



Technical Assistance Report

PAKISTAN

Governance and Corruption Diagnostic Assessment

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Acronyms and Abbreviations

| | |
|---------|---|
| ADAT | Anti-Dumping Appellate Tribunal |
| ADP | Annual Development Programs |
| ADR | Alternative Dispute Resolution |
| AGP | Auditor General of Pakistan |
| AGPR | Accountant General Pakistan Revenues |
| AIT | Agricultural Income Tax |
| AML/CFT | Anti-Money Laundering/Combatting Financing of Terrorism |
| ATIR | Appellate Tribunal Inland Revenue |
| BCC | Budget Call Circular |
| BCO | Banking Companies Ordinance |
| BO | Beneficial Ownership |
| BOI | Board of Investment |
| BOS | World Bank's Businesses of the State |
| BPS | Base Pay Salary |
| BSF | Budget Strategy Framework |
| BSP | Budget Strategy Paper |
| CCC | Cash Coordination Committee |
| CCoE | Cabinet Committee on Energy |
| CCP | Competition Commission of Pakistan |
| CFU | Cash Forecasting Unit |
| CIA | Chief Internal Auditor |
| CMWG | Cash Management Working Group |
| CPIMA | Climate Public Investment Management Assessment |
| CRM | Compliance Risk Management |
| CSO | Civil Society Organization |
| CTBCM | Competitive Trading Bilateral Contract Market |
| DG | Directorate General |
| DGIAC | Directorate General of Internal Audit Customs |
| DGIAIR | Directorate General of Internal Audit Inland Revenue |
| DGPC | Directorate General for Petroleum Concessions |
| DMO | Debt Management Office |

| | |
|--------|---|
| DNFBPs | Designated Non-Financial Businesses and Professions |
| DPC | Deposit Protection Corporation |
| DPCO | Debt Policy Coordination Office |
| DRAP | Drug Regulatory Authority of Pakistan |
| EDD | Enhanced Due Diligence |
| EFF | Extended Fund Facility |
| EFZ | Economic Free Zone |
| EMI | Electronic Money Institutions |
| FAB | Frequency Allocation Board |
| FABS | Financial Accounting and Budgeting System |
| FAD | Fiscal Affairs Department |
| FATF | Financial Action Task Force |
| FBR | Federal Board of Revenue |
| FIA | Federal Investigation Agency |
| FIC | Financial Intelligence Centre |
| FMU | Federal Monitoring Unit |
| FRDL | Fiscal Responsibility and Debt Limitation Act |
| FSO | Financial Sector Oversight |
| FTE | Full Time Equivalent |
| GCD | Governance and Corruption Diagnostic |
| GOP | Government of Pakistan |
| GST | Goods and Sale Tax |
| I&I C | Intelligence and Investigation Unit Customs |
| I&I IR | Intelligence and Investigation Unit Inland Revenue |
| IMC | Integrity Management Cell |
| LEA | Law Enforcement Agency |
| LEG | Legal Department |
| LLC | Limited Liability Company |
| MCM | Monetary and Capital Markets Department |
| MDA | Ministries, Departments and Agencies |
| MFB | Microfinance Bank |
| MIU | Market Intelligence Unit |
| MLA | Mutual Legal Assistance |

| | |
|-------|--|
| MOF | Ministry of Finance |
| MoITT | Ministry of Information Technology and Telecommunication |
| MTFF | Medium-Term Fiscal Framework |
| NAB | National Accountability Bureau |
| NACS | National Anti-Corruption Strategy |
| NADRA | National Database and Registration Authority |
| NAO | National Accountability Ordinance |
| NAP | National Action Plan |
| NBP | National Bank of Pakistan |
| NEC | National Economic Council |
| NEPRA | National Electric Power Regulatory Authority |
| NICL | National Insurance Company Limited |
| NPL | Non-Performing Loan |
| NRA | National Risk Assessment |
| NTB | Non-Tariff Barriers |
| NTC | National Tariff Commission |
| OAG | Office of the Auditor General |
| OGRA | Oil and Gas Regulatory Authority |
| PAC | Public Accounts Committee |
| PACE | Provincial Anti-Corruption Establishment |
| PAO | Principal Accounting Officers |
| PBP | Pakistan Business Portal |
| PCAA | Pakistan Civil Aviation Authority |
| PCP | Pakistan Citizens' Portal |
| PECA | Prevention of Electronic Crimes Act |
| PEP | Politically Exposed Person |
| PFM | Public Financial Management |
| PIM | Public Investment Management |
| PIMA | Public Investment Management Assessment |
| PMS | Performance Management Scheme |
| PPP | Public-Private Partnership |
| PPRA | Public Procurement Regulatory Authority |
| PRAL | Pakistan Revenue Administration Limited |

| | |
|-------|---|
| PRCL | Pakistan Reinsurance Company Limited |
| PRMI | Pakistan Regulatory Modernization Initiative |
| PSDP | Public Sector Development Plan |
| PSO | Public Service Obligation |
| PSP | Private Sector Participation |
| PSW | Pakistan Single Window |
| PTA | Pakistan Telecommunication Authority |
| RBS | Risk Based Supervision |
| RCLO | Registration, License, Certificates and Other Permits |
| RIC | Regional Integrity Committee |
| RSC | Regulatory and Supervisory Committee |
| RTI | Right to Information |
| SAI | Supreme Audit Institution |
| SAP | Sustainable Development Goals Achievement Programme |
| SBP | State Bank of Pakistan |
| SECP | Securities and Exchange Commission of Pakistan |
| SEZ | Special Economic Zone |
| SIFC | Special Investment Facilitation Council |
| SLA | Service Level Agreement |
| SLIC | State Life Insurance Company |
| SOE | State Owned Enterprise |
| SPR | Strategy, Policy and Review Department |
| SRO | Statutory Regulatory Order |
| STR | Suspicious Transaction Report |
| STX | Short Term Expert |
| SWF | Sovereign Wealth Fund |
| TCMU | Treasury Cash Management Unit |
| TDAP | Trade Development Authority of Pakistan |
| TPO | Tax Policy Office |
| TSA | Treasury Single Account |
| UNCAC | United Nations Convention Against Corruption |
| ZTBL | Zarai Taraqati Bank Limited |

Preface

In response to a request from the Government of the Islamic Republic of Pakistan, the IMF undertook a Governance and Corruption Diagnostic with World Bank participation. The exercise included field visits from February 6 to 14, 2025 (scoping mission) and April 3 to 14, 2025 (main mission) in Islamabad and Karachi. The mission was led by Joel Turkewitz (mission chief) and was comprised of Jonathan Pampolina (deputy mission chief), Jesper Berg (STX), Frank van Brunschot, Kuena Diaho, Fahad Hasan (World Bank), Yasemin Hurcan, Mohammed Sultan Yousuf Janahi (STX), Zhentu Liu (World Bank), Peter Mullins (STX), Nusula Nassuna, Wajahat Ali Shah (World Bank), Sally Toms, Miguel Vieira Toro, and Christophe Waerzeggers. World Bank staff Fahad Hasan, Zhentu Liu and Wajahat Ali Shah participated in the mission and made substantive contributions to this report. The team also received assistance from Mr. Ben French (STX) on political economy analysis. The work on this GCD would not have been possible without the support and guidance received from Kamran Ali Afzal, Cabinet Secretary, and the Pakistan focal point for the exercise. We appreciate and acknowledge the dedicated support by the Ministry of Finance in enabling the exercise to go forward smoothly and effectively. The team held over 100 meetings and met with the Finance Secretary, Chief Justice of the Supreme Court, Governor of the State Bank of Pakistan, Federal Board of Revenue, Ministry of Law and Justice, Law and Justice Commission, National AML/CFT Authority, Securities and Exchange Commission of Pakistan, Privatization Commission, Finance Division, Ministry of Planning and Development, Ministry of Economic Affairs, Financial Monitoring Unit, National Accountability Bureau, Information Commission, Competition Commission of Pakistan, Auditor General of Pakistan, Establishment Division, among others. The team also met with representatives of public and private banks, members of civil society, academicians, and international partners.

The report is based on information obtained as of the end of the April 2025 main mission. It does not capture reforms that have been introduced since April 2025.

The team wishes to express its appreciation for the excellent support and cooperation given by officials and staff of these various agencies. The team is also grateful to civil society, academicians and staff of international partners for sharing information and providing invaluable insights. The mission appreciates the support provided by Nathan Porter and Iva Petrova (former and current IMF Mission Chief for Pakistan), Mahir Binici (IMF Resident Representative in Pakistan), Muhammad Ali, and other IMF staff. The team benefited from the support of World Bank colleagues Anna Twum, Rafay Khan, and Waqas Idrees, and guidance provided by Tobias Akhter Haque. The team is thankful for the research, technical and administrative contributions provided by Natasha Dusabe, Alexandra Rajs and Jeahyun Nham, and for the overall guidance and advice provided by Emmanuel Mathias.

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Executive Summary

- 1. At the request of the Government of the Islamic Republic of Pakistan, an interdepartmental IMF team (LEG, FAD, SPR, MCM, CSF) joined by experts from the World Bank, initiated a Governance and Corruption Diagnostic (“GCD”) in January 2025.** The exercise was based on a mutual appreciation of the macro-economic consequences of corruption and governance weaknesses in Pakistan. Over the course of eight months, and two field missions, the team worked intensively with the Government of Pakistan and other stakeholders to identify governance challenges associated with increased exposure to corruption and define recommendations to improve performance, accountability, and integrity.
- 2. Guided by the IMF’s 2018 Framework on Enhanced Engagement on Governance,¹ the GCD focused on examining the nature and severity of corruption in Pakistan, and identifying the governance weaknesses and corruption vulnerabilities with macro-economic consequences in the areas of:** (i) fiscal governance (e.g. public financial management, public procurement, management of state assets (including state-owned enterprises), tax administration and tax policy); (ii) market regulation; (iii) financial sector oversight; (iv) anti-money laundering and combating the financing of terrorism; (v) rule of law (with special focus on enforcement of contracts, protection of property rights and judicial integrity). It also discussed the legal and organizational frameworks for anti-corruption and the alignment of anti-corruption strategies and approaches to the corruption risks. **Annex A** provides additional information on the methodology and scope of the GCD exercise.
- 3. The GCD occurs within the context of a 37-month US\$7 billion IMF Extended Fund Facility (EFF) approved on September 25, 2024.²** The program aims to build resilience and enable sustainable growth. Key priorities include (i) entrenching macroeconomic sustainability through consistent implementation of sound macro policies, including rebuilding international reserve buffers and broadening of the tax base; (ii) advancing reforms to strengthen competition and raise productivity and competitiveness; (iii) reforming SOEs and improving public service provision and energy sector viability; and (iv) building climate resilience.
- 4. Pakistan’s policy efforts under the EFF have already delivered significant progress in stabilizing the economy and rebuilding confidence, amidst a challenging global environment.** Fiscal performance has been strong, with a primary surplus of 2.0 percent of GDP achieved in the first half of FY25,³ keeping Pakistan on track to meet the end-FY25 target of 2.1 percent of GDP. Inflation fell to a historic low of 0.3 percent in April, and progress on disinflation and steadier domestic and external conditions, have allowed the State Bank of Pakistan to cut the policy rate. Gross reserves stood at US\$10.3 billion at end-April, up from US\$9.4 billion in August 2024, and are projected to reach US\$13.9 billion by end-June 2025 and continue to be rebuilt over the medium term.

¹ IMF Framework for Enhanced Fund Engagement on Governance, 2018.

² The request for the GCD was made in early 2024, during the standby agreement with the IMF that had been signed in July 2023.

³ Pakistan Fiscal Year is from July 1 – June 30.

5. Notwithstanding recent progress, longstanding structural challenges continue to weigh on Pakistan’s economic trajectory. The current EFF is the fourth program in 10 years (2013–2016 EFF, 2019–2023 EFF, 2023–24 SBA). Both the IMF and the Government of Pakistan recognize that reforms need to be institutionalized to durably address Pakistan’s vulnerabilities. While past programs have been reasonably successful in stabilizing the economy, they were less successful in institutionalizing reforms and addressing underlying structural weaknesses. In this period, living standards have not kept pace with those of peer countries in South and Southeast Asia, reflecting, in part, underinvestment in human and physical capital and enduring economic distortions linked to the state’s large role in the economy. At the same time, structural fiscal weaknesses and recurrent macroeconomic pressures have contributed to increasing financing needs and external vulnerabilities.

6. The GCD, requested by the authorities, assesses federal-level corruption and governance vulnerabilities to address macroeconomic imbalances and achieve high growth on a sustainable basis. The request reflects the authorities’ intention to address longstanding governance constraints that have complicated reform implementation in the past. In keeping with the IMF’s Framework for Enhanced Engagement on Governance, analysis and recommendations exclusively concern the areas established in the 2018 Framework,⁴ and do not capture governance concerns that are beyond those parameters.⁵ Moreover, the exercise was confined to corruption and governance issues at the federal level, while appreciating that a comprehensive governance program would need to address the substantial governance concerns that exist among and between provinces. The report is based on information gathered before and during April 2025 and does not capture reforms introduced since April. The publication of the GCD by the end of August 2025 is a structural benchmark in the EFF.

7. Corruption is a persistent challenge in Pakistan, with significant adverse implications for economic development. Indicators reflect weak control of corruption over time with negative consequences for public spending effectiveness, revenue collection, and trust in the legal system. While corruption vulnerabilities are present at all levels of government, the most economically damaging manifestations involve privileged entities that exert influence over key economic sectors, including those owned by or affiliated with the state. These dynamics are compounded by perceptions that the anti-corruption approach has lacked consistency and impartiality, contributing to diminished public confidence in enforcement institutions.

8. In a context where corruption has significant macro-economic consequences, the GCD revealed systematic governance weaknesses across state functions. Pakistan is exposed to corruption

⁴ The 2018 Framework identifies six state functions that are essential for sound monetary and fiscal policies, and for inclusive growth. Those six functions include: governance of the central bank, governance of financial sector oversight, fiscal governance, market regulation, rule of law, and anti-money laundering and combating terrorism. In addition, the Framework directs staff to examine the adequacy of the legal, organizational and strategic frameworks for addressing corruption in light of international good practice and the operative corruption risks. See 2018 Framework for Enhanced Engagement on Governance, IMF, 2018. The report does not consider Central Bank Governance considering the 2022 institutional reforms.

⁵ There exist a number of other governance studies of Pakistan with divergent areas of coverage and methodologies of analysis. See, for example, Muhula, Raymond, and Clelia Kalliopi Rontoyanni. ‘Pakistan@100 Governance & Institutions’. World Bank Group, March 2019, and Zehra Aslam et al., Reforms for a Brighter Future: Time to Decide—Pakistan Country Economic Memorandum, World Bank, 2023. For an alternative perspective, see Transparency International Pakistan (2025). Civil Society Governance Diagnostic Assessment on Pakistan: An Overview of Governance, Transparency and Social Accountability Reforms for Economic Growth. Karachi: Transparency International Pakistan.

risk generated by: weaknesses in budgeting and reporting of fiscal information, and management of public financial and non-financial resources, particularly in capital spending, public procurement, and the management and oversight of state-owned enterprises; an overly complex and opaque tax system administered by tax and custom authorities operating with insufficient capacity, management, and oversight; overwhelming regulations and intrusive state action related to business formation, entry and operation in specific economic sectors, administered by insufficiently independent regulatory authorities; and a judicial sector that is organizationally complex, is not able to reliably enforce contracts or protect property rights due to problems with efficiency, antiquated laws, and the integrity of judges and judicial personnel. Reliance on courts to enforce contracts or protect property rights is discouraged by the enormous backlog of cases and concerns over the integrity and independence of judicial institutions.

9. Corruption risks are exacerbated by fragmentation among accountability institutions and limitations in their operational independence. Overall anti-corruption efforts have not succeeded in mitigating macro-critical corruption risks. Concerns have also been raised that the perceived severity and unpredictability of enforcement may contribute to hesitation among senior officials in taking administrative decisions. Recent reforms in the anti-money laundering arena have successfully enabled Pakistan to be removed from the FATF grey-list, but much work remains to be done to address the low-rate of corruption-related money laundering convictions, relative to the country's risk profile, including advancing the identification of suspicious transactions and the effective monitoring of politically exposed persons. While concerns over the governance of the financial sector are less severe, sectoral resources remain overly concentrated towards the state.

10. These weaknesses and vulnerabilities highlight several cross-cutting governance challenges that need to be addressed for planned reforms to be implemented and sustained. The state's extensive role in the economy, exacerbated by fragmented oversight, limited institutional capacity, and vulnerabilities to corruption, contributes to crowding out the private sector. Ambiguity in public sector mandates and objectives, coupled with the frequent use of ad hoc arrangements, contributes to uneven access to state support and blurred lines of accountability. Many ministries and agencies face capacity constraints in delivering core functions, compounded by weak internal controls and underinvestment in management systems. Opportunities for engagement by non-state actors are constrained by limited access to public information and the absence of platforms for engagement. Against this backdrop, rule-based governance is often weakened by the discretionary allocation of economic advantages to well-connected actors and state-affiliated entities, which adds to institutional complexity and opacity.

11. Specific weaknesses in each area can be characterized as the following:

a. Tax Policy: The complexity in the tax system gives rise to governance weaknesses and corruption vulnerabilities. Tax policy changes are often made in an ad hoc fashion without notice in response to concerns over insufficient revenue mobilization. Tax policy is also undermined by a range of tax preferences managed by different non-tax authorities such as SEZs, which are often obscure and poorly monitored.

b. Revenue Administration: Revenue administration centers on the organizational arrangements and practices of the powerful Federal Board of Revenue (FBR). The FBR operates with a high-degree of autonomy and authority to perform its function, alongside weak or non-functional systems of internal control and internal audit, and accountability for performance or compliance with the law. FBR's management and oversight of core risks, such as the risks

created by entrusting data management to the Pakistan Revenue Automation Limited (PRAL) needs significant strengthening.

c. Public Financial Management: Despite some improvement in the last two years, Pakistan has consistently struggled with weak budget credibility, which has generated several macro-critical governance weaknesses. Supplementary grants—in-year adjustments available to the executive without getting the Parliament’s ex-ante approval—was a regular feature of the budgeting process in Pakistan before the Extended Fund Facility (EFF), and undercut the core principle that effective budget controls should ensure that the level and allocation of government expenditure reflect the will of the Legislature as voted for in the budget. Despite some reforms in recent years, there are a number of shortcomings in public investment management resulting in failure to protect funding for approved projects over the project life cycle and major project delays and cost increases in projects. This is compounded by a weak Single Treasury Account framework without a firm institutional coverage decision that undermines effective control over the government’s cash balances. The current set-up in debt management involves multiple entities with overlapping roles and responsibilities, which complicates decision-making and coordination. Mechanisms for monitoring and accountability are weak, including in the management of financial and non-financial assets, and state-owned enterprises. Public procurement remains fragmented and privileges state parties, who are able to capture markets and rents from their favored status. Neither internal nor external auditors have sufficient authority and competency to fulfill their mandates. Institutions that use budgetary resources but are designed to operate outside of standard fiscal accountability constraints undermine other state institutions and increase corruption risks.

d. Market regulation: Market regulation features a proliferation of regulatory bodies issuing competing and overlapping regulations through obscure and ill-defined processes. The high cost of regulatory compliance, in part, due to reliance on manual processes, provides strong incentives and opportunities for corrupt practices. Regulatory authorities, particularly those overseeing critical sectors, exercise broad powers to formulate rules, enforce compliance, and resolve disputes. However, their actions are frequently perceived as favoring select firms or entrenched cartels, raising concerns about impartiality and regulatory capture. Despite the existence of multiple accountability institutions, Pakistan continues to face systemic challenges in enforcing accountability on individuals or organizations for non-performance and malfeasance in the applications and observance of business regulations.

e. Financial sector oversight: Financial sector oversight is generally sound, with lingering concerns about the independence of regulators and the extent to which the risks caused by the weight of state assets in the banking sector have been effectively addressed.

f. Anti-Money Laundering and Combatting Financing of Terrorism: Pakistan’s AML organizational and legal framework has improved substantially recently but significant work is required to effectively target laundering of corruption proceeds. Preventive measures by reporting entities show some signs of improvement, as banks occasionally raise questions about corruption-related suspicious transactions. Issues remain regarding the use of Financial Intelligence Reports by authorities to initiate financial investigations. Legal ambiguities in the AMLA 2010 hinder timely prosecution, especially when predicate corruption offenses are hard to establish. Despite multiple initiatives to improve mutual legal assistance (including enactment of MLA Act) successful use of mutual legal assistance remains limited, partly due to limited formal

cooperation by key jurisdictions. Beneficial ownership data remains difficult to verify and access, reducing its utility in complex investigations. While the establishment of the National AML/CFT Authority improved coordination, challenges remain in regards to inter-agency coordination, inconsistent sanctioning practices, and limited investigative capacity which constrain effective enforcement and asset recovery.

g. Rule of Law: Governance weaknesses in the judicial sector constrain the ability of parties to rely on the effective enforcement of their economic rights and lead to exposure to corruption risks. Delays in the adjudication of cases often occur in part due to the stock of backlogged cases, outdated laws and regulations, and judicial inefficiencies. The existence of multiple and competing courts, including an extensive system of special economic courts / Administrative Tribunals generates uncertainty in legal interpretation, and has had mixed success in expediting the resolution of cases sufficiently to keep up with demand. Human resource practices, including appointment processes and length of tenure, vary substantially, and give rise to questions about judicial independence and integrity. Existing mechanisms for overseeing the efficiency and ethics of judicial officers need to be strengthened to support improved performance and increased public trust.

h. Anti-corruption: Anti-corruption efforts have been constrained by heavy reliance on a single institution, exposed to strong political influence, for the prosecution of individual corruption cases. While progress has been made in establishing preventative measures (such as asset declaration systems), limited use has been made of information to identify and proactively address institutions, functions, and sectors with the highest corruption risks and target individuals for enhanced scrutiny.

12. The report highlights actions to address key corruption risks and strengthen governance over time. These include immediate and short-term measures, as well as structural reforms in the medium- and long-term that will require sustained effort and resources to deliver lasting institutional improvements. A list of “priority” recommendations is provided below, focusing on measures most critical to addressing governance weaknesses associated with increased vulnerability to corruption that constrain private sector development, public sector performance, and accountability. These recommendations are elaborated further in the subsections of the report, which also contain a broader set of structural and institutional measures aimed at promoting more transparent, efficient, and rule-based governance. (See **Annex B** for consolidated table of all GCD recommendations).

13. Pakistan has demonstrated its capacity to design and implement technically difficult and institutionally challenging reforms. Recent examples include the reform of the Central Bank to enhance independence, the adoption and initial steps to implement the State-Owned Enterprise Law, the cancellation of regulations as part of the effort to improve the business environment, and the implementation of the National Database and Registration Authority (digital ID and biometric system). Both past reforms and on-going efforts to enhance the “efficiency” of the state, “right-size” the state, and utilize digital technology across state functions demonstrate the organizational capacity and competency that exists as well as the commitment to improve public sector effectiveness. The recommendations provided in this report have been shaped to complement the Government’s on-going reform efforts in the interest of contributing to the momentum and sustainability of change.

14. The recommendations presented aim to advance meaningful reforms that would collectively strengthen the overall governance environment. To this end, some reforms target

governance changes to empower the private sector, others are directed towards addressing weaknesses in public sector performance, while a third grouping focuses on enhancing accountability and the functioning of anti-corruption structures. A unifying theme is the emphasis on increasing transparency and accountability in policy formulation, implementation, and monitoring. This involves improving access to information and strengthening the capacity of state and non-state stakeholders to participate effectively in governance and economic decision-making. Together, the recommendations contribute to advancing rule-based governance.

15. Pakistan would obtain substantial economic benefits from improving governance, accountability, and integrity along the lines recommended in this report. Based on cross-country analysis of the reform experience of emerging markets, IMF analysis projects that Pakistan could generate between a 5 to 6.5 percent increase in GDP by implementing a package of governance reforms over the course of 5 years.⁶ The particular reform package analyzed includes reforms that are aligned with those stipulated in this report, including improvements in governance and anti-corruption, business regulation, and regulation of foreign trade.

⁶ See International Monetary Fund (IMF). 2019. "Reigniting Growth in Emerging Market and Low-Income Economies: What Role for Structural Reforms?" World Economic Outlook Chapter 3; IMF Staff Discussion Note, "Structural Reforms to Accelerate Growth, Ease Policy Trade-Offs, and Support Green Transition in Emerging Markets and Developing Economies, SDN/2023/007. First generation structural reforms include governance and anti-corruption reforms (relating to the variables tracked in the World Governance Indicators), improvement in business regulations, and reforms in regulation of external trade.

Table 1. Priority Recommendations for Action and Reforms

| Recommended Action | Responsible Authority | Timeline |
|--|--|--------------|
| Addressing governance weaknesses/corruption that constrain private sector development | | |
| 1. Improve the performance of the public procurement system by eliminating preferences for State-Owned Enterprises, including provisions allowing for direct contracting and mandating the use of the e-Government Procurement system for all procurement transactions within 12 months. | Public Procurement Regulatory Authority | MT |
| 2. Enhance transparency regarding strategic investments by producing and making public the first annual report of the Special Investment Facilitation Council, including information on all investments that it has facilitated, including concessions provided (tax, policy/regulatory, or legislative) along with detailed rationale of concessions, and the estimated value of the concessions, and publishing the information on the implementation of the Bol (Amendment) Act, Article 10F (Power to relax or exempt from regulatory compliance). | Special Investment Facilitation Council | MT |
| 3. Under the leadership of the Securities and Exchange Commission of Pakistan, enhance regulatory consistency within 18 months by: (1) establishing a comprehensive database of all federal business regulations, (2) eliminating unnecessary regulations based on structured systematic review; (3) creating a review process based on international good practice for all new regulatory proposals. | Securities and Exchange Commission of Pakistan (SECP) | MT |
| 4. Increase transparency and enhance efficiency by systematically digitizing the process of complying with regulations. Within 15 months, establish the list of regulatory processes to be digitized, and demonstrate progress in introducing digitized compliance procedures. | SECP, Ministry of Information Technology and Telecommunication | MT |
| 5. Initiate actions to reduce backlog of economic disputes by developing and publishing the methodology to be used to assess performance of courts and judges reporting to the Ministry of Justice (year 1) and publish the first performance report covering all Administrative Tribunals and Special Courts involved in economic and commercial matters (year 2). | Ministry of Law and Justice | ST/MT |
| Addressing governance weaknesses that act as barriers to fulfilling public sector functions | | |
| 6. Publish a tax simplification strategy by May 2026 that reduces rate schedules, special regimes, excessive withholding and advance taxes, rationalizes tax exemptions and scales back rulemaking power, and annually report on implementation progress. Demonstrate reduction in the number and value of tax exemptions that have been granted. | TPO Ministry of Finance (MOF) | ST/MT |

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| 7. Strengthen FBR's governance and effectiveness by improving its organizational structure to better align oversight and management with achieving core objectives, reduce the autonomy of field offices, enhance human resource practices, and enhance its ability to identify and address key risks. | FBR | ST/MT |
| 8. Enhance accountability of FBR operations by publishing audit findings relating to PRAL within the next 12 months and produce the initial public report tracking FBR response to major audit findings and recommendations. | Auditor General; FBR | MT |
| 9. Improve top-down budget process and avoid in-year budget adjustments without getting the Parliament's ex-ante approval through the use of supplementary grants, while maintaining some flexibility in budget execution through introducing contingency reserve. | Cabinet Finance Division | ST |
| 10. Enhance PSDP transparency, efficiency and affordability by enforcing the 10% cap on new projects, further rationalizing the portfolio (stock) by retaining only high-priority initiatives, protecting capital spending from mid-year cuts, and integrating Parliamentarians' projects into the PSDP process. | Ministry of Planning Development & Special Initiatives MOF | ST/MT |
| 11. Adopt and implement a risk-based approach to addressing corruption vulnerabilities in federal agencies by: (i) publishing an action plan to mitigate risks in the top ten agencies with highest corruption risks and macro-critical exposures based on a centralized assessment using pre-established and public criteria (year 1); and (ii) reporting annually on implementation progress and risk reduction outcomes in these agencies (year 2). | Cabinet Division, Ministry of Law and Justice, NAB | MT |
| Addressing governance weaknesses that directly reduce accountability/oversight | | |
| 12. Establish full institutional independence of the Auditor General of Pakistan. | Cabinet, Finance Division, OAG | LT |
| 13. Enhance investigation and prosecution of money laundering offenses, by removing legal ambiguity on requiring a predicate conviction, increasing quality and quantity of Suspicious Transactions Reports, strengthening law enforcement agencies capacities for financial investigation, and improving cooperation on asset recovery. | National AML/CFT Authority, Ministry of Law and Justice, FMU, NAB, Ministry of Interior | ST/MT |
| 14. Strengthen accountability and integrity among high-level federal civil servants by initiating the publication of asset declarations in 2026, and introduce risk-based verification of asset declarations. | FBR, Establishment Division, NAB | ST |
| 15. Review and enhance the legal framework governing the appointment of heads of key oversight bodies (CCP, SECP, NAB), to promote merit-based, transparent and credible selection processes. | CCP, SECP, NAB | ST/MT |

ST = 6 months or less; MT = 6 to 18 months; LT = 18 months to 36 months

Introduction

1. This Governance and Corruption Diagnostic (GCD) was launched in response to a request for IMF support for the undertaking. Pakistan is the second country in South Asia to invite the IMF to conduct this exercise, preceded by Sri Lanka.

2. The GCD is a tool established by the IMF to operationalize the 2018 Framework for Enhanced Engagement on Governance. The Framework required staff to assess corruption vulnerabilities and governance weaknesses in all member countries, and to explicitly address governance issues in all jurisdictions where corruption has been determined to be severe. The Framework further instructed staff to focus analysis on governance and corruption issues in six core state functions essential to sustained and inclusive growth.⁷

3. This report examines the nature and severity of corruption in Pakistan and identifies core governance weaknesses associated with increased vulnerability to corruption. The emphasis placed on corruption and governance does not imply that all performance problems are governance issues, or that all governance issues are related to corruption. The emphasis on corruption is based on the direct negative consequences of corruption, and because the presence of corruption creates obstacles for the implementation of reform. As has been demonstrated across a wide variety of states, corrupt actors actively resist reforms that threaten to eliminate their corrupt proceeds. Resistance to changes in the status quo increases as corruption becomes more entrenched, involving political and economic elites.

4. The IMF defines corruption as the abuse of authority for private gain. Corruption can be an individual act – such as requesting or accepting a bribe, or it can happen through a long-standing network of public and private actors who work together to capture contracts, markets, or sometime entire governments. While related, corruption is different from weaknesses in governance – which the IMF defines as the system of rules, practices, and processes by which a country manages its economic and social resources for development. When corruption becomes deeply entrenched, it can distort or even replace formal governance systems, effectively becoming the dominant mode of decision-making.

5. Corruption is macro-critical in Pakistan and addressing it is essential to the success of the Government's reform agenda. This GCD is grounded in a shared understanding between the Government and the IMF staff that confronting and reducing corruption vulnerabilities is necessary for sustainable reform. The methodological foundation of the GCD recognizes that anti-corruption efforts are most successful when they combine initiatives to strengthen governance with initiatives to directly confront corruption and enhance integrity.

6. The GCD takes place in the context of a changing and evolving governance environment. Pakistan's governance environment continues to evolve, shaped by recurrent political and institutional changes that have marked its post-independence history. Changes in governing authority or policies or practices are occurring against the backdrop of large population shifts as the pace of urbanization increases and the profile of the country moves from rural/agrarian to urban/service based.

⁷ The six state functions are: central bank governance, financial sector oversight, market regulation, fiscal governance, rule of law, and anti-money laundering and counter-terrorism finance.

7. Governance arrangements are also shaped by deep-rooted historical, institutional, and geopolitical influences. This includes such aspects as the role of agrarian, industrial, military and bureaucratic elites, the nature of political parties, the influence of religious leaders and faiths. External factors, particularly Pakistan's geopolitical context, also affect how governance institution's function and evolve.

8. This GCD examines key governance and corruption issues in the economic sphere, while recognizing that other important dimensions of governance lie beyond its scope. While important, broader political and institutional dynamics, including provincial governance and the role of the military, are largely outside the scope of this exercise. This GCD aims to contribute to the implementation of the Government's economic reform program and inform the IMF's support for that program. The selection of issues has been made with that objective in mind.

9. The scope of the GCD is also restricted to examining solely existing policies, practices, and outcomes. For the most part, it does not take cognizance of on-going or planned reforms since their impact cannot be assessed. As such, the analysis presented is very much a snapshot in time. Important reforms are underway, including efforts to redefine the role of the state in the economy (the "right sizing reform"), the way the state operates (the "efficiency" reform), and the processes used within government (the "digitization" reform). The analysis also relies on available information, and the lack of information, especially regarding performance, has been a consistent feature.

10. The report features a set of priority recommendations for addressing corruption and improving governance. Priority recommendations primarily propose actions that can be initiated and completed in the short to medium term. Many of them are technical in nature given the importance of generating change, minimizing some of the most urgent risks, and establishing the basis for more long-term structural reform. The complementary recommendations found in each of the sections include more structural reforms, and a greater focus on developing institutional competencies. International experience indicates that changing institutions requires long-term and sustained efforts that feature consistent policies, effective leadership, and the dedication of resources to changing practices, behaviors, and standards.

11. The success of governance reforms depends on broad-based participation by both state and non-state actors. International experience shows that lasting progress requires not only government-led efforts but also meaningful engagement by civil society, the private sector, and other non-state stakeholders. Addressing corruption cannot rely solely on law enforcement, just as reforms to the tax or legal systems cannot be achieved by the state alone. Sustained reform progress emerges when reform implementation is accompanied by public demand for change, active monitoring, and shared responsibility. For example, creating a public procurement system that operates effectively and with integrity requires not only new rules and procedures, but also changes in private sector behavior.

12. The recommendations are intended to lay the groundwork for a broader reform process, not to provide a comprehensive solution. The priority and complementary measures outlined in this report are starting points along a longer reform pathway. They are not proposed to solve Pakistan's governance challenges; nor do they form a blueprint for reform. Rather, each recommendation seeks to address a specific vulnerability while also creating momentum and institutional space for follow-up reforms that can deepen and sustain progress over time.

13. The GCD is intended to support Pakistan’s efforts to strengthen governance, while further building public trust. The report is expected to contribute to the on-going dialogue and actions on how to address corruption and build trust between the state and society. Achieving that overall goal will require clarity of purpose, and a sustained effort over many years. The more immediate objective is for the GCD to assist the Government to create and publish a Governance Action Plan with specific reform commitments, timelines, and a mechanism for actively monitoring progress.

14. Implementing governance reforms takes time and sustained support. Strengthening institutions and introducing new policies and practices is a gradual process that can benefit from international experience and targeted technical assistance. The GCD is one element of the IMF’s broader engagement on governance in Pakistan. This report is intended to inform reform efforts and is not an endpoint.

Section I. Nature and Severity of Corruption

1. This section of the report assesses the nature and severity of corruption in Pakistan. It provides information for guiding and shaping reform priorities. Understanding the scale and drivers of corruption allows stakeholders to develop targeted interventions that confront systematic causes of governance inefficiencies and not just symptoms. The IMF is neither an investigative nor an audit body, and the observations in this section are derived from extensive research and interviews with a wide range of stakeholders. Recognizing that corruption is often hidden, the IMF relies on a holistic methodology that includes official reports, third-party indicators, legal and institutional analysis, stakeholder input, and staff judgement.

A. Severity of Corruption

2. Corruption is a persistent and corrosive feature of Pakistan's governance. Shortly after independence, Mohammad Ali Jinnah, Pakistan's founding father, denounced corruption in 1947 as a poison that needed to be eradicated. More than 70 years later, corruption continues to hinder Pakistan's macroeconomic and social development by diverting public funds, distorting markets, impeding fair competition, eroding public trust, and constraining domestic and foreign investment. The Government recognizes the critical importance of reducing corruption and improving governance for long-term economic development in its public statements.

3. Globally accepted measures of corruption and public perceptions surveys consistently identify corruption as a substantial issue. The Worldwide Governance Indicators (WGI), compiled by combining a range of expert assessments of governance, have assessed Pakistan as having substantial governance weaknesses across various elements, including in controlling corruption over the past 20 years. This assessment aligns with earlier reviews in The Global Competitiveness Report (2017), where complaints about corruption regularly topped the list of concerns for investors.⁸ The World Justice Project's (WJP) Rule of Law Index, an expert assessment-based index focused on legal matters, concludes that the government's control of corruption remains the weakest aspect of the legal system. From 2015 to 2024, the Pakistan's WJP score on control of corruption remained constant (0.38 to 0.39 out of 1.00), which places it among the bottom performers globally, and 5 out of 6 in the South Asian region.⁹ The public's perception of corruption aligns with experts' assessments, as reflected in Pakistan's scores on the Transparency International (TI) Corruption Perception Index. **(Box 1)** The V-Dem indicator (Variety of Democracy), which provides a more granular analysis of corruption in different institutions based on expert assessments, shows relatively no change over time in levels of corruption among the executive, legislative, and judicial functions.¹⁰

4. There are no reliable measures that capture the cost of corruption to the economy. Some indication of the scale of those costs can be gleaned from the recovery of corruption-related assets. In this

⁸ Muhula, Raymond, and Clelia Kalliopi Rontoyanni. 'Pakistan@100 Governance & Institutions'. World Bank Group, March 2019. See Figure 8.

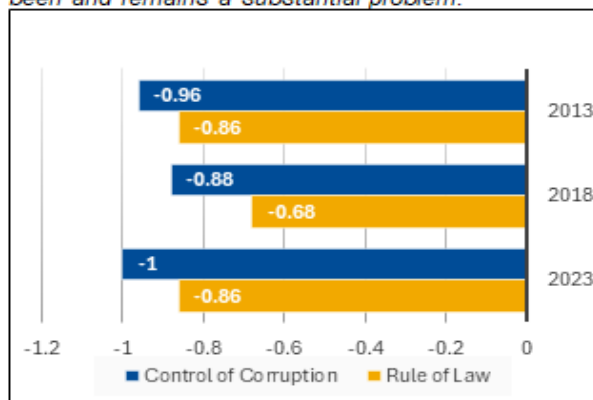
⁹ World Justice Project, Pakistan, *Rule of Law Index 2024*, accessed June 16, 2025. The World Justice Project categorizes the following countries as South Asian: Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka.

¹⁰ Varieties of Democracy, Country Graph (https://www.v-dem.net/data_analysis/CountryGraph/).

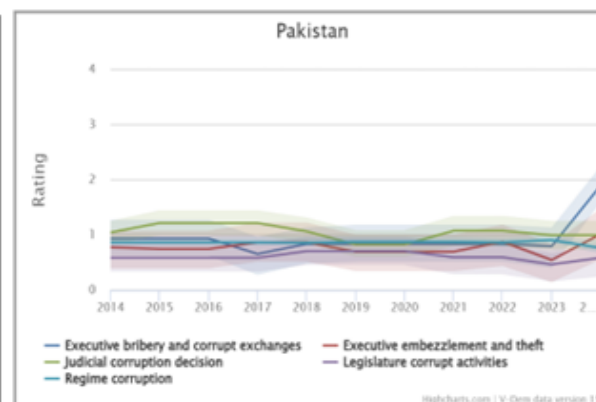
regard, the National Accountability Bureau recoveries during the period between January 2023 and December 2024, totaling PRs 5.310 trillion.¹¹¹²

Box 1. Pakistan's Underperformance in Governance/Corruption Metrics

Pakistan's performance on a number of governance indicators reflects the consensus that corruption has been and remains a substantial problem.

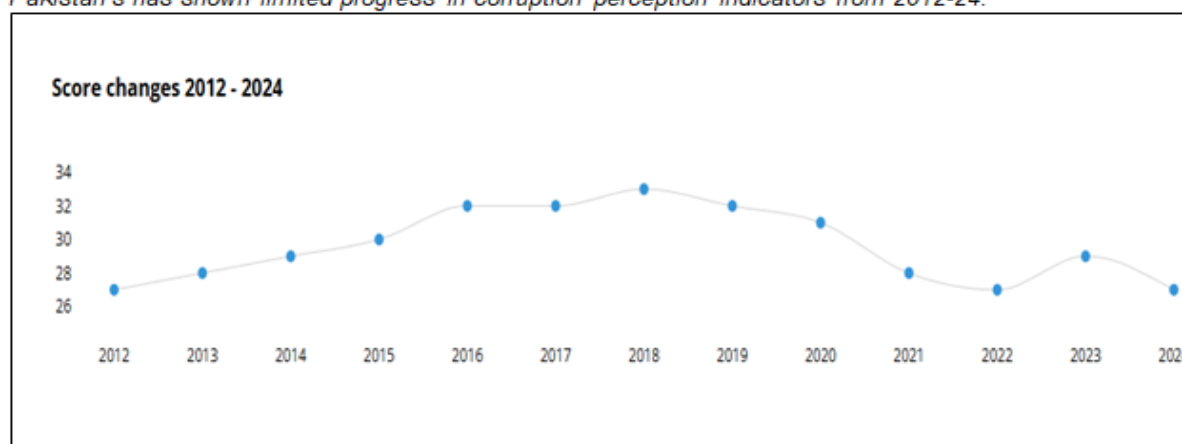


Source: WJP – Rule of Law Index



Source: V-Dem

Pakistan's has shown limited progress in corruption perception indicators from 2012-24.



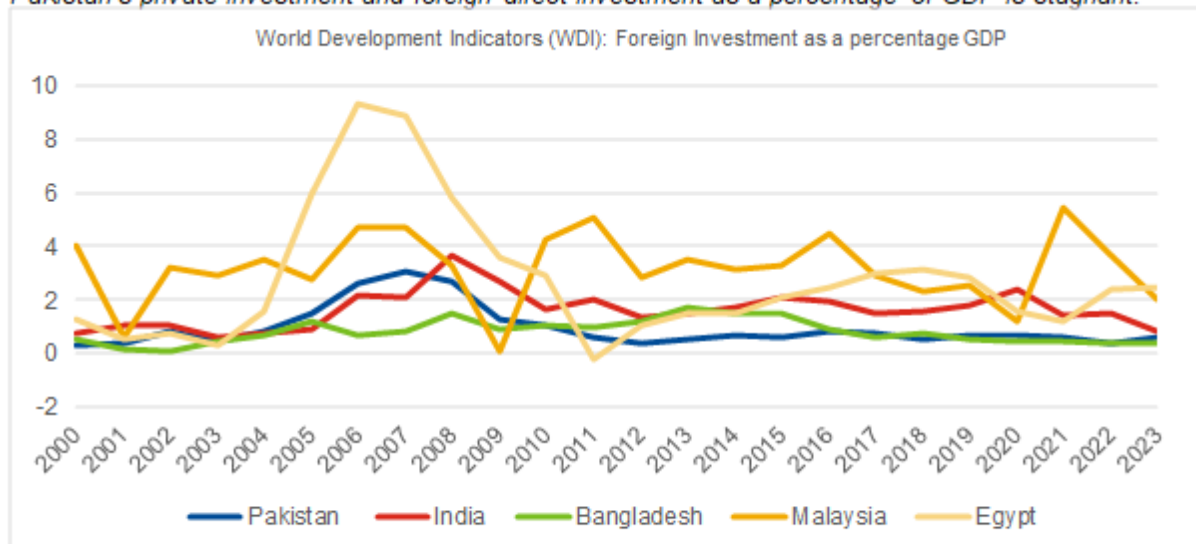
Source: TI-CPI

¹¹ The amount of money obtained through asset recoveries reflects only one element in total costs of corruption to the economy.

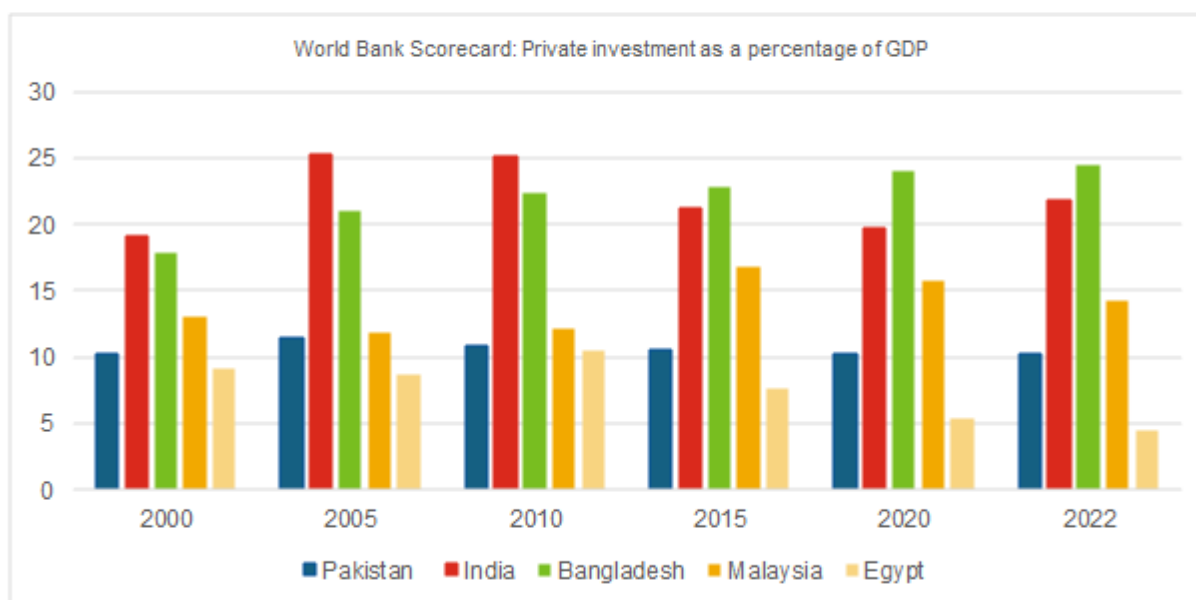
¹² See National Accountability Bureau Biennial Report, 2023-24.

Figure 1. Pakistan Private Investment and Foreign Direct Investment as a Percentage of GDP

Pakistan's private investment and foreign direct investment as a percentage of GDP is stagnant.



Source: World Development Indicators.



Source: World Bank Score Card.

5. Pakistan's growth rates, as well as its overall investment rates are weighed down by structural challenges (including corruption vulnerabilities). Over the past few decades, Pakistan has consistently experienced declining growth, which reflects shrinking contributions from productivity (capital and broad-based).¹³ This has paralleled low levels of investment in the economy, with a

¹³ IMF. 2024. "Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility." IMF Country Report No. 24/310, Washington, DC.

particularly severe decline recorded in private sector investment in recent years (**Figure 1**). The 2022 World Bank Enterprise Survey reported that 11.1 percent of businesses viewed corruption as the biggest obstacle to doing business, which is above the 7.4 percent average reported for South Asia.¹⁴ Under current policy settings, and unless a major structural reform program is implemented over a sustained period of time, growth is expected to remain muted amid persistent external imbalances (likely necessitating continued import and capital management measures), discretionary fiscal policies, and a large state presence in the economy.¹⁵ The space for transformational growth has been constrained by weak institutional apparatus for producing high-quality and skilled manpower; slow and costly judicial procedures (contract enforcement); market rigidities (land, labor and capital); and political risks, which have undermined the private sector, reduced market efficiencies, and hampered overall macroeconomic environment.¹⁶

Box 2. Negative Impact of Corruption

The negative impact of corruption on development has been amply demonstrated. Research by the IMF and others has set out the negative effects of corruption on overall growth and investment.¹⁷ Studies have found a positive and significant correlation between corruption and lower GDP per capita, less foreign investment, and slower growth in transition economies.¹⁸ IMF research finds that every one-point improvement in the Corruption Perceptions Index is associated with a 4 percent increase in the country's investment rate.¹⁹ Many of the developmental consequences of corruption are closely tied to the negative impacts that corruption has on the development of institutions and the rule of law.²⁰

6. Corruption vulnerabilities also have a significant impact on the fiscal performance of the public sector. While other factors also contribute to public sector performance, Pakistan's tax-to-GDP ratio is low and falling. This may be due to the complexity of the tax system and the frequent changes in rules, and low public trust in the government.²¹ Weak control of corruption, as reflected in lower WGI scores, is associated with lower tax-to GDP ratios (**Figure 2**). The Government retains significant discretionary power over how public money is spent given significant differences between enacted budgets and how public money is actual spent, in an environment with limited public transparency or parliamentary engagement in budgetary matters. Discretionary allocations are skewed towards districts

¹⁴ WB, Enterprise Surveys: Pakistan 2022 Country Profile.

¹⁵ WB, Pakistan Development Update – Fiscal Impact of Federal State-Owned Enterprises (April 2024).

¹⁶ WB, Pakistan@100 Governance & Institutions, Policy Note (March 2019).

¹⁷ Source: IMF, Staff Discussion Note – Corruption: Costs and Mitigating Strategies (FAD-LEG), SDN16/05, May 2016.

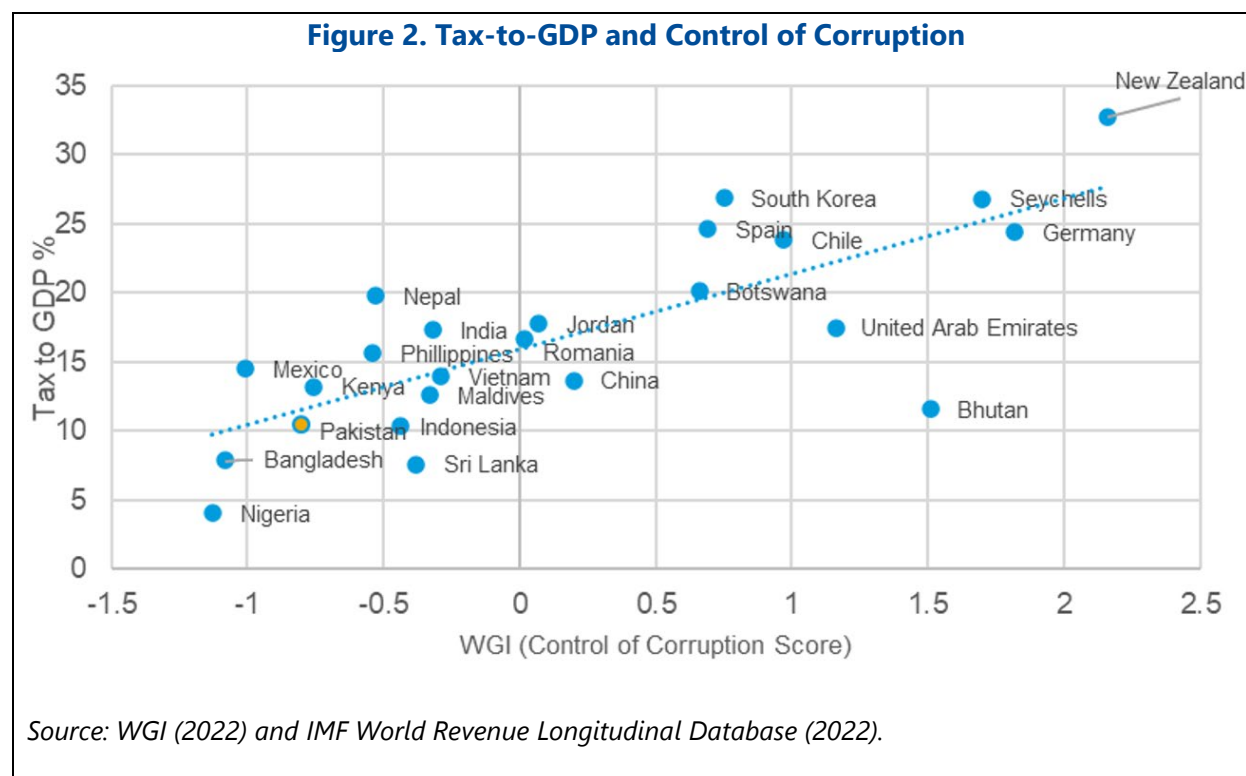
¹⁸ Elizabeth Asiedu and James Freeman, "The Effect of Corruption on Investment Growth: Evidence from Firms in Latin America, Sub-Saharan Africa, and Transition Countries," *Review of Development Economics* 13, no. 2 (May 2009): 205.; Geeta Batra, Daniel Kaufmann, and Andrew H. W. Stone, *The Firms Speak: What the World Business Environment Survey Tells Us About Constraints on Private Sector Development* (Washington, DC: The World Bank, 2003), 45.

¹⁹ Paulo Mauro, IMF Working Paper, *The Effects of Corruption on Growth, Investment, and Government Expenditure* (September 1996). Uroosa, A., Shabbir, M.S., Zahida, M.U., Yahya, G. and Abbasi, B.A., 2022. Economic analysis of corruption: evidence from Pakistan. *TRANSNATIONAL CORPORATIONS REVIEW* [Online], 14(1), pp.46–61.

²⁰ IMF, *Fiscal Monitor: Curbing Corruption* (April 2019); WB, Pakistan@100 Governance & Institutions, Policy Note (March 2019).

²¹ Kaplan, Seth. 'Power and Politics in Pakistan', 2013.

represented in the government or the senior bureaucracy, reflecting the vulnerability of the system to political influence.²² The return on public investment is low and undermined by issues in the control and oversight of public investment, as well as a public procurement system that lacks effectiveness and integrity. One example is the PRs 1.240 trillion Economic Stimulus Package for the COVID-19 pandemic in 2020. In its audit report of the package,²³ the Auditor General of Pakistan observed weak financial controls, lack of proper record-keeping, and flaunting of procurement rules.²⁴



7. Economic governance arrangements similarly distort the development of the economy.

While a portion of the economy is uncompetitive, it is supported by widespread protectionism, subsidies, and tax concessions that erode the tax base while providing opportunities for privileged parties to capture corruption rents. Export industries have suffered from domestic policies that serve to restrict competition to the benefit of politically protected firms. Exports have fallen as a share of GDP from 16 percent in 1990 to 9 percent today.

8. While short-term trends reflect an upturn in foreign direct investment in Pakistan, the willingness of domestic and foreign firms to enter into contracts or make long-term capital

²² Ahmed, M., 2023, Political Economy of Discretionary Allocations of Annual Development Programs: Theory and Evidence from Balochistan, *The Pakistan Development Review* [Online], 62(2), pp 167-197.

²³ Auditor General of Pakistan, Audit Report on the Expenditure Incurred on COVID-19 by Federal Government (Audit Year 2020-21).

²⁴ World Bank. Reforms for a Brighter Future: Overview and Summary. Preliminary Draft for Consultations and Discussion. [Pakistan]: World Bank.

investments have been undermined by concerns over vulnerabilities to corruption of judicial institutions.²⁵ The WGI ranks Pakistan's rule of law in the bottom quartile of countries.²⁶ The assessment of the judicial performance by experts is mirrored by citizen perception data that views the coercive apparatus of the state (the police and judiciary) as corrupt.²⁷ From 2021 to 2023, the judiciary has been consistently identified as one of the three most corrupt sectors in the National Anti-Corruption Perception Survey (others sectors include police and tender and contracting).²⁸ Systemic inefficiencies in the judicial processes escalate the time and costs of dispute resolution, especially at the lower levels of the judiciary and elevate the risks of corruption, restricting the ability of firms to rely upon the courts to enforce contracts and property rights. Moreover, weaknesses in the regulation and oversight of the financial industry allow critical capital to leave the country.

9. The interplay between patronage politics, policy making, and investment contributed to the erosion of public trust and exacerbated inequality and corruption. Although progress has been made to enhance fiscal transparency and expand public sector performance data, opportunities for public participation in governance and public access to information remain limited. Implementation of the Right to Information Law has largely not succeeded in changing the information practices of government nor established an effective means for individuals to request data and actively participate in monitoring government actions. Limited avenues for direct participation in governance exist against a backdrop of deep popular concerns about the effectiveness and fairness of key public accountability entities. In 2023, 68 percent of respondents to a national survey believed that accountability institutions like NAB and the Federal Investigation Agency (FIA) are used for political purposes.²⁹ Scandals, such as those surrounding the use of public funds in the response to natural disasters and the Covid pandemic, reveal the misuse of public resources for private gain, in ways that exacerbate inequality and reduce access to critical services. Persistent issues in the governance of capital investment projects, including corruption in public procurement, prevent the creation of infrastructure essential for economic expansion. Limited-service provision and the inability to raise concerns or hold government officials accountable reduce public participation and oversight of government, resulting in low trust in government.

²⁵ It should be noted that Pakistan has benefited from an increase in FDI recently. From July 2024 to February 2025, Pakistan attracted \$1.618 billion in FDI, marking a 41 percent rise from the \$1.147 billion recorded during the same period in the previous fiscal year. (See OICCI, Pakistan's FDI Pulse, March 2025, <https://www.oicci.org/app/media/2025/04/FDI-Mar-25.pdf>).

²⁶ Pakistan scores 14.62 (out of 100) in WGI's Rule of Law index, which is substantial lower than the average score (32.89) of other lower-middle income countries. Available at: Worldwide Governance Indicators, 2024 Update, World Bank (www.govindicators.org).

²⁷ Malik, N. and Qureshi, T.A., 2021. A Study of Economic, Cultural, and Political Causes of Police Corruption in Pakistan. *Policing: A Journal of Policy and Practice* [Online], 15(2), pp.1446–1462.

²⁸ See Transparency International-Pakistan, National Corruption Perception Surveys (<https://transparency.org.pk/ncps/>).

²⁹ See Transparency International-Pakistan, Question 7, 2023 National Corruption Perception Survey (https://transparency.org.pk/NCPS_REPORTS/NCPS-2023/Survey-Result-NCPS-2023-TI-Pakistan.pdf). Also, Transparency International Pakistan (2025). *Civil Society Governance Diagnostic Assessment on Pakistan: An Overview of Governance, Transparency and Social Accountability Reforms for Economic Growth*. Karachi: Transparency International Pakistan.

B. Nature of Corruption

10. Corruption and corruption risks in Pakistan are complex and multi-faceted. Overall, governance risks arise from the economic role of the state, the scale of regulation, and the limited organizational capabilities of key institutions. Governance risks are exacerbated by limited transparency and access to information, and a range of accountability institutions that are unable to fulfill their functions, in part due to their history and legacy of politicization. Against this backdrop of expansive economic authority and limited legal and bureaucratic constraints, private firms are regularly required to pay bribes to stay in business. Obtaining a procurement contract, or payments for fulfilling a state contract or benefiting from subsidies, tax exemptions, or favorable court rulings, are closely associated with the provision of private agreements and side payments.³⁰ Similarly, citizens are regularly required to pay officials for access to services.³¹ At a higher level, official policies and practices have been shaped by economic and political elites to make use of public authority to enrich themselves at the cost of greater societal well-being and economic growth. The capture of judicial institutions³² and the lack of accountability for corrupt practices fosters corruption and the outflow of capital tied to the proceeds of corruption that might be more productively used in Pakistan.

11. The repercussions for corruption-related offenses are viewed as arbitrary and subject to negotiations among elite actors. The three primary anti-corruption agencies are NAB, the FIA, and the provincial Anti-Corruption Establishments (ACEs). They are viewed as having poor coordination. Some corruption investigations have been criticized as “politically motivated”,³³ with the Supreme Court previously characterizing accountability mechanism as “being employed as a tool for oppression and victimization of political opponents by those in power”.³⁴ According to the 2024 Ministry of Law and Justice Anti-Corruption Task Force, the sanctions for corruption are susceptible to political influence, leading to selective enforcement and interference in corruption investigations and prosecutions.

12. State domination of the economy presents a significant risk that governance weaknesses will crowd out private investment. The State dominates economic activity across a broad range of sectors.³⁵ The most direct economic activity is through federal SOEs, which had a combined output of 12 percent of GDP and combined assets valued at 48 percent of GDP in FY2020. The state’s role as the largest buyer in the economy, through public procurement and other forms of state contracting, expands its economic footprint. At the same time, state entities are enriched by public procurement rules that

³⁰ The World Bank Enterprise Survey reveals that at least 50 percent of firms have paid a bribe across various routine business transactions (<http://www.enterprisesurveys.org>).

³¹ Transparency International – Pakistan, National Corruption Perception Survey (December 9, 2023).

³² Capture of the judiciary is judged to be severe and one par with countries at much lower levels of economic development. See <https://governanceactionhub.org/exploraions/local-global-coordination-for-impact/state-capture-index/>

³³ Ministry of Law and Justice, Report of the Anti-Corruption Task Force on Review of Institutional Framework of Anti-Corruption in Pakistan (2024).

³⁴ Rafique v. National Accountability Bureau, Civil Petitions No. 2243—L ad 2986-L(March 17, 2020). See https://www.supremecourt.gov.pk/downloads_judgements/c.p._2243_l_2019.pdf.

