



The World Bank

Pakistan Public Resources for Inclusive Development Multiphase Programmatic Approach: Phase 1 - Federal(P509827)

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 05-Aug-2025 | Report No: PIDPC00190



BASIC INFORMATION

A. Basic Program Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Pakistan, Pakistan, Pakistan	MID EAST,NORTH AFRICA,AFG,PAK	P509827	Pakistan Public Resources for Inclusive Development Multiphase Programmatic Approach: Phase 1 - Federal
Financing Instrument	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
Program-for-Results Financing (PforR)	21-Nov-2025	12-Dec-2025	Macroeconomics, Trade and Investment
Borrower(s)	Implementing Agency		
Ministry of Finance	Ministry of Finance		

Proposed Program Development Objective(s)

To increase the level and quality of spending on inclusive development.

COST & FINANCING (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	No
Is this project Private Capital Enabling (PCE)?	Yes

SUMMARY

Government program Cost	1,600.00
Total Operation Cost	600.00
Total Program Cost	570.00
IPF Component	30.00
Total Financing	600.00
Financing Gap	0.00



FINANCING

Total World Bank Group Financing	600.00
World Bank Lending	600.00

Concept Review Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Pakistan faces a human capital crisis, including high rates of stunting, learning poverty, and infant mortality. Poor human development outcomes have reflected inadequate and poor-quality public spending, including due to challenges to coordination between provincial and federal governments. Amid an economic crisis at the start of fiscal year (FY) 2024, Pakistan undertook decisive measures to prevent a sovereign default, including sharp fiscal consolidation, exchange rate adjustment, and monetary tightening. An International Monetary Fund (IMF) Stand-By Arrangement helped to bridge financing gaps and restore confidence. Adjustment has been successful, with inflation now falling, the exchange rate stabilizing, and foreign exchange reserves at more comfortable levels, allowing for the easing of import controls. However, fiscal consolidation measures and tight monetary conditions continue to weigh on economic activity, with growth expected to reach only 2.7 percent in FY25. Pakistan must now sustain stabilization efforts while accelerating growth to reduce poverty from current high levels (around 25.6 percent using the national poverty line).

The proposed Public Resources for Inclusive Development Multiphase Programmatic Approach (PRID-MPA) will support an ambitious program of national fiscal reforms. This program will help sustain the ongoing fiscal adjustment, while supporting sustainable reforms that ensure sufficient resources remain available for human development needs. The MPA will contribute to the achievement of CPF outcomes and priorities under the Uraan Pakistan national development strategy, including increased tax revenue, reduced child stunting, and reduced learning poverty. Under the MPA, aligned with the Government of Pakistan’s National Fiscal Pact, a coherent program of Program-for-Results (P-for-R) and Investment Project Financing (IPF) operations at the federal and provincial levels will support reductions in federal fiscal deficits, increased provincial fiscal space for service delivery spending through mobilization of new revenue sources, improved vertical and horizontal coordination and strengthened core data and public finance systems for efficient public resource use. Under the first phase of the proposed MPA, the proposed Federal Public Resources for Inclusive Development PforR will support federal government fiscal reforms under a broader national fiscal reform agenda.

Sectoral and Institutional Context of the Program



Public spending on basic services is inadequate, with challenges to efficiency and coordination. Pakistan spends less on health and education than regional peers. Rigid public spending is dominated by interest payments and transfers and subsidies. Development spending is low at just 2 percent of GDP. Fiscal space is further squeezed by a costly and complex government structure, high and rapidly growing pension costs, and significant overlaps between federal and provincial governments. Under current constitutional arrangements, substantial transfers from the federal government finance around 90 percent of provincial government spending. Public financial management systems are often outdated, with limited transparency, inadequate fiscal data, heavy centralization of expenditure controls, limited accountability, and delays and leakages in procurement posing challenges to service delivery.

