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PAKISTAN

REPORT

FROM DIAGNOSTIC TO DELIVERY

WHAT THE IMF NOVEMBER REPORT MEANS FOR PEOPLE AND PUBLIC INSTITUTIONS

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About Accountability Lab Pakistan

Accountability Lab Pakistan (ALP) is an indigenously registered non-profit organization and the Pakistan chapter of the global Accountability Lab network, which operates across Africa, Asia, the Middle East, and the United States to strengthen integrity, civic participation, and people-centered governance. Established in 2012, ALP has grown into a leading governance think tank in Pakistan, combining rigorous research, policy analysis, civic innovation, and institutional reform to promote accountable governance and citizen engagement. In recognition of its research and policy work, ALP has been ranked among the "Top 100 Think Tanks to Watch 2025" by On Think Tanks.

As a think tank, ALP conducts applied research, policy analysis, and programmatic interventions that include integrity campaigns, civic technology solutions, youth leadership development, and institutional capacity strengthening. Its flagship initiatives, such as Integrity Icon Pakistan, the Accountability Incubator, the Integrity Innovation Lab, and digital governance programs, have engaged a wide network of young leaders, civil society actors, and public institutions across Pakistan. ALP has also supported institutional reforms in partnership with entities such as the National Police Academy and provincial Anti-Corruption Establishments, contributing to improved leadership, citizen engagement, and public accountability.

ALP also functions as a regional knowledge hub within the global network. It leads and contributes to cross-country research on digital democracy, civic space, civil society resilience, and governance, producing policy briefs, diagnostics, and evidence syntheses that inform policymakers, donors, civil society, and academic institutions.

About the IMF Technical Assistance Report

Governance and Corruption Diagnostic Assessment (November 2025)

The Governance and Corruption Diagnostic Assessment is a technical assistance report prepared by the International Monetary Fund at the request of the Government of Pakistan. The report is part of the International Monetary Fund's broader capacity development services under its Framework on Enhanced Fund Engagement on Governance.

The purpose of the report is to identify and analyze governance weaknesses and corruption vulnerabilities that undermine economic performance, institutional integrity, and long-term reform efforts. It evaluates core state functions at the federal level, including fiscal governance, market regulation, financial sector oversight, anti-money laundering and countering the financing of terrorism, and the rule of law. It also assesses the strength and effectiveness of existing anti-corruption institutions and legal frameworks.

The report does not focus on individual corruption cases or allegations. Instead, it examines structural and systemic governance challenges such as weak institutional capacities, fragmented oversight, regulatory complexity, inconsistent accountability, and constrained rule of law that create an enabling environment for corruption and inefficiency.

Based on its findings, the report offers a set of prioritized and sequenced recommendations aimed at strengthening institutional integrity, enhancing transparency, improving the consistency and reliability of enforcement, and fostering better coordination across agencies. These reforms are designed to support sustainable economic growth, increase public trust, improve public sector effectiveness, and create a more conducive environment for private sector development.

In summary, the November 2025 International Monetary Fund Technical Assistance Report for Pakistan functions as both a diagnostic tool and a roadmap for governance and institutional reform. It provides an evidence-based assessment of governance vulnerabilities and proposes concrete, structural reforms to promote transparency, accountability, and sustainable development.

Introduction:

The IMF's Governance & Corruption Diagnostic provides one of the most structured assessments of Pakistan's institutional weaknesses in recent years, but reading it in isolation risks oversimplifying a far more complex political economy. The Fund is right to anchor its analysis in measurable governance failures, weak procurement, discretionary budgeting, fragmented oversight, and the perception that accountability bodies are politicized. These findings align closely with third-party indicators such as the low control-of-corruption score, stagnating rule-of-law rankings, and investor surveys that repeatedly cite uncertainty and regulatory inconsistency as major barriers. Together, they paint a credible picture of entrenched governance deficits that constrain growth and undermine public trust.

But the report also tends to treat corruption as a technocratic failure rather than a political settlement, and that is where a fuller analysis must widen the frame. Much of what the IMF categorizes as institutional dysfunction is in fact the product of deliberate political design: a system where procurement loopholes, tax exemptions, off-budget subsidies, and opaque SOE operations serve as instruments of patronage and coalition management. These are not simply "weak controls" but entrenched incentives that maintain political stability in the short term while eroding economic performance in the long term.

This distinction matters because it reveals why purely technical reforms: e-procurement, internal audit strengthening, updated procurement rules, often underperform. Without addressing the distributional stakes behind corruption, reforms risk being cosmetic or reversible. The diagnostic nods to this reality, but cautiously. A stronger critique would acknowledge that Pakistan's governance failures persist not because solutions are unknown, but because the political cost of disrupting rent networks remains high.

