

# Blue Finance: What is it and why does it matter for Pakistan?

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### About the Authors

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**Abstract**

*This policy brief deliberates on blue finance and its viability in Pakistan. It begins by describing the concept of blue finance, focusing on the financial mechanism needed for the sustainability of the blue economy in line with the UN Sustainable Goals. The policy brief then discusses and stresses upon the need for Pakistan to devise sustainable blue financing mechanisms. The brief highlights the importance of building a sustainable blue economy and advocates the need to devise futuristic and sustainable policies to promote blue finance in Pakistan.*

**Key Words:** Blue Finance, UN Sustainable Goals, Financial Mechanism, Blue Economy

## Understanding the concept of Blue Finance

Our oceans play a critical role in the functioning of the global economy. It is estimated that more than 3 billion people are solely reliant on the ocean for their sustenance and livelihood. It has been projected that the ocean/blue economy is expected to double to 3 trillion dollars by 2030. The World Bank defines the blue economy as “the range of economic sectors and related policies that together determine whether the use of oceanic resources is sustainable.”<sup>1</sup> The impact of climate change, ocean dumping, pollution and over fishing are putting our oceans at risk. Blue finance, an emerging area in climate finance offers great opportunities to address both climatic and economic challenges. Financing the protection of blue economy can prove to be a win-win situation for the environment and the emerging economies. Blue financing momentum has picked up in the international arena, the Ocean Policy Research Institute of the Sasakawa Peace Foundation launched a new area of research, Blue Finance.<sup>2</sup> The aim was to attract investors through private-public partnerships to protect the blue economy through evidence-based research and policy dialogue for the financing of blue economy.

The Sustainable Blue Economy Finance Principles were launched in 2018 by the International Finance Cooperation IFC. The principles focus on sustainable conservation and the use of water bodies and marine resources in line with the IFC Performance standards of Environment and Risk Management practices.<sup>3</sup> The guidelines identify eligible blue projects to guide investors to finance the blue economy and encourage best blue financing mechanisms globally. The foundation of blue finance rests upon promoting sustainable use of marine resources for economic growth, sustenance, livelihood and employment whilst protecting the marine ecosystem.

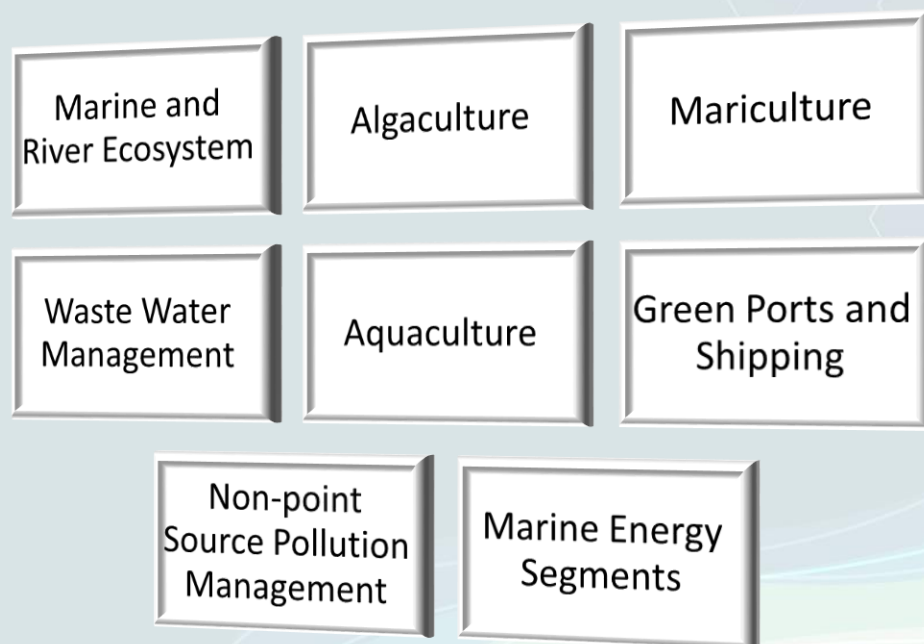
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<sup>1</sup> <https://www.worldbank.org/en/news/infographic/2017/06/06/blue-economy>

<sup>2</sup> <https://www.adb.org/sites/default/files/publication/812076/blue-economy-and-blue-finance-web.pdf>

<sup>3</sup> <https://blogs.worldbank.org/climatechange/blue-finance-how-can-innovative-wave-finance-blue-economy>

According to the IFC the blue economy market segments can be placed in the following sections:



There has been a developing interest from investors and financial institutions globally regarding the critical role blue finance can play in pivoting the global economic system towards rebuilding ocean prosperity, restoring biodiversity, and regenerating ocean health. The concepts of blue economy and blue finance are reflected in the UN Sustainable 2030 Goals in particular Goal 14, life below water, aims to “conserve and sustainably use the ocean, seas and marine resources for sustainable development”.<sup>4</sup> The market has already witnessed a sharp growth in sustainable finance. Ocean is a significant wealth generator valued at \$1.5 trillion per year, making it the world’s 7<sup>th</sup> largest economy.<sup>5</sup> Asian Development Bank has been at the forefront of blue finance with its \$5 billion Action Plan for Healthy Oceans and Sustainable Blue Economies from 2019 to 2024.<sup>6</sup> The Action Plan has already disbursed \$2.4 billion of

<sup>4</sup> <https://www.unepfi.org/blue-finance/>

<sup>5</sup> <https://www.unepfi.org/blue-finance/>

<sup>6</sup> <https://www.adb.org/news/adb-launches-5-billion-healthy-oceans-action-plan#:~:text=Life%20Below%20Water.The%20Action%20Plan%20for%20Healthy%20Oceans%20and%20Sustainable%20Blue%20Economies,2024%2C%20including%20cofinancing%20from%20partners.>

capital to projects supporting this objective, and ADB recently issued a novel blue bond to attract institutional capital to the cause.

