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INNOVATIVE FINANCING FOR EDUCATION

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Abbreviations

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ADB	Asian Development Bank
ADP	Annual Development Programme
ALPs	Alternative Learning Pathways
ASER	Annual Status of Education Report
BII	British International Investment
BoK	Bank of Khyber
C&W	Communications and Works Department
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
DFI	Development Finance Institution
DIB	Development Impact Bond
DLI	Disbursement-Linked Indicator
DSCR	Debt Service Coverage Ratio
E&SE	Elementary and Secondary Education Department
ESEF	Elementary and Secondary Education Foundation
EdTech	Educational Technology
EICGF	Education Infrastructure Credit Guarantee Facility
FCDO	Foreign, Commonwealth and Development Office (UK)
FPA	Foreign Project Assistance
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoKP	Government of Khyber Pakhtunkhwa
GPE	Global Partnership for Education
IFAD	International Fund for Agricultural Development
I-SAPS	Institute of Social and Policy Sciences
IV	Independent Verifier
KIBOR	Karachi Interbank Offered Rate
KPEF	Khyber Pakhtunkhwa Education Foundation
KP-HCIP	Khyber Pakhtunkhwa Human Capital Investment Project
KPRA	Khyber Pakhtunkhwa Revenue Authority
LFPS	Low-Fee Private Schools
LMIC	Low- and Middle-Income Countries
M&E	Monitoring and Evaluation
MDs	Merged Districts
MFI	Microfinance Institution
MIS	Management Information System
MSME	Micro, Small, and Medium Enterprises
NAVTTC	National Vocational and Technical Training Commission
NBFC	Non-Banking Finance Company

NEC	National Economic Council
NFC	National Finance Commission
NGO	Non-Governmental Organization
NHP	Net Hydel Profit
NPL	Non-Performing Loan
OOSC	Out-of-School Children
P&DD	Planning and Development Department
PD	Probability of Default
PEF	Punjab Education Foundation
PFM	Public Financial Management
PKR	Pakistani Rupee
PMU	Project Management Unit
PPAF	Pakistan Poverty Alleviation Fund
PPP	Public-Private Partnership
PSDP	Public Sector Development Programme
QAED	Quaid-e-Azam Academy for Educational Development
RBF-g	Results-Based Financing + Guarantee hybrid
ROE	Return on Equity
SBP	State Bank of Pakistan
SDG	Sustainable Development Goal
SECP	Securities and Exchange Commission of Pakistan
SED	Elementary & Secondary Education Department
SME	Small and Medium Enterprise
SPV	Special Purpose Vehicle
TA	Technical Assistance
TALEEM	GPE/UNICEF initiative
TDPs	Temporarily Displaced Persons
TEVTA	Technical Education and Vocational Training Authority
TPV	Third-Party Verifier
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WASH	Water, Sanitation and Hygiene

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Executive Summary

Despite a commitment to increasing education allocations, Punjab faces a financing paradox where modest gains in real per-child spending have yet to translate into a commensurate shift in learning outcomes. The province has allocated record funding to education development in recent years. Major initiatives include substantial allocations for missing school facilities, and private sector partnerships through the Punjab Education Foundation. Yet millions of school-aged children in Punjab remain out of school, the highest of any Pakistani province. Learning outcomes remain critically low. Teacher effectiveness is further constrained by content knowledge gaps. This report, commissioned by FCDO's B-TAG, explores how innovative financing can help close this gap.

The core problem is not the size of the education budget, but how much of it is already committed before any decisions are made. Nearly 90 per cent of provincial education spending goes to recurrent costs. Development expenditure, the money available for new schools, learning materials, teacher training, and quality improvements, accounts for barely 10 per cent of the total on average. This leaves minimal room for the investments needed to transform learning outcomes, reach out-of-school children, or upgrade crumbling infrastructure. Global benchmarks suggest education systems need at least 4 per cent of GDP or 20 per cent of provincial public expenditure to deliver quality learning. Even if Punjab comes close to this, the rigidity in province's budget implies that even the disbursed money cannot reach the frontline where it matters most.

Incremental budget increases alone cannot solve this. Even substantial year-on-year rises in allocations, do not translate into better learning if the underlying spending model remains unchanged. What is needed is a deliberate strategy to increase the total volume of resources available for education by complementing public funds with private and philanthropic capital. Innovative financing mechanisms, such as outcomes-based contracts, credit guarantees, blended finance, and debt swaps, offer practical ways to do this in a resource-constrained environment like Pakistan's. They do not replace public financing. They expand the pool, attract new partners, and tie resources more directly to results.

This report presents a menu of seven financing instruments, each suited to a different challenge. Public-private partnerships are a core instrument, building on the Punjab Education Foundation's experience. Blended finance can unlock bank lending for EdTech companies and low-cost private schools by using small amounts of public money to absorb first losses, if any. Credit guarantees can transform thousands of low-cost private schools from unbankable risks into attractive lending opportunities for commercial banks. Development Impact Bonds can transfer performance risk to private investors, with government paying only for independently verified results such as girls staying in school or children learning to read. Corporate social responsibility (CSR)-linked funds can pool fragmented corporate donations into strategic, outcomes-focused programmes at scale. Revenue-based financing offers Sharia-compliant structures that work with schools' seasonal cash flows rather than against them. Debt swaps can turn expensive debt repayments into new funding for education, without borrowing more or raising taxes.

Each instrument is assessed for its feasibility in Punjab, with clear recommendations on where to start. Public-private partnerships, blended finance, and debt swaps are rated as feasible and ready for piloting or scaling. Credit guarantees and CSR funds are also viable, with the right institutional anchoring. Development Impact Bonds are pilot-ready, building on the proven template of the Pakistan Skills Impact Bond and the Punjab Educational Endowment Fund's existing endowment. Revenue-based finance is suitable for niche pilots but requires further regulatory clarity and Sharia-compliant structuring.

Getting the institutional design right is as important as choosing the right instruments. Punjab has strong delivery arms in the School Education Department (SED), the Punjab Educational Endowment Fund (PEEF), and the Programme Monitoring and Implementation Unit (PMIU). It has fiscal oversight through the Finance Department and commercial banking capacity through the Bank of Punjab.

But innovative financing introduces new roles: risk sharing, guarantee management, escrow oversight, and outcome verification do not fit neatly within existing mandates. Without clear institutional anchoring and governance protocols, these instruments risk remaining small-scale pilots rather than becoming scalable financing mechanisms. This report therefore maps each financing product to a specific Punjab institutional owner, approval authority, and governance structure.

All proposals are designed with fiscal realism and political feasibility in mind. The Government of Punjab has demonstrated strong budget execution, utilising 98 per cent of its education allocation in the fiscal year 2025-26. Recent reforms under the Punjab Public Financial Management Act 2022, including pension reforms, a cash management fund, and a medium-term debt strategy, have strengthened the province's fiscal position and created the enabling environment needed for innovative financing. All instruments proposed in this report are designed to complement these reforms, not cut across them.

A phased, pilot-first approach is recommended across all instruments. A 12 month sandbox approach would test each product in controlled settings before any decision to scale up. Phase one establishes legal frameworks and selects pilot districts. Phase two launches small pilots with capped portfolios and independent verification. Phase three analyses results and adjusts terms based on learning. Phase four expands to more districts if performance thresholds are met. This approach builds evidence, manages risk, and gives policymakers the confidence to move forward based on what actually works in Punjab's context.

The opportunity before Punjab is significant. The province has the institutional foundations, the fiscal discipline, and the private sector appetite to make innovative financing work. Existing corporate social responsibility contributions, commercial bank liquidity, and diaspora remittances represent substantial untapped resources that could support education. The Pakistan Skills Impact Bond has already shown that outcomes-based financing can work in the country. The Punjab Educational Endowment Foundation has demonstrated it can deliver at scale. What is needed now is the political will to pilot new approaches, the patience to learn from what works, and the commitment to build a financing architecture that serves every child in Punjab.

This report is written primarily for the School Education Department and development partners, to support them in exploring how innovative finance can help achieve their priorities: improving learning outcomes, reaching out-of-school children, and strengthening service delivery. It also speaks to the Planning and Development Board and the Finance Department, recognising that fiscal discipline, contingent liability management, and value for money must remain at the core of any new financing instrument.

The recommendations that follow are suggestions tailored to Punjab's context and institutional landscape. Each financing instrument has been reviewed by corporate governance, regulatory and legal experts, who provided detailed advice. Their comprehensive instrument-wise advice has not been included in the current text to avoid being too prescriptive at this stage, but will serve as technical support once stakeholders agree to design and pilot specific instruments.

1 Purpose and Scope of the Report

Pakistan's economy is stabilising, but recovery remains fragile. Punjab, which generates over half of national GDP, is strengthening public finances through reforms under the Punjab Public Financial Management Act 2022: cutting liabilities, improving cash management, and prioritising lower-cost borrowing.[1] This fiscal discipline matters because Punjab's education budget is fully committed, leaving minimal room for the investments needed to improve learning, reach out-of-school children, or upgrade infrastructure.

Global benchmarks suggest education systems need 4 percent of GDP or 20 percent of provincial public expenditure to deliver quality learning.[2] Incremental budget increases alone cannot fix this. The solution is to increase total resources for education by complementing public funds with private and philanthropic capital through innovative financing. This report helps the SED and development partners explore how such approaches can deliver.

The FY 2025-26 Punjab budget reflects a dual mandate: fiscal prudence alongside development ambition. Provincial resources are estimated at PKR 4,890 billion, supported by double-digit growth in both federal transfers and provincial tax revenues.[3] Development expenditure has been set at PKR 1,240 billion, a 47.3% increase over the previous year, with strategic allocations for digital infrastructure, climate resilience, and human capital. Education features prominently, with headline allocations for laptop schemes, scholarship programmes, school meals, and infrastructure rehabilitation.

Yet beneath this expansion lies a structural disconnect between financing flows and educational outcomes. This is the central paradox this report seeks to address.

a. The Paradox of Education Financing

Punjab has allocated PKR 148 billion to education in its FY 2025-26 development budget. This represents an 80% increase over the previous year's PKR 82 billion. Major initiatives include PKR 40 billion for missing facilities and dangerous school buildings, PKR 35 billion for private sector

[1] Government of Punjab, Finance Department. (n.d.). Public financial management reform strategy. https://finance.punjab.gov.pk/details/pfm-reform-strategy
[2] UNESCO. (2015). *Incheon Declaration and Framework for Action for the implementation of Sustainable Development Goal 4*. World Education Forum. https://unesdoc.unesco.org/ark:/48223/pf0000245656
[3] Government of Punjab, Finance Department. (2025). White Paper Budget 2025-26

partnerships through the Punjab Education Foundation, and PKR 15 billion for the Honhaar Scholarship Programme. Current expenditure adds a further layer of recurrent commitment.

Yet the school-aged children in Punjab who remain out of school is the highest absolute number of any province,[4] while growth in learning outcomes also remain low. Only 26% of Grade 3 children can read an Urdu story, just 24% can read English sentences fluently, and a mere 18% can perform two-digit division, all foundational competencies expected by Grade 2.[5] Teacher effectiveness is further constrained by content knowledge gaps.[6]

Only an estimated 10% of the total education budget, on average, is deployed toward development assets. The remainder is consumed by operational expenditure, leaving insufficient fiscal space for the access, equity, and learning outcomes to which Punjab is committed under both SDG-4 and its own strategic plan.[7]

Compounding this paradox, externally financed education projects have contracted sharply, now standing at just Rs 4.9 billion.[8] At the same time, the education sector accounts for 19% of Punjab's total outstanding debt stock.[9] The province is therefore simultaneously giving rise to debt-servicing obligations for past education investments while lacking the flexible, risk-tolerant capital required to address current deficits in foundational learning, early childhood education, and second-chance pathways for out-of-school children.