³⁵ Nadeem Ul Haque and Raja Rafi Ullah, *Estimating the Footprint of Government on the Economy*, PIDE Working Paper no. 2020:26 (Islamabad: Pakistan Institute of Development Economics, 2020). See Haque and The Government share of regulated sectors varies from a high of 79 percent in mining to 43 percent in agriculture.

require that they be awarded contracts when they bid. The banking sector is dominated by credit to the state, accounting for over 60 percent of the total value of bank assets.³⁶ State regulation of the economy further expands government involvement and often leads to one arm of the state regulating (or trying to regulate) another state entity.³⁷ Access to financing is heavily tilted towards state-owned entities, with 80 percent of bank lending directed towards the government or SOEs.³⁸ Previous research has found that politically connected firms in Pakistan borrow 45 percent more and have a 50 percent higher default rate.³⁹ State domination extends to employment, where the state employs 72 percent of individuals with formal jobs.⁴⁰

13. Institutional weaknesses and lack of public scrutiny create space for public funds to be mismanaged. Frequent policy changes that have been triggered by often abrupt changes in government have contributed to an under-investment in institutional quality and capacity. Pakistan's institutions consistently perform poorly across a range of global indicators, regardless of whether the institution is involved in fiscal governance, market regulation, or enforcement of economic rights.⁴¹

14. Corruption vulnerabilities caused by institutional weaknesses are compounded by legal and organizational arrangements that create privileges and exemptions from accountability. For example, public procurement rules grant preferences to state-owned entities and charities.⁴² Preferences, such as these, serve to disrupt competition, are vulnerable to abuse, and increase the risk of corruption. The recently established Special Investment Facilitation Council, which has been vested with substantial authority to facilitate foreign investments, operates with untested transparency and accountability provisions.⁴³ The 2023 State-Owned Enterprise Law was intended to enhance governance and management, but key reforms for its effective implementation remain pending.⁴⁴ Moreover, while the law aimed to create a more standardized, rule-based framework for SOEs, this was undermined by the

³⁶ IMF, The Sovereign-Bank (-Central Bank) Nexus in Pakistan (October 10, 2024).

³⁷ Extensive research has demonstrated an increased risk of corruption associated with SOEs. While the precise risks associated with a particular state enterprise vary, the separation of managerial and state incentives invariably creates a range of governance challenges. In Pakistan, the governance of state-controlled enterprises is further complicated by the presence of multiple levels of government and the often-uncertain interactions between different state authorities, structures, and agencies.

³⁸ The 2022 World Bank Enterprise Surveys identify access to finance as the second biggest obstacle to business in Pakistan (14.8 percent of respondent firms).

³⁹ Sharma, S., Nayyar, G. and Kim, K.Y., 2019. Pakistan@100: Structural Transformation Policy Note [Online]. World Bank Group.

⁴⁰ World Bank, "Worldwide Bureaucracy Indicators," World Bank Data Catalog, last updated March 25, 2024 (<https://datacatalog.worldbank.org/search/dataset/0038132/Worldwide-Bureaucracy-Indicators>).

⁴¹ See World Bank Group, Pakistan @100: Governance and Institutions, Policy Note, March 2019. For an extensive discussion of institutional capacities and governance, see I. Husain, *Governing the Ungovernable: Institutional Reforms for Democratic Governance*, 2018.

⁴² Entities associated with the military and judiciary are subject to accountability systems operated by the military and judiciary respectively, while other state entities are subject to oversight by NAB.

⁴³ Sharma, S., Nayyar, G. and Kim, K.Y., 2019. Pakistan@100: Structural Transformation Policy Note [Online]. World Bank Group.

⁴⁴ World Bank, *Pakistan Federal Public Expenditure Review 2023* (Washington, DC: World Bank, 2023), (<https://openknowledge.worldbank.org/handle/10986/40114>).

creation of a Sovereign Wealth Fund initially granted special rights, though the Government has subsequently indicated its intention to apply the same rules to this entity.

15. Fiscal and economic governance vulnerabilities reflect a persistent gap between formal policy and actual practice, creating space for the misuse of public authority for private gain.

Parliamentary oversight of spending is weakened by substantial differences between approved budgets and actual expenditures.⁴⁵ For example, the National Assembly approved PRs 9.4 trillion in expenditure overruns in FY2024–25, five times higher than the previous year.⁴⁶ Constituency Development Funds under the direct control of legislators further skew capital investments and complicate oversight. Current arrangements for cash management, debt management, and the management of state financial and non-financial assets remain insufficient, providing officials with substantial discretion.

16. Broader economic governance is fragmented and constrained by weak institutional frameworks.

The absence of a clear tax policy and weak internal controls grant significant autonomy to tax officials, while overlapping responsibilities across coordinating bodies, such as the Economic Coordination Committee, the SECP, and the SIFC, limit parliamentary scrutiny and transparency in decision-making. Corporate governance, financial reporting, and disclosure standards are widely regarded as weak or poorly enforced, and judicial interventions frequently constrain the Competition Commission of Pakistan's enforcement actions. The absence of a policy to guide where and when the state regulates the economy, allows individual regulatory authorities significant opportunities to generate burdensome rules, while their role as both enforcer of regulations and adjudicator of regulator disputes insulates them from effective oversight.

17. Against this backdrop, individuals and industries vie for preferential treatment, resulting in market distortion, limited competition, and collusive arrangements.

Until recently, agricultural income has not been taxed, while real estate, manufacturing, and the energy sector continue to benefit from favorable taxation arrangements.⁴⁷ The revenue loss from such tax expenditures is substantial with the Government itself estimated costs at 4.61 percent of GDP in FY 2023.⁴⁸ This pattern of preferential treatment contributes significantly to Pakistan's low tax-to-GDP ratio and fiscal challenges.⁴⁹ The selective and arbitrary enforcement of laws and policies enables power forces to shape economic and decisions, and influence economic possibilities for both public and private parties.

18. A long history of control by a dominant economic elite over key sectors of the economy contributes to institutionalizing the politicization of the state.

Historically, the economic elite

⁴⁵ Fazeer Rahim et al, *Pakistan: Improving Budget Practices, Technical Assistance Report* (Washington, DC, IMF, Aug 2024)

⁴⁶ Transparency International Pakistan (2025), *Civil Society Governance Diagnostic Assessment on Pakistan: An Overview of Governance, Transparency and Social Accountability Reforms for Economic Growth*. Karachi.

⁴⁷ IMF. 2024. "Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility." IMF Country Report No. 24/310, Washington, DC. See also PriceWaterhouseCoopers, "Pakistan: Corporate - Tax Credits and Incentives," in *Worldwide Tax Summaries*, last reviewed December 18, 2024 (<https://taxsummaries.pwc.com/pakistan/corporate/tax-credits-and-incentives>).

⁴⁸ See Directorate General of Revenue Analysis, Federal Board of Revenue, Pakistan, *Tax Expenditure Report*, 2024.

⁴⁹ World Bank, *Strengthening Government Revenues: Reforms for a Brighter Future: A Discussion Note Series for Pakistan* (Washington, DC: World Bank, 2023)

consolidated power through their control over land, a legacy shaped by colonial policies that favored landowners.⁵⁰ Following independence, the continuation of these policies further entrenched elite control over land and broader economic activity.⁵¹ A 2020 UNDP report estimated that the "elite privilege" (access to subsidies, tax relief and lucrative state contracts) amounted to US\$4.7 billion (about US\$14 per person in the US) for the corporate sector alone, with another US\$1.7 billion.⁵² For example, a 2020 CCP inquiry found that cement manufacturers colluded to increase prices by PRs 45 to PRs 50 per bag, costing consumers PRs 40 billion, despite the companies benefiting from a 25 percent reduction in the federal excise duty.⁵³

19. The sugar sector provides a case study of how the intertwined relationship between economic elites and state regulators combine to capture public benefits at deep costs to the overall public.⁵⁴ Firms in the sugar sector benefited from favorable government policies, subsidies, and regulatory loopholes for decades, mainly due to the nexus between industry magnates and political leaders.⁵⁵ Sugar mill owners, many of whom hold government positions, have ensured highly 'recommended' prices for sugarcane and protective tariffs, keeping their operations profitable at the expense of competitiveness.⁵⁶ They have also influenced export and pricing policies to their advantage. In 2018–19, a government decision allowed significant sugar exports, even subsidizing them, which created domestic shortages and price spikes for consumers.⁵⁷ A high-profile investigation, led by the FIA, found that leading sugar mill owners colluded to create artificial shortages and manipulate prices despite ample warehouse stocks. It uncovered fraudulent practices, including speculative hoarding and the laundering of illicit profits through fake accounts. The inquiry's report named political heavyweights as culprits and confirmed that an export push (approved by government officials tied to the industry) had caused domestic prices to soar.⁵⁸ Despite damning revelations, accountability has been limited. Occasional crackdowns (e.g., arrests of brokers or new regulations) have occurred, but the cartel remains.⁵⁹

⁵⁰ Imran Ali, *The Punjab Under Imperialism, 1885–1947* (Princeton, NJ: Princeton University Press, 1988); Hassan Javid, "Class, Power, and Patronage: Landowners and Politics in Punjab," *History and Anthropology* 22, no. 3 (2011): 337–369

⁵¹ T. R. Metcalf, *Land, Landlords, and the British Raj: Northern India in the Nineteenth Century* (Berkeley: University of California Press, 1979); Adeel Malik and Tahir Malik, "Pirs and Politics in Punjab 1937 to 2013," *Commonwealth & Comparative Politics* 55, no. 2 (2017): 180–201; Ali Cheema, Asim I. Khawaja, and A. Qadir, "Local Government Reform in Pakistan: Context, Content and Causes," in *Decentralization and Local Governance in Developing Countries: A Comparative Perspective*, ed. Pranab K. Bardhan and Dilip Mookherjee (Cambridge: MIT Press, 2006), 257–384

⁵² BTI 2024 Country Report Pakistan (Gütersloh: Bertelsmann Stiftung, 2024). p.20

⁵³ CCP, Enquiry Report: IN the Matter of Alleged Violation of the Competition Act, 2010 by All Pakistan Cement Manufacturers Associations and Its Member Undertakings (December 15, 2020).

⁵⁴ CCP, Competition Assessment Study on the Sugar Sector in Pakistan (2010) (https://cc.gov.pk/assets/images/Downloads/assessment_studies/sugar_report.pdf).

⁵⁵ Sharma, S., Nayyar, G. and Kim, K.Y., 2019. Pakistan@100: Structural Transformation Policy Note [Online]. World Bank Group.; Khwaja, Asim Ijaz, and Atif Mian. 'Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market'. *The Quarterly Journal of Economics* 120, no. 4 (2005): 1371–1411. (<https://doi.org/10.1162/003355305775097524>).

⁵⁶ Sayeed, Khalid B. *Politics in Pakistan: The Nature and Direction of Change*. New York: Praeger Publishers, 1980.

⁵⁷ Javid, Hassan. 'Class, Power, and Patronage: Landowners and Politics in Punjab'. *History and Anthropology* 22, No. 3 (September 2011): 337–69 (<https://doi.org/10.1080/02757206.2011.595006>).

⁵⁸ Pakistan, Prime Minister's Office, Institutional Reforms Cell, INSTITUTIONAL REFORMS IN THE FEDERAL GOVERNMENT AUGUST 2018–AUGUST 2021 VOLUME-I (Islamabad: Government of Pakistan, 2021).

⁵⁹ Kaplan, Seth. 'Power and Politics in Pakistan', 2013.

20. The intermingling of political and economic interests has resulted in the development of dysfunctional institutions that are susceptible to corruption. While corruption can happen through individual acts, corruption has the most significant consequences when it encompasses control over entire markets, when the power of the state is captured, and policies and laws are designed to benefit specific groups and individuals. Termed “state capture”, in such situations, corruption no longer operates as a distortion of governance but as the foundation of governance, corruption has de jure become legalized, disempowering citizens and concentrating power in a small elite. It is the de jure institutionalization of benefits to a limited group that constrains Pakistan's economic and social development.

C. Evolving Dynamics

21. Shifting demographics and disruptive communication technologies are changing public tolerance for corruption. Over 60 percent of the country's 247 million population are below the age of 30, increasingly urbanized, and active on social media (Pakistan recently reached over 200 million telecom subscribers nationwide⁶⁰). This emerging demographic is less deferential to, and more skeptical of, government institutions.⁶¹ Young people are increasingly likely to vote. These changing dynamics are focusing attention on service delivery, how services are delivered, and who has access to them. Politicians are recognizing that addressing corruption is crucial to addressing citizens' concerns for better service delivery.

22. The Federal Government of Pakistan has taken steps to address long-standing structural challenges and vulnerabilities that perpetuate corruption. In 2023 and 2024, the Federal Government established a committee to reduce its footprint in line with the 18th Constitutional Amendment,⁶² addressing overlapping mandates and improving government efficiency. Key areas for focus have been on separating policy, operational, and regulatory functions, reducing hierarchical tiers (aiming for three layers), and streamlining attached departments and autonomous bodies.⁶³ The efforts to “right size” the Government have the potential to reduce the state's economic and regulatory footprint, which is essential to reducing corruption vulnerabilities.

23. Efforts to improve government efficiency and improve service delivery through digitization carry significant potential to further reduce the scope of corruption. There are several important examples of how the digitalization of services creates opportunities to improve accountability, enhance

⁶⁰ Pakistan Telecommunication Authority, PTA Celebrates Landmark Achievement: Pakistan Surpasses 200 Million Telecom Subscribers (Press Release, June 19, 2025).

⁶¹ Haris Gazdar, “The Fourth Round, and Why They Fight On: An Essay on the History of Land and Reform in Pakistan” (working paper, PANOS South Asia and Collective for Social Science Research, Karachi, 2009).; Amjad Noorani and Nadeem Hussain, *Agents of Change: The Problematic Landscape of Pakistan's K-12 Education and the People Leading the Change* (Oxford, UK: Oxford University Press, 2021).; Malik, Adeel, and Maya Tudor. ‘Pakistan's Coming Crisis’. *Journal of Democracy* 35, no. 3 (July 2024): 69–83 (<https://doi.org/10.1353/jod.2024.a930428>). Turnout for 18-to-29-year-olds was 48 percent in 2024, up from 26 percent in 2013, and less likely to vote based on patronage or traditional kinship (64 percent of voters in 2024 reported that they voted outside of their kinship group (biraderi). Only 16 percent said their vote was primarily based on patronage, an 8 percent drop from 2018).

⁶² IMF. 2024. “Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility.” IMF Country Report No. 24/310, Washington, DC.

⁶³ Pakistan, Prime Minister's Office, Institutional Reforms Cell, INSTITUTIONAL REFORMS IN THE FEDERAL GOVERNMENT AUGUST 2018-AUGUST 2021 VOLUME-I (Islamabad: Government of Pakistan, 2021), p. 13-14, 14.

efficiency, and reduce the possibility of petty corruption. For example, the National Database and Registration Authority's digital ID system significantly contributed to citizens' access to social protection programs, improved financial inclusion, and reduced misuse of government services. The Pakistan Citizens' Portal (PCP), launched in 2018, allows citizens to lodge complaints and provide feedback on government services.⁶⁴ While the digitization of land records is making progress in reducing petty corruption in land management.⁶⁵ The e-Pakistan Acquisition and Disposal System (e-PADS) for public procurement was launched in 2023 and continues to expand. A 5-year plan for the digitization of Public Service Delivery is mandated to automate processes for essential public services, thereby minimizing discretionary powers and abuse of authority. This also includes upgrading the Accountant General Pakistan Revenues (AGPR)'s SAP system and directing the FBR to enforce uniform tax credit adjustments.⁶⁶ More broadly, social media has disrupted control over political narratives in Pakistan, complemented by the rise of issue-based voting patterns that focus more on service delivery. As parties have communicated directly with voters through platforms like Facebook, WhatsApp, and TikTok, this shift has occurred.⁶⁷

24. Progress in addressing corruption and building integrity will require deepening and broadening existing efforts to address the technical and structural issues that are at the root of the problem. Experience from other countries demonstrates the possibility of improving governance, integrity, and performance in the short and long-term through concerted anti-corruption efforts involving public and private actors. The remainder of this report identifies key governance weaknesses, proposes concrete improvements, and sketches a transitional pathway to better governance, enhanced trust, and prosperity.

⁶⁴ Pakistan, Prime Minister's Office, Institutional Reforms Cell, INSTITUTIONAL REFORMS IN THE FEDERAL GOVERNMENT AUGUST 2018-AUGUST 2021 VOLUME-I (Islamabad: Government of Pakistan, 2021), page 297, ¶14.

⁶⁵ Ali Abbas et al., "Property Tax Utilization and Equity in Punjab: Policy Challenges and Reform Options" (draft, December 2022).

⁶⁶ Pakistan, Prime Minister's Office, Institutional Reforms Cell, INSTITUTIONAL REFORMS IN THE FEDERAL GOVERNMENT AUGUST 2018-AUGUST 2021 VOLUME-I (Islamabad: Government of Pakistan, 2021).

⁶⁷ Nicolas Martin, *Politics, Landlords and Islam in Pakistan*, Exploring the Political in South Asia (New York: Routledge, 2016).

Section II. Fiscal Governance (Revenue Mobilization and Public Financial Management)

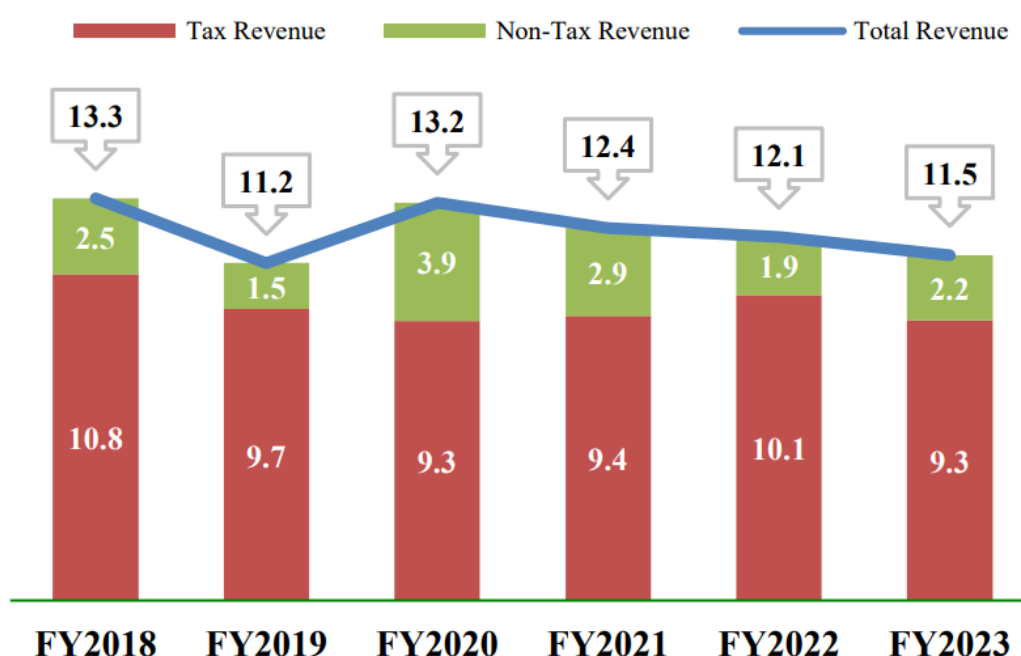
25. This section discusses key governance weaknesses associated with elevated risks of corruption in the area of fiscal governance. The policies, practices, and institutions involved in collecting, budgeting, spending, and accounting for public financial resources are critical to the effective functioning of the state and to the interactions between state and non-state actors. This section focuses on governance weaknesses linked to elevated corruption risks in tax policy, tax and customs administration, and public financial management. While there is particular urgency in addressing these risks, it is important for the recommendations to be placed in the context of improving overall fiscal governance, which is a broader reform agenda.

I. Revenue Mobilization

A. Revenue Mobilization

26. The authorities have committed to revenue mobilization to address the low tax-to-GDP ratio, with a focus on broadening the tax base. Pakistan's tax-to-GDP remains stubbornly low at around 10 percent of GDP over the past 5 years (Figure 3). This is despite tax policy and tax administration reforms undertaken in the context of IMF-supported economic programs. The current EFF Program includes further proposed tax policy and administration reforms to broaden the tax base and to improve revenue collections.

Figure 3. Pakistan: Revenues as a Percentage of GDP, FY2018-FY2023



Source: Ministry of Finance, *Pakistan Economic Survey 2023-24*

27. Revenue mobilization efforts are hindered by governance weaknesses in tax policy and tax administration that jeopardize the productivity and efficiency of the tax system. These weaknesses relate to the design of the tax system, especially its complexity, and the inability to effectively monitor the tax administration and provide effective deterrents to corruption. These weaknesses and potential reforms to address these weaknesses are discussed below.

B. Tax Policy

28. The goal of tax policy is to design a tax system that raises revenue to meet the government's spending needs in a way that is economically efficient, equitable, and relatively simple. Tax policy includes developing a policy on the appropriate tax approach to a particular issue, overseeing the policy's inclusion in the law, and monitoring it to determine if adjustments need to be made to ensure it meets its objectives, including its revenue objectives. In Pakistan most tax policy reform is initiated within FBR, but tax policy reform proposals also come from the Ministry of Finance and from other government agencies, especially those seeking tax incentives. Tax policy making has also been largely reactionary, mostly responding to short-term revenue needs or sectoral demands. Well-developed tax policy will objectively assess whether a proposed reform is efficient, equitable and able to be complied with and administered, and preserves the coherence of the overall tax system in support of the country's medium-term development goals. However, the policy making process in Pakistan is open to undue influence, rent-seeking behavior, and even corruption, as particular individuals, firms or sectors seek preferential treatment in the development of the policy, its inclusion in the law or its implementation.

29. The tax system in Pakistan is excessively complex, which creates uncertainty for taxpayers, invites disputes, enables corruption and compromises economic efficiency and equity. This complexity leads to uncertainties for taxpayers and FBR, but also provides opportunities for tax planning and evasion. The uncertain tax laws lead to disputes between taxpayers and the FBR that can be difficult to resolve due to the complexity of the laws and the difficulty in obtaining timely judicial review. Disputes are often settled through negotiation with FBR officers. These negotiated settlements increase corruption risks and also lead to potential inequities due to the likely differences in treatment between taxpayers. The complexity of the tax laws and their administration also creates an unfavorable environment for businesses, which has negative impacts on the economy and economic efficiency and is a likely deterrent to foreign investors.

30. One reason for the complexity of the tax system is the ad hoc short-term changes to the tax laws, which often appear to be driven by FBR to address weaknesses in tax administration and tax compliance. The basic design of the income tax law as a schedular tax,⁶⁸ for instance, is complicated by additional taxes such as minimum taxes on turnover, transaction-based minimum taxes, the alternate corporate tax, various withholding and advance taxes,⁶⁹ and the small and medium enterprise regime. This

⁶⁸ A schedular tax system imposes taxes on different sources of income at different tax rates. For example, for individual taxpayers salary and wage income is taxed at progressive tax rates while passive income (e.g., dividends and interest) and capital gains are taxed at a single tax rate.

⁶⁹ The increased reliance on withholding and advance taxes in the income tax further complicates compliance efforts; for instance, not only does most (almost 85 percent) of the revenue shortfall from irregularities identified by the Auditor-General relate to income tax, more than 10 percent of that shortfall relates to irregularities with withholding tax compliance; Audit Report on The Accounts of the Federal Board of Revenue (Inland Revenue & Customs) Audit Year 2023-24.

patchwork of taxes, which seem to be continually expanded, are usually targeted at protecting tax collections as FBR faces difficulties in collecting or enforcing the standard tax regime in the face of high levels of informality and non-compliance. However, these taxes are often a crude approximation of the correct tax due under the standard income tax regime and can result in significant underpayment or overpayment of tax; especially in the latter case if adjustments are not made and refunds not paid, which can even result in double taxation. This creates significant distortions in the economy and affects tax morale, with incentives for taxpayers to understate the value of transactions and/or to negotiate with FBR officers, again opening the door for corruption. One reason FBR can initiate these reforms is because the tax policy function effectively sits within FBR.

31. FBR makes ample use of its rule making powers through Statutory Regulatory Orders (SROs), which further complicates the tax system. SROs are government regulations issued under powers delegated to the agency under the law. It is common practice for tax agencies to be vested with delegated regulatory authority to manage the administration of the tax system. FBR makes ample use of its SRO powers, usually to establish procedures to implement and administer the law, but they have also related to the granting of certain exemptions in particular in relation to import taxes. In the 2024 calendar year, there were 168 SROs issued by FBR (see **Table 2**, although none of these related to exemptions). These SROs not only lead to more complexity,⁷⁰ but where they relate to ad hoc exemptions granted by the government (for instance, to respond to emergencies) implementation by FBR creates opportunities for rent-seeking and preferential treatment, including corruption. The Auditor-General has also identified that in the case of customs exemptions, the granting of the exemptions lacks transparency, and some are outside what is permitted under the law.⁷¹ While it is not unusual for tax administrations to be given power to make rulings to clarify the law or to address administrative procedures, any discretion in particular in particular relating to policy changes such as granting of exemptions should be avoided.

Table 2. Pakistan FBR Statutory Regulatory Orders, 2020-2025

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|------------|-----------|-----------|-----------|-----------|------|
| Income Tax | 56 | 41 | 100 | 25 | 80 |
| Sales Tax | 33 | 43 | 23 | 14 | 20 |
| Customs | 53 | 63 | 95 | 80 | 65 |
| Excises | 2 | 3 | 3 | 3 | 3 |
| Total | 144 | 150 | 221 | 122 | 168 |

Source: FBR

Note : A list of all FBR SROs are available on the FBR website.

32. A further erosion of the tax system is the range of tax preferences, which are not well monitored and are likely being abused, although the authorities have committed to reform of tax incentives. Substantial progress was made during the previous EFF program in rationalizing tax expenditures, with an estimated revenue impact of the reforms of 1.1 percent of GDP. Under the current EFF, the authorities have committed to not introduce any new preferential tax treatments and will develop

⁷⁰ Prior IMF advice has recommended introducing a tax administration and procedures act to codify and harmonize powers and procedures applicable to all taxes and duties administered by FBR (Verhoeven et al., *Pakistan: Tax Policy Diagnostic and Reform Options*. IMF TA Report. April 2024). Implementing this recommendation would be an opportunity to also streamline existing SROs and reduce the proliferation of new ones going forward.

⁷¹ Audit Report on The Accounts of the Federal Board of Revenue (Inland Revenue & Customs) Audit Year 2021-22, Auditor-General Pakistan.

a plan to phase out all Special Economic Zone (SEZ) tax incentives by 2035. While these reforms are positive, there is still potential for discretionary exemptions to be granted by FBR or Cabinet. There is also evidence that some exemptions are not well monitored and therefore are abused. For example, the Auditor-General has identified a lack of monitoring of non-profit organizations entitled to tax credits with many not being registered as required under the law.⁷²

33. The tax system is also complicated by the lack of harmonization and coordination between Federal and provincial taxes. The authorities are making progress in harmonizing the tax rates and tax base for the agricultural income tax, which is a provincial tax. However, the lack of harmonization and coordination of the sales tax, with the Federal tax on goods and the provincial taxes on services, continues to complicate the tax system. As with other complexities in the tax system, the uncertainty and differences of treatment leads to disputes that may be settled through negotiation with tax officers, providing opportunities for corruption. The National Tax Council continues to work on harmonization with assistance from the World Bank, but progress is slow. There is also scope for some harmonization of taxes on immovable property, which are provincial taxes.

34. The concerns outlined above are exacerbated by the absence of a clear and coherent medium-term strategy for tax policy making. The absence of such a strategy leads to the ad hoc short-term approach to tax policy design. While the authorities may set a short- or medium-term tax-to-GDP goal, there is no coherent 3-to-5 year tax reform strategy that seeks to meet the usual tax reform objectives of making the system more efficient, equitable, and simpler, while also increasing revenue. The Government's experience with implementing a five-year National Tariff Policy can serve as useful inspiration in this respect.

C. Recommendations

35. As a first step towards tax policy reform, the authorities should complete the establishment of a fully functioning Tax Policy Office (TPO) in the MoF as soon as possible. The MoF, with the assistance of FBR has taken positive steps to establish the TPO. The formation of the TPO has been approved by Cabinet, and the MoF is currently in the process of recruiting key management positions. It is important that once the management positions are filled, enough skilled staff are promptly recruited to make the TPO fully functional. This may necessitate moving some staff from FBR to the TPO, such as those currently undertaking revenue analysis. While the staffing process may take some time, it should be close to fully functioning by the end of 2025.

36. The MoF should ensure that the TPO is the gatekeeper for tax policy initiatives that are proposed to the Minister/Cabinet, irrespective of the source of the initiative. All requests for tax policy reforms, no matter the size or significance of the reform, or the source of the request (for instance, private sector, FBR, other government departments, politicians) should first come to the TPO for review and recommendation to the Minister of Finance and Cabinet. The TPO should advise on the likely impact on revenue, the economy, the wider tax system and tax administration—the latter based on advice from FBR. A well-functioning TPO should provide 'independent advice' to the government on tax policy, including taking account of the broader macro-fiscal consequences of tax reforms.

⁷² Audit Report on The Accounts of the Federal Board of Revenue (Inland Revenue & Customs) Audit Year 2023-24, Auditor-General Pakistan.

37. To ensure the TPO's gatekeeper role, there needs to be a clear separation of the tax policy function from FBR, at the same time ensuring that there is close collaboration. While the core tax policy functions will be shifted from FBR to the TPO, some related functions such as legal drafting have not been clearly reassigned. The tax policy role of the FBR's International Centre of Technical Excellence (ICTE) is also unclear. While the Law and Justice Division of the Ministry of Law and Justice has final responsibility for drafting, the TPO should advise on the content of the proposed tax amendments and review and prepare any documents explaining those amendments, even preparation of initial drafts remains with FBR. The TPO should also take the lead in setting tax treaty policy and participating in tax treaty negotiations, again where needed with input or participation from FBR in particular where tax administration issues are salient. While the ICTE may have a role in training and research—in particular on tax administration matters—it should avoid designing tax policy to avoid fragmentation of the tax policy function. In developing the TPO, it is important to avoid form over substance—that is, having a TPO on paper but nothing much changes so that FBR continues to control the policy process. While clear separation of functions is essential, it does not diminish the need to establish clear protocols for close collaboration between the TPO and FBR on tax policy design and implementation.

38. The complexity of the tax system should be addressed by developing a medium-term tax reform strategy that includes steps to simplify the tax system. This strategy should cover a 3-to-5 year period and be linked to the broader fiscal framework with clear revenue raising goals. The strategy should include clear plans aimed at reducing rate schedules, special regimes, excessive withholding and advance taxes, rationalizing tax exemptions and scaling back FBR's rulemaking power. It should also include plans for further harmonization of Federal and provincial taxes, in which the National Tax Council should play a key role. Any future changes to the tax law should be consistent with the tax reform plan to prevent ad hoc changes to the tax law.

39. Given the importance of addressing tax complexity, the TPO should develop a tax simplification strategy with the goal of publishing the strategy by May 2026. The strategy should also include a timetable, preferably covering the medium term, for the various tax reforms and an annual report on implementation progress. The strategy should be developed in consultation with key stakeholders such as the affected Federal government agencies, provincial governments and the private sector.

40. A key element of the simplification strategy will be the ongoing rationalization of tax exemptions, which should be supported by the reporting and evaluation of existing tax expenditures. As mentioned previously, the authorities are taking steps to reduce reliance on tax exemptions and special regimes. This process—key in simplifying the tax system—should continue as a priority, ensuring no additional tax exemptions are granted, and removing any discretionary tax exemption powers granted to the FBR. The authorities also produce a Tax Expenditure Statement that estimates the revenue forgone. This statement is important for transparency but could be improved by including a cost/benefit assessment of the tax incentives, at least the most significant (e.g., by economic, policy design or political importance).

| Table 3. Recommendations on Tax Policy | | | |
|---|----------------------------|---|--------------------------|
| Recommended Action | Responsible Authority | Objective | Timeline |
| 1. Complete the establishment of the Tax Policy Office (TPO) ensuring a clear separation of tax policy functions from FBR. | Ministry of Finance | Ensure a well-developed tax policy function separate from FBR | ST |
| 2. Publish a medium-term tax simplification strategy that reduces rates schedules, special regimes, excessive withholding and advance taxes, rationalizes tax exemptions and scales back rule-making power. | TPO Ministry of Finance | Simplify the tax system reducing complexity and limiting opportunities for corruption | MT |
| 3. Provide an annual report on the implementation of the tax simplification strategy. | Ministry of Finance | Ensure that the proposed strategy is being implemented | ST (ongoing annually) |
| 4. Expand the coverage of the annual Tax Expenditure Statement to include assessment of the costs and benefits of the most significant tax expenditures. | Ministry of Finance | Improve the transparency of the tax system and enable evaluation of tax expenditures | ST (ongoing annually) |

II. Revenue Administration

41. A well-performing modern revenue administration is efficient, transparent, and taxpayer-centric, leveraging technology and data to ensure compliance and trust. It features robust digital infrastructure for seamless filing and payment, advanced data analytics for risk-based audits, and real-time information sharing across agencies. Strong legal frameworks support enforcement while protecting taxpayer rights. It emphasizes taxpayer education, responsive service delivery, and simplified procedures to reduce compliance costs. Continuous innovation, staff training, and international cooperation further enhance its adaptability and effectiveness in a dynamic economic environment. Integrity is essential to maintain public confidence, ensure fairness, and prevent corruption within the tax system.

42. This section discusses key governance weaknesses in revenue administration. Building on the context the FBR operates, weaknesses are analyzed from the following aspects: organizational design, accountability and transparency, human resource and internal affairs, risk culture, and tax and customs operations.

A. Introduction

43. Pakistan's low tax morale and substantial vulnerability for corruption creates a challenging operating environment for the Federal Board of Revenue (FBR). These structural and operational challenges constrain its ability to function as a modern and effective institution. Key challenges include:

- **A narrow and underperforming tax base**, which requires significant expansion through better oversight, formalization of the informal economy, and improved taxpayer registration and compliance.
- **Significant vulnerabilities in accountability and transparency**, including limited internal controls and internal audit with no structural follow up on findings. External oversight does not include IT system audit, which is needed for assurance on data security and performance of FBR's IT systems. FBR's oversight over Pakistan Revenue Automation Limited (PRAL) activities need to be strengthened.
- **The absence of an effective internal affairs function hinders an effective and efficient approach to corruption issues.** There are many options to report suspected corruption, using different rules for investigation. There is no comprehensive oversight of all reported cases and how this is followed up. Criminal prosecution of corruption cases is *de facto* absent.
- **The absence of a strong risk culture.** The FBR is largely focused on short term collection of revenues, and has only put limited effort in raising awareness of risks and potential threats, and stimulating ethical behavior. There is no independent risk committee, and no comprehensive risk register to guide strategic oversight.

44. The amount of lost revenues is substantial. The FBR estimates in its 2024 tax gap report a total tax gap of PRs 3.4 trillion, approximately 3.9 percent of GDP.⁷³ Corruption is one of the contributors to the tax gap, though other factors also play a role.

B. Context

45. The FBR administers federal taxes, excises and customs duties under the Ministry of Finance. Established under the Federal Board of Revenue Act, 2007,⁷⁴ FBR formulates and implements tax policies, collects federal taxes, and ensures compliance with federal tax laws. FBR administers various taxes and duties, including Personal and Corporate Income tax, Goods and Sales Tax (GST) on goods,⁷⁵ and 88 categories of Withholding Taxes.

46. FBR has implemented a variety of measures to enhance tax compliance and reduce tax evasion. Significant progress has been made with the implementation of faceless valuation and assessment in customs, e-invoicing, e-payment, Point of Sales systems, and video monitoring in sectors prone to tax evasion. Additionally, the rollout of Compliance Risk Management (CRM) in Large Taxpayer Units (LTUs) has been advanced, along with increased control of fake invoices in GST. The transformation plan for FBR, introduced in 2024, aims to further improve tax compliance and reduce evasion through innovative strategies, which include the expansion of Track and Trace systems to various industries, reform of the Appellate Tribunal Inland Revenue (ATIR), and further integration of customs, regulatory authorities, banks, and logistics providers for seamless trade facilitation in Pakistan Single Window (PSW). However,

⁷³ The estimated tax gap is based on information from a newspaper article. The tax gap report was not shared with the mission team.

⁷⁴ SRO 1064/2007 (<https://download1.fbr.gov.pk/Docs/2011113111259609FBRActN.pdf>).

⁷⁵ GST on services is collected by Pakistan's provincial tax authorities.

the measures can only be impactful when they are embedded in FBR's operations and staff have been adequately trained.⁷⁶

47. Each province has its own tax authorities responsible for provincial taxes. These authorities are structured into two entities: a Revenue Authority and a Revenue Board, which levy and collect provincial taxes and excises, including Agricultural Income Tax (AIT) and GST on services. Memoranda of Understanding (MoUs) exist to facilitate the exchange of information between provincial authorities and the FBR. However, these MoUs are often perceived as ineffective due to various issues such as incompatibility of data formats, allocation of taxpayers to different provincial tax authorities, and a limited willingness to cooperate. These challenges result in risks of lost revenues for both the FBR and the provinces. While the National Tax Council⁷⁷ has been established to address these issues and is functioning well at a strategic level, its impact on operational activities remains limited.

C. Organizational Design

48. A well-designed organizational structure is fundamental to good governance. It enables accountability and transparency through clear roles, responsibilities, and reporting lines. It enhances strategic decision-making, operational efficiency, risk management, and the consistent delivery of taxpayer services.

49. FBR's operations are overseen by an executive board. All 11 members report to the chairman. Headquarters (HQ) functions are strengthened by a range of cross-cutting Directorate Generals (DG), such as the DGs Intelligence and Investigation (I&I) Customs and Inland Revenue, and DG Broadening the tax base. A Policy Board, comprising national assembly and senate members, serves as an advisory board. There are no formal executive committees with oversight of a specific strategic area such as Internal Audit or Compliance Risk Management.⁷⁸

50. The FBR structure requires robust oversight and coordination from HQ. HQ oversees daily operations of over 30 tax and customs field offices. Field offices report to the Member Operations Inland Revenue, and Member Operations Customs. Derived from the FBR Act, field offices possess substantial autonomy in decision-making at the taxpayer level which has the potential to generate a wide range of operational risks in the absence of strong systems for monitoring and accountability from HQ. Without mechanisms for integrated oversight and performance evaluation, the organization lacks the ability and agility to respond to systemic issues or emerging risks. The existing fragmented setup encourages siloed decision-making, which can lead to inconsistent enforcement and undermine taxpayer

⁷⁶ The FBR has extensive plans to strengthen governance and reduce corruption vulnerabilities, including revised job descriptions, staff rotation, the establishment of a Central Control Unit, enhanced staff monitoring, upgrades to the internal audit function, the merging of internal affairs units, and efforts to reinforce both risk culture and compliance risk management. .

⁷⁷ Finance Division, Notification dated March 20, 2020 (https://www.finance.gov.pk/notifications/F_1_10-NFC_I_20032020.pdf).

⁷⁸ It is international good practice to establish formal executive committees. the executive committees, composed of a small number of the most senior executives and chaired by the head of the tax administration, should focus on the most important issues facing the tax administration, such as Operations, CRM, Human Resources (HR), Reform Management, Risks and Assurance, and Internal audit.

trust. Over time, this weakens institutional credibility and jeopardizes sustainable revenue generation. See **Figure 4** at the end of this section for FBR's organizational structure.

Reporting arrangements within the FBR are predominantly focused on revenue collection. However, this focus is too narrow to identify the underlying weaknesses in FBR's overall performance. For instance, failing to process GST or Income Tax refunds negatively impacts tax compliance and indicates poor performance by the FBR, even though revenue figures may appear favorable.⁷⁹

D. Accountability and Transparency

51. A revenue administration's system of governance and control is underpinned by four interrelated mechanisms - self-control, internal control, internal audit, and external audit. Each plays a distinct yet complementary role in supporting integrity, transparency, and operational efficiency. Understanding and effectively implementing these mechanisms is essential for the governance of a tax administration, ensuring its integrity, efficiency, and accountability:

- a. Self-Control refers to the ability of individuals to regulate their actions and behaviors in alignment with the organization's goals and ethical standards, thereby minimizing errors and fraud.
- b. Internal Control encompasses the processes and systems established to ensure the integrity of financial and operational reporting, compliance with laws and regulations, and efficient operations. It helps prevent misreporting and ensures accurate revenue collection. Internal control includes policies, procedures, and systems used by the tax administration to protect financial and accounting systems from error and fraud, safeguard physical assets and records, ensure compliance with laws and regulations, and enhance the efficiency and effectiveness of operations.
- c. Internal Audit focuses on evaluating and improving the effectiveness of risk management, control, and governance processes within the organization. Internal auditors review systems and operations to assess how well operational risks are managed, whether appropriate processes are in place, and if formal procedures are followed. The internal audit function operates independently and reports directly to the leader of the revenue administration.
- d. External Audit, conducted by independent auditors (e.g., the Auditor General), evaluates the organization's financial statements and compliance with laws and regulations. In the context of revenue administration, external audits provide assurance to stakeholders regarding the accuracy of financial reporting and the effectiveness of internal controls.

52. The FBR recognizes internal controls as essential for achieving its strategic goals and ensuring sound governance. To ensure robust internal control, the FBR has established two dedicated departments: the Directorate General of Internal Audit Inland Revenue (DGI AIR) and the Directorate General of Internal Audit Customs (DGI AC), both of which report to the Member Operational Audit. These departments are responsible for carrying out key activities, including: (i) Inspections, to ensure quality control and the implementation of FBR policies, (ii) Internal Audit: verifying the correct application of laws and rules, and (iii) Internal Audit of Expenditures: auditing the expenditures of Inland Revenue and Customs offices.

⁷⁹ In this context, FBR's recent initiative to grant its field offices autonomy in taking enforcement actions against taxpayers to meet revenue collection targets for April and May 2025 should be approached with caution. While this may yield short-term gains, it could potentially have a negative multiplier effect on long-term revenue sustainability.

53. Despite the above, FBR's internal control and internal audit systems remain insufficient. The activities conducted by the DGIAIR and DGIAC are largely focused on quality assurance and internal control, rather than fulfilling the role of true internal audit. While the 2023-24 Annual Report presents data on the number of activities undertaken, identified revenue leakages, retrieved amounts, and focus areas, it does not include an evaluation of FBR's internal processes and procedures. Although special inspection reports highlight high-risk areas in terms of potential revenue loss and inform Compliance Risk Management (CRM), they lack analysis of root causes and do not provide actionable recommendations to strengthen internal procedures and prevent recurrence.

54. The Auditor-General of Pakistan (AG) is FBR's external auditor. The AG's financial audits (regularity audits) evaluate annually the accuracy of financial statements. The AG also performs impact audits to assess the effectiveness of technological interventions and thematic audits on specific issues,⁸⁰ and examines the internal controls of the FBR to identify vulnerabilities and areas for improvement, aiming to enhance the overall integrity of the revenue system.

55. The AG has expressed concerns about FBR's internal audit, internal controls, and follow-up actions. Section III – F below on external audit elaborates on the AG's findings in general. The AG 2023-24 audit report on FBR identified several systemic weaknesses, including:⁸¹

- FBR's weak internal controls for monitoring tax evasion and collection, highlighting a continuous need to review and streamline these mechanisms.
- Thematic audits findings identified serious concerns related to fairness, accountability, and non-monitoring of critical transactions.
- Concerns about the FBR's follow-up on the Standing Committee on Public Accounts (PAC) directives, concluding that the FBR's compliance with PAC directives was only 4.7 percent over the last five years, reflecting a lack of seriousness on the part of the FBR in addressing PAC directives.⁸²

56. The AG does not conduct Information Systems Audits (ISAs). Although these audits fall under the AG's mandate, no ISAs have been performed on FBR's IT systems. The AG reported that FBR did not grant access taxpayer data (which is not needed to undertake an ISA).⁸³ This is concerning, as the FBR has classified taxpayer data as critical infrastructure under the Prevention of Electronic Crimes Act (PECA) 2016, thereby acknowledging the importance of data security. External assurance that data security is under control is a critical requirement.

⁸⁰ For FY 2023-24, an impact audit on fully automated sales tax E-refund, and thematic audits of Afghanistan-Pakistan transit trade, and tax expenditures.

⁸¹ AGP, Audit Report on The Accounts of Federal Board of Revenue (Inland Revenue & Customs), Audit year 2023-24 (<https://agp.gov.pk/Sitelmage/Policy/Audit%20Report%20on%20accounts%20of%20federal%20board%20of%20revenue%202023-24.pdf>).

⁸² The AG finds this alarming as his audit observations involving substantial revenue have been piling up year after year, with diminishing chances of revenue recovery over time. The AG also mentioned that the FBR's Key Performance Indicator is limited to the timely communication of PAC directives by the Board to field formations and lacks active follow-up.

⁸³ Article 216-3-d of the Income Tax Ordinance covers disclosure of information to the AG.

57. Pakistan Revenue Automation LTD (PRAL) is a critical entity responsible for managing the IT infrastructure of the FBR. PRAL was established to support the modernization and automation of the tax administration system in Pakistan. It serves as the technology arm of FBR, handling taxpayers' data and facilitating compliance with tax laws. PRAL manages FBR's IT and data infrastructure and actively contributes to improving FBR's performance and revenue mobilization. PRAL also provides IT services to the four provincial tax authorities and serves as a key link with users of taxpayer data, such as the Directorate General of Immigration and Passports and the Small and Medium Enterprises Development Authority. Following the requirements of the SOE Act, PRAL operates independently with an autonomous board (with FBR holding one seat). The SOE status allows PRAL to recruit qualified staff at market-competitive salaries or hire third parties for outsourcing specific activities.

58. PRAL's current oversight systems and risk culture need significant strengthening. Currently, PRAL lacks a systematic overview of potential data management and security risks, and does not maintain a risk register. Transaction logs are only reviewed after a reported incident, rather than being used proactively to identify potential risks.⁸⁴ Although legally required, a code of conduct and conflict of interest policy have not been developed. This is particularly concerning as PRAL is currently recruiting staff at competitive salaries, also using third parties to outsource some of its core functions. The internal audit department's mandate does not undertake independent reviews of technical systems. Additionally, the AG is not permitted to conduct ISAs, which is even more concerning as many FBR's systems are home-grown, often lacking proper documentation and vulnerability checks, such as backdoors in the system. Recently, a new data governance policy has been approved, and PRAL expects this policy to address many of the current challenges.⁸⁵

59. Effective oversight by FBR over PRAL is crucial. While basic mechanisms such as weekly project portfolio meetings and a Service Level Agreement (SLA) are in place, the FBR must have continuous assurance that PRAL operates within its mandate and complies with all FBR requirements. This includes being actively informed on critical matters, such as PRAL's interactions with provincial tax authorities and ensuring data is shared only with approved third parties. Special attention should be given to PRAL's involvement in revenue mobilization, where its role in analyzing and enriching e-invoices may risk breaching the principle of separation of duties. Furthermore, as taxpayer data is classified as critical infrastructure under PECA 2016, the FBR must ensure robust data security protocols are in place. This entails requiring PRAL to implement active monitoring systems,⁸⁶ maintain a comprehensive risk register, and submit regular assurance reports. The establishment of an internal audit department within PRAL should also be prioritized to continuously evaluate and strengthen data security measures. These actions are essential to protect taxpayer data and maintain public trust in the tax administration system.

⁸⁴ The mission team was informed that abuse of userIDs by FBR staff is a serious concern.

⁸⁵ The data governance policy has not been shared with the mission team.

⁸⁶ To ensure oversight and assurance over a third-party managing its IT infrastructure, a tax administration can deploy an independent audit and monitoring system that collects and consolidates audit logs from all critical components—such as databases, operating systems, and applications—into a secure, tamper-resistant repository it controls. This system provides real-time visibility into administrative actions and access to sensitive data, enabling detection of unauthorized activity, compliance verification, and forensic investigation without relying on the third party. By isolating audit functions from the managed environment, the tax administration enforces transparency, accountability, and control in outsourced operations.

E. Human Resources and Internal Affairs

Human Resources

60. The absence of a Human Resource (HR) strategy impacts effective governance and anti-corruption arrangements. An HR strategy is crucial as it ensures that the FBR has the right policies and practices in place to manage its workforce ethically and efficiently. An HR strategy promotes transparency, accountability, and integrity within the workforce. It helps in establishing clear standards of conduct, monitoring compliance, and enforcing disciplinary measures, which are essential to prevent corruption and unethical behavior. Additionally, a robust HRM strategy supports the recruitment and retention of skilled and motivated employees, fostering a culture of professionalism and continuous improvement. This not only enhances the overall performance of the revenue administration but also builds public trust and confidence in its operations, which is vital for effective governance and revenue collection.

61. FBR's HR function is mainly operations driven. The Member HR is responsible for ensuring consistency in the application of HR rules and procedures, engaging with field offices informally and on an as-needed basis. There are no formal reporting arrangements, and there are no internal control mechanisms to verify the accuracy of data.

62. The FBR faces significant turnover rate among its senior management. Despite the chairman being appointed with a three-year mandate, no chairman has completed a full term since 1988. Since 2013, the average tenure for chairmen has been just 8.8 months. This pattern of short tenures also affects board members and other senior staff. Rapid turnover of senior staff undermines efforts to build a management culture, introduce and implement policy improvements or build institutional competencies. At the same time, it serves to insulate current office holders from accountability for performance as tenure is too short to enable actions to take effect, underscoring the urgent need for greater stable and consistent leadership.

63. The FBR launched a Performance Management Scheme (PMS) for senior staff. The purpose of the PMS, launched in April 2025, is to recognize the integrity and performance of senior staff (grades B17 and above). The integrity parameter, which carries a weight of 60 percent, is based on anonymized peer ratings with forced ranking by 45 peers. The performance parameter is evaluated by experts using objective criteria in an anonymized manner. The highest scoring 20 percent of staff are categorized in category A and will receive four additional monthly salaries. The next 20 percent are classified in category B, with a bonus of three-monthly salaries, and so forth until the lowest 20 percent (category E), who will not receive any bonus. The PMS is a substantial improvement compared with the earlier performance system, which had an outstanding rating of 98 percent. The P Minister has decided to extend the PMS to other civil service groups. The PMS has also started serving as an important tool for HR management in terms of promotions, transfers and postings, trainings and other aspects of career planning.

64. The PMS includes relevant elements to support integrity but does not address all root causes. While increasing the salary for the best-performing staff with the highest integrity aims to prevent corrupt practices, it represents only one part of the solution. For the PMS to serve as an effective tool, the FBR must also improve oversight and accountability, develop an HR strategy that incorporates the PMS as one of the tools for promoting integrity, update the code of conduct, and formalize integrity training. In

addition, further research is recommended to assess the impact of the PMS on staff below grade B17 who are not eligible for the scheme, as well as the expected behavior of staff in categories C, D, and E.

Internal Affairs

65. The FBR is widely perceived as having serious issues with corruption. This reputation is confirmed by external stakeholders. The chairman acknowledges that corruption is endemic, and some steps have been taken to enhance staff integrity, including introduction of the PMS, rotation of officers, and accounting for integrity promotions and postings. However, much more needs to be done to address the problem and hold staff accountable for their behavior. The code of conduct has not been updated since 2015, and there is no structured plan for raising awareness or training staff. Although identified cases on irregularity, corruption and inefficiency are publicized on the FBR website and through press releases, there is no systematic analysis of root causes to prevent corruption.

66. There is no internal affairs unit. Many revenue administrations have an internal affairs unit responsible for formulating integrity and ethics policy and ensuring that everyone within the organization adheres to it. Units of this kind investigate professional misconduct of staff and bring wrongdoers to account, often in cooperation with relevant enforcement agencies (e.g., police, anti-corruption body, and public prosecutor). Due to the sensitive nature of their responsibility, internal affairs units usually report directly to the revenue administration head or deputy head.⁸⁷

67. FBR lacks comprehensive oversight of all lodged corruption complaints. Complaints can be submitted to various entities within the FBR, including the Integrity Management Cell (IMC), Regional Integrity Committees (RIC), Member Inland Revenue Operations, Chairman, Intelligence and Investigation Unit Inland Revenue (I&I IR), and Intelligence and Investigation Unit Customs (I&I C). Additionally, complaints can be lodged with external bodies such as the Federal Tax Ombudsman, Federal Investigation Agency (FIA), National Accountability Bureau (NAB), and via the Pakistan Citizen Portal. FBR has published the procedure for filing complaints to the Integrity Management Cell (IMC) on its website which provides contact information of the helpline, email and FBR online portal. However, there is no guidance for citizens or FBR staff on which avenue to use, no consolidation of received complaints, and no periodic reporting to the chairman. The FBR annual report for 2023-24 indicates 46 disciplinary actions for Inland Revenue and 107 for Customs.⁸⁸ The inability of the FBR to provide a breakdown of how many of these cases are related to corruption or to reconcile the total number of received complaints reflects a weak focus on addressing and reducing corruption.

68. Investigation of corruption cases is governed by various rules, regulations, and sanctions with no guidance on resolving the resulting regulatory ambiguity. For instance, the IMC and RIC utilize the Civil Servants Efficiency and Discipline Rules 2020⁸⁹ for disciplinary actions related to corruption. Their investigative powers are limited to conducting interviews and checking asset declarations. Penalties imposed can range from minor (e.g., withholding a promotion) to major (e.g., dismissal from service), but do not include a proposal for criminal prosecution. The I&I IR and I&I C derive

⁸⁷ Tax Administration Diagnostic Assessment Tool, Field Guide, April 2019.
(<https://www.tadat.org/content/dam/tadat/en/assessments/TADAT%20Field%20Guide%202019%20-%20English.pdf>)

⁸⁸ The annual reports are published on FBR's website. Since FBR's website is currently offline, the mission was unable to produce statistical information from earlier years.

⁸⁹ SRO 1331/2020.

their investigative powers from the FBR Act. They can either propose to the chairman to follow up using the IMC, or suggest criminal prosecution by the Federal Investigation Agency (FIA), although there is no clear procedure for choosing between these avenues. Additionally, proposals for disciplinary proceedings of senior staff require approval from the FBR chairman (for staff above B17) or the Prime Minister (for staff above B20).

69. Criminal prosecution is legally possible but occurs only occasionally. The FBR could not provide data on the number of criminal prosecutions in recent years. While criminal prosecution can serve as a crucial deterrent in fighting corruption by imposing significant consequences on corrupt actions, thereby discouraging unethical behavior and promoting integrity, its effectiveness for the FBR is limited due to its limited application in practice and the *de facto* exclusion of high ranked staff.

F. Risk Culture

70. The FBR lacks a strong risk culture. In addition to the previously mentioned shortcomings, the mission team identified several other issues that point to a lack of focus on identifying and mitigating risks. These include the absence of a risk committee, DGIAR and DGIAC reporting arrangements to an FBR member rather than the chairman, the lack of a risk register covering operational and human capital risks, the absence of internal controls over FBR's HQ expenses,⁹⁰ and, in some cases, the failure to maintain a minimum separation of duties.⁹¹

71. A strong risk culture is essential for FBR to effectively reduce corruption risks and increase revenue collection. This can be achieved by fostering a risk-aware environment, proactively identifying and mitigating potential vulnerabilities, and ensuring that internal controls are robust and transparent. A risk-aware culture promotes accountability and ethical behavior among employees, thus reducing the likelihood of corrupt practices. It encourages continuous improvement and vigilance, enables adaptation to emerging threats, and optimizes revenue collection processes. Ultimately, it builds public trust and confidence in the tax and customs system, which is crucial for compliance and the overall integrity of the revenue system.

72. The response to a recent report of a possible AI IT breach provides a good example of the vulnerabilities created by current approaches to risk. Following concerns about a possible breach of the Customs Clearance System, the Chairman assigned the Director General of Post Clearance Audit to lead the investigation. However, such a case should have been handled by an independent entity, such as the AG or a qualified forensic audit firm. FBR remains uninformed about its exposure to vulnerabilities in its IT controls, and management response has been minimal given the numerous other competing concerns for attention and action.

G. Tax and Customs Operations

⁹⁰ The AG concluded irregular expenditure amounting to PRs 579 million due to non-observance of Public Procurement Rules.

⁹¹ e.g. the involvement in tax audit and debt collection by one officer, or approval and processing of GST refunds.

73. FBR's weak revenue collection performance is compounded by a pervasive low tax compliance culture and constrained administrative capacity. The legal framework governing taxation is intricate, involving numerous laws, regulations, and compliance requirements that taxpayers must navigate. This complexity is further exacerbated by the various institutions on federation and provincial level involved in administering taxes, all hindering taxpayers to be compliant. The tax morale in Pakistan is very low, characterized by widespread reluctance to pay taxes.

Inland Revenue

74. The implementation of CRM is a significant step, but additional system improvements are needed to obtain the desired improvement in effectiveness. A modern CRM dashboard, launched in January 2025, provides insights into anomalies in tax returns from various angles, such as compliance risks, region, industry, and company size, enabling the identification of high-risk cases. However, FBR's CRM efforts currently only cover accurate reporting, which is viewed in isolation from the other three pillars of compliance (registration, filing, and payment). CRM findings are not mandatory for field offices to follow up on, resulting in only 13.7 percent of audits in 2023-24 being risk-based. To enhance effectiveness, CRM needs to improve environmental scanning, further tailor its risk register to identify non-generic high compliance risks for targeted groups (e.g., the tobacco industry, SOEs, Economic Free Zones, extractive industry) or transactions (e.g., tax exemptions), and systematically analyze findings from audits. This will not only have a positive impact on compliance improvement and revenue increase, but will also be instrumental in early detection of possible corruption cases.

75. Despite a wide range of registration initiatives, more needs to be done to bring taxpayers into the system. Using a strategic plan to expand the tax base,⁹² the DG 'Broadening of Tax Base' organizes nationwide nudging activities to encourage taxpayer registration and provides information to field offices. It also participates in a task force to assist the National Database and Registration Authority (NADRA) in identifying potential taxpayers. Using macroeconomic data on income distribution, the FBR believes the 5 million registered taxpayers reflect the taxpayer population and that there is no major registration issue. However, this opinion contrasts with various external reports suggesting a potential tax base of 15 million, indicating that the FBR may be underestimating the registration issue.

76. The accuracy of filed tax returns needs attention. Out of the 5.9 million tax returns received, 43 percent declared zero income, which indicates that large group is either under declaring income, or is not a real taxpayer and thus exacerbating the registration issue.

77. Detailed audit results are not integrated into FBR's management information system. Although FBR has the tools to analyze audit results from various angles, these tools are not utilized in its periodic management information system. This absence hinders the timely identification of poor performance or potential corruption risks, including specific risks associated with SOEs, tax exemptions, and economic free zone companies.

78. The administration of GST and Income Tax refunds is vulnerable to rent-seeking behavior, reflecting weaknesses in governance, transparency, and internal controls within the refund process. Field offices have dedicated refund teams and are instructed to use first-in-first-out for processing

⁹² The plan has not been shared with the mission team.

refunds. Reporting to FBR's chief revenue operations is limited to the number of processed cases, but does not include further details, nor provide the availability to analyze potential rent-seeking behavior.

79. The Tax Appeals system faces significant challenges including a high volume of pending cases, concerns about the Tax Tribunal independence, and capacity constraints. The FBR's routine appeals against decisions further burdens the dispute resolution process. To address these issues, reforms are underway such as the Supreme Court's strategy to establish specialized tax benches and promote alternative dispute resolution mechanisms, and legislative amendments to enhance transparency and merit-based appointments. While these reforms are directionally appropriate, implementation gaps persist. For example, ADR remains underutilized due to limited taxpayer confidence and ambiguous procedural norms. Similarly, the legislative amendments under review have yet to be operationalized, and no metrics have been proposed to evaluate their long-term effectiveness or impact. For long-term effectiveness, the appellate system must be streamlined by appointing skilled personnel, improving procedural efficiency, and ensuring regular publication of performance data to promote accountability and transparency.

Customs

80. Pakistan's customs operations are digitized, however, there are no structured routine analyses conducted to mitigate corruption risks. The scope of digitization encompasses goods clearance at importation, cargo management, transit, special regimes management, and reconciliation between different stages of cargo processing. The system records all transactions per officer, including their user ID and timestamp. FBR is working on strengthening internal control mechanisms, such as routine analyses conducted to assess assignments and routing fairly, which could further mitigate corruption risks.

81. The FBR follows international good practices in risk-based selectivity during the import clearance process. All decisions are logged and recorded under the staff member's user ID and timestamp. The composition of control channels is indicative: Green 56-60 percent, Yellow 20 percent, and Red 15-20 percent. Customs staff and management cannot override allocations to the yellow and red channels but can inspect green channel goods based on specific information. However, there is no audit trail for these inspections, which poses a risk for rent-seeking behavior.

82. Export regulatory conformity assessment is done through WeBOC selectivity while physical confirmation that exported goods actually leave the country has room for improvement. FBR follows international procedures on export. However, there can be cases where the cargo exits the country on paper while they are diverted into the domestic market. While exports are not the primary focus for customs administration since they do not generate customs revenue, they can significantly affect Inland Revenue taxes, including indirect tax (export GST refunds) and direct tax (under-reported corporate income through lower-value exports). Additionally, government expenditures such as export-linked subsidies and credits can be impacted. Finally, trade-based money laundering and profit shifting can also involve exports, underscoring the need for effective export management, reducing corruption vulnerabilities.

