SUSTAINABLE DEVELOPMENT GOALS

UNDP

# PUNJAB INTEGRATED FINANCING STRATEGY

**Punjab SDGs Support Unit**

Planning & Development Board | Government of the Punjab

**Concept, Research, and Content**
Planning & Development Board, Government of the Punjab
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Punjab SDGs Support Unit

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## Acronyms

| | |
|---|---|
| ADB | Asian Development Bank |
| ADP | Annual Development Programme |
| AEs | Accredited Entities |
| AF | Adaptation Fund |
| AGP | Auditor General of Pakistan |
| BHU | Basic Health Unit |
| BISE | Board of Intermediate and Secondary Education |
| BISP | Benazir Income Support Programme |
| BOP | Bank of Punjab |
| BoS | Bureau of Statistics |
| C&W | Communications & Works |
| CGA | Controller General of Accounts |
| COP | Conference of Parties |
| CPEC | China Pak Economic Corridor |
| CPI | Consumer Price Index |
| CSOs | Civil Society Organizations |
| CSR | Corporate Sector Responsibility |
| CSV | Corporate Social Value |
| DG M&E | Directorate General Monitoring and Evaluation |
| DHQ | District Headquarter Hospital |
| DRF | Disaster Risk Financing |
| ESG | Environmental, Social, and Governance |

| | |
|---|---|
| EVS | Education Voucher Scheme |
| FAS | Foundation Assisted Schools |
| FBISE | Federal Board of Intermediate and Secondary Education |
| FDI | Foreign Direct Investment |
| FI | Financial Institutions |
| FRDL | Fiscal Responsibility and Debt Limitation Law |
| GCF | Green Climate Fund |
| GDP | Gross Domestic Product |
| GEF | Global Environment Facility |
| GIIN | Global Impact Investing Network |
| GoP | Government of Pakistan |
| GoPb | Government of Punjab |
| ICI&SD | Industries, Commerce, Investment & Skill Development |
| ICRU | Investment Climate Reform Unit |
| IGF | Infrastructure Guarantee Fund |
| IIFCL | India Infrastructure Finance Company Limited |
| INFF | Integrated National Financing Framework |
| IPFF | Integrated Provincial Financing Framework |
| KPIs | Key Performance Indicators |
| LDA | Lahore Development Authority |
| LG&CD | Local Government & Community Development |
| LNG | Liquefied Natural Gas |
| MAPS | Mainstreaming, Acceleration and Policy Support |
| MDB | Multi-lateral Development Bank |
| MTDF | Medium-Term Development Framework |
| MVP | Minimum Viable Product |
| NAPHDA | Naya Pakistan Housing & Development Authority |
| NBFC | Non-Banking Finance Companies |
| NDCs | Nationally Determined Contributions |
| NGOs | Non-Governmental Organisations |
| NSER | National Socio-Economic Registry |
| ODA | Official Development Assistance |
| P&D | Planning and Development |
| PAC | Public Accounts Committees |
| PCC | Punjab Charity Commission |
| PCF | Provincial Climate Fund |
| PDF | Project Development Facility |
| PE | Private Equity |
| PEC | Punjab Examination Commission |
| PEECA | Punjab Energy Efficiency and Conservation Authority |
| PEEF | Punjab Educational Endowment Fund |
| PEF | Punjab Education Foundation |
| PEIMA | Punjab Education Initiatives Management Authority |
| PERI | Punjab Economic Research Institute |
| PFM | Public Financial Management |
| PGS | Punjab Growth Strategy |
| PHIMC | Punjab Health Initiative Management Company |
| PIDG | Private Infrastructure Development Group |
| PIEDMC | Punjab Industrial Estate Development Management Company |
| PITB | Punjab Information Technology Board |
| PMRC | Pakistan Mortgage Refinance Company |
| PMT | Proxy Means Test |
| PPP | Public-Private Partnership |
| PRS | Punjab Rozgar Scheme |
| PSC | Public Sector Companies |
| PSIC | Punjab Small Industries Corporation |
| PSS | Punjab Spatial Strategy |
| PSSP | Public School Support Programme |
| QAT | Quality Assurance Test |
| RHC | Rural Health Center |
| RISE | Responsive Investment for Social Protection and Economic Stimulus |
| RMU | Risk Management Unit |
| SBP | State Bank of Pakistan |
| SDGs | Sustainable Development Goals |
| SECP | Security and Exchange Commission of Pakistan |
| SLIC | State Life Insurance Company |
| SMART | Strengthening Markets for Agriculture and Rural Transformation |
| SME | Small and Medium Enterprises |
| SNG | Sub-National Governance |
| SSP | Sehat Sahulat Programme |
| TA | Technical Assistance |
| THQ | Tehsil Headquarter Hospital |
| UNDP | United Nations Development Programme |
| VC | Venture Capital |
| VFM | Value for Money |
| VGF | Viability Gap Fund |

MESSAGE FROM

# Resident Representative UNDP Pakistan

In 2015, world leaders met in Addis Ababa, Ethiopia, to agree upon a new global framework for financing the 2030 Agenda and the Sustainable Development Goals (SDGs). The resulting Addis Ababa Action Agenda (AAAA) has set out to align financing flows and policies with the vision outlined in the 2030 Agenda by strengthening implementation and reinforcing partnerships for achieving the SDGs. At the heart of the AAAA are sustainable development plans and strategies for countries that are supported by Integrated National Financing Frameworks (INFFs). The INFFs chart a country's roadmap for how the national and sub-national strategy for sustainable development can be financed and implemented.

Nevertheless, in the context of competing pressures, increasing uncertainty, shrinking aid flows and a plethora of obstacles for international development cooperation, elaborating and implementing a comprehensive development financing agenda can be a tall order for many countries and regions. It is hence more important than ever to look beyond public development cooperation and leverage opportunities for private, national, international and innovative sources of funding.

Working with the Government of Pakistan, UNDP Pakistan is providing policy advisory and technical assistance on Financing for Development and nature capital solutions on a path towards achieving the SDGs. This cooperation includes support to developing Pakistan's first ever SDG Investment Report and SDG Investor Map 2023, facilitating Pakistan's country portfolio presentations of public and private sector green projects at global investment platforms and the setting up of a Debt Management Lab at the Ministry of Economic Affairs, Economic Affairs Division, for improved resource and data systems for effective debt management and financial resilience.

Together, we have established an SDG Investments and Climate Financing Facility to identify, develop, and leverage partnerships for SDGs-aligned priority projects at national and sub-national levels that have the potential to attract investment from a variety of local and global sources. At the core of our efforts is the determination to support Pakistan to develop a framework, tools and capacities for a robust Financing for Development agenda that can help mobilize different financing sources to meet the country's development needs.

Since 2016, UNDP and the Punjab Planning and Development Board's jointly-established SDGs Support Unit has been supporting the government, civil society and the private sector with initiatives for localization, mainstreaming and acceleration of the SDGs at the provincial and district levels. Following the creation of the Punjab SDGs Framework and based on lessons learnt and emerging priorities of the provincial government with a focus on SDGs and climate financing, a need emerged for a dedicated provincial financing strategy that builds on an analysis of existing national and provincial policy frameworks, financing trends, and funding models and can help to better leverage existing resources in support of the SDGs.

Cognizant of the gaps and challenges a region such as Punjab encounters when it comes to achieving the SDGs, part of our enduring partnership with the Punjab P&D Board has been to assist the Government of Punjab to develop this first Provincial Integrated Financing Strategy, which provides a roadmap to mobilise provincial financing for Punjab's development needs, and proposes innovative models and a way forward to finance the SDGs and climate change adaptation. It includes the need to create public and private financing for development, and identifies how to channel provincial resources to reduce the development financing gap, with the aim to bolster SDG investments and climate financing.

We are particularly grateful to the leadership of the Punjab P&D Board and the Punjab Finance Department for their strategic guidance and inputs that were instrumental in finalizing this strategy. I am confident that the recommendations featured in this policy resource, supplemented with a detailed roadmap for its implementation, will help the Government of Punjab leverage strategic partnerships and tap into innovative financing instruments to achieve resilient and sustainable development on a pathway towards achieving the SDGs.

**Dr. SAMUEL RIZK**
Resident Representative
UNDP Pakistan

MESSAGE FROM

# Chairman P&D Board Government of Punjab

Punjab is the largest province of Pakistan in terms of its economic size and population. The Planning & Development Board is at the forefront of managing the provincial economy and has a clear vision to generate economic growth that is both inclusive and sustainable.

Since the adoption of the Sustainable Development Goals (SDGs) as the national development goals by the Government of Pakistan in 2016, the Punjab Government has been working hard to ensure the integration of SDGs into policy, planning, and budgetary processes. However, securing financing and effectively implementing development priorities aligned with the Sustainable Development Goals (SDGs) is crucial.

The Integrated Financing Strategy charted out in this report acts as a central piece for accelerating the achievement of the SDGs Agenda in the context of Punjab by identifying innovative financing strategies ranging from climate financing, private sector engagement, and impact investing to mortgage financing for housing. It brings together existing policies and institutional structures in support of financing Punjab's development strategies and plans. In addition to highlighting new-age strategies, it also provides an implementation roadmap and urges investors, enterprises, development partners, and other stakeholders to build a collaborative approach to close the financing gap.

Through our constant commitment to inclusive and sustainable development, we aim to ensure that no one is left behind in the push for economic growth and prosperity. Closing the SDGs' financing gap is an essential part of achieving these development goals. In the present context, this financing strategy could play a pivotal role in bridging the crucial financing gap for Punjab's development.

From now on, the Government of Punjab seeks to implement this Financing Strategy through its Punjab SDGs Plus Project by facilitating an enabling policy environment, building technical capacities, and fostering partnerships to mobilize and leverage public and private financing for development aligned with SDGs. The aim will be to align investment policies with the financing needs of SDGs by adopting an overarching institutional policy framework of Financing for Development and expanding the SDGs-linked impact financing options for Punjab.

**IFTIKHAR ALI SAHOO**
Chairman P&D Board
Government of the Punjab

## MESSAGE FROM
# Finance Secretary Government of the Punjab

The Finance Department is primarily responsible for overseeing the financial management of the Province, which among other things, include control over all provincial finances, management of public debt and formulation of the Annual Development Program.

The Government of Punjab places a premium on Sustainable Development Goals (SDGs) and has incorporated SDGs into its overall development paradigm. Given the ambitious scope of SDGs and Government of Punjab's financial limitations, it becomes all the more important to explore innovative financing methods that could bolster Government of Punjab's efforts in achieving SDGs. Following the 18th amendment to the constitution of Pakistan and devolution of powers, the provinces have become more autonomous and now have the opportunity to develop a more integrated development strategy tailored to their specific requirements.

This Integrated Financing Strategy for Punjab is a significant step in that direction. Prepared in consultation with the Finance Department, it is a coherent, well-prioritized framework that could help finance provincial development priorities that are in tune with SDGs. Building upon resource gaps, it also proposes innovative financing models to increase Punjab's fiscal space to fund SDGs. This may include traditional and non-traditional models of financing, such as securitization of assets, SDG bonds, ODA assistance, public-private partnerships (PPPs), grants in partnership with NGOs, philanthropic activities, impact investing initiatives, and others that have gained traction over the years. This report provides a review of Punjab's policy framework, institutions, stakeholders, financing trends, and existing financing models and identifies prevalent gaps that can be bridged to finance SDGs.

Given that the private sector generates around 90% of all the jobs, initiatives that build upon partnership frameworks, philanthropic achievements, and investing for impact can become long-lasting sources of capital for SDGs financing in Punjab. This financing strategy brings together financing policies, instruments, and regulatory frameworks in areas of Public Sector Financing, Private Sector Financing, Official Development Assistance (ODA), Financing from Communities, and Non-Government Sector, Public Finance Efficiency, Expenditure Switching, and the Fiscal Space.

Addressing the financing deficit in achieving SDGs holds significant importance in fulfilling the 2030 Agenda for Sustainable Development in Punjab. Diversifying the sources of financing will not only generate resources for achieving SDGs but will also provide the much needed push for economic prosperity and growth in Punjab. This Integrated Financing Strategy can be play an instrumental role in prioritizing financing policy actions that best respond to our constantly evolving provincial goals, needs, and constraints.

**MUJAHID SHERDIL**
Secretary Finance Department
Government of the Punjab

# 1. EXECUTIVE SUMMARY

**Developing an integrated financial strategy for Punjab is the cornerstone of achieving SDGs Agenda 2030.** The IMF Working Paper Pakistan on Spending Needs for Reaching Sustainable Development Goals (SDGs) assesses the supplementary spending required to make significant progress towards achieving the SDGs in Pakistan. The findings revealed that Pakistan needs an additional public-private annual spending of 16.1 percent of the GDP in critical sectors to achieve the SDGs by 2030. This includes an additional spending of 5.7 percent of the GDP, 5.4 percent of the GDP, 0.7 percent of the GDP, 2.3 percent of the GDP, and 2 percent of the GDP in Education, Health, Electricity, Roads, and Water & Sanitation sectors respectively, every year from 2020 to 2030.

**A key development to fill the financing gap is the Integrated National Financing Framework (INFF) tool which charts out a road map to finance and implement the national strategy for sustainable development**. The tool primarily focuses on three core building blocks, such as, i) assessment and diagnostic, ii) design of the financing strategy, and iii) governance and coordination mechanisms. The INFF is not a one-size-fits-all framework, instead it focuses on providing the underlying key guiding principles for the countries to come up with their modified-to-fit financing solution for the SDGs.

**The end objective of this phase of the report is to help the Government of Punjab (GoPb) navigate a path towards an Integrated Provincial Financing Framework (IPFF)**. This has been achieved by mapping broad stakeholders across financing spectrum under the public and private finance sectors. The financing strategy charted out in this report will act as a central piece for accelerating achievement of the SDGs Agenda in the Punjab context. It aims to bring together existing policies and institutional structures in support of financing Punjab's development strategies and plans, as these policies can often be fragmented.

**The strategy has been developed on the guiding principles of INFF and its building blocks, broad-based input from sector stakeholders and mapping current and innovative financing.** The methodology adopted for this strategy includes the review of the institutional, legal, and financial landscape of Punjab, existing funding models and the financial instruments used in Punjab, stakeholder consultations from the public as well as private sector, identifying opportunity areas and challenges concerning SDGs related investments in Punjab, and devising a financial strategy along with implementation plan.

## Landscape Overview

**Punjab contributes a major part of Pakistan's Gross Domestic Product (GDP).** Growth in the economy of Punjab plays a vital role in the overall growth profile of the national economy. In terms of its economic size, Punjab's share in the national economy remains around 55 percent. The economic structure of Punjab now comprises 62.4 percent of services (mostly in trade and transportation), 20 percent of agriculture, and 17.6 percent of industry. The industrial share at the national level is 20.9 percent with Karachi acting as the industrial powerhouse of the national economy (P&D, 2023). Nonetheless, Punjab's economy has a higher share in private and public investment and has a significantly higher savings rate.

**The Punjab Government has introduced several policy measures aimed at sustainable growth in medium to long term aligned SDGs.** The Punjab Growth Strategy (PGS) 2023 is focused on an equitable socio-economic progress to achieve 7 percent growth rate of provincial GDP. In line with the PGS 2023, the GoPb has launched a 'Responsive Investment for Social Protection and Economic Stimulus' (RISE), a strategic framework, that has been built upon the idea that investment in education and human capital development yield the highest returns and has a strong impact on multi-dimensional poverty. Additionally, the Punjab Spatial Strategy (PSS) 2047 aims at improving Punjab's global positioning in terms of the province's attractiveness and competitiveness for investment by leveraging its endowments and comparative advantage, through a rigorous data-driven and evidence-based approach. Lastly, the Medium-Term Development Framework (MTDF) and the Annual Development Plan (ADP) prioritization Framework shed light on allocation of budgetary resources, including ADP, for short and medium terms.

**The GoPb would need to commit approximately USD 519.5 million of additional investments per annum to fulfil its commitments for SDGs Agenda 2030**. To close the gap, it is imperative to promote innovations that can divert private capital towards development objectives. In addition, more innovative approaches to public financing for technology and to develop solutions to tackle the SDGs challenges are required to leverage broad-based inclusive development for the wider public good. To mobilise higher financing requirements, this report analyses key documents that outline the SDGs agenda, various financing models at play and institutional mechanisms available to implement financing models. Some existing funding models operating in Punjab are illustrated below.


**Investors, enterprises, civil society organisations, international development networks and other stakeholders need to build and sustain a collaborative approach.** This shall contribute to the solutions that can help achieve the 17 SDGs and their 169 underlying targets by 2030. Following are the key stakeholders that exist in the landscape of Punjab.


## Opportunities and Challenges

**The GoPb can pursue innovative financing solutions to mobilise capital for development objectives.** These include leveraging impact investment, nurturing partnerships with private sector, NGOs, philanthropic organisations, and civil society-based organisations for segmenting public financing. Additionally, the GoPb could develop partnerships with international climate change agencies such as Climate Bonds Initiative and the Green Climate Fund (GCF). Moreover, financial products such as green bonds and securities could be launched to develop market platforms such as crowdfunding and fintech.

**Private sector can play a pivotal role in channeling investments towards SDGs considering limited fiscal capacity of the GoPb.** By offering mutually beneficial solutions with appropriate incentives, private sector can mitigate gaps in meeting specific goals. For example, Project Last Mile, a partnership between The Coca-Cola Company and its foundations, USAID, Global Fund, and Bill and Melinda Gates Foundation, now facilitates knowledge transfer from private sector to Ministries of Health in Africa. Considering that the private sector generates around 90% of all jobs, the initiatives which build upon partnership frameworks, philanthropic achievements, and its investment for impact can become a long-lasting source of capital for the SDGs financing.

**Punjab has low-income base leading to muted SDGs agenda achievement.** The GDP per capita of the province has seen a meagre improvement over the past few decades. With stagnant productivity and low private sector participation, the employment base has also seen inertia. With GDP growing at about 4.5 percent a year and population growing about 2.13 percent a year, the per capita income in the province is increasing annually at about 2.37 percent in real terms (Mazhar, 2018). This is comparatively meager and suggests low opportunities base for the general population, especially for two million new entrants in the economy every year.

**Punjab has high regional disparities in terms of urban-rural divide and north-south divide**. For instance, around 70 million population of Punjab, including the poorest among them, reside in rural areas. Similarly, Punjab has significant regional differences in living standards and follows a North-South pattern: income and non-income indicators of welfare are better in the North, followed by the Central Punjab, and worst in the South Punjab; likewise, poverty is the lowest in the North and the highest in the South Punjab. Northern Punjab is more urban and is characterised by extensive links to urban labour markets, in contrast, farming predominates in Southern Punjab. This implies that access to finance and capital is also predominantly following the same pattern.

**Punjab has weak investment growth and reliance on public funds for investments along with strong fiscal pressures with low SDG finance mobilisation.** The pandemic dealt a massive blow to Punjab's investment agenda, resulting in the slowdown in overall productivity growth, higher inflation coupled with higher-than-average unemployment. In 2020, gross fixed capital formation declined by 1.04 percent of GDP in Pakistan, with much of the same effect in Punjab. In Punjab, while a rebound in investment was expected in 2021 with a renewed push for a larger sized ADP, the collapse in gross fixed capital formation proved ill-timed, resulting in low investor confidence, and further exacerbating private-led investments. The post pandemic fiscal constraints now warrant Punjab to focus on strengthening macroeconomic management, combating corruption and improving governance, strengthening transparency and accountability, and fostering enabling business environments by cutting red-tapism and ensuring that regulatory provisions enable SMEs growth.

**Punjab has less developed capital markets to mobilise innovative instruments of finance.** With its more risk averse capital market has tended to rely more on the government financing (including sub-national guarantees) to deploy capital for critical services. One large part of this is because the government's footprint in providing essential services remains high. It is time that the GoPb follows PPP modality in spirit, outsourcing non-essential activities to the private sector, providing a level playing field for deployment of capital, and ensuring that it builds regulatory and legal capacity to execute private sector-led projects which provide maximum 'Value for Money' (VFM) and the highest affordability in the long-term.

## Integrated Financing Strategies

**To close the SDG financing gap, it is imperative to implement innovations that can divert private capital towards development objectives**. To achieve the SDGs, Punjab needs approximately USD 519.5 million to bridge the financing gap by adopting innovative approaches to financing. A few of the innovative funding models include:

1. **Setting up a Provincial Climate Fund (PCF)**
   A PCF can be a mechanism that will support Punjab to manage its engagement with climate finance by facilitating the collection, blending, coordination of, and accounting for climate finance at the provincial level. The proposed PCF can provide a coordinated project approval and implementation structure for climate change projects with uniform project cycle guidelines that clearly outline technical and eligibility requirements which support streamlined operations. Developing a prudent PCF can become an important source of knowledge and information management that consolidates and disseminates lessons from climate change projects and programmes.

2. **Tapping into Voluntary Carbon Markets (VCM) and CDM Financing**
   One of the potential areas for the GoPb is to mobilise additional financing aggressively under voluntary carbon markets and clean development mechanisms (CDM). The CDM is part of the compliance market and is facilitated by the cap-and-trade system allowances established in the Kyoto Protocol. The voluntary market on the other hand is facilitated by the project-based systems. In terms of regulation, national/regional/international carbon markets regulate the CDM. This means that for Pakistan to access the CDM, the designated national authority must have adequate capacity, policy, and frameworks in place to facilitate carbon trading. The VCM bypasses this requirement as third parties such as Verra, Gold Standard, Verified Carbon Standard Programme can be directly engaged for project verification and credit issuance. The common projects for the CDM are primarily renewable energy, methane reduction, and energy efficiency projects, whereas the common projects for the VCM are renewable energy, nature-based solutions, waste, and energy efficiency. The demand for offsets in the VCM is primarily driven by the companies with CSR and ESG standards pertaining to emission mitigation, carbon neutrality, and net-zero. Big corporates in Punjab, such as Tetra Pak, Unilever, and other FMCG companies are potential customers for provincial projects through the VCM. Although offsets in the compliance market have great value, the VCM provides greater flexibility in monitoring, standards, and methodologies.

3. **Nurture pipeline of investible impact businesses**
   Though Punjab has a number of incubators and accelerators, there is a greater need to provide them more than just free space and mentoring opportunities. Instead, there is a need to i) showcase their potential to impact investors through preparation of business plans, pitch decks, and impact profiles, and ii) demonstrate their potential through a centralised pool of verified businesses on internet. Partnering with incubators and accelerators can help many and would enable the GoPb to transfer many of the responsibilities in developing the pipeline of impact investment opportunities and demonstrate them on a public portal. This could further be complemented by national and international roadshows to showcase the business and impact potential of these impact businesses to local and international institutional investors.