This report argues that incremental budget increases alone cannot resolve systemic rigidities; indeed, the FCDO is already working with the Government of Punjab to improve spending efficiency and identify viable options for taking innovative finance forward in tandem with broader fiscal reforms. What is required is a deliberate pivot towards innovative financing instruments discussed in the report, and the mobilisation of private and philanthropic capital. These approaches can reduce risks to development expenditure, align disbursement with results, and unlock new pools of concessional and commercial finance. The fiscal discipline and institutional foundations laid through Punjab's PFM reforms now provide the essential foundation to make such instruments viable.[10]

b. Why This Report, and Why Now

This report is commissioned by the FCDO's B-TAG in response to a dual imperative. **First**, the fiscal space for education in Punjab is not merely constrained, it is inherently rigid. **Second**, the modality of development finance is shifting. Traditional budget support has diminished significantly; development partners are now prioritising results-based, risk-sharing, and leverage-creating instruments that crowd in private capital. At the same time, partners including FCDO are equally focused on enabling governments to use domestic financing more effectively to fund their own development objectives. This dual shift, away from direct budget support and towards both innovative instruments and better use of

[4] Government of the Punjab. (2020). Punjab education sector plan 2019/20–2023/24. https://planipolis.iiep.unesco.org/sites/default/files/ressources/pakistan-punjab-esp.pdf
[5] ASER Pakistan. (2023). *Annual Status of Education Report 2023*. Idara-e-Taleem-o-Aagahi (ITA). https://aserpakistan.org/report
[6] World Bank. (2025, July 1). *Country Partnership Framework for Pakistan (FY 2026 up to FY 2035)*. https://www.worldbank.org/en/country/pakistan/brief/country-partnership-framework-for-pakistan-fy-2026-up-to-fy-2035
[7] Government of the Punjab, Literacy & Non-Formal Basic Education Department. (n.d.). Strategic Plan 2025 2030. https://literacy.punjab.gov.pk/Downloads/STRATEGIC_PLAN.pdf
[8] Government of Punjab, Finance Department. (2025). White Paper Budget 2025-26
[9] Debt Bulletin (December 2025), Debt Management Unit, Finance Department, Government of the Punjab.
[10] Government of the Punjab, Finance Department. (2020). Public financial management reform strategy 2020–2025. https://finance.punjab.gov.pk/details/pfm-reform-strategy

public resources, creates both the imperative and the opportunity for Punjab to explore new financing approaches alongside efforts to improve spending efficiency.[11]

The purpose of this report is therefore not to advocate for increased budgetary allocation alone. It is to provide the Government of Punjab, its legislators, the private sector, and development partners with an evidence-based assessment of those innovative financing instruments that can:

- Reduce risk for private investment in low-cost private schools and education enterprises;
- Shift expenditure beyond just inputs to outcomes through instruments such as Development Impact Bonds and outcomes-based Public Private Partnerships;
- Mobilise non-traditional capital including CSR, commercial bank lending, diaspora funds, without imposing debt burden on the provincial exchequer;
- Complement, not replace, public financing by freeing fiscal space for priority unfunded areas: learning quality, education data, transport to improve girls retention, teacher continuous professional development, and climate-resilience.

c. Scope and Delimitation

The report is confined to school education (pre-primary to secondary) in Punjab province. It does not address higher education, technical and vocational training, or informal education systems except where they intersect with school-age out-of-school children (OOSC) through Alternative Learning Pathways (ALPs). The analysis covers the seven financing arrangements:

1. Blended Finance
2. Development Impact Bonds
3. Credit Guarantees
4. CSR-linked Funds
5. Revenue-Based Finance (RBF)
6. Public Private Partnerships (PPPs)
7. Debt swaps

Our narrative is structured to enable a policymaker to answer, for each instrument: *"Is this worth pursuing, under what conditions, and what would it take to implement responsibly?"* In weak-capacity environments, education financing instruments should prioritise scalable, government-aligned mechanisms that minimise regulatory, revenue, and transaction complexity while leveraging existing public financial systems.

d. Methodology

This report employs a four-layer diagnostic methodology to translate global and local innovative financing models into actionable policy pathways for Punjab, particularly for the SED. Layer one analyses macro-fiscal and expenditure trends to identify financing gaps and fiscal headroom; layer two applies a standardised readiness assessment to seven innovative instruments, drawing on global evidence and provincial diagnostics to generate sequenced roadmaps and risk matrices. Layer three integrates findings from targeted consultations with government, private sector, development partners, and civil society, while layer four synthesises technical inputs from private finance, PPP, and legal experts into coherent, policy-accessible recommendations.

[11] Ahmed, V. (2024). "How can multilateral development banks better support green energy transition?" PEP Working Paper 2024-24, Partnership for Economic Policy.

While layer one and two were more desk and literature based, under layer three, the team integrated findings from a roundtable convened in December 2025 and subsequent interviews with 38 senior stakeholders across government, development finance, private sector, and civil society.[12] Participants included the senior-level representatives from SED, PEF, SIFC, ADB, UNDP, PPAF, PMIC, NAVTTC, PTCL, Bank Al-Habib, Faysal Bank, Bank of Punjab, HUBCO, alongside technical experts from FCDO and I-SAPS.

These consultations provided critical validation of provincial readiness, clarified investor perceptions of risk, and surfaced regulatory bottlenecks that desk-based analysis alone could not capture. The roundtable discussions, in particular, generated consensus on the sequencing of blended finance instruments and underscored strong cross-sectoral appetite for a Punjab Education Financing Dialogue as a permanent multistakeholder platform. The analysis is caveated by the fragmented nature of private school market data, which has been triangulated from available sources and expert scoping.

For this report, innovative financing refers to mechanisms that share risk between government and private investors, leverage non-budgetary capital, and link repayment to outcomes. Investors are willing to take on such risk because public or philanthropic funds absorb first losses, meaning government takes the first hit if things go wrong, while investors still earn a return if outcomes are achieved. This risk-sharing arrangement makes education investments commercially attractive, particularly when combined with regulatory incentives such as preferential capital treatment from the State Bank of Pakistan.

Punjab offers a ready platform to test such approaches. Low-cost private schools partnered with the PEF, serve low-income communities, and receive government subsidy payments through formal banking channels. This combination of stable cash flows, existing government partnerships, and formal financial infrastructure makes them a structured, transparent, and scalable entry point for innovative financing pilots.[13]

[12] Institute of Social and Policy Sciences (I-SAPS). (2026, January). Insights from the policy roundtable on innovative financing of education convened under the GOAL: Bridging Technical Assistance for Governments (B-TAG) programme. https://www.linkedin.com/posts/institute-of-social-and-policy-sciences-i-saps-_education-innovativefinancing-educationfinancing-activity-7410228261839912960-fOqg/

[13] Malik, A. W. (2025, September 13). *Punjab government raises monthly fees for schools across Punjab.* Propakistani. https://propakistani.pk/2025/09/13/punjab-government-raises-monthly-fees-for-schools-across-punjab/

2 Education Financing in Punjab– Key Patterns

Punjab's education budget has grown exponentially in nominal terms. The 2025–26 allocation marks a 21 percent single-year increase, with current expenditure consuming 88 percent and development expenditure at 12 percent. When adjusted for inflation and population growth, real per-child spending has increased only modestly over the past decade.[14]

Eighty percent of provincial revenue derives from federal NFC transfers[15], while own revenue contributes 15 percent[16] and provincial tax collection remains below 1 percent of GDP.[17] The province may find it difficult to finance its education SDG through the budget alone. The current-to-development budget ratio is a challenge to Punjab's education portfolio. Over nearly two decades, the share of education spending allocated to development has grown slowly and still sits well below the international benchmark recommended for systems undergoing expansion and quality reform. The province is funding system maintenance, not transformation; the record development allocation in 2025–26 addresses a fraction of the accumulated infrastructure deficit: 40 percent of schools lack adequate classrooms, 37 percent of rural schools lack boundary walls and electricity, and 65 percent lack science or computer labs.[18]

Financing by development partners has contributed but is now declining in relative share and modality. Current and pipeline engagements by development partners have shifted toward smaller, technically oriented frameworks that prioritise results-based pilots and private capital leverage. For instance, the World Bank's GRADES (2025–2030) initiative links disbursements to learning outcome milestones, while the ADB's STEM Secondary Education Programme (2025–2030) focuses on high-tech secondary school modernisations.[19] Finally, the GPE/UNICEF TALEEM initiative delivers non-formal education and foundational learning camps.

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[14] Nazar, Y. (2025, August 7). *Why Punjab's record education spending isn't getting children into classrooms. The Friday Times*. The 2015, base year calculation is provided in: I-SAPS (2016). Public Financing of Education in Punjab 2015-16. Institute of Social and Policy Sciences.
[15] *Punjab Budget White Paper 2025-26*;
[16] *Finance Department, Govt. of the Punjab*, "Budget at a Glance 2025-26."
[17] State Bank of Pakistan (SBP) Annual Report on State of Economy FY25
[18] Ibid. As of "…May 2025 40% of public schools lack in adequate classrooms, and 37% of schools in rural areas are without boundary walls and electricity. Additionally, 65% of rural schools and 27% of urban schools lack science or computer labs, while 45% of all schools are without proper toilets, fans, or access to safe drinking water. According to the Punjab School Education Department, there are about 38,000 government schools in the 36 districts of Punjab. Of them, 21,702 are primary, 7,200 middle, 8,000 high and 800 higher secondary schools. These schools are facing a shortage of funds and facilities."
[19] World Bank. (2024, June 14). *Pakistan: World Bank approves $150 million for primary education in Punjab* [Press release]. World Bank.

Alongside these, a more recent model is emerging. The Pakistan Skills Impact Bond, the first instrument of its kind in the country, offers a working example: private investors provided upfront funding, government backing helped reduce their risk, and repayment is triggered only when results are independently verified. Historically, Punjab's education institutions have also built up strong experience of over two decades of managing results-based programmes. This foundation puts them in a good position to engage with such new approaches, but it also requires a shift in focus from negotiating disbursement targets to understanding how to structure outcomes-based partnerships and work directly with investors. The Skills Impact Bond provides a useful reference point for what this can look like in practice.

Punjab has demonstrated strong budget execution, utilising 98 per cent of its education allocation in the last fiscal year. The per-student costs have risen 55 per cent since 2015 but learning outcomes have remained broadly steady, indicating that alongside continued investment, strengthening the link between spending and classroom impact is important. Currently only 40 percent of Grade 5 students demonstrate reading proficiency, net enrolment gains are marginal, and rural gender gaps persist at 20 percentage points.[20]

The PEF model is often cited as a solution due to its lower per-student cost. Yet, this efficiency frequently reflects cost-shifting, relying on non-regularised teachers and minimal infrastructure, rather than genuine pedagogical innovation. The challenge now is one of scale. While PEF successfully reached 2.5 million students over two decades, the current aim is to outsource thousands of low performing public schools. Doing this quickly and at scale presents a challenge to quality assurance.

Getting the financing model right for PEF's expansion is critical, but even that will not close every gap. The next phase of reform could prioritise improved learning outcomes. This means focusing first on learning quality: strengthening teacher support, ensuring fit-for-purpose curriculum and assessment, and providing quality teaching and learning resources. It also requires enabling infrastructure that supports learning, and early childhood education to build foundational skills before children enter primary school. Access and retention, while vital, depend on these fundamentals. Children stay and succeed when classrooms are safe, teachers are equipped, and learning is meaningful. Closing these interconnected gaps requires not just more resources, but new approaches that align financing directly with results.[21]

Punjab's education financing architecture comprises five core institutions with distinct mandates and varying capacity for innovative finance. The School Education Department holds policy and budget authority but faces implementation constraints from cadre turnover. The Punjab Education Foundation manages PPP programmes and has demonstrated delivery at scale, though governance reform is needed to manage blended capital. PMIU brings two decades of results-based management experience from World Bank and FCDO projects and is well positioned to transition to institutional financing. The Finance Department exercises fiscal control and requires demonstrable sustainability for any new instrument. The Planning and Development Board oversees development portfolios and is a potential institutional home for a blended finance facility.

