

# **BLENDED FINANCE FRAMEWORK**



**Ministry of Planning, Development  
& Special Initiatives  
Government of Pakistan  
2026**

## Table of Contents

LIST OF FIGURES .....	2
LIST OF TABLES .....	2
LIST OF ABBREVIATIONS.....	3
CHAPTER 1: AN INTRODUCTION TO THE BLENDED FINANCE FRAMEWORK .....	5
CHAPTER 2: LEGISLATIVE AND REGULATORY PROVISIONS AND FOUNDATIONS.....	10
CHAPTER 3: GUIDANCE ON FINANCING INSTRUMENTS AND STRUCTURE .....	14
CHAPTER 4: BLENDED FINANCE FRAMEWORK PREPARATION AND APPROVAL PROCESS.....	30
CHAPTER 5: RISK MANAGEMENT AND FISCAL SUSTAINABILITY.....	40
CHAPTER 6: THE ROLES AND RESPONSIBILITIES OF PLANNING COMMISSION.....	45
CHAPTER 7: INSTITUTIONAL ROLES AND GOVERNANCE.....	50
ANNEX 1: BLENDED FINANCE ELIGIBILITY AND READINESS ASSESSMENT FORM .....	54
ANNEX 1-A: ELIGIBILITY AND READINESS ASSESSMENT FOR GREEN BONDS/SUKUKS.....	56
ANNEX 1-B: ELIGIBILITY AND READINESS ASSESSMENT FOR CARBON MARKET MECHANISM.....	58
ANNEX 1-C: ELIGIBILITY AND READINESS ASSESSMENT FOR DEBT-FOR-NATURE/CLIMATE SWAPS .....	60
ANNEX 1-D: ELIGIBILITY AND READINESS ASSESSMENT FOR PUBLIC PRIVATE PARTNERSHIPS (PPP).....	62
ANNEX 1-E: ELIGIBILITY AND READINESS ASSESSMENT FOR SOVEREIGN AND MARKET BASED GUARANTEES .....	64
ANNEX 2: PROJECT APPRAISAL TOOLKIT FOR ECONOMIC WING .....	66
ANNEX 3: SINGLE WINDOW FOR CARBON FINANCE FOR DEVELOPMENT PROJECTS.....	78
ANNEX 4: CARBON FEASIBILITY AND ROADMAP .....	80
ANNEX 5: DRAFT TEMPLATE OF SERVICE LEVEL AGREEMENT .....	82
ANNEX 6: MONITORING AND EVALUATION FRAMEWORK FOR BLENDED FINANCE TRANSACTIONS.....	86

## List of Figures

Figure 1 Why Blended Finance? .....	5
Figure 2 The Structure of Blended Finance Pools in Capital .....	7
Figure 3 Key Definitions Under Blended Finance Framework .....	8
Figure 4 Blended Finance Framework: Outcome, Outputs, Implementation, and Impact .....	9
Figure 5 Alignment of Blended Finance Framework with Article 166 & Regulatory Bodies .....	12
Figure 6 BFF Instrument Map .....	14
Figure 7 Working Mechanics of Debt for Nature/Climate Swaps.....	21
Figure 8 Scope of Public Private Partnerships (PPP) .....	24
Figure 9 Key Design Aspects of Guarantees .....	25
Figure 10 Guiding Principles for the Blended Finance Framework.....	28
Figure 11 Project Screening Approval Process Flow Under BFF.....	39
Figure 12 Functions of Planning Commission in Operationalizing BFF .....	46

## List of Tables

Table 1 Key features of existing laws and provisions .....	10
Table 2 Alignment of Key National Strategies with the Blended Finance Facility (BFF) .....	13
Table 3 Key Features of Green Bonds/Sukuks .....	16
Table 4 Key Concept in Carbon Market Mechanism .....	20
Table 5 Government of Pakistan’s Best-Fit Blended Finance Instruments by Sector.....	30
Table 6 Multi-Year Lifecycle of a Blended Finance Project.....	31
Table 7 Fast-Track Approvals for Financial Instruments.....	35
Table 8 Risk Allocation and Mitigation Measures in Blended Finance Projects .....	42
Table 9 Summary of the Committees and Approval Forums for BFF .....	47
Table 10 Eligibility Criteria for Green Bonds and Sukuks.....	56
Table 11 Assessing Capacity to Operationalize Climate Finance Instruments .....	57
Table 12 Eligibility Criteria for Carbon Credit Generation .....	58
Table 13 Assessing Institutional Capacity for Carbon Finance Structuring.....	59
Table 14 Eligibility Criteria for Debt-for-Climate/Nature Swaps .....	60
Table 15 Evaluating Preparedness for Inclusion in Sovereign Debt Swap Dialogues .....	61
Table 16 Eligibility Criteria for PPP Structuring under BFF .....	62
Table 17 Institutional and Technical Readiness for P3A Progression .....	63
Table 18 Eligibility Criteria for Guarantee-Based Financing under BFF .....	64
Table 19 Structuring Guarantee Instruments under the BFF .....	65
Table 20 Review Checklist: Green Bonds and Sukuk .....	67
Table 21 Recommended Actions Post-Eligibility Screening - Green Bonds and Sukuk .....	67
Table 22 Review Checklist - Carbon Markets .....	69
Table 23 Recommended Next Steps Post-Eligibility Screening – Carbon Markets.....	70
Table 24 Review Checklist: Debt for Nature/Climate Swaps .....	73
Table 25 Recommended Next Steps Post Eligibility-Screening – Debt for Nature / Climate Swaps .....	73
Table 26 Review Checklist: PPPs.....	74
Table 27 Recommended Next Steps Post-Eligibility Screening - Public Private Partnerships .....	75
Table 28 Review Checklist: Sovereign and Market Based Guarantees .....	76
Table 29 Recommended Next Steps Post-Eligibility Screening - Sovereign and Market Based Guarantees.....	77
Table 30 Article 6 Mechanisms and Voluntary Carbon Market Overview.....	78

## List of Abbreviations

Abbreviation	Full Term
ADP	Annual Development Plan
APCC	Annual Plan Coordination Committee
BFF	Blended Finance Framework
CACF	Climate Action Catalyst Fund
CDWP	Central Development Working Party
CERs	Certified Emission Reductions
CCP	Concept Clearance Proposal
DFIs	Development Finance Institutions
DMCC	Debt Management Coordination Committee
DMO	Debt Management Office
EAD	Economic Affairs Division
ECC	Economic Coordination Committee
ECF	Energy Conservation Fund
ECNEC	Executive Committee of the National Economic Council
EIA/SIA	Environmental and social impact assessments
ERPA	Emissions Reduction Payment Agreement
ESG	Environmental, Social and Governance
FCCL	Fiscal Costs and Contingent Liabilities
FRDL	Fiscal Responsibility and Debt Limitation
GHG	Greenhouse Gas
GoP	Government of Pakistan
GS	Gold Standard
IFI	International Financial Institutions
ITMOs	Internationally Transferred Mitigation Outcomes
LoA	Letter of Authorisation
M&E	Monitoring and Evaluation
MRV	Monitoring, Reporting and Verification
MoPDSI	Ministry of Planning, Development and Special Initiatives
MoCC&EC	Ministry of Climate Change and Environmental Coordination
MoF	Ministry of Finance
MTBF	Medium-Term Budgetary Framework
MTFF	Medium-Term Fiscal Framework
NAP	National Adaptation Plan
NCFS	National Climate Finance Strategy
NDCs	Nationally Determined Contributions
NOC	No Objection Certificate
NPV	Net Present Value
P3A	Public-Private Partnership Authority
PACM	Paris Agreement Crediting Mechanism
PC	Planning Commission
PCGC	Pakistan Credit Guarantee Company
PCN	Project Concept Note
PDWP	Provincial Development Working Party
PDF	Project Development Fund

<b>PFM</b>	Public Finance Management
<b>PFMU</b>	Public Financial Management Unit
<b>PIN</b>	Project Idea Note
<b>PPAs</b>	Power Purchase Agreement
<b>PPRA</b>	Public Procurement Regulatory Authority
<b>PPP</b>	Public Private Partnership
<b>PSDP</b>	Public Sector Development Programme
<b>PQP</b>	Project Qualification Proposal
<b>RBF</b>	Results-based finance
<b>RE</b>	Renewable Energy
<b>SBP</b>	State Bank of Pakistan
<b>SECP</b>	Securities and Exchange Commission of Pakistan
<b>SEZ</b>	Special Economic Zone
<b>SLAs</b>	Service Level Agreements
<b>SMEs</b>	Small Medium Enterprises
<b>SOEs</b>	State-Owned Enterprises
<b>SPVs</b>	Special Purpose Vehicles
<b>TCAF</b>	Transformative Carbon Asset Facility
<b>VCM</b>	Voluntary Carbon Market
<b>VERs</b>	Verified Emission Reductions
<b>VGF</b>	Viability Gap Funding
<b>VCS</b>	Verified Carbon Standard
<b>WAPDA</b>	Water and Power Development Authority

# Chapter 1: An Introduction to the Blended Finance Framework

## 1.1 Introduction

The global macroeconomic outlook for 2026 and onwards remains uncertain marked by subdued growth, inflationary pressures and constrained fiscal conditions. Pakistan will be no exception. The country is navigating fiscal challenges that continue to limit the Government of Pakistan's (GoP) capacity to adequately finance its growing development needs. High public debt levels, combined with limited fiscal space have placed increasing pressure on the federal Public Sector Development Program (PSDP). At the same time, the demand for climate-resilient infrastructure, enhanced social protection, and improved service delivery is steadily rising. Compounding these challenges, Pakistan faces escalating climate risks that threaten to erode development gains and impose additional fiscal pressures through increased disaster response spending and long-term adaptation investments.

To better respond to emerging realities, the GoP is shifting towards a framework of tapping into new sources of capital. Innovative financing mechanisms, such as blended finance, is gaining greater importance and offers a practical and results-oriented pathway to mobilize additional resources. They also provide key reasons as to why blended finance must be formalized in government planning and processes (Figure 1). When used prudently, blended finance instruments can enable the government to stretch limited fiscal resources, reduce reliance on external debt and improve the bankability of climate-aligned infrastructure.

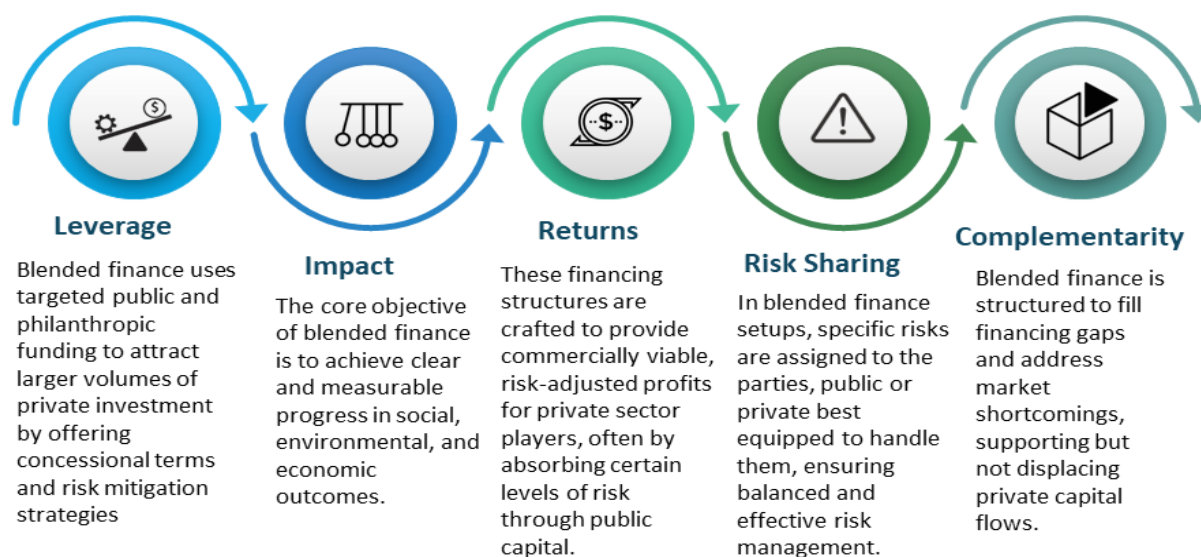


Figure 1 Why Blended Finance?

The Blended Finance Framework (BFF), designed, serves as a practical tool for integrating blended finance into the federal planning and appraisal process. It integrates Pakistan's national development priorities with its climate commitments (NDCs and NAPs) and aims to strengthen public financial management as a whole. The GoP intends to use this framework by integrating additional funding instruments into project planning and to attract private investment and support fiscal sustainability over time.

## 1.2 Background

With fiscal pressures mounting and the need for climate-resilient infrastructure rising, Pakistan is moving toward a more diverse development financing strategy. Traditional sources, while still relevant, must be augmented by new instruments capable of unlocking additional capital and delivering sustainable outcomes. While traditional financing sources and external concessional borrowing remain central, they are insufficient to meet the scale of investment required to achieve Pakistan’s development and climate objectives. What is most important is the development impact of these projects, which must be curated to demonstrate key impacts with end users in mind.

Against this backdrop, the PC in collaboration with key institutional partners, has developed the blended finance framework (BFF) to guide the systematic application of 5 instruments (carbon markets, green bonds/sukuks, debt-for nature swaps, public-private partnerships and guarantees) within the public investment processes.

## 1.3 Purpose, Aim and Objectives

The BFF is designed to assist federal ministries, implementing agencies and public sector entities in identifying, assessing and integrating blended finance instruments into development projects that align with Pakistan’s national priorities, including climate adaptation and mitigation, infrastructure investment and fiscal sustainability.

Designed to help mobilize new sources of development finance, the Framework also ensures adherence to key legal and regulatory standards, such as the Public Finance Management (PFM) Act 2019 (amended), the Fiscal Responsibility and Debt Limitation (FRDL) Act 2005 (amended), and the Planning Commission’s protocols for project appraisal and approval, including the new Manual for Project Development (2024) and associated climate risk screening handbook.

The BFF does not replace existing fiscal governance mechanisms or public investment procedures. Rather, it complements them by embedding a coherent approach for evaluating blended finance options at the earliest stages of project planning and preparation. It offers instrument-specific guidance, project eligibility criteria, compliance summaries and appraisal tools that support effective coordination between PC, the Debt Management Office (DMO) at the Ministry of Finance, the Economic Affairs Division (EAD), Securities and Exchange Commission of Pakistan (SECP), the State Bank of Pakistan (SBP), Federal Public-Private Partnership Authority (P3A) and other relevant agencies. As illustrated in Figure 2 below, the BFF facilitates the strategic combination of diverse capital sources, including public, private, philanthropic, and international financing, to strengthen project bankability and broaden the funding base.

To achieve these objectives, the Framework guides users through the blended finance journey in a clear sequence. It first sets out the legislative and regulatory foundations that govern all transactions (Chapter 2). It then presents the instruments available under the Framework and explains how to assess project eligibility and readiness (Chapter 3). Next, it describes the step-by-step development and approval process (Chapter 4). Guidance on risk management follows (Chapter 6),. Chapter 6 also defines the roles of the Planning Commission/Ministry of Planning, Development and Special Initiatives, while Chapter 7 sets out the responsibilities of other stakeholders.

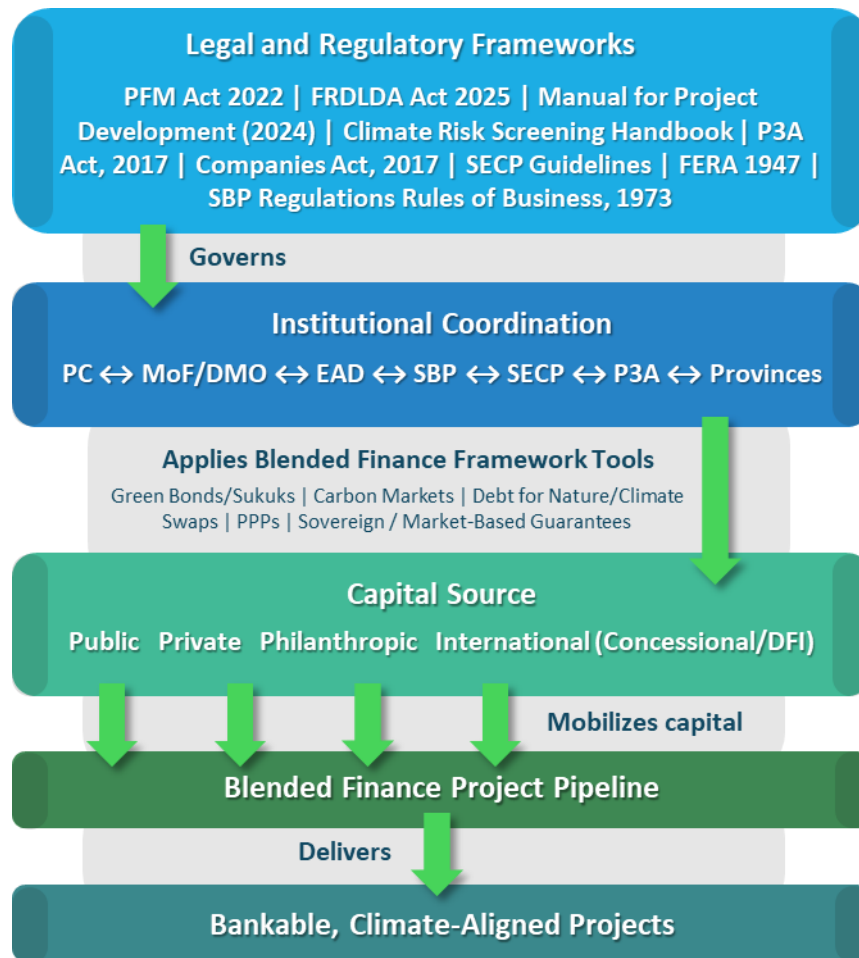


Figure 2 The Structure of Blended Finance Pools in Capital

#### 1.4 Strategic Nature of this Framework

This BFF is issued by the PC for the purpose of providing strategic and operational guidance to federal ministries, implementing agencies, and public entities engaged in the preparation and financing of development projects. The Framework is intended to inform planning decisions and promote the systematic integration of blended finance instruments within the existing public investment management system.

The BFF serves as an overarching policy and operational platform supported by formal Service Level Agreements (SLAs) among the four core coordinating institutions: the Planning Commission (PC), the Ministry of Finance (MoF), the Economic Affairs Division (EAD), and the Ministry of Climate Change & Environmental Coordination (MoCC&EC). These SLAs define institutional roles, coordination protocols and mutual responsibilities to operationalize the BFF (see chapter on Institutional Roles and Governance).

Each institution will be responsible for facilitating and supporting federal line ministries, public sector entities, including State-Owned Enterprises (SOEs) and provincial departments in mobilizing blended finance for eligible development projects. The aim is to expand access to climate-aligned capital and reduce the cost of financing. Annex 5 presents the template of the SLAs that detail the specific roles and coordination responsibilities for each institution. These arrangements are intended to ensure coherent implementation and reduce procedural bottlenecks.

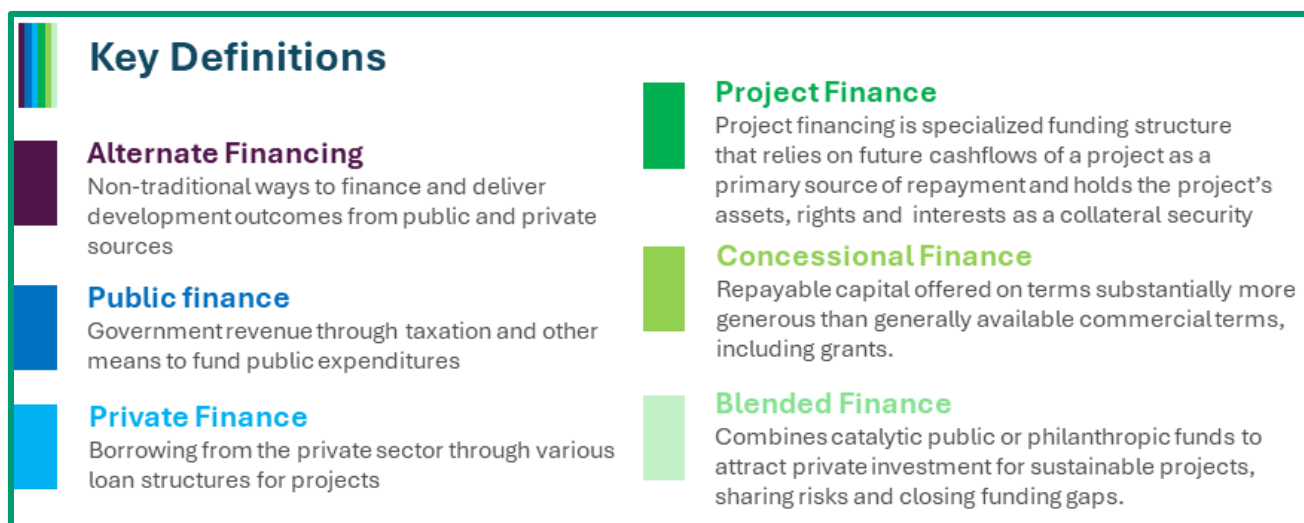


Figure 3 Key Definitions Under Blended Finance Framework

The BFF is fully aligned with Pakistan’s national development planning architecture, including the Uraan Pakistan, the National Adaptation Plan (NAP), Nationally Determined Contribution (NDCs), and other sectoral investment strategies. It supports PC’s role in ensuring that development projects are designed with long-term value creation, fiscal responsibility while simultaneously building climate resilience. Its operationalization will be guided by clear institutional mandates and alignment with project appraisal processes.

The BFF is designed to operate within Pakistan’s existing public investment planning and fiscal management system, while expanding the development and fiscal envelope for priority, climate-resilient investments. It relies on structured project preparation, coordinated decision-making across key institutions, and clear fiscal safeguards to mobilize private capital and improve the quality of public investment.

Figure 4 below highlights Blended Finance Framework: Outcome, Outputs, Implementation, and Impact.



Figure 4 Blended Finance Framework: Outcome, Outputs, Implementation, and Impact

## Chapter 2: Legislative and Regulatory Provisions and Foundations

A robust legal and regulatory foundation is essential for the effective implementation of blended finance in Pakistan. All activities undertaken under the Framework shall remain fully compliant with relevant laws and regulatory instruments, including but not limited to the Public Finance Management Act (2019) (amended), the Fiscal Responsibility and Debt Limitation Act (FRDLA 2005) (amended), the Public Procurement Regulatory Authority Ordinance (2002), the Public-Private Partnership Authority Act (2017) (amended), and the Companies Act (2017). In cases involving international finance or concessional resources, relevant provisions of the Economic Affairs Division Rules of Business, the Foreign Exchange Regulation Act (1947), and the State Bank of Pakistan (SBP) prudential regulations shall apply. The key features of these existing laws and provisions are summarized as below.