Pakistan’s fiscal challenges reflect broader issues in the tax system. Weak revenue performance (tax-to-GDP of just 10.5 percent) has driven recurrent fiscal deficits, debt accumulation, and periods of macroeconomic instability. A complex tax system, heavy use of exemptions (4 percent of GDP in FY24), and weak compliance and enforcement capacity lead to a narrow revenue base (there are about 13.4 million registered income taxpayers and 396,000 registered sales taxpayers) and heavy reliance on direct taxation (more than 50 percent of Federal Board of Revenue (FBR) revenue) and withholding and advanced taxes. Provinces’ heavy reliance on federal transfers weakens incentives to fully utilize available revenue sources, including taxation of agriculture and real estate. Consequently, the tax system raises little revenue, generates economic distortions, and imposes a high burden on the poor. Recent analysis shows that Pakistan’s fiscal policies increase poverty much more, and reduce inequality much less, than average for lower-middle-income countries.¹

Heavy reliance on trade taxes has historically distorted economic activity, undermining exports, and preventing Pakistan’s integration into global supply chains. Import duties have accounted for around 20 percent of federal revenues. Pakistan’s trade taxes have been among the highest in the region.² Firms have faced a complex tariff structure with high average rates of effective protection, cascading import duties, discretionary exemptions, and delays and complexities in the administration of exemption schemes. Reliance on trade taxes (and their use to protect favored local producers from international competition) has led to substantial resource misallocation to the benefit of unproductive firms, increased prices of imported inputs, and undermined Pakistan’s competitiveness and export performance.

An underdeveloped statistical ecosystem constrains the government’s ability to improve fiscal decision-making, budget allocation, and tracking of service delivery outcomes. The Pakistan Bureau of Statistics (PBS) leads the national statistical system (NSS) but faces challenges in producing reliable data. Despite aims to transition from data producer to steward, PBS needs infrastructure and capacity upgrades. Pakistan’s NSS ranks poorly globally in data openness and performance, highlighting gaps in standards compliance. Provincial bureaus of statistics, despite their devolution in 2011, remain weak and with limited technical and institutional capacity. Coordination between federal and provincial nodes is weak, lacking frameworks for data-sharing and quality assurance, resulting in inconsistent reporting crucial for resource mobilization and service delivery planning.

Supported by an IMF-EFF program, the government has begun implementing important fiscal policy reforms to address these challenges. Around one third of exemptions were removed in the FY25 budget. New taxes have been imposed on highly profitable sectors including banking, real estate taxes have been increased and expanded, new tax duties have been introduced, and the personal income tax regime was reformed to increase progressivity. On the expenditure side, the government has sharply reduced subsidy spending and better prioritized the development budget. Allocations to health,

¹ World Bank (2025) The Effects of Taxes and Transfers on Inequality and Poverty in Pakistan, World Bank, Washington DC, 2025

² Pakistan’s trade regime ranks within the most restrictive quartile among Emerging Market and Development Economies (EMDEs). The average Most Favored Nation (MFN) tariff is nearly 20 percent, one of the highest among peers.



education, and social protection, on the other hand, have been protected or increased. An ongoing government “right-sizing” exercise is intended to reduce redundant administrative units and associated costs, while pension reforms are being implemented at the provincial and federal levels.

The new National Fiscal Pact represents important progress towards a more sustainable and progressive fiscal system.

To support ongoing fiscal adjustments while maintaining resources for basic services, federal and all provincial governments have recently agreed to further coordinated reforms under a ‘National Fiscal Pact’ (NFP). These reforms are intended to address critical imbalances in Pakistan’s current fiscal federalism arrangements through i) reducing federal spending in areas assigned to provinces under the 18th Constitutional Amendment of 2010, including for basic services and infrastructure; and ii) enhancing provincial fiscal space to increase spending in these areas through improving revenue collections from key provincial revenue handles, including agricultural taxation, property taxation, and the sales tax on services. Combined impacts of these reforms are expected to include i) much needed federal fiscal consolidation, addressing structural macroeconomic imbalances; ii) increased provincial spending on basic services to compensate for reduced federal spending and to address the current human capital crisis; and iii) the mobilization of underutilized and progressive revenue sources, contributing to a more equitable and efficient revenue system.

Government is also progressing reforms to reduce trade taxes. Government has recently approved a new tariff policy that would, over a five-year period, reduce Pakistan’s average tariff rates to among the lowest in the region, and broadly aligned with aspirational peer economies (including Indonesia and Vietnam). The reform would remove para-tariffs and recalibrate the structure of protection to reduce tariffs on raw materials and intermediate goods, addressing tariff escalation, and phasing out tariff peaks. These measures are expected to lower input costs, increase competitiveness and exports, and facilitate Pakistan’s integration into global supply chains.