Forward simulations indicate that business-as-usual will not deliver Punjab's education targets within any plausible fiscal horizon. Under a constant policy baseline, out-of-school children would decline only modestly, infrastructure deficits would persist, and learning outcomes would remain stagnant. The accelerated outsourcing of public schools carries significant fiscal risk; international experience shows

[20] ASER Pakistan. (2023). Annual Status of Education Pakistan 2023 national report. https://stateofchildren.com/annual-status-of-education-pakistan-2023-national-report-urban-and-rural/
[21] UNICEF Pakistan. (n.d.). *Education*. UNICEF. https://www.unicef.org/pakistan/education

per-pupil costs can exceed initial estimates by 150 percent, requiring substantial investment in quality assurance and contract enforcement.[22]

An innovative financing scenario demonstrates that reallocating 15 percent of the development budget could mobilise PKR 60 billion annually in additional resources by 2030.[23] Redirecting PKR 15 billion per year toward first-loss guarantees, outcomes funds, and blended finance vehicles could leverage private capital at ratios of 3:1 to 5:1. Outcomes-based contracting could generate 5–8 percent efficiency gains per unit of learning outcome. This scenario would accelerate out-of-school child reduction, finance teacher professional development, and address infrastructure deficits, but requires political commitment, regulatory reform, and dedicated transaction advisory capacity.

Punjab has significant sources of untapped funding from local businesses, their corporate social responsibility (CSR) programmes, and the Pakistani diaspora, that could support education but currently remain largely unused. Commercial banks hold liquidity but limited bankable education assets; low-cost private schools lack collateral, credit history, and underwriting infrastructure. Corporate CSR generates an estimated PKR 50 billion annually but is disbursed as *ad hoc* philanthropy, not strategic investment.[24] The diaspora remits over USD 38 billion annually, yet less than 0.1 percent is directed toward capital formation.[25] These resources remain sequestered because no pooling, or outcomes-based structures exist to render the education sector investable.

The financing instruments presented in this report constitute a menu of instruments for decision by policymaker, each with distinct risk, reward, and relevance profiles. For example, credit guarantees, discussed here, transform non-bankable school loans into bankable assets. CSR pooling vehicles aggregate fragmented corporate donations into scale-appropriate outcomes funds. Revenue-based financing and bonds align repayment with verified access, retention, and learning gains. Collectively, they offer Punjab a pathway from fiscal vulnerability to investment-led education transformation.

Institutional design matters for Punjab. While the province has strong delivery arms (SED), fiscal oversight (Finance Department), and commercial banking capacity, innovative financing instruments introduce new roles such as risk sharing, guarantees, escrow management, and outcome verification that do not fit neatly within existing mandates. The Finance Department, for instance, will have to now assess contingent liability exposure, a function distinct from routine budget execution. Without clear institutional anchoring and governance protocols, these instruments risk remaining pilots rather than scalable financing mechanisms. The proposals in this report therefore respond directly by mapping each financing product to a Punjab institutional owner, approval authority, and governance structure, providing clear practical answers to the question: *who does what?*

[22] Crawfurd, L., Hares, S., & Todd, R. (2023). *The impact of private schools, school chains and PPPs in developing countries. World Bank Research Observer, 39*(1), 97–123. https://academic.oup.com/wbro/article/39/1/97/7115930
[23] Apampa, A. (2023, February 21). *How much does a dollar of concessional capital mobilize?* Convergence. https://www.convergence.finance/news/4cC8kVJXvOFZDVxGQ6HLNH/view
[24] Pakistan Centre for Philanthropy. (n.d.). *Corporate Philanthropy in Pakistan 2023.* Pakistan Centre for Philanthropy. https://pcp.org.pk/resource-center/
[25] State Bank of Pakistan. (2025). *Annual Report 2024–25*. State Bank of Pakistan.

3 Introduction to Financing Instruments

The financing instruments presented in this report respond to a strategic objective: in. Punjab's education budget, while substantial, is largely committed to recurrent expenditure; ii. development partner modalities have shifted away from traditional budget support; and iii. substantial private capital remains untapped due to absent intermediation infrastructure.

In our discussion that follows, Blended finance deploys concessional funds to reduce risk for commercial investment, for example, in PEF partner schools. Development impact bonds transfer performance risk to private investors, with entry points in girls' retention in Southern Punjab and teacher development. Credit guarantees enable government to cover loan default risk, rendering low-cost private school lending attractive to commercial banks. CSR-linked funds pool corporate donations into vehicles like the proposed Punjab Education Catalyst Fund. Revenue-based financing aligns repayment with school cashflows through Sharia-compliant structures. PPPs encompass structured outsourcing and co-payment models for access expansion.

The core idea is to shift from simply spending public money to using it to attract other sources of funding. By taking a small amount of public funds to cover the first losses if things go wrong, government can encourage banks to lend to schools, unlocking three to five times more funding than public money alone could provide. Under this arrangement, public funds absorb the earliest losses (if any), a guarantee mechanism covers further losses up to a limit, and banks provide the bulk of the lending while still bearing some risk. This structure also gives banks important advantages under State Bank of Pakistan rules, including lower capital requirements and reduced provisioning for bad loans, making education lending more attractive to them.

Instrument prioritisation reflects Punjab's institutional landscape and reform trajectory (Table 1). PPPs are a core instrument, anchored by the PEF's management of partner schools. Blended finance is feasible, building on Karandaaz Pakistan's partnership with PEF and the commercial banks' appetite for innovative finance. Debt swaps offer fiscal space potential, leveraging the Finance Department's recent debt and pension reforms. Credit guarantees are rated high, drawing on the Punjab Small Industries Corporation's existing guarantee infrastructure and Bank of Punjab's lending scheme experience. CSR funds are feasible, though scale requires aggregating fragmented corporate contributions. Development Impact Bonds are rated medium-high, with the Pakistan Skills Impact Bond as a template, PEEF's endowment as a ready outcome fund, and the commercial banks willing to take performance risk. Revenue-based finance is rated medium-low, suitable for niche pilots but requiring Sharia-compliant structuring and regulatory clarity.

Table 1: Instrument Prioritisation for Khyber Punjab

Instrument	Feasibility in KP	Scale Potential	Recommended Role
PPPs	High	High	Core instrument
Blended Finance	High	High	Core instrument
Debt Swaps	Medium	Low	Fiscal space expansion
Credit Guarantees	High	High	Market development
CSR Funds	High	Medium	Complementary / Scalable
Development Impact Bonds	Medium	Medium	Scale-up ready
Revenue-based Finance	Medium	Low	Niche

Source: Adapted from Global Partnership for Education (2026)[26]

[26] Global Partnership for Education (2026), Innovative Financing for Education: Factsheet on the Multiplier and Debt2Ed Mechanisms.

4 Blended Finance: Supporting First-Time Entrants

Blended finance refers to the use public or philanthropic funds to reduce the risk for private investors. It addresses a specific, well-documented market weakness: Creditworthy low-cost private schools in Punjab are systematically excluded from commercial lending due to collateral constraints, despite stable enrolment, government subsidy streams, and demonstrated operational viability.[27] This approach uses money from government or development partners as a safety net. If some borrowers cannot repay, this fund absorbs the first losses.[28] With that protection in place, commercial banks gain confidence to lend at a larger scale to schools and education projects. For Punjab, this offers a mechanism to unlock financing in school infrastructure and expansion capital without imposing additional debt burden on the provincial exchequer.

Global and domestic evidence confirms that blended finance can mobilise significant commercial leverage and deliver transformative education outcomes at scale. In Nigeria, a blended finance facility supported by multilateral actors maintained strong portfolio performance across participating schools while expanding access.[29] In India, a partnership with low-cost private school networks delivered sustained growth in enrolment. In Pakistan, the Kashf School Sarmaya programme expanded lending to low-cost private schools, generating increases in school participation and measurable improvements in school facilities, while demonstrating that low-cost private school lending can be portfolio-sustainable when coupled with technical assistance. The primary binding constraint in these contexts was access to capital, not credit quality; blended finance mechanisms address precisely this constraint.

Punjab's readiness for blended finance piloting is assessed as *Medium*, with foundational institutional architecture and market demand already in place. PEF maintains direct relationships with 3,200+ partner schools and possesses enrolment and subsidy data sufficient for cash-flow based underwriting. The commercial banks in Punjab have signalled partnership interest; entities such as Karandaaz Pakistan possesses both mandate and technical expertise in blended finance design; and U Microfinance Bank's existing Sarmaya-e-Taleem product confirms market demand.

[27] Tahir Andrabi, Jishnu Das, Asim Ijaz Khwaja, and Selcuk Ozyurt, "Helping Schools Survive: Experimental Evidence on the Impact of Financial and Educational Support to Private Schools," NBER Working Paper 34042 (2025), https://doi.org/10.3386/w34042.
[28] First-loss capital acts as a financial shock absorber where the government or a development partner agrees to lose their money first if a project fails, protecting private investors/financial institutions and making it safe for them to lend.
[29] International Finance Corporation. (2020). *Innovative Financing for Education: Blended Finance Case Studies.* IFC.

Product 1: EdTech and Digital Learning Blended Facility

The Challenge and the Opportunity: Punjab's SED is expanding digital learning. However, experience globally and in Pakistan shows a clear risk: investing in hardware alone, without a focus on how it is used leads to sub-optimal decisions.[30] It fails to improve learning and wastes public money. The real barrier is not just procuring devices. It is ensuring they are used effectively to improve teaching and learning. This requires teacher support, structured lesson plans, and software that adapts to each child's learning level. The proposed EdTech Blended Facility is designed to solve this. It shifts government from being a direct purchaser of hardware to a strategic partner that uses public funds to attract private capital for proven, system-wide digital learning approaches.

How the Facility Works: The facility uses a small amount of public money to cover the first potential losses, encouraging commercial banks to lend to experienced EdTech companies. These companies then work with government schools to roll out digital learning solutions that meet clear educational standards. This structure insulates the programme from fiscal delays, shares risk with the private sector, and ties financial returns to verified usage and learning gains.

A dedicated guarantee mechanism would be the central institutional vehicle. It does not lend money itself. Instead, it provides a partial guarantee to commercial banks on loans made to pre-qualified EdTech partners. This allows a small public contribution to mobilise three to five times its value in private funding. For Punjab, this vehicle could be housed within the Finance Department, provided it can issue guarantees that offer banks the regulatory capital relief allowed under State Bank of Pakistan rules.

Sharing Risk to Attract Investment: Structured as a three-layer capital stack, the total funding pool allocates about 25% from government and donors as a grant-funded bottom layer that absorbs first losses and earns no return, 15% from a guarantee fund as a middle layer that covers subsequent losses for a 1-2% fee, and 60% from commercial banks as a protected top layer that earns interest and provides most funding. This arrangement ensures banks' confidence and efficient public fund use.

The top layer, known as the senior layer, makes up about 75 per cent of the total fund. This is the main funding, provided by commercial banks. This money is the safest because the other layers sit beneath it, protecting it from early losses. Banks lend this money at a market-based interest rate, such as the Karachi Interbank Offered Rate plus a few extra percentage points. To ensure they lend carefully, banks keep a small amount of risk on each loan themselves, rather than having the guarantee cover the entire amount.

If a loan goes bad, the losses are absorbed from the bottom up. The first-loss layer takes the initial hit. If losses go beyond that, the guarantee layer covers its agreed share. Only then does the bank absorb any remaining loss, up to a capped amount.