Legal Instrument	Key Features
<b>Public Finance Management Act (2019) – Amended</b>	<ul style="list-style-type: none"> <li>- Establishes the Provincial Consolidated Fund and outlines rules for withdrawals and payments.</li> <li>- Mandates a Medium-Term Fiscal Framework and Budget Strategy.</li> <li>- Sets debt and guarantee limits (e.g., public sector debt not to exceed 200% of average revenue of the past 3 years).</li> <li>- Establishes a Debt Management Unit and a Public Financial Management Unit (PFMU).</li> <li>- Requires fiscal risk statements and compliance checks.</li> </ul>
<b>Fiscal Responsibility and Debt Limitation Act (FRDLA 2005, amended 2016)</b>	<ul style="list-style-type: none"> <li>- Limits federal fiscal deficit to 4% of GDP and aims to reduce public debt to 50% of GDP.</li> <li>- Establishes the Debt Policy Coordination Office.</li> <li>- Requires submission of annual fiscal, debt, and medium-term budgetary statements.</li> <li>- Allows for limited exceptions in national emergencies, with required plans for return to compliance.</li> </ul>
<b>Public Procurement Regulatory Authority Ordinance (2002)</b>	<ul style="list-style-type: none"> <li>- Establishes PPRA as the oversight body.</li> <li>- Regulates procurement of goods, works, and services using public funds.</li> <li>- Mandates transparency, ethical codes, and grievance redressal.</li> <li>- Allows exemption of procurement in the national interest.</li> <li>- Grants the Authority power to issue regulations and monitor compliance.</li> </ul>
<b>Public-Private Partnership Authority Act (2017, amended)</b>	<ul style="list-style-type: none"> <li>- Creates a central authority (P3A) for federal PPPs.</li> <li>- Defines PPP project lifecycle including screening, approval, bidding, and implementation.</li> <li>- Allows Viability Gap Funding and Government Support Agreements.</li> <li>- Requires risk sharing, value-for-money assessments, and standard contracts.</li> </ul>
<b>Companies Act (2017)</b>	<ul style="list-style-type: none"> <li>- Governs company incorporation, disclosure, corporate governance, and financial statements.</li> <li>- Mandates annual returns, statutory audits, and directors’ responsibilities.</li> <li>- Relevant to Special Purpose Vehicles (SPVs) formed for BFF projects.</li> </ul>

*Table 1 Key features of existing laws and provisions*

Furthermore, all borrowing or debt-like obligations, including those arising through guarantees or off-balance sheet arrangements facilitated under this Framework, must be undertaken in strict conformity with the Article 166 of the Constitution of Pakistan, which governs public debt and guarantees and with

MoF Debt Policy Guidelines. No financial commitment proposed under the BFF shall override or bypass the fiscal rules, ceilings, or procedural safeguards established by the Government of Pakistan.

## **2.1 Constitutional and Legislative Mandates**

The Framework is firmly grounded in the Constitution of the Islamic Republic of Pakistan, 1973, and is to be implemented in full compliance with applicable fiscal and public financial management legislation. Article 166 of the Constitution governs the borrowing powers of the Federal Government and prescribes the conditions under which guarantees, or debt obligations may be undertaken. It explicitly mandates that any borrowing or issuance of guarantees must be authorized by or under an Act of Parliament and executed in accordance with rules framed by the Ministry of Finance. All financial transactions and blended finance instruments proposed under this framework, including those that give rise to contingent liabilities, guarantees, or non-budgetary financial commitments, must comply with the following core legislative documents identified above:

Further, in accordance with Section 13 of the PFM Act, no public entity may enter into any borrowing arrangement, issue a guarantee or other contingent liability or undertake any financial commitment that binds future fiscal resources without express authorization from the Ministry of Finance and compliance with debt sustainability thresholds.

Moreover, under the Public Debt Management Office Rules, all proposals involving sovereign or government-backed guarantees must undergo fiscal risk assessment and be recorded in the medium-term debt strategy. Similarly, all PPP projects must follow the P3A Fiscal Costs and Contingent Liabilities (FCCL) Guidelines 2024. Any blended finance arrangement that results in a financial commitment by the GoP, whether direct or contingent, shall be processed through the designated authorities and recorded within the national fiscal accounts as per the Ministry of Finance procedures.

## **2.2 Alignment with National Plans and Priorities**

This BFF is aligned with Pakistan’s overarching development, climate, and financing strategies. Specifically, the BFF supports the implementation of Uraan Pakistan, the GoP’s economic transformation initiative for 2025–2030, which prioritizes private capital mobilization, climate-smart infrastructure, and sustainable development. It also upholds the strategic objectives outlined in Vision 2025, Pakistan’s Nationally Determined Contributions (NDCs) under the Paris Agreement, the National Adaptation Plan (NAP), the National Climate Finance Strategy (NCFS) issued by the MOCC&EC, and Pakistan’s Green Taxonomy issued by the State Bank of Pakistan (SBP) as well as past MoPD&SI initiatives such as Manual for Project Development (2024) and associated climate risk screening handbook. The Figure 5 below summarizes how the Framework builds on existing policies to create further coherence in the planning process.

To ensure the Framework is rooted in and reinforces Pakistan’s broader development and climate agenda, it has been mapped against key national strategies and policy frameworks. The Table 2 outlines how the BFF aligns with these strategies, ensuring coherence, complementarity, and targeted support for national priorities.

Projects structured under this Framework are expected to originate from sectoral pipelines already prioritized in national and subnational development strategies, such as NDCs, NAPs and existing project concept notes as well as PC-1 pipeline. The Framework does not create a parallel project pipeline; rather, it serves as a value-add structuring layer for high-priority public investment projects that require innovative financing solutions to proceed and could forge private sector interest. With this legal and strategic alignment established, the following chapters provide the operational guidance for selecting instruments and navigating the project approval process in full compliance with these mandates.

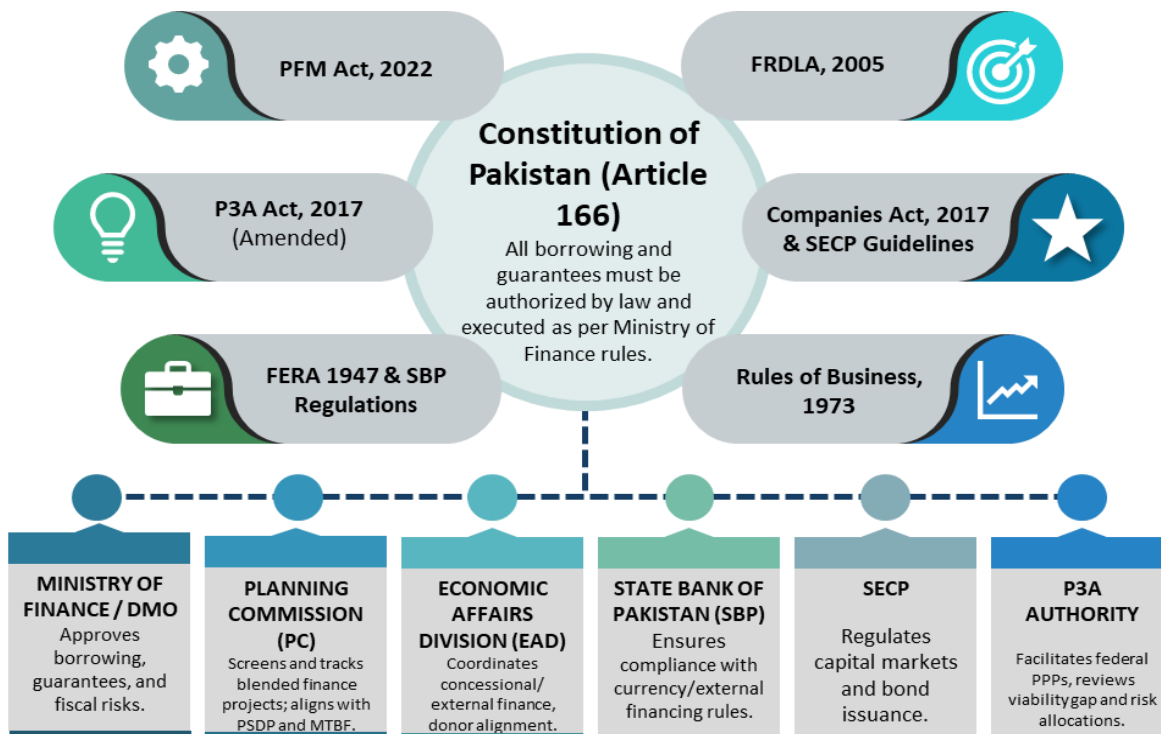


Figure 5 Alignment of Blended Finance Framework with Article 166 & Regulatory Bodies

Document / Strategy	Issuing Authority	Purpose / Focus	Alignment with BFF
<b>Uraan Pakistan (2025–2030)</b>	Prime Minister's Office / MoPD&SI	Economic transformation through private capital mobilization, climate-smart infrastructure, and productivity-led growth	BFF directly supports Uraan's call for mobilizing private and concessional finance for infrastructure, services, and green transition projects
<b>Vision 2025</b>	MoPD&SI	National long-term development framework for inclusive, resilient, and competitive growth	BFF enhances fiscal space and investment diversification needed to realize Vision 2025's goals on Energy, water, and transport infrastructure
<b>Nationally Determined Contributions (NDCs)</b>	Ministry of Climate Change & Environmental Coordination (MoCC&EC)	Pakistan's international climate commitments under the Paris Agreement	BFF instruments such as carbon finance, RBF, and green bonds are aligned with mitigation and adaptation targets in the updated NDCs
<b>National Adaptation Plan (NAP)</b>	MoCC&EC	Strategic framework for climate-resilient development and investment prioritization	BFF channels blended finance into adaptation projects aligned with sectoral priorities in NAP (e.g., water, agriculture, disaster resilience)
<b>National Climate Finance Strategy (NCFS)</b>	MoCC&EC	Framework to mobilize and access domestic and international climate finance	BFF operationalizes NCFS by offering structured instruments to attract private, philanthropic, and multilateral capital
<b>Green Taxonomy</b>	State Bank of Pakistan (SBP)	Classification system for green economic activities, guiding investment decisions	BFF instrument screening incorporates SBP's taxonomy to ensure projects meet sustainability thresholds and eligibility for green finance
<b>Manual for Project Development (2024)</b>	MoPD&SI	Guidelines for preparing PC-I/II public investment proposals	BFF complements the Manual by providing additional structuring options (e.g., PPP, RBF) to attract co-financing in PC-I projects
<b>Climate Risk Screening Handbook (2024)</b>	MoPD&SI	Framework for assessing climate risks in project planning	BFF instruments integrate climate risk considerations, in line with the screening protocols mandated in the handbook

Table 2 Alignment of Key National Strategies with the Blended Finance Facility (BFF)

## Chapter 3: Guidance on financing instruments and structure

Selecting the right financing instrument is central to structuring effective blended finance solutions. The BFF identifies five priority financial instruments that the GoP may consider for mobilizing additional capital for development and climate-aligned projects. These instruments are classified based on their fiscal implications, either as on-balance sheet instruments, potentially contributing to public debt, or off-balance sheet instruments that mobilize private or concessional capital with limited direct fiscal exposure.

The selection of a suitable instrument depends on the project’s nature, size, revenue potential, risk profile, and strategic alignment with national development and climate goals. This Framework provides structured guidance for each instrument, including use cases, eligibility assessments, and implementation pathways in this section.

Blended Instrument	On Balance Sheet		Off-Balance Sheet		
	Green Bonds/Sukuks	Debt-for-Nature Swaps	Carbon Market Mechanism	Guarantees	Public Private Partnerships
<b>Definition</b>	Use-of-proceeds debt instrument financing eligible green projects	Debt operation exchanging relief or refinancing for funding mutually agreed climate-nature commitments	Mechanism monetizing verified emission reductions through tradable carbon credits	Risk-sharing commitment covering specified losses if defined events occur	Long-term contract where private partner delivers public asset or service, though it can result in contingent liabilities for the GoP
<b>Function</b>	Mobilize concessional financing from local and international financing markets for green projects	Redirect debt-service savings into pre-defined, monitored climate and nature projects/programs	Generate performance-based revenues to strengthen project viability and investment	De-risk projects to crowd-in private finance and lower financing costs	Allocate risks and payments to improve delivery, efficiency, and bankability
<b>Net Effect</b>	Expanded fiscal envelope for climate investment with improved transparency through disclosures and reporting.	Improved debt sustainability and resilience through predictable climate-nature financing over multiple budgetary cycles.	New financing stream for interventions targeting climate mitigation with measurable, verified outcomes.	Greater private capital mobilization with controlled contingent fiscal exposure	Better service delivery and investment outcomes, with managed fiscal commitments
Screen for eligibility ► enhance projects readiness ► approve and budget ► implement ► monitor and report ► evaluate					

Figure 6 BFF Instrument Map

**Note:** The on-balance sheet/off-balance sheet classification above is indicative. Final classification will depend on the transaction structure and any public support provided (including guarantees, viability gap funding, or other contingent obligations) and will be confirmed during appraisal and structuring.

Project identification under the BFF begins with the preparation of a Project Concept Note (PCN) in case of domestic financing component or Concept Clearance Paper (CCP) in case of foreign funding. The BFF framework applies to both these two documents at the inception phase. The sponsoring agency shall complete the PCN/CCP and attach the relevant instrument-specific eligibility and readiness assessment form provided in Annex I (Forms I-A to I-E) Sponsoring agencies that have already prepared the PC-I, and whose projects have been recommended by the competent forums (CDWP, ECNEC or other forum) to explore alternative financing, may submit the PC-I to Pre-CDWP (chaired by the relevant member).

Projects assessed as eligible and ready may be fast-tracked for PC-I finalization and submission to the competent forum (CDWP or ECNEC, as applicable). Projects that are eligible but not yet ready may be directed to undertake feasibility and structuring under PC-II. Projects assessed as ineligible may be returned to the sponsoring agency for reconceptualization under another BFF instrument or for financing through PSDP/ADP.

Following sections (3.1 to 3.7) provide a practical overview of the five financing instruments proposed under the Framework and how each can be applied to finance public investment projects in Pakistan. Each section sets out a clear definition, explains the financing logic and institutional arrangements relevant to the instrument, and highlights the types of projects and sectors for which it is typically suited. The purpose is to help sponsoring agencies select an appropriate instrument at an early stage

### 3.1 Green Bonds/Sukuks

Green bonds and sukuk are debt instruments issued to finance projects with clearly defined environmental benefits. Issued either by the government or eligible public sector entities, they help raise capital for climate-resilient infrastructure, energy transition, water resource management, and pollution reduction. While they appear on the issuer’s balance sheet, their ring-fenced nature and compliance with SECP Green Bond Guidelines 2021 ensure transparency, investor confidence, and access to ESG-aligned capital markets. A green bond is a conventional debt instrument issued to finance projects with environmental benefits, whereas a green sukuk is a Shariah-compliant version of green bonds. Both instruments provide access to diversified sources of financing, including domestic and international capital markets, institutional investors, Islamic finance channels, and ESG-linked capital pools.

#### Use of Proceeds



- ✓ Proceeds are restricted to green projects in eligible sectors.
- ✓ The offering document must clearly describe how proceeds will be used.
- ✓ Environmental benefits should be assessed and quantified where possible.

#### Project Selection



- ✓ The issuer must document how projects are chosen.
- ✓ The framework should set objectives, criteria, and risk management processes.
- ✓ Refinancing, if included, must be transparently disclosed.

### Management of Proceeds



- ✓ Proceeds must be tracked through a clear internal system.
- ✓ Verification of tracking and allocations is expected.
- ✓ Controls should ensure proceeds remain aligned with green objectives.

### Reporting & Disclosure



- ✓ Transparency is a core requirement.
- ✓ Issuers must report allocations and impacts after issuance.
- ✓ Listed issuances require ongoing reporting through periodic financial reports.

Table 3 Key Features of Green Bonds/Sukuks

Green bonds/sukuk are designed to mobilize capital for climate and environmental investments while improving transparency and accountability in how proceeds are used. They help issuers credibly demonstrate that borrowed funds are directed to defined green purposes rather than general spending. The government can issue green bonds/sukuks to raise funds at concessional rates and expand the available fiscal space to support national development priorities, and in the process may also diversify the investor base and develop local capital markets. For SOEs, green bonds can finance commercially relevant green investments within their mandates (for example, renewable energy generation, clean transport, waste management, and energy efficiency). A well-structured issuance of a green bond can improve project discipline by requiring clearer eligibility criteria, proceeds tracking, and reporting on allocations and results.

Green sukuk/bonds are particularly suitable for large-scale public investments that meet climate mitigation or adaptation objectives and fall within eligible sectors such as renewable energy, clean transport, energy efficiency etc. Projects should ideally have a minimum capital requirement exceeding Rs. 10 billion or the potential to be bundled with other similar investments under a programmatic approach. In addition, projects must demonstrate a capacity for cost recovery or revenue generation that enables repayment over time.

Under SECP's Green Bonds/Sukuk Guidelines as well as Finance Division's Sustainable Sukuk Framework, eligible green sectors include: (i) renewable and sustainable energy; (ii) energy efficiency; (iii) pollution prevention and control; (iv) sustainable management of living natural resources and land use; (v) terrestrial and aquatic biodiversity conservation; (vi) clean and environment-friendly transportation; (vii) sustainable water and wastewater management; (viii) climate change adaptation; (ix) eco-efficient and/or circular economy products and processes; and (x) green buildings, as well as any other green project consistent with the Guidelines. In practice, when developing projects for financing through green bonds/sukuk, sponsoring agencies should: (i) clearly define eligible sectors, sub-sectors, and activities; (ii) describe expected environmental benefits; and (iii) identify measurable monitoring and performance indicators (for example, renewable capacity added, emissions avoided, water treated, hectares restored, or households protected from flooding) to enable credible allocation and impact reporting.

Green sukuk/bonds may be issued by the GoP either at the sovereign level using the DMO (Finance Division) or through public sector issuers such as profitable SOEs. Line agencies are expected to consult the relevant regulatory framework issued by the SECP and DMO, including the green bonds guidelines (2021) and Sustainable Sukuk Framework ensure early alignment with its four foundational pillars: (i) clear and eligible use of proceeds; (ii) project selection and evaluation process; (iii) robust financial tracking and

ring-fencing of proceeds; and (iv) monitoring, reporting and independent verification of environmental impact.

Besides, GoP is also exploring other bonds with positive development impact. One such category is Panda bonds. Panda bonds are Renminbi-denominated bonds issued in China's onshore interbank bond market and can function as an additional source of capital for eligible green public investment projects/programs. In practical terms, an eligible public issuer can raise RMB funding from qualified institutional investors in China's capital market. Where sovereign credit constraints affect pricing or market access, the issuance can be supported through credit enhancement guarantees from multilateral institutions (such as Asian Development Bank or Asian Infrastructure Investment Bank or others), which are guarantees that cannot be withdrawn and cover an agreed share of the bond's principal and interest payable directly to investors. One of the conditions is that the proceeds shall be allocated for supporting fiscal outlays on sustainable/green public investments, with clear tracking and reporting consistent with green bond use-of-proceeds disciplines.

GoP has been actively engaging in green capital market instruments to finance priority public investments. Recent milestones include the launch of a sovereign domestic green sukuk of Rs. 32 billion to fund climate-resilient and energy-related investments, and earlier experience with WAPDA's green Eurobond ("Indus Bond") to raise \$500 million for hydropower projects. More recently, the government with the support from multilateral is looking to raise funds through RMB-denominated Panda Bond in the Chinese capital market to finance selected public projects in the power sector under Power Division.

This momentum is encouraging. The BFF aims to take it a notch further by institutionalizing a structured pathway through which federal and provincial entities can identify bankable, climate-resilient projects, align them with credible use-of-proceeds requirements, and systematically connect them to green bond/sukuk financing opportunities within Pakistan's existing public investment planning and fiscal frameworks.

The Debt Policy and Management Office (Finance Division) will play an integral role in finalizing transactions for issuance of green bonds/sukuk in local and international capital markets by conducting market due diligence, investors reach out and ensuring broader consistency with the principles of sound fiscal management set out in the Public Financial Management Act, 2019. Sponsoring agencies should coordinate closely with SECP to ensure regulatory compliance and to establish robust arrangements for proceeds tracking, monitoring, and reporting. In parallel, engagement with SBP shall help identify any macro-prudential risks and ensure these are appropriately disclosed, with mitigation measures incorporated during the project readiness phase.

### **3.1.1 Project Identification, Screening and Approval Pathways**

To initiate financing under Green Bonds/Sukuks, the sponsoring agency shall prepare a Project Concept Note (PCN) and submit it to the Planning Commission for consideration in Pre-CCC meeting

- i. **Eligibility Assessment:** The purpose of this assessment is to confirm that a project is suitable for green bond/sukuk financing under the BFF. It checks climate alignment and eligibility under the green taxonomy, adequate scale (Rs. 10 billion or bundling), and expenditures that can be ring-fenced and tracked as "green" under SECP Green Bond Guidelines (2021) or Sustainable Sukuk Framework. It also verifies repayment capacity, issuer legal authority, and compliance with SECP requirements.
- ii. **Readiness Assessment:** Projects deemed eligible for green bonds/sukuks are then appraised for readiness to confirm that the sponsoring agency and project can proceed to structuring and issuance. The assessment verifies legal authority to issue, an initial financial model and PC-II

structuring that incorporates debt servicing, and systems to ring-fence and track use-of-proceeds. It also checks defined climate indicators and MRV arrangements, and that an external review is identified and budgeted.

### 3.2 Carbon Market Mechanism

Carbon market mechanisms are revenue-generating instruments that monetize verified greenhouse gas (GHG) emission reductions or removals from public investment projects in eligible sectors. When a project prevents, reduces, or removes emissions, it can generate tradable carbon credits that may be sold to entities seeking to meet climate commitments or regulatory obligations, where one carbon credit represents one ton of CO<sub>2</sub>e avoided, reduced, or removed.

Under the Framework, carbon finance is treated as an off-balance sheet, results-based revenue option that can be integrated into public and co-financed projects, subject to robust Monitoring, Reporting and Verification (MRV) arrangements and compliance requirements notified by the Ministry of Climate Change and Environmental Coordination (MoCC&EC) under the Pakistan Policy Guidelines on Trading in Carbon Markets (2024). In this context, eligible projects may generate and monetize certified emission reductions (CERs) or internationally transferred mitigation outcomes (ITMOs), helping strengthen project viability, reduce reliance on budgetary allocations, and crowd in private investment.