4. **Telemedicine under Public-Private Partnership** A tele-medicine project can provide an answer to growing healthcare needs with staff concentrated largely in urban areas and patient needs in rural areas of Punjab. The project can be executed on a public-private partnership (PPP) basis, with PPP Authority and the Punjab Health Department coming together as procuring and implementing agencies. Using telehealth and cloud storage facility, the GoPb would realise an immediate 'Value for Money' (VFM). On qualitative basis, this will result in an improved healthcare resource optimisation, complete transparency, and improved access to secondary care. On quantitative basis, the GoPb can see a decrease in cost per patient visit by more than 50% (as has been witnessed globally) with a net savings coming from reduced allocation for brick-and-mortar hospitals as deployed under ADP and complete cost trails available for medicine utilisation and hospital equipment.

5. **Hospital financing strategy as a structured product** Punjab is witnessing low investments in new hospitals while the land prices keep appreciating. Current hospitals are constrained by limited cashflows impeding long-term strategic investments in people, programmes, facilities, and technology. The GoPb can develop a hospital financing strategy as a structured product which could include: i) the GoPb, leveraging a structured finance product by providing access to economical land parcels to attract private investments in hospitals in Tier 2 and Tier 3 cities to support its ambitious health for all programme, as outlined under Punjab Health Strategy, ii) Private sector-led corporate investments backed by affordable construction credit line including the investments made directly by corporate functions or via corporate venture funds or comparable mechanisms with the aim of channeling funding into construction of hospital facilities, iii) Hospital equipment financed by private sector leasing companies, and iv) De-risking instrument supported by credit guarantees.

6. **Partnering with mortgage refinancing for housing off-take**. The GoPb can leverage a structured finance product by providing land on concessional basis to qualified builders/developers. The GoPb can partner with the BOP for the housing product to fund pre-approved projects with construction loan for the project. The SBP has already mandated FIs to direct 5% of their total advances to construction sector and a list of pre-approved projects can open up the banks finances to fund such construction projects. The PMRC can provide recourse to the BOP for its construction lending to project developers on pre-qualified basis. The PMRC can provide risk coverage of up to 40% to primary mortgage financiers (such as banks, FIs) on first loss portfolio basis. The guarantee can partially alleviate the credit risk of the BOP and provide a conducive environment for them to finance pre-approved GoPb projects.

7. **Setting up an infrastructure guarantee fund** To aid mobilisation of capital markets for infrastructure projects, it is suggested to create a Punjab Infrastructure Guarantee Fund (IGF) as an institution to facilitate the PPP Authority to access project financing on a long-term tenor basis. The IGF can i) Screen the PPP Authority's submission to determine whether the project is eligible to proceed and what risks need to be covered, ii) Conduct a detailed appraisal on whether to provide a guarantee, based on the PPP Authority's feasibility study, and IGF's own due diligence, iii) Structure the guarantee package, and iv) Issue the guarantee and subsequently, monitor the project during construction and operations to ensure that the relevant parties implement the project according to their respective responsibilities under the concession agreement.

**Going forward, the GoPb needs coherent financing strategy, improved monitoring of SDG finance, and to clarify institutional linkages for key provincial goals.** The GoPb needs an overarching financing strategy which allows for coordination of more focused financing policies, including any innovative models to achieve the SDGs agenda outlined in annual budgets. Additionally, a comprehensive capacity building plan needs to be developed to understand innovative finance structures and strengthening of collaboration agenda and dialogue among relevant agencies involved in mobilisation and execution of development projects. For monitoring and execution of SDGs finance, there is a need to build indicators and data collection process into existing monitoring frameworks which allow the GoPb to track and link the volumes of financing mobilised, the outcomes generated, and the contributions made by each of the different instruments towards overarching objectives. Lastly, there is a broad alignment between the key provincial policies such as the 5-Year rolling Punjab Growth Strategy, the RISE paradigm, and the ADP prioritisation framework, but ambiguities exist in how they relate to each other as well as who are the key stakeholders supposed to mobilise financing for initiatives mentioned under those programmes. As details of the 3-Year MTBF are developed, this alignment could be clarified to provide a stronger foundation for short and medium-term planning and delivery.

# 2. INTRODUCTION

## 2.1 Context

**The member states for Addis Ababa Agenda assigned the Financing for Sustainable Development Office (FSDO) to support and promote an integrated, holistic and all-inclusive approach for financing sustainable development.** A key development in this regard, is the Integrated National Financing Framework (INFF) tool which charts a road map for how the national and sub-national strategy for sustainable development shall be financed and implemented.

**In Pakistan, the federal and provincial governments have a large financing gap to achieve SDGs.** Moreover, the post-18th amendment and devolution of powers to sub-national level, provinces have the opportunity to develop a more integrated and tailored to fit development financing strategy, based on their needs. Therefore, Punjab needs to develop a framework and a strategy for a coherent, well-prioritised approach to financing provincial sustainable development that promotes inclusivity, sustainability, and resilience. The INFF tool provides guidelines for setting up that strategy by getting a broad buy-in of leadership, accessing knowledge and incorporating perspectives of all stakeholders, and providing a mechanism for coordination among different stakeholders. Building upon these resource gaps, while also analysing key financing models that exist in the SDGs, this document will propose innovative financing models to increase Punjab's fiscal space to fund SDGs. This may include traditional and nontraditional models of financing, such as securitisation of assets, SDGs bonds, ODA assistance, public private partnerships (PPPs), grants in partnership with NGOs, philanthropic activities, impact investing initiatives, and others that have gained traction over the years.

**The strategy is devised through a participatory process by extensive stakeholder consultations, whereby the findings were validated through a validation workshop with key public sector institutions in Punjab.** The primary audience for this project includes provincial and local government departments, Civil Society Organisations (CSOs), Non-Governmental Organisations (NGOs), and other development partners, all of which were engaged in the stakeholders' consultation process.

## 2.2 Background

**The Sustainable Development Goals (SDGs) are 17 sector specific goals that were adopted by the UN member states in 2015 as a consequence to the global call for action to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity by 2030.** To achieve the targets of the SDGs Agenda 2030, Pakistan initiated the efforts by prioritising SDGs through adopting unanimous resolution in the National Assembly in 2016. Since then, the country has made considerable progress by introducing SDGs at all levels of policy making and mainstreaming them in budgetary and financial decisions. UNDP in collaboration with Ministry of Planning, Development, and Special Initiatives (MoPDSI) established the SDGs Support Units at federal and provincial levels. These units function in the form of a joint project between provincial and federal level P&D Units. Together they create an enabling environment for government platforms to plan, budget, review, analyse, monitor, and propose policy measures on how to implement SDGs through engagement and inclusive process.

**In 2018, the MoPDSI, the Government of Pakistan (GoP) also designed and approved National SDGs Framework that envisions localisation of SDGs and accelerating interventions in priority SDGs through federal and provincial SDGs Units.** The framework essentially established an enabling environment to fast-track progress towards SDGs. It sets out priority goals for reaching 2030 targets that are presented against the national baselines of 2014-2015 for each of the SDGs. Additionally, Pakistan also tracks progress against SDGs through Voluntary National Review (VNR). In VNR 2020, the performance of Pakistan in the critical SDGs sectors remained slow as compared to its peers. Findings reveal that performance of SDGs across education, health, electricity, and water and sanitation sectors were below the median for Emerging Market and Developing Economies (EMDEs). Therefore, Pakistan needs to accelerate its effort by filling financing gap for achieving SDGs to attain a better sustainable future. The current financing budget towards SDGs by public sector is inadequate to achieve all SDGs in time. The FY 2021-22 budget proposed PKR 118 billion for PSDP, out of which PKR 68 billion were allocated for achieving SDGs in Pakistan, which is not enough to address the current challenges. The IMF working paper on Pakistan spending needs for reaching the SDGs revealed that Pakistan needs additional public-private annual spending of 16.1 percent of GDP in critical sectors to achieve SDGs by 2030. This includes additional spending of 5.7 percent of GDP, 5.4 percent of GDP, 0.7 percent of GDP, 2.3 percent of GDP, and 2 percent of GDP in Education, Health, Electricity, Roads, and Water & Sanitation sectors respectively every year during 2020-2030. To fill the remaining gap in financing, it is pertinent to find alternate sources for investment, whereby private sector has the most potential. According to Standard Chartered SDGs Investment Map, private sector can play significant role to achieve Agenda 2030 due to its potential to invest $96.2 billion in four priority SDGs.

**In the context of Punjab, the Punjab SDGs Framework along with the Medium-Term Development Framework (MTDF) 2022-2025 are the key strategic documents used to inform development planning for the province.** Guided by the MTDF, Punjab's Annual Development Programme (ADP) implements the development vision of the government through strategic resource allocation which is aligned with the Agenda 2030 for Sustainable Development. However, the fiscal space for the provincial government can only expand to a limited extent each year which is often insufficient to finance SDGs and implement them effectively across the province. Based on the IMF's assessment of Pakistan's spending needs, the GoPb would need to commit approximately USD 519.5 million of additional investments per annum to fulfil its commitments for SDGs Agenda 2030.

## 2.3 Objective

**The objective of this report is to propose financing models to finance SDGs and suggest an effective way forward for implementation in Punjab's context.** The report consists of two phases, including: i) an inception and diagnostic phase to understand existing policy frameworks, financing trends, and models to fund SDGs, and, ii) formulation of an integrated financing strategy to propose innovative models with a suggested roadmap to mobilise financing for future development.

Overall, following approach was adopted in devising this strategy:

- Mapping of current and emerging SDGs instruments and plans in the context of Punjab (such as endowment fund for education or Danish schools and metro bus project for transportation etc.).
- Engaging with all relevant stakeholders in the investment value chains including companies, banks, insurance entities, government policy makers, asset managers and public and corporate pension funds to understand what sorts of new financial instruments and models can be introduced.
- Focus on priority SDGs sectors covered under Punjab SDGs Framework. Necessary guidance is solicited from literature review, such as the UNDP's Scenario Planning and Strategic Forecasting report, wherever necessary for areas such as health, food, water and sanitation, energy, infrastructure, education, finance, and insurance.
- Exploration of innovative financing models and opportunities for SDGs investments including new business and financing models, providing investment scale, and matching risk-return profiles of investors through de-risking instruments.

## 2.4 Methodology

The report leads to development of the SDGs Integrated Financing Strategy for Punjab based on the guiding principles of the INFF tool and its building blocks, broad-based input from sector stakeholders and mapping current and innovative financing models to ensure a robust and relevant financing strategy. The tool focuses largely on three core building blocks, including i) assessment and diagnostic, ii) design of the financing strategy, and iii) governance and coordination mechanisms. The INFF tool is not one size fits all framework, instead, it focuses on providing the underlying key guiding principles for countries and sub-national governments to come up with their *modified-to-fit* financing solution for SDGs.

A stepwise methodology is outlined below:

### Landscape Review

The process was initiated by review of the SDGs financing literature that provided the basis for stakeholder consultation as well as drawing up financing strategies at later stages. Some of the key strategic documents reviewed include, Pakistan SDGs investment Report 2021 (UNDP, 2021), Punjab SDGs Unit's Scenario Planning and Strategic Forecasting report, ADP reviews, Mid-term evaluation of the SDGs projects, Punjab SDGs Framework, MTDF of Punjab (GoPb, 2019-2020), Punjab Budget White Papers, and SDGs thematic documents such as Punjab WASH Sector Development Plan 2014-2024 (GoPb, 2014-2024), Punjab Health Sector Plan (GoPb, 2019-2028), Punjab Health Statistics (BoS, 2020), Punjab Industries Sector Plan (P&D, 2018a), Punjab Urban Development

Sector Plan (P&D, 2018b) and Land Utilization Statistics of Punjab, Punjab Agricultural Statistics, Women Economic and Social Well-being Survey, Punjab Skills Development Sector Plan (P&D, 2018c), and Punjab Development Statistics (BoS, 2019).

## Financial and institutional landscape mapping

A comprehensive picture of the financing models available was briefed in this stage, covering public and private financing trends, and their respective contributions towards different sustainable development priorities. For this, a range of financing options are covered such as Punjab public finance (tax and non-tax revenues, budgeting and execution), Public borrowing (debt management, innovative debt instruments), Public investment (e.g. State-Owned Enterprises (SOEs), national development banks and quasicubic funds), Development cooperation flows, domestic commercial investment, Foreign Direct Investment (FDI), International and domestic portfolio investment including responsible Environmental, Social and Governance (ESG) investing, domestic bank lending (including issues related to financial inclusion, fintech), borrowing from international banks, spending by NGOs, philanthropists, faith-based organisations and Public-Private Partnership (PPP) portfolio.

## Stakeholder Consultations

To acquire perspectives/knowledge from all sectors and to ensure that the Punjab Integrated Financing Strategy is not made in a silo, extensive consultations were conducted with key public and private stakeholders including provincial and local government officials, international development partners, and other stakeholders supporting the GoPb in their efforts towards sustainable development agenda. Other policy makers, senior government officials, public sector institutions, NGOs, CSOs, and financial institutions were also consulted. Following is the list of relevant stakeholders consulted throughout the project to collect relevant documents and data for the landscape review and development of financing strategy:

- Punjab SDGs Support Unit
- UNDP Development Policy Unit
- Finance Department, Government of Punjab
- P&D Board, Government of Punjab
- Punjab PPP Cell
- SDGs Task Force, Punjab
- Communication and Works (C&W) Department, Government of Punjab
- Local Government and Community Development Department, Government of Punjab
- Key Financial Institutions, in particular Bank of Punjab (BOP), InfraZamin, Karandaaz etc
- Civil Society and NGOs
- Other multilaterals working towards SDGs thematic sectors including Food and Agricultural Organization (FAO), World Bank Group (WBG), Asian Development Bank (ADB), and United Nations Industrial Development Organization (UNIDO).

## Integrated Financing Strategy

The findings of consultations and literature review were compiled into actionable financing strategy which sets out a sequence of actions/interventions to finance provincial development strategies and goals, with an aim to align financing with provincial sustainable development priorities. The financing strategy brings together financing policies, instruments, and regulatory frameworks in areas of i) Public Sector Financing, ii) Private Sector Financing, iii) Official Development Assistance (ODA), iv) Financing from Communities, Non-Government Sector, and v) Public Finance Efficiency, Expenditure Switching and the Fiscal Space.

## Binding Constraints

The key risks and assessment along with review of Punjab legal, financial, and institutional framework helped identify binding constraints and challenges while highlighting the value of financing that could be cashed in by adequately managing these constraints. Some of the challenges, for instance, include lack of awareness on the SDGs financing mechanism amongst policy makers, weak alignment between policies and actions, lack of coordination between government's line departments and private sector players for PPP projects, absence of evidence-based policy making, slow budgeting approval mechanisms, lack of adherence to environment and social safeguard standards while approving large size PPP infrastructure projects, lack of capacity to mobilise adequate sector specific ODA financing, and more.

## Implementation Plan

A high-level implementation plan is devised for all the strategies outlined in the IPFF. This includes action items to be executed by the implementing agencies and their associated roles and responsibilities. The plan sets out readiness activities for each intervention founded in financial strategy. For instance, some of the financial instruments, such as the issuance of Green Corporate Bonds, require legal guidelines to be issued by the State Bank of Pakistan (SBP) or the Securities and Exchange Commission of Pakistan (SECP). The implementation plan outlines the relevant role of the GoPb departments in overcoming the binding constraints and unlocking the financing potential.

## Validation Workshops

Two validation workshops were arranged by the Punjab SDGs Unit in coordination with the P&D Board for the stakeholders, with representatives of the provincial line departments such as C&W, Local Government & Community Development (LG&CD) Department, and PPP as well as some other senior provincial government officials, to share the financing strategy and implementation plan. The workshop facilitated a process of dialogue on financing issues which helped develop understanding and consensus about priorities for financing for building forward better across public agencies and with private sector, civil society, and other development partners. The workshop helped devise a provincially led financing strategy that anchors support of all development partners and brings together all areas of financing policy (public, private, macro) in line with the provincial priorities.

# 3. LANDSCAPE REVIEW

## 3.1 Provincial Overview

**Punjab is the most densely populated province in Pakistan.** It has an area of 205,344 square kilometers and population of 127 million. Its population density is high at 618 persons per square kilometer (Census 2023). In the province, 46 percent of the population lives in urban areas whereas 54 percent lives in rural (Census 2023). The cities of Lahore, Faisalabad, Rawalpindi, Gujranwala, and Multan rank as the most populous cities of Punjab.

**Punjab contributes a major part of Pakistan's Gross Domestic Product (GDP).** Growth in the economy of Punjab plays a vital role in the overall growth profile of the national economy. In terms of its economic size, Punjab's share in the national economy remains around 55 percent. The economic structure of Punjab now comprises 62.4 percent services (mostly in trade and transportation), 20 percent agriculture, and 17.6 percent industry. The industrial share at the national level is 20.9 percent with Karachi acting as the industrial powerhouse of the national economy (P&D, 2023). Nonetheless, Punjab's economy has a higher share in private and public investment and has a significantly higher savings rate.

**The overall industrial outlook in Punjab is grim.** Under-investment is the key bottleneck facing industry in Punjab, with investment as a share of GDP in Punjab being only 15 percent, compared to peer countries that have almost twice as much investment as the share of GDP (IC&ID, 2018). Punjab faces electricity shortages, which impede industrial growth. Although the supply situation has been improving, a bigger concern today is the affordability of electricity. A related issue is the availability of gas, Liquefied Natural Gas (LNG), which is a challenge for firms in Punjab and especially its availability for winter months. Also, compared to peer regions, industries in Punjab have relatively low levels of productivity, due to largely unskilled workforce and unsophisticated manufacturing techniques. Overall, 11 percent of matric-pass youth continues to remain unemployable by large- and small-scale industries in Punjab.

**The performance of economic backbone of the province i.e., Agricultural sector, is deteriorating.** In agriculture, overall farm productivity has remained low and large gaps exist among average yields, progressive farmer yields, Punjab's potential, and the world's best averages. The Punjab Agriculture Policy attributes this primarily to poor agronomic practices, low technology adoption, and lack of innovation in the sector. As a result, agriculture growth in Punjab has been on a downward trend for many years. Over the last decade, its growth has decreased from 3.3 to below 3 percent; with a negative growth rate of -0.19 percent in 2015-16. In wheat, for instance, world's average yield is 8,995 million tons whereas Punjab's average is 2,768 million tons. Same is true for cotton (5,436 vs. 2,135), sugarcane (123,157 vs. 61,875), rice (10,181 vs. 4,690) and maize (9,766 vs. 6,138). At an estimated poverty rate of 42.6 percent, Punjab is home to the highest absolute number of poor people in the country and has driven most small farmers to diversify substantially out of farming and to seek additional sources of income for subsistence. For farm households up to 3 acres, crop income is now less than half of total household income (GoPb, 2017).

**The social sector profile in Pakistan also requires significant improvement.** For instance, in terms of education sector, over 4,000 schools need to be reconstructed, over 4,200 schools are still with missing facilities, over 3,000 schools do not have access to grid power and a solar solution is required to power these premises while over 27,000 schools need to be equipped with science labs and electronic libraries. On the quality side, over 70,000 new classrooms require increased enrolments, and many poorly performing schools are in need of partnerships and outsourcing. The health sector conundrum in Punjab is also serious. For instance, the total number of facilities are 5,717 and the total strength of beds is 43,006. With the current population of Punjab standing at 110,012,442, a single bed covers a population of 27,462. Given the standards of one bed catering for 1,000 population, much less than half of the population is currently being covered by the hospitals admitting patients in Punjab (P&D, 2023).

## 3.2 Legal and Institutional Framework

**The basic framework for distribution of revenues and collection of receipts between the federation and provinces is laid down in the Constitution.** To allow for transparent distribution of financial resources, a federal divisible pool is created within the budgetary process, whereby the net proceeds of specified taxes received by the Federal Government are pooled and subsequent share of provinces is disbursed based on the NFC awards. The Punjab Assembly then authorises the expenditures on services, projects, and departments, in the form of budget or Punjab Finance Act on an annual basis. The range and composition of the services and projects that shall be executed, are determined in the annual budget and approved through voting in the Punjab Assembly. Although, the government retains the flexibility in allocation of budgets along different services and projects, the Constitution safeguards certain obligatory expenditures on constitutional positions such as the Chief Election Commissioner, High Court Judges, President, and the Auditor General. At provincial level two major types of entities involved in the process, including i) Punjab Provincial Departments and (ii) autonomous bodies that are indirectly administered by provincial government.

**The system of district treasuries and sub-treasuries channels the flow of funds at local level.** Trickling down from the provincial assembly, the Zila Councils, the tier of local government at district level, generally perform the same functions and handle receipts and expenditures through district treasuries. There are treasuries in each district of the province, (or otherwise as specified in special cases by the Accountant General). The district treasuries can also be further distributed into sub-treasuries, if needed by the provincial government. The account of receipts/ payments in sub-treasuries are also kept in district treasuries. The collector is responsible for proper implementation of the procedures and ensures that the flow of funds at district level are handled according to the rules specified in “The Treasury and Subsidiary Rules (Punjab) – 1988”. (GoPb, 1988).

**The 1973 Constitution is quite inclusive in emphasising on the financial management**. It provides (in Articles 79, 166, 167, 168 and 169) for the following enabling legal frameworks (GoPb, 2007):

- Public finance — A Finance Act that covers public revenues in pursuance of the annual budget is promulgated annually through the Provincial Assembly. Although, there is no separate Public Finance Law in Pakistan, the Constitution, however, is quite thorough and provides the enabling functioning base for public finance management in the country.
- Public debt management —In respect of the Public Debt Management Law, Sections III and IV of the Punjab Public Financial Management Act, 2022 deal with fiscal discipline and debt management of the province. Further, Article 167 of the Constitution refers to borrowing by the Provincial Government upon the security of the Provincial Consolidated Fund.
- Public sector audit — With regards to Public Sector Audit Law, there are two sets of legislation that bifurcates the audit and accounts: i) The Auditor General of Pakistan (AGP) Ordinance 2001, and ii) Controller General of Accounts (CGA) Ordinance 2001.

**The Constitution envisages transparency in Public Financial Management (PFM) of Punjab**. It outlines the following processes to ensure effectiveness, transparency, and sustainability of the government’s management of public finances.

