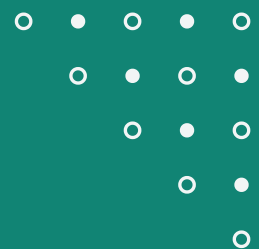


Solving Pakistan's Regulatory Gridlock:

Unbundling the Key Factors Hindering Regulatory Reform



Solving Pakistan's Regulatory Gridlock: Unbundling the Key Factors Hindering Regulatory Reform

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The Pakistan Business Council: An Overview

The Pakistan Business Council (PBC) is a research-based business advocacy platform established in 2005. It is now supported by over 100 private sector local and multinational businesses with significant investment in, and long-term commitment to sustainable growth of the country. They come from 14 countries, have leading roles in 17 major sectors of the formal economy, generate 40% of annual exports, contribute a third of Pakistan's total tax revenues and employ three million. Their combined sales represent every 6th Rupee of Pakistan's GDP.

PBC's major objectives are to advocate policies that lead to creation of jobs, value-added exports and reduction in import reliance through improved competitiveness of manufacturing, services and the agriculture sectors. It also promotes formalization of the economy.

PBC's over-arching theme, **"Make-in-Pakistan"** consists of three pillars: **"Grow More/Grow Better"**, **"Make More/Make Better"** and **"Serve More/Serve Better."** Its evidence-based advocacy is backed by over a hundred studies to date through its full-time research team, supplemented by collaborative research with renowned industry experts and economists. Through its Centre of Excellence in Responsible Business (CERB), PBC works to build capacity and capability of businesses beyond its membership, to adopt high environmental, social and governance standards. PBC holds conferences, seminars and webinars to facilitate the flow of relevant information to all stakeholders in order to help create an informed view on the major issues faced by Pakistan. Through its presence in Islamabad and Karachi, it works closely with relevant government departments, ministries, regulators and institutions, as well as other stakeholders including professional bodies, to develop consensus on major issues impacting the economy.

PBC is a pan-sectoral, not-for-profit, Section 42 entity. It is not a trade body; therefore, it does not advocate for any specific business sector. Rather, its key advocacy thrust is on easing barriers that thwart competitiveness of businesses in Pakistan. Further information on the PBC is available on: www.pbc.org.pk. The PBC's founding objectives are:

- To provide for the formation and exchange of views on any question connected with the conduct of business in and from Pakistan.
- To conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and fieldwork for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
- To acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
- To promote and facilitate the integration of businesses in Pakistan into the World economy and to encourage in the development and growth of Pakistani multinationals.
- To interact with governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

The PBC Member Companies





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EXECUTIVE SUMMARY

Diagnostics of Pakistan's Regulatory Burden

Pakistan's regulatory system is built around approvals rather than facilitation. Economic activity requires prior approval across multiple overlapping agencies. Firms that formalise face a heavier and less predictable burden than those that do not. The result: private investment stuck at 11–13% of GDP against a regional median of 18–22%.

Where the Burden Falls

Regulatory friction is heaviest not at business entry but throughout the ongoing operating environment. Three features recur across all seven lifecycle stages: multiple agencies manage what should be a single process; procedures are largely manual or only partially digitised; and enforcement is discretionary, with informal payments reported as routine. Critically, partial digitisation has not resolved the discretion problem — where digital systems cover intake and tracking but leave the approval decision itself in manual hands, the core source of unpredictability is preserved regardless of how the surrounding process is managed.

The seven areas analysed — business entry, construction, utilities, taxation, trade, inspections, and contract enforcement — are not an exhaustive map of where regulatory friction falls. They are the areas for which comparable cross-country data exists. The full burden extends further: NOC requirements that multiply across agencies for what should be a single approval; product registrations taking months across separate federal and provincial authorities; licence regimes requiring annual renewal regardless of any change; and a court system where commercial disputes take years with no binding timeline. These dimensions are harder to quantify. They are not less real.

