UK International Development
Partnership | Progress | Prosperity

I-SAPS Institute of Social and Policy Sciences
Informing Policies, Reforming Practices

Policy Brief

Blended Finance for Education

Unlocking Private Capital in Punjab & Khyber Pakhtunkhwa

Blended Finance for Education: Unlocking Private Capital in Punjab and Khyber Pakhtunkhwa

Policy Brief | April 2026

Blended Finance for Education: Unlocking Private Capital in Punjab and Khyber Pakhtunkhwa

1. Background and Context

Pakistan's economy is stabilising but remains fragile. Provincial governments are attempting to sustain investment in human capital while maintaining fiscal discipline. Education budgets have increased in both Punjab and Khyber Pakhtunkhwa, yet large gaps in learning, access, and infrastructure outcomes persist. The central challenge is therefore not only how much governments spend on education, but how additional financing can be mobilised in a sustainable way without adding to provincial debt.

A significant portion of provincial education budgets in both provinces is committed to recurrent expenditure. This leaves limited fiscal space for the transformative investments needed to improve learning outcomes, rehabilitate infrastructure, and reach out of school children. Incremental budget increases alone cannot resolve these structural rigidities.

Blended finance offers a mechanism to address this gap. It uses a small amount of public or philanthropic funds as a buffer to absorb initial risks, thereby giving commercial banks and private investors confidence to put their money into education projects. This approach can multiply the impact of every public rupee by attracting private capital alongside government spending. For Punjab and Khyber Pakhtunkhwa, blended finance provides a pathway to unlock private investment in school infrastructure, education technology, and working capital for private schools without imposing additional debt burden on the provincial exchequer.

This brief applies a four-layer diagnostic methodology to assess blended finance instruments in education. The first layer analyses macro fiscal and expenditure trends in provincial education budgets to identify financing pressures and gaps. The second layer evaluates institutional readiness, including legal feasibility, delivery capacity, market appetite, and fiscal sustainability. The third layer incorporates consultations with government departments, development partners, financial institutions, and private sector stakeholders. The fourth layer translates these findings into practical financing mechanisms and implementation pathways that can operate within existing provincial systems. The analysis focuses on school education from pre primary to secondary level.

2. Using Public Funds to Unlock Private Capital

Blended finance refers to the strategic use of public or philanthropic funds to reduce risk for private investors, thereby mobilising additional commercial capital for development purposes. In education, this approach addresses a specific and well documented market weakness: creditworthy schools, education technology companies, and infrastructure contractors are often excluded from commercial lending due to collateral constraints, despite having stable enrolment, government subsidy streams, and demonstrated operational viability.