Strict rules protect public money throughout. For instance, if defaults across the whole portfolio exceed an agreed level, a stop-loss trigger would halt any new lending until the situation is reviewed. This ensures problems are contained before they grow.

Why Banks Participate and Regulatory Benefits: This structure (Table 2) makes lending to EdTech companies attractive to banks for three main reasons under State Bank of Pakistan rules:

[30] Akyeampong, K., *et at.,* (2023). *Cost-effective approaches to improve global learning: What does recent evidence tell us are "Smart Buys" for improving learning in low- and middle-income countries?* [Report]. Foreign, Commonwealth & Development Office; The World Bank; UNICEF; USAID.

1. **Lower Capital Charge:** The guaranteed part of a loan carries a much lower risk weight. This means banks do not have to set aside as much of their own capital to cover it, improving their return on investment.
2. **Reduced Provisioning:** If a loan is guaranteed and a borrower defaults, the bank only needs to provision for the unguaranteed portion. This protects their profits.
3. **Clean Lending Limits:** The State Bank has increased the limit for unsecured lending to small businesses. This allows banks to lend to EdTech companies based on their contracts and cashflow, rather than demanding physical collateral like land or buildings.

Table 2: Product Terms for EdTech Facility

Term	Pilot-Ready Design
Target Borrowers	EdTech companies with a proven track record in Pakistan, offering bundled solutions (software + teacher support + hardware) that align with the SED's curriculum
Underlying Cashflow	Payments from school subscriptions or government procurement contracts for digital learning services
Risk-Sharing	Public first-loss layer (25% of portfolio) + guarantee (e.g., 60% coverage). Banks retain a small portion of risk on each loan to ensure prudent lending
Verification & Disbursement	Loan disbursements are tied to verified milestones: delivery and teacher training; 3 months of active usage in schools; 6 months of sustained usage and demonstrated learning progress (via platform data)
Outcome Metrics	Active users (disaggregated by gender), lesson completion rates, and performance on in-platform assessments
Pilot Districts	One district in central Punjab (e.g., with good connectivity) and one in south Punjab (e.g., to test in a more challenging, low-tech environment)

Institutional Anchors in Punjab: Several Punjab institutions would anchor the EdTech Facility, each playing a distinct role in making it work. The SED sets the educational vision, defines eligible solutions, oversees vendor pre-qualification, and ensures alignment with teacher development and curriculum goals. The Finance Department approves the allocation for the first-loss fund, sets the overall risk appetite, and oversees the guarantee mechanism to manage contingent liabilities. The PEF could act as the implementing partner, using its network of partner schools to pilot solutions and its experience with private sector partnerships to manage contracts. A commercial bank would serve as the anchor commercial lender, providing the main senior layer of financing through its branch network and building on its track record of implementing government lending schemes. A technical partner would provide assistance throughout, supporting facility design, vendor due diligence, and independent verification arrangements to ensure transparency and credible results.

Implementation Roadmap (12-15 Months): The EdTech Blended Facility would follow a phased pilot approach over 12 to 15 months, anchored within Punjab's existing institutional framework. In the first three months, the School Education Department and Finance Department would establish a joint working group to finalise the legal structure, secure approval for the first-loss fund, define eligibility criteria based on a systems approach, and pre-qualify a small number of vendors. The Finance Department would sponsor the first-loss tranche and approve any contingent liabilities, while a guarantee vehicle would manage partial credit guarantees and claims administration.

In months four to six, the guarantee agreement would be signed with the commercial bank as anchor lender, the first-loss fund would be capitalised in a ring-fenced account, and initial loans would be disbursed to vendors for pilot implementation.

From months seven to twelve, independent verifiers would monitor implementation against milestones, while an inter-departmental steering committee would review financial performance and educational outcomes quarterly. The SED would retain oversight of vendor compliance with data privacy, cybersecurity and child protection standards.

At months 12 to 15, an independent evaluation would be presented to senior government officials, leading to a decision on whether to scale the facility province-wide, adjust the design, or conclude the pilot.

What This Means for an EdTech Partner: An EdTech company would gain access to collateral-free, growth-focused financing. They would work with the government to deploy their solution in public schools, with payments linked to clear, achievable milestones. Successfully completing the programme would build a valuable track record, allowing them to access even larger, unguaranteed commercial financing in the future to scale their impact across the province.

5 Development Impact Bonds

A Development Impact Bond is a way of funding social programmes where private investors put up the money first to deliver a service. If an independent check confirms the service achieved its agreed goals, then the government or development partners pays the investors back what they put in, plus a financial return that reflects the risk they took. This means the financial risk of failure sits with investors, not the government.[31]

Pakistan launched its first-ever Pakistan Skills Impact Bond, a PKR 1 billion pilot tranche designed to shift vocational training from traditional public spending to a *pay-for-success* private-capital model. 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 a six-month employment retention for youth.[32]

The Pakistan Skills Impact Bond provides a domestic precedent: Bank of Punjab acted as risk investor and underwriter; Ministry of Finance provided a time-limited, catalytic guarantee; NAVTTC served as implementation agency; and FCDO provided catalytic grant support. Every element of this architecture is transferable to a Punjab Education DIB.

The Educate Girls DIB in rural Rajasthan provides the strongest operational precedent for Punjab. Over 2015–2018, it achieved 116 percent of enrolment and 160 percent of learning targets, with participants gaining learning equivalent to one additional year of schooling. Its success reflected strong community mobilisation, outcome metrics integrating access and learning, service provider flexibility, and government alignment.[33] Building on this model, the SDG Outcomes Fund, anchored by British International Investment, 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.[34]

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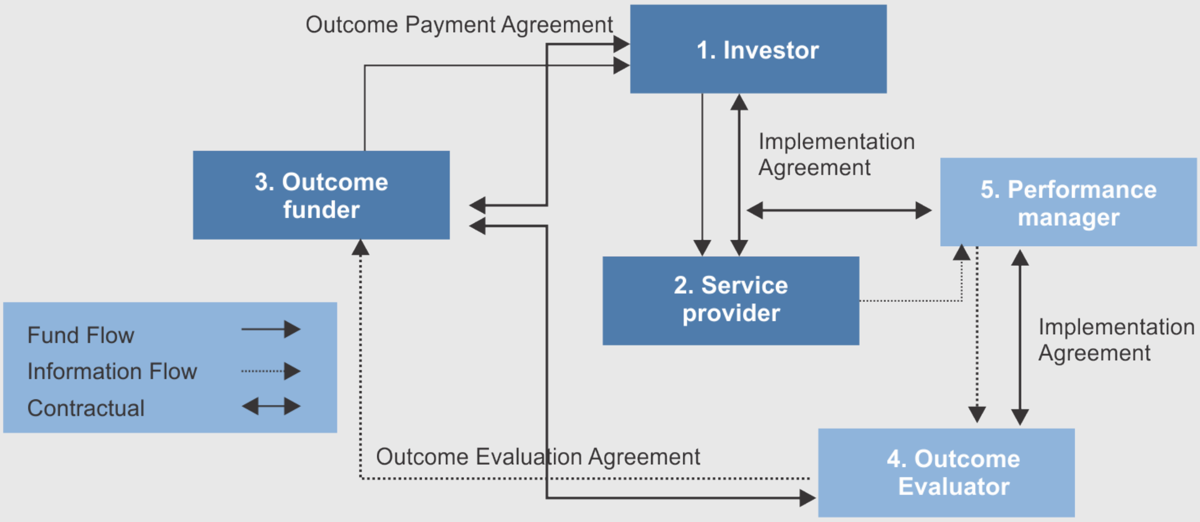
[31] Gustafsson-Wright, E., Boggild-Jones, I., Segell, D., & Durland, J. (2017). *Impact bonds in developing countries: Early learnings from the field*. Center for Universal Education at Brookings and Convergence. https://www.brookings.edu/events/report-launch-impact-bonds-in-developing-countries/
[32] Govt launches first bond for skill development, Dawn, 31 December 2025.
[33] IDinsight. (2019). *Educate Girls Development Impact Bond: Final evaluation report*. New Delhi.
[34] British International Investment. (2023). *SDG Outcomes Fund*. https://www.bii.co.uk

Structure of a typical DIB in the education sector around the world is presented below.



Notes:

1. *The investor provides upfront capital to the service provider(s) with an expectation to meet target outcomes.*
2. *The service provider plays the key role in deploying solutions using the upfront capital to target beneficiaries. The entire stakeholder structure relies on the quality and proven success rate of the SP to reduce project risk to minimum.*
3. *The outcome funder repays the investor if the metrics are achieved. Governments and donors usually take this role. If targets are met, Outcome Funders pay investors the principle and a rate of return. If targets are not met, there is no or partial pay out.*
4. *An independent outcome evaluator verifies or assesses impact of solutions and develops an outcome report for the Outcome Funder.*
5. *The Performance Manager tracks performance, manages risks, prepares meaningful progress reports to facilitate decision making on the efficacy of an intervention and if it is not working, intimates the stakeholders in a timely manner to avoid waste of resources.*

Girls' Retention Development Impact Bond can be piloted in Punjab within 18 months period. The province has the key institutional pieces already in place, with readiness assessed as medium and piloting feasible on this timeline. The PEEF offers on possible home for such a pilot. It holds an endowment, has Section 42 company status that enables flexible outcomes contracting, and maintains district-level scholarship infrastructure. What it may require is direct experience in outcomes-based contracting, but this can be addressed through technical support.

Two other Punjab institutional segments bring essential capabilities to the table. The commercial banks have demonstrated willingness to keep a check on any performance risk in such financing models and have publicly committed to improving due diligence around innovative finance. Second, education-focused think tanks in Punjab possess assessment capability sufficient for independent verification of results.

Two practical steps remain to move from readiness to action. First, the PEEF Board will have to authorise committing some of its investment income as outcome payments. Second, dedicated transaction advisory capacity needs to be resourced. Both are achievable: PEEF is currently developing its five-year strategic plan, offering a clear entry point, and several development partners have the mandate to fund a transaction advisor embedded with PEEF, replicating the model used in the Pakistan Skills Impact Bond.

The first year would focus on laying the policy and financial groundwork. The SED may issue policy advice to the PEEF Board, which should pass an enabling resolution to authorise an outcome payment fund. Finance Department would resource a dedicated transaction advisor. A feasibility study would identify two districts in southern Punjab, outcome metrics and pricing would be defined, and the commercial bank would signal formal investor interest.

Over the following two to three years, a pilot would launch in selected southern Punjab districts. PEEF would act as outcome funder, the commercial 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 only spent on results that actually happen.

If the pilot performs well, years three to five would see it scaled into a dedicated PEEF Outcomes Fund. This would enable phased geographic expansion across more districts. As the track record of the instrument becomes established, the need for guarantee arrangements would gradually reduce, making the model more cost-effective and sustainable over time.

The key risks in a DIB are manageable with the right design. The main institutional risk is whether the PEEF Board will approve the pilot. This can be addressed by early engagement and showing how it fits within their existing role. Investor appetite is not a concern because there are commercial banks who have signalled interest, and a time-limited provincial guarantee can provide extra confidence if needed. Operational risk sits outside of the government, because payment only happens when results are independently verified. The risk of being seen as privatisation can be managed by focusing on government schools and making clear that public money is only spent on proven success. DIBs have been criticised as costly, but these costs can be kept down by using legal work already done for the Pakistan Skills Impact Bond and spreading fixed costs across multiple projects.

Five practical recommendations follow. For the Punjab Government: the SED may formally ask the PEEF Board to consider a pilot, the Board may pass a resolution to authorise it, and the Finance Department could then set out its position on any provincial guarantee. For development partners: they may fund a transaction advisor to work with PEEF for two years, share learning from the Pakistan Skills Impact Bond, and explore including a Punjab DIB in the SDG Outcomes Fund portfolio. For the private sector: the commercial bank may confirm its interest, a specialised entity may offer technical help or co-investment, and potential service providers will start building their capacity for outcomes-based contracts.