Government is, in parallel, progressing critical public financial management and statistical reforms. Beyond commitments included in the NFP, federal and provincial governments are working to roll out improved control and accountability systems, strengthen public procurement (including through expansion of the e-procurements system), and progressively deconcentrate fiscal institutions to ensure greater flexibility and accountability in service delivery. Aligned with NFP efforts, the World Bank is working with federal and provincial statistical agencies to ensure that statistical and data systems are better integrated between provincial and federal levels, and that statistical data is adequate to track progress and guide policy making around human and economic reform objectives.

The World Bank is supporting ongoing fiscal reform efforts. The World Bank has been providing technical assistance advice to the development and implementation of recent reforms, including through close coordination with the IMF under the Joint Domestic Resource Mobilization Initiative and with the support of FCDO ReMIT trust fund resources. The World Bank is supporting revenue administration reforms through the federal Pakistan Raises Revenue (PRR) Project and the Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management (KP-RMP) Project. Efforts to improve the quality of expenditure and address critical public financial management constraints have been supported by the recently closed federal Public Financial Management and Accountability to Support Service Delivery Project, KP-RMP, the Khyber Pakhtunkhwa Spending Effectively for Enhanced Development (KP-SPEED) Project, and the Punjab Resource Improvement for Digital Effectiveness (PRIDE) Project.

The MPA provides an opportunity for a nationally coherent and sequenced program of operations closely aligned with NFP and CPF priorities. The national fiscal MPA will allow sequenced and complementary implementation of critical reforms, with the MPA providing a coordination mechanism at the national level and reflecting the rebalancing between federal and provincial roles within the fiscal system envisioned under the NFP. The MPA is expected to be aligned with,



and gradually replace, existing federal and provincial fiscal operational engagements which are expected to close over coming years. The proposed MPA represents a strengthening and consolidation of existing engagement, ensuring greater coherence, and providing a unified framework for sequencing and federal-provincial coordination on fiscal reforms. X Under the first phase of the MPA, the proposed Federal P-for-R will support critical federal level revenue and expenditure reforms under the NFP. The Federal P-for-R will be implemented concurrently with the Sindh operation, to be followed by additional operations in Khyber Pakhtunkhwa, Punjab, and Baluchistan.

Under Phase One of the MPA, the proposed operation will support federal fiscal reforms under the National Fiscal Pact.

Under Results Area 1, establishment of a new tax policy unit within the Finance Division will set the foundation for a thorough review of tax policy and development of a medium-term rolling tax policy framework, supporting reductions in tax expenditures, improved tax policy predictability, an increased number of compliant taxpayers, and increased overall revenues. Under Results Area 2, efficiency of public expenditures and alignment of spending with policy priorities will be enhanced through a review of the government administrative structures, pension and subsidy review and reform processes, improvements to budget documentation to improve transparency, and roll-out of digital payment and financial management systems. Under Results Area 3, the availability of data to inform fiscal policies and service delivery interventions will be improved through establishment of a national statistical hub, development and implementation of new Quality Assurance and Data Governance frameworks, and new systems for the integration of administrative data will support, reflected in improved scores on international benchmark scorecards.

Relationship to CAS/CPF

The proposed MPA is critical for the achievement of CPF outcomes and World Bank scorecard indicators. The MPA will support Outcome 1 (Reduced child stunting) and Outcome 2 (Reduced learning poverty) of the CPF through increasing fiscal space available for investment on human development needs, reforms to strengthen accountability and efficiency in human development expenditure, and reforms to improve data and statistics for tracking progress against economic and human development outcomes. The MPA will also directly support CPF outcome 5 ('More public resources for inclusive development') through i) revenue policy reforms at the federal and provincial levels, including reduced tax expenditures and mobilizing new progressive revenue sources; and ii) reforms to improve the allocation and efficiency of public spending, including reducing wasteful expenditures. Increased tax policy predictability and a less distortive tax system will also contribute to CPF Outcome 6 (Increased productive private investment). Reforms will directly contribute to several World Bank scorecard indicators, including *countries with increased tax collections, students supported with better education, and people receiving quality health services.*

Rationale for Bank Engagement and Choice of Financing Instrument

Use of a national MPA will support coherence and alignment between federal and provincial fiscal reform approaches.