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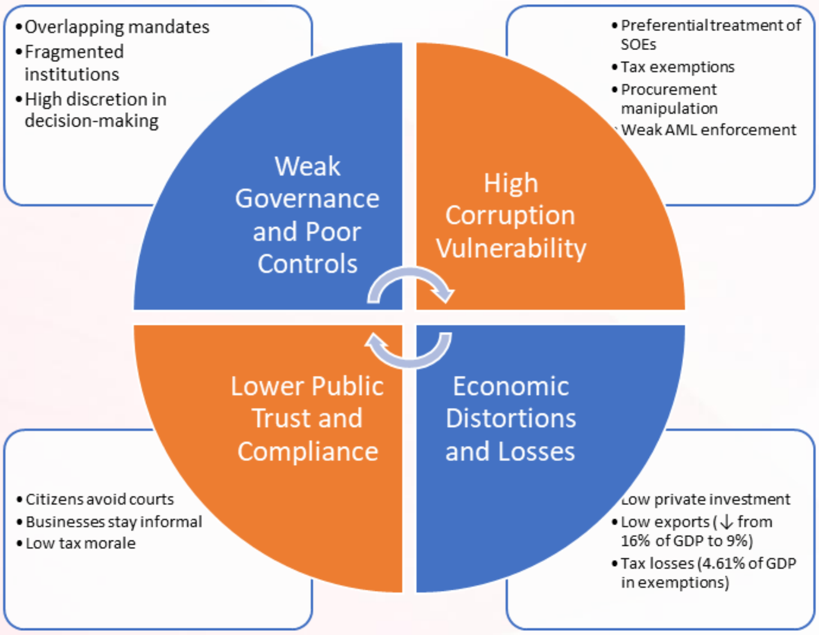
Another area where the IMF analysis is directionally correct but not fully developed is its treatment of anticorruption enforcement. The report rightly highlights concerns about politicization and selective accountability, which undermine deterrence and foster public cynicism. However, it leans heavily on metrics such as National Accountability Bureau (NAB) recovery figures without interrogating their composition or credibility. Large headline recoveries create an impression of progress, yet they rarely translate into systemic change, improved compliance, or trust in institutions. A more nuanced approach would separate recovery as a fiscal tool from accountability as a governance tool, recognizing that the two are not interchangeable.

Where the diagnostic is strongest, and where it offers real value for policy debates, is in linking governance failures to economic underperformance. The impact on investment, exports, and long-term growth is substantial and well-documented. But even here, the report could benefit from situating Pakistan in a regional context: while governance scores in South Asia are broadly weak, Pakistan's combination of political turnover, fiscal fragility, and security expenditures creates a uniquely constrained environment. The governance deficit is therefore not an isolated issue; it interacts with macroeconomic instability, creating a reinforcing cycle where corruption worsens fiscal distress, which in turn increases opportunities and incentives for discretionary decision-making.



While governance scores in South Asia are broadly weak, Pakistan's combination of political turnover, fiscal fragility, and security expenditures creates a uniquely constrained environment.

Finally, the IMF's reform proposals, advice for greater transparency, simplification of taxes, procurement digitization, and judicial improvements, are all necessary but insufficient. They require credible commitment, sequencing, and coalition-building to avoid the failure patterns seen in past reform bursts. The diagnostic does not fully wrestle with this question of feasibility, but any real strategy for Pakistan must.

In short, the IMF report is an essential baseline, empirically sound, analytically clear, but politically cautious. A fuller understanding requires acknowledging that corruption in Pakistan is not merely a governance failure, but a product of political incentives and economic structures that must be confronted directly. Technical fixes will help, but only if paired with reforms that reshape the incentives underpinning the system.

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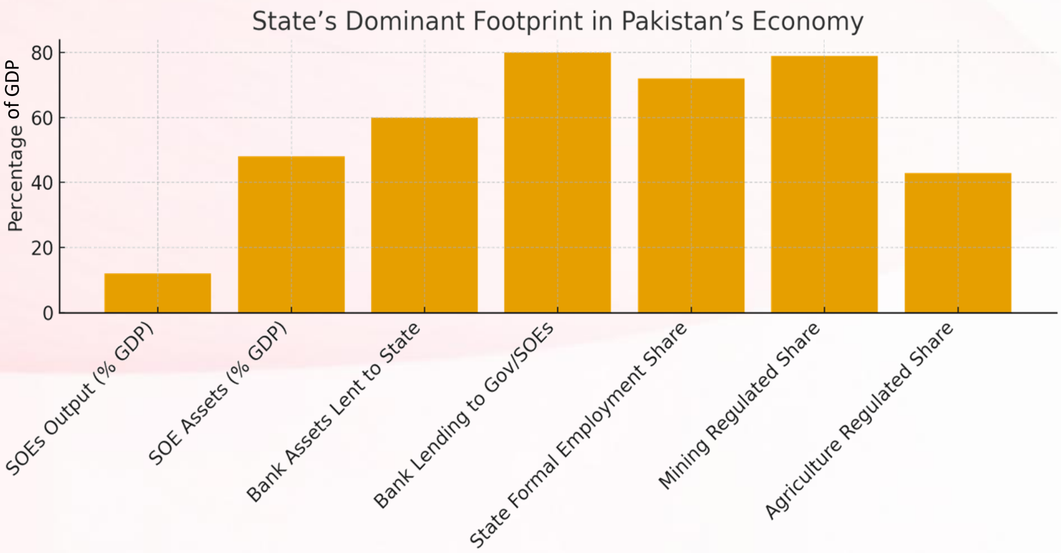
The States Dominant Footprint

The "State's Dominant Footprint" infographic illustrates the pervasive role of the Pakistani government in the economy and why corruption risks are systemic. It shows that while State-Owned Enterprises contribute only 12% of GDP, they control 48% of national assets, and 60–80% of banking resources are directed toward the state or SOEs. The state also accounts for 72% of formal employment and maintains strong regulatory influence over sectors like mining (79%) and agriculture (43%). This concentration of economic power, combined with weak oversight, discretionary authority, and preferential treatment for politically connected actors, creates conditions where corruption becomes structural rather than incidental. The graphic demonstrates that governance challenges in Pakistan arise from the design of economic institutions themselves, not just from individual misbehavior.