6 Credit Guarantees: Unlocking Bank Lending to Private Schools

A credit guarantee is a risk-sharing arrangement in which a guarantor undertakes to repay a portion of a loan in the event of borrower default, thereby substituting for physical collateral and incentivising commercial banks to extend credit to previously unbankable segments. In Punjab's low-cost private school sector, this instrument addresses a binding market failure: PEF-partner schools are often excluded from commercial lending not because they lack cash flow or viability, but because they lack titled property to offer as collateral. A credit guarantee substitutes public risk capital for private collateral, rendering infrastructure and working capital financing gap immediately addressable.

Punjab is guarantee-ready because the Punjab Small Industries Corporation (among other entities) already possesses the statutory mandate, operational infrastructure, and proven delivery capacity to issue credit guarantees to scheduled banks. PSIC's Rozgar Scheme (2020–2024) processed over 60,000 loan applications, disbursed Rs 30 billion in guaranteed credit, and generated 1.6 million jobs, demonstrating that the Corporation can design, deploy, and scale guarantee facilities for MSMEs. This existing machinery, governed by the Punjab Small Industries Corporation Act 1973, can be adapted for education sector lending with a single Board resolution; no legislative amendment is required. Simultaneously, commercial banks in Punjab have signalled strong appetite for education-sector partnership through its anchor role in the Pakistan Skills Impact Bond and its financial literacy collaboration with PEF.

Global evidence confirms that partial credit guarantees achieve high leverage ratios and are most effective when paired with robust borrower accreditation and credit bureau integration. Colombia's Fondo Nacional de Garantías (FNG) is a state-supported guarantee institution that facilitates access to finance by providing credit guarantees, including for education lending, thereby enabling banks to lend to borrowers without traditional collateral.[35] In India, the Credit Guarantee Fund for Education Loans (CGFEL), administered through public financial institutions, was established to expand collateral-free student lending.[36] In Brazil, the BNDES Investment Guarantee Fund (FGI) provides guarantees through financial intermediaries to reduce lender risk and leverage private finance.[37] These experiences demonstrate that state-supported guarantee funds can successfully catalyse private lending in priority

[35] Fondo Nacional de Garantías. (2024). *Institutional overview and guarantee programmes*. https://www.fng.gov.co
[36] Government of India. (2022). *Credit Guarantee Fund Scheme for Education Loans: Operational guidelines*. Ministry of Education.
[37] OECD. (2020). *Development finance institutions and the case of Brazil*. https://www.giz.de/en/downloads/oecd-working-paper-dfis-and-the-case-of-brazil.pdf

sectors, including education, when backed by strong institutional governance and financial intermediaries.

Punjab's readiness for a credit guarantee scheme is assessed as Medium-High, with constraints being product design and credit officer training. Legal feasibility is High: PSIC's statutory guarantee authority is unambiguous. Institutional capacity is Medium: PSIC possesses proven guarantee administration capability but zero education sector experience; PEF maintains a database of accredited schools with verifiable cash flow, and commercial banks have demonstrated strong appetite and partnership infrastructure, while market demand from borrowers is High, as evidenced by Kashf Foundation's Education Finance Programme which achieved strong enrolment growth and a solid repayment culture. Fiscal sustainability is rated Medium-High, as the guarantee cap requires a contingent liability provision that is large but manageable within provincial finances, while guarantee fee income offsets administrative costs and helps build reserve funds.

Product 2: Results-Based Financing + Guarantee hybrid (RBF-g)

This product is designed to help outcome-based education programmes scale up by solving a cash flow problem. It targets organisations such as CSOs and education foundations delivering programmes for out-of-school children under contracts that pay only when results are achieved. Under normal outcome-based contracts, these groups have to pay for delivery upfront and only get paid months later, after results are checked. Most do not have enough cash reserves to cover this gap for long, which limits how large their programmes can grow.

The structure works like this: A commercial bank provides a working capital loan to the service provider so they can deliver the programme without waiting for outcome payments. A guarantee arrangement covers the bank against losses if things go wrong. The government or a development partner, acting as outcome funder, agrees to pay a fixed amount for each independently verified result, such as a child learning to read. These outcome payments are paid directly to the bank to repay the loan. If the agreed results are not achieved, the outcome payments do not happen, the service provider cannot repay the loan, and the guarantee covers a large part of the unpaid amount according to agreed limits.

For this to work, everyone must trust the organisation that checks whether results were really achieved. Timelines for verification and payment, clear data-sharing agreements, and proper audit trails are all essential (Table 3). This structure spreads the risk between the bank, the guarantor and the outcome funder, making it possible for experienced organisations to run large programmes without needing huge cash reserves upfront.

Table 3: Indicative Term Sheet Snapshot (Results-Based Financing with Guarantee)

Term	Indicative Design
Product	It combines an outcome fund with guaranteed bridge financing, converting verified outcomes into cashflows that banks will accept as repayment
Policy Objective	Outcome-based programmes improve accountability, but providers cannot afford to pre-finance delivery. Cashflows depend on timely verification and outcome payments, which limits bank appetite for bridge lending. This product addresses that gap
Target Counterparties	Service providers, civil society organisations, and PPP operators delivering education outcomes under performance contracts, together with banks and investors providing working capital bridge finance
Underlying Cashflow	Outcome payments from government or development partners, triggered by independently verified results such as improved literacy, numeracy, retention or progression
Instrument	An outcome fund commitment with clear payment protocols, combined with a working capital bridge guarantee that enables banks to lend against expected outcome receipts
Risk-Sharing	The outcome funder bears the cost of outcome payments only when results are achieved. Banks provide the bridge credit. The guarantee covers defined credit risks on the bridge facility, subject to verification and documentation triggers
Verification as a Credit Event	The rulebook defines what counts as verified, including sampling and test design, how disputes are resolved, and how delayed verification is treated through extensions or partial payments
Claims and Repayment Waterfall	Outcome payments flow into an escrow account and repay the bridge facility first. Guarantee claims apply only after documentation checks are completed
Key Risks	Verification disputes or delays; gaming and data manipulation; weak payment discipline and legal enforceability under public contracts; fiscal risk if metrics or fund governance are weak
Mitigation	Clear outcome definitions with established baselines; competitive procurement of independent verifiers; strong outcome fund governance including approvals, audit trails, and payment timelines; caps on guarantee allocation; robust data integrity checks
Pilot Design and Success Metrics	District-level pilots for foundational learning and retention. The pilot tests verification timeliness and bank appetite for bridge lending. Success is defined as timely verified payments, controlled claims, and measurable proxy improvements in learning outcomes

This hybrid model would be anchored within Punjab's own institutions to ensure credible payments and proper oversight**.** The SED, working with the Finance Department, would decide which outcomes matter most. They would also approve the payment rates and performance measures for pilot programmes.

A dedicated outcome fund would hold the money to pay for verified results. This could be hosted by an existing body like the PEEF. The Finance Department would give policy approval for using outcome-based payments and would sign off on any contingent liabilities arising from the guarantee mechanism.

Commercial banks would provide working capital loans to service providers. A guarantee arrangement would cover part of the bank's risk on these loans. Service providers would assign their right to future outcome payments directly to the bank through controlled accounts, ensuring the bank gets repaid first when results are achieved.

An independent verifier would check whether outcomes were actually delivered. This function would be competitively tendered to credible organisations with proven ability to measure learning and track enrolment or retention. Their assessment would trigger the outcome payments.

Overall oversight would rest with an inter-departmental steering committee. This would bring together the SED, Finance Department, P&D Board, and participating banks. Clear agreements would set out timelines for verification, rules for payment authorisation, audit requirements, and how to resolve any disputes. This keeps everyone accountable and the process transparent.

Product 3 - Education Infrastructure Credit Guarantee Facility (EICGF)

This product helps fix school infrastructure faster by helping builders get bank loans to start work, even when government budgets are tight. It targets pre-qualified contractors carrying out approved rehabilitation work for the SED, such as installing solar panels, building toilets and classrooms, or adding boundary walls and other missing facilities.

The main problem is that builders struggle to get loans and worry about late government payments, so work gets delayed or costs go up. Banks are nervous because they are not sure the government will pay on time and it is hard to check if the work is done properly. **This facility solves both problems** by using a guarantee to share the bank's risk and by linking loan payments to independently verified progress (Table 4) on the ground.

Table 4: Eligible Categories and Verification Requirements

Eligible category	Verification method
School rehabilitation	Engineer certificate + completion report
Solarisation	Geo-tagged photos + meter installation
WASH facilities	Technical audit + water quality test
Classrooms	Stage-wise disbursements (foundation/roof)

Here is how it works in practice. A participating bank provides a construction loan to a contractor who has won a government contract to rehabilitate schools (Table 5). The contractor draws down this loan in stages as different phases of work are completed and checked by an independent monitor.

Government payments for the work are paid into a special account, often called an escrow account, where they are protected. When the contractor repays the bank loan, the money comes from this account. This ensures the bank gets paid back first before the contractor takes their profit.

A guarantee arrangement backs the bank's loan. If the contractor defaults and cannot repay, the guarantee covers a large part of the bank's losses, but only up to a set limit. This means the bank is protected against the risk of the contractor not repaying, so it is much more willing to lend.

Two features make this work. First, because government payments are protected in the special account, the risk of late or non payment is greatly reduced. Second, independent technical monitors check that building work meets the required standards before each stage of the loan is released. This protects against poor quality work or fraud.

For example, with a default rate of 10 in every 100 loans and a guarantee covering half of any losses, a guarantee fund of PKR 2 billion could support up to PKR 20 billion worth of school rehabilitation work. This multiplier effect means public money goes much further.

Table 5: Indicative Term Sheet Snapshot (Education Infrastructure Credit Guarantee Facility)

Term	Indicative Design
Borrowers	Pre-qualified contractors and special purpose vehicles executing approved school rehabilitation packages
Instrument	A portfolio guarantee provided to participating banks for capital expenditure loan portfolios
Risk Stack	A first-loss pool funded by government or development partners, combined with equal risk-sharing bank exposure that is partial and subject to a portfolio cap
Coverage	Partial coverage, typically 30 per cent of eligible loss, with an overall portfolio cap. Coverage levels are calibrated based on probability of default, loss given default, and government's fiscal risk appetite
Tenor and Grace Period	Loan tenors matched to the duration of works packages, typically two to five years, with a grace period during construction and commissioning
Pricing	A risk-tiered guarantee fee, with potential rebates for verified timely delivery as set out in the facility design
Claims	Claims are governed by a rulebook defining triggers, timelines and required documentation. Any recoveries are shared with the bank
Reporting	Management information systems track works progress, verification status, disbursements, arrears, claims and recoveries

Pilots should focus on lagging districts, using a limited set of standardised rehabilitation packages. This makes verification, procurement and claims handling simpler and more reliable. Close coordination is needed between the SED, the Finance Department, the guarantee vehicle and the pilot banks.

Key risks have clear mitigations. The risk that government may not pay on time is managed through protected accounts and breach of contract clauses. Contractor fraud or over invoicing is addressed through independent technical monitors, photos with location stamps, and rotating auditors. Delays or poor work quality are controlled by releasing loans in stages only when work is checked and signed off. Gaps in contractor data are filled by building proper pre-qualification lists and project databases before starting.

