

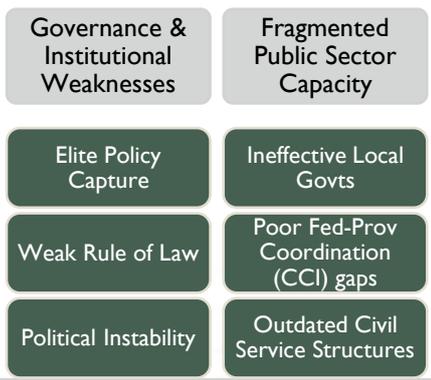
From Dialogue to Delivery, Advancing Pakistan's Growth Agenda

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At the operational level, outdated legal frameworks, an over-politicized bureaucracy, and dysfunctional local governments further limit the state's implementation capacity.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.

KEY GOVERNANCE CHALLENGES

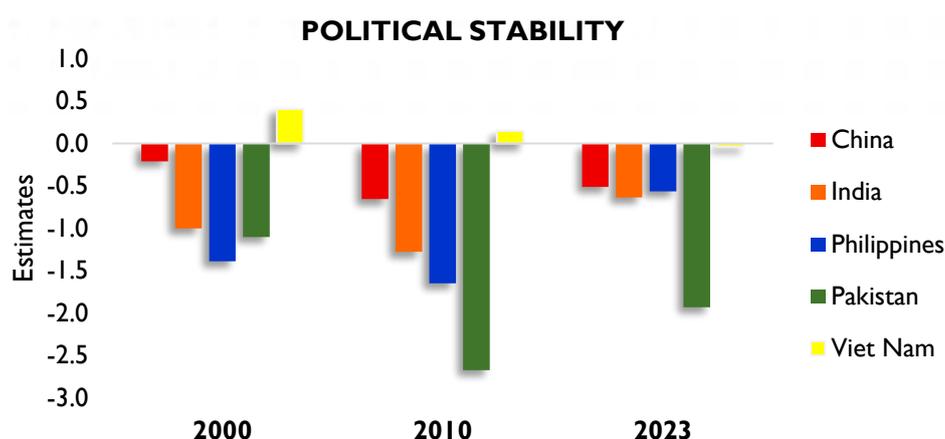


WEAK IMPLEMENTATION OF POLICIES

Enabler I: “Ensure Political Stability”

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 cameras⁷¹ 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.

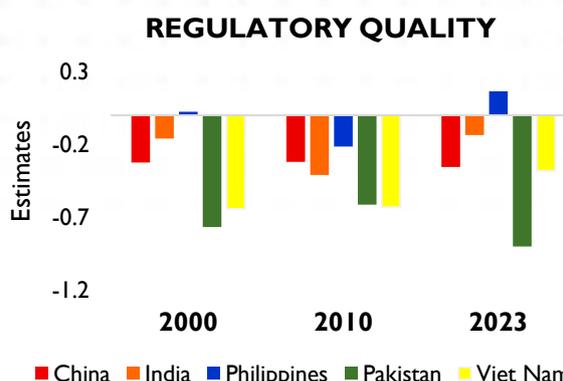
⁷¹ The Express Tribune. <https://tribune.com.pk/story/2493636/12000-cctv-cameras-to-be-installed#:~:text=KARACHI:be%20completed%20within%20two%20years.%22>

Enabler 3: “Establish Governance Frameworks”

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 bodies⁷², 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 burden⁷³ 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 districts⁷⁴ 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 facilities⁷⁵.
- 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-window⁷⁶.

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-ailaan-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 units⁷⁷ 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.

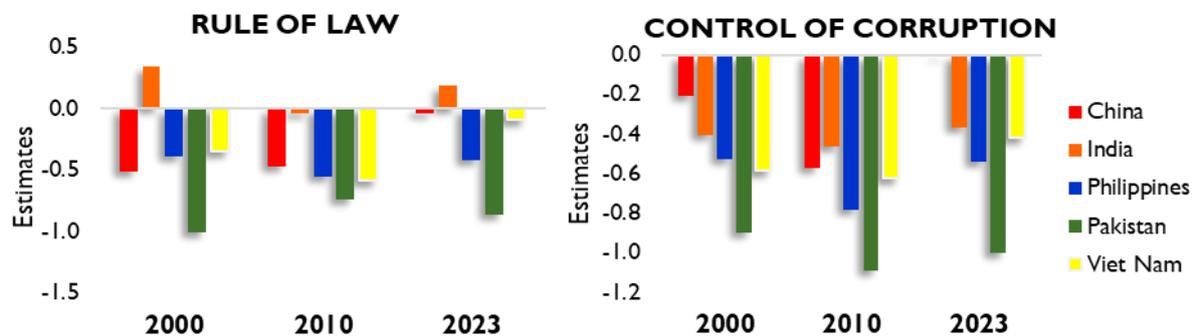
These programmes prove how structured, inclusive approaches to participation can improve transparency, responsiveness, and governance outcomes in Pakistan.

