ESG & Green Economic Reforms through Climate Blended Finance

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Pakistan stands amongst the topmost countries that are vulnerable to the adverse effects of climate change. Even though Pakistan contributes less than 1% to the global Greenhouse Gases (GHGs) emissions, it is still bearing the effects of climate change in the form of floods, smog, and water scarcity. In the absence of any remedial action, the calamities resulting from climate change are predicted to increase with the passage of time. Research predicts an increase in the number of people exposed to extreme river floods and coastal flooding, with a likely increase of around 5 million people exposed to extreme river floods by 2035-2044, and a potential increase of around 1 million annually exposed to coastal flooding by 2070-2100. According to the World Bank, climate change combined with environmental degradation and resource depletion is projected to reduce Pakistan's GDP by 18 to 20% by the year 2050 *(scp, 2024)*.

Pakistan's banking industry can play a pivotal role in this situation by financing the just green transition of Pakistan's economic sector. Under the Green Banking ideology, the banking sector can provide low-interest green and sustainable financing for various eco-friendly projects. The World Bank has predicted a green and sustainable financing need of approximately USD 348 billion to combat the various challenges of climate change. According to the report, USD 152 billion is required for climate adaptation and resilience and USD 196 billion for de-carbonization. This is a substantial opportunity for financial institutions and other market players. Data reveals a skewness in terms of public-private financing trends in Pakistan, with the share of public climate financing amounting to 69% as compared to 31% from the private sector. Furthermore, the share of international financing was 84% in comparison to the domestic sources providing 16% of the climate financing *(Akhtar & Khawaja, 2025)*. The Government of Pakistan has defined a 50% reduction in the country's projected emissions by the year 2030. This has been planned with a 60% shift of the country's national energy generation mix to alternative energy sources and 30% of all new vehicles being Electric Vehicles (EVs) by 2030 *(Finance Division, 2025)*.

To be effective and long-term, climate financing requires a synergistic blend in terms of sourcing that can be achieved through the use of Blended Finance. It is a combination of public sector organizations, philanthropic entities, or private sector companies coming together to fund green and sustainable projects. Various green and sustainable projects may be perceived as low-return or high-risk investments by various financial institutions. Therefore, blended financing funds are used for catalyzing private sector investments for various environmentally and socially sustainable projects. This financing ideology is based on certain principles that improve the risk-return ratio of such projects. In case of a project utilizing blended finance, the public funds absorb any initial losses thereby protecting the private investors from economic vulnerabilities. Public sector sources also provide certain guarantees and technical assistance to reduce risks and improve the project's viability.

Climate Blended Finance is a form of blended finance that focuses on generating green investments for adaptation and mitigation projects. Globally, the volume of climate-focused blended finance amounted to approximately USD 77.3 billion *(Convergence, 2025)*. Climate Blended Finance is one of the most viable options for bridging the significant gap between Pakistan's green financing needs and its existing green financing portfolio. Using various climate blended finance instruments such as grants, guarantees, first-loss equity, or low-cost debt, commercial private investment can be mobilized into climate mitigation and adaptation projects.

Pakistan's first Sustainable Aviation Fuel (SAF) facility is a waste-to-fuel project developed through climate blended financing of USD 121 million from the Asian Development Bank and the International Finance Corporation. The facility converts cooking and waste oil into aviation fuel. The SAF facility reduces CO2 emissions while creating 300 direct jobs and 20,000 indirect jobs. This project is based on the circular economy concept and is financed through concessional financing from multiple partners *(IFC, 2024)*.

The most viable sector for climate blended finance is the renewable energy sector in Pakistan. The path towards a 60% share of renewable energy in the country's energy mix has opened up numerous green financing opportunities in the form of energy generation, grid modernization, battery storage, and transmission upgrades. Similarly, climate adaptation and resilience projects require large-scale investments which can be supported through climate blended finance initiatives. Funding climate-resilient housing, flood management, water storage, and coastal protection is considered a high-risk and low-return investment by private sector entities. Grant-based first-loss capital or impact financing can be utilized to reduce the private investor's risk and attract the required capital in these critical areas.

Pakistan's agriculture sector is the backbone of the country's economy. Ensuring adequate financing for climate-smart agricultural projects can ensure the economic, social, and environmental sustainability of the country's economy. Climate Blended Finance can be targeted towards cold-chain logistics development, drip irrigation systems, vertical farming infrastructure, and drought-resistant seed development. Blended credit lines, supported by donor guarantees and technical assistance, can also play an important role in including the country's Small & Medium Enterprises (SMEs) sector in the country's green equation. Following the model being used in the MENA region, Pakistan can utilize blended finance for the development of Green Cities and climate-resilient and adaptive infrastructures. Powered by renewable energy sources and housed in green construction, these cities can consist of urban flood protection, climate-resilient drainage, and energy-efficient housing.

It is important to understand that the effective and efficient adoption of climate blended finance depends on the assurance of additionality, transparency and accountability, local market development, and the presence of strong environmental and social safeguards. The attractiveness of this financial tool is intricately linked with the presence of quantifiable and measurable economic, social, and environmental returns for investors. Transparency and accountability is one of the most important pillars in the successful implementation of any business ideology, and climate blended finance is no different. The IFRS S1 & S2 Sustainability Disclosure Standards provide guidance. IFRS S1 *(General Requirements for Disclosure of Sustainability-related Financial Information)* and IFRS S2 *(Climate-related Disclosures)* have been designed to provide investors with confidence that the financed projects are delivering meaningful and intended social and environmental results along with economic returns.

The adoption of IFRS S1 & S2 in Pakistan is an important step in the acceptance of climate blended finance. The Securities and Exchange Commission of Pakistan (SECP) has mandated the adoption of IFRS S1 & S2 for listed companies and SECP-licensed non-listed Public Interest Companies through a phased approach.

The implementation of these business ideologies relies upon the holistic integration of ESG (Environmental, Social, and Governance) in core business operations. Aligning the organization's vision and objectives with the ESG compass ensures the creation of a synergistic blend between the organization's economic and environmental and social objectives. Green Banking can facilitate the development of Pakistan's green and sustainable economic development by local banks partnering with Multilateral Development Banks (MDBs), donor agencies, and philanthropic organizations to fund various mega projects. Development of a consolidated national blended finance facility or platform hosted by the Ministry of Finance with donor seed capital and MDB participation is also necessary for the acceleration of climate blended finance adoption. Growing climate change impacts, rising investment and infrastructure gaps, and the low level of green capabilities in the local business market make climate blended finance a necessity for Pakistan's sustainable development journey. The next decade is a window of opportunity: with coordinated donor support, MDB leadership, a consolidated national blended facility, and a pipeline of bankable green projects, Pakistan can turn concessional capital into sustained private investment, economic resilience, and climate-smart growth. Through synergizing the expertise of different economic sectors and industry players, Pakistan can combat the climate change crisis while simultaneously ensuring an economically viable growth trajectory for the industry.

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