## Pakistan's Blue Finance

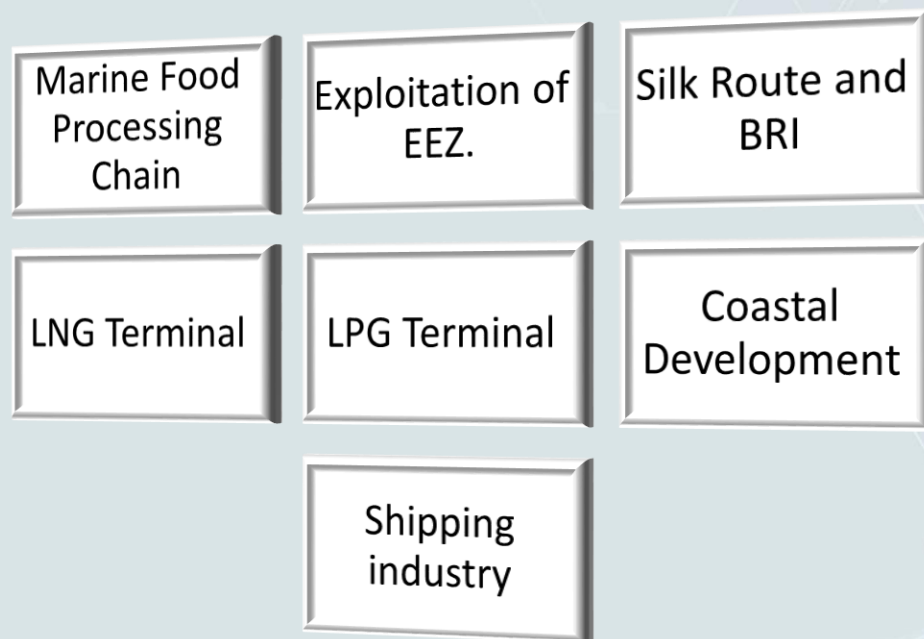
Pakistan's coastline covers 1,365 km from the Iranian border eastward to the Indian border at the Rann of Cutch, and the Exclusive Economic Zone covering about 240,000 sq. km. Pakistan has untapped marine resources, aquaculture, marine energy, sea trade, ports potential offering tremendous opportunity for blue finance investments. Pakistan is an important maritime state in the Indian Ocean and is a home to about 160,000 hectares of mangrove forests. It is positioned at 24th number in the world in terms of mangroves area. The maritime sector acts as the bedrock of the national economy and economic security.<sup>7</sup>

The concept of blue finance and blue economy has recently gained momentum in Pakistan with the former Prime Minister, Imran Khan, declaring 2020 the year of blue economy in Pakistan. Currently, the Minister of Maritime Affairs is spearheading the concept of Blue Finance and Economy in Pakistan. The Ministry of Maritime Affairs has presented investment opportunities in the blue economy by highlighting the following segments:<sup>8</sup>

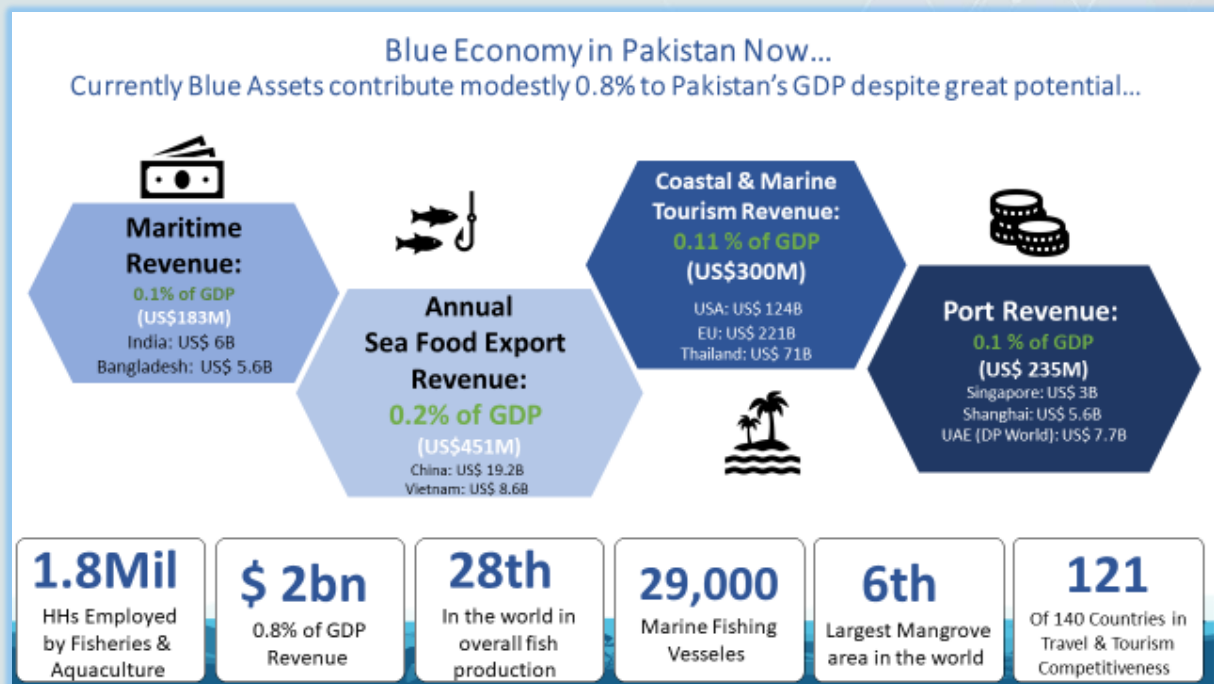
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<sup>7</sup><https://www.scienceopen.com/hosteddocument?doi=10.13169/polipers.11.1.0057#:~:text=The%20idea%20of%20'Blue%20Economy,Zone%20covering%20about%20240%2C000%20sq.>