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 modernization⁷⁸.

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.

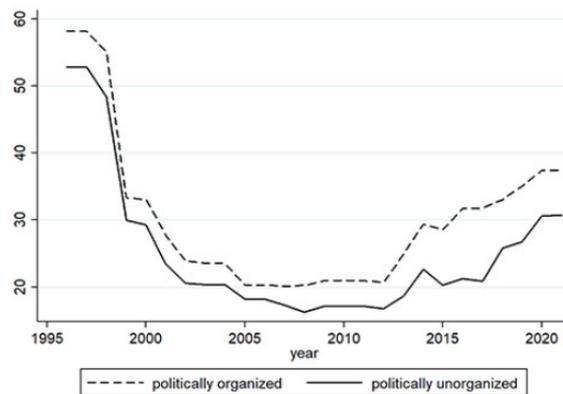
Some forms of policy capture are as follows:

- **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.

The evolution of overall trade protection in Pakistan, 1996–2021



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.

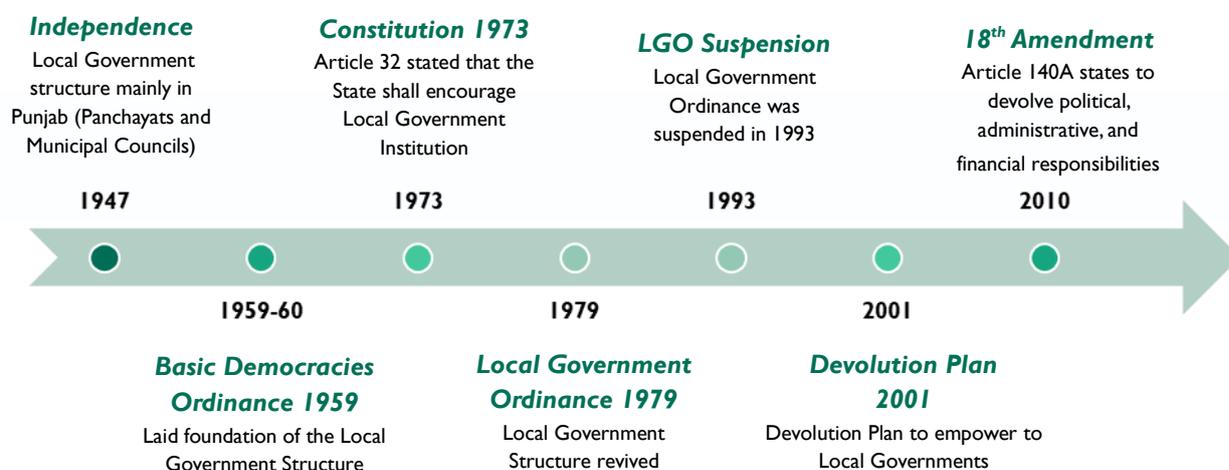
Timelines for PFC awards as well as LG systems are provided below:

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	01 st		02 nd	03 rd	-	04 th																	
Punjab		01 st		02 nd	-										03 rd								
Balochistan	01 st	02 nd	03 rd	04 th		05 th																	
KPK	01 st	02 nd	03 rd		04 th			05 th							06 th	07 th	08 th	09 th	10 th				

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

<p>Although a permanent secretariat for the CCI was formally established in 2021, it remains largely non-operational in practice.</p>	<p>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.</p>	<p>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.</p>
---	---	--

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 opponents⁷⁹. 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

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.