What Businesses Say

Interviews across nine businesses and six sectors — IT, FMCG, SME manufacturing, digital platforms, agri-machinery, and cybersecurity — highlighted a consistent pattern of regulatory burden. The key issues include regulatory complexity and fragmentation, the hidden cost of time and uncertainty, uneven enforcement that penalises formal operators, policy instability that undermines long-term planning, misapplied regulations, capital trapped in blocked refunds and repatriation restrictions, and discretionary enforcement that turns compliance into negotiation.

The report also incorporates two additional burdens identified during concept-stage discussions. The first is the growing use of security clearances by non-regulatory agencies, which creates opaque delays in investment, technology imports, and infrastructure projects, often without published timelines or clear accountability. The second is the State Bank of Pakistan's approval process for royalty and technical-fee payments, which acts as a discretionary gate on contractual obligations and becomes more unpredictable during periods of foreign exchange stress. Both issues fall outside the current scope of the Asaan Karobar Act.

No business interviewed called for deregulation. The consistent ask: rules that are clear, stable, proportionate, and fairly enforced across formal and informal sectors alike.

What Peer Reformers Did

Malaysia embedded a Regulatory Coordinator in every ministry and built automated inter-agency data flows. Vietnam committed to a 30 percent reduction in compliance time, cost, and procedures, replacing ex-ante approvals with post-entry audits for low-risk activities. Indonesia used a single omnibus law to amend 76 statutes, introduce risk-tiered licensing, and centralise all approvals into one portal — most recently updated through Government Regulation 28 of 2025 to broaden sector coverage and introduce automatic approval where processing deadlines are missed. None deregulated wholesale. All made rules risk-based, digitised, and predictable — and critically, all extended digitisation to the decision itself, not just to intake and tracking.

The Current Reform Landscape

The Asaan Karobar Act 2025 creates the right machinery: a Technical Unit (AKTU), a Regulatory Registry with a guillotine mechanism, and a Pakistan Business Portal. Its strongest near-term impact is on business entry and transparency. Its explicit limits are equally significant — tax structure, the judiciary, energy pricing, monetary policy, and national security are all outside scope, representing constraints that businesses consistently identify as binding. More significantly, tax administration — refund timelines, audit procedures, and the appeals architecture — is procedural in nature and falls squarely within the Act's regulatory modernisation mandate yet receives no substantive treatment in the legislation.

The Pakistan Regulatory Reforms 2025 (PRR2025) initiative — the government's published scorecard of the PRMI-led regulatory reform effort across federal agencies¹ — has eliminated 89 redundant requirements and simplified or digitalised 241 more, with Rs356.5 billion in estimated annual compliance cost savings. But only 52 of 330 proposed reforms were completed — a 16 percent completion rate. The bottleneck is not diagnosis. It is execution.

Where the Current Reform Falls Short

Current reform efforts represent genuine progress but leave three structural gaps. First, reforms to date have been procedural — modernising how regulations are managed without addressing the cost drivers businesses identify as most binding: tax administration, refund delays, and the judicial and contractual enforcement environment. Second, execution remains the central failure: reform announcements consistently outpace reform delivery, and approval of a change at the policy level has rarely translated into a changed experience for businesses on the ground. Third, digitisation has been partial — intake and tracking have moved online, but approval decisions in many agencies remain manual and discretionary, preserving the core source of unpredictability the reforms are meant to resolve.

The gap is no longer mainly in design — it is in implementation, scope, and the willingness to address the structural cost pressures that remain explicitly outside the current framework.

The Reform Agenda — Classified by Implementation Route

Seventeen reforms are proposed across four clusters — structural simplification, transparency and predictability, market facilitation, and enforcement fairness. They are drawn from primary stakeholder evidence, peer benchmarking, and the diagnostic findings of this report.