Implementation of the NFP depends on coordinated and sequenced reforms between different levels of government. Consolidation of expenditure on federal side will be compensated for by increased provincial spending on provincial mandates. On the revenue side, a nationally coordinated approach to agricultural and sales taxation is critical. In relation to statistics, coordination is critical for improved data sharing and coverage. The MPA is structured to directly support coordination in these areas over the ten-year CPF time-horizon.

Adopting a common approach to provincial fiscal operations will help to reduce preparation and implementation costs.

Several existing provincial fiscal revenue and PFM operations are expected to close over the next year (KP-RMP, KP-SPEED, PRIDE). The MPA offers the opportunity to maintain critical provincial fiscal engagements with a more coherent and



standardized approach. While provincial operations under the MPA will be tailored to differences in existing specific systems, policy frameworks, and priorities, use of an MPA will allow for the application of a more standardized approach. Consistent focus on a core set of issues (i.e. raising revenue from agricultural income, property, and sales taxes; improving expenditure quality through stronger core PFM system and pensions reforms; and addressing key fiscal bottlenecks in the health and education sector) will reduce preparation time, ensure cross-provincial coherence, and allow for economies of scale in addressing critical constraints (for example, through the use of national trainings, provision of technical assistance to multiple provinces or through national coordination mechanisms, and the use of standardized and interoperable data systems in, among other areas, statistics and tax administration).

Use of an MPA will signaling long-term commitment and help mobilize donor support. The MPA provides federal and provincial governments with assurance of the World Bank’s continued support to the current fiscal reform program. The proposed MPA is already providing an anchor for additional donor support, including support to preparation and implementation through the Pakistan@100 Trust Fund. At the same time, the MPA offers sufficient flexibility to adjust the program based on government commitment, results achieved, priorities, and finances.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

Both the MPA Program Development Objective (PrDO) and the Program Development Objective of the Federal Operation is:

To enhance public resourcing for inclusive development through i) raising tax revenues; ii) improving the efficiency and alignment of public expenditures; and iii) strengthening the fiscal and service delivery data ecosystem.

PDO Level Results Indicators

PrDO-level results indicators include:

- Increase in the tax-to-GDP ratio (CPF, CS)
- Increased spending on basic health and education
- Increased number of schools meeting standards for basic infrastructure, teaching resources, and teacher qualification
- Increased number of Primary healthcare facilities meeting standards for basic infrastructure, supplies/ equipment and provider competencies
- Improved data to track progress against human development and economic indicators

D. Program Description

PforR Program Boundary

The MPA is directly aligned with the Government’s ongoing fiscal reform agenda, anchored within the inter-governmental National Fiscal Pact. Pakistan’s persistently large fiscal deficit has been a key driver of macroeconomic



instability and recurrent boom-bust cycles, suppressing long-term economic growth and productivity enhancing investments. The MPA aims to support the ongoing fiscal reform agenda at the federal and provincial level by expanding the tax base, optimizing public expenditure through transparent and accountable fiscal governance, and efficient utilization of public resources in education and health, and by strengthening the data eco-system for effective tracking of social and economic outcomes. Through its focus on structural fiscal issues underpinning macroeconomic growth and stability, the MPA supports the GoP’s 5-year National Economic Transformation Plan (Uraan Pakistan).

The Federal Government Program is estimated at US\$ 1,624 million over 5 years and aligned to fiscal and primary balance targets agreed under the IMF-EFF and the Government’s Medium Term Fiscal Framework (MTFF). Of this, the World Bank’s contribution to the Program will be US\$600 million. The baseline for the expenditure framework is the enacted budget for fiscal year 25, following the government budget classification, the preliminary program expenditure framework constitutes selected budget heads of the implementing agencies that are central to the results area and DLIs of the program. This allows tracking of budget formulation, execution, reporting and accounting cycle in line with the functional and economic classifications. Activities not covered under existing budget heads but necessary for program results will be funded through a separate head, and include expenditures like technical consulting services, institutional assessments, and operational expenditures such as salaries, training, supervision, and monitoring.

