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Policy Brief

Development Impact Bonds for Education:

Paying for Results in Punjab and Khyber Pakhtunkhwa

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

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1. Background and Context

Pakistan's economic recovery 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 access, equity, and learning outcomes persist. The central challenge is therefore not only how much governments spend on education, but whether that spending translates into measurable education quality improvements for children.

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, reach out of school children, and address persistent disparities in girls' education. Incremental budget increases alone cannot resolve these structural rigidities.

Development Impact Bonds (DIBs) offer a mechanism to address this gap by shifting financial risk from government to private investors. In a DIB, private investors provide upfront working capital for education programmes. Government repays investors only when independently verified results are achieved. This means public funds are spent only on what works, and any financial risk of failure sits with investors, not the taxpayer.

For Punjab and Khyber Pakhtunkhwa, DIBs provide a pathway to pilot innovative approaches to girls' retention, foundational learning, and teacher development without exposing the provincial exchequer to implementation risk. Domestic precedents such as the Pakistan Skills Impact Bond demonstrate that such instruments can work in the country's context.

This analytical approach applies a four-layer diagnostic methodology to assess DIBs 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, investor appetite, and outcome verification systems. 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. Paying for Outcomes, Not Activities

A DIB is an outcomes-based financing mechanism in which private investors provide upfront working capital for a social programme, and an outcome funder repays principal plus a risk adjusted return only upon independent verification of pre agreed performance targets. This structure transfers performance risk entirely from the public purse to private investors.

The mechanism employs a four-party structure that separates roles and creates clear accountability. The investor provides upfront working capital and bears performance risk. The service provider implements interventions to achieve agreed outcomes. The outcome payer, typically government or a development partner, commits multiyear funds and repays investors only upon verified results. The independent verifier validates whether outcomes have been achieved.

This structure creates powerful incentives for all parties. Investors have strong reasons to select capable service providers because their capital is at risk. Service providers gain flexibility to adapt interventions based on real time data because funding is tied to outcomes rather than prescribed activities. Government pays only for what works and bears no exposure to implementation costs or overruns.

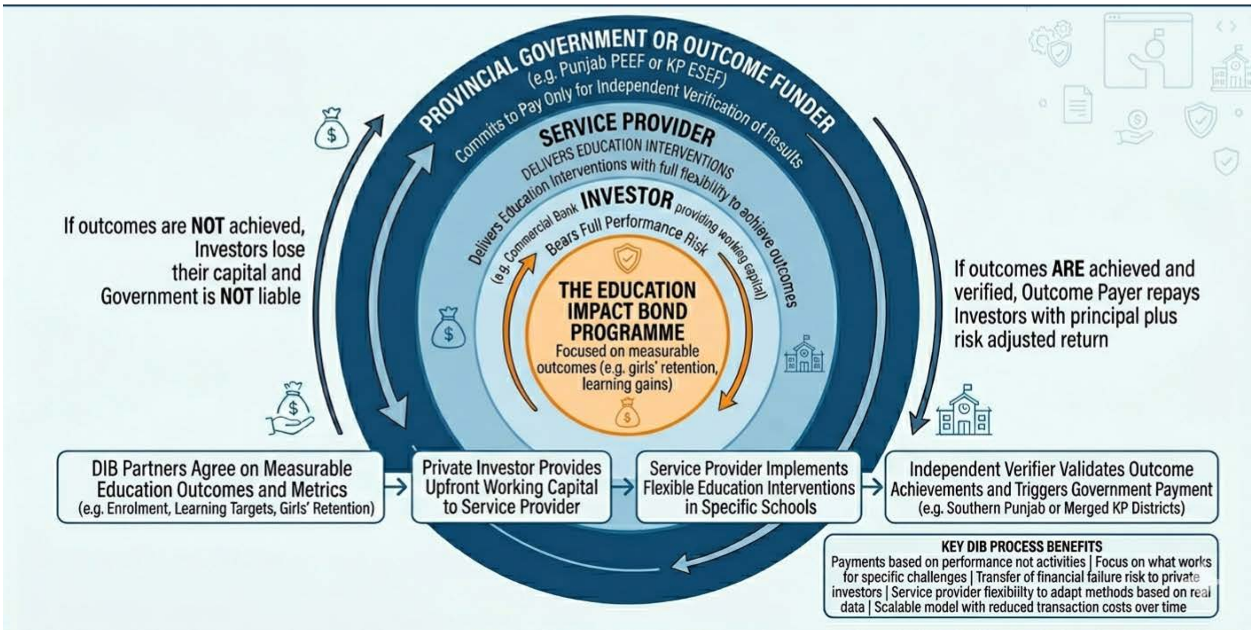
The government launched its first DIB, the Pakistan Skills Impact Bond, a pilot tranche designed to shift vocational training from traditional public spending to a pay for success private capital model.[1] Backed by a sovereign guarantee from the Ministry of Finance, the three-year instrument links investor repayments to independently verified outcomes such as certification, job placement, and employment retention for youth. This provides a domestic precedent for the models proposed in this brief.