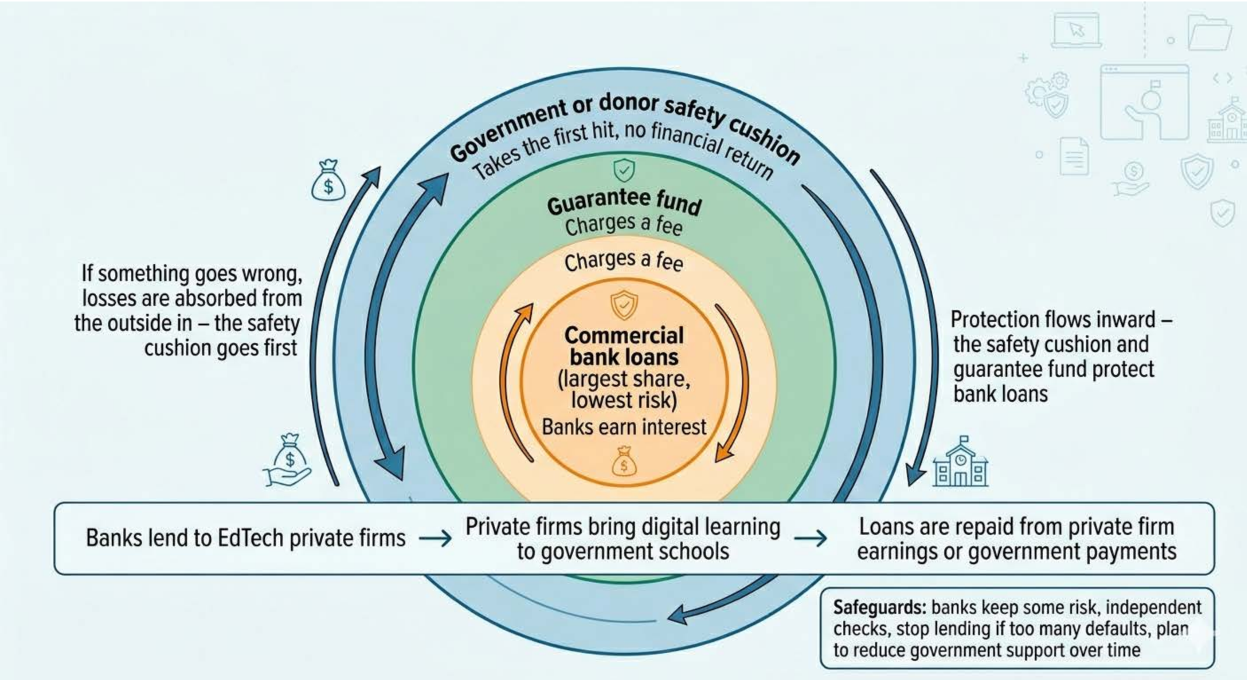
The mechanism works by layering capital from different sources according to risk tolerance. Public or philanthropic funds provide the first buffer that absorbs the very first defaults if they occur. This protection sits beneath a guarantee layer that covers further losses up to an agreed limit. With these safeguards in place, commercial banks provide the majority of funding at the safest position in the structure (Figure 1). This arrangement gives banks the confidence to lend to education enterprises that would otherwise be considered too risky.

The structure also offers banks important regulatory advantages under State Bank of Pakistan rules. The guaranteed portion of a loan carries a lower risk weight, reducing the amount of capital banks must set aside. Provisioning requirements are reduced because only the unguaranteed portion of a defaulted loan must be provisioned. Higher clean lending limits enable banks to lend against cashflows and guarantee coverage rather than requiring physical collateral.

International and domestic evidence confirms that blended finance can mobilise significant commercial leverage while maintaining strong portfolio performance.[1] In Nigeria, India, and Pakistan, such mechanisms have expanded access to finance for low fee private schools and education enterprises, demonstrating that education lending can be commercially viable when appropriately structured.

[1] Andrabi, T., Das, J., Khwaja, A. I., and Ozyurt, S. (2025) *Helping Schools Survive: Experimental Evidence on the Impact of Financial and Educational Support to Private Schools*. NBER Working Paper 34042. Available at: https://www.nber.org/papers/w34042 (Accessed: 18 March 2026).

Figure 1: A Model of Blended Finance for EdTech in Government Schools



3. Punjab

Punjab's education budget has grown substantially, yet there is room to increase the share available for new investments in school education. The province has increased development spending over the previous year's allocation. Major investments include fixing missing facilities and unsafe school buildings, as well as supporting private school partnerships through the Punjab Education Foundation (PEF). A large portion of the budget supports recurrent expense, which are essential for a stable education system. This means that additional financing mechanisms can help fund transformative programmes such as scaling quality improvement interventions and digital learning.

To supplement existing resources, this brief suggests piloting an EdTech[2] blended finance facility that uses a small amount of public money to attract bank lending. The suggestion is to shift the government's role from directly buying hardware to becoming a strategic partner that sets aside a safety cushion to cover the first defaults if they occur. The reasoning is that banks currently find it difficult to lend to EdTech firms because those entities lack land or buildings to offer as collateral, even when they have viable contracts with government schools. By placing public money in a protected account that absorbs the earliest losses, the government gives banks confidence to lend at a much larger scale.

[2] EdTech stands for education technology – it means using digital tools, software, and online platforms to support teaching and learning in schools.