The facility would be run through Punjab's existing institutions to ensure credible project selection, proper payments and technical quality. The SED, working with the Planning and Development Board and the Communication and Works Department, would decide which schools to include and approve standard technical specifications for pilot districts. The Finance Department would provide the first-loss money and set the rules. This includes deciding how much risk the government is willing to take, agreeing overall limits on the guarantee, and approving how contract payments are protected in escrow accounts.The guarantee vehicle would manage the guarantees given to banks. It would keep track of total exposure across the portfolio and process any claims according to the agreed rulebook. Participating banks would lend to pre-qualified contractors. They would be responsible for deciding who to lend to, monitoring loans and chasing any recoveries if things go wrong. Independent technical monitors would check all work before payments are released. They would be hired through open competition and would certify that each stage of construction is completed to the required standard before the next loan payment is made.

Oversight would rest with a steering committee bringing together all key players. This includes the SED, Finance Department, Planning and Development Board and participating banks. Clear rules would govern how projects are chosen, how protected accounts are managed, how verification timelines work and how disputes are resolved.

Product 4 – Low Fee Private Schools Working Capital + Quality Upgrade Guarantee

This product helps low-fee private schools access loans to manage their cash flow, expand, and make small improvements that benefit children's learning and safety. It shifts schools from being seen by banks as risky individuals to being treated as proper small businesses worthy of lending.

How it helps: Low-fee private schools that charge less than PKR 4,000 per month. These schools serve a large share of Punjab's children, estimated at over 40 per cent. With more than 60,000 private schools across the province, even a pilot of 500 schools in lagging districts would create a meaningful test portfolio.

The core problem: Most schools rent their buildings, so they cannot offer land as collateral to secure bank loans. Banks lack a standard way to assess whether a school is a good lending risk. And any financing must also protect education quality and child safety.

How it works in practice. A guarantee vehicle develops a standard scoring system to assess schools based on information they already have (Table 6). This includes three years of fee records, registration documents, rental agreements and enrolment trends. Banks then lend within the Central Bank’s clean lending limit of up to PKR 10 million, relying on the school's cashflow rather than physical collateral. The guarantee vehicle provides a second layer of loss protection, capped at an overall limit. Government or development partners provide a first-loss fund to absorb initial losses. Banks carry some risk themselves in the first phase to ensure they lend carefully.

Quality and safeguarding conditions are built in. Access to the guarantee is linked to simple, verifiable measures such as keeping most children enrolled from one year to the next and basic literacy checks (Table 7). If a school meets these quality targets, its guarantee fee could reduce from around 2 per cent to 1 per cent. Every school must also have a child protection policy in place. Any violation would trigger immediate consequences, such as the loan being called in early.

Monitoring is designed to be low cost but effective. It relies on sampling rather than checking every school, digital attendance records, regular reviews of fee ledgers, and safeguarding checks when schools first join and when they renew (Table 8). This keeps costs down while ensuring standards are met.

Table 6: Minimum covenant set (Low-fee private schools)

Covenant category	Minimum requirement / covenant
Eligibility	Valid registration, bank account, and fee ledger
Financial	Debt service coverage ratio > 1.2×
Quality	Teacher attendance > 85% (digital check-in)
Safeguarding	Child protection policy in place

Table 7: Outcome proxies and targets (low-fee private school quality covenant)

Outcome proxies	Targets
Retention rate	Target greater than 90%
Learning proxy	Grade 3 literacy assessment (simple pass/fail)

Table 8: Indicative Term Sheet Snapshot (Low-fee Private School Guarantee)

Term	Indicative Design
Borrowers	Registered low-cost private school operators with verifiable fee ledgers and basic compliance standards
Use of Proceeds	Working capital to smooth cash flow during low-fee months, and small capital upgrades such as learning materials, basic facilities, or small solar solutions
Risk Stack	First-loss layer covered by government or development partners. The guarantee vehicle covers a capped second-loss tranche. Banks retain residual risk to ensure careful lending
Tenor	Working capital loans for 12 to 24 months; micro capital expenditure (capex) loans for 24 to 48 months
Incentives	Schools can qualify for reduced guarantee fees or better terms after verified performance on attendance and learning proxies
Monitoring	Low-cost verification through sampling, digital attendance logs, periodic fee ledger reviews, and safeguarding checks when schools join and at renewal

This would be run through Punjab's existing institutions to ensure it works at scale, maintains quality, and stays within budget. Each organisation has a clear role. The PEF can be the main partner on the education side. It would be responsible for deciding which low-cost private schools can join the scheme, using its database to check enrolment and subsidy records, and building quality and safeguarding requirements into the eligibility criteria from the start.

The Finance Department would provide the first-loss money and set the overall limits. This means approving how much of the portfolio the guarantee can cover, deciding the level of risk the government is willing to take, and signing off on any contingent liabilities that could call on public funds in future.

The guarantee vehicle would manage the guarantees given to banks. It would keep standard underwriting templates, ensure all schools and banks follow the same rules, and process any claims according to the agreed procedures.

Participating banks would lend to eligible schools. They would be responsible for checking each application, issuing loans within the Central Bank's clean lending limits, and chasing any recoveries if loans go bad. Keeping some of their own money at risk ensures they lend carefully.

Quality and safeguarding would be checked by the PEF. They would use standard monitoring procedures, with independent checks on a sample of schools to verify that children are learning and staying enrolled.

Overall oversight would rest with a steering committee bringing together all key players. This includes the Finance Department, the PEF, and participating banks. Clear rules would govern how schools are approved, how covenants are enforced, how complaints are handled, and how portfolio performance is reported regularly.

7 CSR-Linked Funds: Towards Strategic Pooling

A CSR-linked fund is a structured, multi-stakeholder pooling vehicle that aggregates CSR contributions from multiple companies and deploys them through a professionally governed, outcomes-oriented framework aligned with provincial education priorities. Unlike the current paradigm of fragmented, projectised, and duplicative corporate giving, a pooled fund enables strategic coherence, economies of scale, professional grant-making, and verifiable impact reporting. It transforms CSR from a peripheral public relations function into a material, scalable, and accountable source of development finance.

Pakistan's corporate sector contributes significantly to social investment. The Overseas Investors Chamber of Commerce and Industry (OICCI) CSR Report 2022–23 documents PKR 13 billion in total CSR spending by member companies, of which PKR 2.3 billion was allocated to education and skill development, reaching an estimated 40 million beneficiaries (OICCI, 2023).[38] In parallel, a majority of publicly listed firms report engagement in CSR activities under SECP disclosure requirements.[39] The binding constraint, therefore, is not aggregate corporate spending but fragmentation, high transaction costs, and limited outcome transparency.

Global experience shows that pooled corporate giving platforms can achieve greater scale and coordination than fragmented CSR programmes. India's NASSCOM Foundation Education Collective aggregates contributions from multiple corporations to support systemic education initiatives aligned with national priorities.[40] In Brazil, BNDES-supported education funds such as Juntos pela Educação align private philanthropy with Ministry of Education priorities and finance school and teacher quality interventions at scale.[41] In Pakistan, the experience of Engro Foundation[42] (among others) demonstrates that domestic firms are willing to commit multi-year resources to pooled education funds when governance and impact reporting are credible.

Punjab hosts the operational base of many of Pakistan's largest corporations and banks, yet corporate education giving remains fragmented across standalone CSR projects with limited coordination and

[38] Overseas Investors Chamber of Commerce and Industry. (2023). *CSR Report 2022–23*. Karachi: OICCI.
[39] Securities and Exchange Commission of Pakistan. (2022). *Corporate social responsibility and sustainability reporting guidelines*. Islamabad: SECP.
[40] NASSCOM Foundation. (2023). *Education Collective impact report*. New Delhi: NASSCOM Foundation.
[41] BNDES. (2022). *Social investment and education initiatives report*. Rio de Janeiro: Banco Nacional de Desenvolvimento Econômico e Social.
[42] Engro Corporation. (2021, March 5). *Engro Foundation, PPAF to launch PKR 70 million livelihood initiative under Ehsaas Amdan Program*. https://www.engro.com/press-releases/engro-foundation-ppaf-to-launch-pkr-70-million-livelihood-initiative-under-ehsas-amdan-program/; Engro Polymer & Chemicals Limited. (2024). *Sustainability report 2024*. https://www.engropolymer.com/

scale. Partnership models such as the Pak-Arab Refinery Company collaboration with the PEF illustrate high-quality but localised interventions.[43]

Institutional Response to Fragmentation: PEF or PEEF or any other organisation mandated by the Government with independent multi-stakeholder governance, would pool CSR contributions from multinationals, state-owned enterprises, banks, and manufacturing companies, targeting infrastructure, girls' retention, and teacher development. A dedicated secretariat would manage grant-making, while a certified philanthropy intermediary would provide governance oversight, independent verification, and reporting dashboards. The model channels existing corporate resources more efficiently, transparently, and impactfully.

Readiness and Feasibility: Punjab shows Medium-High readiness for a CSR-linked pooled fund. Legal feasibility is high under existing company statutes; institutional capacity is medium, reflecting prior bilateral CSR experience but no pooled fund management; market appetite is medium-high, evidenced by significant corporate education spending and leadership engagement; political risk is medium-low.

Product 5: CSR-Linked Education Co-Financing Facility (CECF)

This product pools corporate charity money and channels it through the PEF or anyother organisation mandated by the Government to top up existing government funding for schools. It focuses on girls' secondary education, quality improvements in low-cost private schools, teacher training, and infrastructure in underserved districts.

Why this works: PEF already has the systems in place to deliver at scale. It contracts thousands of low-cost private schools, runs per-child subsidy models, carries out quality checks and student testing, and has established payment systems and political trust across Punjab. This facility simply adds a targeted top-up layer to what PEF already does well.

How it works in practice: Corporations may commit multi-year funding to a dedicated Fund. This money sits in a protected account and acts as a top-up to existing PEF per-child subsidies. The funds flow into PEF programmes that support girls' secondary education, open new schools in underserved districts, and provide quality enhancement grants. Payments are released only when schools meet agreed targets, such as enrolling girls, keeping attendance up, delivering learning improvements, or completing infrastructure milestones.

A small part of the fund, around 5 per cent, would be set aside as an innovation window. This could finance pilot projects in educational technology, new teacher training modules, STEM labs, or climate-resilient school upgrades.

Corporations would have visibility through a digital dashboard. This would track students, show district level impact, and provide transparency on where their money goes. Independent monitors would check performance before any top-up payments are released.

Risks are low because the facility builds on PEF's existing infrastructure. It blends public and private money using a model that only pays for results. It creates no debt, so it is politically and financially safe. It can be scaled within two to three years and supports the low-cost private schools that serve so many of Punjab's children.

[43] Punjab Education Foundation. (2025, August 27). *MoU signed between Pak-Arab Refinery Limited (PARCO) and Punjab Education Foundation (PEF) to enhance educational support in South Punjab*. Planning & Development Board, Government of the Punjab.

A sequenced roadmap gets this done. Over the next 12 months, the focus could be on mapping corporate interest in Punjab, setting up the legal structure for the pooled fund, designing the top-up subsidy formula, piloting in three to five districts with a focus on south Punjab, and launching a transparency portal. Over the following one to three years, the model would expand across the province, introduce digital student level tracking, bring in other blended finance options, and establish an annual CSR Education Forum to keep momentum going.

Implementation follows a three-phase roadmap. Year one focuses on establishing this Fund under SED, putting governance structures in place, and securing anchor corporate contributors. Over the following two years, the fund deploys money across priority areas, brings in additional contributors, and reports on impact. In years three to five, the goal is to build an endowment, shift fully to results-based grant-making, and pursue fiscal incentives for pooled CSR giving.

Each risk has a clear answer. An independent board and outsourced management ensure the fund is professionally run (Table 9). Ring-fenced accounting and board approval keep it protected from bureaucratic delays. Having well-known corporates and guaranteed money lined up early makes the project feel much safer and more predictable. Mandatory certification of implementing partners guards against fiduciary failure.

A key recommendation is for the Government of Punjab to approve the fund's governance and explore tax incentives. Development partners may provide design and management support. The private sector may anchor contributions and join the governance board. Certification partners will formalise their roles in verification and capacity building.