The core purpose of carbon markets in the BFF context is to help sponsoring agencies incorporate a credible carbon revenue stream into project design, so that fiscal outlays can be reduced and overall bankability of public projects can improve. Carbon markets can also support achievement of national climate goals (for example, Nationally Determined Contributions) by creating incentives for low-carbon and nature-based solutions, while strengthening accountability through MRV-based transparency. Where structured well, carbon revenue can complement other sources of finance and help scale interventions

MoCC&EC issued policy guidelines related to the carbon markets, namely, **Pakistan’s Policy Guidelines for Trading in Carbon Markets in 2024**. The guidelines provide a regulatory roadmap to establish and operationalize carbon markets in Pakistan in alignment with national climate goals (i.e., NDCs) and international best practices. The Guidelines enable the production and export of certified mitigation outcomes (including ITMOs) to mobilize climate finance, support emissions reduction projects, and ensure transparency, integrity, and community benefit-sharing. Under the policy, MoCC&EC will oversee implementation of carbon market initiatives, and serve as a “National Carbon Registry”, and develop domestic Monitoring, Reporting and Validation (MRV) system—central component in project design to be eligible for carbon credits.

with wider environmental and social co-benefits.

Projects in sectors such as renewable energy (wind, solar, hydro), energy efficiency, waste and methane capture (for example, landfills and industrial methane), and nature-based solutions (afforestation/reforestation, avoided deforestation and ecosystem protection, and blue carbon such as mangroves) can generate carbon credits. However, the key test is not the sector label, but whether the project can credibly demonstrate, under an approved methodology and MRV process, that it avoids, reduces, or removes and stores emissions (CO<sub>2</sub> or CO<sub>2</sub>e), since credits are issued based on verified tons of CO<sub>2</sub>e avoided, reduced, or removed. For a project to be eligible to generate quality credits, it must demonstrate additionality, baseline integrity, and permanence, supported by a strong baseline and robust methodology. It should also be measurable and credible, be externally verified, and be registered in a traceable registry that tracks issuance, transfer, and retirement to reduce fraud and double counting. Managing risks such as leakage further strengthens integrity and credit value.

Carbon revenues may be accessed through voluntary carbon markets, through certified standards such as Verra, Gold Standard (GS), ICR or GCC etc., or under compliance frameworks such as Article 6.2 of the Paris Agreement, subject to authorization by the National Designated Authority (MoCC&EC). Monetization pathways may include forward purchase agreements, results-based climate finance (RBCF), or direct sales of verified credits post-issuance, through emissions reduction purchase agreement (ERPA). Projects seeking to generate ITMOs for transfer must meet eligibility requirements outlined by the MoCC&EC and follow the formal process for authorization, corresponding adjustments, and benefit-sharing.

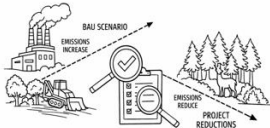
Under the BFF, carbon projects should follow a clear readiness cycle: confirm eligibility and select an approved methodology; prepare the project design documentation with baseline and MRV arrangements; obtain required authorizations from MoCC&EC; register the project with a recognized standard and registry; and then implement, monitor, and undergo independent verification for credit issuance and sale. Since documentation, registration, and verification can involve upfront costs, the Frameworks readiness support and coordinated approvals help sponsoring agencies clarify responsibilities and reach carbon revenue more efficiently. Carbon finance should be pursued where it adds material financial value to the project and does not conflict with other financing terms. Line agencies should establish institutional arrangements for verification, certification, and benefit-sharing with affected stakeholders, safeguard environmental integrity, and avoid double counting.

### Additionality



Additionality means the activity goes beyond what would normally occur without carbon markets. The project would not be funded or implemented or would not be commercially attractive on its own. Carbon revenues make the project viable and enable it to deliver measurable, verifiable mitigation outcomes.

### Baseline Integrity



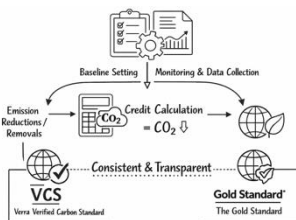
Baseline integrity means setting a credible, conservative “without-project” emissions scenario that reflects what would realistically happen without the intervention. It relies on reliable data, an approved methodology, and transparent assumptions so credited reductions are not overstated and remain defensible under independent verification.

### Permanence



The emission reductions or removals are durable over time and not easily reversed, with appropriate risk controls (especially important for land-use and nature-based activities). For example, in afforestation projects, permanence means protecting forests long term and managing reversal risks (fire, illegal logging) through monitoring, enforcement, and credit buffers.

### Robust Methodology



The project applies an approved, well-defined methodology that specifies how to set the baseline, measure reductions/removals, monitor data, and calculate credits consistently and transparently. Several methodologies are used; however, two of the most widely applied are Verra’s Verified Carbon Standard (VCS) and the Gold Standard.

*Table 4 Key Concept in Carbon Market Mechanism*

In essence, the Framework will play a critical role in operationalizing Pakistan's Policy Guidelines for Trading in Carbon Markets by helping public sector entities systematically identify high-potential carbon projects that currently face financing constraints, prepare them to meet carbon market requirements, and secure coordinated government review, approvals, and any necessary support. This strengthens project bankability, improves transparency and integrity, and helps convert verified mitigation outcomes into a credible revenue stream that can further accelerate development and implementation of similar projects at scale.

### **3.2.1 Project Identification, Screening and Approval Pathways**

To initiate financing under Carbon Markets, the sponsoring agency shall prepare a Project Concept Note (PCN) and submit it to the Planning Commission for consideration in Pre-CCC meeting.

- i. **Eligibility Assessment:** The purpose of this assessment is to confirm that a project can credibly generate carbon credits under the BFF. It checks MRV emission reductions or removals under an approved methodology, eligibility under the green taxonomy, and demonstration of additionality. It also verifies legal access to carbon rights and mitigation outcomes, and sufficient scale (at least 20,000 tCO<sub>2</sub>e annually or bundling) to justify transaction costs.
- ii. **Readiness Assessment:** Projects deemed eligible for the carbon market mechanism are then appraised for readiness to confirm that the project can proceed to registration, verification, and monetization of credits. The assessment reviews whether a baseline and approved methodology are identified, MRV parameters and data systems are defined, and carbon rights and mitigation outcomes are legally clarified. Where relevant, it checks engagement for MoCC&EC authorization (ITMO pathway), benefit-sharing arrangements, and a clear market/off-take strategy.

### **3.3 Debt for Nature/Climate Swaps**

Debt-for-nature swaps are debt-management transactions in which a sovereign negotiates with creditors to reduce, restructure, or refinance part of its external debt, in return for a commitment to invest the resulting fiscal savings in pre-defined climate and environmental focused interventions (for example, conservation, ecosystem restoration, climate adaptation, or mitigation). In practice, the debt may be cancelled, bought back, exchanged, or refinanced on better terms (lower interest, longer maturity, or reduced principal). A share of the reduced debt-service burden is then redirected to climate and nature projects through a dedicated fund or clearly identified budget allocation.

These instruments reduce debt servicing obligations and reallocate fiscal space towards nationally determined climate goals including mitigation, adaptation, biodiversity conservation, and nature-based solutions. Debt for nature swaps also help break the vicious cycle created by the interplay of climate vulnerability, rising fiscal risks, and debt unsustainability. Climate-induced shocks reduce growth and revenues while increasing relief, recovery, and reconstruction spending. This tightens fiscal space and can raise borrowing needs. Higher debt and rising debt service then crowd out investment in resilience and low-carbon development, leaving vulnerabilities unaddressed and increasing future losses. Debt-for-nature and debt-for-climate swaps help by combining debt relief (or cheaper refinancing) with an enforceable commitment to channel part of the savings into budgeted, well-designed public investments that support national climate and environmental priorities.

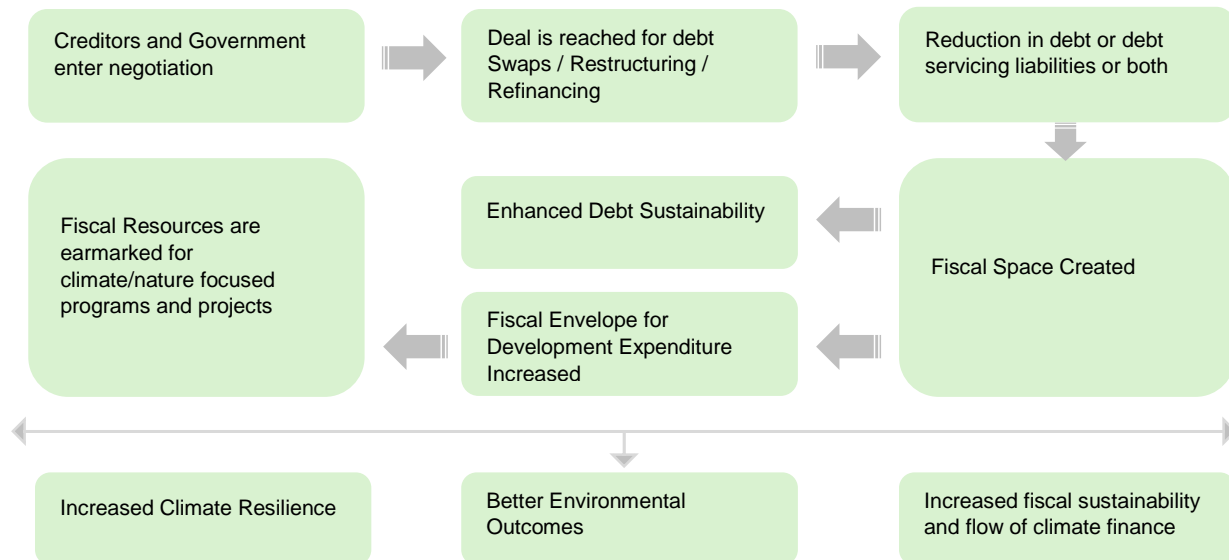


Figure 7 Working Mechanics of Debt for Nature/Climate Swaps

Debt-for-nature swaps offer multiple cross-cutting, long-term benefits, including improved debt sustainability and external debt management, a larger fiscal envelope for climate-focused public investments, stronger climate and environmental outcomes, and greater visibility with international climate finance partners.

- i. **Enhanced fiscal space:** Swaps can create fiscal room without adding new debt by reducing the stock of debt and/or lowering annual debt service, freeing resources for resilience and nature-based development.
- ii. **Financing priority adaptation needs:** Pakistan’s adaptation needs are large and cross-sectoral. A swap can provide a structured way to finance priority adaptation and nature investments in line with national and sectoral plans.
- iii. **Support to medium-term budgeting:** By creating a predictable funding stream over multiple years, swaps can improve planning and fiscal predictability for climate and nature programs.
- iv. **Greater visibility and leverage for climate finance:** Transparent, ring-fenced funding and results reporting can improve credibility with development partners, which may help mobilize additional concessional finance and scale future transactions.

Debt-for-nature swaps are typically implemented through two broad structures: official bilateral (non-commercial) swaps, which involve one or more official creditors, and commercial (tripartite) swaps, which target privately held debt and usually involve a third party such as an international NGO supported by donors and ESG investors.

- **Official bilateral (non-commercial) swap:** An official bilateral swap is a direct arrangement between the debtor government and one (or more) official creditor(s). The creditor cancels or restructures a defined portion of debt, and the government commits to redirect the avoided debt-service payments to agreed climate and nature programs. In effect, payments previously owed to the creditor are converted into a monitored, results-oriented financing stream for mutually agreed investments.

- **Tripartite (commercial) swap:** A tripartite swap targets privately held (commercial) debt and adds a third party, typically an international NGO or a special-purpose vehicle supported by donors and ESG investors. The third party helps mobilize below-market financing and transaction support. The debtor uses this to repurchase or exchange commercial debt, often at a discount. Part of the resulting savings (the difference between the old debt-service cost and the new, lower-cost profile) is committed to climate and nature investments, typically through a trust fund or similar vehicle. Credit enhancement (for example, guarantees or insurance) may be used to reduce borrowing costs and increase net savings.

This instrument is applicable where the GoP holds bilateral or multilateral sovereign debt and where creditor governments or financial institutions are willing to participate in such restructuring arrangements. The instrument is negotiated at the sovereign level and requires close coordination between the Economic Affairs Division (EAD), the Debt Management Office (Finance Division), sectoral line ministries (potential project sponsoring agencies) and Planning Commission. EAD, consistent with its responsibilities under the Rules of Business, 1973, and drawing on prior experience (for example, the Pakistan–Italy debt swap), will assume the lead role in negotiating debt swaps with potential creditors and development partners and in coordinating with relevant government stakeholders.

The BFF provides guidance to identify and pre-screen eligible projects that can be packaged as part of debt-for-climate or debt-for-nature proposals. EAD should coordinate with the line ministries and the Planning Commission and communicate to them sectoral and thematic priorities of creditors/development partners for the swap. For projects already under discussion with a creditor, line agencies and the Ministry of Finance should ensure that technical and fiduciary criteria are fulfilled and that project expenditures are clearly aligned with climate finance classification rules. This instrument is primarily intended for federal ministries and agencies with a focus on disaster risk reduction and management (such as NDMA and NDRMF) and for climate resilience investments for vulnerable communities through provincial and district agencies.

### 3.3.1 Project Identification, Screening and Approval Pathways

To initiate financing under Debt for Nature Swaps, the sponsoring agency shall prepare a Project Concept Note (PCN) (or CCP) and submit it to the Planning Commission’s Pre-CCC meeting.

- i. **Eligibility Assessment:** The purpose of this assessment is to confirm that a project is suitable for inclusion in a debt-for-nature/climate swap proposal. It checks that expenditures can be budgeted and earmarked under sovereign allocations, align with Pakistan’s NDC/NAP or biodiversity priorities, and deliver measurable climate or nature outcomes. It also verifies transparent budget reporting, adequate scale (or bundling), and feasibility of third-party verification or results-based monitoring.
- ii. **Readiness Assessment:** Projects deemed eligible for debt-for-nature/climate swaps are then appraised for readiness to confirm that they can be credibly packaged within a sovereign swap proposal. The assessment reviews whether coordination with EAD, the Planning Commission, and the Finance Division has been initiated, and whether expenditures can be earmarked in the budget. It also checks alignment with creditor priorities, MRV for reporting, and completion of key fiduciary, legal, and safeguard assessments.

### 3.4 Public Private Partnerships (PPPs)

A Public Private Partnership (PPP) is a long-term contract between a government entity and a private sector party to create or deliver a public asset or service. Under a PPP, the private partner typically designs and builds the asset and may also operate and maintain it for a defined period. The private partner is paid based on performance, either through user charges (such as tolls or tariffs), payments from the government (such as availability or service payments), or a combination of both, so the focus is on delivering agreed outputs and meeting service standards over time rather than only completing construction of the project. Under the Framework, PPPs are treated as a practical option to mobilize private finance for priority infrastructure and services, especially when fiscal space is constrained, because when a project can be structured to be commercially viable and aligned with public objectives, a PPP can help combine public and private resources optimally to produce value for money projects.

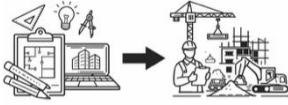
A core principle in designing a PPP arrangement is that risks should be assigned to the party that can manage them best. The private partner usually manages construction and performance risks, while government retains policy and regulatory responsibilities, alongside funding responsibilities (if any). At the same time, PPPs can create long-term fiscal commitments and contingent liabilities for government, such as availability payments, revenue support, or termination payments in specific cases. Therefore, under the Framework, PPP proposals must be structured carefully and assessed for affordability, fiscal risk, and readiness before they move to approval. Where fiscal costs are created, the debt policy and management office's guidance must be adhered to, including the PPP risk management framework and FCCL guidelines.

Pakistan has a robust legal and institutional framework to mainstream PPPs across federal and provincial domains. At the strategic level, a 2013 Cabinet Resolution assigns the Planning Commission a mandate to strengthen the macroeconomic and regulatory framework, improve resource mobilization, and promote private sector participation in the development process. Subsequently, the National Assembly enacted the PPPA Act 2017 (amended in 2021) and established the Public Private Partnership Authority (P3A) to support federal entities in preparing and implementing PPP-based projects. Building on this foundation, provincial governments have also created their own PPP laws and institutions, including Punjab's PPP Authority, Sindh's PPP Unit, the Balochistan Public Private Partnership Authority, and a PPP Unit under the Planning and Development Board, Government of KP.

Well-designed PPPs can deliver practical value for the public sector by mobilizing private finance to expand and accelerate priority investments, especially where budget resources are constrained. They can improve efficiency and innovation by linking payments to performance over the full life cycle of the asset. PPPs can also reduce delivery and fiscal risks when construction and performance risks are appropriately transferred to the private partner. Finally, PPPs strengthen accountability through competitive procurement, clear service standards, and ongoing performance monitoring.

This instrument is applicable to infrastructure or service delivery projects where a clear revenue stream, viability gap funding, or a performance-linked payment structure can be established. PPPs are particularly suited for climate-aligned investments in transport (for example, electric mobility), energy (for example, hybrid renewable grids and efficiency retrofits), water and sanitation (for example, wastewater reuse), and urban development (for example, resilient housing and smart infrastructure). The inclusion of climate co-benefits should be explicit in project design and backed by robust risk allocation and financial models. Climate-aligned PPPs may also be structured to integrate concessional climate finance and, where relevant, carbon revenues depending on the project's mitigation or adaptation profile.

### Design and Build



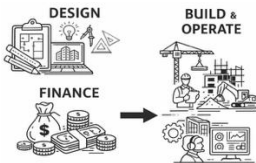
A **Design and Build** arrangement under PPP are a contract where the private partner is responsible for designing and constructing the asset to the specifications set by the government. The government typically finances the project and retains responsibility for operating and maintaining the asset after construction. The private partner's obligation mainly ends after the asset is delivered and accepted, subject to defects liability and warranties.

### Design, Build and Operate



In a **Design, Build and Operate** arrangement under PPP, the private partner designs, builds, and then operates and/or maintains the asset for a defined period. Financing is usually provided by government, but the private partner must meet agreed service standards during operations. Because the same party builds and operates the asset, there is a stronger incentive to build for long-term performance.

### Design, Finance, Build and Operate



Under **Design, Finance, Build and Operate**, the private partner in PPP arrangement designs, builds, finances, and operates the asset for a concession period. It recovers its investment through user charges (e.g., toll tax), government payments (service payments), or a mix of both. These models shift more delivery and performance risks to the private partner, and the asset is typically transferred back to government at the end of the concession period.

Figure 8 Scope of Public Private Partnerships (PPP)

All climate-aligned PPPs must demonstrate economic, financial, and environmental viability. Projects requiring federal support (for example, guarantees, viability gap funding, or direct equity) must undergo fiscal affordability assessment as per the Finance Division's Fiscal Cost and Contingent Liabilities (FCCL) guidelines 2024, in consultation with the DMO (Finance Division), and be routed through the Viability Gap Fund administered by the P3A.

The Framework also provides technical guidance to ensure that climate resilience, sustainability standards, and emission reduction opportunities are systematically integrated into PPP project development from concept to structuring. Where applicable, climate-related design parameters should be included in feasibility studies and concession agreements and monitored over the life of the contract.

PPP offers a practical route to fund national development priorities by combining public oversight with private finance and expertise, particularly at a time when PSDP fiscal space is tight and private participation in the national development process remains below potential. Pakistan already has credible enabling foundations, including P3A at the federal level and PPP institutions in the provinces, alongside the Planning Commission's mandate to promote private sector engagement in development. The instrument is intended for federal ministries, statutory bodies and SOEs proposing capital-intensive infrastructure or service projects where private participation is technically feasible and commercially viable. It is also suited for multilateral co-financing models where development partners can underwrite credit enhancements, performance guarantees or concessional co-investments.

#### 3.4.1 Project Identification, Screening and Approval Pathways

To initiate financing under P3A, the sponsoring agency shall prepare a Project Concept Note (PCN) (or CCP) and submit it to the Planning Commission for consideration in Pre-CCC meeting

- i. **Eligibility Assessment:** The purpose of this assessment is to confirm that a project is suitable for delivery through PPPs under the BFF. It checks a capital-intensive or long-term service

component, a viable revenue or payment mechanism, and explicit climate mitigation or adaptation features aligned with Pakistan’s NDC/NAP. It also verifies definable risk allocation, credible market interest, sufficient scale (suggested PKR 10 billion plus), and manageable legal or regulatory constraints.

- ii. **Readiness Assessment:** Projects deemed eligible for Public Private Partnerships (PPPs) are then appraised for readiness to confirm that they can proceed through PPP structuring and the P3A’s process and procedures. The assessment reviews whether the required internal approvals and P3A suitability steps have been initiated, and whether the PQP/feasibility embeds climate performance requirements and robust risk allocation. Where viability gap funding or other federal support is needed, it checks that the modality and affordability assessment pathway is defined. It also verifies that transaction advisors are mobilized and that land, regulatory, and ESMS preconditions are manageable.

### 3.5 Sovereign and Market Based Guarantees

Guarantees are legally binding commitments under which a guarantor (often government or an MDB on behalf of government) agrees to pay part or all an amount due on a loan or other instrument if the obligor does not pay (or if value is lost, in the case of an investment). In blended finance, they help de-risk transactions by shifting clearly defined risks (most commonly credit or default risk), which can improve financing terms and encourage lenders and investors to participate in implementation of public sector projects where they otherwise would not. Guarantees are also attractive because they can mobilize private finance while helping allocate scarce public resources more efficiently. Under the BFF, guarantees must be treated as contingent liabilities and therefore require careful fiscal scrutiny, monitoring, and disclosure throughout the project life cycle, from conception and approval through implementation and completion.



Figure 9 Key Design Aspects of Guarantees

Under the BFF, guarantees can help unlock private sector financing for priority projects facing funding constraints by reducing real and perceived risks for investors. By covering clearly defined risks (for example, political, regulatory, or project-specific risks), guarantees can improve financing terms and mobilize additional capital, while embedding stronger due diligence, monitoring requirements, and risk allocation provisions within the financing structure. The instrument is particularly suited for blended financing structures that combine public and private funding where project bankability and investor confidence need to be strengthened.

Guarantees can be designed to cover different risk types. The most common is commercial (credit) risk, meaning the risk that the borrower cannot meet its debt-service obligations (non-payment or default). A second category is political risk, linked to government actions or instability that restrict an investor's ability to use or benefit from assets or that reduce value (for example, regulatory changes, expropriation, conflict or civil unrest, or foreign exchange transfer restrictions). Guarantees may also be structured to cover risks across the project lifecycle including construction, operational performance, payment default, or revenue variability, depending on the project's financial structure and contractual design. They can support capital-intensive mitigation and adaptation projects in sectors such as renewable energy, climate-resilient transport, water and wastewater, sustainable agriculture, and clean technology.