International experience offers additional lessons. The Educate Girls Development Impact Bond in rural Rajasthan achieved significant progress against enrolment and learning targets, with participants gaining learning equivalent to one additional year of schooling.[2] Its success reflected strong community mobilisation, outcome metrics integrating access and learning, service provider flexibility, and government alignment. Building on this model, the SDG Outcomes Fund demonstrates that outcome-based financing can operate at sub national level in lower middle income countries and that portfolio approaches improve scalability and reduce transaction costs.

[1] Pakistan rolls out first skills impact bond with Rs1bn private-funded pilot' (2025) *Profit by Pakistan Today*, 31 December. Available at: https://profit.pakistantoday.com.pk/2025/12/31/pakistan-rolls-out-first-skills-impact-bond-with-rs1bn-private-funded-pilot/ (Accessed: 18 March 2026).

[2] 'Educate Girls Development Impact Bond delivers impressive results, surpassing both target outcomes', *UBS*, 13 July 2018, https://www.ubs.com/global/de/media/news-display-new-ndp/en-20180713-educate-girls-development-impact-bond.html [accessed 18 March 2026].

Figure 1: How DIB works for education financing?



3. Punjab

Punjab has made substantial commitments to education spending, yet there is room to test new ways to improve girls' retention and learning. Major ongoing investments include fixing missing facilities, repairing unsafe school buildings, and supporting partnerships through the Punjab Education Foundation (PEF). A significant number of school-aged children remain out of school, and learning outcomes have not improved as quickly as desired. This creates an opportunity to pilot an outcomes-based approach that pays only for results.

Punjab possesses strong institutional infrastructure that can support a Development Impact Bond pilot. The PEF holds an endowment, has corporate status that enables flexible outcomes contracting, and maintains district-level scholarship infrastructure. Commercial banks have shown willingness to engage with performance-based financing models. Education-focused research organisations have assessment capability sufficient for independent verification of results.

This brief suggests piloting a Girls' Retention Development Impact Bond targeting districts with the highest gender disparity, especially in southern Punjab. Dropout rates spike there due to poverty, long distances to schools, a lack of female teachers, inadequate sanitation, and social norms. The pilot would focus on a defined cohort of girls over several years, using interventions such as cash or in-kind stipends linked to attendance, provision of female teachers or teaching assistants, girls-friendly spaces, safe transport, water and sanitation improvements, community mobilisation, and remedial learning support.

The Punjab Education Endowment Fund is well placed to act as the outcome funder, with a bank as investor and an independent verifier validating results. The Fund would commit a capped amount of its investment income to pay only for verified outcomes. The bank/ company would provide upfront working capital to a service provider e.g. Akhuwat. A service provider shall provide education services to achieve results. An independent research organisation would verify enrolment, retention, and learning gains. The government would pay nothing unless those results are achieved.

To move from readiness to action, two practical steps are needed. First, the PEEF board would need to authorise committing some of its investment income as outcome payments. Second, dedicated transaction advisory capacity needs to be resourced, which several development partners can provide. The School Education Department could issue policy advice to the Fund board, and the Finance Department would resource a transaction advisor.