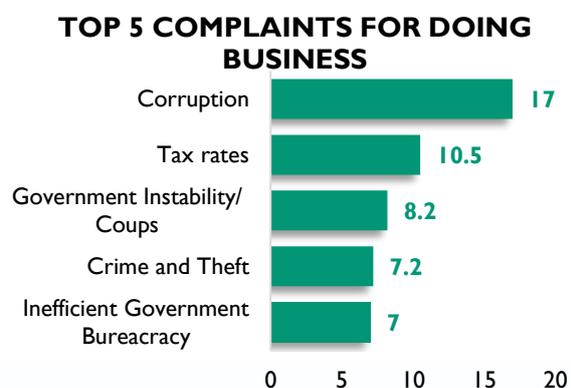
According to the World Bank, it takes approximately 1,071 days to settle a commercial case, an alarmingly high figure⁸⁰. Moreover, 38% of firms identify court procedures as a major constraint to doing business in Pakistan, compared with just 14% in South Asia, according to the World Bank Enterprise Survey.

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.



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.

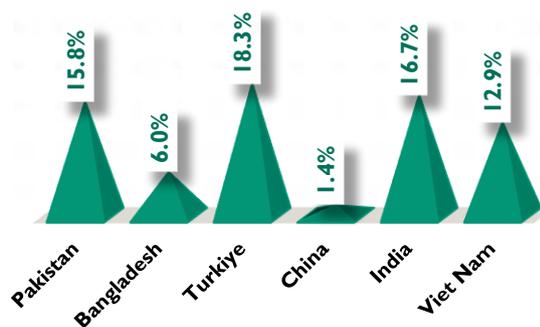
⁸⁰ Business Recorder: <https://www.brecorder.com/news/594799>

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”

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.

FIRMS IDENTIFYING AN INADEQUATELY EDUCATED WORKFORCE AS A MAJOR CONSTRAINT



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

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 FY24⁸². This limited scale has caused acute shortages of technicians, electricians, and digital workers, highlighting an entrenched skills mismatch.

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.

Policy Recommendations

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.

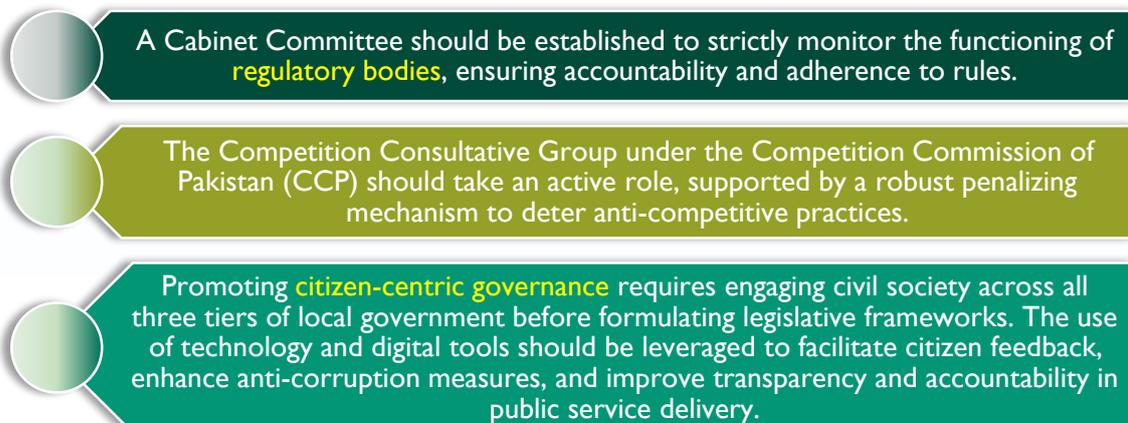
Enabler 2: “Promote Peace and Security”

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



Enabler 3: “Establish Governance Frameworks”