- Historically, the budget preparation is done on an annual basis which generally lacks flexibility of addressing long term planning issues. The process limits ability of the budget to be used as a tool for implementing strategies towards achievement of long-term policy goals of the government. To address the issue, the Government adopted multi-year budget process through the “Medium Term Budgetary Framework”.
- At the end of every financial year, the Auditor General prepares budget implementation reports on account of the Punjab Government. The reports include: i) The Appropriation Accounts report which contains the budgeted and revised estimates against each disbursement, ii) Finance Accounts report which contains balances and transactions in the Consolidated Fund and Public Accounts. These reports are discussed at the hearings of the Public Accounts Committee (PAC) of the Punjab Assembly.
- Overall, the legal and institutional framework for Public Financial Management stems from the Constitution. Under the Constitution, the framework is guided by the Punjab Public Financial Management Act, 2022, an act to regulate financial affairs in the public sector and matters relating to the Provincial Consolidated Fund and Public Account of Punjab. The Act stipulates measures regarding fiscal discipline, debt management, public investments, and accounting and financial reporting. Other relevant legislation includes the Treasury and Subsidiary Rules (Punjab) – 1988, the Punjab Financial Rules (Amended Up to 2019), the Punjab Delegation of Financial Power Rules 2016, the Punjab Finance Act, and the Punjab Revenue Authority Act, 2012.

## 3.3 Policy Landscape

### 3.3.1 Budgets and White Papers

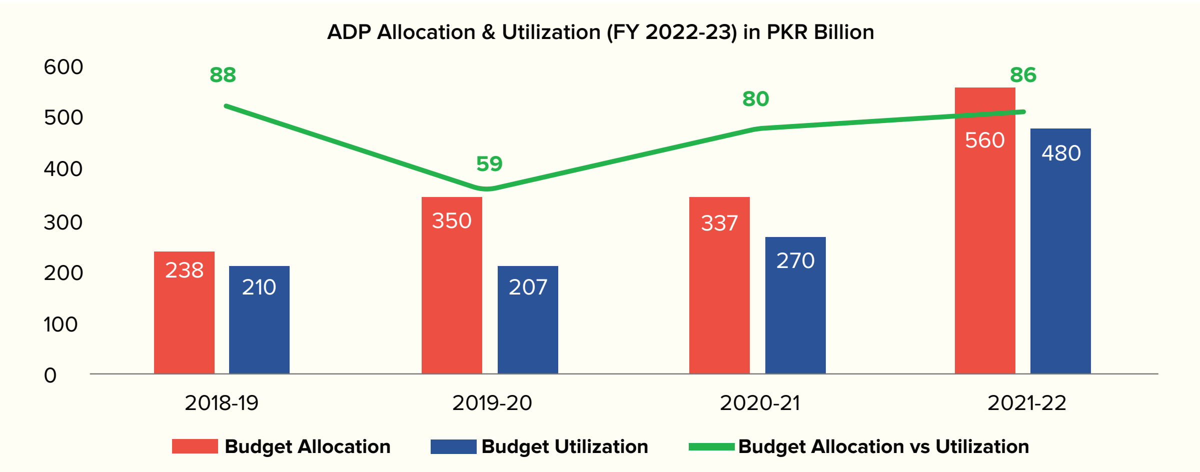
**The COVID-19 resulted in a major adjustment in the fiscal position for the GoPb.** Overall, the Government's revenue fell short of its target by PKR 635 billion compared to the budget estimates (GoPb Budget, 2020-21). This included shortfall of PKR 509 billion in Federal transfers and PKR 126 billion in Provincial revenues. It is pertinent to refer to a report of the Government of Punjab on "Impact Assessment of Covid-19 on the Revenues of Government of Punjab" which, based on meticulous analysis, states that Covid-19 resulted in an overall reduction of PKR 103 billion in the revenues of the province. To mitigate its effects, major restrictions were imposed on development and non-development expenditures. For instance, the current expenditure of the Government was brought down from a start-of-the-year estimate of PKR 1,299 billion to PKR 1,257 billion. Further, the Government used all available resources to protect ADP spending from falling below PKR 250.3 billion from the original estimate of PKR 350.0 billion.

The snapshot of budgetary projection was issued as under, with a net ADP financing of PKR 337 billion.

**The SDGs financing becomes difficult when the Government faces resource constraints in meeting its revenue expenditures, let alone any development targets.** Under the PGS 2023, a 1 percent decrease in development spending showed more than 1 percent decrease in provincial GDP and vice versa. This goes on to show that even a slight decrease in development spending would have negative consequences to achieve the SDGs agenda.

**ADP continues to be budgeted on a higher side with a lower utilisation.** For instance, Figure 1 depicts the ADP budgets over the last three years along with its revision and utilisation. Previous years have seen a steady increase in the development portfolio. Nonetheless, the FY2019's ADP saw a sharp decline in allocation owing to the GoPb's decision to address high fiscal deficits.

Figure 1 - Punjab ADP Financial Utilisation




Source: Budget White Paper 2022-23

**Financing for development predominantly remains under ADP.** From school development to health sector to agriculture and transport, financing onus remains on ADP budget. For the FY 2022's ADP allocation of PKR 560 billion, PKR 212.2 billion is the allocation for ongoing projects, PKR 277 billion for new initiatives, PKR81 billion for Foreign Assistance projects, and PKR 43.38 billion for other development projects. For School Education, an amount of PKR 35 billion is allocated. Higher Education has been allocated PKR15.05 billion. In Health sector, PKR78.7 billion has been earmarked for Specialized Healthcare and Medical Education and PKR17.21 billion for Primary and Secondary Healthcare.

The ADP also includes PKR 12.2 billion allocation for Industries and Skills Development sector, PKR 30.04 billion for Urban Development, PKR 18.76 billion for Water Supply and Sanitation, PKR 31.49 billion allocation for Agriculture sector, PKR 30.77 billion allocation for the Irrigation sector, and PKR 58.29 for Road sector.

### 3.3.2 Punjab Spatial Strategy 2047

**The Punjab Spatial Strategy (PSS) 2047 is a core document providing a base for an economic and local development framework while also highlighting the regional framework and policy initiatives.** Institutional framework for the strategy consists of Punjab Spatial

Commission with a secretariat in P&D Board and Spatial Strategy Cells in nine divisions of the province. The strategy advocated spatial planning across various sectors including industry, agriculture, connectivity, environment, tourism, urban, and social sector. It aimed at improving Punjab's global positioning in terms of the province's attractiveness and competitiveness for investment through leveraging its endowments and comparative advantage, through a rigorous data-driven and evidence-based approach. In terms of financing agenda, it is mandatory for all projects included in the ADP 2021-22, especially infrastructure and industrial estates projects, to be aligned with the PSS 2047.

Figure 2 - Areas of Transformation


Source: Punjab Spatial Strategy 2047

### 3.3.3 Punjab Growth Strategy

**The GoPb has devised the Punjab Growth Strategy (PGS) 2023 for an equitable and socio-economic progress.** The financing options underlined in the PGS are expected to come from the development spending through the ADP and private investment in different sectors. Considering that public sector investment has a catalytic impact on growth, the strategy recommends to mobilise public investment and the ADP's sectoral priorities to optimise growth. It also recommends advocating and coordinating with the federal government on managing key macro-economic policy variables that have a significant impact on Punjab's economy. The primary focus of the PGS 2023 is to meet the following broad-based targets (P&D, 2023):

- Achieving sustainable economic growth of 7 percent of the annual growth of the provincial GDP by 2023;
- Creating on an average 1.20 million new jobs annually over the next five years;
- Reducing idle youth in Punjab from 10.3 percent to 8.8 percent by 2023;
- Reducing multi-dimensional poverty in Punjab from 26.2 percent to 19.5 percent by 2023;
- Increasing average number of new housing units to 640,000 annually over the next five years.

To monitor targets under the PGS 2023, the GoPb has decided to undertake a multi-tier implementation and monitoring structure to ensure effective implementation, tracking of results, and bringing refinement to the strategy by the following evidence.

### 3.3.4 MTDF - Medium Term Development Framework

**The MTDF provides a clear mid to long-term vision of priority sectors**. It tends to identify priorities through listing of medium-term financing, such as access, quality, and relevance. The MTDF identifies strategic aims, such as agriculture, services, and infrastructure development as well as their clear objectives. It is intended to provide a medium-term priority framework which allows room for flexibility for mid-course corrections during implementation, such as an ensuing fiscal crisis from a pandemic or a world-wide recession.

**The main weakness of the MTDF is that it does not put price on new projects and measures, therefore casting doubt on their realism**. Both the absence of a price tag of individual projects and the subsequent lack of a financing strategy as how to achieve the MTDF targets contribute to the impression that the Framework has been developed in an arbitrary manner. By the same view, with a few sectoral classifications, there are unquantified indicators which are not defined as how they will be achieved.

**An effective monitoring and evaluation (M&E) system is also supplemented to manage the development outcomes.** The Planning Commission in partnership with the Punjab Information Technology Board (PITB) has put in place a comprehensive agenda to strengthen portfolio M&E ensuring that all large ongoing ADP projects contain specific and measurable indicators based on the PGS 2023 and the PSS 2047 targets; have the outcome baseline data; use and report M&E information and data on a regular basis; and ensure that the data is widely available for dissemination to public.

### 3.3.5 ADP Prioritisation Framework

**The ADP prioritisation framework provides a framework for provincial departments to prioritise investments for the ADP 2023-24 with projections for 2024-2025 whilst ensuring alignment with the following:**

a. **Targets of the Punjab Growth Strategy, 2023, as stated below:**

   i. Attainment of a sustainable provincial GDP of 7 percent by terminal year 2023.

   ii. Creating on average 1.20 million new jobs annually over the next five years, thereby contributing 60 percent to the national target of 10 million jobs and thereby reducing the idle youth in Punjab from 10.3 percent in 2017-18 to 8.8 percent by 2023.

   iii. Reducing the Multi-dimensional poverty in the Punjab from 26.2 percent in 2017-18 to 19.5 percent by 2023.

   iv. Increasing the average number of new housing units to 640,000 annually over the next five years, thereby contributing 64 percent to the national target of 5 million new houses.

b. **Punjab Spatial Strategy 2047**

c. **Sustainable Development Goals**

d. **Gender Empowerment with the following policy options:**

   i. Increase women's participation in the labor force in rural and urban areas to achieve possible female workers' growth rate of 4.3%.

   ii. Ensure availability of women-friendly transport infrastructure in all districts.

   iii. Ensure speedy, impartial and effective justice for victims of domestic violence.

   iv. Establish Violence against Women Centers in all 36 districts.

   v. Provide access to finance to women entrepreneurs at favorable terms.

### 3.3.6 Responsive Investment for Social Protection and Economic Stimulus (RISE) Punjab

**In the aftermath of the COVID-19, the GoPb came up with the RISE framework to stimulate economic growth and social well-being.** The GoPb declared a health emergency in March 2020 with lockdowns and economic fall-out of the pandemic. Subsequently, the P&D Board set up a steering committee under the Minister Finance which tasked three working groups; (i) Health Emergency; (ii) Social Protection and; (iii) Economic Support to develop immediate interventions in response. The three Working Groups submitted to the Chief Minister their recommendations which were consequently approved by the Government on March 28, 2020.

**The RISE, as a strategic framework, was built upon the idea that investment in education and human capital development yields the highest returns and have a strong impact on multi-dimensional poverty.** Several measures were suggested to deliver effective education through e-learning platforms. The RISE also suggested larger returns through developing successful PPPs in e-learning and remote learning materials. Lastly, the RISE also gave meaningful importance to Disaster Risk Financing (DRF) and ADP prioritisation framework. For the DRF, the government remained cognisant that it would not have much space in short term to introduce new taxes and it looked towards reducing deficits with stimulus and bailout packages.

## 3.4 Financing Landscape

### 3.4.1 Public Spending Overview

**The Government of Punjab has taken several measures to enhance budget transparency and accessibility. Some of the major efforts have been development of budget execution report, two-year performance report, Citizen's Budget, and debt bulletins. A year-end budget execution report is a step to improve budget transparency and accessibility in Punjab**. During FY 2021-22, Punjab Government has realized 94% of its overall revenue target set in the budget. The Government of Punjab has been making efforts to increase revenue collection from provincial own taxation. In 2020-21 the target was set at PKR 317.1 billion and was increased by 28% to PKR 404.61 billion in 2021-22. The government managed to collect PKR 143.2 billion during FY 2021-22 for provincial non-tax revenue compared to the budget estimate of PKR 132.04 billion. Considering healthy revenue growth and economic recovery, there was a sizable fiscal room available for the Finance Department to consider funding important additional development and other pressing expenditure requirements.

The Punjab Government has been able to utilize 90.9% of its budget allocation for FY 2021-22. Based on the trend for the last five years, the government spends 85% on average of the allocated budget, with the utilisation ranging from 81% to 91% of the actual expenditure. As per the budget estimate 2021-22, 56.48% of total allocation was meant for current expenditure (PKR 1,427.9 billion), 21.37% for capital expenditure (PKR 540.11 billion) & 22.15% for development expenditure (PKR 560 billion). Development expenditure spending shows that PKR 583.7 billion were utilised against the allocated budget of PKR 560.0 billion.

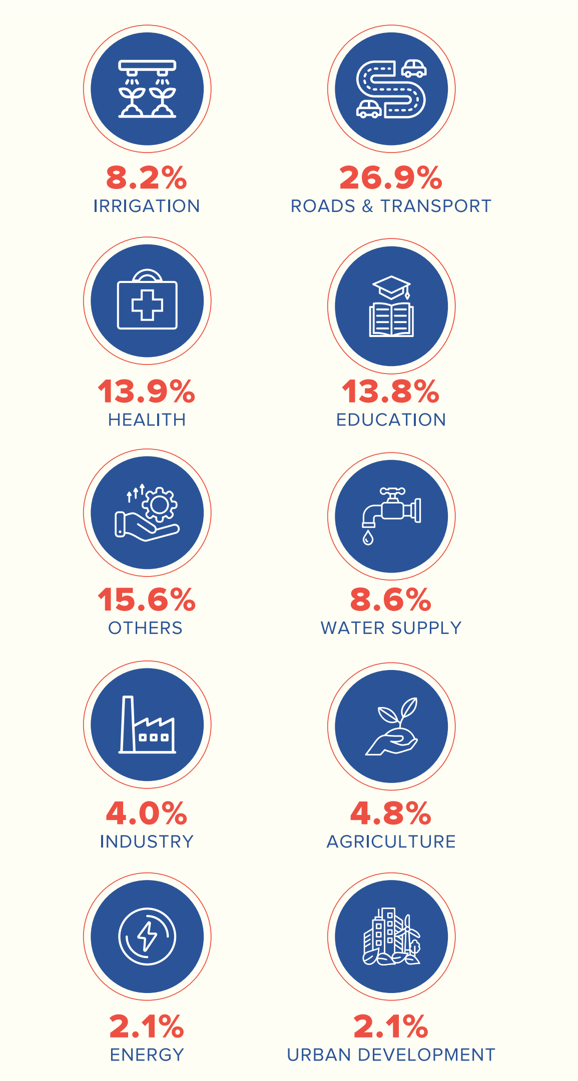
**The MTDF and the ADP allocations for FY2022 indicate the GoPb's expansive budgeting for FY2022, given the fiscal spending constraint due to the COVID-19 in the prior year.** The MTDF also provides a continued glimpse of development priorities with allocations as follows:

Table 1 - Punjab MTDF Trend

| MTDF | FY 2021-BE | FY 2021-RE | FY 2022-BE | FY 2023-BE | FY 2024-BE |
|---|---|---|---|---|---|
| PKR Billion | 337 | 375 | 560 | 616 | 678 |
| % Increase | | | 66.2% | 10% | 10% |

**Financing for development predominantly remains under ADP.** From school development to health sector to agriculture and transport, financing onus remains on the ADP budget. For FY 2021-2022 ADP budget of PKR 560 billion, PKR 212.2 billion is the allocation for ongoing projects, PKR 277 billion for new initiatives, PKR 81 billion for Foreign Assistance projects and PKR 43.38 billion for other development projects. The sectoral priority of the ADP is illustrated as follows:

Figure 3 - Punjab ADP Sectoral composition




Source: ADP 2021-22

### 3.4.2 Existing Financing Models

**Punjab has experimented innovative financing models, some of which are a by-product of improved corporate governance while others have leveraged private sector financing.** With constrained ADP resources, it is imperative to utilise funds prudently and efficiently ensuring that the end results are achieved with due considerations of impacting and exhibiting effectiveness. This section will outline financing mechanisms which are currently being used in Punjab with their modalities and programmatic designs.

#### Public-Private Partnership projects

**Public–Private Partnership (PPPs) allows the government to go beyond its budget constraints.** The GoPb introduced the PPP Punjab for Infrastructure Act (in 2010 and updated in 2014) to augment private sector participation in infrastructure development. A large province such as Punjab needs to increase its Annual Development Programme (ADP) continuously to absorb high level Infrastructure development. However, available budget under the ADP schemes for public investment in infrastructure is largely insufficient to meet the growing demand. As per the ADB estimates, Punjab's infrastructure investment requirement is estimated at about USD 3.6 billion USD 5.0 billion, which significantly exceeds current public capital spending on infrastructure (ADB, 2017).

**Evidence indicates that the synchronisation between public and private institutions through PPPs is extremely successful due to combination of private-sector efficiency and public-sector funding.** Turning this promise of PPPs into reality requires a supportive political environment, good programme design, and effective implementation. Therefore, in conjunction with the PPP Act, the GoPb has established an institutional framework to facilitate preparation, approval, and implementation of the PPP projects. A PPP cell was established within the P&D Department to review project proposals, coordinate efforts of line departments, and facilitate approval by the steering committee. A Risk Management Unit (RMU) within the Finance Department was set up to review project proposals and focus on fiscal risks and contingent liabilities.

**Punjab is making greater use of PPPs as a means of improving both financing and delivery of services.**

As a large province, the GoPb has a strong pipeline of projects under tourism, infrastructure, water, sanitation, transport, and social sectors. Six PPP projects are awarded since the Act has been passed and four are operational. To develop a project pipeline, and to provide financial assistance to line agencies through the Project Development Facility (PDF) to engage transaction advisors, an ADB grant is approved for $8.4 million. Similarly, to make large size infrastructure investments through VGF, there is an ODA assistance to the tune of $200 million with the ADB and the DFID contributing $120 million combined with a counterpart government funding of $100 million. Also, since capacity of line departments are limited, a Technical Assistance (TA) component that facilitates hiring of independent qualified consultants is also present, which facilitates striking a balanced risk-transfer arrangement to limit contingent liabilities and ensures VFM.

**To make PPP projects successful, there is a greater need under the PPP space in Punjab to foster competition, reduce the size of fiscal guarantees, and introduce robust monitoring of future project contingent liabilities.** The Lahore Ring Road project example underscores a lack of appropriate risk sharing between the private concessionaire and the government, which constrains adequate leverage of scarce public funds for future development projects. Similarly, the ADB reports that the 70-kilometer Lahore Ring Road Southern Loop Project, with a 25-year concession costing PKR 25 billion awarded in 2016, included: (i) an upfront VGF support of PKR 4.25 billion for land acquisition of the project), (ii) free provision of land worth PKR 4 billion to secure part of the project bank borrowing, and (iii) a guarantee to the concessionaire of 50 percent of the toll revenue shortfall with actual toll revenue fall below 80% of the estimated toll revenue (ADB, 2017). In doing so, the GoPb retained a significant portion of project financial risk.

## Daanish Schools and Centres of Excellence Authority

**Daanish Schools project is completely reliant on public sector funding.** It is the largest network of boarding (residential) schools for girls and boys. They are established for the most marginalised segment of society and are located in remote areas which are high in poverty and low in literacy. The financing for Daanish schools is entirely met through the ADP allocation. A recurring budget of PKR 3 billion used to be allocated for construction of new Daanish schools has now been reduced to PKR 1 billion for FY2021-22. A reduced budget implies that fewer schools will be built going forward. The recurring operational budget is also set for PKR 3 billion per annum, though the actual disbursement has been limited to PKR 2.7 billion, amid the reduced allocation for operational expenses. With rise in number of new Daanish schools every year, increase in teachers' salaries and higher O&M costs related to lodging and boarding of students, the Government would soon have to increase the recurring budget to cater to increasing operational costs. (PDS, n.d.).

**The funding model is not sustainable and all revenue streams have not been fully leveraged.** At the start of the Daanish Schools project, the GoPb provided 7,700 acres arid and semi-arid land in the vicinity of the schools to the Daanish Authority Endowment Fund. The land was demarcated and brought under cultivation. Up till now, however, little revenue has been received from this agriculture land and much is needed to optimise its revenue potential. Amongst its challenges is the transfer of the title of land to endowment fund, due to absence of which, the revenues first go to the DC office before coming to the coffers of the Daanish Authority (Qureshi, 2013). One of the other funding methods is the collection of school fees of 10% from students who wish to register in Daanish schools on self-financing basis. This was considered important to avoid exclusivity and ensuring social integration. Though the revenue remains meager from students who attend Daanish schools on self-financing basis, it does allow the Authority to receive some form of financial resources from the students who wish to attend a high-quality boarding school at par with international standards.

## Foundation Assisted Schools – Punjab Education Foundation (PEF)

**The PEF has demonstrated that through market-based mechanism, quality education at the primary, middle, and secondary levels of private schools can be made available to poor children at a much lower cost than at the public school system, ensuring both quality and competition in education landscape.** The Foundation Assisted Schools (FAS) programme is the Punjab Education Foundation's (PEF) flagship programme in the PPP domain, providing financial assistance to private schools for each child enrolled under its patronage. Over time, the cost per student of the FAS has decreased as compared to setting up of the government's own bricks and mortar schools, which involve incurring high capital and operational costs upfront and subsequently funding a recurring expenditure on the government's salaries and operations costs.

**FAS's success is largely due to financial, managerial, and academic support provided by the private schools.** The continuous monitoring and evaluation of student learning outcomes in a transparent and accountable manner lead to its success. The continued financial assistance from the PEF to the FAS partner school is provided on monthly basis, depending on the number of students enrolled in the private school and hinges on that school's performance on the Quality Assurance Test (QAT) that is administered in March and October of every year. The results of this collaboration between the PEF and its FAS partner schools have been the better student achievement, reduction of the dropout rate (which is close to zero), and improved teachers' participation.

**The reliance on budgetary allocation implies that FAS management do not undertake long-term fiscal planning or resource mobilization efforts on their own.** From a fiscal perspective, the FAS programme is budgeted through a recurring expenditure from the budget with no outside funding stream such as grant, philanthropic aid, and multi-lateral partnership. Since it is a market-based efficient programme, achieving its objectives is likely to cost much more than what is currently spent. How much more is required will depend on the pace of expansion.

