PAKISTAN POLICY DIALOGUE 2026

CORRECTING COURSE: PAKISTAN'S ECONOMIC RESET

PRAC
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ENABLING INTEGRATED POLICY FRAMEWORK

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All data and statistics cited in this report are current as of 28 December 2025 and are subject to revision as updated information becomes available. For further information or queries regarding this report, please contact usama@prac.org.pk.

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Prologue

Governments communicate with investors and businesses primarily through their policies, which enable them to navigate decisions by anticipating policy direction in the foreseeable future. In the absence of a clear, consistent and predictable policy environment, only speculative economic activities tend to flourish while the long-term investment horizon and risk appetite of investors and businesses are significantly constrained. A stable policy framework, supported by sound governance, institutional discipline and strong work ethics, is therefore essential for sustainable economic growth.

The present government has introduced two key policy documents outlining its economic vision for the current tenure and beyond: URAAN Pakistan and Prime Minister's Economic Transformation Agenda and Implementation Plan (2024-29). These aim to achieve the targets, among others, of 6% rate of economic growth and USD 60 bn of exports by 2029. The first year of implementation missed both the targets with subdued economic growth and exports remaining largely stagnant.

The prevailing policy landscape is broad yet fragmented, marked by overlapping interventions, weak strategic alignment, and uneven execution across key economic domains. Many of these policies require urgent review, as some are either fundamentally deficient or inadequately implemented, while other critical areas suffer from a complete absence of policy direction. Furthermore, the lack of coordinated effort between the Federal and Provincial governments, as well as insufficient inter-ministerial collaboration, has adversely affected key sectors such as water and food security, industrial development, and investment facilitation.

Among all priority areas, Human Resource Development demands the most urgent and sustained intervention. Federal and Provincial governments should have been deeply concerned by Pakistan's persistently declining rankings on the Human Development Index and the Human Capital Index. These trends are contributing to rising poverty and unemployment, low labor productivity, and affecting national competitiveness. The global economy is rapidly transitioning into the era of Industry 4.0, which necessitates not only immediate measures to equip the country's young population, approximately 35 percent of whom are reported to be idle, with advanced skills. Equally important is preparing society to manage disruptions from an AI-driven ecosystem.

This paper represents an effort by the Policy Research and Advisory Council to identify critical policy gaps and propose a coherent framework to achieve economic targets alongside social uplift. We hope that the policymakers will find it useful to begin a reset in the right direction.

Mohammad Younus Dagha
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14th January 2026

Executive Summary

Pakistan's economy has reached a decisive inflection point. Decades of short-term stabilization -driven by political cycles, shifting policy "recipes," and postponed structural reforms - have produced a familiar pattern: weak investor confidence, chronic balance-of-payments stress, and stop-go growth that prevents sustained income and productivity gains. This paper argues that structural transformation is no longer optional – it is the only viable path to restoring competitiveness, building resilience, and expanding economic opportunity.

At the core of Pakistan's fragility lies a widening competitiveness gap. Despite repeated policy initiatives, Pakistan's export base has failed to adapt to changes in global production, technology, and demand. As a result, the economy has not generated the foreign exchange required to finance investment, industrial upgrading, or macroeconomic stability. The contrast with regional peers is stark: between 2005 and 2024, Pakistan's exports merely doubled, from US$16.0 billion to US$32.5 billion, while India expanded four-fold, Bangladesh six-fold, Indonesia three-fold, and Vietnam nearly sixteen-fold. Pakistan's export-to-GDP ratio has fallen by an average of 1.6 percent per year since the mid-1990s, confirming that the problem is structural rather than cyclical. This performance also reflects persistent execution failures. Under the Strategic Trade Policy Framework (2020–25), exports were expected to reach US$57 billion by 2025, yet they remain near US$32 billion. Pre-mature tariff liberalization worsens the stability of the external account. The report therefore calls for a disciplined, implementation-driven export strategy, anchored in institutional coordination, regulatory reform, and market-oriented incentives, aimed at achieving the growth target of US$60 billion in exports by 2029.

Digital transformation is another critical pillar of the reset. Pakistan possesses a large and youthful population, nearly 67 percent under the age of 30, but this demographic advantage has not translated into productivity growth. Digital technologies contribute only about 1.5 percent to GDP, compared with more than 10 percent in India. This gap reflects not just technology shortfalls but deep structural and distributional barriers: fixed broadband penetration remains at 1.3 percent; digital access varies sharply across districts; and a pronounced gender divide persists, with mobile ownership at 86 percent for men versus 53 percent for women. Although financial inclusion has risen to 35 percent, financial literacy remains just 22 percent, limiting the ability of households and firms to fully participate in the digital economy. Without coordinated investments in connectivity, skills, and trust, digitalization risks reinforcing inequality rather than raising national productivity.

Environmental stress has also become a binding macroeconomic constraint. Pakistan has entered absolute water scarcity, with per-capita availability around 930 cubic meters per year and storage capacity of only about 30 days. Climate variability now directly threatens agriculture, food security, and incomes, while rising flood and heat risks are projected to cut GDP by 18–20 percent by 2050 if left unaddressed. These shocks are already feeding into undernourishment, poor health outcomes, and declining labor productivity, making climate resilience a central economic, not just environmental, priority.

Energy insecurity and infrastructure weaknesses further undermine competitiveness. Despite vast domestic potential in hydropower, coal, and solar, Pakistan has become increasingly dependent on imported energy, with the import share rising from 36 percent in FY2010 to 44 percent in FY2024. This dependence fuels inflation, drains foreign exchange, and contributes to recurring IMF programs. At the same time, logistics inefficiencies raise the cost of trade: Pakistan ranks 122nd out of 160 in the World Bank's Logistics Performance Index, port dwell times exceed those of regional peers, and rail freight has collapsed to under 5 percent of cargo movement, forcing reliance on more expensive road transport.

The erosion of human capital is now a binding economic constraint. Pakistan's Human Capital Index stands at only 0.41, implying that Pakistan's workforce is operating at only 41% of its potential productivity, well below the Global Average of 0.56 (World Bank, 2020). When widespread unemployment, underemployment, and informal work are taken into account, effective labor productivity falls closer to 20 percent. This undermines export competitiveness, weakens fiscal capacity, and traps households in low-income, low-skill equilibria. Chronic underinvestment in health, education, and nutrition, and lack of focus in these areas, despite international benchmarks set by WHO and UNESCO, has therefore become not only a social failure but a macroeconomic liability.

The report is structured in a way that aligns URAAN Pakistan's targets and priorities with the proposed policy measures, ensuring a clear path towards transformative change. The central conclusion emphasizes that Pakistan's economic challenges, spanning human development, exports, digitalization, climate resilience, and energy, are underpinned by weak governance and execution capacity. Fragmented institutions, elite capture, inconsistent policies, and poor federal–provincial coordination have prevented both economic and social investments. Public spending is routinely absorbed by administrative inefficiencies, leakages, and misaligned incentives rather than reaching classrooms, clinics, or firms. As a result, Pakistan underperforms not because of lack of plans, but because of lack of delivery. Rebuilding state capacity, through legal system modernization, civil-service reform, performance-based budgeting, empowered local governments, and integrated service-delivery systems, is therefore the foundation of Pakistan's economic reset, enabling both productivity-driven growth and inclusive human development.

Pakistan's choice is now clear: continue managing crises through short-term stabilization, or undertake a disciplined, governance-led transformation capable of restoring growth, resilience, and national economic sovereignty.

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Introduction

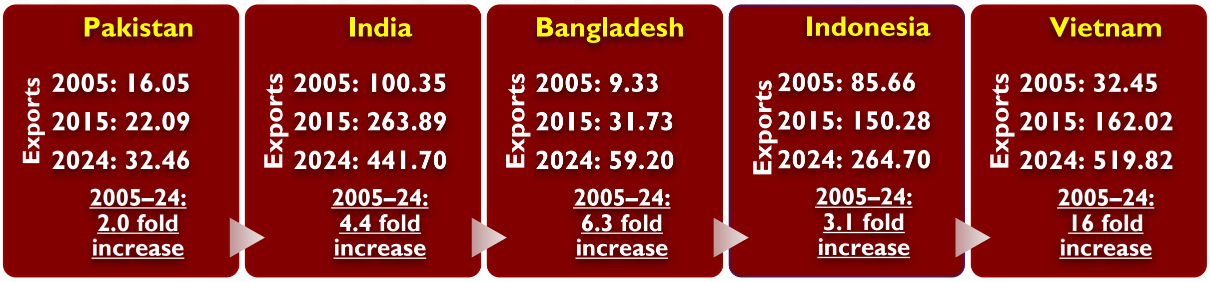
Pakistan's pursuit of export-led growth continues to be constrained by persistent structural challenges, including macroeconomic instability, low productivity, insufficient investment, and limited diversification across products and markets. As a result, export growth during STPF 2020–25 remained modest and inadequate to support meaningful structural transformation. Under the URAAN Pakistan framework, the export target has once again been set at USD 60 billion by 2029, underscoring the need to better align policy ambition with credible implementation and execution capacity.

Figure 1: Pakistan's Export Performance vs Policy Targets (STPF Period and URAAN 2029)

Over the past decade, the economy has struggled to generate sustained growth, in large part because exports have remained stagnant (Mustafa et al 2023). Without a strong and diversified export base, the country has been unable to build the foreign exchange buffers needed to support investment, industrial upgradation, and long-term development.

Rather than expanding in line with regional trends, Pakistan's exports have grown at a markedly slower pace than those of its peers. Between 2005 and 2024, Pakistan's exports increased only 2-fold, rising from US$16.05 billion to US$32.46 billion. Over the same period, India's exports expanded by 4.4 times, Bangladesh's by 6.3 times, Indonesia's by 3.1 times, and Vietnam's by nearly 16-fold. This widening gap reflects Pakistan's narrow export base, weak product diversification, and limited penetration into higher value-added segments.

Figure 2: Benchmarking Pakistan's Exports Against Regional Peers (USD Bn)



Data Source: Trade Map

Export performance has also been highly volatile, characterized by prolonged periods of stagnation. While trade volumes expanded intermittently over the past decade, exports failed to establish a sustained growth trajectory. Between 1995 and 2024, Pakistan's export-to-GDP ratio declined by an average of approximately 1.6 percent per year, falling from a relatively higher level in the mid-1990s to a significantly lower level in recent years. This persistent downward trend points to deep-seated competitiveness constraints, underscoring the need for comprehensive structural reforms rather than short-term, ad hoc policy interventions.

Figure 3: Export-to-GDP Ratio: 30-Year Trend

Data Source: WDI

Despite the Strategic Trade Policy Framework (STPF) 2020-25 setting an ambitious export target of US$57 billion by 2025, actual exports remained around US$32 billion, underscoring the persistence of structural constraints. In the course of STPF 2020-25 implementation, several trade promotions, market access, digital export, and branding initiatives were introduced, including Emerging Pakistan, initiatives targeting non-traditional exports and markets, Look Africa, Pakistan-Africa Trade Development Conferences, e-commerce and e-export platforms. While key initiatives, most notably Emerging Pakistan and Look Africa, were launched, they did not reach their full potential. Most complementary initiatives advanced only to partial or pilot-stage implementation, with uneven sectoral and regional coverage. Overall, implementation remained largely concentrated at the initiation phase, with limited evidence of full-scale execution or sustained impact over the policy period.

Figure 4: Pakistan's Top 5 Export Products - 2024

Data Source: Trade Map

Pakistan's macroeconomic challenges are deeply intertwined with its export performance. The country's current economic landscape can be defined by significant structural imbalances that have hindered the country's ability to achieve sustainable growth and economic resilience. For years, the economy has struggled with stagnant exports, rising fiscal deficits, and a heavy reliance on external borrowing. While exports are critical for generating foreign exchange in most economies, Pakistan has depended on remittances, a non-manufacturing base, as its primary source of foreign reserves. This weak export performance, coupled with rampant imports, has left the country vulnerable to external shocks and deepened its twin deficits.

Figure 5: Snapshot of Pakistan's Economy

Data Source: State Bank of Pakistan (SBP), Pakistan Bureau of Statistics (PBS), Ministry of Finance, World Bank (WB), International Monetary Fund (IMF). ***Note:*** *Total debt pertains to total debt and liabilities.*

With an import-driven consumption economy, Pakistan faces numerous domestic and international challenges. The country's fiscal space is limited, exacerbated by high public expenditures and a narrow tax base. The tax system, reliant on indirect taxes and flawed devolution, has failed to generate sufficient resources for sustainable growth. Political instability, external pressures, and global commodity price fluctuations further complicate the situation. Pakistan's tax-to-GDP ratio of 11.1% is significantly lower than that of its regional counterparts, hindering fiscal stability and development spending.

The country has sought 25 IMF programs over 78 years, the highest in South Asia, underscoring its persistent struggle to address fiscal deficits. Public sector spending is largely consumed by current costs like debt servicing, subsidies, and pensions, leaving limited room for investment in sectors critical for industrial and export growth. This lack of investment hampers economic expansion and stifles long-term development.

The external sector remains unstable, with remittances cushioning external shocks, but this reliance is unsustainable in the long run. The failure to broaden the tax base has led to increased borrowing, further restricting funds for development projects. Delays in structural reforms, coupled with weak coordination between fiscal, monetary, and trade policies, have contributed to this stagnation. To overcome these challenges, a more equitable and efficient system, along with robust policy frameworks and structural reforms, is crucial. A shift to a more action-oriented export strategy, backed by tighter coordination across institutions and a more integrated policy mechanism, aiming for US$60 billion by 2029, will be essential to transforming the economy into a dynamic, export-led powerhouse, paving the way for prosperity in an increasingly interconnected global economy.

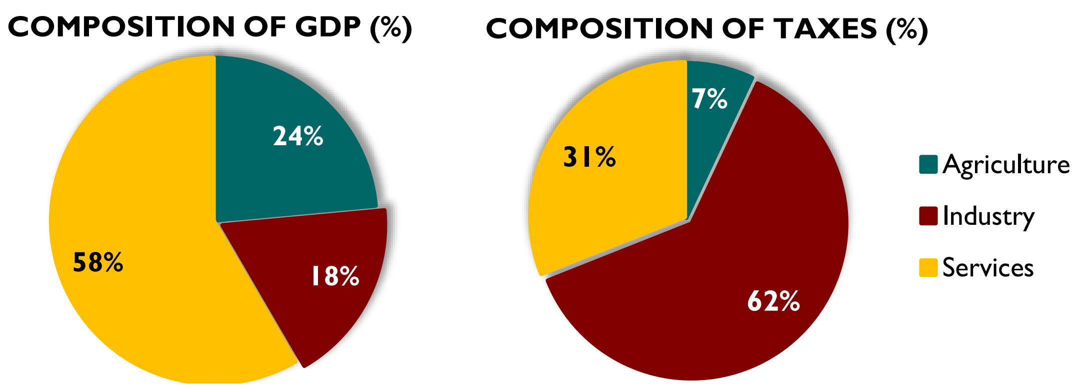
Priority 1: "Macroeconomic reforms, mobilize resources, and promote public financial management for an export-led growth economy"

Efficient Resource Mobilization

Fiscal Devolution and Bringing Equity in Sectoral Tax to GDP Ratios

The tax burden on different sectors of the economy is not commensurate with their contribution to GDP. The agriculture and services sectors play a significant role in the country's GDP while contributing relatively less to tax revenues. On the other hand, the industrial sector is overly burdened (62% tax contribution) in comparison to its contribution to GDP (18%). The unfair tax regime has hindered industrial growth, with the under-taxation of key sectors highlighting a lack of horizontal equity in the system. Pakistan has been gradually transitioning from a manufacturing hub to a trading country. Rising import bills, along with the narrow export base, limited employment opportunities, and twin deficits, are some of the major consequences of premature deindustrialization.

Figure 6: Comparison of Sectoral Contribution to GDP vs Contribution to Tax



Data Source: Pakistan Economic Survey (2024-25) and Pasha (2022)

Despite agriculture and services playing a significant role in Pakistan's GDP, both sectors contribute minimally to direct taxes (7% and 31%, respectively). Additionally, the reliance on indirect taxes (50.7% in FY25), which are inflationary and regressive, exacerbates inequality, disproportionately affecting lower-income groups.

Bringing Under-Tax Sectors into the Tax Net

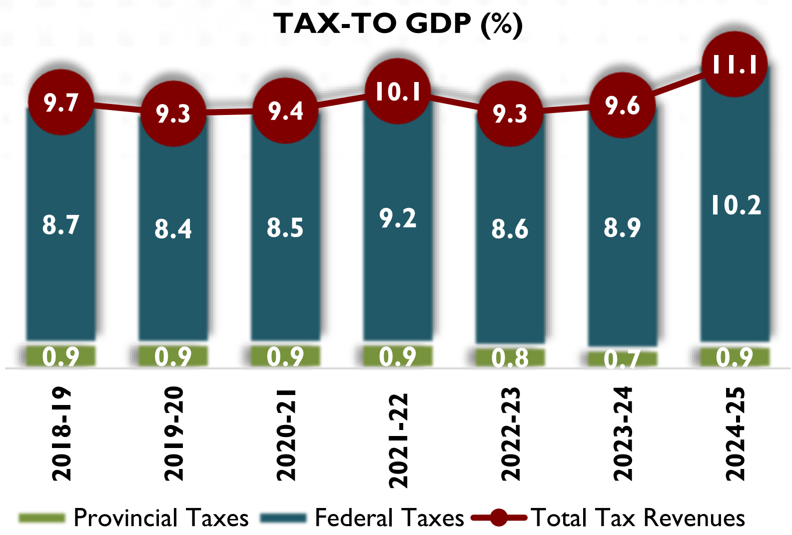
Pakistan's tax-to-GDP ratio remains one of the lowest in the world, signaling those significant portions of the economy are under-taxed or completely outside the tax net. While certain sectors face multiple overlapping taxes, many others remain largely unaccounted for, contributing to the inefficiency of the tax system. A 13% tax-to-GDP target set by URAAN still falls short of the World Bank's recommended minimum of 15%, which is seen as essential for achieving sustainable development. The failure to expand the tax base results in a heavy reliance on borrowing and cuts in development outlays, hindering the country's ability to address its fiscal deficit.

Figure 7: Pakistan Tax Progress, URAAN's Tax-to-GDP Target and International Benchmarks

- ***URAAN's 13% Tax-to-GDP Target*** *suggests a lack of ambition in reforming Pakistan's tax system.*

- ***According to World Bank, a minimum 15% tax-to-GDP ratio*** *is needed for development spending and poverty reduction.*

Tax- to GDP in other Regions:
- *Asia Pacific (Average): 19.5% (2023)*
- *OECD (Average): 33.9% (2023)*



Data Source: URAAN Pakistan, Choudhary et al. (2024), OECD, Pakistan Economic Survey 2024-25, Fiscal Operations

AGRICULTURE SECTOR

- Agricultural income taxation has long remained far below its potential. Before the IMF's 25th program deadline for Pakistan, provinces adopted varied agricultural income tax structures, with top rates ranging from 15% to 17.5. Although these laws have since been amended, bringing them in line with other taxes, their implementation remains weak. For FY 2024–25, Sindh and Punjab have effectively reverted to earlier, lower rates, contrary to the IMF's mandated increases. Moreover, despite the IMF's requirement to include livestock in the tax net, only Punjab has introduced a livestock tax, while other provinces have not followed suit.

RETAIL SECTOR

- The retail sector contributes 17.84% to GDP (PES, 2025) but only 4% of the total tax revenue (Express Tribune, 2024). Despite efforts like POS Integration and Track & Trace System, challenges such as low adoption, integration issues, and resistance to digitalization persist (CDPR, 2023).

REAL ESTATE SECTOR

- The real estate sector is potentially contributes to 5.9% to GDP (PES, 2025), but revenue collection remains under potential due to massive undervaluation and underreporting of property transactions, high informality, and absence of effective regulations (Afghan, 2023). Additionally, the real estate regulatory authorities overlaps with existing CDAs (PIDE, 2022), adding another burden yet remaining inactive (Mettis Global, 2025).

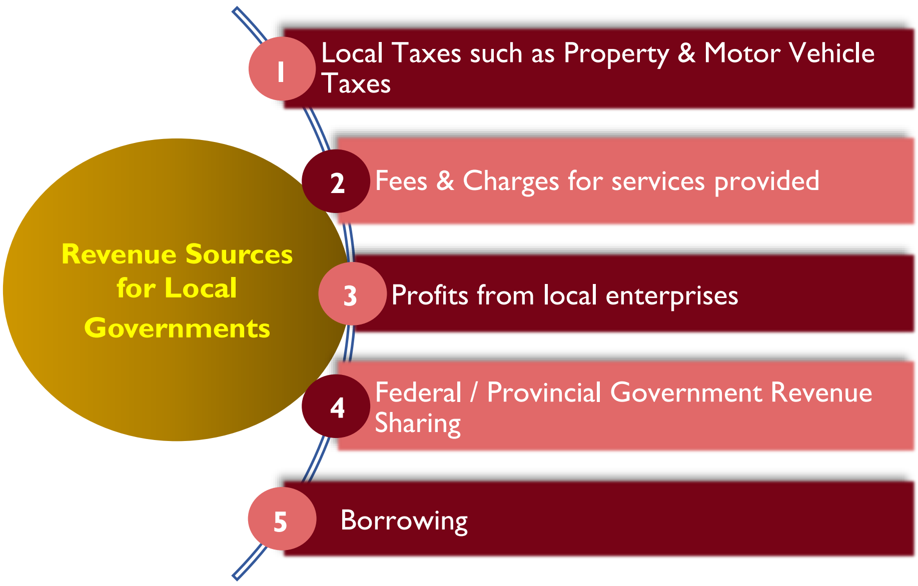
BANKING SECTOR

- For years, the banking sector in Pakistan has remained under-taxed due to preferential rates, exemptions on government securities, and the under-taxation of windfall returns. Although the advance-to-deposit ratio (ADR) tax and tax on windfall profits from foreign exchange were introduced, banks exploit loopholes by adjusting lending portfolios or charging higher fees on large deposits, reducing their tax contributions despite substantial profits.

Unlocking Provincial Potential through Effective Local Governments

Effective local governments can substantially boost resource collection by enhancing tax administration and expanding the tax base. One key revenue source, widely regarded as the primary revenue for local governments globally, is the Urban Immovable Property Tax (UIPT). In Pakistan, despite its significant potential, UIPT remains largely underutilized, contributing only around 0.03% of the country's GDP in FY26. UIPT collection in Pakistan's cities remains well below its potential, resulting in revenue levels lower than those of comparable cities in other countries (Board, 2022). Pakistan's property tax rates, ranging from 0.15% to 0.75% of the property's value, are relatively competitive when compared to those in other countries (HBFC, 2024). Despite property tax being designated as a responsibility of local governments through legislative acts or official notifications in some provinces, it is still collected by the provincial Excise and Taxation Departments (PRAC, 2025). Motor vehicle taxes are also collected by provincial departments, rather than by local governments. The figure below outlines the principal revenue sources for local governments, which include revenue sharing from federal and provincial governments. Under the 7th NFC Award, grants in lieu of Octroi and Zila Tax, which previously accounted for a major share of local revenues, were merged into the federal divisible pool, effectively reversing the devolution intent of the 7th NFC. Before this arrangement, these grants were transferred directly from the federal government to local governments under the Distribution of Revenues and Grants-in-Aid Ordinance 2006, based on one-sixth of GST collection (Dagha, 2025).

Figure 8: Sources of Revenue for Local Governments in Developing Countries

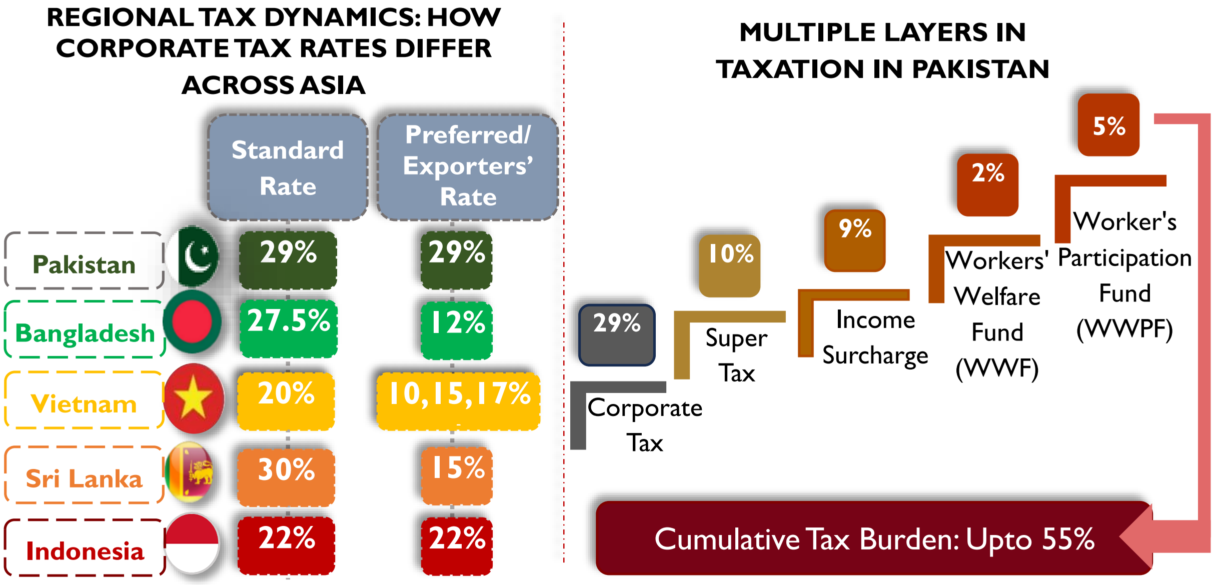


Data Source: Devas (2008)

Multiplicity of Taxes Increasing Overall Burden and Complexity

The multiplicity of taxes has increased the cost of compliance for both taxpayers and officials. The effective tax rate for the corporate sector goes up to 55 percent (29% normal tax + 10% Super Tax + 9% Surcharge + 2% Workers' Welfare Fund + 5% Workers Participation Fund). High tax rates and high compliance costs deter multinationals from investing in Pakistan, while peer countries offer simplified tax regimes with lower rates to attract investment. Moreover, the tax litigation backlog, with approximately Rs. 4.7 trillion in pending tax revenue claims further exacerbates the issue, creating an environment of uncertainty. This ongoing litigation ties up resources, discourages timely payments, and leaves businesses with a sense of insecurity about their financial obligations.[1]

Figure 9: Regional Tax Dynamics & Multiple Layers in Taxation in Pakistan



Data Source: Income Tax Ordinance (2001), Companies Profits (Workers Participation) Act 1968, Workers Welfare Fund Ordinance 1971, PwC, Sri Lanka's Inland Revenue Department.
Note: *For Bangladesh, Exporters rate can further be reduced to 10% in case of LEED-certified companies and fulfillment of other requirements. For Sri Lanka: 45% in the case of cigarette exports. Vietnam Rates (10,15,17%) are reduced rates and are not explicitly for exporters.*

Improving the Fiscal Discipline

Pakistan continues to suffer from a high fiscal deficit and is mired in a debt trap. The government's efforts of fiscal consolidation through both expenditure management and resource mobilization remained futile in curbing fiscal deficits. In addition, fiscal policies that are linked with political economy often led to sub-optimal allocation of already scarce economic resources. Recurrent political turmoil, volatile international commodity and oil prices, and stringent IMF conditionalities have all worsened Pakistan's fiscal position. After improving since FY19, the fiscal deficit widened again to 7.9% of GDP in FY22, even as consolidation efforts were underway; the government now projects a reduced deficit of 3.9% of GDP in FY26. The figure below shows fiscal and primary deficits as a share of GDP, highlighting how, during IMF programmes, efforts to curb inflation have often coincided with a deterioration in the overall fiscal balance.

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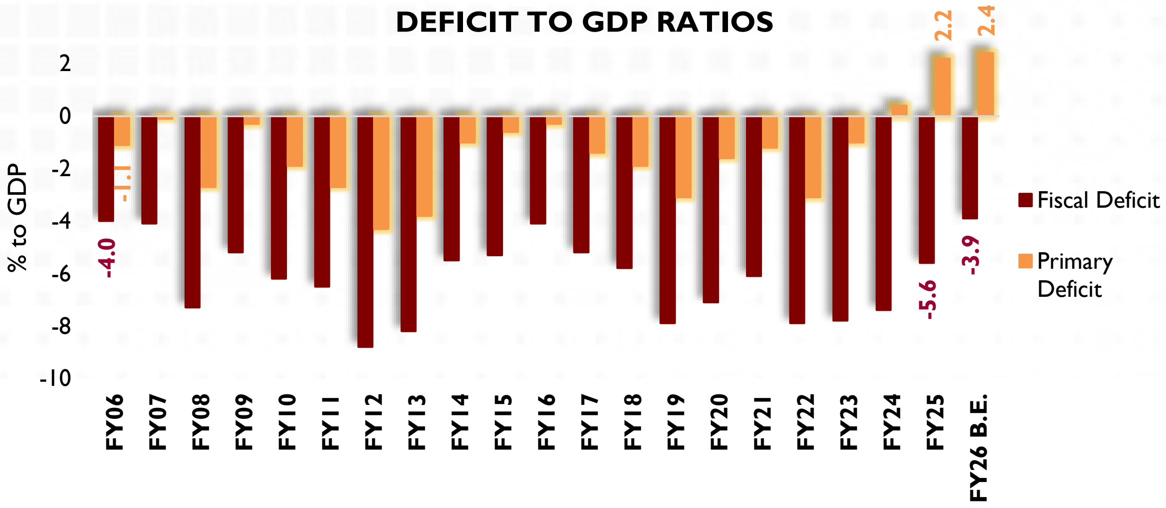
[1] Asad, M. (2025). *FBR fails to expedite recovery in tax cases*. DAWN. Available at: https://www.dawn.com/news/1917000/fbr-fails-to-expedite-recovery-in-tax-cases

Figure 10: Chronic Fiscal Stress: Trends in Fiscal and Primary Deficits



Data Source: Pakistan Economic Survey (PES) and Budget in Brief

Debt Management Strategy

Pakistan ranks among the most heavily indebted countries, with government debt and liabilities reaching Rs. 92.7 trillion (of which Rs. 79.1 trillion is Gross Public Debt), equivalent to 81.5% of GDP in September 2025. Key drivers behind this rising debt burden include persistent fiscal deficits, the high cost of debt servicing, and the depreciation of the local currency over the years, which has inflated the value of external debt. Over the past two decades, Pakistan's fiscal deficit has ranged between 4.0% and 8.8% of GDP. Moreover, imprudent debt management policies have contributed to the accumulation of debt, while double-digit policy rates have further increased debt servicing costs. According to Pasha (2021), Pakistan could have avoided approximately 38% of its debt servicing costs in 2018-19 and about 27% in 2019-20 with a more prudent debt management strategy.

The rapid buildup of domestic debt suggests Pakistan may need to consider restructuring options. Currently, domestic debt interest payments make up 87.7% of total interest payments, whereas overall debt servicing is budgeted to be 74.1% of federal net revenues in FY26, up from 50.8% in FY14. High policy rates over the past two years have driven significant banking sector profitability, with profits increasing by 30.4% in FY24 and 11.8% in FY25[2], reflecting the sector's gains from elevated borrowing costs.

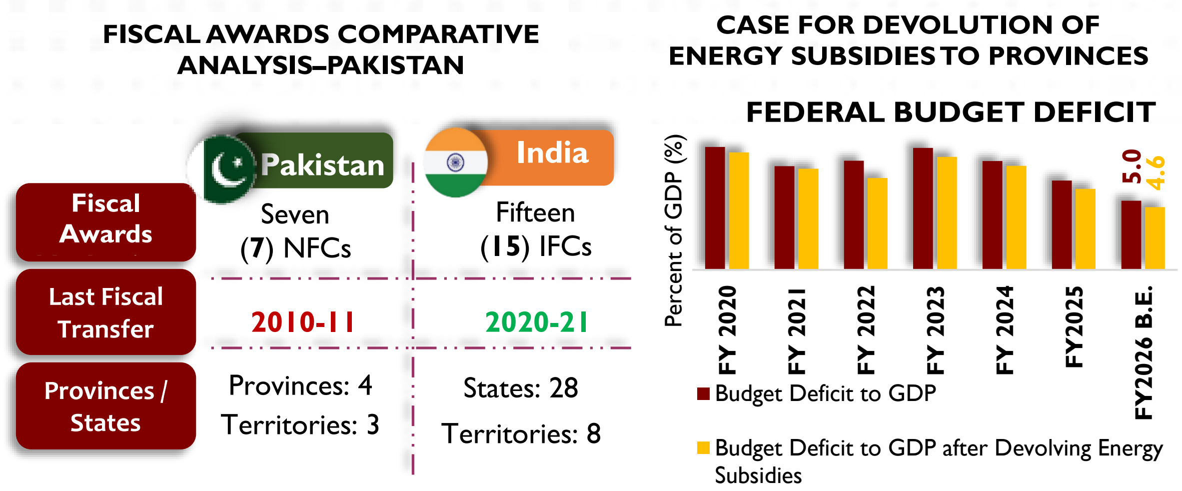
National Finance Commission (NFC) Awards

The 7th National Finance Commission (NFC) Award in 2009 handed over 57.5 percent of the federal resources to provincial governments to enable them to take up the extra burden of governmental activities related to the subjects transferred under the 18th Constitutional Amendment. While the resource transfer was immediate, the federal government failed to fully devolve a load of subjects in a similar proportion. Efforts to conclude the 8th, 9th, and 10th NFC awards also remained futile in building consensus, and the 7th NFC has still been operational for the past 15 years. While the revenues were wholly devolved to the provinces, the liabilities remained with the Federal Government. A key example is BISP, which remains federally run even though social protection is now a provincial function; its allocations have

[2] SBP Governor's Annual Report 2024-2025. https://www.sbp.org.pk/reports/annual/Gov-AR/pdf/2025/Gov-AR.pdf

grown by about 11.2% CAGR (FY10-26), further straining the federal budget. Even the subjects under the domain of the Council of Common Interests (CCI) were also kept to be funded by the Federal Government rather than a common divisible pool. Such an unfair division of federally collected revenues has turned the Federation bankrupt now, with all its non-debt servicing needs being funded through loans, while the provinces have lavished and surplus budgets.

Figure 11: Fiscal Awards Comparative Analysis & Case for Devolution of Energy Subsidies to Provinces



Data Source: Ministry of Finance, Indian Finance Commission, Various Issues of Federal Budget & Authors' Calculation

As a result, the government has limited or no fiscal space for expenditure without resorting to borrowing. It is important to note that certain provincial subjects, such as agriculture and energy subsidies, fall under provincial jurisdiction. However, since electricity and gas are part of the Federal Legislative List (Part II),[3] sharing the burden of energy subsidies between the federal and provincial governments, based on the 7th NFC formula, could reduce the federal deficit-to-GDP ratio from 5.0% to 4.6% in FY2026, as illustrated in the figure above.

Pension Reforms

The increasing pension liabilities, even with low coverage, have become a concern for the government. On average, public-sector pensions have grown annually by 16.4% over FY16-FY26. The federal government allocated Rs. 1,055 billion for pensions in the fiscal year 2025-26, which is equivalent to 105.5 percent of the Federal PSDP. The government has recently introduced a series of pension reforms aimed at improving fiscal sustainability and shifting towards a more contributory system. In response, the government has introduced a series of pension reforms aimed at enhancing fiscal sustainability and transitioning towards a more contributory system. Key measures include the introduction of a defined-contribution (DC) scheme for all new hires, with future increases tied to the CPI and efforts to discourage premature retirements. Additionally, a 5% tax has been levied on high-earning pensioners (those under 70 with pensions above Rs 10 million), family pensions have been capped at 10 years after death, and multiple pensions are no longer allowed[4]. However, in a significant policy reversal, the ban on dual pensions, which required retired public servants rejoining government

[3] Federal Legislative List Part II is the domain of Council of Common Interest – a constitutional body for inter-provincial coordination as well as coordination between provinces and federation.

[4] Express Tribune. (2025). *Govt introduces significant pension reforms to reduce burden*. The Express Tribune. Available at: https://tribune.com.pk/story/2550262/govt-introduces-significant-pension-reforms-to-reduce-burden

service to choose between their pension and salary, has been withdrawn[5]. Moreover, the contributory pension scheme, initially in effect from June 2025 (although first announced in the 2022-2023 budget), has now been postponed until 2026.[6] However, these reforms still apply to a relatively narrow segment of the country's total workforce, as the coverage in the informal sector of these pensions is poor (PIDE, 2025). It is estimated that only about 15 percent of the elderly population receives pensions.[7]

State-Owned Enterprises (SOEs)

The State-Owned Enterprises (SOEs) in Pakistan are mainly concentrated in the four sectors, including power, finance, manufacturing & mining, and transport & communication. The table below reflects that the net budgetary impact of all SOEs has reached Rs. 926.5 billion in 2025-26, which accounts for 14.3 percent of the budget deficit FY26.

Table 1: Budgetary Impact of SOEs over the years

Amount in PKR Billion	2021-22	2022-23	2023-24	2024-25	2025-26 BE
A. Revenue from SOEs	**160.3**	**189.7**	**393.0**	**348.0**	**394.1**
Interest Payments	90.0	108.0	300.0	150.0	188.0
Dividends	70.3	81.7	93.0	198.0	206.1
B. Cost of SOEs	**1,741.9**	**1,118.2**	**761.2**	**1,449.1**	**1,320.7**
Contingent Liabilities	269.4	235.0	236.6	270.0	300.0
Grants to Railway & PSM	47.0	45.0	55.0	64.0	70.0
Subsidies	1,394.0	813.0	444.1	1,110.9	946.3
WAPDA/ PEPCO	*989.0*	*677.0*	*348.5*	*1,015.5*	*910.1*
Petroleum	*377.0*	*102.0*	*50.6*	*18.4*	*1.2*
TCP	-	-	-	-	-
PASSCO	*7.0*	*4.0*	*10.0*	*12.0*	*20.0*
Utility Store Corporation	*21.0*	*30.0*	*35.0*	*65.0*	*15.0*
Loans	31.5	25.2	25.5	4.2	4.3
State Engineering Corporation	*0.03*	*0.01*	*0.03*	*0.03*	*0.03*
PIA	*20.0*	*15.0*	*15.0*	-	-
Pakistan Steel Mills (PSM)	*11.0*	*9.9*	*10.0*	*3.5*	*3.5*
Mark-up Payment of Loan to PSM	*0.5*	*0.3*	*0.5*	*0.7*	*0.8*
Others	-	-	-	-	-
Equity in CPPA-G	-	-	-	-	-
C. Net Budgetary Impact	**1,581.7**	**928.5**	**368.2**	**1,101.2**	**926.5**
% of Budget Deficit	**29.8**	**14.5**	**4.4**	**14.8**	**14.3**
% of GDP	**2.4**	**1.1**	**0.3**	**1.0**	**0.7**

Data Source: Budget in Briefs of Various Issues and Pasha (2021)

The government needs to reassess its privatization policy, particularly when considering loss-making SOEs for privatization, in order to truly reduce the burden on the public exchequer, rather than targeting profit-making SOEs. Notably, PTCL was a leading telecom player and financially stable at the time of its privatization in 2005, yet its performance has fluctuated since then.[8] The first phase of SOE reforms announced by the government includes the privatization of three DISCOs: Islamabad Electric Supply Company (IESCO), Gujranwala

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5 Notifications at Ministry of Finance Website. Available at: https://www.finance.gov.pk/circulars.html
6 Kiani, K. (2025). *Double benefit restored for re-hired retirees.* DAWN. Available at: https://www.dawn.com/news/1962172
7 Qureshi, W.A. (2024). *Securing the future.* The News. Available at: https://www.thenews.com.pk/tns/detail/1200764-securing-the-future
8 Munir, K.A. (2012). *Privatisation of PTCL: A lesson for policymakers.* The Express Tribune. Available at: https://tribune.com.pk/story/349491/privatisation-of-ptcl-a-lesson-for-policymakers

Electric Power Company (GEPCO), and Faisalabad Electric Supply Company (FESCO), with IESCO and GEPCO exhibiting minimal transmission and distribution losses.[9]

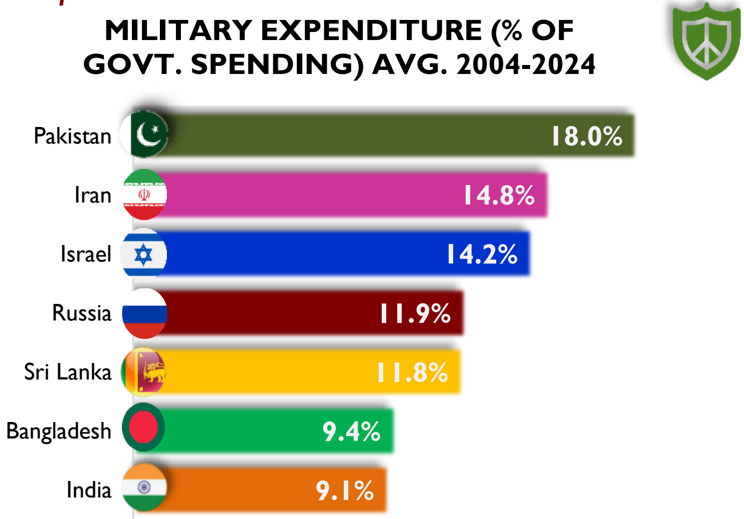
Modernizing Pakistan's Bureaucracy for Greater Efficiency

Pakistan's bureaucracy still relies on outdated, cumbersome filing methods with long command chains for approvals, leading to delays and inefficiencies. This outdated system requires more human resources, slowing down decision-making processes and hindering the timely implementation of policies. According to the World Bank, starting a business in Pakistan takes an average of 16.5 days, placing the country low in the Ease of Doing Business Index (2019), highlighting inefficiencies in administrative procedures due to slow processes and excessive paperwork. Modernizing the system with digital tools, streamlining approval lines, and reducing human interaction would not only boost efficiency and minimize administrative burden but also enhance decision-making. Additionally, political hiring hinders effective recruitment and governance, further exacerbating inefficiencies.

Reassessing Military Spending

National security relies on economic security, which in turn depends on financial, food, and energy security. Unfortunately, these aspects are vulnerable in Pakistan. Pakistan's sovereignty has faced challenges, including Indian aggression, the Afghan War, terrorism, and other threats. Military expenditure in Pakistan has consistently outpaced that of many neighboring countries. According to the World Bank, Pakistan's average military spending (2004-2024) was 18.0% of government spending, far exceeding other selected countries (as shown in the figure on the right). Given ongoing economic challenges, Pakistan should explore ways to optimize military spending without compromising security. The Russia-Ukraine War and Iran-Israel conflict demonstrated that traditional large armies and tanks are increasingly redundant, and leaner, smarter military forces will be more effective in future warfare. A thorough restructuring of our defense framework should be a top priority for policymakers (Subohi, 2025).

Figure 12: High Defense Allocation: Pakistan in Comparative Perspective



Data Source: World Development Indicators (WDI), World Bank
Note: *In the case of Sri Lanka, the average is based on data from 2004–2022, due to the unavailability of data for 2023 and 2024.*

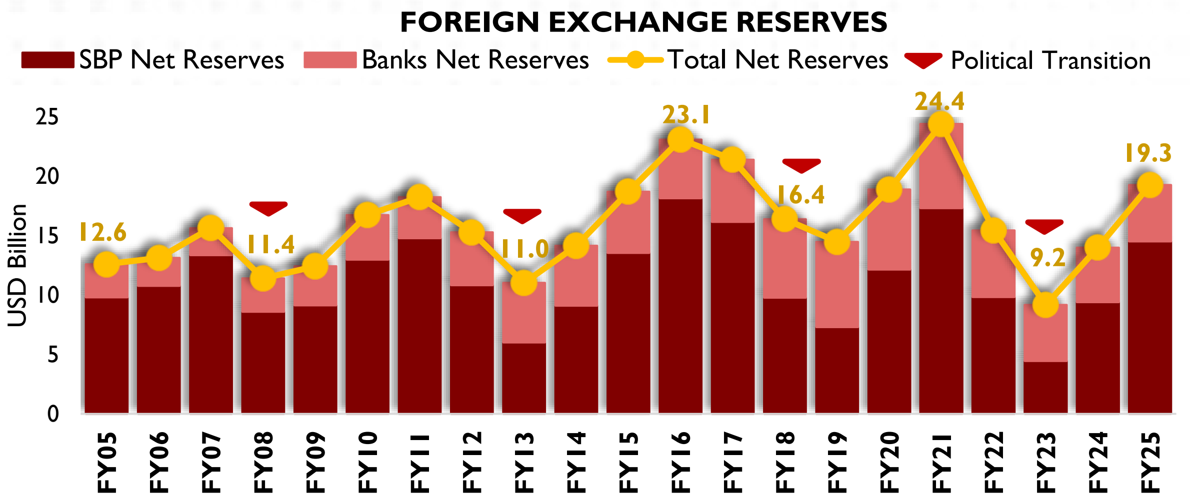
Boosting Foreign Exchange Reserves

Pakistan has pursued a relatively liberal reserve and Forex management regime compared to peers with similarly low reserves. Fewer controls on outflows, high FX margins on inflows, weak exports, high imports, and heavy external debt repayments have all strained reserves,

[9] Raza, S.I. (2025). *Privatization of Profit making Discos worries NA Committee*. DAWN. Available at: https://www.dawn.com/news/1926172

fueling exchange-rate volatility, inflation, and repeated balance-of-payments crises that drive Pakistan back to IMF programmes. Political incentives and institutional weaknesses further shape exchange-rate regimes and undermine policy consistency. Reserves have been highly volatile, with cycles often bottoming out around political transitions, underscoring the need for a clear, rules-based exchange-rate framework. Notably, one of the strongest elements in Pakistan's external sector remains remittances, which consistently outperform other foreign exchange sources, providing critical support to the economy year after year.