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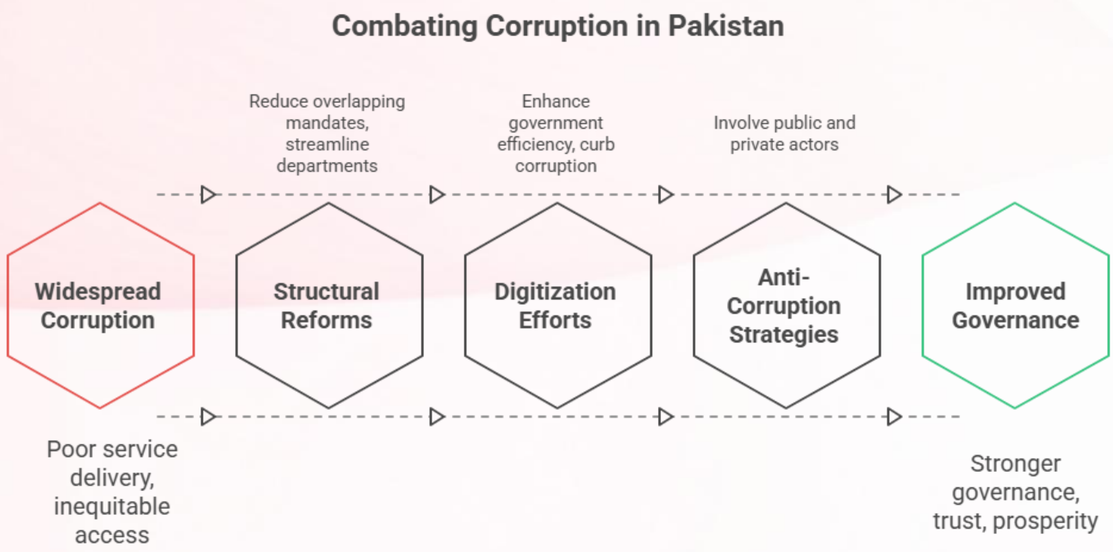
Pakistan's young and growing population, with over 60% under 30 and rapidly urbanizing, is becoming more active on social media and skeptical of government institutions, leading to increased focus on improving service delivery and tackling corruption. The federal government is implementing reforms to reduce corruption by streamlining operations, reducing overlapping mandates, and digitizing services to increase transparency and efficiency. Digital initiatives like the National Database and Registration Authority's digital ID, Pakistan Citizens' Portal, and public procurement system are helping reduce petty corruption and improve citizen access to services.

- Over 60% of Pakistan's 247 million population is under 30, highly urbanized and connected with over 200 million telecom subscribers.
- The government formed a committee (2023-24) to reduce overlapping mandates, separate policy and operational roles, and limit government layers to three tiers.

- Digitization efforts include digital ID systems improving social protection and financial inclusion, the Pakistan Citizens' Portal for citizen feedback, digital land records, and e-PADS for public procurement.
- A 5-year plan aims to digitize public service delivery, upgrade finance systems, and enforce uniform tax credit adjustments to reduce corruption risks.
- Social media platforms have shifted political communication directly to voters, fostering issue-based voting centered on service delivery concerns.

These steps aim to address deep-rooted governance weaknesses, build integrity, enhance trust, and promote prosperity through coordinated anti-corruption efforts. Despite these reforms, Pakistan's corruption perception index score declined from 29 in 2023 to 27 in 2024, ranking 135th out of 180 countries, highlighting ongoing challenges in public sector integrity.

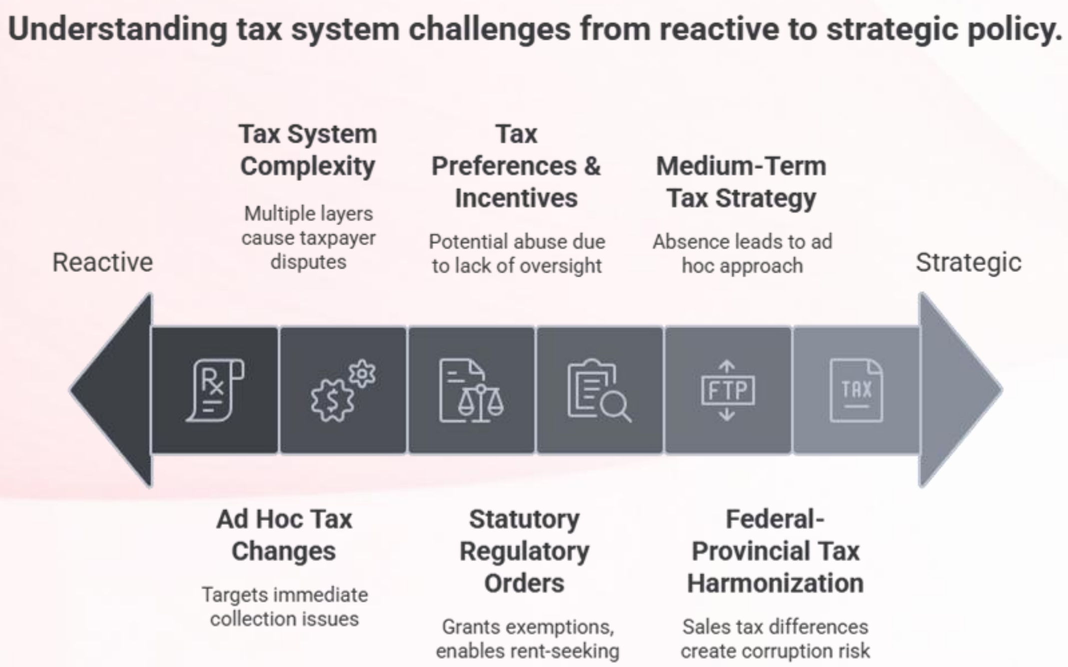


Pakistan’s tax-to-GDP ratio has remained around 10% over FY2018–FY2023, despite reforms under IMF-supported programs. Revenue mobilization is hindered by complex tax laws, ad hoc policy changes, weak monitoring, and corruption risks. Key issues include:

a. Tax Policy: Pakistan’s tax policy remains largely reactive, influenced by rent-seeking pressures, and does not reflect a coherent medium-term strategy.
b. Complexity: The tax system is highly fragmented, with multiple layers including schedular taxes, turnover taxes, special regimes for small and medium enterprises, and withholding or advance taxes. This complexity generates disputes, encourages negotiation settlements, and creates distortions in economic activity.
c. Statutory Regulatory Orders (SROs): In 2024, the Federal Board of Revenue issued 168 SROs, further complicating the tax framework. These instruments introduce discretionary exemptions and facilitate rent-seeking opportunities.
d. Tax Incentives: Tax incentives are poorly monitored and, in some cases, abused. Under the Extended Fund Facility program, reforms aim to gradually phase out Special Economic Zone-related incentives by 2035.

e. Federal-Provincial Harmonization: Progress on harmonizing federal and provincial taxation has been limited. While partial alignment exists in agricultural taxes, discrepancies in sales and property taxes persist, increasing the potential for disputes and corruption.

Pakistan currently lacks a three-to-five-year coherent tax reform strategy capable of simplifying the system, enhancing efficiency, promoting equity, and improving revenue productivity.



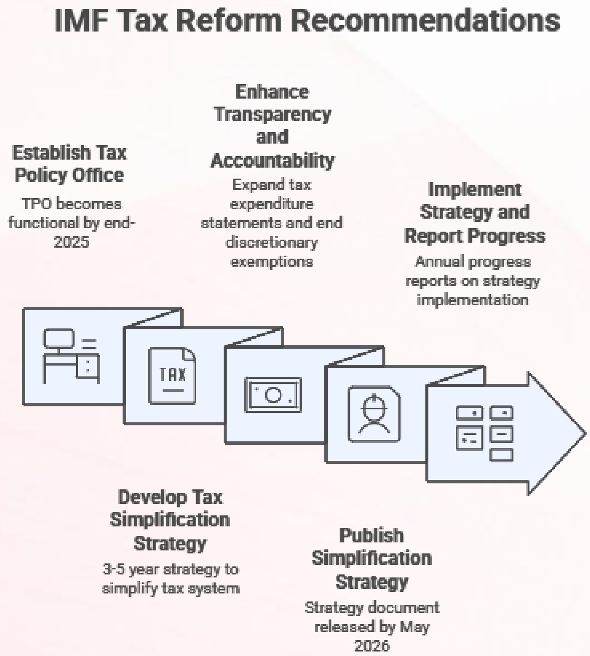
Recommendations under the current IMF EFF program:

a. **Tax Policy Office (TPO)** in the Ministry of Finance to be made fully functional by end-2025, serving as the gatekeeper for all tax reforms and separating policy functions from FBR.

b. **Medium-term tax simplification strategy (3-5 years)**: reduce rate schedules, special regimes, and excessive withholding/advance taxes; rationalize exemptions; scale back FBR rule-making powers; harmonize federal and provincial taxes.

c. **Transparency and accountability**: expand the annual Tax Expenditure Statement to include cost-benefit assessments of significant tax incentives; discontinue discretionary exemptions.

d. **Implementation timeline**: TPO operational by early 2026, simplification strategy may be published by May 2026, with annual progress reports.



The Federal Board of Revenue (FBR) Governance and Operational Challenges

a. **Tax Base and Compliance**: Pakistan currently has approximately five million registered taxpayers. Of submitted tax returns, 43 percent report zero income. The estimated tax gap stands at PKR 3.4 trillion, representing roughly 3.9 percent of nominal GDP in 2024–25. These figures highlight significant challenges in revenue mobilization, tax base expansion, and compliance.