<sup>8</sup><https://moma.gov.pk/Detail/MjZlYTQ5MzAtNWRmYy00YjZlThjZmMtMTJiOTJjOTY1Mjk1>



Currently, the blue economy of Pakistan contributes an estimated US\$ 1 billion or around 0.4% of the national GDP. Bulk of this contribution is in the form of fisheries, coastal tourism, and maritime revenue. With immense untapped potential in Pakistan's marine economy there is a need to focus on scaling up maritime revenue and place it at the forefront of the economic agenda.



Source: Bank of Punjab

The Gross Marine Product (GMP) of Pakistan is USD 1526.94 million (242.78 billion PKR) in 2020, which is less than the half figure of its neighboring countries (Bangladesh and India) and both countries are earning 6-7 billion USD per year.<sup>9</sup> Although the Ministry of Maritime Affairs is developing a detailed roadmap for the blue economy financing there is a need to encourage blended financing mechanisms to address the financing gaps in the blue economy. The key to dealing with financial constraints is to adopt the IFC Blue Economy Financing Mechanism and tap into the global green and blue economy financing instruments by encouraging the private-public partnerships; for this, the government needs to provide an enabling business friendly environment.

<sup>9</sup><https://www.maritimestudyforum.org/wp-content/uploads/2021/01/Mission-Possible-Web.pdf>



## Fiscal Allocations to Pakistan Maritime Sector

1. The economic situation has been worrying for the past few years. There is no sign of recovery in sight with economy being burdened by a continuous rise in unemployment, devaluation of currency and inflation as well. If Pakistan turns its focus to sectors of blue economy, there is a lot of potential for the economic growth as well as job creation.
2. The fiscal position shows such a dismal picture such that only about 2 billion rupees have been allocated to the Ministry of Maritime Affairs. It is just 0.046% of the total budget. It gives an estimate of government interest in the sector, which is very low. Instead of increase in the budget, it has rather reduced over the years. It has been reduced from PKR 5.6 billion (last fiscal year) to PKR 2.1 billion (current fiscal year). And for the next year, it is just PKR 2.3 billion.
3. It is true that Pakistan has not had any business plan for its blue economy. Pakistan has just one policy document which is “The Marine Merchant Policy 2021” and unfortunately, it doesn’t cover the whole blue economy. It misses certain features such as coastal tourism and aquaculture. The overall costal belt, 2600 nautical miles, is not actually included.
4. The ministry of Maritime Affairs is responsible for the sea and fisheries industries, which can play a vital role in the economic development of Pakistan. However, instead of taking practical steps towards this goal, the government has been continuously neglecting many sectors (such as fisheries, coastal tourism and many more) to their own detriment. For example, Ministry of Maritime Affairs and livestock department had had a project (fisheries) started in 1980-85 and there was no further development in terms of taking this sector forward. And for Balochistan, there is no information available.
5. Future growth of blue economy can be projected by looking at questions like what kind of development budgets are allocated, and what public assets are being developed? The focus is very narrow and only on the ports. It doesn't consider the whole marine economy. The total cost of the projects which are allocated, is around 26 billion rupees. Out of this total cost, 22 billion rupees is foreign aid. It means that there is no local indigenous policy. Whatever is offered is also in the form of donors or maybe foreign

investors coming through CPEC. This year it's just 3.4 billion in a priority issue out of 563 billion. It's just 3.4 billion rupees which is 0.6 percent of the total budget.

6. Another major issue in terms of blue economy is the tax incentives. Government takes the marine sector from the naval perspective and doesn't consider it as a business opportunity whereas in the world, it's not the same. These incentives are focused on shipping side only.
7. Governance issues should be redressed to develop its blue economy. For example, the FBR says that to register a vessel in Pakistan, there will be no income tax for the next 30 years. If anyone is doing business, then the rate of sales tax on a ship that carries the Pakistani flag would be much less as compared to the ships which are of the outside Pakistani registration. But the outcomes are not what it is meant for. According to a report of Ministry of Maritime Affairs in June 2022, no ship is registered in Pakistan for the last 20 years. So even if there are incentives in terms of taxation side still there is no confidence of businesses in terms of investing in it.
8. However, problem is not with the finances, it is with the approach. There are about 12 types of different regulatory taxes that must be paid to get your ship inspected and there are around eight statutory certificates which are required to run the business. So, it's not about finances it's the cost of doing business or the ease of doing business which is basically stopping the private investors in doing business. When it is said that the taxes have been reduced, it is the rate of taxes which is reduced while the number of the taxes are still very high. There are around eight types of taxes in the ship breaking industry.