An additional design choice is whether the guarantee is funded or unfunded. A funded guarantee typically requires that a meaningful share of the guaranteed amount is set aside in advance from the budget, so that resources are available if a claim is triggered. An unfunded guarantee does not require full up-front funding; instead, payments are triggered only if a covered default or adverse event occurs. Under the BFF, unfunded guarantees will be considered for crowding in private investment, as they can be more suitable in Pakistan's current macro-fiscal environment, subject to strong fiscal screening, approvals, and disclosure throughout the project life cycle.

Who provides the guarantee determines the risk appetite, pricing and tenor, approval requirements, and the level of comfort offered to private investors. Under the GoP's financial architecture, sovereign guarantees are issued with the concurrence of the DMO (Finance Division), following due diligence on fiscal exposure and contingent liability management. Market-based guarantees, such as partial credit or risk guarantees, may be provided through development partners, multilateral financial institutions (for example, ADB, World Bank, IFC) or specialized guarantee facilities such as the Pakistan Credit Guarantee Company (PCGC) or local financial intermediaries.

Under the Framework, guarantees may therefore be sourced either from the Government of Pakistan (sovereign guarantee route) or from multilateral and development finance institutions (market-based credit enhancement route), depending on the project's risk profile and fiscal implications.

1. **Government of Pakistan (GoP):** GoP can provide sovereign guarantees to back priority projects, subject to fiscal due diligence and approval processes (including scrutiny of contingent liabilities).
2. **Multilateral Development Banks (MDBs):** MDB (e.g., The World Bank, Asian Development Bank) guarantees can "crowd in" private finance and may improve pricing/tenor due to MDB credit worthiness.

Projects proposing the use of guarantees under the Framework must demonstrate a commercially viable project model with limited public fiscal outlay, a clearly defined risk that the guarantee is intended to mitigate, expected leveraging of private capital or concessional finance, and cost-effectiveness of the guarantee instrument relative to direct budgetary financing. Where sovereign guarantees are requested, a fiscal risk review by the Finance Division is mandatory. For market-based guarantees, line agencies should establish early dialogue with the relevant financial institutions. Line agencies are also encouraged

to initiate coordination with the DMO (Finance Division) at the concept stage and reflect guarantee-related design considerations in the PC-I and PC-II submissions.

Guarantees can be highly effective in crowding in private finance, but they require disciplined use under the Framework due to their contingent fiscal exposure. They should be applied selectively where a well-defined risk barrier is preventing otherwise viable public projects from accessing financing, and where the project has completed the required readiness work to justify the coverage, tenor, and pricing assumptions. The Framework will therefore treat guarantees as a structured, screened intervention, linking them to clear risk allocation, approval pathways, and ongoing monitoring and disclosure of contingent liabilities. When used with these safeguards, guarantees can crowd in private capital, improve financing terms, and accelerate delivery of priority, climate-resilient investments without undermining fiscal sustainability.

### **3.5.1 Project Identification, Screening and Approval Pathways**

To initiate financing for guarantees, the sponsoring agency shall prepare a Project Concept Note (PCN) (or CCP) and submit it to the Planning Commission for consideration in Pre-CCC meeting.

- i. **Eligibility Assessment:** The purpose of this assessment is to confirm that a project is suitable for guarantee support under the BFF and that the instrument is fiscally justified. It checks climate relevance, private or blended financing, and a defined risk barrier preventing financial close. It also verifies project viability once creditworthiness is strengthened, expected mobilization of additional capital, repayment capacity over the project life, and legal and institutional arrangements to issue the guarantee.
- ii. **Readiness Assessment:** Projects deemed eligible for guarantees are then appraised for readiness to confirm that a guarantee transaction can be structured, approved, and monitored without undue fiscal risk. The assessment reviews whether risk profiling is completed and the specific risk to be covered is clearly defined, and whether the financial model and financing plan specify the required coverage, tenor, and counterparties. It also checks that the guarantee type is justified, coordination with the Ministry of Finance/DMO has secured in-principle approval, and contingent liability exposure has been assessed.

### **3.6. Guiding Principles for Blended Finance Framework**

The guiding principles underpin the design and operationalization of BFF. These principles are intended to ensure that all blended finance interventions are strategically aligned with national development priorities and structured to crowd in private capital. The guiding principles include: i) climate finance relevance and additionality, ii) market readiness and bankability, iii) value for money and fiscal prudence, and v) institutional coordination and oversight.

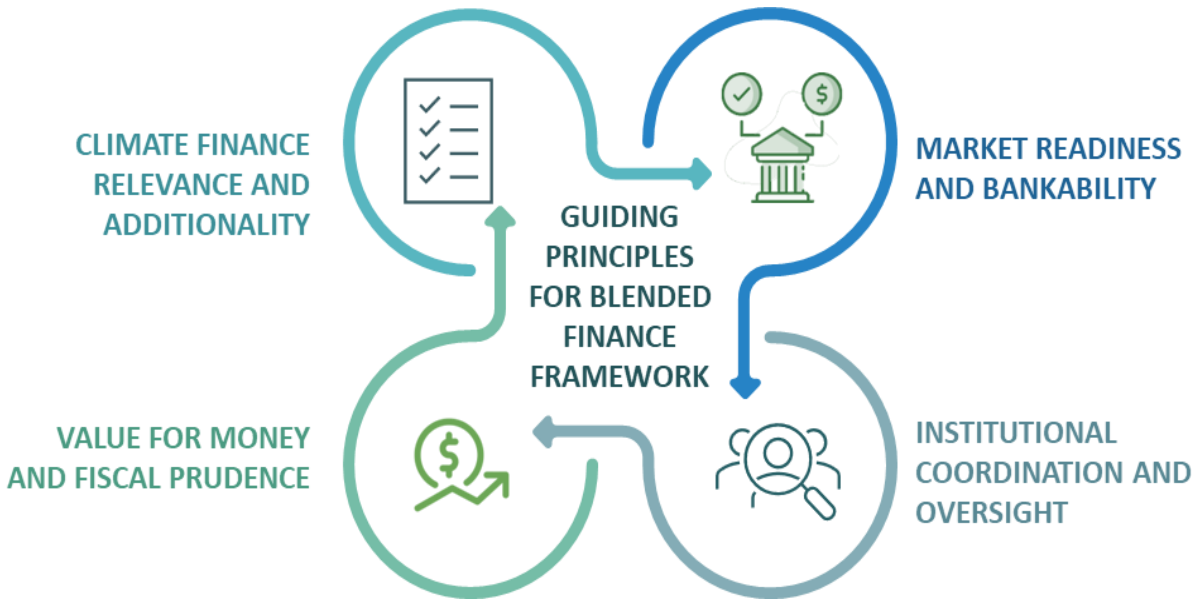







Figure 10 Guiding Principles for the Blended Finance Framework

1. **Climate Finance Relevance and Additionality:** All projects utilizing blended finance must demonstrate a clear contribution to Pakistan’s climate goals including adaptation, mitigation and resilience outcomes. Blended instruments should mobilize financing that is additional to existing public allocations through PSDP, ADP or traditional donor support. Private sector must be encouraged where possible.
  
2. **Value for Money and Fiscal Prudence:** Given Pakistan’s constrained fiscal space, blended finance should be used to improve the efficiency of public spending, reduce reliance on high-cost borrowing and avoid unsustainable fiscal liabilities. Instruments must show clear justification in terms of lowering cost of capital or scaling the reach of public finance. The BFF also contributes to strengthening Pakistan’s debt sustainability and fiscal resilience by reducing reliance on purely sovereign borrowing to finance development projects. By prioritizing concessional financing, private capital mobilization, and innovative non-debt instruments such as carbon markets, guarantees, and impact-linked financing, the framework aims to shift a portion of development financing away from direct public debt obligations. Where debt financing is used, the framework encourages concessional terms, risk-sharing structures, and project-level repayment mechanisms that limit the fiscal burden on the GoP. In this way, blended finance can function as a net debt-optimizing framework and will enable Pakistan to mobilize larger volumes of development capital with value for money while maintaining prudent public debt levels and protecting fiscal space.
  
3. **Market Readiness and Bankability:** Projects must be screened for their potential to attract private or concessional co-financing. Only those projects with credible revenue models, climate co-benefits, risk mitigation mechanisms or performance-based outcomes should be considered. Under the BFF, projects proposed for blended financing should demonstrate clear revenue potential or identifiable cash-flow mechanisms that can support private investment or concessional financing. Such revenue streams may arise from user charges, tariffs, service fees, availability payments, carbon credit revenues, or other predictable income sources that contribute to the financial sustainability of the project

4. **Institutional Coordination and Oversight:** The use of blended finance instruments must ensure early coordination among relevant federal entities, especially MoPD&SI, MoF, EAD, SECP, SBP and MOCC&EC to ensure alignment with national financing strategies and climate policy commitments.

### 3.7. Blended Finance alignment with Uraan Pakistan

The BFF is directly aligned with Uraan Pakistan, the GoP’s flagship economic transformation strategy for 2025–2030. Uraan identifies priority sectors critical to inclusive growth, climate resilience and private capital mobilization. The BFF is designed to operationalize those priorities by applying the five blended finance instruments—green bonds and sukus, carbon markets, debt-for-nature swaps, public-private partnerships (PPPs), and guarantees—in a structured, fiscally sound manner. The table below maps the application of these instruments against Uraan Pakistan’s priority sectors to facilitate targeted financing and implementation.

Government of Pakistan’s Best-Fit Blended Finance Instruments by Sector				
 Export Sector	 E-Pakistan Sector	 Energy Sector	 Equity and Empowerment	 Environment
<p><b>1. Sovereign and Market-Based Guarantees</b> for SME finance, industrial decarbonization, and export-oriented sectors with strong fundamentals but elevated credit risk</p>	<p><b>1. Investment Grants / Viability Gap Funding (VGF)</b> for digital inclusion, rural connectivity, and broadband expansion</p>	<p><b>1. Green Bonds/Sukus</b> to finance renewable energy expansion, grid modernization, and energy storage</p>	<p><b>1. Outcome-Based Financing / Donor Co-financing</b> for skills, health, and inclusive education</p>	<p><b>1. Carbon Market Instruments</b> for reforestation, clean cookstoves, and sustainable agriculture</p>
<p><b>2. Syndicated Loans with Partial Government Risk Participation</b> for Special Economic Zone (SEZ) infrastructure and value-chain development</p>	<p><b>2. Equity Participation through Government or DFIs</b> in fintech, health-tech, and edtech startups</p>	<p><b>2. Carbon Market Mechanisms</b> to monetize emissions reductions from RE, energy efficiency, and distributed energy</p>	<p><b>2. PPPs in Education and Health Infrastructure</b> (e.g., hospitals, diagnostic centers, girls’ schools)</p>	<p><b>2. Debt-for-Nature Swaps</b> linked to biodiversity conservation, protected areas, and watershed management</p>






Government of Pakistan's Best-Fit Blended Finance Instruments by Sector				
 Export Sector	 E-Pakistan Sector	 Energy Sector	 Equity and Empowerment	 Environment
<p><b>3. Hybrid Capital Blending</b> (e.g. grants with concessional debt) for credit-constrained industries and digital trade hubs</p>	<p><b>3. PPP Structures under P3A</b> for national digital infrastructure (e.g., data centers, broadband corridors)</p>	<p><b>3. Sovereign Guarantees</b> for long-term PPAs or utility-scale RE to improve bankability</p>	<p><b>3. Debt-for-Climate Swaps</b> for disaster-resilient public services in vulnerable districts</p>	<p><b>3. Public-Private Partnerships</b> for eco-tourism and climate-smart irrigation systems</p>
<p><b>4. Public-Private Partnerships (PPPs)</b> for logistics, warehousing, and commercial infrastructure</p>	<p><b>4. Green Sukuks</b> to finance energy-efficient IT zones and data infrastructure</p>	<p><b>4. PPPs</b> for hybrid energy parks, mini-grids, and waste-to-energy projects</p>	<p><b>4. Subordinated Debt or Catalytic Capital</b> for affordable housing and inclusive finance institutions</p>	<p><b>4. Grants + Sovereign Guarantees</b> for climate adaptation projects with high co-benefits but low commercial return</p>

Table 5 Government of Pakistan's Best-Fit Blended Finance Instruments by Sector

## Chapter 4: Blended Finance Framework Preparation and Approval Process

To translate blended finance opportunities into implementable projects, the Framework outlines a step-by-step process for project identification, assessment, and approval.

### 4.1 Overview of the Blended Finance Project Process Flow

The operationalization of the Blended Finance Framework will be anchored in Pakistan's national and international climate commitments as well as existing public investment planning and management architecture. Many projects eligible for blended finance will originate from federal and provincial infrastructure pipelines, climate investment portfolios, or priority programs under national initiatives such as the Uraan Pakistan, NAP and the NDCs.

Projects under the Framework will be screened based on alignment with national priorities, technical readiness, and potential to leverage private or concessional capital. The entire process from project

identification to project preparation, approval to project implementation and monitoring will be integrated with the PC’s existing procedures for public investment projects and aligned with relevant sectoral planning documents.

All sponsoring and implementing entities will be encouraged to submit potential blended finance projects as part of their annual development planning and budgeting cycle.

Each project will be tracked by stage (e.g., Inception, Concept Development, Feasibility/PC-II, Structuring, Transaction Preparation), with key information maintained in a standardized project profile format. A summary of the pipeline, including upcoming opportunities, will be shared with domestic and international stakeholders to facilitate early engagement and financing alignment.

Sponsoring agencies including federal ministries, SOEs and provincial departments shall nominate high-priority projects that face financing constraints or are well-suited for risk-sharing with private or concessional partners and that meet both the eligibility and readiness criteria.

Blended finance projects will typically follow a multi-year lifecycle, from concept development to financial closure and implementation. As such, the process should not be viewed as linear or fully contained within a single fiscal cycle. A representative example may be as follows:

Year 1	Year 2	Year 3-4	Year 5-6	Year 6+
The sponsoring agency completes project identification and preliminary screening using the Blended Finance Framework.	A full PC-II-based feasibility study is undertaken, with transaction advisory support and instrument selection formalized. PC-1 is formally presented to the CDWP/ECNEC.	Transaction structuring is completed in coordination with relevant institutions (e.g., MoF, P3A, SECP, SBP), and legal documentation is prepared	The project moves into procurement or financial close stage.	Project implementation commences and disbursements begin under the approved financing arrangement.

Table 6 Multi-Year Lifecycle of a Blended Finance Project

Given this extended lifecycle, a blended finance project may not align neatly with a single annual budget cycle. It will typically involve complex structuring and extensive due diligence, which will extend its lifecycle well beyond a single fiscal year. For example, following initial identification and eligibility screening, a project may take 12–18 months to complete feasibility studies and obtain in-principle support. Only after this stage will the project be mature enough to be considered for inclusion in MTBF Phase II, i.e., development budget estimates or PSDP projections.

Subsequently, the project may require an additional 1–2 years to finalize transaction structuring, negotiate terms with investors or lenders, and secure regulatory or Cabinet approvals. It is only at this advanced stage that the project becomes eligible for Phase III consideration, such as multi-year funding commitments or sovereign guarantee requests. Concurrently, the application of PSDP appraisal, selection and approval criteria, particularly those relating to climate co-benefits will ensure that public resources will be strategically directed toward projects capable of leveraging private and concessional capital. This dual integration also enables a shift from purely budget-funded models toward hybrid financing structures.

## 4.2 Blended Finance Project Preparation Process

The steps involved in identifying, preparing, approving and implementing a project under the BFF are described below. These steps are intended to ensure that blended finance projects are aligned with national development priorities, are financially sound, and are structured in a manner that enables co-financing with private, concessional or climate-aligned capital.

Each step reflects the need for alignment with Pakistan’s public investment and fiscal planning systems (including PC-I and PC-II guidelines), as well as the role of coordination between sponsoring agencies and PC, MoF, EAD, SECP, SBP, P3A, and MoCC&EC.

### Step 1: Project Identification and Initial Screening Through Pre- CCC meeting

Implementing agencies shall begin by consulting Chapter 3 of the Framework, which introduces the five priority financial instruments being promoted by the GoP, which are Green Bonds, Carbon Markets, Debt-for-Nature Swaps, Public–Private Partnerships (PPPs), and Sovereign/Market-Based Guarantees. Selecting the right instrument at the outset will help ensure that subsequent project preparation is tailored to sponsoring agency’s operational readiness, investor expectations, and regulatory requirements.

At this stage:

- The line agency shall prepare a Project Concept Note (PCN) along with the relevant instrument-specific checklist for eligibility and readiness assessment. The PCN shall clearly set out the preliminary concept, indicative cost, potential revenue streams (where applicable), and the rationale for blended finance (e.g., fiscal constraints, off-budget potential, investor interest, and/or climate benefits). The templates for eligibility and readiness assessment for all five instruments under the BFF are provided in **Annex-1 (I-A to I-E)**.
  - **Eligibility Assessment** – to determine whether the project meets the minimum qualifying criteria for the chosen instrument.
  - **Readiness Checklist** – to evaluate the operational, technical, and institutional preparedness of the line agency to move forward.
- The Project Planning and Management Units (PPMDUs) or the Development Wings within each line ministry (and provincial departments) shall assist their respective entities in preparing the PCN. SOEs and attached departments shall submit the PCN through their respective administrative Ministry or Division.

### Step 2: Obtain In-Principle approval in pre CCC meeting

- The pre CCC meeting, chaired by the Member concerned (Planning Commission), shall review the PCN. The sponsoring agency shall present the project concept to enable the Chair and members to assess its eligibility, readiness, and suitability for the proposed BFF instrument. The relevant ministries/departments including MoCC&EC, FD, EAD, SBP, SECP, and P3A, will participate in the pre CCC discussion and shall provide feedback in line with their respective policy and regulatory mandates.
- Line agencies are expected to present a full and detailed view of the project that includes any background work already undertaken (e.g., any in-house or third-party feasibility study already undertaken). The objective is to provide pre CCC with the maximum possible information to

enable fast-tracking of transaction where needed. It shall also clearly articulate the financing gap, anticipated risk-sharing arrangements, expected development and climate impacts, and alignment with national priorities.

- The Finance Division (debt management office) may provide specific feedback on projects with significant financing requirements, cross-border implications, or sovereign guarantees. The EAD may consult external financiers (for example, IFIs, bilateral/multilateral partners, or the MoF Climate Finance Unit) to identify early “showstoppers” and assess catalytic potential for market development.

Based on its review, the Chair of pre CCP meeting may advise taking following course of actions<sup>1</sup>:

- i. If the proposed project meets both the **eligibility and readiness criteria**, PC-I may be prepared.
- ii. If the project meets the **eligibility criteria but not the readiness criteria**, preparation of full feasibility studies under PC-II and engagement of transaction advisors may be recommended. The sponsoring agency shall accordingly prepare a detailed PC-II for approval by the competent forum (DDWP or CDWP). For provincial sponsoring agencies, PC-II approval shall be sought from the PDWP.
- iii. If the project is **neither eligible nor ready**, return the project for re-conceptualization and resubmission, either under an alternative BFF instrument or for conventional financing through PSDP/ADP.

### **Step 3 (Conditional): Where Project Meets Eligibility but Not Readiness Criteria: Complete Full Feasibility Study and Detailed Project Preparation**

Where projects meet eligibility but not readiness criteria the sponsoring ministry, department, or implementing agency shall proceed to commission a full feasibility study under the provisions of PC-II. The feasibility study must comprehensively assess the project's viability across multiple dimensions in line with the Manual for Project Development (2024) and its associated handbook on climate risk screening, and shall also include:

- **Carbon feasibility**, including methodology selection, calculation of ERs and additionality evaluation (see enclosed Annex 4 on TORs for Carbon Feasibility and Roadmap Study).
- **Technical feasibility**, design parameters, and implementation requirements.
- **Economic and financial analysis**, including cost-benefit assessment, revenue potential (if applicable), and value-for-money appraisal.
- **Legal and regulatory due diligence**, including compliance with procurement and public finance rules.
- **Environmental and social impact assessments (EIA/SIA)**, including consultations with affected communities, labour groups, and local stakeholders as required by national and provincial regulatory authorities.
- **Risk Register**, including a comprehensive risk allocation matrix, as detailed in the risk management principles outlined in Chapter 6.

---

<sup>1</sup>An appraiser's guide to evaluate Blended Finance Concept Note along with associated tools is enclosed at Annex-2.

At this stage, the line agency may also:

- Apply for project preparation funding from relevant donor-funded project readiness facilities, multilateral development banks, or infrastructure support windows—such as those managed by the EAD, the Energy Conservation Fund (ECF), the Pakistan Climate Change Fund, Project Development Fund (PDF) maintained by P3A. The EAD may indicate the availability of the Project Readiness Facility during the pre CCC review so that an appropriate financing source for the PC-II can be identified.
- Engage a qualified transaction advisor under PC-II to assist with market sounding, structuring of blended finance instruments, and investor consultations.
- Begin consultations with MoF, EAD, SECP, SBP, P3A, and climate finance partners to validate financing assumptions and identify any potential legal or fiscal constraints. The full feasibility study must demonstrate that:
  - The project is technically sound and bankable.
  - The selected blended finance instrument(s) are appropriate and justified.
  - Social and environmental risks have been identified and are manageable.
  - The project aligns with relevant national development priorities, fiscal discipline objectives, and the strategic use of climate finance.

Upon completion of the feasibility and related due diligence, including regulatory clearances and certifications, the Sponsoring Agency shall prepare the PC-I and submit it, along with all supporting documentation, to the Planning Commission for consideration by the CDWP, prior to onward submission to ECNEC for approval. For PPP projects, approval of the P3A Board may be required to authorize advancement to the structuring and procurement stage, before final approval by ECNEC.

**Step 4 (Conditional): Where Project Meets Both Eligibility and Readiness Criteria: Fast Tracking Approvals for Transaction Structuring and Financing Arrangements**

- Once a project is deemed Eligible and Ready, the project shall be put on the path for a fast-track approval process to ensure that all necessary clearances, authorizations, and institutional endorsements are secured.

The table below outlines the key fast-track approvals for each of the five priority instruments under the Framework, along with the responsible authorities.