Figure 13: Trend of Foreign Exchange Reserves in Pakistan



Data Source: State Bank of Pakistan (SBP)

Both fixed exchange rate and market-based flexible exchange rate regimes have failed to yield the desired results in the case of Pakistan. The current market-based flexible exchange rate regime has also not successfully improved the trade balance while incurring the cost of high exchange rate volatility. The export-to-import ratio during 2022 was 0.45, which is similar to the ratio that prevailed in FY17 and FY18 when the fixed exchange rate regime was in place, as presented in the table below. The slight improvement in the export-to-import ratio in FY23 - FY25 is mainly due to government-imposed import restrictions aimed at preserving foreign exchange reserves. These measures reduced both imports and exports, highlighting that underlying issues remain unresolved.

Table 2: Exchange Rate and Trade Metrics over Years in Pakistan

Fiscal Year	Exchange Rate Volatility*	Exports-to-Imports Ratio	Depreciation (YoY) (%)	Exports Growth (%)	Imports Growth (%)	FX Reserves (in bn $)
2017	0.05	0.46	0.12	0.14	16.74	21.4
2018	5.24	0.44	15.88	12.57	15.98	16.4
2019	10.61	0.47	34.16	-2.06	-6.83	14.5
2020	4.51	0.52	3.13	-7.09	-15.86	18.9
2021	4.72	0.47	-6.46	13.77	24.35	24.4
2022	11.86	0.45	29.92	26.73	31.82	15.4
2023	27.28	0.53	40.13	-14.21	-26.34	9.2
2024	7.47	0.58	-2.80	11.14	0.89	14.0
2025	1.76	0.55	1.93	4.39	11.20	19.3

*Data Source: SBP, Pakistan Bureau of Statistics ad International Monetary Fund. *Measured by (Standard Deviation)*

Foreign Exchange Outflow Controls

Foreign exchange controls are common in developing countries due to limited reserves. Countries often impose both direct and indirect restrictions to protect their foreign reserves (see Box 1). Whereas amid repetitive episodes of low reserves, Pakistan maintains a relatively liberal foreign exchange policy. There are no strict restrictions on individual foreign currency accounts, but high spending limits on credit cards (USD 30,000 per individual), making a total of USD 66 billion on 2.2 million cards currently in use (Mar-25), and frequent foreign trips for tourism put pressure on reserves. Such policy measures require careful reassessment by the government and SBP.

Box 1: Forex Restrictions Imposed by Other Countries

Egypt 2016

Various Modes of Control

- *Cap on Transfer of Foreign Currency*
- *Cap on Foreign Currency Deposits*
- *100% Cash Deposit on LCs*

Argentina 2022

45% Tax on FC Transactions

- *Applies to debit & credit card transactions*
- *Includes travel fares for international destinations*

Data Source: Riad&Riad (2016) and Reuters (2022)

Note: *FC = Foreign Currency, LC = Letter of Credit*

Assets Abroad towards the Local Banks

Pakistan's foreign exchange reserves have recovered to around US$19.3 billion, however, they still provide limited import cover, leaving the economy vulnerable to external shocks, commodity price volatility, and delays in programme inflows. The repeated boom–bust cycle in reserves highlights the need for stronger reserve management, credible fiscal consolidation, and stable capital-account policies rather than ad hoc trade and FX controls. In this context, a dollar asset declaration scheme, allowing residents to declare foreign-currency holdings against a one-time levy and mandatory channeling through formal banking, could temporarily bolster reserves, widen the tax net, and reduce incentives to keep foreign assets outside the formal system.

Streamlining Virtual Assets

The Chainalysis Global Crypto Adoption Index 2025 places Pakistan at number three globally, ahead of economic heavyweights such as China, Germany, and Japan. Investments in cryptocurrencies have grown rapidly, and Pakistan has now moved from an unregulated grey zone into a transition phase by approving the Virtual Assets Ordinance, 2025, and creating the Pakistan Virtual Asset Regulatory Authority (PVARA). However, the absence of a clear tax framework means lost revenue and foreign exchange. Authorities should quickly establish a coherent regulatory and tax regime for virtual assets.

Formal Remittance Channels

Remittances from the Pakistani diaspora are a key lifeline for the economy, largely sent by low-income workers who remit small but frequent amounts to support families. High costs and delays in formal channels push many towards informal systems such as hawala/hundi, despite SDG 10's target of cutting remittance costs below 3% by 2030. In 2024, around 14–15 million overseas Pakistanis sent US$34.9 billion, far less per person than peers: the Philippines' 2.3 million workers remitted about US$40.3 billion, while India's 35 million diaspora sent US$137.7 billion. Pakistan's remittances rose from US$17.2 billion in 2014 to US$34.9 billion in 2024, but CAGR slowed from 15.9% (2004–2014) to 7.3% (2014–2024), and remittance-per-expatriate remains among the lowest, reflecting a predominantly unskilled diaspora.

Table 3: Pakistan's Remittance Profile in Regional Context

Country	Remittance (in Million USD)			CAGR (%)		Remittance per Capita 2024	Remittance per Expatriate
	2004	2014	2024	2004-2014	2014-2024		
Philippines	11,468.0	28,690.8	40,279.4	9.6%	3.5%	347.7	17,512.8
France	13,342.6	27,976.0	38,775.4	7.7%	3.3%	565.9	15,510.1
Nepal	822.6	5,888.7	28,376.8	21.8%	17.0%	957.0	8,107.7
Guatemala	2,627.5	5,751.4	21,649.3	8.1%	14.2%	1176.2	7,216.4
Mexico	19,861.7	25,556.6	67,637.9	2.6%	10.2%	516.9	5,499.0
Bangladesh	3,583.8	14,987.5	27,168.5	15.4%	6.1%	156.5	5,433.7
India	18,750.4	70,388.6	137,674.5	14.1%	6.9%	94.9	3,889.1
Pakistan	3,945.0	17,244.0	34,914.0	15.9%	7.3%	139.0	2,369.0
Egypt	3,340.7	19,570.4	29,559.1	19.3%	4.2%	253.6	2,111.4
Nigeria	2,272.7	20,999.1	21292.96	24.9%	0.1%	91.5	1,252.5
China	6,641.2	29,910.5	31,410.6	16.2%	0.5%	22.3	747.9

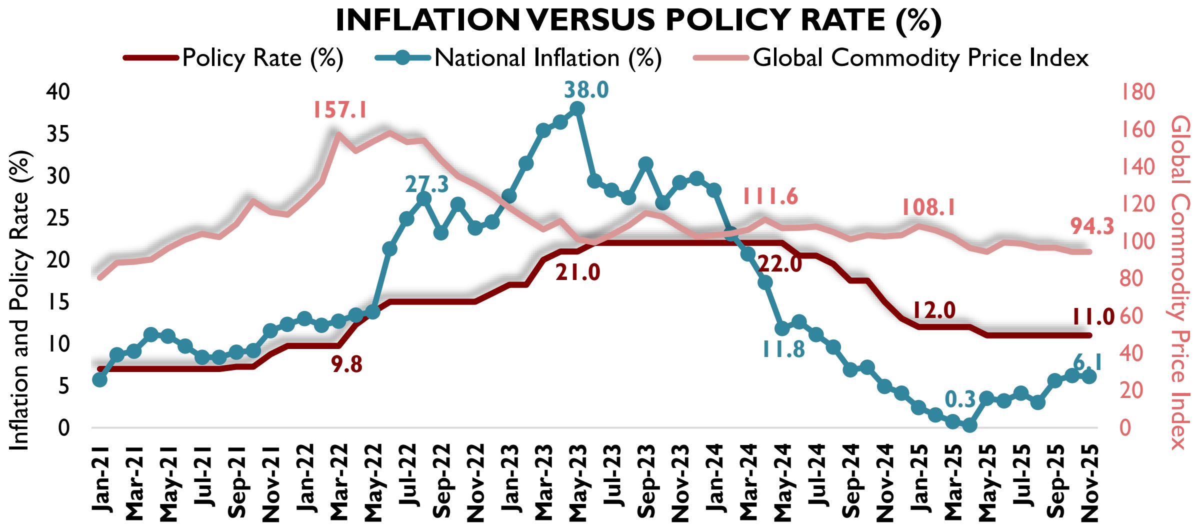
Data Source: World Bank, Pakistan Bureau of Statistics, and Multiple Sources for Expatriates

Chasing the Monetary Discipline

Maintaining the Inflationary Spirals

As economies emerged from Covid-19, inflationary pressures rose globally, driven by supply-chain disruptions and volatile commodity prices. In Pakistan, other than global prices these shocks were amplified by a depreciating exchange rate, surging energy prices, and flood-induced agricultural losses in 2022. The State Bank of Pakistan (SBP) responded with aggressive policy rate hikes, but these proved largely ineffective against predominantly cost-push, supply-side inflation, which peaked at 38% in May 2023. In practice, it was administrative measures such as import restrictions on over 500 items, and the subsequent recovery in agriculture, together with easing global commodity and food prices, that helped break the inflationary cycle, bringing inflation down to 11.8% by May 2024 rather than the policy rate itself playing a decisive role. The figure below illustrates a strong correlation between Pakistan's national inflation rate and the global commodity price index. As global commodity prices increase, domestic inflation in Pakistan follows the trend. In response, the government adjusts policy rates to mitigate the impact of rising prices.

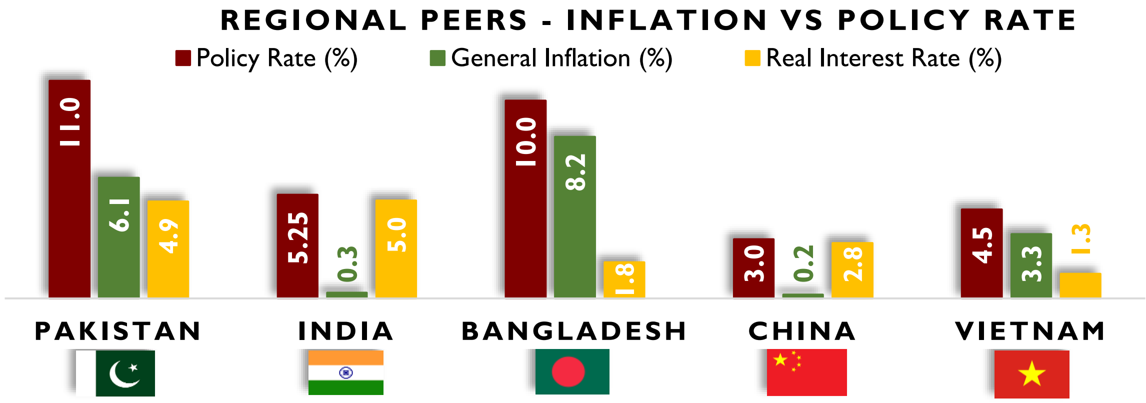
Figure 14: Trend of Global Commodity Prices, Inflation and Policy Rate in Pakistan



Data Source: Pakistan Bureau of Statistics (PBS), State Bank of Pakistan (SBP) and World Bank

Keeping a high policy rate for a prolonged period, such as 22% for nearly a year (Jul-23 to May-24) and now 11% (May-25 to Mid Dec-25), imposes high fiscal costs by raising the price of deficit financing, pushing the government toward higher taxes and production costs that themselves fuel inflation. With only 2.1% of firms (World Bank's 2013 Enterprise Survey) using formal bank credit and about 77.9% of loanable funds absorbed by government borrowing (October 2025), demand-side monetary tools, policy rate, have limited effectiveness, indicating weak transmission of monetary tightening to the real economy. In this context, further rate hikes are unlikely to curb inflation effectively and may even be counterproductive. The graph below illustrates that while some improvement has been achieved, Pakistan's real interest rates remain considerably higher than those of its regional peers except India.

Figure 15: Regional Comparison of Policy Rates and Inflation

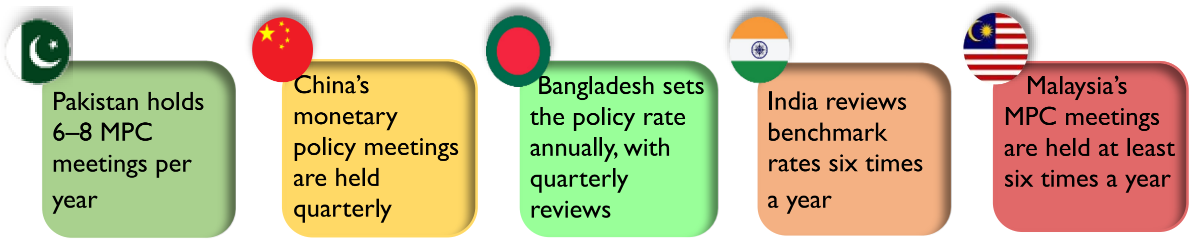


Data Source: SBP, PBS, and Respective Central Banks & Statistical Bureaus
Note: *The figures for Pakistan are of November 2025, while those for other countries are for the month of October 2025.*

Monetary Policy Regime: Pakistan and Regional Comparators

Frequent and unpredictable policy rate changes have heightened uncertainty and weakened Pakistan's investment climate. The SBP's Monetary Policy Committee (MPC) meets six to eight times a year, more often than Bangladesh, China, Malaysia, and even India, creating volatility in expectations. The MPC is also heavily dominated by SBP nominees, with limited external representation. Of the ten members on the committee, the Governor serves as Chairman, with three members nominated by the SBP and three senior executives of the Bank also chosen by the Governor. Only three external members, appointed by the Federal Government (but recommended by the SBP Board), are economists. In contrast, India's MPC has six members, with three appointed by the central bank and three selected by the government.

Figure 16: Frequency of Monetary Policy Decisions: Pakistan vs. Regional Peers



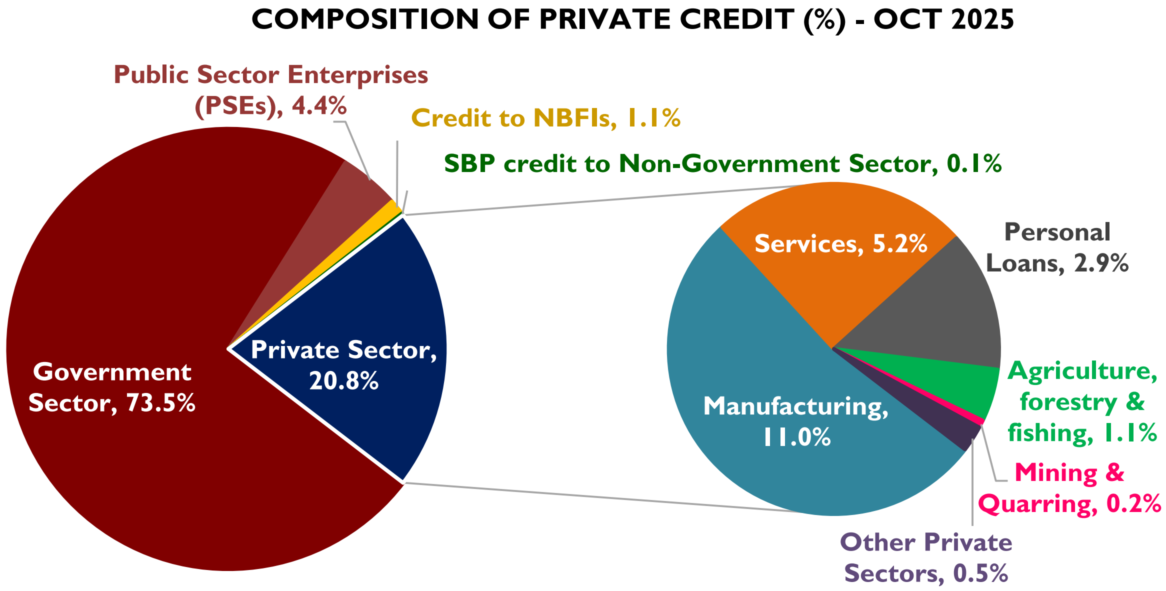
Data Source: State Bank of Pakistan and respective countries' Central Banks

Moreover, weak fiscal–monetary coordination, especially after the abolition of the Monetary and Fiscal Policies Coordination Board (MFPCB) in 2022, has increased policy inefficiencies in managing inflation and its consequences. Persistently high interest rates have raised debt-servicing costs and strained public finances, highlighting the need for better monetary-fiscal policy coordination and predictability.

Credit to the Private Sector

Credit to the private sector in Pakistan has fallen to one of the lowest levels among emerging markets. This reflects high interest rates, crowding out from heavy government borrowing, and the prolonged macroeconomic uncertainty. Financial Institutions tend to favour affluent, well-served clients and avoid segments such as low-income households, SMEs, and firms in agro-processing and mining. According to the World Bank Enterprise Survey (2022), only 2.1% of Pakistani firms use bank loans or credit lines, compared with 11.2% in India, and 42.5% in Bangladesh. Pakistan's credit-to-GDP ratio is just 11.4%, far below India (50.1% in 2021) and Bangladesh (35.8%). The credit portfolio is heavily skewed toward the public sector: 73.5% of lending goes to government and 4.4% to PSEs (a combined 77.9%), while the private sector receives only 20.8%. Within private credit, Manufacturing takes 11.0%, Services 5.2%, Personal Loans 2.9%, Agriculture 1.1%, Mining and Quarrying 0.2%, and other sectors 0.5%. Notably, the private share was about 28% in October 2021, when policy rates were lower at 7.25%.

Figure 17: Share of Government, PSEs & Private Sector in Pakistan's Credit Portfolio

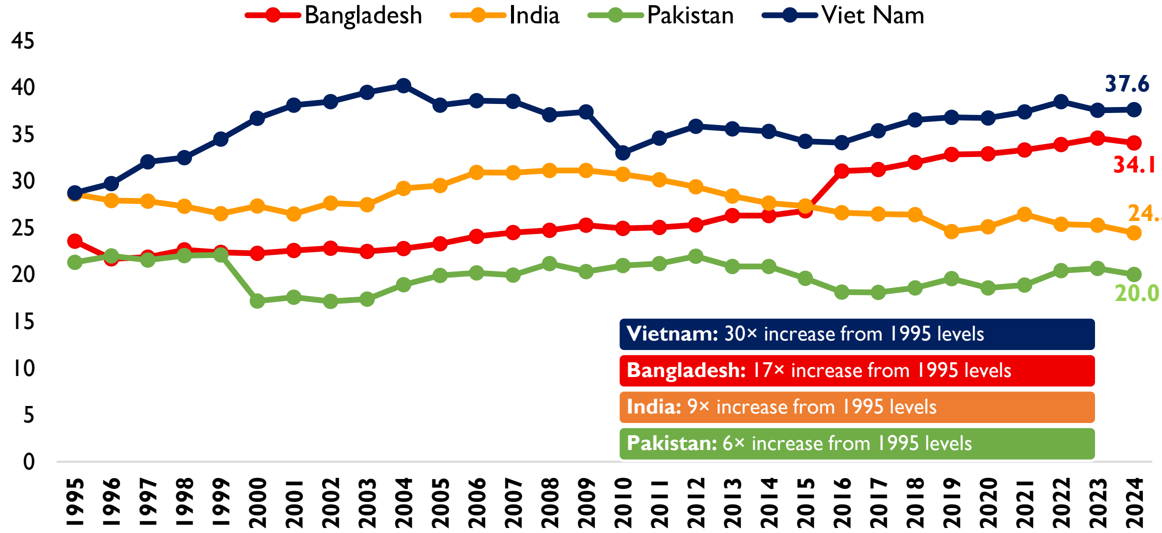


Data Source: State Bank of Pakistan (SBP)
Note: *Data is updated as of October 2025*

Priority 2: "Augment Productivity, Quality, & Innovation for Global Competitiveness"

Pakistan has been experiencing pre-mature de-industrialization over the past several decades, with no effective policy intervention to halt or reverse this trend (Husain, 2023). Over the last 30 years, the industry's share of GDP has declined, dropping from 21.3% in 1995 to 20.0% in 2024. In comparative terms, this contraction contrasts sharply with regional peers, where industrial expansion since 1995 has been far more pronounced, most notably in Vietnam (30-fold increase), Bangladesh (17-fold), and India (9-fold), while Pakistan registered a comparatively modest 6-fold increase.

Figure 18: Industry (Including Construction), Value Added (% of GDP)



Data Source: WDI

Pakistan's ranking on the Competitive Industrial Performance Index (CIP) has also worsened, falling from 77th in 1990 to 81st in 2023 out of 153 countries. In a regional context, Pakistan's CIP ranking is the lowest, with China, Vietnam, India and Bangladesh ranking 2nd, 30th, 37th, and 64th, respectively.

Table 4: Components & Ranking of CIP - Pakistan vs. Regional Peers

COMPONENTS OF COMPETITIVE INDUSTRIAL PERFORMANCE (CIP) – PAKISTAN VS. REGIONAL PEERS

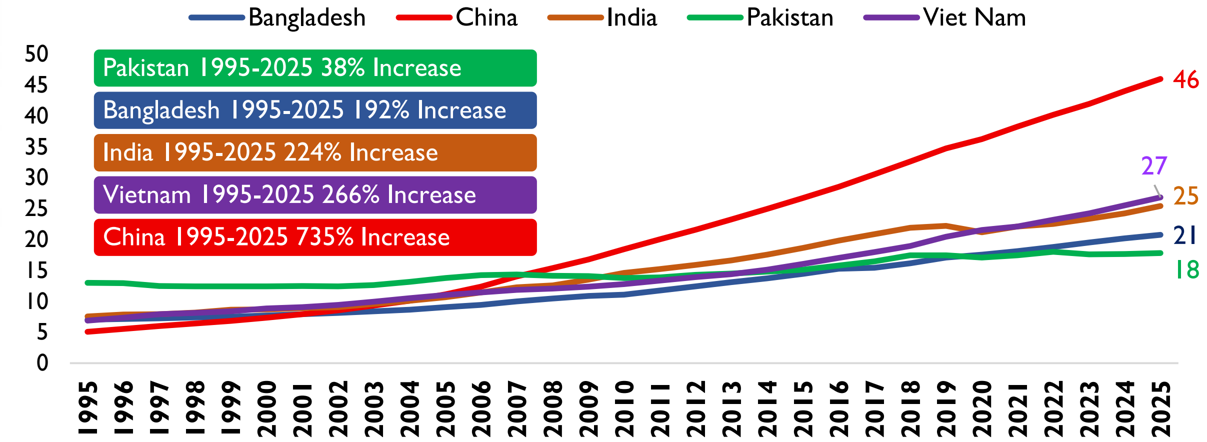
CIP Components	Index	Bangladesh	India	Pakistan	Viet Nam
Manufacturing Value Added (MVA) per capita	US$	558	336	192	947
Manufacturing Value Added (MVA) share in total GDP	Index	0.709	0.418	0.34	0.719
Manufacturing Exports Share in total exports	Index	1.000	0.901	0.778	0.907
Medium- and High-tech manufactured exports Share in total Manufactured exports	Index	0.022	0.449	0.129	0.711

RANKING OF CIP

Data Source: UNIDO

Pakistan's labor productivity has expanded only 38 percent increase over the course of 30 years, far below regional comparators. Over the same period, India's output per worker increased 224 percent, Viet Nam's 266 percent, and China's 735 percent. This widening gap highlights Pakistan's slow pace of technological upgrading, weak diffusion of modern production practices, and persistent structural bottlenecks in key sectors. The modest gains in productivity continue to constrain the country's long-term growth trajectory and its ability to improve competitiveness in regional and global markets (SBP, 2025).

Figure 19: Output per worker (GDP, 2021 constant PPP $)

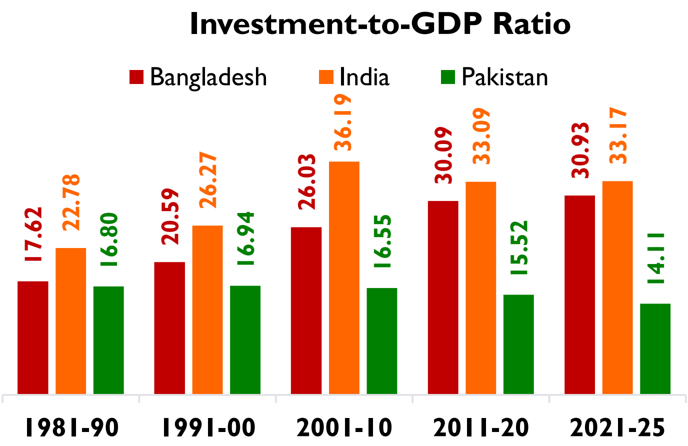


Data Source: ILO

Priority 3: "Improve the Investment Climate"

Investment is widely recognized as a key driver of industrial competitiveness and sustainable growth. However, Pakistan has struggled to attract investment. Compared with regional peers, investment intensity has remained persistently low, declining from about 16.8 percent of GDP in 1981-90 to nearly 14.1 percent in 2021-25. This prolonged deterioration points to underlying structural constraints, suggesting that policy measures have not been sufficiently effective in reversing long-term investment stagnation (IMF, 2024). Furthermore, FDI inflows remain volatile, falling to USD 886 million in Q1 FY26 from USD 1,332 million in Q1 FY25, while power and finance account for 58% of total FDI in FY25.

Figure 20: Investment-to-GDP Ratio and FDI Inflows



FDI Inflow (Mn USD)

July-Sep FY26: 886
Power & Finance share: 55%

July-Sep FY25: 1,332
Power & Finance share: 64%

FY25: 4,280
Power & Finance share: 58%

FY24: 3,166
Power & Finance share: 53%

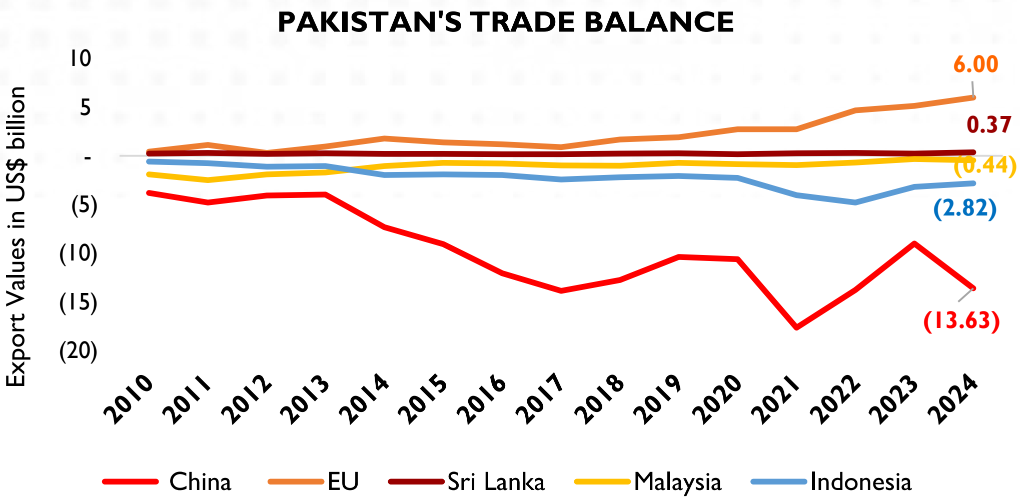
FY23: 2,568
Power & Finance share: 51%

Data Source: IMF, World Economic Outlook Database, 2023 and SBP

Pakistan Performance in Key Trade Agreements

The EU's GSP+ framework has emerged as Pakistan's most favorable unilateral trade access, consistently generating a surplus and demonstrating strong market access potential. However, this opportunity remains underutilized due to a narrow and low-value export base (Malik, 2020). Moreover, trade with Sri Lanka, though modest in scale, has remained steadily positive, reflecting a relatively balanced and stable bilateral exchange. In contrast, agreements with China, Indonesia, and Malaysia have been less favorable for Pakistan, resulting in persistently widening trade deficits driven by high import dependence on machinery, industrial inputs, and palm-oil products (PRAC, 2024). The imbalance with China is both the deepest and most volatile, while deficits with Malaysia and Indonesia, despite some recent moderation, underscore structural weaknesses in Pakistan's export diversification and limited ability to fully leverage its preferential trade frameworks.

Figure 21: Trade Performance of Pakistan in Key Trade Agreements



Data Source: Trade Map

Efficient EDF Allocation for Export Competitiveness

The Export Development Fund (EDF), administered by the Ministry of Commerce, was established to strengthen Pakistan's export sector through targeted project financing. It was originally supported through the Export Development Surcharge (EDS), a 0.25% levy on export proceeds introduced in 1991 to finance initiatives aimed at strengthening export performance. Over time, however, the Fund has faced persistent challenges related to low utilisation efficiency and governance effectiveness, as significant financial resources accumulated without being consistently translated into targeted, results-oriented export support (SDPI, 2020). Although more than 300 projects have been financed, the EDF balance had reached approximately Rs 52 billion by late 2025, with an additional Rs 8 billion accrued during the current fiscal year. These structural shortcomings, which limited the Fund's contribution to export competitiveness, ultimately led the Government of Pakistan to discontinue the Export Development Surcharge across all exports (Dawn, 2025).

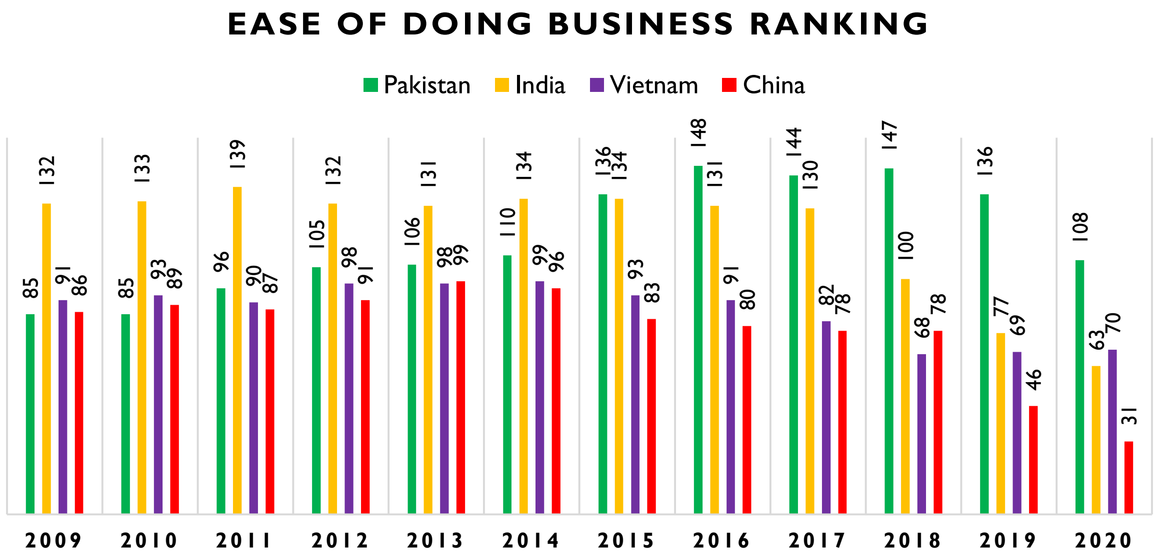
Figure 22: Export Development Fund (EDF): Funding and Disbursement Overview

300+ Projects Financed Since Inception	Rs 52 Billion Accumulated EDF Balance (As of Late 2025)	Rs 8 Billion Collected in the Current Fiscal Year	Rs 18 Billion Disbursed Historically Across Approved Projects

Data Source: EDF

Despite such export promotion and facilitation measures, broader structural constraints continue to undermine export competitiveness, particularly the high cost of doing business in Pakistan relative to regional peers (Lopez et. al, 2013). In the World Bank's Doing Business 2020 rankings, Pakistan stands at 108th out of 190 countries, followed by Vietnam at 70th, India at 63rd, and China at 31st. Although Pakistan's ranking improved from 139th in 2019 to 108th in 2020, it still lags behind its regional peer (World Bank, 2020). The country faces significant challenges in several key areas, including obtaining permits, registering property, paying taxes, and trading across borders.

Figure 23: Doing Business Ranking

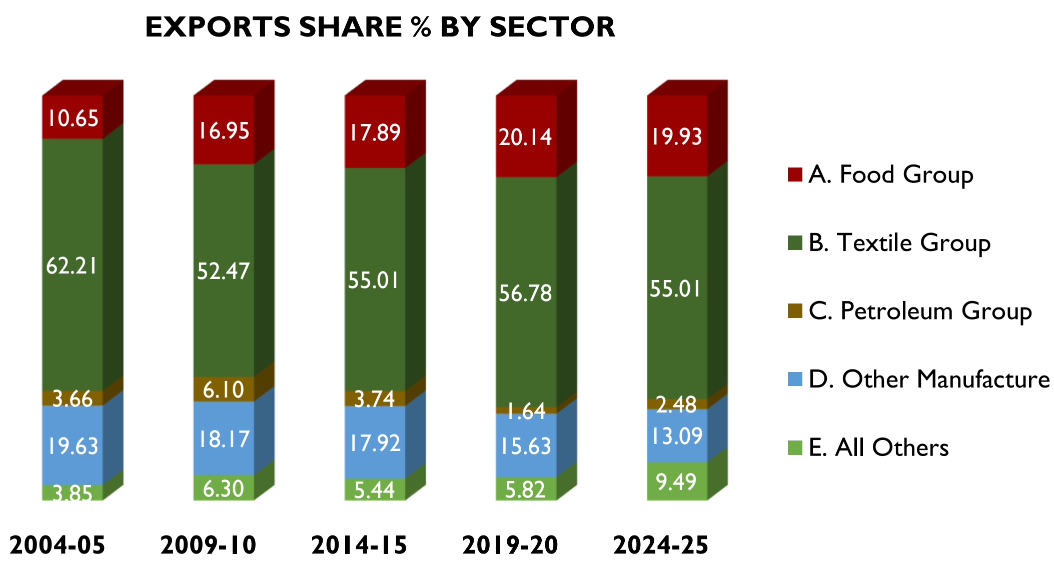


Data Source: World Bank Doing Business Documents

Priority 4: "Expand and Diversify Product Mix and Market Access"

Pakistan's export composition remains heavily concentrated in few goods, particularly within textiles, food products, and other manufactured items (Malik et al., 2017). Textiles continue to lead the goods segment with 55% share, supported by notable contributions from food-related and diverse manufacturing categories. The overall export structure highlights Pakistan's continued reliance on traditional export bases but also underscores the potential for growth through greater diversification into higher-value-added services.

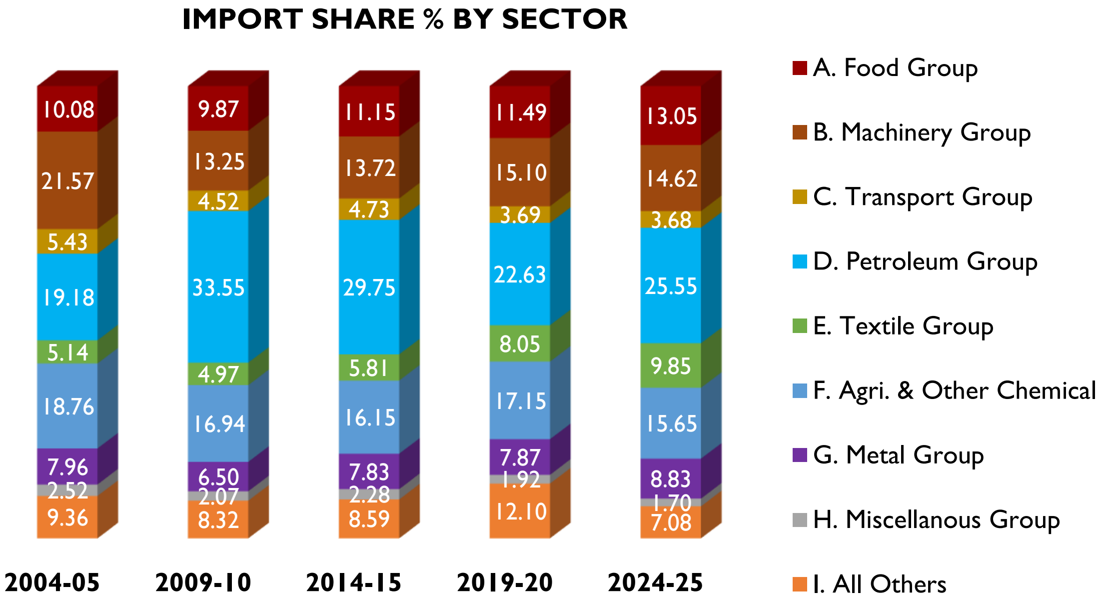
Figure 24: Pakistan Goods' Exports Share by Sector



Data Source: State Bank of Pakistan

Pakistan's import structure remains heavily tilted toward commodities, with the energy sector dominating the overall import bill (Asad et al., 2025). The Petroleum Group alone contributes approximately USD 15 billion, reflecting the country's high reliance on imported fuel. This is followed by substantial imports of Agriculture and Chemical products, Machinery, Food commodities, Textiles, and Metals. Collectively, this composition highlights Pakistan's continued dependence on external sources for fuel, chemicals, food, and industrial inputs, placing persistent pressure on the trade balance and reinforcing the economy's structural vulnerability to global price and supply shocks.

Figure 25: Pakistan Goods' Imports Share by Sector



Data Source: State Bank of Pakistan

Pakistan's export base remains narrow. Out of more than 7000 tariff lines, only 22 percent show exports above US$0.1 million and just 11.4 percent cross the US$1 million mark (TIPP). Market concentration is also high with 72 percent of exports directed to 15 destinations and almost half going to only six markets (Trade Map). Broadening the product basket and reducing reliance on a few markets is essential (PRAC, 2025). Expanding value-added lines, improving compliance quality and building capacity to enter under-tapped regions can ease concentration risks and support more stable export growth.

Figure 26: Export Concentration and Market Coverage

Out of more than 7000 tariff lines, only 22% lines with export above USD 0.1 million, and just 11.4% exceed USD 1 million.

72% of Pakistan's exports are concentrated in 15 destinations, with around 50% directed to just 6 destinations.

Data Source: TIPP and Trade Map

In addition, the presence of global brands helps exporters to earn a premium, however, the lack of awareness among stakeholders about the benefits of brand management for export markets is also one of the major obstacles to obtaining high-value exports.

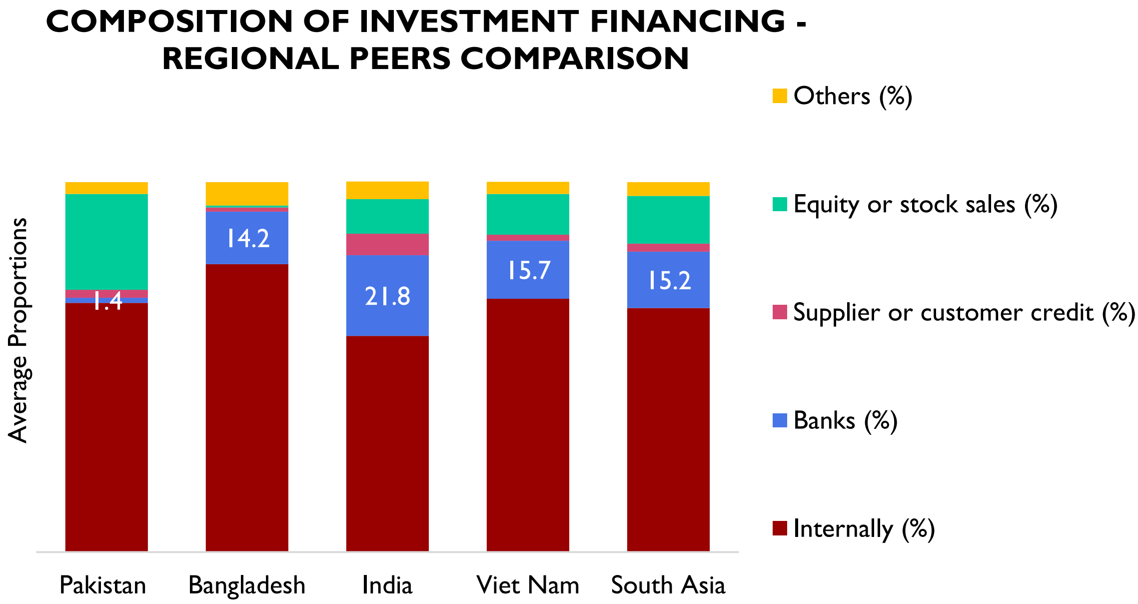
The SME sector is crucial to Pakistan's economic growth. According to PwC's Banking Publication 2024 - *Road to Sustainability*, the SME sector contributes 40% of the GDP, comprises nearly 90% of all private enterprises, generates 30% of export earnings, and employs 1/3rd of the country's workforce[10].

Figure 27: Pakistan's SME Landscape

Data Source: Road to Sustainability - PwC

Firms in Pakistan rely heavily on internal funds to finance their investments, far more than their peers, and bank financing stays extremely low at 1.4 percent compared with 21.8 percent in India, 15.7 percent in Viet Nam, 14.2 percent in Bangladesh, and 15.2 percent in the South Asia average.

Figure 28: Regional Comparison of Investment Financing of Firms

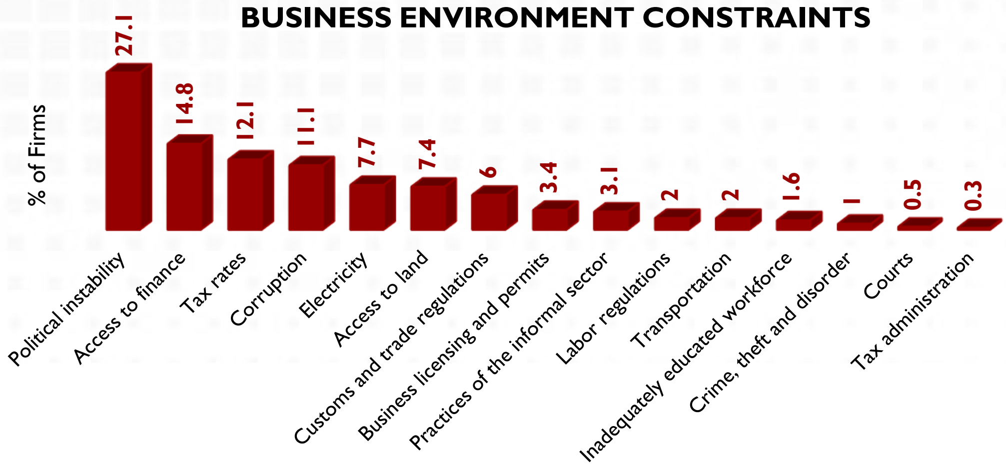


Data Source: World Bank, Enterprise Survey, Pakistan 2022

Firms in Pakistan point to big-picture issues more than day-to-day operational hurdles. Political instability stands out as the top constraint at 27.1 percent, followed by limited access to finance at 14.8 percent, high tax rates at 12.1 percent, and corruption at 11.1 percent. Mid-level concerns include electricity at 7.7 percent, access to land at 7.4 percent, and customs and trade regulations at 6 percent. Most other obstacles sit below 3 percent, showing that firms feel the weight of uncertainty, financing gaps, and taxation far more than problems like crime, courts, permits, or transportation.

[10] PwC, Banking Publication 2024 – *Road to Sustainability*.
https://www.pwc.com.pk/en/Banking_Publication/2024/Banking_Publication.pdf

Figure 29: Ranking of the Business Environment Constraints for Firms in Pakistan



Data Source: World Bank, Enterprise Survey, Pakistan 2022

Priority 6: "Enhance Pakistan's National Brand"

A lack of awareness among stakeholders about the value of brand management for exports is hindering Pakistan's trade growth (PBC, 2020). Pakistan ranks 88th overall in the Global Soft Power Index, reflecting moderate international recognition but significant gaps in key areas. Compared to regional peers like India (overall 30th) and Vietnam (52nd), Pakistan struggles to leverage its national image to boost economic engagement. While familiarity and Influence are relatively strong (43rd & 62nd), its reputation at 139th shows that Pakistan is known but not positively perceived globally. Similarly, business and trade rank at 128th, indicating low attractiveness for foreign investment and limited confidence in Pakistani exports. Cultural heritage (128th), education (101st), media (104th), governance (138th), and sustainability (155st) further constrain its soft power. Strengthening Pakistan's national brand can help exporters command higher premiums, enhance competitiveness, and position the country as a trusted partner in trade, investment, tourism, and global collaboration.

Table 5: Ranking of Global Soft Power Index 2025 - Perceptions of Nation Brands

Pillar	Pakistan	Bangladesh	Vietnam	India
Global Soft Power Index	**88**	**104**	**52**	**30**
Familiarity	43	66	42	13
Reputation	139	122	67	64
Influence	62	80	55	16
8 Soft Power Pillars				
Business & Trade	128	101	56	42
International Relations	83	117	76	34
Education & Science	101	118	67	26
Culture & Heritage	128	132	60	12
Media & Comm.	104	118	78	57
Governance	138	143	80	85
Sustainable Future	155	137	79	104
People & Values	167	152	75	115
Recommendation	151	133	69	75

Data Source: Business Finance - Brand Directory

Priority 1: "Macroeconomic reforms, mobilize resources, & promote public financial management for an export-led growth economy"

Efficient Resource Mobilization

- **Broaden the Tax Base to achieve an equitable Tax-to-GDP Ratio:** Gradually align tax rates across sectors in proportion to their GDP contribution.
- **Strengthen Resource Mobilization:**
  - **Tax Agriculture and Livestock Fairly:** Fully implement the new agricultural income tax rates in all provinces and bring livestock into the tax net, following Punjab's model.
  - **Enhancing Contribution from the Services Sector:** Reforms should focus on improving tax compliance, closing loopholes, monitoring effectively, and enhancing digitalization in land records. Strengthening enforcement and streamlining processes will ensure the retail, real estate, and banking sectors contribute their fair share to national revenue.
- **Eliminate Tax Multiplicity and Fast-Track Disputes:** Consolidate overlapping federal–provincial and intra-provincial taxes, and set strict timelines to fast-track tax litigation and clear backlogs.
- **Promote Tax Compliance & Trust:** Run sustained awareness campaigns, publish simple "citizen budgets," release survey results, and hold regular provincial seminars to show how taxes fund services and build public trust.
- **Strengthen Local Governments:** Empower elected local governments to assess, collect, and retain the Urban Immovable Property Tax (UIPT) and other taxes within their jurisdiction, enabling them to fulfill their responsibilities and deliver essential services. Additionally, restore the 1/6th (of GST) grants framework in lieu of OZT under the DRGO 2006, as direct transfers to local governments, a framework that was effective prior to the 7th NFC Award.