## **Innovative Approaches to Financing Pakistan's Blue Economy**

### **1. Blue Bonds Ocean Financing**

To conserve and enhance ocean and coastal resilience, innovative financial solutions are required. Blue finance, in particular blue bonds, are an innovative ocean financing instrument. Through blue bonds, capital is raised for ocean-friendly projects from the private sector.<sup>10</sup> “Many different types of investors could finance these gaps (private insurers; infrastructure investors; venture capitalists; global financiers; environmental, social, and governance

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<sup>10</sup><https://www.weforum.org/agenda/2019/06/world-oceans-day-blue-bonds-can-help-guarantee-the-oceans>

(ESG)/impact investors; corporate investors; etc.)”.<sup>11</sup> International guidelines provided at the UN Ocean Conference in Lisbon, Portugal in June 2022 aim to support governments, financial institutions and environmental agencies on how to finance blue economy projects, in addition to industry-standard framework (the Principles), as well as supporting guidance.<sup>12</sup>

Blended finance structures- private/public partnerships and capital markets- play an important role in promoting and sustaining blue economy and more specifically, the protection of the oceans and coasts. There has been a significant increase in the issuance of sustainable bonds, with the market estimated at close to US\$ 1 trillion by 2021, making up 10% of the global bond assets. Innovative blue financing tools such as blue bonds can provide the much-needed finance to support Pakistan’s blue economy.

The Republic of Seychelles launched its first blue bond in 2018, the world’s first sovereign blue bond raising a total of \$15 million to advance the small island state’s blue economy.<sup>13</sup> This was a part of Seychelles Debt-Swap-for-Nature Program and the World Bank played a critical role in the designing of the blue bond. World Bank Vice President and Treasurer Arunma Oteh said the blue bond was “yet another example of the powerful role of capital markets in connecting investors to projects that support better stewardship of the planet”.<sup>14</sup> The Seychelles Blue Bond laid foundation of future blue bonds, since then Nordic and Baltic countries have launched the “Nordic-Baltic Blue Bond” in 2019. These projects add evidence of fiscal feasibility, while demonstrating to potential countries to harness capital markets for financing sustainable use of marine resources.<sup>15</sup>

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<sup>11</sup> <https://www.adb.org/publications/financing-blue-economy>

<sup>12</sup> <https://impact.economist.com/ocean/sustainable-ocean-economy/a-breakthrough-for-blue-bonds-at-the-un-ocean-conference>

<sup>13</sup> <https://www.worldbank.org/en/news/press-release/2018/10/29/seychelles-launches-worlds-first-sovereign-blue-bond>

<sup>14</sup> <https://www.worldbank.org/en/news/press-release/2018/10/29/seychelles-launches-worlds-first-sovereign-blue-bond>

<sup>15</sup> <https://impact.economist.com/ocean/biodiversity-ecosystems-and-resources/blue-bonds-radical-collaborations-to-save-the-ocean>

## Terms of Blue Bonds

Bond	Purpose	Size	Duration	Investors	Financing Terms
Seychelles Blue Bond	Transition support to sustainable fisheries	\$15 million	10 years	World Bank; Private Placement; Calvert Impact Capital; Nuveen; and Prudential Capital Market	The loan from the Global Environment Facility decreased the interest rate for the government from 6.5% to 2.8%
Nordic–Baltic Blue Bond	Water resource management and protection	\$213 million	5 years		0.375% coupon

*Source: Source Morgan, P.J., Huang, M.C. and Voyer, M. (2022) Blue Economy and Blue Finance: Toward sustainable development and ocean governance, Asian Development Bank. Asian Development Bank.*

Through blended financing structures and encouraging private banks, SMEs and investors can invest in blue bonds, and Pakistan can unlock its blue economy potential. Blue bonds offer a plethora of opportunities to capital markets to play a key role in mobilizing support for the blue economy and the protection of oceans.

Moreover, the blue economy has struggled to tap into the growing popularity of Environmental, Social and Governance (ESG) funds. Pakistan is ranked amongst one of the most vulnerable countries in terms of climatic disasters, according to the Global Climate Risk Index 2021, despite emitting less than one percent of global carbon footprints. Hence, the policymakers should focus on strengthening the blue economy within the ESG funds framework.

Financial constraints are the major hurdles in the growth of blue economy. Blended financial models adopted by countries like Mauritius, Norway, Bangladesh, Seychelles can serve as successful examples to Pakistan. Pakistan can learn from them and adopt best global and regional practices. Thus, national and regional development banks must place blue finance opportunities on the agenda, given the positive impact for communities, resource management, and economic development.