## Education Voucher Schemes (EVS)

**The EVS is an innovative structure that empowers parents and efficiently rolls out payments to over a thousand schools in a transparent manner.** Through the EVS, the PEF delivers education vouchers to household with children 5-13 years of age and coming from low-income backgrounds. The vouchers are redeemable against tuition payments at participating private schools. Being empowered, parents have a choice of which schools they would like to send their children to. If the private sector schools plan to scale up the facility to attract more students, they can do so through their own equity and financial resources to expand upon the number of schools. The Government only provides partner schools a monthly student fees, beyond which they cannot charge the parents.

**On the Government's part, the EVS remains an ideal structure along with the FAS.** The Government doesn't spend on brick-and-mortar infrastructure, limiting their resources to monthly stipends and encouraging competition in the market by allowing the private sector to efficiently source students while investing in teachers' training. On a per student cost model, the EVS provides a market-based system that will encourage efficient players to compete in the market, while eliminating non-performing private school operators.

## Punjab Education Endowment Fund (PEEF)

**The PEEF is established with the objective of providing scholarships to talented and needy students to pursue quality education with equal opportunities.** The PEEF was initially established with a seed money of PKR 2 billion, which has now been raised to PKR 13.5 billion. Only investment proceeds out of this fund are utilised for the award of scholarships. Since its establishment, the PEEF has awarded more than 342,000 scholarships worth PKR 15.6 billion to students hailing from Punjab and other provinces.

**The PEEF remains a self-sustaining project with minimal grant-based reliance from the ADP.** The bulk of financing is coming from revenues received through placement of investment amount in 'term deposits' with the BOP. The 10% of the investment income is re-invested which subsequently accumulates to provide a higher return in the future. Keeping in view the income proceeds of the PEEF's endowment fund amounting to PKR 13.48 billion for the FY2020-21, the PEEF planned to provide additional 8,000 scholarships. The GoPb on its part, allocated PKR 100 million for the Endowment Fund for the same year through budgetary resources (PEEF, 2020).

## Punjab Education Initiatives Management Authority (PEIMA)

**The Punjab Education Initiatives Management Authority (PEIMA) is a self-sustaining model with minimal reliance on public sector expenditure.** It is geared to provide free of cost quality education in existing public schools through involvement of private sector. The Authority has so far given 4,376 schools to private operators in three phases. These operators include: educational school chains, NGOs, the PEF partner schools, private schools, and private individuals for better management and operations of existing public facilities. The monitoring of the programme is being done through an independent third party with the Government allocating PKR 4 billion per annum of expenditure from its recurrent budget expenditure (GoP, 2021). The private operator, upon taking over of a facility, signs a licensee agreement and follows the requisite Key Performance Indicators (KPIs) elaborated to handle the facility. Apart from the government funding through recurrent budget, there are no other funding avenues available to the PEIMA, such as corporate philanthropic contributions, grant in kind, and ODA assistance etc. This remains one avenue to ensure the PEIMA becomes sustainable and not only rely on continued government assistance.

## Punjab Rozgar Scheme (PRS)

**The Punjab Rozgar Scheme (PRS) provides markup subsidy and support and risk coverage to minimise cost of commercial loans for the micro, small, and medium enterprises (MSMEs).** The Punjab Rozgar

Scheme (PRS) is an initiative of the GoPb designed with the total cost of PKR 30 billion to provide subsidized credit facilities to MSMEs/startups and existing businesses in collaboration with the Bank of Punjab. The PRS provides loan amount up to PKR 10 million. Up to PKR 1 million, the scheme provides clean loan and from PKR 1 million to PKR 10 million, the scheme provides secured lending. The cost of capital for clean lending is at 4 percent fixed markup whereas for collateralized lending, it is 5 percent. For any existing or new business, the PRS picks up 80 percent of the investment as debt with the sponsor's equity of 20 percent and in case of women entrepreneurs, it funds up to 90 percent of the project as debt with only 10 percent requirement for the sponsor's equity.

**The catalytic impact of first loss guarantee on disbursed portfolio enables much higher participation from the Bank of Punjab, encouraging processing of applications on timely basis.** The PRS provides a transparent portal to submit application forms and evaluation. Bank of Punjab carries out credit risk evaluation when providing funds to individuals under the scheme whereas the GoPb provides first loss guarantee up to 50 percent of the disbursed portfolio along with interest rate subsidy.

**The PRS provides one possible way through which the government's policy can alleviate the SME financing gap.** They can provide credit guarantees and interest rate subsidy to entrepreneurs who are capital-constrained and have low access to finance. It works well for the government agencies with tight budget constraints and limited fiscal resources. Furthermore, guarantees have certain advantages over directly subsidised government lending. First of all, the lending decision stays with a market-based, private-sector commercial bank which has the expertise and the necessary technology to evaluate credit applications and projects. This is likely to ensure a more efficient selection of borrowers than if the task is done by a public agency wherein politicization can become a big factor. Secondly, if compared to direct lending programmes, the credit guarantee programmes have much lower initial cash flow needs, and as such, have a leverage which can be multiplied for a catalytic impact.

## Kamyab Jawan Programme

Kamyab Jawan Programme is the Government of Pakistan's youth-centred national vision and action plan with three critical objectives: i) Quality Education, ii) Gainful Employment and iii) Meaningful Engagement. Under the program, government-subsidized business loans of up to PKR 25 million are provided in 3 tiers. The executing agencies of the program include 21 commercial banks in Pakistan including Bank of Punjab that received an award for being the largest bank in terms of disbursing loans to the tune of six billion rupees under the scheme involving more than 5,000 households resulting in creation of more than 15,000 job opportunities through focus on diversity and market penetration. In the context of its footprint in Punjab, The Bank of Punjab, focusing on the agriculture sector, disbursed over 661 million rupees for financing of tractors, 1.3 billion rupees to 1,300 individuals for dairy farming, and working towards women empowerment, 630 million rupees were disbursed to over 700 females.

## Punjab Industrial Estate Development Management Company (PIEDMC)

**The PIEDMC is a successful example of the PPP modality following the spirit of partnership.** The tax and affordable land are provided by the Government while the private sector sets up industrial units encouraging employment and innovation. The PIEDMC makes available the following amenities, such as road network, underground sewerage system, underground electricity distribution system, high pressure gas pipelines, portable water, telecommunications system, information signages, security arrangements, hospital, mosques, and petrol stations. Investors are invited to apply and purchase plots of land ranging from 0.5 acre to 2 acre and larger customised plots. The Government provides land for the development of industrial parks, which are free from all encumbrances while providing utilities and one-window facilitation for all approvals. For the year FY2021, the PIEDMC board approved disbursement of PKR 3 billion for the six development projects (News, 2021).

## Punjab Small Industries Corporation

**Punjab Small Industries Corporation (PSIC) is a high impact model but remains completely reliant on the ADP.** To facilitate small investors, it has facilitated 24 industrial estates covering 2,000 acres of land across Punjab and has set up 21 different loaning schemes (including Punjab Rozgar Scheme covered above). Its focus on MSMS leads it to benefit 2.08 million small SMEs in Punjab, which contributes heavily to both GDP growth as well as employment opportunities (Tahir, n.d.). Though the activities are wide-ranging to promote SMEs, the entire PSIC budget for new projects comes from the recurring expenditure of the Government or from the ADP. There are no philanthropic, ODA assistance or any private donations which are received by the PSIC for its operations. From a recurrent budget perspective, the grant in aid to the PSIC from the budget is allocated at PKR 2,173 million for FY2021-22, considering last year's actual disbursement of PKR 1,929.7 million for FY2020-21.

### Punjab Health Initiative Management Company

**The GoPb has committed for a Universal Health Coverage and is approaching this goal in a phased manner through the Punjab Health Initiative Management Company (PHIMC).** In the first phase, free health insurance is being provided to the population living below the poverty line, special persons, and transgender community. Up till now, Universal Health Insurance has been launched in 7 districts of Sahiwal and Dera Ghazi Khan divisions, where whole population is eligible to receive health coverage under Sehat Sahulat Programme (SSP) using their CNIC as health card. The program is set to cover whole population of the Punjab under Universal Health Insurance in years to come (PHIMC, n.d.).

**The health coverage programme is run mainly on the GoPb's grant and it is expected to increase as the covered population under the initiative increases.** On a year-on-year basis, the GoPb provides grant to PHIMC for its Sehat Sahulat Programme (SSP) from recurring budget, which it uses to pay insurance premium to health insurance provider (SLIC) as well as pay for any travelling and administration cost. In FY2020, the Government provided grant of PKR 2 billion on top of previous unutilised grant balance amount of PKR 5.1 billion, against total programme cost of PKR 7.2 billion (PHIMC, 2020). With addition of new population in the SSP, a lot more funding would be required to ensure that adequate resources are available to pay for insurance claims and that private sector hospitals are paid in time, which increases their confidence to cater to general public and provide above-par services.

## 3.5 Stakeholder Mapping

**Devising a successful IPFF strategy requires broad buy-in of all relevant stakeholders.** This section outlines various stakeholders who are present in Punjab with an active investment portfolio. Moreover, utilising this network of stakeholders will be helpful for implementing Punjab's Integrated Financing Strategy and mobilising financing for the SDGs.

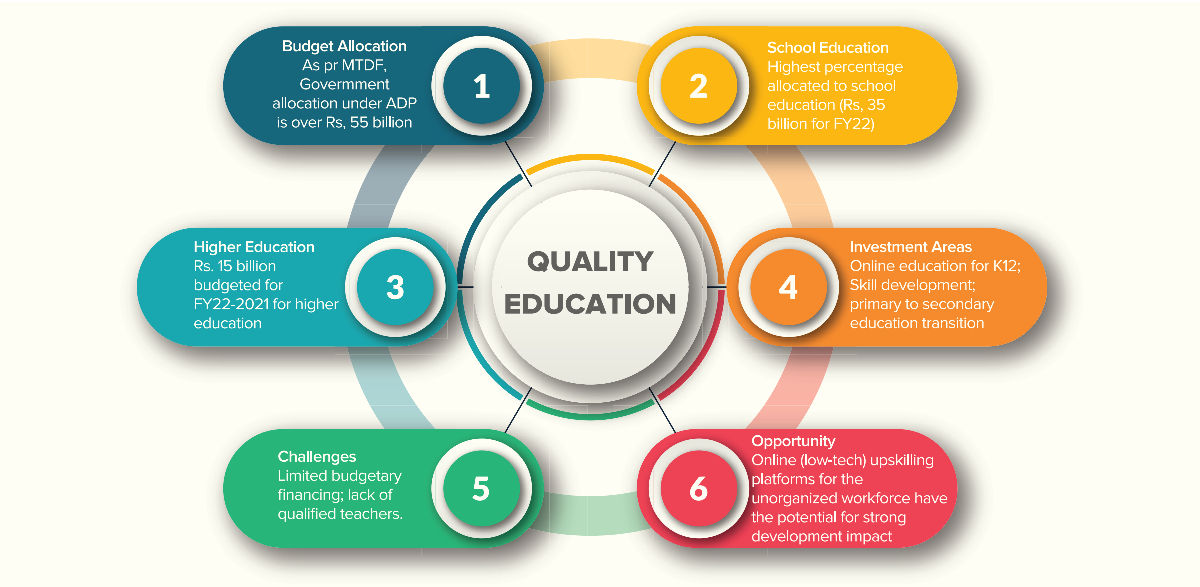
**Cooperation and collaboration lie at the center of achieving any SDGs agenda.** Investors, enterprises, civil society organisations, international development networks and national governments need to build and sustain a collaborative approach to contribute to the solutions which can help achieve the 17 SDGs and their 169 underlying targets by 2030.

In context of Punjab, the following key stakeholders are of relevance in terms of financing mobilised towards SDGs.

### 3.5.1 Domestic Public Finance – Government Finance

**The Punjab Government and its line departments are the key stakeholders under domestic public finance.** Domestic public finance refers to the government resources spent domestically. Key stakeholders in the provincial government include P&D department and Finance department along with key implementing and executing agencies such as education, health and agriculture which support project development and execution.

Figure 4 - Punjab Education Sector Investment Outlook




Source: GoPb, 2019-20

## Department of Education

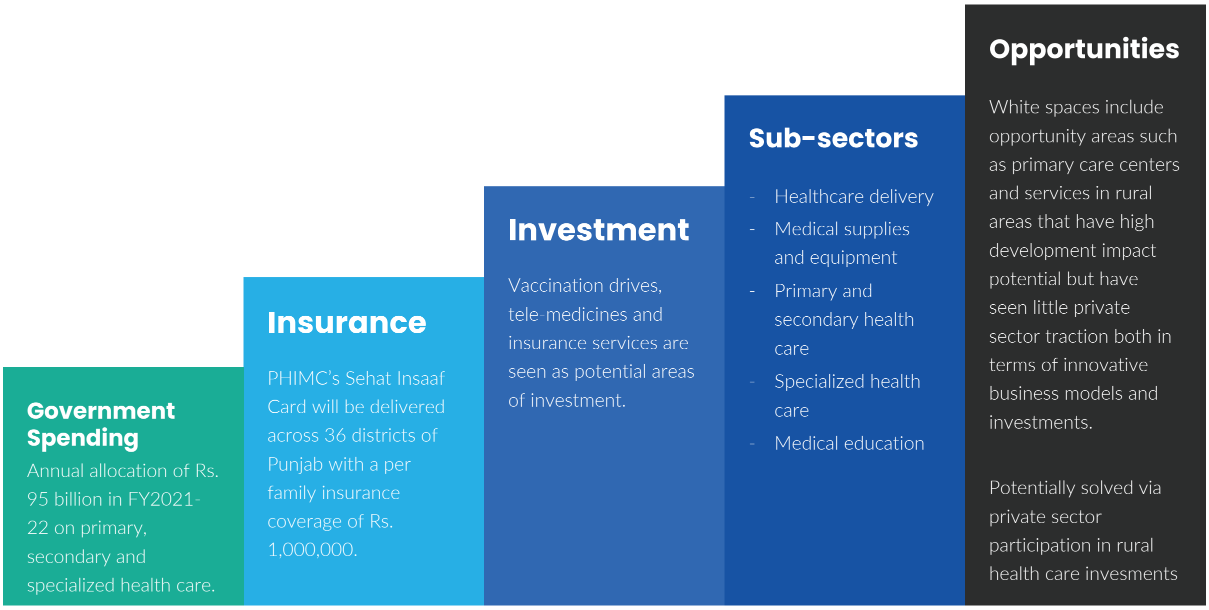
**The sector has seen significant investment momentum from public sector with the GoPb terming education as an important area to achieve higher human potential and economic growth.** Punjab is home to a large workforce and will have the largest school going population in Pakistan with over 28 million students (P&D, 2023). Out of total provincial ADP budget of PKR 685 billion for FY2022-23, the Government has allocated PKR 64.2 billion to the education sector, 9.3 percent of total ADP as shown in Table 2. It is expected that the trend would continue for FY2023-24 with similar allocations for the education sector.

Table 2 - Trend in ADP Allocations for Education Sector in Punjab

| Education (PKR Million) | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24P |
|---|---|---|---|---|---|
| School Education | 32,000 | 27,600 | 35,500 | 39,000 | 42,955 |
| Higher Education | 7,300 | 3,900 | 15,065 | 13,500 | 18,299 |
| Special Education | 1,000 | 555 | 755 | 1,200 | 914 |
| Literacy and NFE | 2,600 | 2,500 | 2,900 | 3,000 | 3,509 |
| Sports & Youth Affairs | | 2,090 | 6,150 | 7,500 | |
| Total Education Budget | **42,900** | **36,645** | **54,220** | **64,200** | **65,677** |

Source: GoPb, 2022-23

Figure 5 - Punjab Health sector Investment Outlook




Source: GoPb, 2019-20

## Department of Health

**Focus on healthcare has seen a surge after outbreak of the COVID-19 pandemic with a growing public sector financing**. The Government has piloted with innovative healthcare schemes, such as the PHIMC's Sehat Insaaf Card, which offers up to PKR 1 million insurance per household across Punjab. Other areas such as digital healthcare and tele-medicine have especially seen innovations through increased government stimulus, a trend which is likely to continue in the long term.

An overview of the Government financing under healthcare sector is as follows:

Table 3 - Trend in Allocations for Health Sector in Punjab

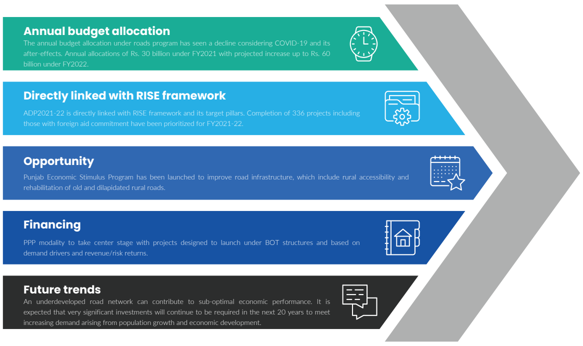
| Health (PKR Million) | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24P |
|---|---|---|---|---|---|
| Specialised health care and medical education | 22,000 | 16,400 | 78,700 | 151,500 | 95,227 |
| Primary and secondary healthcare | 23,500 | 11,462 | 17,212 | 21,000 | 20,827 |
| Total Health Budget | **45,500** | **27,862** | **95,912** | **174,900** | **116,054** |

Source: GoPb, 2019-20

## Department of Communication and Works

**The entire onus of construction and management of roads cannot be undertaken by the Government alone.** The need for PPP structures should come into play to ensure that further investments can be mobilised. As such, the nature of road projects varies considerably from project to project and is driven by local, national, or even regional factors (such as CPEC) that can make the project a necessity in the first place. Considering that new roads are expensive and the GoPb will often be constrained in their ability to commit fiscal spending to roads, PPP structures on Build-Operate-Transfer (BOT) will become more and more common.

Figure 6- Punjab Road sector Investment Outlook




Source: GoPb, 2019-20

Table 4 - Trend in Allocations in Road Sector in Punjab

| Roads (PKR Million) | FY 2015-16 | FY 2016-17 | FY 2017-18 | FY 2018-19 | FY 2019-20 | FY 2020-21 | FY 2021-22P | FY 2022-23P |
|---|---|---|---|---|---|---|---|---|
| Roads | 69,400 | 79,000 | 90,700 | 29,500 | 35,000 | 30,825 | 58,299 | 64,129 |

Source: GoPb, 2019-20

## Department of Agriculture

**In terms of new projects, the Government's focus will remain to channel the public investments for high-quality farm inputs, bringing private investments and increasing water efficiencies to the grass root levels.** The trend for allocations under agriculture sector has increased with a total outlay of PKR 15.5 billion for FY2019-20 as shown in Table 5 (GoPb, 2019-2020).

Table 5 - Trend in Allocations in Agriculture Sector in Punjab

| Agriculture (PKR Million) | FY 2015-16 | FY 2016-17 | FY 2017-18 | FY 2018-19 | FY 2019-20 | FY 2020-21 | FY 2021-22P | FY 2022-23P |
|---|---|---|---|---|---|---|---|---|
| Allocation | 10,725 | 20,000 | 21,005 | 7,000 | 15,500 | 15,500 | 34,647 | 38,111 |

Source: GoPb, 2019-20

## Department of Irrigation

**The Government is facing major irrigation and drainage challenges with profound economic, environmental, and social implications.** The irrigated agriculture remains the lifeline of Punjab's agro-based economy and caters to a major portion of provincial workforce. Over 90% of agriculture output in Punjab comes from farmlands irrigated by one of the largest contiguous irrigation systems in the world (GoPb, 2022a). Key issues include mounting water shortages due to climate change and recurring floods and drought events, deterioration of drainage and irrigation infrastructure due to age and chronic under-funding of the existing systems as well as massive gaps in funding new infrastructure priorities. Irrigation sector's total outlay for FY2019-20 was at PKR 23.4 billion with allocation of 5.53% of the core ADP (GoPb, 2019-2020).

### Department of Housing, Urban Development, and Public Health Engineering

**The WASH schemes proposed in the MTDF 2020-21 by the Department of Housing, Urban Development, and Public Health Engineering are aligned with the provincial priorities determined in the RISE Framework, as well as the schemes are aligned with the SDG 6 (Clean Water and Sanitation).** The department ensures continuation and quality of water and sanitation services across the province. Children are the worst affected in informal settlements with poor WASH services (urban slums), densely populated neighbourhoods and far-flung areas where access and outreach are significantly limited due to insufficient infrastructure. Urban development and adequate housing directly impact the well-being of population. The provincial allocation under ADP is increasing again after significant decline in past 5 years.

Table 6 - Trend in Allocations in Water and Sanitation Sector in Punjab

| (PKR Million) | FY 2017-18 | FY 2018-19 | FY 2019-20 | FY 2020-21 | FY 2021-22P | FY 2022-23P |
|---|---|---|---|---|---|---|
| Allocation | 57,477 | 20,500 | 22,400 | 11,000 | 20,640 | 22,704 |

Source: GoPb, 2019 - 2020

### Department of Environment & Climate Change

**To address environmental changes and promote conservation and environmental governance, the department has allocated PKR 5 billion in FY 2022-23.** The PFM Reform Strategy, which was devised to address issues highlighted in the Public Expenditure and Financial Accountability assessment carried out in 2019, includes a pillar on disaster risk financing (DRF) systems. This is the first time DRF has been included in any provincial PFM strategy in Pakistan. The inclusion of DRF not only improves budget credibility through improved fiscal risk assessment but will also help provisioning for prearranged disaster financing instruments. In the coming fiscal year, GoPb will be conducting an analysis of climate and disaster related expenditure along with an assessment of climate and disaster budget tagging and tracking systems. Moreover, a donor coordination forum has been notified to coordinate the efforts of all donors involved in PFM and oversee the implementation of the strategy.

To step up efforts to strengthen environmental management and mainstream green development, GoPb has signed up Punjab Green Development Programme (PGDP) with the World Bank. Key interventions of the Programme are intended to help strengthen environmental governance and promote green investments in Punjab.

Catastrophic risk finance mechanism minimizes government disaster burdens. The World Bank's Punjab Resource Improvement and Digital Effectiveness (PRIDE) program will enhance the finance department's disaster mitigation fund and disaster risk financing.

Three important initiatives have been undertaken in Punjab which provide impetus to fiscally manage disaster and climate related risks:

- Climate budget tagging (CBT) is being institutionalized as priority in Government of Punjab P&D Board and will help inform and guide policy choices regarding climate-related investments;
- Establishment of Environment Endowment Fund with a capital of PKR 6.5 billion for development of green financing strategy of Punjab to channelize public and private capital to strengthen environmental governance and promote green investments in Punjab is underway;
- Finance department has commenced work on the Green Financing Strategy for the province. This will help identify sources of funding under climate and green finance over medium to long term.

### 3.5.2 SDGs Funding Gap Analysis

It is imperative to create a baseline of the SDGs financing gap that needs to be bridged through domestic and international public and private sources of finance.