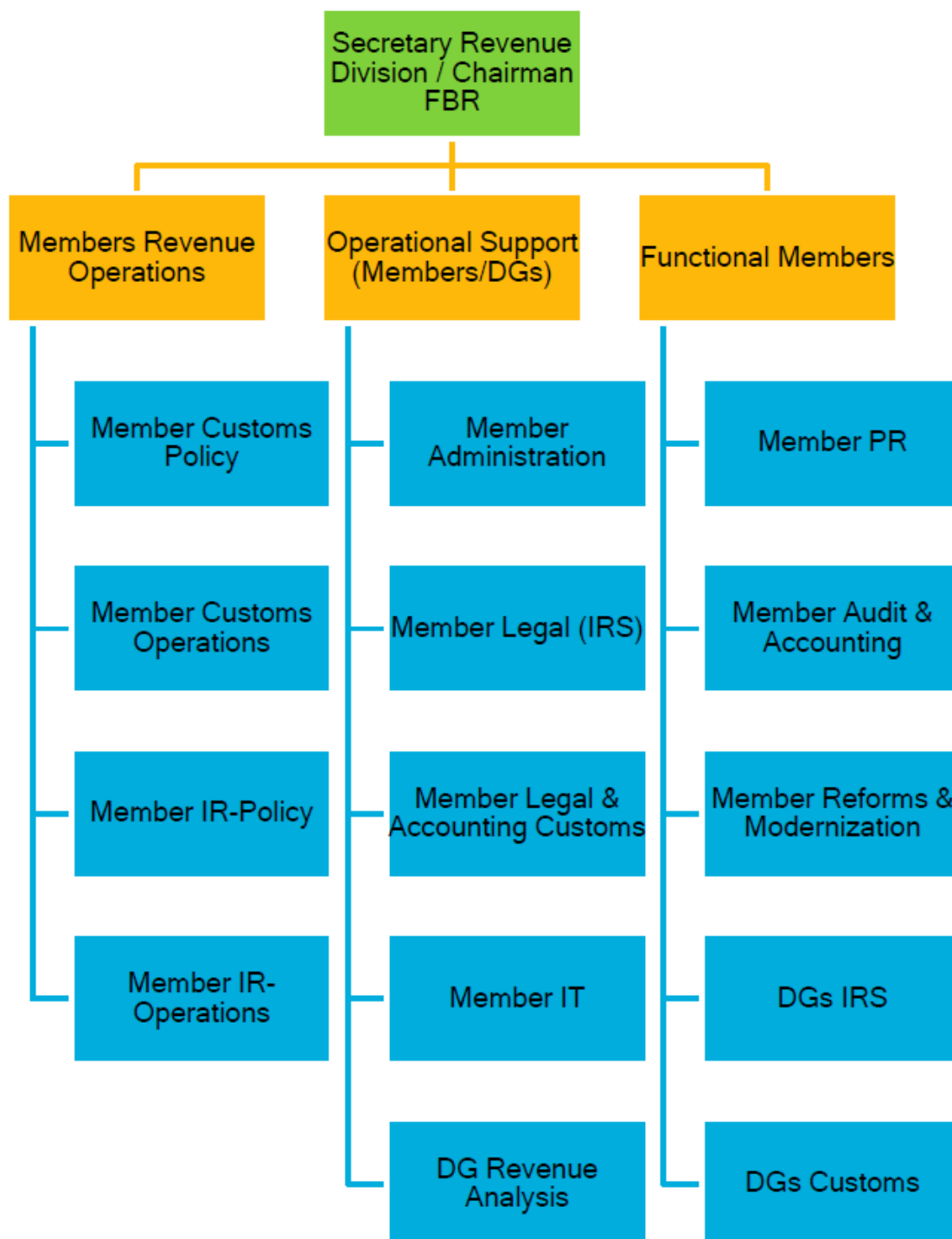
83. The FBR mobile teams are exposed to a high risk of corruption. Since 2023, customs mobile teams are required to register electronically when they stop a truck, and all actions are remotely recorded. If a complaint arises, the FBR can review the record. However, FBR does not analyze the activities of its mobile teams to identify potential corruption issues. While private mobile phones are not allowed in the customs officer workspace, mobile team staff are permitted to carry them without registration and

monitoring after the operation. This could increase the risk of corruption, as reports from other countries indicate that mobile team staff sometimes inform fraudsters of their location, allowing them to evade control.

| Table 4. Recommendations on Revenue Administration | | | |
|---|-----------------------|---|-------------------------|
| Recommended Action | Responsible Authority | Objective | Timeline |
| 1. Strengthen FBR's HQ function: establish executive committees, strengthen risk management, reduce the autonomy of field offices, and ensure performance is systematically monitored and managed. | FBR | Enhancing control over corruption, Improving tax compliance and operation's efficiency | MT |
| 2. Strengthen the FBR's internal control and audit framework by establishing a truly independent internal audit function with a clear mandate to evaluate processes and governance systems. | FBR | Improved governance and transparency of FBR's operations | ST |
| 3. Undertake an independent IT system's audit. | AG | Assurance on data security and integrity | ST |
| 4. Strengthen FBR's oversight of PRAL by establishing a robust risk management framework with real-time monitoring, a risk register, regular assurance reporting, and an internal audit function to ensure secure, accountable operations aligned with legal obligations and data protection standards. | FBR PRAL | Meeting requirements on data security and integrity, optimization of using IT solutions | ST |
| 5. Establish an Internal Affairs Unit within the FBR, receiving all complaints, reporting directly to the Chairman, with a formal mandate to develop and enforce integrity and anti-corruption policies, investigate misconduct at all staff levels, and coordinate with relevant enforcement bodies as needed. | FBR | Prevention and effective addressing of corruption | MT |
| 6. Publish data on complaints, number of officials investigated for corruption, number of individuals sanctioned for corruption, number of cases passed to other enforcement agencies. | FBR | Transparency | MT |
| 7. Strengthen FBR's risk culture including by establishing an independent risk committee and the development of a comprehensive risk register. | FBR | Strengthen control | ST (ongoing) |

| | | | |
|---|-----|-------------------------|-----------|
| 8. Strengthen FBR's core functions, including CRM, registration, filing, audit, refunds, customs selection and export management. | FBR | Improved core functions | MT |
|---|-----|-------------------------|-----------|

Figure 4. Organizational Chart FBR



III. Public Financial Management

84. Robust public financial management systems are an important enabler of integrity, transparency, and accountability and can assist in improving value for money in the delivery of important public services and reducing vulnerabilities to corruption. Recent analysis estimates that globally, the costs of corruption and efficiency losses are US\$4.5 trillion at the general government level (about 5 percent of world GDP), or US\$1.7 trillion at the budgetary central government level.⁹³ Critically, the research estimates that up to 30 percent or more of all losses for a country were accounted for in the budget stage of the PFM cycle.⁹⁴

85. While Public Financial Management (PFM) is defined as the laws, institutions, processes, systems, and tools that are key to making and implementing fiscal policy effectively and efficiently PFM in the narrowest sense is concerned with how governments develop and manage their budget.⁹⁵ Governance risks at various stages of PFM cycle highlight the deep interconnectedness of the issues presented and experienced at different steps in the budget process, as such risks may not manifest themselves until later stages in the process. This section includes analysis of the governance weaknesses associated with higher risk of corruption in the planning and execution stages of budget, public investment, state's financial and non-financial assets and debt management. The section also includes discussion on the internal and external audit.

A. Macro-fiscal Policy and Budget Preparation

86. Governance issues at macro-fiscal stage, along with budget planning and preparation stages, increase the likelihood of the all budget cycle being subject to the executives' discretion and corruption. Vulnerabilities in macro-fiscal forecasting and budget preparation, such as unrealistic revenue estimates or budget projections and ceilings, may not directly lead to corruption at that stage. However, they can expand expenditure envelopes and/or cause expenditure arrears, creating opportunities for executive discretion in payment prioritization and governance vulnerabilities to corruption.

Main weaknesses and vulnerabilities:

87. Despite some improvement in last two years, Pakistan has struggled with weak budget credibility, which underpins several macro-critical governance issues. The discrepancies between forecast and actual revenue and expenditure outturns have continued to pose difficulties. The foundation of a budget is the forecast of how much money the Government has to spend and how much the Government can afford to spend given the revenue envelope. Therefore, a realistic forecast helps ensure that budget revenues and expenditures align with available resources and fiscal priorities. In Pakistan, revenue shortfalls against budgets have undermined budget credibility. While tax revenue outturns have

⁹³ Artificial Fiscal Intelligence, Estimating the Costs of Corruption and Efficiency Losses from Weak National and Sector Systems, 2023. (<https://artificialfiscalintelligence.com/wp-content/uploads/2023/02/Costs-Corruption-and-Efficiency-Losses-Draft.pdf>)

⁹⁴ Ibid

⁹⁵ See Allen et al. (2013), p. 2

usually corresponded to budgeted amounts, non-tax revenue has shown persistent underperformance. Despite the inherent challenges in projecting non-tax revenues in general and some progress observed in the 2023–24 projections, data from FY'21-23 reveal the actual deficit exceeded budget estimates by an average of 25 percent.⁹⁶ **Figure 5** compares the budget estimates to actual budget numbers. While the data shows high deviation across the revenues and expenditure items especially in 2022-23 in part due to the 2022 flood, it also highlights the progress made in 2023-24 in both revenue and expenditure items.

Figure 5. Budget Estimates vs. Actuals 2021-2024

| (in billion Rs) | 2021-22 | | | 2022-23 | | | 2023-24 | | | |
|-------------------------------|--------------|--------------|-------------|--------------|---------------|-------------|---------------|---------------|-------------|-------------|
| Federal Government | Budget | Actual | Deviation | Budget | Actual | Deviation | Budget | Actual | Deviation | Ave. Dev. |
| Gross Revenue Receipts | 7,909 | 7,295 | -7.8 | 9,405 | 8,818 | -6.2 | 12,378 | 12,271 | -0.9 | -5.0 |
| Tax Revenue | 5,829 | 6,143 | 5.4 | 7,470 | 7,169 | -4.0 | 9,415 | 9,311 | -1.1 | 0.1 |
| Non-tax Revenue | 2,080 | 1,152 | -44.6 | 1,935 | 1,649 | -14.8 | 2,963 | 2,960 | -0.1 | -19.8 |
| Total Expenditure | 8,487 | 8,795 | 3.6 | 9,579 | 11,362 | 18.6 | 14,484 | 14,657 | 1.2 | 7.8 |
| Current | 7,523 | 8,354 | 11.0 | 8,708 | 10,650 | 22.3 | 13,344 | 13,970 | 4.7 | 12.7 |
| Development&Net lending | 964 | 441 | -54.3 | 871 | 712 | -18.3 | 1,140 | 687 | -39.8 | -37.4 |

Source: Pakistan Fiscal Operations (FY21–FY24), Budget in Brief PDFs (FY21–FY24), and staff calculations

88. There is room for improvement in top-down strategic phase of budget preparation and the principles for this phase, as set out in the legal and regulatory framework, are not applied. A top-down approach to budgeting, also called a 'strategic phase,' requires the finance ministry to define policy objectives for the budget and set priorities for spending and revenue. In Pakistan, the Public Financial Management Act (PFMA) (Chapter 3, Article 3) requires that the budget preparation cycle starts with a Budget Strategy Paper (BSP) which should indicate, inter alia, the *"strategic priorities of the Government's revenue and spending policies and specify indicative levels of spending in various Ministries and Divisions."* (Chapter 3, Article 3). The Budget Manual 2020 (Paragraph 5.1) is even clearer and requires that *"the budgeting cycle starts with setting of budget strategy and completes with approval of budget the Federal Government sets priorities and a comprehensive budget strategy to be followed by all the Public Sector Entities"* (Paragraph 5.1). Despite these provisions, macro-fiscal forecasts defining the aggregate resource envelope are currently being prepared but do not adequately inform budget decisions in Pakistan. Current budgetary process is largely bottom up and designed to gather information from divisions/ministries.

89. The BSP, which presents the Federal government's medium-term fiscal strategy and includes medium-term macro fiscal projections and assessment of the available fiscal envelope is not released until April, three months after the launch of the budget process. There is no updated macro forecasts incorporated into the Budget Call Circular (BCC), which initiates the budget process in January. The macro indicators included in the BCC are based on the previous year's BSP and there is no up-to-date fiscal projections or indicative budget ceilings (in aggregate or broken down by sector) in the BCC.⁹⁷ Since the indicative targets issued by the Finance Division are based on the previous year's ceilings

⁹⁶ F. Rahim et.al. (2024) Improving Budget Practices, IMF FAD TA Report. The report also noted that the external factors, such as the 2022 flood, which caused losses estimated at 5 percent of GDP, contribute to the variance in estimated versus actual deficit but are not the primary cause of the discrepancy.

⁹⁷ Also the coverage of the Budget Call Circular is limited. Currently, the BCC includes only detailed budget instructions and forms to complete. Additional elements that could guide a more informed budget preparation process include information on economic context, a statement of budgetary goals and objectives, macro-fiscal

and are not adjusted for inflation, new policy proposals or fiscal developments may have reduced (or increased) the available fiscal space. The projections in the BSP differ significantly from budget estimates. Macro-fiscal forecasts are produced only once during the fiscal year, usually in March, as part of the BSP.

90. This timing restricts the potential of the medium-term fiscal framework (MTFF) to effectively guide fiscal policy. As illustrated in **Figure 6**, the projections in the BSP differ significantly from budget estimates. In FY23, expenditure forecast in the BSP for FY22 – FY24 (published in April 2021) were PRs 1,162 billion (1.2 percent of GDP) less than approved in the annual budget statement. In FY24, projections in the BSP for FY23 – FY25 (published in June 2022) were PRs 4,988 billion (around 5 percent of GDP) less than the annual budget statement estimates. If the MTBF is to have an impact on fiscal outcomes, the annual budget process must be able to resolve conflicting pressures and priorities and translate them into a set of agreed-on expenditure allocations. If previous medium-term plans are discarded when the annual budget is prepared, the control that should be instilled by the MTBF is lost. To ensure that medium-term ceilings or estimates shape the annual budget, budget preparation should follow a top-down sequence to help the government preserve aggregate expenditure discipline throughout the process of prioritizing limited resources. The gap between the medium-term projections outlined in the Budget Strategy Framework (BSF) and the actual annual budget figures highlights a disconnect in how effectively the BSF guides the formulation of annual budgets.

Figure 6. Comparisons between BSPs and Budgets FY21-22 and FY2023-24 (in PRs Billions)

| | BSP April 2021 | | BSP June 2022 | | BSP June 2023 | Annual Budget Statements | | | Deviations from BSP Forecasts | |
|---------------------------|----------------|-----------|---------------|-----------|---------------|--------------------------|-----------|-----------|-------------------------------|-----------|
| | FY2021-22 | FY2022-23 | FY2022-23 | FY2023-24 | FY2023-24 | FY2021-22 | FY2022-23 | FY2023-24 | FY2022-23 | FY2023-24 |
| | | (a) | | (b) | | (b22) | (b23) | (b24) | (b23 - a) | (b24 - b) |
| Gross Federal Revenue | 7,989 | 8,775 | 9,004 | 10,533 | 12,163 | 7,909 | 9,405 | 12,378 | 630 | 1,845 |
| Transfer to Provinces | 3,527 | 3,796 | 4,100 | 4,975 | 5,276 | 3,412 | 4,373 | 5,399 | 577 | 424 |
| Net Federal Revenue | 4,462 | 4,979 | 4,904 | 5,558 | 6,887 | 4,497 | 5,032 | 6,979 | 53 | 1,421 |
| Total Federal Expenditure | 8,056 | 8,570 | 9,502 | 9,965 | 14,460 | 8,661 | 9,732 | 14,953 | 1,162 | 4,988 |
| Federal Deficit | -3,594 | -3,591 | -4,598 | -4,407 | -7,573 | -4,164 | -4,700 | -7,974 | -1,109 | -3,567 |

Source: Budget Strategy Papers and Federal Annual Budget Statements, Finance Division.

91. Additionally, the credibility of the budget and medium-term fiscal projections is difficult to assess due to the lack of comprehensive data and summary tables in the budget documents. This gap limits the ability of analysts and stakeholders to evaluate fiscal performance and policy intentions effectively. Moreover, the national presentation of fiscal data remains inadequate for robust fiscal analysis, making it particularly challenging for external users—such as development partners, investors, and oversight bodies—to interpret and engage with the information in a meaningful way. Enhancing the clarity, completeness, and accessibility of fiscal data is essential for improving transparency and accountability in public financial management.

projections, aggregate budget envelope for the next and indicative budget ceilings for the outer years, economic assumptions for LMs to use in preparing their budget submissions.

B. Budget Execution

92. After the approval of budget by parliament, the budget should be implemented as formulated and authorized with as little deviation as possible. While there should be some flexibilities to adjust to changing circumstances (e.g., genuinely unexpected events) by modifying the budget, effective budget controls should ensure that the level and allocation of government expenditure reflect the will of the Legislature as voted for in the budget. Countries use a variety of procedures and mechanisms to address uncertainties during in-year budget execution. These mechanisms include unallocated contingency appropriations, virement (transfers) of spending authority within and between appropriations, and supplementary budgets. It is important, however, that the use of such mechanisms is limited so that they do not reduce budget credibility or restrict legislative and public accountability for the use of public resources. These in-year adjustments procedures and effective expenditure controls are crucial for assessing governance vulnerabilities in budget execution. In Pakistan, extensive use of supplementary grants, weak budget controls create governance vulnerabilities and risk to corruption during the budget execution.

Main weaknesses and vulnerabilities:

Supplementary Grants

93. Supplementary grants—in-year adjustments available to the executive without getting the Parliament’s ex-ante approval—was a regular feature of the budgeting process in Pakistan before the Extended Fund Facility (EFF). The Audit Office reports have highlighted overspending through supplementary grants for years. **Box 3** explains supplementary grants as in Article 84 of the Constitution and the 2013 Supreme Court’s ruling on the subject. The FS curtailed the use of supplementary grants under the EFF.

94. The lack of clarity in the interpretation of the Supreme Court’s decision results in governance vulnerabilities and room for extensive use of supplementary grants exceeding their initial purposes. Traditionally, the Government authorizes these grants as and when necessary, within the fiscal year without the ex-ante approval from Parliament. Approval from the National Assembly is sought at the time at which the Annual Budget Statement for the next fiscal year is being presented, which typically occurs a month before the fiscal year concludes. This process effectively regularizes the supplementary grants ex-post, after the fact, and often undergoes limited scrutiny in the National Assembly, especially as attention shifts towards the forthcoming year’s budget. Despite the Supreme Court’s ruling on Article 84 requiring ex-ante parliamentary approval for supplementary grants, the authorities argue that it is practically difficult to seek ex-ante legislative approval for frequent in-year budget adjustments needs. **Table 5** indicates the supplementary grants fluctuated between 7 percent and 13 percent of non-interest budget expenditure between FY’20-21 and FY ’22-23.⁹⁸ In addition, technical supplementary grants, or reallocations across budget appropriations, amounted to another 13 percent of approved spending in FY2022-23, FY2021-22.

⁹⁸ Supplemental grants were equal to 7 percent of non-interest budget expenditure in FY’20-21 (0.5 percent of GDP) 13 percent of non-interest budget expenditure (1.33 percent of GDP) in FY’21-22, and 9.5 percent of non-interest budget expenditure (0.8 percent of GDP) in FY2022-23,

Table 5. Supplementary Grants

FY2024-25: No supplementary grants extended by Government till date

FY2023-24: No supplementary grants extended by Government

FY2022-23

| Rs bn | | |
|--------|--|--|
| Amount | Division | Purpose |
| 335 | Power Division | Management of power sector circular debt |
| 57 | Petroleum Division | For recouping exchange loss of PSO, payment to Kuwait Petroleum, and markup payment of short-term finance facility from National Bank for funding Government of Balochistan's share for Reko Diq |
| 5.7 | Industries & Production | Utility Stores Corporation for PM relief package and sasta aata (subsidized wheat/flour) initiative |
| 397.7 | 7.1% of budget excluding interest payments; 0.51% of GDP | |

Almost all of the supplementary grants were extended for management of power sector and petroleum sector losses. An amount of Rs. 5.7 bn was given for provision of subsidized items at Utility Stores Corporation for lower strata of the society.

FY2021-22

| Rs bn | | |
|--------|---|---|
| Amount | Division | Purpose |
| 217 | Power Division | Management of power sector circular debt and PM package |
| 188 | Petroleum Division | Package on petroleum products prices and for LNG sector |
| 130 | Finance Division | Way and means advances for provinces |
| 122.6 | National Health Services Division | Procurement of Covid vaccines |
| 57.9 | NDMA | Procurement of Covid vaccines |
| 715.5 | 13.2% of budget excluding interest payments; 1.33% of GDP | |

25% of supplementary grants were given for procurement of Covid vaccines and 30% was meant for management of power sector circular debt. The ways and means advances for provinces were recovered along with interest during the year through deductions from provincial transfers meaning thereby that in net terms the Federal Government had additional inflows.

FY2020-21

| Rs bn | | |
|--------|--|--|
| Amount | Division | Purpose |
| 225.9 | Power Division | Management of power sector circular debt, tariff differential subsidy and interest payment of energy Sukuk |
| 40 | FBR | Disbursement of refunds (Covid Package) |
| 24.9 | National Health Services Division | Procurement of Covid vaccines |
| 5.6 | National Food Security Division | PM package for agriculture (Covid Package) |
| 5 | Defence Services | Establishment of National Command & Operations Center (NCOC) for Covid and other Covid related activities |
| 4 | AJK/GB | Grant for Covid |
| 1.06 | Federal Education Division | Pandemic Response Effectiveness Project / Response, Recovery and Resilience Project |
| 0.78 | Foreign Affairs Division/National Health Services Division | Contribution to SAARC Covid Fund, establishment of Isolation and Infections Treatment Center at Islamabad and procurement of medical equipment for Covid |
| 32.8 | NDMA | Procurement of Covid vaccines and equipment |
| 25 | WAPDA KPK | Outstanding amount of net hydel profit |
| 33.6 | Finance Division | Way and means advances for provinces |
| 398.6 | 9.5% of budget excluding interest payments; 0.87% of GDP | |

31% of supplementary grants were for response to Covid and 57% was given to the power sector. The ways and means advances for provinces were recovered along with interest during the year through deductions from provincial transfers meaning thereby that in net terms the Federal Government had additional inflows.

Source: MoF

Box 3. Supplementary Grants and the Related 2013 Supreme Court Ruling

Article 84 of the Constitution empowers the Federal Government to sanction additional grants from the Federal Consolidated Fund within the fiscal year, to cover expenditures surpassing the limits approved by the National Assembly. This article outlines specific conditions under which this power can be utilized:

- Additional expenditure for an existing service in the current financial year is warranted only if the previously authorized funds prove insufficient. It also applies in cases where there is a need to allocate funds for a new service that was not included in the initial Annual Budget Statement.
- It is mandatory for the Federal Government to present a Supplementary or Excess Budget Statement to the National Assembly in such instances.

This Supplementary or Excess Budget Statement must adhere to the guidelines set out in Articles 80 to 83 of the Constitution, which are also applicable to the Annual Budget Statement. Notably, Article 83 of the Constitution emphasizes that: “no expenditure from the Federal Consolidated Fund shall be deemed to be duly authorized unless it is specified in ...[a] schedule laid before the National Assembly”.

In 2013, the Supreme Court of Pakistan issued a ruling on the interpretation and application of Article 84 of the Constitution in relation to the discretionary powers granted to the Federal Government on budgetary issues. This was initiated through a petition to the Court, seeking a decision on whether the Constitution allows the Executive to allocate funds through supplementary grants at its sole discretion. The Supreme Court's judgment yielded several key observations:

- The Federal Government is obligated to present a Supplementary Budget Statement to the National Assembly that “is subjected to the same scrutiny and procedure as is applicable to the Annual Budget Statement”.
- The Supplementary Budget Statement should be presented within the current fiscal year.

Although Article 84 is not clear on the timing of the approval of the Supplementary Budget Statement by the National Assembly, the Supreme Court took note of the Rules and Procedures and Conduct of Business in the National Assembly 2007 as a source of interpretation to conclude that “in the case of supplementary grants, the assent of the National Assembly is to be obtained before these funds are made available.” A petition to overturn this judgement was presented by the Government to the Supreme Court in 2014, but this petition was dismissed.

Source: IMF team

95. Under the EFF, the authorities have committed to managing required in-year budget adjustments by using contingency reserve allocated under the FS budget and through technical grants. No supplementary grant has been used. However, the legal framework does not specify the level or intended beneficiaries of the contingency reserve under the federal budget nor does it provide a separate framework for managing contingencies outside the existing mechanisms for supplementary and technical grants. Therefore, even though there has been progress in the use of supplementary grants under the EFF, lack of structural changes necessitates greater clarity in the procedures and transparency regarding in-year budget adjustments. As the EFF concludes, it becomes increasingly important to establish a robust framework for implementing strong in-year budget adjustments during budget execution. Such a framework would enable the government to respond more effectively to revenue shortfalls, expenditure pressures, or macroeconomic shocks, thereby maintaining fiscal discipline and avoiding the accumulation of arrears or unplanned borrowing. Without this flexibility, rigid budget

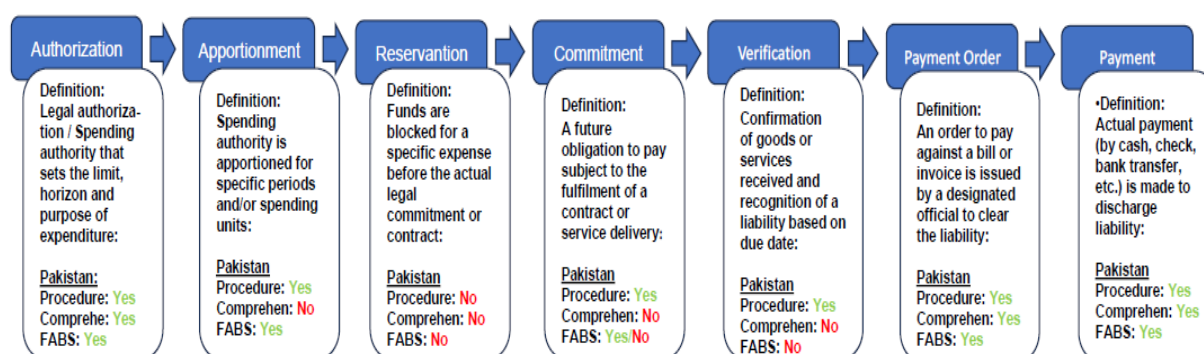
structures may hinder timely policy responses and undermine the credibility of fiscal targets. Institutionalizing clear procedures and accountability mechanisms for in-year budget adjustments through carefully designed contingency reserve and supplementary budget arrangements will be essential to sustaining the gains achieved under the EFF and ensuring continued fiscal resilience.

Weak Budget Controls and Lack of Commitment Controls

96. Several stages of the expenditure process are carried out manually and are not presently captured in the Financial Accounting and Budgeting System (FABS), presenting governance vulnerabilities in budget execution. Despite several reforms, budget processes still involve significant manual and paper-based steps. FABS will still not capture all information on budget execution as international good practice recommends.

97. The primary objective of commitment control is to manage the initial incurrence of financial obligations, ensuring that governments do not commit to expenditures that exceed available resources before reaching the payment stage. In the FBAS system, expenditures are only captured at the Payment Order Stage by the Ministries, Departments and Agencies (MDAs), despite the PFMA (section 26) clearly defining the commitment control system and the Finance Division guidelines for both annual and multiyear commitments. Although the Commitment Control Guidelines (2022) and the Budget Wing Implementation of Rules (para 51) require the registry of purchase orders, commitments are only registered in FABS when the approved Payment Voucher (Payment Order) is presented to the Controller General of Accounts, which may lead to multiple procurement activities on a single budget line. This delay in registration makes it too late to control spending effectively. Neither annual nor multiyear commitments are recorded in the FABS in accordance with Accounting Policies and Procedures Manual (1999) or the recently adopted Guidelines for Commitment Control (2022). **Figure 7** compares procedures used in Pakistan with international good practice. Problems with commitment control have been exacerbated by current practices in relation to cash management. While the Budget Wing decides budget releases based on cash availability, there is a pressing need for improvement in cash forecasting to make budget releases credible (See Cash Management Section).

Figure 7. Budget Execution Stages Captured in FABS



Source: F. Rahim et.al, (2024), *Improving Budget Practices*, FAD TA Report.

C. Public Investment Management

98. Public investment management is highly vulnerable to corruption risk. Capital projects often cut across several institutions, jurisdictions, levels of government, and policy areas on their long-run path to delivery. This complexity makes corruption difficult to detect. Infrastructure is also often subject to considerable local influence on topics such as land use and access to services leading to many opportunities for rent extraction.⁹⁹ The corruption risks in infrastructure are inextricably linked to those in government contracting, which is discussed in the procurement section. Additionally, during implementation, projects may not proceed exactly as envisaged and the high likelihood of variations during construction can make corruption more difficult to spot.

99. There are a number of shortcomings in public investment management in Pakistan, which present governance weaknesses and expose the authorities to corruption risk. These include the absence of adequate objective mechanisms for prioritization of projects, the practice of politicians' projects entering the Public Sector Development Program (PSDP) outside the Planning Commissions' procedures, the failure to protect funding for approved projects over the project life cycle (which means that the decisions on which projects to fund could be exposed to corruption), and major project delays and cost increases in projects that make it difficult to spot corrupt payments. Weaknesses in the project cycle, including project appraisal and selection processes, the use of uncompetitive practices in procurement, and limitations in multi-annual budgeting, as well as the failure to incorporate full risks from PPPs, also result in vulnerabilities that pose a risk of corrupt practices in public investment.

Main weaknesses and vulnerabilities:

100. The absence of formal arrangements to protect funding for approved projects and the overhang of ongoing projects presents a risk of corrupt practices to favor certain projects for limited resources available. The 2023 Public Investment Management Assessment (PIMA) and Climate PIMA (CPIMA) report indicates that total cost to complete projects in PSDP is PRs 10.7 trillion, more than 14 times the budget allocation of PRs 727 billion in 2022-23.¹⁰⁰ There are currently around 1,100 projects in the plan. The federal PSDP is an annual document, which lists all the public sector projects and programs with specific expenditure allocations for the given fiscal year.¹⁰¹ In Pakistan, total PSDP for federal government amounts to PRs 1,400 billion (7 percent of total federal government expenditure) in FY2024-25 while the total federal government expenditure is PRs 18,877 billion.

101. The Government has taken some steps to reduce the stock of pending projects and improve project appraisal. To tackle the stock of pending projects issue, the authorities conducted a review of the

⁹⁹ World Bank, *Confronting Corruption Risk in Sectors and Functions*, 2020. (<https://thedocs.worldbank.org/en/doc/911661611783412604-0090022021/original/PublicInfrastructure.pdf>)

¹⁰⁰ Stone, M. (2023) Technical Assistance Report –Public Investment Management Assessment-PIMA and Climate PIMA (<https://www.imf.org/en/Publications/CR/Issues/2023/11/17/Pakistan-Technical-Assistance-ReportPublic-Investment-Management-AssessmentPIMA-and-Climate-541586>).

¹⁰¹ The PSDP document consists of all necessary information pertaining to the projects and programs including the total cost, foreign loan component, date of approval, expenditure incurred up to the end of preceding fiscal year and allocation, in terms of both rupee and foreign aid component, for the respective fiscal year. These individual details are, however, listed for only federally-funded projects and programs. The estimated levels of the ADPs of provinces are included in the summary of the PSDP and details thereof are compiled in individual ADPs of the respective province.

projects in the PSDP in 2024 and removed 152 projects from approximately 1,100 projects. In addition, they included a limit on size of allocation for new projects. The National Economic Council (NEC), upon recommendations of Ministry of Planning, Development and Special Initiatives had approved, among others, the following guidelines:

"Only 10% of allocated development budget FY2024-25 should be considered for allocation to new projects, with particular focus on supporting exports, enhancing productivity, fostering competitiveness, deepening and spreading digital infrastructure, innovation driven enterprises, industrial development, agroindustry and seed development, blue economy, science & technology, R&D and innovation reforms".

102. The limit on size of allocation for new projects is aimed at reducing the consequences of capital investments on future budgets and enable a greater focus on the completion of on-going, core and foreign funded projects. The limit also recognizes the negative impact of existing practices of addressing financial constraints by providing insufficient funding for approved projects or delaying the provision of funds. The above limit will continue till revision. The Budget Call Circular issued to Ministries/ Divisions for preparing proposals for FY 2025-26 PSDP also contains the same limit. The impact of the new rules remains to be seen, and will be strongly determined by the manner in which they are enforced.

103. To address the issues related to project appraisal, the development of a multi-criteria scoring tool is underway to enhance the rigor of project appraisal and effectively filter PC-I submissions. The Implementation & Monitoring Wing in collaboration with the Pakistan Planning and Management Institute (PPMI) and academic partners is rolling out appraisal training programs and standardized scorecards to improve the quality, objectivity and consistency of project submissions.

104. The PSDP often prioritizes politically driven projects that undergo less strict appraisal, selection, costing process, increasing the risk of corruption and prioritization of lower value projects. One important type of these projects, often referred to as politicians' projects, is the Sustainable Development Goals Achievement Programme (SAP).¹⁰² The approval process for Pakistan's SAP is distinct from standard development projects and involves a more politically driven and decentralized mechanism. A Ministerial Steering Committee oversees the SAP. The committee includes federal ministers, members of the National Assembly, and senior bureaucrats from relevant ministries and provincial governments.

105. Oversight is relatively weak, with limited transparency and public reporting. Projects are demand-driven, often proposed by local Members of the National Assembly based on perceived community needs. These are typically small-scale infrastructure and service delivery schemes in sectors like education, health, clean drinking water, roads and sanitation, gas and electricity, community development (e.g., parks, graveyards, places of worship). A special audit report by the Auditor General of Pakistan highlighted issues such as unauthorized payments, violation of procurement rules, fund transfers

¹⁰² These schemes are community based and ranges from PRs 0.25 million to PRs 50.0 million. In case of Gas Sector Scheme, the upper limit will be up to PRs 300 million. At least 10 residents of area are required to request for scheme to Divisional Commissioner or executing agency. The request of schemes shall be forwarded by the residents to the concerned Deputy Commissioners/ federal executing agencies of respective Ministries/Divisions for processing and approval from the approving forum as per rules/policy/instructions.

without approval.¹⁰³ This process reflects a parallel track to the formal development planning system, raising concerns about transparency, efficiency, and alignment with national priorities. In addition, the budget is released for these projects in July, in the beginning of fiscal years while the release of cash for other projects depends on the availability of cash. Budget allocation to the SAP program under the Cabinet Division was increased to PRs75 billion (5 percent of total federal government PSDP) in the 2024-25 budget.

106. There is no multi-year ceiling set at the levels of ministries or sectors for public investment in the BSP, resulting in uncertainties for line ministries. While the Finance Division sets multi-year indicative budget ceilings for line ministries, they are limited to the current budget. The Planning Commission only sets annual ceilings for the PSDP for line ministries. The PSDP, which is published, reports the total cost for projects benefiting from federal or external funds. The medium-term budget strategy paper includes three-year projections for the PSDP, including the total cost of all projects. The projections cover four broad categories (infrastructure, social, science and IT, and regional development) but not by ministry or specific sectors so they do not constitute multi-year ceilings. In the absence of multiyear ceilings, line ministries lack visibility over resources that will be made available for their capital budget in the future. This is a governance weakness that risks inefficiency by limiting ministries' capacity to plan for medium- and long-term projects.

107. Line Ministries respond to uncertainty about future funding by preparing and submitting PC-1 forms required to initiate new projects, further increasing the number of projects in the PSDP. At the Federal level, the absence of multi-year ceilings may be a factor behind the high value of new projects (in relation to available fiscal space) that line ministries often propose for inclusion in the PSDP, despite the tight available fiscal space. The current arrangements do not enable line ministries to plan the delivery of a realistic multi-year capital program, while delays in project deliveries and increased total project cost create further governance vulnerabilities and challenges in executing investment projects. The extent of cost changes that are experienced during project delivery is illustrated by the Golen Gol Hydropower Project, where the initial project estimate of PRs 7 billion had ballooned to PRs 30 billion by the time of completion. There is evidence that larger projects are more prone to corruption given the scale of cost overrun, the number of stakeholders involved and the presence of dense networks of contracts and sub-contracts.

108. There appear to be inefficiencies in estimating the recurrent costs associated with capital projects due to the practice of dual budgeting. The dual budgeting system—where the Finance Division and Planning Commission separately prepare current and development budgets—creates gaps in oversight and cost estimation, increasing the risk of inefficiencies and potential corruption in capital project planning. The Finance Division prepares the current budget while the Planning Commission is responsible for the preparation of the development budget. Despite the different preparation processes, they are consolidated and presented together to Parliament as part of the annual budget. The development budget (PSDP) reports on domestic and externally funded projects. However, recurrent costs related to capital projects seem not to be taken into account until the projects are in operation. This lack of oversight is particularly relevant in the context of Public-Private Partnerships (PPPs) in Pakistan, where long-term fiscal commitments—such as viability gap funding, guarantees, and annuity payments—are

¹⁰³ Auditor General of Pakistan, Special Audit Report on the Accounts of Sustainable Development Goals Achievement Program (SAP) FY2018-19 & 2019-20. (<https://agp.gov.pk/SiteImage/Policy/Special%20Audit%20Report%20on%20Sustainable%20Development%20Goals%20Achievement%20Programme%20AY%202020-21%20Federal%20Government%20Entitites.pdf>)

often not fully integrated into medium-term budget frameworks. To address this, P3A has collaborated closely with the Risk Management Unit (RMU) at the Finance Division. 2024 Fiscal Commitments and Contingent Liabilities (FCCL) Guidelines offer a structured approach to assessing and mitigating fiscal risks, ensuring that commitments like viability gap funding, guarantees, and annuity payments are fully integrated into medium-term budgetary forecasts. Advanced financial modelling tools have started to be utilized to project the fiscal impact of PPP projects over their lifecycle, enabling the government to plan effectively and avoid unexpected fiscal burdens. The Fiscal Risk Statement published in March 2025 included a section on fiscal risks from PPPs and indicated that the government would enhance its PPP framework by improving legal structures for project selection, procurement, and risk allocation.¹⁰⁴

109. Fragmented and incomplete PPP oversight frameworks can undermine confidence in the governance and sustainability of institutional arrangements for long term private investment and create risks to the budget. PPPs are particularly exposed to corruption risks because of complex contracts, long-term in nature, various risk transfer mechanisms. Additionally, PPPs should not be seen as ‘free’ to the budget. Potential PPP obligations (covering direct and indirect calls on current spending) should be understood upfront, and liabilities monitored and managed throughout execution, so that the overall risk to the fiscal position is understood. In Pakistan, key challenges in PPPs include diverse and separate legal and institutional frameworks for PPPs, politically motivated project selection, non-transparent procurement and contracting, and inadequate risk-sharing in PPPs.

110. There are diverse and separate legal and institutional frameworks for PPPs which make management of these risks more difficult and increase the governance vulnerabilities. Pakistan’s PPP regime at the federal level is governed by a robust set of legislative and policy instruments, including: (i) Public Private Partnership Act 2017; (ii) Federal PPP Policy 2023–2028; (iii) P3A Project Development Manual; (iv) Project Approval and Process Flow Regulation 2021; and (v) Fiscal Commitment and Contingent Liability (FCCL) Guidelines. Although these documents provide a comprehensive framework for the transparent and efficient management of PPP projects, separate frameworks exist in the energy sector and in other traditional infrastructure sectors across federal and provincial levels. Additionally, the Public-Private Partnership Authority (P3A) at the federal level permits unsolicited proposals under its regulatory regime.¹⁰⁵ Unsolicited proposals are recognized as a legitimate entry point for private sector innovation and investment. Although, these proposals must still undergo evaluation, including feasibility studies, value-for-money assessments, and competitive procurement, unless a direct award is justified under specific conditions, these proposals can pose governance risks if not managed transparently, as they may bypass competitive processes or favor specific private entities.

111. The absence of a centralized monitoring mechanism increases the risk of irregularities in project selection, procurement, and implementation in PPPs. Pakistan’s PPP projects often suffer from limited regulatory oversight, especially at the provincial level where PPP units may lack the capacity or independence to enforce transparency and accountability standards. Additionally, the issues discussed in the procurement section and addressing these challenges by implementing e-procurement systems to ensure open, competitive bidding, reducing opportunities for collusion or bid rigging, and utilizing standardized contract templates with clear risk-sharing mechanisms and performance benchmarks are crucial in the management of PPPs in Pakistan.

¹⁰⁴ https://finance.gov.pk/publications/Fiscal_Risk_Statement_March_2025.pdf

¹⁰⁵ The Public-Private Partnership Authority Act, 2017 (P3A Act) and its accompanying rules provide the legal basis for handling unsolicited proposals at the federal level.

112. PPPs is also a mechanism for attracting foreign investment into the Special Investment Facilitation Council (SIFC) identified priority sectors. The SIFC was established in 2023 with the goal of acting as a "single window" to facilitate investment and privatization, and establish cooperation among all Government departments, and fast-track project development. The SIFC has been assigned the task of increasing Foreign Direct Investment. Agriculture, defense, infrastructure development, strategic initiatives, logistics, minerals, IT, telecommunication, energy, mining and minerals, tourism are identified for the SIFC's priority sectors.

113. The Board of Investment (Amendment) Act, 2023 introduced significant provisions—Article 10E (Power to issue directions to the Federal Government), Article 10F (Power to relax or exempt from regulatory compliance), and Article 10G (Immunity)—aimed at streamlining investment processes, enhancing efficiency, and protecting those facilitating investments. However, these provisions raise concerns about the concentration of authority over federal and regulatory institutions through recommendations, advice and directions, including on the exemptions given the broad immunity granted under Article 10G, which may undermine accountability mechanisms.¹⁰⁶ The impact of these provisions on decision-making in Public Investment Management (PIM) and Public-Private Partnerships (PPPs) remains insufficiently clarified in official documentation. Greater transparency is needed to understand how these powers will be exercised and monitored in practice. The provisions outlined in Articles 10F and 10G, along with the subsequent clauses, appear to create a framework that prioritizes facilitation of strategic projects by allowing exemptions from regulatory compliance and shielding officials from personal liability. While these measures may enhance efficiency and reduce bureaucratic delays, they also increase potential transactional risks. Given its broad and disparate organizational functions and authority, it is essential for SIFC to develop explicit protocols for undertaking its activities and enhanced transparency arrangements to enable effective oversight and accountability.¹⁰⁷

114. Moreover, while the SIFC was established through this amendment to accelerate investment and privatization efforts, the Board of Investment (BOI) continues to exist. The coexistence of multiple institutions with overlapping mandates has created ambiguity regarding roles, responsibilities, and accountability structures. Rather than creating new entities, authorities should

¹⁰⁶ **Articles 10 F and G of the Board of Investment (Amendment) Act, 2023: 10F Power to relax or exempt from regulatory compliance:** The Federal Government, upon recommendation of the SIFC, by notification in the official Gazette and subject to such conditions, limitations or restrictions, if any, as may be specified therein, may relax or exempt from a regulatory requirement or operation necessitated by any law for the time being in force for implementing projects, transactions, arrangements and agreements under this Chapter Provided that the relaxation or exemption, granted under this section, shall be granted in accordance with the provisions of the respective laws. **10G. Immunity:** (1) No suit, prosecution or any other legal proceedings or action, in damages or otherwise, shall lie against SIFC or any of its members or consultants for any act done, procedural lapse suffered, or omission made, in exercise or performance of any functions, powers, or duties conferred or imposed under this Chapter. (2) Notwithstanding anything contained in any other law for the time being in force, as investigating agency, anti-graft agency, or law enforcement agency or a court shall not inquire into or initiate investigation in relation to, *inter alia*, any commercial transaction, arrangement or agreement made under this Chapter, unless there exists material evidence of *mala fides* or bad faith on part of any person involved in the said commercial transaction, arrangement or agreement. (3) No person shall be liable in his personal capacity for any action taken in his official capacity. (4) Any procedural irregularity or lapse shall not affect, vitiate, set aside, annul or rescind, *inter alia*, any transaction, arrangement or agreement under this Chapter.

¹⁰⁷ The Board of Investment (Amendment) Act, 2023, Section 10G provides broad immunity to the SIFC, its members, and consultants for any act, procedural lapse, or omission committed while carrying out their official function, restricts the grounds for investigation, and protects deals from legal challenge even when it is determined that there were procedural irregularities or lapses.

prioritize addressing structural challenges and root causes that deter foreign direct investment, weaken the investment climate, and hinder privatization efforts. A more coherent institutional framework, supported by robust governance and accountability, is essential for sustainable investment facilitation.

D. Public Procurement

115. Public procurement is often identified as the government function that is most prone to corrupt practices. The close association between public procurement and corruption is based on a variety of factors, including the technical and ultimately discretionary nature of the exercise and the amount of money associated with procurement transactions. Corruption vulnerabilities exist from determining what to purchase, who to purchase from, and the cost and quality of what is actually delivered and the timing of payment. Corruption can occur within individual procurement transactions or can include the capture of entire markets or because of regulatory provisions and approaches in the applicable framework.¹⁰⁸

116. The ability of public procurement to serve as a driver of innovation and private sector development is less acknowledged. In most countries, the state is by the far the largest purchaser of goods, works, and services. When it performs well, public procurement encourages competition and enables new firms to develop and grow based on their ability to outperform others. The state can increasingly rely on the private sector to meet its needs for investment projects, goods, and services as the efficiency of the public procurement system increases. In this manner, increasing the efficiency of public procurement can result in cost saving to the government, stimulate private sector development in the formal sector, and encourage investment in competition and innovation curtail modification of costs during contract fulfillment and finally to ensure value for money in use of scarce resources.

117. In Pakistan, spending on public procurement accounts for a substantial portion of the federal budget, and is especially prominent in spending related to public investment.¹⁰⁹ The absence of information on public procurement transactions and overall outcomes substantially prevents the quantification of the costs of current procurement practices but the potential for cost savings, and improved economic impact is enormous given the scale of spending, and its importance in the overall economy.

Main weaknesses and vulnerabilities:

118. Many of the governance weaknesses in public procurement flow from issues with its legal and regulatory framework. The operative legislation is the “Public Procurement Regulatory Authority Ordinance, 2020” on July 7, 2020, which updates a previous enactment. The Public Procurement Rules 2004 under Rule 20 prescribes open competition as the principal method of procurement with mandatory consideration for transparency under Rule 4. It is mandatory for all the procuring agencies to publish the final evaluation report fifteen days prior to award of the contract in accordance with Rule 35. The Rules

¹⁰⁸ For a discussion of addressing corruption in public procurement, see Turkewitz, “Public Procurement” in “Enhancing Government Effectiveness and Transparency: The Fight Against Corruption,” World Bank, 2020.

¹⁰⁹ Existing data does not allow for precise calculation of the value of public procurement, or the percentage of public spending associated with public procurement. See Bosio and Djankov, How Large is Public Procurement?, World Bank Blogs, Feb 5, 2020 for estimates of the importance of procurement in a range of countries. A similar estimate for the importance of public procurement in Pakistan can be found in Pakistan’s Public Procurement Regime, PIDE, 2021.

include the provision of an independent complaint review forum, and any aggrieved party can file an appeal against the decision of procuring agency with the Public Procurement Regulatory Authority under Rule 48. The decision of the Public Procurement Regulatory Authority on such complaints is final under the Rules. The rules for overall procurement framework do not require mandatory mechanism for monitoring procurement or establishing a comprehensive procurement database.

119. Unfortunately, amendments introduced into the public procurement rules at the federal government level and in Punjab province have undermined core principles of open competition.

These amendments have provided for the award of contracts to SOEs without competition when projects are considered time sensitive and in the public interest. Regulatory consistency would be further strengthened through reducing the authority of SOEs to establish separate procurement practices granted in Section 17 of the SOE Act 2023. A similar narrowing of exceptions would be appropriate for procurement rules followed by entities and departments associated with sensitive and security-related operations.

120. It is not possible to quantify the number and value of contracts directly negotiated with state owned firms. Anecdotal stories in the media have frequently highlighted high value contracts that have been assigned in this fashion, and the tendency for contractual costs to exceed expectations. Additionally, there appears to be an extensive practice of sub-contracting to private firms in opaque and unmonitored transactions. It is perhaps an understatement to observe that corruption vulnerabilities are high in contracting processes that feature direct negotiation.

121. Current procurement practices, including the use of e-procurement, present a similar challenge relating to the consistency of application. However, further efforts to improve transparency and effectiveness and alignment with best accepted practices are warranted. The potential value of e-procurement in improving the efficiency, effectiveness, and integrity of public procurement processes is well established. After extensive consideration, the federal government in February 2023 mandated the use of the Government e-Government Procurement System (EPADS) for all public procurement.¹¹⁰ Though the use of the e-procurement system is mandatory, certain public sector entities (e.g. NHA, CDA, WAPDA) and sectors especially those related to infrastructure and development works continue to use their own distinct systems.

122. Full utilization of EPADS is an essential element of improving procurement performance. The maintenance of alternative systems or continued reliance on manual-based systems undermines procedural consistency, and the ability to effectively monitor procurement transactions to outcomes. The existence of multiple systems increases opportunities for corruption, while decreasing the ability to detect transgressions.

123. Effective public procurement systems include mechanisms to publicize procurement opportunities and active monitoring of procurement transactions and outcomes to detect and address performance problems. The responsibility for monitoring is often vested in a specific office and is aided by the publication of information on individual transactions and on overall system performance.

¹¹⁰ The province of Balochistan was the first to use the e-procurement and has been using their own e-procurement system since March 2022. The provincial government in the province of Punjab has adopted the federal e-procurement system and rolled out and expanded the use of e-procurement system in last 12 months (since March 2024). The province of Sindh has also started to use the e-procurement system whereas the province of KPK have recently inaugurated the use of e-procurement system.

Increasingly, countries apply the information standards developed by such groups as Open Contracting to guide what information they provide, as well as the format in which the information is provided. Public provision of procurement information, including information on the beneficial owner of firms awarding contracts, creates a level of system transparency that encourages firms to participate in procurement tenders at the same time that it invites monitoring by public and non-state parties.

124. The Public Procurement Regulatory Authority (PPRA), the independent agency tasked with responsibility for prescribing regulations and procedures for public procurement, is also responsible for overseeing the publication of contract opportunities and the contract awards.

Almost all the procurement opportunities (over PRs 3 million) are advertised publicly in a newspaper of wide circulation alongside the publication on website of the Public Procurement Regulatory Authority (PPRA) and award information is disclosed in a timely way prior to the award of the contract.

125. As of now, there is no structured procurement database with analytical capability or machine-readable data. The absence of a comprehensive public database limits PPRA's ability to identify and address systematic, organizational, or transactional problems. Information on procurement is available in fragmented form such as advertisements, evaluation reports and disclosure of contract award on e-procurement system and the PPRA website. Additional information can be obtained through audit observations indicating noncompliance in Auditor General reports.

126. Information gaps also create problems for the effectiveness of the overall accountability framework for procurement. An accountability framework exists and there are multiple layers of accountability by government agencies with respect to their jurisdiction which are often overlapping. The procurements for all public investments are annually reviewed by the Auditor General of Pakistan. In addition, all procuring entities regularly submit information about procurement process and contracts valued over PRs 50 million each under Section 33-B of National Accountability Ordinance to the National Accountability Bureau, which is the apex anti-corruption entity. Procurement oversight by NAB has been primarily driven by complaints related to procurement attributed to fraud and corruption. The PPRA also does a preliminary review of advertisements before publication and review complaints pertaining to the procurement process as an appellate forum for grievances related to procurement.

127. However, the effectiveness of the accountability mechanism is suboptimal in conjunction with unclear definition of responsibilities and competences within procuring entities. The majority of the audits done by the AGP are compliance audits whereas a performance-based audit is more suited for public procurement. The performance-based audit requires considerable human resources with advanced skills, which may be beyond the current competencies of the AGP. In addition, the huge backlog of pending audit paras before the Public Accounts Committee compromises the effectiveness of audit findings in holding organizations accountable for their procurement performance. NAB does not analyze the information provided by public sector entities on their procurement transactions to identify corruption and fraud risks, and has relied upon complaints most often before initiating an investigations.

128. Addressing existing accountability deficits requires increased collaboration among regulatory and enforcement agencies. While protocols exist regarding information sharing across institutions, they are rarely used. Enhancing the timely flow of information among the PPRA, Auditor General, NAB, and the FIA, would be an important first step in improving accountability for non-performance or illegal activity.

129. Firms and individuals can lodge complaints about procurement proceedings. Federal (and provincial) public procurement rules include provisions for the grievance redressal by procuring agencies and review of complaints by the independent forum (i.e. PPRA). The average time to resolve complaints is between two to six months at the federal level. The decisions on procurement complaints are not published and a significant fee is also applicable for the appeal to the authority, which reduces effectiveness. While the decision on procurement complaints by the PPRA is final, it is not rigorously enforced. Instead the PPRA issues recommendations for enforcement with limited follow-up to see if those recommendations are followed. No data is available on the number of the complaints that are pursued in the court of law after the review by the authority or on the percentage of decisions reversed if pursued in the court. The remedy of independent grievance redressal in the form of PPRA as an appellate forum requiring a fee from complainants deters the complainants and comprises the effectiveness of overall complaint mechanism.

E. Asset and Liability Management

Cash Management

130. Governance weaknesses increase in the absence of a Treasury Single Account (TSA) and adequate cash forecasting. While TSA is a valuable tool for improving financial discipline, transparency, accountability, cash forecasting helps estimate future cash flows and balances to avoid cash shortages and address MDAs' cash needs when and as they arise. The existence of too many government bank accounts outside CAGD or treasury oversight and cash rationing of scarce cash resources without procedural clarity, transparency, and oversight during payment of government obligations are signs for governance vulnerabilities in any country and are closely associated with increased risk of corruption.

Main weaknesses and vulnerabilities:

131. While the Treasury Single Account (TSA) and cash forecasting reforms in Pakistan are significant steps towards improving financial discipline, transparency, and accountability, effective implementation of these policies is still necessary to achieve their intended effect. The Public Financial Management Act (PFMA) (2019) provides for establishment of cash management systems including treasury single account. The authorities envisaged TSA implementation in two stages (TSA-I and TSA-II). The Federal Cabinet approved Cash Management and Treasury Single Account Policy (2019), followed by approval of Cash Management and Treasury Single Account Rules (2020). The Cash Management and Treasury Single Account Rules were updated in 2024. The overarching aim of these documents is to consolidate cash resources to strengthen the cash and liquidity position of the Government and improve fiscal discipline of public entities.

132. In TSA reforms, the closure of bank accounts is not fully determined by the Budget Wing's well-established policy. The decision on which MDA's and extrabudgetary entities' bank accounts should be covered by a TSA should be based on a broader sectorization exercise. Following the approval of the TSA Policy in 2019, the first phase of TSA reform aimed to cover all MDAs' bank accounts. Initially, the authorities closed 3,000 MDAs' bank accounts but reinstated 500 of them due to the mistaken closure of third-party trust accounts. In the second phase, there was strong resistance from autonomous agencies to be included in the TSA. Consequently, the authorities updated the 2020 rules and adopted the Cash Management and Treasury Single Account Rules in 2024, aiming to introduce comprehensive arrangements with these entities. The Budget Wing continues to close bank accounts based on statements from the State Bank of Pakistan or other banks, but the authorities lack the clear picture of the

government accounts and their specific characteristics. In the absence of comprehensive information, accounts are closed on a case-by-case basis rather than holistically deciding on the institutional coverage of the TSA based on a broader sectorization of all public entities in Pakistan. No new accounts for MDAs are being opened without pre-approval of the FD.

133. A weak TSA framework without a firm institutional coverage decision undermines effective control over the government's cash balances, leading to inefficiencies in the use of public funds and weakening overall budget authority. Without centralized oversight, fragmented cash holdings across various accounts can result in idle balances that are not optimally utilized for government priorities. Moreover, the lack of transparency raises concerns about potential foregone interest revenue for the federal budget. It remains unclear who benefits from the interest earned on accounts held by federal government entities in commercial banks, and whether such earnings are captured in the national budget. Addressing these gaps is essential to strengthen fiscal discipline, reduce corruption vulnerabilities, and enhance the efficiency of public financial management.

134. To reap the full benefit of a TSA, the authorities have set up the institutional framework for cash and debt management at the Finance Division, but the implementation of the framework has been weak in practice. A Treasury Cash Management Unit (TCMU) under the Budget Wing and a Cash Forecasting Unit (CFU) at the Treasury Office for performing cash forecasting function have been established. A high-level decision-making body, the Cash Coordination Committee (CCC), a Debt Policy Coordination Office (DPCO) and a Cash Management Working Group (CMWG) to prepare and oversee the cash forecasts and the cash buffer policy have been established. A 2022 Amendment to the Fiscal Responsibility and Debt Limitation (FRDL) Act requires the establishment of a Debt Management Office (DMO) to consolidate the external commercial borrowing and the domestic wholesale borrowing functions and issue guidelines on retail borrowing, functions which are currently highly fragmented across different units. However, the CFU is currently not operational as it is not staffed. Instead, cash forecasting function is performed by a specialist in the Borrowing Section of the Budget Wing, who does this alongside other responsibilities, unrelated to cash forecasting. The CCC convenes on an ad-hoc basis with long intervals rather than monthly as intended, and does not align with the principle that the CCC should be systematically assessing cash forecasts, overseeing cash forecasting performance, and reviewing the cash buffer policy. Coming together quarterly rather than monthly, the CMWG is also not in a position to supply technical inputs on cash forecasts to the CCC. In terms of cash and debt management coordination, the lack of weekly forecasts limits the ability to come up with more effective borrowing programs.¹¹¹

135. The cash forecasting performance is not monitored in a systematic manner. The deviations from cash forecasts alongside the major reasons behind these deviations are not developed and presented to the CMWG and the CCC periodically. This also related to the fact that these committees are not functioning fully in line with their mandate. Cash forecasting is fragmented between the Budget Wing and the Debt Policy Coordination Office (DPCO)/the Debt Management Office after the 2022 amendment in the FRDL Act. The Budget Wing develops the above-the-line cash flows and conveys to the DMO. Then the DMO converts these forecasts into weekly data mechanically by dividing the cash balance projections evenly across weeks. Therefore, the Budget Wing who is essentially responsible for developing and monitoring whole set of forecasts including all above and below-the line flows and cash balance

¹¹¹ F. Rahim et. al (November 2022), Implementing a Treasury Single Account and Managing Fiscal Risks, IMF FAD TA Report.

projections as well as monitoring the cash buffer policy based on these forecasts cannot effectively perform these functions.¹¹² Instead, cash management appears to ration existing cash rather than projecting realistic cash inflows and outflows.

SOEs

136. International experience suggests that state-owned enterprises are an area of potential governance weaknesses and corruption risks. Governments establish and maintain ownership of public enterprises in order to ensure the supply of goods and services in markets which it considers not well served by private providers, often due to actual or perceived market failure. However, global experience indicates that, if SOEs are not well governed and transparent, they can be a very significant source of fiscal risk, contribute to poor service delivery outcomes for citizens, and be breeding grounds for corrupt activities.

137. State-Owned Enterprises (SOEs) in Pakistan have undergone significant reforms aimed at improving their efficiency, governance, and financial performance. In the Annual Report on Federal State Owned Enterprises for Fiscal Year 2024, total assets were reported at PRs 38,434 billion, with liabilities amounting to PRs 32,571 billion, resulting in a net equity of PRs 5,863 billion. Total revenues stood at PRs 13,524 billion, while a net loss of PRs 30 billion was recorded. Although the substantial revenue figures highlight the significant role that state-owned enterprises (SOEs) play in the economy, the reported loss points to underlying inefficiencies that need to be addressed to enhance overall profitability. The government has implemented a triage system to categorize SOEs based on their financial viability and strategic importance. This helps in deciding whether to privatize, restructure, or retain them under government control. SOE Ownership and Management Policy was updated in 2023; this policy outlines the governance framework for SOEs, including criteria for ownership, management, and monitoring. It aims to enhance transparency, accountability, and performance of SOEs. The authorities established the Central Monitoring Unit under the Corporate Wing to oversee the implementation of SOE reforms. This unit ensures compliance with policies and monitors the financial and operational performance of SOEs. The government continues to push for the privatization of non-strategic SOEs to reduce fiscal burden and improve efficiency. However, challenges such as economic instability and resistance from autonomous agencies have impacted the pace of privatization. In addition, adoption of 2023 SOE Act aiming to align SOEs with corporate governance standards and improve their legal frameworks to ensure better management and accountability.

Main weaknesses and vulnerabilities:

138. There has been improvement in SOE governance, and addressing the challenges posed by weak boards that lacked the necessary competencies and skills, as well as by managers who lacked proper professional expertise. Since the adoption of the SOE Act (2023), there has been ongoing work on the appointment of independent and professional Boards through the Board Nomination

¹¹² Above-the-line transactions refer to revenue and expenditure operations that determine the fiscal balance (i.e., the deficit or surplus). Below-the-line transactions refer to financing operations that explain how the fiscal deficit or surplus is funded. These include borrowing (domestic or external), use of cash reserves, sale of assets, and other financial transactions.

Committees.¹¹³ The Cabinet Committee on State-Owned Enterprises approves the nominations. Article 12 of the SOE Act indicates that a board of a company shall consist of independent directors, *ex-officio* directors and the chief executive officer of the company with the requisite skills, competencies, knowledge, experience. The Law also states that the majority of the board will consist of independent directors. The authorities also adopted the 2024 Guidelines on C Level Appointments to enhance the governance, transparency, and operational efficiency of SOEs.