## 2. Approaches to Strengthening Aquaculture Fisheries Financing

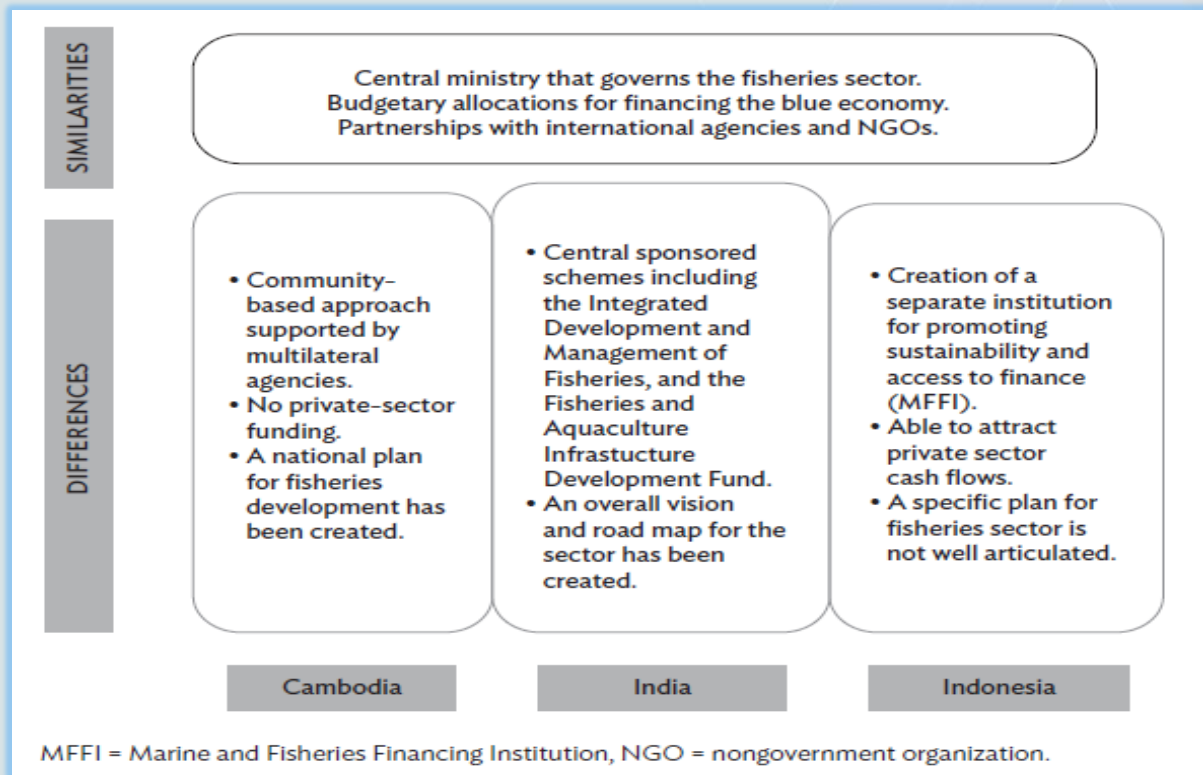
Asian countries in particular South and Southeast Asian are attracting substantial global interest in blue economy, particularly in the financing of the fisheries sector. There is an increasing global pressure to adopt sustainable fishing practices as the continued overfishing practices pose a challenge to the food security and the livelihood of many. In line with the UN SDG 14, Life below Water, using marine resources in a sustainable manner is at the centre of financing the blue economy. Pakistan's fishing industry accounts for less than one percent of the GDP, however, it still plays a key role in the livelihood by providing income to a sizable portion of the population living in Balochistan and Sindh. By analysing the fishing industry of India (ranks third in fish production), Indonesia (largest producer of seafood in Southeast Asia) and Cambodia (fisheries sector contribute to 17.08% of GDP), innovative approaches can be adopted to finance and upscale Pakistan's marine economy.

The framework below shows the institutional framework adopted by India, Cambodia and Indonesia to upscale their fishing industry. Although the financing mechanisms vary between the three countries, on the institutional front all countries have established a dedicated body for fisheries management at the federal level, in conjunction to allocating funds and establishing relationship with non-governmental agencies.<sup>16</sup> Therefore lessons from these countries' fishing sector could be useful for designing financing mechanism for Pakistan.

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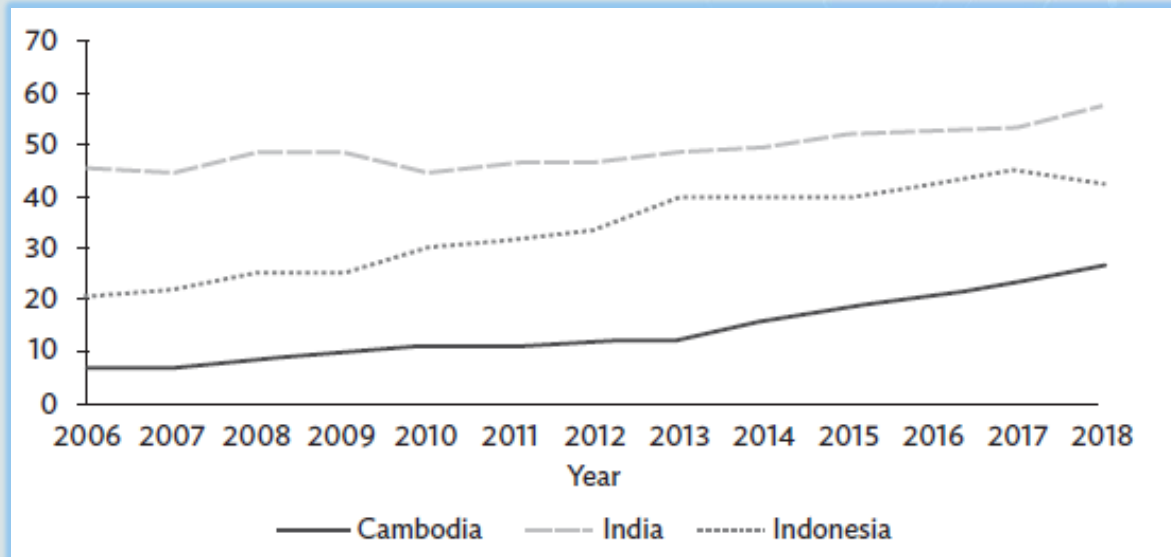
<sup>16</sup> Morgan, P.J., Huang, M.C. and Voyer, M. (2022) Blue Economy and Blue Finance: Toward sustainable development and ocean governance, Asian Development Bank. Asian Development Bank. Available at: <https://www.adb.org/publications/blue-economy-and-blue-finance-toward-sustainable-development-and-ocean-governance>.

