



# **HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT**

## **PAKISTAN**

### Governance and Corruption Diagnostic Report

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**Prepared By**  
Joel Turkewitz

#### **MEMBERS:**

Jonathan Pampolina, Jesper Berg, Frank van Brunschot, Kuena Diaho, Fahad Hasan, Yasemin Hurcan, Mohammed Sultan Yousuf Janahi, Zhentu Liu, Peter Mullins, Nusula Nassuna, Wajahat Ali Shah, Sally Toms, Miguel Vieira Toro, and Christophe Waerzeggers

**High-Level Summary Technical Assistance Report**  
Legal Department

**Pakistan: Governance and Corruption Diagnostic Report**

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**The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.**

**ABSTRACT:** This Governance and Corruption Diagnostic (GCD) was conducted at the request and with the support of the Government of Pakistan to identify and analyze governance weaknesses and corruption vulnerabilities that undermine economic performance and reform efforts. The diagnostic focused on federal-level governance in five core state functions: fiscal governance, market regulation, financial sector oversight, anti-money laundering and combating the financing of terrorism (AML/CFT), and rule of law, and also considered the strength and effectiveness of anticorruption institutions and approaches to address corruption risks. The findings reveal persistent and widespread corruption risks embedded in a heavily state-dominated economy that operates with complex regulatory environments, weak institutional capacities, fragmented oversight, with ineffective and inconsistent accountability and constrained rule of law. These factors collectively constrain private sector development and public sector effectiveness. The report provides an integrated set of recommendations aimed at achieving concrete and visible progress through strengthening institutional integrity, enhancing transparency, improving consistency and reliability of the enforcement of rules, and fostering coordination across agencies to support sustainable economic growth and public trust.

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International Monetary Fund, IMF Publications  
P.O. Box 92780, Washington, DC 20090, U.S.A.  
T. +(1) 202.623.7430 • F. +(1) 202.623.7201  
publications@IMF.org  
IMF.org/pubs

## Background

**The GCD was undertaken as part of the IMF's Framework for Enhanced Fund Engagement on Governance, which seeks to systematically address corruption and governance challenges that have macroeconomic consequences.** Pakistan's request for this diagnostic reflects recognition by the authorities of the need to confront entrenched corruption and governance weaknesses that impede reform implementation and economic development. Conducted with the participation of the World Bank, the exercise involved field missions, consultations with government officials, regulatory bodies, judiciary, civil society, and private sector representatives.

**The diagnostic aligns with Pakistan's ongoing economic reform program supported by a US\$7 billion Extended Fund Facility (EFF), which emphasizes fiscal sustainability, structural reforms, and institutional modernization.** The GCD provides a detailed assessment of governance vulnerabilities in key economic functions carried out by the federal government and offers actionable recommendations to strengthen accountability, transparency, and institutional capacity.

## Summary of Findings

**The diagnostic found that corruption is a persistent feature of Pakistan's governance landscape, with significant adverse effects on economic growth, investment, and public trust.** Pakistan's governance indicators consistently rank poorly, reflecting weaknesses in controlling corruption, enforcing contracts, and protecting property rights. The state's dominant role in the economy, including extensive ownership of enterprises and control over critical sectors, creates systemic vulnerabilities to rent-seeking and regulatory capture. Complex and overlapping regulatory frameworks, coupled with discretionary enforcement, and limited transparency foster an environment where privileged actors can extract undue benefits.

**Economic governance is characterized by systemic and structural weaknesses in the management and use of public resources and a lack of clarity in when and how the state intervenes in the economy.** A complex and opaque tax system, combined with a revenue authority that operates with considerable authority and limited oversight, and a relatively porous customs administration, yields a low tax-to-GDP ratio and a high level of exposure to corruption risks. Public financial management has been undermined by large variances in budget forecasts and actual spending, weak procurement controls, and inefficient management of public investment and state-owned enterprises (SOEs). Market regulation is hampered by excessive and overlapping regulations, limited independence of regulatory agencies, and pervasive distortions favoring politically connected firms.

**Accountability institutions and mechanisms lack sufficient competencies and independence to fulfill their functions effectively.** AML/CFT frameworks have improved, enabling Pakistan's removal from the FATF grey list, yet enforcement remains weak, especially in prosecuting corruption-related money laundering and in international cooperation for asset recovery. Judicial institutions are fragmented, overburdened, and perceived as corrupt, with significant delays in adjudicating commercial disputes and protecting property rights. Anti-corruption institutions, including the National Accountability Bureau (NAB), Federal Investigation Agency (FIA), and provincial anti-corruption establishments, operate with limited coordination, insufficient attention to preventing corruption, inefficient use of investigative resources and a history of political influence, undermining their effectiveness. The findings and

recommendations of the Auditor-General are often not acted upon and do not lead to corrective actions to stem weaknesses in oversight and control. Limited access to information, and restricted opportunities for public participation in governance further compound integrity and effectiveness challenges.

## Summary of Recommendations

**The report emphasizes the need for a comprehensive and sequenced reform agenda that addresses both immediate vulnerabilities and longer-term institutional weaknesses.** IMF staff conclude that improving governance and integrity would best be achieved by implementation of a package of reforms to strengthen economic governance, including eliminating regulatory constraints on private sector development, combined with actions to advance the rule of law and the functioning of anticorruption institutions. Progress along these lines would contribute to better public sector performance and macro-economic growth and stability.

**Economic governance reforms are essential for addressing structural problems that are at the heart of repeated macro-economic crises.** Top priorities include establishing a dedicated tax policy office, simplifying the tax system, and improving the efficiency and integrity of revenue authorities, including by strengthening internal controls, and creating an independent internal affairs unit to address corruption. Fiscal reforms should focus on improving budget credibility by limiting supplementary grants, enforcing strict procurement rules that eliminate preferences for SOEs, and enhancing transparency in public investment and asset management. Removing governance constraints on private sector development requires rationalization of existing rules and the rule-making process, digitization of compliance processes, and strengthening the transparency, competencies, and independence of regulatory bodies and appellate structures.

**Enhancing the rule of law is equally important.** Reliance on the rule of law will be furthered by updating the antiquated legal framework, removing case backlogs, and a greater focus on publicly-monitoring court performance and addressing performance constraints. Strengthening trust in the judicial system will require reinforcing the independence and integrity of judicial institutions, through improvements in the appointment process, conditions of employment, and oversight mechanisms. AML/CFT efforts would yield better results by prioritizing corruption-related risks, including by aligning resources with identified vulnerabilities, improving beneficial ownership transparency, enhancing inter-agency coordination, and strengthening investigative and prosecutorial capacities. Legal reforms should remove ambiguities that hinder prosecution of money laundering without predicate convictions and improve international cooperation for asset recovery.

**Finally, anti-corruption efforts would be more effective with greater attention to preventing corruption, enhanced organizational independence and competencies, and greater transparency.** Anticorruption strategies should be revitalized through risk-based approaches that identify and mitigate vulnerabilities in high-risk agencies, taking advantage of the introduction of modern information technology into the public sector. Prevention of corruption will be substantially advanced through the publication of asset declaration information in accordance with new legislation, and by stronger coordination across accountability and enforcement agencies. More rigorous processes for the selection of leadership of accountability organizations, combined with improvements in organizational competencies in the selection, investigation, and prosecution of corruption cases will be critical to enhancing personal accountability, just as increased transparency and access to information will enable more effective monitoring of performance by civil society and the general public. Collaboration across government

institutions, the private sector, and civil society is critical to sustaining reform momentum, economic progress, and achieving meaningful reductions in corruption.