139. Realizing the full effects of all these developments and improving the capacity of State-Owned Enterprise (SOE) boards, especially in the context of increased influence from interest groups, requires a multifaceted approach. Therefore, the government should continue: (i) strengthening board independence by ensuring that board members are selected by implementing strict criteria; (ii) enhancing training and development by providing continuous training and development programs for board members to keep them updated on best practices in corporate governance, financial management, and sector-specific knowledge;¹¹⁴ (iii) implementing robust oversight mechanisms by establishing clear oversight mechanisms to monitor the performance of SOE boards. This includes regular audits, performance evaluations, and transparent reporting practices; (iv) promoting transparency and accountability by making meeting minutes, decisions, and performance reports publicly available. This helps in holding board members accountable and reduces the influence of interest groups; and (v) fostering a culture of ethical governance: Encourage a culture of ethical governance by setting clear ethical standards and codes of conduct for board members. This includes addressing conflicts of interest and ensuring that decisions are made in the best interest of the SOE and its stakeholders. In addition, there should be effective coordination between the SOE boards and government oversight bodies to align objectives and strategies. This helps in maintaining a balance between autonomy and accountability.¹¹⁵

140. Continuing increasing the capacity in SOEs to implement the provisions of the SOE Act, is also crucial to avoid governance vulnerabilities. SOE managers' technical capacity in reporting, preparation and implementation of business plans, fulfilling Public Service Obligations, procurement, and daily business operation needs to be enhanced. Without adequate capacity, SOEs can struggle to enforce internal controls and oversight mechanisms, making it easier for corrupt practices to go unnoticed. Limited resources and expertise can result in poor compliance with legal and regulatory requirements, increasing the risk of legal violations and financial mismanagement. In addition, insufficient capacity can hinder the ability of SOEs to maintain transparency in their operations, leading to a lack of public trust and potential misuse of resources. To address these challenges and improve the technical capacity in SOEs, the CMU has already initiated training on several topics, including the preparation of business plans and the fulfillment of public service obligations. The CMU should continue conducting regular training sessions for SOE employees on reporting, governance, financial management, and compliance.

¹¹³ Article 10 of the SOE Act indicates that Board Nominations Committee comprised of (a) Minister in charge to which the business of SOE has been allocated under the Rules of Business, 1973-- Provided that where the Minister in charge is the Prime Minister he may nominate another member of the Federal Government to be Chair of the Committee (b) Secretary of the Division to which the business of the SOE has been allocated under the Rules of Business, 1973; (c) Secretary of the Finance Division or his nominee of at least BPS 21.

¹¹⁴ Leadership Training Toolkit for State-Owned Enterprises (SOEs) developed by the World Bank and IFC could be a source (<https://www.ifc.org/en/insights-reports/2021/soe-leadership-toolkit>)

¹¹⁵ OECD, Corporate Governance Working Papers No. 2: Enhancing the Role of the Boards of Directors of State-Owned Enterprises (2011). (https://www.oecd.org/content/dam/oecd/en/publications/reports/2011/05/enhancing-the-role-of-the-boards-of-directors-of-state-owned-enterprises_g17a1fbf/5kg9xf6n4wj-en.pdf)

141. While there has been ongoing progress in costing and accounting for public service obligations, the relationship between SOEs and the Government could benefit from further clarity and transparency regarding implementation. The October 2024 Distribution of PSO Costing Guidelines for SOEs established the costing methods to be used for delivering public service obligations, and the SOE Law defined the general process for determining the scope of the obligations.¹¹⁶ Measuring the costs of PSOs when entrusting such services to SOEs is important to inform fiscal policy decisions. Knowing the costs firstly inform fiscal planning and oversight over SOEs financial health. Despite the significant progress, there are still uncertainties regarding how the costing guidelines will be implemented by the SOEs and what the roles of the related line ministries will be. Additionally, there is no clear explanation on how funding for PSOs will be managed. There are various strategies, each with distinct implications for fiscal policy and management as well as different pros and cons regarding transparency and accountability.¹¹⁷ To facilitate the flow of information on costs incurred by SOEs, and any payments not made resulting in QFAs, the CMU should provide specific guidance on the rules for transparent financial reporting on these PSOs. Financial statements and timely other fiscal reports on the PSOs should be a reporting requirement for the respective SOEs involved in delivering the services.

142. While the approval of the SOE Act has been an important step, there were concerns about the exemption to the 2023 SOE Act and SOE Policy Framework included in the enactments of the Sovereign Wealth Fund (SWF) Act. In the 2023 SWF Act, seven SOEs were exempted from the SOE Act. However, authorities have proposed amendments to end the SWF Act, which are expected to be placed before Parliament to ensure that these SOEs will no longer be exempted (See SWF Section). Going forward, it is crucial that all SOEs are included without any exemptions.

143. The establishment of CMUs has been a significant step forward for SOE financial oversight and transparency regarding the performance of SOE, and further strengthening their analysis would enhance the monitoring of SOE performance and avoid governance vulnerabilities related to SOEs. The CMU publishes a wide range of reports and guidelines related to the performance, governance, and oversight of SOEs. These publications are available on the official CMU page. Key CMU publications include: (i) Aggregate Annual Reports on SOEs (e.g., FY2024, FY2023) and (ii) Bi-Annual Reports on SOE performance. Further improvement in the CMU analysis is expected in data collection. Currently, SOEs reporting is manual through pdf files but there is ongoing work in the introduction of an IT system and online database for SOE data collection and analysis. CMU is continually enhancing its reporting and analytics capabilities, providing robust insights to the Cabinet Committee on State-Owned Enterprises, the federal government, and other stakeholders to enable informed decision-making.

Privatization

144. The process of privatizing state-owned enterprises (SOEs) or broader government assets can create opportunities for corruption at various stages, from the inception to the tender and sale of public assets. This is often due to information asymmetries, where insiders such as managers and public officials have more information than outsiders. Clear procedures and regulations should be

¹¹⁶ Quasi-fiscal activities are operations carried out by public corporations to further a public policy objective that worsens their financial position relative to a strictly commercial profit-maximizing level. Quasi-fiscal activities can take a variety of forms, the most common of which include: (i) public service obligations (PSOs) that are not compensated, (ii) performing noncore functions, (iii) subsidized purchases, (iv) super-dividends, (v) pricing for short-term budget revenue purposes. IMF, How-to Note, How to Improve the Financial Oversight of Public Corporations, 2016.

¹¹⁷ These strategies include direct government compensation, cost recovery through pricing, cross-subsidization

established for the transfer of SOEs or state land through privatization. In addition, there should be transparency in the privatization process and tools including the valuation of assets and increased parliamentary controls about the decision and the process.

145. In Pakistan, the Privatization Commission's mandate covers only the federal government and primarily focuses on the privatization of state-owned enterprises (SOEs). The Privatization Commission follows the procedures and processes laid down in rules and regulations framed under the Privatization Commission Ordinance, 2000. Independent audits by the Auditor General of Pakistan and the parliamentary committees' oversight provides a measure of oversight.¹¹⁸ Rules and regulations of the Privatization Commission are publicly available on its website. The Cabinet Privatization Committee headed by the Deputy Prime Minister decides which SOEs will be included in the Privatization Program. The latest Privatization Program was adopted in August 2024 including 24 SOEs. The list in the Privatization Program can change based on the Cabinet SOE Sectorization Committee's decisions. In the current privatization program (2024-2029) there is a phase approach including Phase I, Phase II, and Phase III companies. Transparency of transactions and accountability are overseen by the Parliament Committee to which the Commission report. Different modes of biddings are used and each mode is approved on a legal basis. There has been increased transparency and based on the Prime Minister's request there is live bidding process broadcasted on TV. The ligations and Tribunals are mostly HR related and handled in different courts.

146. Financial advisers carry out asset valuation by applying the methodology defined in the legal framework. Engagement with Financial Advisory Consortiums improves the process and transparency of valuations. The engagement of an independent third party as a valuator as well as a financial advisor to carry out the valuation, which is then taken through a three-tiered approval process - (including Transaction Committee, PC Board and Cabinet Committee on Privatization / Cabinet) provides for independent professional valuation. As a first step, the financial adviser "transaction committee" evaluates the proposed privatization method and their appropriateness (without seeing the value—this is a valuation of selected method and methodological discussion on IRRs etc.). Approval of the PC Board is required (valuation process involves transaction committees, PC Board and CCOP/Cabinet) and then the Transaction Committee presents the method to the Cabinet Privatization Committee for their approval. The value is not presented to the Cabinet Committee until the bidding date.

147. The authorities face several challenges in the privatization process due to general economic and political developments. It has been difficult to attract tier 1 financial advisory firms during the tender. Another hurdle in the privatization process is economic instability in the country. Economic volatility, including inflation, fiscal deficits, high debt, and the overall underperformance of SOEs, creates an uncertain environment for privatization and complicates the process due to the limited number of bids.

Sovereign Wealth Funds (SWF)

148. Sovereign Wealth Funds (SWFs) can be susceptible to corruption due to several factors. Opacity and lack of transparency in their operations can create opportunities for unethical behavior, such as embezzlement and fraud. Political exploitation is another risk, as SWFs are often

¹¹⁸ The Privatization agenda / program has parliamentary oversight through the National Assembly Standing Committee on Privatization and Senate Standing Committee on Privatization. Additionally, the audits of the Privatization Commission carried out by the Auditor General of Pakistan are discussed in the Public Accounts Committee of the parliament.

controlled by government entities, leading to potential misuse for personal gain or political agendas. Weak governance structures in countries with high corruption risks can further exacerbate these issues, resulting in inadequate oversight and accountability. The 1 Malaysia Development Berhad (1MDB) scandal is a prominent example, highlighting the severe anti-corruption compliance risks associated with SWFs. To mitigate these risks, it is essential to implement strong governance frameworks, enhance reporting and transparency, and ensure rigorous oversight and accountability mechanisms.

Main weaknesses and vulnerabilities:

149. The 2023 SWF Act is not yet operational, and authorities are working on amendments to adopt appropriate governance mechanisms and safeguards for the SWF and its SOEs. As indicated in the SOEs section, the SWF Act exempted seven SWF owned SOEs from the SOE Act. In addition, the current 2023 SWF Act presents governance weaknesses and fiscal safeguard issues related to the governance and operations of the SWF itself. Since the GCD mission team's visit to Islamabad, the nature and function of the SWF have been extensively discussed within the government and with the IMF. Amendments to address identified problems in the process of being drafted and vetted by the Law Division before their submission to Parliament.

150. The amendments are expected to establish the grounds for an effective governance structure and transparent operations, which are essential for the sound management of a SWF. They are intended to align the governance of SWF-SOEs to the same high-quality governance structures and accountability standards as all other SOEs under the 2023 SOE Act. The amendments focus on the appointment of board members, reporting, interactions, and relations with the MoF and budget, as well as accountability mechanisms. The goal is to ensure the SWF's integrity and fiscal responsibility while avoiding governance vulnerabilities. Key aspects include: (i) appointment criteria and procedures for SWF board members, along with removal processes requiring minimum transparency; (ii) reporting and disclosure requirements, such as publishing an annual report with audited financial statements, external auditor reports, details of all fund transactions, investment policies, and any special authorizations. Disclosure extends to investment mandates, business plans, remunerations, legal frameworks, procurement policies, subsidiaries, related party transactions, conflicts of interest, ethics codes, and joint ventures. Board approval is necessary before report publication; (iii) financial and fiscal controls, including the MoF's mandate over fiscal risks related to the SWF, dividend rules, investments into the SWF through budget appropriation, prohibition of borrowing, lending, participating in PPPs, or receiving contributions from the Central Bank and state-owned entities; and (iv) accountability mechanisms, including the SWF Board's oversight of internal control and risk management systems, the Board Chairman and CEO's requirement to appear before Parliament annually, and asset declarations by key officials. Additionally, Anti-corruption frameworks must apply to SWF officials and SWF-affiliated SOEs, with transparency requirements including beneficial ownership disclosures in procurement and divestment processes.

151. In general, to avoid governance vulnerabilities in the SWF, it is important to: (i) follow the international standards (for example, the OECD Guidelines on Corporate Governance of SOEs and the Santiago Principles) and specifically on SOE holding companies; (ii) clarify the legal nature and mandate of the SWF as a SOE, subject it to SOE Act (adopting specific provisions to ensure the SWF's governance structures correspond with a holding entity's nature and mandate); and (iii) requiring that privatization or sales of assets and its procurement processes are conducted based on rules and policies adopted and published by the SWF's Board that are in line with international standards and best practices and ensure open, competitive, transparent and non-discriminatory procedures, establishing minimum disclosure requirements for each stage of the process, including on beneficial ownership.

Non-financial Asset Management

152. Non-financial assets are prone to a wide range of governance vulnerabilities and financial irregularities. In Government Finance Statistics Manual (GFSM) 2014, nonfinancial assets are defined as tangible assets like land, buildings, and equipment, as well as intangible assets like intellectual property. Land and buildings are valuable and important non-financial assets in Pakistan and should be properly monitored. The governance vulnerabilities occur in non-financial assets through inventory losses; sales, privatization, leases and other forms of allocating rights in public property to private economic actors; and using government owned or leased buildings, lands, vehicles for their own personal needs. Lack of: (i) asset registry; (ii) proper valuation of assets; (iii) transparent privatization policies (important for both non-financial assets in case of privatization of fixed assets and financial assets in case of sales of shares of government in SOEs etc.—equity transaction / financial assets); (iv) transparency in government leasing arrangements can point out governance vulnerabilities in non-financial assets. In addition, absence of data on government non-financial assets; proper accounting system driving effective decision making at the level of the custodian, accountability involving overall stewardship of assets, and data and IT systems could be further increasing the vulnerabilities to governance.

Main weaknesses and vulnerabilities:

153. In Pakistan, there is governance vulnerabilities in managing non-financial assets as there has been no unified procedures and practices in place until recently. Each ministry prepared their asset registry based on their own guidelines. Recently, in 2025, the Asset Management Guidelines was approved as a follow-up to the 2023 PIMA CPIMA recommendations. The Guidelines introduce a centralized asset registry in the FBAS for the assets of which values are above PRs 1 million. The assets below this threshold will continue to be registered in the local registry. However, the MoF, Expenditure Wing will guide the practices of recording through the guidelines and preparing uniform formats. They will unify the methods of registry as opposed to the past system. The authorities are currently working on developing methodologies and will prepare a manual to guide the MDAs as next steps.

154. There has been no guidance on how to manage the legacy assets and valuation related issues. The FS has not asked the MDAs to take stock of the legacy assets and did not provide any guidance in which cost they should register these legacy assets. In addition, there is no dedicated staff in the EW to further develop and manage this reform. Consultants worked on the preparation of the guidelines.

Debt Management

155. Governance vulnerabilities in debt management can arise from several factors. A lack of a comprehensive framework for borrowing authority and granting guarantees can lead to unclear and inconsistent practices. There needs to be clarity in assuming, monitoring, and reporting on debt obligations, including off-budget debt and related to contingent liabilities such as public-private partnerships (PPPs) and project loans kept outside the budget. Annual limits set by Parliament on assuming debt obligations and granting guarantees are essential to maintain fiscal discipline. Adequate accounting and reporting on debt obligations, supported by an Integrated Financial Management Information System (IFMIS) and/or a debt recording IT system, are crucial for transparency. Insufficient or limited information disclosure of debt obligations and financial risk management can obscure the true financial position. Effective coordination between fiscal and monetary policy on public debt management is necessary to ensure overall economic stability. Finally, robust oversight by Parliament and/or the

National Audit Office is vital to hold the government accountable and ensure sound debt management practices.

Main weaknesses and vulnerabilities:

156. The government debt management function in Pakistan has been conducted under a fragmented institutional structure. This fragmentation has led to inefficiencies and challenges in managing the country's debt effectively. The current setup involves multiple entities with overlapping responsibilities, which complicates coordination and decision-making that can lead to suboptimal borrowing choices. The recent amendment to the Fiscal Responsibility and Debt Limitation (FRDL) Act, enacted in June 2022, led to the establishment of a dedicated Debt Management Office (DMO) and, envisages devolving the external commercial borrowing function to the DMO. Currently, international capital market issuances are managed by DMO and External Finance Wing, in consultation with DMO, manages the financing obtained from international commercial banks. While the DMO and other stakeholders are involved in these processes, the precise roles and responsibilities among the entities remain somewhat uncertain, highlighting the need for clearer institutional roles and responsibilities. On the other hand, the Ministry of Economic Affairs' Economic Affairs Division is carrying out the bilateral/multilateral external borrowing operations including both related front and back-office functions. The SBP is in charge of back-office functions for domestic and external borrowing from markets. Finally, the Securities and Exchange Commission of Pakistan (SECP) captures Islamic Finance instruments. Ideally, a fully resourced, well-staffed, and empowered DMO should be responsible for these functions, rather than having them managed within the External Finance Wing.¹¹⁹

157. The fragmentation in debt management is evident in debt data monitoring and management. The debt data repository, DMFAS, currently only includes external debt data captured by the EAD. This limited scope hinders a comprehensive view of the country's total debt obligations, as domestic debt data inefficiencies and inaccuracies in debt reporting and analysis. Addressing this fragmentation by incorporating all debt data into a single repository would enhance transparency and improve the effectiveness of debt management strategies. To address the issue, the authorities—supported by technical assistance from the Asian Development Bank (ADB)—have initiated the integration of domestic debt data into DMFAS.¹²⁰

158. Timely updating and implementation of the debt management strategy is also essential to avoid “sub-optimal” borrowing choices. Some issuance decisions seem to be ad-hoc and it is not clear whether they are guided by an overall strategy (e.g., the recently introduced one-month bill), raising some questions about the banks' potential influence (as the main lenders) on borrowing decisions. A well-defined and regularly updated debt management strategy would help ensure that borrowing decisions are aligned with cost-risk trade-offs and broader fiscal objectives. Moreover, it would enhance

¹¹⁹ In order to address the fragmentation, a Debt Coordination Committee (DCC) chaired by the Finance Secretary, has recently been formed. This committee has representatives from all major stakeholders from the Finance Division, the Economic Affairs Division, and the SBP; and aims to facilitate effective coordination on matters related to the development and implementation of the medium-term debt management strategy, data sharing mechanism and any other matter requiring coordination on debt management.

¹²⁰ After the GCD mission visit, a comprehensive Integration Study Report was prepared by UNCTAD, along with a roadmap for implementation, which has been agreed upon by all stakeholders. The project is expected to be completed by September 2026.

transparency and predictability in the market, supporting investor confidence, integrity, and more effective debt management.

159. Cash and debt management coordination seems mechanical and can further contribute to suboptimal borrowing choices. As discussed in the cash management section, the organizational framework around cash and debt management has not worked as designed. This lack of effective coordination can lead to inefficiencies in borrowing strategies, resulting in higher costs and increased fiscal risks. Strengthening the coordination or even integration between cash and debt management functions is essential to optimize borrowing decisions and improve overall financial management.

160. There is a clear legal framework for government guarantees and on-lending but there seems to be no data on lending in debt management reports and no regular monitoring of receivables from guarantees and on-lending loans. The Fiscal Responsibility and Debt Limitation (Amendment) 2005 imposes following two ceilings on Government guarantees: (i) Flow ceiling—2 percent of GDP on the issuance of Government guarantees, with renewal of existing guarantees being considered as issuing new guarantees; (ii) Stock ceiling—10 percent of GDP on the total stock of outstanding. The Policy for Relending of Foreign Loans (2020) by the EAD. The borrowers are liable to bear the exchange risk cost on actual basis and repay the actual amount of principal and interest as paid by the Government of Pakistan to the foreign lender in foreign currency and converted into Rupee equivalent issued by the State Bank of Pakistan. In addition, one-time fixed administrative charge of 0.25 percent will be applicable on the amount of loan disbursed to the borrower. Guarantees are disclosed in debt reports. The guaranteed debt stock is PRs 3.4 trillion (US\$12 billion) as end of June 2024 they are mainly provided to the power sector entities. The debt management report includes the guaranteed debt stock but does not provide information about on-lending or relending loans, nor does it include data on receivables related to guarantees and on-lending, even though some entities fail to repay their guaranteed debt.

F. Internal Control, Internal Audit and External Audit

161. An effective internal control system is essential for creating an environment that ensures appropriate decision-making regarding the use of public resources, with clear accountability for such decisions, including via administrative structures, as well as external oversight by a supreme audit institution and the legislature. Both internal and external audits are vital in maintaining the integrity of an organization's operations and financial reporting, thereby reducing the risk of corruption.

Main weaknesses and vulnerabilities:

162. Internal audit is weak in Pakistan. Article 26 of the PFM Act 2019 requires that the position of Chief Internal Auditor (CIA) shall be created who will work under direct supervision of principal accounting officer within a period not exceeding twelve months from the date of commencement of the PFM Act. Despite this provision, there has been no implementation and appointment of CIAs. Currently, there are 25 Chief Finance and Accounts Officers (CFAOs) serving in the ministries/divisions to assist the Principal Accounting Officers (PAOs) in financial management ensuing Financial Management and Powers of PAO Regulations (2021), which superseded the previous Revised System of Financial

Control and Budgeting (2006).¹²¹ It has yet to be ensured that CIAs are posted in all ministries/divisions, and CFAOs in the remaining 15 ministries/divisions, as well as the full implementation of the PFM Act 2019.¹²² In addition, ministries/divisions with CFAOs lack consistency, interest, and follow-up on the findings of internal audit reports.

163. The Office of the Auditor General (OAG) is an attached institution of the Federal Secretariat (FS), which results in a lack of full independence. According to Article 171 of the Constitution of Pakistan and Article 7 of the Pakistan Audit Ordinance, 2001, the Auditor General of Pakistan attests the Appropriation Accounts and Financial Statements of Federal, Provincial and Local Governments' entities and the certified Accounts/ Financial Statements of the Federal and Provincial/Local Governments are submitted to the President and the Governors of Provinces, respectively. Due to its status as an attached institution, the Auditor General does not report directly to the Parliament but instead through the FS, the Prime Minister, and the President. This indirect reporting structure can potentially compromise the independence and objectivity of the audit process. In addition, as an attached institution, the OAG must obtain approval from the federal Public Service Commission to hire auditors. The OAG indicated that they face a significant staffing shortage--a deficit of 1,500 staff members. The primary reason for this shortage is fiscal constraints that have prevented the necessary approvals for hiring. Even though the budget of the Auditor General is classified as charged expenditure, which means it is not subject to a parliamentary vote, the OAG still needs to adhere to budget execution rules. Consequently, they are subject to budget releases by the FS, which are informed by cash availability. This dependency on the FS for budget releases further limits the operational independence of the OAG. Although the FS may find it challenging to ensure the financial and operational independence of the OAG under the country's ongoing stabilization program, such independence is critically important for SAIs to perform their tasks as needed and required.

164. The effectiveness of the audit process is further undermined by the excessively long reports that contain repetitive recommendations and the lack of timely review by the Public Accounts Committee (PAC). The OAG produces over 6,000 reports each year, but there is minimal or no follow-up from the PAC and the ministries/divisions. As a result, 75 percent of the 34,000 recommendations made by the Supreme Audit Institution (SAI) are still pending discussion in the PAC. The audit reports are often too lengthy, with some reaching up to 4,000 pages, and they have included repetitive recommendations for years since these irregularities identified in the reports are not addressed by the executive agencies. For instance, the Federal Government Compliance Audit Report for FY2023-24 is four thousand pages long. Additionally, there are no systems in place for monitoring the response to or compliance with audit findings and recommendations, which further diminishes the impact and effectiveness of the audit process. There is need to develop a system that can make executive authority responsible/accountable in case of non-compliance of audit recommendations as well as PAC directions. This can be achieved through making appropriate amendments in the PAC regulations and AGP Act to empower these institutions to ensure compliance with their directives. Going forward, streamlining audit reports by including concise recommendations for the most critical issues and organize findings by their impact and urgency, using visual tools like traffic light systems to indicate the severity of issues could be considered.

¹²¹ The job description given in the PFM Act does not provide that CFAOs should undertake internal audit. In the absence of CIAs in ministries/divisions, the internal audit wings do not exist and internal audit reports are not generated.

¹²² In addition, Article 13 of the General Financial Rules (GFR) Volume I covers internal control related provisions for controlling officers (head of a department or other departmental officer who is entrusted with the responsibility of controlling the incurring of expenditure and / or the collection of revenue by the authorities subordinate to the department) under the title of Internal Check Against Irregularities, Waste and Fraud.

In addition, to strengthen parliamentary oversight, the PAC should be mandated to review audit reports promptly, supported by a tracking system that requires audited entities to report on implementation progress. PAC members would benefit from targeted training to enhance their scrutiny of audit findings. Additionally, a centralized follow-up unit within the OAG or PAC Secretariat should monitor implementation and publish regular progress updates to improve transparency and accountability.

G. Cross Cutting Issues

165. Human Resources (HR) and organizational structure: There are ongoing challenges related to the Finance Secretary's organizational structure and technical capacity, which hinder the effective execution of its functions. To address these issues, the authorities could consider implementing recommendations from the World Bank's previous functional review and the IMF's Fiscal Affairs Department technical assistance on Expenditure and Budget Wings.

166. Also, many reform areas—such as macro-fiscal analysis, asset management, SOE monitoring within the Central Monitoring Unit (CMU), and debt management—are currently staffed by contractors rather than permanent Finance Secretary personnel, which may affect continuity and institutional capacity.

167. Additionally, instead of addressing structural weaknesses within MDAs or focusing on stabilizing the macroeconomy, the authorities have opted to create new institutions—as noted in the SIFC section. This approach has led to institutional fragmentation, which in turn undermines clear lines of responsibility and accountability across the public sector.

168. Digitalization: While there has been notable progress in IT and digitalization efforts, these advancements have occurred without a comprehensive or holistic strategy. Systems such as the FABS and other digital platforms are discussed in the report, highlighting improvements in automation and data management. However, the absence of an overarching digital strategy limits the coherence and long-term sustainability of these initiatives.

| Table 6. Recommendations on Public Financial Management | | | |
|--|---|--|-----------------|
| Recommended Action | Responsible Authority | Objective | Timeline |
| 1. Bring forward to publication of preliminary BSP in January or include preliminary forecasts for macro-fiscal indicators, IBCs in the BCC. | Finance Division | Strengthen the top-down budgeting, macro-fiscal analysis | ST |
| 2. Analyze the accuracy of previous macro-fiscal forecasts and budget estimates—ex-post reconciliation. ¹²³ | Finance Division | Strengthen the top-down budgeting, macro-fiscal analysis | ST |
| 3. Avoid in-year budget adjustments without getting the Parliament's ex-ante approval through the use of supplementary grants, while maintaining some flexibility in budget execution through introducing contingency reserve. | Cabinet Finance Division | Strengthen budget execution | ST |
| 4. Continue improving commitment controls by enforcement of the process after the establishment of the link between FABS and EPADs. | Cabinet Finance Division | Strengthen budget execution | ST |
| 5. Enhance transparency, efficiency, and affordability of PSDP by: <ul style="list-style-type: none"> Continuing to enforce the 10% cap on allocations for new projects. Further rationalizing the portfolio of technically approved projects to retain only high-priority initiatives. Ensure protection of capital expenditures through limiting the in-year adjustments of capital expenditure through utilization of supplementary or technical grants. | Ministry of Planning Development & Special Initiatives | Improve PIM | ST (ongoing) |

¹²³ Although the Fiscal Policy Statement, presented to Parliament by the end of January every year discloses key forecast deviations and explain the underlying fiscal and macroeconomic developments, there is room for improvement in this presentation. Please see paragraph 181 of the [Fiscal Transparency Handbook](#). The reconciliation should (i) begin with the previous year's medium-term fiscal forecast; (ii) adjust for any accounting or classification changes; (iii) identify the impact of policy decisions made during the intervening period and in the current budget; (iv) present the new fiscal forecasts over the medium term. These changes should be broken down into macroeconomic factors; changes in volume and caseload, discretionary policy impacts, and classification changes.

| | | | |
|--|-------------------------|--|---------------------|
| <ul style="list-style-type: none"> Integrating Parliamentarians' projects into the PSDP process. | | | |
| <p>6. Enhance transparency regarding strategic investments by:</p> <ul style="list-style-type: none"> producing and making public the first annual report of the Special Investment Facilitation Council, including information on all deals that it has facilitated. Any concessions provided for the particular deal (tax, policy/regulatory, or legislative) to be included in the annual report—along with detailed rationale of concessions, and the value of the concession. Publishing the information on the implementation of the Bol (Amendment) Act, Article 10F (Power to relax or exempt from regulatory compliance). | SIFC | Improve transparency and accountability | ST (ongoing) |
| <p>7. Revise procurement legislation and Public Procurement Rules to align with best practices and eliminate preferences, including for firms with state ownership and charitable organizations.</p> | PPRA | Ensure transparency, efficiency, and accountability in public procurement processes | ST |
| <p>8. Institutionalize regular report(s) on Government web-site(s) of quarterly monitoring reports on public procurement for development and non development expenditure, including information on contract award winners, segregated data on procurement by categories (Goods, Works and Services) and procuring agencies, use of market approaches (open, limited and direct), compliance percentage and data on violations, methods of procurement, competition, grievances, and overall and individual performance on contracts for time and cost overruns.</p> | PPRA/Procuring agencies | Enhance transparency and accountability and contribute to fiscal governance and improved public financial management | ST |
| <p>9. Within 18 months require the usage of the Government's e-Government Procurement System (EPADS) for all procurement transactions and integration of systems with central e-procurement system</p> | PPRA | Promote competitive bidding processes and ensure fiscal prudence | MT |

| | | | |
|---|---|---|---------------------|
| wherever regulatory framework allows the use of other systems. | | | |
| 10. Improve the capacity of the public procurement system by introducing mandatory certifications for procurement professionals and establish dedicated procurement cells within public sector organizations. | PPRA | Build institutional resilience, memory and operational efficiency | ST |
| 11. Enhance the effectiveness of complaint processes by establishing standards for the resolution of complaints and public dissemination of report on grievances. | PPRA | Transparency, Fairness and improved performance | ST |
| 12. Enhance cash management by implementing the overarching sectorization exercise to unify decision-making around TSA institutional coverage, while also improving analytical capabilities and adopting a forward-looking approach to cash forecasting. | Finance Division (Budget Wing, Expenditure Wing) | Strengthen cash management | ST |
| 13. Improve the capacity of SOE Boards as well as the technical capacity of SOEs staff through organizing regular trainings. | Finance Division, Corporate Wing | Continue improving SOE monitoring and governance | ST (ongoing) |
| 14. Strengthen debt management by: <ul style="list-style-type: none"> Centralizing debt management activities under the DMO: Expanding its mandate to include external, SOE, Sukuk, and guaranteed debt in addition to domestic debt. Consolidating all the data in a single IT system such as DMFAS under the control of the DMO with a clear implementation roadmap. Ensuring full data reconciliation prior to consolidation of the responsibilities in the DMO. Given the current fragmentation in debt data compilation, this can include an independent audit of the debt database, with reconciliation on a creditor-by-creditor basis—particularly for external and domestic debt. | Finance Division, Ministry of Economic Affairs, | Improve debt management | ST (ongoing) |

| | | | |
|---|---|---------------------------|-----------|
| <ul style="list-style-type: none"> Publishing retrospective reports comparing the actions with the announced borrowing plans. | | | |
| 15. Enforce the PFM Act Article 26 for internal controls and establishing internal audit functions. | Cabinet, Finance Division, OAG | Strengthen internal audit | MT |
| 16. Further improve the independence of the OAG by establishing full institutional independence through promulgation of a new AGP Act and bringing appropriate amendments in the Rules of Business 1973 in consultation with the Department of AGP. Being charged expenditure, AGP's budget should be in line with its requirements to fulfill its constitutional role and should also not be subject to budget cuts and hiring limitations under the financial and operational independence required for SAs independence. | Cabinet, Finance Division, OAG | Strengthen external audit | LT |
| 17. Streamlining audit reports by including concise recommendations for the most critical issues, enhancing follow-up mechanisms by strengthening the role of the PACs and the Department of AGP for taking necessary action in case of repeated non-compliance. | Cabinet, Finance Division, OAG, PAC Secretariat | Strengthen external audit | MT |

Section III. Market Regulation

A. Introduction

169. A key function of the state is to regulate markets to enable private sector investment while reducing corruption and rent seeking. An effective regulatory framework supports private sector growth by promoting transparency, competition, and the correction of market failures. Countries with complex, opaque, or fragmented regulations face slower private sector growth due to high transaction costs. Entrepreneurs may choose to avoid these burdens by operating informally or moving their businesses abroad. Excessive regulation, governance weaknesses, and lack of transparency further discourage investment, increase opportunities for corruption, and can enable collusion between elites and government officials.

170. The IMF's Framework for Enhanced Engagement on Governance (2018) highlights that unclear rules, inconsistent application, fragmented regulatory authority, and weak oversight amplify governance and corruption risks. The Fund's 2018 Framework on market regulation focuses on how regulatory complexity and opacity create rent-seeking opportunities and hinder private business operations. Environments with high regulatory discretion and weak accountability are especially vulnerable to corruption. These issues provide the foundation for the following analysis of Pakistan's regulatory landscape.

B. Overview of Pakistan's Regulatory Environment

171. Pakistan's regulatory environment highlights business risks and market challenges. Pakistan has consistently ranked lower than regional peers in comparative business environment indicators. Several business environment topics—corruption and efficiency are areas of concern in Pakistan. According to Pakistani firms surveyed as part of the World Bank Enterprise Survey of 2022—a national firm-level survey which provides cross-country comparisons on several business environment topics—corruption and efficiency are areas of concern, with 20.7 percent of firms identifying business licensing and issuance of licenses as a major or severe indicator of regulatory and governance constraints to a thriving business environment. The World Bank Regulatory Quality Index, which reflects perceptions of the capacity of the public sector to formulate policies and regulate private sector effectively, scores Pakistan's regulatory quality much below the average of its peer lower middle-income countries—with Pakistan ranked closer to the low-income countries.

172. A review of Pakistan's policy framework reveals an inconsistent legal framework where some of the key regulations which govern private sector contain loopholes that exclude key sectors from supervision, while others promote excessive regulation. Furthermore, where the legal frameworks are strong, their effectiveness is weakened by bureaucratic hurdles and inconsistent implementation—driven by a lack of enforcement and low accountability. This is reinforced by uneven autonomy of key market regulators. At a macro level, Pakistan's broader economic inclusivity is limited due to a lack of explicit principles and policies about what and how to regulate, tendency for regulatory authorities to be insufficiently independent—especially in instances such as the appointment of senior officials, and that regulations are implemented inconsistently with often limited effective redress or appeal.

173. Pakistan’s market regulation system has undergone significant reforms. The Government has made a concerted effort to improve its business environment through effective market regulation processes to attract foreign investment. The work has resulted in the implementation of almost 300 reforms to improve the regulatory environment. The on-going Pakistan Regulatory Modernization Initiative (PRMI) aims to further streamline business regulations and reduce bureaucratic inefficiencies. Pakistan has also introduced procedural efficiencies into core processes, such as the Pakistan Business Portal (PBP), which has streamlined the business registration process and is integrated with National Database and Registration Authority (NADRA) and Securities Exchange Commission of Pakistan (SECP) for enhanced processes and transparency. The government has also enhanced its digital systems to simplify processes and facilitate compliance. SECP has also recently spearheaded efforts to digitize key public-facing functions, to further enhance the ease of conducting business for the private sector, and there are ongoing efforts to amend laws, including the country’s company law.

174. Further improvement of market regulation in Pakistan has the potential to substantially improve economic performance. There is evidence of the macro-criticality of market regulation identified by the World Bank’s Enterprise Survey in Pakistan, which shows that regulations impact investment decisions, business growth, and market competitiveness by influencing factors such as access to finance, corruption levels, taxation policies, and bureaucratic inefficiencies.¹²⁴ The International Monetary Fund’s extensive work on structural reforms and macroeconomic performance has estimated the links between governance, market regulations and economic growth. Data on Pakistan indicate that large business regulations gaps remain and potential payoffs from strengthening business regulations to benchmark levels among peer countries.¹²⁵ According to the World Bank’s April 2025 Pakistan Development Update, if Pakistan continues with regular structural reforms—such as improving tax efficiency, streamlining public sector operations, and enhancing the business environment—real GDP growth is projected to rise from 2.7 percent in FY2025 to 3.1 percent in FY2026 and 3.4 percent in FY2027.¹²⁶

175. The IMF highlights that streamlining business registration, licensing, and compliance—especially through digital platforms and harmonized frameworks—can reduce informality and improve productivity, lower entry barriers for SMEs, enhance transparency and investor confidence, and create fiscal space by expanding the tax base. These reforms are modeled to contribute up to 2 percentage points of additional GDP growth over five years when implemented consistently.¹²⁷ Recent IMF modeling suggests that closing Pakistan’s business regulation gaps by 50

¹²⁴ World Bank Group. (2023). *Enterprise Surveys: Pakistan Country Profile 2022*. Washington, DC: International Bank for Reconstruction and Development / The World Bank Group. Retrieved from <https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country/Pakistan-2022.pdf>

¹²⁵ International Monetary Fund. (2024, October 10). *Measuring the Gains from Structural Reforms and Climate Adaptation Investment in Pakistan*. IMF Staff Country Report No. 24/311. <https://www.elibrary.imf.org/view/journals/002/2024/311/article-A002-en.xml>

¹²⁶ World Bank. (2025). *Pakistan Development Update: Reimagining a Digital Pakistan*. Washington, DC: World Bank. Retrieved from World Bank Knowledge Products

¹²⁷ International Monetary Fund. (2024). *Pakistan: Selected Issues* (IMF Country Report No. 24/311). Washington, DC: IMF. <https://doi.org/10.5089/9798400291036.002>

percent—benchmarked against emerging market and regional peers—could yield substantial macroeconomic gains over both short- and medium-term horizons.¹²⁸

C. Regulation of the Business Environment in Pakistan

176. Pakistan’s business regulatory landscape could be aided by the elimination of institutional fragmentation, overlapping mandates, and improved coordination across federal, provincial, and district levels. According to the Pakistan Institute of Development Economics, there are approximately 120 federal regulatory bodies and many more at the provincial level.¹²⁹ Manufacturing firms must navigate over 170 separate registrations and licenses, while mining businesses face more than 70 regulatory hurdles.¹³⁰ These excessive requirements not only discourage entrepreneurship but also incentivize informal payments and favoritism.

177. The extraordinary density of regulations and regulatory bodies contributes to governance vulnerabilities that affect business climate, regulatory enforcement, and public sector efficiency. Pakistan requires multiple interactions with both federal and provincial authorities, in addition to private entities, raising the specter of rent seeking and corruption. Companies register with the Securities and Exchange Commission of Pakistan (SECP). Aspiring private investors interested in setting up a Limited Liability Company (LLC), among other steps, need to reserve the company name and register the business with the SECP. A different set of rules, regulations and processes and procedures govern the registration and operationalization of other business types. Regulatory delivery and governance have become more fragmented post 18th amendment and devolution. Instead of abiding by and responding to a single, harmonized and transparent regulatory regime, investors with operations across the country need to comply with five distinct regulatory regimes which are being administered without any coordination and often with overlapping jurisdictions.

178. The above notwithstanding, the SECP has spearheaded digital reforms that have significantly improved the ease of doing business. The SECP has established a one-stop-shop and Business Facilitation Center (BFC),¹³¹ the first one which is currently only in Islamabad. It has implemented the digitalization of company incorporation, eZfile, integrated with multiple national and provincial

¹²⁸ Projections are derived from the IMF’s structural reform dashboard and Debt, Investment, Growth, and Natural Resources (DIGNAR)/ Debt, Investment, Growth, and Natural Disasters (DIGNAD) models, which simulate the economic effects of governance improvements across key domains such as business regulation, public investment management, and external sector liberalization. DIGNAR and DIGNAD models evaluate how public investment and natural resource revenues affect growth and debt sustainability and assesses the macroeconomic impact of natural disasters and the benefits of investing in climate-resilient infrastructure, respectively.

¹²⁹ See Haque and Qasim, *Regulatory Bodies: Hurting Growth and Investment*, Pakistan Institute of Development Economics, 2022.

¹³⁰ Planning Commission of Pakistan. (2018). *Strategy for Mineral Sector Development in Pakistan*. Islamabad: Ministry of Planning, Development & Reform (https://www.pc.gov.pk/uploads/pub/FIRST_05_PAGES_STRATEGY_FOR_MINERAL_SECTOR_DEVELOPMENT_IN_PAKISTAN.pdf).

¹³¹ The Business Facilitation Center is a key government initiative which serves as a one-stop-shop for business and investors. Its function is to help streamline processes such as registration, licensing, and permits at a central point. With the roll-out and further improvement to its processes, Pakistan is expected to realize increased investment on the basis of, among others, improvements in the ease of doing business.

authorities, and in partnership with digital banks, thereby reducing regulatory burden on businesses.¹³² Over 99 percent of companies, including limited liability companies, are incorporated online, with approval granted within four hours. Efforts have also recently been made to further streamline compliance requirements by reducing the number of statutory forms required for firms.¹³³ These milestone by the SECP have been confirmed by Pakistan’s ranking under the World Bank’s 2024 Business Ready Report, wherein the country ranks 6th out of 50 economies for digital initiatives implemented by counties.

179. No unified framework exists in licensing and issuance of permits. Trade licenses are issued by municipal corporations, district councils, or union councils, depending on the location. Professional licenses are overseen by sector-specific bodies. To illustrate the above, while the national standards exist under the Building Code of Pakistan (2021), implementation is inconsistent across regions and provinces. In addition, enforcement of building regulations is decentralized. The absence of a comprehensive commercial registry and harmonized licensing system continues to impede transparency and accountability. Table 7 provides an overview of some of the primary institutions involved in regulation.

Table 7. Overview of Pakistan Primary Regulatory Institutions

| Sector | Authority | Governance Role |
|---|--|--|
| Corporate Governance & Financial Markets | SECP | Regulates company law, securities, and financial disclosures |
| Competition | CCP | Prevents monopolistic practices and promotes fair trade |
| Energy | National Electric Power Regulatory Authority (NEPRA) | Oversees electricity generation, tariffs, and licensing |
| Telecommunications | Pakistan Telecommunication Authority (PTA) | Regulates digital infrastructure, spectrum, and telecom services |
| Pharmaceuticals | Drug Regulatory Authority of Pakistan (DRAP) | Controls drug registration, quality, and distribution |
| Taxation & Customs | FBR | Administers tax policy, customs, and revenue collection |
| Trade & Export | Trade Development Authority of Pakistan (TDAP) | Facilitates export promotion and trade development |

¹³² The SECP’s registration portal is integrated with authorities such as the Federal Board of Revenue (FBR), Employees’ Old-Age Benefits Institution, Punjab Employees’ Social Security Institution (PESSI), Sindh Employees’ Social Security Institution, Balochistan Employees’ Social Security Institution (BESSI), Labour and Human Resource Departments, Excise and Taxation Departments, and the Central Depository Company. Under the Pakistan Regulatory Modernization Initiative (PRMI), integration has also been completed with the Special Technology Zones Authority, Pakistan Software Export Board, and Pakistan Engineering Council, with further expansion underway.

¹³³ The number of statutory form required for company compliance has been reduced from 75 to 28 through the issuance of consolidated Companies Regulations, 2024, under S.R.O 210(1) 2024. Company incorporation requirements have been digitized and simplified from 6 to 4 forms. This is applicable for public and private companies.

| | | |
|---------------------------------|--|--|
| Media & Broadcasting | Pakistan Electronic Media Regulatory Authority (PEMRA) | Licenses and monitors electronic media content |
|---------------------------------|--|--|

180. Pakistan’s rule-making process exhibits significant governance vulnerabilities, driven by fragmented institutional mandates, weak transparency mechanisms, and limited channels for legal or public challenge. These issues undermine the predictability and integrity of regulatory policymaking, create space for discretionary enforcement, and heighten corruption risks. The devolution of powers under the 18th Constitutional Amendment has resulted in a highly decentralized governance structure, with provincial governments now responsible for service delivery and sectoral regulation. However, intergovernmental coordination remains weak and ad hoc, leading to duplication, overlapping mandates, and inconsistent regulatory implementation across jurisdictions. For example, the energy sectors feature parallel federal and provincial institutions with unclear boundaries and conflicting rules.

181. The confusion caused by the multiple regulating bodies increases hesitance to formalize business and allows discretion to seep in—leading to opportunities for corruption and bribery. A typical business in the country, operating in only one region or provincial jurisdiction, is over regulated by disparate entities that offer no horizontal or vertical integration. If the same business operates in all the provinces of the country, the number of departments it needs to interact with, in addition to the number of regulations it needs to comply with, can be up to five times the number of interactions and regulations if the business only operates in one region.

182. Significant progress has been made by Pakistan in improving its regulatory environment to facilitate investment and jump start competitiveness. The agenda was given impetus in early 2017 with adoption of a regulatory reform program based on the World Bank Ease of Doing Business (DB) methodology and supported by WB operations both at the federal and provincial levels. The reform program succeeded in improving Pakistan’s DB ranking by 39 positions in three years – from 149 to 108 during 2017 and 2020.¹³⁴ The GOP expanded the scope of investment climate reforms in 2021 under the banner of the Pakistan Regulatory Modernization Initiative (PRMI). This was intended to: i) overcome thematical and geographical limitations of the DB methodology; and b) mitigate risk of disruption to investment climate reforms in the wake of discontinuation of the World Bank’s DB methodology.¹³⁵

183. Firms in Pakistan have had a mixed experience in dealing with business regulations. Pakistani businesses have benefitted from recent reforms which have made the process of obtaining

¹³⁴ Key features of the DB reform program included: i) the implementation of a Three-Year DB Reform Strategy unpacked by a series of 100-Days DB Reform Sprints for delivering reform actions in a time-bound manner; ii) the use of digital technology involving an online portal and a mobile application to monitor the implementation of DB reforms; iii) intensive dissemination and communication of reforms through electronic, social and print media; iv) a high-level steering committee at the Board of Investment (BOI) represented by relevant authorities and provinces to drive the implementation of DB reforms; v) provincial working groups supported by dedicated units to coordinate the implementation of DB reforms in their respective jurisdictions.

¹³⁵ More recently, the SECP has, however, taken steps to promote self-regulation by encouraging industry associations to transition into Self-Regulatory Organizations (SROs). It has introduced a strategic framework to discuss ‘Standard Principles for Recognition and Conduct of Industry Associations’ aimed at strengthening Pakistan’s financial sector through enhanced self-regulation

registrations, licenses, certificates and other permits (RLCOs) more streamlined.¹³⁶ However, this has not yet permeated into less discretion or corruption. For example, according to the World Bank Enterprise Survey 2022, within the construction sector, the number of days required to obtain construction permits is almost half of regional averages and significantly lower than lower middle income country averages. However, a drastically larger proportion of construction sector firms surveyed in Pakistan stated that they were requested or expected to give gifts or informal payments than regional or lower middle income country averages.

184. Comparative data suggests that Pakistan firms, and the Pakistani economy, pay a high cost for the regulatory burden. For example, obtaining a construction permit requires an average of 9 procedures, with an average cost of 8.8 percent of the value of the intended construction project.¹³⁷ The percentage cost borne by Pakistani firms is far higher than the percentage cost of construction permits in India, Bangladesh and Sri Lanka. Transaction costs associated with regulatory compliance are also considerably more than those in neighboring countries for cross-border transfers of money and goods.¹³⁸ The “sludge” costs – the costs associated with compliance with regulation – have been meticulously detailed by the Pakistan Institute of Development Economics across a number of sectors, with extraordinary findings of wastage of time and money to fulfill regulatory obligations.¹³⁹

185. Sustained improvement in the business environment in Pakistan requires a concerted effort to rationalize existing regulations and limit the creation of new requirements.¹⁴⁰ Initial steps towards building a constructive regulatory system could include enhancing the established central database of all business regulations, systematically reviewing and eliminating unnecessary and/or duplicative rules, and implementing a rigorous process of review for all new proposed business regulations to limit the creation of new obligations and regulatory hurdles. Given the costs associated with inefficiency and over-regulation, special attention should be given to regulations that affect the credit enforcement framework (creditor and debtor rights and insolvency) and market entry and exit (corporate restructuring). Operating with the leadership of the SECP, such a process could take advantage and promote greater digitization of regulations and contribute to on-going efforts at right-sizing the government.¹⁴¹

¹³⁶ The number of statutory forms required for company compliance has been reduced from 75 to 28 through the issuance of consolidated “Companies Regulations, 2024” under S.R.O. 210(1)/2024. Notably, company incorporation requirements have been simplified from 6 and 4 forms for public and private companies respectively, to a single digitized form, thereby reducing the regulatory burden. Furthermore, Board of Investment, has launched Pakistan Regulatory Modernization Initiative (PRMI) with the objective of reducing the compliance burden of businesses while also improving the effectiveness of the overall regulatory regime.

¹³⁷ See Haque and Ulah, Estimating the Footprint of Government on the Economy, PIDE Working Paper No. 2020:26.

¹³⁸ *ibid*

¹³⁹ PIDE (2022) PIDE Sludge Audit Report, Vol I., Pakistan Institute of Development Economics, Islamabad, Pakistan; Vol 2, 2023 ; Vol 3, 2024.

¹⁴⁰ Improvements are warranted despite the fact that legislation, notifications, circulars, directives, guidelines administered by the SECP are accessible on its official website and the consultation process that has been established by the SECP.

¹⁴¹ There continue to be a high volume of manual processes, as opposed to digitalized processes, that expose regulatory procedures to interference. Despite reforms, many processes remain paper-based or fragmented across platforms highlighting the country’s weak digital infrastructure and integration. See Board of Investment & World

D. Implementation of Market Regulation

186. The responsibility for implementation of Pakistan’s complex and fragmented regulatory framework is vested in a broad range of institutions, including a set of powerful sectoral regulators. Pakistan has several regulatory authorities overseeing various sectors, including finance, trade, energy, telecommunications, and governance. These include, but are not limited to, the Securities and Exchange Commission of Pakistan (SECP)¹⁴² which regulates corporate governance and financial markets; the Competition Commission of Pakistan (CCP) which regulates competition and prevents monopolies; the National Electric Power Regulatory Authority (NEPRA), which oversees the electric power sector; the Pakistan Telecommunication Authority (PTA), which regulates digital and telecom markets, the Drug Regulatory Authority of Pakistan (DRAP) which manages pharmaceutical regulations; the Federal Board of Revenue (FBR), whose mandate is to manage taxation and customs policies; the Trade Development Authority of Pakistan (TDAP) that facilitates trade and exports, and the Pakistan Electronic Media Regulatory Authority (PEMRA) which regulates broadcasting and media. The majority of formal economic activity takes place in regulated sectors.¹⁴³

187. Pakistan’s rule-making process exhibits significant governance vulnerabilities, driven by fragmented institutional mandates, weak transparency mechanisms, and limited channels for legal or public challenge. These issues undermine the predictability and integrity of regulatory policymaking, create space for discretionary enforcement, and heighten corruption risks. The devolution of powers under the 18th Constitutional Amendment has resulted in a highly decentralized governance structure. However, intergovernmental coordination remains weak and ad hoc, leading to duplication, overlapping mandates, and inconsistent regulatory implementation across jurisdictions. For example, the energy sectors feature parallel federal and provincial institutions with unclear boundaries and conflicting rules.

188. Private sector development is limited by the regulatory approach taken in many sectors due to the continued use of price controls. The advent of the 18th Constitutional Amendment has devolved the Federal Government’s power of price controls, under the Price Control and Prevention of Profiteering and Hoarding Act 1977, to provinces, such controls remain a key tool that is susceptible to misuse for regulatory authorities, especially regarding agriculture commodities. According to the Price Control and Prevention of Profiteering and Hoarding Act, 1977, the goal of price controls is to secure equitable distribution of an essential commodity and its availability at fair prices. The Act enables the Government to regulate and provide licenses for more than 50 commodities which it classifies as *essential*. In actuality, the use of price controls at the federal and provincial level has created black markets,

Bank Group. (2023). *Pakistan Regulatory Guidebook: Pakistan Regulatory Modernization Initiative (PRMI)*. Islamabad: Government of Pakistan (https://business.gos.pk/public/storage/DownloadDocument/Final_PRMI_Book_1.pdf). Despite reforms, many processes remain paper-based or fragmented across platforms highlighting the country’s weak digital infrastructure and integration. World Bank. (2025). *Pakistan Development Update: Digital Infrastructure and Inclusion*. Washington, DC: The World Bank Group. <https://www.biometricupdate.com/202507/world-bank-highlights-pakistans-progress-on-digital-infrastructure-inclusive-id>

¹⁴² The World Bank’s 2024 Business Ready Report highlights the success of the SECP, particularly as it relates to its success in establishing digital initiatives that facilitate business entry. Businesses conduct and compliance has also been aided by the establishment of a Business Facilitation Center, a one-stop-shop platform that aims to support business through simplification of regulatory processes, company incorporation, and other interventions.

¹⁴³ See Haque and Quasim, *Regulatory Bodies: Hurting Growth and Investment*, PIDE Monograph, 2020 for data on regulatory bodies in 13 core sectors in Pakistan.

disincentivized quality production, and enabled corruption by facilitating opportunities for nepotism and abuse by public servants across entire value chains. Price controls and rules around compliance and stock-checking have promoted rent-seeking behavior and kickbacks for low level and senior functionaries across many sectors—such as dairy, edible oil, and wheat.

189. A variety of good practice principles exist to guide effective regulatory management and implementation. Those principles include the institutional separation of responsibility of regulatory oversight from regulatory implementation, processes followed for short-listing and appointing heads of regulatory authorities that is transparent, rigorous and merit-based, the creation of clear rules and protocols to guide fair and evenhanded application of rules, and regular reporting and oversight of organizational activities to a Supervisory Board to determine whether existing management and controls enable proper compliance with rules. Effective and constructive regulation also includes attention to organizational accountability that checks whether regulatory enforcement achieving its objective, and individual accountability, which determines whether staff are performing jobs effectively and with integrity. Regulatory governance arrangements that fail to align with good practice create inefficiencies and a large scope for mismanagement and malfeasance.

190. In Pakistan, regulatory authorities often operate with limited independence, combined with a high degree of authority and minimal accountability. For example, the SECP is the primary regulator of the corporate and non-bank financial sectors. It is unusual in that it regulates the corporate, insurance, non-banking financial institutions, pension, asset management, and capital markets sectors. Given this broad mandate, its autonomy is extremely important for the private sector.

191. While the administrative, financial, and operational independence of the SECP is well established in law, and includes a well-defined process for the appointment of commissioners, its senior management processes have not always been perceived by the public as transparent.¹⁴⁴ Opaque appointment processes can potentially lead to strong and, often times, oppressive ties between the public sector and the private sector. Furthermore, it wields sole authority as a regulator as its appellate bench is comprised of its own senior management—potentially becoming the judge, jury, and executioner of private sector. Public monitoring of performance is constrained by the limited amount of publicly available information on regulatory transactions or overall SECP activity. The governance issues in the SECP are not unique, and substantial concerns about the organization and effectiveness of regulation are widespread, including in agricultural commodities, manufacturing, pharmaceuticals, and sectors that determine the cost of core inputs for the Pakistan economy, such as energy and telecommunications.¹⁴⁵ Governance and accountability issues that arise due to organizational arrangements are compounded by an absence of regulatory impact assessments, and minimal publication information on regulatory proceedings or outcomes.

¹⁴⁴ Specifically, Sections 5 and 6 authorize the Federal Government to appoint the Commissioners and the Chairman of the SECP in accordance with a process approved by the Federal Cabinet. These provisions also define key parameters for such appointments, including the number of Commissioners, tenure, eligibility criteria, professional experience, retirement conditions, and other related matters. The Government of Pakistan is exploring reforms to strengthen the appointment process.

¹⁴⁵ Generis Global. (2024). *An Overview of Pharmaceutical Regulations in Pakistan: Drug Approval, Manufacturing Standards and Compliance Penalties* (<https://generisonline.com/an-overview-of-pharmaceutical-regulations-in-pakistan-drug-approval-manufacturing-standards-and-compliance-penalties/>).

192. The even-handed application of regulations is repeatedly strained when government regulators engage with state-owned firms. The state share of regulated sectors varies from sectors where the state has over 70 percent of the market (in mining, construction, electricity and oil, and transport and communications), to those where the state presence is between 40 and 50 percent (agriculture, finance and insurance, and health and education), to those few sectors where state involvement is relatively marginal (manufacturing, and wholesale and retail).¹⁴⁶ In these situations, one organization is tasked with enforcing regulations related to another state organization. It is not surprising that these situations often led to the expectation or the reality of privileged treatment. Sometimes privilege is explicit and transparent as in public procurement where state-owned firms can directly negotiate with the procurement buyer for contracts and information on sub-contracting is often not available. Similarly, the private insurance market is miniscule in large part due to public sector dominance of the sector—including National Insurance Company Limited’s (NICL) monopoly on coverage of public assets, State Life Insurance Company’s (SLIC) benefit of government guarantees, and the first right of refusal for Pakistan Reinsurance Company Ltd (PRCL) for reinsurance. Consequently, Pakistan’s insurance to GDP ratio of under 1 percent is significantly lower than global averages.

Box. 4. Sugar Sector

The Sugar Sector is an example of weak enforcement ability leading to anti-competitive behavior, discretion in decision making, and negative impact on consumers. There are around 90 licensed sugar mills in Pakistan, with a significant number of them owned by political party leaders and current or past elected legislators. While the issuing of licenses to operate sugar mills is tightly controlled by the public sector, in the past new licenses have become available and issued to politically connected individuals. At the same time, sugarcane farmers are constrained to sell to mills beyond certain geographical distances or partake in certain types of processing, all of which reduces competition between millers and enables them to cartelize. One facet of sugar production which has been shaped by influence and lobbying has been the export of sugar—where the Government has often subsidized sugar export. These subsidies have directly benefitted sugar mill owners and the Government has not done a robust cost-benefit analysis on the impact of the subsidies. While the CCP investigated and imposed penalties on the Pakistan Sugar Mill Association (PSMA) in 2009 and 2021, the inquiries have been challenged in courts and at the CAT—highlighting the ineffectiveness of the competition authority. From a business regulations perspective, the federal and provincial governments have consistently established price controls on sugar, and other essential commodities, which have created distortions at the demand and supply side. These price controls have routinely led to supply shortages, hoarding, and artificial price increases for consumers. While price controls are being curtailed at the provincial level, they are still a mainstay of federal policy.

Tariff Policy

193. In Pakistan, trade policies are shaped by Pakistan’s Customs Act, tariff structures, and international trade agreements. The Ministry of Commerce oversees trade regulations. The Trade Development Authority of Pakistan (TDAP) promotes exports, while the FBR manages import duties and customs. The Board of Investment (BOI), under the Prime Minister’s Office, plays an increasingly strategic

¹⁴⁶ See Haque and Ulah, Estimating the Footprint of the Government on the Economy, PIDE Working Papers No.2020:26, 2020 for an analysis of the direct state involvement in regulated sectors. The Government share of regulated sectors varies from a high of 79 percent in mining to 43 percent in agriculture.

role in shaping Pakistan's trade and tariff policy by advising on investment-related reforms, promoting tariff rationalization, and reducing regulatory barriers—particularly in Special Economic Zones (SEZs). Working closely with the National Tariff Commission (NTC) and the Ministry of Commerce, the BOI aligns tariff structures with investment priorities and facilitates regulatory simplification through its Better Business Regulatory Initiative. It also serves as a one-window interface for investors navigating customs, licensing, and tariff exemptions. Complementing this role, the Special Investment Facilitation Council (SIFC) fast-tracks investment deals across agriculture, minerals, energy, and IT sectors. Together, BOI and SIFC play central roles in shaping a more competitive, coherent, and investment-responsive trade regime.

194. Tariff policies, a form of economic regulation of international trade, represent a particularly important and costly example of current issues with market regulation in Pakistan. Protectionist policies and bureaucratic delays create barriers for businesses. Inconsistent tariff structures further compound the issue. Pakistan's average applied tariff rate stands at 20.19 percent, the highest in South Asia, compared to a regional average of 10.57 percent.¹⁴⁷ This includes 11.93 percent customs duty, 3.66 percent additional customs duty, and 4.60 percent regulatory duties, which collectively raise input costs and discourage investment in higher value-added sectors. Corruption in customs clearance and preferential treatment for politically connected firms distort trade dynamics.

195. Pakistan's trade and industrial policy landscape is characterized by institutional fragmentation, creating critical governance constraints that undermine policy coherence, efficiency, and reform momentum. The absence of an integrated strategic framework—coupled with overlapping mandates and siloed decision-making—limits the country's ability to deploy coordinated, evidence-based interventions across sectors. Fragmentation is particularly pronounced in complex sectors like automotive manufacturing, where policy formulation is distributed across multiple ministries with competing objectives and limited coordination. While each ministry operates within a legitimate mandate, the lack of a formal inter-ministerial coordination mechanism results in fragmented policymaking. Divergent targets, overlapping regulations, and inconsistent incentive structures make it difficult to harmonize policies or implement cascading reforms that span trade, industry, and environmental goals.

