sharing: *The sharing of Monetary and Non-Monetary Benefits with mitigation activity's Partners.*
- Benefit sharing arrangements: *Describes the processes for the distribution of Monetary and Non-Monetary Benefits to Beneficiaries, including the types and proportions of benefits to be shared and the Mechanism by which such benefits will be distributed.*

Importance of equitable benefit sharing:

Financial gains from carbon offset projects are usually shared between stakeholders, largely for emissions reduction. The scope of benefit-sharing includes the distribution of social, economic, and environmental benefits to local communities and other stakeholders who are directly or indirectly impacted by these projects.

Local communities can benefit from carbon market initiatives in multiple ways, including the creation of livelihood opportunities, improved public health and education outcomes, ecosystem and biodiversity conservation, and strengthened local infrastructure. Ensuring these benefits reach affected communities is essential, not only from an equity perspective, but also to foster long-term trust and cooperation between project developers and local populations. Moreover, inclusive and equitable benefit-sharing mechanisms contribute to the overall success and credibility of carbon market projects. They help align climate action with sustainable development goals by ensuring that no group is left behind in the transition to a low-carbon economy.

Recommendations for integrating equitable benefit sharing in Pakistan's carbon market policies:

- **Identification of beneficiaries and devising relevant eligibility criteria:** The beneficiaries/IPLCs should be identified through an impact-focused approach, based on the state of their vulnerability, prioritizing resident communities of Protected Areas, OECMs, KBAs, and eco-regions. Similarly, it is also important that zoning for projects is done, where projects are implemented in geographical proximity of the emissions, to ensure that the offsetting process is effective. The eligibility criteria for identifying beneficiaries should be clearly defined, transparently communicated, and consistently applied. These criteria may be based on factors such as socio-economic & climate vulnerability, financial need, and the relevance or contribution of specific community groups to the project area

- **Ensuring a consultative, transparent and participatory process:** The entire process of developing carbon market projects should be consultative, transparent and participatory, with the local communities being integrated at early stages. It should reflect inputs from relevant stakeholders, including the IPLCs and affected communities, particularly vulnerable groups such as women, children and youth. To

[2] A non-profit, independent governance body that aims to set and maintain a global standard for high integrity in the voluntary carbon market.

ensure transparency, monitoring and progress reports on the projects must be mandated and submitted.

- **Linguistic accessibility and building capacity:** The benefit sharing arrangements must not just be developed in consultation with the potential beneficiaries but also disclosed and available to them in the form and language understandable to them. The capacity of the IPLCs must also be built to equip them with knowledge and skills to understand and meaningfully participate in the carbon markets. This will ensure inclusion and increase transparency.

- **Integration of World Bank's Environmental and Social Safeguards:** The safeguards must be at the centre of the projects, in addition to the UNFCCC guidance related to REDD+. There must be proper information and disclosures in line with the safeguards. https://www.worldbank.org/en/projects-operations/environmental-and-social-framework

- **Feedback and Grievance Redressal Mechanism (FGRM):** Having an appropriate FGRM will allow the NDA to identify and better understand the impacts of the carbon market projects. FGRMs act as recourse for situations in which, despite proactive stakeholder engagement, some stakeholders have a concern about a project's potential impacts on them. This will also ensure inclusion of diverse voices and build trust between different stakeholders.

- **Adaptive benefit sharing and separation:**
  As the process should be participatory and consultative, the benefit sharing should also be adaptive and should be updated at regular intervals. There should also be a clear separation from the payments for results, such as payments for ecosystem services and the upcoming Loss & Damage payments. This entails that benefit sharing should not be a substitute, but rather a complement, to other payments, as above.

Design benefit sharing plan and social audit of benefit sharing claims: The carbon market activities rules must mandate that all carbon offset projects submit their benefit sharing plan to the NDA. It is important that all benefit sharing claims must also undergo yearly review/verification by the NDA.

- **Public Disclosure and compliance:** To promote trust, accountability, and informed stakeholder engagement, it is recommended that Pakistan's carbon market framework mandate public disclosure of benefit-sharing arrangements. This may include transparent reporting on the total finances allocated for benefit-sharing, the amounts distributed to each stakeholder group across geographic areas, the methodology, and the full range of non-monetary benefits provided. Open access to this information will strengthen stakeholder confidence, ensure equitable outcomes, and improve the credibility of carbon market projects. This would also ensure alignment with international standards like Verra, REDD+ and the Gold Standard which promote public availability of information on benefit-sharing[3].

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[3] World Bank, Forest Carbon Partnership Facility (FCPF). *Benefit Sharing in Results-Based Finance: Good Practice Guidance and Lessons Learned for Benefit-Sharing Plan Development.* 2020