

Development Advocate Pakistan

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THE BUSINESS OF MONEY Who Pays for Development?





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Development Advocate Pakistan provides a platform for the exchange of ideas on key development issues and challenges in Pakistan. Focusing on a specific development theme in each edition, this quarterly publication fosters public discourse and presents varying perspectives from civil society, academia, government and development partners. The publication makes an explicit effort to include the voices of women and youth in the ongoing discourse. A combination of analysis and public opinion articles promote and inform debate on development ideas while presenting up-to-date information.


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The Business of Money: Who Pays for Development?

The business of money must become the business of purpose—where public and private financial decisions serve people, and where inclusion, dignity, accountability and sustainability guide every investment.

At the heart of development lies a simple yet unresolved question: how do we finance a fairer future? Today, the business of money is failing those who need it the most.

There are five years remaining in the 2030 Agenda with fewer than 20 percent of SDG targets on track. The 2024/25 Human Development Report warns that decades of progress, reflected in the Human Development Index, have flatlined, with no clear recovery from the blows dealt by the COVID-19 pandemic and subsequent crises. With deep cuts and reductions from traditional donors - along with rising but still aspirational funding possibilities from non-traditional donors, philanthropies, and the private sector - development needs still face a widening financing gap at a time of fiscal uncertainty and stress.

According to the State Bank of Pakistan, the country's external debt stock reached around US\$ 271 billion as of March 2025. Debt servicing has nearly tripled over the past 15 years—from US\$4.5 billion in FY 2008–09 to US\$14.7 billion in FY 2023–24. The recently announced FY 2025–26 federal budget allocates nearly US\$28.9 billion to debt servicing—amounting to almost half of total

federal expenditures. In contrast, development spending is budgeted at just US\$3.5 billion. This sharp disparity highlights the deep fiscal compression Pakistan faces and the urgent trade-offs between stabilization and investment. The tension between austerity, fiscal reform and stabilization, investment, and growth has never been more acute.

For these new uncharted development financing waters, the question is not if we need more financing—it is where it will come from, and how will it be blended and deployed for maximum effectiveness.

Globally, resources exist. But with the traditional aid paradigm rapidly changing, the misalignment between development needs and resources is hard to ignore. For example, the UNDP SDG Finance Hub estimates that US\$4.2 trillion annually is required to bridge the development financing gap and meet the Sustainable Development Goals. With global private wealth exceeding US\$460 trillion, redirecting just 1 percent could bridge the divide. As the world prepares for the fourth International Financing for Development Conference (FFD4) in June 2025, a growing consensus is required: a new, integrated, inclusive development finance architecture is



By
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Photo Credit: REUTERS/Fajaz Aziz

required that puts people and results at the center and crowds in more investors.

For Pakistan, aligned with the Prime Minister Shehbaz Sharif's Reform and Economic Transformation Plan, the way forward will require renewed fiscal discipline, stronger domestic resource mobilization, and bold policy reform. It will also require a shift from transactional support to transformational capital.

Encouragingly, local innovations are showing the way, many of which are profiled in this issue of Development Advocate Pakistan: The Business of Money. The Government of Punjab's pioneering Integrated Financing Strategy places climate finance, private-sector engagement, and impact investing at the heart of provincial development planning. UNDP's Insurance and Risk Finance Facility is helping to build the foundations of a national risk financing ecosystem—one that protects both vulnerable people and public finances.

There are also signs of growing investor confidence. In early 2025, the State Bank of Pakistan launched its first Shariah-compliant Green Sukuk. Initially valued at over US\$100 million,

the instrument was oversubscribed five-fold—underscoring a strong appetite for climate-smart investments. This momentum is reinforced by the State Bank's draft National Green Taxonomy, released in February 2025, which sets out clear criteria for environmentally sustainable economic activities. Once adopted, it is expected to improve transparency, build investor trust, and direct public and private capital toward the estimated US\$348 billion required for climate mitigation and adaptation by 2030.

Pakistan's venture capital market, while volatile, remains a space of enormous potential. Between 2015 and 2024, Pakistani startups raised approximately US\$1 billion in funding. Though 2024 saw a significant decline—from US\$355 million in 2022 to just US\$37 million—underlying fundamentals remain strong: a thriving digital economy, a vibrant entrepreneurial culture, and one of the world's youngest workforces.

Philanthropy also holds untapped promise. Pakistan's charitable donations represent about 1 percent of GDP. Structured philanthropic finance, or donor-backed blended models—as piloted by the Pakistan Microfinance Investment Company, can bring new

resources to the table for social impact at scale.

What Pakistan needs now is not just more money, but better financing: smarter, aligned, and anchored in national priorities. A deliberate approach that builds trust, reduces risk for private investors, and normalizes public-private collaboration will be essential.

Ultimately, the business of money must become the business of purpose—where public and private financial decisions serve people, and where inclusion, dignity, accountability, and sustainability guide every investment. The future depends not just on how much we receive and how much we spend, but on the transformational quality of development financing and expenditure. Pakistan, today, appears willing and able to meet this challenge.

On the Money: Investing in Pakistan's Women

With the SDG 5 already off-track and global aid shrinking, Pakistan must decisively invest in its women, not just as beneficiaries but as drivers of economic growth.



By
Van Nguyen
Deputy Resident
Representative,
UNDP Pakistan

Recently, Pakistan slipped further to the very bottom of the 2025 Global Gender Gap Index, ranking 148th.¹ While this alarming position has triggered concern, it also presents a clear imperative: from here, the only way is up.

But why has Pakistan ended up here? A closer look at the data gives us the answers. Women make up half of Pakistan's population, and yet, only 21.4 percent are part of the labor force², the gender gap in bank account ownership is 34 percent³, and less than 1 percent of commercial loans go to women-led businesses.⁴

When women are kept away from their fair share of resources, it results in a deep feminization of poverty, which is seen in Pakistan's case. Around 40 percent of Pakistanis are living below the poverty line, and an overarching majority – 75 percent – of these are women. At the current rate of progress, it will take 149 years to close Pakistan's gender gap.

This exclusion of half the population is costing Pakistan dearly. Every year the country loses over PKR 500 billion to the gender wage gap.⁵ According to the World Bank, Pakistan's long-run GDP per capita could rise by over 57 percent if women's employment matched that of men. At a time when the country is contending with debt distress, climate shocks, and demographic pressure, investing in women and girls offers a guaranteed pathway to sustainable growth.

Yet Official Development Assistance (ODA) directed toward gender equality has declined globally, from 45 percent in 2019-20 to 42 percent in 2021-22, with projections suggesting a further dip amid tightening aid budgets. Pakistan, too, will be impacted as existing financial architectures fall short, particularly for women and marginalized communities.

Gender-Responsive Budgeting

To streamline investments in women's

1. World Economic Forum, Global Gender Gap Report 2025, World Economic Forum, 2025, Available at: <https://www.weforum.org/publications/global-gender-gap-report-2025/in-full/>
2. Pakistan Bureau of Statistics, Labour Force Survey 2020-21 Annual Report, Ministry of Planning, Development & Special Initiatives, Government of Pakistan, 2021, Available at: <https://www.pbs.gov.pk/publication/labour-force-survey-2020-21-annual-report>
3. State Bank of Pakistan, National Financial Inclusion Strategy 2024–28, State Bank of Pakistan, 2024, Available at: <https://www.sbp.org.pk/NFIS/NFIS2024-28.pdf>
4. Ministry of Finance, Government of Pakistan, Federal Budget FY2023–24 Gender Analysis, Government of Pakistan, 2023.
5. World Bank, Pakistan Country Economic Memorandum: Charting Pakistan's Development, World Bank, 2023, Available at: <https://documents1.worldbank.org/curated/en/099345107022230326/pdf/1DU0bd894bf3056e504750092f10338ae9c8dff8.pdf>

5 GENDER
EQUALITY



economic empowerment, Pakistan must, therefore, urgently double down on gender-responsive budgeting at the federal and provincial levels, provide women easier access to capital, and leverage fintech opportunities to ensure women's financial inclusion.

Gender-responsive budgeting is fundamental to both gender justice and fiscal justice. Encouragingly, Pakistan has already taken a positive step as it piloted gender budget tagging at the federal and provincial levels.

At the federal level, a gender analysis of the FY2023–24 budget revealed that only 9 percent of total spending was gender-relevant.⁶ For FY2025–26, the government has reaffirmed its commitment to strengthening gender responsiveness, allocating 9.2 percent of the current budget and 6.9 percent of the development budget to gender-sensitive areas.⁷ Notably, the federal government has also disaggregated gender-sensitive budgets and expenditures across all ministries, divisions, and departments, enhancing transparency and enabling more evidence-based policymaking.

In Punjab, pilot efforts revealed that only 5-7 percent of expenditures were tagged as 'highly gender relevant' (interventions that directly supported women and girls), and 36-44 percent were 'moderately relevant' (initiatives that may potentially benefit women and girls).⁸ In Sindh, the government increased funding for girls' schools, recruited more female teachers, and introduced stipends aimed at reducing dropout rates, demonstrating a commitment to advancing gender-responsive reforms.

While these are all developments in the right direction, sustaining this momentum is critical. As a next step, gender impact assessments should be integrated into all new public policies and projects. Moreover, gender budgeting units must be scaled up, finance personnel trained in tagging, and summary reports published regularly to ensure transparency and strengthen public accountability.

Direct Capital to Women

Unlocking private capital has become

essential and can amplify and accelerate financing for gender equality.

In a major achievement, Kashf Foundation launched South Asia's first Gender Bond in November 2023.⁹ The Gender Bond closed with participation from nearly 40 private sector investors. The proceeds, amounting to PKR 2.5 billion, are intended to finance women-led micro-businesses, support the development of housing for 30,000 low-income women, and improve school infrastructure to enhance access to quality education.

The Gender Bond is a compelling example of how capital market instruments can be leveraged for gender outcomes. It sets a precedent for organizations to follow. The Securities & Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP) must scale up and fast-track additional gender bonds and blended finance tools tailored to support women-led MSMEs.

Pakistan must double down on gender-responsive budgeting at the federal and provincial levels, provide women easier access to capital, and leverage fintech opportunities to ensure women's financial inclusion.



6. Ministry of Finance, Government of Pakistan, Federal Budget FY2023–24 Gender Analysis, Government of Pakistan, 2023
 7. Ministry of Finance, Government of Pakistan, Federal Budget FY2025-26, https://www.finance.gov.pk/budget/budget_2025_26/abs_eng_10062025.pdf
 8. Punjab Finance Department, Gender Budget Tagging Report FY2024–25, Government of Punjab, 2024
 9. SECP, Gender Bond Guidelines, Securities and Exchange Commission of Pakistan, 2023



Innovative Finance is the Game-Changer

Fintech is redefining financial access for Pakistani women, providing them with agency, and offering faster and safer ways to manage their money. The UNDP National Human Development Report 2024, *Doing Digital for Development*, found technology to be the game-changer for women's

Fintech is redefining financial access for Pakistani women, providing them with agency, and offering faster and safer ways to manage their money.

financial inclusion, with 61 percent of women using mobile wallets as their primary bank account and almost a third of them using it at least once a week.

Pakistan has taken incredible strides in making banking more accessible and inclusive for women.¹⁰ SBP's Financial Inclusion Strategy promotes branchless banking for women. JazzCash, Pakistan's largest mobile money provider nearly doubled its female user base in the last 3 years to 30 percent by introducing maternity loans, health micro-insurance and app features tailored for women's needs. JS Bank's 'Her Account' provides fee waivers and literacy support. SBP aims to include at least 10 percent female banking agents and 20 percent female representation across the banking workforce, ensuring women are facilitators of financial inclusion.

UNDP-supported initiatives like the Global Shield are piloting gender-responsive financial mechanisms, including weather-indexed insurance tailored for women farmers. Green finance models in clean cooking and

solar irrigation are reducing women's physical burden and environmental exposure. These innovations show that with targeted investment, women's resilience can be scaled. To do so, at least 25 percent of climate adaptation funds should support women-led initiatives with gender targets embedded in national climate strategies.

The Road Ahead

Pakistan is making progress in gender-focused financial innovations and while the early results are promising, the road ahead is a long one. The challenge now is to institutionalize these gains and embed gender equity into all financial decision-making.

Unless financial decision-making at both public and private levels embeds women's economic empowerment as a fundamental value and source of progress, Pakistan will remain trapped in a cycle of one step forward, two steps back.

Moving backward is no longer an option—the path ahead must lead forward.

10. State Bank of Pakistan, National Financial Inclusion Strategy Progress Report, State Bank of Pakistan, 2023

Interview with

H.E. Senator Muhammad Aurangzeb

Federal Minister of Finance and Revenue,
Government of Pakistan



A successful Pakistan by 2030 depends on balancing fiscal discipline with strategic SDG investments.

How do you assess Pakistan's current financing for development landscape in the context of rising global economic uncertainty, an evolving multilateral finance architecture including the growing role of new development partners such as China, BRICS institutions and regional funds? How is Pakistan adapting its development finance strategy and external cooperation approach in response?

Pakistan's financing for development landscape is transforming under global economic uncertainty due to the evolving multilateral finance structures and the growing influence of non-traditional partners such as China and BRICS institutions. The country has implemented fiscal reforms under programs, achieving modest GDP growth and stabilizing inflation. Reforms have included broadening the tax base, reducing energy inefficiencies and expanding digital financial

infrastructure.

Pakistan relies on traditional multilateral institutions such as the IMF and the World Bank. The IMF's Extended Fund Facility has provided US\$7 billion for macroeconomic stabilization, and the first review has been successful. Credit rating upgrades from Moody's and Fitch reflect improved fiscal credibility. However, despite this support, limited concessional financing hinders Pakistan's ability to meet the SDGs.

China remains Pakistan's most significant development partner. The partnership focuses on technology, infrastructure and industrial modernization. New agreements have been made for AI, blockchain and renewable energy and Special Economic Zones (SEZs) aimed to boost exports.

Pakistan is also exploring innovative capital market strategies and identifying alternative financing with a

diversified investor base. This includes the inaugural Panda Bond for the China market, sharia-compliant climate-driven sukus, SDG-aligned finance including carbon credits, green bonds and blended finance platforms. Notably, the first Green Sukuk was successfully closed with 5.4x oversubscription from investors. Pakistan is also tapping into the diaspora with retail investment instruments, developing a swaps market, securitization options, and working with the New Development Bank, among others.

The Carbon Market Policy / National Climate Finance Strategy has also been launched, aiming to mobilize climate finance for adaptation and mitigation with the aim of 50 percent reductions in emissions by 2030.

Additionally, partnerships with Turkey and Gulf states are significantly important. To adapt to global economic

The Government of Pakistan views digital finance as central to advancing financial inclusion. Strengthening domestic revenue generation and unlocking development funding requires rapid fintech expansion.

transitions, Pakistan is pursuing an export-led growth strategy and promoting SEZs to improve trade growth. Overall, success will depend on structural reforms, export diversifica-

tion, climate adaptation and by mitigating geopolitical tensions and debt risks management.

Pakistan has engaged closely with the IMF and other IFIs. How is the government balancing short-term stabilization with long-term investment in development priorities?

Pakistan is navigating short-term economic stabilization through reforms led by home-grown economic agenda while advancing long-term development goals through fiscal consolidation, monetary policy and restructuring energy sector. As a result, inflation is under control and foreign reserves have improved, averting default. The government has prioritized development through expanded social safety nets and climate resilience projects while efforts to privatize loss-making state-owned enterprises have been increased. Finally, structural reforms will boost human capital and private sector growth.

What key measures is the government undertaking to mobilize domestic private capital and deepen capital markets for SDG-aligned

sectors such as health, education and infrastructure using instruments like thematic bonds, blended finance and public-private partnerships?