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



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

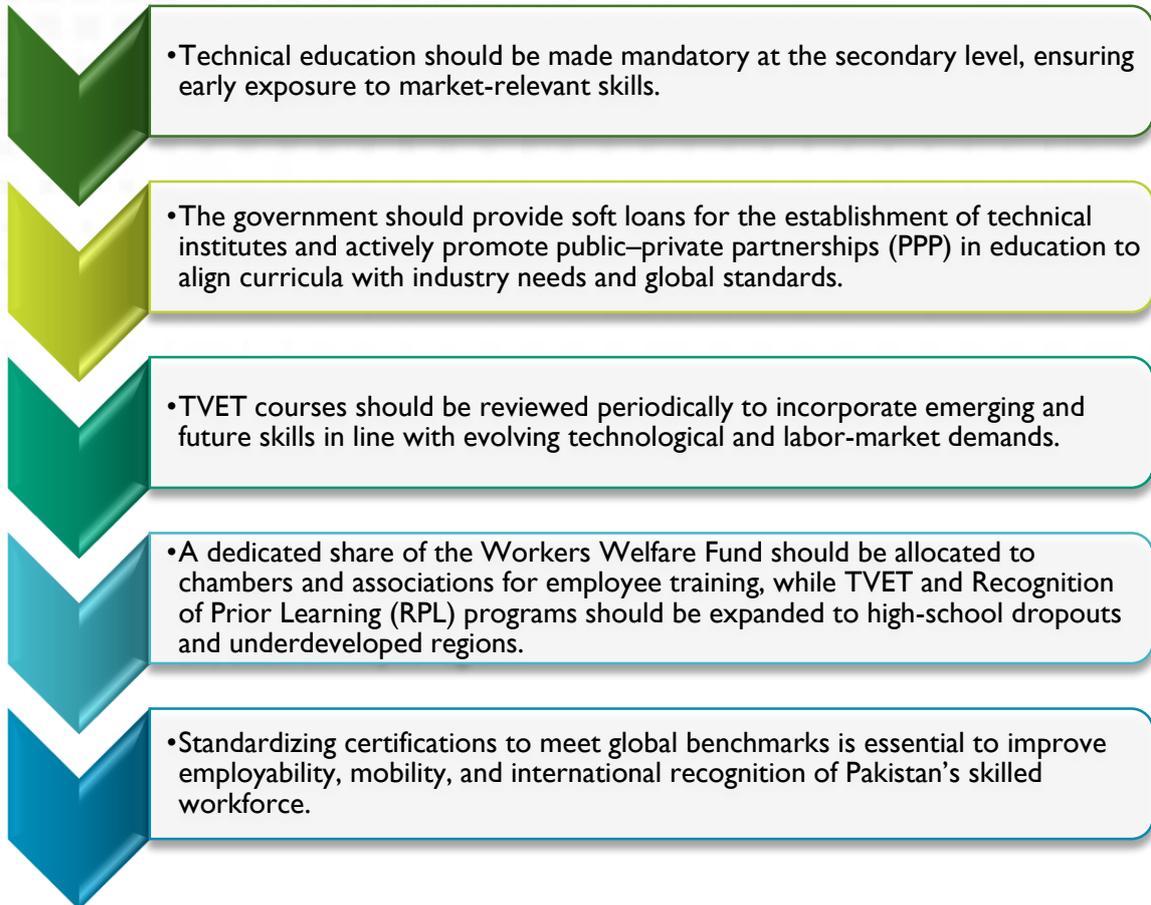
Judicial reforms should focus on expanding the mandate of the Supreme Judicial Council to strengthen accountability, including oversight at lower judicial levels by higher courts. Inquiry requests should be submitted by the higher judiciary and made public to improve transparency, while the criteria 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.



Legal Amendments

AMENDMENTS	CRITIQUE/ GAPS
26th & 27th CONSTITUTIONAL AMENDMENTS – JUDICIARY	
<ul style="list-style-type: none"> • 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) 	<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • 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. 	
<ul style="list-style-type: none"> • Chief Justices (CJ) of both the SC & FCC will be decided on the recommendation of the Special Parliamentary Committee (8 NA, 4 Senate Members) 	
<ul style="list-style-type: none"> • Criteria for Selection of the CJs of SC & FCC: No definite criteria other than seniority basis, risks, and politicization. 	
<ul style="list-style-type: none"> • FCC's Jurisdiction: Gains authority over disputes among governments; all pending cases transferred, weakening the Supreme Court's constitutional role. 	
<ul style="list-style-type: none"> • Shift in Advisory Role: Presidential references under Article 186 now transferred to the FCC, reducing SC's advisory authority. 	
<ul style="list-style-type: none"> • 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. 	
NAB ORDINANCE 1999 – AMENDMENT ACTS & SC RULINGS	
<ul style="list-style-type: none"> • May 2022: PDM-led Government introduced the Amendment Act 2022, which limits the accountability watchdog's powers. <ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • 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). 	
<ul style="list-style-type: none"> • June 2024: Supreme Court Reinstated the NAB Amendments, declaring them valid, reversing its earlier Sep 2023 decision 	