*Figure 2.1 Institutional Framework*



Source: Morgan, P.J., Huang, M.C. and Voyer, M. (2022) *Blue Economy and Blue Finance: Toward sustainable development and ocean governance*, Asian Development Bank. Asian Development Bank.

Graph below showcases how the aquaculture has increased in India, Cambodia and Indonesia after making these structural changes. The growth rate has increased from 4.8% to 6.3% in all three countries.

*Figure 2.2 Aquaculture Production in the Three Countries (%)*

*Source: Morgan, P.J., Huang, M.C. and Voyer, M. (2022) Blue Economy and Blue Finance: Toward sustainable development and ocean governance, Asian Development Bank. Asian Development Bank.*

For the transformation of Pakistan's financing aquaculture sector, it is essential to adopt inclusive government principles in accordance with SDG14 that align with country's context and local needs. By looking at the model adopted by these three countries the Pakistani policymakers need to upscale and modernise the fishing sector through establishing a separate funding body for research and development. This includes establishing a separate comprehensive financing fishery/ aquaculture governance structure which encourages scientific-based innovative solutions and can address the local challenges proactively. Also, there is a need to establish ease of access of financing and partnerships with SMEs, nongovernmental and international organisations that work with local fisheries to promote blue financing.

### 3. International Aid for Ocean Conservation Financing

The 1982 United Nations Convention on the Law of the Sea placed conservation of oceans at the forefront of international priority. Since then, there is a growing consensus on the importance of sustainable ocean economy. The Organisation for Economic Co-operation and Development (OECD) in 2010 estimated an increase from \$1.5 trillion to \$3.0 trillion by 2030,

in the global gross value of the maritime sector which includes ocean industries, wind, tourism, fishing, shipping, marine biotechnology and offshore wind generation. There are a growing number of investors in ocean financing; ocean-related public goods are attracting investors from both public and private sectors in ocean conservation and sustainability. This calls for devising tangible action plan by the international community. The Asian Development Bank's (ADB) \$5 billion investment for Healthy Oceans and Sustainable Blue Economies for the Asia and Pacific region and the European Investment Bank's Blue Sustainable Ocean Strategy (worth 2.5 billion Euros) are providing a growing pledge to ocean financing. Therefore, coherent international aid distribution mechanisms should be established for the monitoring of aid projects.

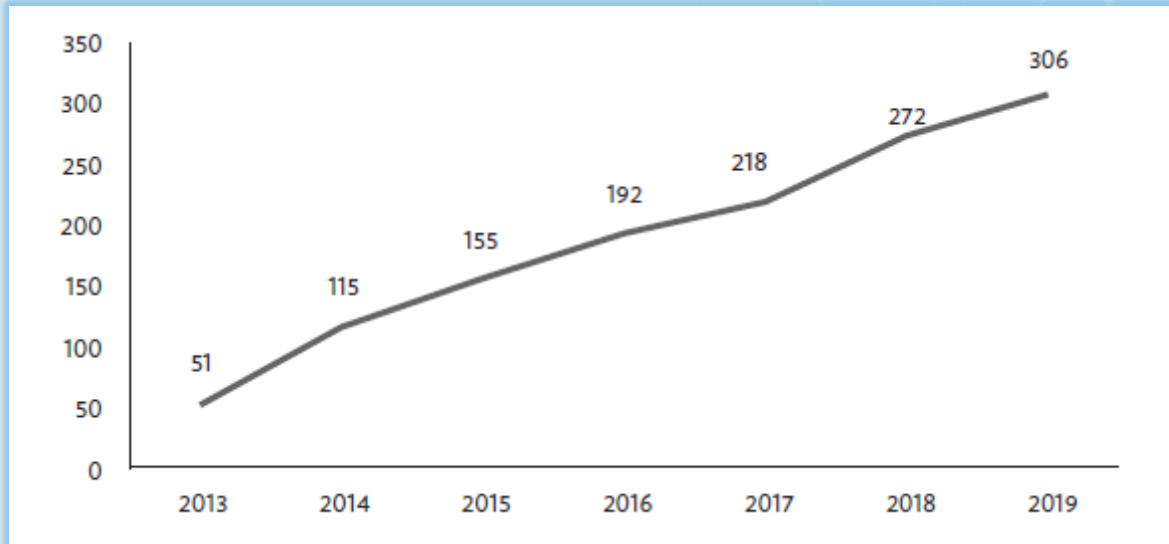
Currently, OECD's ocean-specific database trackers, the Sustainable Ocean Economy Database, and FundingTheOcean.org provide data sets of ocean investment portfolio. These databases showcase efforts toward ocean conservation. Pakistan is currently generating annual revenue from the blue economy at \$450 million. However, the actual potential Pakistan's blue economy is more than \$100 billion<sup>17</sup>. By implementing the Sustainable Ocean Economy Database, Pakistan can build upon existing tools and attract international aid/grants from multilateral development banks and global climate funds (e.g., the Global Environment, the Adaptation Fund and Green Climate Fund). In addition to tracking aid from public financing, private capital and philanthropic donations. The ocean conservation and climate action financing (or aid) has increased from \$579 million in 2013 to over \$3.5 billion in 2019, with Asia attracting the largest chunk of investment. As shown in the figures below.