The systemic impact matters. Existing corporate giving to education in Punjab is high quality but fragmented, with each intervention requiring repeated negotiation and effort. This is not a new ask of companies. It is a smarter way to aggregate what they already give, standardise how it is used, and scale the impact. Modelled carefully, it could mobilise significant, predictable, outcomes-focused funding for education every year, without adding any debt to the government's books.

Table 9: Term Sheet for CSR-Linked Education Co-Financing Facility

Feature	Description
Goal	Pool corporate CSR funds to top up government spending on girls' education, quality improvements, and infrastructure in underserved districts
Structure	Multi-year corporate commitments in a protected fund, used as performance-based top-ups to existing PEF per-child subsidies
Disbursement	Performance-based against enrolment, learning, or infrastructure targets. 5% set aside for innovation pilots (edtech, STEM, etc.)
Governance	Independent board with ring-fenced accounting; digital dashboard for real-time impact tracking
Risk	Low, leverages PEF's existing systems, results-based model, and creates no debt
Impact	Aggregates fragmented CSR giving into predictable, outcomes-focused funding at scale without adding to government debt

8 Revenue-Based Financing: A Quasi-Equity Approach to School Expansion

Revenue-based financing and quasi-equity are hybrid capital instruments that link repayment obligations to the borrower's actual revenue streams rather than fixed monthly instalments, transforming the lender-borrower relationship from rigid, calendar-based obligation to flexible, cash-flow-congruent partnership. For Punjab's PEF-partner schools, whose revenues are seasonal (fee collection at term starts) and sensitive to enrolment shocks, this structure is intrinsically more resilient than conventional term lending. Diminishing Musharakah: a Sharia-compliant partnership in which financier and school proprietor co-own an asset, with the proprietor progressively purchasing the financier's shares, provides the architecture for revenue-linked school financing.

Evidence shows that low-cost private schools in developing countries can sustainably absorb appropriately structured financing, achieving high repayment rates and revolving capital for school improvements. Early-stage ed-tech ventures in South Asia have demonstrated revenue-positive operations within a few years, showing potential for scalable, financially sustainable education solutions.[44]

Punjab's affordable private schools face a structural financing mismatch that revenue-linked instruments intrinsically solve. Fee collection occurs quarterly or biannually; salary payments are monthly; PEF subsidy disbursements follow verification cycles. A school borrowing PKR 2 million for infrastructure cannot confidently service a fixed monthly loan when its revenue arrives in three lump sums per year. Revenue-based repayment accelerates in high-revenue months and decelerates in low-revenue months; the school is never forced to choose between teacher salaries and loan repayment. Kashf Foundation's Education Finance Programme demonstrated that Punjab's school proprietors are willing and capable borrowers, achieving 69 percent enrolment growth in financed schools. The missing element is a financing structure aligned with both their cash flow and their faith.

Punjab's readiness for revenue-based and quasi-equity financing is assessed as Medium-Low. Legal feasibility is Medium-Low: Diminishing Musharakah lacks education-sector precedent, SECP's NBFC framework excludes RBF, and the PEF Act does not authorise equity-like investments. Institutional capacity is Low: PEF's expertise is in grants and subsidies, not equity, Sharia-compliant design, or revenue monitoring. Financier appetite is Low-Medium, with no Islamic bank engagement in affordable school financing. Borrower appetite is Medium-High: CSOs demonstrate demand, and proprietors

[44] Opportunity International. (2022). *Education Finance Initiative: Annual report*. Chicago, IL: Opportunity International. https://opportunity.org

understand partnership models; key barriers are revenue data sharing and digital payments. Fiscal sustainability is High, requiring no guarantees, appropriations, or contingent liabilities.

Product 6: Revenue-Linked School Finance Facility (Diminishing Musharakah)

This is a financing arrangement where repayments flex with a school's monthly income, addressing the cash-flow mismatch between lump-sum fee collections and monthly expenses. Using Diminishing Musharakah, an Islamic finance partnership, the financier becomes a silent partner in school assets, with the school gradually buying back their share over time. Repayments accelerate in high-fee months and ease in lean months, working with school cash flow rather than against it.

Target users: Low-cost private schools partnered with PEF, particularly those with seasonal fee income. Initial pilot would target 30 New School Programme schools, with potential expansion to thousands of Foundation Assisted Schools.

Readiness assessment: Medium-Low, with clear pathways to address constraints. Legal feasibility requires SECP clarification on quasi-equity classification and explicit recognition of Diminishing Musharakah for education financing. Institutional capacity is nascent. PEF's expertise in grants and subsidies must expand to include investment management, Sharia-compliant design, and revenue monitoring, achievable through transaction advisors and phased capacity building. Financier appetite is unproven but developable: Islamic banks have not yet engaged in affordable school financing, making pilot success critical for demonstrating viability. Borrower appetite is Medium-High: proprietors understand partnership models; key barriers are revenue data transparency and digital payment adoption, both solvable through verified systems. Fiscal sustainability is High, requiring no government guarantee or budget appropriation.

Risk management: Institutional, Sharia compliance, and credit risks are manageable through phased implementation, outsourced transaction support, independent verification, clear asset backing, and tamper-evident digital payments.

The success in this case would imply a dedicated PEF investment unit, regulatory recognition of Diminishing Musharakah for school financing, and expanded reach to schools accessing growth capital without debt-related cash-flow strain.

9 Public-Private Partnerships: Optimising the Model

In an education public-private partnership, the government defines service standards and outcomes, allocates public funding, and regulates performance, while private actors deliver education services. The structure follows a clear sequence. Government sets policy and enters into contracts with private providers.[45] Private schools, CSOs or firms then deliver school services. Payments to these providers are linked to results such as enrolment, retention or learning gains. Independent monitors verify that results are achieved before payments are released. The key actors involved are education departments, finance departments, private providers, regulators and independent evaluators.

Punjab's existing PPP model through the PEF has achieved significant enrolment but remains fiscally constrained.[46] Current arrangements are costly, regulatorily complex, and operate largely as a parallel system rather than being fully integrated into mainstream provincial education delivery. Evaluations confirm enrolment gains, but the model needs reform to become sustainable.[47]

Two distinct options are presented below to address these gaps. Each focuses on expanding access in underserved communities, improving quality through performance incentives, and increasing efficiency by leveraging existing private infrastructure. The options differ in their focus areas and institutional arrangements, offering policymakers a choice of pathways.

Product 7: Optimising Punjab's Existing PPP Model

This option focuses on four pilot-ready improvements to make Punjab's current PPP model more sustainable and results focused. Each builds directly on the Punjab Education Foundation's existing infrastructure and experience.

Double-shift PPPs would turn under-enrolled government schools into second-shift operations. Private partners would run the school in the afternoon, after the regular government school day ends. The

[45] See, Punjab Public Private Partnership Act 2014, Act IX of 2014 (2014). https://pnd.punjab.gov.pk/system/files/Punjab_PPP_%20Act_2014.pdf
[46] PEF Rules and Regulations: punjab-education-foundation-pef-rules-regulations-pdf.pdf
[47] Kim, H. Y., & Aslam, M. (2025). *Punjab's great gamble: Will the huge public-school-outsourcing experiment pay off?* The Education and Development Forum (UKFIET). https://www.ukfiet.org/2025/punjabs-great-gamble-will-the-huge-public-school-outsourcing-experiment-pay-off/; see also: World Bank. (2023). *Implementation completion and results report: Third Punjab Education Sector Project* (Report No. ICR00005998).

government would pay a per-student grant at around 70 per cent of the cost of a regular public school. This expands access without building new schools.

Co-payment pilots would introduce regulated parental contributions in mature Foundation Assisted Schools. Around 500 established schools would transition from full government subsidy to a model where parents contribute a small, regulated fee. This maintains access for poorer families through exemptions while freeing up government money to expand to new areas.

Value-added measurement would track how much progress schools make with their students, not just absolute results. The Punjab Value-Added Model would measure learning gains from when a child joins to when they leave. This rewards schools that take on harder-to-teach children and shows which schools are truly adding value.

Adopt a School 2.0 would transform the existing PARCO partnership in Kot Addu into a performance-based model.[48] The revised agreement would set explicit outcome targets for learning and retention, with a clear plan for phasing out corporate support over time as the school becomes self-sustaining.

Readiness and feasibility. Implementation is achievable within 12 months for a pilot, with full reform requiring 24 months. Legal feasibility is medium-low, as Punjab needs explicit policy and authority for co-payment before proceeding. Institutional capacity is medium: PEF brings scale and innovation experience, PMIU contributes results-based management skills, and Punjab Education, Curriculum, Training and Assessment Authority, PECTAA's subject specialists remain underutilised but available. On the demand side, market appetite from private operators is high, and corporate interest is medium-high. The key financial constraint is fiscal sustainability, which is low under current models but would improve to medium-high under the proposed reforms. Political risk is manageable with sustained cross-party engagement.

A sequenced roadmap spreads implementation over five years. In the first 12 months: launch double-shift pilots in 50 under-enrolled south Punjab schools, pilot co-payment in 500 mature schools, introduce value-added measurement in 400 schools, and revise the PARCO partnership to a performance-based framework. Over years one to three: scale double-shift to 500 schools, expand co-payment and value-added measurement, and establish a dedicated PEF regulatory and contracting unit. Over years three to five: amend the PEF Act to codify co-payment authority, mainstream the approach, unify education data systems, enable teacher mobility between sectors, and introduce statutory reviews of PPP value for money.

Risks have clear mitigations. Political economy risks are addressed through transparent reporting and legislative consultation. Regulatory risks are managed by piloting first and building capacity early. Quality and equity risks are controlled through rigorous school selection, performance contracts, independent verification, and audited fee exemptions for the poorest families.

Priority recommendations: The Government of Punjab may codify a clear policy, authorise co-payment and double-shift pilots, establish the new PEF regulatory unit, and roll out value-added measurement. Development partners may embed policy advisors, provide technical assistance on contracting, and support capacity building. Private sector actors should formalise their move to performance-based partnerships and engage actively in policy design.

[48] Pak-Arab Refinery Limited. (2025, December 24). *PARCO signs MoU with Punjab Education Foundation to improve education in Kot Addu* [Company announcement]. LinkedIn. https://www.linkedin.com/posts/pak-arab-refinery_parco-csr-educationforall-activity-7373691534673801219-qkvV

Product 8: Punjab Education Access and Quality Partnership

This option creates a new, integrated financing instrument targeting three specific problems in southern Punjab. It addresses teacher shortages in remote secondary schools, weak teacher training and subject mastery, and low girls' retention. The instrument blends public funding, development partner support and private capital, with payments linked to verified results. The instrument has three distinct financing streams, each tackling one binding constraint. All are managed by the SED and focus on southern districts and rural areas.

The Remote Teacher Deployment Fund solves the problem of no teachers or high absenteeism in hard-to-reach schools. Government contracts private operators to manage clusters of underserved secondary schools. These operators recruit teachers locally or deploy teachers with financial incentives to work in remote areas. Government pays a package made up of three parts: 70 per cent fixed monthly salary if verified 90% attendance through biometric checks, and 30 per cent tied to improvements in student test scores. This reduces fiscal risk while introducing performance discipline.

The Teacher Quality and Training Results Fund tackles weak subject mastery and teaching skills. Government contracts accredited training providers such as private EdTech companies, universities or CSOs. Payment is linked to three verified results: teachers completing certification, improved classroom observation scores, and minimum learning gains by students. Providers must cover training costs upfront and are reimbursed only when these results are independently verified. Development partners could provide a first-loss guarantee to reduce provider risk.