The Government of Pakistan is implementing targeted measures to mobilize domestic private capital and deepen capital markets for SDG-aligned sectors (health, education, and infrastructure development). This includes the introduction of green and social bonds for renewable energy, healthcare and education projects. The Securities and Exchange Commission of Pakistan has established frameworks for these instruments. Further, blended finance mechanisms are being leveraged to de-risk private sector participation. PDF combines public guarantees with private capital for projects for sectors aligned to the SDGs. Public-private partnerships are being prioritized through relevant policy incentives including tax breaks and fast-track approvals. To deepen capital markets, the State Bank of Pakistan has introduced priority-sector lending mandates. This requires banks to allocate 5 percent of portfolios to SDG sectors by 2026. Digital platforms such as the Roshan Digital Account are



expanding to channel diaspora investments into public-private partnerships. The Pakistan Mortgage Refinance Company now issues green housing bonds to finance climate-resilient urban projects. Pakistan is also collaborating with the Asian Development Bank to establish a Credit Enhancement Facility to boost investor confidence. These efforts align with national targets, including allocating 15 percent of public spending to SDGs by 2030.

With Pakistan's fintech sector expanding, how does the government envision the role of digital finance in promoting financials, enhancing domestic resource mobilization and improving access to development finance?

The Government of Pakistan views digital finance as central to advancing financial inclusion. Strengthening domestic revenue generation and unlocking development funding requires rapid fintech expansion. The National Financial Inclusion Strategy leverages instant payment platforms such as Raast. This strategy is central to reducing the 23 percent financial exclusion gap. Mobile wallets serve a large number of users while digital banking licenses issued to entities like NayaPak Digital Bank target underserved SMEs and freelancers. Digital tools are critical for improving Pakistan's low tax-to-GDP ratio. Initiatives such as Tajir Dost Scheme aims to digitize merchant registrations.

To deepen capital markets, the State Bank of Pakistan has introduced priority-sector lending mandates. This requires banks to allocate 5 percent of portfolios to SDG sectors by 2026.

AI-driven analytics enhance tax compliance and boost revenue collection. To attract development finance, Pakistan integrates fintech into SDG projects. While blockchain pilots ensure transparency in climate and health funding. Challenges do remain, cybersecurity risks, low digital literacy and interoperability gaps which are being addressed through the National Cybersecurity Policy 2023. The National Digital Commission will aim to unify these efforts.

As we approach the final five years of Agenda 2030, what would a success-

ful financing for development strategy look like for Pakistan by 2030? What political, economic or institutional shifts are required to get there?

Achievement of Agenda 2030 depends on how Pakistan prioritizes a financing strategy that integrates domestic resource mobilization and climate resilience. Growth must be inclusive and should be supported by structural reforms. Expanding the tax-to-GDP ratio is central to this effort. This can be achieved through right taxation policies, digitized compliance mecha-



Photo Credit: Shayhaq Baloch

nisms and broadening the tax base. Efforts should also include underutilized sectors such as retail, agriculture and real estate.

Capital market reforms should focus on scaling thematic bonds focusing on green and SDG-aligned instruments. Public-private partnerships in critical infrastructure and social sectors should be accelerated through streamlined approval processes and better risk-sharing frameworks.

Sustainable debt management is critical. It requires concessional restructuring with bilateral creditors and refinancing high-cost debt. Diversifying financing sources through engagement with non-traditional partners including BRICS institutions will reduce dependency on volatile external borrowing.

Climate resilience will be prioritized by scaling renewable energy projects to meet renewable targets by 2030 alongside accessing international climate finance for adaptation infrastructure. Initiatives such as the Living Indus Initiative will focus on flood-resilient agriculture and urban systems to mitigate climate risks.

Human capital development and digital transformation are equally important. Programs like Uraan Pakistan's DigiSkills and Kamyab Jawan will enhance youth employability in tech-driven sectors. Additionally, expanding digital financial ecosystems through Raast aims to achieve 90 percent financial inclusion. This will assist in integrating SMEs and marginalized populations into formal economic networks.

Achievement of these goals depends on political, economic and institutional shifts. Political consensus on long-term reforms including provincial tax harmonization, SOE privatization, and other key issues, is essential to counter resistance and short-term policymaking. The core economic shift is transitioning to export-led growth through SEZs combined with phased energy sector reforms. This will reorient the economy toward sustainable productivity. Institutional digitizing for effective governance including e-services, establishing autonomous SDG monitoring bodies and judicial reforms to enforce contracts will strengthen state capacity and public trust.

Blended finance mechanisms are being leveraged to de-risk private sector participation. The Pakistan Development Fund combines public guarantees with private capital for projects for sectors pertaining to SDGs.

A successful Pakistan by 2030 depends on balancing fiscal discipline with strategic SDG investments. It also requires integrating initiatives such as Uraan Pakistan into a cohesive framework.

Breaking the Boom & Bust Cycle: Pakistan's Reform Agenda

With the economy gaining momentum, reserves rebuilt, inflation at a record low and current account in surplus, Pakistan stands at a pivotal moment. Credibility now hinges on sustained follow-through and a faster pace of reform implementation to improve the welfare of all Pakistanis.



By

Mahir Binici

Resident Representative for Pakistan, International Monetary Fund

In the summer of 2022, floods submerged a third of Pakistan, devastating crops, roads and homes, while reconstruction costs far exceeded already-stretched public finances. A difficult external environment and policy missteps also led to large fiscal and external deficits, rising inflation and eroded reserve buffers. By early 2023, foreign exchange reserves had fallen below three weeks of imports; credit ratings were deteriorating, and sovereign spreads were widening amid heightened economic uncertainty.

The International Monetary Fund (IMF) responded to Pakistan's request to support its economic stabilization program with a Stand-By Arrangement in 2023 which helped improve the country's economic and financial position. It soon became evident that a durable recovery required integrating fiscal management and structural reforms into a unified strategy to address Pakistan's deep-seated economic and climate vulnerabilities. This alignment took shape in two

stages: first, the 2024 Extended Fund Facility (EFF)¹ anchored medium-term macroeconomic policies and structural reforms, and second, the recently approved Resilience and Sustainability Facility (RSF)² expanded the reform agenda to support Pakistan's efforts to build resilience against natural disasters.

Breaking the Boom-and-Bust Cycle

The 2024 EFF aims to break the cycles of boom-busts, often led by a loosening of economic policy in an effort to stimulate faster growth and to place Pakistan on a path of more competitive, private sector-led, and sustainable growth. Debt sustainability hinges on sustained fiscal consolidation, underpinned by a broader and fairer tax base. Previously untaxed or lightly taxed sectors, real estate, agriculture, and retail, are now included in the tax system, easing the burden on compliant taxpayers and creating space for greater social spending. A government-wide rightsizing exercise aims at

1. IMF, 'IMF Executive Board Concludes 2024 Article IV Consultation for Pakistan and Approves 37-month Extended Arrangement', Press Release No. 24/343, 2024. Available at: <https://www.imf.org/en/News/Articles/2024/09/27/pr-24343-pakistan-imf-concludes-2024-ai-consultation-pakistan-approves-37-mo-extended-arr>

2. IMF, 'IMF Executive Board Completes First Review of the Extended Fund Facility Arrangement with Pakistan and Approves the Request for an Arrangement under the Resilience and Sustainability Facility', Press Release No. 25/137, 2025. Available at: IMF Executive Board Completes First Review of the Extended Fund Facility Arrangement with Pakistan and Approves the Request for an Arrangement under the Resilience and Sustainability Facility



reallocating resources towards essential services. At the same time, high tariff barriers are being reduced to enable firms to compete, innovate, and direct capital to the most productive uses.

Progress to date has been significant, with macroeconomic stability restored and confidence gradually rebuilt despite a challenging global environment. While growth remains moderate, inflation has declined to low single digits—its lowest level in a decade; financial conditions have eased, sovereign spreads have narrowed considerably, and external balances have strengthened.

Putting Resilience at the Core of Public Investment

With limited fiscal space, achieving inclusive growth and resilience requires better—not just more—public investment. To this end, the authorities have overhauled project selection criteria to integrate resilience considerations. All large-scale proposals must now pass a new screening framework that evaluates both economic returns and resilience. Only projects meeting this dual threshold advance to budgeting; others are deferred or cancelled. This rule-based system, soon to be complemented by green public financial management extending the same scrutiny to provincial spending, establishes a clear audit trail. Its discipline stands in contrast to the parliamentary SDG funds, whose single-line allocations bypass rigorous

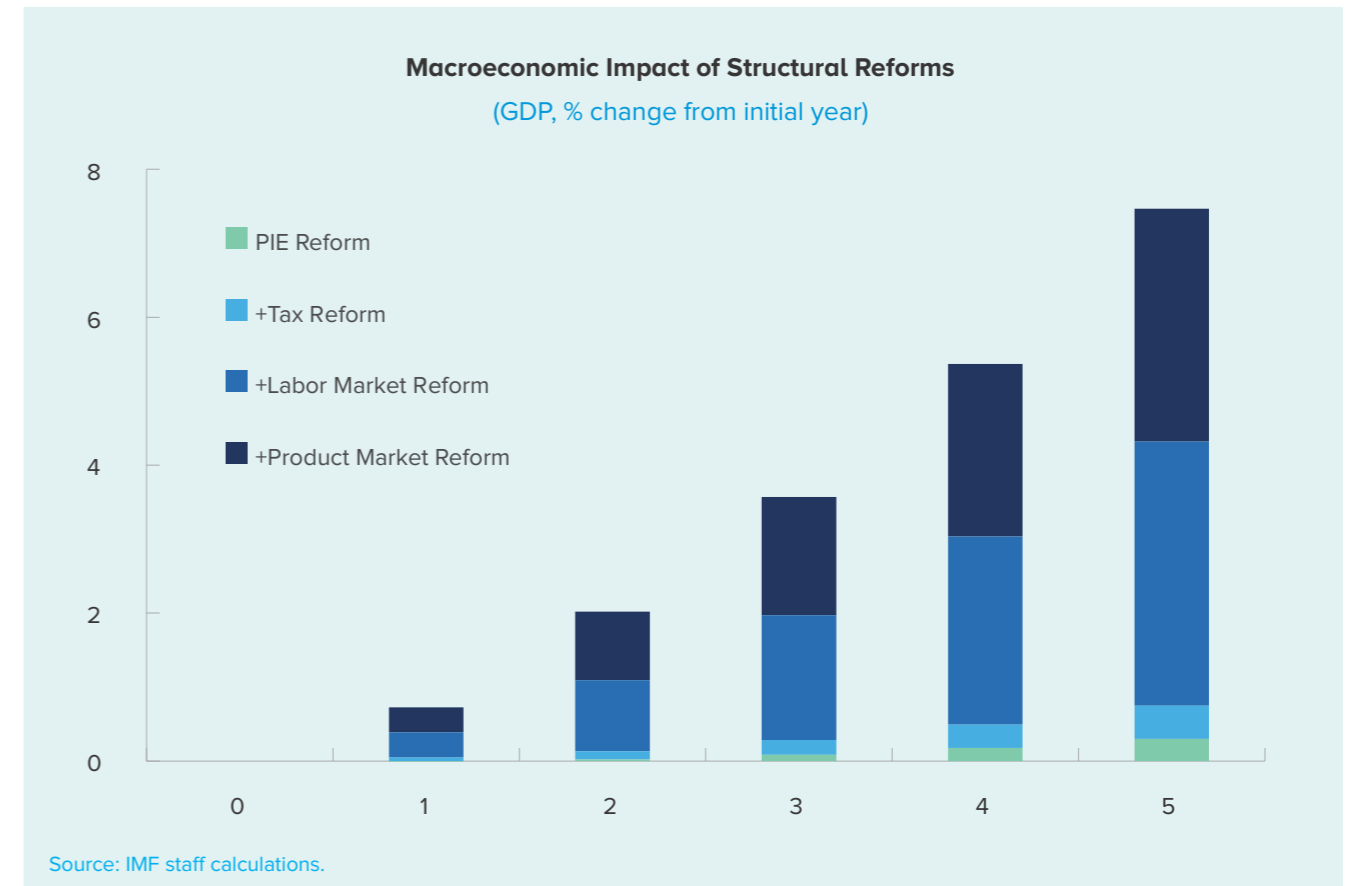
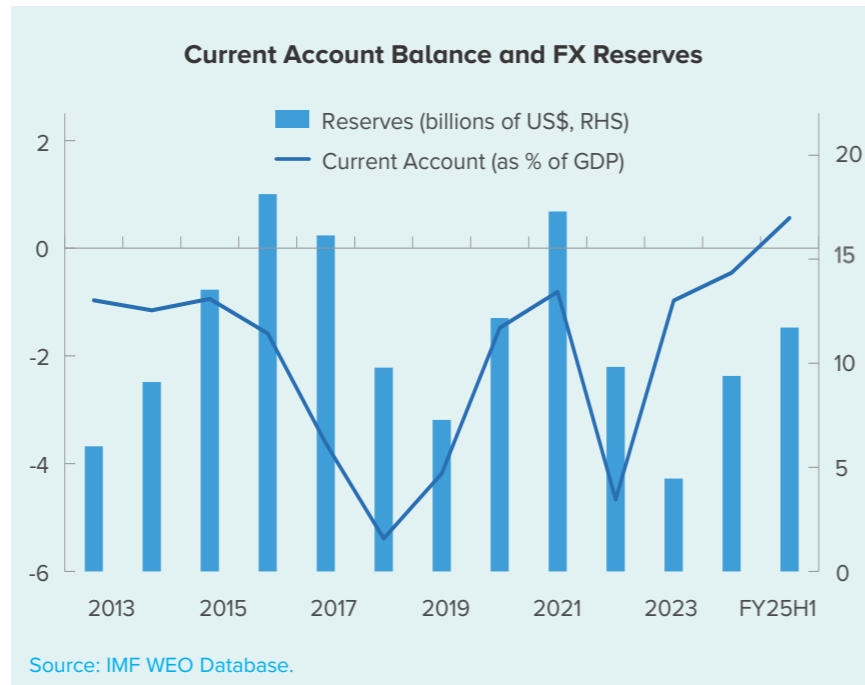
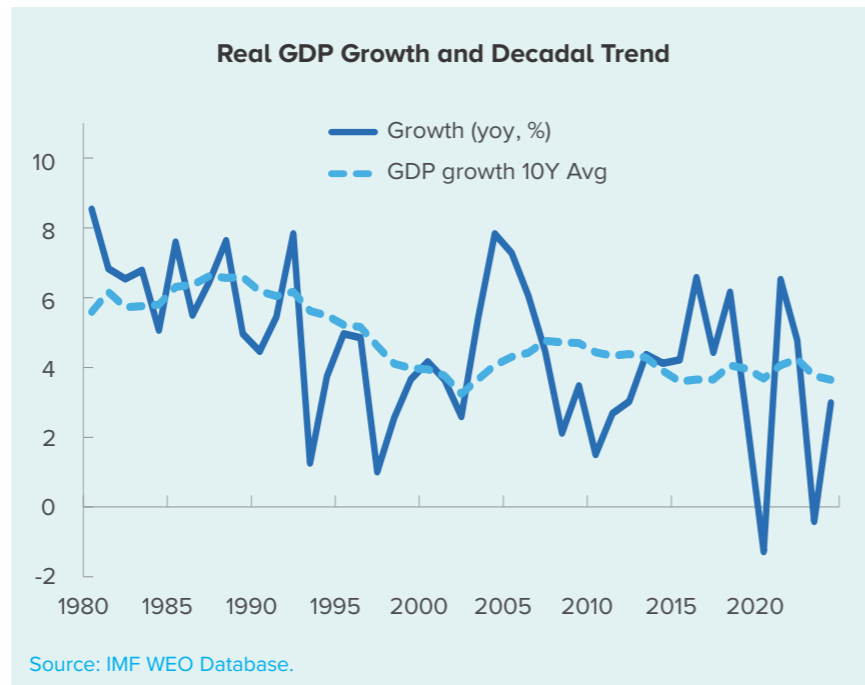
A new disaster-risk-finance framework will enable a more coordinated response, ensuring that emergency support is deployed based on objective triggers rather than ad hoc appeals.

appraisal and public disclosure, weakening accountability.