196. Growing international trade is critical to Pakistan's economic growth. Consistent implementation of trade reforms can increase growth by approximately 2 percent over a five-year period while having a meaningfully positive impact on reducing inequality.¹⁴⁸ As part of this, tariffs help determine the allocation of resources to support Pakistan's trade competitiveness. Furthermore, the Government relies on taxes of international trade as a major source of revenue, comprising almost 50 percent of total tax revenue. However, the complex and opaque tariff structure in Pakistan introduces discretionary decision-making and privileges for special interest groups.

197. The government has taken important steps to realign tariff policy with its export-oriented growth agenda, reduce special interest capture and improve transparency. Recognizing the critical role of low import tariffs—particularly on intermediate inputs—in supporting export competitiveness, the government approved the National Tariff Policy (2019-2024) and brought the tariff policy function under the National Tariff Commission (NTC). This role had previously been executed by the Federal Board of Revenue. The NTC is supported by a high-level cross-ministerial National Tariff Board and the Tariff Policy

¹⁴⁷ World Bank (2023). World Development Indicators. Tariff and Trade Data.

¹⁴⁸ IMF. 2024. "Measuring the Gains from Structural Reforms and Climate Adaptation Investment in Pakistan", October 10, 2024.

Center—NTCs technical arm tasked with providing analytical support to underpin tariff revision. By instituting a formal whole-of government structure for tariff policy, the government has sought to curtail the influence of vested interests and reduce rent-seeking behavior that have driven the steady rise in protectionist import tariffs since 2013 particularly in sectors with strong lobbying power—and the disproportionate allocation of exemptions to well-connected firms.¹⁴⁹ The NTP (2025-2030) following the principles of the foundational NTP and outlining a detailed timeline of liberalization has recently been approved and its implementation would mark a continued commitment to tariff reform with more ambitious tariff reduction targets.

198. However, despite progress, the tariff structure in Pakistan remains complex, continues to undermine and constrain competition and is prone to capture by special interest groups. Tariffs continue to play a dual role. First, they primarily serve as tools for revenue mobilization, contributing a higher-than-expected share of tax revenue given the country's level of development.¹⁵⁰ Second, the tariff structure is used to shield specific domestic sectors from import competition, often under the guise of industrial policy, resulting in selective protection and market distortions. These two roles result in a tariff structure that has high average rates of effective protection, a cascading framework of import duties and an ad hoc parallel system of additional taxes on imports “para tariffs” (additional customs duties and regulatory duties) that are levied on top of statutory import duties. The World Bank reports that Pakistan's aggressive use of para-tariffs has contributed to a decline in the export-to-GDP ratio—from over 15 percent in the 1990s to just above 10 percent in 2024.¹⁵¹ Having recognized their distortionary impact and lack of transparency, the National Tariff Policy 2025–30 aims to phase out ACDs within four years and RDs within five years. The policy also seeks to consolidate tariff slabs and transition exemptions to a more rules-based framework.¹⁵²

199. Additionally, discretionary exemptions under the fifth schedule and Section 19 of the Customs Act remain, offering concessional rates of duty or exemption of duty/taxes under special circumstances (e.g. national security, economic crises, and protection of national economic interests). These exemptions usually go to large and well-connected firms. It has been noted that those sectors where special interest groups are active receive a higher intensity of non-tariff protection.¹⁵³ Ultimately, a complex system of import taxes, ad hoc additional taxes and discretionary exemptions shifts cost structures for firms and redirects the flow of investments and resources most often away from productive sectors to more influential sectors.

¹⁴⁹ Import tariffs were at their lowest in 2013 but customs duty rates steadily increased, and the use of additional customs duties and regulatory duties picked up until the implementation of the NTP (2019-2024) which saw CDs go below 2013 levels but ACDs and RDs increased on average offsetting the declines in CD rates. The role of vested interests in the post-2013 import tariff increases is captured in Adeel Malik and William Duncan (2022) *‘Obfuscated liberalization: how special interest groups capture trade policy in Pakistan* and the disproportionate receipt of exemptions by larger firms is discussed in Varela, Gonzalo et al. 2020. *Import Duties and Performance: Some Stylized Facts for Pakistan*.

¹⁵⁰ As a share of total revenue, customs duties have averaged made up 12 percent of total tax revenue in over the past five fiscal years more than two times the rates in some regional comparators and income group peers. Trade revenue as a share of total revenue tends to decline with the increasing ability of governments to collect taxes more efficiently.

¹⁵¹ Pakistan Revenue, World Bank urges Pakistan: scrap regulatory duty, ACD fast, May 28, 2025 (<https://pkrevenue.com/world-bank-urges-pakistan-scrap-regulatory-duty-acd-fast/>).

¹⁵² Ministry of Commerce, National Tariff Policy 2025-30 (<https://www.commerce.gov.pk/wp-content/uploads/2025/07/National-Tariff-Policy-2025-30.pdf>).

¹⁵³ How special interest groups capture trade policy in Pakistan. Malik, Adeel. 2022 (<https://www.qeh.ox.ac.uk/blog/how-special-interest-groups-capture-trade-policy-pakistan>).

200. The low technical capacity of the NTC weakens the rigor and credibility of independent tariff policy revisions. Tariff review is inherently complex and requires careful calibration to balance trade liberalization objectives with revenue, industrial, and development goals. The tariff structure covers over 5,000 product codes spanning 21 product categories and different parts of sector-specific value chains. Effective tariff review demands, not only a detailed analysis of tariff structures, incidence across sectors and value chains, and potential impacts on domestic competitiveness, employment, and consumer welfare, but also technical knowledge of production processes.

201. Without appropriate technical capacity, tariff-setting risks becoming ad hoc, inconsistent, or influenced by vested interests, leading to distortions and anti-competitive outcomes. A well-resourced National Tariff Commission, equipped with analytical tools, trade expertise, and institutional autonomy to assess tariff proposals rigorously, is therefore critical. The NTC faces a shortage of technical experts and, as such, often relies on technical data and analysis from industry lobby groups or consultants. Experts are often not available and in review cases, such as anti-dumping duties, where quick decisions are required, the NTC finds itself technically handicapped, opening the process to protectionist pressures.

202. The inconsistent application of due process under formal legal appeals mechanism for tariff review also undermines transparency and accountability in tariff decisions. Once a tariff is imposed or adjusted—particularly in cases involving regulatory duties or protective measures—firms have legal recourse to challenge the decision, first through a specialized independent appellate tribunal, and then upon appeal through the Higher Judiciary. When due process is followed, this system provides checks and balances on the NTC’s authority. Despite the legislation of the appeals process for tariffs, there have been concerns around (i) judicial overreach with instances of the Higher Court issuing interim orders on NTC decisions, (ii) a lack of clarity of the scope of review for the Higher Court and (iii) the timing of appeals and review of NTC decisions. These challenges to due process impact transparency and accountability by allowing tariff decisions to be challenged outside established legal processes. The resulting unpredictability undermines the credibility of the tariff regime and can deter investment, particularly in sectors vulnerable to discretionary or politically influenced protection or lack thereof.

203. Loopholes in customs administration further weaken the effectiveness of tariff reform and allow distortions to persist. While the tariff reform under the National Tariff Policy aims to reduce para-tariffs and discretionary exemptions, weaknesses in enforcement, classification, and post-clearance audit systems have enabled firms to exploit gaps for tax avoidance or preferential treatment. Misdeclaration of goods, under-invoicing, and misuse of concessional SROs remain prevalent, especially where oversight capacity is limited. These practices not only erode the intended impact of tariff rationalization but also contribute to an uneven competitive environment, where firms that comply with regulations face higher effective input costs than those that exploit administrative inefficiencies.

204. Pakistan’s Non-Tariff Barriers (NTBs) impact various sectors, including agriculture, energy, and manufacturing. The 2024 IMF Country Report¹⁵⁴ indicates that Pakistan’s energy sector faces pricing distortions, subsidy mismanagement, and regulatory inefficiencies, contributing to arrears accumulation and market inefficiencies. In the sugar sector, NTBs include export restrictions, price controls, and preferential treatment for certain producers, leading to market distortions and rent-seeking behavior.

¹⁵⁴ IMF. 2024. “Pakistan: Second and Final Review under the Stand-By Arrangement,” IMF Country Report No. 24/105.

According to the World Bank's World Integrated Trade Solution database, Pakistan's import coverage ratio for NTBs is 33.12 percent, while its export coverage ratio is 18.65 percent. The most frequently imposed NTBs include licensing requirements, certification mandates, and export registration formalities.

E. Pakistan's Competition Landscape

205. The deficiencies in business regulation, including at a sectoral level, could benefit from robust intervention by the country's competition authorities. While the Competition Commission of Pakistan (CCP) has taken steps to identify bottlenecks, entry barriers, and skewed legal and regulatory framework, more intervention is necessary. In addition to the CCP's efforts, including the issuance of Policy Notes to create a level playing field in various sectors of the economy, it could identify bottlenecks to competition and market entry that are generated by regulatory practices and provide redress in the form of instructions to ministries and institutions. This would remove regulatory obstacles that had been created based on policies or implementation methods. A strong competition authority could also identify collusive behaviors and cartels which actively work to bar entry and capture excess economic gains, and refer matters to competent authorities when they find indicators of abuse of public authority for private gain on the part of regulatory officials. The CCP has taken steps to enhance its ability to enforce competition law but still remains constrained.

206. Pakistan's competition policy framework is robust, however, de facto the data suggests that enforcement of competition policy remains weak. Pakistan's competition law, enacted in 2010, is modern and has equipped the competition authority with the necessary powers to deal with a range of anti-competitive activities. However, the enforcement of competition law has been shaped by frequent state interventions, a lack of alignment among sector regulators, and delays in meeting governance requirements. While the CCP has adopted some guidelines (secondary legislation) on enforcement of competition laws and has rules in place for conflict of interest for senior management, the policy has left loopholes for exclusion of key sectors—such as those where state-owned enterprises (SOE) or legal monopolies exist. Thus, despite a strong competition framework, many critical sectors (sugar, cement, automobile, and cement) remain cartelized with the business elite benefiting at the cost of consumers.

207. The challenges in adherence to governance requirements of the Competition Commission of Pakistan have impaired it from being an effective force for a competitive economy. During its history, the operations of the competition agency have been at times been interrupted due to the failure of the Government to notify sufficient members of the Commission. Furthermore, when appointments are made by the Federal Government on recommendation from Ministry of Finance (MOF), the short-listing process is opaque—leaving MOF with significant discretion in appointments for an autonomous body. The Competition Appellate Tribunal (CAT), the appeal mechanism against decisions taken by CCP, has largely been non-functional over the past decade. This has contributed to the CCP becoming toothless, with more than 550 cases of pending litigation on CCP decisions at the CAT and within the judiciary at large (including Supreme Court of Pakistan and High Courts) accounting for approximately US\$ 265 million of penalties levied. The CAT has recently been fully notified, including the appointment of a Chairman and members, however its efficiency will be assessed based on the resolution of pending cases.

208. The disruptions in operations of the CCP emphasize the criticality of procedural adherence within the federal government's decision-making on market regulators to enable their smooth functioning. The non-functionality of the Competition Appellate Tribunal has led to significant disruption in market conduct and related matters. It has also led to the stalling of the issuance of orders by the CCP, several of which have aimed to curtail cartelization and abuse of dominance in key sectors, including by

powerful lobbies in sugar and cement. While progress in clearing the backlog of cases has recently been reported, CCP and CAT continue to be constrained in their ability to fulfill their functions.¹⁵⁵

209. The role of the competition authority in ensuring an effective competition policy is constrained by sector-specific regulators. While Section 29(b) of the Competition Act empowers the CCP to assess the various policy frameworks for anti-competitive provisions, the Commission is only able to provide non-binding policy notes as recommendations to the concerned government departments. In practice, this leads to sector specific policies being enacted which may provide incentives or preferential treatment to certain sectors/incumbents—often in a non-transparent manner. As an example, under the Pakistan Telecommunication (Re-Organization) Act, 1996, one of the mandates of the Pakistan Telecommunications Authority is to regulate competition in the telecommunication sector and protect consumer rights. Similarly, the Pakistan Civil Aviation Authority (PCAA) is mandated by the National Aviation Policy, 2019 to ensure that there is no overcharging and abuse of dominant position in the aviation industry. These sector specific policies have impaired the ability of the CCP to properly regulate anti-competitive behavior in several key sectors. Furthermore, the capacity of sector-specific regulators to promote competition is limited as that would not be their core mandate. While the CCP already has signed memoranda of understanding (MoUs) with some sector regulators, such as the SECP, PTA and the Public Procurement Regulatory Authority (PPRA), as well as with enforcement agencies like NAB, there may be a need to improve information sharing and collaboration for these agreements to concretely advance oversight and accountability.

F. Conclusion

210. Pakistan has made progress in the market regulation ecosystem; with both CCP and SECP spearheading recent reforms, however, this has not yet translated into a business environment that encourages growth. The country's opaque and discretionary regulatory environment has constrained its private sector. Across sectors, there is overregulation of private enterprises and under enforcement of guard rails meant to safeguard economic actors. Autonomous bodies meant to regulate the private sector are heavily linked with the federal government, and recourse mechanisms are underwhelming. Ultimately, governance weaknesses undermine the effectiveness of Pakistan's regulators and facilitate opportunities for corruption. Until there is real reform, the government's encroachment upon private sector—through (i) intrusive and transparent regulators and (ii) crowding out by SOEs—will continue to hold back the economic growth of the country. Pakistan's must make the choice on whether its private sector operates in the free market or planned economy model.

G. Recommendations for Improvement

211. To address persistent governance and regulatory bottlenecks, Pakistan must embark on a comprehensive reform agenda focused on simplifying procedures, enhancing transparency, and curbing discretionary authority. Priority actions include increasing the transparency of existing business regulations by creating a comprehensive data set of all federal business regulations, and eliminating regulations deemed unnecessary based on a structured and systematic review. Equally important will be the creation of a mandatory review process of all proposals to establish new business regulations. International good practice in such processes revolve around Regulatory Impact Assessments ("RIA"), that

¹⁵⁵ The CCP has recently resolved over 200 cases and recovered an unprecedented amount of fines and penalties. .

evaluate the benefits and costs of the proposed rule. Well-designed RIAs often include participation of businesses and firms that are potentially subject to the new regulation, to ensure their perspective is considered. Reducing corruption risks and enhancing the predictability and fairness of regulatory implementation requires substantial reforms to the manner in which regulatory authorities are led, managed, and held accountable. A first step towards greater organization independence is introducing improvements in the process for appointing heads of regulatory agencies and senior management to ensure that the appointment process is transparent, merit-based, and rigorous in reviewing expertise and integrity. Additional steps include establishing greater clarity in the organizational accountability of regulatory bodies, as well as increased attention to individual accountability especially when officials engage in collusive behavior with firms. Stronger collaboration with accountability bodies, such as the National Accountability Bureau and the Federal Investigation Agency will be essential to increasing the effectiveness and integrity of key regulatory authorities. Higher expectations of performance will need to be matched with the dedication of resources to strengthen organizational capabilities and individual skills.

212. Timely and credible institutional response to anti-competitive behavior is essential for restoring market integrity and public trust. Continuing to address the backlog of cases at the CCP through procedural and resource reforms is critical. Equally important is strengthening the downstream impact of CCP's findings—particularly those related to sectoral barriers and collusion—by enhancing coordination with key accountability institutions such as the Auditor General and the National Accountability Bureau (NAB). The newly established Market Intelligence Unit (MIU), designed to detect anti-competitive conduct proactively has the potential to contribute to enhancing the rapid elimination of barriers to competition, provided that it is backed-up by effective enforcement action. To ensure meaningful deterrence, instances of collusive or illegal conduct must trigger consistent legal and institutional responses. Demonstrating that both public and private actors are held accountable reinforces the credibility of the competition regime and signals a serious commitment to fair market practices.

213. Furthermore, increasing the coherence of market regulation is equally essential, especially in areas like tariffs. The implementation of the National Tariff Policy would go a long way towards establishing a more coherent policy that is critical for expanding international trade, investment, and competitiveness. Finally, expanding digitalization of administrative processes will be instrumental in minimizing face-to-face interactions, improving auditability, and strengthening accountability. A systematic process of introducing digital technology into the process of complying with regulations, especially regulations that are associated with substantial compliance costs and high risk of corruption could rapidly improve the effectiveness of market regulation. Pakistan must bolster access to redress and regulatory transparency by reinforcing judicial and administrative review pathways—ensuring timely, fair, and rule-based outcomes across the regulatory landscape. To enhance transparency, efficiency, and public trust in regulatory governance, the Ministry of Information Technology and Telecommunication (MoITT) should lead a phased national initiative to digitize administrative and compliance processes. This would help reduce opacity in government services, automate manual processes, deter rent-seeking through digital audit trails, and improve overall service delivery. By aligning with international best practices in digital governance and establishing institutional accountability mechanisms, this reform would not only strengthen regulatory effectiveness but also signal a credible commitment to efficiency, transparency, and equitable access.

Table 8. Recommendations on Market Regulation

| Recommended Action | Responsible Authority | Action Objective | Timeline |
|--|-----------------------------|---|-----------|
| Market Regulation | | | |
| 1. Under the leadership of the SECP, enhance regulatory consistency within 18 months by: (1) establish a comprehensive database of all federal business regulations, (2) eliminate unnecessary regulations based on structured systematic review; (3) create a review process based on international good practice for all new regulatory proposals. | Ministry of Finance | Ensure that the regulators are more independent, transparent; Guarantee a merit-based appointment system; Reinforce regulatory credibility and efficiency; Detect cartelization, abuse of dominance, and anti-competitive practices across industries | MT |
| 2. Strengthen the independence of key regulatory bodies, including the CCP and SECP, by enhancing the selection (short listing) process for the executive and senior management to ensure a rigorous, transparent, and merit-based process. | Ministry of Finance | To safeguard regulatory independence and credibility by ensuring that appointments to executive and senior management positions within the CCP and SECP are governed by transparent, rigorous, and merit-based mechanisms, to minimize political or discretionary influence and align with international standards for regulatory governance. | ST |
| 3. Increase transparency and enhance efficiency by systematically digitizing the process of complying with regulations, starting with the regulations identified as creating the greatest burden and the | Ministry of Law and Justice | To enhance regulatory transparency, efficiency, and integrity by | MT |

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| greatest risk of corruption. Within 15 months, establish the list of regulatory processes to be digitized, and demonstrate progress in introducing digitized processes. | (Ministry of Planning, Development and Special Initiatives) | systematically digitizing high-burden, high-risk compliance procedures to minimize discretion, reduce administrative friction, and strengthen public trust in regulatory governance. To expedite digitization of licensing processes to enable end- to-end submission and processing without manual intervention. | |
| 4. Enhance accountability by reducing the backlog of CCP cases, and strengthen collaboration between CCP and NAB/FIA to investigate findings of collusion and other corrupt behavior. | Competition Commission of Pakistan / Ministry of Finance | To reinforce the institutional integrity and enforcement effectiveness of the Competition Commission of Pakistan (CCP). To enhance regulatory accountability and deter market abuse by clearing the CCP's backlog of cases and establishing robust investigative linkages between CCP, NAB (National Accountability Bureau), and FIA (Federal Investigation Agency) for prosecuting violations. | MT |
| Tariff Policy | | | |
| 5. Simplify Tariff Regime: Implement the National Tariff Policy (2025-2030) . | National Tariff Board | Continue reform momentum on simplifying the tariff regime; Reduce | ST |

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| | | incentives for rent seeking and increase transparency. | |
| 6. Reduce Loopholes in Customs Administration: Phase out Section 18A (Fifth Schedule) and limit use of exemptions under Section 19 of the Customs Act. Furthermore, strengthen customs enforcement and oversight to close administrative loopholes that undermine the impact of tariff reforms. | Federal Board of Revenue | Strengthen customs enforcement; Streamline customs processes; Reduce discretionary tax relief, ensuring a fair and predictable tariff structure. | ST |
| 7. Evidence Based Decision Making: Enhance the technical capacity of the National Tariff Commission to make evidence-based policy decisions and reduce reliance on external consultants and mitigate the influence of lobby groups. | Ministry of Commerce | Enhance institutional credibility; Improve policy effectiveness; Reduce external influence | MT |

Section IV. Financial Sector Oversight

A. Background

214. Financial sector oversight (FSO) in this report considers the governance of the supervisory authority, the State Bank of Pakistan (SBP), and the supervisory oversight of banks' corporate governance and other related areas, with emphasis on governance weaknesses that can increase vulnerability to corruption. The governance framework for FSO is drawn from the relevant Basel Core Principles for Effective Banking Supervision (April 2024) (the BCPs), which are the international standard for banking supervision. The GCD in this area builds on previous IMF assessments.

215. Supervision of the financial sector is split between the SBP and the SECP. The SBP regulates and supervises credit institutions which include banks, development finance institutions (DFIs) and microfinance banks (MFBs). The SBP also supervises exchange companies, payment service operators/payment system providers, electronic money institutions (EMIs) and credit bureaus. Non-bank financial institutions, including pension and insurance companies, are regulated by the SECP. Incidents in capital markets have lowered the confidence in capital markets and their supervision according to market participants.

216. The general state of financial sector oversight is good, but there are issues related to the compliance with BCP and broader issues that deserve to be addressed. The issues cut across the themes raised in this report. They relate to the overreach of the state, the fragmentation of institutions, the lack of both accountability and information, as well as the failure of the judiciary. All these also reflect deviations from what the BCP call preconditions for effective banking supervision. Specific proposals are made in relation to the SBP Act, the Banking Ordinance and other regulations. More general issues in relation to the functioning and regulation of the financial sector are also addressed.

B. Overview of the financial sector and on-going reforms

217. The Pakistan banking sector dominates the financial sector. It constitutes around 80 percent of the financial sector's assets, the equivalent of around 48 percent of GDP at end June 2024. There are 31 banks operating in Pakistan: five public sector banks, twenty private sector banks, four foreign banks (in branch mode) and two specialized banks. The branch network comprises approximately 17,000 branches spread across the country. Within the banking sector, Islamic banking institutions (IBIs) comprise around 19 percent of total assets of the banking sector and 23 percent share of total deposits of the banking sector at end June 2024.¹⁵⁶ The network of IBIs consists of 22 IBIs, including six full-fledged Islamic banks and 16 conventional banks that have standalone Islamic banking branches. IBIs had 5,157 branches at end June 2024.¹⁵⁷ The banking sector has performed steadily since 2020. The sector remained

¹⁵⁶ SBP, Scheduled Bank Assets & Liabilities and Profit & Loss Accounts, June 2024 (<https://www.sbp.org.pk/publications/Quarterly/2024/Jun/Complete.pdf>).

¹⁵⁷ SBP, Statistics of the Banking System: Quarterly Compendium, June 2024 (<https://www.sbp.org.pk/ecodata/fsi/qc/2024/Jun.pdf>).

resilient to COVID-19 pandemic and the stressed macroeconomic situation in the recent past.¹⁵⁸ Table 9 below depicts the assets of financial institutions as a percent of gross domestic product (GDP) as of June-2024.

Table 9. The assets of financial institutions as percent of GDP as of June-2024

Financial sector assets as percent of GDP

| | June 2024 |
|-----------|-----------|
| MFBs | 0.7% |
| DFIs | 2.3% |
| NBFIs | 3.8% |
| Insurance | 3.0% |
| CDNS | 3.0% |
| Banks | 48.7% |
| Total | 61.5% |

Source: State Bank of Pakistan.

Note: CDNS is the Central Directorate for National Savings, a government body organizing a national savings scheme.

218. Banks in Pakistan have earned steady returns mainly through investments in treasury bills, but their lending to the rest of the economy is rather limited. The treasury bill rate was hovering above 20 percent in the first half of 2024 but has since declined to around 12 percent by end March 2025. Credit to the government makes up more than 60 percent of banks assets, and credit to the private sector is very low compared to Pakistan’s peers. Banks earn a return on equity above 25 percent, the majority are well capitalized and liquid, but one bank remains undercapitalized, cf. below. The expected decline in interest rates is likely to reduce profitability.¹⁵⁹ Furthermore, banks are required to pay a minimum rate on deposits from households not far below the central bank OMO rates. The authorities see this as promoting savings, but it distorts the setting of interest rates.

219. Credit may also be limited because of the poor functioning of the legal system as highlighted in the Rule of Law section. Banks have different perceptions of the legal system’s capacity to handle defaults and the quality of the land registration system. However, the general view is that the legal system is stretched, and the quality varies. If the government succeeds in curtailing its financing needs, it will be important that the legal system can handle the hopeful expansion of lending to the private sector.¹⁶⁰

220. Pakistan has committed to several reforms in relation to the financial sector with the objective of safeguarding financial stability and furthering financial inclusion. Pakistan has also

¹⁵⁸ Based on SBP responses to the IMF questionnaire.

¹⁵⁹ IMF. 2024. “Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility.” IMF Country Report No. 24/310, Washington, DC.

¹⁶⁰ IMF. 2024. “Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility.” IMF Country Report No. 24/310, Washington, DC.

committed to refrain from the earlier practice of influencing the distribution of credit.¹⁶¹ The crisis management framework will be finalized and undercapitalized financial institutions will be resolved. MFBs play a critical role in financing the poorer segments of society. However, their persistent vulnerabilities, emanating largely from adverse effects of Covid-19, floods, inflationary pressures, and weak business models need to be addressed through adequate recapitalization before they join the deposit insurance scheme. The authorities will work with the financial sector more generally to reduce non-performing loans (NPLs). The banking sector on average is well capitalized. To support financial stability, regulatory standards will be reinforced (via the restoration of capital conservation buffers) and consistently enforced (including adherence to prudential leverage ratios), as the economic conditions improve and lending activity picks up. The SBPs ownership of financial institutions will be transferred to the government. To improve credit to the private sector, Pakistan will contemplate legal and regulatory reform to strengthen enforcement of claims, enforceability of collateral, and debt collection. Deepening of the capital markets, particularly taking steps to develop the very small insurance and private pension sectors, can play a catalytic role in expanding the financing base for both the government and the private sector.¹⁶² Ensuring proper regulation and supervision of the pension sector will be crucial for building confidence.

221. The SBP has over recent years taken several steps to upgrade the legal, regulatory and supervisory framework. Significant amendments have been enacted in the SBP Act; in the Banking Companies Ordinance (BCO); and the Deposit Protection Corporation (DPC) Act. The BCO was amended *inter alia* to strengthen resolution and crisis management regime for banks, provide explicit legal coverage for Islamic banking operations in the country, and promote financial inclusion and consumer protection. SBP adopted a Risk Based Supervision (RBS) Framework in 2021, in line with international best practices, to systematically focus on supervision of key risk areas within regulated entities. SBP has developed SupTech / business intelligence tools to augment supervisory analysis of information collected from the banking industry and to generate risk indicators thereon. SBP has played a pivotal role in facilitating the removal of Pakistan from the list of jurisdictions under increased monitoring (i.e. "grey list") of the Financial Action Task Force (FATF). This was achieved by strengthening the AML/CFT framework and augmenting regulatory and supervisory measures in line with international standards. A new licensing and regulatory framework has been issued for digital banks (DBs).¹⁶³

222. The supervision of credit and other financial institutions is primarily the responsibility of the SBP Banking Supervision Group, which is well staffed. It is headed by an Executive Director and reports to the Deputy Governor responsible for Banking and Financial Markets & Reserve Management. There are 195 Full Time Equivalent (FTE) in the Banking Supervision Group. Banking policy & regulations and financial institutions resolution is an adjacent group that reports to another Executive Director but the same Deputy Governor.

223. The SBP has implemented Basel III and it is applied to all banks, including Islamic banks. No bank in Pakistan uses internal models. The minimum solvency requirement is 15 percent, including the

¹⁶¹ Pakistan has a history of directed and subsidized lending. Subsidized facilities at the SBP have been shut down. However, pressure is still being brought to bear on the banks on some occasions, including according to market participants lately to finance arrears in the energy sector. Transparency is increased by capturing the costs of subsidized credit in the budget.

¹⁶² IMF. 2024. "Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility." IMF Country Report No. 24/310, Washington, DC.

¹⁶³ SBP has also introduced structural reforms for exchange companies (ECs) to strengthen governance, internal controls, and compliance culture in the sector.

capital conservation buffer. There is also both an LCR and an NSFR requirement. The SBP has designated three banks as D-SIFIs. The SBP has implemented a resolution framework, but there is no requirement for Total Loss Absorbing Capacity (TLAC).

224. The Government's intention to convert the banking system to an Islamic banking system by the start of 2028 requires planning and a close dialogue with the banking sector. The recent constitutional amendment mandating the elimination of 'riba' (interest) from the economy by January 2028 will potentially have significant implications for the banking sector structure and its supervision. This shift requires a thorough examination and strengthening of banks' licensing, regulation, and supervision to ensure the safety and soundness of banks and the banking system. There are certain exemptions, e.g. for foreign banks. However, it is a major undertaking and requires many steps along the way. These include the conversion of government securities.¹⁶⁴ The banks will have to invest substantial resources along the way and need to be guided on what steps to take to reduce the risks for the economy at large. The SBP has established the Committee for Transformation of conventional banking into Islamic, and several working groups, where issues are being discussed with the banking sector. The authorities recognize that the clarity of this reform will help build trust in institutions and policies, and it is their intention to prepare for the post-2027 financial sector.¹⁶⁵

225. The large holdings of government bonds, constituting around 60 percent of banks assets, represent a potentially increasing sovereign-bank nexus and is a major financial stability risk.^{166 167}

C. Governance of Supervisory Agency

226. The legal framework for the SBP to conduct micro-prudential supervision is generally adequate, but the banking supervision mandate in primary legislation should be further aligned with international standards. The State Bank of Pakistan Act of 1956, subsequently amended in 2022, states as the second objective that the SBP, without prejudice to the Bank's primary objective, shall contribute to the stability of the financial system of Pakistan. The primary objective is price stability.¹⁶⁸ The financial stability objective is broad; but further specified in the publication 'Macroprudential policy framework in Pakistan'.¹⁶⁹ However, the banking supervision mandate as required by the BCP is not explicitly stated in primary legislation. The BCP requires that the primary objective of banking supervision should be to promote the safety and soundness of banks and the banking system, and that other

¹⁶⁴ The converted bonds have to be backed by real assets. There may not be sufficient real assets to convert all government bonds according to market participants.

¹⁶⁵ Cooperation between the government and the banking system on digitalization of the economy may also help in increasing transparency and thereby both broadening the tax base and making the corporate sector more bankable. A large part of the economy operates outside the formal economy using cash and does not pay tax, nor is it bankable. The banks and other institutions, such as utilities, have some data on this part of the economy. Together with the government, there is a possibility to make this data more useful for both the tax authorities to broaden the tax base and the banks to increase the possibilities to provide financing for the economy. The revenue authority has started to analyze the various data sources. Initiatives to broaden the tax base is covered in the chapter on taxation.

¹⁶⁶ See IMF. 2024. "Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility." IMF Country Report No. 24/310, Washington, DC.

¹⁶⁷ The SBP has on occasions allowed banks to break leverage ratio restrictions.

¹⁶⁸ <https://www.sbp.org.pk/>

¹⁶⁹ Dated May 12, 2025.

objectives in relation to supervision (e.g. development objectives) should be subordinate. To achieve the financial stability mandate, the Act states that the SBP shall license, regulate and supervise banks and financial institutions; resolve banks and other financial institutions; and adopt and implement macro-prudential policy measures for banks and financial institutions.

227. The legal framework is generally supportive of the independence of the SBP, but the presence of a high-level representative from the Ministry of Finance on the Board of Directors should be reconsidered. The SBP Act gives the central bank functional and institutional autonomy. The Board of Directors of the SBP supervises the management and the central bank's administration, operations and has the right of access to all the activities of the SBP. The Board of Directors has ten members, including the Governor, who chairs the Board. Eight non-executive Directors include at least one from every province. It is important that the geographical requirement does not override the requirement that they shall be eminent professionals each of whom is well-known for his integrity, expertise, and experience in the fields of economics, financial services, banking, law, information technology, risk management or accountancy to perform the oversight. The non-executive Directors are appointed for a term of five years and are eligible for re-appointment only for one term of five years. The tenth member is the Secretary, Finance Division, Government of Pakistan. The Secretary does not have the right to vote but has the same rights as others to ask questions and to speak. The authorities stated that the purpose of the Secretary's presence is to facilitate coordination and have the views of the sole shareholder, without a right to vote. Nevertheless, there are numerous forms of cooperation and coordination available for achieving the mentioned purpose, including regular meetings between the SBP and the ministry. Any change to the governance of the SBP would require a change in the SBP Act.

228. The SBP-owned banks¹⁷⁰ are in the process of being transferred from the SBP to the Government. International standards point out that there is a potential conflict of interest where a bank is both owned by the State (central bank) and subject to banking supervision of the state (central bank). By end-June 2025, the National Bank of Pakistan (NBP) and the Zarai Taraqiati Bank Limited (ZTBL) are in the process of being transferred from the SBP to the Government, thus limiting conflicts of interest. Certain safeguards exist in SBP to manage these conflicts of interest. The ownership has been handled by the Finance Department that reports to a different Deputy Governor than the banking supervisors. The board members of the state-owned banks are in most cases not affiliated with the Government. Privatization of the NBP has yet to be agreed; the Government has decided to privatize ZTBL.¹⁷¹ ZTBL has a very high share of nonperforming loans due to governance issues. However, a new management that has taken steps to recover problem loans was recently appointed. State-owned banks are in principle subject to the same regulation and supervision as other banks. However, experience suggests that it is not always easy for a supervisor to be sufficiently assertive towards state-owned banks.

229. The important decisions in relation to banking supervision are taken by the Executive Committee. Collegiate decision making creates a more robust structure. The Executive Committee has the power to formulate policies related to the Bank's core functions as well as those related to administration and management matters, excluding those matters falling in the purview of the Monetary Policy Committee, or the Board of Directors. The Executive Committee consists of the Governor, the

¹⁷⁰ The SBP does not have control over these two banks since the Banks Nationalization Act of 1974, under which they were acquired, and cedes effective control over them to the government.

¹⁷¹ Depending on its form, privatization could raise issues of access to credit for smallholders, particularly their development financing.

Deputy Governors, Executive Directors, and as needed other senior officials. The Governor and the Deputy Governors have the right to vote on decisions taken by the Executive Committee, and the Governor has the casting vote. Key decisions on regulatory and supervisory matters are escalated to the Regulatory and Supervisory Committee (RSC) before going to the Executive Committee. E.g. fit and proper clearance of sponsor shareholders/ beneficial owners of the banks is approved by the Executive Committee.

230. The appointment and removal of the SBP Governor and Deputy Governor are prescribed in primary legislation, but two positions have been vacant for a long time; there is no requirement to publicly disclose the reasons for removal. According to the SBP Act, the Governor and Deputy Governor must possess recognized integrity, expertise and advanced degree from a recognized university in the fields of economics, financial services, accountancy or banking with relevant professional experience in any such field for at least ten years. The Governor and the Deputy Governors are appointed for a term of five years and are eligible for re-appointment only for one term of five years. The Governor and Deputy Governors can only be removed, if found guilty of gross misconduct; or is incapable of properly performing the duties of his office by reason of physical or mental incapacity; or does not live up to the criteria for being appointed. The latter includes no affiliation with political parties, federal or provincial government, or banks. However, there is no requirement to disclose publicly the reasons for removal. Two out of the last three Governors served their full term. One of the Governors resigned from the post due to personal reasons. The last three Deputy Governors entrusted with the banking supervision portfolio, completed their tenure. There are presently two unfilled positions as Deputy Governors (since August 2023 and November 2024) reflecting an awaited change in legislation that allows dual citizenship holders to become Deputy Governors. These vacancies for a long time could have several negative implications (e.g., operational inefficiency and leadership gap). The SBP has been actively engaged with the federal government on the subject.

231. The SBP Act and the Code of Conduct contain provisions on conflicts of interest that address relevant aspects. The SBP Act, among other things, states that conflicts of interest shall promptly be disclosed to the Board. In addition, the SBP Human Resource Department's Code of Conduct applies to all SBP employees. It includes a dedicated section to address actual and perceived conflict of interest situations to ensure the integrity of supervisors is safeguarded.¹⁷² The Act also contains a section for protection of actions taken in good faith and indemnity for the Board of Directors, Monetary Policy Committee, senior management and staff. Further, the central bank bears the legal expenses of any suit. Senior staff at the SBP have a two-year cooling-off period before going on to positions in supervised entities. There is limited turnover of supervisory staff. As mentioned above, it is expected that the transfer of NBP and ZBTL to the Government, and the agreed privatization of ZBTL reduce risks of conflicts of interest.

232. The accountability and transparency framework related to banking supervision has scope for improvement. The SBP publishes and submits an annual report to Parliament. The SBP also publishes a financial stability report annually. Parliament may require any senior official of the bank to attend a meeting of Parliament. The SBP publicly discloses significant enforcement actions applied to supervised entities. As per the existing practice, SBP shares the draft prudential regulations with Pakistan Banks Association (PBA) to seek their views and suggestions (if any) on the proposed amendments. Moreover, SBP also holds consultation, on a case-by-case basis, with additional stakeholders including the Chamber of Commerce & Industry, Government agencies / ministries and the public at large. However, although

¹⁷² Employees have to sign off on that they observe the code and failure to observe the code can result in dismissal.

the SBP per existing practice undertakes an extensive consultation process, there is no legal requirement that all regulations and prudential standards are subject to public consultation as required by international standards. The SBP recently published a macro-prudential policy framework.¹⁷³ However, it does not regularly, e.g. annually, publish its' supervisory objectives, priorities, and areas to be covered during the coming year. At the end of the year, the SBP should also publish a record of supervisory work carried out. Such reporting could improve accountability and the general understanding of what risk-based supervision entails.

233. The Banking Companies Ordinance gives the SBP a wide range of powers to act as a supervisor but also gives the Federal government powers to instruct the SBP, which is not consistent with the SBPs independence. The SBP may, at any time, inspect any banking company and its books and accounts. As a relic from the past, when all banks were nationalized, the Federal Government can also instruct the SBP to inspect any banking company. Although this power has not been used for many years, legislative changes are necessary to limit the potential Federal Government interference compromising the operational independence of SBP in its role as banking supervisor. The SBP can issue directions to a bank as it deems fit, and the bank shall be bound to comply with such directions. The SBP may also issue orders, regulations, directions, guidelines, instructions, notifications, and circulars or impose any condition with respect to activities and operations of banks.

234. The SBP has issued several regulations and guidelines to banks, and there are also internal supervisory procedures outlining how supervision should be done. There are general prudential regulations for commercial banking and more specific regulations for activities such as mortgages and agricultural financing. Guidelines are legally enforceable. Guidelines include licensing guidelines and risk management guidelines. Supervisory procedures include escalation procedures to apply corrective and sanctioning measures and procedures to examine related party lending, where the inspectors are asked to raise several specific questions. The regulations, guidelines, and internal procedures are covered in further detail below.

D. Banks' Licensing, Fit and Proper, Transfer of Significant Ownership, and Major Acquisitions

235. The legal basis for licensing is strong, but the new digital banks are subject to a slightly different regulatory regime. According to the Banking Ordinance nobody shall carry on banking business in Pakistan unless it holds a license issued in that behalf by the SBP; and any such license may be issued subject to such conditions as the SBP may think fit to impose. The in-principle approval for issuance / cancellation of Banking License and acquisition of controlling shareholding in banks is granted by the Executive Committee. The licensing criteria and guidelines for each entity vary based on the size and scope of their business activities, associated risks and target market, and it is available on SBP's website. SBP evaluates the suitability of beneficial ownership of major shareholders. Since January 2020, the SBP has received one application for a banking license (authorization). The application was not approved. Further, SBP received 20 applications for digital bank licenses from major global financial players. Five of these applicants were awarded No-Objection Certificates (NOCs) to proceed further in the licensing process. As for the denied applications, the reasons for denial were based on factors like financial strength, shareholder experience, the business proposition of the applicants, stakeholder

¹⁷³ Dated May 12, 2025.

engagement, and other relevant considerations. Since January 2020, four banking licenses have been revoked/ cancelled on account of liquidation, voluntary winding-up, and amalgamation. At the same time, two microfinance banks and two commercial banks have had their licenses surrendered due to change in ownership.¹⁷⁴ There is a need to exercise care in relation to not setting the bar too low for the new digital banks. The Basel framework does allow for proportionality, but proportionality should not result in a lowering of supervisory standards.¹⁷⁵ In the case of digital banks in Pakistan, the digital banks are subject to a lower minimum nominal requirement, but a higher minimum solvency percentage requirement as well as restrictions on corporate lending.

236. The SBP has the legal basis for taking decisions on fit and proper and uses it. The Banking Ordinance gives the SBP the right to require fit and proper tests for major shareholders in a banking company, Directors, Managing Director or Chief Executive Officer, by whatever name called, and such other officers of a banking company, as may be specified by the SBP. The corporate governance regulatory framework specifies the fit and proper criteria. The Fit & Proper Tests (FPTs) for shareholders, board members and chief executives are assessed by regulatory and supervisory departments on prior permission basis. These assessments are conducted initially at on-boarding stage and thereafter on a continuing basis. For other officers, the banks submit FPTs documents to SBP upon joining of such officers to the respective bank. The Supervisory Departments then conduct assessments of these submissions on a continuing basis in the course of supervisory activities. The FPT for sponsor shareholders/ beneficial owners, directors, Presidents/ CEOs, and key executives of banks/DFIs/MFBs is assessed based on broad criteria including eligibility, integrity, track record & reputation, financial credibility, conflict of interest, and qualification & experience. From 2020 till March 2025, the SBP has reviewed more than 800 persons; 16 of which were not approved.

237. The SBP has the power to take decisions on transfer of significant ownership, and it approves amalgamations, but the criteria in relation to mergers could be clearer, including in relation to checking beneficial ownership. Prospective acquirers must get prior written approval from SBP, and the assessment process will vary depending on the amount of shareholding being acquired and whether the acquirer seeks management control. For foreign acquirers, SBP will also consider their compliance with international legal, regulatory, and supervisory standards, including seeking input from other regulators or enforcement agencies, e.g. when assessing a prospective acquirer's fitness and propriety. Any individual or entity who intends to acquire 5 percent or above sponsor shares in a bank / MFB requires the prior approval of the SBP. As regards to the investment made by the banks, the banks cannot invest in the shares of a company over and above 5 percent of Tier-I Capital of the bank; or 10 percent of paid-up shares of Investee Company, whichever is lower. Three applications for ownership have been approved and two denied since the start of 2020. Mergers and acquisitions are covered under the powers of the SBP to approve amalgamations. The criteria could be formulated clearer, including the checking of beneficial ownership, which is important in ensuring that unsuitable owners do not emerge.

¹⁷⁴ Further, the SBP has cancelled 5 licenses, revoked 2 licenses and withdrawn 13 licenses of exchange companies since 2020.

¹⁷⁵ The SBP should take a proportionate approach to implementing new features of the Basel framework, cf. the Basel Committee's report on proportionality (<https://www.bis.org/bcbs/publ/d534.htm>). The SBP should implement the features that will benefit the stability of the banking system.

E. Corrective and Sanctioning Powers

238. The SBP has powers to address problems in the financial sector, including revoking a license, and internal procedures specifies a supervisory ladder of applying corrective and sanctioning measures. The SBP can at any time inspect any banking company and its books and accounts according to the Banking Ordinance. According to the Banking Ordinance the SBP can issue directions to banking companies generally or to any banking company as it deems fit, and the banking companies or the banking company shall be bound to comply with such directions. Failure to act in accordance with the Banking Ordinance can result in a fine for the bank, and a fine or imprisonment for individuals. The SBP has also forced a CEO to resign and asked boards to act against management. The SBP has a supervisory ladder it follows, including a problem bank manual that sets out prompt corrective action well before a bank becomes insolvent. While the SBP has liquidated banks, the SBP has taken a long time to address banks that failed to meet capital requirements. The authorities prefer to resolve undercapitalized banks instead of opting for liquidation. As of January 2023, four banks were undercapitalized.¹⁷⁶ The authorities eventually resolved three out of four banks, and the fourth bank is in the process of recapitalization. The extended process and the associated forbearance could expose the SBP to undesirable outcomes and pressure from stakeholders. There are clear rules on who prepares and who takes the respective decisions as well as an appellate forum. There is an internal quality assurance, and the banks are given the opportunity to contest draft observations. The SBP publicly discloses significant enforcement actions taken against the regulated entities.

F. Corporate Governance, Related Parties and Disclosure

239. There is a regulatory framework for corporate governance of financial institutions, and inspections regularly address corporate governance. The SBP has issued a Corporate Governance Regulatory Framework for the banks, which was last updated in November 2021. The SBP has also adopted a Risk Based Supervisory Framework which hinges on supervisory activities of continuous monitoring and onsite assessments. This framework provides operational level guidance to supervisory officers for conducting assessments of all significant activities and governance controls & arrangements (e.g. oversight role and effectiveness of Board of Director, Senior Management and first, second and third line of defense). It places paramount importance on assessment of corporate governance arrangements and practices. The framework prescribes assessment of significant activities and governance & control functions. These assessments encompass review of effectiveness of oversight role and performance of Board of Directors, Senior Management, Risk Management, Compliance and Internal Audit Functions. Such assessments are conducted at both Entity-Level and Activity-Level Controls. The SBP has issued key instructions and regulations to strengthen corporate governance practices in banks, including a corporate governance regulatory framework, remuneration guidelines, guidelines on internal capital adequacy assessment process, guidelines on control functions including on compliance, risk management and internal audit.

240. The Companies Act 2017 includes the definitions and many restrictions on transactions with related parties, but they should be made fully consistent with the BCP. The SBP has the powers to regulate and supervise transactions with related parties and uses these. There are several examples of supervisory actions in this area. There are also more restrictive rules on such exposures than on

¹⁷⁶ In addition several MFBs have been undercapitalized.

non-related exposures. Aggregate exposure to related parties must not exceed 7.5 percent of the bank's total capital. The specification of related parties and associated transactions is scattered around the legislation. It largely addresses the aspects defined under the BCP. However, there are some deviations to the BCP. The first deviation is that beneficial owners and all parties that can exert significant influence on board members or senior management are not included. The second deviation is that off-balance sheet and derivative transactions are not included.

241. There are standards for banks' disclosure and transparency. The SBP has prescribed a format for annual and interim financial statements for banks. The format includes detailed information, including on non-performing loans and securities holdings, lending to related parties as well as regulatory metrics as required under the BCP.¹⁷⁷ The SBP publishes detailed data on the financial situation of banks and has the right to publish any information on a specific bank.

| Table 10. Recommendations on Financial Sector Oversight | | | |
|--|--------------------------------------|--|----------|
| Recommended Action | Responsible Authority | Action Objective | Timeline |
| 1. Change the SBP act to remove the Secretary of the Ministry of Finance from the Board of Directors and require that the reasons for removal of the Governor, Deputy Governors, and Non-executive Directors are published. | SBP, Ministry of Finance, Parliament | Independence of SBP | MT |
| 2. Fill the two vacant deputy governor positions and ensure that such positions are not left vacant for extended periods. | SBP and Ministry of Finance, | Ensure collective decision-making | ST |
| 3. Revise the objective of banking supervision in the law, so that it is fully consistent with the BCP, i.e. "promote the safety and soundness of banks and the banking system." Establish legal requirement for the SBP to consult publicly on new regulations and prudential standards. | SBP, Ministry of Finance, Parliament | Alignment with international standards | MT |
| 4. Change the Banking Ordinance by removing the Ministry of Finance power to instruct the SBP on inspections. | SBP, Ministry of Finance, Parliament | Independence of SBP | MT |
| 5. Complete the planned shift of the SBPs ownership of two financial institutions to the Government. | SBP | Alignment with International Standards | ST |

¹⁷⁷ SBP, BPRD Circular No. 02 of 2023 (<https://www.sbp.org.pk/bprd/2023/C2.htm>).

| | | | |
|---|-----|--|-----------|
| 6. Consolidate and make the requirements on related party transactions consistent with the BCP. | SBP | Alignment with International Standards | ST |
| 7. Publish SBPs objectives, priorities and plans for supervisory activities and when the year is over publish information on the conducted activities. | SBP | Transparency | MT |
| 8. Ensure that corrective and sanctioning framework are used at an early stage, including for solving issues of undercapitalized banks. | SBP | Alignment with International Standards | ST |
| 9. Ensure that the Committee for Transformation with the support of the government create clarity on the post 2027 financial system - to ensure a common understanding with banking system in the transition to Islamic banking and in addressing key challenges. | SBP | Transparency | MT |

Section V. Anti-Money Laundering and Combatting Financing of Terrorism

242. To detect, deter, and disrupt money laundering linked to corruption, a well-performing AML system is composed of interdependent elements that function cohesively to detect, deter, and disrupt money laundering, particularly when linked to corruption.¹⁷⁸ These elements include a clear and enforceable legal framework, institutions with sufficient autonomy and capacity, effective supervision based on risk, timely and actionable financial intelligence, inter-agency coordination, accountability through prosecution and sanctioning, and effective international cooperation. When these components are aligned, the AML framework can support integrity in public and financial institutions, contribute to asset recovery, and enhance trust in the rule of law. This chapter assesses how these elements function in practice in Pakistan, with a focus on their effectiveness in addressing the laundering of corruption proceeds.

A. AML Measures to Tackle Proceeds of Corruption

243. Pakistan has taken steps to enhance financial sector oversight in line with AML/CFT priorities. Reforms have improved risk-based supervision by financial regulators. The SBP continues to implement targeted on-site and thematic inspections to assess compliance of banks with AML obligations, particularly around high-risk areas such as politically exposed person (PEP) onboarding and suspicious transaction report (STR) generation. The SECP has made progress in streamlining beneficial ownership data collection, including the development of an electronic portal for reporting entities to obtain BO information.

244. Pakistan faces significant risks of corruption-related money laundering. The 2023 National Risk Assessment (NRA) identifies corruption as a major predicate offense for money laundering. High-risk sectors include banking, real estate, construction, PEPs, and public procurement. The misuse of corporate vehicles, shell companies, and informal value transfer systems are prevalent techniques used to conceal the origins of corruption proceeds.

245. Despite progress made by Pakistan in improving the AML/CFT framework in-line with FATF's Recommendations, implementation challenges continue to hinder effective mitigation of ML risks in Pakistan especially in regards to institutional coordination, enforcement of preventive measures, and operation follow-through. While the NRA offers a strategic starting point, there is limited evidence of proactive detection and disruption of corruption-related ML in the most vulnerable sectors, particularly high-risk sectors such as public procurement, SOEs, and real estate, and urgent reforms are needed. To address this, reforms must go beyond formal compliance and result in measurable outcomes such as increased detection rates, successful prosecutions, and asset recovery. Strengthening institutional capacity and modernizing risk management systems are critical not only to align with international standards, but also to ensure that illicit funds are intercepted before they leave the country, preserving national resources and reinforcing financial system integrity.

¹⁷⁸ The GCD is not an assessment of compliance with the FATF standard, but a diagnostic of the effectiveness of the AML framework in addressing the proceeds of domestic corruption in Pakistan.

246. Legal reforms continue to strengthen the institutional response to corruption and laundering but gaps remain. The AMLA 2010 remains the primary legislation governing money laundering investigations. Updates have clarified the mandate of supervisory and investigative bodies, while efforts to operationalize the National AML/CFT Authority as a central coordinating body have gained momentum. Other initiatives include the NAB's internal accountability framework and enhanced capacity for tracing assets through mutual legal assistance. Particular focus should be given to align predicate offences to money laundering in Pakistan with the acts of corruption as listed in the UNCAC, including foreign bribery,

B. Oversight and Institutional Integrity

247. Pakistan's AML institutional framework includes several oversight bodies with distinct mandates, but gaps in inter-agency coordination and enforcement remain. (Table 11) The FMU acts as the central national agency for receipt and analysis of STRs, while the National AML/CFT Authority is tasked with coordinating implementation of AML/CFT strategy across Pakistan. Sectoral regulators—namely the SBP, SECP, and the FBR—exercise supervisory control over their respective financial institutions and DNFBPs.

| Table 11. Pakistan AML/CFT Bodies, Function/Mandate and Accountability | | |
|--|--|--|
| Body | Function / Mandate | Reports To |
| Financial Monitoring Unit (FMU) | Pakistan's financial intelligence unit. Receives, analyzes, and disseminates STRs and CTRs; coordinates with LEAs and regulators. | Ministry of Finance |
| National AML/CFT Authority | Leads national coordination on AML/CFT policy and implementation across institutions. Oversee NRA and strategic reforms. | Prime Minister / Cabinet |
| State Bank of Pakistan (SBP) | Supervises banks and money service businesses for AML compliance; issues regulations and enforces penalties. | Ministry of Finance / SBP Board |
| Securities and Exchange Commission of Pakistan (SECP) | Supervises capital markets, insurance, and companies for AML compliance; responsible for beneficial ownership regime. | Ministry of Finance |
| Federal Board of Revenue (FBR) | Supervises DNFBPs (real estate agents, dealers in precious metals/stones, accountants); collects financial intelligence via tax filings. | Ministry of Finance |
| National Accountability Bureau (NAB) | Investigates and prosecutes corruption offenses, including related money laundering where corruption is the predicate. | Directly under the Prime Minister; semi-autonomous |

| | | |
|------------------------------------|--|--------------------------------|
| Federal Investigation Agency (FIA) | Investigates money laundering offenses under AMLA 2010 and other financial crimes; handles cross-border cases. | Ministry of Interior |
| Ministry of Law and Justice | Handles mutual legal assistance, legislative reform, and legal review of AML/CFT frameworks. | Federal Cabinet / Parliament |
| Judiciary / Accountability Courts | Adjudicate money laundering and corruption-related cases; issue orders for freezing/confiscation. | Independent (per Constitution) |

248. The absence of strong institutional accountability mechanisms has weakened overall system effectiveness. There is no clear framework to assess the performance of authorities in preventing money laundering specifically related to corruption. The AML Act established two inter-agency committees to oversee the AML/CFT framework: the National Executive Committee (NEC) which deals with policy matters and the General Committee (GC) which focuses on operational issues. The GC requests reports from law enforcement regarding the use of financial intelligence in their investigations and these reviews could be enhanced to pay specific attention to corruption-related STRs. Upon the formation of the National AML/CFT Authority in 2023, many of oversight functions held by the NEC and GC are now carried-out by the National AML/CFT Authority. Furthermore, the FMU has mechanisms of seeking quarterly feedback from respective LEAs, including NAB, on disseminated corruption related financial intelligence. However, it remains unclear whether oversight functions pay specific attention to follow-up on disseminated financial intelligence related to laundering the proceeds corruption. For instance, while NAB and FIA are legally empowered to investigate money laundering offenses, the statistics on the number of corruption-related financial intelligence that have led to enforcement action or prosecution are low. Quarterly meetings are held between NAB, the FMU, and the National AML/CFT Authority to discuss the status of disseminations but it's unclear if material decisions were made to advance corruption-linked disseminations.

249. Disclosure of enforcement actions could be enhanced to demonstrate supervisory authorities continued focus on AML/CFT violations. Pakistan has issued the AML/CFT Sanctions Rules, 2020 under the AMLA. These Rules provide broad requirements for AML/CFT supervisory authority for their enforcement policies including maximum amounts of penalties and requirement for publishing significant enforcement actions. In pursuance of these Rules, each AML/CFT supervisory authority developed a comprehensive enforcement regime including risk-based penalty scales. The authorities indicated that during the 2023-2024 period, monetary penalties more than PRs 944 million were imposed against 17 banks for AML/CFT related gaps and disciplinary actions were taken by 10 banks against 225 employees after conducting internal inquiries. As for DNFBPs, fines totaled to more than PRs 2.6 million during the same period. Available data on sanctions imposed for AML violations—particularly related to corruption risks—is fragmented.

250. There are concerns by the public regarding the impartiality of key AML enforcement institutions. Stakeholders frequently cite concerns about impartiality and selective enforcement of AML obligations, particularly when PEPs or high-level officials are involved. In other jurisdictions, for example, reforms included an independent review mechanism to enhance oversight over AML/CFT enforcement bodies and to restore public trust. Pakistan could benefit from a similar model to improve transparency and accountability, especially in politically sensitive cases. During Pakistan's FATF grey listing, several AML/CFT presentations were made to the National Assembly related to updating legislation, but the National Assembly never made a request to discuss the institutional integrity of AML/CFT bodies.

251. Supervisory authorities are increasingly aligning with FATF standards. The SBP and SECP continue to work with the FMU to improve reporting quality and risk profiling. The FMU has enhanced its analytical capabilities and responsiveness, particularly for STRs flagged in the context of public sector corruption. For example, as part of the FMU automated prioritization analytics, additional weightage has been allocated for corruption related indicators, including: PEP status, tax discrepancies, mismatches in wealth, use of family accounts, and large cash transactions. The NRA 2023 update has guided priority-setting and improved feedback loops between the FMU and reporting entities.

252. The National AML/CFT Authority's role in ensuring system-wide policy coherence is still evolving. Established relatively recently, the Authority is mandated to coordinate national efforts and ensure the implementation of risk-based approaches. However, it requires additional resources to enforce compliance across institutions or to coordinate effective cross-agency task forces targeting laundering of corruption proceeds.

253. There are improving efforts to improve coordination between agencies, but challenges persist. While joint task forces and memoranda of understanding exist between various regulators and enforcement agencies, these mechanisms require formal accountability and reporting requirements. In comparison, other jurisdictions, such as the United Kingdom, United States, and the Netherlands, have implemented standing inter-agency AML/CFT task forces that regularly evaluate case outcomes and identify systemic gaps. Whether Pakistan's coordination mechanisms are delivering similar results is unclear.

254. Pakistan's AML institutional structure includes all necessary components, and operational effectiveness achieved significant milestones, although it can be further enhanced by improving institutional autonomy, oversight, and system-wide accountability. To effectively tackle laundering of corruption proceeds, Pakistan will need to enhance the independence of key actors, enforce sanctions consistently, and improve coordination across regulatory and enforcement institutions. Additional insights from the relevant authorities are required to assess the precise extent of these gaps and identify feasible pathways for reform.

C. Understanding of Risks and Resource Prioritization

255. Pakistan's authorities have formally recognized corruption as a significant predicate offense for money laundering, but institutional responses appear fragmented and insufficiently resourced. The 2023 NRA outlines corruption as a major threat to the integrity of the financial system. However, evidence that agencies have developed operational strategies, allocated staff, and directed financial resources specifically to address these risks remains limited. The authorities' ability to translate this risk understanding into meaningful action varies considerably across institutions.

256. Adequate implementation of the risk-based approach varies across institutions. Despite clear references to corruption-related risks in national strategies, most supervisory bodies do not appear to publish sector-specific plans or operational guidelines that prioritize the laundering of corruption proceeds. In-line with the NRA, the SBP's supervisory risk assessments rates PEPs as higher risk being customers prone to corruption (a ML predicate offence rated very high in the NRA) and enhanced due diligence by regulated entities are expected to be implemented. Furthermore, as the national custodian of the national corporate registry and beneficial ownership information for legal persons, the SECP implements enhanced due diligence when PEPs are identified in the basic information register. However,

it's unclear if the SECP follow a similar approach for other sectors prone to corruption, such as real estate and government contracting, or systematically map and monitor high-risk sectors.

257. The lack of disaggregated data hampers effective monitoring and resource reallocation.

Supervisory and enforcement agencies do not appear to collect or publish disaggregated statistics on corruption-linked STRs, inspections, investigations, or sanctions. As a result, it is difficult to assess whether AML efforts are commensurate with identified risks specifically related to laundering the proceeds of corruption. While the authorities highlighted that the National AML/CFT Authority collects statistics for all ML predicate offenses, these could be operationalized by producing periodic reports highlighting thematic risks and enforcement priorities, including a breakdown of cases linked to corruption. Pakistan's institutions could benefit from adopting such a model to support data-driven resource deployment.

258. Capacity constraints in certain agencies may prevent risk-based supervision from taking root.

The FBR's capacity to supervise DNFBPs is particularly constrained, given the number of entities under its remit and the limited staff available for inspections and outreach. Some DNFBPs are considered high-risk for facilitating corruption-based laundering, especially in the real estate sector. Without sufficient staffing and technical expertise, supervision in these areas is likely to remain reactive and inconsistent.

259. The level of due diligence towards public sector-related financial flows presents ample opportunities for improvement.

Public procurement is widely recognized as a corruption-prone environment in Pakistan. Reports by the Auditor General of Pakistan point to irregularities in public procurement at the central level and in multiple provinces. However, despite improvement in AML/CFT enforcement and recent focus by the authorities to digitalize public procurement processes, including payments, gaps remain to systematically address financial flows from government-linked entities or contracts. Pakistan can learn from reforms in other countries, where financial institutions are required to treat transactions linked to public procurement with heightened scrutiny. For example, in South Africa, following the revelations of state capture, banks were instructed by the South African Reserve Bank and the Financial Intelligence Centre (FIC) to (i) apply enhanced due diligence to SOEs and politically exposed contract and (ii) monitor transactions involving public procurement for red flags. FIC guidance now includes typologies on laundering through tenders and subcontracting. Furthermore, in Ukraine, AML reforms included (i) enhanced scrutiny of government expenditure accounts and SOE-linked financial flows and (ii) regular typology bulletins from FIU-Ukraine on red flags in public procurement schemes.