Improving the Fiscal Discipline

- **Ensure Prudent Debt Management:** Adhere to FRDL Act to reduce public debt and meet the debt ceiling, by extending debt maturities and reprofiling high-cost, short-term domestic debt into longer-term, lower-cost instruments.
- **Devolve expenditures to provinces under NFC Award:** Align expenditure and revenue by shifting BISP, agricultural, and energy subsidies for low-income groups to provinces, and gradually transfer federally funded PSDP projects in provincial domains to full provincial responsibility.
- **Accelerate SOE Reform:** Prioritize restructuring or privatization of loss-making SOEs, while avoiding divestment of profitable entities, to strengthen the government's balance sheet and preserve public sector net worth.
- **Reforms in Pension:** Implement pension reforms promptly, introducing an investment scheme for pensions of new recruits to ensure long-term sustainability, and restoring the

ban on dual pensions to maintain fairness. Expand coverage to a larger portion of the workforce, including the informal sector.

- **Revamp Bureaucracy:** Build a lean bureaucracy by digitizing processes, reducing HR layers, and streamlining approvals to cut delays and improve administrative efficiency.
- **Rationalizing Non-Combat Military Expenditures:** Non-combat military expenditures, including contingency obligations and pensions, should be rationalized.

Boosting Foreign Exchange Reserves

- **Optimize the exchange rate regime to enhance the export-to-import ratio:** Introduce a currency peg exchange regime with periodic evaluation based on REER to arrest volatility and uncertainty.
- **Restrictions on Foreign Travel.** Impose limits on leisure travel during periods of low foreign reserves, permitting international tourism only once every three years. Additionally, reduce the total annual foreign currency spending limit, whether through credit cards or currency purchases while traveling to USD 5,000 annually.
- **Channelizing Virtual Assets:** Develop a tax framework and levy a 1% withholding tax on transactions. Introduce a one-time asset declaration scheme with tiered taxation (0% for encashment into PKR; 5% for domestic FX deposits; 10% for deposits by non-residents; 15% for declared long-term holdings).
- **Channelizing Dollar Holdings:** Incentivize channeling dollar holdings from lockers into bank accounts, exempting such deposits from taxes if held for at least one year.
- **Fixed Remittance Fee & Formalize Transactions:** Implement a fixed low fee for remittances instead of charging a percentage, matching the actual remittance cost for Money Transfer Operators (MTOs). Gradually eliminate forex companies and formalize financial transactions through banks to improve foreign exchange control.
- **Matching Skills with Global Demand:** Revitalize institutions through public-private partnerships to enhance technical and vocational skills in line with global demand, with recognized affiliations for locally offered degrees/certificates to further strengthen remittances.

Chasing the Monetary Discipline

- **Use Targeted Monetary Tools:** Employ alternative monetary tools to policy rate such as reserve requirements and prudential regulations to manage loanable funds and contain demand-pull inflation in specific sectors.
- **Improve Monetary Policy Effectiveness & Communication:** Regularly assess policy rate impacts and distinguish demand-pull from cost-push inflation. Gradually lower interest rates as conditions permit and improve transparency by publishing quarterly assessments of the fiscal impact of MPC decisions to better align monetary and fiscal policy.
- **Enhance Private Sector Credit:** Encourage banks to expand lending to at least 10-15% of their credit to SMEs and underserved sectors by simplifying procedures and easing collateral requirements. Deepen capital markets, especially the secondary bond market, to increase competition among lenders, lower debt costs, and support private investment.

- **Strengthen Market Surveillance & Price Controls:** Empower the Competition Commission and price control magistracy, and take firm action against hoarding and market manipulation to curb unjustified price hikes.
- **Optimize Monetary Policy:** Reduce the frequency of MPC meetings to lower uncertainty and move toward an evenly balanced committee between the SBP and the federal government. Conduct quarterly reviews but set benchmark interest rates on an annual basis to ensure stability.

Priority 2: "Augment Productivity, Quality, & Innovation for Global Competitiveness"

- **Scaling Up the Productivity Movement:** Evolve from broad-based awareness on productivity to practical, industry-level implementation. The next phase must focus on translating knowledge into measurable improvements within priority sectors. To achieve this:

  - Shift the Productivity Movement (2021) mandate under the PSDP project towards implementation after completion of awareness phase.
  - Establish Specialized Productivity and Innovation Hubs under the National Productivity Organization (NPO) in industrial clusters.
  - Collaborate with TUSDEC and similar bodies to advance technology, skills, and industry standards for sustainable growth.
  - These hubs should undertake productivity diagnostics, deliver advisory support on manufacturing, energy and resource efficiency, and facilitate the adoption of digital and Industry 4.0 technologies.

- **Realistic Export Targets with Industry-Centric Strategy:** Export targets should be established through close consultation with industry stakeholders to ensure they are realistic and achievable. These targets must be supported by well-defined action plans and aligned policy measures that facilitate implementation. By combining stakeholder engagement with targeted interventions, the approach can drive sustainable growth, enhance value addition, and strengthen the competitiveness of domestic industries in international markets.
- **Strengthen Quality and Compliance Infrastructure:** Implement the Pakistan National Quality Policy (2021) to modernize testing and accreditation facilities, while reinforcing institutions like Pakistan Standards and Quality Control Authority (PSQCA), National Compliance Centre (NCC), and Pakistan National Accreditation Council (PNAC) to secure international recognition and establish Mutual Recognition Agreements with key export markets such as China, the EU, and GCC. Leverage the NCC of Pakistan to align technical regulations, conformity assessment, and standards with global requirements, enhancing the credibility and competitiveness of Pakistani exports.
- **Integrated Policy Framework:** Unified policy framework to ensure consistency and coordinated economic growth by integrating key strategies such as the STPF, Industrial Policy, Investment Policy, and Tariff Policies. Strengthening federal-provincial coordination and aligning provincial policies with national objectives will further support coherent implementation and effective governance.

- **Export Tax Regime Flexibility:** Restore the option for exporters to choose between the Final Tax Regime (FTR) and the Normal Tax Regime (NTR), as was the practice prior to the decision in the Finance Act 2024 to shift exporters from FTR to NTR, ensuring the regime that best benefits them. This flexibility will help avoid unnecessary compliance burdens. Additionally, adjust the 1% Final Tax rate upwards in accordance with the tax collection gap that the FBR anticipates would arise if exporters were subject to the Normal Tax Regime.

Priority 3: "Improve the Investment Climate"

- **Business and Investment Facilitation:** Revamp the 2023 Investment Policy with clear sectoral targets and establish a one-window online system linking federal and provincial approvals. Accelerate the Pakistan Business Portal for seamless investor registration and licensing. Replace the outdated 1976 Foreign Investment Act with a modern law extending 2022 protections to priority sectors. Strengthen policy consistency through multi-stakeholder councils and upgrade special economic and industrial zones with plug-and-play utilities and expedite approvals.
- **Investment in Export-Oriented Industries:** Encourage investments in priority sectors and value-added agriculture as recommended below:

  - Channelized on investments that boost exports, not just local consumption, by introducing tax holidays and incentive for reinvested profits in priority sectors like IT, manufacturing, and agriculture via industrial policy, similar to Vietnam's model.
  - Adopt phased local-content rules and mandatory technology transfer for foreign investments, similar to India's Phased Manufacturing Programme, to boost domestic suppliers, R&D, and industrial competitiveness.
  - Establish an Agriculture Investment Trust similar to REIT for agriculture value addition for targeted interventions.

- **Industrialization Through Efficient Import Substitution:** Pursue a targeted import substitution strategy in sectors with realistic domestic competitiveness.

  - Priority domains include agri-food (particularly oilseeds, pulses, and fruit processing), chemicals and petrochemical intermediates, and light engineering goods.
  - Embed sector support within performance-linked incentives (PLIs), aligned with the National Industrial Policy, to reward firms for measurable domestic value addition, productivity improvements, and structured supplier development.
  - Integrate tariff rationalization with firm-level performance commitments, offering temporary protection only when industries present credible capacity-expansion and technology-upgrading plans.

- **Enhance Investment and Intellectual Property Framework:** Develop a GIS platform mapping industrial infrastructure, costs, and facilities, linked to incentives to attract FDI into export-oriented sectors. Launch a nationwide campaign to promote GI law product registration, enabling producers to earn premium prices, and enforce IPR laws effectively to stimulate R&D and boost industrial productivity.

Priority 4: "Expand and Diversify Product Mix and Market Access"

- **Expand into Non-Traditional Markets:** Pursue PTAs/FTAs under the Look Africa Framework and target markets in Central Asia and South America.
- **Link Trade Agreements with Industry Readiness:** It is recommended to align trade agreements and tariff cuts with industry capacity in production, productivity, technology, and diversification. Conduct regular exporter awareness campaigns on market access and compliance and carry out sector-specific FTA/PTA reviews to identify underutilized tariff lines.
- **Implement Sectoral Diversification Strategies:** It is recommended to advance the STPF diversification agenda through the implementation of National Priority Sectors Export Strategy (2023-27) to strengthen export diversification and competitiveness.
- **Tariff Policy Reform 2025-30:** Review and reform the Tariff Policy 2025-30 by refraining from unilateral tariff cuts, linking concessions to reciprocal market access through trade agreements, and retaining cascading tariffs from the 2019-24 policy. Supported by coordinated and consistent policies, this approach will promote sustainable export-led growth.
- **Upgrading the Value Chain:** To boost competitiveness, Pakistan should help firms move up the value chain through targeted support, as detailed below:

Provide targeted Export Facilitation Scheme incentives for value-added exports such as apparel, processed halal foods, frozen agri-products, and engineered goods to encourage firms to move beyond raw-material/low value exports.

Provide targeted matching grants for in-house R&D, drawing on the impact of SRO 578(I)/2016 (Product Development Incentive) in enhancing surgical-instrument exports, to support development of new product lines, improved formulations, and export-oriented designs.

Priority 5: "Promote SMEs, Entrepreneurship, and Specialization"

- **Access to Finance for SMEs:** To strengthen SME access to finance and boost their role in export-led growth, the following measures are recommended.

•- The State Bank of Pakistan should mandate commercial banks to allocate a minimum 5% of their loan portfolio to SMEs, integrate these targets into banks' KPIs, and enforce compliance through enhanced monitoring and penalties for non-performance.

•- Expand the National Credit Guarantee Company Limited to provide targeted SME credit guarantees that reduce default, collateral, and cash-flow risks, and strengthen the EXIM Bank to offer export credit insurance and trade finance that mitigates payment and political risks, enabling SMEs to access finance, enter global markets, and support export-led growth.

•- Embed gender-specific KPIs within SME policies and banking regulations by setting mandatory lending targets for women-led SMEs, requiring dedicated women entrepreneur desks in banks and NBFIs, and adopting proven elements of Bangladesh's directed lending model to expand women's access to finance.

- **Export Development Fund (EDF) Scheme for SMEs:** Simplify procedures and eligibility criteria under the EDF to ensure easier access for SMEs and individual exporters. Establish defined timelines and automated disbursement mechanisms to ensure timely release of funds and uninterrupted implementation of EDF-supported projects.
- **SME and Sectoral Development:** It is recommended to build sector-specific SME clusters with labs, warehouses, and shared R&D by providing targeted funding, infrastructure support, and technical assistance.
- **Green Deal Compliance Support for SMEs:** Launch a dedicated SME Green Compliance Program in partnership with the National Compliance Centre to support exporters through standardized energy and emissions audits, concessional financing or matched grants for clean technology upgrades, and mandatory training on environmental reporting, documentation, and certifications required under EU Green Deal regulations.

Priority 6: "Enhance Pakistan's National Brand"

- **Integrated Export Branding Approach:**

•Fast-track the National Center for Brand Development to lead the national branding strategy, manage brand licensing and marketing standards, and track global perception. Enforce the use of national branding i.e. emerging Pakistan, alongside exporter logos will help build a stronger and more consistent image for Pakistani products in international markets.

•Integrate a cohesive branding approach into each National Priority Sectors Export Strategy (2023-27) to ensure all 18 sectors contribute to Pakistan's national identity. Implement coordinated branding, visuals, and messaging across these NPSES sectors to strengthen Pakistan's overall image and enhance export visibility.

•Highlight Pakistan's culture, heritage, products, and innovation through vibrant digital storytelling and campaigns. Leverage global media and social platforms with hashtags like #Emerging, #MadeInPakistan, and #DiscoverPakExports to reposition the country as a hub of quality and creativity.

Policy Matrix

<table>
<tr><th>TARGETS/ OBJECTIVES</th><th>CURRENT STATUS</th><th>CRITIQUE/ GAP</th></tr>
<tr><th colspan="3">MACROECONOMY</th></tr>
<tr><th colspan="3">MONETARY POLICY (SBP VISION 2028)</th></tr>
<tr><td>• Maintain inflation within 5–7% Medium-Term Target.</td><td>• Inflation remains outside the 5–7% band.</td><td>• Policy rate held at 11% since May-25 despite easing inflation; Deviation on a discretionary basis.</td></tr>
<tr><td>• Enhance forecasting capacity.</td><td><table>
<tr><th>Annual CPI %</th><th>FY23</th><th>FY24</th><th>FY25</th></tr>
<tr><td>Target (%)</td><td>11.5</td><td>21.0</td><td>12.0</td></tr>
<tr><td>Actual (%)</td><td>29.1</td><td>23.9</td><td>4.6</td></tr>
</table></td><td>• Overreliance on policy rate as a tool; prudential regulations & credit support mechanisms underused.</td></tr>
<tr><td>• Strengthen financial inclusion framework through targeted policy initiatives for priority areas, including agriculture and SMEs.</td><td><table>
<tr><th></th><th colspan="2">FY23</th><th colspan="2">FY25</th></tr>
<tr><td>Avg. Private Sector Credit (PSC) % in Total Credit</td><td colspan="2">26.2%</td><td colspan="2">21.3%</td></tr>
<tr><th colspan="5">Priority Sectors (%)</th></tr>
<tr><th></th><th>PSC</th><th>Total</th><th>PSC</th><th>Total</th></tr>
<tr><td>SMEs</td><td>7.4</td><td>-</td><td>7.6</td><td>-</td></tr>
<tr><td>Agriculture</td><td>4.0</td><td>1.0</td><td>4.6</td><td>1.0</td></tr>
</table></td><td>• Weak monetary–fiscal coordination, heavy public borrowing crowds' out private credit.</td></tr>
<tr><th colspan="3">FISCAL POLICY/ TAXATION</th></tr>
<tr><td>• Achieve ambitious Tax-to-GDP targets.</td><td><table>
<tr><th>Tax Collection</th><th>FY23</th><th>FY24</th><th>FY25</th></tr>
<tr><td>Target (Rs. Bn)</td><td>7,470</td><td>9,415</td><td>12,970</td></tr>
<tr><td>Actual (Rs. Bn)</td><td>7.200</td><td>9,252</td><td>11,900</td></tr>
<tr><td>Shortfall (%)</td><td>-3.6%</td><td>-1.7%</td><td>-8.2%</td></tr>
</table></td><td>• Persistent target slippages & overreliance on indirect taxes undermine fiscal equity.</td></tr>
<tr><td>• Pursue fiscal consolidation through deficit reduction.</td><td><table>
<tr><th>Fiscal Deficit (% of GDP)</th><th>FY23</th><th>FY24</th><th>FY25</th></tr>
<tr><td>Target</td><td>-4.9</td><td>-6.5</td><td>-5.9</td></tr>
<tr><td>Actual</td><td>-7.8</td><td>-6.9</td><td>-5.6</td></tr>
</table>
• High reliance on indirect taxes (51%) FY25.</td><td>• Revenue–expenditure misalignment limits effective consolidation.</td></tr>
<tr><td>• Reconstitute the NFC every five years & cascade funds to local tiers.</td><td>• NFC/PFC Awards pending for more than 15 yrs.</td><td>• Delayed NFC/PFC Awards led to inefficient resource/expenditure allocation.</td></tr>
<tr><th colspan="3">DEBT MANAGEMENT STRATEGY (FY2023-26)</th></tr>
<tr><td>• Maintain a competitive and sustainable cost of debt.</td><td>• Elevated Cost in FY25; 11.9% (15.82% Domestic only).</td><td>• Policy objective partly outside the MOF's direct control, as interest rate decisions lie with the SBP.</td></tr>
<tr><td>• Keep Public Debt within 60% of GDP ceiling (FRDLA 2022).</td><td>• Public Debt to GDP%: 73.9(FY22), 75.2 (FY23), 67.7(FY24), 70.8(FY25).</td><td>• Weak monetary–fiscal policy coordination.</td></tr>
<tr><td>• Limit total government guarantees to 10% of GDP. (FRDLA 2022)</td><td>• Total Guarantee Stock (% of GDP): 4 (FY23), 3% (FY24), 4% (FY25).</td><td>• Debt targets repeatedly missed, reflecting weak adherence to FRDLA ceilings.</td></tr>
</table>

TARGETS/ OBJECTIVES	CURRENT STATUS	CRITIQUE/ GAP
FOREIGN EXCHANGE POLICY		
• Maintain a market-determined, exchange rate regime under the IMF.	• Exchange rate remains stable around PKR 280/USD since 2024.	• Low reserve buffers continue to expose the economy to external shocks.
• Ensure exchange rate stability with adequate reserve buffers. • Allow 100% profit repatriation as per the BOI.	• Import cover has remained below 3 months since Sep-21, leading to occasional restrictions on imports such as bans and administrative controls on profit repatriations.	
• Achieve remittance target of USD 30.3 billion (FY25).	• Remittances (FY25): USD 38.3 billion.	• Overdependence on remittances highlights structural weaknesses in export competitiveness and foreign inflow diversification.
EXPORTS		
INDUSTRIAL POLICY (DRAFT)		
• Pakistan aims to increase industrial intensity from 0.28 to 0.30 in the short term, 0.36 in the medium term, and 0.43 in the long term.	• Industry share in GDP FY 2023: 18.40, → FY2025: 18.07.	• Limited Alignment with URAAN USD 60 billion 2029 Export Targets. • Sectoral focus remains ambiguous. • Various Targets are not clearly measurable, mostly expressed through indices. • Lacks specific facilitation measures. • Framework for SEZs utilization is missing. • Proposal subsidies appear unrealistic under IMF programs. • Lack of a cohesive federal-provincial industrial framework.
• Increase SMEs' export share by 5% (short), 10% (medium), and 15% (long).	• SME share in Export; 30%.	
• Promote plug-and-play SEZs (short), expand clusters and SME links (medium), and build green industrial hubs (long term).		
NATIONAL TARIFF POLICY 2025-30		
• Reduce avg. tariff 10.4 → < 6 % by 2030.	• Avg. tariff: 10.4.	• De-industrialization risk; tariff cuts below India 16 % & Bangladesh 14 %. • Unilateral liberalization weakens bargaining power in TA negotiation.
• Merge 5 slabs → 4 • Phase out ACDs (4 yrs), RDs (5 yrs), 5th Schedule (5 yrs).	• Pakistan's trade deficit rises 33% in Q1 of FY25.	
INVESTMENT POLICY 2023		
• Raise investment-to-GDP from 15 to 20%.	• Investment-to-GDP ratio at 13.8% in 2025.	• Absence of Time-Bound Milestones. • Lack of Quantified FDI and Sectoral Targets.
• Attract high-quality, export-oriented, and import-substituting FDI.	• During Jul-Sep FY26, FDI inflows falls from $1.33b to $0.88b.	

TARGETS/ OBJECTIVES	CURRENT STATUS	CRITIQUE/ GAP
• Improve Pakistan's Economic Complexity Index ranking from 93.	• Policy rate at 11%.	• Overlapping roles among institutions create fragmentation. • Performance-based incentives lack measurable criteria. • Vague target with no measurable outcomes.
• Promote sustainable, inclusive growth aligned with SDGs.		
• Implement facilitation tools (One Window, PRMI, SEZ Portal).		
STRATEGIC TRADE POLICY FRAMEWORK (2020-25)		
• Export target: U$ 57.03b by 2025.	• Avg. tariff: 10.4 → 6 % by 2030.	• $57b goal vs $32B actual. • Most STPF 2020–25 initiatives remained at launch or pilot stages, reflecting weak coordination, limited follow-through, and absence of time-bound execution frameworks. • Flagship programs (Emerging Pakistan, Look Africa) lacked scale, sectoral depth, and impact tracking, resulting in minimal contribution to sustained export diversification and market expansion. • Missed 2025 border agency cooperation target, now delayed to 2026.
• Improve Trade Facilitation.	• Pakistan's trade deficit rises 33% in Q1 of FY26.	
• EFS utilization: 50% by 2025.	• While the PSW is a notable step, other measures remain in the planning or pilot stage.	
SME POLICY 2021		
• Service SMEs 10%.	• Service sector grew 2.91%.	• Several key targets remain unfulfilled. • SME portal registrations, training, tech startup/incubator growth. • Not achieved: Services growth, Export growth, SME borrowers, new SMEs, SME credit.
• SME Sector exports to grow by 10% per annum.	• SMEs export growth per annum (2021-25) is 3.23%.	
• SME credit →800bn	• SME credit Rs311.33bn (target 800bn).	
• Borrowers → 700,000.	• SME borrowers reached 276,600 (target 700,000).	
• New business registrations +10%.	• New SMEs 249,365 (+1.12% growth, target 10% p.a.).	
• SME Registration Portal launched.	• SME Registration Portal processed 1,036 applications, 539 registered, 417 certificates.	
• Public procurement from SMEs to reach 30% in 5 years.		
• Incubators, accelerators, co-working spaces +20% in 5 years.		

Data Sources: State Bank of Pakistan, Ministry of Finance (MoF), Federal Board of Revenue (FBR), and National Accounts Committee (NAC).

Note: *FRDLA= Fiscal Responsibility and Debt Limitation Act, BOI = Board of Investment, PFC = Provincial Finance Commission*

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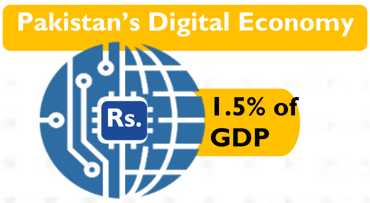
Bridging Pakistan's Digital Divide

Introduction

Digitalization has become a driving force behind economic growth and innovation worldwide, revolutionizing how industries operate and society's function. The COVID-19 pandemic has accelerated this digitalization trend, significantly increasing the adoption of advanced technologies across the globe. In Pakistan, this shift has sparked a transformation in its digital landscape. Pakistan's largely cash-based and informal economy has begun to show momentum toward digital payments, digital identity integration, and fintech-led financial inclusion. With a population of 241.5 million (Census, 2023) and nearly 67% under the age of 30 (PES, 2025), Pakistan holds a significant demographic potential, which, if leveraged effectively, could propel its digital economy.

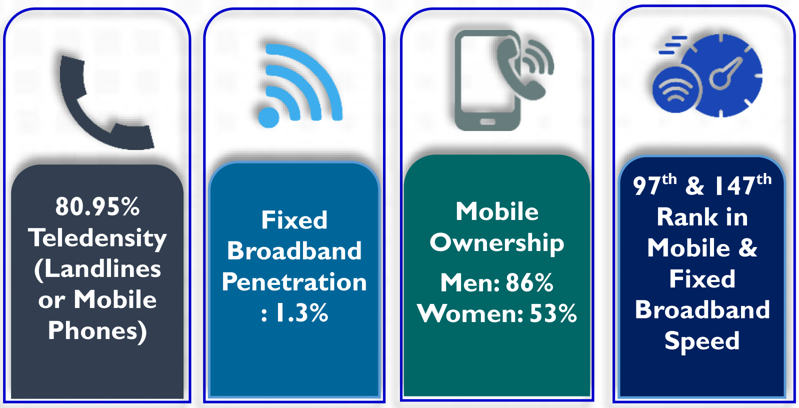
However, despite this advantage, the contribution of digital technologies to Pakistan's GDP remains underwhelming, at just 1.5% (Asian Development Bank, 2025), compared to India's 10.5%, reflecting a substantial gap between the country's digital potential and its economic output. This underperformance is compounded by multiple challenges, such as limited internet access, outdated infrastructure, fragmented policy execution, weak coordination, and a cash-based economy, which hinder the growth of key sectors of the economy.



Source: Asian Development Bank 2025

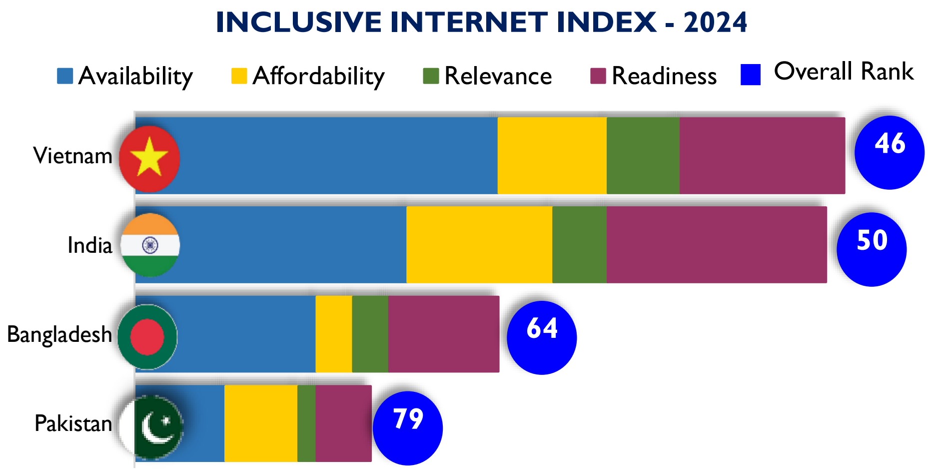
Internet access and its usage in Pakistan remain limited, with 58.4% total broadband penetration, but only 1.3% fixed broadband penetration, below the South Asian average (2.4%)[11]. Meanwhile, 54.8% of the population has mobile broadband access. The digital landscape in Pakistan also reflects a gender divide in mobile ownership: 86% of men own a mobile phone, compared to just 53% of women. The country also ranks 100th globally in broadband speed. According to the UNDP's Digital Development Index (2024), nearly half of Pakistan's districts (60 in total) are categorized as having low digital development, with 38 districts classified as having very low digital development. These indicators highlight not only accessibility issues but also significant gaps in affordability, reliability, and quality of digital services compared to other Asian countries, see figure below.

Figure 30: Snapshot of Pakistan's Digital Infrastructure



Source: Asian Development Bank (2025), Pakistan Telecommunication Authority (PTA) and SpeedTest.net

Figure 31: Inclusive Internet Index: Comparison of Selected Regional Countries



Data Source: United Nations

According to the Karandaaz Financial Inclusion Survey (K-FIS) 2024[12], Pakistan's financial inclusion has risen to 35% (up from 14% in 2017), reflecting modest gains. However, financial literacy remains low, only 22% in 2024, up from 14% in 2017. These statistics are well below the targets set under the National Financial Inclusion Strategy (NFIS) of 75% inclusion by 2028. Pakistan's digitalization drive represents a pivotal structural shift with far-reaching socio-economic implications. Without addressing binding constraints, such as the digital infrastructure deficit, rural-urban disparities, digital gender divide, and low fixed broadband

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[11] Nakhoda, A. (2023). Digital divide: Opportunities for economic growth. The Express Tribune. Available at: https://tribune.com.pk/story/2427626/digital-divide-opportunities-for-economic-growth

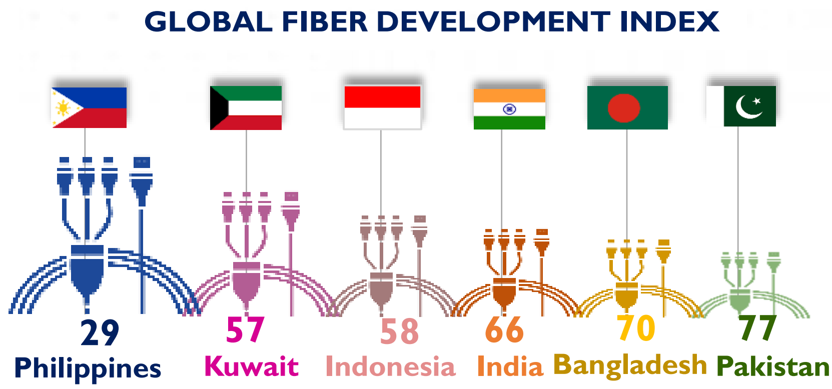
[12] Karandaaz Financial Inclusion Survey (K-FIS 2024) Portal. Available at: https://portal.karandaaz.com.pk/category/karandaaz_financial_inclusion_survey_insight/2014

penetration, Pakistan risks deepening existing inequalities rather than leveraging digital transformation as a catalyst for productivity, fiscal strengthening, and inclusive growth.

Priority 1: "Improve Digital Structure and Services to Support a Techno-Economy"

In the current digital era, stable internet access has become a fundamental necessity. However, Pakistan's fiber-optic infrastructure remains underdeveloped, as reflected by its 77th ranking out of 81 countries in the 2024 Global Fiber Development Index (FDI), compared to regional peers like India (66th), Bangladesh (70th), and Indonesia (58th). The national average for internet access in Pakistan is 32.27%, with urban areas at 47.76% and rural areas at 23.32% (UNDP, 2024). This urban-rural divide exists in digital infrastructure, cellular ownership, and even the quality of the internet. In addition to these, the digital sector faces various challenges in the development of digital infrastructure, as summarized below:

Figure 32: Pakistan's Ranking on Fiber Development vs Peers



Data Source: OMDIA

Slow Policy Response & Spectrum

Pakistan's slow adoption of advanced technologies has delayed transitions from 3G to 5G (initially planned for 2022). This issue is compounded by inefficient 5G spectrum pricing, which is twice the regional benchmark and linked to dollar-based fees, making telecom companies vulnerable to rupee instability. These costs now account for 20% of revenues, putting significant pressure on both the telecom sector and the broader digital economy.[13]

Exorbitant Sectoral Taxes

Telecommunication Sector remains one of the heavily taxed sectors in Pakistan and facing multiple modes of taxation & levies: Federal Taxes (29% Corporate Tax, 10% Super Tax, 15% of base tariff as Advance Tax, 4% Minimum Tax, 2% of revenue in Universal Service Fund (USF), 0.5% of Gross Revenue in Annual License Fees) and Provincial (19.5% Sales Tax on Services[14]). According to GSMA & ADB (2025), Mobile users in Pakistan face a 30-33% combined tax on recharges, increasing consumers' costs and contradicting Pakistan's Digital Economy vision. While most phones in Pakistan are imported, locally produced phones are predominantly low-end 2G devices (38.5%). Since 2022, local production has declined, whereas a promised 3%

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[13] Rana, S. (2025). Auction delay risks $25b IT exports. *The Express Tribune*. Available at: https://tribune.com.pk/story/2565709/auction-delay-risks-25b-it-exports

[14] Standard Rate is 19.5% in all four provinces. KPK and Balochistan allow lower rates in certain cases; residential broadband is exempt.

R&D allowance for local manufacturers remains unmet. Despite Provinces charging higher taxes than on any other service, they contribute minimally to the development of the digital sector in terms of investment in infrastructure and encouraging digital use (ADB, 2025).

Policy Inconsistency

The telecommunication sector's survival relies on capital-intensive and long-term investment. However, unpredictable tax and regulatory policies hinder this sector's growth, hindering investment particularly in the infrastructure side. This may be a key reason for the ongoing exit of foreign investors such as Telenor Group.

Infrastructure Bottlenecks & Disruptions

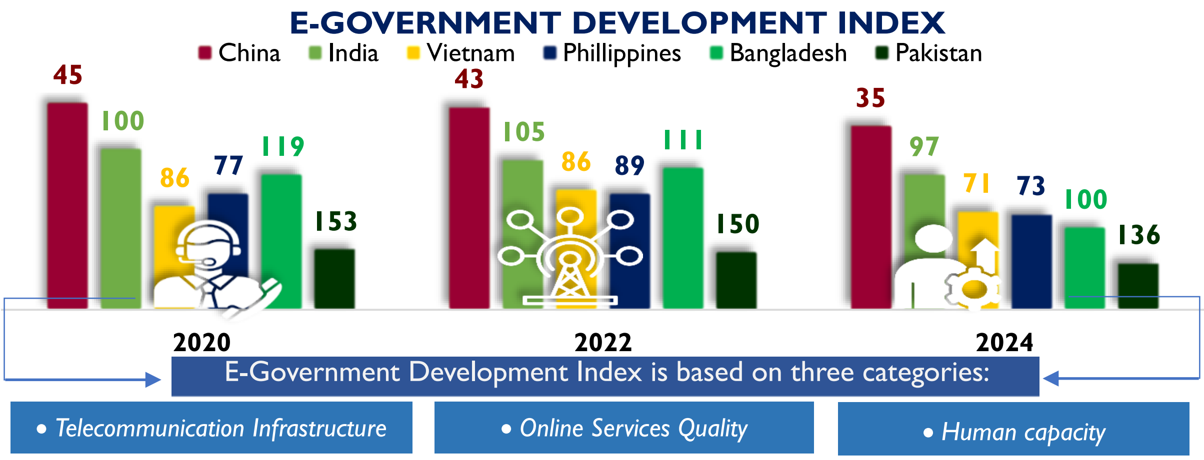
Multiple charges and permissions for laying fiber-optic cables (Right-of-Way), along with 5%-15% duties on telecom infrastructure equipment, hinder broadband growth. Flood damage and security disruptions further complicate network development. Despite 97.6% household electricity access, 31.1% receive less than 16 hours daily, with 11% facing 14+ unscheduled outages per week, and 80.8% experiencing 4–14 outages lasting over 2 hours weekly.[15]

Internet Speed & Quality Challenges

Pakistan faces a persistent challenge in internet service quality due to bandwidth limitations. While top nations average speeds over 100 Mbps, Pakistan struggles with 20-30 Mbps, well below the global average of 90-100 Mbps, reports Speedtest.net.[16]

E-Governance in Pakistan: Pakistan ranks 136th in the 2024 UN E-Government Development Index and Category B in the World Bank's Government Tech Maturity Index, behind India's Category A. Despite improving from 153rd in 2020, progress lags behind countries like Bangladesh and Vietnam. To close this gap, Pakistan needs policy reforms to accelerate digital transformation.

Figure 33: Internet Adoption in Pakistan's Government



Data Source: UN E-Government Knowledgebase

[15] Insights from World Bank's Pakistan Energy Access Survey 2024
[16] The News, (2025). Pakistan's internet monopoly chokes growth: Wispap. *The News*. Available at: https://www.thenews.com.pk/print/1287460-pakistan-s-internet-monopoly-chokes-growth-wispap

Priority 2: "Develop Startup and Funding Ecosystem"

Pakistan has the fifth-largest youth population globally, with significant growth in youth-led businesses driving economic change, though challenges persist. A key issue is the lack of a standardized definition for startups across regulatory bodies. The table below highlights discrepancies in startup criteria, such as FBR considering companies up to 10 years old as startups, while SBP limits it to 5 years. Additionally, turnover limits vary, with some regulations focusing on the tech sector while allowing other sectors under specific conditions.

Table 6: Comparison of Startup Criteria Across Key Regulatory Frameworks in Pakistan

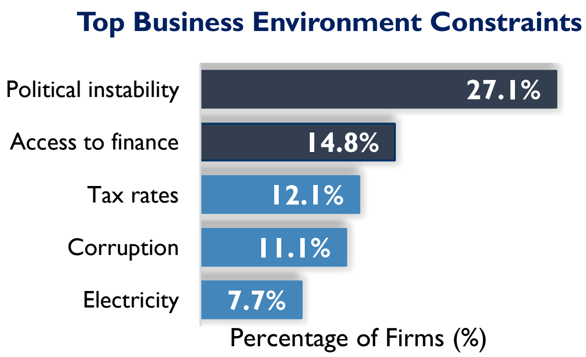
	Companies Act, 2017	Income Tax Ordinance, 2001	State Bank of Pakistan (SBP)
Time Limit	Up to 10 years	Commenced on or after July 1, 2012	Up to 5 years
Turnover Threshold	Less than PKR 500 Mn in each yr since incorporation	Less than PKR 100 Mn in each of the last 5 years	Small: PKR 150 Mn Medium: PKR 150-800 Mn
Other Requirements	Innovative companies with high growth potential	- Focus on tech-driven products/ services - Registered with PSEB	
Eligibility for Non-Tech Companies	Applicable to other companies notified by the Commission	Requires Board and Federal Minister approval	

Data Source: Companies Act 2017, Income Tax Ordinance 2001, State Bank of Pakistan
***Note:** PSEB = Pakistan Software Export Board, Mn =Million*

Startups in Pakistan struggle to grow due to macroeconomic instability and limited access to finance, with 27.1% and 14.8% of firms citing these as major barriers (see figure on the right). Despite a surge in funding in 2021-2022, the 2023 downturn has pushed startups back to pre-COVID levels due to market unsustainability, though signs of rebound are emerging. Within this challenge, female startups face greater funding challenges than male-led ones, highlighting the need for targeted measures to support women's entrepreneurship.

The Government- initiated Pakistan Startup Fund (PSF), launched in 2024, is a positive step, but it faces criticism for its limited reach and ineffectiveness in attracting venture capital. Local VCs are limited in activity, and liquidity constraints and uncertainty over profit repatriation deter foreign VCs. The PSF often acts as a last-resort investor, contributing only 10%-30% of the total investment from a VC. With formal institutions like banks reluctant to extend credit to high-risk startups, the funding landscape remains ineffective in supporting growth (Ahmad, 2024). Under the Companies Act 2017, Startups are also obligated to follow similar financial reporting and compliance standards, such as audits and disclosures, regardless of their size, causing unnecessary delays in deal closures (Invest2innovate, 2025). The existing 100% tax exemption for the first three years for new IT

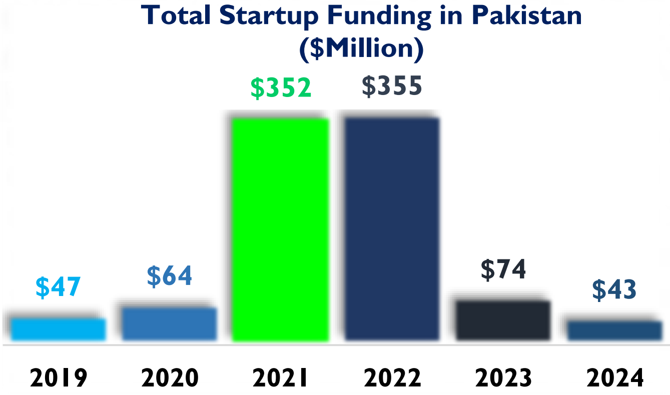
Figure 34: Top Challenges cited by Businesses in Pakistan and Startup Funding in Pakistan



Data Source: World Bank Enterprise Survey 2022 startups registered with PSEB is a positive step. However, these companies often struggle during their mid-development years and require continued fiscal support, especially during times of economic hardship.

According to the Pakistan Software Export Board (PSEB), 43 Software Parks have been established across major cities in Pakistan[17] to support IT/ITeS companies and expand the country's digital landscape. However, the Karachi IT Park, the largest of its kind, is still in its initial stages,[18] having been approved in 2021. Similarly, the Islamabad IT Park is also under development.[19]

Figure 35: Top Challenges cited by Businesses in Pakistan and Startup Funding in Pakistan



Data Source: Invest2Innovate, Pakistan Startup Ecosystem Report

Priority 3: "Develop Training, Skill Building, and Promote Freelancing"

Pakistan's ICT sector has experienced significant growth in recent years, becoming one of the fastest-growing sectors of the economy.[20] IT services are the largest contributor to total service exports, reaching $3.8 billion in FY25, accounting for 45.4% of total service exports. Following closely are other business services (including legal, management, and technical consulting), which reached $1.7 billion, with a 9.2% year-on-year growth, making up 20.1% of total service exports in FY25.

Payoneer ranks Pakistan as the fourth-largest freelancing country and consistently places it among the top countries for outsourcing.[21] High unemployment and an ailing economy have led to a shortage of full-time jobs, pushing many people to opt for remote and flexible work. While Pakistan's IT sector contributes 3.04% to GDP (PES, 2025), it faces a significant skills gap. The P@SHA Skill Gap Survey 2022 highlights shortages of skilled human resources in software development, cybersecurity, cloud computing, and data analytics. Despite 72,000 annual CS/IT graduates, many lack industry-relevant skills due to weak academia-industry linkages, resulting in only 18.3% securing employment. Graduates also often lack practical soft skills, such as communication, teamwork, and problem-solving, leaving them unprepared for the workforce. The government-initiated DigiSkills and E-rozgar programs are positive steps in equipping individuals with freelancing skills, but their content and courses need regular updates to remain relevant. Freelancers in Pakistan face major challenges due to unethical compensation, delayed payments, and unfulfilled contracts, highlighting the need for strong government support in payment protection and contractual accountability.

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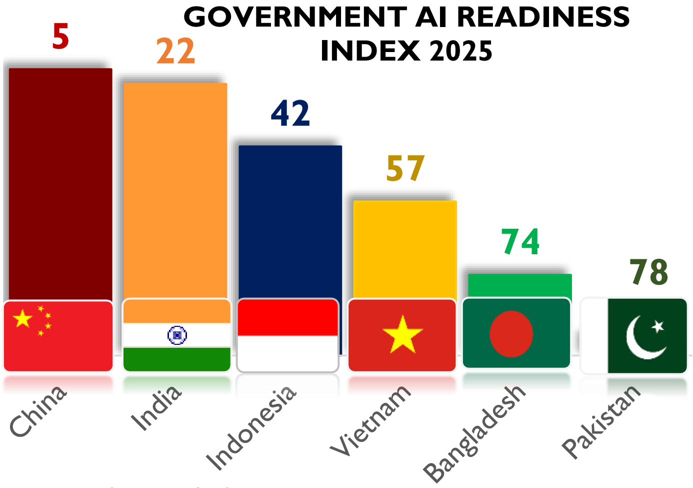
[17] Business Recorder. (2024). Government to establish 10 IT parks by next year: IT Ministry. *Business Recorder*. Available at: https://www.brecorder.com/news/40304707/government-to-establish-10-it-parks-by-next-year-it-ministry.
[18] Ali, K. (2025). National Assembly committee reprimands PTA over slow internet. *DAWN News*. Available at: https://www.dawn.com/news/1955925
[19] The Nation. (2025). 80pc work completed on Islamabad IT Park. *The Nation*. Available at: https://www.nation.com.pk/17-Nov-2025/80pc-work-completed-islamabad-park
[20] Pakistan Telecommunication Authority: Available at: https://www.pta.gov.pk/assets/media/ict-ind-moit-220716.pdf
[21] Top 10 Freelancing Countries by Payoneer. Available at: https://www.payoneer.com/resources/business/top-10-freelancing-countries/

The lack of reliable payment gateways like PayPal remains a major barrier for Pakistani freelancers. This limits their potential in the global market, as they face higher transaction costs through alternative methods.[22] PayPal relies on a large user base and operates on lower margins compared to competitors like Payoneer and Skrill. These low margins, combined with high regulatory costs and stringent customer due diligence, make entry into Pakistan difficult. To operate as an Electronic Money Institution (EMI) under State Bank of Pakistan (SBP) rules, companies must meet high capital requirements and go through a three-stage license approval process, making entry both costly and time-consuming (PIDE, 2021). Despite these challenges, the freelance economy in Pakistan has the potential to significantly contribute to the country's GDP, empower youth and women, and drive the country toward a more diversified digital economy.

Priority 4: "Develop an Artificial Intelligence Framework"

While AI is revolutionizing economies and transforming development globally, countries are working together to develop ethical and legal guidelines for a safe, traceable, and transparent use of the advanced technology. In 2021, the EU developed the world's first AI Law[23] - a risk-based classification framework that can be used in different applications, overseen by people. India has just announced its AI Governance Guidelines 2025, based on seven principles to foster cutting-edge technology in the country.[24] UAE AI Strategy 2031 lists 12 principles to guide companies to deploy AI tools aligned with societal values and regulatory framework (KPMG, 2025). Pakistan is ranked 78th on Oxford Insights' Government AI Readiness Index 2025, lagging behind regional peers such as China (5), India (22), Indonesia (42), Vietnam (57), and Bangladesh (74).