¹ *Pakistan Regulatory Reforms 2025*, Office of the Prime Minister's Regulatory Reforms, published February 2026. This is the government's published scorecard of the PRMI-led regulatory reform effort, documenting completed and in-progress reforms across federal agencies and estimating their compliance cost impact against a baseline of 330 proposed reform items. Available at: <https://reforms.pk/wp-content/uploads/2025/02/PRR2025.pdf>

| Cluster | Priority Actions |
|--|--|
| Structural Simplification | Genuine one-window with enforced back-end integration; one submission, one inspection, one approval; harmonise federal-provincial tax requirements; reduce compliance costs with measurable targets |
| Transparency & Predictability | Publish all procedures and timelines including security clearance criteria; minimum 3-year policy stability commitment; statutory SLAs with deemed-approval on breach; enforceable government payment timelines for tender disbursements; rule-based approval for royalty and technical-fee remittances; eliminate discretionary enforcement |
| Market Facilitation | Notification model for low-risk activities backed by a published cross-sector risk matrix; shift from gatekeeping to market facilitation model; mutual recognition of provincial licences; mandatory RIA for all new regulations |
| Enforcement Fairness | Consistent enforcement across formal and informal sectors; automate tax refunds and customs clearance with statutory timelines; resolve PSQCA–provincial revenue-sharing impasse; reform tax audit and enforcement to reduce discretionary assessments |

Classified by what implementation actually requires, the seventeen reforms fall into three tiers:

| Tier | What it requires | Reforms |
|---|--|--|
| Tier 1 Administrative Action | Decisions within existing agency authority; no new legislation required | R5 — Publish all procedures and timelines R7 — Deemed approval where deadlines are breached R10 — Notification model for low-risk activities R15 — Automate tax refunds and customs clearance |
| Tier 2 Inter-Agency Coordination | Requires coordination across federal ministries, between federal and provincial authorities, or within the CCI framework | R1 — One-window with enforced back-end integration R2 — Eliminate duplication: one submission, one inspection R3 — Harmonise federal-provincial requirements R12 — Mutual recognition of certifications R16 — Separate standard-setting from enforcement |
| Tier 3 Legislative Action | Requires new legislation or amendment to existing statutes | R6 — Policy stability commitments (3–5 year horizons) R8 — Rule-based royalty and technical-fee approvals R11 — Risk-tiered licensing architecture R17 — FBR audit reform: independent appeals, judicial authorisation for coercive powers |

Tier 1 reforms are actionable now through administrative decisions alone. Tier 2 reforms require political will at the inter-governmental level but no new law. Tier 3 reforms require legislation and represent the longer-term structural agenda.

The Bottom Line

Current reform efforts show that Pakistan now has a clearer diagnosis of the problem and stronger reform ambition than at any previous point. The peer evidence shows what successful execution looks like. The distance between the two is not a design problem — it is an execution problem that requires binding targets, independent oversight, and reform extending to the structural cost drivers the current legislation leaves out.

Pakistan's investment-to-GDP ratio is unlikely to rise from 13% toward the 22% needed for stronger growth unless the post-entry operating environment improves — taxes, trade facilitation, dispute resolution, and the cross-border payment mechanisms that determine whether foreign technology partners see Pakistan as a viable long-term market.



SECTION 1

The Core Problem: Pakistan's Approval-Driven Economy

How Pakistan's regulatory architecture became a system of permissions rather than a framework for markets

1.1 Why Regulatory Burden Matters

Good regulation enables markets: it sets the rules of competition, corrects failures, and gives investors the predictability they need to commit capital. Bad regulation does the opposite — it inserts the state as a gatekeeper at every economic decision point, replacing market signals with approval queues. Pakistan sits firmly in the second category.^{1,2,3}

The consequences are concrete. Excessive, fragmented, or unpredictable regulation raises the cost of doing business, slows goods and services to market, and dampens the appetite for formal investment. For an economy where private investment persistently underperforms its potential and the informal sector is disproportionately large, regulatory architecture is not a peripheral concern — it is a structural determinant of economic trajectory.^{4,5,6}

A regulatory regime that is complex, opaque, and discretionary tilts the playing field in three ways: against formal operators and in favour of informality; against new entrants and in favour of incumbents; and against productive investment and in favour of regulatory arbitrage.^{7,8,9}

1.2 Governance by Approval

Pakistan's central regulatory pathology is not simply that there are too many rules. It is that the system is oriented around approvals rather than facilitation. Economic activity does not proceed unless approved. Investment does not deploy unless cleared. Firms do not operate unless licensed across multiple, overlapping jurisdictions. This is the essence of a permission economy — one in which the state's role is to vet and approve rather than to set parameters and step back.^{4,7}

This orientation is the product of three structural tendencies, each of which is examined in turn.