260. Cross-institutional coordination on corruption risk assessment is present, but gaps remain.

NRA-related committees jointly assess evolving threats, typologies, or vulnerabilities related to ML, additional focus needs to be placed on laundering the proceeds of corruption and additional stakeholders need to be included in the NRA process. Furthermore, these committees need to focus more on the development of typologies and assessing the evolving threats and vulnerabilities related to Corruption. Multi-agency typology studies are required, although the FMU published helpful cases related to laundering the proceeds of corruption. Improving such mechanisms could support more coherent policy and operational responses across the AML/CFT system.

261. Pakistan's risk understanding is conceptually sound but evolving in operational terms. The prioritization of corruption as a key AML threat is present in the NRA and national strategies but appears deficient in corresponding supervisory or enforcement activities, although the SBP is a notable exception in respect of supervisory prioritization. Addressing this gap will require stronger cross-sectoral coordination, improved data collection, more robust targeting of resources, and clear guidance on sector-

specific typologies. The National AML/CFT Authority's mandate includes addressing these gaps. Information from supervisory and enforcement agencies is essential to assess institutional prioritization in practice.

D. Developing & Using Actionable Financial Intelligence

262. The generation and use of financial intelligence is a core component of an effective AML/CFT framework. In Pakistan, the beneficial ownership (BO) regime and the reporting ecosystem—comprising financial institutions and designated non-financial businesses and professions (DNFBPs)—are critical to detecting and disrupting laundering of corruption proceeds. However, their impact depends not only on the completeness and accessibility of the information they produce, but also on the ability of competent authorities to use that information proactively. This sub-section examines how BO data and STRs are collected, verified, accessed, and used in practice, and assesses whether they are translating into meaningful investigative outcomes in corruption-related money laundering cases.

263. Pakistan has taken steps toward BO transparency, but implementation challenges significantly limit its effectiveness in tackling corruption-related money laundering. Introduced as part of Pakistan's compliance efforts with the FATF standards, the SECP is responsible for overseeing the BO framework is yet to establish a registry to maintain BO information. At present, BO information is currently accessed via legal persons in Pakistan who are responsible for making BO information available within 48 hours.¹⁷⁹ A declaration form for each entity is submitted to the SECP which doesn't include UBO information but a focal point for each entity is identified, with contact details, that can provide the information. As for legal arrangements, provincial authorities maintain responsibility for ensuring BO information is available in a timely manner within the Ministry of Interior's oversight. The SECP established a dedicated portal where the FMU, some LEAs, and banks may submit requests for BO information, which is functioning well and avails information within the stipulated service standard. DNFBPs do not currently have access to the portal which may delay access.

264. Verification mechanisms for BO information remain underdeveloped. SECP requires legal entities to declare that BO information is maintained at the time of incorporation, upon a change of ownership, and annually. However, actual BO information is not declared and there is limited evidence of systematic verification or auditing of BO information. In other Fund assessed countries, such as Moldova and Sri Lanka, automated cross-validation of BO data with asset declarations and other databases has improved detection of false filings. In Pakistan, such integrated verification mechanisms do not yet exist. Furthermore, once the BO Registry will be set-up, it is planned that enhanced due diligence measures will be applied against legal persons when PEPs appear in the basic information register. However, risk-based actions are limited at present.

265. Public access to beneficial ownership data is not immediately available, limiting transparency and accountability. Although, the public may submit a Form-19 Declaration to access BO information, approvals are rare. Civil society and investigative journalists often play an important role in uncovering networks used to launder corruption proceeds. In Pakistan, BO data is not publicly available, reducing the opportunities for independent scrutiny, noting that data privacy laws were amended to avail BO information to law enforcement agencies. In mitigation, efforts were made to reduce corruption risk

¹⁷⁹ In July 2025, S.R.O. 1356(I)/2025 has been passed to requiring submission of beneficial ownership data electronically for the financial year ending in June 30, 2025.

from public procurement by introducing the electronic procurement system (E-PADS) which mandates that BO information of winning bidders are to be made publicly available. Foreign ownership of legal persons is permitted in Pakistan with 1700 entities incorporated in Pakistan have foreign shareholders holding more than 25 percent based on the SECP database.

266. Sanctions for non-compliance with BO obligations appear inconsistently applied. SECP has powers to impose administrative penalties for non-submission or inaccurate BO declarations, and public reporting of enforcement activity is advanced and well established via the SECP's website. It is unclear whether repeat offenders face escalated enforcement. Without credible deterrents, the risk of intentional misreporting remains high.

267. Challenges also exist in identifying beneficial ownership of complex or foreign-controlled structures. Entities owned through multi-layered shareholding arrangements, offshore companies, or trusts pose heightened risks. Pakistan's legal framework for BO disclosure may not fully capture control relationships that fall below quantitative thresholds or are obscured through nominee arrangements.

268. Coordination between SECP and other authorities in using BO data remains limited. Effective use of BO information in financial investigations requires regular exchange between SECP, FMU, SBP, FBR, and investigative bodies. Accessing BO information by AML/CFT authority is now achievable, as evidenced by the FMU's ability to access BO information, but additional authorities need to be granted access to make full use of the data. Pakistan may benefit from institutionalizing a multi-agency working group to review BO data in support of corruption investigations.

269. While Pakistan's BO framework is an important foundational tool, weaknesses in registry implementation, verification, enforcement, and inter-agency access reduce its impact. Addressing these challenges will be essential to ensuring that BO transparency plays a meaningful role in the identification and disruption of corruption-related laundering schemes. Access to accurate and timely BO data is essential not only for detecting illicit financial flows, but also for uncovering conflicts of interest in public procurement processes—particularly when public officials or their close associates have undisclosed stakes in bidding firms. The strategic use of BO information can therefore help mitigate collusive practices, expose front companies used to siphon public funds, and support fair competition in government contracting. Ensuring that contracting authorities, integrity bodies, and investigative agencies can effectively access and cross-reference BO data with procurement records is critical to advancing governance reform and restoring public trust.

270. The effectiveness of financial institutions and DNFBPs in detecting and reporting corruption-linked transactions remains limited, albeit more advanced by financial institutions due to implementation of transaction monitoring systems. Pakistan's legal and regulatory framework requires reporting entities—including banks, money service businesses, and DNFBPs—to implement risk-based customer due diligence, conduct enhanced due diligence on PEPs, and file STRs. However, implementation is uneven and often inadequate in addressing high-risk areas associated with corruption. The financial institutions implemented these measures; however, there are capacity constraints in the DNFBP sector. To address this, the authorities are regularly conducting capacity-building programs for DNFBPs, which are expected to enhance their understanding and effective implementation of these measures.

271. In Pakistan, the identification of PEPs is guided by regulatory requirements issued by the SBP, the SECP, and the FBR for their respective supervised entities. Financial institutions and DNFBPs

are required to apply enhanced due diligence (EDD) measures when onboarding or dealing with PEPs, which include obtaining senior management approval, establishing the source of wealth, and conducting ongoing monitoring. To support implementation, the FBR has established an online platform under the Sharing of Declaration of Assets of Civil Servants Rules, 2023, which enables banks to obtain information on civil servants (BPS 17 and above). Financial Institutions regulated by SBP have deployed system-based solutions for identification and managing PEP risks including for members of parliament, and senators. However, other institutions are largely responsible for developing their own internal systems to identify and manage PEP risks beyond the official lists. While these efforts provide a baseline framework, the effectiveness of PEP identification remains uneven across sectors due to limited access to comprehensive data, absence of automated screening tools in smaller institutions. The authorities may consider issuing more robust corruption-specific red flag indicators that would help detect misuse of public office.

272. The authorities-initiated measures to tackle ML risks broadly, although reporting institutions often lack clarity on corruption-specific typologies and risk indicators. Although the FMU has issued STR guidance and an array of red-flag indicators for various sectors and typologies, reporting institutions have limited access to typologies that reflect common methods of laundering corruption proceeds in the Pakistani context. According to international best practice, the development of red flag indicators—tailored to sectors like public procurement and SOEs—has enhanced detection rates. Canada’s FINTRAC has published red flag indicators specifically for (i) transactions involving government contracts, municipal procurement, and PEP-related behavior, (ii) use of corporate entities or consultants in public sector schemes, and (iii) layered payments, rapid contract turnover, and unexplained wealth accumulation in low-salary public roles. Furthermore, Colombia’s financial intelligence unit developed sectoral indicators targeting (i) healthcare procurement during COVID, (ii) SOE-linked laundering via construction firms and extractive industries, and (iii) payments routed through regional entities to avoid detection. Pakistan could benefit from issuing specific guidance on identifying unusual financial behavior linked to PEPs and state contracts. The FMU’s existing efforts are commendable but additional focus on laundering the proceeds of corruption is needed to improve effectiveness. Furthermore, Pakistan mitigates corruption-risk by requiring financial institutions to seek approval via an FBR platform when dealing with senior federal officials (BPS 17 and above), members of parliament, and senators.

273. Feedback mechanisms between the FMU and reporting entities are developing. Timely and constructive feedback on STR quality is essential for improving reporting standards. The FMU has extensive engagement with reporting entities for providing and seeking input, ways to improve the GoAML system, and capacity building initiatives. These initiatives periodic AML/CFT focused forums, one-on-one meetings, feedback on quality of STRs, issuing guidelines, sharing of typologies, sharing of strategic analysis reports. However, the FMU does not provide systematic updates on the outcome of corruption-related STRs submitted by reporting entities. This absence of a structured feedback loop, coupled with limited typologies on laundering the proceeds reduces the incentive for proactive reporting and weakens institutional learning across reporting entities.

274. Technological capacity for transaction monitoring varies significantly among reporting entities. Larger financial institutions often possess more advanced systems for automated transaction monitoring and flagging of high-risk activity. In contrast, smaller financial institutions and many DNFBPs rely on manual processes or lack any meaningful systems altogether. This technological divide hampers consistent enforcement of AML obligations across the reporting sector and poses challenges in identifying complex laundering schemes associated with corruption.

275. Pakistan’s reporting entities under legal obligations are required to detect and report corruption-related laundering, but opportunities for improvement exist in relation to capacity, corruption-specific guidance, and supervision to ensure compliance. Strengthening outreach, more training, and enforcement efforts will be necessary to ensure frontline detection systems contribute meaningfully to corruption prevention.

276. There is growing attention to public sector transparency mechanisms. There is progress in the use of digital asset declaration systems operated by the FBR. While declarations are not currently verified, the National Assembly is reviewing legislation to mandate the FBR with the establishment of a verification mechanism that also includes risk-indicators flagging officials that approve procurement, customs decisions, or have undergone sudden high enrichment. Integration of declaration data with enforcement bodies remains under development, but institutional cooperation, including to facilitate FMU access to asset declaration information, has improved through joint task forces and training efforts. These mechanisms complement the broader AML strategy by reducing illicit enrichment risks and improving early detection.

E. Inter-Agency Coordination and Systemic Coherence

277. An effective AML/CFT framework requires robust inter-agency coordination across supervisory, investigative, intelligence, and judicial institutions. Lack of operational synergy hampers the system’s ability to detect and respond to complex money laundering schemes linked to corruption. In Pakistan, while the legal and institutional architecture includes multiple actors with distinct mandates – including the FMU, the National AML/CFT Authority, sectoral regulators (SBP, SECP, FBR), and investigative bodies (NAB, FIA) – their ability to operate in a coherent, coordinated manner may further be enhanced. This lack of operational synergy hampers the system’s ability to detect and respond to complex money laundering schemes linked to corruption. The establishment of the National AML/CFT Authority in 2023 significantly improved coordination and further effectiveness is expected if the system continues to sustain improvements over a prolonged period.

278. Formal coordination mechanisms exist but are underutilized. The AMLA 2010 provides for two high-level inter-agency bodies: the National Executive Committee (NEC), which addresses policy matters, and the General Committee (GC), which focuses on operational coordination. While the GC is mandated to review the use of financial intelligence and request updates from enforcement agencies, its effectiveness is constrained by the lack of regular, detailed performance reviews and limited focus on corruption-related laundering. In response, the National AML/CFT Authority was established in 2023 which improved operational coordination, including by quarterly data collection exercises from the authorities. Quarterly meetings between the FMU, NAB, and the National AML/CFT Authority are held to review STR disseminations, but there is limited evidence on whether these discussions lead to tangible enforcement outcomes or improved typology development.

279. Information sharing across agencies remains inconsistent and often ad hoc. Despite the FMU’s dissemination of financial intelligence and access to BO information, there is little evidence that these are consistently followed up by law enforcement or used to guide broader risk assessments. This is compounded by the absence of a central case-tracking platform and the lack of a unified risk database that would allow regulators, investigators, and prosecutors to align their operational priorities. Coordination between regulatory agencies—such as SECP and FBR—is further hindered by sectoral silos and limited interoperability of IT systems and data standards. However, the FMU utilizes its GoAML

software to disseminate financial intelligence to LEAs using a unique identification number (UIN), which is used for all future correspondence between FMU and LEAs.

280. Emerging efforts to institutionalize coordination require sustained commitment and operational clarity. The National AML/CFT Authority has a mandate to lead system-wide coordination and policy alignment, but needs further strengthening in terms of staffing and resourcing. While memoranda of understanding and joint task forces have been established in select cases, a well established framework for formal terms of reference is lacking, dedicated leadership, and performance indicators. As a result, their impact is often difficult to assess. Pakistan would benefit from adopting standing inter-agency AML/CFT task forces with mandates to jointly review case outcomes, identify systemic typologies (particularly in corruption-prone sectors like procurement, SOEs, and real estate), and produce actionable recommendations. Models from jurisdictions such as the UK's Joint Money Laundering Intelligence Taskforce (JMLIT) and the Netherlands' Financial Expertise Centre offer potential blueprints.

281. Improving inter-agency coordination is essential to ensure that corruption-related laundering is not addressed in isolation by individual institutions. A shared strategic vision, supported by interoperable data systems, routine joint reviews, and a clear division of labor, will be necessary to convert Pakistan's formal AML/CFT architecture into a cohesive and high-performing enforcement system.

F. Investigative and Prosecutorial Capacity

282. Pakistan's law enforcement agencies face persistent challenges in pursuing money laundering cases tied to corruption. The NAB and the FIA have a shared mandate to investigate and prosecute offenses involving corruption and associated money laundering. NAB has jurisdiction over corruption cases above PRs 500 million while the FIA deals with all other cases below the threshold. Despite this, few cases have resulted in convictions or significant asset recovery. Investigative capacity is constrained by a lack of specialized expertise and coordination. Complex money laundering investigations—especially those involving layered transactions, offshore accounts, and shell companies—require forensic accounting, data analysis, and asset tracing skills. NAB and FIA often lack sufficient trained personnel in these areas.

283. Case management systems and inter-agency cooperation remain fragmented. The establishment of a unified case tracking system, achieving similar results to the FMU's UIN, would greatly enhance transparency and strengthen effective oversight. The absence of a unified case tracking system undermines transparency and effective oversight. Information sharing between investigative bodies, the FMU, SECP, SBP, and FBR is not systematically institutionalized. In comparator jurisdictions, central case registries and joint investigative task forces have proven useful in consolidating efforts across multiple agencies. Pakistan does not appear to have adopted similar models.

284. Use of financial intelligence in initiating and supporting investigations is limited. While the FMU disseminates financial intelligence to LEAs, there is little data on the extent to which these leads are acted upon. Anecdotal evidence suggests that some financial intelligence remain un-investigated due to low risk ratings, limited staff, or the absence of downstream investigative capacity. According to the NAB, cases proceed following verification of complaint, investigation, and subsequently filing of the reference on evidential material establishing culpability under penal provisions, which suggests that a risk-based approach to focus on higher risk threats set-out in the NRA is lacking.

285. Standalone ML offences cannot be prosecuted due to legal barriers. The definition of the ML offence in Section 3 in the AML Act is ambiguous and states that ML occurs when the proceeds of a crime are laundered. The definition of the ML offence for standalone cases in AMLA may be reviewed to further enhance understanding for LEAs. An amendment to this definition could be considered for improved implementation. Notwithstanding that additional explanation in the law explicitly indicates that for ML to be prosecuted, a previous conviction of an accused of a predicate offence is not needed, the definition itself renders the need for a predicate offence to be present and that laundered funds are proceeds of crime for ML to be prosecuted. The authorities consider this to be a barrier in referring cases to prosecution and ultimately achieving convictions. For example, conviction rates for money laundering offenses could be higher relative to the country's risk profile.

286. Judicial constraints further weaken enforcement outcomes. Delays in prosecution, lengthy trial processes, and low conviction rates diminish the deterrent effect of AML enforcement. Additionally, high-profile or politically sensitive cases often face external interference, limiting the independence of investigations and undermining public confidence in accountability mechanisms. For corruption linked money laundering complaints, NAB's, turnaround time is within 4-months to open a formal enquiry, but a complaint must undergo a rigorous administrative process to be verified before an investigation is launched which could result in a complaint not being investigated.

287. Mutual legal assistance and asset recovery processes require significant improvement. Cross-border cooperation is essential in tracing and repatriating assets derived from corruption; particularly where offshore structures are used to obscure beneficial ownership. High-profile disclosures such as the Panama Papers and the recent Dubai Leaks underscore the scale of hidden wealth outside the country and the critical importance of access to international financial intelligence. Pakistan has initiated MLA requests and asset recovery efforts in select cases, but success has been limited. Challenges include capacity of staff, weak international networks, and procedural delays. The authorities may benefit from improving coordination with key capital flight jurisdictions to improve responsiveness to MLA requests. This can be achieved by signing bilateral agreements with those jurisdictions to ensure requests are legally accurate and prioritized. Furthermore, Pakistan should also pursue membership in the Egmont Group of FIUs to facilitate information sharing with other relevant FIUs.

288. Law enforcement authorities in Pakistan face systemic barriers to effective investigation and prosecution of corruption-related money laundering. Strengthening technical capacity, improving inter-agency coordination, and insulating investigations from political interference will be crucial to bolstering the AML framework. Information from NAB, FIA, and the judiciary will be necessary to evaluate the current caseload, success rates, and resource needs.

Table 12. Recommendations on AML/CFT

| Recommended Action | Responsible Authority | Action Objective | Timeline |
|--|----------------------------|---|-----------|
| 1. Issue circular mandating relevant agencies (including FMU, SECP, FBR, FIA, NAB) to align supervision, STR review, inspection planning, outreach, and enforcement efforts with the corruption-related risk priorities highlighted in the NRA and Pakistan's GCD. | National AML/CFT Authority | Ensure that AML/CFT resources across supervision, financial intelligence, and enforcement are targeted at sectors, actors, and typologies that present the highest risk of laundering corruption proceeds, as identified in the NRA and other strategic analyses. | MT |
| 2. The real estate sector's vulnerability to ML related to corruption is decreased as a result of improved oversight and preventive measures. | National AML/CFT Authority | Improve supervision and preventive measures to mitigate risks arising from the sector's current vulnerabilities. | LT |
| 3. Money laundering offenses are consistently prosecuted as standalone crimes, without requiring a predicate conviction. | Ministry of Law & Justice | Remove legal ambiguity in Section 3 of the AMLA 2010 and enable more flexible and timely prosecution of ML cases, particularly where predicate corruption offenses are difficult to prove. | MT |
| 4. Pakistan secures improved cooperation on asset recovery through bilateral MLA frameworks with high-risk capital flight jurisdictions. | NAB/FIA | Increase the success rate and timeliness of mutual legal assistance requests by formalizing cooperation, such as through targeted memorandums of understanding, with jurisdictions where corruption-linked assets are often held. | MT |
| 5. An operational, accessible, and verified beneficial ownership registry supports law enforcement and regulatory investigations. | SECP | Improve transparency of legal persons, enable systematic verification of BO data, and ensure timely access for competent | MT |

| | | | |
|--|----------------------------|---|-----------|
| | | authorities investigating laundering of corruption proceeds. | |
| 6. Standing inter-agency task forces identify systemic ML risks linked to corruption and coordinate responses through typology sharing. | National AML/CFT Authority | Institutionalize joint analysis of corruption-linked ML cases, align typology development across agencies, and strengthen operational coordination in line with international best practices. | MT |
| 7. Financial intelligence related to corruption are systematically followed up, with actionable feedback provided to reporting entities and LEAs, including by maintaining statistics of corruption-related disseminations that have led to enforcement action or prosecution. | FMU | Strengthen the operational utility of financial intelligence, improve risk understanding among reporting entities, and enable LEAs to initiate timely financial investigations based on financial intelligence. | MT |
| 8. A unified digital platform allows real-time tracking and exchange of corruption-linked AML cases across enforcement and judicial bodies. | NAB / Ministry of Interior | Improve transparency, avoid duplication, and accelerate investigations and prosecutions through shared access to case status and evidence trails across institutions. | MT |
| 9. NAB and FIA conduct complex ML investigations with improved capacity and specialized AML units. | NAB / FIA | Enhance investigative effectiveness and the ability to trace, document, and prosecute sophisticated laundering schemes tied to corruption through resource and skills upgrading. | MT |

Section VI. Rule of Law

A. Introduction

289. This section assesses the strength of the legal and institutional frameworks for the protection and enforcement of contractual and property rights, while highlighting vulnerabilities to corruption in the system. Rule of law is one of the six key state functions under the IMF's *Framework for Enhanced Engagement on Governance* and is particularly focused on predictability and timeliness of enforcement of economic rights.¹⁸⁰ The extent to which private parties are able to rely on their economic rights is shaped by the relevant legal frameworks, the efficiency of the legal system in adjudicating disputes, and, most importantly, the quality of the judiciary. Well-functioning and effective mechanisms for protecting economic rights is of paramount importance to the economic system both in terms of private sector mobilization, fluidity of credit markets and stimulation of international investment.

290. The relationship between legal and economic development is well established.¹⁸¹ Extensive research demonstrates the myriad of benefits that accrue to countries with strong enforcement of contract rights, including lower costs of lending, greater business productivity, growth in the size of businesses, increased overall rates of investment, and more direct foreign investment.¹⁸² Economies that function without protection of economic rights are trapped in the production of generic goods, since the risks to more sector-specific investments are too high.

291. Pakistan performs poorly on a broad spectrum of rule of law indicators, including assessments of judicial efficiency, contract enforcement, and property rights protection. The World Bank's Business Ready Report underscores Pakistan's low scores in dispute resolution. Inefficiencies within the judicial process escalate the time and costs of case resolution, consequently affecting the reliability of both court-based and alternative dispute resolution mechanisms.¹⁸³ Furthermore, the Worldwide Governance Indicators (WGI) placed Pakistan in the 21st percentile globally for rule of law in 2023, a ranking significantly lower than its regional counterparts.¹⁸⁴ Similarly, data from the World Justice Project indicates that Pakistan's efficiency in resolving civil disputes and the functioning of its civil court systems falls markedly below the global average and lags behind its regional peers.¹⁸⁵

¹⁸⁰ See IMF 2018 Framework for Enhanced Engagement in Governance. While numerous definitions exist to characterize the scope and function of the rule of law, there is consensus that its core principle is the accountability of all persons, institutions, and entities to laws that are publicly promulgated, equitably enforced, and fairly and efficiently adjudicated.

¹⁸¹ World Bank. Business Ready: Assessing the Business and Investment Climate. Washington, DC: Economy: Pakistan. <https://www.worldbank.org/en/businessready/economy/pakistan>

¹⁸² See Bosio, A Survey of Judicial Effectiveness: The Last Quarter Century of Empirical Evidence, World Bank Policy Research Working Paper 10501, June 2023, p 17.

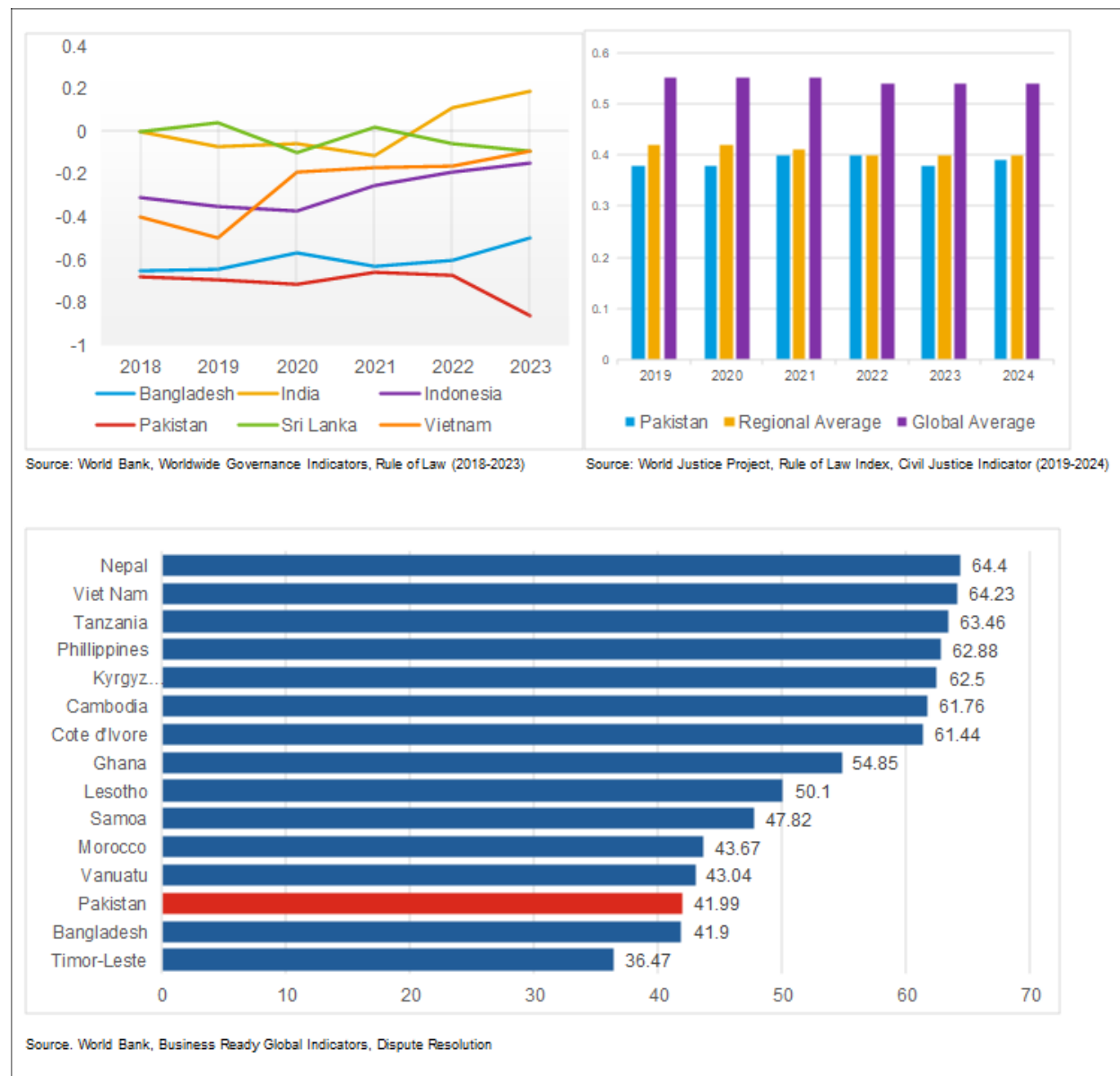
¹⁸³ World Bank. Business Ready: Assessing the Business and Investment Climate. Washington, DC: Economy: Pakistan. <https://www.worldbank.org/en/businessready/economy/pakistan>

¹⁸⁴ World Bank. Worldwide Governance Indicators, 2024 Update. Washington, DC: World Bank. Available at: www.govindicators.org

¹⁸⁵ World Justice Project. Rule of Law Index 2024. Washington, DC: World Justice Project (<https://worldjusticeproject.org/rule-of-law-index>).

(Box 5) According to the most recent statistics, Pakistan has a backlog of over 2 million legal cases waiting to be resolved.¹⁸⁶

Box 5. Pakistan's Underperformance in Rule of Law Metrics



¹⁸⁶ Law and Justice Commission of Pakistan (2023). Bi-annual Judicial Statistics Report.

292. Corruption is viewed as an important factor influencing judicial performance and undermining the rule of law. From 2021 to 2023, the National Corruption Survey, undertaken by TI-Pakistan consistently found that respondents viewed the judiciary as one of the most corrupt sectors, together with the police and public procurement.¹⁸⁷ Corruption creates a perception of bias and unfairness in the justice system, erodes public trust, and promotes a culture of impunity (where influential and well-connected individuals escape liability, while others suffer injustice).¹⁸⁸ The V-dem indicator reports consistently low scores on the judicial corruption sub indicator, which measures the perceived prevalence of undocumented extra payments or bribes paid in order to speed up or delay the process or to obtain a favorable judicial decision. Pakistan's judicial corruption in 2024 score was –1.84, significantly below the South Asian average of –0.34, and the global average of 0.19.¹⁸⁹ At lower levels, the judiciary continues to be characterized by a lack of resources, leading to high levels of corruption and a massive backlog of cases.¹⁹⁰

293. The rest of this section is structured around an examination of the core governance weaknesses in the enforcement of economic rights. The first part will consider core weaknesses in the enforcement of contract rights, followed by a consideration of the legal and organizational challenges in the enforcement of property rights. A final section will consider the functionary of the judiciary, including consideration of factors relating to independence, integrity, and the performance of the legal system.

294. The structure of the Pakistan judicial system creates the backdrop for the analysis of the enforcement of contracts and protection of property rights. As shown in **Figure 8**, the judicial system is a complex, multi-faceted structure, replete with multiple types of courts in a variety of organizational settings. While many of the courts have connections to other courts, there is no unifying governance arrangement that links all of the disparate parts.

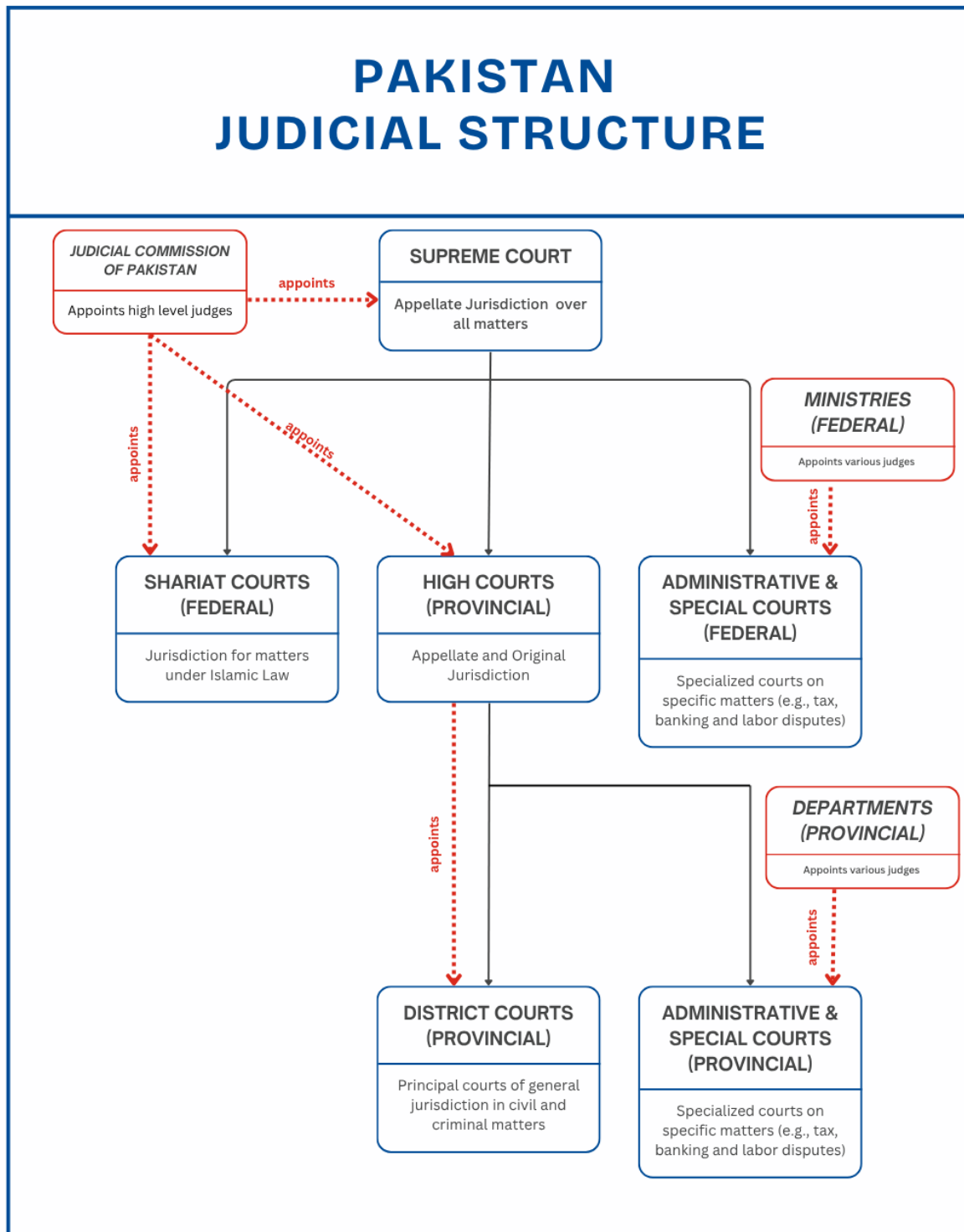
¹⁸⁷ Transparency International Pakistan. National Corruption Perception Survey 2023. Karachi: Transparency International Pakistan, December 2023 (https://transparency.org.pk/NCPS_REPORTS/NCPS-2023/National-Corruption-Perception-Survey-2023-Report-TI-Pakistan.pdf).

¹⁸⁸ Dr. Muhamma Imran, Dr. Ghulan Murtiza, Khalil-ur-Rehman Tariq, The Prevalence of Corruption in Pakistan's Judicial and Law Enforcement Sectors, Pakistan Languages and Humanities Review (Vol. 7, No. 1, January-March 2023).

¹⁸⁹ Varieties of Democracy (V-Dem) Project (https://www.v-dem.net/data_analysis/CountryGraph/).

¹⁹⁰ BTI 2024 Country Report Pakistan; BTI 2024 Pakistan Country Report: BTI 2024

Figure 8. Pakistan Judicial Structure



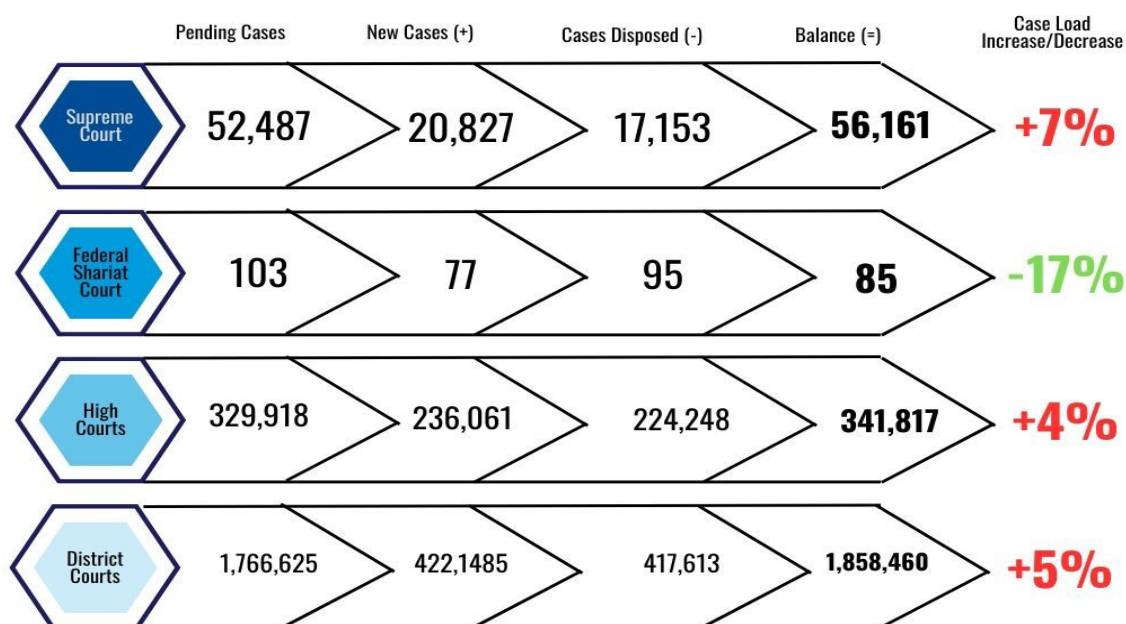
B. Enforcement of Contract Rights

295. Contracts, often defined as an agreement between parties creating mutual obligations enforceable by law – are the foundation for modern economic activity. Contracts enable parties to plan and commit resources in the expectation that their agreement will be maintained. Enforcement of contract rights ensures that the value of investments made based on the agreement is protected. Economic activity shrinks as contract rights get weaker, as parties take steps to limit the risk that an agreement will be broken, through such means as only making agreements with family members or finding other extra-judicial means to compel contract performance.

296. Cases involving contract disputes are heard across a variety of courts in Pakistan. While current statistics do not allow for the substance of court cases to be disaggregated, it is reasonably certain that the largest proportion of cases involving contract disputes are heard at the district court level. Appeals to district court decisions, as well as requests for stays, are heard at the Provincial High Court. The Supreme Court functions as the apex court for both civil and specialized courts.

297. Current mechanisms for adjudicating disputes face significant challenges in providing timely resolution of cases. Extensive delays are a common feature across all forums. Data from 2023 demonstrates that the Pakistan legal system was unable to handle the volume of cases that entered the system in total, and at every level of the system (with the sole exception of Federal Shariat courts). See Figure 9 and Table 13. It is noteworthy that the greatest percentage increase of unresolved cases was at the Supreme Court, followed closely after by the increase in unresolved cases at the district court level. The Specialized Courts operating under federal jurisdiction were almost able to keep up with the flow of new cases. Neither court structure was able to reduce the stock of pending cases, which ballooned to over two (2) million.

Figure 9. Volume of Cases Continue to Increase in Pakistan, 2023



Source: Law and Justice Commission, IMF staff calculations

Table 13. Resolution of Cases and Volume of Case Backlog in Federally Administered Administrative Tribunals and Special Courts, 2023

| Name of Province | No. of courts | Previous Pendency | Institution | Disposal | Pendency |
|------------------|---------------|-------------------|---------------|---------------|----------------|
| Punjab | 58 | 52,628 | 42,660 | 40,389 | 56,637 |
| Sindh | 43 | 26,886 | 15,850 | 15,283 | 27,873 |
| KP | 18 | 4,320 | 4,924 | 4,214 | 5,530 |
| Balochistan | 4 | 557 | 511 | 346 | 678 |
| Islamabad | 22 | 36,834 | 14,707 | 14,152 | 37,393 |
| Total | 145 | 121,225 | 78,652 | 74,384 | 128,111 |

Source: Law and Justice Commission of Pakistan

Structural Fragmentation

298. Structural fragmentation within the legal system can affect the enforcement of contracts.

While Civil Courts possess general jurisdiction over commercial disputes under the Code of Civil Procedure, a range of specialized administrative tribunals have also been established to adjudicate specific types of commercial matters. These include the Banking Courts; the Company Benches of the High Court (Provincial), the newly established Commercial Courts; Intellectual Property Tribunals, Insurance Tribunals; and Customs Appellate Tribunals. The multiplicity of forums can lead to jurisdictional conflicts, particularly when disputes involve multiple legal issues that fall under both general and special laws or where parties disagree on which court or special tribunal has jurisdiction. For example, a dispute relating to a loan default may involve the Banking Courts (for recovery); the civil courts (for breach of contract or fraud) and the Company Benches (if the dispute involves a company facing insolvency). This leads to delays due to jurisdictional objections and transfers, and general uncertainty regarding which forum has jurisdiction.¹⁹¹

299. The lack of uniform standards across Pakistan's civil courts, administrative tribunals, and special courts handling commercial disputes can contribute to inconsistent adjudicatory practices.

Each forum operates under distinct procedural rules, leading to delays, procedural confusion, and frequent appeals, particularly from decisions of lower courts, tribunals, and special benches. These inconsistencies undermine judicial predictability and contract enforcement. According to the World Bank's Business Ready assessment, which includes an evaluation of judicial organizational structures and alternative dispute resolution services under the "Dispute Resolution" topic, Pakistan received a score of

¹⁹¹ There have recently been efforts by High Courts to streamline such issues and issue directions to minimize delays arising from jurisdictional overlaps.

26.4 out of a possible 100 points.¹⁹² This was substantially below the median score of 35.2 of the lower income group assessed.¹⁹³

300. The negative impacts of delays and judicial uncertainty are manifold. Legal uncertainty surrounding the courts increases the costs of financing or investment projects (e.g., contingencies for higher legal fees). Business opportunities are constrained to those firms with higher risk tolerance or firms that are able to compel contract performance through non-judicial means. The implementation of investment projects and the expected benefits are often delayed owing to prolonged litigation. The Government is considering ways to address these challenges.¹⁹⁴

301. Delays and uncertainty also act to raise corruption vulnerabilities. Parties are encouraged to offer bribes to speed up adjudication or to further delay proceedings given the economic benefits that are possible to obtain by altering the resolution of a case. The multiplicity of courts encourages the payment of bribes to obtain a more favorable forum for deciding a specific case, or a more favorable judge.

302. Focusing on the impact of delays on contract cases underplays the full economic consequences of the current situation. Modern economies depend on the seamless enforcement of contracts in areas like the use of credit cards, the supply of energy and water to houses – based on innovations that have been introduced to expedite the enforcement of debt contracts. In the absence of such mechanisms, entering into contracts remains a complicated process used by a limited number of parties, to the vast detriment of the huge population whose lives could benefit from being able to take advantage of services and goods that could be available under more effective contract regimes.

Outdated Legal Framework

303. The enforcement of contractual rights in Pakistan is presently governed by legacy statutes, most notably the Contract Act of 1872 and the Code of Civil Procedure, 1908. While these instruments provide the legal foundation for contract formation, performance, and enforcement, they have seen limited substantive reform and are increasingly misaligned with contemporary commercial practices. The Contract Act, in particular, does not adequately address modern contractual complexities such as multi-tiered financing arrangements, digital transactions, or cross-border obligations. The procedural framework under the Code of Civil Procedure similarly lacks effective safeguards against procedural delay and strategic litigation, contributing to protracted dispute resolution timelines. Furthermore, the absence of updated statutory guidance has resulted in a high degree of interpretive discretion across judicial forums, increasing the risk of inconsistent or conflicting judgments and thereby reducing legal predictability.

¹⁹² World Bank. 2024. Business Ready (B-READY) 2024: Pakistan – Dispute Resolution Pillar. Washington, DC: World Bank Group (<https://www.worldbank.org/en/businessready>).

¹⁹³ The World Bank classified the following as lower middle income countries: Bangladesh, Cambodia, Côte d'Ivoire, Ghana, Kyrgyz Republic, Lesotho, Morocco, Nepal, Pakistan, Philippines, Samoa, Tanzania, Timor-Leste, Vanuatu, and Viet Nam

¹⁹⁴ Among the possible reforms are amendments to the Income Tax Ordinance, 2001 to strengthen the Appellate Tribunal Inland Revenue (ATIR), and the introduction of a new recruitment system.

304. In contrast, the legal system of the United Kingdom—on which Pakistan’s contract law was originally based—has undergone significant doctrinal and legislative development over the past century. While core principles remain grounded in common law, the UK has supplemented these with targeted statutory interventions to address emerging commercial and consumer protection concerns. Key legislative reforms include the Misrepresentation Act 1967, the Unfair Contract Terms Act 1977, and the Contracts (Rights of Third Parties) Act 1999. These enactments address legal gaps in areas such as pre-contractual misstatements, inequality of bargaining power, and the enforceability of third-party rights. While Pakistan has not enacted equivalent standalone reforms, recent initiatives such as amendments to procedural laws, ongoing work to update commercial statutes, and the development of ADR mechanisms supported by Pakistan’s accession to the Singapore Convention on Mediation – reflect an incremental modernization of the legal framework. These reforms are intended to improve legal certainty, reduce enforcement risks, and provide a more conducive environment for private sector development and investment.

305. The outdated legal rules related to bankruptcy, a particular scenario that relates to winding up a firm based on outstanding contractual obligations, are particularly costly. Bankruptcy proceedings play a critical role in economies like Pakistan since they allow inefficient assets and resources to be redeployed for more productive purposes. Efficient bankruptcy procedures aid in the development of new firms, as assets get freed up from older, non-performing enterprises. While reforms such as the Corporate Rehabilitation Act, 2018, and amendments to the Companies Act, 2017, have introduced modern mechanisms for restructuring distressed companies, practical implementation has faced hurdles. Another major challenge is limited judicial capacity to address insolvency disputes, especially small and medium enterprises (SMEs) and corporate restructurings. The courts are often overburdened with a high volume of cases, resulting in delays and backlogs. This situation is exacerbated by the need for enhanced training for judges in handling complex commercial disputes. The lack of specialized knowledge and expertise among judicial officers may affect effective resolution of contractual disputes, thereby undermining the reliability of the enforcement framework. A robust insolvency system ensures companies in distress are able to undertake a painful but necessary negotiation with creditors to ultimately produce a market-based outcome (balancing interests of creditors, owners and other stakeholders).¹⁹⁵

306. Efforts are necessary to broaden the population that benefits from contracts. Such measures will foster a more reliable and business-friendly legal environment. There is a pressing need for reforms to modernize the bankruptcy laws, enhance the efficiency of the insolvency process, and provide better protection for creditors. These reforms would not only improve contract enforcement but also contribute to a more favorable business environment in Pakistan.

C. Enforcement of Property Rights

307. To ensure the effective protection of property rights, it is essential to have a cohesive and streamlined legal and institutional framework for the land administration system. This includes avoiding overly complicated legislation and preventing multiple agencies from having overlapping mandates. Timely resolution of land disputes, along with the publication of land data in a central and publicly accessible place, is crucial. Additionally, the conditions under which private land can be taken by the state must be clearly defined and regulated to ensure that expropriation is not arbitrary, and private

¹⁹⁵ WB, Strengthening the Insolvency Regime (July 23, 2011).

parties receive fair compensation. Adequate due process and compensation must be guaranteed by the legal framework.

308. Enforcement of property rights in Pakistan is undermined by several systemic and procedural deficiencies. Many cross-cutting issues exacerbate Pakistan's land governance challenges, with key contributing factors including outdated legal frameworks, the political economy of land in Pakistan, fragmentation in the land administration, weak dispute resolution mechanisms (due to protracted litigation of property of rights related disputes exacerbated by case backlogs), and concerns surrounding expropriation risks. The World Economic Forum's 2019 Global Competitiveness Index ranked Pakistan 108 out of 141 countries on the quality of its land administration system based on the reliability of infrastructure, transparency of information, geographic coverage, land dispute resolution, and equal access to property rights.¹⁹⁶

Fragmentation and Delays

309. Pakistan's land management and governance framework is primarily established and overseen by provincial authorities.¹⁹⁷ Coordination between provincial and federal authorities on land policy, administration, and governance remains limited. This lack of alignment contributes to legal ambiguities, facilitates corruption and money laundering, hampers effective revenue collection, and restricts access to finance through mechanisms such as mortgages. The boards of revenue of each respective province are mandated to address matters connected with the administration of land, collection of land revenue, the preparation of land records, and adjudication of land disputes. The World Bank has identified numerous shortcomings with this land administration system, including widespread land rights-related litigation and unresolved disputes due to the existence of overlapping land titles and incomplete land records. These shortcomings contribute to heightened financial risks for infrastructure and housing investments by creating procedural hurdles which hinder access to financing for development. This dampens the overall investment climate and contributes to increased transaction costs for investors.¹⁹⁸

310. Land dispute resolution is slow and costly, with a significant number of unresolved cases pending in lower courts. Protracted land rights-related litigation adds to heightened financial risks for infrastructure and housing investments by creating procedural delays.¹⁹⁹ Revenue courts were established to adjudicate disputes related to land administration, including those concerning titling and disputes between the state and tenants. A study on the performance of the Revenue Courts in Punjab, which are responsible for adjudicating disputes related to land administration, including those related to lack of titling and land disputes between the State and tenants, revealed that between April 2020 and June 2021, a total of 155,332 cases were instituted, and of these, only 58,106 cases were disposed of within the same period (approximately 39 percent). Performance of appellate revenue courts reflects a similar trend of

¹⁹⁶ World Economic Forum. (2019). *The Global Competitiveness Report 2019*. Geneva: World Economic Forum. Retrieved from https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

¹⁹⁷ World Economic Forum. (2019). *The Global Competitiveness Report 2019*. Geneva: World Economic Forum (https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf).

¹⁹⁸ Pakistan - Punjab Land Records Management and Information Systems Project : Pakistan - Land Records Management and Information Systems Project (English). Washington, D.C. : World Bank Group.

¹⁹⁹ Id.

limited efficacy. For the same period, 24 percent of cases were resolved at the appellate forum.²⁰⁰ The fragmented legal system contributes to slow and costly enforcement of property rights. For example, where a land dispute involves factual disputes such as allegations of fraud, then that aspect of the dispute must first be resolved by a civil court before it can proceed to be adjudicated by the Board of Revenue because revenue courts are excluded from hearing any claim based on fraud. This results in the protracted resolution of disputes and increases the cost of litigation.²⁰¹

311. The Government has prioritized digitization to address some of the challenges above. While some provinces—such as Punjab and Sindh—have made notable progress in digitizing land records, others remain at earlier stages of reform. These disparities undermine the security of property rights due to incomplete records, concerns over data accuracy, and questions about the integrity of the land registration process. Broader reforms are needed.²⁰² Weak titling systems, bureaucratic opacity, and fragmented jurisdiction—especially beyond Punjab—continue to undermine investor confidence and land-based capital formation.²⁰³ Moreover, the absence of institutional safeguards in politically sensitive sectors (e.g., energy, telecom) exposes investors to expropriation risks, selective regulation, and contract renegotiation, posing clear macro-critical threats to private investment.

Federal Dimension of Property Rights Enforcement

312. This analysis briefly explores three interrelated issues: the lack of clarity in the ownership of state land, the opaque processes by which property rights are transferred within the state, and the legal ambiguities surrounding these exchanges. It also discusses the establishment of the Special Investment Facilitation Council (SIFC) and the Green Pakistan Initiative in the context of land administration.

313. The transparency of land markets and the security of land title is negatively affected by a lack of clarity in the ownership of land owned by the state. The process of recording which state entity is assigned property rights for particular plots of land is relatively obscure. So is the process by which state entities, including state-associated charities, transfer land to or acquire land from other state or private entities. The absence of transparent, rule-based procedures in these exchanges creates opportunities for mismanagement, favoritism, and corruption. Steps to increase the transparency of such operations and enhance the rule-based nature of these actions would be an important move towards enhancing the effectiveness and integrity of property markets and the protection of property rights.

314. The Constitution contains provisions protecting private property rights, and the Land Acquisition Act of 1894 regulates instances where the state may expropriate land. Expropriation is limited to when the government determines that the land is needed or likely to be needed for any public purpose (with the term “public purpose” being broadly defined and open to varying interpretations by courts). However, concerns of expropriation remain high. In its 2018-2019 Annual Report, the State Bank of Pakistan identified expropriation as a significant impediment to foreign direct investment. The report

²⁰⁰ National School of Public Policy. (2021). Pakistan Administration: NSPP Journal, Volume 43. Lahore: National School of Public Policy.

²⁰¹ Id.

²⁰² Despite acknowledging the importance of secure property rights, the implementation of the Pakistan Vision 2025 has made limited progress in operationalizing reforms, particularly in land governance and legal enforcement.

²⁰³ World Bank. 2019. Pakistan@100: Shaping the Future.

highlighted shortcomings in the mechanisms for resolving expropriation-related disputes and noted investor concerns regarding the adequacy of protections in such cases. The Bank noted that these concerns were echoed in a risk assessment by a leading European credit insurance agency, which ranked Pakistan among the countries with the highest expropriation risk in the region.²⁰⁴

315. Recent economic undertakings have increased the federal government’s involvement in land markets. Growth of large-scale mining as well as the expansion of corporate farming involve federal authorities in undertakings that have large consequences for land markets. While these efforts aim to attract investment and modernize agriculture, they also underscore the need for clearer governance frameworks and safeguards to ensure that their actions do not serve to undermine the security of property rights of current owners.

316. To address these challenges and promote transparent land governance, two key approaches can be adopted: first, establishing and publishing clear, rule-based procedures for the transfer of state-owned land—both between government entities and between the state and private actors—to reduce ambiguity and limit unchecked discretionary authority; and (ii) creating a centralized, accurate, and publicly accessible database of all state-owned properties and non-financial assets. These measures can help build investor confidence, curb corruption, and support the development of a more inclusive and efficient land market.

D. Judicial Independence, Integrity, and Effectiveness

317. Up to now, this chapter has focused on governance weaknesses in the legal and organizational framework for enforcing economic rights. While laws and organizational arrangements create the foundation for the legal system, the performance of the legal system hinges on how those laws are interpreted, and how judicial matters are settled. Ultimately, the strength of the rule of law is largely determined by the integrity and effectiveness of the judges.

318. A credible, capable, and impartial judiciary is essential to the rule of law. A limited number of factors have been identified that shape judicial performance as well as the standing of the judiciary in the eyes of the public. An independent judiciary is necessary to ensure that the rule of law is respected. An effective system for defining and monitoring compliance with ethical standards is integral to creating a judiciary that functions with integrity. Consistent and rigorous monitoring of court efficiency has been increasingly identified as vital to enhancing the transparency of performance and improving judicial effectiveness.

319. Efforts to advance the rule of law remain an area of ongoing development within the judiciary. Allegations of external influence in politically sensitive cases, combined with persistent case backlogs, resource limitations, and corruption at lower levels, erodes the credibility of judicial institutions.²⁰⁵ The judiciary is consistently identified in public surveys as one of the most corrupt state functions, indicating the lack of trust in current judicial practices. Addressing these challenges through strengthened governance structures, enhanced procedural transparency, and consistent application of

²⁰⁴ State Bank of Pakistan. (2019). Annual Report FY19: The State of Pakistan’s Economy (<https://www.sbp.org.pk/reports/annual/arFY19/Anul-index-eng-19.htm>)

²⁰⁵ BTI Pakistan Country Report 2024 BTI 2024 Pakistan Country Report: BTI 2024

judicial standards is critical to reinforcing the rule of law and improving access to impartial dispute resolution.

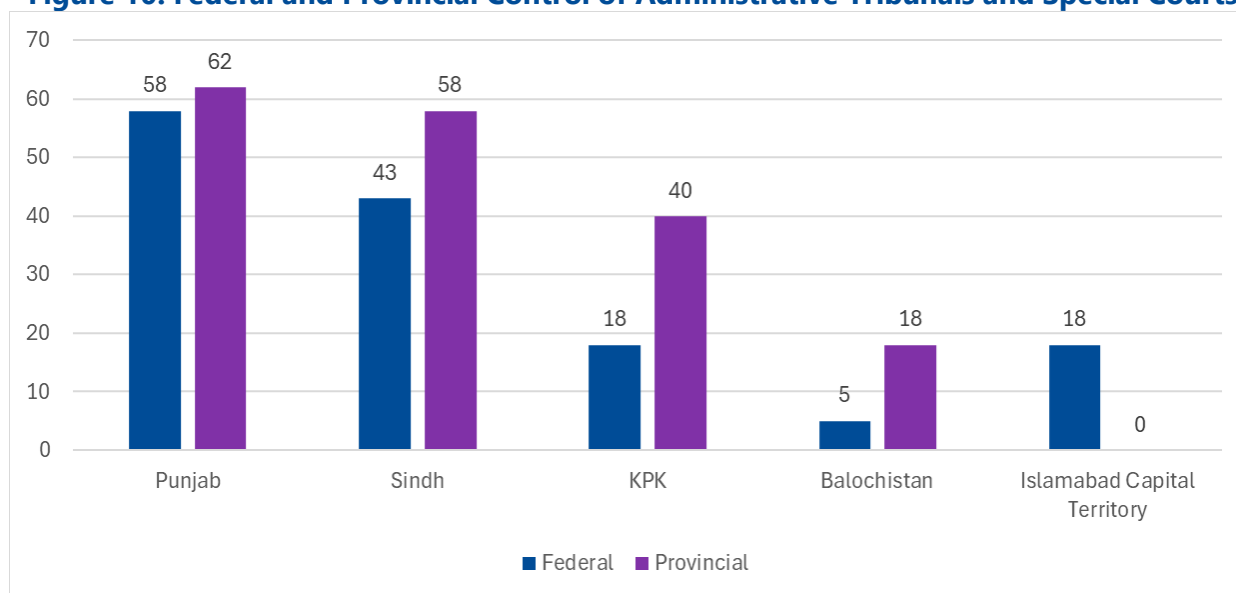
Complicated Structure of the Pakistan Judiciary

320. The structure of Pakistan’s judicial system is complex and multi-faceted. The Constitution of Pakistan provides for the creation of federal and provincial courts. At the federal level, the system includes the Supreme Court and the Federal Shariat Court, while at the provincial level, it comprises the High Courts and the District Courts. As of 2024, it is estimated that there are more than 3,000 courts in Pakistan, inclusive of federal, provincial and administrative tribunals and special courts. Governance arrangements differ for courts at the federal and provincial levels.

321. Additionally, the Constitution empowers both federal and provincial governments to establish Administrative Tribunals and Special Courts within their respective jurisdictions. The administrative tribunals and special courts established under the Constitution are intended to support economic activity by addressing federal matters such as competition, taxation, corruption, and banking. Cases involving similar issues are heard both in regular courts as well as in Special Courts. For example, commercial disputes are handled by district and provincial courts, and by Specialized Commercial Courts that operate under the Ministry of Law and Justice.

322. Administrative Tribunals & Special Courts are of two types: those which fall within Federal Jurisdiction but have presence in the provinces due to their statutory requirements, and those which have been established in the province under the respective Provincial Law. These courts are supervised by various ministries at the federal level and by various departments at the provincial level.²⁸ Currently there are over 324 Administrative Tribunals and Special Courts working under the administrative control of federal and provincial governments. (Figure 10). A full list of the federal and Provincial Administrative Tribunals and Special Courts is included as Table 16 at the end of this section.

Figure 10. Federal and Provincial Control of Administrative Tribunals and Special Courts



Source: Law and Justice Commission of Pakistan, IMF staff calculations.

323. The complexity of the legal structure gives rise to an equally fragmented system for judicial governance. The appointment process for judges and members of administrative tribunals and special courts varies significantly. Responsibility for the appointment of judges, oversight of court performance, or monitoring integrity of judicial personnel are held by a plethora of entities. While the Judicial Commission of Pakistan (a constitutional body) is responsible for the appointment of judges to the Federal Supreme Court and the Provincial High Courts, it has no role in the appointment of district courts – a responsibility vested with the Provincial High Courts. There exists no formal institutional framework to link the governance of regular courts (Provincial and Federal) and the governance of Administrative Courts and Special Tribunals.

Judicial independence

324. Judicial independence is a fundamental legal principle in Pakistan. The Constitution mandates that all courts in Pakistan operate independently, free from external influence. The National Judicial Policy provides further guidance on the independence of the judiciary.

325. However, the Pakistan judicial system faces considerable obstacles in practice with respect to judicial independence, against the fragmented organizational backdrop. The qualified independence of judicial bodies is most evident from the array of Administrative Tribunals and Special Courts that operate under the authority of the Ministry of Law and Justice and other relevant ministries. Each tribunal or special court is established by specific legislation, making it difficult to characterize the formal relationship between the ministry and the Tribunals and Special Courts. In many instances, such as the Accountability Court, the appointment of adjudicators is done by the Ministry in consultation with the Chief Justice of the relevant court. The appointment of judges for Tribunals and Special Courts mainly occurs outside the regular judicial appointments hence lacks the benefit of procedural safeguards that would establish a transparent, merit-based appointment process that would restrict the Ministry's ability to influence the process. The lack of uniform published selection criteria undermines transparency, weakens the rigor of qualifications review and leads to variability in tenure periods and disciplinary oversight.

326. Recent changes in the appointment process for Supreme Court judges have prompted discussion and a constitutional petition regarding potential implications for judicial independence and rule of law. The 26th Constitutional Amendment (2024) changed the appointment process for the Chief Justice (nomination by Special Parliamentary Committee with representation from women and minorities) and expanded the number of members in the Judicial Commission of Pakistan. While the amendments aim to broaden participation and enhance inclusivity, several stakeholders have expressed concerns that, absent adequate safeguards, the reforms could be perceived as heightening potential risks to judicial independence.²⁰⁶ To reinforce confidence in the integrity of the appointment process, the authorities could consider codifying clear and objective selection criteria for judges; adopting transparent, evidence-based evaluation procedures; and integrating integrity and ethics screening as a systematic component of a merit-based process, consistent with international good practice.

327. Judicial independence could be strengthened by more explicit and transparent rules regarding appointment, and terms of service. Merit-based appointment processes, informed by a

²⁰⁶ For example, see International Commission of Jurist, Statement dated October 21, 2024 (Pakistan: 26th Constitutional amendment is a blow to the independence of the judiciary).

robust examination of candidates' ethical behavior, have been introduced in a number of jurisdictions and have been associated with enhancing the reputation and standing of judges.