Instrument	Key Fast-Track Approvals & Clearances	Responsible Agency
1. Green Bonds / Sukuk	<ul style="list-style-type: none"> <li>• Issuance approval under SBP regulations for debt securities.</li> <li>• Prospectus registration and compliance clearance from SECP.</li> <li>• FX clearance (if foreign issuance) from SBP.</li> <li>• Budgetary commitment / repayment plan approval from MoF.</li> <li>• SPV registration (if required) from SECP.</li> </ul>	SBP, SECP, MoF, MoCC&EC

Instrument	Key Fast-Track Approvals & Clearances	Responsible Agency
<b>2. Carbon Markets</b>	<ul style="list-style-type: none"> <li>Article 6.2 or 6.4 Authorization from MoCC&amp;EC (including corresponding adjustment approval).</li> <li>EIA approval under Pakistan Environmental Protection Act.</li> <li>Offtake agreement clearance (if with foreign buyers) from EAD/SBP.</li> <li>Inclusion in national carbon registry (MoCC&amp;EC).</li> </ul>	MoCC&EC, EAD, SBP
<b>3. Debt-for-Nature Swaps</b>	<ul style="list-style-type: none"> <li>Debt sustainability and swap approval from MoF's Debt Management Office.</li> <li>External financing / debt conversion approval from EAD.</li> <li>Conservation target confirmation from MoCC&amp;EC.</li> <li>Agreement clearance with creditors via MoF/EAD.</li> <li>Legal opinion from Law &amp; Justice Division on transaction structure.</li> </ul>	MoF (DMO), EAD, MoCC&EC, Law Division
<b>4. PPPs</b>	<ul style="list-style-type: none"> <li>Value-for-Money (VfM) and Risk Allocation approval from P3A.</li> <li>Concession agreement clearance from P3A</li> <li>Land allocation / lease approvals from relevant authorities.</li> <li>Licensing / permitting clearances (sector-specific).</li> <li>Fiscal commitment / contingent liability approval from <b>MoF</b>.</li> </ul>	P3A, MoF, Sector Regulators
<b>5. Sovereign / Market-Based Guarantees</b>	<ul style="list-style-type: none"> <li>Guarantee issuance approval under FRDL Act from MoF.</li> <li>Debt sustainability clearance from MoF's DMO.</li> <li>Legal opinion from Law &amp; Justice Division.</li> <li>Budgetary provision for potential calls on guarantee.</li> <li>EAD concurrence (if linked to external financing).</li> </ul>	MoF (DMO), Law Division, EAD

Table 7 Fast-Track Approvals for Financial Instruments

In parallel, the line agency, often with the support of transaction advisors engaged under PC-II, shall also work to:

- Launch detailed financing proposals, term sheets, and procurement documentation aligned with the selected blended finance instrument(s);
- Finalize the project's capital structure, including allocation between public, private, and concessional sources, and the role of instruments such as green bonds, guarantees, carbon revenues, or PPP viability gap funding.
- Determine the appropriate procurement or contractual model, in consultation with relevant regulatory bodies (e.g., SECP for bond issuance, EAD for concessional finance);

Negotiate loan or equity terms with development finance institutions (DFIs), banks, impact investors, or other private sector partners, including risk-sharing arrangements, disbursement conditions, repayment schedules, and contingent liability provisions. This stage often requires:

- Receiving all relevant authorizations and clearances from the concerned stakeholders under the BFF institutional arrangement: MOF, EAD, PC, SBP, SECP, MOCC, P3A
- Finalization of technical annexes, including updated financial models, market sounding reports, sensitivity analyses, environmental management plans, authorization, clearances, compliance certificate and legal opinions.
- Detailed engagement with DMO, SECP, or SBP for regulatory clearance, if sovereign guarantees, capital market instruments, or cross-border flows are involved.
- Alignment with public financial management protocols at the Budget Wing, particularly where on-budget contributions, annuity payments, or fiscal support measures (e.g., guarantees, subsidies) are envisaged.

Given the complexity of negotiations and institutional coordination required, this phase may span multiple fiscal years, especially for large-scale infrastructure or climate-linked transactions. Finalization of the transaction documents shall mark the point at which the project is ready for financial close and procurement launch, subject to any remaining approvals.

#### **Step 5: Approvals for Procurement Launch and Financial Close**

Upon completion of transaction structuring and finalization of the financing arrangement, whether in the form of capital market issuance, debt agreement, PPP concession, or blended structure involving multiple instruments, the project shall obtain the necessary formal approvals before any procurement processes can be initiated.

This stage includes the following key actions:

- The sponsoring ministry or agency shall submit the full transaction package PC-I along with signed term sheet, financial model, all transaction authorizations, risk allocation structure, procurement documentation, or any other relevant document, for endorsement by the relevant approving forum i.e., ECNEC:
  - For large infrastructure projects or those involving federal fiscal exposure, this may include clearance from the MOF, and P3A Board-for PPP projects.
  - For capital market-based instruments (e.g., Green Bonds/Sukuks), regulatory compliance shall be verified by the SECP or SBP in case of foreign currency transactions.
  - Where sovereign guarantees or external concessional financing are involved, the DMO (Finance Division) shall confirm compliance with borrowing ceilings, legal requirements, and any international obligations.
- Operationally, the sponsoring agency shall prepare and submit a PC-I to the Planning Commission for consideration by the CDWP, prior to its recommendation to ECNEC for final approval. The PC-I dossier shall be accompanied by all relevant supporting documentation, including the feasibility study, project design documents, MRV framework, and regulatory or statutory compliance certificates, as applicable.
- It is the sponsoring agency's responsibility to provide the CDWP with the maximum possible information and evidence to enable timely decision-making and to avoid delays arising from subsequent modifications and resubmissions of the PC-I. Where any procedural requirement or compliance certification is pending, the sponsoring agency shall include a list of outstanding items

and provide a clear and justified rationale for why these could not be included in the PC-I dossier at the time of submission.

- Where necessary and applicable, the sponsoring agency shall also enclose a legal opinion from the Law and Justice Division. The final PC-I shall constitute a complete and decision-ready dossier to facilitate efficient review and appraisal by the CDWP, before the same is recommended for the approval of ECNEC.
- The CDWP, before recommending a project to ECNEC for final approval, is mandated to review all key aspects of the proposed project, including its design, implementation arrangements and workflows, financing structure, overall impact on the PSDP, and any associated fiscal risks and guarantees (policy or monetary). This review is intended to ensure that the project is sufficiently prepared and can proceed to implementation promptly after approval.
- Procurement and disbursement can only proceed after financial close is formally recorded, with all legal agreements executed and financing conditions precedent satisfied.
- The Finance Division shall ensure that all borrowing and guarantee issuances are duly recorded and reflected in the budgetary documents required under the PFM Act, 2019. It shall be added that no procurement shall be launched unless adequate budgetary provision (if applicable), as per approval of the ECNEC, has been confirmed.
- To strengthen institutional learning and improve future transactions, a structured Post-Financial Close Review process shall be completed by the line agency. This shall include a standardized “Lessons Learned” template to be completed by the sponsoring agency within six months of financial close or contract execution.

#### **4.3 Project Screening and Approval Pathways**

With support from the relevant technical and operational sections under the Member concerned (Planning Commission), the Pre-CDWP/CCC meeting will screen each project for strategic fit under the proposed blended finance instruments. It will assess whether the project meets the eligibility and readiness criteria and, accordingly, recommend projects for PC-II (where eligible but not yet ready) or PC-I (where eligible and ready). Chapter 6 of this Framework further outlines the roles and responsibilities of the Planning Commission.

ECNEC is the final approval authority for transactions that fall within its sanctioning authority (as determined by the National Economic Council), as well as any transaction that involves a foreign exchange component, such as a debt-for-nature swap or green bonds/sukuk issued in international capital markets. For transactions with an external component, ECNEC should remain the final approval authority regardless of the cost threshold.

- The BFF encourages large transactions, ideally Rs. 10 billion or more, as scale is typically necessary to attract private capital and to justify the time and cost of structuring under PC-II. The main exception is transactions involving an external component, such as international capital market issuances or debt-for-nature swaps negotiated with bilateral or multilateral development partners, which may be pursued irrespective of size.

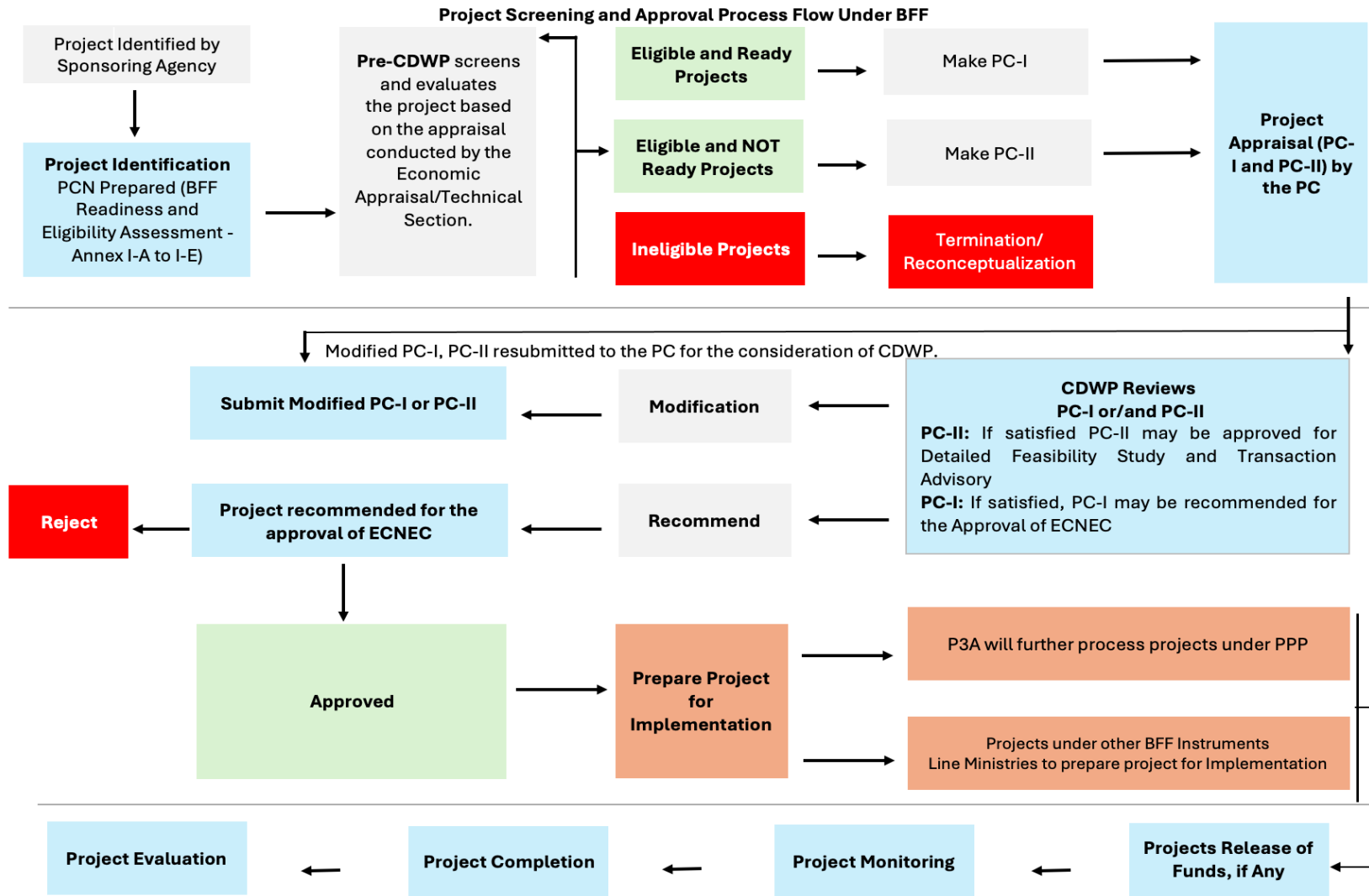
For projects which are eligible and ready, sponsoring agency shall prepare a PC-I and submit to the Planning Commission. The pre-CCC meeting should review the PC-I, and subject to completeness and fulfilment Pre-CCC meeting’s observations should be considered by the CDWP for final recommendation

to the ECNEC. However, if the CDWP raise observations, these observations should be timely addressed by the sponsors and a modified PC-I may be resubmitted for the consideration of the forum.

There two streams through which the proposed project under the BFF can be considered by the Planning Commission:

- I. Projects already recommended by the competent forum (for example, CDWP or ECNEC) to explore alternative financing options such as PPPs or capital market instruments. For these projects, the sponsoring agency may have already prepared the PC-I. In such cases, the existing PC-I should be submitted, with only minor updates where necessary to reflect the proposed BFF instrument/financing structure and should be submitted together with the relevant Framework Eligibility and Readiness Assessment templates (Annex I-A to I-E)
  - II. Ideally, if a project has been identified with potential for financing under the BFF, the sponsoring agency shall prepare a Project Concept Note (PCN) along with instrument-relevant eligibility and readiness assessment
  - III. For projects initiated by provincial departments, the project pathway will follow the same BFF screening and forum sequence, while using the provincial resources for financing project readiness. Where a project is assessed by pre CCC meeting as eligible but not yet ready, the PC-II should be financed from the provincial Annual Development Plan (ADP) after the approval of the competent provincial forum (e.g., Provincial Development Working Party).
- Upon identification of a project, the concerned provincial department will prepare a Project Concept Note (PCN) along with BFF instrument-specific eligibility and readiness assessment and submit it to Planning Commission. The Member concerned, Planning Commission will ensure completeness of the submission, confirm instrument fit, verify the cost threshold, and check that key documentary requirements are met. Based on Pre-CCC meeting's assessment results, it may: (i) route it for preparation of PC-II for readiness, or (ii) route it for preparation/submission of PC-I, if project meets readiness criteria; or (iii) return it to the sponsors for reconceptualization.
  - Where a project is eligible but requires readiness, the provincial department will seek approval of PC-II from the provincial Planning and Development Department/Board to undertake feasibility studies and engage technical advisory for structuring the project to enhance its readiness. Where a project is eligible and ready, the provincial department will prepare the PC-I and obtain endorsement from the Provincial Development Working Party (PDWP) before submitting the PC-I to the Planning Commission. The Planning Commission will then process the case through CDWP for scrutiny and recommend it to ECNEC for approval.

Figure 11 Project Screening Approval Process Flow Under BFF



\*The CDWP shall approve PC-II for projects sponsored by federal agencies with an estimated cost above Rs. 1 billion. For federal projects costing less Rs. 1 billion, the DDWP shall approve the PC-II. For provincially sponsored projects, the PDWP shall approve the PC-II.

## Chapter 5: Risk Management and Fiscal Sustainability

### 5.1 Risk Management and Allocation Principles under Blended Finance

The opportunities for the GoP’s strategic use of blended finance instruments also brings with it complex financial, legal, and operational risks that must be carefully managed. Sectors such as transport, energy, urban services, water resources, and resilience infrastructure offer substantial potential for crowding in private and concessional capital. However, such projects must be structured to avoid excessive reliance on public guarantees or assumptions of risk that could create long-term fiscal liabilities.

In pursuing alternative and blended financing, the GoP aims to:

- Balance Pakistan’s infrastructure and climate ambitions with fiscal discipline.
- Allocate risks in a manner that leverages private sector capital and capabilities without exposing the public sector to unmanageable or poorly understood contingent liabilities.;

To support this, each project proposed under the BFF shall incorporate a Risk Allocation Matrix as part of the feasibility and structuring process. This matrix shall:

- Identify key risk categories across the project lifecycle (e.g., construction, demand, regulatory, environmental, foreign exchange).
- Assess the probability and potential impact of each risk.
- Clearly allocate each risk to the party best able to manage or mitigate it, —whether the Government, the private sector partner, a donor, or a third party such as an insurer or guarantee facility.

This matrix shall be developed at the project identification stage, alongside preparation of the PCN. It shall be updated upon completion of the feasibility study, and the PC-I shall be revised to reflect the risks and mitigation measures identified earlier, prior to CDWP’s final recommendation and ECNEC approval. The risk matrix shall be, updated throughout the project lifecycle, and reported through the PC-III.

### 5.2 Typical Risk Allocation Under Blended Finance Instruments

Blended finance structures in Pakistan require clear, consistent, and commercially viable risk allocation to ensure bankability, maintain fiscal safeguards, and protect public service delivery. The guiding principle under the BFF is to allocate each project risk to the party best equipped to manage or mitigate it at the lowest cost. Risk allocation must be clearly documented in the project’s concept note, feasibility studies and financial structuring documentation, and subject to review by relevant oversight bodies. The table below outlines typical risk allocation approaches anticipated under blended finance modalities:

Risk Type	Allocation	Modality	Mitigation Measures
Construction and Completion Risk	Private sector	Particularly in Public-Private Partnerships (PPPs), Engineering Procurement and Construction (EPC), and turnkey contracts	Ideally must reside with the private sector. Performance bonds, liquidated damages, and step-in rights are recommended.

Risk Type	Allocation	Modality	Mitigation Measures
			The GoP only shares this risk under specific circumstances such as security-related disruptions, force majeure, or delays attributable to government clearances or community displacement issues.
Cost Overrun Risk	Private contractor	Fixed-price contracts in EPC or Design-Build-Finance models	Must reside with the private sector. Structure major works as fixed-price contracts to transfer cost overrun risks to contractors, especially in PPPs, EPC, and DBO models. Government shares this risk only where pre-agreed cost variations arise due to changes in scope initiated by the public sector.
Demand or Revenue Risk	Shared, depending on project type	For commercial or user-pays infrastructure (e.g., toll roads, water utilities): Partial transfer to private sector or full retention through minimum revenue guarantees For social infrastructure (e.g., schools, basic health units): Retained by government, with budgetary payments as revenue streams (e.g., availability payments)	Demand forecasts must be independently verified. Where guarantees are provided, budgetary provisioning in the MTBF is required.
Financing and Interest Rate Risk	Private sector or Government depending on financing model	For private sector-financed projects: Interest rate and exchange risks are managed through hedging instruments or local currency financing For government borrowing: Must be in line with Debt Management Strategy, with prior concurrence of MoF	Structure financing in local currency wherever possible to avoid exchange rate volatility. Ringfence project cash flows for debt servicing.  <b>Legal Constraints:</b> Subject to the Public Finance Management Act, 2019 (amended), Fiscal Responsibility and Debt Limitation Act (FRDLA), and approval by DMO where sovereign borrowing is involved
Operating and Performance Risk	Operating party (usually private)	In performance-based contracts and PPPs, penalties apply for non-performance.	Long-term operation and maintenance (O&M) contracts, presence of independent engineer for project oversight, performance-based service level

Risk Type	Allocation	Modality	Mitigation Measures
			agreements, and performance guarantees.
Regulatory and Political Risk	Government (where discriminatory changes occur)	General regulatory changes (e.g., tax regime) are borne by the private party Specific legal or administrative changes adversely affecting project economics may trigger change-in-law clauses	Political risk insurance (e.g., through Multilateral Investment Guarantee Agency-MIGA) or stabilization clauses for foreign investors
Climate and Force Majeure Risk	Shared	Climate risks (e.g., floods, heatwaves) are accounted for during project design and reflected in resilience planning	Force majeure clauses, insurance solutions (parametric or catastrophe bonds), and physical resilience investments under adaptation finance streams.
Technology Risk	Private sector (especially for novel technologies)	If technology is proposed by private party: fully transferred If jointly agreed or donor-funded: shared risk	Government defines output specifications and not technologies, allowing innovation while shifting implementation risk to provider.

Table 8 Risk Allocation and Mitigation Measures in Blended Finance Projects

## 5.3 Liabilities Management and Fiscal Oversight

### 5.3.1 Management of Contingent Liabilities

Alternative and blended finance instruments often generate contingent obligations—commitments that may arise in the future depending on specific contractual triggers. These include, but are not limited to, outcome-based payments, viability gap funding (VGF) disbursements, minimum revenue guarantees, or early termination payments in PPP arrangements.

To ensure fiscal transparency, the DMO shall maintain a Register of Contingent Liabilities arising from all approved blended finance transactions. All such obligations must be recorded at the time of financial close or contract execution and updated periodically in consultation with the relevant implementing agencies. Where a contingent obligation is triggered, the sponsoring ministry, agency, or provincial government shall notify the DMO in writing within five working days. Unless otherwise agreed in advance, such obligations shall be met from within the originating agency’s approved budgetary envelope. Ministries implementing projects under the BFF are advised to budget for foreseeable operational risks, including any cost overruns or performance-linked payments. As Pakistan builds institutional maturity and track record in blended finance, MoF may consider establishing Contingent Liability Provisioning Rules or a Dedicated Contingency Reserve, subject to appropriation through the annual budget process and requisite approvals.

### 5.3.2 Direct Debt and Guarantee Management

In cases where the GoP, for a line ministry, provincial government, or executing agency, undertakes direct borrowing or issues guarantees as part of a blended finance structure, it shall comply with the Fiscal

Responsibility and Debt Limitation Act (FRDLA), the PFM Act 2019 (amended), and any relevant rules issued by the DMO.

All new debt or sovereign guarantees shall require:

- Risk and fiscal impact review by the DMO
- Prior approval by the Economic Coordination Committee (ECC), where applicable
- In certain case to case basis, final concurrence by the Federal Cabinet of the GoP

### **5.3.3 Key Principles for Fiscal Prudence in Blended Finance**

To safeguard fiscal sustainability and investor confidence, the following principles shall guide all blended finance transactions involving sovereign or quasi-sovereign borrowing:

**i. Project-Based Structuring:** Each financing arrangement shall be anchored in a clearly defined project with specific outputs, cost ceilings and a timeline. This project-level focus enables performance tracking and tighter fiscal control.

**ii. Ring-fencing of Revenue:** Any revenue stream linked to the project (e.g., user charges, carbon revenues, lease payments) must be ring fenced for debt servicing and operations. Implementing agencies shall maintain separate accounts to isolate these funds from general-purpose expenditures.

**iii. Revenue Coverage and Sustainability:** Projected revenues must fully cover both debt repayment obligations (principal and interest) and operating costs. Projects qualified under the BFF should not require long-term subsidies from the general budget unless approved under a Public Service Obligation framework under the SOE Act 2023 and SOE Policy at the federal level. Where gaps are anticipated, the financing plan must include concessional capital, donor support, or risk mitigation instruments.

### **5.4 Fiscal Affordability Analysis**

All projects pursued under the Framework must include a robust fiscal affordability analysis, first as part of the Blended Finance Concept note and subsequently as an integral part of the PC-II feasibility process. This analysis is intended to ensure that any future financial commitments, whether in the form of debt service, minimum revenue guarantees, availability payments, outcome-based disbursements, or operational subsidies, are financially sustainable and can be accommodated within the sponsoring agency's MTBF ceilings.

The fiscal affordability analysis must be part of the PC-II submission and shall include:

- Projected cash flow obligations to the government over the life of the project.
- Sensitivity testing under different macroeconomic scenarios (e.g., inflation, exchange rates, interest rates).
- Comparison against available fiscal space within the sponsoring ministry's or provincial government's approved budget line.
- Identification of any additional fiscal allocations required, along with the proposed source and timeline for budget approval.

Where projects result in long-term liabilities or periodic budgetary outflows, the line agency must secure in-principal budget concurrence from the DMO and/or relevant provincial finance departments before advancing to contract finalization. No blended finance transaction shall be concluded based on speculative funding sources or unrealistic assumptions of future budget growth. For instance, if the project assumes

a conditional grant from the federal government, this must be formally verified with the MoF and Planning Commission and, where applicable, reflected in the PSDP.