The IMF working paper on "Pakistan's spending needs for reaching the SDGs" has assessed the supplementary spending required in critical sectors to make significant progress towards achieving the SDGs in Pakistan. The critical sectors that have been made part of the assessment include education, health, and infrastructure (roads, electricity, and water and sanitation). Governments typically play a decisive role in these sectors- on average, about one-third of public budgets is devoted to these sectors. Furthermore, these sectors are synergetic across many SDGs, including with potential spillovers on poverty and inequality. In this sense, they are critical in generating inclusive and sustainable growth.

As per the IMF's assessment, Pakistan needs USD 3.72 billion[1] of public-private annual spending to achieve the SDGs by 2030. Tabulated below is the gap between the development expenditure committed by GoPb for 2022-23 vis-à-vis the required spending based on GoPb's share in the federal receipts.

### Calculations have been based on the following:

- Average GDP for the last 5 years - USD 325 billion
- USD/PKR @ 280
- Punjab's share in development spending requirement is 51.74% of the assessed amount by IMF, based on Punjab's average share in federal receipts. Based on this calculation, Punjab's annual development spending requirement stands at approximately USD 519.5 million (table below).

| Sector | Development expenditure commitments by GoPb in 2022-23[2] | Share of GoPb @ 51.74% |
|---|---|---|
| Education | PKR 56,700,000,000 | USD 1,924,728,000<br>PKR 538,923,840,000 |
| Health | PKR 172, 500,000,000 | |
| Infrastructure | PKR 164,265,000,000 | |
| Total Development Expenditure | PKR 393,465,000,000<br>USD 1,405,232,142 | |
| Financing Gap | **PKR 145,458,840,000**<br>**USD 519,495,860** | |

In view of the above calculations, the spending gap for GoPb is approximately USD 519.5 million per annum to reach the goal of SDGs by 2030.

### 3.5.3 International Public Finance

**The technical and financial assistance extended under Official Development Assistance (ODA) by International Development Partners plays a pivotal role in mobilisation of finance and greater offtake of development projects**. International public finance inflows, including ODA, and Other Official Flows (OOFs) including government borrowing from international sources, account for the international public finance resources. For the year FY2020-21, PKR 132 billion were estimated to be contributed by different international donors, which is 86 percent higher than the previous year. Out of this amount, PKR 88 billion were funded under the projects' mode and PKR 44 billion under soft loans. In addition to these soft loans, PKR 4 billion were contributed by different donors in the form of grants (GoPb, 2022a).

**The GoPb, over the last five years, has negotiated loans worth more than USD 1 billion and financial assistance from various development partners.** Generally, the ODA support comes with a significant amount of technical capacity to deliver programmes and regular monitoring of performance. To ensure steady progress, for instance, the more recent programmes with the World Bank are performance-related where disbursements are linked to verifiable results (based on Results Based Monitoring Framework). Moreover, in the context of the COVID-19, the P&D Board Punjab carried out a series of negotiations with its development partners and successfully concluded a restructuring plan of its ongoing portfolio amounting to the tune of PKR 24 billion.

**The portfolio has a strong emphasis on the agriculture sector which is the backbone of the provincial economy and a sector that has been ignored for a while.** One of the key issues faced by the agriculture sector is increasing water shortage and mismanagement and wasteful use of water. The government has worked under ODA assistance to bring improvements in the farm level irrigation infrastructure. The most recent addition to the agriculture portfolio includes the Strengthening Markets for Agriculture and Rural Transformation (SMART) programme. It is

1 Decent Work Country Programme for Pakistan (2023-27), International Labour Organization

2 Medium Term Development Framework 2022-25, Government of Punjab

expected that this strategic intervention will help in mellowing the current stark cob-web pricing, resulting in frequent gluts and under production of agriculture products.

**The Government service delivery reforms such as the Sub-National Governance (SNG) Programme has supported the P&D in implementing active reforms.** The programme has especially assisted in effective management of the Annual Development Plan and Innovation in Service Delivery. The SNG Programme has also helped the Finance Department in taking a more strategic approach towards developing budgets and looking at revenue mobilisation. Finally, the programme has been the key support in assisting the government in managing the transition to the new local governments in districts.

**The engagement of P&D with the Multilateral Development Banks (MDBs) and UN agencies has been increasing over the last few years.** The government has negotiated a multi-tranche financing facility with the Asian Development Bank (ADB) for rehabilitation and upgradation of various barrages and canal systems in Punjab. The ultimate objective of the programme is to improve productivity of the agriculture sector. The ADB is also providing support for development of PPP facility in the form of a $100 million VGF as a concessionary loan. Similarly, the UNDP has been supporting the P&D on mainstreaming, accelerating, and providing policy support for the SDGs, in addition to the technical assistance provided to the GoPb on disaster risk insurance financing, SDG investors map, and climate financing, etc. UNICEF has started to provide support on the M&E and social sector policy, while UN Women has been supporting the government on women issues, especially home-based workers. In a snapshot, the key development partners, large infrastructure projects, and their project contributions are highlighted below[3]:

Table 7 - ODA Projects for Punjab

| Name of Donor Agency | Project Name |
|---|---|
| World Bank | Human Capital Investment Project in Punjab<br>Punjab Resource and Revenue Management Programme<br>Punjab Resource Improvement and Digital Effectiveness (PRIDE) Program<br>Punjab Urban Land System Enhancement (PULSE) Project<br>Punjab Rural Sustainable Water and Sanitation Project<br>Support to Naya Pakistan Housing Programme |
| Asian Development Bank | Rehabilitation of Islam Barrage Project<br>Project Readiness Financing (PRF) for Punjab Water Resource Management<br>Project Readiness Financing (PRF) for Urban Development Projects<br>Punjab Agriculture Market Development Project<br>Greater Thal Canal (GTC) Project<br>Improving Work Force Readiness in Punjab<br>Punjab Provincial Roads Multi-Tranche Financing Facility (MFF) Tranche – 1<br>Supporting Public Private Projects in Punjab |
| FCDO | Women Income Generation and Self-Resilient Programme |
| Asian Infrastructure Investment Bank | Lahore Water and Waste Management Project<br>Sewerage Scheme for Larechs Colony to Gulshan-e-Ravi<br>Construction of Surface Water Treatment Plant at BRBD Lahore<br>Construction of Wastewater Treatment Plant at Mehmood Booti and Shadra |
| French Development Agency | Heritage and Urban Re-generation: Tourism Development in Lahore Fort and its Buffer Zone |
| Daanish (DANIDA) | Construction of Eastern Wastewater Treatment Plant at Faisalabad City |

3 Projects have been restricted where actual project funding is mobilised through ODA assistance. Technical Assistance (TA) projects are not highlighted.

### 3.5.4 Domestic Private Finance

**In Punjab, there is a need to move away from one-off private sector CSR initiatives and towards an integration of Corporate Social Value (CSV) into their core business.** Global initiatives such as Black Rock's integration of ESG notes that sustainable business models will provide equitable income opportunities as well as affordable goods and services for people at the base of the pyramid. Also, in recent years PPPs have increased the role of the private sector in infrastructure investment, with the Government coordinating and regulating for policy drivers.

Key actors operating in domestic private finance landscape of Punjab include:

#### Bank of Punjab (BoP)

**The BoP[4] remains the core frontline banking financial institution to lend to priority sectors of the GoPb, such as housing, entrepreneurship, and agriculture where private sector banks have shown risk-averseness.** The bank with a majority shareholding of the GoPb (57.1 percent) has 636 branches including 18 sub-branches and 104 Islamic banking windows in Pakistan (as of December 2021). In 2020, the BoP took a lead in providing financing to general public under low-cost housing scheme. To manage its risk appropriately in this novel and uncharted territory, the BoP entered into first loss coverage agreement with the PMRC and the REALL of UK. Moreover, the BoP has been at the forefront of the GoP's Kamyab Jawan Programme for promoting entrepreneurship through provision of subsidised loans, as a lead partner. The Bank also has the distinction of being the only executing agency under the Punjab Rozgar Scheme (discussed in previous section) which remained a flagship scheme for revival of economy of the province in the post COVID-19 impact. Lastly, the bank also remained the only financial institution to remit social security payments across the province in various programmes of the GoPb including Bahimat Buzurg, Sila-e-Funn, Zevar-e-Taleem, Ham Qadam, Sehat aur Ghizayat, etc (BOP, 2020).

#### InfraZamin Pakistan – Credit Enhancement Facility

**Large infrastructure transactions happen on the back of government providing sovereign guarantees and the government can barely provide guarantees to large number of infrastructure projects.** Punjab has large unmet infrastructure needs with low appetite to provide finance from domestic capital markets. With large infrastructure funding requirements, the province faces a significant unmet need for long term local currency financing for infrastructure projects. Overall, the financial system is characterised by low levels of financial participation and development; generally, only the largest corporate groups have access to formal finance channels.

**Through InfraZamin, Punjab can seek a catalyst to plug in the missing piece of the financial infrastructure and encourage crowding-in of underused pockets of liquidity in the financial markets, with an objective to mobilise finance for the SDGs agenda.** InfraZamin Pakistan is an initiative by the Private Infrastructure Development Group (PIDG), to establish a for-profit credit enhancement facility. InfraZamin, though has not directly provided projects' funding for Punjab, it can issue credit guarantees for infrastructure-related debt instruments based on its (expected and forthcoming) AAA rating from the PACRA, a local credit rating agency, and thereby attracting private capital that otherwise would not participate in lending to infrastructure-related sectors in Pakistan (InfraCo, 2022).

#### Pakistan Mortgage Refinance Company Limited

**The Pakistan Mortgage Refinance Company (PMRC) promotes affordable housing for low and informal-income segments, directly impacting the SDG 10 – Reduced Inequalities.** As a home mortgage refinance company and provider of backstop guarantor to local financial institutions, it promotes affordable housing for low and informal-income segments. Moreover, it provides risk coverage of up to 40 percent to primary mortgage financiers on first loss basis. The guarantee partially alleviates the credit risk of primary mortgage financiers and provides a conducive environment for banks to finance housing for low-income. Regardless of the instability amidst the pandemic, the PMRC closed the year with total advances of about PKR 15 billion and total assets of over PKR 28 billion (PMRC, 2020).

#### Charitable Organisations

**Charitable organisations continue to play an important role in decreasing the SDGs deficit in the province.** In Punjab, charitable contributions provide with an ever-growing endeavour in many ways; some charities work on collection and disbursement of the amount of grants they collect, some support the SDGs infrastructure so that funders can collaborate better, while there are some others that match their existing programme areas to the SDGs targets and improve alignment with the broader development agenda. The charitable organisations can support the SDGs agenda in multiple ways and can undertake activities in conflict zones to educate and empower local communities through access to finance or practically fill any void left by limited fiscal ability of the governments to achieve the SDGs Agenda. **Punjab has a number of charitable organisations working for development causes from human rights to education,**

4 The Bank of Punjab has been specifically highlighted in this case with majority shareholding of the Government of Punjab and with its close liaison for developing financial products for Punjab's priority sectors.

**and from WASH sectors to fighting poverty and hunger.** One of the biggest non-profit working in the development sector in Punjab remains Akhuwat Foundation, which collected and disbursed more than PKR 1.6 billion in charitable contributions along with substantial microfinance lending to small business owners and enterprises, in FY2020 (Akhuwat, 2020). A few other notable charities include: Transparent Hands (health), Thali (poverty and hunger), Kashf Foundation (Micro-finance), Punjab Rural Support Programme (small loans), Heal (education), Idara Agosh (child safety), Arfa Karim Foundation (ICT, social innovation), CAP (consumer rights) and several others.

In the context of support towards infrastructure development, Hands, a charitable organization, provides low-income housing projects with good quality infrastructure and alternate energy solutions to the target population in all provinces. In Punjab, 9,660 low-income shelters have been constructed through grants since 2021.

### 3.5.5 International Climate Finance

Climate change has been identified as one of the most significant threats to sustainable development with a disproportionately higher impact on developing countries especially on the vulnerable segments of the society including the poor and women among others. Between 1992 and 2021, climate related disasters in Pakistan resulted in a total of USD 29.3 billion of economic losses (inflation-adjusted to 2021 US dollars) from damage to property, crops, and livestock, equivalent to 11.1 percent of 2020 GDP[5]. The 2022 floods reaffirmed Pakistan's high vulnerability to climate change despite contributing less than one percent of global greenhouse gas emissions. According to the Post Disaster Needs Assessment[6], the total damages and losses exceed USD 30 billion, and total needs at USD 16.3 billion. The World Bank Pakistan Climate Country and Development Report estimates that climate change could have an impact of about 9 percent of GDP on the country by 2050 which translates to almost USD 380 billion at current GDP size[7].

The Government of Pakistan has prioritised its mitigation and adaptation goals in its updated NDCs which are subject to external funding. Four sectors hold significance for mitigation in Pakistan: Energy including transport, industrial processes, Agriculture, Forestry and other Land Use (AFOLU), and waste. On the adaptation front, Pakistan is focusing on Nature-based Solutions (NbS), Land use change and community infrastructure development.

Financing will be a critical element in Pakistan's climate action journey. Key stakeholders in climate finance space include the following:

#### Multilateral Channels

- **Global Environment Facility (GEF)** is the world's largest funder of biodiversity protection, nature restoration, pollution reduction, and climate change response in developing countries. Over the past three decades, the GEF has provided more than USD 22 billion in grants and blended finance and mobilized another USD 120 billion in co-financing for more than 5,000 national and regional projects. GEF funds are available to developing countries seeking to meet the objectives of international environmental agreements.
- **Green Climate Fund (GCF)** a critical element of the historic Paris Agreement - is the world's largest climate fund, mandated to support developing countries raise and realize their NDC ambitions towards low-emissions, climate-resilient pathways.
- **Adaptation Fund** helps developing countries build resilience and adapt to climate changes. It was established under the Kyoto Protocol of the UN Framework Convention on Climate Change, and has committed US$ 330 million in 51 countries since 2010 to improve resilience to the adverse effects of climate change. It focuses on developing countries that are signatories of the Kyoto Protocol and are vulnerable to climate change
- **Multilateral Development Banks** play a prominent role in delivering climate finance and include the World Bank, Asian Development Bank, International Finance Corporation, and European Investment Bank.
- ***Bilateral Channels*** support the technical and financial exchange between two governments for the implementation of policies, projects or specific measures, usually financed through bilateral development banks and national development organizations.

Pakistan has benefited from a limited access to international climate finance from Multilateral Partnership Funds, totaling a combined USD 210 million till date[8]. In the seven-year period, 2015-2021, Pakistan received a cumulative total of USD 9090 million in green funding from MDBs[9].

5 EM-DAT, CRED/UCLouvain (Brussels, Belgium), www.emdat.be
6 Pakistan Floods 2022, Post Disaster Needs Assessment
7 World Bank, Pakistan Climate Country and Development Report, 2022
8 Green Climate Fund, https://www.greenclimate.fund/countries/pakistan
9 European Investment Bank, 2022

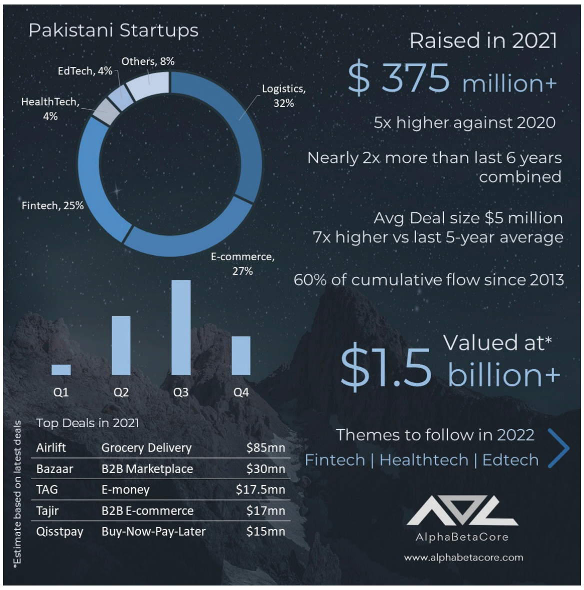
Some key steps to accessing international climate finance include:

- ✓ Identify the most relevant international financing channels.
- ✓ Support capacity development at the organisational level.
- ✓ Enhance technical capacities to prepare project and programme proposals for funding.
- ✓ Develop robust and predictable regulatory frameworks and well-designed economic incentives to attract public and private international climate finance.

### 3.5.6 International Private Finance

**The contribution of the private sector to boost sectoral growth is reflected by the growing volume of investments in Pakistan, where Punjab has achieved a high share.** Pakistani startups attracted record investments in 2021 from Private Equity/Venture Capital businesses in education, health, and agri-tech startups. Between January 2021 and December 2021, Pakistan recorded almost USD 375 million of investments from institutional investors, out of which, Punjab hosts bulk of the start-up activity Pak Observer 2022. To date, international private investments by PE/VC firms have been mostly directed toward Q-commerce (quick-commerce), education (Ed-tech), health (Health-tech), agriculture (Agritech) and have also partly contributed to housing and construction (prop-tech). However, given the relative significance that this type of financing opportunities are present in the Punjab's financing landscape, their potential contribution to development outcomes could be further increased if they are channeled to longer-term investment and local sustainable development initiatives.

Figure 7 - Revenues Raised by Startups




Source: Alphabetacore

**FDI levels in Punjab remained low as compared to other regional countries** with per capita levels at USD 1,456 and FDI of USD 2.5 billion which can be much improved considering its 110 million population (Census 2023). The PGS 2023 and the RISE framework have already called for improvements in the policy and regulatory framework as well as in managing political risk to bolster investor confidence and thus attracting increased volumes of commercial investments.

**Start-ups backed by PE/VC funding can play an important role in solving the SDGs challenges.** Start-ups can play a central role in addressing the SDGs challenges, especially those which are agile, creative, and innovative as they can create sustainable innovation for helping the Government in reaching the goals. Offtake of Q-commerce, for instance, has the ability to create thousands of new jobs, improving logistics and supply chain and aiding new investments in business models are in line with current technological trends. Also, linked to innovation, the SDGs require new business models that include long-term profits and are based on the inclusion of technology backed by sound policy and regulatory framework. This is something that start-ups often can create much faster than larger companies. It is, therefore, important that the GoPb can make sure that these new business models whether they are called social enterprises, impact investments, or lean start-ups, are fit to align with the SDGs' requirements.

It is pertinent to highlight that the social investments in the form of a Social Impact Bond (SIB), for example, can be utilized to target the education, health, agriculture sectors in Punjab. SIB is a financial instrument that aims to finance social programs in a more sustainable and outcomes-based way. They are structured as contracts between a government entity, a social service provider and impact investors. The investor provides upfront capital to the service provider to deliver a social intervention, with the government or donor agreeing to repay the investor's capital plus a return on investment if pre-agreed outcomes are achieved. SIBs have been launched globally to achieve the SDGs and create impact. One of the examples is issuance of a SIB in the province of Rajasthan in India targeting the education sector through increased enrolment of marginalized girls. Moreover, recent issuance of a social impact bond to the tune of over USD 100 million by the National Bank for Agriculture and Rural Development is another example to support energy efficiency projects in India.

# 4. OPPORTUNITIES AND CHALLENGES

## 4.1 Opportunities

**As per UN estimates, pre-COVID-19 financing gap to achieve the SDGs in developing countries stood at USD 2.5 trillion per year. However, the COVID recovery spending could increase this financing gap by additional USD 1.7 trillion per year** (UNCTAD, 2014). Although, global financial assets are adequate to fill this financing gap, the actual challenge is to reroute them towards the SDGs sectors to generate sustained impact on the ground. While the government needs to keep playing a significant role in terms of essential public services, the remaining financing gap requires leveraging private sector and international development assistance. For Pakistan, the need to leverage alternate sources is much more significant. The IMF notes on 'A Post-Pandemic Assessment of the Sustainable Development Goals' discovered that Pakistan would not be able to meet its SDGs within the next 30 years without finding additional resources for development (Akanbi, 2021).

Following are the key opportunity areas for the GoPb in public, private, and ODA sectors to leverage additional financing sources.

### Public Sector Financing

**To augment public financing, the key will be to build upon financing partnerships with all relevant players, such as private sector, NGOs, philanthropic organisations and civil society-based organisation.** Public investments for SDGs remain pivotal and fundamental. Globally, the governments collaborate to foster innovation and broad-based partnerships using sustainable and responsible investing, such as using blended finance instruments, green bonds, and corporate venturing. For instance, governments have created partnerships with institutions working on climate change and have participated in initiatives such as Climate Bonds Initiative and the Green Climate Fund (GCF). Moreover, financial products such as green bonds and securities could be launched to develop market platforms such as crowdfunding and fintech.

**The GoPb can pursue innovative financing solutions to mobilise capital for development objectives.** One such solution is impact investing, in which investments are made to generate social and environmental impact alongside a financial return. The GoPb can also promote shared value by providing incentives and creating markets through public policy measures, and by changing consumer mindsets to demand more socially and environmentally conscious products and services. For instance, the Punjab government already has set up the Punjab Energy Efficiency and Conservation Authority (PEECA) which can push forward green financing initiatives through a Green Label programme, Energy Label and green procurement initiatives. Similarly, through fiscal incentives, the GoPb can procure high energy efficiency electrical products and printing paper from suppliers who practice sustainable forestry management. Such policies can create an incentive for private sector suppliers to integrate sustainability into their business models to retain market share.

Another potential innovative financing instrument that can be deployed to achieve the SDGs is a SDG bond (also called thematic bond). Thematic bonds are fixed-income financial instruments issued with the aim of addressing environmental and social problems through debt-based solutions. Types of thematic bonds include Green Bonds, Social Bonds, and Sustainability-Linked Bonds.

- **Green bonds** were created to fund projects that have positive environmental outcomes or contribute to climate change reduction. Certain green bonds are aligned with the Green Bond Principles of the International Capital Market Association (ICMA). Green bond taxonomies can indicate the sectors eligible for financing from bond proceeds and include renewable energy, energy efficiency, pollution prevention and control, urban and mass transit, circular economy adapted products, green buildings, and marine protection. The majority of green bonds issued are green "use-of-proceeds" or asset-linked bonds. Proceeds from these bonds are earmarked for green projects but are backed by the issuer's credit rating.
- **Social Bonds** are use-of-proceeds bonds that raise funds for new and existing projects with positive social outcomes. Social project categories include affordable basic infrastructure, access to essential

services, affordable housing, employment generation, food security, and socioeconomic advancement. The "use-of-proceeds" is ring-fenced.

- **Sustainability-Linked Bonds** are a variant of sustainability bonds where the financing or structuring of the bond's coupon rate is linked to the entity's achievement of set key performance indicators and environmental and/or ESG objectives, failing which the desired debt relief is eliminated as a penalty.