A state-centric starting point. After independence, Pakistan adopted a model in which the state played the key role in industrialisation. Licensing was used to control and allocate resources, not just to allow entry into the market. Even when the economy later opened up somewhat, this administrative culture remained. Instead of removing old controls, new requirements were often added on top. The result is that the state has reduced its role in direct production but still keeps strong control over the conditions under which private businesses operate.^{4,2,10}

Devolution without coordination. The 2010 constitutional reforms transferred significant regulatory responsibilities to the provinces, producing five separate jurisdictions — four provinces and the federal capital — each with its own frameworks for labour, environment, food, and services taxation. The intent was to bring governance closer to

citizens. The effect was to multiply the regulatory principals a firm must engage without creating inter-governmental coordination to manage the resulting complexity. The system of regulatory overload did not disappear after devolution; it fragmented into five partially inconsistent systems.^{5,10}

Accumulation without review. Regulations build up over time in every country. The key question is whether old, unnecessary, or conflicting rules are regularly reviewed and removed. In Pakistan, which has generally not happened. Rules from different periods continue to exist side by side, so businesses often face a mix of old and new requirements rather than a system shaped by current policy priorities.^{8,7,9}

1.3 Five Defining Characteristics

Pakistan's regulatory environment exhibits five structural characteristics that reproduce themselves across sectors and tiers of government.

The NOC cascade. Before a firm can invest, launch a product, import an input, or access a regulated market, it must secure the non-objection of the relevant authority — and in practice, not just one authority, but a chain of them. Each agency with some connection to the activity may insist on reviewing it. This chain of approvals is hard to reform because veto power is spread across many bodies, and each has an interest in keeping its own requirement. In several sectors — including infrastructure, technology imports, foreign investment, and projects near regulated zones — security clearances from non-regulatory bodies such as the Ministry of Interior add a further layer that operates entirely outside the ease-of-doing-business reform framework: timelines are unpublished, criteria are opaque, and no appeal mechanism exists for a business whose clearance is delayed or withheld without explanation. As a result, no single agency is responsible for the total burden on business.⁹

For foreign investors and joint ventures, there is another approval layer through the State Bank. Royalty payments and technical service fees to foreign partners need SBP clearance before they can be sent abroad, and these approvals often slow further when foreign exchange reserves are under pressure. This creates a separate source of delay and dispute, beyond the licensing and regulatory burden discussed here.

Overlapping regulators. Federal and provincial bodies often claim authority over the same activity, with no obvious way to resolve overlaps. A product sold across provinces, a project with both local and national relevance, or a business that hires workers, discharges waste and pays taxes may have to deal with several agencies at various levels—each with its own registration, inspection, and enforcement process. This uncertainty becomes a barrier in itself: firms either seek multiple approvals to stay safe or avoid the formal system altogether.⁵

Discretionary enforcement. When mandates are broad and there are weak limits on how officials apply them, enforcement becomes inconsistent. Whether a firm faces an audit, inspection, or enforcement action may depend less on clear risk criteria and more on the judgment—and sometimes the interests—of the individual official. This creates two problems: firms cannot predict their regulatory exposure with confidence, and dealing with regulators becomes a matter of negotiation rather than simple compliance.

Partial digitisation has not resolved this. Where the government has moved forms and case tracking online but kept inspection, document checks, and final approval manual, digitisation can create the appearance of reform without reducing discretion. The most important step — the decision itself — still remains personal, inconsistent, and unpredictable.

Policy instability. Regulatory and fiscal frameworks change frequently, with little warning and sometimes taking effect immediately. Tax measures are sometimes introduced through supplementary instruments instead of the

normal legislative process. Sector-specific rules are also changed in response to short-term pressures, often reversing earlier commitments. Even when a policy change is reasonable, abrupt, and unconsulted changes force businesses to keep extra buffers and shorten the time frame in which long-term investment makes sense.^{15,16}

Asymmetric compliance load. Each of the features above imposes costs in isolation; their combined effect is compounded. Large firms with dedicated legal teams and established relationships with enforcement agencies can absorb this burden—however inefficiently. Smaller firms, new entrants, and foreign investors cannot. The compliance load therefore acts as a structural barrier deters new competition and innovation much needed by the economy.^{8,17}

Moreover, the asymmetry runs in both directions: Businesses must meet tax and compliance deadlines on time, but the government often delays payments to contractors and suppliers. This creates a one-sided system where the state enforces its dues but delays its own obligations.