A feasibility study would identify target districts in southern Punjab, define outcome metrics and pricing, and secure formal investor interest from a commercial bank. A pilot would then launch over three years. The Fund would act as outcome funder, a bank as investor, and a selected service provider would deliver enrolment, retention, and remediation interventions. Independent verification would trigger outcome payments only upon confirmed retention and learning gains, meaning government funds are spent only on results that actually happen.

If the pilot performs well, the model could be scaled into a dedicated outcomes fund, enabling phased geographic expansion across more districts. As the track record becomes established, the need for guarantee arrangements would gradually reduce, making the model more cost-effective and sustainable over time.

4. Khyber Pakhtunkhwa

Khyber Pakhtunkhwa has maintained fiscal discipline while increasing education spending, with strong political will for girls' education. Resources have been directed towards infrastructure upgrades, an education emergency to reduce out of school children, and the Insaf Female Education Card to support female and orphan students. Nevertheless, recurrent expense absorbs a majority share of spending, limiting flexibility for new programmes in underserved districts, especially the merged areas.

Khyber Pakhtunkhwa has institutional platforms that can support a Girls' Retention Development Impact Bond pilot. The Elementary and Secondary Education Foundation (ESEF) has experience in scholarship management and maintains relationships with partner schools under its existing programmes. Commercial banks have demonstrated capacity to implement government backed lending schemes. Education-focused research organisations possess assessment capability sufficient for independent verification.

For a Girls' Retention Development Impact Bond targeting merged districts and southern districts where dropout rates are highest, the same types of interventions proposed for Punjab would apply: stipends linked to attendance, female teachers, girls-friendly spaces, safe transport, sanitation improvements, community mobilisation, and remedial support. The Insaf Female Education Card provides a ready model for stipend delivery.

The Girls’ Education Oversight Committee, established by the Khyber Pakhtunkhwa Commission on the Status of Women, could provide strategic oversight. This committee already includes education department representatives, civil society actors, and education champions, with a mandate to review enrolment and retention trends, monitor policy commitments, and strengthen coordination. Aligning the Development Impact Bond’s governance with this existing structure avoids creating parallel oversight mechanisms.

ESEF would act as the outcome funder, a bank as investor, and an independent verifier would validate results. The Finance Department would need to commit a capped outcome fund. A feasibility study would identify target districts in merged areas, define outcome metrics and pricing, and secure formal investor interest. The pilot would then launch over two to three years, with government paying only for verified enrolment, retention, and learning gains.

If successful, the model could be scaled into a dedicated outcomes fund, expanding across more districts. As the track record of the instrument becomes established, the need for guarantee arrangements gradually reduce, making the model more cost-effective and sustainable over time. The existing political commitment demonstrated by the Insaf Female Education Card gives this pilot a strong foundation.

5. Conclusion

Both Punjab and Khyber Pakhtunkhwa face persistent education challenges despite increased public spending. DIBs offer a structured mechanism to pilot innovative approaches to girls' retention and learning improvement while transferring implementation risk to private investors.

In Punjab, the priority is to build on the institutional foundation of the Punjab Education Endowment Fund and commercial banks' willingness to engage with performance risk. A Girls' Retention DIB could be piloted in southern Punjab, targeting districts with the highest gender disparity and testing interventions that can later be scaled.

In Khyber Pakhtunkhwa, the opportunity lies in leveraging the Elementary and Secondary Education Foundation's programme infrastructure and the political commitment demonstrated by the Insaf Female Education Card. A Girls' Retention DIB focused on merged districts and underserved areas could mobilise private capital for upfront implementation while ensuring government pays only for verified results.

The opportunity is therefore not simply to increase public spending on girls' education, but to test whether outcomes-based financing can deliver better results for the same public investment. When structured with clear outcome metrics, independent verification, and appropriate risk allocation, DIBs can help both provinces accelerate progress on girls' retention and learning without exposing the provincial exchequer to implementation risk.