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<sup>17</sup> <https://thenationalfrontier.com/2021/03/26/how-much-can-pakistan-earn-from-blue-economy/>

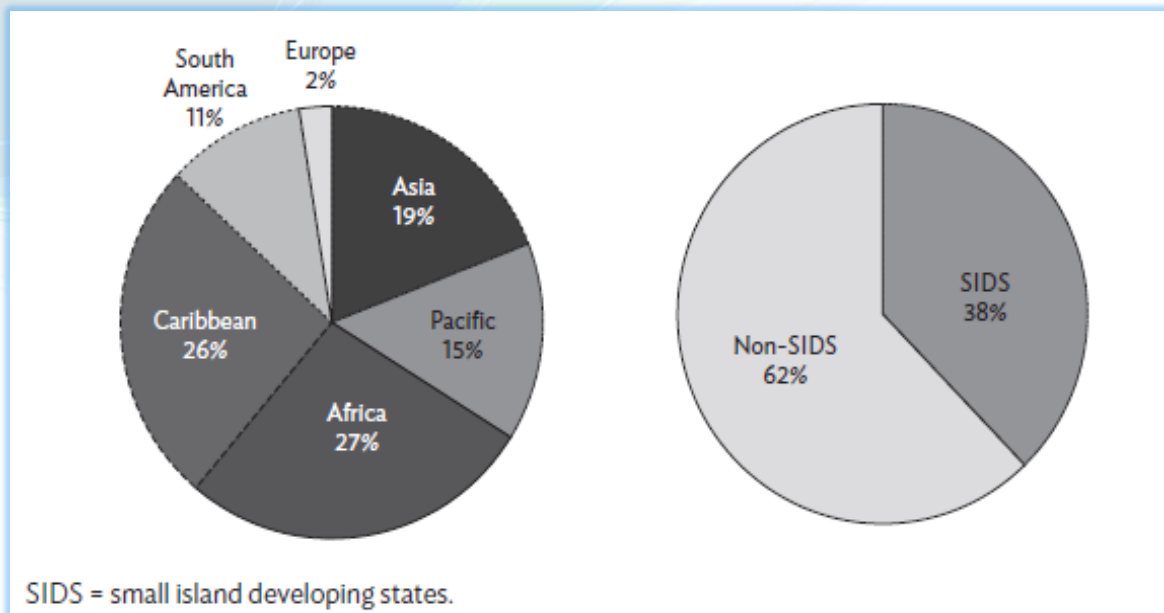


**Figure 3.1 Cumulative Number of Projects for Ocean Conservation and Climate Action**



Source: Morgan, P.J., Huang, M.C. and Voyer, M. (2022) *Blue Economy and Blue Finance: Toward sustainable development and ocean governance*, Asian Development Bank. Asian Development Bank.

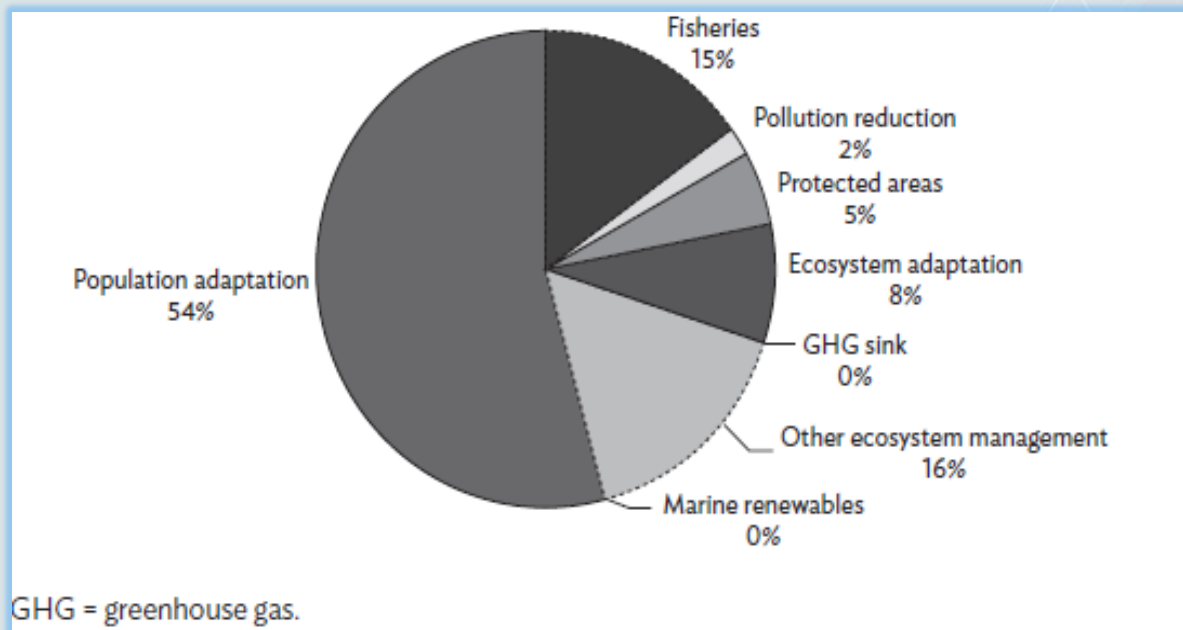
**Figure 3.2 Distribution of Projects for Ocean Conservation and Climate Action, 2013–2019**



Source: Morgan, P.J., Huang, M.C. and Voyer, M. (2022) *Blue Economy and Blue Finance: Toward sustainable development and ocean governance*, Asian Development Bank. Asian Development Bank.