Managing Water, Disaster Risk and Price Signaling

Public investment alone cannot close the resilience gap—complementary reforms are needed to address risks at their source. Provinces are modernizing irrigation charges and improving collection systems, promoting water conservation while ensuring sustainable financing for basic maintenance in a water-stressed country. A new

disaster-risk-finance framework will enable a more coordinated response, ensuring that emergency support is deployed based on objective triggers rather than ad hoc appeals. Mitigation efforts are also being integrated into macroeconomic policy: a broad-based carbon levy, implemented through existing fuel pricing mechanisms, will be paired with incentives for cleaner transport and industry. Designed to be revenue-neutral, the policy preserves the fiscal anchor while shifting private decisions toward decarbonization.



The 2024 Extended Fund Facility aims to break the cycles of boom-busts, often led by a loosening of economic policy to stimulate faster growth, and to place Pakistan on a path of more competitive, private sector-led, and sustainable growth.

Quantifying the Payoff

IMF staff quantified the stakes through two complementary simulations. The first illustrates that a structural reform package—including broader taxation, stronger competition, an overhaul of state-owned enterprises, and more efficient public investment—could raise real Gross Domestic Product (GDP) by about 7 percent above a no-reform trend within five years, reduce the debt-to-GDP ratio by roughly 6 percentage points and narrow consumption inequality by around 2 points. The second simulation overlays a repeat of the 2022 floods: in an economy that has already invested 1 percent of GDP annually in resilient infrastructure, the output loss is halved, and activity

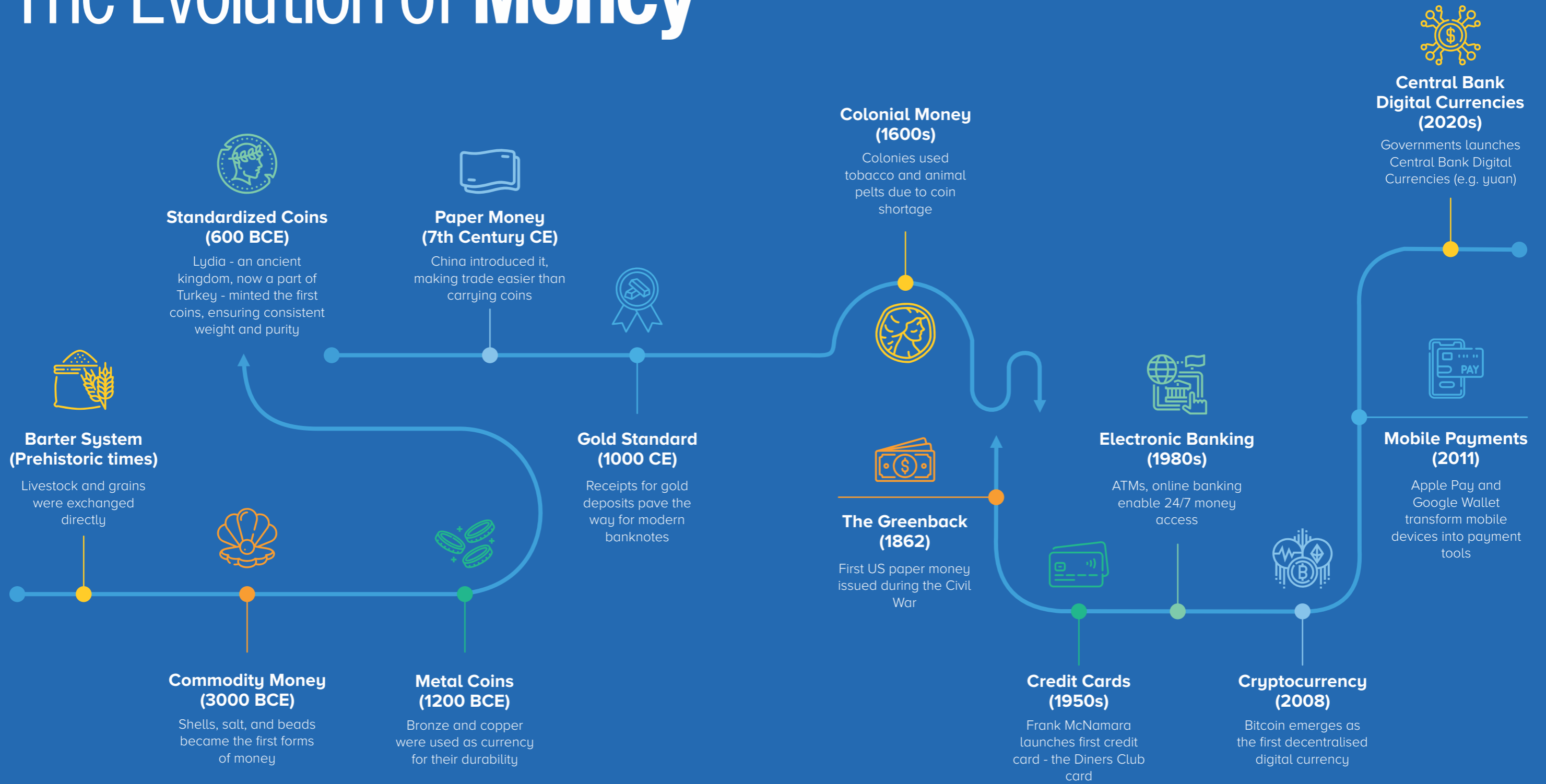
returns to its pre-shock path a full year earlier. The modest increase in debt is comfortably absorbed by faster growth. In short, the reforms deliver twice—driving stronger expansion in normal times and enabling softer landings when shocks hit.

Staying the Course and Accelerating the Pace

With the economy gaining momentum, reserves rebuilt, inflation at a record low, and the current account in surplus, Pakistan stands at a pivotal moment. Credibility now hinges on sustained follow-through and a faster pace of reform implementation to improve the welfare of all Pakistanis. Maintaining sound macroeconomic policies and

rebuilding buffers remain essential to entrench stability. Steadfast implementation of Pakistan's structural reform agenda is key to achieving sustainably stronger growth—by reducing the state's footprint, strengthening governance, removing trade and investment barriers, and advancing environmental policies to mitigate vulnerabilities—thereby fostering greater private investment and enhanced competitiveness.

The Evolution of Money





Pakistan's Future in the Era of Debt

Pakistan's future in an era of debt will hinge on mobilizing substantial tax revenues, economy in public expenditure and a quantum jump in exports.



By
Dr. Hafiz A. Pasha
Economist & Former
Federal Minister for
Finance, Government of
Pakistan

Pakistan has found itself moving into a 'debt trap' in recent years. This is a state of the economy where more loans have to be taken to repay old loans and to cover deficits in financial transactions. This has led to a spiraling of debt, both domestic and external.

As of June 2024, public debt stands at PKR 71,246 billion, equivalent to 67.5 percent of the country's GDP. Earlier in June 2009, the magnitude was PKR 7,737 billion, at 52.6 percent of GDP.

A similar path of high growth is observed in the country's external debt. Over the last fifteen years, it has increased 129 percent from US\$57.3 billion in June 2009 to \$131.0 billion as of June 2024. This has implied an increase in the external debt-to-GDP ratio from 31 percent of the GDP to 40 percent of the GDP.

The burden of the large external debt is magnified when the increase in annual debt servicing is quantified. It was just \$3.6 billion in 2008/2009 and has virtually exploded to \$13.4 billion by 2023/2024, this is a cumulative increase of 272 percent. It is not surprising that more loans are being taken for debt servicing of past loans.

A key indicator of the financial strength of the economy is the import cover of foreign exchange reserves. As of April 2025, Pakistan stands at 1.8 months. Whereas a minimum safe level is three months.

Pakistan was able to improve its reserve position significantly in 2023/2024 from a critically low level with the support provided directly and indirectly by the one-year Stand-by Facility of the IMF. Since September 2024 Pakistan has been operating under the three-year IMF Extended Fund Facility with a size of \$7 billion. The first review has been successfully completed and \$1 billion installment of the loan will be received shortly.

The fundamental question is the nature of Pakistan's future in an era of debt. What are the major structural reforms that will need to be taken to preserve the solvency of the economy?

The level of public debt is projected in the IMF Program to fall to 63.5 percent of the GDP by 2028/2029. This will require an enhancement in the tax-to-GDP ratio from 10.5 percent in 2023/2024 to 13.4 percent by the end of the Program in 2026/2027.

The burden of Pakistan's large external debt is magnified when the increase in annual debt servicing is quantified. Rising from \$3.6 billion in 2008/2009 to virtually exploding at \$13.4 billion by 2023/2024, an increase of 272 percent.

The focus must be on broad-basing of tax revenues. Hitherto undertaxed sectors such as agricultural income, profits from retail trade and ownership of property are to be brought substantively into the tax net. This has the potential of yielding an additional 2.5 percent of the GDP.

There will also be a need for integrating the federal sales tax on goods with the provincial sales tax on services, of the type successfully implemented in India. Higher excise duties will need to be levied and collected on cigarettes and on polluting activities. The level of current expenditure should also be rationalized by the transfer of functions from the federal to provincial level, as per the 18th Constitutional Amendment. The large burden placed on the federal budget by state-owned enterprises will have to be reduced through privatization, improvements in efficiency, and appropriate pricing policies.

The balance of payments position of Pakistan has stabilized in the first three quarters of 2024/2025. A current account surplus of \$1.8 billion has been achieved. This is largely due to the quantum jump in workers' remittances which has increased by as much as 33 percent. This has been made possible by the State Bank of Pakistan purchasing dollars in the market.

However, the financial account of the balance of payments remains fragile, with a deficit of \$1.4 billion up to March 2025. There have been net outflows from the government account and other sectors. Overall, the balance of payments has shown a marginal surplus of only \$0.4 billion compared to the projected surplus of \$2.9 billion in the IMF Program.

Two areas of vulnerability are visible. The first is the low disbursement of loans into the government account and the private sector. There is likely to be a



The focus must be on broad-basing of tax revenues. Undertaxed sectors such as agricultural income, retail trade profits and property ownership must be brought into the tax net. This strategy could yield an additional 2.5 percent of the GDP.

shortfall of over \$4.5 billion in this account in relation to the target in the IMF Program for 2024/2025.

There is also a limited inflow of foreign investment. In fact, despite the boom in the stock market, there has been a net exit of portfolio funds. Fixed direct investment remains low despite strenuous efforts by the Special Investment Facilitation Council and the signing of several MOUs.

The most important component of the strategy for reducing external financial

vulnerability is export-led growth. The federal government's URAAN plan aims to achieve a doubling of exports in five years. A comprehensive and well-designed export promotion policy similar to Bangladesh will need to be implemented. This will provide stronger incentives for exports of more value-added goods and for exports to emerging markets.

Overall, Pakistan's future in an era of debt will hinge crucially on the mobilization of substantial tax revenues, economy in public expenditures,

and a quantum jump in exports. Top priority will have to be given to the implementation of the structural reform agenda and adherence to the performance criteria in the IMF program.



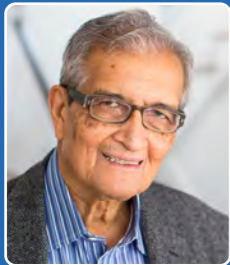
Photo Credit: UtenriksDepartementet UD-flickr

Beyond GDP: The Visionaries of Economics & Development



Mahbub ul Haq

Mahbub ul Haq pioneered the human development approach that argued to expand people's choices and improve their lives as the indicator of development. This approach shifts the focus from economic growth to a broader understanding of well-being, including education, health and freedom, measured in the Human Development Index. Haq is considered one of the greatest visionaries of international development.



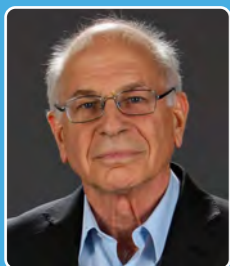
Amartya Sen

Amartya Sen received the Nobel Prize for his contributions in Economics Sciences in 1998 for welfare economics. He revolutionized development economics and social indicators in his capabilities approach, arguing that development must expand freedoms for people so that they can exercise political participation, social opportunity, transparency, justice and basic security. Mahbub ul Haq's human-development paradigm was influenced by Sen.



Claudia Goldin

Claudia Goldin was awarded the Nobel Prize in Economics in 2023. Her research provides the first ever comprehensive account of women's earnings and labor market participation through the centuries. She investigates how women have been balancing careers and family, the persistence of the wage gap, and the influence of the birth control pill on women's life decisions.



Daniel Kahneman

Daniel Kahneman, and his partner Amos Tversky, are the founders of behavioral science and behavioral economics. Kahneman and Tversky challenged central assumptions of standard economics that people are rational, consistent, and selfish. Kahneman argued that people's decision-making is often based on instinct. He received the Nobel Prize in Economics for his research.



Mariana Mazzucato

Mariana Mazzucato challenges orthodox thinking about the role of the state and the private sector in driving innovation; how economic value is created, measured, and shared; and how market-shaping policy can be designed in a mission-oriented way to solve major challenges facing humanity.



William Nordhaus

William Nordhaus integrated climate dynamics into macroeconomics through his Dynamic Integrated Climate-Economy model, advocating carbon pricing as the optimal response to warming. His achievement won him the 2018 Nobel Prize in Economics. His work underlies modern cost-benefit debates on climate policy.



Esther Duflo

Esther Duflo is one of the most influential development economists of her generation, widely recognized for pioneering and institutionalizing the use of randomized controlled trials to evaluate the effectiveness of poverty alleviation interventions in developing countries. She also has the honor of receiving the Nobel Prize in Economics (2019), shared with Abhijit Banerjee and Michael Kremer, for her contributions on the subject.



Paul Krugman

Paul Krugman revolutionized trade theory and economic geography by showing how economies of scale and consumer variety preferences shape both world trade and the spatial concentration of industry, a contribution that won him the 2008 Nobel Prize. He revolutionized trade theory in the late 1970s and 1980s by moving beyond traditional models that focused only on comparative advantage. His work showed how economies of scale and network effects influence global trade patterns.



Joseph E. Stiglitz

Joseph E. Stiglitz received the 2001 Nobel Prize in Economic Sciences (shared with George Akerlof and Michael Spence) for founding information economics—the study of markets where different participants possess unequal information. Stiglitz showed that when buyers and sellers, borrowers and lenders, or employers and employees know different things, classic competitive results break down: prices may no longer clear markets, quality can unravel, and efficient outcomes need not emerge. These insights re-wrote textbook microeconomics and opened new paths in contract theory, labor, finance, and public policy.



Thomas Piketty

Thomas Piketty's archival research shows that wealth grows faster than the economy, fueling ever-greater inequality. His bestseller *Capital in the Twenty-First Century* calls for a global progressive wealth tax to counteract this trend. He first garnered international attention with France's 2002 Best Young Economist Prize and later secured the 2013 Yrjö Jahnsson Award, while balancing academic leadership, newspaper commentary, and outspoken political engagement.

Redirecting Borrowing towards Productive Investment

Pakistan's debt portfolio remains large and imposes significant liquidity risks; public borrowing continues to crowd out private sector credit; and much debt-financed expenditure is directed to purposes that will not generate long-term returns.



By
Tobias Akhtar Haque

Lead Economist &
Program Leader,
World Bank

Debt can be a powerful tool for development. However, public borrowing in Pakistan is currently imposing substantial costs and risks. To maximize benefits and reduce risks, recent measures to constrain the fiscal deficit should be sustained. In the context of ongoing fiscal constraints, spending should be tightly prioritized, and all possible efforts should be taken to mobilize private investment.

Public Debt is an Important Tool for Development

Debt can be used to finance high-return investments in human capital and infrastructure, underpinning long-term economic growth. When countries face macroeconomic shocks, public borrowing can be used as a policy 'buffer', financing social protection spending, public services, or stimulus programs that help shield households and firms and avoid longer-term economic dislocation and scarring.

The Scale and Nature of Public Borrowing in Pakistan has Raised Costs and Risks

First, despite recent progress, Pakistan

faces continued debt sustainability risks. Public debt has increased significantly over the past decade. Debt ratios remain well above limits established under the Fiscal Responsibility and Debt Limitations Act (which caps total public and publicly guaranteed debt at 60 percent of GDP). The composition of Pakistan's debt portfolio is generally favorable, with a large share consisting of local currency debt from domestic sources and most external debt borrowed from official sources, often on concessional terms.