To ensure analytical consistency, the Finance Division shall issue standard financial assumptions such as inflation forecasts, discount rates for Net Present Value (NPV) and fiscal risk thresholds to be used by all line agencies in preparing fiscal affordability analyses. No project under the Framework shall be approved without demonstrated fiscal headroom, with clearly identified funding sources and alignment with the GoP's medium-term fiscal strategy.

## 5.5 Risk Oversight

The DMO and project transaction advisor shall:

- Review and validate the Risk Allocation Matrix during project structuring which is aligned with international good practices and Pakistan's fiscal risk thresholds.
- Evaluate provisions in project agreements relating to risk mitigation tools (e.g., guarantees, insurance instruments, reserve accounts).
- Assess the use of sovereign guarantees and ensure they are backed by MoF approval and are transparently reported as potential contingent liabilities.
- Monitor risk during project implementation, including tracking deviations from demand or revenue forecasts, cost overruns, construction delays, or force majeure events.
- Recommend early corrective actions where fiscal exposure is rising, including project restructuring, re-negotiation or provisioning of budgetary support.

The goal is to ensure that all blended finance transactions are fiscally responsible, transparently monitored, and contribute to long-term value without compromising Pakistan's macro-fiscal stability.

## 5.6 Guidance on Prohibited Activities

To ensure compliance with Pakistan's legal and fiscal framework, the following activities are strictly prohibited under this Blended Finance Framework. These prohibitions apply to all federal and provincial ministries, departments, executing agencies, and state-owned entities involved in alternative or blended finance transactions:

1. **No debt may be incurred except in the name of the Islamic Republic of Pakistan**  
All sovereign borrowing must be undertaken in accordance with Article 166 of the Constitution of Pakistan, and only the federal government through the Ministry of Finance may contract external or domestic debt on behalf of the state.
2. **Only the Federal Minister for Finance may authorise borrowing or issue sovereign guarantees**  
No department or public entity may independently negotiate, sign, or commit to any financial arrangement (loan, guarantee, indemnity, or letter of comfort) without prior written approval from the Ministry of Finance, in line with the Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005, and relevant rules under the Public Finance Management Act 2019 (amended).
3. **All debt and contingent liabilities must be reviewed and approved by the Debt Management Coordination Committee (DMCC)**  
The DMCC, chaired by the Secretary Finance, shall screen and evaluate all proposals involving debt-like commitments or potential fiscal liabilities, including those embedded in PPPs, guarantees, or results-based instruments.

## Chapter 6: The Roles and Responsibilities of Planning Commission

### 6.1 Planning Commission – The Custodian of the Blended Finance Framework

The Planning Commission, chaired by the Prime Minister, is the apex planning and coordination body of the Government of Pakistan. In addition to formulating the national economic vision, the Annual Plan, and the Public Sector Development Programme, it is also tasked with promoting and developing the role of the private sector as an engine of growth by co-opting it as a partner in the development process<sup>2</sup>. The blended finance framework directly advances this mandate by providing an institutional and systematic route to crowd in private capital for high-impact public investments that face funding constraints under limited fiscal space. Accordingly, the BFF is best implemented and operationalized through the Planning Commission and integrated into the existing development planning and management system, so that private capital mobilization is mainstreamed within the established process and managed with clear ownership and accountability.

Planning Commission will operationalize the BFF by embedding it in the existing public investment planning and management cycle. This means BFF projects will be conceptualized, prepared, and processed through the standard PCN, PC-II and PC-I route, and will move through the established approval forums, namely CDWP and ECNEC, respectively. Because BFF will only consider projects that are high value (above Rs. 10 billion) and typically involve more complex structuring and financing arrangements, they require disciplined front-end screening and sustained oversight within the national planning system. The PC is therefore the appropriate platform to mainstream BFF projects into the development process without creating a separate prioritization or approval track.

The BFF is designed to complement Pakistan's existing planning and development architecture, not replace it. CDWP will remain the core scrutiny and gatekeeping forum. It will ensure that proposed BFF projects are technically sound, financially, and fiscally credible, and aligned with national development priorities before they are routed onward for the final approval of the ECNEC. ECNEC, acting under NEC's delegated authority, will remain the final approval forum for BFF projects and related policy matters. In this way, the BFF keeps the same approval hierarchy, while improving the quality of project preparation and scrutiny before cases reach the formal decision stage.

The Planning Commission, supported by its Secretariat (MPDSI), performs the same core functions for projects under BFF that it performs for all PSDP-funded development projects across the project life cycle. These functions include concept screening, processing PC-II and PC-I for approval by the competent forums, monitoring implementation through PC-III, and completion reporting and evaluation through PC-IV and PC-V. The figure below summarizes these functions and shows how they fit within the existing development planning and management system. The section that follows explains each function in more detail.

#### 1. Initial Scrutiny and Project Screening at Pre-CDWP Level

The initial scrutiny of projects proposed under the BFF will be undertaken through the existing Pre-CDWP process, led by the relevant Member of the Planning Commission. As part of this review, the relevant sections will evaluate the PCN/CCP, financing structure, and potential suitability for blended finance based on preliminary indicators such as revenue potential, scope for private participation, availability of concessional financing, or opportunities for risk-sharing with development partners, using the checklist submitted by sponsoring agency (Annex – 1 A-E) and through its own appraiser checklist (Annex -2).Where

---

<sup>2</sup> The Cabinet Division Resolution, 30 October 2013. The resolution also expanded the Planning Commission by increasing the number of members to 12.

the relevant Member of the PC determines that the project demonstrates potential for blended finance structuring, the pre CCC meeting may invite Ministry of Finance, Ministry of Climate Change and Environmental Coordination, Economic Affairs Division, P3A, SBP, and SECP and any other relevant institution for their review and input—depending on the nature of the proposed financing instrument.

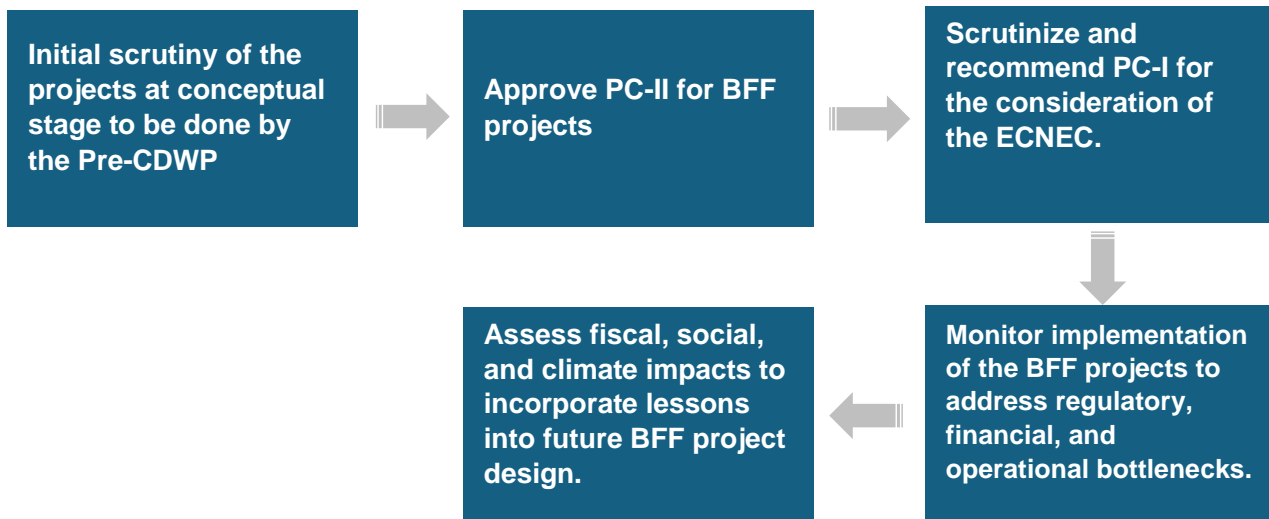


Figure 12 Functions of Planning Commission in Operationalizing BFF

## 2. Approval of PC-II and Scrutiny of PC-I

Central Development Working Party (CDWP) will serve as the main scrutiny forum and gatekeeper for BFF projects. For high-impact, eligible projects, CDWP may approve the PC-II so that readiness activities can be financed through a one-time PSDP allocation, including preparation of feasibility studies, engagement of technical and transaction advisory (where required), and establishment of project management arrangements. However, sponsoring agencies will be encouraged to seek readiness facilities provided by the development partners. Whereas provincial sponsoring agencies will need to seek approval of the PC-II from their respective provincial forums (i.e., Provincial Development Working Party). Chapter 4 provides the approval pathways for the BFF projects initiated by the provincial level sponsoring agencies.

During preparation and approval of PC-II, CDWP’s scrutiny is critical to ensure that the project design is technically sound, the proposed structuring is credible, and key fiscal and regulatory risks are identified early with practical mitigation measures. Once the PC-II outputs are completed and CDWP’s observations have been addressed, the project is then matured into a PC-I of sufficient quality for onward processing and, where applicable, submission to ECNEC for final approval.

The CDWP may also invite senior level representation from the SBP, SECP and P3A (who are not permanent member of the forum), if required, when BFF projects are on the agenda of the party.

## 3. Approval of Projects Under BFF

Once a BFF project has been fully prepared and cleared by CDWP, it is placed before the Executive Committee of the National Economic Council (ECNEC) for final approval. Under the BFF, ECNEC is the final approving authority, and projects reach ECNEC on the recommendation of the CDWP. ECNEC’s role is critical because it is the forum empowered to sanction large development projects, and issues policy guidelines for enhancing the operational and financial efficiency of development projects and operational processes governing development projects. ECNEC, by virtue of its membership and functions, provides the top-level ownership needed for complex blended finance transactions and signals that the project is endorsed at the highest level of the national development planning system. Practically, once ECNEC

sanctions a BFF project, it becomes a formally approved project under the competent forum, smoothing subsequent process such as required regulatory and fiscal authorizations, thus, avoiding delays in project implementation.

<b>ECNEC</b>	Executive Committee of National Economic Council is the final approval forum for the projects and programs under the BFF.
<b>CDWP</b>	Central Development Working Party shall approve the PC-II of eligible projects and allocate resources from within the PSDP and subsequently ensure comprehensive project preparation under PC-I before recommending projects to the ECNEC for the final approval.
<b>Pre-CDWP</b>	The Pre-CDWP, led by the relevant Member of the PC, will undertake the initial scrutiny of project concepts submitted by line ministries. At this stage, the project’s strategic relevance, preliminary financing structure, and overall readiness for appraisal will be assessed. Where the project demonstrates potential suitability for blended finance, such as the presence of revenue streams, scope for private participation, or opportunities for concessional financing, evaluation of eligibility and readiness under the BFF.
<b>PWDP</b>	Provincial Working Development Party shall approve the PC-IIs of the BFF-eligible projects under the BFF. Approval of the PC-II from the provincial Annual Development Plan shall finance technical feasibility studies and engagement of technical advisory for structuring transactions under the BFF. Subsequently PWDP shall approve PC-Is before they are submitted to the Planning Commission for the approval of the ECNEC.

Table 9 Summary of the Committees and Approval Forums for BFF

#### 4. Project Monitoring (PC-III)

The Public Financial Management Act 2019 (Section 18(2)) assigns the Planning Commission a clear monitoring and evaluation role for development projects whereas various CDWP decisions as outlined in the Manual For Development Projects (2024) operationalize this role through a defined project monitoring system, supported by PC-III reporting and the Planning Commission’s monitoring arrangements, and reinforced through ECNEC decisions aimed at improving the efficiency of the development process<sup>3</sup>. Since the BFF is intended to function within the same planning and project management architecture, BFF projects should be monitored through this established system, rather than through a separate monitoring track.

At the time of project appraisal also, the sponsoring agency will identify a set of core indicators from the above categories and incorporate them into the PC-1 documentation (see Annex-6). These indicators will form the basis for ongoing monitoring during implementation and post-completion evaluation. Progress against these indicators will be reported through the existing government monitoring and evaluation framework, including project progress reports, mid-term reviews, and PC-III completion reports.

For BFF projects, PC-III monitoring reports (including Cash Plan, Work Plan, Physical Progress Report or other necessary documents) will be prepared and submitted by the project management team and the sponsoring agency through iPAS. These reports should be submitted on a quarterly basis to the Planning Commission to record physical and financial progress and to flag implementation bottlenecks.

<sup>3</sup> ECNEC Decision 1 October 2020.

### **Preparation/Submission of PC-III**

- The project management team and/or sponsoring agency will prepare the PC-III as part of the normal project life cycle reporting.
- The PC-III will record physical and financial progress, highlight implementation bottlenecks, and propose practical corrective actions.

### **Escalation to ECNEC**

- Where issues require policy direction, high-level coordination the matter may be escalated to ECNEC for timely resolution.
- ECNEC's intervention may be required on major implementation slippages, material changes in risk allocation or project structuring, or decisions on fiscal support packages that affect affordability and the project's ability to proceed.

## **5. Project Completion and Evaluation (PC-IV and PC-V)**

Under the BFF, project completion and evaluation follow the same Planning Commission procedures used for all development projects. Once a project is completed, it is formally closed through the PC-IV process, and its post-completion performance is assessed through the PC-V evaluation process. This ensures an orderly close-out, confirms what was delivered against what was approved, and captures lessons to improve the quality blended finance project pipeline. For BFF projects, these procedures will also help the Planning Commission review whether the intended blended finance outcomes (e.g., fiscal saving, timely completion, efficient implementation, and service delivery etc.) were achieved and use the evidence to strengthen future screening, structuring, implementation and oversight of the blended finance projects.

At completion of a BFF project, the sponsoring agency should complete operational and financial closure, prepare the PC-IV (Project Completion Report), and submit it to the Planning Commission. A project is considered operationally closed when all activities are completed, expenditures are reconciled, the project management unit is closed, and project assets and operations and maintenance responsibilities are formally handed over to the implementing agency. Financial closure confirms that all commitments have been settled and all project accounts have been closed. Submission of PC-IV to the Planning Commission is mandatory. Based on the PC-IV, the M&E Wing in consultation with the concerned technical section shall prepare short closure brief on the PC-IV of the BFF project.

After completion, BFF projects should be evaluated through the existing PC-V process to assess whether the project is delivering the intended outcomes. The sponsoring agency should submit post-completion performance information to the Planning Commission in the required PC-V format, covering operations and maintenance performance and service delivery outcomes. For BFF projects, the evaluation should also record whether the intended blended finance results were achieved, including the degree of private capital mobilized, how the risk allocation performed in practice, and whether any fiscal or contingent liabilities emerged during implementation and early operations. The findings should be fed back into the BFF pipeline and screening criteria to strengthen future project preparation and structuring.

### **6.2 Role of the Ministry of Planning, Development and Special Initiatives (MPDSI)**

MPDSI serves as the Secretariat of the Planning Commission and provides the technical and operational support through its technical and operational sections. Technical sections are organized by sector (for example, infrastructure, environment and climate change, and social sectors), lead technical scrutiny of project concepts and designs whereas operational sections support the Planning Commission by providing economic and financial appraisal; ensuring that approved projects are appropriately reflected in the

annual PSDP, and coordinating working of key development forums such as ECNEC, CDWP and APPC. Together, these sections provide a one-window platform of technical and economic expertise that helps ensure projects are technically sound, economically justified, aligned with national priorities, and ready for approval and implementation.

Under the BFF, this same institutional capacity is applied more deliberately to larger and more complex projects that require stronger screening and readiness discipline. MPDSI's technical and operational sections will support a more systematic screening, preparation, and processing of blended finance projects, ensuring they are technically sound and economically viable before they are placed before, CDWP, and ECNEC for informed decision-making.

## Chapter 7: Institutional Roles and Governance

The governance structure seeks to mitigate risks of delays in departmental approvals or fragmented execution. It does so by establishing an oversight model that builds on Pakistan's existing public finance and project management systems. The Framework will be governed through a tiered structure of institutional roles to reflect national development priorities, comply with legal frameworks, and uphold fiscal discipline. Also, as outlined in Chapter 1, from time to time, the Planning Commission may sign inter-ministerial transaction specific, Services Level Agreements (SLAs). A draft SLA is included in Annex-5.

### 7.1 Ministry of Finance (MoF)

MoF shall ensure fiscal discipline and debt sustainability for all projects using blended finance instruments. Its responsibilities include:

- Ensure that all BFF-supported projects are assessed for fiscal affordability and integrated into the MTBF and PSDP fiscal envelope provided to the Planning Commission
- Support pre CCC meeting to provide early-stage feedback on the fiscal implications of BFF proposals.
- Assessing fiscal implications and contingent liabilities of projects using guarantees, PPPs, or debt-based instruments.
- Reviewing sovereign guarantees or risk-sharing instruments.
- Participating in the screening of on- and off-balance sheet risks and project structuring stages.
- Ensure compliance with economic policy, concessionality thresholds, and alignment with Pakistan's external borrowing ceilings.
- Provide timely advice, to CDWP/ECNEC on fiscal and debt-related risks embedded in the proposed BFF financing arrangements.
- Ensure proposed BFF financing arrangements are consistent with the Medium-Term Debt Strategy (MTDS) and the annual borrowing plan.
- Provide an affordability and sustainability assessment for BFF projects proposed for financing, including implications for debt and fiscal space.
- For BFF guarantees and PPP availability payments, assess the expected fiscal exposure and recommend risk controls (e.g., caps, triggers, reporting, and monitoring arrangements).
- Ensure contingent liabilities arising from BFF projects are reflected in the Fiscal Risk Statement and tracked over time.
- Assist project sponsoring agencies in case of approved green bond/sukuk concepts into a viable issuance strategy (tenor, currency/denomination, pricing approach, timing, investor outreach, and risk management), in coordination with SBP, SECP, and other relevant stakeholders.
- Operationalize fund-flow and accounting procedures for BFF project accounts (including assignment accounts/PLAs and, where applicable, foreign currency arrangements), in compliance with PFM rules and the Budget Manual.
- Allocate heads of account and ensure SAP coding for BFF-related flows (including TSA alignment), covering both development and current components and any dedicated accounts required for execution.

- Ensure core fiscal/budget documents disclose BFF projects and associated government support, to enable transparent reporting of commitments, instruments, and exposures.
- In coordination with EAD and the Planning Commission, ensure that fiscal savings and other concessions secured through debt-for-nature swaps are transparently captured and reflected in the development budget.

## **7.2 Economic Affairs Division (EAD)**

EAD will act as the interface for all externally sourced co-financing:

- Secure concessional co-financing, or technical assistance for eligible BFF projects.
- Assist sponsoring agencies in accessing the Project Readiness Facility support offered by Development Partners.
- Coordinate with the Planning Commission and line ministries to access the blended finance project pipeline and identify prospective donors/development partners will to undertake for debt-for-nature swaps.
- Support pre CCC meeting to review BFF project proposals for alignment with available and prospective external financing sources.
- Lead engagement with development partners.
- Process all foreign financing proposals related to debt-for-nature swaps, green bonds with cross-border issuance, and RBF programs.

## **7.3 Ministry of Climate Change and Environmental Coordination (MoCC&EC)**

- Ensure that all projects seeking blended finance are screened for climate relevance, and that eligible projects are prioritized in accordance with:
  - Pakistan’s Nationally Determined Contributions (NDCs)
  - National Adaptation Plan (NAP)
  - National Climate Finance Strategy (NCFS)
  - Pakistan Policy Guidelines for Trading in Carbon Market
  - Sectoral climate strategies and action plans
- Guide sponsoring agencies on “instrument-fit” for projects proposing carbon revenues, including whether to pursue Voluntary Carbon Markets or Article 6 pathways, and key prerequisites/risks.
- Provide authorizations of Article 6.2 and 6.4 as necessary and ensure projects are registered in national carbon registry.
- Support pre CCC meeting for projects proposing climate-related instruments (e.g., carbon markets, resilience bonds, debt-for-nature swaps).
- Evaluate technical soundness of climate-related projects and validate eligibility under carbon markets and green finance guidelines.
- Maintain technical oversight on additionality, and MRV in climate finance instruments.
- Confirm policy and regulatory compliance for carbon market transactions under relevant policy guidelines and advise sponsoring agencies on required approvals and conditions.

- Facilitate federal line ministries and provincial departments in development of carbon market investment projects by helping identify and structure pipelines suitable for carbon finance integration under BFF.

#### **7.4 Public-Private Partnership Authority (P3A)**

For PPP-related blended finance structures, the Federal P3A shall:

- Approve project structuring and risk allocation once PQP is submitted; clear transaction documentation for tender launch or negotiation. Review feasibility studies and approve transaction structures at PCP and PQP stages.
- Provide upfront screening for commercial viability.
- Guideline agencies on procurement, risk allocation, and performance-based payment mechanisms.
- Support pre CCC meeting by reviewing PC-I and PC-II proposals that embed PPP components and advising on readiness and optimal transaction pathways.

#### **7.5 Execution Ministries, Departments, and Entities**

Executing agencies at both federal and provincial levels will remain responsible for:

- Origination, design, and preparation of blended finance proposals.
- Integration of Climate Finance Relevance section in the PC-I.
- Conducting feasibility assessments and engaging transaction advisors where needed.

#### **7.6 State Bank of Pakistan**

- Support pre CCC meeting where blended finance instruments require regulatory clarity, banking sector involvement, or innovative financial structuring.
- Approve foreign currency accounts or flows; provide regulatory clearances; map transaction under Green Taxonomy and provide input where required.
- Participate and guide commercial banks, DFIs, and non-bank financial institutions on climate and development-aligned financial innovation under BFF.
- Encourage commercial banks and DFIs to:
  - Develop pipelines of green and sustainable projects
  - Mobilize private capital for BFF transactions, including through blended capital stacks and risk-sharing arrangements
- Strengthen data systems to track climate-aligned and blended finance flows in the financial system.

#### **7.7 Securities and Exchange Commission of Pakistan (SECP)**

- Approve bond or sukuk prospectuses; provide regulatory support to list instruments on local exchanges; ensure compliance with Green Bond Guidelines and disclosure requirements.
- Provide regulatory clarity and oversight for the issuance of green, social, sustainability, and sustainability-linked bonds by public and private entities under the BFF.
- Ensure policy alignment across financial and capital markets, especially in areas such as:

- Green bond pipeline development
  - Use of proceeds for green bonds/sukuks
  - Climate risk disclosures
  - Blended fund structuring
- Support pre CCC meeting and relevant BFF governance bodies where regulatory input is necessary to facilitate capital market instruments.

## Annex 1: Blended Finance Eligibility and Readiness Assessment Form

Sponsoring Agencies shall complete this form and attach it to the Project Concept Note (PCN) or Concept Clearance Proposal (CCP), together with the relevant Eligibility and Readiness Assessment Form for the selected BFF instrument. Eligibility and Readiness Assessment Forms for each Blended Finance Framework (BFF) instrument are provided at Annex I-A to Annex I-E. The PCN template is available to download from the Planning Commission's [website](#).