Judicial Integrity and accountability

328. Well-performing judicial systems that operate to advance the rule of law have clearly established principles to guide judicial behavior, mechanisms to monitor compliance with ethical rules, and processes to hold judges accountable when they violate these rules. Many jurisdictions have adopted judicial codes of conduct aligned with international norms, such as the Bangalore Principles of Judicial Conduct. Effective implementation of these standards requires robust enforcement mechanisms. Such mechanisms help deter unethical behavior and reinforce accountability, while preserving judicial independence.

329. Pakistan's National Judicial Policy (2009) sets out broad principles aimed at enhancing judicial efficiency and integrity, including adherence to the judicial Code of Conduct, reduction of case backlogs, and internal mechanisms for oversight through the Supreme Judicial Council (SJC). However, these provisions remain largely discretionary and are not underpinned by a formal statutory framework. The SJC operates under defined constitutional and procedural rules, which provide a framework for accountability of judges of the superior courts. The absence of an independent, rules-based mechanism for overseeing judicial conduct has contributed to a perception of impunity, particularly within the higher judiciary, and continues to erode public confidence in the impartiality and independence of the judicial system.

330. In contrast, the United Kingdom has implemented a more institutionalized and transparent framework for judicial accountability, anchored in the Constitutional Reform Act 2005.²⁰⁷ The Judicial Conduct Investigations Office (JCIO), established under this framework, operates independently of both the judiciary and executive, accepts complaints from the public, and publishes the outcomes of disciplinary proceedings. These arrangements provide a higher degree of procedural transparency and public accountability. The absence of comparable mechanisms in Pakistan has contributed to broader rule of law challenges, including inconsistent enforcement of judicial standards, diminished access to impartial adjudication, and weakened institutional checks and balances.

331. Judicial Oversight framework remains fragmented. Though the National Judicial Policy provides guidance on the conduct of judges, additional Codes of Conduct have been developed for both the higher courts and the subordinate judiciary. Oversight responsibilities remain divided: another constitutional body oversees the Supreme Court;²⁰⁸ while the Provincial High Courts oversee provincial courts including the district courts. The Ministry of Law and Justice administers some of the Administrative Tribunals and Special Courts. These mechanisms operate in silos, lacking coordination. This fragmented structure results in overlapping mandates and uncoordinated initiatives, such as digitalization and case management reforms, ultimately contributing to inefficiencies across the judiciary.

²⁰⁷ Constitutional Reform Act 2005 - Explanatory Notes

²⁰⁸ The Supreme Judicial Council consists of five members: the Chief Justice of Pakistan, the two most senior Judges of the Supreme Court and the two most senior Chief Justices of the High Courts. (Section 209, Constitution).

Judicial Efficiency and Effectiveness

332. Effective judicial performance is essential for a well-functioning economic system. When justice institutions function effectively, they enhance accountability²⁰⁹ foster public trust in government and create a stable environment in which businesses can invest with confidence that their rights will be upheld.²¹⁰ The Pakistan National Judicial Policy of 2009 was introduced with the objective of enhancing the capacity and performance of the justice system. Its key goals include improving the efficiency of judicial administration, establishing performance standards for judicial officers and individuals involved in judicial and quasi-judicial functions, and ensuring the regular publication of annual reports by the Supreme Court, Shariat Court, High Courts, and subordinate courts. The policy is implemented by the National Judicial Policy Committee. While the policy establishes some of the foundations for sustained performance improvement, its operational effectiveness has been limited, and the full potential of the policy remains unrealized due to inconsistent implementation and lack of sustained oversight. Judicial efficiency and the speed of resolving disputes is fundamental to economic growth (e.g., incentives to start businesses, security of property rights, and obtaining loans).²¹¹

333. Organizational fragmentation, uncertain oversight, and weak capacity combine to create poor conditions for effective judicial performance. The performance data of the Pakistan judiciary for 2023 provides convincing evidence of the inability of the current system to fulfill its core mandate. The analysis of the 2023 data reveals that while there are efforts to manage and dispose of cases across various levels of the judiciary, the system is currently unable to handle the volume of new cases or make significant in-roads in the backlog of old cases. That backlog stood at over 2,000,000 cases by the end of 2023. The Federal Shariat Court's reduction in pending cases offers a positive example that could be studied and potentially replicated within other courts to improve overall judicial effectiveness in Pakistan.

334. The performance of federal and provincial administrative tribunals and Special Courts reflected substantial variation but with many of the same performance characteristics. Analysis of their 2023 performance highlights a noticeable disparity, with provincial tribunals managing caseloads better than their federal counterparts. For instance, in 2023, the backlog of cases increased by 5.7 percent, with significant surges observed in the Accountability Courts and the Appellate Tribunal Inland Revenue.²¹² Judicial mechanisms remain severely congested, leading to prolonged court proceedings. Cases related to tax and land disputes are frequently appealed to higher courts, further straining the system.

335. Some of the delays are associated with the tendency to leave positions unfilled in the Administrative and Special courts. (Table 14). This has, at times, left courts completely non-functional for extended periods of time, as was previously the case with the Competition Appellate Tribunal.

²⁰⁹ Bosio, E; 2023, A survey of Judicial Effectiveness: The Last Quarter Century of Empirical Evidence; Policy Research Working Paper 10501.

²¹⁰ Bosio, E; 2023, A survey of Judicial Effectiveness: The Last Quarter Century of Empirical Evidence; Policy Research Working Paper 10501.

²¹¹ Matthew Chemin, The Impact of the Judiciary on Entrepreneurship: Evaluation of Pakistan's "Access to Justice Programme, Journal of Public Economics 93 (2009) 114-125.

²¹² Special Report on Administrative Tribunals and Special Courts, 2023, published by the Law and Justice Commission of Pakistan.

Table 14. Vacant Courts in courts under Federal Jurisdiction

| Vacant Positions in Courts under administrative control of Federal Government ²¹³ | | | | | |
|--|---------------|---------------------------------------|----------------------------|-------------------------------------|------------|
| Province | No. of Courts | Presiding Officers (Vacant Positions) | Members (Vacant Positions) | Officers & Staff (Vacant Positions) | Total |
| Punjab | 58 | 6 | 7 | 151 | 164 |
| Sindh | 43 | 13 | 10 | 89 | 112 |
| Khyber Pakhtunkhwa | 18 | 3 | 2 | 48 | 53 |
| Balochistan | 7 | 1 | 0 | 15 | 16 |
| Islamabad | 22 | 3 | 11 | 126 | 140 |
| Total | 148 | 26 | 30 | 429 | 485 |

336. Efforts have been initiated to strengthen oversight, enhance competencies, and establish greater standardization across the different elements of the justice system. The Chief Justice is spearheading an important effort to establish the National Judicial (Policy Making) Committee as a forum to agree on justice-wide reforms to improve performance standards and accountability. Coordination across a large number of separate legal and administrative entities is always challenging, especially in the absence of an official mandate or resources to encourage follow-on activities. Further investment in on-going work to improve governance and competencies across adjudicative forums has the potential to contribute to short-term improvements, as well as create the foundation for more long-term systematic change.

337. Alternative Dispute Resolution (ADR). Pakistan has been making significant strides in enhancing its contract enforcement mechanisms. Recent reforms include measures to expedite the judicial process and enhance the capacity of courts, and efforts to develop Alternative Dispute Resolution (ADR) infrastructure are underway to provide more efficient resolution of contractual disputes. The effectiveness of the ADR is steadily evolving, reflecting both progress and areas requiring further strengthening. The Alternative Dispute Resolution (ADR) Act, 2017, was a significant reform aimed at improving judicial efficiency and reducing backlogs. Since then, ADR initiatives have expanded beyond initial pilot projects, with institutional mechanisms being established in major jurisdictions such as Karachi, Lahore and Islamabad. The creation of the International Mediation and Arbitration Centre (IMAC) and Pakistan's accession to the Singapore Convention on Mediation further demonstrate the government's commitment to aligning ADR practices with international standards. Broader adoption of ADR could play a critical role in easing pressure on formal courts and expediting commercial dispute resolution. According to data from the Ministry of Law and Justice, in Islamabad's District Judiciary from November 2023 to February 2025, 500 cases were referred to mediation, while 2,781 remained pending before mediators, and only 112 were resolved during that period. This data highlights early progress and the need for further capacity building.

²¹³ Special Report on Administrative Tribunals and Special Courts, 2023: Law and Justice Commission of Pakistan

E. Recommendations

338. Efforts to strengthen the judicial sector, especially performance, are underway with several judicial reform initiatives aimed at addressing longstanding challenges within the judiciary. The Supreme Court has introduced measures to enhance judicial performance, including the digitalization of case management systems and the establishment of specialized benches to handle key commercial matters such as taxation disputes. Additionally, plans are underway to develop commercial litigation corridors across various courts in the country. The Ministry of Law and Justice's legislative amendments to the Income Tax Ordinance, 2001, are intended to modernize and strengthen the Appellate Tribunal Inland Revenue (ATIR). It is important for these measures to receive the attention and support required if they are going to be successfully implemented and achieve their intended objective.

339. Additional reforms will be needed in order to address the overhang of old cases and improve the enforcement of contracts and the protection of property rights. The specific actions required will need to be tailored to the specific characteristics of the Pakistan legal tradition and current organizational arrangements. These measures should encompass improvements in the legal framework, adaptations of procedural rules, increased attention and transparency regarding judicial performance, and greater standardization and rigor of rules relating to appointment, and judicial integrity. The importance of establishing a system that effectively and efficiently resolves commercial disputes cannot be overemphasized for the future of economic development, and work to achieve this objective will require consideration not only of how to deal with existing cases more effectively but also how to establish the conditions that would enable more extensive contracting going forward to the benefit of all citizens.

340. It is important for Pakistan to learn from international experience in the design and sequencing of reforms. Recent studies have explored the experience with various efforts to improve judicial performance over the last 25 years.²¹⁴ Empirical evidence indicates that it is possible to improve performance but that many reforms do not achieve their intended objective. Efforts to improve efficiency and effectiveness through increasing the number of judges, or establishing new courts, or increasing payment of judges have produced mixed results. Greater success has been achieved by efforts to modify procedural rules, including by establishing mandatory time limits on plaintiffs and defendants at each stage of litigation, and supporting active case management.²¹⁵ In addition, there is evidence that judicial performance is sensitive to public monitoring, leading to the expansion of regular performance reporting, including in the EU.²¹⁶

341. Pakistan's varied legal system offers a strategic entry point for implementing phased judicial reforms. Given the diversity of court structures across the country, a graduated reform approach—starting with a subset of courts—can facilitate institutional learning and minimize implementation risks. Specifically, Administrative Tribunals and Specialized Courts handling commercial matters, which fall under the direct administrative oversight of the Ministry of Law and Justice, present a pragmatic starting point. This centralized organizational arrangement provides the greatest opportunity

²¹⁴ Bosio, E. (2023). A Survey of Judicial Effectiveness: The Last Quarter Century of Empirical Evidence. World Bank Policy Research Working Paper No. 10501

²¹⁵ See M. Chemin, "Does Court Speed Shape Economic Activity? Evidence from Court Reform in India," *The Journal of Law and Economics, and Organization* 28(3), 2012.

²¹⁶ See, "European Judicial Systems Evaluation Report, 2024, European Commission for the Efficiency of Justice.

for support and close monitoring, greater policy alignment, and operational coordination. Insights and lessons learnt in the introduction of reforms in this initial phase can then inform the design and scaling of reforms across the broader judicial system.

| Table 15. Recommendations on Rule of Law | | | |
|--|--|---|-----------------|
| Recommended Action | Responsible Authority | Action Objective | Timeline |
| 323. Establish a program to reduce the backlog of cases especially commercial disputes and publish on a Government website a report on progress in implementing the plan. | Ministry of Law & Justice, Judicial Service Commission, Supreme Court, & Provincial High Courts. | Improve efficiency of dispute resolution | MT |
| 1. Establish an action plan for updating the legal framework for contracts and property rights and produce an updated draft Code of Civil Procedure for submission to Parliament. | Ministry of Law & Justice | Enhance the legal framework | MT |
| 2. Introduce changes in procedural rules to establish time limitations and reduce incentives to delay resolution of contract cases. | Ministry of Law & Justice, Administrative Tribunals & Special Courts | Improve the efficiency of the judiciary | MT |
| 3. Establish a task force to propose reforms to enhance the efficiency of contract enforcement that aligned with good practices, including steps to introduce automated proceedings. | Ministry of Law and Justice; Federal and Provincial Governments. | Enhance the efficiency of contract enforcement. | MT |
| 4. As part of the registry of state assets established by the Ministry of Finance, identify in a centralized database of all land owned by the state and identify the state entity vested with control over those rights. | Ministry of Finance | Enhance property rights protection | ST |
| 5. As part of the policy on management of non-financial state assets led by the Ministry of Finance, establish and publish clear rule-based procedures for the transfer of state-owned land – both between government entities and between the state and private actors, and publish a list of all transfers or modifications of property rights, and the value obtained by the state for the alteration every 6 months. | Ministry of Finance | Enhance Property Rights Protection | ST |
| 6. Establish the methodology to be used to assess the performance of courts and judges reporting | Ministry of Law and Justice | Improve efficiency of | MT |

| | | | |
|---|---|---|-----------|
| to the Ministry of Law and Justice and publish on a Government website the results of the first monitoring exercise in all federal Administrative Tribunals and Special courts relating to commercial cases. | | the Federal Administrative Tribunals and Special Courts | |
| 7. Create standardized principles for judicial appointments and tenure for the appointment of judges and members of the Administrative Tribunals and specialized courts and demonstrate compliance with those principles for all judicial appointments in courts dealing with commercial cases. | Cabinet, Judicial Commission of Pakistan and Ministry of Law and Justice. | Improve efficiency of the Federal Administrative Tribunals and Special Courts | MT |
| 8. Strengthen integrity and conflict of interest provisions for all judicial personnel and review and increase transparency around payments and grants to judicial personnel. | Cabinet (Federal) - Supreme Judicial Council and Provincial Governments (Provincial High Courts). | Enhance judicial integrity | MT |
| 9. Initiate yearly public reporting on the steps taken to strengthen integrity, including statistics on number of complaints received, and the disposition of complaints and other actions. | Cabinet (Federal) - Supreme Judicial Council and Provincial Governments (Provincial High Courts). | Enhance Judicial Integrity | MT |
| 10. Expand and institutionalize ADR mechanisms by operationalizing ADR centers nationwide and enacting the Arbitration Bill. | Cabinet (Federal) and the Ministry of Law and Justice | Strengthen Alternative Dispute Mechanisms | MT |
| 11. Prepare a multi-year judicial reform strategy to strengthen institutional performance and judicial service delivery in Pakistan. | Ministry of Law and Justice, Judicial Service Commission, Supreme Court and Provincial High Courts. | Improve judicial efficiency. | MT |

Table 16. Administrative Tribunals and Special Courts under the Federal & Provincial Jurisdiction²¹⁷

| Federal Jurisdiction: Administrative Tribunals and Special Courts | | | | | | |
|---|-----------|-----------|-----------|-----------|-------------|------------|
| Name of Court | ICT | Punjab | Sindh | KP | Balochistan | Total |
| Accountability Courts | 3 | 13 | 17 | 8 | 3 | 44 |
| Anti-Dumping Appellate Tribunal | 1 | - | - | - | - | 1 |
| Anti-Terrorism Court | 2 | | | | | 2 |
| Appellate Tribunal Inland Revenue | 1 | 1 | 1 | 1 | - | 4 |
| Appellate Tribunal Sales Tax Service | - | - | - | 1 | - | 1 |
| Banking Courts ²³⁸ | 1 | 18 | 11 | 3 | 1 | 34 |
| Commercial Courts ²³⁹ | - | 1 | 1 | - | - | 2 |
| Competition Appellate Tribunal | 1 | - | - | - | - | 1 |
| Custom Appellate Tribunals | 2 | 2 | 3 | - | - | 7 |
| Drug Court | 1 | - | - | 1 | 1 | 3 |
| Environmental Protection Tribunal | 1 | - | - | - | - | 1 |
| Federal Service Tribunal | 1 | - | - | - | - | 1 |
| Foreign Exchange Regulation Appellate Board ²⁴⁰ | - | 1 | 1 | - | - | 2 |
| Insurance Appellate Tribunal ²⁴¹ | - | 2 | 1 | - | - | 3 |
| Intellectual Property Tribunal ²⁴² | 1 | 1 | 1 | - | - | 3 |
| Medical Tribunal | 1 | - | - | - | - | 1 |
| National Electric Power Regulatory Authority Appellate Tribunal | 1 | - | - | - | - | 1 |
| National Industrial Relations Commission | 1 | - | - | - | - | 1 |
| Prevention of Electronic Crime Investigation Agency Tribunal | 1 | - | - | - | - | 1 |
| Special Court (Central) | 1 | 8 | 3 | 1 | 1 | 14 |
| Special Court (Control of Narcotics Substances) | 1 | 6 | 2 | 1 | 1 | 11 |
| Special Court (Customs, Taxation and Anti-Smuggling) | - | 2 | 1 | 1 | - | 4 |
| Special Court (Offences in Banks) | 1 | 3 | 1 | 1 | - | 6 |
| Total | 18 | 58 | 43 | 18 | 6 | 148 |

²¹⁷ Special Report on Administrative Tribunals and Special Courts 2023: Law and Justice Commission of Pakistan

| Provincial Jurisdiction: Administrative Tribunals and Special Courts | | | | | |
|--|-----------|-----------|-----------|-------------|------------|
| Name of Court | Punjab | Sindh | KP | Balochistan | Total |
| Anti-Corruption Courts | 10 | 4 | 2 | 1 | 17 |
| Appellate Tribunal Local Council Sindh | - | 1 | - | - | 1 |
| Anti-Terrorism Courts | 10 | 32 | 13 | 9 | 64 |
| Anti – encroachment Tribunals | - | 5 | - | - | 5 |
| Child Protection Court | 1 | - | - | - | - |
| Consumer Courts | 17 | - | 17 | - | 34 |
| Appellate Tribunal Sindh Revenue Authority | - | 1 | - | - | 1 |
| Drug Courts | 6 | 1 | - | - | 7 |
| Environmental Protection Tribunal | 1 | 1 | 1 | 1 | 4 |
| Labour Appellate Tribunals | 2 | 1 | 1 | 1 | 5 |
| Labour Courts | 11 | 8 | 5 | 5 | 29 |
| Special Court (Removal of Encroachment) | - | 3 | - | - | 3 |
| Lahore Development Authority Tribunal | 1 | - | - | - | 1 |
| Punjab Revenue Authority Board | 1 | - | - | - | 1 |
| Punjab Livestock Tribunal | 1 | - | - | - | 1 |
| Service Tribunals | 1 | 1 | 1 | 1 | 4 |
| Total | 62 | 58 | 40 | 18 | 179 |

Section VII. Anti-Corruption Policies, Strategies and Practices

A. Analysis of Corruption Challenges

342. Effective anti-corruption efforts that confront and reduce the impact of corruption, require a limited number of core competencies. Those include the capacity to: independently identify key corruption risks and vulnerabilities; establish priorities for combating corruption; coordinate the implementation of policies to achieve core objectives; and monitor implementation and adapt practices based on the results achieved by earlier reforms. While each country's anti-corruption efforts must be shaped by its institutional history and governance arrangements, most successful anti-corruption efforts include work to prevent corruption, identify, investigate, and sanction corrupt behavior, and establish and enforce clear standards of official behavior. Government action is essential, but constructive efforts are most often pursued through collaborative initiatives involving government, the private sector and civil society, with a strong focus on achieving concrete results, increasing transparency and inclusive governance.

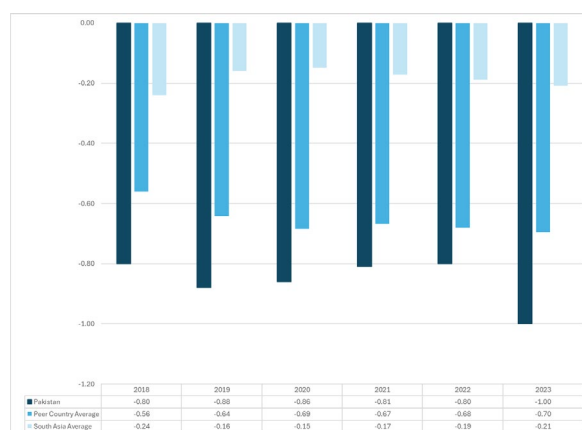
343. This chapter identifies the main strategic, legal, and institutional constraints faced by Pakistan in fighting corruption. The measures suggested to address the shortcomings aim to strengthen the effectiveness of the Government's anti-corruption strategy, the overall anti-corruption frameworks and supporting governance arrangements, while raising standards and expectations of ethical conduct.

344. Since its founding, Pakistan has recognized the seriousness of corruption and attempted to mitigate its deleterious impact. The 1947 enactment of the Prevention of Corruption Act was a recognition of the prevalence of the problem and the need for establishing a legal framework to combat it. Specialized anti-corruption agencies (such as the National Accountability Bureau, Federal Investigation Agency, and Provincial Anti-Corruption Establishments) were created to investigate and prosecute corruption-related offenses, and were vested with broad authority to carry out their mission. In its recent history, high-level public officials have been convicted of corruption offenses indicating that anti-corruption efforts are able to reach the highest levels of government. The amounts of stolen assets recovered by the National Accountability Bureau (amounting to PRs 5.310 trillion from January 2023 to December 2024) emphasize ongoing enforcement efforts as well.

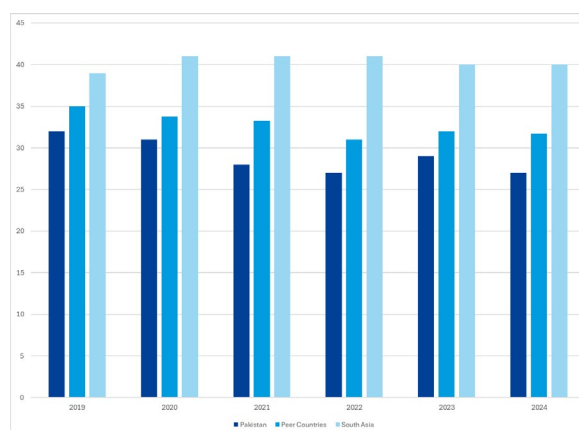
345. Corruption is one of the key challenges affecting Pakistan's political and institutional landscape. As discussed in the section on nature and severity of corruption above, rent-seeking and corruption have significant macro-economic consequences for the country, and ranging from petty bribes

to those involving huge amounts. Expert assessments find that Pakistan’s ability to control corruption is limited,²¹⁸ especially in comparison to its neighbors and peer countries.²¹⁹ (see Figure 11)

Figure 11. Pakistan Performs Poorly against Neighbor and Peer Countries in Corruption Indicators



Source: World Bank, Worldwide Governance Indicators, Control of Corruption (2018-23)



Source: Transparency International, Corruption Perceptions Index (2019-24)

346. The impact of anti-corruption efforts is further diminished by the uneven enforcement of criminal laws based on political considerations. A 2024 report by the Ministry of Law and Justice, based on a specially-constituted Task Force, found that that NAB had at times exceeded its mandate by initiating politically motivated cases and exercised unfettered and excessive powers that violated individuals’ rights.²²⁰ Government officials have voiced apprehensions in exercising discretion in decision-making, given strong fears of NAB’s selective investigation and overreach, which impacts government effectiveness. Past instances of abuses of powers by the NAB have undermined the credibility of anti-corruption efforts, and convinced individuals both inside and outside of government that bribes and other forms of corruption are a necessary evil in an administration riddled with red tape.

347. Enhancing institutional effectiveness is key to significantly reducing corruption risks. While practices have begun to change, much more will be needed to create an anti-corruption approach that fulfills its function and achieves significant results.

²¹⁸ Pakistan was assessed as weak (3.26 out of 10) in the Governance Index of the Bertelsmann Stiftung’s Transformation Index. See BTI Transformation Index, Pakistan Country Report (2024) (https://bti-project.org/fileadmin/api/content/en/downloads/reports/country_report_2024_PAK.pdf).

²¹⁹ South Asian countries including Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka. Peer countries here refer to Turkey, Nigeria, Indonesia, and Egypt.

²²⁰ Ministry of Law and Justice, Report of the Anti-Corruption Task Force on Review of Institutional Framework of Anti-Corruption in Pakistan (2024).

B. Advancing Toward a Coherent and Impactful Anti-Corruption Strategy

348. A robust analytical and organizational framework underpins effective anti-corruption efforts. International experience in reducing corruption emphasizes that fighting corruption exclusively on a case-by-case basis is not possible, especially when corruption is widespread and embedded. Instead, effective anti-corruption efforts are built around addressing corruption through a variety of entry points, including reducing governance weaknesses, preventing corruption, strengthening monitoring and oversight, establishing more explicit performance and integrity standards and expectations, and increasing transparency in government processes and outcomes. Anti-corruption efforts that have made sustained progress in addressing corruption include mechanisms to identify priorities, sequence and coordinate actions, manage reform implementation and report on progress, and adjust and adapt the design of interventions based on past experience.²²¹

349. National Anti-corruption Strategies are one mechanism for creating a broad anti-corruption effort, often over a period of multiple years. Pakistan's 2002 National Anti-Corruption Strategy (NACS) was developed after extensive consultation, included a broad panoply of actions around a holistic approach to confronting corruption. Unfortunately, the implementation plan which accompanied the strategy failed to deliver progress on its more than 400 measures during its 5-year duration. There have been no successor attempts to define a strategy.

350. Pakistan's anti-corruption efforts could be enhanced by greater strategic focus and coordination. Past experience with comprehensive anti-corruption strategies suggests starting with a more modest short-term effort to define anti-corruption objectives, and prioritize and coordinate actions. Learning derived from transitional efforts could create the foundation for a more comprehensive engagement sometime in the future that might be codified as a national anti-corruption strategy.

351. A detailed understanding of corruption risks will be critical. Constructive steps in this direction would be establishing a temporary structure (such as a task force) assigned with responsibility for assessing severe corruption risks in ministries and agencies and proposing a limited number of priority measures to reduce risks. Leaning on the experience of other countries in risk identification, the initiative could establish a methodology for assessing corruption risks. A key starting point will be to leverage considerable and relevant information on corruption vulnerabilities and risks factors held by NAB, FIA and PACEs, Accountability Courts, the Establishment Ministry, the Ministry of Law and Justice, the Auditor General of Pakistan, and the Competition Commission of Pakistan. The experience by NAB's Prevention Committees that have been established at the central and regional levels may be particularly useful in studying and analyzing key risks areas (e.g., tax evasion and power sector). The action plan developed to address risks would enable coordination across different entities and provide an opportunity to learn what is required to establish effective oversight and managerial responsibilities for the implementation of anti-corruption reforms.

²²¹ See Mark Pyman and Sam Eastwood, Research Comparing 41 National Anti-Corruption Strategies: Insights and Guidance for Leaders – Countries Curbing Corruption (April 2017) on the importance of developing an anti-corruption strategy, and the elements of national anti-corruption strategies.

352. Over time, the effort may transition to updating the national anti-corruption strategy.

Supported by an extensive and robust risk analysis methodology, a coordinated whole-of-government approach to fighting corruption could then be designed with clear objectives, diagnosis of risks, and a plan for its implementation (including timelines, responsible agencies, resource allocations, and a dedicated coordination body). Learning from the lessons of the previous implementation plan of the 2002 NACS, strong political ownership and wide stakeholder engagement will be critical elements for the success and sustainability of the national anti-corruption strategy.

C. Pakistan's Anti-Corruption Regime

Anti-Corruption Legal and Institutional Frameworks

353. Pakistan's legal framework broadly covers several types of corruption offenses. The Pakistan Penal Code (1860), Prevention of Corruption Act (1947), the Pakistan Penal Code, and National Accountability Ordinance (NAO) (1999) are the key laws that legally define corruption offenses (e.g., active and passive bribery, trading in influence, embezzlement, abuse of functions and illicit enrichment). Legal persons can be subject of corporate criminal liability for corruption offenses.²²² The Anti-Money Laundering Act provides for the general offense of money laundering, which includes as predicate offense the crimes of corruption. In addition, the Benami Transactions (Prohibition) Act of 2017 also criminalizes and allows confiscation of properties that are subject of transactions or arrangements made by a person on behalf of another or under a fictitious name (e.g., persons without any means purchasing luxury vehicles for the benefit of their employer). As part of their commitments as a signatory to the UN Convention against Corruption (UNCAC), Pakistan previously underwent an assessment of its legal framework and was largely found to have criminalized relevant offenses under the UNCAC.²²³ However, the authorities were recommended to ensure that the element of "to promise" in relation to bribery offenses and obstruction of justice was clarified.

354. Pakistan has several institutions with functions on anti-corruption enforcement (Figure 12).²²⁴ The National Accountability Bureau is Pakistan's apex anti-corruption body, established in 1999. It is primarily responsible for detecting, investigating and prosecuting high level corruption offenses. Recent amendments to the NAO changed the NAB's jurisdiction to cover cases involving more than PRs 500 million (approximately US\$1.8 million), regardless of whether it involves federal or provincial officials) or the public at large (involving at least 100 persons).²²⁵ Prior to the NAB, the Federal Investigation Agency created in 1974 (the successor to the Pakistan Special Police Establishment) was investigating corruption offenses, but also had a broader mandate over other federal crimes (such as organized crime, human trafficking, immigration offenses, and other federal crimes). With the amendments of the NAO, the FIA's role in investigating corruption is confined to those involving federal officials, but falling below the PRs 500 million threshold of the NAB. Finally, the provincial anti-corruption establishments (PACEs) set-up in each of the four provinces are responsible for investigating corruption involving provincial officials.

²²² The National Accountability Ordinance (Section 9) covers a holder of public office or any other person with respect to the commission of corruption offenses.

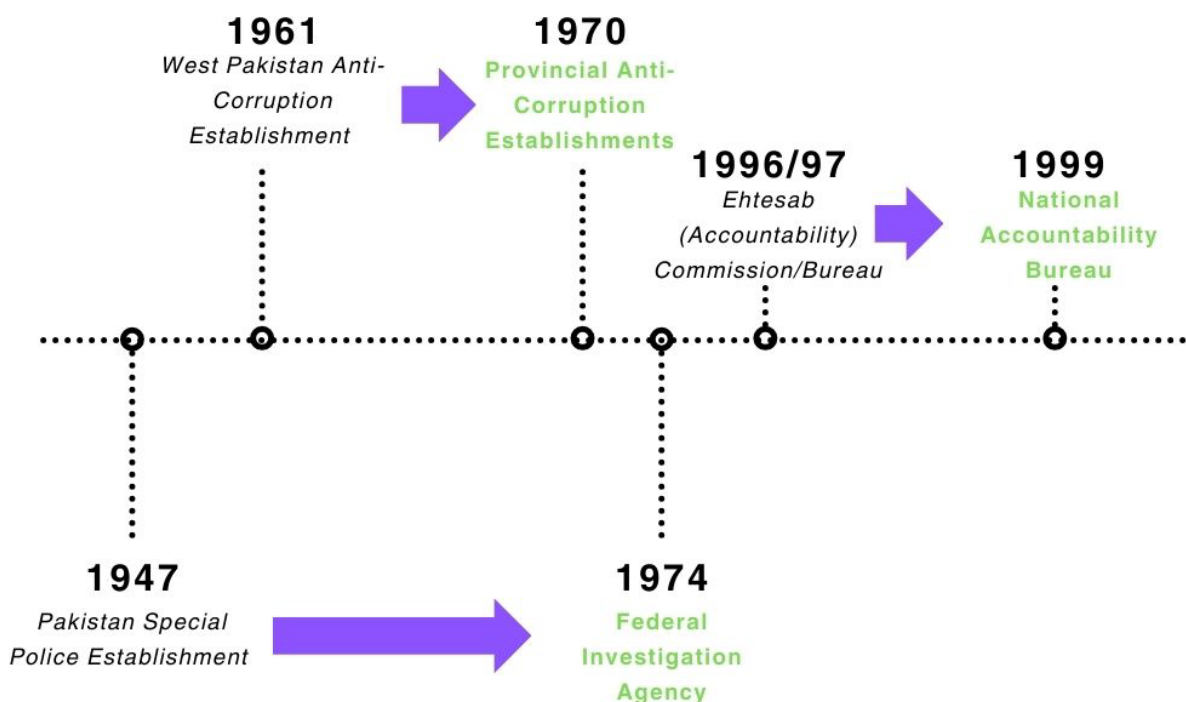
²²³ UNCAC Implementation Review Group, Executive Summary (August 4, 2017).

²²⁴ See also Dr. Ehsan Sadiq, Anti-Corruption Investigation Agencies in Pakistan: An Appraisal, ISSRA Papers, 12, 41-73 (2020).

²²⁵ See also Supreme Court of Pakistan, *Pakistan v. Imran Ahmed Khan Niazi*, Judgment of September 6, 2024.

Figure 12. Pakistan Anti-Corruption Institutions

Timeline Pakistan Anti-Corruption Institutions



355. Pakistan's legal framework for addressing corruption is highly focused on prosecuting corruption. Many jurisdictions have elected to adopt broad anti-corruption laws that define the roles and responsibilities for anti-corruption efforts as a way to increase consistency and coherence. Such laws often encompass multiple institutions, and define government activities in preventing, investigating, and sanctioning corruption. The recent Anti-Corruption Act in Sri Lanka is one such example of a foundational law that establish the nation's anti-corruption legal framework including but not limited to its investigation and prosecution of corruption cases.²²⁶ Having a comprehensive, harmonized and updated anti-corruption framework can institutionalize holistic anti-corruption policies and approaches (prevention, investigation and sanction) and clarify mandates and coordination among various agencies.

356. Key institutions within Pakistan also play a critical role in combatting corruption. The Establishment Division, which is primary responsible for regulating recruitment, promotion and conduct and discipline of civil servants, contribute to preventing corruption through the enforcement of service rules and ethical codes of conduct, and disciplinary actions.²²⁷ In formulating rules on promotions to

²²⁶ See Anti-Corruption Act of Sri Lanka, No. 9, 2023. For an older example, see Act of the Prevention of Corruption and the Establishment and Management of the Anti-Corruption and Civil Rights Commission, Government of South Korea, 2008.

²²⁷ Civil Servants Act, 1973 and Civil Servants (Efficiency and Discipline) Rules 2020.

higher grade levels and constituting promotion boards, the Establishment Division manages and maintains records (dossiers) for promotion consideration, including determination whether the civil servant has submitted asset declarations in the last five years.²²⁸ The Ministry of Law and Justice provides the legal vetting, legislative drafting and constitutional interpretation for anti-corruption laws, and advises on the legality of actions taken by anti-corruption institutions. In particular, the Ministry of Law and Justice led and coordinated the 2024 Task Force on the review of the anti-corruption framework. As noted in the earlier analysis on AML/CFT, the work of the Financial Monitoring Unit and the National AML/CFT Authority in combatting money laundering often covers proceeds from corruption (which has been identified as a significant risk in the country). In the conduct of independent audits of public expenditures, the Auditor General of Pakistan (as the supreme audit institution) also identifies financial irregularities and issues in control and oversight systems that give rise to corruption vulnerabilities, and highlights systemic, persistent and critical issues. The Public Accounts Committee, which receives and scrutinizes the AGP audit reports, is tasked with satisfying itself that the public funds have been disbursed and applied for their intended purposes, and may refer cases of financial irregularities to the NAB for investigation.²²⁹

357. The next parts of this section will discuss and analyze the three key anti-corruption enforcement agencies (NAB, FIA and PACEs), with respect to their independence (financial and operation), leadership/human resources, and effectiveness of their investigative operations. Table 17 below provides for a quick comparison of these agencies with respect to the scope of their jurisdiction, focus of corruption offenses, applicable financial thresholds for investigation, and legal basis.

Table 17. Comparative Table of Pakistan’s Anti-Corruption Enforcement Agencies

| | NAB | FIA | PACEs |
|----------------------------|---|--|-----------------------------|
| Jurisdiction | National (both Federal and Provincial Officials) | Federal Officials | Provincial Officials |
| Focus | High-profile/Grand Corruption | Federal Crimes (including corruption) | Provincial/Local corruption |
| Financial Threshold | >PRs 500 Million | <PRs 500 Million | <PRs 500 Million |
| Legal Basis | NAO (1999) | FIA Act (1974) | Provincial Laws |

National Accountability Bureau (NAB)

358. As the country’s apex anti-corruption institution, the NAB has an extensive mandate to fight corruption.²³⁰ The NAB was initially granted with strong powers and tools to combat corruption (such as the power to arrest without a warrant, freeze property, accept voluntary returns, negotiate plea bargains, review procurement tenders prior to contract award, and engage in international cooperation).²³¹ NAB’s investigative jurisdiction extends all holders of public office (NAO, Section 5(n)). The Armed Forces and

²²⁸ Updated Civil Servants Promotion (BPS-19 to BPS-21) Rules, 2019.

²²⁹ National Assembly, Rules of Procedure and Conduct of Business in the National Assembly (2007).

²³⁰ Karen Hussman, Anti-Corruption Policy Making In Practice: What Can Be Learned for Implementing Article 5 of UNCAC?, U4 Report 20004:1 (1st Part).

²³¹ Some of these powers have since been modified. For example, the power of the NAB Chair to accept plea bargains has been modified to allow courts to recall such approval if the plea bargain was a result of duress, coercion or any other illegal pressure (Sec. 25, NAO).

the Judiciary are subject to separate accountability arrangements. NAB's mandate has been reduced in the past years, including restricting its investigation and prosecution exclusively to high-value corruption and eliminating its pre-clearance of procurement contracts. The National Accountability Ordinance grants legal safeguards for the NAB's operational and financial independence. For example, the NAB chair has security of tenure (a non-extendable appointment of three years), and can only be removed in the same manner as a justice of the supreme court or high court.²³² As an independent body, the NAB is granted a separate line in the federal budget and is empowered to appoint its own officers and staff. In the past three years, NAB's allocations from the federal budget has consistently increased, and is approximately 0.03 percent of the total federal budget.²³³ The NAB demonstrated its capacity to investigate and prosecute grand corruption, including several high level public officials, after they have left office. However, as noted earlier, concerns over NAB's selective accountability call for deepening efforts to strengthen its institutional independence and promote public trust.²³⁴ In describing the pervasiveness of corruption in Pakistan, the European Commission previously noted that anti-corruption rhetoric and legal cases are heavily politicized, and raised questions on NAB's independence.²³⁵ NAB officials recognize the need to establish new practices and procedures to successfully address these concerns.

359. Objective, transparent and credible selection processes for NAB's leadership and its staff are critical to its institutional independence. The NAB Chairman is appointed by the Federal Government (i.e., Prime Minister and Federal Cabinet), after consultation between the Leader of the House and Leader of the Opposition in the National Assembly. The latest amendments to the NAO provide for creation of a parliamentary committee to name the NAB Chair in case there is no consensus between Leader of the House and Leader of the Opposition. In this regard, the Speaker of the National Assembly shall constitute a 12-member parliamentary committee, where 50 percent of its members are coming from treasury benches (current administration) and 50 percent from opposition benches with one-third of the committee coming from the Senate. The agreement between the administration and opposition on the candidate for the NAB Chairman lends itself to political compromises rather than a merit-based, open and competitive selection process. Following the examples of other anti-corruption agencies, the selection process could be strengthened by designating a multi-sectoral stakeholder commission (with representatives from administration, opposition, judiciary, civil service, academia, and civil society) to conduct an open, rules-based rigorous and transparent competition.

360. Equally important as the NAB Chair's appointment are broader qualification criteria for applicants, lengthening of the term of office and safeguards on removal from office. Only retired officials can apply to be NAB Chair (e.g., former Chief Justice, Judge of Supreme Court or Chief Justice of a High Court, officer of the Armed Forces of Pakistan, or Federal Government Officer in Base Pay Salary 22 or equivalent), which already limits the pool of candidates. Instead, adopting pre-determined qualification criteria (e.g., years of experience, integrity) would significantly open up the space for competition among broader set of qualified candidates (including from the private sector).²³⁶ The current non-extendable

²³² See Article 209, Constitution.

²³³ NAB was allocated PRs 6.158 billion in 2023, PRs 7.11 billion in 2024 and PRs 7.41 billion in 2025.

²³⁴ Ministry of Law and Justice, Report of the Anti-Corruption Task Force on Review of Institutional Framework of Anti-Corruption in Pakistan (2024).

²³⁵ European Commission, Joint Report to the European Parliament and the Council on the Generalized Scheme of Preferences covering the period of 2020-2022 (November 21, 2023).

²³⁶ Of the eleven male NAB Chairs since 1999, only two were not retired army officers or justices.

three-year term of the NAB Chair (including the Deputy NAB Chair and the Prosecutor General Accountability) creates institutional risks for independence at the same time that it constrains the ability of senior management to initiate and implement reforms.²³⁷ Lengthening the term of the NAB Chair beyond the terms of elective officials reduces the risks of politicization of the selection (e.g., the terms of the President and members of the National Assembly are for five years). Finally, the existing protections afforded to the NAB Chair similar to judges of the supreme court or high court in terms of the procedures for removal from office is a strong safeguard and needs to be maintained as a key feature of NAB's independence. Presently, the NAB Chair shall not be removed from office except on the grounds and in the manner similar to judges of the Supreme Court or of a High Court (i.e. incapacity to perform duties or misconduct and upon inquiry by the Supreme Judicial Council).²³⁸

361. Staffing of the NAB and their professionalism and integrity also impact the credibility and trust of the institution. As of end-December 2024, NAB estimates more than two thousand employees in its Headquarters and 7 regional offices (across the 4 provinces).²³⁹ NAB is empowered to prescribe rules for the appointment, discipline and conduct of its officers and staff necessary for the efficient performance of its functions (Section 28, NAO). Applicants to NAB positions are subject to knowledge, tests, background checks and interviews. The NAB's Special Assignment Cell manages confidential individual profile data of NAB officers and officials, including performance evaluation reports, dossiers, disciplinary records, and asset declarations. NAB's Internal Accountability Directorate processes complaints against NAB employees, monitors NAB operations at the regional level and conducts annual inspections across all regions and HQs. From 2023-2024, 103 matters or complaints against NAB staff were processed and out of the 33 disciplinary proceedings initiated, 21 cases resulted in imposition of penalties.²⁴⁰ An autonomous and multi-stakeholder oversight body to conduct periodic external audit of the internal control processes could significantly promote transparency and legitimacy in the NAB, and minimize risks of politicization.²⁴¹

362. NAB's current approach to investigation and prosecution and its outcomes are not commensurate to the country's elevated risk profile. According to NAB's statistics, a total of 31 corruption convictions were obtained between 2022-2024. NAB's recent success in recorded asset recoveries was much higher (amounting to PRs 5.310 trillion from 2023-2024), substantially from indirect recoveries and often involving retrieval of land. Significantly, the NAB Chair is empowered to accept from a holder of public office who voluntarily offers to return the assets or gains acquired or made by him arising from a corruption offense, before the authorization of investigation against him and provided the matter is not sub judice in any court of law (NAO, Section 25(a)). Without court oversight or public transparency (as opposed to plea bargains), this voluntary return procedure creates risks of abuse and severely weakens the deterrent effect of asset recovery efforts.

²³⁷ Prior to the latest NAO amendments, the term of the NAB chair was for a period of four years.

²³⁸ Following Article 209 of the Constitution, the NAB Chair can only be removed for incapacity to perform duties or misconduct, and upon inquiry of the Supreme Judicial Council (composed of the Chief Justice of the Supreme Court and four of the most senior judges at the Supreme Court and High Courts).

²³⁹ The seven regional offices include: Lahore, Karachi, KP, Balochistan, Rawalpindi, Multan and Sukkur (with sub-regional offices in Gwadar, Chaman and Gilgit Baltistan).

²⁴⁰ NAB, Biennial Report 2023-24. Information on the actual penalties applied, or whether cases were sent for further investigation and prosecution are not available.

²⁴¹ This can supplement the NAB Chair's obligation to submit and publish an annual report of its affairs to the National Assembly and Senate (Section 33D, NAO).

363. The recent narrowing of NAB’s mandate to high-value corruption cases provides an opportunity to review and revise its operating and management practices to achieve better results.

Corruption cases involving millions of dollars are notoriously difficult to investigate and prosecute, given their complexity, sophistication, and the quality of defense lawyers that accused individuals can afford. Experiences of other agencies focusing on high-level corruption would be useful to strengthen NAB’s effectiveness in this light, including, but not limited to, the Serious Fraud Office in the UK, the Independent Commission against Corruption in Hong Kong, the National Anti-Corruption Bureau in Ukraine, the Corruption Eradication Commission in Indonesia, and the Major Organised Crime and Anti-Corruption Agency in Jamaica.

364. Effective use of investigative and prosecutorial resources is predicated on clarity or rules regarding the selection of cases to investigate, the selection of cases to prosecute, and the capacity to implement these rules effectively.

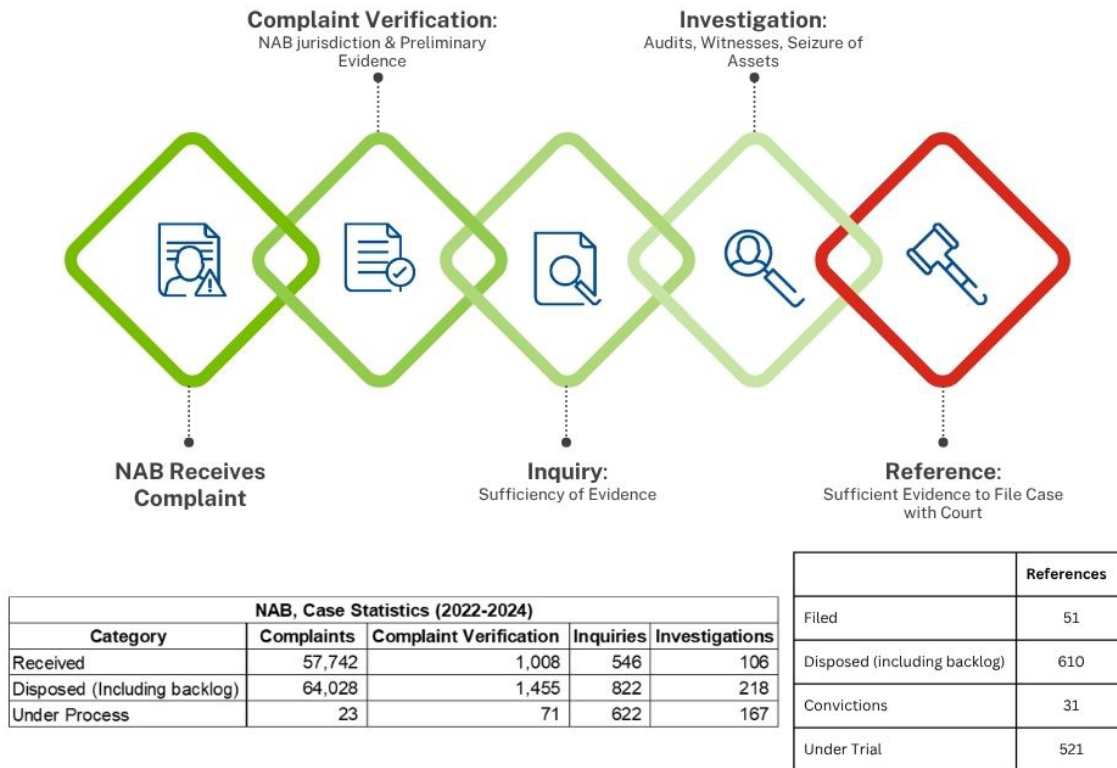
Given the past track record, NAB’s rules and management systems should continue to be monitored and improved to maximize resources towards the greatest risks. This effort requires ongoing analysis of existing rules on determining when to pursue an investigation, the decision to charge suspects and the nature of the charges, and the delegation of powers and functions to prevent caseload bottlenecks and minimize corruption risks regarding the disposition of cases. This should be accompanied by data gathering from on-going and concluded cases to ensure that patterns in case failure and success are recognized and lessons are learned.

365. One area for further refinement is NAB’s process for the selection of cases to investigate.

Although it has the authority to initiate investigations on its own accord, most of NAB’s corruption investigations have traditionally been triggered by the receipt of a complaint. When NAB receives a complaint, it goes through stages of complaint verification, inquiry, and investigation, before a reference is submitted to court for prosecution and trial. A monitoring and evaluation system within NAB tracks case progress. However, aggregated case statistics from 2022-2024 provided by NAB demonstrate the huge number of complaints received (57,742), but only less than 2 percent move on to the next stage of complaint verification (**Figure 13**).

Figure 13. NAB Complaints Process and Statistics

NAB Complaints Process and Statistics



Source: NAB, IMF staff calculations

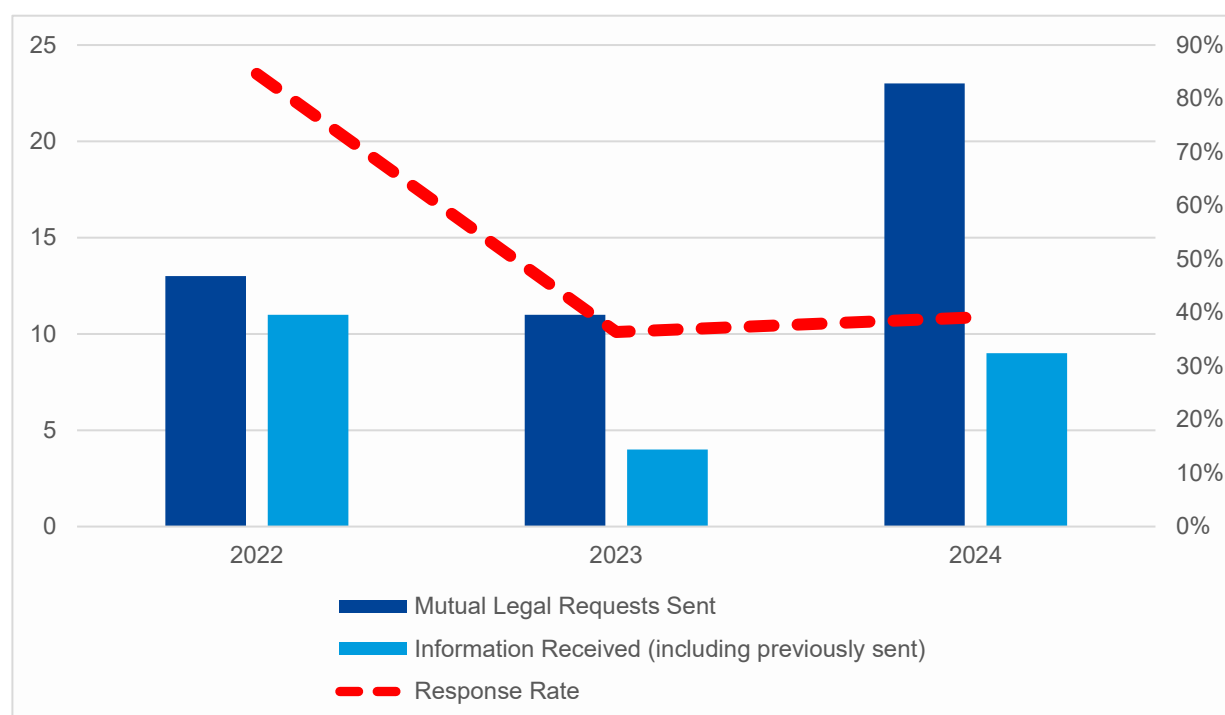
366. NAB introduced reforms into its handling of complaints in 2024 designed to boost efficiency, but raises concerns regarding receipt of valuable information. Standard operating procedures within NAB were revised to increase the timely assessment of the complaint and reduce opportunities for mishandling or attempts to influence the substance of the complaint. At the same time, new requirements were created, including requiring affidavits from complainants and criminal punishments were introduced for the filing of frivolous complaints. While efforts to reduce the number of nuisance complaints is understandable, the fear of prosecution may also deter individuals with valid complaints from coming forward. Overall, reliance on complaints for pursuing corruption investigations has strong disadvantages (e.g., complainants being pressured, filing of nuisance complaints, reversal or non-cooperation of complainants).

367. A shift towards greater reliance on proactive investigations would be aligned with NAB's focus on grand corruption. While it has initiated corruption cases on its own,²⁴² the NAB has exhibited an over dependence on complaint-driven actions, which are more reactive. The success of the change towards proactive investigations is predicated on developing rules, practices, and competencies in investigation, including rules on when to pursue an investigation or intelligence lead. Enhancing

²⁴² The NAB initiated *suo moto* 21 corruption cases in 2023 and 18 corruption cases in 2024.

competencies in pursuing financial investigations, especially in cases where there are components of financial transactions or properties located outside of Pakistan are likely to be essential given the frequency of parking assets offshore and the difficulty Pakistan has experienced in soliciting mutual legal assistance. Operational challenges related to requests for mutual legal assistance and international cooperation, especially in complex corruption cases with foreign dimensions, also need to be addressed. The response rate to the authorities' mutual legal assistance requests is at 40 percent (Figure 14). In this regard, further engagement with foreign counterparts can help identify and address low response rates (e.g., upgrading capacities to provide information on mutual legal assistance requests or building trust to facilitate cooperation).

Figure 14. Pakistan. Mutual Legal Assistance Requests and Response Rates



Source: NAB, IMF staff calculations

368. Greater clarity in the policies to guide decisions on charging suspects and the nature of the charges to pursue will also be essential. The rapid rise of asset recovery cases has substantially increased the number of individuals held accountable for their actions while contributing to public finances and to the restitution of individuals and communities. Substitution of financial penalties (e.g., voluntary return) for criminal liability carries with it the risk that wealthy individuals will be able to disgorge the profits of corrupt undertakings while escaping personal accountability for abusing public authority for private gain. NAB's reputation for evenhandedness and the rule-based nature of anti-corruption enforcement will benefit from transparency regarding the principles to be used in making such decisions, and demonstrating that those principles are being observed.

369. Continued maximization of confiscation and asset recovery operations reinforces accountability and deterrence. NAB's recent focus and efforts on asset recovery leading to PRs 5.310 trillion for the period of January 2023 to December 2024 is a positive development. Such record recovery results from the NAB's emphasis on early settlement to avoid protracted litigation. However, efforts by other anti-corruption institutions are not on the same level, which may be hindered by capacity

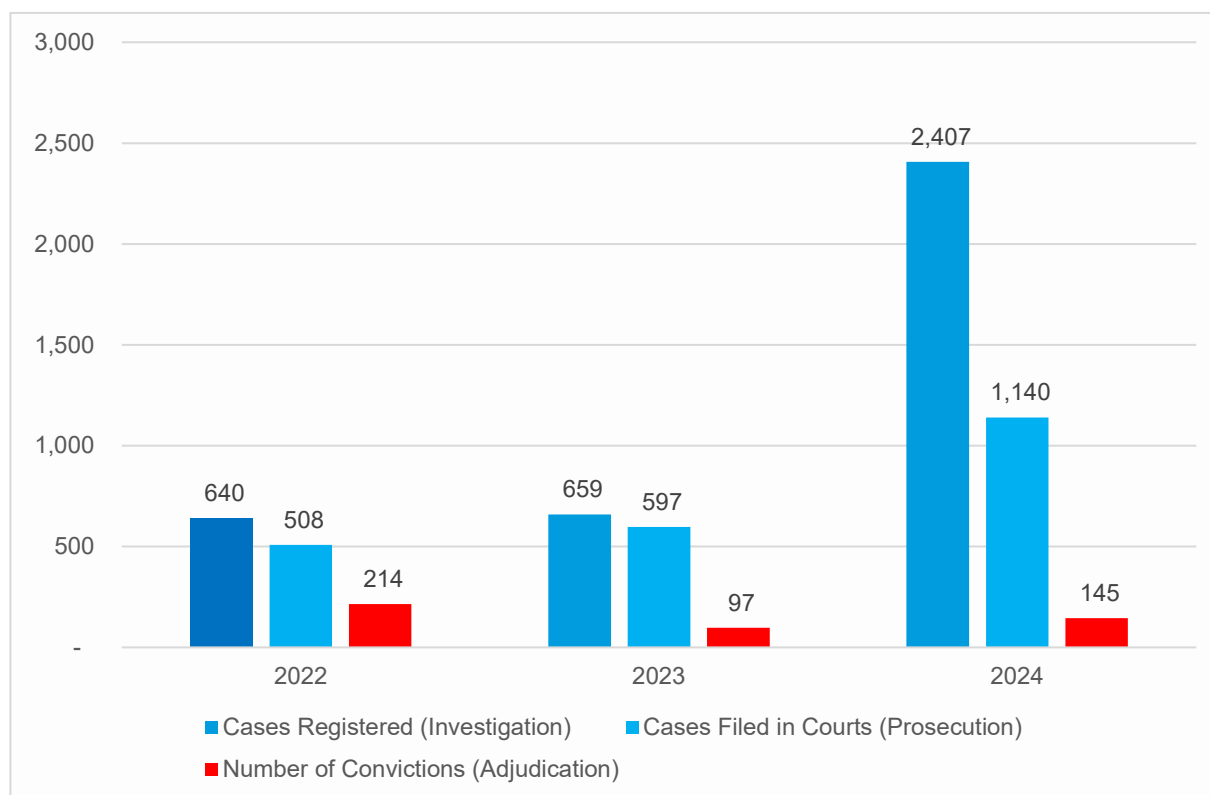
constraints and resources. In this regard, the authorities can consider mechanisms that would allow a percentage of the confiscated assets be channeled back to the anti-corruption authorities for purposes of capital investment and/or training, subject to safeguards on full transparency and robust oversight. Aligning the success of NAB's asset recovery efforts with the increasing conviction rates maintains the credibility, fairness and effectiveness of anti-corruption enforcement. This will mitigate perceptions of impunity and political bargaining, and strengthen the deterrent effect of convictions.

370. Resort to international cooperation should continue, especially in light of increasing risks of cross-border corruption. The Panama Papers and Dubai leaks emphasize the transnational aspect of corruption, where illicit proceeds generated in Pakistan are transferred outside to create distance from anti-corruption law enforcement. In particular, NAB highlighted that it requests for information and mutual legal assistance, but response rates are disappointing as foreign counterparts are either non-responsive or delayed. In this regard, NAB's capacities and resources to timely analyze complex and cross-border schemes (e.g., access to relevant international databases and leveraging targeted use of special investigative techniques) could be improved. While noting the external constraints to mutual legal assistance beyond their control, the authorities should also work towards membership in key law enforcement networks to facilitate the exchange of information on corruption investigations, including the Egmont Group of Financial Intelligence Units as well as the Asset Recovery Interagency Network.

Federal Investigation Agency (FIA)

371. The FIA also needs to substantially improve its effectiveness in fighting corruption. FIA's Anti-Corruption Wing (which has 19 anti-corruption circles/units throughout the country) is responsible for investigating corruption committed by federal officials (below the NAB's PRs 500 million threshold). Similar to the NAB, the conviction rates and overall number of corruption investigations conducted by the FIA is not commensurate with the country's risk profile (see **Figure 15**). Notably, selectivity in the use of FIA's resources is critical given their expansive mandate since attempting to investigate and prosecute too many cases is likely to lead to inconsistent or poor results. This is particularly relevant when investigating complex corruption cases (such as procurement fraud or collusion with federal departments), which require sustained investigation, technical expertise and advanced forensic tools. As with NAB, improving outcomes is likely to require greater clarity in principles and rules that guide investigations and prosecutions, and increased competency in implementation. Integration of new technologies into all facets of the work, from identification of cases to investigation and prosecution, should be actively pursued. The possibility of overlapping investigations between NAB and FIA over the same federal officials calls for stronger coordination to maximize resources and achieve successful convictions.

Figure 15. FIA Case Statistics for Investigations, Prosecutions and Adjudication (2022-24)



Source: FIA.

Provincial Anti-Corruption Establishments

372. The PACEs in the four provinces face operational constraints in various degrees, that hinder their effectiveness at anti-corruption investigation. In particular, some PACEs are required to seek permission of the highest provincial authorities before investigations are even conducted. In the context of patronage politics in Pakistan, this creates risks that corruption investigations will not prosper against allies or supporters of the provincial governors. Investigative capacities and training are further hindered by their lack of access to databases, including on the national identification system, tax information, asset declarations and bank accounts. In this regard, the authorities are moving ahead with initiatives to designate PACEs as anti-money laundering authorities to allow them to request and access financial intelligence from the Financial Monitoring Unit.²⁴³ Provinces are also considering empowering the FBR to provide access to banks regarding tax and asset information of provincial officials for banks' AML/CFT customer due diligence processes. Similar to the NAB, internal accountability mechanisms should also be put in place to guard against any abuses. In this regard, participation of citizens and civil society organizations at the provincial level will be critical.

²⁴³ "Provincial Anti-Corruption Establishments will coordinate with newly established AML/CFT Authority and other relevant agencies such as Financial Monitoring Unit (FMU), Federal Board of Revenue (FBR), National Accountability Bureau (NAB), etc., for implementation of national AML/CFT strategy." (Governance Measures, xv, of National Fiscal Pacts of Punjab, Sindh, KPK and Balochistan).