However, Pakistan needs to borrow a large amount every year to repay maturing debt due to reliance on short-term domestic debt and external deposits from 'friendly' countries. Financing needs amount to an average of 27.9 percent of GDP over FY 2025/2026. Importantly, gains are being made, with primary surpluses and lower interest rates driving debt down. Financing needs are expected to fall substantially over the coming years (the debt service-to-revenue ratio is expected to decline from 61.5 percent in FY 2024 to 43.8 percent by FY 2029).

Second, large domestic borrowing is absorbing private savings, leaving few



Debt is mostly used to finance consumption rather than investment. Government contracts new debt equal to around 28 percent of GDP annually. However, development spending is almost 2 percent of GDP. Spending on health and education is inadequate.

investment, mediated by the banking sector. Savings rates in Pakistan remain low by international standards, limiting resources available for lending through the banking sector. Further, because government borrowing needs are high, more than 70 percent of bank lending is extended to the public sector. High levels of bank lending to the government directly crowds out resources available to the private sector and blunts incentives on banks to expand financial access.

Third, debt is mostly used to finance consumption rather than investment. The government contracts new debt equal to around 28 percent of GDP every year. However, total development spending currently equals around 2 percent of GDP. In contrast, recurrent spending equals around 18 percent of GDP every year, with interest payments constituting about 8 percent of the GDP and substantial allocations to salaries, pensions, and various subsidies and transfers. Pakistan spends little on health and education relative to other countries in the region at similar levels of development.

Overall, Pakistan's debt portfolio remains large and imposes significant liquidity risks. Public borrowing continues to crowd out private sector

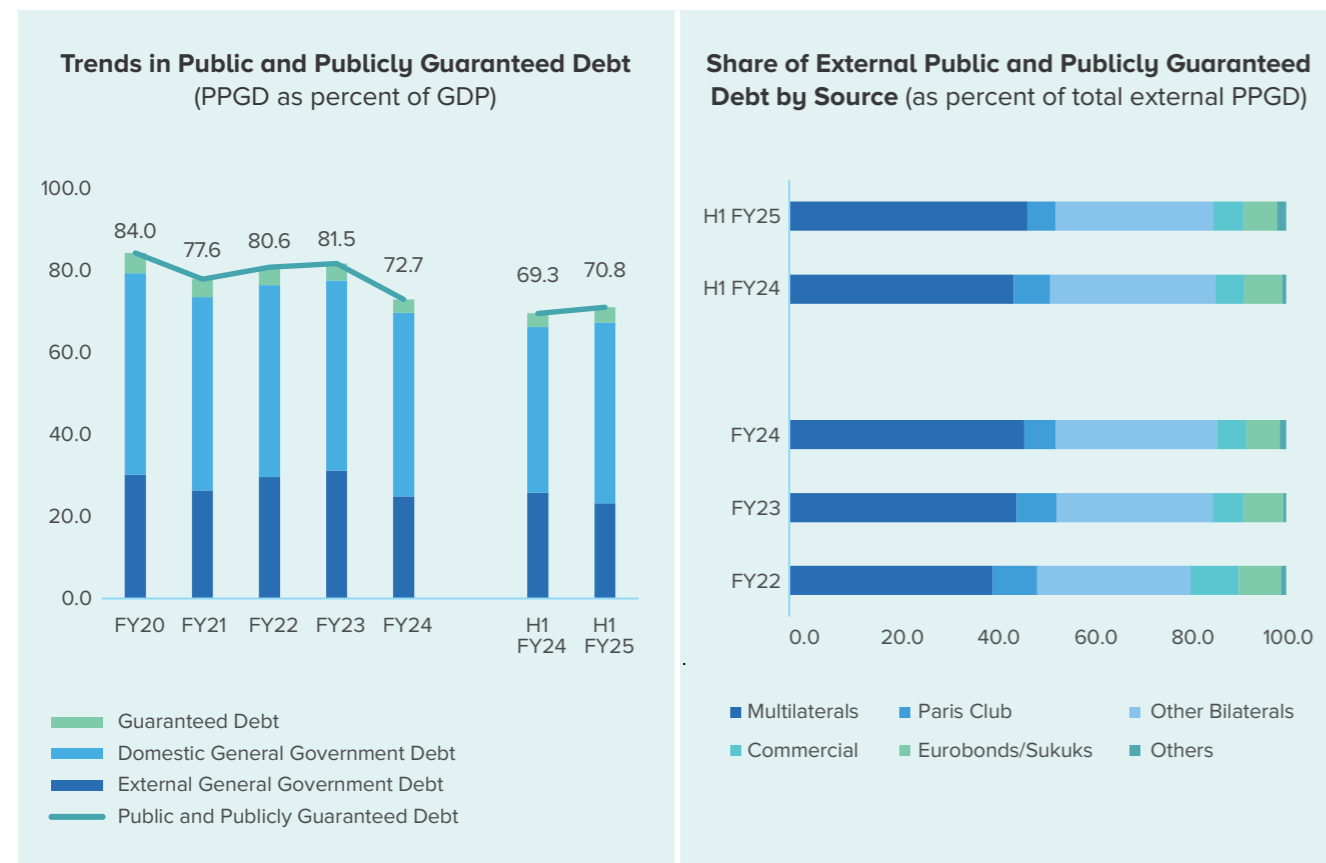
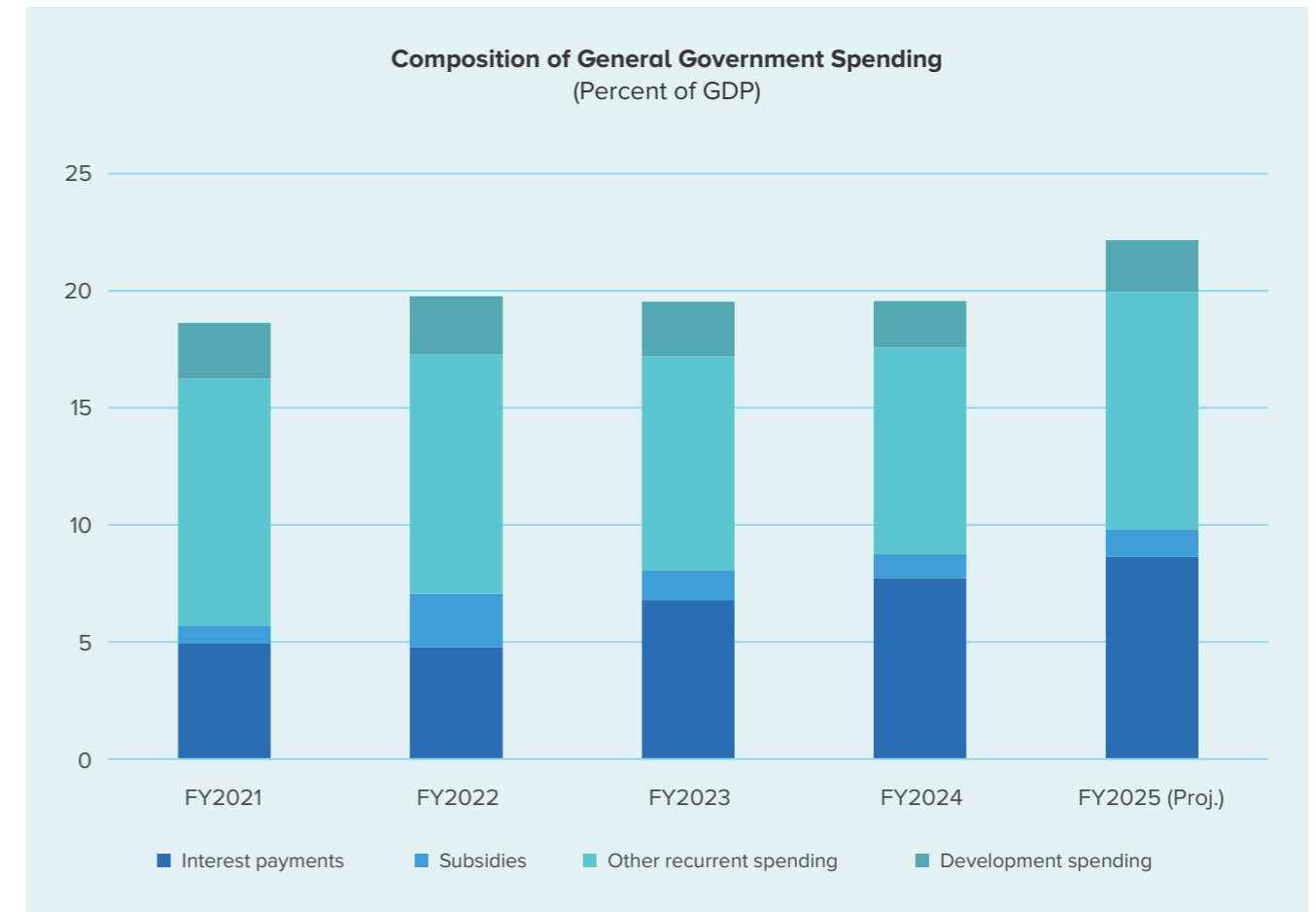
credit, and much debt-financed expenditure is being directed to purposes that will not generate long-term returns.

Maximizing Benefits and Reducing Risks

First, the government should maintain recent progress with fiscal consolidation. With recent revenue and spending reforms, Pakistan is expected to achieve a primary surplus of 1.5 percent of GDP in FY 2025, an impressive turnaround. Efforts to raise revenues should continue, including through closing exemptions, increasing compliance, and mobilizing progressive new tax sources, including agricultural income and property taxes. The government should also continue to reduce spending on subsidies, rationalize public sector compensation, simplify the structure of government to address redundancies and overlaps, and reform pensions.

Strengthening the governance of State-Owned Enterprises (SOEs) and pursuing privatization where appropriate could reduce the current fiscal burden as federal SOEs cost taxpayers around 1.5 percent of GDP per year. Revenue reforms and targeted consolidation will protect fiscal space

resources available for private sector investment. Private savings are typically an important source of private



for critical investments in health, education, and social protection while allowing debt levels and financing needs to decrease over time.

Second, the government should strengthen debt-management institutions and practices. Addressing the current fragmentation of debt management institutions and ensuring all debt management decisions are made in alignment with a Medium-term Debt Management Strategy would ensure that borrowing choices are optimized to reduce costs and risks. Extending the average maturity of the debt portfolio is critical for addressing liquidity risks, with a smaller proportion of debt maturing (and requiring refinancing) each year.

Finally, and most importantly, reforms should be implemented to increase private investment. Currently, the levels are low at around 10 percent of the GDP compared to 20-30 percent of GDP for similar countries. In the current fiscal context, Pakistan will inevitably have limited space for public investment over the medium-term. The fiscal measures described above will have an important

impact on increasing private investment, with reduced public borrowing leading banks to redirect lending towards the private sector. This is already happening with the share of bank lending to the private sector increasing from 24.3 percent in September 2023 to 28.4 percent in December 2024. In addition, Pakistan should:

- **Remove trade barriers to reduce the cost of imported inputs for exporters, facilitating Pakistan's integration into global supply chains.** International experience shows that such measures can bring new domestic and foreign investment while also increasing innovation, competition, and productivity.
- **Simplify the business environment and reduce red tape.** Efforts should be made to remove redundant and outdated regulations and reduce the number of government agencies involved in overseeing private businesses - currently, the numbers stand at 40.

With recent revenue and spending reforms, Pakistan is expected to achieve a primary surplus of 1.5 percent of GDP in 2025—an impressive turnaround.

- **Provide reliable energy at lower costs.** This must involve addressing the underlying drivers of high energy costs, including the weak performance of electricity distribution companies, inadequate transmission infrastructure, and an outdated and costly generation mix.

From Addis Ababa to Sevilla: A Timeline of Financing for Development Commitments

Jul 2015 **Addis Ababa Action Agenda**
 Governments adopt the Addis Ababa Action Agenda. A global framework for financing sustainable development that aimed to align financing flows and policies with economic, social and environmental priorities.

United Nations Summit on Sustainable Development
 Heads of State agree on an ambitious, transformative post-2015 development agenda and approve 17 Sustainable Development Goals along with 169 targets.

Sep 2015
SUSTAINABLE DEVELOPMENT GOALS

Dec 2015 **COP 21: Paris Agreement**
 196 countries at the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP) pledge to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and align financial flows with a low-emission, climate-resilient pathway. Financial commitment: US\$100 billion per year extended till 2025.

UNGA: First High-Level Dialogue on Financing for Development
 Governments, the private sector and civil society generate a powerful call to step up efforts and make concrete commitments for accelerating the mobilization of resources, recognizing the cross-cutting importance of financing to achieve the SDGs.

Sep 2019

Nov 2022 **COP 27: Loss-and-Damage Fund**
 Member states agree on the creation of a fund to assist countries suffering severe climate impacts. A transitional committee is tasked with defining governance, sources of capital and access modalities before COP 28. Financial commitment: \$792 million.

Paris Summit for a New Global Financing Pact
 Leaders and representatives from over 100 countries lay the foundations for a renewed international financial system, creating the conditions for a financing breakthrough so that no country must choose between reducing poverty, combating climate change and preserving biodiversity. Financial commitment: Additional \$200 billion till 2033.

Jun 2023

Nov-Dec 2023 **COP 28: New Climate Financing**
 COP 28 unlocks additional climate finance with approximately \$61.8 billion flowing to blended-finance vehicles, \$6.8 billion to clean energy, \$9 billion to resilience and \$2.7 billion to social inclusion. Financial commitment: Over \$85 billion.

Nov 2024 **COP 29: New Collective Quantified Goal on Climate Finance**
 Decision on the New Collective Quantified Goal on climate finance taken to support developing countries in carrying out their climate action plans, help increase their climate ambitions and focus on the specific needs of the most vulnerable nations. Financing commitment: \$300 billion per year by 2035.

Nov 2024 **COP29 Baku Azerbaijan**

Jul 2025 **Fourth International Conference on Financing for Development**
 The conference will adopt the Sevilla Platform for Action, locking in systemic reforms, new debt-workout mechanisms and multi-hundred-billion-dollar financing packages to rescue the SDGs. It will also mark the first stock-take of Addis Ababa implementation and set post 2030 financing benchmarks.

Financing Pakistan's Development through Partnership & Reform

FFD4 represents a pivotal moment in the global effort to reform the role of private capital, embed impact considerations into the DNA of private sector actors and strengthen the environment to mobilize finance for sustainable development outcomes.



By
Tom Beloe
Director, UNDP
Sustainable Finance Hub

As the world prepares for the Fourth International Conference on Financing for Development (FFD4), taking place from 30 June 2025 to 3 July 2025 in Sevilla, Spain, countries are approaching a pivotal moment. The annual financing gap to achieve the SDGs is roughly US\$4.3 trillion, even as global private wealth stands over \$450 trillion. The question is not whether capital exists but whether it is being directed where it matters most.

For Pakistan and other countries across the Global South, the FFD4 offers more than a platform for dialogue; it is a chance to reshape how development is financed. FFD4 sets out a bold system-wide agenda to realign global and national financial flows with sustainable development. It recognizes and reinforces the leadership of countries driving integrated reforms anchored in national strategies that unlock and direct capital where it is most needed.

The FFD4 process marks a shift from aspirational declarations to results-oriented implementation. It calls on governments and stakeholders to articulate actionable, time-bound commitments grounded in country realities and guided by shared global

priorities. These commitments are voluntary and visible. They signal ambition and help drive collective accountability for financing sustainable development.

From Ambition to Implementation

Pakistan is moving towards stronger coherence of planning and financing processes by applying an Integrated National Financing Framework (INFF) approach at the subnational level. The Government of Punjab has adopted its first Integrated Financing Strategy, identifying approaches such as climate finance, impact investing, and private sector engagement. These reforms reflect the kind of integrated, nationally-determined approaches the FFD4 process aims to highlight. They demonstrate how domestic leadership can drive systemic progress when supported by international cooperation and aligned incentives.

These initiatives are part of a broader global shift. UNDP is supporting the development of INFFs in more than 85 countries by helping governments translate sustainable development priorities into actionable reforms. In Pakistan, the INFF approach is being applied as a guiding framework to align



public and private finance tools, support coordination across ecosystem players, and identify opportunities aligned with FFD4 objectives.