**Prerequisite for issuance of a SDG or thematic bond is an underlying bond framework.** The framework is designed to align with Green Bond Principles, Social Bond Principles, and Sustainability Bond Principles published by the International Capital Market Association (ICMA). Under the framework, the issuer (GoPb) will issue SDG Bond (Green, Social or Sustainability-Linked) the proceeds of which will be allocated to projects aimed at advancing progress against targets in the ADP. An amount equal to the net proceeds from the bond will be applied exclusively to finance or re-finance eligible assets providing distinct social or environmental benefits that further one or more of the SDGs.

In accordance with the evaluation and selection process, the net proceeds of the SDG Bond shall be allocated to eligible projects. The Government of Punjab shall set a timeline within which 100% of the allocation of funds shall be executed from the date of issuance of the bond. Moreover, under the framework, the Government of Punjab shall provide investors with an Allocation Report and an Impact Report annually for as long as the SDG Bond is fully repaid. The purpose of such reports is to inform the investors about the allocation of funds and the resulting impact created.

The precedence exists for nation states such as Indonesia and Malaysia to lead with the 'green sukuk', an innovative financing mechanism aimed at protecting environment and address climate change. In 2017, Indonesia traded USD 1.25 billion in five-year green sukuk that will invest in renewable energy and green infrastructure (Vizcaino, 2018). At a global scale, USD 500 billions of green bonds were sold in 2021 alone (Patel, 2022).

## Private Sector Financing

**Leveraging private sector financing is critical for achieving the SDGs considering limited fiscal capacity of the Government.** Infrastructure sectors, such as power (under IPP regime) and renewable energy (under climate change mitigation), transport, and water and sanitation, are natural candidates for greater private sector participation as the Governments have offered generous fiscal incentives, including high returns on investment. Other SDGs sectors are less likely to generate significantly higher amounts of private sector interest, either because it is difficult to design risk-return models attractive to private investors (e.g., climate change adaptation), or because they are at the core of public service responsibilities and highly sensitive to private sector involvement (such as education and health care). Nevertheless, under PPP regime, the governments have tried to introduce key social sector projects in health and education under annuity-based PPP schemes, initiating competition for improved development prospect.

**The SDGs financing gap in the private sector may be bridged by mobilising more equity, bank financing, and FDI.** Globally, the trend for private sector capital offtake is increasing. For instance, HSBC launched the first SDG Bond for USD 1 billion, maturing in 2023 and was three times oversubscribed. The proceeds have been used to support projects that offered broad social, economic, and environmental benefits as aligned to seven selected SDGs targets. Another key financing mechanism which will be evaluated for leveraging private sector financing includes the Corporate SDGs Bonds by Banks, Financial Institutions (FI's) and other institutions. For this purpose, consultations with the BoP, InfraZamin and other FI's will be important to identify modalities and their operating frameworks. It is imperative to mention that any bond issuance would be subject to meeting several legal, regulatory, operational requirements. Moreover, in the current macroeconomic context, issuing a bond would be challenging and any bids secured would come in at high yields potentially limiting the cost effectiveness of the bond.

**By offering mutually beneficial solutions with appropriate incentives, private sector can mitigate the SDGs funding gap to meet specific goals.** For example, Project Last Mile, a partnership between The Coca-Cola Company and its foundations, USAID, The Global Fund, and The Bill and Melinda Gates Foundation, now facilitates knowledge transfer from private sector to the ministry of health in Africa. Considering that the private sector generates around 90% of all the jobs, initiatives which build upon partnership frameworks, philanthropic achievements, and investing for impact can become long lasting source of capital for the SDGs financing.

**A well-developed, private sector led capital market is important to fully benefit from private sector potential in the country.** First, such markets can provide risk management tools for both financial sector participants and end users with contribution to economic growth, directly uplifting socio-economic indicators. Second, well-oiled capital market functioning in Punjab can serve as a 'spare tyre' for the financial sector, enhancing financial stability and reducing vulnerabilities to exchange rate shocks and fiscal constraints, as demonstrated under pandemic times. Third, they can result in massive mobilisation of private and public sector resources well beyond the capacity of Overseas Development Assistance (ODA) or Multi-lateral Development Bank (MDB) balance sheets. Last, developed capital markets can participate in innovative transaction structures and financing models, and can blend concessional and market financing to bring down the cost of sustainable investments and improve PPP projects offtake.

### Official Development Assistance (ODA)

**Domestic-resource mobilisation by the government is insufficient to finance the SDGs investment in already constrained fiscal budgets.** The ODA is an important tool to finance any gap, as the provinces remain deficient to fully fund recurrent expenditures in health, education, agriculture, and other sectors. To maintain macroeconomic stability at the provincial level, a higher proportion of the ODA financing is required to help bridge deficits and mobilise additional capital.

### Financing from Communities, and Non-Government Sector

**This is one of the most integral sectors which is already operational in achieving some SDGs.** There are several models that could be evaluated to increase mobilisation of funds for SDGs at local level. These may include own source revenue, inter-governmental fiscal transfers, local borrowing, and partnership with the private and community sectors, or with civil society organisations (CSOs).

### Public Finance Efficiency, Expenditure Switching and the Fiscal Space

**Effective Public Financial Management (PFM) becomes a cornerstone of good governance and help governments build better financing plans.** The PFM, or the ability of governments to collect revenue and spend it in an efficient manner, remains instrumental for Punjab which is seeking to expand its economic growth and to increase available resources to pursue provincial objectives, including those relating to upliftment of marginalised and vulnerable communities. The SDGs touch upon all sectors of society, including education, health, and clean energy, but their success ultimately comes down to effective PFM.

## 4.2 Challenges

**The predominant source of financing today relies upon the Government's own ADP resources, especially for new development schemes and infrastructure projects.** This implies that private sector financing remains on the periphery with very little incentive to participate in commercial activities, such as developing road networks, transport hubs, logistic centres, and large-scale manufacturing, etc. In a market economy such as ours, incomes depend mainly on productive employment, including SME growth, growth in services, and commercial activities. With a low private sector base in economic activity, the employment generally tends to wean away from competitive, private sector-led jobs to stagnant government-driven jobs, further hampering the SDGs alignment to priority sectors.

**Punjab has been stuck in strong fiscal pressures with low SDGs finance mobilisation.** The GoPb responded to the pandemic with a historic stimulus package following the Federal Government. However, the Government's own provincial revenues comprising of provincial tax, as well as federal transfers, declined considerably. The Government's revenue fell short of its target by PKR 635 billion as compared to the budget estimates for FY2021. This included a shortfall of PKR 509 billion in the federal transfers and PKR 126 billion in the province's own source revenues (GoPb, 2022b). Major expenditure cuts had to be imposed on development and non-development expenditure, which swelled up to its pre-existing debt burdens and constrained the development programme, and resulted in a reduced allocation from PKR 330 billion budgeted amounts to PKR 250 billion actual disbursements.

**Youth bulge is an important challenge as well as an opportunity for Punjab depending upon inclusive approach for resource allocation.** The labour force trend shows that the total population of Punjab is around replace it with 127 million (Census 2023), which has increased from 97.58 million in 2011 with an average annual growth rate of 2.9 percent. With the bulk of this population (32 percent) not receiving any specialized training and up to five million out of school children in the province (GoPb, n.d.), there is a need to provide improved health, education, and livelihood opportunities, and to convert their latent energy into positive outcomes for the family and community.

**Rising automation will decrease role of labour and employment opportunities in large urban areas.** Services and the industrial sectors would need to grow in Punjab from its current scope and levels to accommodate higher human resources. Punjab Growth Strategy 2023 outlines that while the Government will continue to provide policy guidance and support, it will not absorb excess labour in Public Sector Enterprises, which are already plagued by high pension costs and staff expenditures. It is important to understand the implications of rising automation on the role of labour and in terms of creating employment opportunities. The challenge is to improve the breadth and quality of education and training to ensure complementarity to the rising automation, which may otherwise lead to higher unemployment in the province.

**Low-income base leads to muted SDGs agenda achievement.** The GDP per capita of the province has seen a meagre improvement over the past few decades. With stagnant productivity and low private sector participation, the employment base has also seen inertia. The performance of Punjab's economy has moved in tandem to national economy, and over the last five years the average annual provincial GDP growth rate was 4.9 percent (PGS, 2023). This is comparatively meagre and suggests low opportunities base for general population, especially for two million new entrants in the economy every year. Also, for many individuals, this partial real increase would have been negative, which would have meant many individuals slipping below the poverty line.

**Higher poverty incidence with regional disparities leads to additional complexities in prudently allocating resources towards the SDGs.** Punjab also suffers from rural-urban divide as well as north-south divide where South Punjab lags considerably in development indicators than their northern counterparts. With regards to the rural-urban divide, in all cases, the incidence of poverty is much higher in rural Punjab as compared with urban areas. For instance, around 60 million Punjab's population, including the poorest among them, reside in rural areas (Mazhar, 2018). This does not imply that one can ignore urban poverty, which deserves equal attention. For the SDGs alignment, equitable financing remains the key. Opportunities to access finance would matter more for South Punjab and rural poor as compared to northern Punjab and urban citizens. Access to finance would result in improved access to opportunities; primarily through credit and insurance such as providing working capital support to start new businesses and using insurance for livestock and Agri-products offtake.

**Weak investment growth and reliance on public funds for investments limit the quantum of financing available for the SDGs.** The pandemic dealt a massive blow to Punjab's investment agenda, exacerbating the slowdown in overall productivity growth, higher inflation coupled with higher-than-average unemployment. In 2020, gross fixed capital formation declined by 1.04 percent of GDP in Pakistan, with much of the same effect in Punjab. This effect was larger than the global financial crisis in 2008 and followed weak investment and slow productivity growth across public and private sectors, heightening the uncertainty about prospects of under investments in critical infrastructure areas. In Punjab, while a rebound in investment is expected with a renewed push for a larger sized ADP, the collapse in gross fixed capital formation proved ill-timed, resulting in low investor confidence, and further exacerbating private-led investments.

**Less developed capital markets remain unsuccessful to mobilise innovative instruments of finance.** Punjab with its more 'risk averse' capital market has tended to rely more on the Government financing (including sub-national guarantees) to deploy capital for critical services. One large part of it is because the Government's footprint in providing essential services remains high. It is time that the Government follows PPP model and similar innovative instruments in spirit, outsourcing non-essential activities to the private sector, providing a level playing field for deployment of capital and ensuring that the Government builds regulatory and legal capacity to execute private sector-led projects which provide maximum Value for Money and the highest affordability in the long-term.

**Punjab has weak institutional capacity to realize SDGs financing.** For blended finance or structuring of new financial products to materialise, it remains imperative for policy makers to understand project and product structuring. In Punjab, though there is an institutional framework supporting PPP transactions, there are limited transactions that have happened on-ground. Line agencies which are responsible to suggest and formulate PPP transactions are unable to execute them as they lack the capacity to get consultants and transaction advisors on board, understand technical details of the project, and consequently, lead the tender process to its completion with maximum value for money. Only with sound technical understanding of issues at hand and execution of relevant financing strategies, Punjab can find a balance between publicly funded projects and privately financed capital.

# 5. INTEGRATED FINANCING STRATEGY

**The Addis Ababa Action Agenda specified broad and diverse sources of finance for development.** These include domestic public finance, international development cooperation, debt, debt sustainability, domestic/ international private business and finance, impact investment, remittances, and philanthropic spending and voluntary giving. Some key innovative financing instruments within the scope of the INFF includes:

- Public-private partnerships, a long-term contractually based cooperation between public and private sector aimed at the provision of public services.
- Project finance, which mainly targets large-scale and long-term projects, and it protects the undertaking company in case of failure.
- Blended finance, a mechanism that uses public and philanthropic funds to leverage private capital to meet the financing needs of an inclusive business.
- Result-based financing which is being used by developing countries' governments, or states or donor agencies, in cooperation with private sector, to incentivise the provision of goods or services to create or expand markets, or to stimulate innovation.
- Thematic bonds, a sustainable investment option that is beginning to attract a new generation of investors.
- Sectoral value-chain finance provided to actors in the chain by a financing source outside of the value chain or by another actor in the value chain.
- Crowdfunding brings together multiple private investors to fund a project for a specific cause, usually start-ups with the desired impact as main reason why investors choose one project over another.
- Impact investment funds, curate a selection of carefully vetted businesses, which seek funding towards an impact area or around a regional focus.

**The financing strategies in this report were selected based on innovation, scalability, and additionality.**

The following criteria was applied:

i) the degree of significant difference from current financing for development practices, such as the use of ADP funds for new development schemes;

ii) the potential for and desirability of replication in other contexts, such as climate finance applicability to whole of Punjab;

iii) and the existence of a clear and compelling role for government to use a strategy as an alternate to existing ones.

Following are the key areas and innovative financing mechanisms with the potential to support the 2030 SDGs Agenda.

## 5.1 Tapping climate finance opportunities

**Pakistan has not been able to adequately access climate finance opportunities.** Under the Paris Agreement 2015 and under the Conference of Parties (COP27), there has been an emphasis on funneling USD 100 billion per annum fund commitment to developing countries to build climate resilient projects and avert a potential climate crisis in the future (Kaya, 2021). In this regard, Pakistan tapping into 5% of the committed funding would translate into USD 5 billion per annum under climate finance activities. However, current flows of international mitigation and adaptation finance to Pakistan have been less than USD 500 million to date (including bilateral flows) (CDKN, 2013). This is a meagre amount compared to the average per year adaptation requirement of USD 7-14 billion over the period to 2050.

To implement National Climate Change Policy along with Nationally Determined Contributions (NDCs), the GoP needs to mobilise climate finance from various sources, such as the Green Climate Fund (GCF), Global Environment Facility (GEF) and the Adaptation Fund (AF). Recently, Pakistan has secured a USD 66 million grant from the Green Climate Fund for Pakistan's NDC commitment under "Recharge Pakistan" aimed at building resilience to climate change through ecosystem-based adaptation and green infrastructure for integrated flood risk management. Similarly, other NDC commitments can be funded through these multilateral funding windows.

GoP can also avail the opportunity to unlock climate finance through the pledges secured at the Geneva conference wherein several bilateral and multilateral participants collectively committed to support Pakistan in its climate resilience and development objectives.

**Punjab needs to address the climate crisis by adopting innovative solutions and investing in low-carbon emissions.** Today, GHG emissions are more than 40 percent higher than they were in 1990 and the earth is already 0.8 degrees hotter on an average (Ritchie, 2022). Punjab will consequently be affected with deserted agriculture lands, higher flood levels, and food security challenges if investments under climate change mitigation and adaptation are not mobilised quickly.

Following is an outline of the strategy to tap into climate finance opportunities for Punjab by taking appropriate climate actions in agriculture, irrigation, waste management, renewable energy, and afforestation sectors.

### 5.1.1 Setting Up a Provincial Climate Change Fund (PCF)

**The Provincial Climate Fund (PCF) can serve as a mechanism to support Punjab to manage their engagement with climate finance by facilitating the collection, blending, and coordination of, and accounting for climate finance at the provincial level.** The PCF can provide a province-driven support which can facilitate climate change goal setting and strategic overview by obtaining climate change project approvals under GCF, and GEF etc., by measuring project implementation and performance of the ongoing and applied projects, by offering policy assurance and financial control of climate change funds, and by assisting partnership management with Accredited Entities (AE), funds, project developers, and national policy makers. A PCF can help Punjab to blend various resources together at the provincial level, providing a mechanism for shifting power away from traditional top-down management to provincial-level management to even district and tehsil level management by identifying new projects and building a strong pipeline of climate resilient projects in multiple sectors, such as agriculture, irrigation, and energy etc. In this way, Punjab's climate change objectives can be managed and supported from within, and not the other way around.

**Designing a PCF requires consideration, taking time to set its objectives, and then constructing a structure to help achieve those objectives.** A Punjab Climate Fund, for example, can deliver a common set of services. However, the exact components and structures to deliver the services can vary greatly according to the province's on-ground circumstances and priorities (UNDP, 2011). The GoPb along with the ODA can mobilise seed capital to fund the development of project concept notes and detailed feasibility studies for GCF and GEF projects. Tailored fiscal tools and mechanisms can be accessed and public and private resources can be channeled effectively.

#### Global examples of PCF

**Indonesia:** The Indonesia Climate Change Fund is made up of two funds. The "Innovation Fund," which is operational and directs bilateral and multilateral grant funding from development partners and other contributors to the activities which provide indirect economic and social benefits without aiming to provide direct financial return to the participants. The "Transformation Fund," which is managed in close coordination with the Ministry of Finance, plans to utilise funding sources such as domestic funds, loans, and various types of investments which generate direct financial revenue and support the mobilisation of investment in low-carbon and climate resilient economic development. While initial funding will be provided by the government budgets and grants, it is anticipated that most funding will come from the private sector in the future (UNDP, 2011).

**Bangladesh:** The Bangladesh Climate Fund is set up to receive public national, bilateral, and multilateral contributions. Current donors include Denmark, Sweden, the European Union, and the United Kingdom. Project proposals are submitted by the ministries to the Management Committee. The Management Committee reviews the proposals to ensure that they align with the fund objectives and do not duplicate the work of other ministries. In parallel, the Fiduciary Manager, the World Bank, prepares a concept note for internal review. The World Bank team independently assesses technical, economic, financial, institutional, environmental and social viability of the project. Documents are submitted to the Governing Council and a grant appraisal mission is undertaken. The World Bank prepares a negotiations package including a Project Appraisal Document, draft grant agreement, and an invitation letter to negotiate for the review and clearance by the World Bank's Country Director in Bangladesh (GCCA, 2022).

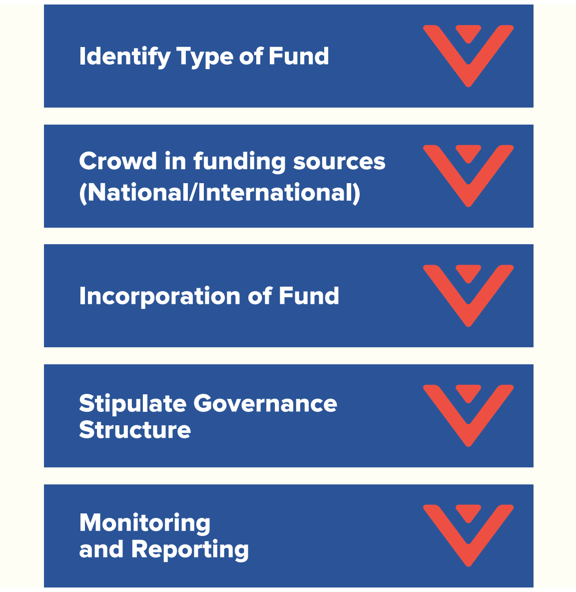
**A PCF can bring different local and international stakeholders together at a single platform to leverage additional finance, nurture partnerships, and implement climate projects efficiently.** It can pool the funds from the multi-lateral partners, private and public sector as well as philanthropic funds for the capitalisation of a PCF. Further, a PCF can provide a mechanism for managing partnerships by clearly defining and coordinating the roles of various climate change stakeholders. The PCF can complement and support the management of relationships with other financing mechanisms, such as those under GCF, GEF, AF, the Federal Ministry of Climate Change, and the provincial departments mandated to undertake climate action, such as agriculture, energy, and irrigation. The PCF can provide a coordinated project approval and implementation structure for climate change projects with certain uniform project cycle guidelines which clearly outline the technical eligibility requirements supporting streamlined operations.

**A PCF can supply systems to ensure that quality standards are met throughout its operations**. It can allow liaising up with project developers, who are building the afforestation projects, and those consulting engineering firms that are working on rehabilitation and repairs of irrigation systems. Professional consultants can be funded under the same fund for project preparedness and offer policy assurance through social and environmental safeguards, and financial controls. Lastly, the PCF can become an important source of knowledge and information management that consolidates and disseminates lessons from climate change projects and programmes. The exchange of such information can build capacity, help projects implement good practices, and spur innovative solutions to implement country-driven priorities on climate change.

## Implementation Roadmap

Following is the implementation roadmap for setting up PCF:

Figure 8 - Implementation Roadmap for Climate Fund




1. National climate funds can vary considerably in terms of objectives, legal status, type of fund, trustee arrangements, capitalisation, and beneficiaries. The Government shall start with identifying the type of fund which is the best suited for current financial landscape of the provinces. Few types of funds may include endowment, revolving, and sinking funds *(detailed below)*.
   a. A fund is considered an endowment fund when the principal capital is kept in perpetuity and not consumed under any circumstances and only the investment income is used to provide grants.
   b. Revolving funds are those in which the principal capital and the investment income (if the fund is invested) are consumed entirely but a replenishment source (a tax or external source) exists and contributes regularly to the funds.
   c. A sinking fund consumes the principal capital and investment income (if the fund is invested) over a fixed time period.
2. Once the type of fund is identified, the GoPb needs to identify and subsequently engage with actors who feed investment or capital into the fund. The capital can come from international (bilateral and multilateral) and domestic sources including the Government budget and private sector. The sources of finance can also be mobilised through development partners and vertical global funds such as Green Climate Fund. The private sector can also provide climate finance through 1) a direct (cash) contribution to a national fund in the form of voluntary contribution or corporate social responsibility programmes, or 2) a contribution to private investments in projects that aim to lower greenhouse gas emissions and/or increase climate resilience.
3. The establishment of a national fund requires a legal basis, and the government shall incorporate or otherwise, legalise the fund as an entity as prescribed by law.
4. In Provincial funds, a trustor (usually hailing from the development partners and/or provincial governments on behalf of their constituents) can entrust a legal responsibility to a trustee for management and oversight of the assets and financial resources. The government needs to develop or to stipulate a governing body with a board of directors and a management team for the fund. The beneficiaries of national funds for climate change can include civil society, non-governmental organisations, local communities, sector ministries, local governments, and private

actors. The Fund design shall clearly stipulate the beneficiaries of the funds.

5. Once the PCF is established, the governing body shall manage the fund focusing mainly on reaching to the intended beneficiaries and ensuring transparency, effectiveness, and results-based implementation.

### 5.1.2 Tapping into voluntary markets and CDM financing

**One of the potential areas for the GoPb to mobilise additional financing aggressively is through Voluntary Carbon Markets (VCM) and Clean Development Mechanisms (CDM).** The VCM and CDM are the main means by which a developing economy, such as Punjab, can participate in the international carbon market. As per UNFCCC, the CDM allows developed countries to meet commitments of the Kyoto Protocol to “implement emission-reduction projects in developing countries”. The saleable certified emission reduction (CER) credits resulting from the projects can be counted towards a developed country’s commitment fulfillment. Additionally, Article 6 of the Paris Agreement recognises voluntary cooperation between nations as a means to achieve NDCs; the parties can engage in cooperative approaches which use internationally transferred mitigation outcomes (ITMOs) towards NDCs. The Voluntary Carbon Market also provides companies and individuals the opportunity to meet voluntary net-zero or corporate responsibility targets through the purchase of Verified Emission Reductions.