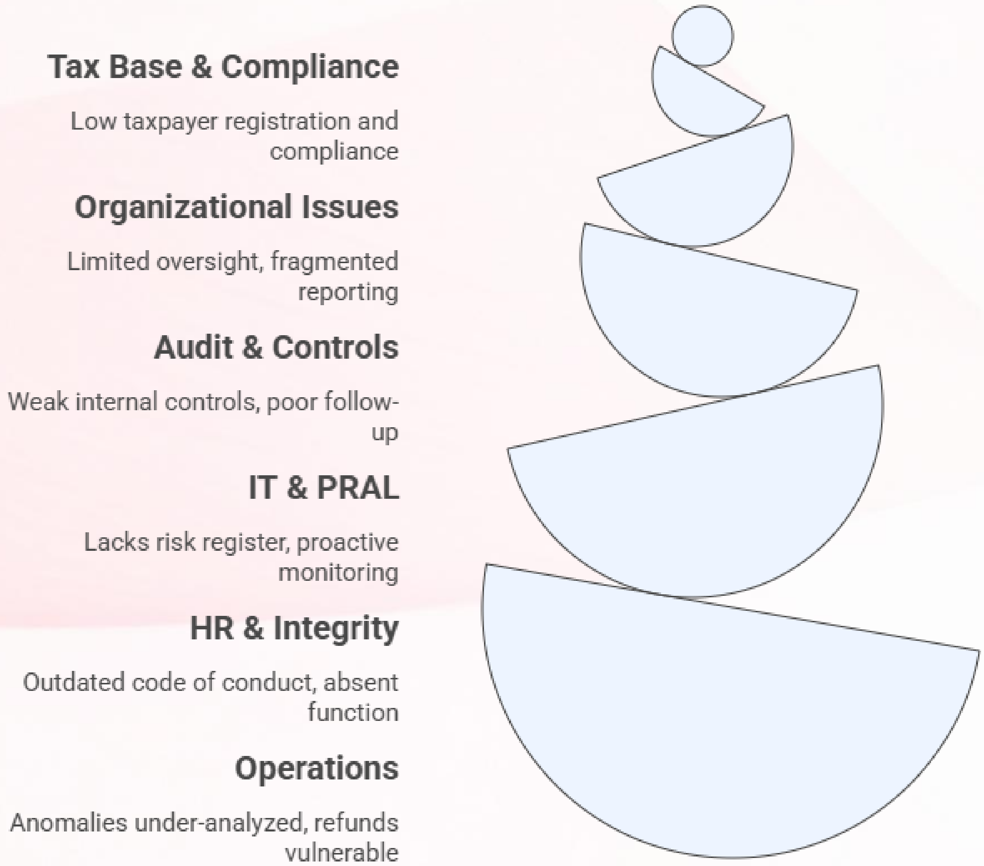
b. **Organizational Issues**: Oversight from the Federal Board of Revenue headquarters is limited, while field offices operate with high autonomy. Reporting structures are fragmented, and senior management turnover is high, with the average tenure of chairpersons since 2013 recorded at only 8.8 months.

c. **Audit and Controls**: Internal audit functions primarily focus on quality assurance rather than addressing root causes of systemic weaknesses. External audits indicate weak internal controls and poor follow-up on Public Accounts Committee directives, with reported compliance at only 4.7 percent. Information Systems Audits have not been conducted to date.

d. **Information Technology and Pakistan Revenue Automation Limited (PRAL)**: PRAL manages information technology operations for the Federal Board of Revenue but lacks a formal risk register, proactive monitoring, and an internal audit function. Data security and protection of taxpayer information remain key concerns.

e. **Human Resources and Integrity**: A Performance Management System has been introduced for senior staff to reward integrity. However, the existing code of conduct is outdated, an internal affairs function is absent, and criminal prosecutions of non-compliance are infrequent.

f. **Operations**: The Customer Relationship Management dashboard identifies anomalies in taxpayer reporting, but only 13.7 percent of audits are risk-based. While customs operations have been digitized, mobile team activities and export processing remain insufficiently analyzed. Refunds for Goods and Services Tax and Income Tax continue to be vulnerable to rent-seeking practices.



Recommendations for Regulatory Reform

Key recommendations:

a. **Regulatory Simplification and Transparency**: Develop a comprehensive database of federal business regulations, eliminate unnecessary or redundant rules, and institute mandatory review processes for all new regulations. These reviews should be based on Regulatory Impact Assessments involving relevant stakeholders to ensure transparency and effectiveness.

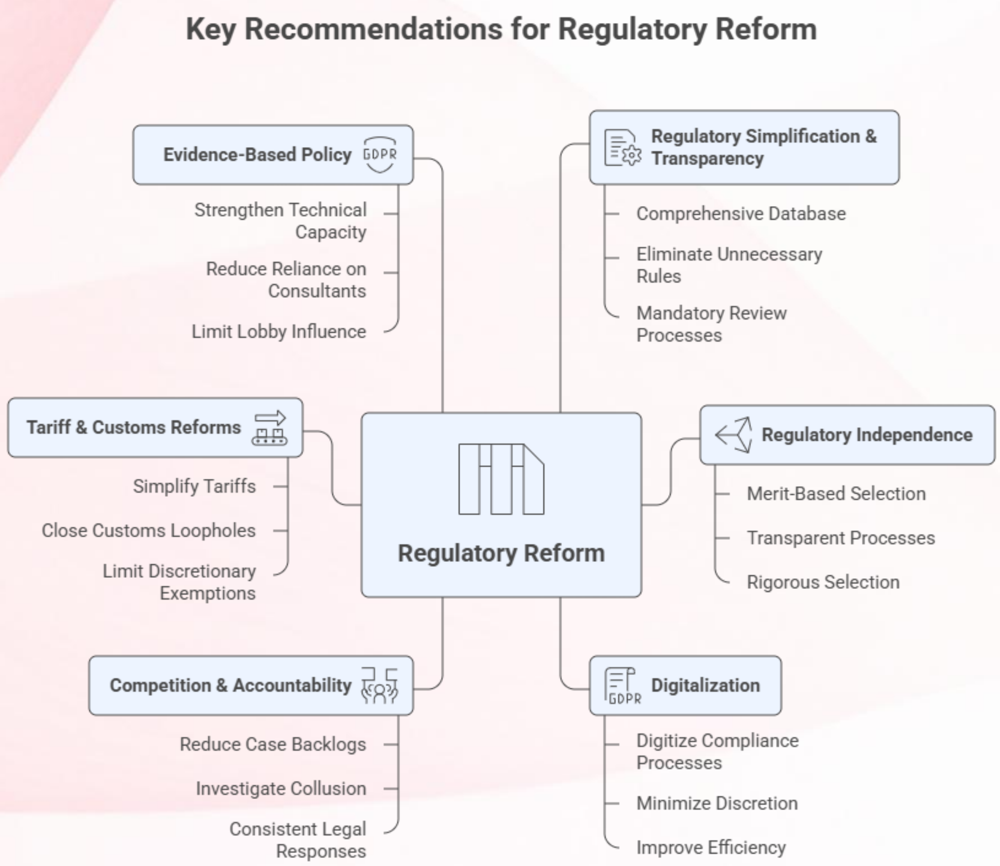
b. **Regulatory Independence**: Strengthen appointment and selection processes for senior management positions in regulatory bodies such as the Securities and Exchange Commission of Pakistan and the Competition Commission of Pakistan. The aim is to ensure merit-based, transparent, and rigorous appointments, thereby reducing undue political influence.