Country platforms play a complementary role in this process. These nationally led mechanisms bring together governments, investors, development partners, banks, and civil society to align around shared financing priorities and climate action. In Pakistan, the foundations are emerging through reforms in public financial management, climate resilience financing, and efforts to strengthen domestic financial markets. FFD4 reinforces country-led efforts to align finance and policy for sustainable development.

Building Climate Resilience

Climate-related risks continue to challenge Pakistan's development trajectory as they create urgent demand for resilience-building and risk-informed planning. UNDP is working with national and provincial authorities to strengthen disaster preparedness, climate-sensitive budgeting, and long-term investment planning.

Through its Insurance and Risk Finance Facility (IRFF), UNDP is supporting the design of risk financing strategies, strengthening insurance market development, and expanding fiscal

The annual financing gap to achieve the SDGs is roughly \$4.3 trillion, even as global private wealth stands over \$450 trillion. The question is not whether capital exists but whether it is being directed where it matters most.

tools that protect vulnerable communities and public finances. These efforts reinforce the ambitions of FFD4, which is calling for the integration of risk finance into national strategies and the scaling of local insurance markets.

Public Finance for the SDGs

Coherent and accountable public finance systems are critical to sustainable development. UNDP supports Pakistan in strengthening fiscal resilience by aligning tax, expenditure, and debt management with SDG and climate priorities. This includes SDG budgeting, climate

budget tagging, and tools to track and analyze public spending.

The FFD4 process emphasizes the need to enhance fiscal policy coherence, promote a more holistic approach to development, reduce fragmentation, and deliver results more efficiently, thereby strengthening the social contract.

De-risking to Attract Private Investment

Pakistan is taking practical, country-led steps to mobilize private capital through locally driven solutions



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tailored to its development priorities. This includes supporting blended finance initiatives that help use catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development. Through the SDG Investments and Climate Financing Facility, UNDP works with partners to design innovative instruments and identify SDG-aligned investment opportunities, complementing national development priorities.

While Pakistan is currently focused on building foundational systems, tools such as UNDP's SDG Impact Standards and ISO/UNDP Guidelines for the SDGs offer a forward-looking roadmap. They provide practical guidance for private sector actors to integrate sustainability into governance, strategy and risk management, building readiness for future alignment with global standards and investor expectations. FFD4 represents a pivotal moment in the global effort to reform the role of private capital, embed impact considerations into the DNA of private sector actors, and strengthen the enabling environment to mobilize finance for sustainable development outcomes.

Seizing the Sevilla Moment

FFD4 is not just a milestone; it is a launchpad for practical reforms that connect finance with national priorities. It offers countries the tools to reshape how development is financed, grounded in nationally-led initiatives that drive measurable results.

For Pakistan, like many countries, this is a chance to advance its development vision through bold, coordinated reforms. The focus must now shift from designing initiatives to delivering results. Country-led strategies need to evolve into lasting systems of change. That means building institutional capabilities, strengthening cross-sector coordination, and aligning public and private capital around shared goals.

UNDP stands ready to support by connecting technical assistance with global partnerships. We are committed to helping countries turn the FFD4 into a catalyst for impact. The financing gap is real, and so is the opportunity. What matters now is not only what is proposed in Sevilla but how those commitments are implemented and translated into lasting and measurable change.

The UNDP Insurance and Risk Finance Facility supports the design of risk financing strategies, strengthening insurance market development and expanding fiscal tools that protect vulnerable communities and public finances.

Private Capital for Sustainable Development: FFD4 & Global Lessons

The tenth SDG Investment Fair taking place as part of the International Business Forum at FFD4 provides Pakistan's government and private sector with a significant platform for catalyzing an action plan for public-private sector partnerships and to scale finance and investment for sustainable development.



By
Glenn Hodes
SDG Finance Specialist



Rabayl Mirza
Economic Affairs Officer,
UNDESA

The Fourth International Conference on Financing for Development (FFD4), taking place in Sevilla, Spain from June 30 to July 3, 2025, promises to be a pivotal moment for reshaping global development financing norms and modalities. Against a backdrop of increasing geopolitical rivalries, economic instability, and climate and disaster shocks, countries face a reckoning. How can they finance a prosperous and equitable future for the next generation?

Current National Context

Pakistan, like many other developing countries, must fundamentally rethink how resources should be mobilized for its sustainable development. While some areas of the 2030 Agenda have seen improvement, many of its targets for the SDGs have also seen a backsliding.

Importantly, the incidence of poverty and inequities across provinces and districts has materially increased. Population growth, currency depreciation, tariffs, debt servicing costs, and other factors are contributing to a rising gap in the finance available to meet citizens' needs.

Meeting this challenge will entail skillfully navigating an ever more complex financing landscape. Traditional Official Development Assistance flows are declining, barriers to free trade are rising, and foreign investment trends have been volatile and stagnant in the recent period.

At the heart of this transformation lies a clear imperative: raising revenues through flourishing local enterprises, attracting more foreign private capital, and 'unlocking' the full potential of existing domestic private resources, particularly in sectors pivotal to socio-economic transformation.

A Global Perspective on the Challenge

UN Trade and Development has estimated that the annual financing gap for achieving the SDGs in developing countries is over US\$4 trillion, with particularly acute deficits in areas like basic infrastructure, healthcare, and climate adaptation. While public resources alone are insufficient to bridge this financing gap, nor can the private sector be expected to fund public goods or to allocate capital without the usual expectation of a return on investment.





Advancing sustainable development will need financing from both public and private sources. They can serve to complement each other, and both have unique roles in specific contexts. For instance, private sector ingenuity and innovation can be leveraged to structure deals that align public and private incentives and share risks and rewards more fairly.

Despite past efforts to scale private investment in areas aligned with

Private sector innovation can be used to structure deals that align public and private sector incentives and share risks and rewards fairly.

sustainable development, volumes of capital mobilized fall significantly short of what is needed. The reasons are multifold, and the barriers are systemic in nature: a shortage of bankable projects, inadequate mechanisms to reduce and share risks, regulatory and policy uncertainty and inadequate global standards for ensuring the integrity of sustainable finance products and SDG impact disclosures.

In frontier and emerging markets, where the needs are greatest, these are challenges, but, they are not insurmountable. They do, however, require bold steps to recalibrate how governments, development banks and actors, investors and businesses engage with one another in a coordinated fashion.

Both supply- and demand-side reforms are essential. Governments must create enabling environments, development banks must share risk, and investors must be willing to look beyond short-term returns.

FFD4 presents a critical opportunity to drive such action. Its International

Business Forum, that also features the 10th SDG Investment Fair, will serve as a key platform for catalyzing an action plan for public-private sector partnership around scaling finance and investment for sustainable development. Likewise, government leaders and the local private sector in Pakistan will have the opportunity to showcase several concrete local investments in the energy, agriculture, waste and advanced technology sectors to development financiers and private actors, poised to both make money and advance development.

There will be several initiatives showcased including a multi-million fund investing in SMEs advancing climate-smart agriculture, a low-impact micro-hydel project in the industrial heart of the Punjab that will advance greener production, and a biogas plant that will protect against water-borne illnesses and powerfully reduce methane emissions in the dairy industry in Karachi.

Business leaders across the world have come together at the International Business Forum to call for action to

Pakistan can take advantage of global shifts in how blended finance transactions and funds are put together. It can also engage earlier in the investment lifecycle to better direct new sources of co-investment towards areas of greatest need.

unlock private capital at scale and channel it toward SDG-aligned sectors, projects, and initiatives where they are needed most. The Sevilla Commitment ('Compromiso De Sevilla') as well as a Communiqué from the Business Forum point the way toward the key strategic steps for progress—one based on a globally shared agenda.

The FFD4 Agenda for Private Investment

Making Blended Finance Work Harder

Blended finance is simply an approach whereby concessional and non-concessional capital sources are combined in a financial structure. The right structure and level of risk-sharing between public and private sector partners, including philanthropies and outcome funders, can serve to crowd in private capital where it otherwise would not go whilst ensuring project outcomes also credibly support the public interest. From co-investments in renewable energy mini grids to providing first loss capital or seed funding for water and sanitation plants in the form of capital subsidies or project preparation grants, blended finance is an approach with the potential to help governments deliver more and better-quality public services, particularly in underserved or high-risk areas.

Pakistan can capitalize on global shifts in blended finance by engaging earlier in the development of financial instruments and investment vehicles, helping steer co-investment towards its most urgent priorities. Additionally, in capitalizing upon seed funding in the project and fund preparation stage, Pakistan can better ensure that the needs and conditions of local market actors, including businesses, banks, and microfinance organizations, are fully taken into account for optimal take up of credit lines. Carbon finance also presents new sources of revenue and forms of quasi-equity, which boost the overall bankability of some investments including ecosystem restoration, sustainable commodity production and trade.

All these strategies can enhance the relevance, effectiveness, and impact of investments in climate and sustainable development that are not immediately fully commercial or bankable.

Financial Regulation and Innovation

Prudential regulation aims to provide stability to the financial system. It can, however, have unintended consequences that can disincentivize investment, especially in developing countries. This is particularly the case for investments in sectors where short-term gains may prove difficult to achieve despite the potential for long-term, stable revenue flows. Prudential regulations, especially those affecting institutional investors and insurers, can misprice risks and understate the social returns of infrastructure investments in developing countries. Addressing these distortions is critical. So, too, is the development of accessible tools and platforms for managing currency risk, a major concern for borrowers and investors deploying capital into markets like Pakistan.

Sustainable Finance

Sustainable finance legislation can facilitate cross-border capital flows while aligning with local sustainable development priorities. However, these must be balanced and fully interoperable in the context of global capital markets and fierce competition for private investment. The use of globally recognized standards for corporate disclosures and impact management that address both financial and impact materiality can provide clarity and predictability for investors and incentivize private capital mobilization.

Scaling Small and Medium Enterprise Finance

Importantly, technology also has a transformative role to play. Financial technology platforms and digital inclusion initiatives can unlock new financing avenues for SMEs, which are often the engines of local economic development but are underserved by traditional financial institutions. At the

same time, public-private partnerships that can boost investment in the start-up ecosystem, entrepreneurship, and upskilling, more generally can create huge economic and social dividends. Pakistan must catch up with countries in sub-Saharan Africa and Southeast Asia that have rolled out fintech and digital systems for lending, mobile payments, and trade financing and are closing important gaps in inclusion and reducing transaction costs for micro and small businesses.

Country Investment Platforms

Governments have a pivotal role in shaping investment platforms and pipelines with development finance institutions and private financiers in mind. Translating goals and ambitions (for example, Nationally Determined Contributions on climate change or biodiversity commitments) into genuinely investable opportunities takes time. Project preparation facilities and early-stage grant funding for experimentation and piloting are critical for long-term success and scalable instruments. Products and investment vehicles that can lower transaction costs and pool and diversify risks (such as infrastructure funds, SDG-linked thematic sovereign or corporate bonds) are also critical to converting ideas into bankable pipelines. Indonesia's Green Sukuk bonds, for example, have successfully mobilized capital for climate-resilient infrastructure by aligning investor appetite with Islamic finance principles. Similarly, Barbados' innovative debt-for-climate swap model illustrates how sovereign debt restructuring can free fiscal space for sustainable investment.

Conclusion

Ultimately, sustainable development is a shared responsibility. FFD4 will be a litmus test to overcome challenges threatening global peace and prosperity and to demonstrate the continuing importance of multilateral cooperation.

The stakes in Spain are high, but the potential rewards are even greater. The future of global development hinges on

Fintech is Empowering Youth, Women & Small Businesses

Fintech is helping rewrite the story as it bypasses lengthy bank processes to provide quick solutions. JazzCash and EasyPaisa have revolutionized money transfers, bill payments and top-ups, each have over 15 million active users predominantly from lower-income groups.



By

Maheen Rahman

CEO, InfraZamin Pakistan



Nidal Ahmed Shaikh

Head of Business,
InfraZamin Pakistan

The energy of Pakistan's tech empowered youth is unmistakable. It is reflected in the rapid acceleration and adoption of online payments, branchless banking, e-commerce transactions, and mobile wallets. In 2024, online transactions increased by 66 percent year-on-year with a cumulative value of PKR 95.6 trillion (US\$34 billion) which makes Pakistan a sizeable online payments market in Asia.¹ A supportive regulatory framework, improved payments infrastructure and wider online product suite has enabled rapid adoption across a young demographic.

A burgeoning Micro, Small, and Medium Enterprises (MSME) sector has also taken advantage of digital channels' reduced costs and higher efficiency. This has promoted entrepreneurship as well as encouraged women-led businesses.

Traditional financial systems have historically excluded large segments of the population, particularly small businesses, young entrepreneurs, and women. This exclusion is not due to a lack of potential but rather due to rigid

lending practices, stringent risk assessment, and limited support for those outside the formal financial system.

Now, however, we are witnessing a shift. Easy access to finance through mobile banking applications, telecom providers, and a host of fintechs is steadily changing how financial services are delivered in Pakistan. It is making finance more accessible, more adaptable, and ultimately, more inclusive.

The evidence of financial exclusion is well-documented. MSMEs account for over 90 percent of private enterprises in Pakistan and play a significant role in job creation and GDP growth, yet they remain underserved by institutional finance.² Many are denied credit because they lack traditional collateral or formal financial histories. The absence of early-stage angel investors and venture capitalists means that entrepreneurs struggle to raise early-stage capital, and women face additional cultural and systemic barriers when attempting to access financial tools. As illustrated in the chart

1. State Bank of Pakistan, 'Annual Payments Systems Review – FY24', 2024
2. Small and Medium Enterprises Development Authority (SMEDA), Pakistan



below, MSMEs play a foundational role in Pakistan's economy, contributing roughly 40 percent to the GDP, nearly 80 percent to non-agricultural employment, and a significant share of export earnings.