References

- Arif Hasan with Hamza Arif (2018) *Pakistan: the causes and repercussions of the housing crisis*. IIED Working Paper, IIED, London. Retrieved from <https://www.iied.org/sites/default/files/pdfs/migrate/10864IIED.pdf>
- Awan, T. M. (2025). *Police reforms in Pakistan: Federalism, constitutionalism, and institutional change*. Republic Policy. Retrieved from <https://republicpolicy.com/police-reforms-in-pakistan-federalism-constitutionalism-and-institutional-change/>
- Azeem, M. (2025). *PC-I approved to expand Safe City Project to 90pc of capital*. Dawn. Retrieved from <https://www.dawn.com/news/1931928>
- Bhatti, H. (2022). *SC bars premature transfers in police departments*. Dawn. Retrieved from <https://www.dawn.com/news/1726480>
- Dagha, M.Y. (2025). *Karachi: inequitable NFC impact* in Dawn.com. Retrieved from <https://www.dawn.com/news/1938034>
- GeoNews. (2018). *Minimum pension increased from Rs6,000 to Rs10,000 in budget*. Retrieved from: <https://www.geo.tv/latest/193055-salaried-class-gets-massive-relief-in-budget-says-miftah#:~:text=ISLAMABAD:%20A%20increase%20of%2010%20per%20cent,his%20budget%20speech%20the%20newly%2Dinducted%20finance%20minister%2C>
- Khwaja, A. I., & Mian, A. (2005). Do lenders favor politically connected firms? Rent provision in an emerging financial market. *The quarterly journal of economics*, 120(4), 1371-1411.
- Lakhani, S. (2018). *Not quite so bad in comparison*. The Express Tribune. Retrieved from <https://tribune.com.pk/story/1657480/not-quite-bad-comparison?>
- Malik, A., & Duncan, R. (2022). *How special interest groups capture trade policy in Pakistan*. Queen Elizabeth House, University of Oxford. Retrieved from <https://www.qeh.ox.ac.uk/blog/how-special-interest-groups-capture-trade-policy-pakistan>
- PRAC. (2025). *Pakistan's Resource Distribution: Beyond the NFC Stalemate*. Retrieved from <https://prac.org.pk/research-publication/pakistans-resource-distribution-beyond-the-nfc-stalemate>
- Rana, S. (2012). *Budget 2013: Populism to be balanced with pragmatism: Shaikh*. The Express Tribune. Retrieved from <https://tribune.com.pk/story/340979/budget-2013-populism-to-be-balanced-with-pragmatism-shaikh?>
- Saad, M.A. (2023). *Karachi Safe City project: seven years late and counting*. Pakistan Today. Retrieved from <https://www.pakistantoday.com.pk/2023/01/21/karachi-safe-city-project-seven-years-late-and-counting/>
- Suleri, A. Q. (2019). *Political will for reform* in The News. Retrieved from: <https://www.thenews.com.pk/print/524523-political-will-for-reform>
- The Nation. (2018). *Rs5.246tr budget gets NA approval*. Retrieved from: <https://www.nation.com.pk/19-May-2018/rs5-246tr-budget-gets-na-approval?show=566#:~:text=The%20incumbent%20government%2C%20for%20the%20first%20time,the%20sixth%20federal%20budget%20in%20the%20five%2Dyear>
- The Nation. (2025). *Govt raises BISP allocation to Rs716b*. Retrieved from: <https://www.nation.com.pk/11-Jun-2025/govt-raises-bisp-allocation-to-rs716b>
- Yasif, R. (2024). *Govt told to form Safety Commission* in The Express Tribune. Retrieved from: <https://tribune.com.pk/story/2510662/govt-told-to-form-safety-commission>
- Zaman, M. (2022). *Police Order 2002 and institutional reform: An analysis* (MPhil thesis, Pakistan Institute of Development Economics). Pakistan Institute of Development Economics. Retrieved from <https://file-thesis.pide.org.pk/pdf/mphil-public-policy-2019-muhammad-zaman--police-order-2002-and-institutional-reform-an-analysis.pdf>