### Section 1: Instrument Selection and Justification

a. Preferred Blended Finance Instrument(s):

- Green Bonds/Sukuks
- Carbon Markets
- Debt-for-Climate/Nature Swaps
- Public-Private Partnership (PPP)
- Sovereign or Market-Based Guarantees

b. Why is the selected blended finance instrument the most suitable for this project?

*Describe how this instrument aligns with your project's financial structure, risk profile, and implementation needs. What specific barriers does it help overcome (e.g., lack of upfront capital, investor risk perception, fiscal constraints)? Why is it more appropriate than conventional financing options (PSDP or ADP)? How will the selected instrument help unlock co-financing or improve project viability?*

### Section 2: Project Eligibility Assessment

Use this section to explain why your project is a good candidate for blended finance. Please provide details and examples.

a. Climate Alignment:

*Describe how your project contributes to Pakistan's climate goals. Does it align with targets or priority actions in the NDC, NAP, or other climate policies? What specific mitigation or adaptation benefits does the project aim to deliver (e.g., GHG reductions, resilience building, sustainable land use, clean energy access)?*

b. Instrument-Specific Eligibility Criteria:

*Refer to the eligibility table for your selected instrument (Chapter 5). For each criterion, explain how your project meets it. For example, if applying under Green Bonds, discuss whether your capital expenditures can be ring-fenced and whether climate benefits are measurable. If applying under Carbon Markets, describe the emission reduction activity, methodology used, and expected volume of credits.*

c. Sector Relevance:

*Discuss how your project aligns with sectoral priorities under Uraan Pakistan, Vision 2025, provincial development plans, or other strategic roadmaps.*

### Section 3: Project Readiness Assessment

**a. Legal/Institutional Readiness:**

*What is the legal status of your implementing agency? Do you have the mandate to undertake the chosen financing instrument? Are there any existing legal agreements or partnerships that enable the Sponsoring Agency to finance the proposed project under the selected BFF instrument (for example, by issuing a green bond or sukuk, undertaking a PPP, trading carbon credits, undertaking a debt-for-nature swap, or issuing/receiving guarantees)?*

**b. Financial Structuring:**

*Describe any progress made toward defining your financing structure. Has a financial model been developed or scoped? Does the project expect to generate revenue (e.g., through tariffs, sales of carbon credits, user fees or any other means)?*

**c. MRV/Results Framework:**

*Explain what monitoring indicators or reporting structures are being considered. Can the project's outcomes be tracked quantitatively? Is a third-party verifier or certifier expected to be engaged?*

**d. Risk Identification and Management:**

*What are the most significant risks in delivering this project? How will they be managed? Are there risks that blended finance specifically helps you mitigate?*

## Annex 1-A: Eligibility and Readiness Assessment for Green Bonds/Sukuks

### Eligibility Assessment

This eligibility assessment is designed to determine whether their project is suitable for financing through green bonds or sukuks. The proposed project should meet at least four of the following six criteria to proceed to readiness screening.

S. No.	Eligibility Criteria	Yes/ No	Justification
1	The project is climate-aligned and falls within eligible sectors identified under SECP Green Bond Guidelines and Sustainable Sukuk Framework.		
2	The total capital requirement is Rs. 10 billion or more, or the project can be aggregated with other projects to meet this threshold.		
3	The project includes discrete and traceable capital expenditures that can be earmarked as “green” in accordance with SECP green bond guidelines 2021 and Finance Division’s Sustainable Sukuk Framework.		
4	The project can generate predictable cash flows or achieve cost recovery that may support periodic repayment obligations.		
5	The sponsoring/executing agency, SPV, or affiliated entity has legal and institutional capacity to act as an issuer.		
6	The project aligns with the environmental standards applicable under SECP’s Green Bond Guidelines (2021).		

Table 10 Eligibility Criteria for Green Bonds and Sukuks

## Readiness Assessment

Projects that meet the eligibility threshold must then be assessed for readiness. This includes evaluating the institutional, regulatory, and technical steps required to operationalize the financing instrument.

Readiness Dimension	Key Consideration	Yes / No	Required Action if Not Met
Legal Authority	Does the sponsoring/executing agency or its partner (s) have the legal mandate to issue a bond or sukuk?		Engage the DMO and SECP to obtain clarity and minimum capital requirements.
Financial Structuring	Has a financial model been developed?		Develop model under PC-II with support of transaction advisor.
	<p>Has the transaction structure been finalized under PC-II to incorporate debt servicing (e.g., coupons or profit payments)?</p> <p>The project completion timeline should be within the tenor of the applicable Sukuk i.e. if sukuk is for 2 years and maturing in May 2028, the project should be completing by 2028.</p> <p>The project should not have any land disputes or land acquisition issues.</p> <p>The project must have an independent Project Director.</p> <p>The project must have a substantial federal share in project funding.</p>		
Use of Proceeds	Can eligible expenditures be isolated and tracked throughout implementation under transaction advisory?		Establish traceable expenditures and whether they can be identified for transparency.
Climate MRV	Can the project define and report on climate-related indicators (e.g., GHG reduction, energy savings)?		Design M&E framework under PC-II through transaction advisors.
Certification	Is the second-party opinion or external reviewer identified and hired?		Allocate budget and engage verifier during structuring phase.

Table 11 Assessing Capacity to Operationalize Climate Finance Instruments

## Annex 1-B: Eligibility and Readiness Assessment for Carbon Market Mechanism

### Eligibility Assessment

The project should meet at least four out of the six criteria below to be considered eligible for generating carbon credits through existing national and international carbon market mechanisms.

S. No.	Eligibility Criteria	Yes / No	Justification
1	Project leads to measurable, reportable, and verifiable (MRV) reductions or removals of GHG emissions.		
2	The emission reduction activity is covered by an approved methodology (e.g., Verra, Gold Standard, etc.) in line with Pakistan's Policy Guidelines for Trading in Carbon Markets (2024).		
3	The project falls under an eligible sector (RE, EE, AFOLU, waste, cookstoves, etc.) under Green Taxonomy.		
4	The activity goes beyond business-as-usual and can demonstrate financial additionality.		
5	The sponsoring/executing agency holds or has legal access to carbon rights and mitigation outcomes.		
6	There is potential for issuance of at least 20,000 tCO <sub>2</sub> e credits per year (or programmatic bundling).		

Table 12 Eligibility Criteria for Carbon Credit Generation

## Readiness Assessment

This step examines whether the Sponsoring Agency has the institutional capacity and operational arrangements to structure carbon finance, including the generation, verification, and monetization of carbon credits under Article 6 (Paris Agreement, 2015) and/or Voluntary Carbon Markets (VCM).

Readiness Dimension	Assessment Question	Yes / No	Action Required (if “No”)
Baseline and Methodology	Is a suitable baseline methodology identified and finalized?		Identify CERs/ITMOSs during PC-II feasibility
MRV Plan	Are basic parameters for MRV (activity data, frequency, indicators) defined?		Develop preliminary MRV plan under PC-II
Carbon Rights	Has ownership of carbon credits / mitigation outcomes been clarified?		Clarify ownership via MoCC&EC/consultant
Authorization (if ITMO pathway)	Has the project engaged with MoCC&EC for Article 6 authorization (if applicable)?		Initiate dialogue with MoCC&EC
Benefit-Sharing (if community involved)	Are benefit-sharing arrangements finalized where communities are affected?		Define in PC-II structuring
Market Strategy	Is there clarity on the off-take model (forward, spot, etc.)? Has an ERPA <sup>4</sup> been finalized?		Assess with transaction advisors.

Table 13 Assessing Institutional Capacity for Carbon Finance Structuring

<sup>4</sup>**Emission Reductions Purchase Agreement (ERPA):** is a legal contract between a seller (in this case a government agency) and buyer of carbon credits, often used in carbon offset projects to define the terms and conditions of purchasing emission reductions.

## Annex 1-C: Eligibility and Readiness Assessment for Debt-for-Nature/Climate Swaps

### Eligibility Assessment

The proposed project should meet all the following criteria to be considered eligible for a debt-for-climate or debt-for-nature swap. Projects meeting all six criteria may proceed to the readiness assessment.

S. No	Eligibility Criteria	Yes / No	Justification
1	Project is fully public sector financed or can be earmarked under sovereign budget allocation.		
2	Project objectives are explicitly aligned with Pakistan's NDCs, NAP, or national biodiversity strategies.		
3	Project delivers measurable climate or nature-based outcomes with environmental co-benefits.		
4	Project is structured as capital or current expenditure that can be transparently reported in the budget.		
5	Project is of sufficient scale (minimum PKR 1 billion preferred) or can be bundled as part of a broader program.		
6	Project design allows for third-party verification or impact monitoring in line with results-based frameworks.		

Table 14 Eligibility Criteria for Debt-for-Climate/Nature Swaps

## Readiness Assessment

The readiness assessment helps determine whether the project is suitable for presentation in ongoing or upcoming sovereign debt for nature/climate swap negotiations.

Readiness Dimension	Assessment Question	Yes / No	Action Required (if “No”)
Inter-ministerial Coordination	Has the potential swap been identified and bilateral agreement reached? Has the proponent finalized with the Planning Commission, DMO and EAD regarding potential swap inclusion?		Initiate coordination with MoPD&SI and EAD.
Budget Alignment	Can project expenditures be earmarked or ring-fenced in the federal or provincial budget?		Engage with MoF / MoPD&SI
Donor or Creditor Interest	Is the project alignment with the geographic or thematic preferences of any creditor finalized?		Check creditor/donor priorities sectors led by EAD in coordination MoPD&SI.
Results Framework and MRV	Are output and outcome indicators (log-frame or results-based indicators) been developed and finalized?		Develop log-frame during feasibility with clearly defined and year-wise outcomes and outputs. Refine results and indicators.
Legal and Policy Compliance	Has the project completed its policy, fiduciary, and safeguard risks assessments?		Review with legal and fiduciary units and complete requisite feasibility assessments.

Table 15 Evaluating Preparedness for Inclusion in Sovereign Debt Swap Dialogues

## Annex 1-D: Eligibility and Readiness Assessment for Public Private Partnerships (PPP)

### Eligibility Assessment

A project must meet at least five out of the seven criteria below to be considered technically and commercially suitable for PPP structuring under the BFF. Projects meeting the threshold should proceed to readiness assessment.

S. No	Eligibility Criteria	Yes / No	Justification
1	Project involves a capital-intensive infrastructure or long-term service delivery component.		
2	There exists a clearly identifiable revenue stream or payment structure (e.g., user fee, annuity, tariff etc.).		
3	Project includes climate mitigation or adaptation features aligned with Pakistan's NDC and NAP.		
4	Risk allocation between public and private sectors can be defined and shared.		
5	Market interest or precedent for private sector involvement exists (e.g., similar PPPs implemented).		
6	Project value is substantial enough to attract private investment (suggested threshold: PKR 10 billion or more).		
7	Legal or regulatory constraints to private participation are absent or can be resolved.		

Table 16 Eligibility Criteria for PPP Structuring under BFF

## Readiness Assessment

This checklist helps determine the project’s institutional and technical preparedness for advancing to P3A screening, feasibility development and market structuring.

Readiness Dimension	Assessment Question	Yes / No	Action Required (if “No”)
Internal Approvals	Has the sponsoring/executing agency received Project Concept Proposal (PCP) / suitability application approval from P3WP?		Initiate preparation of PCP and coordinate with P3A for approval
Climate Relevance	Are climate resilience, mitigation, or green performance elements made part of project qualification proposal (PQP) / feasibility study?		Engage transaction advisors to complete PQP / feasibility study.
Budget Allocation (if viability gap needed)	Is the project assessment of VGF completed? Finalized under what modality does it require VGF (sub-loan, equity, guarantee etc.)		Engage transaction advisors to complete PQP / feasibility study using Project Development Fund (PDF) facility.
Feasibility and Transaction Support	Are transaction advisors hired / mobilized for PPP-specific feasibility and transaction advisory?		Engage transaction advisors to complete PQP / feasibility using Project Development Fund (PDF) facility.
Regulatory, Land and ESMS Clearances	Are legal, land and regulatory preconditions (ESMS) manageable within PPP structuring timelines?		Identify and resolve in transaction advisory process

Table 17 Institutional and Technical Readiness for P3A Progression

## Annex 1-E: Eligibility and Readiness Assessment for Sovereign and Market Based Guarantees

### Eligibility Assessment

The project must meet at least five of the seven criteria listed below to be considered technically eligible for a guarantee-based financing structure. Projects meeting this filter may proceed to the readiness checklist.

S. No	Eligibility Criteria	Yes / No	Justification
1	Project has a climate-relevant outcome aligned with NDCs or NAP.		
2	Project involves private investment, commercial borrowing or blended co-financing.		
3	There exists a clearly identifiable risk (e.g., payment default, regulatory change, demand risk).		
4	Project faces difficulty in achieving financial closure without risk mitigation support.		
5	Project is financially viable over the long term, conditional on enhanced creditworthiness.		
6	Guarantee will directly enable mobilization of additional private or concessional capital. The project will be able to pay back the guarantee at the end of the term of debt or project life cycle.		
7	The proposed project structure provides the necessary legal and institutional basis to issue guarantee instruments.		

Table 18 Eligibility Criteria for Guarantee-Based Financing under BFF

## Readiness Assessment

This assessment evaluates the extent to which the Sponsoring Agency is prepared to structure a guarantee instrument under the BFF.

Readiness Dimension	Assessment Question	Yes / No	Action Required (if “No”)
Risk Identification	Is the risk profiling completed? Has the specific risk to be mitigated through the guarantee been clearly identified?		Risk profiling required. Initiate conversations with DMO.
Financing Structure	Has the financial model been prepared? Has the financing plan identified lenders, investors and exposure requiring coverage and tenor of the risk guarantee?		Engage with transaction advisor and DMO to complete financial structuring.
Institutional Coordination	Has DMO accorded its approval for the guarantee transaction?		Engage with DMO where appropriate and obtain their in-principal approval
Guarantee Instrument Type	Is the type of guarantee (sovereign/market-based/partial risk) defined and justified?		Conduct structuring analysis and detailed assessments under PC-II
Budget and Contingent Liability Consideration	Has the potential fiscal exposure been assessed by the proponent?		Engage DMO for in-principal approval.

Table 19 Structuring Guarantee Instruments under the BFF

## Annex 2: Project Appraisal Toolkit for Economic Wing

### Note for Appraisers – Green Bonds and Sukuk

This toolkit is intended to support in reviewing the Project Concept Note (PCN)/CCP/PC-I and the instrument-specific eligibility and readiness assessment submitted by sponsoring agencies. It provides a structured basis to recommend the appropriate pathway to action for projects proposed under the BFF's five blended finance instruments, and to determine whether a project is suitable and sufficiently ready to proceed to further structuring under the relevant instrument.

Review Question	Yes / No	Comments / Required Action
1. Project Identification?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
2. Has the project clearly justified the selection of green bond/sukuk as a financing instrument?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
3. Does the project include climate-relevant objectives aligned with NDCs, NAP, or sectoral climate goals?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
4. Are there clearly identified capital expenditures that qualify as “green” and can be ring-fenced?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
5. Is the total estimated financing requirement appropriate for capital market issuance (e.g., > Rs. 10 billion)?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
6. Has the project proposed a viable issuing entity (e.g., sponsoring agency, SOE, SPV)?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
7. Are institutional arrangements for tracking, reporting, and verification of proceeds described?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
8. Is the project financial model prepared and transaction structure finalized with identifiable ring-fenced cash flows?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	

Review Question	Yes / No	Comments / Required Action
9. Does the proposed financing strategy improve value-for-money or diversify funding sources?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
10. Is a clear third-party certifier been identified?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	

Table 20 Review Checklist: Green Bonds and Sukuk

### Pathway for Action

Following review of the Eligibility Assessment and Readiness Checklist, the appraiser should examine the Blended Finance Concept note to confirm compliance with SECP’s Green Bond Guidelines, climate alignment, and the issuer’s institutional and financial capacity. Based on the findings, the appraiser will recommend in-principal support, further preparation, redirection to another instrument or reject the application.

Assessment Outcome	Recommended Action
A. Eligible and Ready	Proceed with PC-I submission if GoP co-finance is needed along with submission of full transaction advisory documents after in-principal approval for debt issuance. Indicate selection of green bond/sukuk in the Climate Finance Relevance section of PC-1. Engage the DMO and SECP as appropriate for issuance. Sponsoring agency to facilitate fast-tracking of transactions and securing all approvals / authorizations from relevant agencies.
B. Eligible but Not Yet Ready	Launch the project for transaction structuring support under PC-II. Hire a transaction advisor to work on financial structuring, use of proceeds and certification.
C. Not Eligible	Do not pursue this instrument. Consider other financing options within the Blended Finance Framework (e.g., PPP, carbon finance, guarantees).

Table 21 Recommended Actions Post-Eligibility Screening - Green Bonds and Sukuk

## Note for Appraisers - Carbon Markets

This checklist is intended to assess whether a proposed project is technically suitable and institutionally ready for carbon market participation. The review should confirm that minimum policy requirements are met and identify what additional preparatory steps are necessary under PC-II. When assessing carbon markets Blended Finance Concept note along with necessary eligibility and readiness criteria, use the following framework to assess whether a project could proceed for PC-1 submission or not.

Category	Criteria / Condition	Status (Select one)	Comments / Required Action
1. Project Identification	Project area, scope, and target communities defined	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
	Implementation modality identified (e.g., govt/SOE/PPP/NGO)	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
2. Methodology and Baseline	Eligible VCM/compliance methodology selected (e.g., GS, Verra)	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
	Baseline scenario and emissions calculation completed	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
	Safeguards and SDG co-benefits mapped	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
3. Legal and Regulatory Pathways	Host country approval pathway identified (e.g., for Article 6.2/6.4 or VCM)	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
	Approval letter/authorization requested or obtained (e.g., LoA, host country NOC)	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
4. Commercial Structure	Buyer/off-taker engagement initiated	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	

Category	Criteria / Condition	Status (Select one)	Comments / Required Action
	ERPA term sheet or ERPA under negotiation/signed	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
5. Project Feasibility	Full pre-feasibility or pilot implementation completed	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
	Monitoring plan and MRV system designed	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
6. Financial Structure	Costing and revenue projections developed	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
	Project preparation or results-based finance secured or under discussion	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
7. Institutional Readiness	Executing agency/partner roles clarified	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
	Fiduciary capacity assessed (e.g., for receiving RBF or managing ERPA flows)	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
8. Risk Identification	Key delivery, permanence, and market risks identified, and risk mitigation options defined	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	

Table 22 Review Checklist - Carbon Markets

**Evaluator Notes**

- If most items in Sections 1–8 are finalized, the project is likely ready for PC-I.
- If Sections 1–8 are partially complete, and feasibility is pending, the project may be ready for PC-II for further preparation support.
- If key components (e.g., methodology selection, ERs calculation, MRV design) are not initiated, the project should remain in the pipeline and not proceed for PC-level submission.

## Pathway for Action

Following review of the Eligibility Assessment and Readiness Checklist, the appraiser should examine the Blended Finance Concept note to confirm eligibility under Pakistan’s carbon market policy, the robustness of the MRV approach, and readiness for credit registration and monetization. The appraiser will recommend fast-track support, further preparation, use of an alternative instrument., or reject the application.

Assessment Outcome	Recommended Action
A. Eligible and Ready	Proceed with PC-I submission if GoP co-finance is needed and include carbon finance in Climate Finance Relevance section along with submission of full transaction advisory documents. Engage MoCC&EC early for PIN submission and PACM 6.4 approval, where necessary. Sponsoring agencies to facilitate fast-tracking of transactions and securing all approvals / authorizations from relevant agencies, such as Art 6.2 and 6.4 along with placing of project under the national carbon registry.
B. Eligible but Not Yet Ready	Proceed with PC-II hiring of transaction advisors and complete all feasibility assessments.
C. Not Eligible	Do not pursue carbon finance. Consider alternative instruments (e.g., PPP, guarantee, green bond) from BFF.

Table 23 Recommended Next Steps Post-Eligibility Screening – Carbon Markets

## Note for Appraisers – Debt for Nature / Climate Swaps

### Note for Appraisers

This checklist enables reviewers to assess whether a project proposed for inclusion under a debt-for-climate/nature swap meets the policy, fiscal and institutional readiness criteria for further consideration and negotiation with creditors.

Category	Criteria / Condition	Status (Select one)	Comments / Required Action
1. Debt Instrument Readiness	Has the relevant bilateral or multilateral creditor been identified for debt restructuring?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
	Have preliminary terms of debt-for-nature swap been discussed or agreed in-principle with the creditor?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
	Is there an estimate of the debt volume and fiscal space to be freed through restructuring?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
	Has the DMO been engaged for sovereign-level endorsement?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
2. Nature Conservation Component	Has the geographical or thematic focus for conservation (e.g., watersheds, mangroves, biodiversity zones) been identified?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
	Have priority conservation activities or targets been defined (e.g., reforestation, marine protection)?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
	Has a credible local implementing partner or conservation NGO been identified?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	

Category	Criteria / Condition	Status (Select one)	Comments / Required Action
3. Feasibility & Impact Assessment	Has a feasibility study (or pre-feasibility) been completed to assess transaction viability?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
	Has an environmental or climate co-benefits analysis been undertaken or planned?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
4. Legal & Institutional Readiness	Is there clarity on which agency will receive the restructured debt proceeds and manage conservation spending?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
	Has a governance framework been proposed for managing swap proceeds (e.g., money landing in Account-1 and onwards to implementing agency)?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
	Are necessary approvals from MoF and ECC required and initiated?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	
5. Climate Finance Relevance	Does the project align with NDC/NAP adaptation or mitigation goals?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
	Can the project report against climate finance indicators (e.g., biodiversity resilience, ecosystem services)?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Completed	
6. Additionality & Justification	Is there a clear rationale that the conservation activity would not occur without the debt swap?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	

Category	Criteria / Condition	Status (Select one)	Comments / Required Action
	Is the year-wise log-frame outcome indicator prepared and finalized?	<input type="checkbox"/> Not Initiated <input type="checkbox"/> In Progress <input type="checkbox"/> Finalized	

Table 24 Review Checklist: Debt for Nature/Climate Swaps

**Evaluator Notes**

- If debt eligibility, creditor interest, and conservation targets are well-defined, and cash flow modelling and governance are outlined, project may be ready for PC-I.

If initial debt inventory and conservation concept are identified, but structuring and feasibility is pending, recommend PC-II for full appraisal and negotiation support. Prior engagement with DMO, MoCC&EC and EAD are critical for progression.

**Pathway for Action**

Following review of the Eligibility Assessment and Readiness Checklist, the appraiser should examine the Blended Finance Concept note to confirm fiscal suitability, alignment with climate and biodiversity priorities, and compatibility with creditor preferences. The appraiser will recommend fast-track support, further preparation, use of an alternative instrument or reject the application.