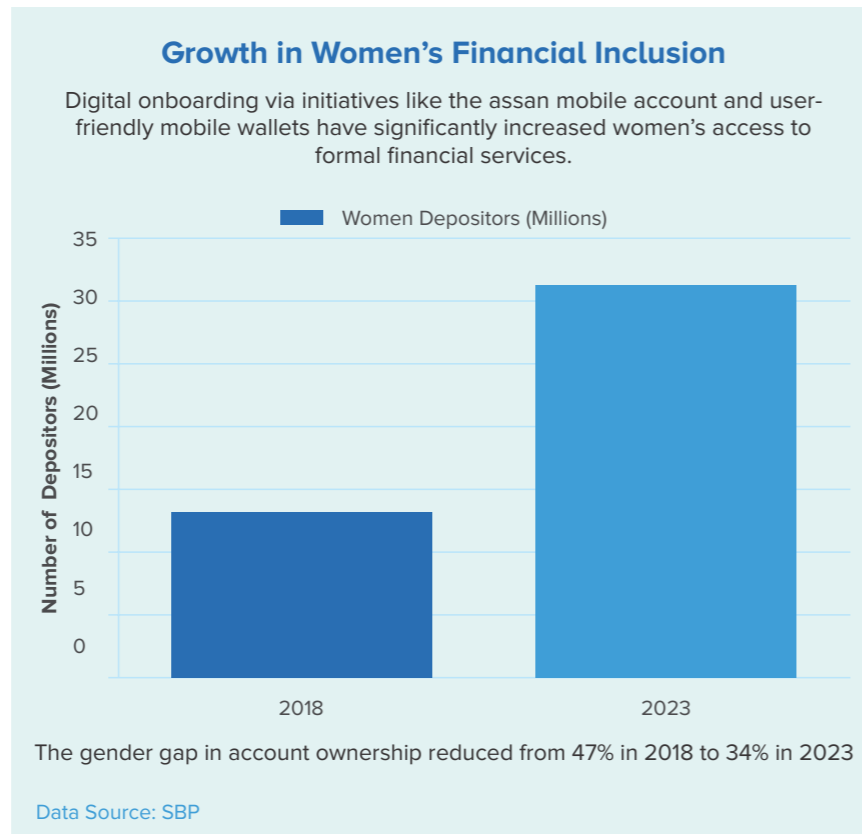
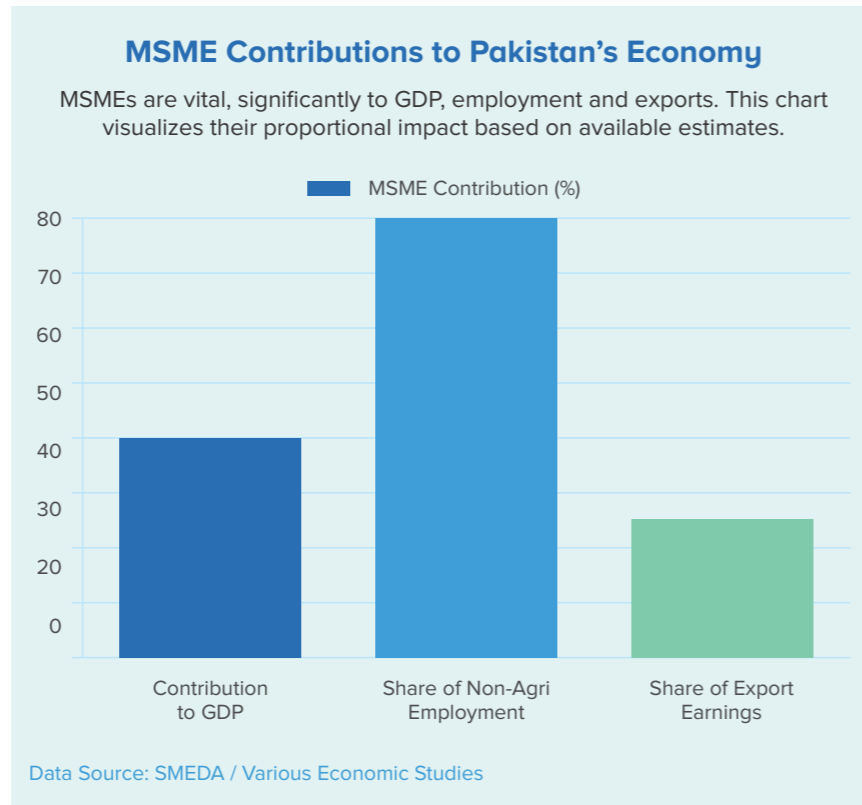
Fintech is helping rewrite this story by bypassing clunky bank processes to provide quick solutions. JazzCash and EasyPaisa have revolutionized money transfers, bill payments, and top-ups, each with over 15 million active users, predominantly from the lower-income segments of the population. For reference, the average mid-size bank in Pakistan has approximately 3 million retail customers. Start-ups such as CreditBook provide micro loans to SMEs and individuals that struggle under traditional banking channels. Abhi has introduced payroll financing, Nayapay supports SME financial management, and Mahana Wealth promotes wealth management.³

At InfraZamin Pakistan, we work to support this shift by offering credit guarantees that reduce lending risk for financial institutions. By de-risking critical infrastructure projects, we enable financing to flow towards businesses and sectors often overlooked. For instance, our support for Multinet, a key fiber optic network provider, helped unlock long-term financing to expand their digital infrastructure.⁴ This, in turn, strengthened connectivity for numerous MSMEs and created new jobs with a specific focus on enhancing female employment. Similarly, our engagement with Jaffer Brother Systems (JBS), an

Kashf Foundation and InfraZamin launched South Asia's first Gender Bond to channel capital for women-led businesses.

essential IT infrastructure provider, involved guaranteeing a trade finance facility.⁵ This innovative structuring enabled JBS to secure vital financing

for IT equipment and services crucial for sectors such as finance while also committing to job creation, with a significant portion of roles dedicated for



At InfraZamin we offer credit guarantees that reduce lending risk for financial institutions. By de-risking critical infrastructure projects, we support financing to flow towards businesses and sectors often overlooked

women. Such interventions highlight how targeted credit solutions can drive business growth and deliver broader economic benefits.

For Pakistan's youth and MSME sector, fintech offers meaningful entry points into the formal economy. Mobile banking allows for secure and convenient transactions. Crowdfunding is providing an alternative to traditional seed funding. Even the freelancing economy, now a major source of income for young workers, depends on the ease of digital payments. As the fintech industry itself grows, it is also creating new employment opportunities in areas like software development, analytics and financial product design.

Perhaps the most transformative impact we are seeing is in the financial inclusion of women. Traditional banking models have never fully accounted for the structural challenges women face,

such as limited mobility, fewer opportunities to build credit histories, or social expectations that discourage financial independence.

Fintech, particularly mobile-based solutions, is beginning to close this gap. Women can now access and manage financial services directly through their phones, without the need to travel or rely on intermediaries. Digital wallets, micro-loans, and tailored products are helping women build businesses, support their families, and participate in the economy on their own terms.

A milestone in this area has been the Gender Bond issued by the Kashf Foundation, supported by InfraZamin.⁶ This was the first such bond in South Asia and has helped channel capital to tens of thousands of women-led businesses. The result is real economic impact, more financial independence, more jobs, and stronger communities.

To date, approximately 39,000 loans have been disbursed to women-owned businesses, resulting in the creation of around 9,000 jobs through the bond proceeds.

Progress like this depends on more than innovation alone. The State Bank of Pakistan's supportive policies have helped fintech grow responsibly, while investments in digital infrastructure and inter operator payment systems have laid the essential networks. Collaboration between the public and private sectors continues to be critical.

Still, challenges remain. Financial and digital literacy needs strengthening, cybersecurity must keep pace, and rural and vulnerable communities cannot be left behind. Even so, the direction is clear. Fintech is unlocking opportunities for entrepreneurs, youth and women, helping build a more inclusive, resilient Pakistan.

3. Invest2Innovate Ecosystem – The Fintech Landscape in Pakistan: Progress and Potential, 2025

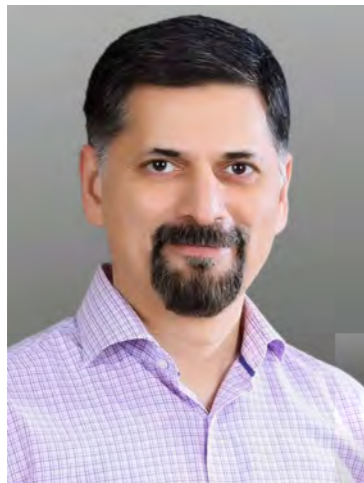
4. InfraZamin, 'Greater Digital Reach and Transmission across Pakistan'. Available at: <https://infrazamin.com/portfolio/greater-digital-reach-and-transmission-across-pakistan/>

5. InfraZamin, 'Guaranteed Trade Finance Facility'. Available at: <https://infrazamin.com/portfolio/guaranteed-trade-finance-facility/>

6. InfraZamin, 'Pakistan's first AAA rated, fully Guaranteed Gender Bond'. Available at <https://infrazamin.com/portfolio/pakistans-first-aaa-rated-fully-guaranteed-gender-bond/>

Venture Capital in Pakistan

It was a historic change to see local and foreign venture capitalists investing more than a billion dollars in Pakistani startups within five years, creating a new capital class and funding source for ambitious companies.



By
Shehryar Hydri

Managing Director,
Endeavor Pakistan

Pakistan's venture capital (VC) ecosystem, though relatively nascent, is rapidly evolving into a promising sector for sustainable economic growth. Driven by a combination of demographic advantages, technological adoption, and entrepreneurial ambition, venture capital can empower a new breed of entrepreneurs and significantly accelerate its journey towards building global brands.

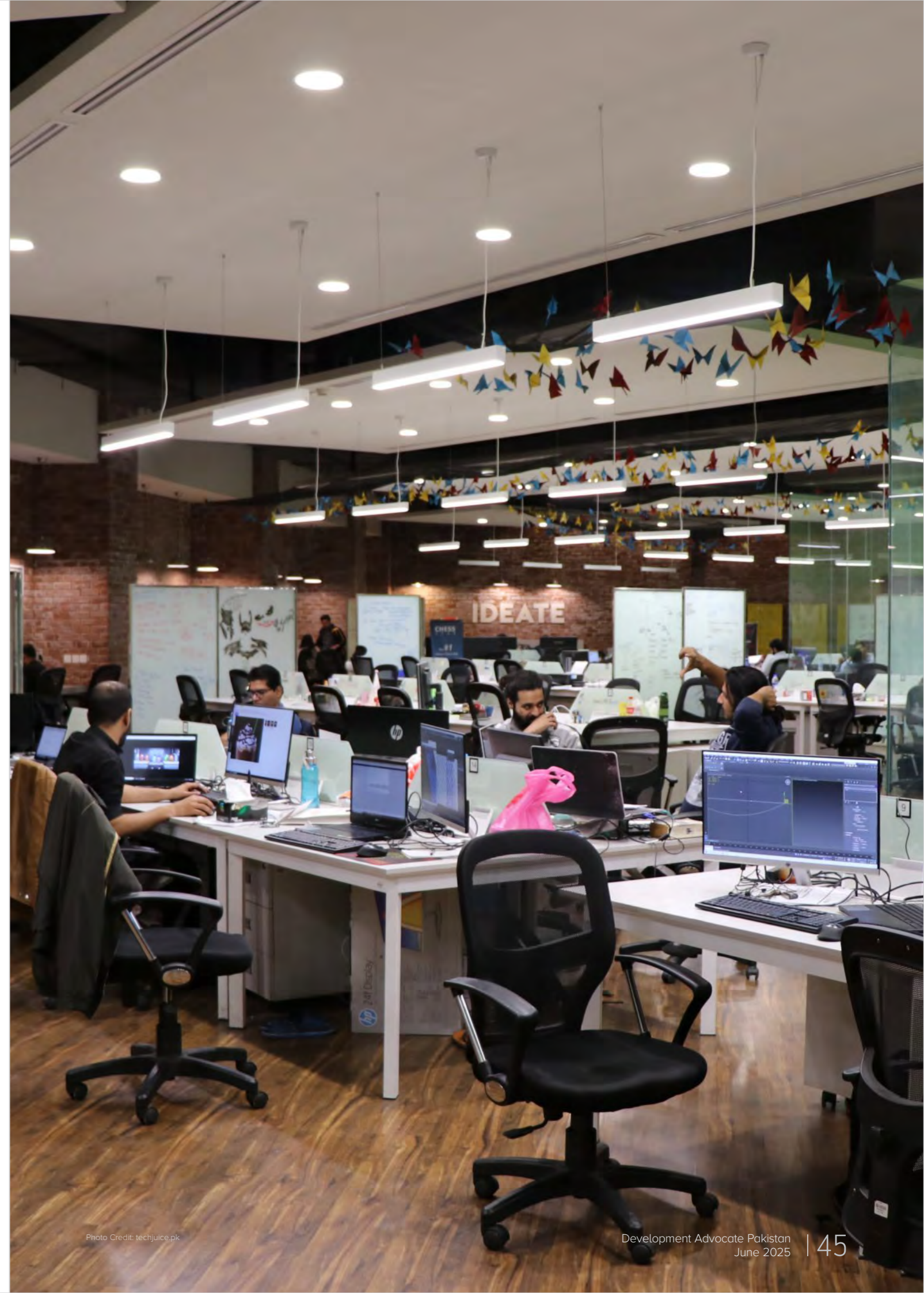
The Landscape Before Venture Capital

The past decade saw the emergence of a significant VC and startup ecosystem, however, it is important to understand the landscape before this transformation. The local IT sector was built upon a model of labor arbitrage mimicking markets like India, where software houses provided mostly low-end services to foreign clients paying in dollars. The concept of startups building proprietary products or tech-enabled services for the local market was non-existent, and no global products were being built by local firms. Given this backdrop, it was a historic change to see local and foreign VCs investing more than a billion dollars in Pakistani startups within five years and

creating a new capital class and funding source for ambitious companies.

Initially characterized by cautious optimism, Pakistan's VC and startup ecosystem witnessed explosive growth between 2018 and 2022. During this period, startups like Airlift, Bazaar, Abhi, and Postex emerged, successfully raising substantial international capital. This peaked in 2021 and 2022, when Pakistani startups secured over US\$700 million in venture funding, indicating global investor confidence in Pakistan's untapped market potential.

However, 2023 marked a stark slowdown driven by broader global economic uncertainty, increasing interest rates, and domestic political and policy instability. Funding dropped sharply, falling to \$74 million in 2023 and bottoming out at \$48 million in 2024. While challenging, this global adjustment period compelled startups and investors alike to emphasize fundamentals over aggressive growth strategies. This shock to the system was a blessing in disguise and a sign of our ecosystem maturing through the inevitable cycles.



Unique Advantages

Despite these fluctuations, Pakistan remains uniquely positioned as a compelling frontier market. Several factors contribute to this promise:

- **Youth Demographics:** With a median age under 23, Pakistan hosts one of the youngest populations globally, offering a vast, digitally native consumer base.
- **Rapid Digital Adoption:** Over 130 million mobile broadband users represent a massive digital market ripe for innovation, especially in fintech, e-commerce, and mobility.
- **Underbanked Market Potential:** Only around 21 percent of the adult population has access to formal banking services, leaving significant room for fintech solutions.
- **Remittances and Diaspora Capital:** Unprecedented annual remittances of \$32 billion present opportunities to channel diaspora capital towards digital products as well as productive startup investments.

Persistent Challenges

To fully leverage these advantages, Pakistan's VC sector must overcome several persistent challenges:

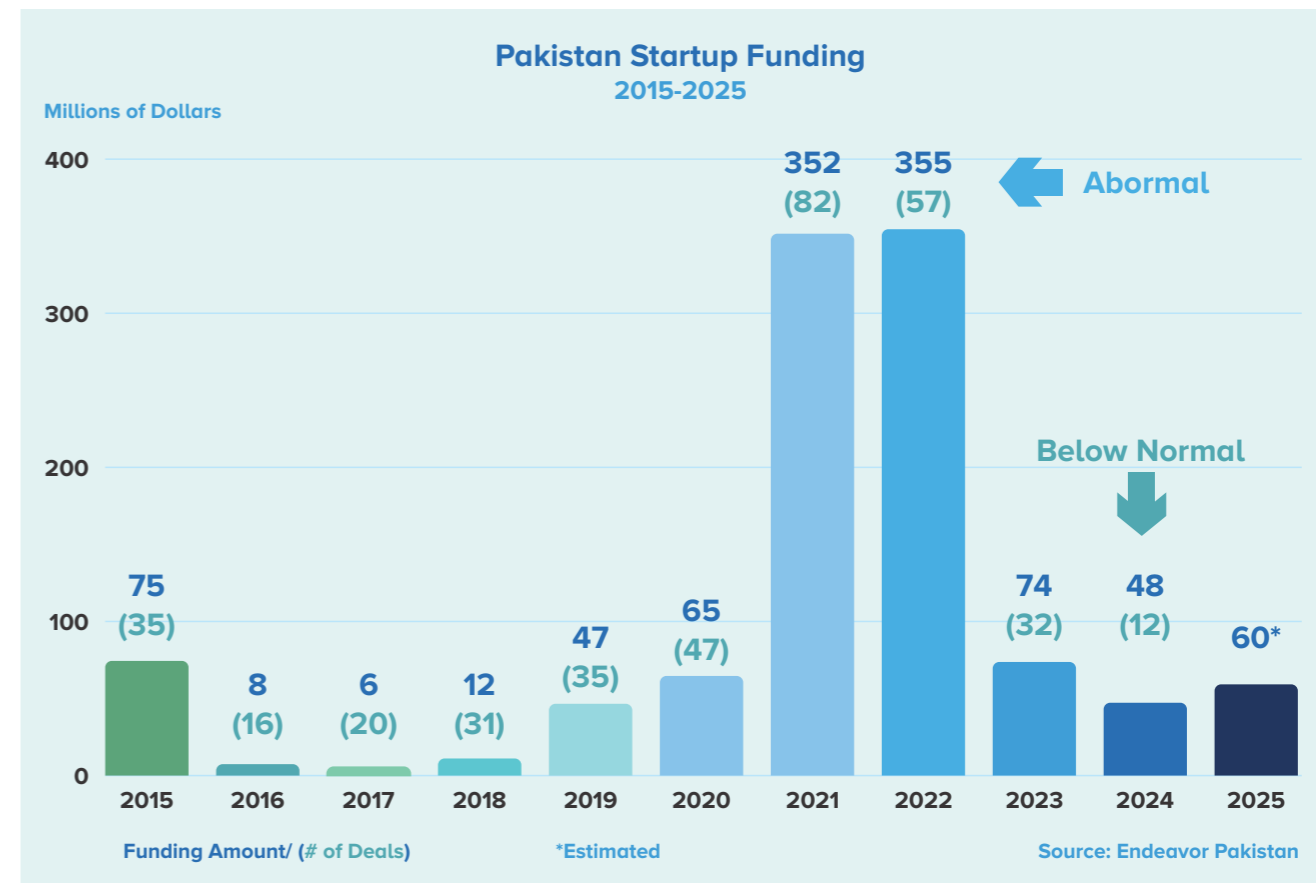
- **Dependence on Foreign Capital:** The current heavy reliance on foreign investors makes the ecosystem vulnerable to global economic shifts and currency fluctuations. We have a handful of local VCs, and the critical layer of structured angel syndicates and active family offices is still missing.
- **Policy Instability:** Frequent policy changes and regulatory uncertainty, particularly around taxation and capital repatriation, create barriers for foreign and local investors alike.
- **Limited Exit Opportunities:** The absence of well-defined exit mechanisms like initial public offerings (IPOs) or major acquisitions limits investor confidence and long-term capital inflow.