Coordination Efforts

373. Enhancing coordination efforts among the anti-corruption institutions can create virtuous cycle to support effective enforcement. For example, NAB's initiative with respect to the Anti-Corruption Academy is a positive step and should help ensure that anti-corruption investigators and prosecutors have adequate training and capacities.²⁴⁴ As a trust-building exercise, the NAB also created Accountability Facilitation Cells for parliamentarians and bureaucrats and Business Facilitation Cells for handling business-related cases.²⁴⁵ These facilitation cells conduct preliminary investigations into complaints of corruption, and provide input for NAB for further action as necessary, with the intended goal of avoiding undue harassment of civil servants. Careful monitoring and oversight of the practice of these facilitation cells will be instrumental moving forward to ensure that this does not have the unintended consequence of impeding or politicizing investigations. To ensure a consistent and comprehensive approach among the various anti-corruption agencies, centralizing statistics or outcomes of the NAB, FIA and PACEs can identify higher corruption risk areas and increase accountability.

374. The importance of coordination is highlighted by the transfer of NAB cases following the recent modification of its monetary threshold. The change in the NAB's jurisdiction led to the transfer of hundreds of cases below the PRs 500 million to the FIA and PACEs. Degrees of cooperation and coordination vary with respect to the transfer (e.g., evidence, information and case files). In some instances, some PACEs experienced challenges in seeking the basis for the cases and additional information, which led them to start their investigation from scratch. Continued dialogue and information sharing ensures that corruption cases with strong evidence to move forward are not dropped or lead to acquittals. Moving forward, mechanisms for cooperation among the various institutions within their investigative mandates should be strengthened. In addition, the monetary threshold and its practice among the NAB, FIA and PACEs should be re-examined in the medium-term to ensure its adequacy, and alignment with other governance mechanisms and key risk sectors (for example, publication of procurement contracts are required for those above PRs 500,000 only).

D. Preventive Measures

375. Prevention is a key pillar to effective anti-corruption approaches. Corruption prevention takes three primary forms: eliminating governance weaknesses that give rise to increased exposure to corruption risks; encouraging ethical conduct by increasing guidance and oversight on acting in accordance with public service integrity standards; and discouraging corrupt behavior by increasing the ability to detect illicit wealth.

376. Identification and elimination of governance weaknesses that give rise to corruption need further efforts. The NAB's preventive function empowers it to constitute Prevention Committees (with membership from a variety of stakeholders) to examine legal and regulatory frameworks to identify areas susceptible to corruption and corrupt practices and make recommendations.²⁴⁶ For example, Prevention

²⁴⁴ Similarly, the FIA is currently establishing a training academy on transnational crime with support from international partners to enhance its anti-corruption capacities.

²⁴⁵ Additionally, the Business Facilitation Cells make policy recommendations to facilitate ease of doing business under Section 33C, NAO.

²⁴⁶ Section 33C, NAO.

Committees were constituted on tax evasion and on the regulatory body for the electricity sector (National Electric Power Regulatory Authority), and stakeholder consultations were conducted and findings on key gaps and malpractices were identified (such issues of misdeclaration and under-invoicing in customs and gray areas in electricity tariff determination, invoice verification and monitoring mechanisms). The degree to which reforms were introduced to reduce opportunities for corruption is uncertain and hard to track as public access to the Prevention Committees reports is limited (owing to potentially sensitive information in relation to ongoing investigations). The Competition Commission similarly identifies anticompetitive practices within sectors that give rise to increased corruption vulnerabilities, but similarly without much demonstrated consequence for reform.

377. The audits of the Auditor General offer the richest source for identifying governance weaknesses. Individual audit reports are often limited to examining the compliance of end-of-year financial reporting with operative rules. Yearly reports may help to identify suspicious transactions that are worthy of further investigation. The review of multiple years of audit reports can also reveal consistent compliance problems in specific ministries and agencies, thereby detecting the location of persistent control and monitoring weaknesses. Some audits, such as the 2021 audit report of the AGP on the COVID expenditure identified instances of mis-procurement, weak financial controls (payments made to ineligible beneficiaries), and weak monitoring. It also found that several COVID-related procurement contracts above PRs 50 million were entered into without furnishing a copy to the NAB, as required under Section 33B, NAO. Unfortunately, mechanisms for following up audit findings and observations are rudimentary and poorly functioning. The potential for using audit reports to drive corruption prevention is largely lost. Leveraging its function as a repository of procurement data, the NAB should intensify its pro-active and intelligence based approach to analytically mine relevant data to identify patterns, trends and red flags.

378. There is strong potential for making better use of existing information systems to detect governance weaknesses. New information technology offers expanded possibilities to analyze existing data, including increasing digitalized data from procurement, taxes, the National Database and Registration Authority, to identify weaknesses and corruption vulnerabilities, and the opportunity to take remedial action. There will need to be some organization tasked with undertaking or coordinating data analysis to realize the potential for using information to direct corruption prevention.

379. The asset declaration system is a useful tool to deter corruption and assess any significant change or increase in the assets and change in lifestyle. The asset and income declaration regime in Pakistan is long-standing,²⁴⁷ and has recently been enhanced.²⁴⁸ At the same time, constraints continue to exist. The primary issue remains that ADs are not subject to robust risk-based verification, which also blunts its preventive impact. Under the Government Servants Conduct Rules, government servants are required to disclose their assets and properties, and such disclosures shall be made public. Asset declarations are required to include information on income, immovable and movable assets and liabilities (both domestic and foreign), including assets owned by the family of the civil servant. In addition, legislators (Members of the National Assembly and Senate) are required to submit their statements of assets and liabilities every year to the Election Commission, which is obliged to publish them in the official

²⁴⁷ See Government Servants (Conduct) Rules, 1964. Rule 12 requires Government servants to declare all immovable and movable properties belonging to or held by them or a member of his family at the time of entering government service and every year.

²⁴⁸ On June 29, 2025, a law amending the Civil Servants Act was enacted that requires asset declarations of civil servants above BPS17 to digitally file their asset declarations with the FBR and made publicly available.

Gazette and provide copies to any person on payment of a prescribed fee.²⁴⁹ However, despite the legal requirement for publication, effective verification of asset declarations are constrained by key shortcomings in the system:

- a. **Fragmented System.** The asset declaration system in Pakistan is fragmented. In particular, the asset declaration requirements for “government servants” or “holders of public office”,²⁵⁰ active members of the armed forces and the judiciary are distinct. Serving members of the Armed Forces are also subject to separate asset declaration rules, which do not include requirements for declarations to be made public. All public officer holders and government servants (federal as well as provincial), as taxpayers, are required to declare income returns and wealth statements annually to the FBR under the Income Tax Ordinance. However, the purpose, procedures and penalties for such filings with the FBR are distinct and separate from asset declarations, as the former is used for tax compliance and the latter is an anti-corruption tool for public officials. As for the judiciary, every judge is required to submit their asset declarations to the Chief Justice of the Supreme Court, but are not made public. Significantly, publication of asset declarations by justices of the Supreme Court was made voluntary, with only a select few publicly disclosing their declarations. Notably, asset declarations of the NAB Chair and other senior officials cannot be disclosed under a November 2020 decision of the Pakistan Information Commission due to privacy concerns. A tailored asset declaration system for such officials holding sensitive and high risks positions can achieve a reasonable balance between transparency and accountability goals and safeguarding privacy and undue influence. It is critical however that there is a robust, independent, and credible system for collecting and verifying asset declarations.
- b. **Agency-Level Constraints.** Civil servants submit their asset declarations within their respective agencies, which is responsible for verification. Aside from the cursory check of whether the asset declarations are filed or not on time, there is inconsistent and varying degrees of verification done by the different agencies (owing to paper-based submissions, resource constraints, and inadequate training). Checks on the filing of asset declarations are required to be conducted by the Establishment Division and other concerned Divisions on an annual basis. Such submissions are also checked before a civil servant is considered for promotion at the next higher level. However, deep analysis or verification that go beyond the face value of the declarations is missing.
- c. **Lack of Publication.** Despite the clear legal requirement, publication of asset declarations of public officials is not a consistent practice in Pakistan. The Election Commission of Pakistan publishes the asset declarations of members of parliament in the official gazette, and makes it available in its official website subject to submission of national identity credentials for authentication. There have been instances, however, of delays in the submission of asset declarations and publication, and at times withholding publication altogether. Notably, civil society organizations have digitalized and published the asset declarations independently.²⁵¹

²⁴⁹ Elections Act, 2017 (Sections 137 and 138).

²⁵⁰ See definition of holder of public office, Section 5(n)(iv), NAO. The definition of holders of public office under the NAO excludes active members of the armed forces (unless they are holding any other public post or office).

²⁵¹ The Free and Fair Election Network (FAFEN) maintains a publicly available website on Legislators’ Statement of Assets and Liabilities in a digital format (<https://fafen.org/statements-of-assets-liabilities/>).

Past administrations have published asset declarations of members of the federal cabinet, including non-elected ones (i.e., advisers or special assistants). Significantly, the June 2025 amendments to the Civil Servants Act is a positive milestone in requiring high-level public officials to make their asset declarations (including domestic and foreign assets) and that of their spouse and dependent children publicly available, and should be swiftly implemented.

380. A parallel asset declaration system within the FBR under the tax framework creates complications for verification. The FBR requires asset declarations of all taxpayers, including government servants, for taxation purposes. Generally, government servants send the same information in their asset declarations to the FBR. Interestingly, the FBR has a digital portal for filing such asset declarations. This is being leveraged by the authorities by providing banks access to these asset declarations of federal officials for purposes of customer due diligence of politically exposed persons. Recent amendments to the Civil Servants Act now require digitized filing of asset declarations of senior level public officials and making them publicly accessible through the FBR.

381. Centralization and digitization of asset declaration of high-risk public officials will contribute to the system's preventive nature and support both domestic and foreign enforcement. A centralized authority with dedicated responsibility for collecting, verifying and publishing asset declarations will ensure consistency in monitoring. While operational procedures to implement recent legislative changes to the Civil Servants Act are underway (designating the FBR to be the repository of such asset declarations), this should be a temporary arrangement that recognizes the urgent need and digital capacities of the FBR. However, in the long-term, such function should be transferred and housed with a centralized authority with similar resources and capacities (for example, the Establishment Division or NAB). To supplement verification efforts, procedures for lifestyle monitoring (investigating a public official's standard of living and comparing it with their declared income and assets) would be another valuable tool to detect illicit enrichment and deter corruption, subject to sufficient safeguards to prevent misuse or politicization. Public access to asset declarations of high-level public officials can also support enforcement efforts in Pakistan and abroad (including enhanced due diligence of Pakistan politically exposed persons by banks, and oversight by civil society or investigative journalists using social media and open-source intelligence).

382. In light of recent legislative changes, Pakistan could begin to explore protocols for verifying the completeness of ADs of high-level civil servants. On a test basis, ADs from a limited population of high-level federal civil servants based on risks could be verified for completeness as a way of testing verification models and processes subject to on agreed procedures by the Establishment Division, FBR and NAB. The verification of ADs could be combined with a limited number of external checks or random life-style audits to test methodologies. Publishing the results of this interim effort would contribute to transparency, and raise expectations for more widespread verification actions going forward.

383. Conflict of Interest (Col) systems are important tools to define standards for public integrity and encourage ethical behavior. Such systems establish explicit rules to avoid conflicts of interest or the appearance of conflicts, and guide officials in how to act when faced with a conflict of interest situation. They include processes for declaring financial interests, and officials entrusted with instructing staff on expected behavior when a conflict is encountered. They also include sanctions for not declaring interests and failing to act in accordance with operative rules. Their value is in establishing clarity of expectations, enabling officials to extricate themselves from potentially compromising situations

where their financial interests may shape the use of their authority, and disciplining officials for failure to meet public sector standards.

384. Existing codes of conduct and ethics and disciplinary proceedings in Pakistan do not effectively deter corrupt behaviors. All employees of government entities are bound by the Government Servants (Conduct) Rules, 1964, which provide for rules on receiving gifts, engaging in private trade, employment or work, avoiding habitual indebtedness, and taking part in politics. Specific permission from the government is required by civil servants for activities in areas which may pose a potential conflict of interest, for example, taking part in the promotion, registration and management of companies and engaging in any trade or employment other than their official duties. Pakistan's framework for management of conflict of interests of civil servants under existing laws on civil service and conduct is broad and described by the 2023 UNCAC Report as "honor-based, with the responsibility for reporting conflicts of interest resting with the individual and the possibility of any other individual who identifies a conflict to file a complaint".²⁵² At the federal level, previous attempts to introduce a specific and national conflict of interest law with a wider scope were unsuccessful; while, some provinces enacted prevention of conflict-of-interest acts, but the commission to implement that have not been constituted.²⁵³

385. Enhancing Pakistan's conflict of interest system is essential to safeguarding public integrity and preventing decision-making from being co-opted by private or political interests. In light of vulnerabilities arising from patronage networks, increased attention needs to be devoted to training officials in public sector standards and the appropriate actions to take when faced with a conflict-of-interest situation. Officials need to be tasked with responsibility for providing guidance and instructions to staff when conflicts are encountered. In addition, interest disclosures need to go beyond honor-based system, and move towards mandatory and periodic submission, with public access and have an independent oversight body to review and investigate potential conflicts with dissuasive penalties for non-compliance.²⁵⁴ Finally, misconduct is dealt with through proceedings under the Civil Servants (Efficiency and Discipline Rules), which provide for a range of penalties including censure, reduction of wages, withholding of promotion, recovery of embezzled money, compulsory retirement, and dismissal from service. The appointing authority is primarily responsible for imposing disciplinary actions against civil servants. For the period covering 2022-2024 of 32 Ministries, the Establishment Division recorded the imposition of 2,110 major penalties (dismissal, removal or compulsory retirement) and 5,065 minor penalties (censure, withholding of promotion, reduction to a lower pay scale). However, the enforcement of the codes of conduct often vary among agencies, undermining the authority of Col standards. Fair, consistent and effective application is essential to the creation of public sector standards that matter to officials and the public alike, influence behavior, and strengthen performance.

²⁵² UNCAC, Implementation Review Group – Review of Pakistan, Executive Summary (May 8, 2023)

²⁵³ PILDAT, Civil Society Report on the Implementation of Chapter II (Prevention) & chapter V (Asset Recovery) of the UNCAC in Pakistan (November 8, 2021).

²⁵⁴ OECD, Recommendation of the Council on OECD Guidelines for Managing Conflict of Interest in the Public Service, *OECD/LEGAL/0316* (2025).

E. Enforcement, Adjudication and Sanctioning of Corruption

386. Overall law enforcement efforts are not commensurate with the elevated risks of corruption. While there have been convictions against high level officials, the overall conviction rate remains low. Poor results may be due to issues in the investigation and prosecution of cases, as examined earlier in this chapter. Alternatively, issues in convicting and sanctioning corruption may be associated with inefficiencies in the adjudication process. Resource constraints (particularly with respect to investigations by FIA and PACEs) as well as procedural delays (e.g., complex corruption cases, delays in response to mutual legal assistance requests, and presence of many witnesses in cases of cheating public at large) contribute to the long disposition of cases as well as the low number of convictions. Recent NAO amendments now require that disposal of corruption cases shall be done within one year.²⁵⁵

387. Corruption cases prosecuted by NAB are heard in special Accountability Courts. Under Section 5 of the NAO, the Accountability Courts were established to exclusively handle corruption cases investigated by the NAB. These courts were previously designed to operate independently from regular judicial systems and instead originally reported to the NAB, as the intention was to centralize the anti-corruption system and ensure swift adjudication by bypassing the regular judicial system. With the 2022 amendments, the Federal Government, through the Ministry of Law and Justice, is now empowered to establish as many Accountability Courts as it may deem necessary to try corruption offenses, and is responsible for appointment of the Accountability Court judges after consultation with the Chief Justice of the High Court concerned. Accountability Court judges shall be serving district and sessions judge or additional district and sessions judge, and holds office for a term of three years. The Federal Government can order the removal or transfer of the accountability court judge, after consultation with the Chief Justice of the High Court concerned.

388. Given the powers of the Federal Government over the accountability courts, there are risks of undue influence over corruption cases. The nature of the judicial appointments is short and temporary (three-year term), which also exacerbates the case backlog and limitation of judges with specialized skills in financial and white-collar crime adjudication. Moving away from its original inception, Accountability Courts need to be better integrated within the judicial system to uphold its independence and safeguard due process and fair trials (with specialized judges and specific procedures to ensure speedy trial). In the short term, the process of selecting judges needs to be made more transparent and merit-based, and the tenure of judges needs to be extended. In the long-term, consideration should be made as to whether corruption cases should be heard in regular courts.

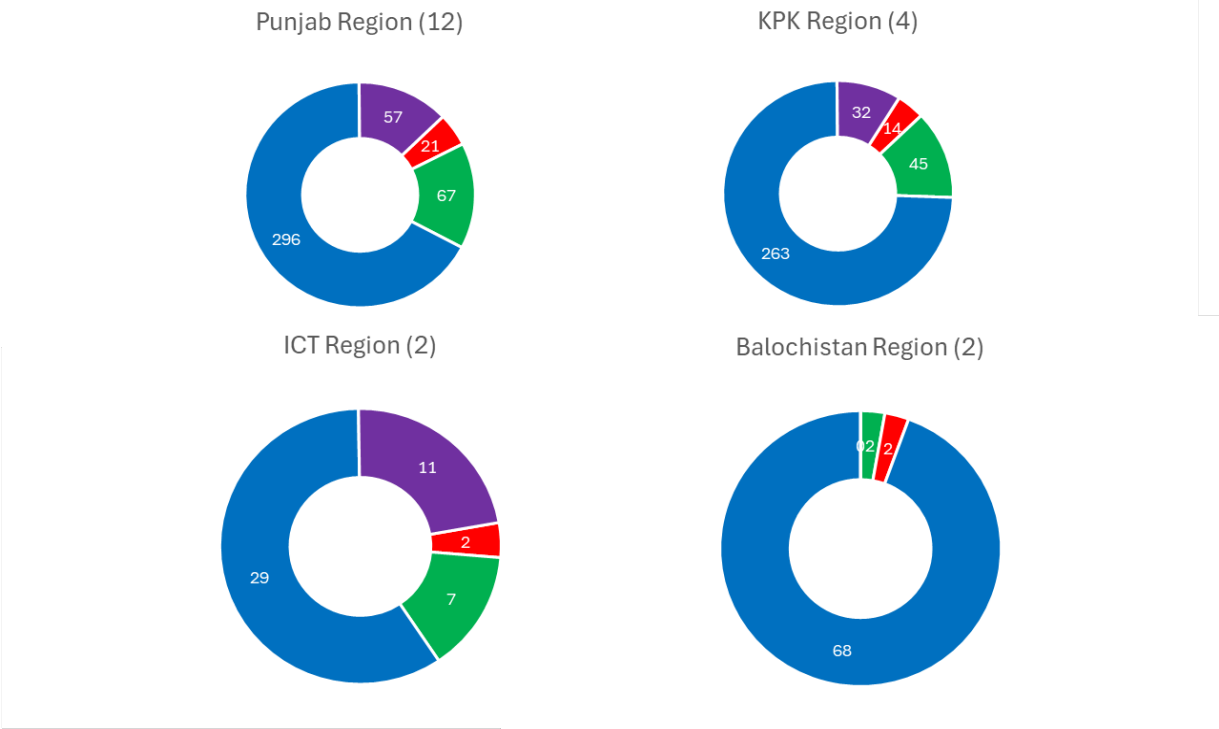
389. The effectiveness of the Accountability Courts should also be improved. Several Accountability Courts were established and by 2022, over fifty-four (54) courts were in existence. However, with the new financial threshold for NAB's investigative jurisdiction (above PRs 500 million), a substantial number of cases had to be transferred to the FIA and PACEs, which would no longer be heard by the Accountability Courts (see Table 18). Thus, the Federal Government recently re-organized, converted or redesignated thirty-one (31) accountability courts as other special courts and tribunals across the country due to fewer cases subject of NAB's jurisdiction. Nonetheless, despite the few cases being lodged, the performance and the efficiency to handle the current cases remains slow. The courts are

²⁵⁵ Section 16, NAO.

burdened with a backlog of cases, that results in prolonged judicial processes. In the short term, a methodology for monitoring efficiency and performance should be established, and monitoring data should be posted on a public website at least annually.

Table 18. Accountability Courts and Case Statistics

| | Number of Courts | Convictions | Acquittal | Cases Transferred | Pending Cases |
|--------------------|------------------|-------------|-----------|-------------------|---------------|
| Punjab Region | 12 | 21 | 67 | 296 | 57 |
| ICT Region | 2 | 2 | 7 | 29 | 11 |
| KPK Region | 4 | 14 | 45 | 263 | 32 |
| Balochistan Region | 2 | 2 | 2 | 68 | 0 |



Source: Ministry of Law and Justice, IMF staff calculations.

390. The weak sanction regime further perpetuates the thinking that corruption is a low risk-high reward endeavor in Pakistan. Under the NAO, corruption offenses are punishable by imprisonment for a term which may extend to 14 years, which is comparable to other serious crime such as robbery, kidnapping, murder, and drug trafficking. As noted above, the conviction rates for corruption are not commensurate to the country’s profile. The authorities do recognize that more than the severity of punishment, it is the certainty of punishment that would be a more effective deterrence.²⁵⁶

²⁵⁶ Ministry of Law and Justice, Report of the Anti-Corruption Task Force on Review of Institutional Framework of Anti-Corruption in Pakistan (2024).

F. Transparency and Inclusive Governance

391. Patronage politics and collusion between public officials and elites contribute to opaque governance and poor accountability measures. Principles of democracy, representative government and right to information are enshrined in Pakistan's Constitution. However, government actions and processes are often opaque and opportunities for public participation in governance are limited. The dominant attitude of the government is one of secrecy and non-participation.²⁵⁷ Opacity in bureaucratic procedures and decision-making creates spaces for backroom deals and secret negotiations. Significantly, Pakistan had initially signed up to the Open Government Partnership in 2016 declaring its commitment to open government principles and developed an initial National Action Plan (NAP) with various representatives and stakeholders. However, the initial enthusiasm faded as the NAP was not formally approved and OGP commitments were either delayed or not fulfilled (leading to Pakistan being official removed from the OGP in March 2022). To renew its commitment to transparency, the authorities are encouraged to re-engage in their efforts to enhance transparency and public participation by initiating again the process of joining the OGP.

392. Transparency in government decision-making and operations facilitates participatory and active public dialogue. In particular, civil society organizations (CSOs), as watchdogs, help in monitoring government activities and report instances of corruption. CSOs also provide platforms for civic engagement and facilitate public discussions on governance and corruption. For example, Transparency International – Pakistan's periodic national corruption perception surveys provide domestic insights on grassroots views on the level of corruption.²⁵⁸ However, instances of suppression of CSOs that application of counterterrorism and sedition laws have been subject of domestic and national criticisms. These have negative consequences as it stifles dissent and reduces the space for civil engagement, which in turn, impacts transparency and accountability.

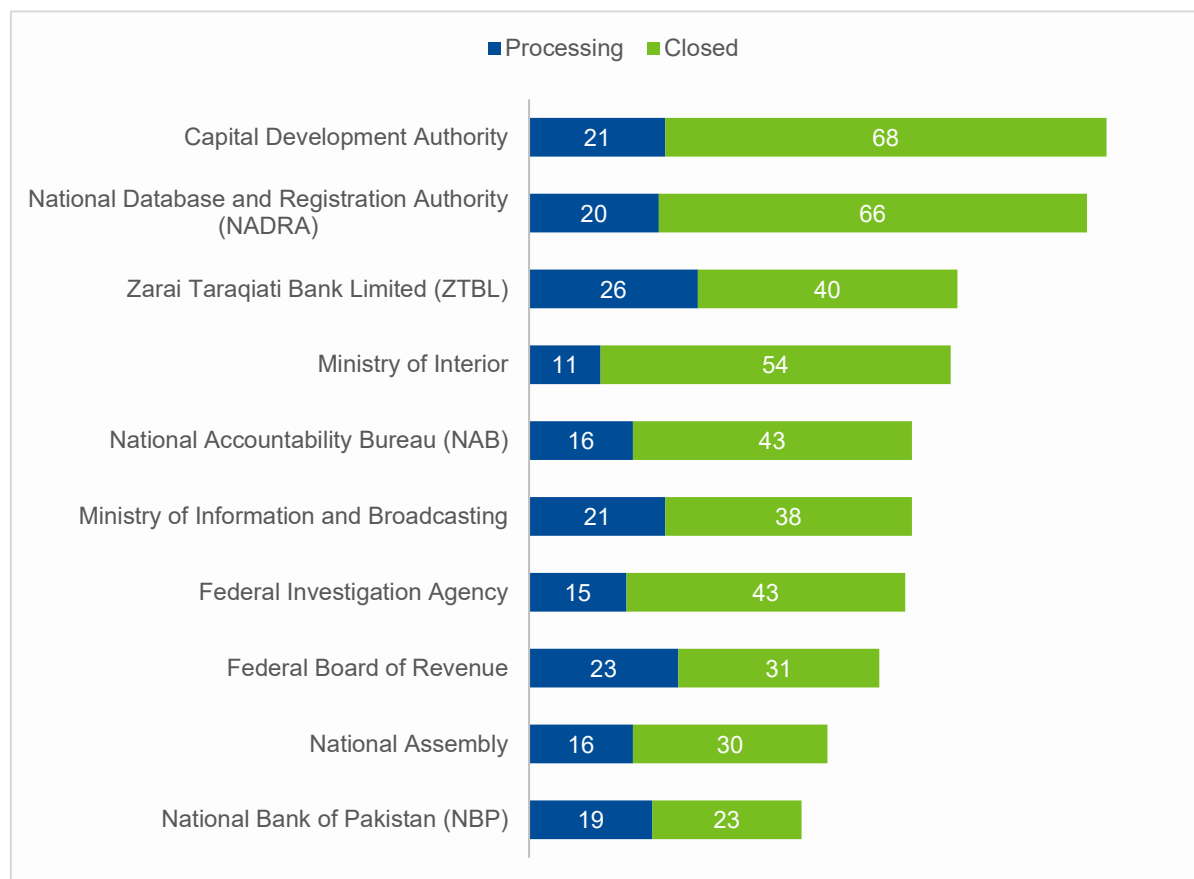
393. Pakistan's right to Information (RTI) system provides a legal foundation, but its practice has yet to substantially deliver on its intended transparency outcomes. The 2017 Right to Information Act repealed the Freedom of Information Ordinance of 2002 and provides for the current system of accessing information or records held by a public body. It also creates the Pakistan Information Commission, which is body that advises and facilitates the RTI system. The principal officer of each public body is tasked with ensuring that certain categories of information and record are duly published (including uploading over the internet) and accessible (such as rules, information relating to important policies and decision, detailed budget, performance and audit reports). Notably, citizens must make the RTI request to the concerned government agency, and only, when such request is denied, can an appeal be made to the Information Commission. In practice, the Information Commission noted that a significant portion of RTI requests is either not swiftly acted upon or rejected based on exemptions. From 2022-2024, most of the appeals filed with the information commission related to RTI requests involving the Capital Development Authority, NADRA, Ministry of Interior, NAB, FIA and FBR (Figure 16). Ensuring proactive disclosure of information by state agencies (particularly, those related to public agencies' budgets, expenditures and procurement contracts) and improving responsiveness to RTI requests are important to transparency, civic engagement and oversight. Digitalization of RTI requests and their resolution should

²⁵⁷ Governance and Transparency: A Case of Pakistan, *Atiqa Batool, Khadija Asmat and Muhammad Muzaffar*, *Annals of Human and Social Sciences* (Jul-Sep 2023, Vol. 4, No.3).

²⁵⁸ Transparency International-Pakistan, National Corruption Perception Surveys (https://transparency.org.pk/NCPS_REPORTS/).

contribute to greater accessibility of the system (online filing and monitoring) and its efficiency (timeliness of actions, and consistency of approaches).

Figure 16. Appeals of RTI Requests heard by Information Commission (2022-24)



Source: Information Commission, IMF Staff Calculations

394. A robust whistleblower protection regime in Pakistan will also help promote participatory government and expose corruption. Except for the province of Khyber Pakhtunkhwa which adopted a law in 2016, there is currently no legal framework for whistleblower protection and reporting mechanisms in Pakistan. Previous attempts to introduce such legislation at the federal level in 2019, however, did not succeed (Whistleblower Protection and Vigilance Commission Act, 2019). Notably, a bill has been tabled in the National Assembly in April 2025, which would also establish an autonomous Whistleblower Protection and Vigilance Commission. Given the strong patronage networks, public officials or persons who witness or are privy to corruption dealings are discouraged from reporting corrupt activities since they could face harassment, retaliation or recrimination. Passage and implementation of this important framework ensures that such whistleblowers are protected and thus should be prioritized.

Table 19. Recommendations on Anti-Corruption

| Recommended Action | Responsible Authority | Action Objective | Timeline |
|---|---|---|-----------|
| 1. Adopt and implement a risk-based approach to addressing corruption vulnerabilities in federal agencies by: (i) publishing an action plan to mitigate risks in the top ten agencies with highest corruption risks and macro-critical exposures based on a centralized assessment using pre-established and public criteria (Year 1); and (ii) annually reporting on implementation progress and risk reduction outcomes in these agencies (Year 2). | NAB, FIA, PACEs | Understand risks | ST |
| 2. Enhance the NAB's independence and effectiveness in investigating high-level corruption by strengthening appointment procedures of its head, enhancing investigative capacities and establishing robust internal accountability. | NAB | Enhance institutional independence and effectiveness | MT |
| 3. Consider establishing a centralized authority to collect, digitize and publish asset declarations of high-level public officials with adequate powers and resources to conduct risk-based verification. | FBR, Establishment Division, Parliament | Promote transparency and accountability | LT |
| 4. Demonstrate increased information sharing by making use of protocol among NAB, AGP and FBR to assess corruption risks and identify suspicious transactions/behaviors for further investigation. | NAB, AGP, FBR | Promote inter-agency coordination | MT |
| 5. Strengthen FIA's investigative capacities on corruption offenses and deepen coordination and collaboration with NAB. | FIA | Enhance effectiveness | MT |
| 6. Enhance the independence of Provincial Anti-Corruption Establishment by removing the requirement for approval of higher authorities for corruption investigations, enhancing investigative capacities, and establishing robust internal accountability mechanisms. | PACEs | Enhanced effectiveness and independence | MT |
| 7. Strengthen the independence of the accountability courts by establishing a transparent and merit-based process for appointing judges and begin publishing performance information based on a robust framework. | Ministry of Law and Justice | Strengthen efficiency of adjudication of corruption cases | MT |

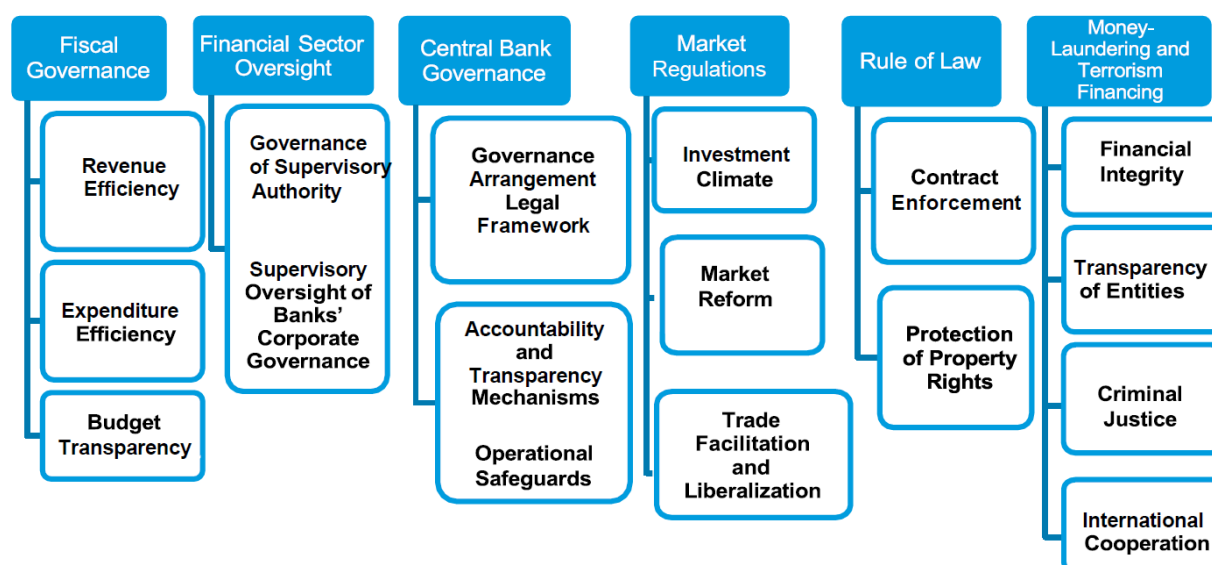
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|--|--------------------------------------|---|-----------|
| 8. Strengthen accountability and integrity among high-level federal civil servants by initiating the publication of asset declarations in 2026, and introduce risk-based verification of asset declarations. | NAB, FBR and Establishment Division | Promote transparency and accountability | ST |
| 9. Pursue membership in key international networks for sharing of information and transparency, including the Egmont Group, ARIN and Open Government Partnership. | National AML/CFT Authority, FMU, NAB | Improve access to cross-border information and transparency | MT |
| 10. Ensuring proactive disclosure of information by public agencies and improving responsiveness to RTI requests. | Information Commission | Enhance transparency and access to information | MT |
| 11. Establish a Whistleblower Protection regime and form a Whistleblower Protection and Vigilance Commission. | Ministry of Law and Justice | Safeguard whistleblowers and strengthen accountability | MT |

Annex A. Overview of Governance and Corruption Diagnostic

Recognizing the importance of good governance and anti-corruption in supporting macroeconomic stability, IMF adopted the Framework on Enhanced Fund Engagement on Governance in 2018. The Framework aims to promote more systematic, effective, candid, and evenhanded engagement with member countries regarding governance and corruption that are critical to macroeconomic performance.

Governance diagnostics are designed to assess the severity of corruption risks, identify governance weaknesses associated to corruption vulnerabilities in key state functions provided by the 2018 Framework, propose concrete reform measures to advance governance, integrity, and the rule of law, and produce a public report.²⁵⁹

Six Key State Functions in the 2018 Framework



Diagnostics also consider the soundness and alignment of the legal and organizational arrangements for fighting corruption with international standards and good practice, and the appropriateness of the anti-corruption strategies in light of the corruption risks that are present in key state functions.

Governance diagnostics are forward-looking exercises focused on identifying ways to strengthen governance and integrity in order to support strong, stable and inclusive economic development. The analysis and recommendations of diagnostics do not cover individual corruption cases or allegations, but structural policy issues, near and longer-term reform measures.

²⁵⁹ Central Bank Governance was not analyzed in the Pakistan GCD.

Annex B. Consolidated Table of Recommendations

| Table of Recommendations (Priority Recommendations) | | |
|--|--|----------|
| Recommended Action | Responsible Authority | Timeline |
| Addressing governance weaknesses/corruption that constrain private sector development | | |
| 1. Improve the performance of the public procurement system by eliminating preferences for State-Owned Enterprises, including provisions allowing for direct contracting and mandating the use of the e-Government Procurement system for all procurement transactions within 12 months. | Public Procurement Regulatory Authority | MT |
| 2. Enhance transparency regarding strategic investments by producing and making public the first annual report of the Special Investment Facilitation Council, including information on all investments that it has facilitated, including concessions provided (tax, policy/regulatory, or legislative) along with detailed rationale of concessions, and the estimated value of the concessions; and publishing the information on the implementation of the Bol (Amendment) Act, Article 10F (Power to relax or exempt from regulatory compliance). | Special Investment Facilitation Council | MT |
| 3. Under the leadership of the Securities and Exchange Commission of Pakistan, enhance regulatory consistency within 18 months by: (1) establishing a comprehensive database of all federal business regulations, (2) eliminating unnecessary regulations based on structured systematic review; (3) creating a review process based on international good practice for all new regulatory proposals. | Securities and Exchange Commission of Pakistan (SECP) | MT |
| 4. Increase transparency and enhance efficiency by systematically digitizing the process of complying with regulations. Within 15 months, establish the list of regulatory processes to be digitized, and demonstrate progress in introducing digitized compliance procedures. | SECP, Ministry of Information Technology and Telecommunication | MT |
| 5. Initiate actions to reduce backlog of economic disputes by developing and publishing the methodology to be used to assess performance of courts and judges reporting to the Ministry of Justice (year 1) and publish the first performance report covering all Administrative Tribunals and Special Courts involved in economic and commercial matters (year 2). | Ministry of Law and Justice | ST/MT |
| Addressing governance weaknesses that act as barriers to fulfilling public sector functions | | |
| 6. Publish a tax simplification strategy by May 2026 that reduces rate schedules, special regimes, excessive withholding and advance taxes, rationalizes tax exemptions and scales back rulemaking | TPO Ministry of Finance (MOF) | ST/MT |

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| power, and annually report on implementation progress. Demonstrate reduction in the number and value of tax exemptions that have been granted. | | |
| 7. Strengthen FBR's governance and effectiveness by improving its organizational structure to better align oversight and management with achieving core objectives, reduce the autonomy of field offices, enhance human resource practices, and enhance its ability to identify and address key risks. | FBR | ST/MT |
| 8. Enhance accountability of FBR operations by publishing audit findings relating to PRAL within the next 12 months and produce the initial public report tracking FBR response to major audit findings and recommendations. | Auditor General; FBR | MT |
| 9. Improve top-down budget process and avoid in-year budget adjustments without getting the Parliament's ex-ante approval through the use of supplementary grants, while maintaining some flexibility in budget execution through introducing contingency reserve. | Cabinet Finance Division | ST |
| 10. Enhance PSDP transparency, efficiency and affordability by enforcing the 10% cap on new projects, further rationalizing the portfolio (stock) by retaining only high-priority initiatives, protecting capital spending from mid-year cuts, and integrating Parliamentarians' projects into the PSDP process. | Ministry of Planning Development & Special Initiatives MOF | ST/MT |
| 11. Adopt and implement a risk-based approach to addressing corruption vulnerabilities in federal agencies by: (i) publishing an action plan to mitigate risks in the top ten agencies with highest corruption risks and macro-critical exposures based on a centralized assessment using pre-established and public criteria (year 1); and (ii) reporting annually on implementation progress and risk reduction outcomes in these agencies (year 2). | Cabinet Division, Ministry of Law and Justice, NAB | MT |
| Addressing governance weaknesses that directly reduce accountability/oversight | | |
| 12. Establish full institutional independence of the Auditor General of Pakistan. | Cabinet, Finance Division, OAG | LT |
| 13. Enhance investigation and prosecution of money laundering offenses, by removing legal ambiguity on requiring a predicate conviction, increasing quality and quantity of Suspicious Transactions Reports, strengthening law enforcement agencies capacities for financial investigation, and improving cooperation on asset recovery. | National AML/CFT Authority, Ministry of Law and Justice, FMU, NAB, Ministry of Interior | ST/MT |
| 14. Strengthen accountability and integrity among high-level federal civil servants by initiating the publication of asset declarations in 2026, and introduce risk-based verification of asset declarations | FBR, Establishment Division, NAB | ST |
| 15. Review and enhance the legal framework governing the appointment of heads of key oversight bodies (CCP, SECP, NAB), to promote merit-based, transparent and credible selection processes. | CCP, SECP, NAB | ST/MT |

| Table of Recommendations (Tax Policy) | | | |
|---|----------------------------|---|--|
| Recommended Action | Responsible Authority | Objective | Timeline |
| 1. Complete the establishment of the Tax Policy Office (TPO) ensuring a clear separation of tax policy functions from FBR. | Ministry of Finance | Ensure a well-developed tax policy function separate from FBR. | ST |
| 2. Publish a medium-term tax simplification strategy that reduces rates schedules, special regimes, excessive withholding and advance taxes, rationalizes tax exemptions and scales back rule-making power. | TPO Ministry of Finance | Simplify the tax system reducing complexity and limiting opportunities for corruption | MT |
| 3. Provide an annual report on the implementation of the tax simplification strategy. | Ministry of Finance | Ensure that the proposed strategy is being implemented | ST (ongoing annually) |
| 4. Expand the coverage of the annual Tax Expenditure Statement to include assessment of the costs and benefits of the most significant tax expenditures. | Ministry of Finance | Improve the transparency of the tax system and enable evaluation of tax expenditures | ST (ongoing annually) |

| Table of Recommendations (Revenue Administration) | | | |
|---|---------------------------|---|-----------|
| Recommended Action | Responsible Authority | Objective | Timeline |
| 1. Strengthen FBR's HQ function: establish executive committees, strengthen risk management, reduce the autonomy of field offices, and ensure performance is systematically monitored and managed. | FBR | Enhancing control over corruption, Improving tax compliance and operation's efficiency | MT |
| 2. Strengthen the FBR's internal control and audit framework by establishing a truly independent internal audit function with a clear mandate to evaluate processes and governance systems. | FBR | Improved governance and transparency of FBR's operations | ST |
| 3. Undertake an independent IT system's audit. | AG | Assurance on data security and integrity | ST |
| 4. Strengthen FBR's oversight of PRAL by establishing a robust risk management framework with real-time monitoring, a risk register, regular assurance reporting, and an internal audit function to ensure secure, accountable operations aligned with legal obligations and data protection standards. | FBR PRAL | Meeting requirements on data security and integrity, optimization of using IT solutions | ST |
| 5. Establish an Internal Affairs Unit within the FBR, reporting directly to the Chairman, with a formal mandate to develop and | FBR | Prevention and effective addressing of corruption | MT |

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| enforce integrity and anti-corruption policies, investigate misconduct at all staff levels, and coordinate with relevant enforcement bodies as needed. | | | |
| 6. Publish data on complaints, number of officials investigated for corruption, number of individuals sanctioned for corruption, number of cases passed to other enforcement agencies. | FBR | Transparency | MT |
| 7. Strengthen FBR's risk culture including by establishing an independent risk committee and the development of a comprehensive risk register. | FBR | Strengthen control | ST (ongoing) |
| 8. Strengthen FBR's core functions, including CRM, registration, filing, audit, refunds, customs selection and export management. | FBR | Improved core functions | MT |

| Table of Recommendations (Public Financial Management) | | | |
|---|--|--|---------------------|
| Recommended Action | Responsible Authority | Objective | Timeline |
| 1. Bring forward to publication of preliminary BSP in January or include preliminary forecasts for macro-fiscal indicators, IBCs in the BCC. | Finance Division | Strengthen the top-down budgeting, macro-fiscal analysis | ST |
| 2. Analyze the accuracy of previous macro-fiscal forecasts and budget estimates—ex-post reconciliation. | Finance Division | Strengthen the top-down budgeting, macro-fiscal analysis | ST |
| 3. Avoid in-year budget adjustments without getting the Parliament's ex-ante approval through the use of supplementary grants, while maintaining some flexibility in budget execution through introducing contingency reserve. | Cabinet Finance Division | Strengthen budget execution | ST |
| 4. Continue improving commitment controls by enforcement of the process after the establishment of the link between FABS and EPADs. | Cabinet Finance Division | Strengthen budget execution | ST |
| 5. Enhance transparency, efficiency, and affordability of PSDP by: <ul style="list-style-type: none"> Continuing to enforce the 10% cap on allocations for new projects. Further rationalizing the portfolio of technically approved projects to retain only high-priority initiatives Ensure protection of capital expenditures through limiting the in-year adjustments of capital expenditure through utilization of supplementary or technical grants Integrating Parliamentarians' projects into the PSDP process. | Ministry of Planning Development & Special Initiatives | Improve PIM | ST (ongoing) |
| 6. Enhance transparency regarding strategic investments by: <ul style="list-style-type: none"> producing and making public the first annual report of the Special Investment Facilitation Council, including information on all deals that it has facilitated. Any concessions provided for the particular deal (tax, policy/regulatory, or legislative) to be included in the annual report— | SIFC | Improve transparency and accountability | ST (ongoing) |

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| <p>along with detailed rationale of concessions, and the value of the concession.</p> <ul style="list-style-type: none"> Publishing the information on the implementation of the Bol (Amendment) Act, Article 10F (Power to relax or exempt from regulatory compliance). | | | |
| 7. Revise procurement legislation and Public Procurement Rules to align with best practices and eliminate preferences, including for firms with state ownership and charitable organizations. | PPRA | Ensure transparency, efficiency, and accountability in public procurement processes | ST |
| 8. Institutionalize regular report(s) on Government web-site(s) of quarterly monitoring reports on public procurement for development and non development expenditure, including information on contract award winners, segregated data on procurement by categories (Goods, Works and Services) and procuring agencies, use of market approaches (open, limited and direct), compliance percentage and data on violations, methods of procurement, competition, grievances, and overall and individual performance on contracts for time and cost overruns. | PPRA/Procuring agencies | Enhance transparency and accountability and contribute to fiscal governance and improved public financial management | ST |
| 9. Within 18 months require the usage of the Government's e-Government Procurement System (EPADS) for all procurement transactions and integration of systems with central e-procurement system wherever regulatory framework allows the use of other systems. | PPRA | Promote competitive bidding processes and ensure fiscal prudence | MT |
| 10. Improve the capacity of the public procurement system by introducing mandatory certifications for procurement professionals and establish dedicated procurement cells within public sector organizations. | PPRA | Build institutional resilience, memory and operational efficiency | ST |
| 11. Enhance the effectiveness of complaint processes by establishing standards for | PPRA | Transparency, Fairness and improved performance | ST |

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| the resolution of complaints and public dissemination of report on grievances. | | | |
| 12. Enhance cash management by implementing the overarching sectorization exercise to unify decision-making around TSA institutional coverage, while also improving analytical capabilities and adopting a forward-looking approach to cash forecasting. | Finance Division (Budget Wing, Expenditure Wing) | Strengthen cash management | ST |
| 13. Improve the capacity of SOE Boards as well as the technical capacity of SOEs staff through organizing regular trainings. | Finance Division, Corporate Wing | Continue improving SOE monitoring and governance | ST (ongoing) |
| 14. Strengthen debt management by: <ul style="list-style-type: none"> Centralizing debt management activities under the DMO: Expanding its mandate to include external, SOE, Sukuk, and guaranteed debt in addition to domestic debt. Consolidating all the data in a single IT system such as DMFAS under the control of the DMO with a clear implementation roadmap. Ensuring full data reconciliation prior to consolidation of the responsibilities in the DMO. Given the current fragmentation in debt data compilation, this can include an independent audit of the debt database, with reconciliation on a creditor-by-creditor basis—particularly for external and domestic debt. Publishing retrospective reports comparing the actions with the announced borrowing plans. | Finance Division, Ministry of Economic Affairs, | Improve debt management | ST (ongoing) |
| 15. Enforce the PFM Act Article 26 for internal controls and establishing internal audit functions. | Cabinet, Finance Division, OAG | Strengthen internal audit | MT |
| 16. Further improve the independence of the OAG by establishing full institutional independence through promulgation of a new AGP Act and bringing appropriate amendments in | Cabinet, Finance Division, OAG | Strengthen external audit | LT |

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|---|---|---------------------------|-----------|
| the Rules of Business 1973 in consultation with the Department of AGP. Being charged expenditure, AGP's budget should be in line with its requirements to fulfill its constitutional role and should also not be subject to budget cuts and hiring limitations under the financial and operational independence required for SAls independence. | | | |
| 17. Streamlining audit reports by including concise recommendations for the most critical issues, enhancing follow-up mechanisms by strengthening the role of the PACs and the Department of AGP for taking necessary action in case of repeated non-compliance. | Cabinet, Finance Division, OAG, PAC Secretariat | Strengthen external audit | MT |

| Table of Recommendations (Market Regulation) | | | |
|--|---|---|-----------|
| Recommended Action | Responsible Authority | Action Objective | Timeline |
| Market Regulation | | | |
| 1. Under the leadership of the SECP, enhance regulatory consistency within 18 months by: (1) establish a comprehensive database of all federal business regulations, (2) eliminate unnecessary regulations based on structured systematic review; (3) create a review process based on international good practice for all new regulatory proposals. | Ministry of Finance | Ensure that the regulators are more independent, transparent; Guarantee a merit-based appointment system; Reinforce regulatory credibility and efficiency; Detect cartelization, abuse of dominance, and anti-competitive practices across industries | MT |
| 2. Strengthen the independence of key regulatory bodies, including the CCP and SECP, by enhancing the selection (short listing) process for the executive and senior management to ensure a rigorous, transparent, and merit-based process. | Ministry of Finance | To safeguard regulatory independence and credibility by ensuring that appointments to executive and senior management positions within the CCP and SECP are governed by transparent, rigorous, and merit-based mechanisms, to minimize political or discretionary influence and align with international standards for regulatory governance. | ST |
| 3. Increase transparency and enhance efficiency by systematically digitizing the process of complying with regulations, starting with the regulations identified as creating the greatest burden and the greatest risk of corruption. Within 15 months, establish the list of regulatory processes to be digitized, and demonstrate progress in introducing digitized processes. | Ministry of Law and Justice (Ministry of Planning, Development and Special Initiatives) | To enhance regulatory transparency, efficiency, and integrity by systematically digitizing high-burden, high-risk compliance procedures to minimize discretion, reduce administrative friction, and strengthen public trust in regulatory governance. To expedite digitization of licensing processes to enable end-to-end submission and processing without manual intervention. | MT |

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| 4. Enhance accountability by reducing the backlog of CCP cases, and strengthen collaboration between CCP and NAB/FIA to investigate findings of collusion and other corrupt behavior. | Competition Commission of Pakistan / Ministry of Finance | To reinforce the institutional integrity and enforcement effectiveness of the Competition Commission of Pakistan (CCP). To enhance regulatory accountability and deter market abuse by clearing the CCP's backlog of cases and establishing robust investigative linkages between CCP, NAB (National Accountability Bureau), and FIA (Federal Investigation Agency) for prosecuting violations. | MT |
| Tariff Policy | | | |
| 5. Simplify Tariff Regime: Implement the National Tariff Policy (2025-2030) . | National Tariff Board | Continue reform momentum on simplifying the tariff regime; Reduce incentives for rent seeking and increase transparency. | ST |
| 6. Reduce Loopholes in Customs Administration: Phase out Section 18A (Fifth Schedule) and limit use of exemptions under Section 19 of the Customs Act. Furthermore, strengthen customs enforcement and oversight to close administrative loopholes that undermine the impact of tariff reforms. | Federal Board of Revenue | Strengthen customs enforcement; Streamline customs processes; Reduce discretionary tax relief, ensuring a fair and predictable tariff structure. | ST |
| 7. Evidence Based Decision Making: Enhance the technical capacity of the National Tariff Commission to make evidence-based policy decisions and reduce reliance on external consultants and mitigate the influence of lobby groups. | Ministry of Commerce | Enhance institutional credibility; Improve policy effectiveness; Reduce external influence | MT |

| Table of Recommendations (Financial Sector Oversight) | | | |
|---|--------------------------------------|--|-----------|
| Recommended Action | Responsible Authority | Action Objective | Timeline |
| 1. Change the SBP act to remove the Secretary of the Ministry of Finance from the Board of Directors and require that the reasons for removal of the Governor, Deputy Governors, and Non-executive Directors are published. | SBP, Ministry of Finance, Parliament | Independence of SBP | MT |
| 2. Fill the two vacant deputy governor positions and ensure that such positions are not left vacant for extended periods. | SBP and Ministry of Finance, | Ensure collective decision-making | ST |
| 3. Revise the objective of banking supervision in the law, so that it is fully consistent with the BCP, i.e. "promote the safety and soundness of banks and the banking system." Establish legal requirement for the SBP to consult publicly on new regulations and prudential standards. | SBP, Ministry of Finance, Parliament | Alignment with international standards | MT |
| 4. Change the Banking Ordinance by removing the Ministry of Finance power to instruct the SBP on inspections. | SBP, Ministry of Finance, Parliament | Independence of SBP | MT |
| 5. Complete the planned shift of the SBPs ownership of two financial institutions to the Government. | SBP | Alignment with International Standards | ST |
| 6. Consolidate and make the requirements on related party transactions consistent with the BCP. | SBP | Alignment with International Standards | ST |
| 7. Publish SBPs objectives, priorities and plans for supervisory activities and when the year is over publish information on the conducted activities. | SBP | Transparency | MT |
| 8. Ensure that corrective and sanctioning framework are used at an early stage, including for solving issues of undercapitalized banks. | SBP | Alignment with International Standards | ST |
| 9. Ensure that the Committee for Transformation with the support of the government create clarity on the post 2027 financial system - to ensure a common understanding with banking system in the transition to Islamic banking and in addressing key challenges. | SBP | Transparency | MT |

| Table of Recommendations (AML/CFT) | | | |
|--|----------------------------|---|----------|
| Recommended Action | Responsible Authority | Action Objective | Timeline |
| 1. Issue circular mandating relevant agencies (including FMU, SECP, FBR, FIA, NAB) to align supervision, STR review, inspection planning, outreach, and enforcement efforts with the corruption-related risk priorities highlighted in the NRA and Pakistan's GCD. | National AML/CFT Authority | Ensure that AML/CFT resources across supervision, financial intelligence, and enforcement are targeted at sectors, actors, and typologies that present the highest risk of laundering corruption proceeds, as identified in the NRA and other strategic analyses. | MT |
| 2. The real estate sector's vulnerability to ML related to corruption is decreased as a result of improved oversight and preventive measures. | National AML/CFT Authority | Improve supervision and preventive measures to mitigate risks arising from the sector's current vulnerabilities. | LT |
| 3. Money laundering offenses are consistently prosecuted as standalone crimes, without requiring a predicate conviction. | Ministry of Law & Justice | Remove legal ambiguity in Section 3 of the AMLA 2010 and enable more flexible and timely prosecution of ML cases, particularly where predicate corruption offenses are difficult to prove. | MT |
| 4. Pakistan secures improved cooperation on asset recovery through bilateral MLA frameworks with high-risk capital flight jurisdictions. | NAB/FIA | Increase the success rate and timeliness of mutual legal assistance requests by formalizing cooperation, such as through targeted memorandums of understanding, with jurisdictions where corruption-linked assets are often held. | MT |
| 5. An operational, accessible, and verified beneficial ownership registry supports law enforcement and regulatory investigations. | SECP | Improve transparency of legal persons, enable systematic verification of BO data, and ensure timely access for competent authorities investigating | MT |

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| | | laundering of corruption proceeds. | |
| 6. Standing inter-agency task forces identify systemic ML risks linked to corruption and coordinate responses through typology sharing. | National AML/CFT Authority | Institutionalize joint analysis of corruption-linked ML cases, align typology development across agencies, and strengthen operational coordination in line with international best practices. | MT |
| 7. Financial intelligence related to corruption are systematically followed up, with actionable feedback provided to reporting entities and LEAs, including by maintaining statistics of corruption-related disseminations that have led to enforcement action or prosecution. | FMU | Strengthen the operational utility of financial intelligence, improve risk understanding among reporting entities, and enable LEAs to initiate timely financial investigations based on financial intelligence. | MT |
| 8. A unified digital platform allows real-time tracking and exchange of corruption-linked AML cases across enforcement and judicial bodies. | NAB / Ministry of Interior | Improve transparency, avoid duplication, and accelerate investigations and prosecutions through shared access to case status and evidence trails across institutions. | MT |
| 9. NAB and FIA conduct complex ML investigations with improved capacity and specialized AML units. | NAB / FIA | Enhance investigative effectiveness and the ability to trace, document, and prosecute sophisticated laundering schemes tied to corruption through resource and skills upgrading. | MT |

| Table of Recommendations (Rule of Law) | | | |
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| Recommended Action | Responsible Authority | Action Objective | Timeline |
| 1. Establish a program to reduce the backlog of cases especially commercial disputes and publish on a Government website a report on progress in implementing the plan. | Ministry of Law & Justice, Judicial Service Commission, Supreme Court, & Provincial High Courts. | Improve efficiency of dispute resolution | MT |
| 2. Establish an action plan for updating the legal framework for contracts and property rights and produce an updated draft Code of Civil Procedure for submission to Parliament. | Ministry of Law & Justice | Enhance the legal framework | MT |
| 3. Introduce changes in procedural rules to establish time limitations and reduce incentives to delay resolution of contract cases. | Ministry of Law & Justice, Administrative Tribunals & Special Courts | Improve the efficiency of the judiciary | MT |
| 4. Establish a task force to propose reforms to enhance the efficiency of contract enforcement that aligned with good practices, including steps to introduce automated proceedings. | Ministry of Law and Justice; Federal and Provincial Governments. | Enhance the efficiency of contract enforcement. | MT |
| 5. As part of the registry of state assets established by the Ministry of Finance, identify in a centralized database all land owned by the state and identify the state entity vested with control over those rights. | Ministry of Finance | Enhance property rights protection | ST |
| 6. As part of the policy on management of non-financial state assets led by the Ministry of Finance, establish and publish clear rule-based procedures for the transfer of state-owned land – both between government entities and between the state and private actors, and publish a list of all transfers or modifications of property rights, and the value obtained by the state for the alteration every 6 months. | Ministry of Finance | Enhance Property Rights Protection | ST |
| 7. Establish the methodology to be used to assess the performance of courts and judges reporting to the Ministry of Law and Justice and publish on a Government website the results of the first monitoring exercise in all federal Administrative Tribunals and Special courts relating to commercial cases. | Ministry of Law and Justice | Improve efficiency of the Federal Administrative Tribunals and Special Courts | MT |

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| 8. Create standardized principles for judicial appointments and tenure for the appointment of judges and members of the Administrative Tribunals and specialized courts and demonstrate compliance with those principles all judicial appointments in courts dealing with commercial cases. | Cabinet, Judicial Commission of Pakistan and Ministry of Law and Justice. | Improve efficiency of the Federal Administrative Tribunals and Special Courts | MT |
| 9. Strengthen integrity and conflict of interest provisions for all judicial personnel and review and increase transparency around payments and grants to judicial personnel. | Cabinet (Federal) - Supreme Judicial Council and Provincial Governments (Provincial High Courts). | Enhance judicial integrity | MT |
| 10. Initiate yearly public reporting on the steps taken to strengthen integrity, including statistics on number of complaints received, and the disposition of complaints and other actions. | Cabinet (Federal) - Supreme Judicial Council and Provincial Governments (Provincial High Courts). | Enhance Judicial Integrity | MT |
| 11. Expand and institutionalize ADR mechanisms by operationalizing ADR centers nationwide and enacting the Arbitration Bill. | Cabinet (Federal) and the Ministry of Law and Justice | Strengthen Alternative Dispute Mechanisms | MT |
| 12. Prepare a multi-year judicial reform strategy to strengthen institutional performance and judicial service delivery in Pakistan. | Ministry of Law and Justice, Judicial Service Commission, Supreme Court and Provincial High Courts. | Improve judicial efficiency. | MT |

| Table of Recommendations (Anti-Corruption) | | | |
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| Recommended Action | Responsible Authority | Action Objective | Timeline |
| 1. Adopt and implement a risk-based approach to addressing corruption vulnerabilities in federal agencies by: (i) publishing an action plan to mitigate risks in the top ten agencies with highest corruption risks and macro-critical exposures based on a centralized assessment using pre-established and public criteria (Year 1); and (ii) annually reporting on implementation progress and risk reduction outcomes in these agencies (Year 2). | NAB, FIA, PACEs | Understand risks | ST |
| 2. Enhance the NAB's independence and effectiveness in investigating high-level corruption by strengthening appointment procedures of its head, enhancing investigative capacities and establishing robust internal accountability. | NAB | Enhance institutional independence and effectiveness | MT |
| 3. Consider establishing a centralized authority to collect, digitize and publish asset declarations of high-level public officials with adequate powers and resources to conduct risk-based verification. | FBR, Establishment Division, Parliament | Promote transparency and accountability | LT |
| 4. Demonstrate increased information sharing by making use of protocol among NAB, AGP and FBR to assess corruption risks and identify suspicious transactions/behaviors for further investigation. | NAB, AGP, FBR | Promote inter-agency coordination | MT |
| 5. Strengthen FIA's investigative capacities on corruption offenses and deepen coordination and collaboration with NAB. | FIA | Enhance effectiveness | MT |
| 6. Enhance the independence of Provincial Anti-Corruption Establishment by removing the requirement for approval of higher authorities for corruption investigations, enhancing investigative capacities, and establishing robust internal accountability mechanisms. | PACEs | Enhanced effectiveness and independence | MT |
| 7. Strengthen the independence of the accountability courts by establishing a transparent and merit-based process for appointing judges and begin publishing performance information based on a robust framework. | Ministry of Law and Justice | Strengthen efficiency of adjudication of corruption cases | MT |

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| 8. Strengthen accountability and integrity among high-level federal civil servants by initiating the publication of asset declarations in 2026, and introduce risk-based verification of asset declarations. | NAB, FBR and Establishment Division | Promote transparency and accountability | ST |
| 9. Pursue membership in key international networks for sharing of information and transparency, including the Egmont Group, ARIN and Open Government Partnership. | National AML/CFT Authority, FMU, NAB | Improve access to cross-border information and transparency | MT |
| 10. Ensuring proactive disclosure of information by public agencies and improving responsiveness to RTI requests. | Information Commission | Enhance transparency and access to information | MT |
| 11. Establish a Whistleblower Protection regime and form a Whistleblower Protection and Vigilance Commission. | Ministry of Law and Justice | Safeguard whistleblowers and strengthen accountability | MT |