The facility would work by tying loan payments to verified milestones, not upfront purchases. An EdTech firm would receive a loan from a commercial bank only after it delivers technology to schools, trains teachers, and demonstrates active usage for three months. Further payments would follow after six months of sustained use and measurable learning progress. All milestones would be checked by government data systems and by independent outside monitors. This approach ensures that public money is used efficiently and that private lenders only pay for results.

The PEF is well placed to lead the partnership because it already manages relationships with partner schools. PEF holds reliable enrolment and subsidy data that banks can use to assess a school's ability to generate revenue. The financial institutions in Punjab have already expressed interest in such structured lending, and a domestic example already exists: a microfinance product has successfully lent to low-fee private schools in the province. This existing market demand confirms that the opportunity lies in improving access to capital rather than any concern about credit quality.

To run the pilot, the government may first set aside a safety cushion of public money and create a separate guarantee arrangement within the Finance Department. The School Education Department would set educational standards and approve a small number of EdTech vendors as eligible. A financial institution would act as the main lender, providing the financing. Outside experts would help check that vendors are reliable and verify results. The pilot would start in two districts: one in central Punjab with good connectivity and one in south Punjab to test diverse conditions. After twelve to fifteen months, an independent evaluation would guide a decision on whether to expand the programme across the whole province.

4. Khyber Pakhtunkhwa

The education sector allocations continue to increase in Khyber Pakhtunkhwa's budget every year. Major initiatives include an 'education emergency' initiative to reduce out of school children and funds for upgrading infrastructure. As with any large education system, recurrent costs absorb a significant share of spending. This creates an opportunity to use complementary financing mechanisms for new programmes in underserved districts, including the merged areas.

To complement existing budget allocations, this brief suggests an EdTech facility that follows the same blended finance approach described for Punjab. That is, public money would be set aside as a safety cushion to attract bank lending to EdTech vendors. The government would shift from being a direct buyer of smart classroom equipment to a strategic partner that takes on the earliest risk. Banks would lend to approved vendors, with loan payments released only after independent checks confirm technology delivery, teacher training, and active school usage.

The Elementary and Secondary Education Foundation (ESEF) is well suited to lead the partnership, using its existing programmes such as Girls Community Schools and the

New School Initiative. ESEF already works with private providers to enroll out of school children, giving it a ready group of potential borrowers. The local banks have demonstrated capacity to implement government backed lending schemes, for example through partnership with TEVTA. Several local transaction advisors have expertise in setting up guarantee arrangements and lending to small businesses, which can help design the facility.

To ensure transparency and good value for money, verification would be linked to Khyber Pakhtunkhwa's Integrated Education Management Information System (IEMIS). IEMIS holds records of enrolled children across most schools. Where IEMIS is not fully available, independent monitors would check usage. The pilot would also include a plan to gradually reduce government support over time: the safety cushion would shrink as banks gain experience, so the same public money can unlock even more private lending without creating a permanent subsidy.

Implementation can begin with three pilot districts: Peshawar (urban), Swabi (rural settled), and Bajaur (merged districts). The pilot would run for approximately fourteen months, after which an independent evaluation would assess whether the facility has attracted significantly more private lending than the public money invested. Operational targets would include the number of schools and students reached, with a special focus on girls' active participation. Vendors that achieve high female usage would qualify for a lower interest rate, creating a direct reward for reaching girls.

5. Conclusion

Both Punjab and Khyber Pakhtunkhwa have opportunities to supplement their education budgets by attracting private capital alongside public money. Blended finance offers a practical way to do this: using a small amount of public funds as a safety cushion gives commercial lenders the confidence to invest at a larger scale without creating new government debt.

In Punjab, the priority is to pilot an EdTech facility that builds on the Punjab Education Foundation's existing relationships with partner schools and the banking sector's interest in structured lending. In Khyber Pakhtunkhwa, the opportunity is to establish a similar facility that uses the ESEF's programme infrastructure and the local financial sector's experience with government backed lending schemes.

The real opportunity is not simply to increase public spending, but to use public resources more strategically to attract private capital alongside them. When designed with clear rules for sharing risk, independent verification of results, built-in safeguards, and a plan to reduce government support over time, blended finance can help both provinces mobilise additional resources for education without creating lasting fiscal commitments.

*****