The figure below shows how global funding is distributed category wise. Coastal population adaptation secures the maximum amount of funding. This category includes a variety of projects related to climate change, coastal protection, climate-resilient infrastructure and buildings. The other categories include ecosystem management and the fisheries.

**Figure 3.3 Finance by Category 2013-2019**



*Source: Morgan, P.J., Huang, M.C. and Voyer, M. (2022) Blue Economy and Blue Finance: Toward sustainable development and ocean governance, Asian Development Bank. Asian Development Bank.*

Approximately 95% of Pakistan's trade is done through ocean and it is considered the jugular vein of the economy<sup>18</sup>. Pakistan should capitalise on its untapped blue economy by attracting financing through ocean aid channels. The ongoing development of Gwadar port under CPEC and establishment of EEZs under the Belt & Road Initiative (BRI) position Pakistan to use its strategic position to upscale its blue economy and attract investment through international aid. Hence, to promote and maintain development aid for ocean conservation in Pakistan, it is essential to design blue economy projects that match the local needs and ensure private sector participation.

<sup>18</sup> [http://pu.edu.pk/images/journal/HistoryPStudies/PDF\\_Files/4\\_v33\\_2\\_2020.pdf](http://pu.edu.pk/images/journal/HistoryPStudies/PDF_Files/4_v33_2_2020.pdf)

## Policy Recommendations

- Pakistan can look into innovative sources of funding for blue economy such as, Blue Bonds, Debt Swaps, Crowdsourcing-Diaspora financing, Blended Finance, Development impact bonds, and contingently recoverable grant. The private banking sector can play a critical role for developing sustainable and blue financing mechanisms.
- Investments in water infrastructure for improving the quality and efficient use of resources accounted for \$11.77 Trillion globally.<sup>19</sup> The Port Qasim Authority and the Karachi Port Trust generate Rs20 billion per year for Pakistan. This can be substantially increased if the government issues water infrastructure bonds.
- CPEC and Pakistan's Exclusive Economic Zone (EEZ) offer enormous potential for renewable energy, port development, water sanitation plants and aquaculture. For Pakistan to maximise on its strategic position, importance should be laid on generating and promoting blue bonds by the State Bank of Pakistan.
- Pakistan is home to a large number of fish species; 529 species have been identified, of which 230 are freshwater fish and the remaining 296 are marine fish. Blue economy can upscale Pakistan's aquaculture through innovative blue financing networks
- The circular debt of the energy sector is rising at the rate of about Rs129 billion per year. Currently, Pakistan's power sector circular debt has spiked to an alarming level of Rs4,177 billion. Pakistan's blue economy holds tremendous potential for bridging the energy gap by the issuance of blue bonds.
- The ongoing expansion of Gwadar Port through CPEC can serve as a launchpad for investment into the blue economy. There is a need to promote SMEs in the functioning and upscaling of the blue economy.
- There is a need to encourage digitalisation for transparency blue financing. For this, the public sector needs to build the confidence of the private technology-led sector.
- A comprehensive institutional approach needs to be developed by the Ministry of Finance and the State Bank of Pakistan for the issuance of blue bonds and blue loans.

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<sup>19</sup> [https://www.worldwatercouncil.org/sites/default/files/Thematics/WWC\\_Water\\_infrastructure\\_and\\_investment\\_WEB.pdf](https://www.worldwatercouncil.org/sites/default/files/Thematics/WWC_Water_infrastructure_and_investment_WEB.pdf)

While Pakistan tasted success in its first green bond issuance in 2021 worth \$500 million to fund hydroelectric project there is a need to encourage private sector issuances of sustainable bonds.<sup>20</sup>

- Moreover, the business community needs to be encouraged by the state bank and policymakers to adopt environmentally friendly practices under the emission standards of the Paris Agreement. SBP Green Finance guidelines need to be strengthened and implementation strategy rolled out for ESG investments. Developing a domestic ‘blue fund’ facility will encourage the shift towards a more sustainable business environment.
- The policymakers need to engage with the business community, SMEs, academia, and think-tanks and develop ‘Special Maritime Industrial Zones’ for the growth of blue economy in Pakistan.
- There must be an integrated policy of maritime and natural source development which should include all the governments across the board, and it should not just be the Ministry of Maritime Affairs because that cannot take into account the whole private economy. For this purpose, only the government is not the solution, there are other ways as well. For example, the Public Private Partnership Authority (P3A). Government can issue specific bonds in terms of identifying certain potential businesses.

## Conclusion

Decades of mismanagement, exploitation, and pollution have damaged marine ecosystems. The world is waking up to the tremendous potential of blue economy and the urgent need to develop comprehensive blue financing instruments. Pakistan with a 1365 Km long coastline and placed at the pinnacle of One-belt-one-road Initiative, should fully tap into its blue economy potential and develop sustainable blue financing models. It is essential for the government to create an enabling environment for blue financing and support public and private financing partnerships. Collaboration between different relevant stakeholders, public/private banking sectors, international funding agencies is pivotal for the growth of blue financing sector in Pakistan.

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<sup>20</sup> <https://www.greenfinanceplatform.org/policies-and-regulations/pakistan-issued-first-green-bond>