Figure 36: Pakistan's Ranking on Government AI Readiness Index versus Peers



Data Source: Oxford Insights

Although Pakistan has launched a National AI Policy in mid-2025, Pakistan's ethical and legal AI framework remains underdeveloped. Though the policy is ambitious in its objectives, it lacks clear direction. Overlapping jurisdictions, such as between HEC and MOITT, are a concern (PIDE, 2025). While the policy identifies priority sectors for AI adoption, no specific measures or projects have been announced. Additionally, weak coordination between provincial IT departments remains a huge concern. Despite some progress, AI education in Pakistan is still not formalized in degree programs, though federal and provincial-level certificates and training programs do exist. The UNDP emphasizes that AI's rapid evolution requires global

[22] Abbasi. W. (2025). Pakistan's IT start-ups, freelancers struggle with payment barriers despite record exports. Arab News. Available at: https://www.arabnews.com/node/2623262/pakistan
[23] European Parliament. (2025). EU AI Act: first regulation on artificial intelligence. Available at: https://www.europarl.europa.eu/topics/en/article/20230601STO93804/eu-ai-act-first-regulation-on-artificial-intelligence
[24] AI Data & Analytics Network. (2025). India unveils new AI governance guidelines to encourage responsible adoption. Available at: https://www.aidataanalytics.network/data-science-ai/news-trends/india-unveils-new-ai-governance-guidelines-to-encourage-responsible-adoption

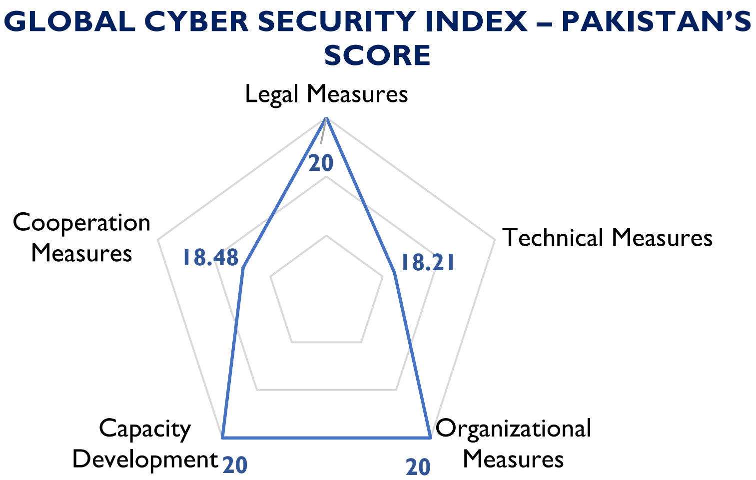
cooperation on governance norms to ensure equitable benefits. Many initiatives, such as the National AI Council and the National AI Fund, are still under development.

Priority 5: "Enhance Cybersecurity Capabilities"

Developing countries like Pakistan face mounting cybersecurity challenges that directly affect national security, economic stability, financial markets, and social well-being. With digital assets, including databases, networks, software, hardware, and intellectual property, becoming central to both public and private operations, the risks of ransomware, data breaches, cyber-espionage, and service disruptions have grown significantly. While Pakistan has laid the groundwork through its National Cyber Security Policy 2021, Pakistan Cyber Emergency Response Team (PKCERT), and related Acts, its cybersecurity landscape remains fragmented across multiple agencies, and limited inter-agency cooperation. The establishment of a Cybersecurity Authority and the Cybersecurity Act are in progress, but implementation of the Cybersecurity Policy remains a key challenge (Kashan *et al.*, 2022).

While the ITU Global Cybersecurity Index 2024 ranks Pakistan within its Top Tier (Tier-I: Role-Modelling) with a score between 95-100, it still lags in technical and cooperation pillars (see figure below). Pakistan saw a 17% increase in cyberattacks in 2023[25] and a 35% rise in cybercrimes in 2025[26]. While the Cybersecurity Act and Cybersecurity Authority are in development, Pakistan's cybersecurity infrastructure remains underdeveloped, particularly with emerging technologies like AI and IoT, and a shortage of skilled cybersecurity experts.

Figure 37: Pakistan's Standing on Global Cyber Security Index



Data Source: International Telecommunication Union (ITU)

With the State Bank of Pakistan (SBP) planning to regulate cryptocurrencies, strengthening cybersecurity infrastructure and cooperation is critical for Pakistan's future. However, without cohesive regulatory efforts and skilled professionals, achieving comprehensive protection

[25] Rizvi, J. (2024). Pakistan sees 17pc rise in cyberattacks in 2023, but still low in region: Kaspersky. *The News*. Available at: https://www.thenews.com.pk/print/1159347-pakistan-sees-17pc-rise-in-cyberattacks-in-2023-but-still-low-in-region-kaspersky.

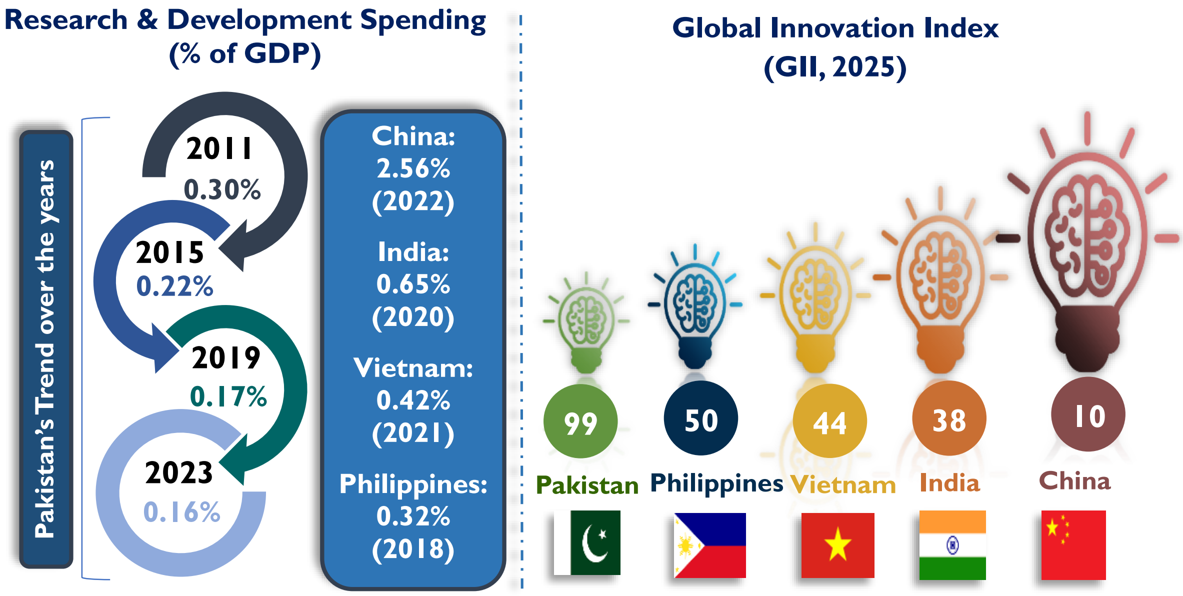
[26] Hussain. B. (2025). Cybercrime surges 35% in Pakistan in 2025 amid govt's push for cryptocurrency legalization. *Business Recorder*. Available at: https://www.brecorder.com/news/40388687/cybercrime-surges-35-in-pakistan-in-2025-amid-govts-push-for-cryptocurrency-legalisation

remains a pressing concern. The National Cybersecurity Policy was due for review every three years, but the delay has left it outdated amid evolving cyber threats.

Priority 6: "Reorient Science, Technology, and Engineering to the Economy"

Pakistan's position in the Global Innovation Index (2025) highlights its slow progress in fostering innovation compared to regional competitors. Ranked 99th globally, Pakistan has seen a decline in its innovation score over the years: 88th (2023), 91st (2024), and now 99th (2025). In contrast, countries like China (ranked 10th), India (38th), and Vietnam (44th) have made significant strides, reflecting their stronger emphasis on Science, Technology, and Innovation (STI) policies. Pakistan's innovation landscape remains underdeveloped in comparison to its neighbors. India's rapid technological advancements and China's leading position in innovation underscore the need for Pakistan to revamp its R&D strategies, invest in education, and encourage academia-industry linkages.

Figure 38: R&D Spending as % of GDP & Pakistan's Standing on GII



Data Source: World Bank and World Intellectual Property Organization (WIPO)
(Recognized by the UN as a guiding reference for Science, Technology and Innovation Policies)

This stagnation is mirrored in the country's declining R&D spending, which has decreased from 0.30% of GDP in 2011 to just 0.16% in 2023. This downward trend is concerning for Pakistan, as it risks hindering the country's ability to develop cutting-edge technologies, drive industrial innovation, and improve global competitiveness. The lack of adequate funding for R&D could undermine efforts in critical sectors, where innovation is essential to address national challenges and improve living standards.

Policy Recommendations

Priority 1: "Improve Digital Structure and Services to Support a Techno-Economy"

- **Expand Digital Infrastructure:** Expand ICT infrastructure, particularly in rural areas, through fiber optic networks by providing incentives in unserved and underserved areas. Strengthen public-private partnerships to improve international gateways and foster competition. Streamline financial and regulatory Right of Way barriers to enhance digital infrastructure and ensure internet reliability.
- **Expedite Spectrum Auctions & Rationalize Taxation:** Expedite spectrum auctions to prevent further economic losses. Develop a rationalized spectrum policy with reasonable costs, delink fees from the dollar, and streamline interest payments. Rationalize telecom sector taxes, duties on mobile recharges, and infrastructure equipment to improve digital affordability.
- **Provincial Contribution & Quality Assurance:** Ensure provincial governments actively contribute to developing digital infrastructure and promoting the digital economy by offering subsidized digital services in schools and educational institutions. Incentivize adoption of Minimum Broadband Speed Standards to match global benchmarks within a phased timeline (e.g., 2–3 years).
- **Modernize Public Sector Functions:** Integrate digital technologies at all government levels to improve efficiency, transparency, and service delivery. This will streamline operations, reduce administrative bottlenecks, and enhance citizen engagement.

Priority 2: "Develop Startup and Funding Ecosystem"

Facilitate Startup Growth

Harmonize startup definitions across all regulatory bodies including SBP and FBR, simplify early-stage reporting requirements, and provide subsidized financial, legal, and IP support to enhance the growth of startups.

Incentives for IT Exporters

Introduce a 5-year tax holiday or reduced tax rates for the 4th and 5th years of operation. Provide a 5% cash incentive for IT exporters to boost the sector's growth and competitiveness.

Accelerate IT Park Development:

Expedite the establishment of IT parks to support the growth of the IT sector, aiming to raise IT exports to US$10 billion over the next 10 years.

Support Female Entrepreneurs

Encourage banks to provide funding specifically to female-led startups, addressing gender disparities and promoting inclusivity in the entrepreneurial ecosystem.

Priority 3: "Develop Training, Skill Building, and Promote Freelancing"

- **Mandate IT/Digital Literacy in Educational Institutions:** Integrate mandatory IT and digital literacy courses into all educational levels and update outdated computer/IT syllabi in primary education to include advanced IT subjects. This will equip students with the necessary tech skills for the future workforce at all educational levels. Additionally, offer scholarships for women pursuing studies in IT, engineering, and other technology-related fields to encourage gender equality in the digital workforce.

- **Tax Incentives for IT Training & Research Investments:** Provide tax incentives for companies that invest in IT training programs and technology research, incentivizing private sector engagement in building a skilled workforce.
- **Expand Vocational Courses in Emerging Fields:** Introduce more vocational training in areas like software development, IoT, cybersecurity, data analytics, AI Tools, Cloud Computing, Big Data, and blockchain to remain competitive in the global digital economy.
- **Introduce Legislation for Freelancer Rights:** Introduce legislation for Freelancer Rights to guarantee social security benefits, and Contract enforcement mechanisms (via PSEB or provincial IT boards), extend incentives to other business services such as legal consultancy and other business services.
- **Simplify Regulatory Framework for International Payment Gateways:** Streamline regulations for international payment gateways, such as PayPal, making it easier for businesses and freelancers to conduct cross-border transactions.
- **Link Bonuses/Research Grants to Faculty-Industry Partnerships:** Tie bonuses and research grants to faculty-industry collaborations, encouraging academic researchers to focus on practical, market-relevant research.

Priority 4: "Develop an Artificial Intelligence Framework"

- **AI Framework Guidelines:** Develop an AI – Ethical Framework, aligned with global practices, to promote transparency accountability, and fairness across industries, social media, and academia.
- **AI Adoption into Education:** Update curricula to integrate AI and advanced technologies across all disciplines. Introduce AI and related fields as core subjects or degree programs in universities, ensuring students are equipped with the skills needed for the future workforce.
- **Adopt AI in Public Sector Governance:** Leverage AI for planning, budgeting, real-time monitoring, and data-driven decisions in government systems.

Priority 5: "Enhance Cybersecurity Capabilities"

- **Upgrade PakCERT:** Expedite the formation of a national cybersecurity body to strengthen coordination among departments and provide a unified national response framework.
- **Align Regulations:** Align cybersecurity regulations with FATF, IMF, and IOSCO standards, join international alliances like APCERT, and establish a framework for inter-agency coordination.
- **Develop Cybersecurity Expertise:** Train officials, build cybersecurity skills, foster public-private partnerships (PPPs), and enhance global collaboration.

Priority 6: "Reorient Science, Technology, and Engineering to the Economy"

- **Prioritize Key Economic Sectors:** Enhance research and development funding as % of GDP and focus R&D funding on priority areas such agro-processing, clean energy, healthtech, ICT, and manufacturing.
- **Government-Supported Pilot Projects:** Launch government-backed pilot projects in key sectors and leverage the Export Development Fund to provide subsidies and research-based grants, fostering innovation and growth.
- **Integrate Science, Technology, and Innovation (STI) into Industries:** Establish innovation hubs, foster public-private partnerships, and develop a comprehensive Industry 4.0 adoption plan in collaboration with provincial governments to drive technological advancement and industrial growth.

Policy Matrix

TARGETS/ OBJECTIVES	CURRENT STATUS	CRITIQUE/ GAP
DIGITAL PAKISTAN POLICY 2018		
• Promote ICT across all sectors. •	• Digital Economy: 1.5% of GDP. • Financial Inclusion stands at 35% (2024), up from 14% (2017).	• Lack of clear roadmaps, time-lines, & resource commitments. • Overlapping governance bodies and insufficient infrastructure focus, particularly on internet speed and bandwidth availability. • Negligible role of provinces in digitalization.
• Boost IT exports & remittances.	• 81% Growth in ICT Exports & 30.0% Growth in Remittances	
• Establish IT Parks and enhance digital literacy.	• 43 Software Parks have been established. • Karachi and Islamabad IT Parks are still underdevelopment.	
• Advance e-Governance at all levels.	• E-Government Development Index (EGDI, 2024): Pakistan (136), Bangladesh (100), India (97), the Philippines (73), Vietnam (71), & China (35).	
• Improve Pak's ICT ranking.	• ICT Development Index Ranking 2024: Pakistan (137), India (133), Bangladesh (129), Vietnam (72).	
NATIONAL SCIENCE, TECHNOLOGY & INNOVATION (NSTI) POLICY 2022		
• Set up the Monitoring Unit, the Steering Committee, & implementation plan.	• No official committees/ plan exists.	• Lacks a unified roadmap or monitoring framework. • No linkage to Industry 4.0. • Limited private sector engagement.
• Promote startups, technology transfer & Strengthen research funding agencies.	• Innovation & Startup Funds established, but HEC's PSDP Funding has been cut: Rs 60Bn (FY24), Rs. 39 Bn (FY26). • Venture Capital: $355M (2022), dropping to $43Mn (2024) & $73.2 Mn (till Q32025).	
• Strengthen national STI governance and coordination b/w federal, provincial, and sectoral institutions.	• Global Innovation Index: Pakistan ranked at 88th (2023), 91st (2024), and now 99th (2025).	
CYBER SECURITY POLICY 2021		
• Establish NCERT to coordinate cybersecurity efforts & strengthen cybercrime laws and regulations.	• Fragmented Wings under Different Ministries.	• Coordination among different departments is missing. • Lack of Clear & Concrete Implementation Strategies. • Periodic commitment to review the draft has not been made yet.
• Build public–private partnerships.	• GCI Ranking (Tier –I: 40 Countries): Among countries with 95-100 score (2024); weak in Technical & Cooperation.	
• Develop a cybersecurity workforce.	• National Center for Cyber Security (NCCS) Cybercrime Investigation Agency (NCCIA) &	

TARGETS/ OBJECTIVES	CURRENT STATUS	CRITIQUE/ GAP
	were established in 2018 and 2024, respectively.	
• Raise cyber awareness & drive R&D-based solutions.	• Low awareness among people, especially in rural areas.	
NATIONAL AI POLICY 2025		
• Formulate an AI Ethical Framework aligned with the UN.	• No National AI Council established yet.	• The absence of an ethical framework for AI results in a lack of a comprehensive structure to guide its implementation effectively • The absence of a robust framework limits fairness, transparency, and accountability in AI systems.
• Establish the National AI Council to oversee implementation.	• National AI Fund (NAIF) proposed, yet not established.	
• Train 1Mn AI Graduates (by 2027), 5+ National AI Centers (during 2026-28); 2000 Patents in AI-led Projects (by 2026).	• Less than 10% of the workforce is skilled in AI. • No current programs for the public sector awareness of AI.	

NCERT = National Cyber Emergency Response Team, GCI = Global Cyber Security Index
Sources: ADB's Report (2025) titled "Pakistan's Digital Ecosystem", Karandaaz Financial Inclusion Survey 2024, State Bank of Pakistan, UN E-Government Knowledgebase, Business Recorder (2024), ITU's ICT Development Index.

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Green Growth Challenges for a Climate-Vulnerable Pakistan

Introduction

Environmental stress in Pakistan has reached a scale where it has become a constraint for economic performance, social stability, and long-term development. Pressures arising from water scarcity, climate variability, food insecurity, disaster risk, and ecosystem degradation increasingly impact across agriculture, energy, urban systems, public finance, and trade. These interconnected strains create self-reinforcing cycles that hinder growth, increase fiscal burdens, and undermine the country's overall economic resilience.

Pakistan has entered a phase of absolute water scarcity, with per capita water availability declining to approximately 930[27] Cubic meters per year, well below the internationally recognized scarcity threshold of 1,000 m^3, and this risk is magnified by the country's limited water storage capacity. Pakistan's ability to store water is limited to around 30 days, compared with approximately 190 days in India, about 900 days in the United States, nearly 1,000 days in Egypt, and multi-year storage capacity in China, reflecting decades of earlier policy action and sustained investment in water infrastructure. Combined with a heavy dependence on climate-sensitive agriculture, these constraints leave Pakistan far more exposed to climate variability, resulting in production volatility, income instability, and rising pressure on public finances and water-dependent sectors.

[27] World Wildlife Fund-Pakistan (WWF-P). https://www.wwfpak.org/our_work_/water_/

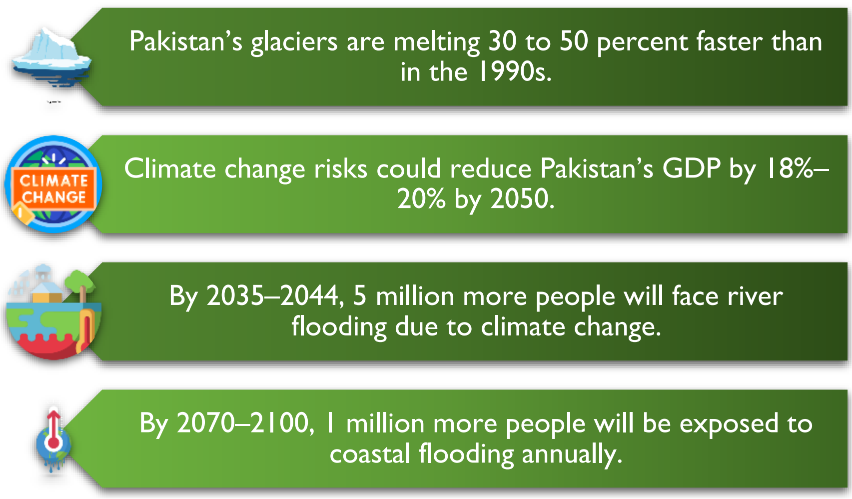
Table 7: Comparison of Pakistan's Water Storage Capacity

Country	Year of First National Water Policy	Water Storage Capacity
Pakistan	2018	30 days
India	1978	190 days
United States	1948 amended 1972	900 days
Egypt	1975	1,000 days
China	1988	Several years

Data Source: Khan, K. and Khan, A.A. (2022)

Climate change risks could further aggravate Pakistan's vulnerability, potentially reducing the country's GDP by 18%-20% by 2050 (World Bank, 2022). Furthermore, environmental stress will lead to significant population exposure, with 5 million more people projected to face river flooding by 2035-2044 due to increased rainfall, glacier melt, and extreme weather events. By 2070-2100, one million more people are expected to be exposed to coastal flooding annually, driven by sea-level rise, storm surges, and cyclones (WB & ADB, 2021). These projected impacts underscore the urgency of addressing environmental challenges, as they will only compound the existing stresses on Pakistan's agriculture, water resources, and public finances.

Figure 39: Impact of Climate Change on Pakistan's Environment and Economy



Data Source: World Bank & ADB 2021

The food insecurity and malnutrition in Pakistan underscore the significant impact of environmental and climate change pressures on societal well-being and economic stability. Between 2022 and 2024, approximately 16.5% of the population is reported as undernourished, with 42.1% facing moderate to severe food insecurity. These issues are further intensified by high rates of malnutrition, with an estimated 10.7 million children under the age of five experiencing stunted growth due to inadequate nutrition. Moreover, nearly half (46.5%) of women of reproductive age are affected by anemia, a condition linked to poor dietary intake and aggravated by food insecurity and limited access to nutritious food. Environmental challenges, such as water scarcity, climate change, and ecosystem degradation, are contributing to increased vulnerability to food insecurity.

Figure 40: Nutritional Challenges and Food Insecurity in Pakistan (2022-2024)

Prevalence of undernourishment (percent) (3-year average) 2022-2024: 16.5%

Prevalence of moderate or severe food insecurity in the total population (percent) (3-year average) 2022-2024: 42.1

Number of children under 5 years of age who are stunted (modeled estimates) (million) 2024: 10.7

Prevalence of anemia among women of reproductive age (15-49 years) (percent) 2023: 46.5%

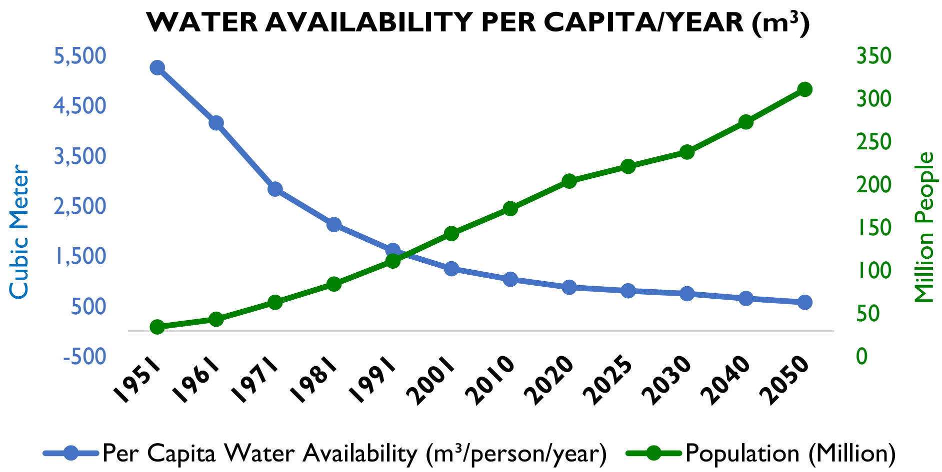
Data Source: FAO

This chapter integrates analysis across water security, food systems, climate change, disaster risk management, and forestation within a unified analytical framework.

Priority 1: "Build a Water-Secure Future for Pakistan"

Pakistan's water resources are facing critical challenges. Annual per-capita water availability has drastically decreased from approximately 5,600 m³ in 1947 to a mere 930[28] m³, falling below the threshold of 1,000 m³, which is considered the point of absolute water scarcity (Falkenmark, 1992).

Figure 41: Population & Declining Per Capita Water Availability (m³/year)

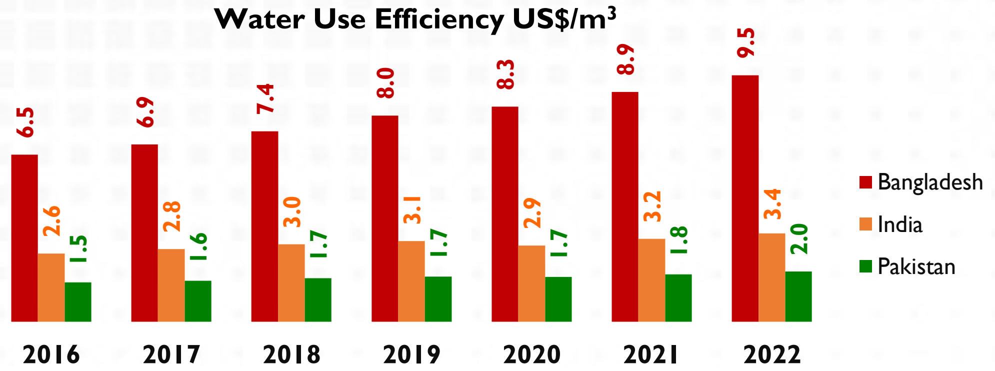


Data Source: Pakistan Engineering Congress. Integrated Water Resource Management in Pakistan

The nation's water demand far exceeds its supply, while storage capacity is limited to approximately 30 days, well below the international benchmark of 120 days. (Nazli, Liu, Wang, & Soomro, 2024). Climate change aggravates these pressures, as unprecedented heatwaves accelerate evaporation from reservoirs and rapid glacial melt poses a growing threat to the Indus River flows that sustain up to 80% of the country's agricultural land (Khizar et al., 2025). These developments jeopardize agricultural productivity, which relies on approximately 75% of the nation's blue water for major crops such as wheat, rice, sugarcane, and cotton, and places urban water supplies at significant risk (Muzamil et al, 2020). Projections from International Organization for Migration (IOM) indicate that, without urgent action, Pakistan could face absolute water scarcity by 2035. Moreover, Pakistan's water-use efficiency has shown gradual improvement but continues to trail behind that of both Bangladesh and India from 2016 to 2022.

[28] World Wildlife Fund-Pakistan (WWF-P). https://www.wwfpak.org/our_work_/water_/

Figure 42: Comparison of Water Use Efficiency



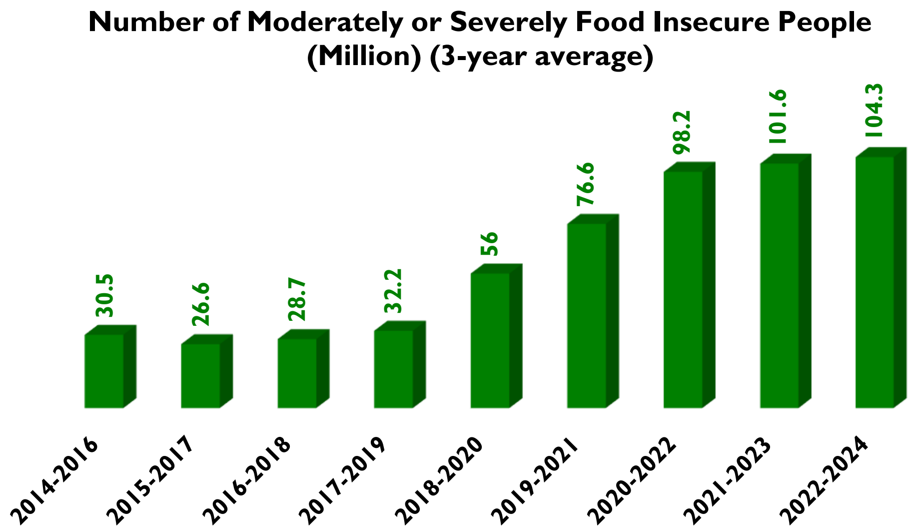
Data Source: AQUASTAT, FAO

Priority 2: "Enhance Food Security"

National food security is linked to the sustainability of the agriculture sector. Despite having the Indus Basin Irrigation System (IBIS), the largest contiguous irrigation system in the world, Pakistan's agricultural productivity remains suboptimal. This shortfall is evident in the country's poor performance in achieving Sustainable Development Goal (SDG)-2: Zero Hunger, which aims to eradicate hunger, food insecurity, and malnutrition by 2030. The decline in self-sufficiency, particularly in staple crops like wheat, has led to increased reliance on imports and higher domestic food costs.

According to the Global Food Security Index (2022), Pakistan is among the least food-secure countries in Asia. The National Food Security Policy of 2018 was introduced to address these challenges, but its inadequate implementation has failed to prevent declines in critical crop production. The number of moderately or severely food-insecure people in Pakistan has risen from 56 million during 2018-2020 to 104 million during 2022-2024.

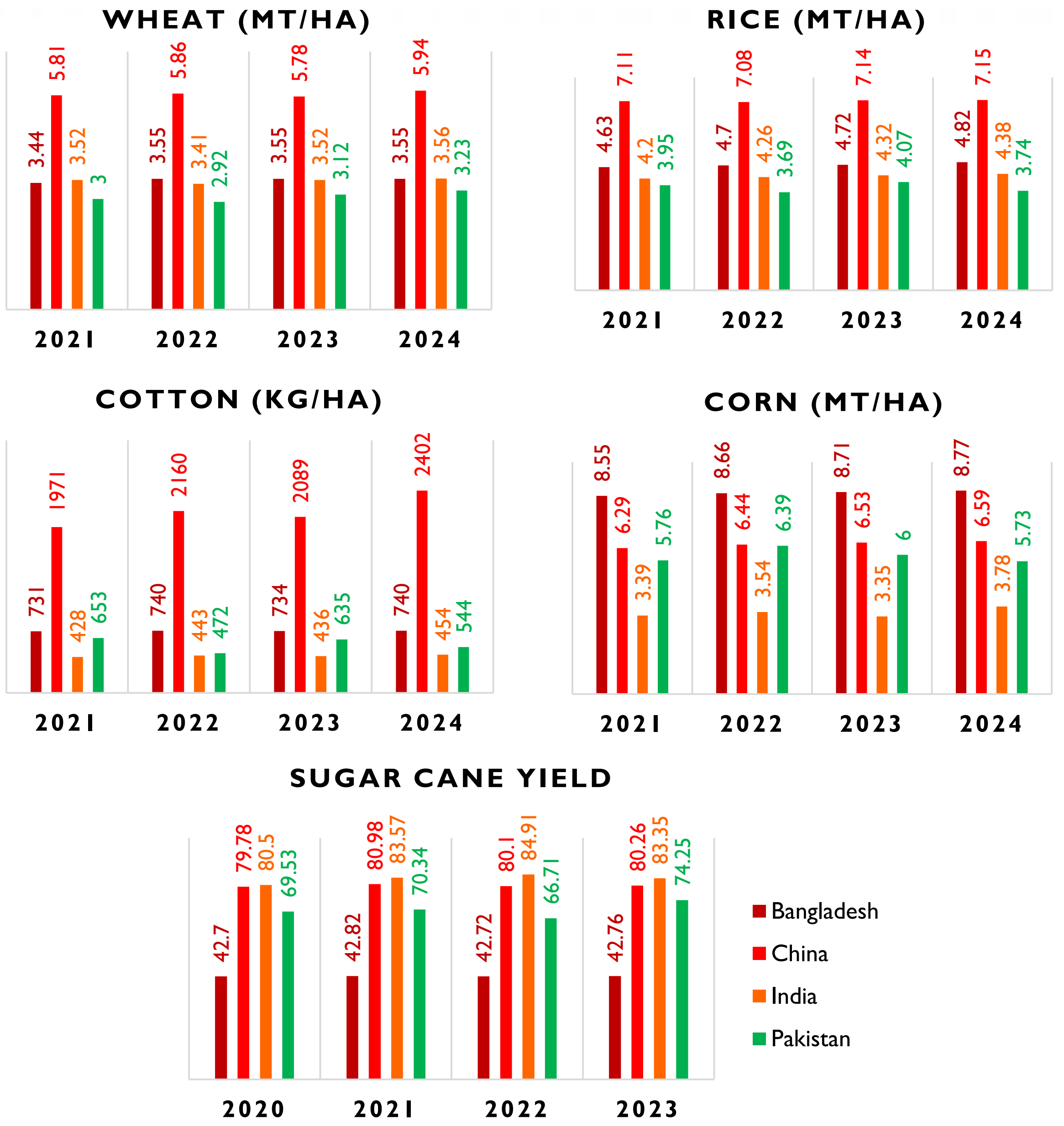
Figure 43: Trend of Moderate and Severe Food Insecurity



Data Source: FAO

The 2025 Global Hunger Index ranks Pakistan 106th of 123 countries. Approximately 16.5% of Pakistan's population is undernourished and about 33.6% of children under 5 are stunted.[29] Rural poverty and recurring climate shocks are intensifying this crisis, with nearly half of Pakistani households spending most of their income on food even before the recent floods (Shabnam et al., 2023). Extreme weather has already devastated vast areas of cropland, with the floods of 2022 and 2025 serving as stark examples. In 2022 alone, nearly one-third of the country was submerged, destroying millions of hectares of crops overnight. Record-high food and fuel prices, aggravated by climate-driven supply disruptions, have further eroded affordability. Adding to this challenge, Pakistan's major crops, including wheat, rice, and cotton, consistently yield less than regional peers such as India and China, limiting the domestic food supply and intensifying vulnerability.

Figure 44: Major Crop Yield Comparison by Peer Countries

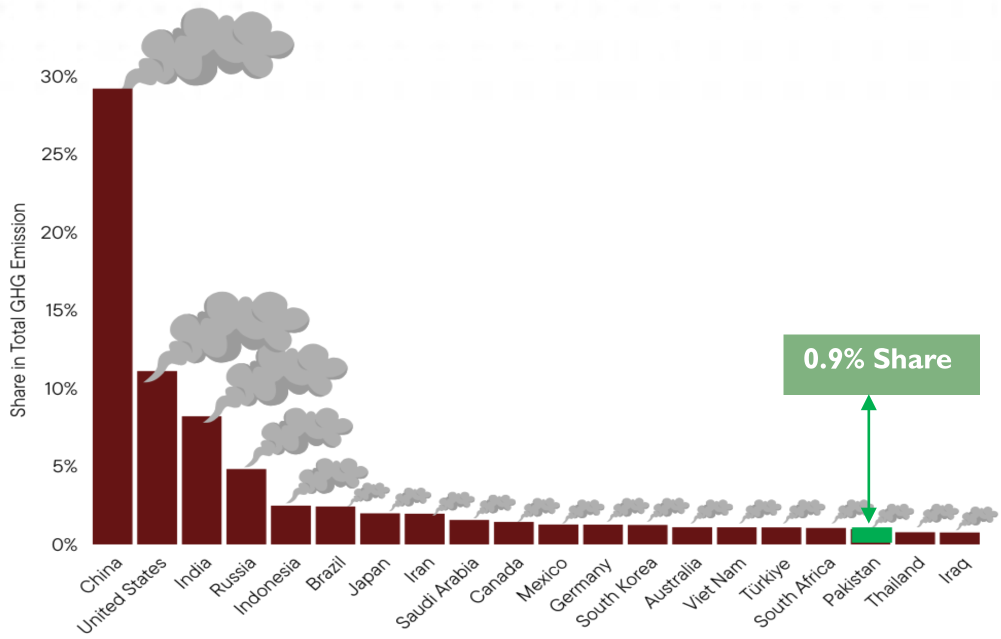


Data Source: USAD & FAO

[29] FAOSTAT

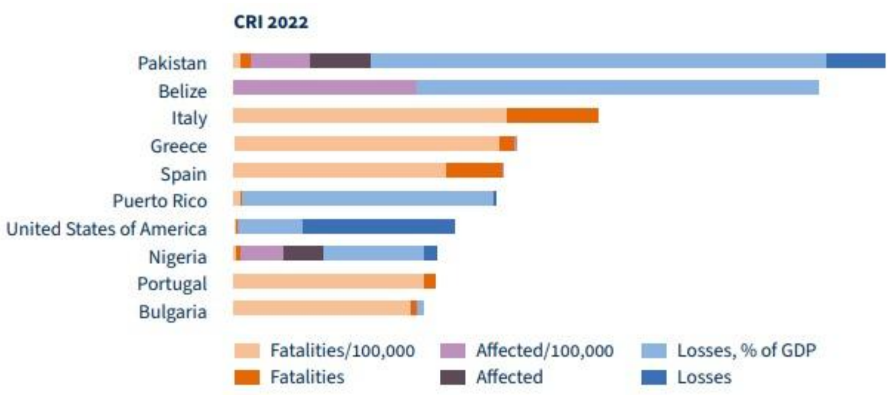
Pakistan accounts for approximately 0.9% of global greenhouse gas emissions and 0.5% of CO2 emissions; however, it is among the world's most climate-vulnerable countries (Ali and Mujahid, 2024). Historical climate records indicate that Pakistan's average temperature has increased by nearly 0.6 °C over the past century, accompanied by a gradual rise in sea level along the Karachi coast, from roughly 1.1 mm per year historically to about 3.6 mm per year in recent decades (MoCC, 2022; ADB, 2017; IFRC, 2021)

Figure 45: Global GHG Emissions Share by Selected Countries (2024)



Data Source: EDGAR - Emissions Database for Global Atmospheric Research

Figure 46: Countries Most Affected in 2022 (HDI-corrected) - Climate Risk Index 2025



Data Source: German Watch

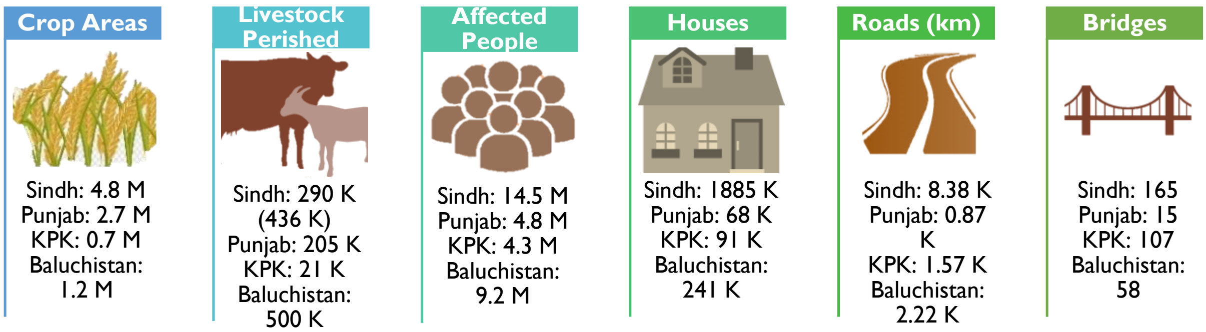
Pakistan's exposure to climate extremes has translated into escalating human and economic losses. Recurrent floods, heatwaves, and droughts have cumulatively cost the country an estimated US$29.3 billion between 1992 and 2021, equivalent to roughly 11% of GDP, through damage to infrastructure, agriculture, and livelihoods (World Bank, 2022). Notable climate events included the 2010 floods, which inundated nearly one-fifth of the country, prolonged drought conditions, and the 2015 heatwave, which led to widespread hospitalizations (WB & ADB, 2021). Moreover, Extreme heat has emerged as an equally critical threat; even during the flood year, heatwaves remained the leading cause of climate-related mortality, particularly in large urban centers such as Karachi, highlighting growing urban heat vulnerability (Amnesty, 2025). These repeated shocks underscore Pakistan's high structural vulnerability to climate change.

The scale of risk intensified dramatically in 2022, when record monsoon rainfall combined with accelerated glacier melt triggered unprecedented nationwide flooding. The majority of Pakistan's population was affected, economic damages exceeded US$30 billion, about 2.2% of GDP, while agricultural losses alone reduced output by around 0.9% of GDP (World Bank, 2022). The cumulative impact culminated in Pakistan being designated the world's most climate-impacted country in 2022, according to the Global Climate Risk Index 2025. Regardless, Pakistan has articulated increasingly ambitious climate commitments. Its Third Nationally Determined Contribution (September 2025) pledges a 50% reduction in economy-wide emissions by 2035 relative to a business-as-usual pathway, with a strong emphasis on renewable energy expansion and energy efficiency improvements. To support this transition, Pakistan has identified about US$565.7 billion in required climate investments, signaling recognition that climate mitigation can also advance development objectives such as improved air quality and green job creation (NDC, 2025).

Priority 4: "Mitigate and Adapt to Climate Change"

Climate change poses a severe threat to Pakistan's agriculture. Rising temperatures, erratic rainfall, heat waves, and shifting wind patterns strain crops, while inadequate R&D hinders the development of climate-resilient solutions, worsening food security risks. The World Bank's 2021 Climate Change Report highlights Pakistan's significant vulnerability to climate-induced challenges, with conditions expected to worsen by 2050. Among the various climate-related issues, floods have become a major concern, with both their frequency and severity increasing. In 2022 alone, flood-related losses in Pakistan soared to an estimated USD 30 billion, resulting in the loss of 1 million livestock, damaging 9.4 million acres of crop areas, and destroying 21.6 thousand animal shelters[30]. These devastating effects underscore the urgent need for effective disaster management and mitigation strategies.

Figure 47: 2022 Flood Impact



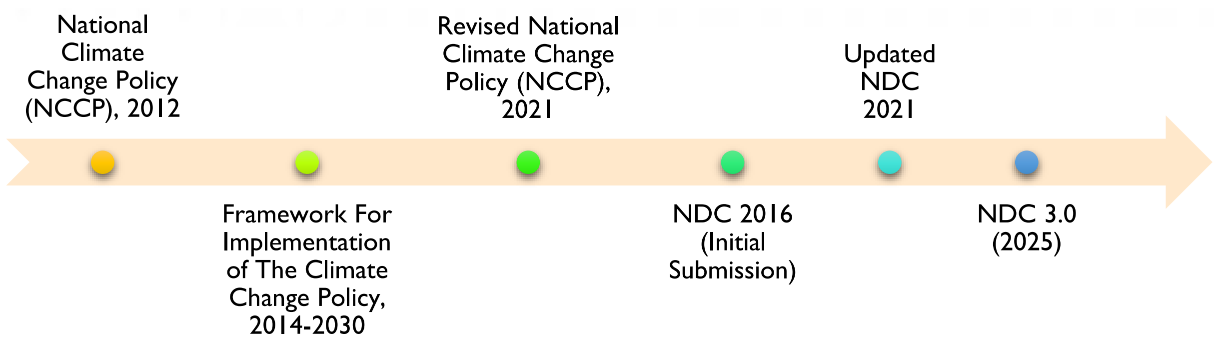
Data Source: FAO

Policy Evolution and Mitigation Commitments

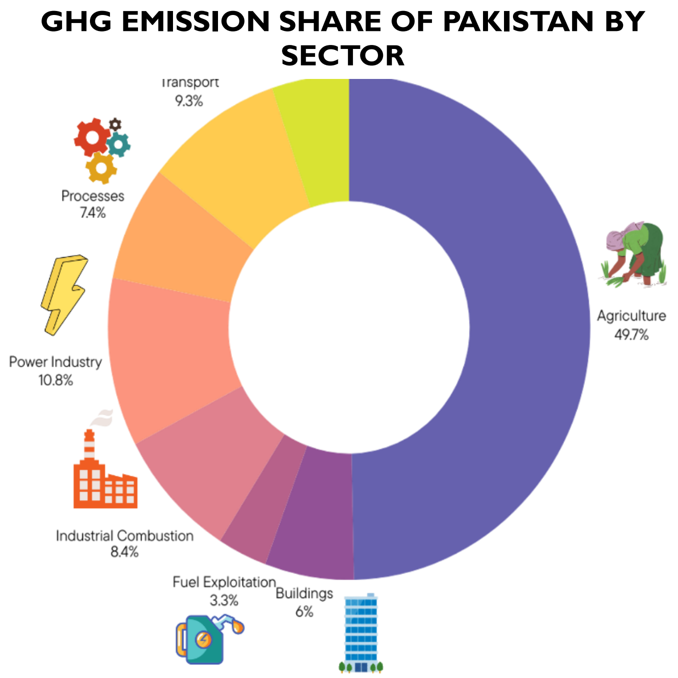
30 PRAC. (2024). *Probing the factors impacting food security* (Policy brief). Policy Research & Advisory Council, Karachi, Pakistan.

Pakistan has developed and revised its climate policy framework through a sequence of national strategies, including the National Climate Change Policy (NCCP) 2012, its Implementation Framework (2014-2030), and the updated NCCP 2021. The revised policy places greater emphasis on cross-sectoral priorities such as water-energy-food security and the role of nature-based solutions. In parallel, Pakistan's international mitigation commitments have evolved. The Updated Nationally Determined Contribution (2021) sets a target of a 50% reduction in greenhouse gas emissions by 2030, comprising 15% unconditional and 35% conditional components, supported by sectoral objectives such as achieving 60% renewable energy in the power mix and 30% electric vehicles. These commitments were further extended under NDC 3.0 (2025), which adopts a 50% economy-wide emissions reduction target by 2035.

Figure 48: Climate Policy Evolution and NDC Commitments



Mitigation remains centered on the energy and agriculture sectors, which together account for the majority of national emissions. While hydropower, solar, and wind expansion feature prominently in policy plans, implementation has been uneven, with solar deployment advancing more rapidly than other technologies (WRI, 2025).



Data Source: EDGAR

Nature-based mitigation has also gained visibility through large-scale afforestation and restoration initiatives, including the Ten Billion Tree Tsunami Programme, which is frequently cited in international assessments (Nature4Climate, 2019). Nevertheless, Pakistan's Climate Change Performance Index (CCPI) 2026 ranking of 15th globally indicates a mixed performance, characterized by relatively low emissions intensity but ongoing challenges in policy implementation and institutional capacity.[31]

[31] https://ccpi.org/country/pak

Adaptation as a Development Imperative

Adaptation has become a core development priority in Pakistan in response to escalating climate risks and repeated disaster losses. The National Adaptation Plan 2023 provides the overarching framework for strengthening resilience across key sectors, while disaster-focused instruments address specific risk dimensions. The 2022 floods triggered the Resilient Recovery, Rehabilitation and Reconstruction Framework, which identified at least USD 16.3 billion in priority recovery and resilience needs, and reinforced the direction of the Disaster Risk Reduction Strategy 2025-2030 with its focus on multi-hazard preparedness and early-warning systems. Moreover, Seeds, housing, and cropping systems must also adapt through climate-resilient seeds, safer housing, and climate-aligned cropping patterns to reduce losses. The recently launched national green taxonomy represents a promising step toward mobilizing climate finance and systematically integrating adaptation into development planning, provided it is widely adopted and utilized.