This adversely affects funding for critical development projects and interventions.



Photo Credit: pakistan.endeavor.org

Unprecedented annual remittances of \$32 billion present opportunities to channel diaspora capital towards digital products as well as productive startup investments.



Building a Sustainable Venture Capital Ecosystem

Addressing these challenges requires targeted interventions:

- **Encourage Local Capital:** Developing mechanisms for pension funds, banks, and corporations to invest in venture capital can create a robust domestic funding base.
- **Strengthen Regulatory Frameworks:** Clear, consistent regulations tailored for VC funds will boost investor confidence and ensure stability.
- **Leverage Diaspora Investments:** Structured programs encouraging diaspora engagement can help direct remittance flows into high-impact entrepreneurial ventures.
- **Create Clear Exit Pathways:** Establishing and promoting exit mechanisms through stock exchanges and facilitating mergers and acquisitions will attract sustained investment.

Looking Ahead

Venture capital holds significant potential as a driver of Pakistan's economic transformation. A well-structured VC ecosystem can foster innovation and entrepreneurship and contribute substantially toward achieving broader sustainable development objectives. Pakistan can unlock lasting benefits from this promising sector by nurturing a supportive environment through regulatory clarity, local capital mobilization, and strategic public-private partnerships.

Global investors view Pakistan on the same path as Egypt, Indonesia, Vietnam, and Malaysia, and their validated playbooks can easily be customized for our local ecosystem.

The journey ahead is challenging but filled with opportunities. It demands coordinated action among stakeholders, policymakers, investors, entrepreneurs, and diaspora communities—to build a resilient and sustainable venture capital framework that fuels inclusive growth for years to come.

Global investors view Pakistan on the same path as Egypt, Indonesia, Vietnam and Malaysia. Their validated playbooks can easily be customized for our local ecosystem.

From Charity to Capital: Unlocking Philanthropy for Development

It is estimated that philanthropic giving ranges between PKR 300-800 billion a year. Channeling charity donations into a more strategic form of philanthropy aligned to the SDGs is the way forward.



By
Shazia Amjad
Executive Director,
Pakistan Centre for
Philanthropy (PCP)

Pakistan is categorized one of the most charitable countries in the world and has deep-rooted norms of giving. Evidence shows that an overwhelming majority of people in Pakistan are engaged in some form of philanthropic giving either in cash, in kind or volunteering time with an estimated amount of approximately PKR 300 billion in a given year. The giving impulse is mostly influenced by religious and religiously motivated factors, the most important ones being Zakat, Sadqah and helping those in need.¹ Despite having a strong giving culture in Pakistan, with people donating over 1 percent of GDP annually, a significant part of the charity goes directly to individuals and less to organizations. Even though philanthropy is a huge potential resource for social sector investments, it remains unaligned with national development goals and is under-leveraged to boost Pakistan's development landscape.

Transforming traditional modes of charity into a more strategic form of philanthropy is critical to achieving the SDGs.

Pakistan is faced with a significant financial gap that hinders its path to achieving its SDGs. It is estimated that an annual spending of about 16 percent of the GDP is required by 2030 to achieve our SDG targets.² However, Pakistan's fiscal reality presents a different scenario. The country has mounting debt, with the total Gross Public Debt reaching PKR 76,000 billion in March 2025³. A substantial part of the budget is used for debt servicing,

To reimagine and realign philanthropy for development, multiple stakeholders of Pakistan's philanthropic ecosystem must be engaged to harness the giving potential and pivot it towards impact-oriented and strategic social investments that supplement national

1. Pakistan Centre for Philanthropy, Pakistan Centre for Philanthropy Reports, Pakistan Centre for Philanthropy, 2016; 2024
2. Brollo, Fernanda, 'Pakistan: Spending needs for reaching the Sustainable Development Goals (SDGs)', IMF Working Paper No. 2021/108, International Monetary Fund, Washington, D.C., 2021. Available at: <https://www.imf.org/-/media/Files/Publications/WP/2021/English/wpia2021108-print.pdf>
3. State Bank of Pakistan, 'Pakistan's Debt and Liabilities – Summary (Table 1)', Pakistan's Debt and Liabilities, State Bank of Pakistan, Karachi, 2025. Available at: <https://www.sbp.org.pk/ecodata/Summary.pdf>



development goals. This vision can be ensured and implemented through various initiatives, particularly blended finance, impact investing and public-private partnerships.

Combining public and private investments with funds generated through philanthropic giving helps garner greater capital and asset-building. This blended finance approach is exemplified by the Pakistan Microfinance Investment Company (PMIC) which came into existence through collaboration among the United Kingdom's Foreign, Commonwealth and Development Office, the German Development Bank, and the Pakistan Poverty Alleviation Fund. This initiative is supported by a combination of philanthropic giving, private capital, and concessional donor funds, thereby empowering it to direct funds to microfinance institutions that cater to millions of people from underprivileged socio-economic backgrounds, particularly women. Through SDG-oriented projects such as solar-powered homes to promote sustainable green energy, PMIC de-risks investment for private actors, mainly drawing from donor and philanthropic capital for a profound social impact.

Another pertinent model to ensure strategic harnessing of the giving

To realign philanthropy for development, Pakistan's philanthropic ecosystem must be engaged to move towards strategic national development goals using blended finance, impact investing and public-private partnerships.

potential is impact investing, where philanthropic funds are channeled to social enterprises focusing on tangible social benefits and financial returns. This model is exemplified by Acumen, a global non-profit impact investment fund that deploys risk-tolerant investments into enterprises committed to alleviating poverty while generating financial returns. Through investments in startups such as Husk Power Systems, they provide solar mini-grid systems to remote areas that ensure their support is aligned with the SDGs, particularly SDG 7 and SDG 13, which aim to provide affordable and clean energy and tackle climate change.

Public-private partnerships also play a crucial role in ensuring that people's donations are mainly used for a cause that aligns with sustainable development goals and national policy. Using The Citizens Foundation (TCF) as a best practice model, further opportunities into this process can be explored

across organizations and institutions.

While TCF began as a purely philanthropic initiative, it has now expanded into a public-private partnership model in collaboration with provincial governments. In Sindh, TCF has partnered with the provincial government to oversee the management of schools that are underperforming and upgrade their capacity and infrastructure through the organization's operational model, which seeks to enhance the learning environment through better-trained teachers, improved infrastructure and a more relevant curriculum. Similarly, in Punjab, the public-private partnership of Danish Schools has effectively manifested a more cost-effective, inclusive, and learning-oriented model. Aligning their work with SDG 4 and SDG 10, TCF ensures that the majority of students from underprivileged socio-economic backgrounds can benefit by providing quality education.



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To promote strategic philanthropy, an enabling environment must be created by improving the currently fragmented legal framework and providing fiscal incentives through greater tax benefits for donations directed toward SDG-aligned initiatives. Additionally, enhancing data infrastructure by establishing a national philanthropy database can aid in tracking and measuring the impact of contributions. This will bolster donor confidence in SDG-aligned projects and encourage more people to give thoughtfully and strategically for the greater good of fellow citizens.

The 2022 floods displaced millions and caused economic losses of up to 4.8 percent of GDP. These disasters are a stark reminder that climate resilience cannot be denied. By harnessing the untapped potential of philanthropy, development financing for climate adaptation, renewable energy sources, and risk management strategies can achieve gainful outcomes.

Similarly, the recent shrinking of foreign aid necessitates mobilizing local

philanthropy for streamlined and impact-oriented development outcomes. Major donors like the USAID have cut funding to Pakistan. y. As a result, education and health sectors, among others, are faced with challenges of reduced funding. This situation requires that local resources for development financing and investments be tapped so that support is locally-led and aligned with the global development agenda.

Transforming charity into capital and asset development accompanied by a favorable philanthropy ecosystem can unlock new avenues for sustainable development. However, it is no easy feat. This is a paradigm shift that requires concerted efforts from all third-sector stakeholders to effectively harness and utilize philanthropic giving as a tool for systemic change.

As foreign aid shrinks, we must mobilize philanthropy for effective development outcomes, tapping local resources for financing and investments that will ensure support is locally-driven and aligned with global development goals.

Credit Access for Pakistan's Private Sector

The lack of private sector investment in Pakistan has hindered growth of small and medium enterprises, limiting broader economic diversification, innovation and job creation.



By

**Muhammad
Abbas Taqi**

Data & Analytics Officer,
Development Policy
Unit, UNDP Pakistan

Introduction

Pakistan's banking sector has undergone significant reform and modernization over the past two decades. Deregulation, privatization, and the development of a more competitive banking landscape have made Pakistan's financial system more sophisticated, stable, and inclusive. Pakistan's banking sector has demonstrated resilience in the face of significant macroeconomic challenges in the recent past. The sector recorded an impressive 90 percent growth in net profit despite double-digit inflation and soaring policy rates.¹ However, despite relative stability in the banking sector, credit growth to businesses and the private sector has remained muted. This situation has stifled private sector investment, hindered the growth of Small and Medium Enterprises (SMEs), and limited broader economic diversification, innovation, job creation, and productivity for the country and its people.

Declining Private Sector Credit Growth

Pakistan's private sector credit growth

has significantly underperformed relative to historical trends and peer economies. According to data from the World Bank, domestic credit to the private sector as a percentage of GDP was only 12 percent in 2023, down from 15 percent in 2021 and 16 percent in 2019. In comparison, during the same period, Indian banks' domestic credit to the private sector amounted to 50 percent of the GDP (2021), Bangladesh 40 percent, while the aggregate for South Asia stood at 46 percent. Pakistan's stark slowdown is a major concern, as it suggests a structural issue in the financial system's ability to support the private sector.

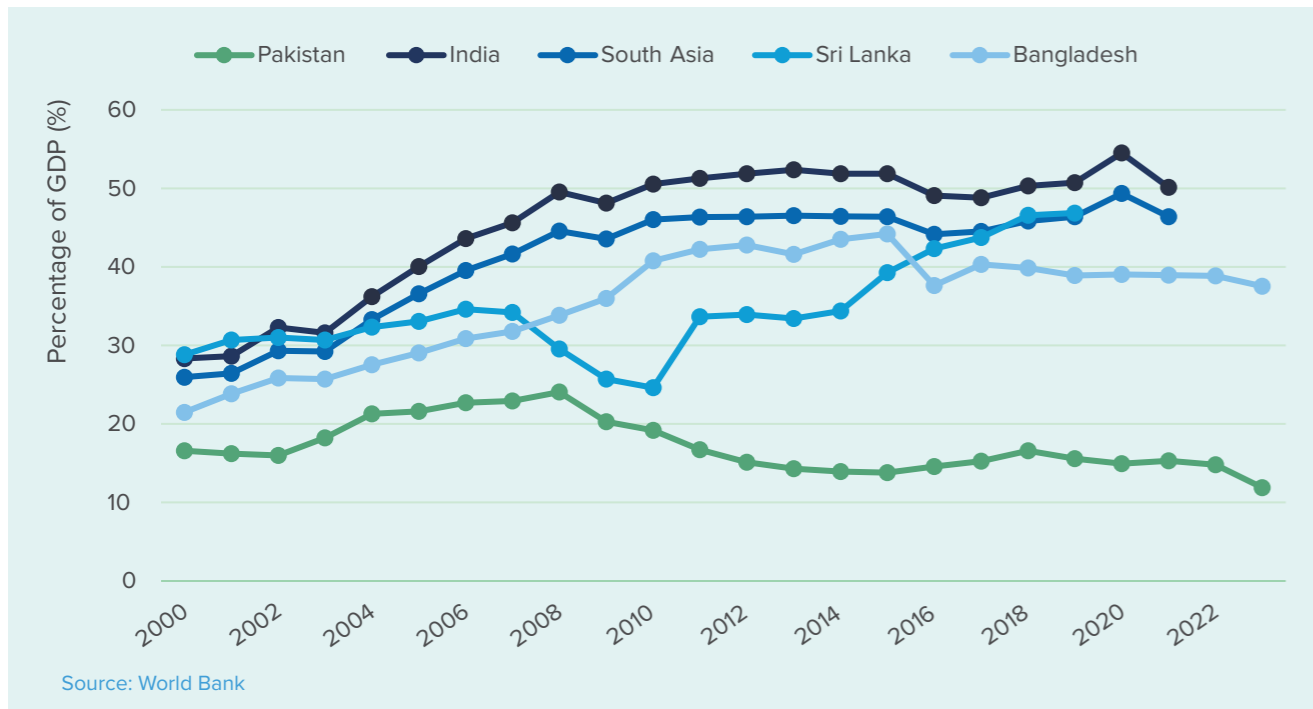
Factors Behind the Decline in Private Sector Credit Growth

1. Macroeconomic Instability (2018–20)

Macroeconomic instability has been the most significant factor driving the decline in private sector financing. Since 2018, Pakistan has faced recurring economic crises marked by high inflation, currency depreciation, fiscal imbalances, and persistent external debt challenges. These

1. KPMG in Pakistan, Pakistan Banking Perspective 2024, KPMG in Pakistan, 2024, Available at: <https://assets.kpmg.com/content/dam/kpmg/pk/pdf/2024/05/Pakistan-BankingPerspective-2024.pdf>





pressures have created a volatile business environment, prompting banks to adopt a cautious approach to lending. For instance, from 2019 to 2020, double-digit inflation and a sharp devaluation of the Pakistani rupee undermined consumer demand and created heightened uncertainty for

GDP growth remains low and private sector credit as a percentage of GDP has fallen to its lowest level since the privatization of banks, declining from 23 percent in 2007 to just 12 percent by 2023.

businesses. The State Bank of Pakistan (SBP) raised interest rates to curb inflation, making borrowing prohibitively expensive for many enterprises. Consequently, banks redirected their focus toward government securities, which offered safer and more stable returns amid the economic turbulence. The COVID-19 pandemic compounded these issues by introducing structural challenges such as supply chain disruptions, decreased consumer spending, and a sharp contraction in export performance. These factors further eroded the creditworthiness of many businesses, particularly SMEs, causing lending to the private sector to slow significantly.

2. The Banking Sector's Shift towards Government Debt

In recent years, banks have shifted their investments towards government-backed securities rather than private sector loans. With heightened economic uncertainty, rather than extending credit to businesses, many banks have found it more attractive to invest in low-risk government securities, including long-term options such as

Sukuks and Pakistan Investment Bonds and shorter-term instruments such as the Treasury Bill. By 2024, 38.3 percent, around PKR 27.4 trillion, of the government's total debt was with domestic banks' portfolios², concentrated in different government debt instruments. In comparison, emerging markets and developing economies, on average, had a much lower exposure of 16 percent to government debt.³ For Pakistan, this shift has led to a crowding out of private sector financing, particularly for long-term investment projects and growth-oriented ventures. Instead of supporting innovation and expansion, banks have prioritized safer, more liquid assets in response to domestic economic challenges and global financial pressures including rising commodity prices and tightened global monetary policy.