The Girls' Secondary Retention and Transition Incentive keeps girls in school. Private operators receive from government: a per-girl enrolment subsidy for a certain grade, a retention bonus for completing the next grade, and a transition bonus for moving into next grade or a vocational pathway. An additional bonus is paid if girls' attendance exceeds 85 per cent or if learning benchmarks are met. To make this work, enabling conditions must include safe transport, a minimum ratio of female teachers, and strong community and parent engagement.

The financing is blended from multiple sources with different risk positions. The Government of Punjab provides cost per-student and teacher subsidies as the senior payer. Development partners provide results-based top-ups and technical assistance as a performance tranche. Private foundations and CSR contribute to the girls' incentive pool and innovation pilots as catalytic capital. Impact investors could optionally provide working capital to operators, taking a subordinated position with a first-loss guarantee.

This approach tackles critical issues in southern Punjab: low female literacy, high rural poverty, teacher absenteeism, and cultural norms that limit girls' secondary education. It allows government to avoid permanent teacher hiring liabilities, convert fixed costs into performance contracts, and target the hardest-to-reach districts.

Readiness and feasibility. Pilot implementation is feasible within 12 months, with full reform taking 18 to 24 months. Legal feasibility is medium-low due to the absence of a clear policy. Institutional capacity is medium-low, with coordination gaps between provincial and district authorities. Fiscal sustainability is medium-high because the province can absorb per-student subsidies. Political risk is manageable if the initiative is clearly framed as publicly funded and not as privatisation of core education functions.

A sequenced roadmap moves from pilot to scale over five years. Year one: launch pilots in five to seven southern Punjab districts, map teacher gaps, identify 100 school clusters, run small-scale PPP contracts, design monitoring frameworks, and make necessary regulatory refinements. Years two to three: expand to all southern Punjab districts, introduce digital teacher certification, mobilise CSR co-funding, and commission an external evaluation. Years four to five: create a permanent Punjab

Education Access and Quality Partnership (PEAQP) unit, integrate it into the provincial medium-term budget framework, and institutionalise the approach.

Risks are managed through careful design. Political economy risks are addressed through transparent reporting and legislative consultation. Regulatory risks are mitigated by piloting first and building capacity early. Quality variation is controlled through rigorous provider selection, performance contracts, and independent verification. Financial risk around government payment delays is managed by ring-fencing budgets and allocations. A governance structure would include a PPP steering committee, an independent verification agent, and a digital dashboard tracking attendance, retention and learning. Contracts would run for one year, renewable based on performance.

Priority recommendations: A ring-fenced multi-year budget commitment is essential. Without predictable payments, private operators cannot deploy teachers to remote southern Punjab. A clear PPP framework must link payments to key performance indicators, with competitive procurement based on transparent eligibility criteria for private sector participation.

10 Debt Swaps: Converting Debt Servicing into Education Investment

Debt swaps for education are a financial mechanism where a creditor agrees to cancel or restructure a portion of a province's debt in exchange for the government's commitment to invest an equivalent amount of its own budget resources in pre-agreed educational development projects within its jurisdiction. Debt swaps offer Punjab a way to turn expensive debt repayments into new funding for schools, without borrowing more or raising taxes.

The core mechanism involves three steps. First, a portion of high-cost existing debt, typically loans or bonds with high interest rates and short maturities is identified for refinancing. Second, credit enhancement, such as a guarantee from a multilateral development bank, enables the government to access new financing with a lower interest rate, longer tenor, and grace period. Third, the government commits to directing the resulting fiscal savings, the difference between what it would have paid on the old debt and what it pays on the new debt, into a ring-fenced education programme with agreed results targets and independent verification.

Punjab is well placed to consider such an instrument. The province has demonstrated fiscal discipline through recent debt reforms, pension reforms and an e-procurement system that freed up resources for education. It spends large sums on education and has a strong budget execution at 98 per cent. Yet expensive debt service still consumes fiscal space that could otherwise fund schools, teachers and learning outcomes.

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Pakistan has done this before. Following the World Education Forum in Dakar in 2000, Pakistan successfully undertook the debt swap with the Canadian government, valued at 449 million Canadian dollars.[49] The funds flowed directly to provinces and districts through Letters of Agreement, bypassing previous centralised mechanisms that had caused delays of up to 36 months. This precedent shows the instrument can work in Pakistan's context.

[49] Business Recorder (April 22, 2006), "MoU signed with Canada on C$449 million debt swap."

The World Bank supported debt swap in Côte d'Ivoire, completed in late 2024, offers a more recent model. That operation targeted expensive debt maturing over five years. Using a policy-based guarantee from the World Bank, the government obtained a new loan with a 15 year maturity and a six year grace period.[50] The transaction freed up budget resources over five years, which were directed to an ongoing World Bank supported education programme with built-in spending and results monitoring.

Product 9: Punjab Education Debt Swap Facility

The proposed Punjab Education Debt Swap Facility would target a portion of the province's highest-cost debt for refinancing with support from a multilateral guarantee (Table 10). This could include expensive loans, bonds issued at elevated rates, or costly federal on-lending.

Table 10: Debt Swap Facility – Key Parameters at a Glance

Component	Proposed Design
Target Debt	High-interest debt with relatively short remaining maturity, to be identified through a comprehensive debt stocktake
Credit Enhancement	Policy-based guarantee from a multilateral development bank to improve borrowing terms
New Financing	Bond issuance in domestic capital markets with longer maturity and grace period
Fiscal Savings	Resources that would have left the province as debt service instead become available for education
Education Investment	Savings channelled to School Education Department's existing high priority programmes
Results Framework	Agreed targets for school infrastructure, girls' retention or learning outcomes, monitored through existing systems and third party verification

How it would work in practice: A multilateral development bank would provide a policy-based guarantee covering a portion of a new bond issuance. This guarantee gives domestic investors confidence to lend at lower interest rates and longer tenors. Unlike a sovereign guarantee, which creates contingent liability on the national balance sheet, a multilateral guarantee reduces risk without requiring the federal government to assume additional exposure.

The savings generated would be ring-fenced within the provincial budget through a dedicated code or treasury account, ensuring traceability without creating parallel systems. These funds would be allocated to priority education investments already identified in the government's annual development programme. They would be channelled through existing SED delivery systems, monitored through existing data systems, and verified by the same third-party mechanisms used for other innovative financing instruments.

These savings represent new fiscal space. They are resources that would have left the province as debt service but instead become available for schools, teachers and learning outcomes. They do not require

[50] World Bank (2024, December 5). *Press Release: Côte d'Ivoire's Debt Swap, Enabled by the World Bank Group, Will Free up Funds for Education.*

new taxation, new borrowing beyond the replacement financing, or cuts to other programmes. They simply repurpose future payment streams from creditors to children.

Implementation Roadmap

A debt swap requires careful preparation given its complexity and the need for multilateral engagement. Based on the current outlook (Table 11) the proposed roadmap spans 24 months.

- **Phase one, Feasibility and Debt Stocktake over first six months:** Commission an independent review of the provincial debt portfolio to identify eligible high-cost debt. Engage the Finance Department and Auditor General to validate data. Develop a preliminary financial model. Approach multilateral banks for an expression of interest. The Finance Department leads with transaction advisory support.
- **Phase two, Multilateral Engagement over next six months:** Submit a formal request to the multilateral bank for a policy-based guarantee. Align with the country partnership framework. Demonstrate fiscal discipline and education sector performance. Negotiate guarantee terms and conditionality. The Finance Department and Planning and Development Board lead, engaging with the multilateral partner's country office.
- **Phase three, Transaction Structuring over months eight to fourteen:** Hire legal and financial advisors. Structure the new bond issuance with Economic Affairs Division and SECP approval. Develop a prospectus. Secure a credit rating. Finalise the education investment plan and results framework with the School Education Department. The Finance Department leads with transaction advisors.
- **Phase four, Investor Roadshow and Launch over months twelve to sixteen:** Conduct a roadshow with domestic institutional investors including banks, pension funds and insurance companies. Launch the bond issuance. Execute the guarantee agreement. Complete the debt buyback. The Finance Department leads with an investment bank.
- **Phase five, Implementation and Verification over years one to five:** Channel savings to agreed education investments through SED systems. Monitor results through existing data systems and third-party verification. Report annually to creditors and the public. The School Education Department and Finance Department lead, with the independent verifier.

Table 11: Feasibility Outlook

Dimension	Assessment	Rationale
Fiscal capacity	High	Punjab has demonstrated fiscal discipline with strong budget execution and recent debt reforms
Policy alignment	High	The government has shown commitment to education spending (and also increasing this allocation)
Institutional capacity	Medium	Requires transaction advisory support as bond issuance experience, while growing, needs technical assistance
Multilateral appetite	Medium	Multilateral banks have demonstrated commitment to debt swaps and have active Pakistan programmes
Legal framework	Medium	EAD and SECP frameworks exist and sub-national bond issuance precedent is being established

Annex 1: Stakeholder Coordination, Risk Framework, and Government Decisions

This annex brings together the cross-cutting coordination, risk management, and government actions that apply across multiple financing instruments in this report.

Strong coordination between provincial institutions is essential for success. The Finance Department provides first-loss capital and sets risk parameters. The SED defines investment priorities and identifies schools and projects. The PEF links to private schools and manages partnerships. The commercial bank acts as anchor lender. Independent verifiers ensure results are real before payments are released. An inter-departmental steering committee chaired by the School Education Secretary, with representation from Finance, Planning and Development, PEF and the commercial bank, should oversee implementation across all instruments to ensure coherence and resolve problems quickly.

Comprehensive risk framework

Risk Category	Mitigation Measures
Credit risk	Spread loans across different districts and school types so a problem in one place does not sink the whole portfolio. A first-loss fund absorbs the first defaults. Stop lending temporarily if unpaid loans exceed an agreed level, such as 5 per cent of the portfolio.
Political and payment risk	Protect contract payments in escrow accounts so money owed to contractors is safe. Make multi-year outcome fund commitments so service providers can plan. Keep first-loss money outside day to day treasury accounts with proper audit trails.
Verification and fraud risk	Use independent monitors for all instruments. Require geo-tagged photos, biometric attendance records, and integration with government data systems. Rotate auditors regularly. Build lessons from past problems into every contract.
Data and privacy risk	Put strict data rules in vendor contracts. Follow data protection laws. Be clear in every agreement about who owns the data and who can access it.

General Pilot Implementation Approach

A 12 month sandbox approach will test each instrument in controlled settings before any decision to scale up.

Phase 1, months one to three: Set up the legal frameworks. Finalise detailed terms for each product. Select pilot districts. Secure commercial banks as partner.

Phase 2, months four to six: Launch pilots in two districts with small, capped portfolios. Disburse first loans only when independent monitors confirm that agreed milestones have been met.

Phase 3, months seven to nine: Analyse repayment data. Stress test verification systems. Adjust loan conditions and guarantee cover based on what is learned.

Phase 4, months ten to twelve: Expand to more districts if performance meets agreed thresholds. Plan how to integrate first-loss capital into the Annual Development Programme.

General Decisions Guidelines for the Government of Punjab:

- Prioritise 2-3 innovative financing products.
- Approve first-loss capital allocations for each pilot instrument and authorise a governance vehicle to manage guarantee operations.
- Allow ring-fenced operating arrangements outside normal treasury procedures, with independent audit and public reporting requirements.
- Confirm risk appetite: how much guarantee cover to offer, overall portfolio caps, stop-loss triggers such as a 5 per cent default threshold, and how big the first-loss fund should be.
- Approve how third-party verifiers and independent monitors will be procured, with service standards that match international good practice.
- Require the SED and P&D Board to align their work on project pipelines, school identification, and monitoring integration.
- Endorse the PEF's role as the platform for CSR pooling, building on its existing mandate for private sector engagement.
- These decisions, taken together, will provide the legal, fiscal and operational foundation needed to move from concept to implementation across the financing instruments presented in this report.

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