Financing the Climate Transition

Financing gaps fundamentally constrain climate action in Pakistan. During FY 2025-26, climate-related spending accounted for 6.9% of current expenditure and 8.2% of PSDP allocations in Pakistan's federal budget. The climate budget is distributed across adaptation (Rs85.43 billion), mitigation (Rs603 billion), and supporting areas (Rs28.33 billion), including capacity building and research (GOP, 2025-26). Despite these allocations, financing requirements remain substantially higher, with estimated climate investment needs of USD 348 billion during 2023-2030, of which around USD 152 billion relates to adaptation.[32] Considering the financing gap, Pakistan's NDCs explicitly separate climate actions feasible within domestic fiscal capacity from those that depend on international financial and technological cooperation.

Figure 49: Allocation of Budget 2025-26 by Climate Action

Data Source: Budget in Brief

Priority 5: "Develop an Integrated and Coordinated Disaster Risk Management Framework"

Pakistan is highly prone to flooding, including riverine, and flash, as well as droughts, and extreme temperatures. Between 2015 and 2024, floods were the most frequent disaster with 44 occurrences, followed by storms and extreme temperatures. In 2022, unprecedented flooding caused over US$ 30 billion in loss and damage, highlighting the scale of vulnerability.

Over the past three decades, Pakistan has experienced a marked increase in climate-related disasters, with floods showing a consistent and sharp rise, indicating growing hydrological risk under changing climate conditions.

[32] https://www.dawn.com/news/1888837

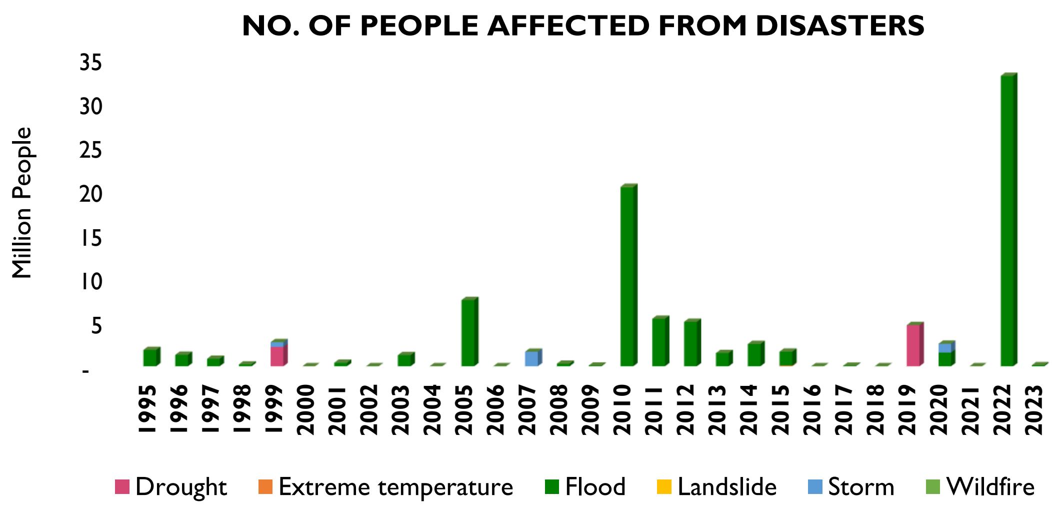
Table 8: Patterns of Disaster Frequency Over Time

Number of Disasters	1995-2004	2005-2014	2015-2024
Drought	1	0	1
Extreme temperature	8	3	6
Flood	18	35	44
Landslide	5	9	3
Storm	8	4	11
Wildfire	0	0	1

Data Source: EM-DAT

Floods account for the largest share of people affected, with certain years experiencing exceptionally high impacts due to widespread inundation and displacement. Other hazards, such as storms, extreme temperatures, and droughts, affect comparatively fewer people but still contribute to cumulative human vulnerability. Overall, the pattern signals a shift toward more frequent and severe hydrometeorological hazards, demanding stronger climate-resilient planning and disaster risk reduction.

Figure 50: Number of People Affected Due to Climate-Related Disasters (Million)



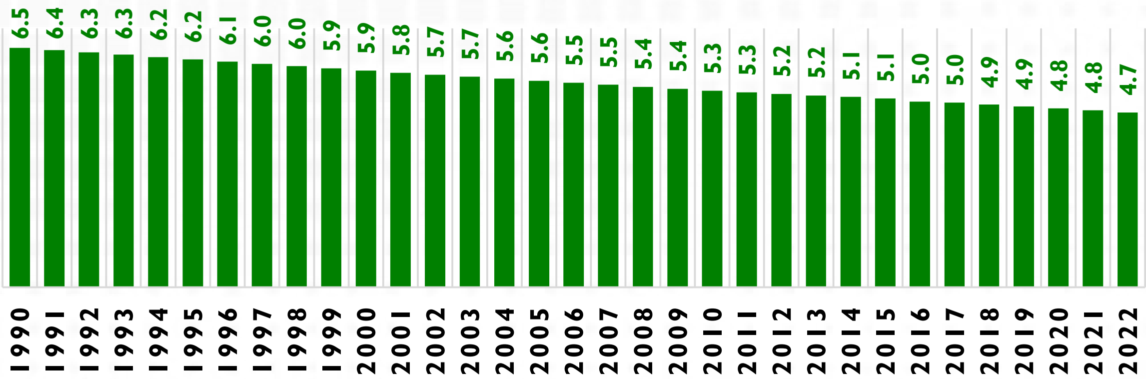
Data Source: EM-DAT

Priority 6: "Promote Reforestation and Protection of Wild Fauna"

Pakistan's forest cover remains critically low when compared with regional neighbors. In 2022, only 4.7% of Pakistan's land area was under forest. This is far below Indonesia's 48%, Vietnam's 47.2%, India's 24.4%, and Bangladesh's 14.5%. The country continues to lose approximately 27,000 hectares of forest annually, driven by illegal logging, land conversion for agriculture and housing, and heavy reliance on biomass for energy, with 52.72% of households using wood fuel.[33]

[33] Propakistani (2024). Over Half of Pakistan's Population Uses Wood for Cooking. Available at https://propakistani.pk/2024/07/19/over-half-of-pakistans-population-uses-wood-for-cooking/
The News (2025). Dealing with de-forestation. Available at https://www.thenews.com.pk/tns/detail/1278202-dealing-with-de-forestation

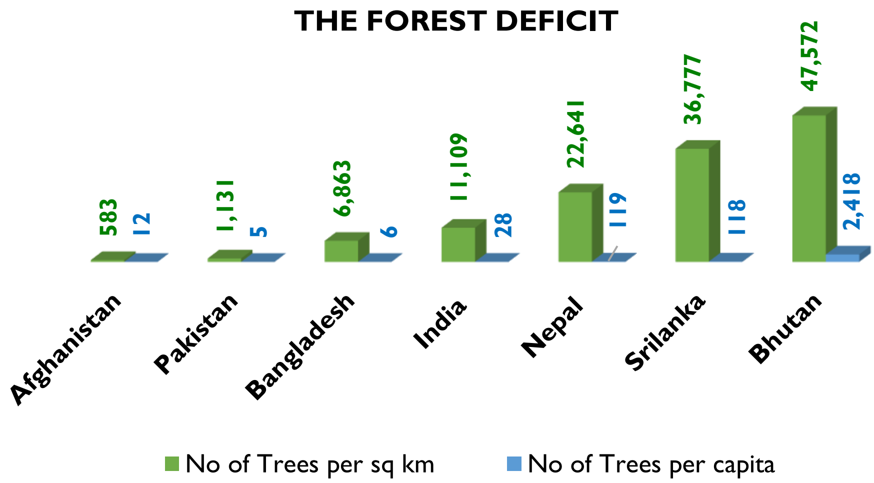
Figure 51: Pakistan's Forest Cover (% of Land Area) Trend



Data Source: WDI

Despite its land area and population size, Pakistan's forest cover remains comparatively low, especially when benchmarked against Nepal, Sri Lanka, and Bhutan, which have markedly higher tree density and per-capita forest resources.

Figure 52: Comparison of Forest Deficit Across Countries



Data Source: Maqbool, 2024

Pakistan's forests and wildlife face mounting pressures from deforestation, poaching, and habitat loss. The snow leopard population is now just 167 individuals, according to a national survey by the Snow Leopard Foundation and the Ministry of Climate Change. The Indus River Dolphin, once near extinction, has rebounded from 1,200 in 2001 to about 2,100 recently[34]. The Markhor, Pakistan's national animal, has similarly rebounded thanks to community-driven trophy-hunting programs: its population has risen from under 2,500 in the 1990s to an estimated 5,000 in 2023[35]. However, conservation remains fraught with challenges, and weak enforcement, habitat fragmentation, and illegal poaching continue to undermine these efforts.

[34] WWF. Saving the Indus River Dolphins. Available at https://www.wwfpak.org/knowledge_hub_/success_stories_/saving_the_indus_river_dolphins

[35] Anadolu Agency. (2023). Markhor: Population of Pakistan's national animal on the rise. Anadolu Agency. https://www.aa.com.tr/en/asia-pacific/markhor-population-of-pakistan-s-national-animal-on-the-rise/3039954

Policy Recommendations

Priority 1: "Build a Water-secure Future for Pakistan"

- **Achieve National Water Policy Targets by 2030:** To strengthen water security and meet policy targets by 2030, the proposed measures are:

  - Accelerate Diamer-Bhasha and other reservoirs construction to enhance national water storage, supported by transparent oversight from CCI.
  - Establish a nationwide system for well registration, groundwater metering, and aquifer mapping under provincial authorities.
  - Scale up precision irrigation, laser land-levelling, and adoption of water-efficient crops through targeted provincial incentives.
  - Deploy real-time river, canal, and reservoir monitoring dashboards to enhance transparency in water allocations and enable early flood-warning capabilities.
  - Integrate wastewater treatment and reuse into municipal development plans to supply industry and peri-urban agriculture, and expedite strategic bulk-water projects such as Karachi's K-IV scheme.

Priority 2: "Enhance Food Security"

- **Revise the National Food Security Policy:** It is proposed that the National Food Security Policy be revised. This revision should include transforming the policy into an Act, thereby providing a stronger, legally binding framework. The policy should also be updated to address the evolving climate risks and resilience challenges. To ensure effective coordination and alignment at both federal and provincial levels, it is essential to establish and empower the National Food Security Council with greater authority and responsibility.
- **Protect Agricultural Land:** Adopt a Requisition Compensation Balance Framework (RCBF), drawing on China's model, to ensure that agricultural land acquired for development is fully offset by land of equal or higher productive capacity.
- **Promote Electronic Receipt Systems:** Scale awareness and adoption of e-warehouse receipt platforms, integrated with reliable digital inventory systems, to broaden financial inclusion for farmers, improve access to affordable credit, and support more efficient market functioning.
- **Food Processing:** It is recommended to implement the 'Agriculture Transformation Through Cluster Development' program, aimed at enhancing value-chain coordination, aggregation, and market linkages. Additionally, there is a need to expedite the establishment of Agricultural Industrial Parks (AIPs) under the China-Pakistan Economic

Corridor (CPEC) in strategically located zones to foster agribusiness expansion and stimulate industrial growth.

- **Improving Productivity and Coordination:** Recommendations for enhancing productivity and coordination in agriculture include:

- Integrate district-level yield targets for major crops into provincial agricultural planning frameworks to support a sustainable 4% annual growth, ensuring coherent alignment of input supply systems and extension financing.
- Strengthen the research-to-field linkage by integrating Pakistan Agricultural Research Council (PARC), Ayub Agricultural Research Institute (AARI), Arid Zones Research Institute (AZRI) and others' trial results into provincial seasonal extension plans, and mandating district-level demonstrations of the latest crop varieties and best practices through model farms.
- Expand affordable mechanization by operationalizing and scaling up machinery service centers, such as the Punjab High-Tech Mechanization Program, Sindh's subsidy schemes, and similar provincial initiatives, enabling smallholders to rent advanced agriculture equipment.
- Improve input efficiency by making soil-testing maps mandatory every two years, regulating fertilizer and pesticide dealers under National Fertilizer Development Centre and provincial rules, and pushing balanced nutrient use.
- Facilitate inclusive corporate farming under the Green Pakistan Initiative by promoting co-investment models, long-term supply agreements, and safeguards that secure small farmers' rights.

- **Expanding Credit for Small Farmers:** Expand small farmers' access to finance by scaling collateral-free, digital agricultural credit under SBP-backed schemes such as Asaan Digital Zarai Qarza/ Zarkhez-e through commercial banks and microfinance institutions.

Priority 3: "Combat Climate Change"

- **Climate-Smart Agriculture:** To enhance climate resilience in agriculture, the proposed measures are:

Expedite the evaluation, multi-location testing, and registration of heat, drought, and flood-tolerant, as well as early- and late-maturing varieties under Pakistan's National Seed Policy 2024 through coordinated efforts among PARC, and provincial research institutes.

Improve farmer access to certified seeds, fertilizers, and digital advisory tools by expanding certified input networks and integrating agri-tech platforms into extension services.

Strengthen field-level capacity through climate hubs and farmer field schools offering practical training in efficient irrigation and climate-smart production, drawing on GIZ's and FAO's models.

- **Climate Strategy and Energy Transition:** Ensure full implementation of the Updated National Climate Change Policy 2021 and Pakistan's NDC commitments through coordinated federal-provincial action. Leverage the National Climate Finance Strategy 2024 to mobilize climate bonds, concessional loans, and blended finance, while exploring carbon pricing through emissions-trading mechanisms and global carbon market engagement.
- **Drive Green Industrial & Export Value Chains:** It is recommended to promote climate-smart practices in key export-oriented sectors by providing technical support through TUSDEC and similar agencies, facilitating access to resource-efficient technologies through tariff rationalization and joint ventures. Strengthen compliance standards by enhancing the National Compliance Centre's facilitation services, offering targeted compliance training, and enabling businesses to obtain internationally recognized green certifications.
- **Invest in Energy Efficiency:** It is proposed to enforce stringent energy-efficiency standards for buildings, appliances, and street lighting, alongside undertaking systematic retrofits across government and industrial facilities. Additionally, expanding green mass transit solutions, such as the People Bus Service and BRT systems, is recommended to reduce urban emissions.

Priority 4: "Mitigate and Adapt to Climate Change"

- **Public Awareness and Capacity Building:** To build a climate-resilient future, it is recommended to:
  - Strengthen NDMA's capacity with clear multi-hazard SOPs and dedicated budgets.
  - Enhance urban flood resilience by upgrading stormwater systems, enforcing flood-resistant building standards, and expanding green infrastructure.
  - Enhance local preparedness through NDMA-style training, localized response plans, and community readiness with training, pre-positioned supplies, and household anticipatory actions under the 4RF framework.
  - Strengthen climate literacy by integrating climate change into school curricula and launching nationwide awareness campaigns, inspired by the Clean Green Pakistan model.
- **Mainstream Adaptation Planning:** Actions for mainstream adaptation planning focus on:

Integrate climate adaptation across national and provincial planning by finalizing provincial climate strategies and embedding climate criteria into public investment decisions.	Incorporate lessons from the 4RF by ensuring that reconstruction/restoration of housing, agricultural land, and transport infrastructure consistently adheres to resilient design standards.

Priority 5: "Develop an Integrated & Coordinated Disaster Risk Management Framework"

- **Integrated Flood Risk Management:** Fully implement National Flood Protection Plan (NFPP-IV) using an IFRM approach by mapping riverine and flash-flood hazards, upgrading embankments, restoring floodplains, and integrating these insights into infrastructure design, zoning, and urban land-use plans through comprehensive flood risk assessments.

- **Enhanced Early Warnings:** To ensure timely response, the recommended measures are below

Expand Early Warning System coverage to all high risk districts and community networks.

Align improvements with the National Disaster Risk Reduction Strategy 2025–2030 through advanced Early Warning Systems, anticipatory action, and community-based preparedness.

Deploy hazard-specific sensors, feedback mechanisms, and private sector collaboration to reach vulnerable populations.

- **Coordinated Recovery & Financing:** Recommendations for advancing coordinated recovery and financing comprise:

Operationalize the 4RF as the federal-provincial framework for coordinated post-disaster reconstruction.

Ensure all infrastructure, development, and reconstruction investments meet 'build back better' standards as mandated by the National Disaster Risk Reduction Strategy 2025.

Prioritize Green Climate Fund and other international climate finance for vulnerable districts and strengthen the Climate Finance Wing to prepare bankable projects and maintain transparent, accountable fund management.

Priority 6: "Promote Reforestation and Protection of Wild Fauna"

- **Scale National Afforestation:** National afforestation efforts should be scaled up by completing the Ten Billion Tree Tsunami, and other similar afforestation programmes for Pakistan programs, strengthening community nurseries, and enforcing strict measures against illegal tree-felling and forest encroachment.
- **Restore Mangroves & Wetlands:** Pakistan should accelerate mangrove and wetland restoration by expanding nurseries, scaling up Indus Delta initiatives, and Implementing the National Climate Change Policy 2021 Wetlands policy guidelines. Public-private partnerships, such as the Indus Delta Carbon Project, should be reinforced, expanded, and replicated to strengthen coastal resilience and deliver ecological and economic benefits.
- **Wildlife Protection & Enforcement:** Key recommendations for wildlife protection and enforcement include:

Strengthen anti-poaching and habitat protection laws by fully resourcing wildlife protection units, enhancing enforcement on the ground, and expanding monitoring of high-risk species.

Integrate biodiversity safeguards into all major infrastructure planning and apply advanced monitoring tools to protect priority habitats and ensure restoration efforts deliver measurable ecological gains.

Policy Matrix

TARGETS/ OBJECTIVES	CURRENT STATUS	CRITIQUE/ GAP
NATIONAL FOOD SECURITY POLICY 2018		
• Extend social protection to 20 million vulnerable people without stable livelihoods.	• Social protection programs currently cover 9.87 million beneficiaries (2025) (PES 2024-25).	• Agricultural growth remains well below targets. • Absence of the NFSC has stalled federal–provincial coordination. • Limited progress on dietary diversity and integrating nutrition with health programs. • Horticulture trade shows uneven performance, with vegetables improving but fruit exports declining. • Social protection covers less than half the intended population.
• Achieve 4% annual agricultural growth.	• Agriculture growth stands at 0.56 percent in 2025. • Major crops show a 13.5 percent decline in output (PES 2024-25).	
• Hold regular National Food Security Council meetings.	• The National Food Security Council (NFSC) was not established.	
• Strengthen Agri-trade with a focus on horticulture.	• Vegetable exports rose to USD 404 Mn, while fruit exports fell to USD 328 Mn over the same period (Trade Map).	
• Promote safe, nutritious, and diverse diets integrated with health and sanitation programs.		
• Build partnerships across government, farmers, investors, academia, and civil society.		
NATIONAL WATER POLICY 2018		
• Reduction of 33 percent in the 46 MAF river flows that are lost in conveyance.	• Current canal head water availability is 97.5 MAF, with annual losses of 50 MAF FY24 (PES).	• Losses continue to be high. • Storage has remained stagnant, with limited progress on key projects like Diamer-Bhasha. • Limited progress in water use efficiency. • Limited progress since 2018 makes it difficult to meet the water policy targets reiterated in URAAN by 2030.
• Increase water storage by 10 MAF (e.g., Diamer-Bhasha 6.4 MAF).	• Water storage capacity remains stuck at 13.5 MAF, below target.[36]	
• Improve water-use efficiency by 30% ("More Crop per Drop").	• Water-use efficiency increased modestly from 1.5 to 2 USD per cubic meter over the period 2018–2022 (FAO).	
• Modernize irrigation infrastructure to reduce losses.	• Key irrigation projects delayed, including canal modernization (paused in Aug 2025).	
• Establish real-time river flow monitoring by 2021 via IRSA.	• Telemetry 2.0 delayed, completion by 2027.[37]	
NATIONAL CLIMATE CHANGE POLICY 2021		
• Achieve 60% renewable energy in the national power mix by 2030.	• Renewable energy currently accounts for approximately 36.2% (FY24) of the national power mix (PES 2024-25).	• Pakistan commits to a 50% reduction in projected emissions against BAU, initially by 2030 and extended to 2035 under NDC 3.0, despite contributing only 0.9% of global emissions, making its target relatively more
• Reach 30% electric vehicle (EV) penetration by 2030.	• Electric vehicle (EV) penetration remains below 1% as of June 2025.	
• Complete the plantation of 10 billion trees under national afforestation initiatives by 2023.	• A total of 2.2 billion trees has been planted nationwide since 2019.[38]	

36 https://dnd.com.pk/wastage-of-monsoon-water-and-water-scarcity-in-pakistan/327266/
37 https://www.dawn.com/news/1924889
38 https://www.thenationalnews.com/climate/2025/10/13/why-pakistan-is-planting-10-billion-trees-to-tackle-climate-change-and-economic-challenges/

TARGETS/ OBJECTIVES	CURRENT STATUS	CRITIQUE/ GAP
• Reduce national greenhouse gas (GHG) emissions by 20% by 2030.	• Pakistan recorded a modest reduction in greenhouse gas emissions, falling from 526.95 $MtCO_2$-eq in 2021 to 525.88 $MtCO_2$-eq in 2024 (–0.2%) (EDGAR).	ambitious than those of the top emitters. • Forest target (6%) is unrealistic given NCCP-2021's unresolved gaps in land availability, financing, and provincial coordination. • Overall, URAAN inherits NCCP-2021's core weaknesses: fragmented institutions, poor enforcement, and weak implementation capacity.
NATIONAL SEED POLICY OF PAKISTAN 2024		
• Ensure the timely availability of adequate quantity and quality seed to farmers.	• Quantity: • Available Seeds: 4,000 tonnes. • Requirement: 68,000 tonnes[39]. • Quality: • Closure of 392 companies providing substandard seeds.[40]	• Weak implementation roadmap (no clear timelines, targets, accountability). • Closure of substandard firms risks short-term supply disruption. • Outdated research infrastructure (labs, equipment, testing facilities). • Weak research commercialization and industry linkages. • Limited private-sector incentives for hybrid/high-tech seed production. • Inter-agency coordination gaps between federal, provincial, and private actors.
• Biotechnology institutes/universities to conduct private-sector sponsored research.	• Pakistan has launched its first public–private genomics venture to boost local agricultural and healthcare research capacity.	
• Facilitation of private-sector infrastructure for high-tech and hybrid seed production.	• A joint assessment with China identified chronic underinvestment, outdated laboratory infrastructure, weak research commercialization, and persistent brain drain as key challenges facing PARC.	
• Use biotechnology to Improve productivity Enhance nutritional quality Develop stress-tolerant varieties.		

39 Profit Today (2025). Punjab halts seed supply to Balochistan as national shortage deepens, NA panel intervenes. https://profit.pakistantoday.com.pk/2025/10/23/punjab-halts-seed-supply-to-balochistan-as-national-shortage-deepens-na-panel-intervenes/
40 https://www.dawnnews.tv/news/1255988

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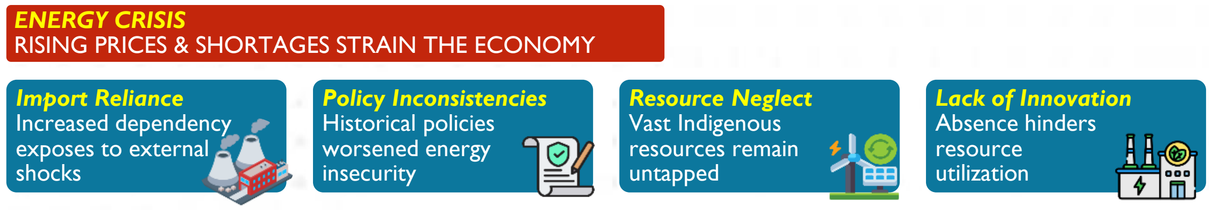
Energy and Infrastructure – Fixing the Fundamentals for Economic Revival

Introduction

Pakistan's Energy Security

Energy resources are essential to the modern geopolitical landscape, with conflicts now driven more by natural resources. For developing nations like Pakistan, stable energy supplies are crucial for sustained economic growth. The country faces a severe energy crisis, marked by rising prices and shortages, increasing vulnerability to external shocks, inflation, and recurring IMF bailouts.

Figure 53: Pakistan's Energy Crisis Snapshot

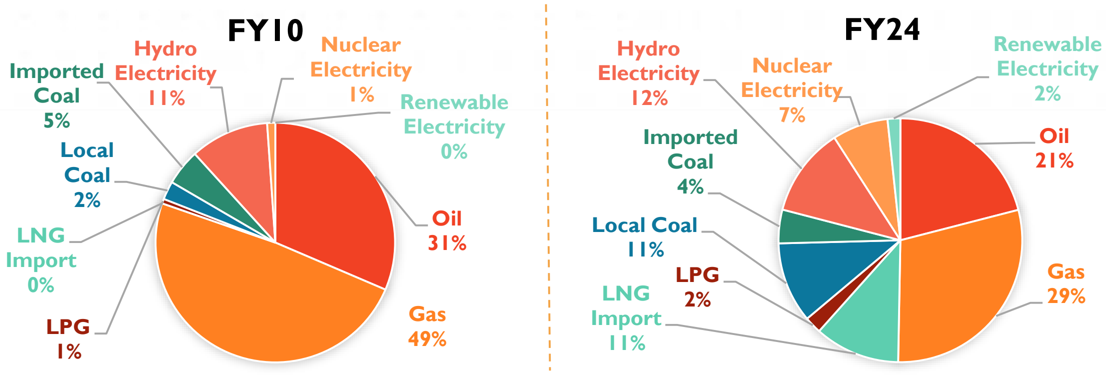


Pakistan holds 175 billion tons of Thar coal, the world's largest lignite reserves, capable of generating 300,000 MW of electricity for two centuries (Malik, 2023). With Coal-to-Liquid (CTL) and Coal-to-Gas (CTG) technologies, these reserves can meet transportation fuel needs and supply gas to industries, like fertilizer production. Hydropower potential exceeds 100,000 MW (Rehan, 2020), while solar energy offers unlimited possibilities.

Despite such vast resources, Pakistan remains import-dependent due to weak vision and a lack of indigenous policymaking.

Rapid urbanization and population growth in the 1980s–1990s exposed structural flaws in the energy sector, marked by inconsistent policies and no integrated plan. The Power Policies of 1994, 1995 and 2002 drew IPPs reliant on gas and furnace oil, expanding capacity but locking the country into costly imports and high tariffs. Neglecting indigenous coal added billions in import costs, with reliance on imported energy rising from 36% in FY10 to 44% in FY24 (EYB, 2023–24). This imbalance is evident in Pakistan's energy supply mix, as displayed in Figure 51, where indigenous sources rose only from 20% to 39%. Whereas, the 1992 CNG Rules fast-tracked gas depletion as CNG use surged in transport, while declining public transport (rise in private vehicle use) raised petroleum consumption. The absence of a full Exploration & Production (E&P) policy deterred shale oil investment, widening the CAD.

Figure 54: Pakistan's Primary Energy Supply Mix Share – FY10 vs. FY24



Data Source: Pakistan's Energy Year Book FY2023-24

Pakistan's Infrastructure Landscape

Pakistan's infrastructure progress has evolved via distinct policy phases. The 1950s–1970s witnessed state-led industrialization under the Five-Year Plans, marked by major projects such as the expansion of Karachi Port and the construction of Mangla and Tarbela Dams, which laid the foundation for the development of energy and transport systems.

The 1980s–1990s brought fiscal tightening and policy fragmentation, fading public investment and infrastructure governance. Later, the 2000s onward, primarily under CPEC, renewed focus on large-scale connectivity projects like Gwadar Port, Karachi–Lahore Motorway, and the ML-1 railway, yet institutional inefficiencies persist.

Despite progress, the World Bank's Logistics Performance Index (LPI) ranked Pakistan 122nd among 160 countries in 2018, behind all peer countries, as shown in the table below. The country's LPI rank highlights significant gaps compared to regional peers like India (44) and Sri Lanka (94). Weaknesses in customs efficiency, infrastructure, tracking, and logistics competence raise trade costs and reduce competitiveness.

Table 9: Pakistan's Logistics Performance Index (LPI) vs. Regional Countries (2018)

Country	LPI Rank	Customs	Infrastructure	International Shipments	Logistics Competence	Tracking & Tracing	Timeliness
India	44	2.96	2.91	3.21	3.13	3.32	3.50
Sri Lanka	94	2.58	2.49	2.51	2.42	2.79	2.79
Bangladesh	100	2.30	2.39	2.56	2.48	2.79	2.92
Pakistan	122	2.12	2.20	2.63	2.59	2.27	2.66

Data Source: Pakistan Export Strategy Logistics 2023-2027 – GoP

Port inefficiencies persist as Karachi Port and Port Qasim, which together handle over 95% of Pakistan's external trade, operate at roughly 1/3rd of capacity[41], with average container dwell times of 5.5–6.5 days, far higher than India (2.6 days) and Bangladesh (1.6 days). Despite its strategic Belt and Road location, Gwadar Port accounts for under 0.5% of national trade due to weak hinterland connectivity and limited supply chain integration.

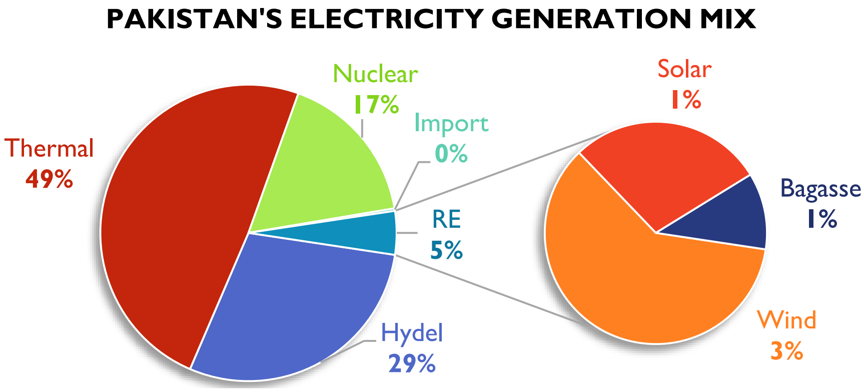
Pakistan's rail freight share has plunged from 73% in 1970 to under 5% by 2020[42], pushing 95% of cargo onto roads and driving up logistics costs. Recent upgrades, 1,400 new hopper wagons, 2,000 flat wagons, 55 locomotives, and a revenue rise to Rs 93 billion[43], are starting to reverse the decline, lifting per-wagon loads from 20 to 60 tons. New corridors, like the 45 km Karachi-Pipri link, multimodal chains, and RoRo services, aim to shift 15–20% of container traffic back to rail. The delayed ML-1 remains critical for unlocking full capacity and industrial connectivity.

The minerals sector, yet rich in resources, contributes only 3.2% to GDP[44]. With 92 known minerals and 52 under production, exports remain below US$2 billion (Trade Map, 2024). This underperformance stems from outdated exploration methods, weak geological data, and limited investment and value-addition, despite the Reko Diq project alone holding US$60–74 billion in reserves. Tourism infrastructure is also evolving, with KP tourism expected to rise to 9.3 million visitors by mid-2024. However, weak zoning laws and environmental safeguards hinder expansion. In brief, Pakistan's infrastructure potential remains underexploited due to fragmented governance and limited private participation.

Priority 1: "Transition into Green Energy Solutions"

Pakistan's power generation remained heavily dominated by thermal sources, accounting for 49% of total generation, followed by hydel (29%) and nuclear (17%). Renewable sources (wind, solar, and bagasse) collectively contributed only about 5%, underscoring the country's slow progress toward a clean energy transition, as shown in figure below. This fossil fuel–intensive mix heightens import dependency, fiscal stress, and carbon emissions, highlighting the urgent need to accelerate investments in renewable and indigenous green energy solutions.

Figure 55: Pakistan's Electricity Generation Mix – FY24



Data Source: State of Industry Report 2024

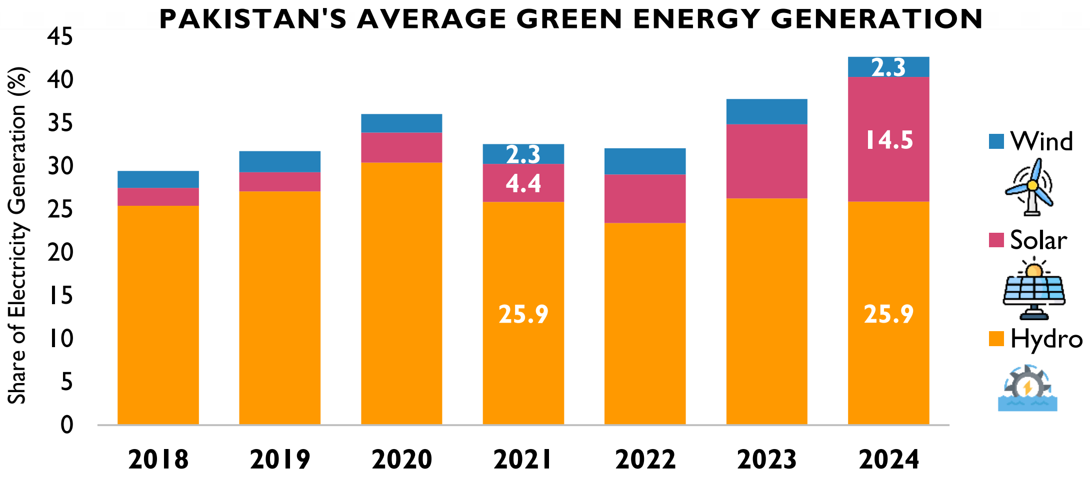
Pakistan's shift toward renewable energy is essential amid rising fuel import costs, circular debt, and persistent grid unreliability. While Sindh and Balochistan offer strong wind potential,

[41] Business Recorder. https://www.brecorder.com/news/40385681/trade-investment-logistics-sector-becomes-major-structural-bottleneck
[42] Business Recorder. https://www.brecorder.com/news/40365064
[43] Profit Pakistan Today. https://profit.pakistantoday.com.pk/2025/07/11/pakistan-railways-posts-record-rs-93-billion-revenue-in-fy2024-25/
[44] Business Recorder. https://www.brecorder.com/news/40352446

expansion remains slow due to high project costs and transmission constraints. In contrast, solar energy has emerged as the most affordable option, supported by a global collapse in Chinese PV prices driven by massive overproduction and price wars (Araújo, 2025). As a result, Pakistan's 5–25 kW net-metered systems now deliver attractive 2–4-year payback periods, with installation costs of PKR 110–135 per watt and electricity generation costs of US¢2.6–4.9 per kWh (IEEFA, 2024), making solar a viable solution for consumers facing high tariffs and unreliable grid supply.

The figure below shows a remarkable surge in solar power generation from 4% in 2021 to 14% in 2024, while wind power stagnated under 2%. This highlights solar's affordability and deployment advantages over wind projects constrained by land or grid limits, while hydel's fluctuating contribution underlines the need to expedite dam projects.

Figure 56: Pakistan's Average Green Energy Generation over the Years

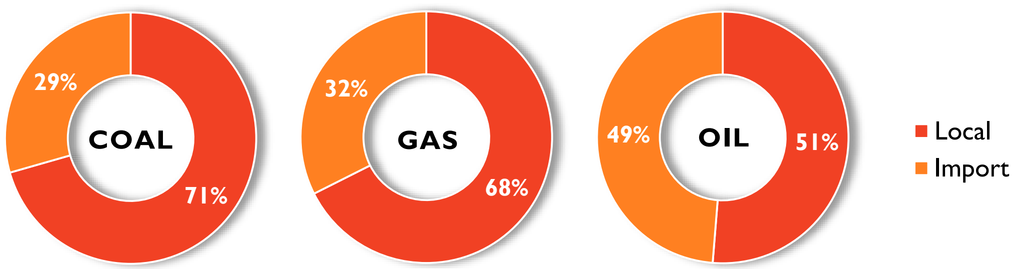


Data Source: Ember Energy
**Note: Ember Energy takes data from EIA, NEPRA, GEM, IRENA.*

Priority 2: "Develop an Efficient and Affordable Energy Infrastructure"

In FY2024, Pakistan relied heavily on imported energy, with 29% of its total coal, 49% of its oil, and 32% of its gas imported. This dependence, intensified by the absence of a long-term energy framework and recurring policy failures, has placed a significant strain on the economy. Despite this, local resources, such as Thar coal, hold immense potential to meet current and future coal demand; yet, a substantial portion, 29% of coal supplies, continues to be imported.

Figure 57: Commodity-wise Indigenous vs. Imported Energy Supplies in FY24



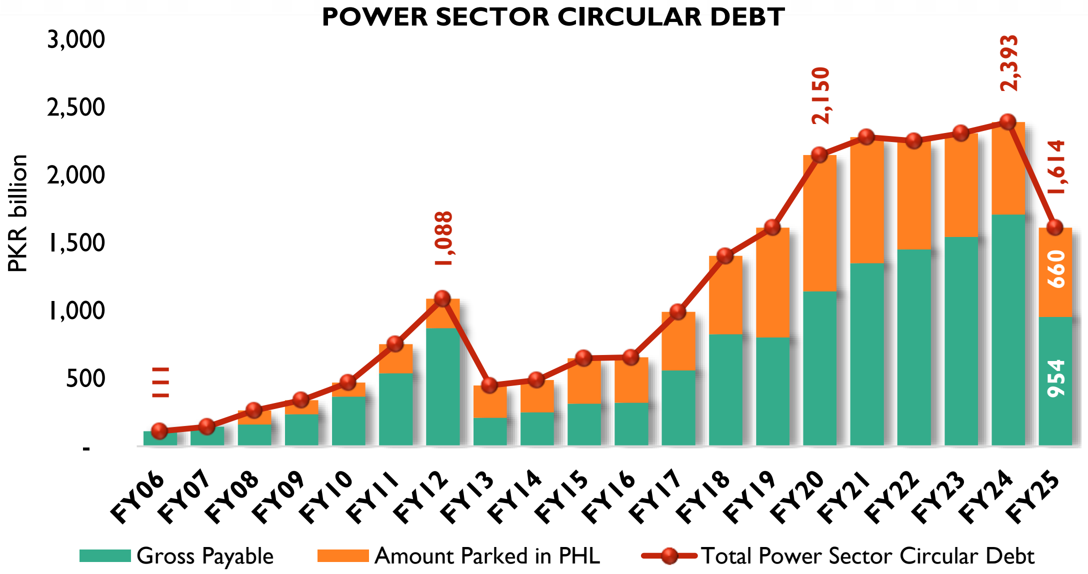
Data Source: Pakistan's Energy Year Book FY2023-24

Power Sector Circular Debt

Pakistan's power sector circular debt, which had surged to Rs 2.25 trillion by FY22 (3.4% of GDP), has been reduced by Rs 780 billion to Rs 1.61 trillion in FY25, primarily due to lower line losses, improved bill recovery, and savings from renegotiated IPP contracts (Profit Pakistan Today, 2025). Still, structural inefficiencies persist, and T&D losses remain high at 18.31% (SOI, 2024), driven by technical faults, theft, and weak recovery across DISCOs. Delayed tariff adjustments, uniform pricing despite regional cost variations, and untargeted subsidies continue to create fiscal strain.

Additionally, capacity payments to IPPs have risen sharply, with the Energy Purchase Price (EPP) increasing by 49% and the Capacity Purchase Price (CPP) by 211% between FY20 and FY24, further worsening financial pressures and sustaining the circular debt cycle.

Figure 58: Pakistan's Power Sector Circular Debt – FY06 to FY25



Data Source: PIDE & Pakistan's Ministry of Energy (Power Division)
***Note:** Gross Payable includes payments payable from GENCOs to fuel suppliers & Payable to Power Producers.*

Cross-Subsidization among DISCOs

Cross-subsidization model under the *Uniform Tariff Policy* unfairly burdens efficient DISCOs like *LESCO*, *MEPCO*, *GEPCO*, and *IESCO*, whose surplus revenues cover losses of inefficient DISCOs such as *PESCO*, *SEPCO, FESCO, HESCO*, *QESCO*, and *TESCO*. In FY25, Rs125.78 billion was allocated through the *Tariff Rationalization Surcharge (TRS)* to bridge these gaps, as shown in the table below. This system penalizes efficiency, rewards poor performance, and raises tariffs in efficient regions, fading industrial competitiveness. Moving toward cost-reflective, performance-based tariffs is key to easing fiscal pressure and ensuring fair electricity pricing.

Table 10: Cross-Subsidization among DISCOs (FY25)

FY 2024-25 (Determined Tariff)	Determined Revenue	Revenue based on Uniform Tariff	Subsidy	Surcharge
Peshawar Electric Supply Company (PESCO)	444.89	441.75	3.14	-
Tribal Area Electricity Supply Company Limited (TESCO)	71.32	48.99	22.33	-
Islamabad Electric Supply Company Limited (IESCO)	345.69	411.57	-	-65.88

Gujranwala Electric Power Company Limited (GEPCO)	368.55	382.72	-	-14.17
Lahore Electric Supply Company Limited (LESCO)	799.96	839.5	-	-39.53
Faisalabad Electric Supply Company Limited (FESCO)	535.76	525.08	10.68	-
Multan Electric Power Company Limited (MEPCO)	629.73	635.93	-	-6.19
Hyderabad Electric Supply Company Limited (HESCO)	209.62	151.48	58.14	-
Sukkur Electric Power Company Limited (SEPCO)	136.32	124	12.32	-
Quetta Electric Supply Company Limited (QESCO)	226.11	206.94	19.17	-
All DISCOs	**3,767.96**	**3,767.96**	**125.78**	**-125.78**

Data Source: State of Industry Report 2024, NEPRA

Subsidies in the Energy Sector

Power Sector

Pakistan's power sector is at a critical juncture as the grid struggles to retain industrial users. Despite reforms, cross-subsidization keeps tariffs uncompetitive, and while the base tariff fell by Rs 1.15/kWh in FY26, the expiry of temporary subsidies and surcharges erased this relief, leaving effective industrial tariffs well above cost levels. The main issue is the government inflating industrial tariffs by 25–30% to fund protected domestic users. NEPRA's cost-based industrial rates are about 9 cents/kWh, but GoP's notified tariffs rise to 12–14 cents/kWh. This undermines exports, discourages investment, and drives industries toward captive solar, further shrinking grid demand.

The table below demonstrates how every industrial consumer slab is priced above its cost of supply under the uniform tariff policy. In FY26, the total industrial cross-subsidy burden reached Rs131.3 billion, diverted to cover residential and agricultural subsidies. Even temporary supply users, mostly SMEs, pay a steep Rs 7.14/kWh above cost. This shows an entrenched policy of overpricing the most productive sector to cover inefficiencies and political concessions. Unless cross-subsidies are phased out and tariffs aligned with NEPRA's cost, the grid will keep losing demand, worsening capacity costs and sector instability.

Table 11: Cross-Subsidy in Industrial Power Tariff – FY26

Industrial Slab	FY26 Estimated Sales, GWh	NEPRA Determined Uniform Tariff w/ PYA, Rs/kWh	GoP Applicable Charges, Rs/kWh	Cross Subsidy, Rs/kWh	Total Cross Subsidy, Rs. million
B1	163	26.53	30.80	4.27	696.0
B1 Peak	264	32.79	36.74	3.95	1,042.8
B1 Off-Peak	1,641	25.93	30.05	4.12	6,760.9
B2	32	22.73	30.73	8.00	256.0
B2 - ToU - Peak	1,254	32.65	36.68	4.03	5,053.6
B2 - ToU - Off-Peak	7,320	24.34	27.41	3.07	22,472.4
B3 - ToU - Peak	1,290	30.75	36.68	5.93	7,649.7
B3 - ToU - Off-Peak	8,391	21.65	28.24	6.59	55,296.7
B4 - ToU - Peak	513	29.92	36.68	6.76	3,467.9
B4 - ToU - Off-Peak	3,566	19.98	27.96	7.98	28,456.7
Temporary Supply	23	35.11	42.25	7.14	164.2
Total	**24,457**	-	-	-	**131,316.9**

Data Source: NEPRA Consumer Tariff Determination, Business Recorder[45] (2025)

Gas Sector

Pakistan's gas sector faces severe financial stress, with circular debt exceeding PKR 2.8 trillion (The News, 2025) by mid-2025 (PKR 2 trillion principal, PKR 800 billion in surcharges/interest). The cross-subsidy system, where households pay below cost and industries face high tariffs, drives inefficiencies, weakens industrial competitiveness, and forces the government to seek IMF-mandated reforms.

- ***Subsidy Gap & Industrial Tariff Burden***
  In FY25, a cross-subsidy of PKR 160 billion was extended to four consumer slabs, declining slightly to PKR 140 billion in FY26. OGRA set the prescribed price, i.e., the cost-recovery price, at PKR 1,895/MMBtu for SNGPL and PKR 1,659/MMBtu for SSGC (Arif Habib, 2025), while domestic consumers still pay as low as PKR 200/MMBtu, reflecting a subsidy gap of 89% for SNGPL and 88% for SSGC, funded through higher industrial tariffs.

- ***Impact of Weighted Average Cost of Gas (WACOG) Policy on Industrial Energy***

  The WACOG policy blends cheap domestic gas with expensive imported RLNG, inflating supply costs. As of August 2025, RLNG cost US$11.73/MMBtu for SNGPL and US$10.73/MMBtu for SSGC (Profit Pakistan Today, 2025), equivalent to roughly PKR 3,000–3,300/MMBtu, versus indigenous gas at US$3.5–4.0/MMBtu (i.e., PKR 1,050–1,200/MMBtu), raising WACOG to PKR 3,500–3,800/MMBtu. Yet, households pay as low as PKR 200/MMBtu, while industrial and commercial users pay PKR 2,300–4,400/MMBtu, forcing them to compromise on household affordability.