Indicative Federal Operation Disbursement Linked Indicators are shown in the table below.

Results Area	Purpose of the DLI (from TOC)	Actual measure or variable used as Disbursement-Linked Indicator
More efficient and effective revenue collection	DLI 1.1: Reduced reliance on trade taxes	Unweighted average tariff
	DLI 1.2: Predictable and evidence-based tax policy	Number of in-year tax policy changes
	DLI 1.3: Reduced tax expenditures	Tax expenditures as percent of GDP
	DLI 1.4: Increased revenues from direct taxes	Direct taxes as a percent of GDP
Strengthened allocation, efficiency, and accountability in expenditures	DLI 2.1: Reduction in Government administrative units to address identified redundancies and duplication	Number of administrative units
	DLI 2.2: Reduction in federal pension expenditure growth	Pension expenditure in PKR terms
	DLI 2.3: Rationalization of energy subsidies	Percent budgeted electricity subsidies accruing to the lowest decile
	DLI 2.4 Budget transparency score	Budget transparency index score
	DLI 2.5: Timely electronic payment of vendors from AGPR (IFMIS)	Percent of total amount of federal and provincial government transactions by due date
Improved statistical and data landscape for policymaking	DLI 3.1: Increase in the Statistical Performance Indicator for Pakistan	Statistical performance indicators score
	DLI 3.2: DLI 3.2. Improved flow of data between federal and provincial bureaus of statistics	Number of harmonized key statistical products and integration of administrative data sources

E. Initial Environmental and Social Screening

For the PforR components of each operation under the MPA, Environmental and Social Systems Assessments (ESSA) will be prepared, which will assess the impact of the proposed DLIs against the ESSA core principles. The draft ESSA will be disclosed and consulted upon before appraisal, leading to recommendations for the Program Action Plan. At concept stage, PforRs under the MPA are assessed to have Substantial social risks and Moderate environmental risks. Activities



such as reducing the size of government, phasing out tax expenditures, pension reforms, and increasing agricultural income tax collection; carry potential for adverse social impacts and increased conflict amongst groups. The program will likely face resistance from a range of stakeholders including industrialists, landlords, farm enterprises and public sector labor unions. Low awareness of tax laws in rural areas and the reliance on informal credit systems may cause significant disruptions to the rural economy and create new disputes and power imbalances. Similarly, the environmental impacts of income tax on agriculture (for example) may indirectly push farmers to intensify production to offset reduced income. This may lead to soil degradation, deforestation, conversion of natural habitats, reduced crop rotation, monoculture, increased reliance on chemicals and fertilizers, and increase in water abstraction. The ESSAs will assess the capacity of the implementing agencies to implement the Program Action Plan and guide institutional set up (staffing, capacity building, training, etc.) and budgeting The ESSAs will also cover risk mitigation and planning elements for the program, in consultation with key stakeholders.

Given that the IPF components are limited to TA activities, procurement of consultancies and IT systems, Moderate social and environmental impacts are expected. The TA activities cover Type 1 (supporting preparation of future investment projects, Type 2 (supporting the formulation of policies, strategies and legal framework, etc) and Type 3 (strengthening of borrower capacity) activities. Environmental and social objectives will be integrated into the TA process. As the IPF components are expected to support the specific design of these reforms, investments could indirectly affect livelihoods, access to services, and exacerbate social conflicts. Activities related to the implementation of e-procurement systems and supporting the data ecosystem will generate risks related to data privacy and security, unauthorized surveillance, and data misuse. Environmental, health and safety (EHS) impacts are related to end of useful life of computers and other IT equipment procured for the program. The Program will adopt and customize the e-waste Standard Operating Procedures (SOPs) prepared under other World Bank financed projects in the country. The E&S assessment process for the IPF component will be proportionate to the anticipated risks as well as impacts and will be documented in Environmental and Social Commitment Plans (ESCP).

Legal Operational Policies	
Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts of the IPF Component

CONTACT POINT



The World Bank

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Federal(P509827)

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