Assessment Outcome	Recommended Action
A. Eligible and Ready	Proceed to coordinate with the PC and EAD for inclusion in the swap pipeline. Prepare necessary PC-I documentation where GoP funding is required. Sponsoring agency to facilitate fast-tracking of transactions and securing all approvals / authorizations from relevant agencies.
B. Eligible but Not Yet Ready	Flag for PC-II support. Initiate consultations with EAD and Planning Commission. Structure proposal in parallel and refine result-based lending modality. Complete log-frame with clearly defined results-based framework and output and outcome indicators.
C. Not Eligible	Consider alternate BFF instruments (e.g., PPP, guarantees, green bond). Record environmental value in PC-I if relevant.

Table 25 Recommended Next Steps Post Eligibility-Screening – Debt for Nature / Climate Swaps

## Note for Appraisers - Public Private Partnerships

This checklist supports climate-aligned PPP proposals to determine whether the project meets the necessary criteria for the PPP modality.

Assessment Area	Evaluation Question	Response (Yes / No / Partial)
<b>PPP Suitability Screening</b>	Has the project been screened for PPP suitability (revenue potential, risk sharing, private interest)?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Has an internal PPP pre-screening or transaction rationale been prepared?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
<b>Legal and Institutional Setup</b>	Has the sponsoring agency secured legal authority to pursue PPPs under applicable laws?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Is a PPP Node or designated focal point notified or operational within the agency?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
<b>Feasibility and Risk Analysis</b>	Has a pre-feasibility or full feasibility study been completed (technical, financial, legal, socio-environmental)?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Has a Value for Money (VfM) analysis or Public Sector Comparator (PSC) been conducted?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
<b>Risk Allocation and Structuring</b>	Has preliminary risk allocation and contract model (e.g., availability-based, hybrid) been proposed?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Are contingent liabilities and fiscal risks estimated and discussed with the Ministry of Finance?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
<b>Market Sounding and Private Interest</b>	Has private sector market sounding been conducted to gauge investor/lender interest?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Have any EOIs or private proposals been received or discussed?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
<b>Climate and SDG Alignment</b>	Is the project aligned with climate priorities, NDCs, or SDG outcomes?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Are climate co-benefits and sustainability KPIs (e.g., GHG savings, resilience outcomes) defined or planned?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial

Table 26 Review Checklist: PPPs

### Evaluator Notes

- If PQP and market interest are confirmed, the project is ready for PC-I (where government co-funding is required).
- If PCP and initial risk-sharing rationale are in place but detailed feasibility and PQP is pending, recommend PDF support to secure TA and complete transaction prep.

Ensure engagement with Risk Management Unit (RMU if fiscal commitments or guarantees are involved).

### Pathway to Action

Following review of the Eligibility Assessment and Readiness Checklist, the appraiser should examine the Blended Finance Concept note to confirm commercial viability, climate relevance, and readiness for P3A screening. The appraiser will recommend fast-track PPP structuring, further preparation, redirection to another modality or reject the application.

Assessment Outcome	Recommended Action
A. Eligible and Ready	Submit PCP for P3WP approval. Initiate feasibility study / project qualification proposal (PQP) for P3A Board and P3WP's approval.  Sponsoring agency to facilitate fast-tracking of transactions and securing all approvals / authorizations from relevant agencies.
B. Eligible but Not Yet Ready	Flag need for PQP / feasibility and transaction support. Early-stage P3A coordination advised for PDF support.
C. Not Eligible	Do not pursue PPP route. Reassess under conventional PSDP or explore other BFF instruments (e.g., guarantee, green bond).

Table 27 Recommended Next Steps Post-Eligibility Screening - Public Private Partnerships

## Note for Appraisers -Sovereign and Market Based Guarantees

Assessment Area	Evaluation Question	Response (Yes / No / Partial)
<b>Guarantee Justification</b>	Has a clear rationale for requiring a sovereign or sub-sovereign guarantee been provided?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Is the guarantee expected to unlock private capital, reduce cost of capital, or enhance creditworthiness?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
<b>Underlying Project Readiness</b>	Has the underlying project (e.g., PPP, green bond, carbon project) undergone feasibility and structuring?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Is the underlying financing structure (e.g., loan terms, bond issuance, PPP contract) well-defined?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
<b>Fiscal Risk Assessment</b>	Have potential fiscal exposures, including probability-weighted liabilities, been estimated?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Has the sponsoring agency consulted the Ministry of Finance's Debt Office or Risk Unit for preliminary clearance?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
<b>Risk Mitigation Mechanisms</b>	Are risk mitigation tools (e.g., escrow accounts, step-in rights, performance guarantees) included in the design?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Is the proposed guarantee capped, time-bound, or conditioned on performance triggers?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
<b>Macroeconomic and Legal Compliance</b>	Is the guarantee in compliance with fiscal responsibility rules and PFM requirements?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Are relevant approvals (e.g., ECC, Cabinet Committee on Finance, National LCC) identified and planned for?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
<b>Climate and Development Alignment</b>	Does the project advance a strategic public priority (e.g., infrastructure, climate, SDGs)?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial
	Are climate co-benefits or resilience outcomes included in the project's Theory of Change?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Partial

Table 28 Review Checklist: Sovereign and Market Based Guarantees

### Evaluator Notes:

If the underlying project is fully structured, fiscal risks are quantified, and the need for a guarantee is justified in terms of leverage or risk reduction, the project may be ready for PC-I.

- If the project is still under development or contingent risk assessment is pending, recommend PC-II to complete guarantee design and secure inter-ministerial consultations.
- Appraisers must ensure early engagement with the Ministry of Finance, Debt Office, and relevant risk management entities to avoid backloading fiscal concerns.
- Guarantees must be designed as catalytic tools—not substitutes for project viability. Their use should align with public debt ceilings and Pakistan’s macro-fiscal sustainability commitments.

### Pathway to Action

Following review of the Eligibility Assessment and Readiness Checklist, the appraiser should examine the Blended Finance Concept note to confirm fiscal implications, clarity of risk coverage, and potential to leverage private or concessional capital. The appraiser will recommend in-principle support, further preparation, or rejection of the guarantee option.

Assessment Outcome	Recommended Action
A. Eligible and Ready	Proceed with PC-I where GoP financing is required. Flag for technical support where required to assess risk and define guarantee instrument. Sponsoring agency to facilitate fast-tracking of transactions and securing all approvals / authorizations from relevant agencies.
B. Eligible but Not Yet Ready	Engage DMO or guarantee provider to initiate due diligence and integrate guarantee structuring in PC-II where required.
C. Not Eligible	Reassess financing strategy. Explore alternate BFF instruments (e.g., direct concessional finance or PPP).

Table 29 Recommended Next Steps Post-Eligibility Screening - Sovereign and Market Based Guarantees

## Annex 3: Single Window for Carbon Finance for Development Projects

### Purpose and Overview

To support the implementation of Pakistan’s updated Nationally Determined Contributions (NDCs) 2021, the Government of Pakistan (GoP) acknowledges the importance of enhanced inter-ministerial coordination for accessing carbon finance. **Carbon Market-Based Instruments:** Carbon market instruments operate under voluntary or compliance markets. In the voluntary market, projects can earn Verified Emission Reductions (VERs) or Certified Emission Reductions (CERs) by adhering to approved methodologies and third-party verification standards. Under the compliance market of the Paris Agreement or Voluntary Carbon Market, countries may participate in one of the following mechanisms:

Paris Agreement Mechanisms		Voluntary Carbon Market (VCM)
Article 6.2	Article 6.4	
Enables bilateral trading of Internationally Transferred Mitigation Outcomes (ITMOs) between countries with cooperative agreements	Establishes a centralized mechanism under the UNFCCC to generate A6.4ERs (Article 6.4 Emission Reductions).	Voluntary projects driven by corporate and private sector demand for carbon neutrality and ESG-aligned climate action. Verified Emission Reductions (VERs) are issued through international standards.

Table 30 Article 6 Mechanisms and Voluntary Carbon Market Overview

These mechanisms can be leveraged by line agencies under federal and provincial governments in sectors such as renewable energy, energy efficiency, transport, waste, urban programs and nature-based solutions (NbS). These markets offer opportunities for blended finance, potentially reducing fiscal outlays in large-scale public investment projects when carbon revenue is incorporated early during project design, supported by the Pakistan Policy Guidelines for Trading in Carbon Markets (2024), which provide a national framework to identify, authorize, and register such projects.

**Results-Based Climate Finance (RBF):** Results-based finance mechanisms reward projects upon achieving independently verified emission reductions. One such pathway is the Transformative Carbon Asset Facility<sup>5</sup> (TCAF) administered by the World Bank. TCAF provides targeted support to developing countries to implement their NDCs through results-based grants for verified emission reductions retained domestically (aligned with Article 9 of the Paris Agreement), monetization of internationally transferred emission reductions under Article 6, and institutional and technical support for MRV systems and inter-agency coordination. The Asian Development Bank’s Climate Action Catalyst Fund<sup>6</sup> (CACF) also serves as a pathway for results-based climate finance. The CACF mobilizes carbon finance through long-term mitigation outcome purchase agreements, catalyzing investments in mitigation actions, supporting

<sup>5</sup>Transformative Carbon Asset Facility, The World Bank. Source : <https://www.tcafwb.org/>

<sup>6</sup> Climate Action Catalyst Fund, Asian Development Bank. Source : <https://www.adb.org/documents/establishment-climate-action-catalyst-fund>

projects under Article 6 mechanisms, and building capacity in developing member countries to engage effectively with international carbon markets.

the PC shall evaluate development projects whether at the Concept Clearance, CDWP or ECNEC stage to identify opportunities for integrating carbon finance instruments and results-based climate finance.

### **1. Ongoing and approved PC-1 Projects**

All approved PC-1 projects are encouraged to assess their potential for carbon finance mobilization. Eligible projects may generate CERs, ITMOs, or access results-based climate finance. In such cases, the sponsoring agency shall prepare and submit a Carbon Finance Concept note to the PC for reference to CDWP or ECNEC. The template is provided at the end of this document. The PC shall transmit the paper to MoCC&EC for technical screening. MoCC&EC may then invite the proponent to submit a formal Project Idea Note (PIN)<sup>7</sup> in accordance with Article 6 procedures or other applicable modalities (TCAF's pre-PIN document<sup>8</sup>, or CACF).

### **2. Operational Stream II: New Projects**

For all new development projects entering the PC-1 pipeline, carbon finance considerations shall be incorporated at the concept development stage to ensure alignment with blended finance framework objectives. Proponent agencies shall be required to submit, in parallel with the PC-1 document, a Carbon Finance Concept note (as outlined above). This will ensure that mitigation potential and financing opportunities are embedded from the outset of project design. The concept note shall accompany the PC-1 document during the approval process by CDWP or ECNEC. Upon approval by CDWP or ECNEC, the concept note shall be forwarded by the PC to the MoCC&EC for technical appraisal. Based on the project's mitigation relevance, methodological robustness, and MRV feasibility, MoCC&EC may invite the proponent agency to submit a formal Project Idea Note (PIN) under the relevant Article 6 mechanism. Where applicable, the PC may also nominate the project for potential support under the Transformative Carbon Asset Facility (TCAF) or for Climate Action Catalyst Fund (CACF), to enable further technical assistance and monetization of emission reductions through results-based finance.

---

<sup>7</sup>The template for the Article 6 Project Idea Note can be accessed [here](#).

<sup>8</sup>The template for the pre-PIN under TCAF can be accessed [here](#).

## Annex 4: Carbon Feasibility and Roadmap

A comprehensive carbon feasibility analysis shall be conducted to determine the project's technical and financial viability in relation to carbon market participation. This assessment will adhere to applicable standards and prevailing rules and regulations. The carbon project feasibility check involves evaluating the project's potential to generate certified emission reductions under a recognized carbon standard and registry. Consequently, the following parameters must be assessed:

### 1. Project Eligibility

- **Methodology Applicability:** Determine if a recognized carbon methodology exists and is applicable to the project scope.
- **Additionality:** Assess whether the project goes beyond a business-as-usual scenario and requires carbon finance to be viable.
- **Geographic and Sectoral Eligibility:** Verify eligibility based on project location and sector under the selected carbon standard.
- **Technology Feasibility:** Confirm that the technology proposed is acceptable under the chosen methodology.

### 2. Project Baseline

- **Establish Baseline Scenario:** Define the scenario of emissions in the absence of the project.
- **Baseline Data Availability:** Verify availability of historical or sectoral data to calculate baseline emissions.
- **Emission Reduction Potential:** Estimate the expected emissions reduction relative to the baseline, using standard methodologies.

### 3. Legal and Regulatory Compliance

- **Legal Ownership:** Confirm ownership rights to emission reductions.
- **Permits and Compliance:** Ensure alignment with local, national, and international regulations.
- **Environmental and Social Safeguards:** Confirm safeguards are in place to avoid negative impacts on communities or ecosystems.

### 4. Financial Feasibility

- **Cost-Benefit Analysis:** Assess implementation, monitoring, and verification costs against potential carbon revenue.
- **Carbon Market Price:** Consider current and forecasted carbon credit pricing.
- **Revenue Model:** Define financial returns based on emissions reductions and credit demand.

### 5. Project Timeline

- **Implementation Schedule:** Outline key milestones from initiation to commissioning.
- **Credit Issuance Timeline:** Estimate crediting start date and duration (e.g., 7–10 years).

### 6. Monitoring and Verification

- **Monitoring Plan:** Design a methodology-aligned plan to track relevant indicators (e.g., GHG reductions, energy savings).
- **Data Management:** Ensure robust systems for data collection, storage, and reporting.
- **Third-Party Verification:** Identify verifiers and define the verification process.

## 7. Sustainability Co-benefits

- **Environmental Impact:** Evaluate added benefits such as biodiversity conservation or water resource management.
- **Social Impact:** Identify social co-benefits such as employment generation, health improvements, or improved energy access.

## 8. Risks and Mitigation

- **Technical Feasibility Risks:** Address risks like technology underperformance or failure.
- **Regulatory Risks:** Monitor and plan for evolving policy landscapes.
- **Market Risks:** Account for market volatility and credit demand uncertainties.

## 9. Stakeholder Engagement

- **Local Stakeholders:** Engage communities and relevant local actors in project planning and execution.
- **Partnerships:** Identify government, NGO, or private sector partners for support or collaboration.

## 10. Carbon Standard Requirements

- **Documentation:** Ensure all documentation necessary for project validation and verification is in place.
- **Validation and Registration:** Plan the steps required for registration under the selected carbon standard (e.g., ICR, VCS, GS).

## 11. Long-Term Viability

- **Sustained Performance:** Assess the project's capacity to deliver emissions reductions throughout the crediting period.
- **Ongoing Monitoring and Compliance:** Confirm systems for continuous monitoring and adherence to standards post-registration.

## Annex 5: Draft Template of Service Level Agreement

To ensure predictable coordination across multiple government entities involved in blended finance transactions, the Blended Finance Framework encourages the use of Service Level Agreements (SLAs) between participating ministries. The SLA serves as a formal coordination instrument that defines institutional roles, reporting obligations, timelines for actions, and dispute-resolution mechanisms during the structuring and implementation of blended finance transactions.

While the specific contents of each SLA will depend on the financing instrument and project structure, a typical SLA under the Blended Finance Framework would contain the following elements.

### 1. Parties to the Agreement

The SLA will identify the relevant government institutions responsible for structuring, approving, and implementing the blended finance transaction.

Typically, these may include:

- **Ministry of Planning, Development and Special Initiatives (MoPDSI)** – responsible for project appraisal, PSDP alignment, and coordination through the Planning Commission.
- **Ministry of Finance (MoF)** – responsible for fiscal oversight, guarantees, debt management, and sovereign financial commitments.
- **Ministry of Climate Change & Environmental Coordination (MoCC&EC)** – responsible for climate policy alignment, Article 6 authorizations, and climate finance reporting where relevant.
- **Economic Affairs Division (EAD)** – responsible for coordination with development partners and concessional financing.
- **Public Private Partnership Authority (P3A)** – responsible for PPP structuring and transaction advisory support.
- **Sectoral Line Ministries / Implementing Agencies** – responsible for project preparation, implementation, and reporting.

Where relevant, regulatory bodies such as **State Bank of Pakistan (SBP)** or **Securities and Exchange Commission of Pakistan (SECP)** may also be included.

### 2. Objectives of the SLA

The SLA will establish a formal framework for coordination between the parties to:

- Ensure timely structuring and approval of blended finance transactions.
- Define institutional roles and responsibilities during project preparation, structuring, and implementation.
- Establish clear timelines for approvals, clearances, and reporting.
- Facilitate information sharing and coordination across ministries and agencies.

- Reduce procedural bottlenecks and ensure efficient decision-making within the existing PSDP framework.

### **3. Scope of Application**

The SLA will define the scope of the transaction to which it applies, including:

- The project or program name.
- The financing instrument(s) being deployed (e.g., guarantees, PPP, carbon finance, green bonds, concessional loans).
- The implementation period.
- The roles of participating institutions during the project cycle.

The scope may include project preparation, transaction structuring, financial closure, and implementation monitoring.

### **4. Institutional and Coordination Arrangements**

The SLA will describe the coordination mechanisms that will guide the transaction, including:

#### **Role of the Pre- CDWP/CCC meeting**

The Pre-CDWP/CCC meeting will act as the central inter-agency coordination forum for blended finance transactions. Its responsibilities may include:

- Reviewing project eligibility and readiness for blended finance.
- Coordinating inputs from relevant ministries and agencies.
- Resolving technical, regulatory, or institutional issues during project preparation.
- Recommending projects for approval under the PSDP process.

### **5. Roles and Responsibilities of Participating Institutions**

The SLA will specify the responsibilities of each participating institution.

Illustrative responsibilities include:

#### **Planning Commission (MoPDSI)**

- Coordinate project screening and appraisal through the BFF eligibility framework.
- Facilitate inter-agency coordination through Pre-CDWP/CCC meeting.
- Ensure alignment with PSDP processes and CDWP/ECNEC approvals.

#### **Ministry of Finance**

- Assess fiscal implications including guarantees, viability gap funding, or sovereign commitments.
- Provide guidance on debt sustainability and contingent liabilities.

- Coordinate with the Debt Management Office on financing structures where relevant.

### **Ministry of Climate Change**

- Provide guidance on climate eligibility and climate finance reporting.
- Process international climate authorizations where required (e.g., Article 6).

### **Economic Affairs Division**

- Coordinate engagement with multilateral and bilateral development partners.

### **Line Ministries / Implementing Agencies**

- Prepare project documentation and feasibility studies.
- Provide technical data and implementation plans.
- Establish project management arrangements for implementation.

## **6. Timelines and Service Standards**

The SLA will establish indicative timelines for key actions across institutions to ensure predictable processing of blended finance transactions.

Examples may include:

- Submission of project concept note by line ministry.
- Eligibility and readiness review by the Planning Commission.
- Fiscal risk assessment by the Ministry of Finance.
- Climate authorization review by MoCC where applicable.
- Transaction structuring and advisory support through relevant agencies.

The SLA may include maximum indicative response timelines for each institution.

## **7. Reporting and Information Sharing**

The SLA will establish mechanisms for information exchange and reporting, including:

- Submission of financial, procurement, and safeguards reports where relevant.
- Data sharing between participating ministries and agencies.

Where external financing institutions are involved, reporting may also align with the requirements of development partners.

## **8. Monitoring and Performance Review**

The SLA will establish arrangements for monitoring the performance of participating institutions, including:

- Monitoring of agreed service standards and timelines.

- Identification and resolution of implementation bottlenecks.

### **9. Dispute Resolution Mechanism**

The SLA will outline a process for resolving institutional coordination issues.

Typically:

- Unresolved matters may be escalated to senior government coordination forums, such as the Planning Commission leadership or relevant inter-ministerial committees.

### **10. Duration and Amendment**

The SLA will specify:

- The period during which the agreement remains valid.
- Provisions for review and amendment as required during the life of the transaction.

### **11. Confidentiality and Information Use**

The SLA may include provisions governing the confidentiality of project information, data sharing protocols, and permissible disclosure for reporting or public communication purposes.

### **12. Signatories**

The agreement will be signed by authorized representatives of the participating ministries and agencies.

## Annex 6: Monitoring and Evaluation Framework for Blended Finance Transactions

To ensure transparency, accountability, and performance monitoring of projects supported under the BFF, all blended finance transactions shall include a set of core monitoring indicators. These indicators will be identified during project preparation and incorporated within the PC-1 documentation. Progress against these indicators will be monitored throughout the project lifecycle through existing government monitoring mechanisms including PC-III evaluations and periodic project progress reporting.

The indicators aim to measure not only development outcomes but also the financial additionality and fiscal implications of blended finance transactions. While the specific indicators may vary depending on the financing instrument used (e.g., green bonds, PPPs, carbon markets, guarantees, or debt-for-nature swaps), the following categories provide a standardized monitoring framework.

### 1. Financial Mobilization and Fiscal Impact

These indicators assess the extent to which blended finance successfully mobilizes additional capital and reduces reliance on public budget resources.

#### Key indicators may include:

- Total project investment mobilized (PKR / USD)
- Share of financing from public vs private vs concessional sources
- Leverage ratio (private/concessional capital mobilized per rupee of public funding)
- Amount of government budgetary contribution (PSDP/ADP)
- Reduction in sovereign borrowing requirements relative to traditional financing
- Amount of concessional finance mobilized
- Value of guarantees or risk-sharing instruments deployed
- Project-level revenue generation potential (tariffs, service charges, carbon revenues etc.)

### 2. Economic and Development Impact

These indicators capture the broader economic and social benefits generated by the project.

#### Illustrative indicators include:

- Number of beneficiaries served by the project
- Increase in service delivery capacity (e.g., MW of electricity, kilometers of roads, water supply capacity)
- Jobs created during construction and operation
- Local economic activity generated
- Improvements in access to public services
- Contribution to priority sectors identified under Uraan Pakistan or national development strategies

### 2. Economic and Development Impact

These indicators capture the broader economic and social benefits generated by the project.

#### Illustrative indicators include:

- Number of beneficiaries served by the project
- Increase in service delivery capacity (e.g., MW of electricity, kilometers of roads, water supply capacity)
- Jobs created during construction and operation
- Local economic activity generated
- Improvements in access to public services
- Contribution to priority sectors identified under Uraan Pakistan or national development strategies

#### **4. Governance, Institutional Performance, and Transaction Efficiency**

Because blended finance transactions involve multiple agencies and financing partners, monitoring must also assess institutional performance and implementation effectiveness.

##### **Indicative indicators may include:**

- Time taken from project identification to financial close
- Number of inter-agency approvals required and completed
- Compliance with regulatory and safeguard requirements
- Timeliness of reporting and disclosure obligations
- Effectiveness of risk mitigation measures implemented during project structuring