- ***Impact of UFG on Consumer Costs***

  Pakistan's UFG losses, about 12% for SNGPL and 18% for SSGC versus a global norm of under 2% (Profit Pakistan Today, 2025), signify another form of implicit cross-subsidization. OGRA allows these losses in utilities' revenue requirements, passing the financial cost of theft, leaks, faulty meters, and poor maintenance onto paying consumers. Industries and households subsidize both protected domestic users and systemic inefficiencies, worsening the sector's cost imbalance.

Priority 3: "Promote the Blue Economy"

Pakistan's blue economy holds immense but underutilized potential, anchored by a 1,050 km coastline, three major commercial ports, and an aquaculture sector employing over a million people. Despite managing over 90% of national trade, the maritime sector contributes 10% to GDP, while fisheries add only 0.31%, with aquaculture production at 798 million MT annually.

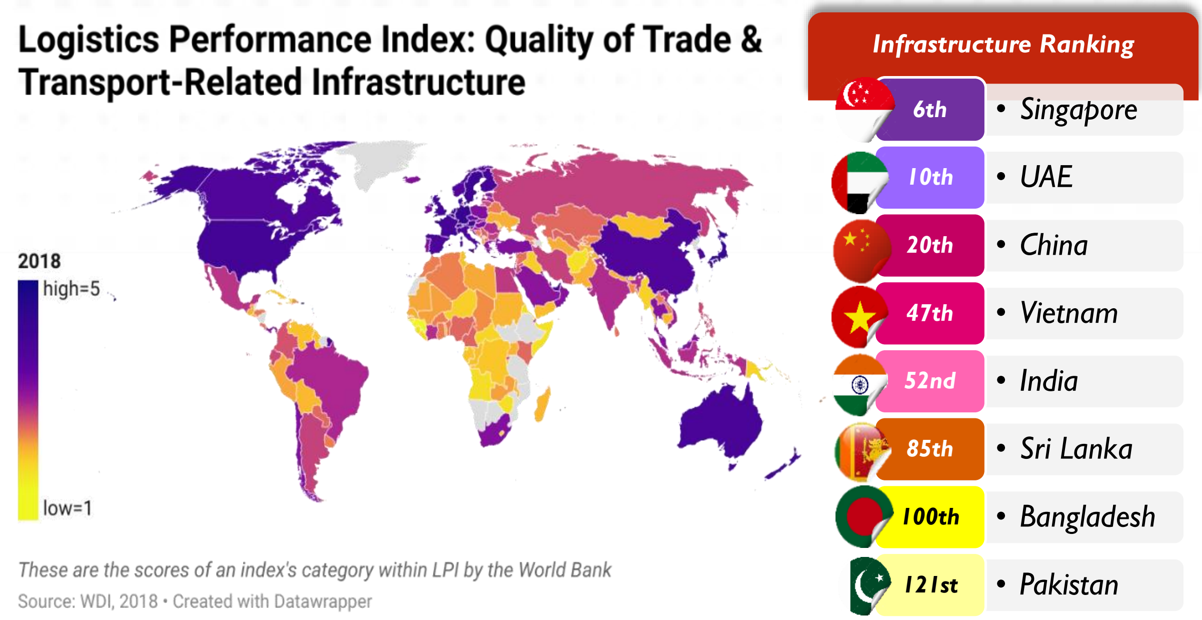
With shipping revenues reaching US$235 million in FY23 and fisheries exports at US$319 million in FY25, investment in port modernization, logistics hubs, and sustainable aquaculture could lift the blue economy's GDP share from the current 1.5–3% to 10–15%[46], unlocking US$8–10 billion in shipping and US$17–18 billion in fisheries by 2030–35.

Port Infrastructure

[45] Business Recorder. https://www.brecorder.com/news/40380014
[46] The Express Tribune. https://tribune.com.pk/story/2534660/pakistans-untapped-blue-economy

Pakistan's port infrastructure remains severely outdated, as reflected in its low infrastructure ranking of 121, far behind regional competitors, as shown in the figure below: Vietnam (47th), India (52nd), and Sri Lanka (85th). This gap also shows why Pakistan struggles to integrate into competitive global supply chains. Countries with higher infrastructure ranking, Singapore (6th) and the UAE (10th), benefit from modern terminals, deep-water berths and advanced digital logistics systems.

Figure 59: Infrastructure Quality (Score & Ranking) from LPI – Pakistan vs. Peer Countries



Data Source: LPI 2018 – World Development Indicators (WDI)

This poor ranking aligns with ground realities: Karachi Port Trust is operating at only 47% of its 125-million-ton capacity, and Port Qasim at roughly 50% of its 89-million-ton capacity (The News, 2025), despite handling most of Pakistan's external trade. Cargo clearance that should take 48–72 hours often stretch to 10–14 days at Pakistani ports, largely due to slow customs processing and outdated logistics (Geo News, 2025). Inadequate road and rail connectivity around Karachi Port causes chronic congestion and long dwell times (INP, 2025).

Pakistan's maritime inefficiencies, such as outdated infrastructure, slow clearance, and under-utilized handling capacity, have led to economic losses of Rs 5 trillion annually, besides high demurrage and freight charges that reduce export competitiveness (The Voice, 2025).

Tourism Sector Potential

Pakistan's tourism sector has strong untapped potential but underperforms relative to its peer nations. Pakistan ranks 101st, behind India (39th) and Sri Lanka (76th). Its enabling environment score is comparable to peers, yet it lags badly in infrastructure & services, which are well below India. Pakistan's price competitiveness is the highest in the South Asian region, meaning it is a relatively cheap destination, but low scores in prioritization of T&T, openness, and ICT readiness hold back sector growth.

Table 12: Travel and Tourism Development (TTD) Index 2024 – Pakistan vs. Peer Countries

Countries	TTD Rank	Enabling Environment					T&T Policy & Enabling Conditions			Infrastructure & Services			T&T Resources			T&T Sustainability		
		Business Environment	Safety & Security	Health & Hygiene	Human Resources & Labour Market	ICT Readiness	Prioritization of T&T	Openness to T&T	Price Competitiveness	Air Transport Infrastructure	Ground & Port Infrastructure	Tourist Services & Infrastructure	Natural Resources	Cultural Resources	Non-Leisure Resources	Environmental Sustainability	T&T Socioeconomic Impact	T&T Demand Sustainability
India	39	3.7	5.0	3.4	2.8	3.8	4.1	4.1	5.6	4.5	4.4	1.6	5.8	5.6	5.0	3.6	4.0	4.5
Sri Lanka	76	3.3	5.2	4.6	3.4	4.4	4.7	3.6	5.6	3.0	3.9	1.5	2.7	1.4	1.6	3.7	5.8	3.7
Pakistan	101	3.4	4.5	3.4	3.2	3.3	3.0	2.9	6.0	3.3	3.3	1.6	2.8	1.9	2.7	3.6	4.3	3.9
Bangladesh	109	3.2	5.6	3.5	3.1	4.0	3.2	2.1	5.2	3.0	3.9	1.3	2.1	1.6	2.0	3.6	3.4	2.7

Data Source: TTD Index 2024 – World Economic Forum (WEF)

Tourism plays a strong economic role, contributing 5.9% to GDP in 2022 and supporting over 4 million jobs. Even in 2023, it remained at 5.8% of GDP. With better security, infrastructure, and marketing, tourism sector revenues could reach US$5.5 billion by 2029 (Raza, 2025).

Figure 60: Pakistan's Tourism Potential

Natural Resources
- Karakoram, Gandhara, ITZs & Indus Valley

Economic Footprint
- 5.8% of GDP, 4.2m jobs
- US$ 16bn visitor spending

TTD Index Pakistan
- Strength: Price competitiveness
- Weakness: ICT, Infrastructure

Projected Growth
- Tourism revenues > US$ 5.5 bn by 2029
- More jobs & FX

Reforms Needed
- Upgade air, road & tourist services
- Safety, branding & visa facilitation

Off-Shore Mineral Exploration in Pakistan

Pakistan's offshore mineral potential includes rare-earth elements (REEs), cobalt, nickel, copper, etc. Geological surveys highlight deposits in Balochistan (Chagai), KPK (Swat–Dir), northern areas, and Makran coastal sands. Estimated REE-oxide reserves range from 100,000–500,000 tonnes, while the Reko Diq project (containing cobalt and trace REEs) holds US$60–74 billion in proven reserves[47]. In 2025, Pakistan exported its first critical minerals shipment to

[47] SFA (Oxford). (2025). *Pakistan's rare earths partnership advances US supply chain security and independence*. Retrieved from https://www.sfa-oxford.com/market-news-and-insights/sfa-pakistan-s-rare-earths-partnership-advances-us-supply-chain-security-and-independence/

the USA under a US$500 million deal[48], marking early steps toward realizing its US$100–300 billion recoverable critical minerals potential. Pakistan's ambitions depend on a local policy: although the government cites US$6 trillion in untapped mineral wealth, mining contributes only 2–3% to GDP and 0.1% to global exports (SFA Oxford, 2025). This US$6–8 trillion figure is speculative, reflecting in-ground estimates of unverified mineral occurrences rather than proven, economically recoverable reserves.

Pakistan's Critical-Mineral Potential	
Regions	Balochistan, KPK, Northern Areas, Makran Coast
REE Potential	100k-500k tonnes
Major Project	Reko Diq - US$60-74b reserves
Mineral Potential	US$100-300b

Priority 4: "Promote Multimodal Regional Connectivity"

Pakistan Railways is re-emerging as a strategic pillar of national and regional connectivity, supported by its highest-ever revenue of Rs 93 billion in FY25, including Rs 47 billion from passenger services and Rs 31.5 billion from freight operations[49], signalling a strong financial turnaround and renewed investor confidence for PPP-led expansion. Fleet upgrades, 1,400 hopper wagons, 2,000 flat wagons, 55 locomotives, and 30 new high-speed wagons have raised per-wagon capacity from 20 tons to 60 tons[50], enabling freight trains to transport 4,000+ tons and offering cheaper, more efficient logistics than road transport. Despite these upgrades:

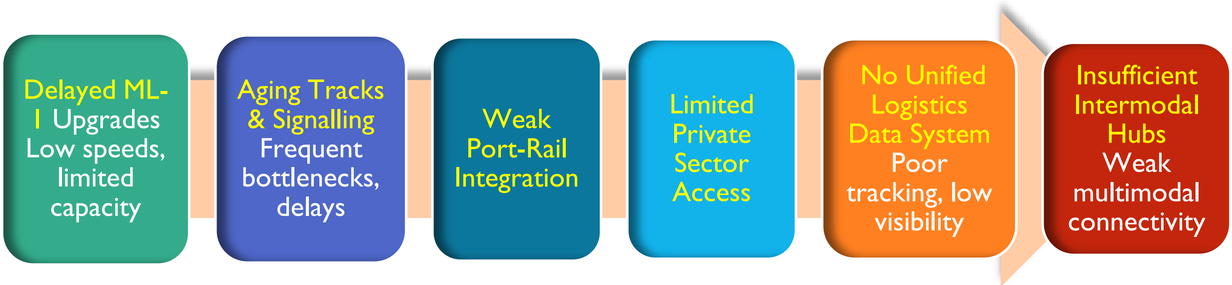
- Karachi handles 99% of Pakistan's external trade, and nearly 95% of cargo still moves by road, leaving rail with only a 5% modal share, far below global norms, where rail carries 30–40% of freight[51].

NATIONAL FREIGHT IMBALANCE

Karachi handles 99% of cargo
95% moves by road
Rail share 5%

High Congestion
High Logistics Costs
Road Deterioration

- Pakistan's rail transformation is stuck by delayed ML-1 upgrades, ageing infrastructure, limited automation, weak port-rail linkage, and minimal private-sector participation. This keeps freight slow, costly, and less competitive than regional transport systems.



Freight Corridors, Multimodal Strategy & Regional Integration

Pakistan's freight future depends on accelerating dedicated freight corridors and multimodal linkages that connect ports, industrial hubs, and regional markets.

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[48] Hussain, A., & Dar, Z. (2025). *Pakistan's potential path to global relevance through critical minerals*. The Diplomat. Retrieved from https://thediplomat.com/2025/09/pakistans-potential-path-to-global-relevance-through-critical-minerals/

[49] Profit Pakistan Today. (2025) https://profit.pakistantoday.com.pk/2025/07/11/pakistan-railways-posts-record-rs-93-billion-revenue-in-fy2024-25/

[50] The Express Tribune. (2025) https://tribune.com.pk/story/2548184/shift-cargo-from-roads-to-rail-railway-official

[51] Business Recorder. (2025) https://www.brecorder.com/news/40365064

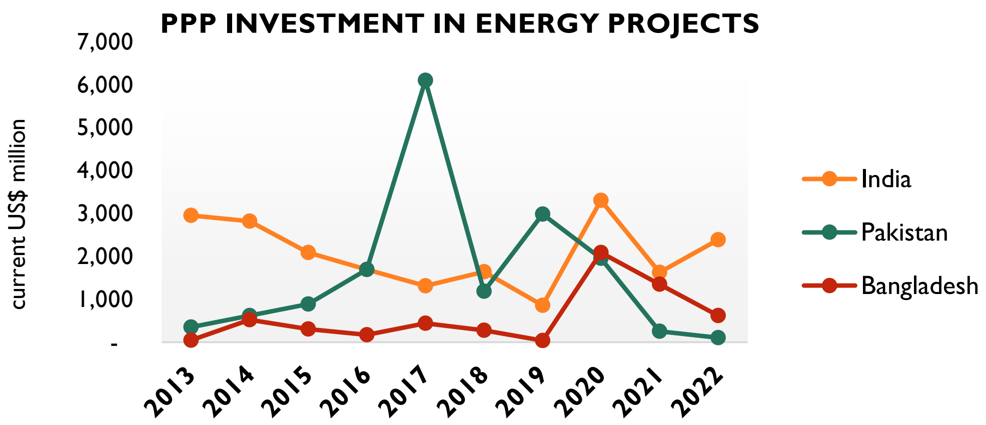
- The 45 km Pipri Dedicated Freight Corridor, developed by Pakistan Railways, DP World and NLC[52], aims to speed up cargo evacuation from Karachi Port and ease urban congestion.
- Pakistan is advancing multimodal reforms like Roll-on/Roll-off (RoRo) wagons and dedicated industrial freight trains, aligned with the National Freight & Logistics Policy and the National Maritime Policy.
- Upgrading ML-1 remains essential, including linking the US$90 billion Reko Diq project to the rail grid[53].
- Pakistan is reviving international freight corridors to Iran, Turkmenistan, Kazakhstan, and Moscow[54], positioning itself for wider regional supply-chain integration.

Priority 5: "Drive Innovative Financing for Infrastructure Projects"

Pakistan's infrastructure financing landscape shows persistent underinvestment, allocating only 2–3% of GDP to infrastructure against an estimated need of 10–11%, contributing to a projected US$124 billion financing gap (2016–2040)[55]. To bridge this deficit, experts stress expanding long-term financing instruments, deepening capital markets, and scaling PPPs, supported by ADB financing, including a US$250 million policy loan[56] and a US$1 billion multi-tranche facility[57] for PPP-backed investments.

In regional comparison, Pakistan lags behind peers: India gradually attracts US$1.3–3.3 billion annually in PPP energy investment, while Bangladesh mobilised up to US$2,087 million in 2020, as shown in the figure below. However, Pakistan's trend is more volatile, with a sharp peak in 2017 when PPP energy investment surged to US$6.1 billion, driven by multiple CPEC projects (Sahiwal, Sachal, UEP, Hydro China, Karot, and Suki Kinari[58]) reaching financial close, a one-off spike not sustained in the next years.

Figure 61: PPP Investment in Energy Projects – Pakistan vs. Peer Countries



Data Source: WDI
Note: *Pakistan's 2014 and Bangladesh's 2021 figures are estimated due to missing data in the dataset.*

[52] Business Recorder. (2025) https://www.brecorder.com/news/40342140/pipri-dedicated-freight-corridor-on-the-cards
[53] Business Recorder. (2025) https://www.brecorder.com/news/40368318/pm-for-linking-reko-diq-project-to-railways-network
[54] Business Recorder. (2025) https://www.brecorder.com/news/40365064
[55] Business Recorder. (2023) https://www.brecorder.com/news/40236141
[56] Dawn. (2024). https://www.dawn.com/news/1838075
[57] Dawn. (2025). https://www.dawn.com/news/1917938
[58] Energy Projects Under CPEC (https://www.cpec.gov.pk/ch/progress-update?)

Since then, Pakistan's PPP energy inflows have fallen abruptly to US$100 million in 2022, highlighting the urgency for stable financing, stronger project preparation, and diversified investor participation to regain competitiveness.

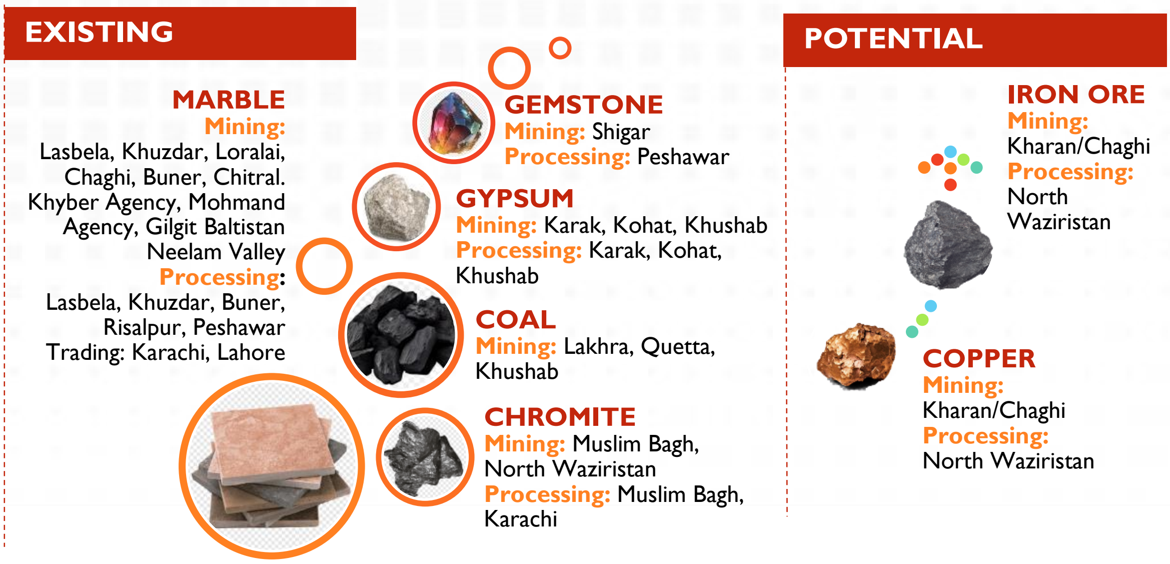
Priority 6: "Harness Pakistan's Mining Potential"

The mineral industry is a key driver of economic growth in many developed nations, including China, Italy, Türkiye, Spain, and Brazil. Pakistan, with its rich mineral reserves spanning 600,000 square kilometers, holds immense potential. Out of 92 identified minerals, 52 are commercially utilized, leading to an annual production of 68.5 million metric tons. The sector is growing at a promising 2-3% annually, supported by over 5,000 operational mines, 50,000 SMEs, and 300,000 direct employees. Among Pakistan's most valuable and promising minerals are marble, granite, coal, chromite, gypsum, copper, gold, iron ore, lead, zinc, bauxite, crude oil and natural gas. These minerals boast large, commercially viable deposits, offering Pakistan significant comparative and competitive advantages on the global stage.

Figure 62: Reserves of Core Minerals in Pakistan

Data Source: Strategy for Mineral Sector Development in Pakistan, Planning Commission of Pakistan, 2018

Pakistan's Mining Clusters



Data Source: Strategy for Mineral Sector Development in Pakistan, Planning Commission of Pakistan, 2018

Policy Recommendations

Priority 1: "Transition into Green Energy Solutions"

- **Green Energy Development:** Pakistan holds significant potential in hydro, solar, and wind power. The following measures are advised to harness this potential.

HYDRO

- Increase hydropower's share in the generation mix by achieving the early completion of large hydropower projects, as identified under IGCEP 2025–35. Priority should be accorded to accelerating projects such as the Dasu Hydropower Project (4,320 MW), Diamer–Bhasha Dam (4,500 MW), and Mohmand Dam (800 MW) through timely financial closures, streamlined procurement processes, and strengthened federal–provincial coordination.

SOLAR

- The share of solar power generation should be increased by promoting the development of a local solar PV industry and addressing regulatory and operational bottlenecks in net metering. Despite short-term revenue losses for DISCOs, consistent policy follow-up is required, including the continuation of the net-metering policy, to sustain investor confidence and leverage the current momentum in rooftop and utility-scale solar adoption.

WIND

- Wind power generation can be accelerated by promoting competitive private investment and business-to-business (B2B) adoption through targeted fiscal incentives, fast-track grid access, streamlined land acquisition processes, and predictable, bankable power purchase agreements, allowing Pakistan to fully capitalize on its significant wind energy potential while lowering generation costs and reducing reliance on imported fuels.

- **Advancing Renewable Energy Projects via ARE Policy:** Implement the *Alternative & Renewable Energy (ARE) Policy 2019* in its full essence through cost-efficient competitive bidding for the private renewable energy projects. Also, a single-window clearance system under Private Power and Infrastructure Board (PPIB) should be established to expedite project approvals, grid access, and PPA negotiations, thereby abating delays and enhancing investor confidence.

Priority 2: "Develop an Efficient and Affordable Energy Infrastructure"

- **Efficient Import Substitution in the Energy Sector:** Develop a five-year plan to replace imports with local alternatives by boosting E&P in KPK and Balochistan's frontier regions. Scale up domestic refining capacity and modernize fuel storage infrastructure. Consider blending ethanol with oil to reduce imported oil demand in the transport sector (86.6% of total oil consumption in FY24). Promote the conversion of imported coal-based power plants to utilize local Thar coal, and boost investment in CTL & CTG technologies to diversify domestic energy substitutes and strengthen long-term energy security.

- **Regional Energy Trade Ties:** To enhance regional cooperation and reduce import dependence, the following policy measures are recommended:

    - **Oil & Gas Exploration for Energy Security:** Energy security remains a key area of collaboration between Pakistan and China. It is advised to extend joint efforts in oil & gas exploration, refining, and storage under the CPEC framework. By establishing refineries and storage facilities along the CPEC route and engaging other partners like the USA, Pakistan can diversify its energy sources and reduce import dependence.
    - **Shared Development of Renewable Energy Projects:** Pakistan should collaborate with bilateral investment partners on solar and wind projects, with private firms leading through B2B transactions enabled by supportive governmental policies and competitive pricing frameworks. Joint investments in solar PV, wind farms, grid integration, and storage can diversify energy sources and reduce reliance on fossil fuels.

- **Energy Supply Chain Modernization:** Upgrade the Transmission and Distribution (T&D) network through the High Voltage Direct Current (HVDC) lines, smart grids, and smart metering systems, and fast-track Supervisory Control & Data Acquisition (SCADA) automation to reduce the T&D losses (18.31% in FY24) and support renewable-powered energy flow across the supply chain.
- **Energy Demand Management:**

To enhance energy productivity, residential electricity demand should be reduced from 45.7% to 40% through the implementation of measures such as eco-labeling, adoption of energy-efficient building codes, and using efficient appliances.

To reduce oil consumption in the transport sector, the introduction of additional public transport projects and the development of essential infrastructure for localizing electric vehicles (EVs) are crucial.

PUBLIC TRANSPORT PROJECTS significantly reduce petroleum consumption in the transport sector.

- Pakistan can save **US$0.8–1 billion** in fuel imports if Karachi's planned BRTs are implemented; ongoing projects must be fast-tracked to reduce reliance on personal vehicles.
- Public transport expansion is needed through BRT systems, Circular Railway, and increased Pakistan Railway freight services.

The rationalization of natural gas prices and implementation of the WACOG bill are essential, which would also help minimize gas wastage in the residential sector.

- **Structural Reforms to Curb Power Sector Circular Debt (CD) and Ensure the Provision of Affordable Energy:** Past mistakes have contributed to a weak governance structure and unfavourable PPAs, leading to persistent circular debt and rising electricity prices. The following measures are suggested to address these issues.

- Circular debt is exacerbated by power distribution companies' failure to recover electricity costs. It is suggested to privatize the loss-making DISCOs.
- Rationalize the Uniform Tariff Policy and ensure unbundling K-Electric with access to national grid power at pooled CPPA-G rates, creating parity with other DISCOs, reducing end-consumer tariffs, supporting cost-reflective pricing, and ensuring timely disbursement under the Tariff Differential Subsidy (TDS) framework to sustain operational liquidity (PRAC, 2025).
- Energy regulators bear the responsibility of ensuring a continuous energy supply at affordable rates. To achieve this goal, efforts should be made to eliminate operational impediments.
- The old PPAs should be terminated, and dollar-indexed agreements should be converted into local currency index.
- Establish a power exchange to eliminate the government as the sole buyer and introduce a more potent multi-seller & multi-buyer market. Fast-track the Competitive Trading Bilateral Contract Market (CTBCM) and wheeling policy at international rates immediately.
- Introduce efficiency-linked rewards for T&D loss reduction & improved recovery rates.
- To facilitate the expansion of the wholesale electricity market, the gradual privatization of the state-owned power distribution network must be done. Distribution companies should primarily focus on their core line of business, while the potential for establishing small franchises for supply and distribution can be done side by side.

- **End Cross-Subsidization in the Energy Sector:**

Power Sector: Electricity costs the system approximately Rs 34/kWh for domestic users, but the government charges industries Rs 37/kWh plus fixed charges. To restore balance between consumers:

- The government should charge the full cost of electricity while providing targeted subsidies through the federal budget to directly support low-income households.
- Domestic needs must be balanced with industrial & commercial demand, prioritizing industrial consumers to promote economic growth, as practiced in countries like India and Bangladesh.
- Power utilities should be restructured to enhance operational efficiency and management, including the unbundling of K-Electric into separate generation, transmission, and distribution entities.
- The regulatory framework should be reformed to link utility returns to performance, ensuring efficiency, transparency, and long-term sustainability in the sector.

Gas Sector: Natural Gas costs about Rs 1,529/MMBTU (US$5.4/MMBTU), but government charges industries Rs 2,300-3,500/MMBTU (US$8.1-12.3/MMBTU). To restore the balance between gas consumers:

- Government should charge the full cost of gas and provide subsidies through the federal budget, not through cross-subsidization.
- Balance domestic consumers' energy needs with the requirements of industrial, power, and commercial sectors, prioritizing industrial consumers for industrial growth.
- Restructure gas utilities to enhance operational efficiency. Unbundling the 'pipeline' and 'retail' sectors by splitting SNGPL & SSGC into smaller units will encourage private sector participation & improve governance. Despite 40% private ownership in both utility companies, they lack a proper business model and a regulatory mechanism. Therefore, it is crucial to reform the regulatory framework to link financial returns to efficiency.
- UFGs are seven times the world average. In developing economies, such as Turkey, Russia, and Bangladesh, UFGs are 4-5% (Profit Pakistan Today, 2025). Despite OGRA's 6.3% benchmark allowance, the gas losses remained high, leading to increased allowances of 6.6% for SNGPL and 6.4% for SSGC (News Desk, 2024) in FY25. However, it is significant to tackle UFG losses within the gas sector.

Priority 3: "Promote the Blue Economy"

- **Modernize Port Infrastructure:** Outdated port facilities and equipment cause inefficiencies that deter foreign shipping companies. Prioritize investments in port modernization, including automated cargo handling, digital tracking systems, and state-of-the-art equipment, as focused under the National Maritime Policy.
  - It is advised to develop/ restructure Industrial Free Zones near Port Qasim and Gwadar Port to capitalize on their strategic location and estimated $850 million annual export potential[59] from seafood, dates, and regional commodities, attracting investment in logistics, trade, and industrial activities. Policies must encourage FDI in terminal operations and port-linked industries.
  - It is also recommended to allocate Sindh Infrastructure Development Cess (SIDC) funds exclusively for the maintenance & upgradation of Karachi's infrastructure and industrial zones[60].
- **Integrated Tourism Zones (ITZs):** Accelerate the progress of identified ITZs, such as Thandiani, Ghanool, Mankyal, and Madaklasht, while exploring potential too by operationalizing PPP frameworks under the Khyber Pakhtunkhwa Integrated Tourism Development Project (KITE) and the Pakistan Tourism Development Authority (PTDA) mandate. It is important to:

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[59] The Daily CPEC. (2025). https://thedailycpec.com/gwadar-ports-seafood-dates-hold-850m-potential/
[60] Dagha. M.Y. (2025). *City suffers Rs3tr loss due to flawed fiscal policies: Dagha*. The Express Tribune. Retrieved from https://tribune.com.pk/story/2564359/city-suffers-rs3tr-loss-due-to-flawed-fiscal-policies-dagha

Ensure zoning laws, one-window clearance, and fiscal incentives (tax holidays, viability gap funding) to attract private investment in infrastructure, eco-lodges, and sustainable mobility.

Introduce a digital app offering real-time weather updates and safety alerts to enhance tourist safety and trip planning.

Mandate Destination Management Plans (DMPs) to regulate land use, preserve local ecosystems, and effectively manage visitor flows.

- **Sustainable Offshore Mineral Exploration:** Develop a National Offshore Mining Framework aligned with United Nations Convention on the Law of the Sea (UNCLOS) standards to govern exploration within Exclusive Economic Zones (EEZs) and the extraction of seabed minerals, like polymetallic nodules and rare earth elements (REEs). Offer tax incentives and fast-track licensing for private investors adopting advanced marine mining technologies, while enforcing Environmental Impact Assessments (EIAs) and marine spatial planning.

Priority 4: "Promote Multimodal Regional Connectivity"

- **Multimodal Transport Master Plan:** It is advised to develop a National Multimodal Transport Master Plan that integrates road, rail, maritime, and air networks with inland water transport and dry ports. Ensure to:

Establish a Logistics Regulatory Authority to standardize operational charges to emphasize regional best practices.

Establish logistics hubs and intermodal terminals at key junctions to ensure seamless modal shifts.

Deploy Unified Transport Data Systems for real-time scheduling, freight tracking, and infrastructure planning across modes.

Align with the National Freight & Logistics Policy (2021) for trade facilitation.

Fast-track construction of DFC Phase-I at Pipri under the NLC–DP World–Pakistan Railways partnership.

Integrate the Dedicated Freight Corridor (DFC) to enhance Pakistan Railways' freight capacity, ensure faster cargo movement from Karachi Port, cut road/port congestion, and boost freight revenues.

- **Leverage ML-1 Railway for Connectivity:** CPEC/ADB ML-1 railway project presents an opportunity to connect Karachi Port and Port Qasim seamlessly with inland industrial zones. Expedite its integration with port operations to reduce logistics costs and improve efficiency. Policies should facilitate private sector freight train operations, safeguarding fair competition and regulatory oversight. This integration must be aligned under the National Maritime Policy of regional cooperation for enhancing maritime and logistics connectivity nationwide.

Priority 5: "Drive Innovative Financing for Infrastructure Projects"

- **Develop a National Infrastructure Fund (NIF):** Establish a National Infrastructure Fund (NIF) like a Real Estate Investment Trust (REIT) with a dedicated NIF Management Company licensed and regulated by SECP.

- NIFMC will pool funds from institutional investors, mutual funds, banks, or individuals, while a trustee institution safeguards the assets on behalf of investors. SECP would ensure governance, transparency, and investor protection.

- Private capital mobilization can be facilitated through mutual funds, concessional loans, credit guarantees, and clean energy sukuk bonds, while offering steady, dividend-like returns similar to REIT distributions.

- Priority financing should be extended to energy infrastructure projects (grid upgrades, renewable integration, and storage systems) through long-tenor financing instruments, diversifying investment opportunities and de-risking private participation.

- **Strengthen Public-Private Partnerships (PPPs):** Streamline the National-level PPP framework by introducing standardized risk allocation, model concession agreements, and viability gap financing (VGF) schemes. It is also suggested to shift suitable PSDP energy and infrastructure projects to the PPP framework, enabling the government to significantly reduce the overall budgetary deficit.

Priority 6: "Harness Pakistan's Mining Potential"

- **Access to the Potential of Pakistan's Mining Reserves:** Conduct periodic geological surveys using advanced geospatial mapping and remote sensing to accurately evaluate mineral reserves. Modernize the Geology & Mineral Exploration Data Center under the Geological Survey of Pakistan (GSP) to provide investors with reliable and accessible data on general metallic minerals. Partnerships with international survey firms can enhance credibility and technical rigor in resource assessments, leading to bankable exploration studies for large-scale projects.

- **Mineral Sector Development:** The government should estimate mineral reserves, raise value addition, employ technologies, and develop infrastructure. Ensure to:

- Use geo-modeling and 3D techniques to map mineral reserves and employ Mineral-to-Chemicals and Ore-to-Metals technologies to increase value addition.

- Develop mines-to-market infrastructure, including power grids for mining clusters, and establish Common Facilities and Training Centers at major hubs. Develop an export-oriented marketing strategy to attract investors.

- Develop an investor-friendly Mining Licensing Policy with revenue incentives for local communities to bring in greater interest in mechanized mining, mainly in Balochistan and KPK.

- Pakistan can adopt Indonesia's mining export model, which focuses on downstreaming by banning raw ore exports to promote domestic processing into higher-value products (e.g., smelters, batteries). Implementing a Domestic Market Obligation (DMO) for key minerals like coal would ensure local supply before export, boost national revenue, create jobs, attract FDI, and enhance the competitiveness of Pakistan's mineral sector.

- **Fast-Track Utilization of Thar Coal:** The potential of Thar coal to liberate Pakistan from perpetual reliance on imported fuel is immense. The following measures are crucial to harnessing the economic benefits of Thar coal:

Make all imported coal-based power plants compatible with local coal. It is essential to convert imported coal plants to use local Thar coal.

Encourage the use of local coal in the cement, steel, and textile sectors.

Investments in CTL and CTG technologies should be encouraged.

Policy Matrix

<table>
<tr><th>TARGETS/ OBJECTIVES</th><th>CURRENT STATUS</th><th>CRITIQUE/ GAP</th></tr>
<tr><th colspan="3">ENERGY</th></tr>
<tr><th colspan="3">NATIONAL ALTERNATIVE & RENEWABLE ENERGY (ARE) POLICY 2019</th></tr>
<tr><td>• On-grid Renewable Energy (RE) capacity: 20% by 2025, 30% by 2030.</td><td>• RE capacity: 7.2% (FY24). Target Shortfall: 12.8%</td><td rowspan="3">• Govt.'s weak policy commitment to solar.
• Off-grid and net-metering consumers (private) face inconsistent policy support.
• Projects stalled due to delayed bidding frameworks, missing IRZ data, & pending CCoE approvals.
• Poor coordination among AEDB, provinces & NTDC on grid & tariffs.</td></tr>
<tr><td>• Increase Green Energy (GE), i.e., Hydropower + RE share.</td><td>• GE share: 36.2% (FY24). Increased from 30.43% (FY19).</td></tr>
<tr><td>• Develop a competitive power market.</td><td>• Competitive Trading Bilateral Contract Market (CTBCM) launched in 2025.</td></tr>
<tr><th colspan="3">INDICATIVE GENERATION CAPACITY EXPANSION PLAN (IGCEP) 2025–35</th></tr>
<tr><td>• Expand installed capacity to 62,657 MW by 2035.</td><td>• Installed capacity FY24: 39,591 MW | Off-grid & net-metered capacity: 18,000 MW.</td><td rowspan="4">• URAAN-IGCEP not aligned.
• Capacity continues to increase while demand stagnates → fixed cost burden remains high.
• Forecasting gaps: lack of transparency, weak periodic review, omission of climate-related risks.
• Weak storage planning, hydrological stress not incorporated, and no alignment with Transmission System Expansion Plan (TSEP).
• No cap on growing capacity payments, worsening circular debt.</td></tr>
<tr><td>• Maintain system reliability and meet projected demand growth.</td><td>• Demand forecast based on a GDP-based forecasting model, excluding rooftop solar penetration.</td></tr>
<tr><td>• Promote 69% indigenous + Renewable Energy (RE) share by 2035.</td><td>• RE share FY24: 36.2% (Hydro+Solar+Wind+Baggase).<table><tr><th>YEAR</th><th>IGCEP RE</th><th>URAAN RE</th></tr><tr><td>2024</td><td>8%</td><td>-</td></tr><tr><td>2029</td><td>16%</td><td>10%</td></tr></table>Solar+Wind+Baggase</td></tr>
<tr><td>• Ensure lower tariff burden for consumers.</td><td>• Revised tariff for FY26: PKR 31.59/kWh, with capacity payments as high as PKR 17/kWh.</td></tr>
<tr><th colspan="3">TRANSMISSION SYSTEM EXPANSION PLAN (TSEP) 2024–2034</th></tr>
<tr><td>• Expand and reinforce the national transmission grid (including 500 kV, 765 kV, and High Voltage Direct Current (HVDC) lines) to meet projected 2033 demand.</td><td>• 82% physical progress as of Dec 2024, but project completion is delayed. Underutilization of the 4,000 MW HVDC Matiari–Lahore transmission line, causing an estimated PKR 7.5 billion loss (Jul-Dec) due to South–North bottlenecks and grid overload.</td><td rowspan="4">• SCADA-III underway (completion expected FY25); delays limit grid optimization.
• Delays in Planning Commission Form-I (PC-I) approvals, land acquisition, and procurement.
• Lack of indigenous manufacturing for 765 kV equipment; coordination gaps among NTDC, Distribution Companies (DISCOs), and the Ministry of Energy (MoE).
• Poor alignment between generation and transmission project timelines; outdated system studies.
• Underfunded substations, ageing grid infrastructure, lack of automatic voltage regulation, and limited grid digitalization.</td></tr>
<tr><td>• Ensure effective power evacuation from upcoming generation projects.</td><td>• Thar coal evacuation lines are operational; delays remain in Gwadar and K-2/K-3 (Karachi Nuclear Power Plants) interconnections. Transmission links for hydropower projects (Dasu, Mohmand) are still incomplete.</td></tr>
<tr><td>• Improve reactive power management and maintain voltage stability across the 220–765 kV network.</td><td>• Reactive compensation is underway at a few substations, but voltage fluctuations continue during peak hours.</td></tr>
<tr><td>• Develop a cost-based investment plan with stage-</td><td>• National Electric Power Regulatory Authority (NEPRA)</td></tr>
</table>

TARGETS/ OBJECTIVES	CURRENT STATUS	CRITIQUE/ GAP
wise implementation for 2024–2034.	approved a revised PKR 352 billion investment plan for National Transmission and Despatch Company (NTDC) in Sept 2024.	
NATIONAL ELECTRICITY PLAN 2023-27		
• Achieve 100% energy access and electrification by 2030.	• 95.6% national electricity access (World Bank, 2023).	• Households continue to face unreliable electricity supply; rapid growth of off-grid solar remains unintegrated with national planning. • High cost and logistical challenges in expanding grid networks to remote areas. • Limited stakeholder engagement in policy implementation. • Industrial consumers show resistance to fixed charges, citing increased monthly bills.
• Increase the indigenous energy share to 60% by 2025 and 75% by 2030.	• Hydropower + nuclear + renewable energy (RE) account for 54.41% of total generation.	
• Protect low-consumption users and reduce cross-subsidies to ≤ 20% by 2026.	• Cross-subsidy levels decreased by 13% year-on-year (YoY) in FY26, but the target is still unmet.	
• Introduce fixed electricity charges across all consumer slabs (excluding protected users).	• Fixed charges are implemented only for industrial consumers.	
TIGHT GAS POLICY 2024		
• Incentivize investment in tight gas and unexplored hydrocarbon reserves.	• Policy offers a 40% price premium over the zonal price for eligible tight gas projects. Only Nur West-I (a small-scale tight gas project) is currently operational.	• Incentive applies only to projects certified within 10 years, reducing attractiveness for large-scale, long-term investments. • High exploration and production costs limit private-sector participation. • Weak federal–provincial coordination, unclear concession procedures, and slow regulatory approvals. • Undefined frameworks for joint ventures (JVs), technology transfer, and insufficient domestic technical capacity.
• Increase local natural gas production to reduce reliance on imported fuels.	• Limited domestic gas output; Oil and Gas Development Company Limited (OGDCL) has partnered with a Chinese exploration company to evaluate tight gas prospects.	
• Ensure transparent and accelerated regulatory approvals for exploration and production projects.	• No fast-track approval mechanism or procedural reforms have been implemented.	
INFRASTRUCTURE		
NATIONAL FREIGHT AND LOGISTICS POLICY 2021		
• Strengthen freight forwarder licensing and regulatory oversight.	• Federal Board of Revenue (FBR) issued the Freight Forwarders Licensing Rules (2025) — Pakistan's first formal licensing framework.	• Weak, underfunded rail network and poor port–road integration hinder multimodal freight efficiency. • Limited financing, slow technology adoption, and insufficient progress in green shipping initiatives; fleet modernization remains slow. • Chronic port congestion, delayed dredging, weak cold chain systems, and deteriorated road links → high transport and logistics costs.
• Enhance multimodal connectivity, especially rail freight.	• USD 400 million Karachi–Pipri Freight Corridor under development by National Logistics Cell (NLC) and DP World.	
• Modernize the national shipping fleet to reduce import dependence.	• Pakistan National Shipping Corporation (PNSC) announced a plan to expand its fleet by 34 vessels within three years (The Express Tribune, 2025).	
• Upgrade freight infrastructure to lower logistics costs and delays.	• Digitalization efforts are underway through Pakistan Single Window (PSW), but road and rail connectivity gaps persist.	

<table>
<tr><th>TARGETS/ OBJECTIVES</th><th>CURRENT STATUS</th><th>CRITIQUE/ GAP</th></tr>
<tr><th colspan="3">NATIONAL MARITIME POLICY (NMP) 2025 DRAFT</th></tr>
<tr><td>• Expand national merchant fleet; increase Pakistan-flagged cargo share to 25–30% by 2047.</td><td>• Pakistan National Shipping Corporation (PNSC) handles only 10% of Pakistan's trade cargo, despite a threefold growth in trade (2001–2022).</td><td rowspan="4">• No feasibility studies, baseline cargo/port data, or updated sectoral assessments; many legacy issues from Maritime Policy 2001 (MMP-2001) remain unresolved.
• Fleet expansion targets are considered unrealistic due to the absence of financing mechanisms and reliance on outdated vessel technologies.
• No Green Port Policy, maritime waste-management framework, or mechanisms for environmental compliance at ports.</td></tr>
<tr><td>• Modernize ports & logistics infrastructure (Karachi Port Trust – KPT, Port Qasim Authority – PQA, Gwadar Port).</td><td>• Limited modernization at KPT, PQA, and Gwadar Port; several Public-Private Partnership (PPP) projects initiated.</td></tr>
<tr><td>• Promote sustainable, carbon-neutral maritime operations.</td><td>• No substantial progress on emission reduction, green port initiatives, or renewable-energy-based port operations.</td></tr>
<tr><td>• Facilitate private investment in the maritime and shipping sectors.</td><td>• The government announced the First Maritime Investment Conference (Arab News, 2025).</td></tr>
<tr><th colspan="3">NATIONAL MINERAL POLICY 2013</th></tr>
<tr><td>• Foster an investment-friendly climate to attract local and foreign investors.</td><td>• Policy largely unimplemented; weak investor-support framework.</td><td rowspan="5">• Federal overreach and provincial autonomy, with unclear institutional roles, mainly concerning the Special Investment Facilitation Council (SIFC).
• Institutional overlap persists, and Mineral Investment Facilitation Authorities (MIFAs) are still not operational.
• Sector faces regulatory instability, with acts and bills suspended or opposed.
• Transparency gaps persist due to weak geodata systems and slow licensing processes.
• Enforcement is weak, allowing illegal mining to continue.
• Contracts are unclear, and high taxes, royalties, and inconsistent policies deter investors.
• No unified national geodata center, limiting exploration incentives.
• Infrastructure and industrial linkages are inadequate, restricting value addition.
• Stakeholder representation is weak, with small miners often sidelined.
• High financial requirements and limited community benefits.</td></tr>
<tr><td>• Optimize mineral exploration, development, and utilization nationwide.</td><td>• Limited geological exploration; many mineral deposits remain unexplored.</td></tr>
<tr><td>• Promote value addition across both upstream and downstream mineral sectors.</td><td>• Minimal downstream industrial activity, with dominance of raw mineral exports.</td></tr>
<tr><td>• Strengthen institutions, geological data systems, and environmental safeguards.</td><td>• Under-resourced institutions and poor enforcement of safety and environmental regulations.</td></tr>
<tr><td colspan="2">PROVINCIAL MINERAL ACTS
CURRENT STATUS
• BALOCHISTAN MINES & MINERALS ACT 2025 – Implementation is stalled as the act is suspended by the provincial government.
• SINDH MINES & MINERALS GOVERNANCE ACT, 2021 – The act is partially implemented with weak enforcement.
• KPK MINES & MINERALS ACT, 2025 – Implementation stalled as the bill has not yet passed in the KP Assembly.
• PUNJAB MINES & MINERALS BILL 2025 – The bill is not yet enacted — still under provincial review.</td></tr>
</table>

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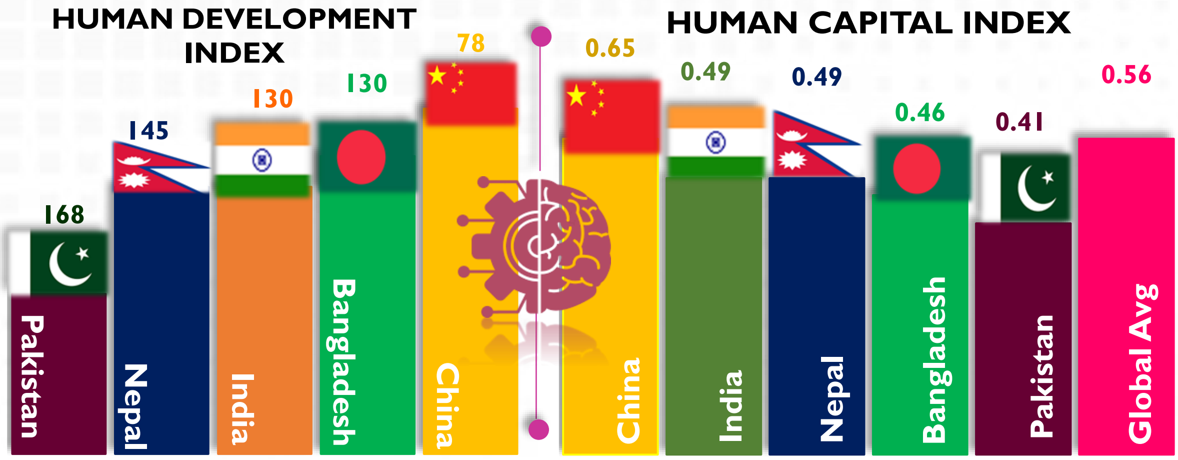
Inclusive Growth, Ethical Governance & Social Empowerment

Introduction

Social development plays a pivotal role in fostering societal well-being and driving long-term economic growth. However, in Pakistan, over half of the population remains deprived of basic services such as education and healthcare, impeding the country's progress on multiple social fronts. This gap has placed Pakistan far behind its regional counterparts, such as India, China, and Bangladesh, in critical social indicators. For example, Pakistan is ranked 168th out of 193 countries on the Human Development Index (HDI), while India and Bangladesh stand at 130th (UNDP, 2025). This ranking not only highlights Pakistan's stagnation but also underscores a major developmental concern: the country's insufficient investment in key social sectors. Despite international recommendations by institutions like the World Health Organization (WHO) and UNESCO, Pakistan's focus in these areas remains alarmingly low, further compounding the challenges of equitable growth.

