

# Introduction of Innovative Climate Risk Financing Solutions in Pakistan

## Financial protection for MSMEs against climate risks

### Background and Context

Climate change-induced extreme weather events in Pakistan are inflicting an annual economic toll of approximately \$4 billion USD. The 2022 flood exacerbated this crisis, disproportionately impacting impoverished areas and leaving 33 million people homeless. Over a million livestock perished, and up to 9.1 million people were pushed into poverty. Public financial assistance for emergency relief falls short, burdening citizens and businesses.

Pakistan is home to around five million Micro, Small, and Medium-sized Enterprises (MSMEs), contributing significantly to the economy. These enterprises, comprising 40% of GDP and 25% of exports, play a crucial role in the transition to a green economy. However, MSMEs are particularly vulnerable to climate change, as evidenced by the 2022 flood's aftermath. A survey revealed that 54% of Pakistani MSMEs laid off employees, 57% sought additional loans, and 25% of MSME facilities were destroyed. MSMEs do not have sufficient financial protection against climate change-induced losses. Insufficient risk perception, investment resources, and capacities limit their ability to implement risk-reducing adaptation measures.

Women in Pakistan face challenges in economic integration, with low labour force participation rates and limited access to digital and financial services. Only 6% of MSMEs are led by women.

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### Target Groups

1. MSMEs in agricultural value chains impacted by climate change; and
2. Aggregators of MSMEs, including microfinance institutions, agricultural service providers, and lead buyers in the value chain.

### Expected Results

MSMEs and aggregators in agricultural value chains have better access to financial protection instruments.

There is a lack of climate risk insurance and other risk financing instruments to protect MSMEs against the impacts of extreme weather events. Aggregators such as microfinance institutions (MFIs) are also affected by climate change, as the risk to their



Pg. 1, Left: A woman farmer in Khyber Pakhtunkhwa.

Right: Women farmers in South Punjab learning about Climate Smart Agriculture practices.

Contact person	Photo: © GIZ Pakistan
Jochen Ramcke jochen.ramcke@giz.de	<p><i>Pg. 2, Left: Women farmers discussing best practices in Climate Smart Agriculture.</i></p> <p><i>Right: A local community in Northern Pakistan.</i></p>



portfolio substantially increases. This output will develop a financial protection mechanism, which can quickly restore business continuation of MSMEs after an extreme weather event and ensure the financial survival of the aggregators that depend on them.

#### **MSMEs and aggregators in agricultural value chains have implemented climate risk management measures.**

While there is a general awareness of the topic of climate change, knowledge of its specific impacts and of tools to address climate risks is limited among MSMEs. This output will develop training to sensitise MSMEs for climate risks and to help them in developing and implementing effective risk management measures. At the same time, MFIs will be supported in systematically integrating climate risks into their lending processes.

#### **The management skills of MSMEs in agricultural value chains are improved.**

This output complements climate risk management with a broader approach to risk management that addresses business development aspects. MSMEs are trained in operations and risk management and advised on the implementation of appropriate measures. Better knowledge and capacity in management will have a stabilising effect on business operations and

revenues, which will also make MSMEs more resilient to negative impacts of climate risks on production and supply chains.

#### **Lead buyers invest in climate resilience and professionalisation of their supply chain.**

The goal is to forge partnerships with private-sector lead buyers involved in developing or expanding their supply chain with MSMEs in the agricultural value chain. By incorporating MSMEs into the supply chain, they can learn and implement climate risk-related quality and minimum standards in products and processes, meeting the expectations of buyers. This enhances their climate resilience, enabling them to operate more successfully and potentially achieve higher levels of income, stable sales channels, and increased value creation.



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