c. **Digitalization**: Systematically digitize regulatory compliance processes that are high-burden or high-risk to minimize discretionary decision-making, improve operational efficiency, strengthen auditability, and enhance public trust in regulatory enforcement.

d. **Competition and Accountability**: Address case backlogs within the Competition Commission of Pakistan and enhance collaboration with the National Accountability Bureau and the Federal Investigation Agency to investigate collusion, cartelization, and other anti-competitive behavior. Ensure that legal and institutional responses are consistent and effective.

e. **Tariff and Customs Reforms**: Implement the National Tariff Policy for 2025 to 2030 to simplify tariff structures, close enforcement loopholes in customs procedures, limit discretionary exemptions, and ensure a fair and predictable trade environment.

f. **Evidence-Based Policy**: Strengthen the technical capacity of regulatory bodies such as the National Tariff Commission to ensure decisions are based on reliable data, reduce dependency on external consultants, and limit the influence of lobbying.



State Bank of Pakistan: Reform Recommendations

The International Monetary Fund's (IMF) 2025 Governance and Corruption Diagnostic Assessment report provides a series of recommendations aimed at strengthening the independence, governance, and operational effectiveness of the State Bank of Pakistan (SBP). These recommendations are grounded in the SBP's mandate under the **State Bank of Pakistan Act, 1956**, and international best practices for central banking and banking supervision. The purpose of these reforms is to improve regulatory credibility, enhance financial sector stability, and align SBP operations with globally recognized standards.

1. Enhance SBP Independence

a. **Board Composition and Governance**: The IMF recommends amending the State Bank of Pakistan Act, 1956 to remove the Secretary of Finance from the SBP Board of Directors. Additionally, the Act should require the publication of reasons for the removal of Governors or Board members.
   - *Purpose*: This measure is intended to reduce political interference, promote merit-based decision-making, and ensure that regulatory and supervisory decisions are insulated from short-term fiscal or political considerations.

b. **Operational Autonomy**: The Ministry of Finance's authority to direct SBP inspections should be removed.
   - *Purpose*: Limiting government intervention in regulatory inspections would reinforce SBP's operational independence and allow supervisory activities to focus on prudential and risk-based priorities.

2. Strengthen Leadership Continuity

a. **Deputy Governor Positions**: The IMF emphasizes the need to fill vacant Deputy Governor and senior management positions promptly.
   - *Purpose*: Continuity in leadership ensures consistent policy implementation, preserves institutional memory, and strengthens overall regulatory capacity.

3. Alignment with International Standards

a. **Banking Supervision Objectives**: SBP's supervisory framework should be revised to explicitly focus on the safety and soundness of banks.
b. **Related-Party Transactions**: Rules governing related-party exposures should be consolidated and aligned with the **Basel Committee on Banking Supervision Core Principles (BCPs)**.
c. **Ownership Transfers**: SBP should complete the transfer of ownership of financial institutions currently under its control to the government.
d. **Financial System Transition**: Clear guidance should be provided on the post-2027 transition, including adjustments for Islamic banking.
   - *Purpose*: These measures aim to strengthen prudential regulation, ensure consistency with international supervisory standards, and mitigate conflicts of interest where SBP has ownership stakes.

4. Increase Transparency and Accountability

a. **Public Consultation and Reporting**: The IMF recommends public consultations on new regulations and prudential standards, along with the annual publication of SBP objectives, priorities, and supervisory activity reports.
b. **Corrective and Sanctioning Frameworks**: Prompt corrective actions and sanctions should be applied, particularly for undercapitalized banks.
   - *Purpose*: These reforms are designed to enhance accountability, improve stakeholder confidence, and enable timely intervention in the banking sector to prevent systemic risks.

The IMF recommendations collectively aim to reinforce SBP as a credible, independent, and accountable central bank. By enhancing governance, operational autonomy, and alignment with international standards, these reforms are intended to:

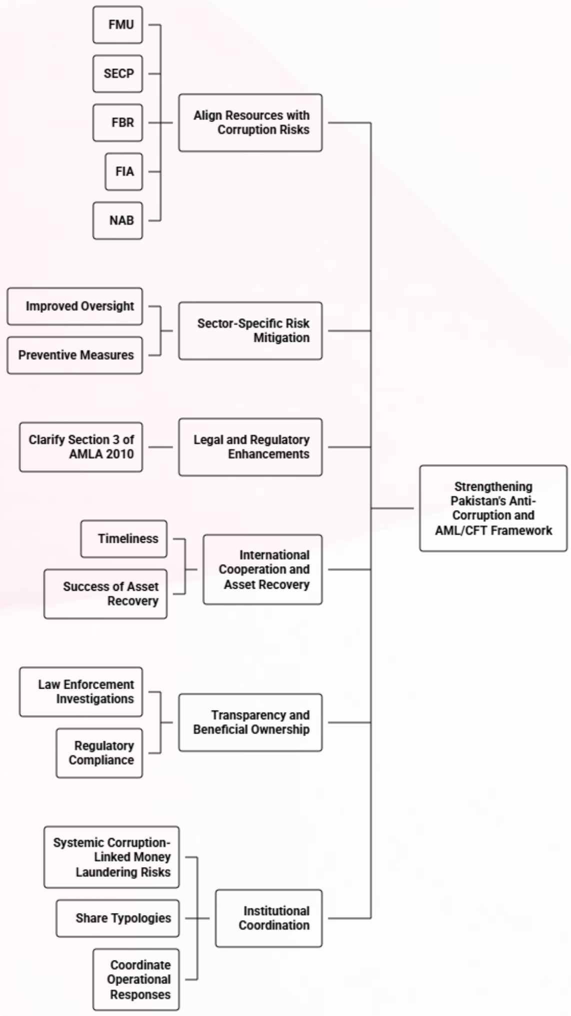
1. Reduce potential political interference in monetary and banking supervision decisions.
2. Strengthen financial sector stability through consistent and effective supervision.
3. Improve transparency and public trust in regulatory and supervisory processes.

4. Facilitate alignment with global best practices, thereby supporting economic growth and investment confidence.

Recommendation	Purpose	Expected Outcome
Enhance SBP Independence	Amend the State Bank of Pakistan Act, 1956 to remove the Secretary of Finance from the Board and require publication of reasons for removal of Governors/Board members. Remove Ministry of Finance power to direct inspections.	Reduce political interference, promote merit-based decision-making, and ensure supervisory decisions are independent and objective.
Strengthen Leadership Continuity	Fill vacant Deputy Governor and senior management positions promptly.	Ensure consistent policy implementation, preserve institutional memory, and maintain regulatory capacity.
Align Banking Supervision with International Standards	Revise supervision objectives to focus on safety and soundness of banks; consolidate related-party transaction rules with Basel Committee on Banking Supervision Core Principles; complete SBP transfer of ownership of financial institutions; clarify post-2027 financial system transition including Islamic banking adaptation.	Strengthen prudential regulation, reduce conflicts of interest, ensure consistent supervisory practices, and align SBP operations with global standards.
Increase Transparency and Accountability	Conduct public consultations on new regulations and prudential standards; publish SBP objectives, priorities, and supervisory activity reports annually; apply prompt corrective actions and sanctions for undercapitalized banks.	Improve stakeholder confidence, enable timely interventions, enhance public trust, and strengthen accountability mechanisms.

Strengthening Pakistan's Anti-Corruption and Anti-Money Laundering / Countering the Financing of Terrorism Framework

To mitigate corruption risks, enhance financial integrity, and improve enforcement of anti-money laundering (AML) and countering the financing of terrorism (CFT) measures, Pakistan is pursuing a coordinated reform agenda across regulatory, enforcement, and judicial institutions. Key actions include:



1. Align Resources with Corruption Risks

Mandate agencies including the Financial Monitoring Unit (FMU), Securities and Exchange Commission of Pakistan (SECP), Federal Board of Revenue (FBR), Federal Investigation Agency (FIA), and National Accountability Bureau (NAB) to focus supervision, inspections, and enforcement on high-risk sectors and actors identified in Pakistan's National Risk Assessment (NRA) and the Governance and Corruption Diagnostic (GCD).

2. Sector-Specific Risk Mitigation

Reduce money laundering risks in the real estate sector through improved oversight, regulatory compliance, and preventive measures.

3. Legal and Regulatory Enhancements

Amend legal provisions to allow prosecution of money laundering as a standalone crime, removing the requirement for a predicate conviction. This would clarify **Section 3 of the Anti-Money Laundering Act, 2010**.

4. International Cooperation and Asset Recovery

Strengthen mutual legal assistance frameworks with foreign jurisdictions holding corruption-linked assets to improve the timeliness and effectiveness of asset recovery processes.

5. Transparency and Beneficial Ownership

Establish a verified **Beneficial Ownership Registry** to support law enforcement investigations, regulatory compliance, and enhanced transparency in corporate and financial structures.

6. Institutional Coordination

a. Form standing inter-agency task forces to identify systemic corruption-linked money laundering risks, share typologies, and coordinate operational responses across agencies.
b. Ensure that financial intelligence generated by the FMU and other reporting entities is actionable and effectively shared with law enforcement and judicial authorities.