In comparison to its previous years, Pakistan's performance on social development indicators has been on a decline, further distancing it from its regional peers. One of the most telling reflections of this stagnation is seen in Pakistan's Human Capital Index (HCI), which stands at a meager 0.41. This implies that Pakistan's workforce operates at only about 41% of its potential productivity compared to what could be achieved with full access to quality education and good health. This is notably lower than the Global average of 0.56 (or 56%) (World Bank, 2020). Moreover, factoring in the high levels of unemployment in the country, this productivity rate dwindles to a stark 20% (Utilization-Adjusted HCI), further stressing the urgency of addressing Pakistan's human capital development.

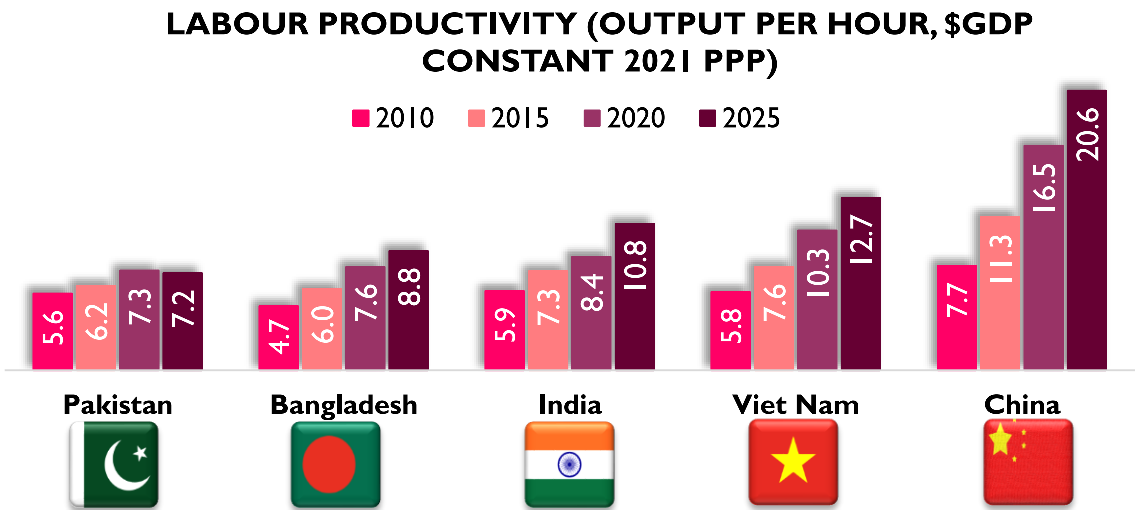
Figure 63: Pakistan's Human Development Standing: Compared to its Regional Peers



Data Source: UNDP's Human Development Index is for 2025 & World Bank's Human Capital Index 2020

Pakistan's slow progress in improving labor productivity compounds these challenges. The country has consistently lagged behind regional economies such as Bangladesh, India, China, and Vietnam in terms of labor productivity growth since the 2010s. A significant portion of Pakistan's labor force is engaged in low-skilled, informal sectors, preventing the country from shifting toward high-productivity industries such as advanced manufacturing, technology, and services. The country's semi-industrialized status and political instability have hindered the diversification and industrialization of its economy. In addition, Pakistan's energy crisis has created significant barriers to industrial growth, making it difficult for businesses to expand and thrive.

Figure 64: Comparative Analysis of Labour Productivity in Pakistan



Data Source: International Labour Organization (ILO)

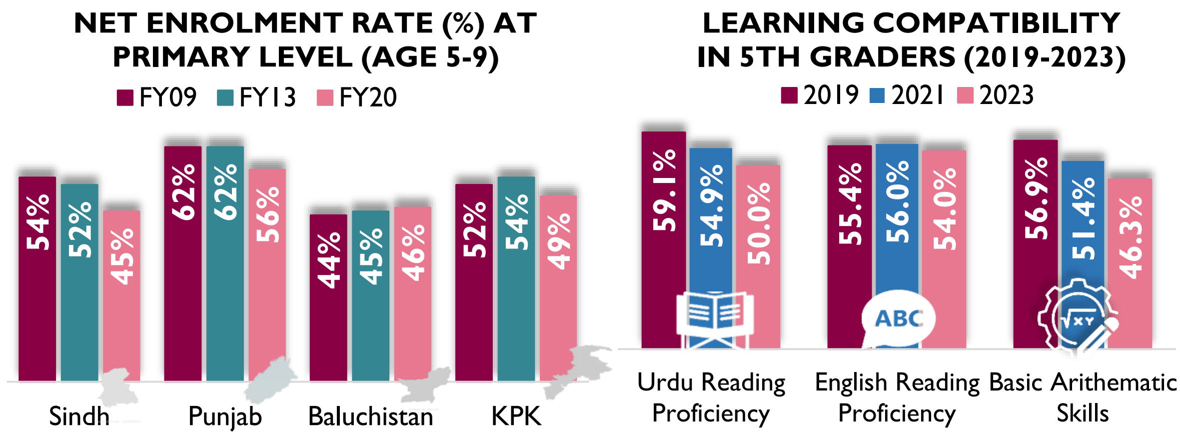
While neighboring economies have rapidly industrialized and diversified, Pakistan's economic transformation has been slow, hindered by low investment in key areas like education, health, and skills development. Misallocation of resources, with a focus on recurrent expenditures, leaves little room for critical development initiatives. These challenges have stunted human capital development, which is crucial for long-term economic growth. Research consistently shows a strong link between improvements in education, healthcare, and skills development, and increased productivity, innovation, and economic diversification (UNDP, 2025; World Bank, 2020). To accelerate growth, Pakistan must realign its priorities, ensuring adequate investment in these areas to boost productivity and shift towards higher-value industries.

Priority 1: "Improve and Expand Access to Education"

Pakistan faces one of the lowest literacy rates globally, with only 60.7% of its population able to read and write. In comparison, neighboring countries like India and Bangladesh have higher literacy rates of 76% and 74.9%, respectively. Pakistan also holds the unfortunate distinction of having the second-highest number of out-of-school children in the world,[61] with 26.2 million children not attending school. This crisis is compounded by a severe lack of basic resources in schools, such as clean drinking water and electricity, further limiting access to education.

Poverty exacerbates this situation, leading to a sharp decline in the net enrollment rate for children aged 5-9, as seen in recent figures. Moreover, the quality of education remains a significant concern, as many individuals completing primary education still struggle with basic literacy skills. The Annual Status of Education Report (2023) highlights a troubling decline in learning outcomes compared to 2019. In 2023, only 50% of 5th-grade students could read Urdu, and 54% could read English, down from 59.1% and 55.4%, respectively, in 2019. Similarly, the percentage of students capable of performing basic arithmetic dropped to 46.3% in 2023, compared to 56.9% in 2019.

Figure 65: Educational Progress: Net Enrollment and Learning Proficiency in Pakistan

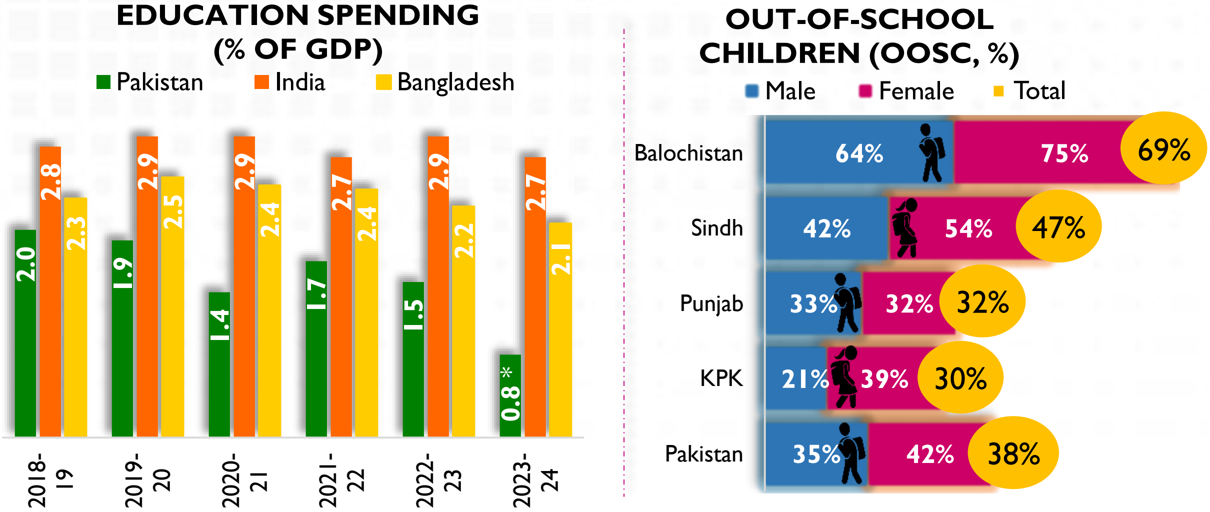


Data Source: PSLM 2008-09, 2012-13, & 2019-20 and Annual Status of Education Report (ASER, 2023)

These statistics paint a bleak picture of Pakistan's education system, which is plagued by inadequate funding, an outdated curriculum, and a shortage of qualified teachers, particularly in rural areas. With the education budget at only 0.8% of GDP in FY2025, far below UNICEF's recommended target of 4-6%, the country's ability to address these challenges remains severely constrained. Most government schools suffer from teacher absenteeism and substandard educational quality, hindering student learning outcomes.

[61] UNICEF. *Education emergency: now or never*. Available at: https://www.unicef.org/pakistan/stories/education-emergency-now-or-never

Figure 66: Education Sector Spending and Out-of-School Children



Data Source: Pakistan Economic Survey, Indian Economic Survey 2024-25, Bangladesh Economic Review 2024
Note: *For Pakistan, the value reported for 2023–24 corresponds to 2024–25, as data for 2023–24 was not available in the Pakistan Economic Survey (PES). For India, Education expenditure pertains to Education, Sports, Arts and Culture. For Bangladesh, education expenditure figures include allocations to the Science and ICT sectors as well.*

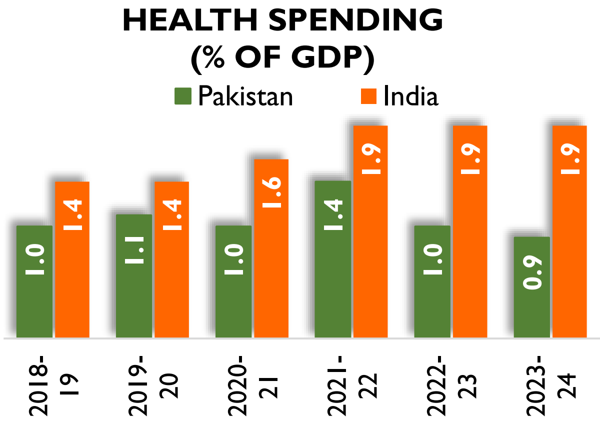
In response to skill development gaps left by formal education, many developing countries, including Pakistan, have turned to non-formal education (NFE) as a strategy to enhance skills and competencies. The World Economic Forum ranks Pakistan 125th out of 141 countries in the 'Skills' category (sub-component of the Global Competitiveness Index 2019), emphasizing the need for investment in human capital.

Priority 2: "Increase Health Coverage and Improve Health Quality"

Pakistan's health sector faces significant challenges, with health spending consistently falling below international (5% of GDP) and national targets (3% of GDP). As of 2023-24, Pakistan's health spending stood at only 0.9% of GDP, far below the National Health Vision's (NHV) target of 3% by 2025. This is lower compared to its regional neighbors like India (1.9%) during the same period, highlighting the disparity in healthcare investments between Pakistan and its peers.

The National Health Vision 2016–2025 aims to achieve universal health coverage (UHC); however, progress has been slow. UHC Service Index in Pakistan improved from 45.3 in 2017 to 53.9 in 2023, meaning that nearly half of the population still lacks access to essential health services. Health financing remains heavily skewed toward out-of-pocket spending, which accounted for 47.37% of total health expenditure in 2022 (as per the World Bank), indicating a strong reliance on personal funds for healthcare. At the same time, health

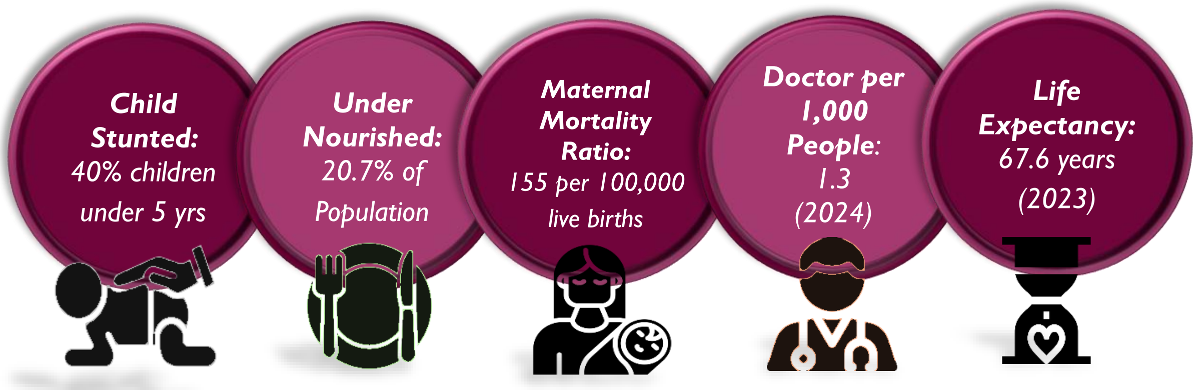
Figure 67: Trend in Health Expenditure: Pakistan vs India



Data Source: Pakistan Economic Survey 2024-25 & Indian Economic Survey 2024-25 infrastructure and human resources remain inadequate: the number of doctors stood at only 1.3 per 1,000 people in 2024, underscoring the need to expand and strengthen the health workforce to improve service access and quality. Pakistan lacks adequate primary healthcare services at the local level, particularly outside urban areas.

The maternal mortality ratio (MMR) is also high at 155 deaths per 1,000 live births, reflecting serious healthcare challenges. According to the World Food Programme's 2025 data, around 40% of children under five in Pakistan suffer from stunting, significantly higher than the South Asian average of 31%. As a result, the country experiences substantial economic losses, estimated at 3% of GDP ($7.6 billion), due to low productivity caused by poor physical health, lack of cognitive development, limited schooling and increased healthcare costs.[62] On the Global Hunger Index 2025, Pakistan is ranked 106 out of 123 countries, indicating sever hunger crisis in Pakistan.

Figure 68: Snapshot of Pakistan's Health and Nutrition Indicators



Data Source: World Food Programme (WFP), World Health Organization (WHO), Pakistan Economic Survey (2024-25)

Priority 3: "Achieve Sustainable Population Growth and Management"

According to the UN Population Fund, Pakistan is the world's fifth most populous country and the second-largest Islamic state by population. The population has increased from 207 million in 2017 (Census, 2017) to 255.2 million in 2025 (UNFP, 2025), growing at an annual rate of 2.55%. If current trends continue, UN projections suggest Pakistan's population could exceed 403 million by 2050, contributing to a group of eight countries that will account for half of the world's population by that time (UNFPA, 2023). Despite over 50 years of family planning programs, the contraceptive prevalence rate (CPR) stands at 34% in 2024, while 17% have no access to birth control (UNFP, 2024). The sales tax rate on contraceptives remains 18% in Pakistan. A recent proposal from the Federal Board of Revenue (FBR) to withdraw this tax was blocked by the IMF in an effort to control costs.[63]

While population management remains a priority for both federal and provincial governments, the lack of political will at the provincial level has hindered progress. The growing population heavily influences federal transfers, with 82% of the weight assigned to population size under the 7th NFC Award. In contrast, countries like India, Iran, and Bangladesh have implemented various population control measures, such as mandatory contraceptive education before

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[62] Achakzai, J. (2021). *Health expenditure: 1.2pc of GDP against WHO-recommended 5pc.* The News. Available at: https://www.thenews.com.pk/print/847694-health-expenditure-1-2pc-of-gdp-against-who-recommended-5pc

[63] Geo New. (2025). *No cheap contraceptives as IMF turns down request to abolish 18% GST*. Geo News. Available at: https://www.geo.tv/latest/640053-no-cheap-contraceptives-as-imf-turns-down-request-to-abolish-18-gst

marriage, government incentives for smaller families, and awareness campaigns. The challenges posed by rapid population growth have profound implications for Pakistan's economy. The strain on resources, infrastructure, and public services directly affects GDP per capita and overall economic productivity, making effective population control crucial for sustainable development.

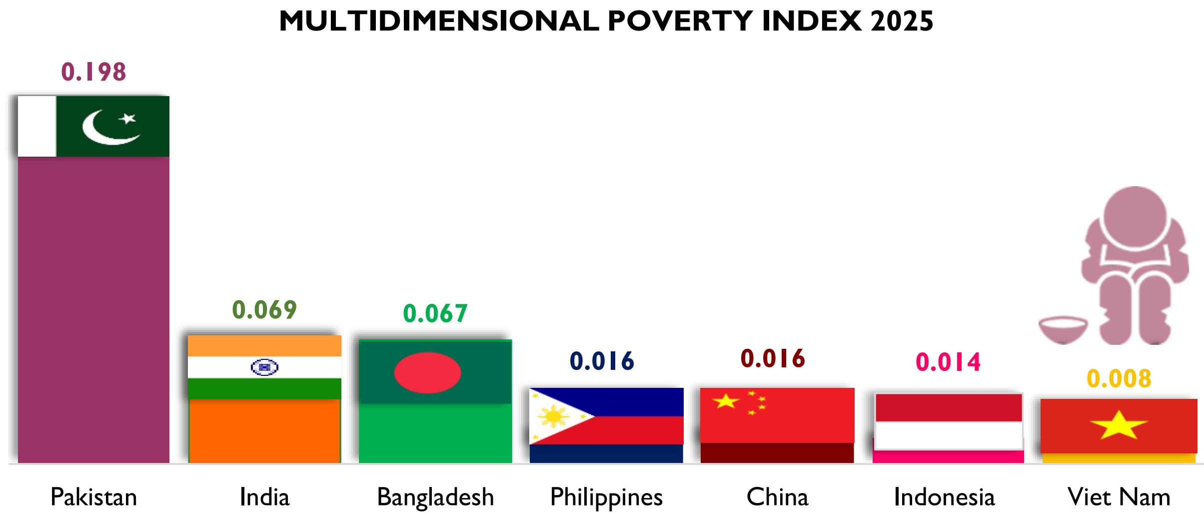
Priority 4: "Ensure Social Protection"

Economic vulnerabilities in Pakistan have intensified due to Covid-19, devastating floods, global oil price shocks, and the Russia-Ukraine conflict, leading to Pakistan's near default in 2023. Most socioeconomic indicators show a significant decline. As reported by the World Bank (2025), around 44.7% of Pakistan's population, or (as per international poverty benchmark), are now living below the poverty line. The existing social security programs offer limited coverage, which has already been stretched to its limits. Soaring inflation is severely eroding purchasing power, while the bleak economic outlook has reduced employment opportunities for the masses.

Pakistan's social protection systems, Benazir Income Support Program (BISP), is one of the world's largest cash transfer initiatives. However, the social protection programs in Pakistan cover 19.84% of the total population compared to 40.37% in Bangladesh, 29.15% in Indonesia, and 28.13% in Sri Lanka (World Bank, 2024). Furthermore, pension schemes in Pakistan reach only 15% of the eligible population.[64] These schemes are less prevalent in small or informal businesses, which employ a large portion of the workforce.

The Multidimensional Poverty Index (MPI), a composite indicator measuring poverty across three dimensions, health, education, and standard of living, also underscores Pakistan's poor performance compared to its peers. A higher MPI score for Pakistan indicates a greater incidence of multidimensional poverty, highlighting the country's ongoing struggle with widespread deprivation across several key areas, as presented in the figure below.

Figure 69: Multidimensional Poverty Index 2025



Data Source: UNDP's Global Multidimensional Poverty Index 2025 Report

[64] https://www.thenews.com.pk/tns/detail/1200764-securing-the-future

Priority 5: "Promote a Values-Based Society"

Ethics and values in the younger generation come from the family environment, teaching institutions and religious forums. All these play critical roles in shaping their behavior. Our general social behavior reflects a declining trend towards the essential values of honesty, discipline, fairness, mutual respect, teamwork and social responsibility.

A set of extracurricular activities aiming to inculcate high moral values and work ethics from a young age duly supported by parents' counselling towards that objective. The ranking and progression of a student should focus more on his/her social behavior/character than just rote learning.

The national curriculum must have a strong focus on ethics along with academics to achieve a better society as well as a progressive economy.

Priority 6: "Empower Youth, Women, and Vulnerable Groups"

Mobilizing Youth into Economy: In Pakistan, the youth demographic, comprising over 67% of the population under the age of 30 (PES, 2025), holds immense potential to drive the country's future economic and social development. However, this potential remains largely untapped due to high unemployment rates and a mismatch between the skills of young people and market demands. Whereas, according to an estimate, the youth unemployment rate stands at around 35%,[65] facing barriers to entering the labor force, including limited access to quality education, vocational training, and job opportunities.

To unlock the full potential of this demographic, there is a need for targeted investments in skill development, access to employment opportunities, and policies that foster a conducive environment for innovation and job creation. Empowering Pakistan's youth will be critical for achieving long-term economic growth and social stability.

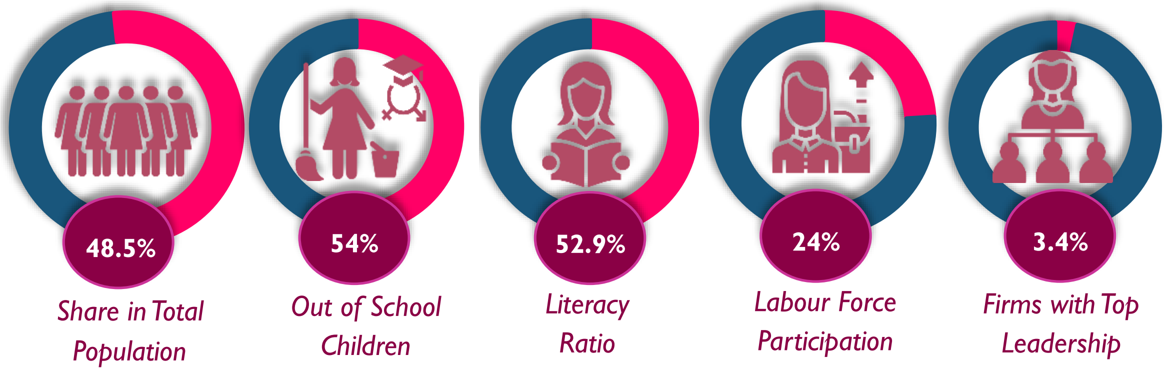
Figure 70: Trend in Unemployment in Pakistan over the years

Data Source: World Economic Outlook (WEO), IMF

[65] Pasha, H.A. (2025). *The youth bulge and idle youth*. Business Recorder. Available at: https://www.brecorder.com/news/40379618

Empowering Women to Achieve True Economic Potential: The World Economic Forum's Global Gender Gap Index (2025) ranks Pakistan 148th out of 148 countries, with a gender gap of 56.7%.[66] Despite women constituting nearly half of the population, they remain significantly behind in many areas, limiting their potential and hindering economic growth. With a female workforce participation rate of just 24% in 2024, Pakistan lags far behind other countries like Bangladesh (44%), Kuwait (49%), and Indonesia (53%). In Bangladesh, over 50% of the workforce in the textile sector, a key export industry driving economic growth, consists of women. In Pakistan, women face lower wages, limited access to markets, training, finance, and entrepreneurship opportunities. Cultural and societal norms, such as restrictive gender roles and patriarchal values, further limit women's mobility, access to education, healthcare, and leadership roles. Additionally, the gender gap in Pakistan's electoral rolls stands at 10 million (ECP), reflecting the broader systemic barriers to gender equality, which undermine both women's development and the country's economic potential.[67]

Figure 71: Gender Divide in Pakistan – A Snapshot



Data Source: Census 2023, World Bank's Breaking Barriers, Improving Futures Report (2024), World Bank Development Indicators, and WEF's Global Gender Gap Report 2025. Note: The 54% of girls out of school represents the proportion of total children who are out of school.

Priority 7: "Accelerating Achievement of SDGs"

Pakistan faces significant challenges in achieving the Sustainable Development Goals (SDGs). The country's rapidly growing population, coupled with the intensifying effects of climate change, has outpaced government efforts in various development areas. According to the UN Sustainable Development Report 2025, Pakistan ranks 140th out of 167 countries on the SDG Index, with only 19% of the goals either achieved or on track, 45% showing limited progress, and 36% worsening.[68] Despite being the first country to adopt the SDGs as part of its national development agenda, Pakistan's implementation has been suboptimal, as evidenced by a decline from 125th in 2022, losing 15 places over the past 3 years due to the impacts of the economic crisis.

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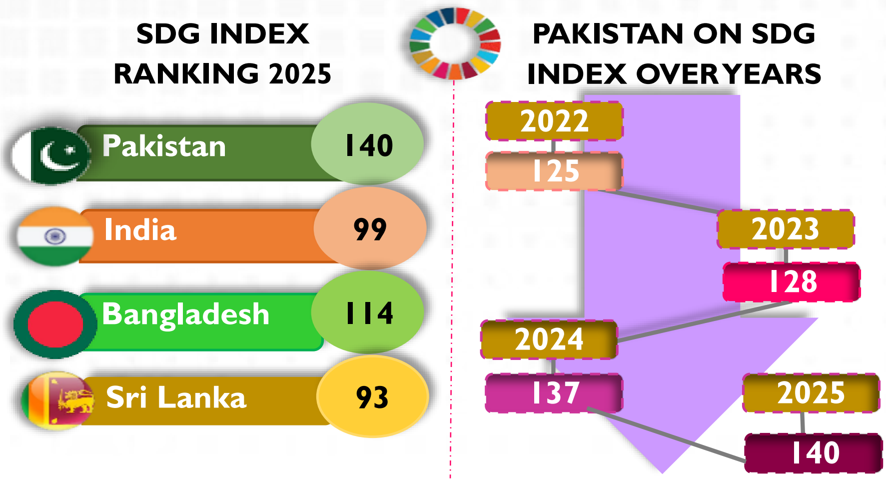
66 The WEF measures countries' progress towards gender parity across economic participation, education, health, and political empowerment. The parity score, calculated as the ratio of the value of each indicator for women to the value for men, shows that Pakistan has closed 56.7% of the gender gap, with 42.3% still remaining.

67 Khan, I.A. (2025). *Gender gap among voters shrinks to 7.1pc from 11.8pc in 2018.* DAWN Available at: https://www.dawn.com/news/1961860

68 SDG Dashboard. Available at: https://dashboards.sdgindex.org/profiles/pakistan/

Figure 72: Pakistan's Progress in the SDG Index versus Others



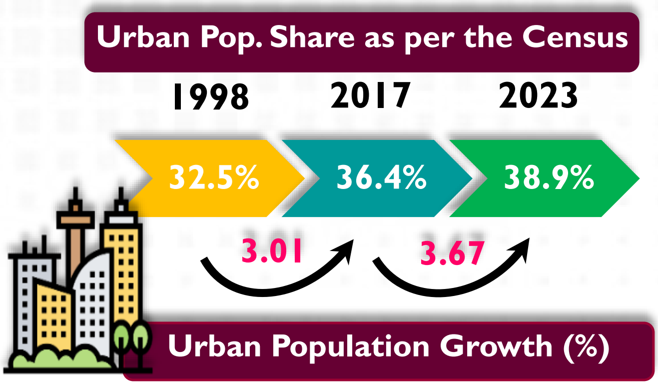
Data Source: SDG Dashboard and Planning and Commission of Pakistan

The 18th Amendment devolved a wide range of ministries and functional areas to the provinces, many of which now fall under the Sustainable Development Goals (SDGs), yet institutional weaknesses, such as corruption, weak governance, and policy fragmentation, continue to hinder effective execution. Despite the presence of federal and provincial SDG Units, the gap between policy and implementation on the ground remains evident. Local governments have a critical role to play in achieving SDGs, particularly through decentralized approaches. A noteworthy example is Bangladesh, which has made significant progress by localizing SDGs. Through a top-down approach, Bangladesh moved from 120th in 2017 to 101st in 2023, before dropping to 114th in 2025. This was achieved by formulating national plans, localizing SDGs at various levels, and creating a robust monitoring and evaluation framework, including the development of the Bangladesh Development Mirror (UNESCAP, 2023). This model highlights the importance of local government involvement in driving SDG progress, a critical lesson for Pakistan as it seeks to bridge the gap in SDG implementation.

Priority 8: "Addressing the Affordable Housing Crisis"

Affordable housing is central to Sustainable Development Goal 11 (SDG-11), yet Pakistan faces significant challenges in meeting this goal due to rapid urban growth and insufficient housing development. The World Bank (2022) estimates that 56% of Pakistan's urban population lives in slums, the highest rate in the region. The annual demand for housing units in Pakistan exceeds 10 million, with half concentrated in urban areas, growing by 0.4 million units annually (IFC, 2021). However, only 250,000 units are constructed annually. The demand is particularly high among lower-income (62%) and lower-middle-income (25%) groups, while higher-income groups account for only 10% of the need (Hasan & Arif, 2018). The growing population, rural-urban migration, and deteriorating housing infrastructure are the primary factors driving the widening housing gap (World Bank, 2022). This issue is further exacerbated by a lack of effective government intervention (LUMS, 2018).

Figure 73: Urbanization Trend in Pakistan



Data Source: Pakistan Bureau of Statistics (PBS)

Government programs such as Shaheed Benazir Bhutto Housing Cell (2008), Apna Ghar (2013), and Mera Pakistan Mera Ghar (2020) have not effectively addressed the affordability crisis. These schemes have struggled with issues such as poor targeting of low-income groups, delays in project completion, and unfavorable mortgage conditions. The mortgage-to-GDP ratio is low at 0.3% (2023), compared to Bangladesh (1.6%), Indonesia (3.4%), and India (10%) (HBFC, 2024). The Mera Pakistan Mera Ghar scheme struggles to cover land costs and faces low builder incentives. The new Mera Ghar Mera Ashiana scheme faces similar challenges, particularly in assessing the creditworthiness of people coming with informal income sources.[69]

[69] Business Recorder. (2025). *Déjà vu in 5 marlas*. Business Recorder. Available at: https://www.brecorder.com/news/40388584#:~:text=After%20the%20abrupt%20halt%20of,from%20any%20criticism%20post%2Dprogram

Policy Recommendations

Priority 1: "Improve and Expand Access to Education"

Increase Education Budget: Increase the education budget allocation from existing 0.8% to at least 4-6% of GDP, as recommended by UNESCO, to ensure sufficient funding for quality education.

Leverage Digital Tools for Education: Incorporate digital apps and AI tools into learning methodologies to enhance educational outcomes, while also deploying them in surveillance systems across Pakistan's educational institutions.

Establish District Authorities: Create District Education Authorities across the country to monitor progress, identify educational needs at local level and ensure effective implementation of education policies. Launch teachers' training programs to improve to quality of overall education

Promote NFE: Launch awareness campaigns to highlight the benefits of non-formal education (NFE) and increase accessibility for out-of-school children. Modernize madrassa education by integrating relevant skills training to align with modern education needs and formally recognizing equivalency to improve employability.

Priority 2: "Increase Health Coverage and Improve Health Quality"

- **Increase Budget Allocation:** Raise healthcare spending at least 5% of GDP to meet the minimum benchmark set by international bodies, prioritizing primary healthcare initiatives.
- **Upgrade Healthcare Facilities:** Build and modernize healthcare infrastructure in rural areas, enhancing capacity and service delivery. Implement digital solutions like electronic health records to streamline services and reduce inefficiencies.
- **Establish District Health Authorities:** Strengthen the management and governance of healthcare facilities & establish district health authorities to oversee local and primary healthcare needs, ensuring efficient resource allocation and monitoring.

Priority 3: "Achieve Sustainable Population Growth and Management"

Mandatory Family Planning Education

Implement mandatory family planning and contraception education programs as a prerequisite for marriage. These courses should provide comprehensive knowledge on reproductive health, contraceptive options, and the benefits of birth spacing, aimed at promoting informed decision-making and responsible family planning.

Promote Awareness and Rationalize Tax

Launch awareness campaigns to promote modern contraception methods like IUCDs, particularly in underserved areas, while reducing or eliminating taxes on contraceptives to make them more affordable and accessible for all.

Revise the Weightage of Population under NFC

Reduce the weightage of the population indicator in the National Finance Commission Award (NFC) to encourage provinces to contribute in family planning intitatives.

Priority 4: "Ensure Social Protection"

- **Address Data Inconsistencies and Ratify ILO Conventions:** Resolve data inconsistencies in national databases such as Census, NADRA, and BISP and ratify the ILO Social Security Convention No. 162 to ensure comprehensive social protection and employment standards across sectors.
- **Mandate Private Business Registration with EOBI:** Require all private businesses to register with the Employees' Old-Age Benefits Institution (EOBI) to guarantee social security coverage for workers and promote formalization in the labor market.
- **Diversify Livelihood Opportunities:** Integrate cultural strengths, such as handicrafts, cottage industries, and pottery, into employment opportunities with government support for marketing, exhibitions, and capacity building in these traditional sectors. Foster rural digital literacy initiatives to enable access to freelancing, call center jobs, and other online work opportunities, empowering rural populations and enhancing income-generating potential.

Priority 5: "Promote a Values-Based Society"

- **Extracurricular Focus in educational institutions:** Promote values through sports (teaching teamwork, discipline, fairness), debate clubs (respectful dialogue), and volunteer programs (compassion, service).
- **Strengthen Community Institutions:** Empower local mosques and community centers to act as hubs for promoting social cohesion & resolving disputes

Priority 6: "Empower Youth, Women, and Vulnerable Groups"

Mobilize the Female workforce: Promote safe public transport and encourage employers to provide in-house daycare facilities. Expand vocational training for women, focusing on skills suited for remote or work-from-home opportunities.

Empowering Youth through Education and Skill Development: Develop skill-building programs aligned with global market demands, providing internationally recognized certifications to enhance employability and academic advancement. Integrate youth associations and learning clubs into formal education by offering official certifications and linking them to scholarship opportunities.

Strengthening Labor Rights and Protection: Simplify and consolidate labor laws at the provincial level to enhance clarity, improve enforcement, and ensure better protection of workers' rights across regions to reduce exploitation, and provide greater job security.

Priority 7: "Accelerating Achievement of SDGs"

- **Integrate SDGs into Policy Frameworks at All Levels:** Incorporate the SDGs into policy frameworks from the federal to provincial and local levels, along with the establishment of a Steering Committee to oversee progress, ensure alignment, and track implementation. Shift the focus from current expenditures to development investments that have a long-term impact on achieving the SDGs.

- **Strengthen Local Governments:** Empower local governments in each province to actively contribute to monitoring, data collection, and coordination. Enhance federal-provincial collaboration and adopt global best practices, such as Bangladesh's model, by integrating district-level dashboards and fostering multi-stakeholder engagement in SDG planning.

Priority 8: "Addressing the Affordable Housing Crisis"

Affordable Housing Policies and Schemes

The government should incentivize investment in affordable housing for low-income and lower-middle-income groups by providing subsidies for land and construction, along with incentives for developers, such as tax breaks, faster approvals, and reduced construction duties to encourage low-cost housing development.

Planned Urbanization

Facilitate affordable housing and increase housing access from through improved urban planning and active local government involvement. Additionally, update and revise zoning laws to promote sustainable housing practices and prevent unplanned urban growth.

Digitize Records & Strict Monitoring

Similar to Punjab, Implement a nationwide digitization of land records. Strengthen the real estate regulatory framework to eliminate land mafia activities, preventing illegal real estate activities.

TARGETS/ OBJECTIVES	CURRENT STATUS	CRITIQUE/ GAP
NATIONAL EDUCATION POLICY 2017		
• Achieve 90% Literacy Rate • Achieve 100% Primary Gross Enrolment Rate (GER), 85% Middle & 70% Secondary GER by 2025. • Achieve Net Enrolment Rate (NER): 50% Middle & 40% Secondary NER by 2025. • Increase in Gross and Net Enrolment Rates at Higher Secondary Education Level by 50%.	• Literacy Rate: 60% (FY17) - 60.7% (FY23). • Gross Enrolment Rate (GER): Primary (84%), Middle (63%), Matric (57%) (2019-20) • Net Enrolment Rate (NER): Primary (64%), Middle (37%), Matric (27%) (2019-20) • Overall Enrolment in Higher Secondary Education: 37% increase (1.697 million in 2017 vs. 2.33 million in 2023)	• Lack of ownership and implementation by provincial governments. • Limited budgets and administrative constraints. • NQF implementation remains incomplete and misaligned with international standards. • Industry linkages have been initiated but are still weak and insufficient.
• Increase Spending to 4% of GDP	• Education Spending: 2% (FY17), 0.8% (FY25)	
• Operationalize National Qualification Framework (NQF) & Competency Based Training & Assessment (CBT&A)	• NQF developed in 2015; revised in 2024; still in implementation phase	
• Establish Basic Education Endowment Fund for Non-Formal Education (NFE) & Girls.	• Out-of-School Children Fund Announced in 2024.	
NATIONAL HEALTH VISION 2016-2025		
• Increase allocation to 3% (GDP) by 2025.	• Health Spending as % of GDP: 1% (FY19) - 0.9% (FY24)	• Lack of ownership and implementation by provincial governments. • Health spending & UHC coverage remain well below NHV targets. • Human resources & system resilience are still weak. • Limited disaster-ready capacity at the provincial level with weak federal–provincial coordination.
• Achieve universal health coverage (UHC) and SDG targets.	• UHC Index: 42.1 (2016) to 53.9 (2023), Limited Sehat Sahulat in areas except KP & Punjab. • Out-of-pocket (OOP) spending is 47.37%.	
• Expand and strengthen the health workforce.	• Doctor per 1000 Population Ratio: 0.94 (2016) to 1.3(2024).	
• Build disaster-resilient health systems. • Develop Joint Official Development Aid (ODA) Resource Mobilization Strategy.	• National Emergencies Operations Centre (NEOC) at the National Disaster Management Authority (NDMA). • No Unified National ODA Mobilization Strategy.	

Data Source: National Education Policy 2017, Various versions of PSLM, Pakistan Economic Survey, Ministry of National Health Services, Regulations & Coordination (NHSRC), Government of Pakistan (2024)[70]

[70] UHC Service Coverage Index. Available at: https://www.nhsrc.gov.pk/SiteImage/Misc/files/2_%20Brief_Trend_Analysis.pdf

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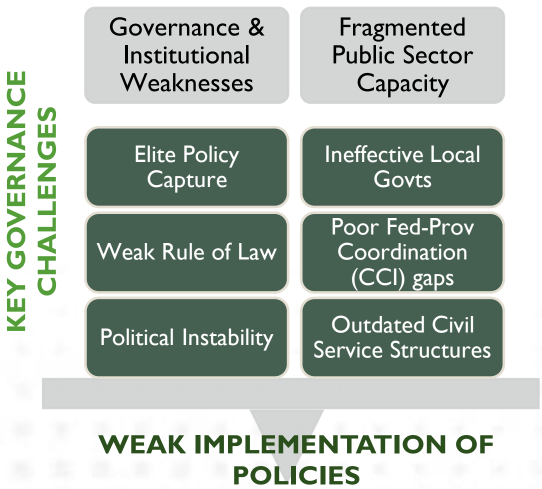
From Dialogue to Delivery, Advancing Pakistan's Growth Agenda

Introduction

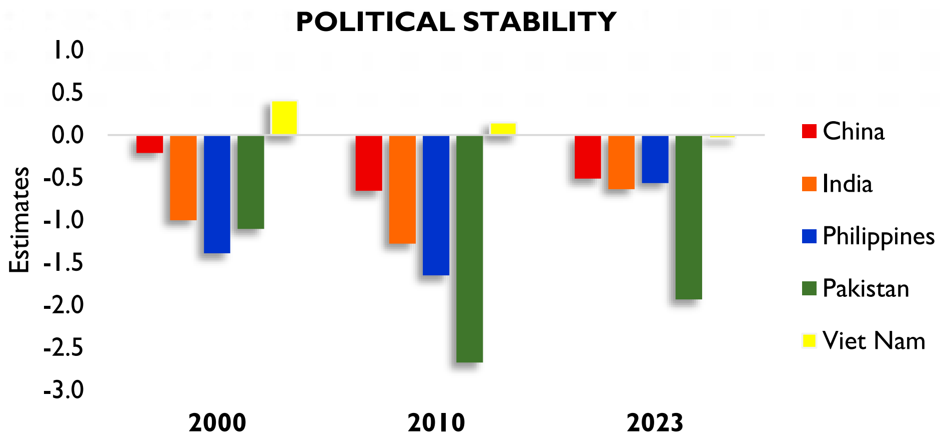
Pakistan's economic challenges stem from inconsistent policy, institutional weaknesses, elite policy capture, and persistent governance failures that weaken national strategies. Pakistan's declining governance quality is reflected in global indices. The World Governance Indicators (2023) rank the country in the 21st percentile for Rule of Law and 30th for Government Effectiveness, stressing weak institutional performance, low investor confidence, and slow development progress.

At the operational level, outdated legal frameworks, an over-politicized bureaucracy, and dysfunctional local governments further limit the state's implementation capacity. Policy and legislative reforms are often delayed or shaped by vested interests. Weak federal–provincial coordination and underutilized forums like the Council for Common Interests (CCI) further fragment decision-making. As a result, Pakistan's institutional system remains unable to ensure political stability, internal security, human capital development, and transparent governance, all of which are enablers of economic transformation.



Pakistan continues to face low political stability relative to many of its regional peers, reflecting governance challenges, security concerns, and frequent leadership changes. The World Bank's Worldwide Governance Indicators (WGI) show Pakistan's political stability at -1.93 in 2023, which is far below that of China (-0.51), India (-0.64), the Philippines (-0.57), and Vietnam (-0.04), indicating a high perceived risk of instability. Trends indicate deterioration from -1.10 in 2000 and -2.68 in 2010, while peer countries experienced relatively moderate changes, highlighting Pakistan's persistent governance challenges, as shown in the figure below.

Figure 74: Political Stability Estimates (WGI) – Pakistan vs. Peer Countries



Data Source: World Bank's World Governance Indicator (WGI)

Politically Motivated Fiscal Policies

Successive political tenures in Pakistan have consistently adopted populist fiscal policies that undermine long-term stability in favour of short-term political gains. These include fuel-price freezes, exchange-rate interventions, untargeted subsidies, tax exemptions, and last-minute releases of development funds.

- The **2008–2013 government** exhibited several politically motivated fiscal tendencies that prioritized short-term relief and political support over long-term fiscal discipline. Facing political pressures and economic challenges, the government front-loaded development spending, with roughly 75.6% of the annual development outlay spent in the first seven months of FY12 (Rana, 2012), suggesting allocation aligned with political rather than strategic priorities. Electricity prices rose sharply during this period, increasing by around 25% per year (Lakhani, 2018), reflecting a combination of subsidy management issues and structural inefficiencies in the power sector, which excessively affected households and businesses. The government maintained sizeable subsidies and relief measures, such as the Benazir Income Support Programme, even as fiscal targets were missed and revenue mobilization remained weak. Critics highlight that persistent fiscal indiscipline, rising public debt, declining revenue-to-GDP ratios, and reluctance to broaden the tax base in politically sensitive sectors such as agriculture reflected the prioritization of electoral and political objectives over structural reforms.
- The **2013–2018 political tenure** illustrates how fiscal policy was used as a tool for electoral consolidation. Just three months before the elections, government presented an unprecedented sixth federal budget, widely viewed as a politically motivated move

to shore up voter support. The budget introduced highly populist measures, such as a 67% increase in minimum pensions, a 50% rise in housing allowances for government employees, the absence of new tax measures, and VAT exemptions on LNG imports (Geo News; The Nation, 2018). These decisions were interpreted as providing short-term relief aimed at appealing to voter groups rather than addressing underlying fiscal imbalances, and were thus criticized by economists and policy analysts for prioritizing electoral considerations over fiscal discipline.