The CDM is a part of the compliance market and is facilitated by the cap-and-trade system allowances established in the Kyoto Protocol. The voluntary market on the other hand is facilitated by the project-based systems. In terms of regulation, national/regional/international carbon markets regulate the CDM. This means that for Pakistan to access the CDM, the designated National Authority must have adequate capacity, policy, and frameworks in place to facilitate carbon trading. The VCM bypasses this requirement as third parties such as Verra, Gold Standard, Verified Carbon Standard Programme can be directly engaged for project verification and credit issuance. The common projects for CDM are primarily renewable energy, methane reduction, and energy efficiency projects. Whereas the common projects for the VCM are renewable energy, nature-based solutions, waste management, and energy efficiency.

**Voluntary markets have enormous potential, as it is expected to grow up to USD 100 billion by 2030.** The demand for offsets in the VCM is primarily driven by the companies having CSR and ESG standards pertaining to emission mitigation, carbon neutrality, and net-zero. Big corporates in Punjab, such as Tetra Pak, Unilever, and other FMCG companies are potential customers for provincial projects through the VCM. Although offsets in the compliance market have greater value, the VCM provides greater flexibility in monitoring, setting standards, and developing methodologies.

**For Punjab to effectively participate in the international CDM markets and run successful mitigation projects, the government must demonstrate the skills and resources to manage the CDM registration and other procedures**. Depending on their role, they must be able to develop, implement, and run a CDM project, as well as monitor and evaluate it. At the provincial level, the experts and planners who are responsible for identifying strategic opportunities in certain sectors must have a good understanding of the Kyoto Protocol and the UNFCCC mechanisms. The local governments must be aware of the opportunities which can aid their development projects in irrigation, agriculture, afforestation. They should also know how they can benefit from carbon finance. They also need to have the capacity to manage this source of funds.

**For the GoPb to effectively participate in global CDM or voluntary markets, it must have policies to support CDM projects which can reduce emissions and contribute to the country’s development.** This may require promoting the CDM projects which have significant developmental benefits, and are especially developed in line with local development plans (such as solarisation programmes of large industrial units). A favourable investment climate can be provided to project developers, including the private sector, to undertake CDM activities in Punjab. Establishing clear laws and regulations will become an essential part of this; without this framework, project developers will feel they have little security as they will not know which activities will be approved and supported, and which regulations they will have to observe.

#### Implementation Roadmap

**The GoPb assumes the role of a project developer and hence it identifies, develops, and implements projects which reduce GHG emissions in the Punjab’s context.** For example, the GoPb may participate in an afforestation activity so that it captures carbon or rehabilitates canal irrigation system which provides greater food security and climate resilience. Such projects can be undertaken either on standalone basis or on a PPP mode. The CDM project may be linked to a greater afforestation activity, thereby reducing the amounts of emissions produced. In such examples, the GoPb can sell emission reduction credits through the CDM. The GoPb can also work in partnership with

UNDP and the Ministry of Finance to develop SDGs Investment Project Development Facility to facilitate development and execution of climate related projects.

**The GoPb can nurture and facilitate local government and private sector to identify and execute tailored climate change projects.** The CDM projects often take place in areas under the jurisdiction of local authorities, such as Punjab Government itself, and can be deployed in both urban areas and rural areas. This gives local government an opportunity to act as a facilitator and ensure that the needs of the communities are met through these projects. Such needs include an improved canal infrastructure, greater food security, cleaner air through afforestation activity, clean water supply, energy provision, and safe disposal of waste. The GoPb can also promote the participation of the private sector in CDM projects in their areas, by directly inviting them to invest in specific projects under a PPP mode and indirectly by creating an environment conducive to private sector investments.

As suggested by the World Bank (Sey, 2009), some other specific roles that the GoPb can play include:

Figure 9 - Streamlining CDM Projects


1. Ensuring to undertake those projects which are aligned with the SDGs agenda, and do not have negative impacts on the environment and social values. It can ensure that the interests of the needy and minority groups are included in project planning and design.
2. Assisting small community projects by bundling them together across dispersed community groups so that they can jointly access carbon finance. This reduces overhead costs for small projects.
3. Partnering with districts and tehsils to develop the CDM projects; in such a case, provincial government will play a dual role of developer and facilitator.
4. Identifying potential investors/developers to undertake the CDM projects or to partner with communities.
5. Establishing a sound governance mechanism to overlook project development under CDM markets.
6. Translating funds received from carbon finance activities to local communities for their own upliftment projects.

## 5.2 Impact Investing for Social Good

**The GoPb can support development of a pipeline of investment-ready projects and social enterprises that can increase jobs, achieve SDGs, and create an enabling environment for broader impact driven positive externalities.** In India, for instance, from 2011 to 2016, cumulative impact investment capital amounted to USD 4 billion, and the sector is estimated to be able to attract USD 6 billion to USD 8 billion annually by 2025 (Akhter, 2017). This was achieved through establishment of Impact Investors Council (IIC) in 2014 which was a self-regulatory body aimed at formulating government policies, regulations, and standards for impact investing.

**There is a need for the GoPb to target its advocacy and planning efforts to push for strategies which enable impact investment across broad realm of SDGs financing.** The GoPb can advocate polices which support mobilisation of private sector funds while it also seeks to create demand for capital from investment-ready social enterprises that are available across Punjab in for-profit and not-for profit sectors. Different platforms in the forms of workshops and conferences could be organised for advocating these policies. Additionally, the Government can engage with multiple stakeholders as knowledge-sharing partners.

**So far, the scale of impact investments in Punjab remains relatively small.** To fully leverage its potential, the GoPb needs to convince investors to pursue impact investments whether they are available in for-profit or social sectors. Few of the impact organisations that exist in Pakistan and can play a vital role in the landscape of Punjab are Acumen Fund Pakistan and Karandaaz Capital. These social enterprises can become the foundation of the impact investing landscape in the province and their ability to use technology can scale progress toward the SDGs and make them attractive to investors seeking a dual social and financial return.

The GoPb can add significant value to impact investing efforts through variety of ways.

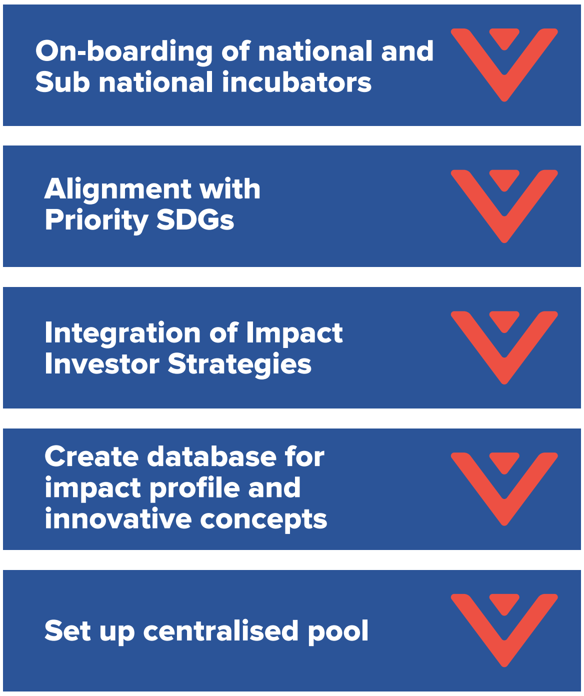
### 5.2.1 Nurture pipeline of investible impact businesses

**There is a need to nurture impact-driven businesses to a point where they are visible to private sector impact driven funds and they are investment-ready to scale up.** Some governments have undertaken such ventures by launching incubators or accelerators which helped social businesses develop investable projects or business models that delivered goods or services. Though Punjab has a number of incubators and accelerators, there is a greater need to provide them more than just free space and mentoring opportunities. Instead, there is a need to i) showcase their potential to impact investors through preparation of business plans, pitch decks, and impact profiles, and ii) demonstrating their potential through a centralised pool of verified businesses on internet with founder profiles that can be easily accessed by potential impact firms. This could further be complemented by national and international roadshows to showcase the business and impact potential of these impact businesses to local and international institutional investors.

**Partnering with incubators and accelerators can help many and would enable the GoPb to transfer many of the responsibilities in developing the pipeline of impact investment opportunities and demonstrating them on a public portal.** Generally, incubators provide support to early-stage nonprofits and social enterprises so that they can attract seed funding and make a Minimum Viable Product (MVP). Accelerators perform many of the same services with a focus on helping them grow rapidly. Regardless of the focus, both can help impact enterprises become investment-ready or develop services which provide considerable ESG returns. Such responsibilities, such as identifying promising ideas, conducting due diligence, linking concepts with knowledge and resources, and helping structure investment pitches and business plans, require skills beyond what the GoPb can provide and are technically difficult to provide on a long run. By sponsoring incubators and accelerators, however, the government can encourage these processes and achieve results quickly.

#### Implementation Roadmap

Figure 10 - Implementation Roadmap for Pipeline on Impact business




1. Collaborating and nurturing partnership with Public and Private Incubators at national and provincial levels.
2. Aligning SDGs based impact profiles of different businesses to the requirement of prioritised SDGs targets in Punjab SDGs Framework.
3. Integrating the directional targets of impact investors in these requirements. For instance, currently Acumen is mostly investing in energy and agricultural domain.
4. Developing innovative concepts and their impact profile for the impact investors to look at.
5. Developing and maintaining a centralised pool of verified businesses on internet with founder profiles which can be easily accessed by potential impact firms.

## 5.3 Private Sector in Healthcare Delivery

**Leveraging the GoPb's commitment to enhance healthcare through technology and private sector participation to help overcome gap in healthcare delivery services.** Currently, Pakistan spends about PKR 134 billion on health, which corresponds to the largest spending i.e., 45% of total expenditure on health among all provinces. The COVID-19 pandemic has led to increasing dependence upon digital platforms to ensure delivery of healthcare services further providing opportunities to the private sector to innovate disruptive solutions that employ the increasing mobile phone and internet coverage to reach the customers beyond Lahore, Faisalabad, and Multan.

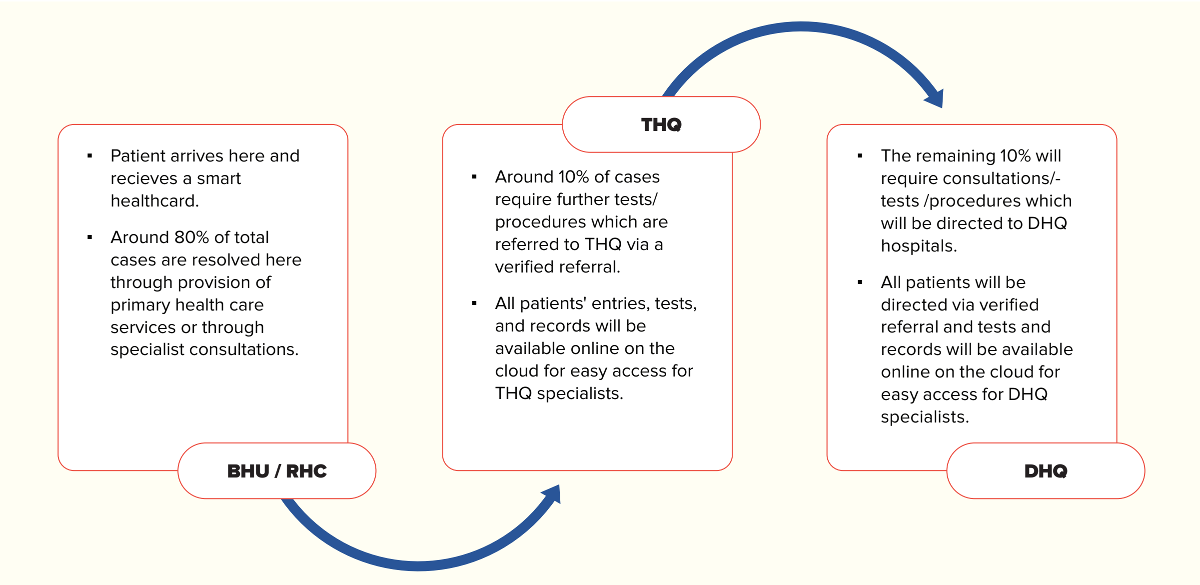
Below are the two innovative financing strategies to provide healthcare to the people of Punjab:

### 5.3.1 Telemedicine under Public-Private Partnership

**Generally, with population concentrated in villages and small towns, the medical services are far from sufficient, especially in South Punjab.** To consult a specialist doctor, people of rural areas have no choice but to travel far-off distances, spend from savings set aside for other specific and critical emergencies and devote long hours in transit from one town to another to consult a doctor in a DHQ/THQ hospital. Many a times, with poor road conditions, long distances, and traffic, these patients are unable to meet a concerned doctor on the day of appointment which further aggravates health conditions and increases total costs.

**A telemedicine project can provide an answer to growing healthcare needs with staff concentrated largely in urban areas and patient needs in rural areas.** According to estimates, urban centers in Punjab (especially, large cities) are home to almost 80 percent of the doctors despite having less than 30 percent of the total population. Scarcity of high quality trained medical professionals for different cadres such as specialist doctors and trained nurses has limited the reach of healthcare delivery models in Punjab. A telemedicine project can be procured on a public-private partnership (PPP) basis, with PPP Authority and the Punjab Health Department coming together as procuring and implementing agencies. Based on an emerging need amidst the COVID-19 pandemic in Punjab, the need for telemedicine technology coupled with cloud-based logistics can provide a needed impetus in delivering services in an efficient and effective manner.

Figure 11 - Process Flow of Telemedicine in Punjab




**Using telehealth and cloud storage facility, the GoPb would realise an immediate value for money (VFM).** On qualitative basis, this will result in an improved healthcare resource optimisation, complete transparency, and improved access to secondary care. On quantitative basis, the GoPb can see a decrease in cost per patient visit by more than 50% (as has been witnessed globally) with a net savings coming from reduced allocation for brick-and-mortar hospitals as deployed under the ADP and complete cost trails available for medicine utilisation and hospital equipment. Overall, the Government can witness a high VFM due to savings realised in infrastructure cost (less brick-and-mortar investments on physical facilities) and greater access to healthcare data that can be used to plan for improved health outcomes in the future along with improvement in vital indicators such as improved doctor to patient and nurse to patient ratios over the period of a long-term concession.

Table 8 - Savings under PPP-based Telemedicine Network for SDGs Agenda

| Item | Current Issues | Value for Money |
|---|---|---|
| Increasing utilisation of government health services. | An assessment of the utilisation rates shows low utilisation rates of the GoPb facilities. | A continuous on-demand telemedicine programme can result in higher utilisation of the government facilities with majority of health concerns resolved in a single consultation. |
| Improved primary care at the doorstep of every patient. | Primary and secondary care hospitals are poorly utilised due to acute shortages of staff and drugs and poor maintenance of facilities and equipment. | Patients will obtain primary healthcare at their doorstep and will be able to consult a specialist doctor without the need to travel to large cities and spending time and resources. |
| Strengthening the referral system | Patients mostly tend to crowd into the rural health facilities for outpatient visits, rather than utilising the more peripherally located BHUs, thereby pre-empting the referral chain. | A private operator's telemedicine network will encourage verified referral. This will reduce the disproportionate burden at each level and will increase productivity through patient summary easily accessible in the cloud to all stakeholders. |
| Improving healthcare planning through a data driven approach | Punjab has a large population and with the scope of development projects being expanded to include re-structuring of the health care system, there is a need for data-driven approach. | The GoPb will be able to strengthen its healthcare system with first-hand data, driven by analytics and up to date geographic and clinical data, helping it to make prudent and viable long-term solutions. |
| Increased monitoring and evaluation | Improved monitoring and evaluation are required to tackle systemic inefficiencies such as low attendance of doctors at various BHUs/RHCs and avoiding pilferages such as supplies and drugs theft, over-billing, and charging etc. | The GoPb will be better able to monitor doctor's attendance reports, resource consumption reports, and real-time analytics on drugs and supplies consumed, giving full transparency to the entire process. |
| Improved human resource development | Doctor patient ratio has long been an issue in the delivery of primary health care services in Punjab. The trend is further widening with increased population. | The year-round training at all facilities can help develop and groom students for an improved human resource development in the province. |

## Implementation Roadmap

1. This project can be structured as an all-inclusive PPP model. Through the project, a private operator can provide the GoPb an all-encompassing solution based on monthly subscription charges for a concession period of 10 years through a management contract. The PPP contract will allow the GoPb to transact the service delivery through a single PPP concession instead of transacting with multiple vendors and contracts. The bundled service can include:
    a. All hardware deployment and maintenance (including insurance and hardware replacement for the life of the contract).
    b. Deployment of cloud-based telemedicine software across all facilities.
    c. Training of healthcare professionals on telemedicine.
    d. Community mobilisation at grassroot level to encourage early adoption.
    e. On demand, continuous service support and all upgrades.
    f. Provision of data in real-time environment for improved monitoring and evaluation.

2. To ensure greater transparency to the Government, the PPP contract can propose a monthly, all-inclusive subscription charges for each facility, which can be reflected in the contract financial model. The pricing of the model can be such that it is higher for DHQs and THQs and lower for BHUs and RHCs.
3. To make the project attractive, the GoPb can handover healthcare facilities in any number of batches they like, for instance, 200 in year one, 200 in year two and 100 in year three or all 500 in year one or in any other way the Government finds most appropriate. Further, the contract can be structured under annuity mode with the Government annuity amount due for each facility starting from the date of technology deployment/ COD. Such a flexible structure would allow the GoPb to identify critical hotspots, ensuring flexibility of deployment in batches, and doing a careful analysis of where this may be needed the most. For any one particular district (covering all facilities from BHUs to DHQs), the deployment timings can range between 4-6 weeks.

### 5.3.2 Hospital Financing Strategy as a Structured Product

**Health care is generally a capital-intensive business and access to financing options keep hospitals in business.** With land prices in Pakistan appreciating, there are a few incentives for private sector operators to expand hospital franchises across the board and scale existing business operations. In Punjab and elsewhere in Pakistan, few hospitals today can generate enough cash flow from their operations when their financial structure is tilted towards debt financing and must fund long-term strategic investments in people, programmes, facilities, and technology. To expand, most hospitals must access external debt on a periodic basis to assure the provision of continued health care services in their communities and make commensurate returns.

**Health operators in Pakistan have been struggling to keep up with a demand for capital which has been higher than at any point in past decades.** At most, their financing strategy is 100% equity based, which is good for the cashflows of the business but limits scaling opportunities. Aging facilities, increasingly competitive markets, and new equipment and technology have been creating ever-higher capital spending requirements. Debt financing in numerous forms, including access to economical land, can help fund hospital construction activities and scale.

Following are the outlines for a structured finance mechanism to fund private sector led hospital construction activity at scale across Punjab.

#### Land Access by the Government

**The GoPb can provide quick access to land for private sector healthcare facilities.** The GoPb invests up to PKR 25-40 billion on an average per annum to construct new hospital facilities. Instead, the GoPb can leverage a structured finance product by providing access to economical land parcels to attract private investments in hospitals in Tier 2 and Tier 3 cities, to support its ambitious health for all programme, as outlined under the Punjab Health Strategy.

#### Private Sector-led Corporate Investments Backed by Affordable Construction Credit Line

**As land is made available by the GoPb, private-sector hospitals will be invited to design, build, and finance construction of hospital facilities all across Punjab with affordable credit lines.** This will include investments made directly by corporate functions or via corporate venture funds or comparable mechanisms with the aim of channeling funding into construction of hospital facilities. This can include philanthropic grants and loans as well as commercial and sub-commercial returnable capital that can incubate or accelerate construction of small, medium sized, and large hospital construction across Punjab. Investors can also leverage *builder finance* through direct loans by banks mandated for such a product.

#### Hospital Equipment Financed by Private Sector Leasing Companies

**Equipment financing is essential for hospital management after the cost of construction, and certified equipment's cost comes next.** Equipment financing refers to the practice of taking out a loan to pay for equipment over time. By choosing to finance equipment, hospital operators will eventually own the asset outright. This works well for organisations with strong credit and for mature technologies or for assets with a long-life expectancy. Financing is popular, in part, due to restricted capital budgets. While most equipment financing is collateralised debt, the loan amount may impact available line of credit. Another aspect of financing is the additional interest cost.

**Compared to traditional financing or a one-time purchase, the lease maximises the cashflow produced by the asset during the initial term of the lease.** In the medical equipment market, a typical lease term is three to five years. At the end of the initial term, private operator will have the option to purchase, renew, extend, or return the equipment. As a technologically driven field, leasing medical equipment often proves to be one of the most financially efficient ways to ensure that practice or facility has up to date equipment without tying up significant capital. Further, many organisations utilise a lease to efficiently manage their cashflow. The lower monthly payment and flexible end of term options operationalise the use of the equipment.

## De-risking Instrument Supported by Credit Guarantees

**De-risking financial institutions can play their role by providing affordable de-risking instruments tailored for hospital financing to private sector.** Full or partial credit guarantees are a de-risking mechanism whereby a company, such as Karandaaz absorbs any potential losses, such as financing supported through a leasing company, for medical equipment purchase. In effect, a typical first loss guarantee, on portfolio basis of up to 40%, can be supported by an institution such as Karandaaz, which will consequently lower the investment risks. Several DFIs, such as CDC and GuarantCo, use credit guarantees to stimulate lending to small businesses through local financial institutions. The Government can lower the cost of healthcare by providing access to economical land and ensuring that private sector takes lead in designing, building, and financing specialised hospital facilities, something that the Government cannot achieve at scale. It will ensure that market participants, such as the Bank of Punjab, Orix Leasing and Karandaaz come under one domain, bring specialised service delivery mechanisms and help the Government spur the role of innovative financing to leverage 100x financing from current levels.