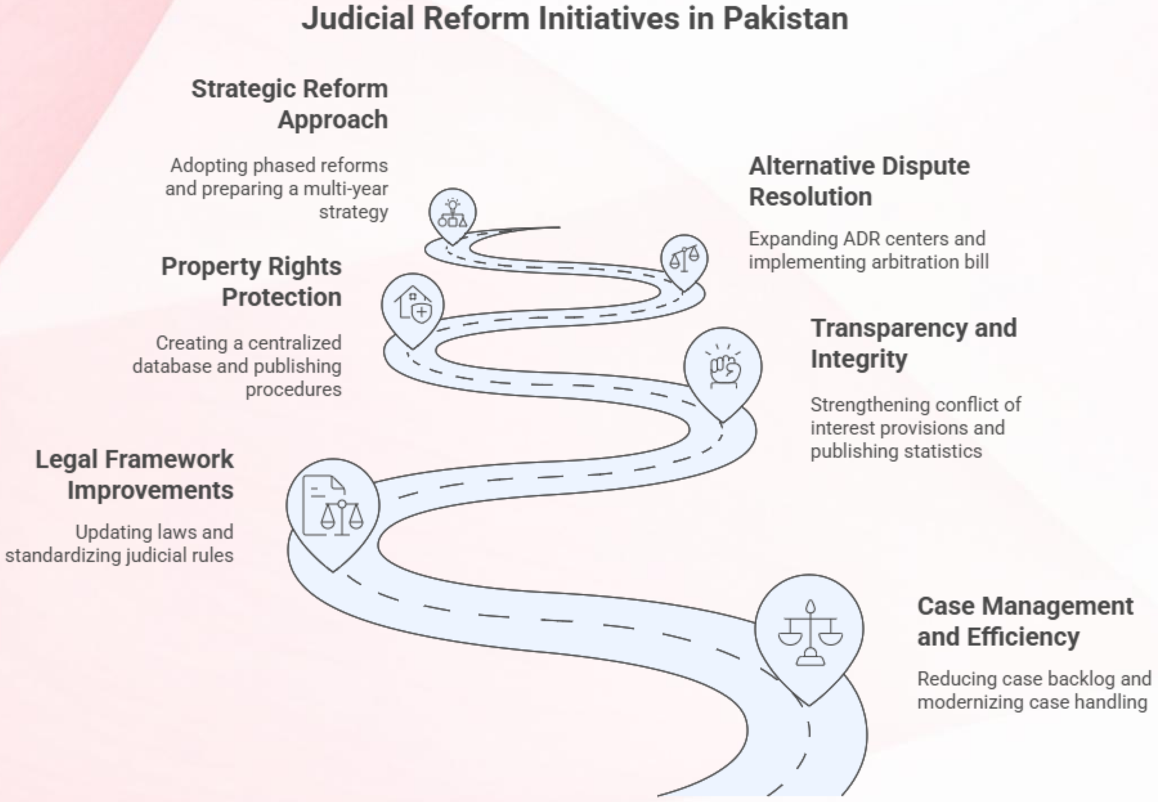
7. Digital and Operational Improvements

a. Implement a unified digital platform for real-time tracking and information sharing of corruption-linked AML cases across enforcement and judicial bodies.
b. Strengthen the **National Accountability Bureau (NAB)** and **Federal Investigation Agency (FIA)** capacity by establishing specialized AML units capable of investigating and prosecuting complex money laundering schemes.

Strengthening Pakistan's Judicial Sector and Rule of Law

Pakistan has initiated a series of judicial reforms aimed at enhancing efficiency, transparency, and integrity within the justice system. These reforms include digitalization of court processes, introduction of performance monitoring mechanisms for judges, and institutional measures to improve access to justice and accountability. Key initiatives include:

1. **Case Management and Efficiency:**
    - Reduce backlog of cases, especially commercial disputes, and report progress publicly.
    - Establish time limits and procedural reforms to expedite resolution of contract and property cases.
    - Develop commercial litigation corridors and automated proceedings to modernize case handling.
2. **Legal Framework Improvements:**
    - Update laws governing contracts, property rights, and civil procedures to enhance clarity and enforceability.
    - Standardize rules for judicial appointments, tenure, and performance assessment in Administrative Tribunals and specialized courts.
3. **Transparency and Integrity:**
    - Strengthen conflict of interest provisions, ensure transparent reporting on payments and grants to judicial personnel, and publish annual statistics on integrity measures.
4. **Property Rights Protection:**
    - Create a centralized database of state-owned land, clearly identifying custodians, and publish rule-based procedures and records for transfers or modifications of state property.
5. **Alternative Dispute Resolution (ADR):**
    - Expand ADR centers nationwide and implement the Arbitration Bill to reduce reliance on formal courts.
6. **Strategic Reform Approach:**
    - Adopt phased reforms starting with federal Administrative Tribunals and specialized courts to learn, scale, and minimize implementation risks.
    - Prepare a multi-year judicial reform strategy to strengthen institutional performance and service delivery.



Recommendations for Strengthening Anti-Corruption and Accountability in Pakistan

1. To improve governance, transparency, and institutional effectiveness, the following recommendations are proposed for Pakistan's anti-corruption and accountability framework:
2. **Adopt Risk-Based Approaches:**
    - Publish action plans to mitigate corruption risks in the top ten high-risk federal agencies.
    - Annually report on progress and outcomes of risk reduction efforts.
3. **Enhance Institutional Independence and Effectiveness:**
    - Strengthen NAB and FIA leadership, investigative capacities, and internal accountability.
    - Enhance independence of Provincial Anti-Corruption Establishments (PACEs) by removing higher authority approval requirements for investigations.
    - Ensure accountability courts have transparent, merit-based judge appointments and publish performance information.
4. **Promote Transparency and Asset Oversight:**
    - Establish a centralized authority to collect, digitize, and publish asset declarations of high-level officials with risk-based verification.
    - Initiate publication and verification of federal civil servants' asset declarations starting in 2026.
    - Improve proactive disclosure by public agencies and responsiveness to RTI requests.
5. **Strengthen International Cooperation:**

o Join key networks for transparency and information sharing, including the Egmont Group of Financial Intelligence Units, the Asia-Pacific Regional Initiative Network (ARIN), and the Open Government Partnership (OGP).

6. **Safeguard Whistleblowers:**
    o Establish a Whistleblower Protection and Vigilance Commission to enhance accountability and protect reporting individuals.