- Electorally driven fiscal decisions further intensified during the **2022 political tenure**. As per the Reuters' Report (2022), despite soaring global oil prices amid the Russia-Ukraine War, the then government froze the fuel and energy prices by introducing subsidies worth around Rs. 250-300 billion (US$1.5 billion). Such subsidies became fiscally unsustainable and deteriorated the fiscal outlook. Similar politically motivated measures were witnessed by successive governments in the past.

- Fiscal choices between **2023 and 2025**, including decisions by coalition and caretaker governments, clearly reflected political considerations. For instance, BISP allocations surged ahead of elections, rising from Rs. 235 billion in FY22 to Rs. 404 billion in FY23 (a 72% rise), followed by Rs. 450 billion in FY24, Rs. 598 billion in FY25, and a further 20% surge in FY26. These expansions, coinciding with periods of political uncertainty and approaching elections, reflect efforts to provide visible relief or consolidate public support. Without parallel revenue-side reforms, such measures prioritize short-term political gains over long-term fiscal sustainability.

National Finance Commission (NFC): Composition and Responsibilities

Article 160 (1) of the Constitution of Pakistan mandates the establishment of the NFC, which serves as the institutional mechanism for developing the intergovernmental fiscal transfers formula. By constitutional requirement, the NFC must be reconstituted every five years and propose recommendations on the revenue-sharing framework along with other functions/ matters outlined under *Article 160 (2)*, as illustrated in the table below:

Table 13: Composition of the National Finance Commission (NFC)

Member	Designation
President of Pakistan / Prime Minister	Constituting Authority
Federal Minister of Finance	Chairman
Provincial Finance Minister, Sindh	Statutory Member
Provincial Finance Minister, Punjab	Statutory Member
Provincial Finance Minister, KPK	Statutory Member
Provincial Finance Minister, Balochistan	Statutory Member
Persons Appointed by the President*	Non-Statutory Member

Composition of the Indian Finance Commission (IFC)

Indian Finance Commission:
Chairperson plus four members, appointed by the President, per qualifications set by Parliament. ***Members' Profile:*** *Economists and/or senior civil servants with relevant technical expertise.*

Data Source: Constitution of Pakistan, 1973 & Constitution of India, 1950 (In Effect)
**Appointed after consultation with the Governors of the Provinces.*

The comparison highlights that Pakistan's NFC is highly politicized (Dagha, 2025), whereas India's Commission is technically driven, comprising economists and fiscal experts rather than political appointees.

Enabler 2: "Promote Peace and Security"

Pakistan's internal security environment continues to be shaped by structural weaknesses in policing and uneven implementation of modern law-enforcement reforms.

- **Incomplete Implementation of Reform Law:** The *Police Order 2002*, intended to replace the colonial *Police Act of 1861* in order to promote professional, merit-based, depoliticised policing, has not been fully implemented across Pakistan (Suleri, 2019), undermining intended reforms such as fixed tenures, public oversight, and operational autonomy. The Sindh and Balochistan governments reverted to older laws or amended the Order, weakening its original intent.

- **Safety Commissions Not Operational:** Statutory Public Safety and Complaints Commissions required under *Police Order 2002* remain non-functional or unestablished in most provinces or districts, even after 22+ years, depriving citizens of accountability mechanisms (Yasif, 2024).

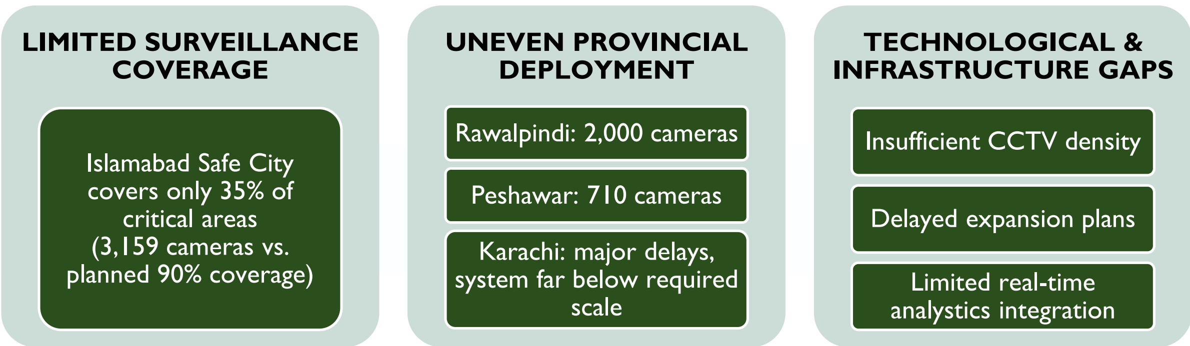
- **Persistent Political Influence:** Political influence continues to shape appointments, transfers, and promotions, with police posts still subject to political and bureaucratic control rather than merit (Zaman, 2022). Various reports note that political actors and the civil bureaucracy have resisted reforms because they reduce their leverage over police functions.

- **Frequent Premature Transfers:** Despite legal provisions for fixed tenures under the *Police Order*, the police officers are frequently transferred before completing their terms due to political interference rather than performance-based reasons (Bhatti, 2022). Repeated interventions by the Supreme Court to halt such arbitrary transfers highlight the persistent erosion of institutional autonomy within the policing system.

Internal Security & Safe City System

Technological and infrastructure shortfalls further hamper effective internal security. Safe City projects, designed to bolster urban surveillance and real-time response through extensive CCTV networks, have progressed unevenly: Islamabad's system currently covers only about 35% of critical areas with 3,159 cameras, despite plans to expand to nearly 90% coverage by 2026 (Azeem, 2025), similar initiatives are underway in Rawalpindi with over 2,000 cameras and Peshawar with an initial 710 cameras, but many cities, including Karachi, have experienced long delays in deploying wide-ranging networks of 12,000 cameras[71] originally envisioned years ago, despite a Supreme Court order to launch it in 2016 (Saad, 2023).

Figure 75: Security & Safe City System Gaps



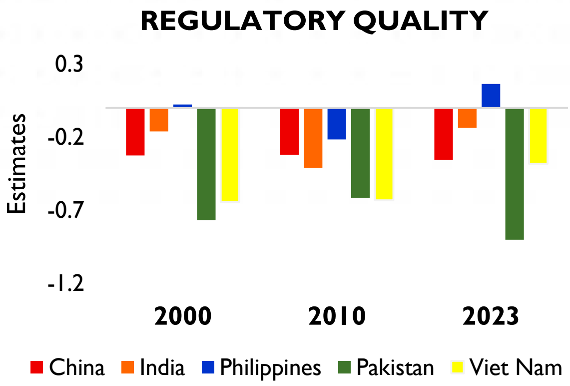
These surveillance gaps, rising street crime, and weak inter-agency coordination highlight the urgent need to depoliticize police management, fully implement policing reforms, and integrate modern technology and data analytics to strengthen peace, security, and public trust.

[71] The Express Tribune. https://tribune.com.pk/story/2493636/12000-cctv-cameras-to-be-installed#:~:text=KARACHI:,be%20completed%20within%20two%20years.%22

Pakistan's fledgling democracy remains fragile, and the centralized, non-democratic decision-making processes at the state level not only hinder public participation but also pose significant barriers to citizen involvement in service delivery.

Regulatory Frameworks and Implementation Mechanisms

Weak regulations and ineffective monitoring are major barriers to various sectors in Pakistan's economy. Achieving SDG goals requires healthy competition, but poor regulatory frameworks and implementation have fueled informal economies. Regulatory bodies in Pakistan lack an inclusive policy framework that spans multiple sectors, including industry, trade, agriculture, and investment. Many of these bodies set unrealistic or unachievable targets due to limited resources, inadequate capacity, and poor planning. Regulatory bodies must be independent of the state and private entities, and their policies must align with global standards and the best interests of Pakistan. The lack of effective implementation renders many government policies ineffective.



Data Source: World Governance Indicator (WGI)

Despite the proliferation of regulatory bodies in Pakistan, their effectiveness has been dented by weak implementation, overlapping mandates, and limited enforcement capacity. According to Business Recorder, there are about 18 regulatory bodies[72], yet many fail to deliver on their core functions due to inadequate resources, poor coordination, and political interference. This has resulted in regulatory fragmentation, delayed decision-making, and persistent market distortions that erode investor confidence and hinder economic growth. Figure below shows the key regulatory bodies in Pakistan.

Figure 76: Key Regulators in Pakistan

The following are key examples of regulatory failures across different sectors:

- **National Electric Power Regulatory Authority (NEPRA):** The regulator of energy has fallen short on regulatory activities, including providing generation licenses without cost consideration, excessive capacity payments due to misreporting, neglecting the auditing of IPPs' actual capacity, and misuse of Merit Order in electricity

[72] Business Recorder. https://www.brecorder.com/news/4451173#:~:text=There%20are%20about%2018%20regulatory,%2C%20NAB%2C%20FBR%20and%20others.

transmission. Merit Order violations led to a significant PKR 32 billion burden[73] on consumers. This lack of oversight has trapped Pakistan's energy sector in a cycle of circular debt. The unique case of K-Electric, a privatized monopoly, is an example of a faulty privatization policy that failed to achieve the objective of customer welfare.

- **Competition Commission of Pakistan (CCP):** CCP has failed to prevent price manipulations, hoarding, and unfair competition practices by market players, leading to the formation of cartels over several years in numerous sectors such as sugar, wheat, automobiles, cement, poultry, and others. Even when cartels are identified by the CCP, they often face minimal penalties or evade punishment through judicial delays, undermining the effectiveness of government policies. A notable example is the Sugar Industry Scandal (2020), where the case regarding penalties imposed by the CCP is still pending in the courts.
- **State Bank of Pakistan (SBP):** SBP has faced challenges in effectively overseeing the financial sector, with issues such as misreporting by banks, inefficient monitoring, and a lack of transparency. It has struggled to encourage commercial banks to prioritize lending to the private sector over the government and large players. Also, a group of six banks has been influencing monetary policies and setting higher loan bids. SBP has also been criticized for its delayed response to inflation and its limited success in addressing it, which has impacted confidence in its regulatory role.

Citizen-Centric Governance

Citizen engagement can significantly boost service delivery, governance processes, and policy formulation. Civil society organizations serve as vital intermediaries between citizens and the state, playing a crucial role not only in holding the state accountable but also in voicing citizens' concerns on human rights issues, minority rights and violence against women. Stronger state-citizen linkages simplify the operations of government institutions. Citizens of Pakistan should no longer be subjected to an outdated administrative justice system or depend solely on the whims of government functionaries. Civil society organizations are active at all levels, including grassroots engagement with communities. Additionally, local governments provide structured opportunities for grassroots involvement, ensuring that citizen participation is both effective and inclusive. Beyond this, several structured initiatives have strengthened citizen engagement in Pakistan. Some of them include:

- ***AAWAZ I & II Voice and Accountability Program***, funded by the UK's Department for International Development (DFID), worked across 45 districts[74] in Punjab and KPK to strengthen women's, youth, and minority participation and improve access to public services through AAWAZ Aagahi Centres (AACs), and Village and District Forums.
- Similarly, ***Alif Ailaan*** (2014–2018) mobilized rural communities through Local Support Organizations to advocate for education reforms and improved school facilities[75].
- KPK government is the first provincial government to adopt citizen-inclusive guidelines under the ***Sub-National Governance (SNG-II) Plan*** to assist the Local Government Elections and Rural Development Department (LGERDD), such as a one-window[76].

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73 The Express Tribune. https://tribune.com.pk/story/2469119/nepra-highlights-rs32b-burden-on-consumers
74 Pakistan—AAWAZ Voice and Accountability Programme. https://www.dai.com/our-work/projects/pakistan-aawaz-voice-and-accountability-programme
75 The Express Tribune. https://tribune.com.pk/story/1636406/alif-alaan-commends-sindh-education-reforms-laments-speed-take-effect
76 The Express Tribune. https://tribune.com.pk/story/2271910/citizen-engagement-k-p-govts-top-most-priority

- During 2024–2025, the Punjab Government advanced community-level empowerment by launching district-level welfare units[77] under the ***Council for the Rehabilitation of Persons with Disabilities (CRPD)*** and expanding programmes like the launch of ***Himmat Card Programme*** in 2024 to benefit around 65,000 persons with disabilities across districts, alongside social support schemes like the ***Dhee Rani Programme*** to assist underprivileged families with collective marriages and related support services.

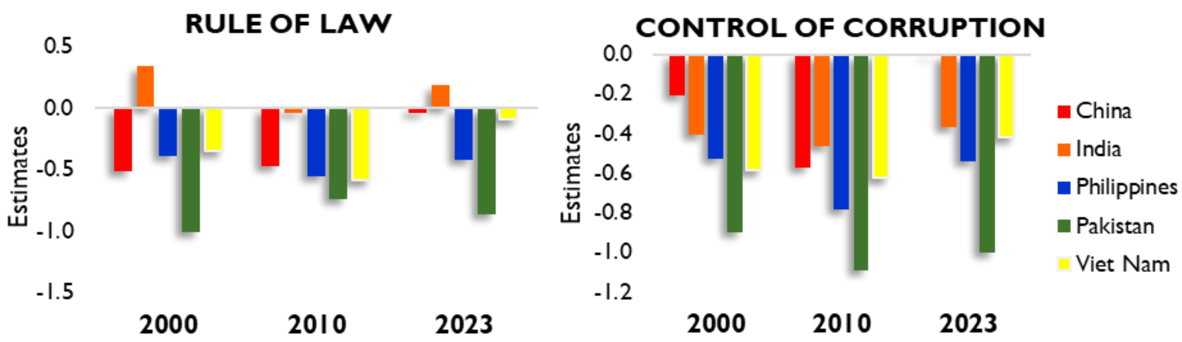
These programmes prove how structured, inclusive approaches to participation can improve transparency, responsiveness, and governance outcomes in Pakistan.

Enabler 4: "Establish Policy and Legislative Reforms"

Pakistan's governance challenges are increasingly reflected in global assessments, highlighting persistent weaknesses in the rule of law and political stability. Transparency International has repeatedly cited weak rule of law and growing state capture as key drivers of Pakistan's poor performance, with the country ranking 135th out of 180 countries in the *Corruption Perceptions Index (CPI)* 2024. This places Pakistan well behind key regional peers, including India (96th) and China (76th), underscoring relatively higher perceived corruption in Pakistan's public sector.

Consistent with this, *WGI* show sustained deterioration in governance outcomes. Trends in the *Rule of Law* and *Control of Corruption* indicate that Pakistan remains significantly below peer nations such as China, India, the Philippines, and Vietnam, raising concerns about institutional credibility, judicial reforms, investor confidence, and long-term policy effectiveness.

Figure 77: Rule of Law and Corruption Estimates (WGI) – Pakistan vs. Peer Countries



Data Source: World Bank's World Governance Indicators (WGI)

a. Prevailing Elite Policy Capture

Elite policy capture is deeply rooted in Pakistan's economic challenges, with power centers such as the military, the feudal class, politicians, and industrialists aligning policies with their interests since the country's inception. This has diverted initiatives away from public welfare, contributing to Pakistan's low ranking on the *Global Human Development Index*. The inefficacy of state institutions is largely due to corruption, over-politicization, and military and judiciary interference, all influenced by elite interests.

Despite constituting less than 0.5% of the population, the elite control approximately 30% of private wealth. According to the *United Nations Development Programme (UNDP)*, the economic privileges extended to these groups, including the corporate sector, feudal landlords, political class, and military, amount to an estimated US$17.4 billion (PKR 2.7 trillion), equivalent to 6%

[77] The Express Tribune. https://www.brecorder.com/news/40343284?

of the economy. These benefits are derived through a combination of tax exemptions, subsidized inputs, monopolistic practices, and preferential access to resources.

Amendments in the *Finance Act 2024* have significantly curtailed the incentives for exporters by shifting them from the previous final tax regime (US$1 tax on export proceeds) to the normal tax regime, which imposes a 29% corporate income tax. Also, they have lost various duty concessions previously granted under the *Export Facilitation Scheme (EFS)*. Although some sectors continue to benefit from specific privileges, several key industries are affected.

- **Fertilizer Industry:** The sector benefits from subsidized natural gas, enabling it to supply products at controlled prices to support farmers. However, investigations have uncovered hoarding and price manipulation during peak demand periods, leading to artificial shortages and inflated costs. This prolonged exploitation not only places an additional burden on farmers but also disrupts the production of essential crops like wheat, deepening Pakistan's reliance on imports.

- **Banking Sector:** Pakistani banks have continued to earn substantial profits by heavily investing in government securities, taking advantage of high, risk-free returns, particularly over the past two years amid elevated policy rates. Despite the Asset-to-Deposit Ratio (ADR)-linked tax introduced in 2022, regulatory measures have done little to curb these gains. The 2025 Federal Budget also refrained from implementing meaningful reforms to close loopholes in the banking taxation system, reflecting the influence of powerful banking lobby groups that enjoy government protection while the sector continues to profit at the expense of broader economic growth.

- **Polyester Industry:** The industry continues to enjoy substantial tariff protection, with high customs duties favouring local producers despite local production meeting only a fraction of domestic demand. Elevated tariffs and anti-dumping duties on imports restrict the growth of synthetic textiles, forcing Pakistan to remain dependent on cotton, thereby limiting its global competitiveness. Despite several tariff relaxations, protectionist policies persist, benefiting polyester producers at the cost of broader industry modernization[78].

Political Capture and Policy Distortions

The government devise policies and decisions under the influence of certain lobbying groups without taking relevant stakeholders on board, which most of the time causes these policies to fail to yield the desired outcome. These powerful groups most often tend to further their particular interests at the expense of the public interest. Heavy subsidies to the sugar industry, impediments in the privatization of various SOEs by interest groups, limited coverage of the agriculture sector under the tax net, and poorly negotiated energy contracts are some of the real examples of policy capture in Pakistan. An infinitely long window of incentive provisions to sectors backed by powerful groups also sub-optimally allocates scarce resources.

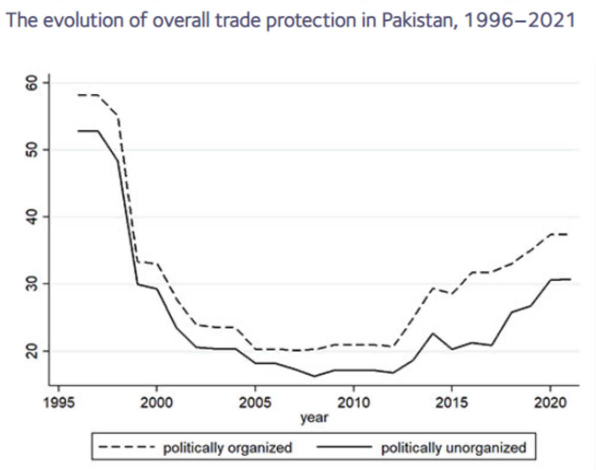
Some forms of policy capture are as follows:

- ***Better Financial Access to Politically Connected Firms:*** Rent-seeking and political patronage are highly entrenched in the financial markets of Pakistan, which have been imposing substantial costs on the economy. Politically connected firms in Pakistan get more loans from government banks despite having 50% higher default rates, as argued by Khwaja and Mian (2005).

[78] BR Research. https://www.brecorder.com/news/428355

- ***Land Grabbing by Elite Housing Societies:*** Construction of elite gated communities and land grabbing for the same have been causing severe damage to the ecosystem. Powerful lobbies in Pakistan have grabbed ample fertile land in the neighbourhood of urban clusters. Karachi is the prime example, as around 2800 villages are removed from the city's neighbourhood, which adversely impacted its rural economy (Hasan and Arif, 2018).

- ***Trade Policy Capture:*** Business sectors with strong lobbying power or political exposure mainly drive trade protection in Pakistan. Anomalous import protections to serve the lobbying groups are creating anti-export biases. A major wave of ad-hoc regulatory duties in 2013 affected almost all manufacturing sub-sectors (Malik and Duncan, 2022). Pakistan's Paper and Printing industry presents a strong case for this end. Raw paper faces duty & taxes of 61.7%, whereas Books/Printed Materials are subjected to duty & taxes of 12.69%. The figure on the right illustrates the evolution of overall trade protection in Pakistan between politically organized and unorganized firms. A similar trend can be observed in the Federal Budget 2024-25, where the decision to raise the 8.5% sales tax on Hybrid Electric Vehicles (HEVs) to 25% was later reversed.



Source: Malik and Duncan (2022)

- ***SOEs as a Tool for Power Grab:*** The political structure of Pakistan induces ruling elites to use SOEs as a tool for grabbing power. Each successive government used SOEs to buy loyalty and votes and benefit the cronies. The political hiring and positions beyond the need and carrying capacity of these entities tend to cause these SOEs to fail. The top management is most of the time hand-picked with hefty packages, which facilitate the ruling elite to run the SOEs according to the political preferences of the ruling elite. It resulted in crossing the threshold of the carrying capacity of SOEs, which turned them into loss-making entities.

b. Federalism in the Right Direction

Absence of Effective Local Governments (LGs)

Local government is the third tier in Pakistan after the federal and provincial governments in the executive branch of government. Since the introduction of the first LG system in 1959, LGs have been created and disbanded several times in Pakistan. Vibrant local government bodies are the key to fostering economic growth in both urban and rural centers. Strong LGs ensure equitable resource distribution, more efficient revenue mobilization, and a sense of ownership among the people. According to the UN's SDGs framework, local and regional governments are directly/ indirectly related to SDG targets. After the passage of the *18th Amendment* (2010) in the Constitution, *Article 140 A* requires that each province must establish an LG system and transfer political, administrative, and financial powers to the elected members of the LG. It recognized the LG as a legitimate tier by inserting *Article 140A*, which states: ***"Each Province shall, by law, establish a local government system and devolve***

political, administrative and financial responsibility and authority to the elected representatives of the local governments."

However, prevailing LG systems have failed to meet all 3 benchmarks identified under *Article 140-A*. Except for the KPK, none of the other provinces has an effective LG system. Across the political spectrum, delays in LG elections are a common phenomenon across all provinces. Power is primarily clustered among non-elected representatives such as nominated political administrators or civil servants. Similarly, none of the provinces announced Provincial Finance Commission (PFC) Awards regularly, other than KPK, which has been announcing PFC Awards on an annual basis since 2004-05, except for the period between 2011-12 and 2015-16. Sindh has so far announced four PFC Awards, Balochistan announced five, whereas Punjab has announced only three PFC Awards.

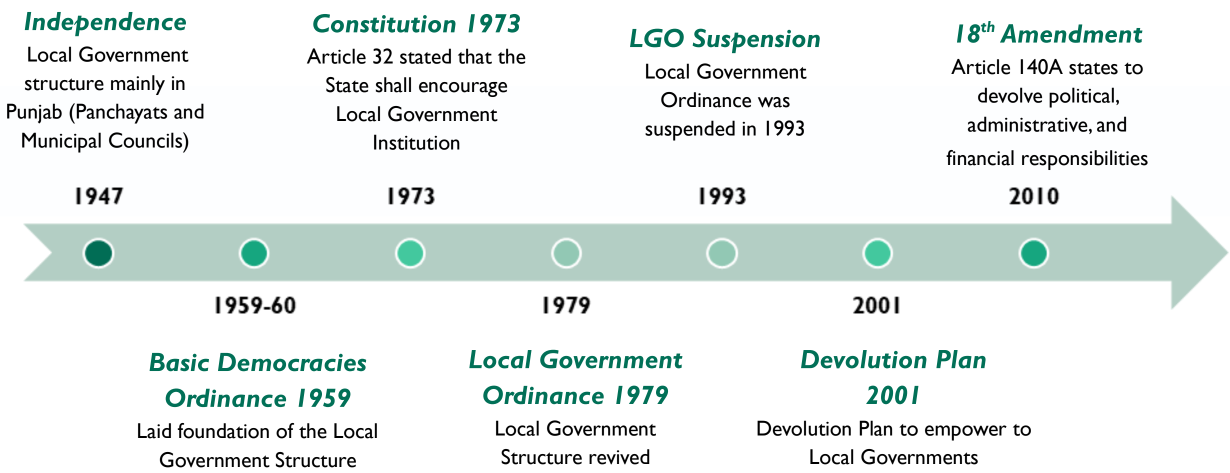
Timelines for PFC awards as well as LG systems are provided below:

Table 14: Timeline for Provincial Finance Commission (PFC) Awards

Fiscal Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Sindh	01st		02nd	03rd	-	04th		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Punjab	01st			02nd	-	-	-	-	-	-	-	-	-	-	03rd	-	-	-	-	-	-	-	-
Balochistan	01st	02nd	03rd	04th	05th			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
KPK	01st	02nd	03rd	04th			05th			-	-	-	-	-	06th	07th	08th	09th	10th	-	-	-	-

Data Source: PRAC (2025), Provincial Finance Ministries, Provincial Assemblies

Figure 78: Timeline of LG System in Pakistan



Across provinces, LG reforms have been reversed instead of implemented, showing resistance to genuine devolution. They enacted LG laws that weaken local autonomy, contrary to the spirit of constitutional decentralization. Provincial LG acts are shown in the figure below.

Figure 79: Pakistan's Provincial LG Acts

Data Source: Provincial Assemblies websites and official LG websites

Cities act as engines of economic growth by fostering innovation and productivity through population density, knowledge spillovers, competition and economies of scale. This vital role of cities aligns with *SDG-9* (inclusive and sustainable industrialization and innovation) and *SDG-11* (sustainable cities and communities). Pakistan reinforced this linkage by becoming the first country to adopt *SDGs as its* ***National Development Agenda*** in 2016 through a unanimous parliamentary resolution.

LGs are a cornerstone of modern democratic systems and play a critical role in translating development objectives into concrete outcomes. Strong LGs support both urban and rural growth by enabling targeted, long-term solutions grounded in local needs, improving service delivery, mobilizing revenues efficiently, and ensuring equitable resource allocation. In line with the *SDG framework*, local and regional governments are directly linked to the achievement of SDG targets, a view also endorsed by local government representatives in Pakistan.

Reinvigorating Council for Common Interests (CCI)

The CCI was established in 1973 to promote federal-provincial coordination and ensure harmonious relations between the center and the provinces. Following the enactment of the 18th Constitutional Amendment, the CCI has become one of the most crucial bodies in Pakistan's federal institutional framework. The Amendment mandates that the CCI must convene at least once every ninety days. However, only 52 meetings have been held since the Amendment's passage, falling short of the minimum 56 meetings required by the constitution, thereby violating the stipulated periodicity.

Article 154 (3) of the constitution also provided for a permanent secretariat to support the CCI, which was finally established in 2022. Despite this, there remains no separate allocation of resources for subjects under the CCI's jurisdiction, and the National Finance Commission (NFC) must make provisions to address these gaps. While the 18th Amendment emphasizes regular CCI meetings, compliance has been inadequate. The provinces have yet to fully pull the CCI's potential by embracing its constitutional mandate and utilizing the institutional space it provides. However, the current composition of the CCI lacks adequate representation from territories beyond the four provinces. There is no representation for Islamabad, ex-FATA, or Gilgit-Baltistan (GB), highlighting a need for more inclusive participation to reflect the interests of all federating units and territories.

KEY TAKEAWAY

Weak Institutional Independence of the CCI		
Although a permanent secretariat for the CCI was formally established in 2021, it remains largely non-operational in practice.	Core functions, including agenda preparation, coordination with provinces, and follow-up on decisions, continue to be handled by the Ministry of Inter-Provincial Coordination (MoIPC) under the federal government.	CCI still operates via federal administrative framework rather than as an autonomous institution, weakening its role as a neutral forum for federal–provincial coordination and diluting the constitutional intent of an independent secretariat.

c. Agenda for Institutional Reforms

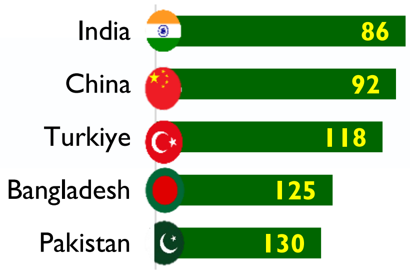
National Accountability Bureau (NAB)

According to various international organizations, including Human Rights Watch (HRW) and Transparency International (TI), NAB has been used as a political tool by the ruling party to target opponents[79]. Pakistan's performance on the Corruption Perception Index, particularly regarding the 'rule of law' and 'state capture,' has steadily declined, reaching some of its lowest points. In 2022, the *National Accountability Ordinance of 1999* was replaced by the *National Accountability Bureau Act 2022*, which has received mixed reactions from the legal community. These amendments removed several key areas from NAB's jurisdiction, including matters related to taxes and financial gains across all levels of government (federal, provincial, and local), regulatory bodies, government committees, and military personnel (both serving and retired). While the changes have drawn criticism, it is important to note that despite NAB's extensive powers since its inception, it has failed to resolve many high-profile cases.

Given Pakistan's ranking of 140 out of 180 countries on TI's Corruption Perception Index, ensuring the accountability system's independence and effectiveness is crucial to curbing corruption. This system must remain free from political and agency interference. Additionally, while the consultation committee for appointing the NAB Chairman in Pakistan only includes the leaders of the ruling party and the opposition, India's committee also includes a Supreme Court judge to ensure greater neutrality and impartiality.

Judicial Reforms

RULE OF LAW INDEX - RANKING 2025



Pakistan's weak rule-of-law performance is also evident in cross-country comparisons. In the World Justice Project's *Rule of Law Index* 2025, Pakistan ranks 130th out of 143 nations, placing it well below regional and emerging-economy peers. In comparison, Bangladesh ranks 125th, Türkiye 118th, China 92nd, and India 86th, stressing Pakistan's comparatively deeper institutional and legal challenges. More strikingly, the perception of corruption in Judiciary is on increase and it has become the second most corrupt institution after police as per the latest report of Transparency International. This is despite a host of

[79] Human Rights Watch. https://www.hrw.org/news/2020/08/06/pakistan-end-anti-corruption-agencys-abuses

reforms and billions in funding in the name of access to justice which increased the pays and perks at all levels of judiciary. There seems to be zero accountability at all levels of judiciary.

According to the World Bank, it takes approximately 1,071 days to settle a commercial case, an alarmingly high figure[80]. Moreover, 38% of firms identify court procedures as a major constraint to doing business in Pakistan, compared with just 14% in South Asia, according to the World Bank Enterprise Survey.

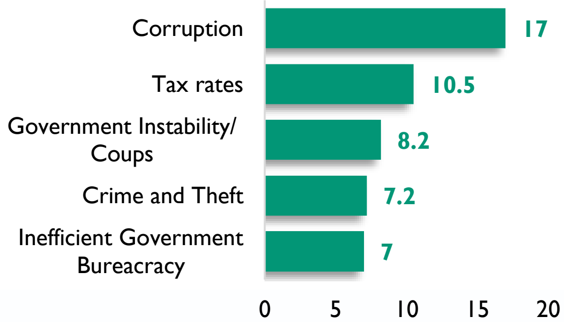
One of the primary reasons for the inefficiency and high costs of justice delivery in Pakistan is the outdated legal codes and the absence of effective monitoring and accountability of both higher and lower judicial officers. Overhauling procedural laws is critical, especially by setting time limits on civil, criminal, and commercial cases to ensure timely resolutions. Additionally, accountability mechanisms for the higher as well as the lower judiciary should be reformed. While the Supreme Judicial Council, established under *Article 209*, is responsible for overseeing judicial accountability, it has proven ineffective in ensuring transparency. Global practices suggest that the accountability of the judiciary should fall under the purview of Parliament to enhance checks and balances. Another area of concern is the procedure for appointing Supreme Court judges, which has drawn considerable criticism. The Constitution of Pakistan outlines the formation of the Judicial Commission of Pakistan, responsible for nominating Supreme Court judges, but provides no clear criteria for evaluation or nomination beyond the minimum experience requirement set by *Article 177*. The administrative inability of the higher judiciary in checking corruption in the district judiciary is disappointing.

To address these issues, there is an urgent need for Parliament to engage in extensive debate and introduce reforms in court procedures, the appointment process, judicial accountability, and monitoring systems. These reforms are essential to ensure affordable, efficient, and timely justice for all, which in turn will foster a more conducive environment for businesses and improve Pakistan's overall governance and legal framework.

Civil Services

The ineffectiveness of state institutions has significantly hindered Pakistan's economic, social, and political progress. Serving as the government's backbone, the Civil Services of Pakistan are crucial to the functioning of the state machinery. According to the Global Competitiveness Report 2018, one of the top five grievances investors have about doing business in Pakistan is its inefficient government bureaucracy.

TOP 5 COMPLAINTS FOR DOING BUSINESS



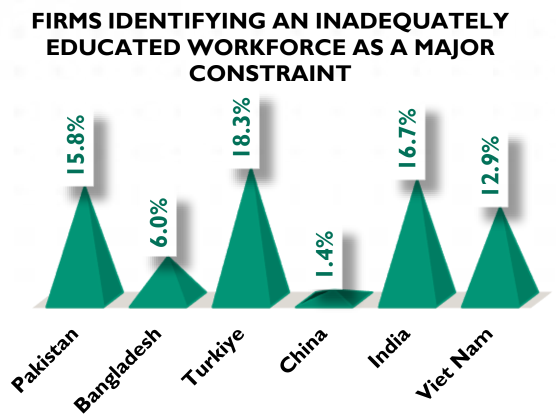
Data Source: Global Competitiveness Report, 2018

Despite several attempts at structural reforms in civil services, none have produced satisfactory outcomes. In 2006, the government established the National Commission for Government Reforms (NCGR) to forge a comprehensive reform agenda. Though after multiple rounds of deliberation, this agenda was never fully enacted. Moreover, the provincial recruitment quotas in civil services, stipulated by the 1973 Constitution and initially set for 40 years, expired in 2013 but were extended by a special order from the Prime Minister's Office.

[80] Business Recorder. https://www.brecorder.com/news/594799

The global environment calls for an urgent transformation of the civil service and the governmental processes towards a lean and digitized system based on online services reducing the multiple layers and adopting smart processes for decision making especially in the offices dealing with the public.

Enabler 5: "Develop Human Capital"

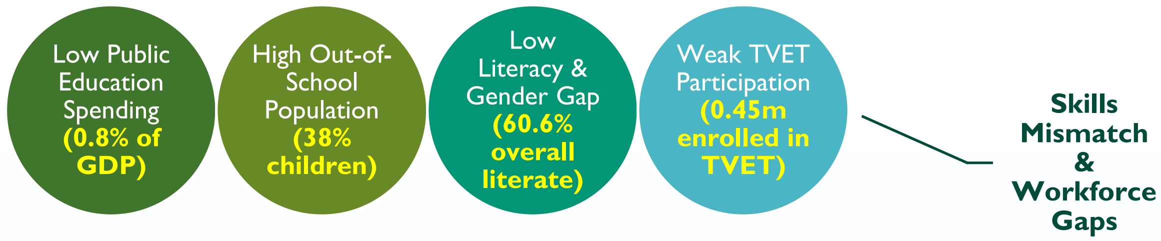


Data Source: World Bank's Enterprise Survey (latest country stats)

Developing human capital is critical for Pakistan's economic growth, employment generation, and competitiveness; however, the education and skill ecosystem remains structurally weak. According to the Pakistan Economic Survey 2024–25, public spending on education has fallen to just 0.8% of GDP, far below UNESCO's 4–6%[81] benchmark, while 38% children remain out-of-school (OSS) and the national literacy rate is only 60.6%, with a stark gender gap (68% male vs. 52.8% female). These access and quality gaps are intensified by outdated curricula that are poorly aligned with modern industrial, technological, and digital requirements, limiting employability and productivity. Firm-level evidence reinforces these challenges: 15.8% of Pakistani firms identify an inadequately educated workforce as a major or very severe constraint, higher than Bangladesh (6.0%) and China (1.4%), and comparable to India (16.7%) and Türkiye (18.3%), highlighting that weak human capital is a binding constraint on productivity and private-sector growth in Pakistan.

Low public education spending in Pakistan has resulted in high out-of-school rates, low literacy with a wide gender gap, and feeble TVET participation, collectively contributing to persistent skills shortages and workforce mismatches that weaken productivity and economic growth, as shown in the figure below.

Figure 80: Contributing Factors for Low Human Capital Development in Pakistan



Despite a youth-heavy population, with over 64% under the age of 30, Pakistan's technical and vocational education system remains severely underdeveloped. Less than 1% of secondary-level students are enrolled in technical streams, and total TVET enrolment stood at only 0.45 million students across 4,563 institutes in FY24[82]. This limited scale has caused acute shortages of technicians, electricians, and digital workers, highlighting an entrenched skills mismatch.

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81 Closing the Global SDG4 Financing Gap: Accelerating Sustainable Financing Solutions for Education. https://financing.desa.un.org/sites/default/files/2025-02/Brief%20Series%20-%20UNESCO_Financing%20Gap.pdf

82 Pakistan Economic Survey 2024-25. Education Chapter.

Enabler 1: "Ensure Political Stability"

- **Political & Economic Consensus:** Depoliticizing economic decision-making is critical for ensuring stability and long-term growth in Pakistan. This can be achieved by including technical experts in key economic committees and establishing a consensus-based Charter of Economy that is jointly endorsed by all political parties and enacted through Parliament, with oversight from a monitoring committee comprising technocrats. Also, maintaining the fiscal deficit in the government's final year at least 0.2% below the term's average can help curb election-year overspending and prevent short-term political pressures from undermining fiscal discipline.

Enabler 2: "Promote Peace and Security"

- **Enhancing National Security Architecture:** To strengthen national security, it is vital to:

Depoliticize police appointments and minimize frequent premature transfers by fully implementing the Police Order 2002 across all provinces.

Modernizing policing and internal security should include expanding Safe City Projects in major cities with integrated CCTV systems, AI-based surveillance, and real-time analytics, addressing the gap in Karachi, which currently has 2,200 cameras against a requirement of 12,000.

Full implementation of the National Security Policy 2022–2026 should be ensured through the establishment of a National Security Coordination Council, tasked with overseeing energy, food, foreign, defence, and human security domains to create a comprehensive and coordinated approach to national stability.

Enabler 3: "Establish Governance Frameworks"

- **Agenda for Institutional Reforms:** To reinforce governance and regulatory oversight:

A Cabinet Committee should be established to strictly monitor the functioning of regulatory bodies, ensuring accountability and adherence to rules.

The Competition Consultative Group under the Competition Commission of Pakistan (CCP) should take an active role, supported by a robust penalizing mechanism to deter anti-competitive practices.

Promoting citizen-centric governance requires engaging civil society across all three tiers of local government before formulating legislative frameworks. The use of technology and digital tools should be leveraged to facilitate citizen feedback, enhance anti-corruption measures, and improve transparency and accountability in public service delivery.

Enabler 4: "Establish Policy and Legislative Reforms"

- **Eliminating Prevailing Policy Captures:** To enhance good governance, State-Owned Enterprises (SOEs) should ensure transparency by adhering to the publicly listed company standards for accounting and auditing, while all budgetary documents should be made public before cabinet approval. The government must engage diverse stakeholders to ensure inclusive decision-making and guard against policy capture by vested interests. Additionally, strict enforcement of zoning laws and property regulations is essential, alongside measures to protect environmentally sensitive lands, thus promoting sustainable urban development and responsible resource management.

- **Federalism in the Right Direction:** To ensure more effective service delivery across the country, structural reforms at both the local and intergovernmental levels are vital.

Empowering LGs

- Empowering local governments requires regular transfers from the Public Finance Commission (PFC), aligned with the National Finance Commission (NFC) Award, and the timely establishment of local government institutions.
- Constitutional chapters should be introduced to devolve functions and revenue sources to local governments, ensuring greater autonomy and fiscal capacity at the grassroots level.

Reinvigorating CCI

- Upholding constitutional timelines for federal–provincial matters is essential to effective intergovernmental coordination. It is also critical to operationalize a dedicated CCI Secretariat to ensure effective coordination and implementation of CCI mandates, enabling timely decision-making and consistent follow-through on matters of shared federal and provincial jurisdiction.

- **Fair Judicial Access:** To improve judicial efficiency and access to justice, district judges should be regularly trained on updated laws and procedures, with funding support from the Access to Justice Development Fund (AJDF). Courts should strictly adhere to case disposal timelines prescribed under the National Judicial Policy 2009 to reduce backlogs and delays. In parallel, the use of Alternative Dispute Resolution (ADR) mechanisms should be actively encouraged to ease the burden on courts, promote faster resolution of disputes, and enhance public confidence in the justice system.

- **Making Sense of Government Accountability:** Comprehensive institutional reforms are required to strengthen accountability, efficiency, and public trust.

NAB Reforms

NAB reforms should include widening its domain to re-include governmental matters related to corruption or mala fide practices, and introducing consultation with a Supreme Court judge for the appointment of the NAB Chairman, similar to the Indian model, to enhance independence and credibility.

Judicial Reforms

Judicial reforms should focus on expanding the mandate of the Supreme Judicial Council to strengthen accountability, including oversight at lower judicial levels by higher courts. Inquiry requests should be submitted by the higher judiciary and made public to improve transparency, while the criteria for appointing Supreme Court judges should consider the number of upheld decisions in addition to seniority.

Civil Service Reforms

In parallel, civil service reforms must ensure the true implementation of NCGR recommendations, promote professional recruitment at senior levels, guarantee a minimum three-year tenure to reduce political interference, and revisit the quota system by increasing the merit-based share from 7.5% to 15%.

Enabler 5: "Develop Human Capital"

- **Advancing Skills:** To reinforce human capital and address persistent skills gaps following measures are recommended.

- Technical education should be made mandatory at the secondary level, ensuring early exposure to market-relevant skills.
- The government should provide soft loans for the establishment of technical institutes and actively promote public–private partnerships (PPP) in education to align curricula with industry needs and global standards.
- TVET courses should be reviewed periodically to incorporate emerging and future skills in line with evolving technological and labor-market demands.
- A dedicated share of the Workers Welfare Fund should be allocated to chambers and associations for employee training, while TVET and Recognition of Prior Learning (RPL) programs should be expanded to high-school dropouts and underdeveloped regions.
- Standardizing certifications to meet global benchmarks is essential to improve employability, mobility, and international recognition of Pakistan's skilled workforce.

AMENDMENTS	CRITIQUE/ GAPS
26th & 27th CONSTITUTIONAL AMENDMENTS – JUDICIARY	
• ***Bifurcated Judiciary Branch:*** Into the Supreme Court of Pakistan (SCP) & the Federal Constitutional Court (FCC), transferring significant powers to the FCC (which were previously under the SC) • ***Judicial Commission of Pakistan's (JCP) Composition:*** Minimized Supreme Court representation (from 4 → 3 under 26th, and effectively → 1 under 27th), adding 2 Members from the Senate, 2 from NA, and one Technocrat, Federal Minister for Law, weakening judicial voice in judicial appointments. • ***Chief Justices (CJ) of both the SC & FCC*** will be decided on the recommendation of the Special Parliamentary Committee (8 NA, 4 Senate Members) • ***Criteria for Selection of the CJs of SC & FCC:*** No definite criteria other than seniority basis, risks, and politicization. • ***FCC's Jurisdiction:*** Gains authority over disputes among governments; all pending cases transferred, weakening the Supreme Court's constitutional role. • ***Shift in Advisory Role:*** Presidential references under Article 186 now transferred to the FCC, reducing SC's advisory authority. • ***Transfers of High Court Judges:*** High Court judge transfers will be made by the Judicial Commission without the judge's consent and without clear criteria, enabling arbitrary or punitive transfers. Judges may also face proceedings for refusing a transfer.	• Undermines the principle: JUDICIARY must remain independent from political power. • Weakens the Supreme Court's role as the final interpreter of the Constitution. • Subordinate the judiciary to the Executive to align with government preferences over fundamental rights. • Undermines public trust and the credibility of courts. • Long-term democratic backsliding, by weakening checks and balances.
NAB ORDINANCE 1999 – AMENDMENT ACTS & SC RULINGS	

• ***May 2022:*** PDM-led Government introduced the Amendment Act 2022, which limits the accountability watchdog's powers.
  ◦ Narrowed NAB's Scope: excluding government financial matters (including taxes), regulators, and official committees; restricted investigation to cases exceeding 500Mn
  ◦ Weakened "assets beyond means": number of affected people shall be at least 100 & concrete evidence
  ◦ Higher Burden on NAB: Shifted the burden of proof onto the prosecution
  ◦ Inquiry Restrictions: Barred reopening of closed inquiries without court approval
• ***Sep 2023:*** Supreme Court strikes down key parts of the 2022 NAB amendments, declaring them unconstitutional and violating fundamental rights (violating Articles 9, 14, 23, 24 & 25).
• ***June 2024:*** Supreme Court Reinstated the NAB Amendments, declaring them valid, reversing its earlier Sep 2023 decision
	• Narrower NAB jurisdiction and inquiry limits weaken accountability.
	• Blanket protections and the requirement to prove corrupt intent in every case undermine deterrence and reward concealment.
	• Creates unequal standards: Elected officials face softer accountability than civil servants, violating equal treatment before the law.
	• Erodes public trust: These changes damage confidence in the state's commitment to combating corruption.

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