## Implementation Roadmap

Figure 12 - Implementation Roadmap for De-risking Instrument


1. Special guidelines shall be formulated where the Government can allocate land on lease for hospitals to private sector through bidding and facilitating various permissions and clearances under a special window with timelines. The government can provide various land parcels as per the size of the facility, such as: Doctor Owner (30 to 50 beds), Doctor Manager Partnership-Multispecialty (100 beds) and Multispecialty (100 beds or more) to extend incentives.
2. Investors can also leverage *builder finance* through direct loans by banks mandated for such a product. For this specific product, the Government may want the BoP to take lead and assist the hospital operators to fund construction activities at a subsidised interest-rate. Such direct loans can then usually be collateralised by specific assets of the hospital (such as the building itself) but may also be secured by revenue from hospital operations (once the hospital services start). Loans may be recourse, and multi-building hospital construction loans may be set up as revolving credit lines. Private hospital firms can negotiate with the BoP with underwriting that includes the borrower's creditworthiness, collateral offered, projected operations, size of the financing facility, and previous relationships between the parties, including the past ECIB reports.
3. Bank loans can be made available to all hospitals, offering flexible structuring, and can result in lower issuance costs, if a template product is created for an entire province.
4. The Government may work closely with financing partners, such as Orix leasing company, or BoP to introduce suitable financing products focused on medical equipment, such as CT scans and MRIs which can cost several hundred thousand rupees.
5. The Government shall collaborate and partner with publicly listed companies backed by credit guarantee institutions such as Karandaaz to introduce tailored leasing instruments for medical equipment. The credit guarantee institution shall help in de-risking high capital cost of the equipment. In Kamyaab Jawan (KJ) programme, the Government of Pakistan's credit guarantee is used to encourage financial institutions to lend to creditworthy but underserved borrowers, such as individual entrepreneurs. The KJ is a partial credit guarantee that covers up to 40 percent of defaults on loans made by individual borrowers. Similarly, such a structure can be replicated for this project, which aims to strengthen access to finance for private health providers, improving their capacity to deliver high-quality health sector facilities, all on competitive basis and without the Government's support.

## 5.4 Partnering with Mortgage Refinancing for Off-take of Housing Industry

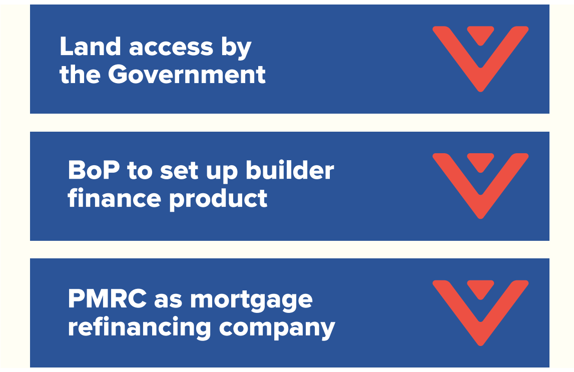
**Mortgage refinancing is critical for homeownership and off-take of housing industry.** The Federal Government launched Naya Pakistan Housing Programme in 2020, with a construction target of five million houses. A housing unit is the most valuable asset which most families possess. It needs financing in most cases. The literature suggests that there is an interdependent relationship between housing finance and capital market development with the economies having well-developed housing finance and capital markets and vice versa. Housing is central to achieving the SDGs. While housing is explicitly articulated in SDG 11 "Sustainable Cities and Communities", it is a key component of sustainable development across several goals. Good housing drives access to basic services, contributes towards inclusive growth, and supports the development of a sustainable future, with a direct impact on the factors that contribute or mediate the effects of climate change. Investment in affordable housing will therefore have a profound and direct impact on several SDGs such as SDG 9 "Industry, Innovation and Infrastructure", SDG 6 "Clean Water and Sanitation", SDG 8 "Decent Work and Economic Growth", and SDG 10 "Reduced Inequalities".

**The lack of access to credit for house builders constrains the supply side of the housing market, because builders and developers must invest more of their own capital into projects, with the result of a reduction in the size and number of projects overall.** Generally, housing projects are built on the back of project developers, both medium sized and large groups. House builders, comprised an individual or small group of investors, are often the most important providers of associated infrastructure. Most of the time, they do not have ready access to funds to build new projects and provide housing units at scale, which represents an important financing gap. Large-scale developers, particularly if they were to meet market demand, will often require bridging loans with financial institutions generally reluctant to provide them any financing based on incomplete documentation, lack of due-diligence, and imprecise sponsor profile.

### Implementation Roadmap

To avert this, the following structure has been proposed to scale up housing finance, using a structured finance approach involving group of stakeholders to come together and support a market driven housing finance product.

Figure 13 - Implementation roadmap for leveraging PMRC for Housing Off-take




**The Government can leverage a structured finance product by providing land on concessional basis to qualified builders/developers.** The SBP has already issued guidelines for financing to housing builders/developers which can be used by the GoPb to offer the government land to qualified builders/developers who meet the basic eligibility criteria along with a sound financial standing. For each identified land parcel, an auction can take place among pre-qualified builders to build a housing project on design, build, and finance basis. As a pilot case, vertical projects can be made a priority, such as up to twenty-story residential housing facility.

**The GoPb can use the BoP, or any other financial institution, as its partner for the housing product to fund pre-approved projects with construction loan.** The SBP has already mandated FIs to direct 5% of their total advances to construction sector and a list of pre-approved projects can open up the banks' finances to fund such construction projects. The construction loans extended by the BoP to pre-approved builders will normally be non-recourse loans, where the project assets are held as collateral security (by the BoP) and debt is serviced through cash flow yielded from the project. Such loans will be backed by a detailed project report, company profile, project valuation report, environmental report and cash flow projection, which can be expedited by the GoPb for selected sites. The builders will be pre-qualified with minimum experience of certain amounts of projects or minimum construction experience, such as: 100,000 sq. ft. The advantages of faster processing for a builder finance segment can be that the FIs can process the turnaround quickly, with high chances of approval, and lesser regulatory underpinnings.

**The Pakistan Mortgage Refinance Company (PMRC) can provide recourse to the BoP for its construction lending to project developers on pre-qualified basis.** For a product like this, the PMRC can provide risk coverage of up to 40% to primary mortgage financiers (such as banks, FIs) on first loss portfolio basis. The guarantee can partially alleviate the credit risk of the BoP and provide a conducive environment for them to finance pre-approved GoPb projects. Keeping in view the dynamics of mortgage market and to facilitate market growth, the scheme can be designed for both conventional and Islamic banks.

**The PMRC, as part of its solutions for housing credit guarantees, can also offer fixed rate mortgages which were neither promoted nor offered in Pakistan.** The PMRC can fill this vacuum by offering long term fixed rate financing facilities to FIs and banks, enabling them to launch fixed rate mortgages and that too on attractive rates. Overall, the PMRC's thrust can be three-fold: help reduce maturity mismatch risk for banks such as the BoP, increase availability of fixed rate mortgages and increase the maturity structure of the mortgage loans. This, in turn, would help improve affordability of mortgages but also increase the number of qualifying borrowers.

## 5.5 Infrastructure Guarantee Fund

**The GoPb's infrastructure programme has sought to address several challenges facing infrastructure investments in Punjab, including inadequate fiscal space of the federal and provincial governments and state-owned enterprises on critical infrastructure.** The Government's Medium-Term Development Framework (MTDF) 2019-20 incorporates the Urban Development that seeks to develop modern and efficiently managed urban centres to serve as engines of growth. The key priority areas within the sectors include supply of potable drinking water and its efficient use; provision of effective sewerage and drainage system; environment friendly disposal of sewage; safe roads infrastructure; provision of solid waste management services; and strategic planning for growth of cities. This puts infrastructure at the very heart of efforts to meet the SDGs. From health to education for all to access to energy, clean water and sanitation, most of the SDGs imply improvements in infrastructure. The estimated needs have been enormous (estimated at 1-2% of provincial GDP) to remove infrastructure bottlenecks in Punjab.

**Several policy and institutional challenges have been impacting the progress in turning the PPP project pipeline into the realised PPP transactions in Punjab.** Key challenges for the PPP Authority include poor quality of feedback by line agencies on project preparation, weak institutional capacity within line agencies, pre-financial close risks which impede project turnaround, e.g., delays in environmental and social safeguards systems, delays in provision of land, procurement issues, inability of provincial and federal governments to guarantee minimum revenues in volume based infrastructure projects, absence of a consistent and transparent framework for a PPP guarantee mechanism, and lack of depth of domestic capital markets to provide long duration and limited and / or non-recourse project financing.

The following structured finance product is recommended to alleviate critical issues pertaining to current infrastructure projects under the PPP regime.

### Setting up an infrastructure guarantee fund

**To aid mobilisation of capital markets for infrastructure projects, it is suggested to create a Punjab Infrastructure Guarantee Fund (IGF) as an institution to facilitate PPP Authority to access project financing on long-term tenor basis.** It is important to note that a proposed guarantee fund will not be an implementing agency for the PPP projects which will continue to remain with the PPP Authority in coordination with the line agencies. For each project, the PPP Authority can make an inquiry to the IGF regarding potential guarantee coverage, in response to which the IGF can provide the PPP Authority with a comprehensive guidance package including eligibility criteria, detailed checklist for the package, as well as environmental and social safeguards requirements. The IGF provides guidance and consultations to the PPP Authority to help understand the process, PPP regulation, guarantee mechanism, role and requirement for guarantee appraisal etc. on the basis of which the PPP Authority may submit a guarantee application package to the IGF. Once the PPP Authority submits its application package for a project, IGF can: (i) screen the PPP Authority's submission to determine whether the project is eligible to proceed and what risks need to be covered; (ii) conduct a detailed appraisal on whether to provide guarantee, based on PPP Authority's feasibility study and the IGF's own due diligence; (iii) structure the guarantee package; (iv) issue the guarantee, and subsequently, monitor the project during construction and operations to ensure that the relevant parties implement the project according to their respective responsibilities under the concession agreement. In the event of a guaranteed call, the IGF will undertake claim assessment and make the associated guarantee payment to the concessionaire and will have a recourse mechanism that subsequently enables the IGF/Finance Division to recover such payments from the concerned line agency.

## IGF can provide risk mitigation and credit enhancement mechanism

A Punjab based IGF can provide a facilitative institutional framework for off-take of infrastructure projects. A higher need to tap into long-tenor financing can ideally be provided through a VGF mechanism (already present) but supported by an IGF to quickly mobilise projects on-ground. Several countries have set up innovative local credit enhancement entities and techniques to help mobilise domestic commercial debt for subnational infrastructure finance. In Punjab, the IGF can adapt and commit to implement a guarantee appraisal procedure as well as social and environmental safeguards. In practice, this is implemented by the IGF providing advice to the PPP Authority on the PPP project preparation so that the projects meet the appraisal standards and comply with applicable regulations and criteria prior to guarantee issuance.

**Indonesia:** In Indonesia, a comprehensive model exists which focuses on encouraging the PPPs to use three specialised funds: a land-acquisition fund, a guarantee fund, and a donor-financed infrastructure-investment fund. The aim is to attract up to 70% of project funds from private sector co-investment in large projects. The Indonesia Infrastructure Guarantee Fund (IIGF) is a 100% state-owned enterprise to provide risk guarantees to investors in *public–private partnership* infrastructure projects. Its structure is designed to ensure full independence from the government, insulating IIGF from political interference. In addition, its charter intends to promote robust governance, high standards of transparency and disclosure, and total ring-fencing of its assets. For a PPP investor to obtain a risk guarantee, the contracting agency (e.g., ministry, another SOE or regional government) submits a proposal for guarantee to IIGF which is a basis of a recourse agreement between IIGF and contracting agency, and plus a guarantee agreement between IIGF and investor. Reimbursement functions as a penalty for the contracting agency, thereby encouraging discipline and accountability. The model also includes a project development facility and is currently being implemented. (Priyanka Sood, 2012)

**The IGF in Punjab can become a 'single window' to appraise infrastructure PPPs seeking government guarantees to provide consistency, clarity and standardised procedures, as well as better management of MOF fiscal risk vis-à-vis government guarantees.** Under a single window approach, the IGF can use a single set of standardised, world-class operational norms and guarantee-appraisal standards which can be developed with the help of a multi-lateral institution, such as the World Bank or the ADB.

**Independent IGF can leverage additional revenue streams and greater liquidity for infrastructure projects.** The VGF allocations are made by the GoPb on per annum basis whereas infrastructure requirements are on multi-year basis, which are not possible due to the inherent nature of the budget planning exercise. Therefore, local banks often have less visibility on the GoPb's intention to make the requisite VGF allocations. If an independent IGF comes, banks, and FIs will have greater clarity in terms of longer-term commitments that the GoPb can provide, which will consequently result in greater liquidity for the projects. Also, as an example, the GoPb currently makes investments in various PPP projects by taking on Class B equity or subordinated debt exposures. In return, the Government gets access to various dividend streams, advertisement dividends, utility dividends, and windfall revenue sharing rights etc. In addition, tolling rights are also vested with the GoPb for annuity-based projects such as urban roads, motorways and highway projects, etc. Then there will be projects where the Government will only provide land on a long-term concession and will receive revenues, which will aid its fiscal position.

## Implementation Roadmap

**An IGF may be set up with an envisioned role of an Infrastructure Investment Company.** Case in point is the Government of India's creation of the India Infrastructure Finance Company Limited (IIFCL) that provides long-term financial assistance in the form of Debt and Equity to viable infrastructure projects. The IIFCL is playing an important role in the development of infrastructure projects in India and its current outstanding portfolio comprises of loans of approximately USD 5 bn. Currently, the PPP structure in Punjab has a disparate function with PPP Authority assuming the role of an advisory arm/enabling authority to line agencies and provides requisite support on projects and how they should receive VGF support. This falls short of its envisaged objectives and simply adds a parallel layer without bringing in additional benefits which a full-fledged investment entity can bring.

**To formulate an investment company, the GoPb can undertake necessary regulatory and governance advisory on what steps can be followed to create an IGF like entity.** In Pakistan, the most relevant example is of Karandaaz. Formed under section 42 of the Company's Act, the Company's investment portfolio includes equity investments in Pakistan Microfinance Investment Company (37.8%) and HAC Agri (36.3%). To enable phase 1, it will be critical for the Government to obtain necessary advisory and re-think the regulatory and governance model wherein the PPP cell, the PPP Authority, and the IGF can exist side by side, with clear mandates to spur the development of the PPP projects. For this, it will require approvals from competent authorities, i.e., the PPP Authority Board and the Cabinet. Furthermore, this will require assessing the IGF needs with enhanced roles, defining its organisational structure and operationalising the same over and above the PPP Authority so that clear mandates can be established.

**In the medium term, and once the IGF is established itself as an institution providing guarantee support to viable infrastructure projects, it could leverage its balance sheet position to raise additional funds from the market to further channelise into PPP projects.** However, to raise additional funding in from of deposits from the general public, or from institutional investors, such as pension funds, the IGF would have to register itself under the guidelines of Non-Banking Financial Companies (NBFCs) as a deposit taking institution. Increased regulatory oversight by registering as a NBFC will not only enhance general public confidence enabling the IGF to issue certificates of deposits but also borrow from local banks and multilateral and bilateral financial institutions including the World Bank, KfW, the European Investment Bank and Japan International Cooperation Agency. It is pertinent to mention that India IIFCL was established in January 2006 and subsequently in 2013, IIFCL got itself registered as NBFC with Reserve Bank of India.

# 6. WAY FORWARD

**A key to an effective SDGs financing strategy is contextualising the SDGs financing framework to legal, political economy, and financial framework of the province.** Therefore, it is prudent to evaluate each type of strategy in detail and its possible outcomes, including both positive and negative, before transitioning to execution stage. Some of the innovative financing strategies described here have already been covered by other countries and are tested, such as the use of climate finance funds. Nonetheless, all financing strategies carry new risks and policy makers should try to understand a particular financing strategy and assess its impact to realise its full potential. One way of navigating through this most effectively is to keep close lines of communications with all the actors involved, especially the beneficiaries, and continuously incorporating their feedback at planning stage of new innovative financing instruments. For instance, in the development of Provincial Climate Fund, it would be prudent to liaise with prospective capital inducing entities to ensure that the actual design of the fund aligns with their requirements.

**The key here is to keep the objectives and the SDGs Agenda at the forefront for making any decision regarding the strategy.** This report laid out many different approaches to financing while also putting forth the benefits and risks corresponding to each approach, but it does not recommend any specific financing strategy. The GoPb may give high priority to evaluating innovative policy approaches to determine what works in their provincial context and develop effective practices to unlock an innovative financing for the SDGs agenda. Moreover, the GoPb may continuously work to explore more financing strategies and to incorporate them, based on whatever is the best suited in the provincial context.

**The GoPb must tap in additional source of fundings for SDGs through domestic international public/private finance.** The GoPb must tap financing available for the SDGs through the areas highlighted above and replicated hereunder for ready reference:

- Green Climate Fund – through this mode, funding can be availed in the form of grants or concessional loans to fund the SDG-aligned projects. From a cost perspective, concessional financing will not put too much strain on the budgets and can be termed as a low-risk transaction.
- CDM/carbon markets can be tapped to trade credits, bringing foreign exchange in the country. One such example is the Sindh Mangroves project that has successfully traded carbon credits and brought in over USD 15 million in revenue to the province of Sindh. Relevant projects in Punjab can be identified to carry out similar transactions. This is more of a trade transaction that will likely bring in foreign exchange.
- Impact investing – impact investors put equity into SDG-aligned investments that create impact whilst offering competitive returns. SDG-aligned projects with potential returns and a clear exit strategy can reach out to domestic/international impact investors for equity. Cost and risk related matters in such a transaction depend largely on negotiations.
- Infrastructure guarantee funds - through issuing guarantees can raise debt/equity at optimal terms, ensuring a minimum return and risk sharing arrangements in public private partnerships.

The additional financing should be aimed at replacing the recurring ADP budgeted every year, which in turn put additional fiscal pressure on the government.

## Coherent Financial Strategy

**Private capital can play a significant role in Punjab's financing landscape but continues to remain severely constrained.** The PGS 2023 explicitly highlights a vision to include private sector capital in financing of development priorities, such as PPPs in the housing and construction sector, innovative financing mechanisms in the agriculture sector and specific product structuring for health and SME support. Similarly, RISE framework highlights an "optimal mix of government financing, official development assistance, and private capital" for infrastructure investments in a post-COVID-19 scenario. However, these strategic documents fell short of providing details as to how such financing can be mobilised, including what the government interventions can be used to stimulate use of private sector funds and how they can be best implemented. Though there are specific interventions, such as SEZs and PSIC programmes in Punjab, a careful analysis of their achievements and progress is warranted to understand fully well how these specific initiatives have been able to mobilise private sector finance.

**There is a need from the Government to articulate a detailed financing strategy before outlining an ambitious development programme.** Without a coherent financing strategy, the Government will be slow to implement projects in time and within budget. Two things will be required:

i) An overarching financing strategy which allows for coordination of more focused financing policies, including any innovative models to achieve the SDGs agenda outlined in yearly budgets.

ii) A comprehensive capacity building plan to understand innovative finance structures and strengthening of collaboration agenda and dialogue among relevant agencies involved in the mobilisation and execution of development projects.

## Monitoring and execution of the SDGs Finance

**There is a need to build indicators and data collection process into existing monitoring frameworks.** This will allow the GoPb to track and link the volumes of financing mobilised, the outcomes generated, and the contributions made by each of the different instruments towards overarching objectives. Existing monitoring systems at the GoPb do not systematically track the outcomes that different types of financing generate or the contributions they make towards the SDGs agenda. A call to this effect can be made within the budgetary framework which can outline how each project coming under the ADP prioritisation framework will be financed; hence, it will look at the modes of financing and how various financing instruments can be used to effectively finance a project from start to completion.

## Clarify Institutional Linkages for Key Provincial Goals

**The alignment and institutional linkages could be clarified to provide a stronger foundation for short and medium-term planning and delivery.** This approach is recognized globally, which calls for seamless linkages of development strategies at all levels. Within specific examples, for instance, Malaysia has adapted a 'cascading' development strategy: a long-term vision, a ten-year economic model, a series of five-year plans and two-year rolling budgets which provide an interlinked vision for development, combined with mid-term reviews to allow flexibility and adaptation where needed. In general, there is a broad alignment between the key provincial policies, the 5-Year rolling PGS, and the ADP prioritisation framework, but ambiguities exist in how they relate to each other as well as who are the key stakeholders supposed to mobilise financing for initiatives mentioned under those programmes. For example, will the GoPb alone meet all the development expenditures? What role will the Bank of Punjab play? What are specific sectoral and transactions' targets assigned to the PPP Authority? And how will various multi-lateral and bi-lateral organisations, including institutions such as InfraZamin and the PMRC coalesce support to bridge financing gaps?

## Strengthen Governance and Co-ordination Mechanisms

**There is a need for coordination mechanisms and strengthened governance at the highest level and engagement of all stakeholders in developing strategies for diverting finances towards the SDGs.** Successful implementation of policies centres on the capacity and political will of a broad range of institutions and actors. Based on the INFF framework, there needs to be demand driven financing strategies across different sectors backed by strong political will and broad-based country ownership. Consultative processes should also engage parliament, civil society, private sector and other non-state actors. There is a need to leverage platforms for public dialogue which can generate broad-based support, while helping to better inform policymakers of stakeholders' needs and priorities. The GoPb should also strengthen cross-sectoral collaboration and knowledge exchange between and among all provincial line ministries. These ministries should also work closely and regularly coordinate with the SDGs Support Unit, especially prior development of departmental interventions before the ADP is finalised. Close coordination among these agencies can ensure optimum utilisation of available resources for achieving SDGs and doing so in time for the 2030 targets.

# 7. ACTION PLAN

As next steps for the implementation of the strategy, following is the suggested action plan along with responsibility for the relevant stakeholders and tentative timeframe to execute the strategy.

| Task/Activity | Responsibility | Timeline |
|---|---|---|
| Mainstreaming of Strategy in Provincial Budget | Finance Department, GoPb | Annual - Ongoing |
| Formation of Technical Committee of Stakeholders (Provincial Ministries, PBOI, P3A, BOP, PMRC, CSOs etc.) to chart out a financing plan | Finance Department, GoPb | Q2- 2024 |
| Initiate dialogue for setting up Infrastructure Guarantee Fund/ Provincial Climate Fund | Finance Department, GoPb (Lead Agency), Provincial departments, Banks, Donor Agencies, Infrazamin, P3A | Q2 - 2024 |
| Initiation of Accreditation of International Climate Funds (GCF, GEF, Adaptation Fund) for project financing | Finance Department, GoPb, Planning & Development Department, MOCC | Q2 -2024 |
| Identification of project pipeline | Finance department (Lead Agency), Planning & Development Department, PBOI, P3A, BOP, CSOs | Ongoing Activity starting from Q3 2024 |
| Capacity building for development of viable project proposals | Donor Agencies, Private Sector firms | Ongoing Activity starting from Q3 2024 |
| Preparation and submission of Funding Proposals | Finance Department, GoPb (Lead Agency), relevant Provincial departments, BOP/Banks, GCF-accredited entities | Ongoing Activity starting from Q3 2024 |
| Develop/Review monitoring mechanism/framework | Finance Department, GoPb (Lead Agency), Donor Agencies | Q4 – 2024 to Q4 2025 |

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