3. Challenges in the Small Medium Enterprise Financing Ecosystem

SMEs make up over 90 percent of businesses in Pakistan and employ a significant proportion of the workforce; they have long struggled with limited access to credit.⁴ The situation has

worsened in recent years as banking practices have become more stringent, making it more difficult for small businesses to access financing. Banks have reinforced barriers by implementing rigid credit manuals and risk acceptance criteria requiring either substantial collateral or pre-existing borrowing relationships with other banks. This "you first" approach has created a cycle of inaction, where no bank takes meaningful steps to lend to SMEs because others do not. The data speaks volumes: between June 2019 and June 2024, lending to SMEs increased by a mere PKR 25 billion, compared to a staggering PKR 2.65 trillion increase in advances to corporate customers—a multiple of 106 times. Notably, PKR 700 billion of this corporate lending, or 26 percent, was concentrated in just the 10 largest exposures of the banking sector.⁵

This stagnation in SME credit cannot simply be attributed to historically high markup rates. Even during the COVID-19 pandemic, when the State Bank of Pakistan (SBP) extended refinance schemes to cushion the economic impact of lockdowns, lending to SMEs declined between June 2019 and June 2021. The introduction of the SME Asaan Finance Scheme in 2021–22, which aimed to incentivize lending through loss guarantees and credit risk-sharing mechanisms, yielded underwhelming results. SME credit grew by just 3 percent annually during this period, while corporate lending

Over 90 percent of businesses in Pakistan are small and medium enterprises, employing the majority of the workforce, yet they lack access to credit.

rose by 17 percent year-on-year.⁴

4. Impact of Global and Domestic Shocks

The global economic environment, including the aftermath of the COVID-19 pandemic, rising commodity prices, and geopolitical instability, has placed additional stress on Pakistan's economy. Combined with the domestic fiscal deficit and inflationary pressures, these shocks have heightened the perceived risk for both domestic and international lenders, leading to further caution in extending credit to businesses. Furthermore, global capital outflows and the tightening of global monetary policy have made it more difficult for Pakistan to attract foreign investment, further limiting the available pool of financing for private sector enterprises.

Recommendations

The decline in private sector credit in Pakistan stems from a mix of macroeconomic instability, structural flaws in the financial system, and banks' increasing preference for low-risk government securities. While the banking sector

remains stable, its limited engagement with the private sector—especially SMEs—has stifled innovation, job creation, and broader socio-economic progress. This financing gap is more than a financial constraint; it's a developmental bottleneck with serious implications for poverty reduction, resilience, and long-term prosperity. Encouragingly, initiatives like the SDGs Innovative Financing Challenge Cup, launched by UNDP in collaboration with JS Bank, offer a blueprint for change. By mobilizing a blended finance instrument of \$0.27 million—combining a UNDP grant with a JS Bank loan—the program supported SDG-aligned, climate-resilient SME projects, attracting over 120 applicants and providing capacity-building to 30 shortlisted ventures. Such efforts demonstrate how targeted interventions, including credit guarantee schemes, blended finance models, and incentives for private banks, can unlock financing for the private sector and SMEs. Additionally, leveraging AI, digitalization, and financial innovation will aid the way for a more inclusive and sustainable economic future.



2. Pakistan Credit Rating Agency, Commercial Banks: PACRA Research – May 2025, Pakistan Credit Rating Agency, 2024, Available at: https://www.pacra.com/view/storage/app/PACRA%20Research%20-%20Commercial%20Banks%20-%20May%2725_1749028726.pdf

3. Dunz, Nepomuk, et al. "The Rise of Sovereign-Bank Nexus Risks in Developing Economies." World Bank Blogs, World Bank Group, 23 Oct. 2024, Available at: [blogs.worldbank.org/en/psd/the-rise-of-sovereign-bank-nexus-risks-in-developing-economies#:~:text=Note%20Panel%20a%20Sample%20consisting,IMF%20International%20Financial%20Statistics%20data.&text=The%20results%20of%20this%20surge,\(Grande%20and%20Angelini%202014\)](https://blogs.worldbank.org/en/psd/the-rise-of-sovereign-bank-nexus-risks-in-developing-economies#:~:text=Note%20Panel%20a%20Sample%20consisting,IMF%20International%20Financial%20Statistics%20data.&text=The%20results%20of%20this%20surge,(Grande%20and%20Angelini%202014)).

4. Abbas, Ghulam. "SMEs Propel Economy with 40% GDP Contribution, Senate Committee." Profit by Pakistan Today, Pakistan Today, 11 Jan. 2024, profit.pakistantoday.com.pk/2024/01/11/smes-propel-economy-with-40-gdp-contribution-senate-committee/.

5. BR Research, "SME financing: 'he's just not that into you!'", Business Recorder, 25 November 2024, Available at: <https://www.brecorder.com/news/40334268/sme-financing-hes-just-not-that-into-you>

Reimagining Public-Private Partnerships in Pakistan

Public-private partnerships are not simply delivery mechanisms. Instead, they can serve as a platform for channeling blended capital and achieving development outcomes.



By
Muhammd Danish
Head Projects,
Public-Private
Partnership Authority

History of Public-Private Partnerships in Pakistan

Pakistan's experience with public-private partnerships (PPPs) began in the energy sector during the 1990s. The 1994 Private Power Policy was a major turning point, attracting over US\$5 billion in private capital through Independent Power Producer (IPP) contracts. These projects were structured using limited recourse project finance backed by sovereign guarantees and dollar-denominated power purchase agreements. This was considered a major success in a new and sub-investment grade market.

Yet the same features that made the model attractive to investors later created a sub-optimal proposition for the government. Most IPPs relied on imported furnace oil and were not part of a least-cost generation plan. There was no competitive bidding, and demand forecasting was weak. By 1998, over two-thirds of the contracts were renegotiated, damaging investor confidence and creating a legacy of financial mistrust.

The next major wave of PPPs focused on the transport sector. The M-2 and M-9 motorways were politically high-profile and aimed to improve connectivity. However, these projects faced similar issues. Toll-based models were adopted without robust demand studies or enforcement mechanisms. In both the energy and transport sectors, the PPP model emphasized infrastructure delivery over financial sustainability or innovation in structuring.

The International Context

Colombia's Fourth Generation Toll Road Program launched in 2014, offers a contrasting example. The program involved 40 PPP concessions covering nearly 6,000 kilometers of road. The projects were structured based on the risk profile of each transaction. For example, low-traffic corridors used availability payments while others remained toll-financed. Nineteen projects reached financial close by 2016 and mobilized over \$10 billion in private investment. To support this, Colombia in partnership with the World Bank, International Finance



Corporation and Inter-American Development Bank introduced credit enhancements, standardized contracts and legal reforms that allowed pension funds to invest in infrastructure bonds. The program demonstrated how PPPs could be tailored to corridor-specific viability and contribute to long-term financial market development.

Kenya's Lake Turkana Wind Power Project, Africa's largest wind farm with a total project cost of \$680 million, presents another robust risk management model. Built in a politically sensitive and remote region, it relied on concessional equity from Nordic Development Finance Institutions (Norfund, Investment Fund for Development Countries, and Finnfund), long-term debt from African Development Bank (AfDB), and a sovereign-backed power purchase agreement. When the World Bank withdrew its partial risk guarantee, AfDB stepped in to fill the gap. The project avoided default despite delays in transmission infrastructure thanks to its layered and flexible financing. Unlike Pakistan's IPPs, Kenya's project did not involve bond issuance, equity was held by sector-aligned actors and AfDB provided partial risk guarantee for the transmission line and debt. The project's structure reflects a more adaptive and less guarantee-dependent approach.

Another forward-looking example is Indonesia's SDG Indonesia One, a green finance platform. Designed as a sovereign intermediary loan, the facility channels blended capital to SDG-

Pakistan must rethink its public-private partnership strategy, moving away from one-off projects towards more structured, programmatic and multi-actor financing strategies.

aligned infrastructure through PT Sarana Multi Infrastruktur, a state-owned institution. The Asian Development Bank provided a \$150 million loan, complemented by \$273 million in public co-financing. The facility supports both project preparation and investment, linking funding to

environmental and financial performance benchmarks. By functioning as a pipeline rather than a set of standalone projects, Indonesia demonstrates how PPPs as a program can be embedded within a broader national financing strategy.



A Future Strategy for PPPs in Pakistan

These case studies suggest that PPPs are no longer simply delivery mechanisms. Instead, they may serve as a platform for channeling blended capital and achieving development outcomes. Pakistan's next steps must involve shifting from one-off projects to more structured, programmatic, and multi-actor financing strategies.

The Delta Blue Carbon Project in Sindh shows this is possible. A partnership between the Government of Sindh and Indus Delta Capital, the initiative aims to restore more than 350,000 hectares of degraded mangroves. It is expected to sequester 142 million tons of CO2 and generate 128 million carbon credits over 60 years. Financed through voluntary carbon markets, the project directs revenues to community employment, clean energy, and ecosystem resilience. Unlike traditional infrastructure PPPs, it aligns investor returns with verified climate outcomes.

Such models suggest new directions are possible for Pakistan's PPP

authorities. First, they should establish project preparation facilities dedicated to SDG and climate-aligned infrastructure. Second, concessional and blended finance structures that combine public lending with risk-sharing instruments should be embedded at the design stage. Third, pipeline-based investment platforms, similar to SDG Indonesia One should be developed to allow for long-term institutional participation. Finally, nature-based solutions like the Delta Blue Carbon Project should be mainstreamed within PPP frameworks and monetized through mechanisms like carbon credits.

Ultimately, these are not just technical changes; they represent a strategic shift. It is important not to treat PPPs as financing workarounds. Instead, they must be treated as national programs for shaping the flow of public and private capital toward long-term development objectives.

Financed through voluntary carbon markets, the Government of Sindh and Indus Delta Capital's project directs revenues to community employment, clean energy and ecosystem resilience—this is unlike traditional public-private partnerships.

Socially Responsible Investing in Pakistan

The PKR 30 billion Sovereign Domestic Green Sukuk by the Government, listed on the Pakistan Stock Exchange, was oversubscribed 5.4 times, reflecting strong investor confidence in sustainable development.



By

Obaid Rehman

AGM - Marketing & Communications
Pakistan Stock Exchange

The sun sets over Karachi's Empress Market, painting the sky in hues of orange and pink. Sahar, a 58-year-old school teacher, navigates the bustling stalls where vendors shout over piles of mangoes and children dart with kites. A young girl at a spice cart counts change confidently, reminding Sahar of her childhood selling bangles to support her family. Now, with a decent investment portfolio, she dreams of a Pakistan where this girl owns a shop, where villages shine with solar light, and markets hum without fear of floods. Responsible investing, Sahar learns, can turn her dreams into reality—growing her savings while nurturing the environment, uplifting communities, and championing ethical businesses. Through environmental, social and governance (ESG) principles, Sahar joins a movement that is crafting a brighter Pakistan, with the Pakistan Stock Exchange (PSX) as its canvas.

In her classroom, Sahar hears tales of loss—the floods in Sindh destroyed a student's family farm, echoing Pakistan's fifth rank on the Global Climate Risk Index. Determined to act, she aims to invest in renewable energy companies that aim to bring solar panels to rural and urban homes. On a

visit to her village, she met Hameed, a farmer whose solar-powered pump, funded by a solar startup company, saved his wheat crop. "These solar panels gave us hope," he said, his eyes gleaming. The government's goal of 60 percent clean energy and reducing emissions by 15 percent, according to the Paris Agreement till 2030, fuels Sahar's optimism, though only 1.3 percent of bank loans to private sector currently back renewable energy projects. The State Bank of Pakistan is pushing change with Green Banking Guidelines, ensuring banks prioritize eco-friendly projects over projects like coal plants. Sahar's investments support climate-smart farming initiatives, helping farmers like Hameed sow seeds for a greener tomorrow.

Sahar's students inspire her social mission. She sees girls like her niece, Amna who drop out to work, reflecting Pakistan's Gender Gap, as it ranks 148 out of 148 countries. The Labor Force Survey 2020-21 showed that female participation stood at 15.5 percent. With 22 million children aged 5 to 16 out-of-school, as per UNICEF Pakistan Report 2023. Education is a fight worth winning. Sahar also learns about startups like Sehat Kahani, connecting rural women to doctors via mobile apps.



Her neighbor, Rubina, a nurse, now earns extra through Sehat Kahani, saving for her son's textbooks. "I feel like I'm building his future," Rubina shared over tea. Microfinance firms, serving over 8 million borrowers, offer loans for schooling and solar stoves, empowering women like Sahar's cousin, Sana, who opened a tailoring shop in Lahore with a loan from a Microfinance bank. Sahar's portfolio and investors who support sustainable investment open doors for students like Amna.

Trust is Sahar's foundation, but gender diversity is a challenge. Out of the registered directors in the databank of the Pakistan Institute of Corporate Governance, only 893 females, representing 15.5 percent, are registered as independent directors. This is despite the Securities and Exchange Commission of Pakistan (SECP) mandating at least one female director on each board since 2020. Corruption, with Pakistan at 135 out of 180 on Transparency International's 2024 rankings, troubles her, yet hope rises. During an initial public offering listing event at the trading hall of PSX, an investor praised transparent audits, a sign of progress. SECP's revised Corporate Governance Code tightens rules, and PSX's ESG reporting push, backed by listed companies, reassures Sahar her investments are ethical.

PSX is the storyteller of this transformation. Its ESG Task Force helps businesses share sustainability efforts, guided by SECP's ESG Reporting Guidelines. As a member of the UN Sustainable Stock Exchanges Initiative, PSX sets a global standard. Her heart leaps at the news that the Government of Pakistan has launched its first domestic Green Sukuk, set to raise PKR

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30 billion for climate-friendly projects under the Sustainable Investment Sukuk Framework. Later, when she learned that the PKR 31.99 billion Sovereign Domestic Green Sukuk, listed on the Pakistan Stock Exchange, was oversubscribed 5.4 times,

reflecting strong investor confidence in sustainable development, she felt overjoyed because she knew that there were many others like her who are taking sustainability very seriously. Sahar imagines building dams, hydropower energy fueling markets,



Photo Credit: Rebecca Conway/Getty Images



and flood-safe schools. Her savings, with the Government of Pakistan's vision and investors' support, is fueling a green wave.

Meanwhile, communities are writing their chapters. Many companies listed at PSX have now started publishing ESG reports and providing gender diversity and pay gap numbers. Startups like Oraan are also empowering women with financial tools. Sahar's friend, Noor, a teacher, uses Oraan to save for her daughter's college, and her smile is radiant. Telenor Pakistan connects rural villages, boosting local businesses through initiatives like the Broadband for Sustainable Development program, the Khushaal Watan platform, and the Khushaal Aangan service. Universities spark ESG ideas, and a pandemic-era tree-planting project gave jobs to youth in Sahar's neighborhood. The National Electric Power Regulatory Authority's net metering policy powers homes with solar and climate finance units in Sindh and Punjab, inspiring Sahar's dream of sustainable cities.

However, challenges still linger. Due to loose oversight, some firms may overhype ESG efforts, a trick called greenwashing. Carbon markets for forestry lag and economic turbulence with a wavering currency test investor confidence. But Sahar sees these as stepping stones. Stronger rules, a budding carbon market and financial commitment are on the horizon. Her investments are threads in a vibrant tapestry, weaving a hopeful Pakistan.

Sahar's savings grow, but her true joy is her students' dreams—a Pakistan of clean energy, open schools, gender diversity and trusted markets. Responsible investing is her quill, and PSX calls every Pakistani to join the tale. From Karachi's markets to Punjab's fields, a sustainable future is rising. Join Sahar, pick up your pen, and let's write a prosperous Pakistan through responsible green investments, one step at a time.

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Note: The characters discussed in this piece are fictionalized.



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