1.4 The Structural Consequence: Selection Against Formality

Taken together, these features create a clear incentive: for many firms, staying informal becomes the more practical choice because the costs of operating formally are too high and too unpredictable.

The effects reinforce each other. As more activity shifts to the informal economy, the tax base shrinks, increasing pressure on firms that remain formal. As their compliance burden rises, formal firms become even less competitive against informal operators. The heavier the regulatory burden becomes, the more it pushes activity out of the formal system—and the harder it becomes for those still inside it.¹⁰

This helps explain why the formal private sector has persistently underinvested relative to Pakistan's potential, why the tax base remains structurally narrow, and why regulatory governance—rather than the quantity of rules—is one of the critical economic reform priorities the country faces.

Bottom line: *Pakistan's regulatory challenge is not one of under-regulation. Nor is it a problem that can be solved by a one-time deregulation exercise. It is structural: rooted in a regulatory system that is geared more toward granting permission than enabling and fairly enforcing business activity. It is marked by:*

- *Economic activity often needing prior approval instead of being allowed by default under clear rules.*
- *Regulatory authority being spread across many agencies and levels of government, with weak coordination.*
- *Enforcement being more discretionary than rules-based, which makes outcomes unpredictable.*
- *Policy changes being sudden and poorly sequenced, which shortens investment planning horizons.*
- *Compliance costs falling more heavily on new firms, smaller businesses, and foreign investors.*

The diagnostic sections that follow map these dimensions across Pakistan's institutional structure, compliance burden, and investment climate.

SECTION 2

How Regulatory Burden Affects Economic Competitiveness

What the evidence shows

Excessive regulation does not just slow things down — it imposes actual costs that show up in lower growth, fewer businesses, less investment, and a larger informal economy. Three findings from the international evidence set the scene.

First, heavier regulatory restrictions tend to weaken economic growth.¹⁹ Second, industries that are more heavily regulated see fewer new businesses formed and slower job creation.²¹ Third, small firms bear roughly twice the compliance cost per unit of turnover than large firms do — and this gap widens with every new regulatory layer.²²

2.1 Regulatory Accumulation and GDP Growth

When regulations pile up over time without being reviewed or removed, the economy gradually loses its ability to adapt. Resources get locked into less productive uses, interest groups defend their protections, and new sectors struggle to break through. Evidence shows that a 10 percent increase in regulatory restrictions can reduce annual growth by 0.37 percentage points.¹⁹ For an economy growing at 3 percent, this would mean losing about 12 percent of its growth rate.¹⁹

Cross-country evidence shows how much countries can gain from better regulation. Countries that move from the bottom to the top quartile of regulatory quality can raise annual GDP growth by around 2.3 percentage points—an improvement comparable to major trade liberalisation.²⁰ Regulatory burden also pushes businesses into the informal economy. When the cost of staying formal becomes too high, firms often choose to operate outside the formal system, shrinking the tax base and cutting themselves off from credit and legal protections.²⁵

2.2 Firm Entry, Competition, and the SME Burden

Heavy regulation acts as a barrier to entry. Research shows that doubling regulatory intensity in a sector reduces new hiring by 6.3 percent and suppresses new firm creation, particularly more for smaller.²¹ Large firms can spread compliance costs across bigger revenues and often lobby to shape regulations in ways that disadvantage smaller competitors. Small entrants face the full cost with no scale to absorb it.^{20,21}

Many regulatory costs are fixed. Filing a return, hosting an inspection, or obtaining a licence takes roughly the same amount of time regardless of how large the business is — but that time is a much bigger share of a small firm's day. In small businesses, it is usually the owner who handles compliance, pulling them away from running and growing the business. Surveys across multiple regions find that up to 74 per cent of failed small businesses name over-regulation as a major obstacle to survival.²² Evidence from East and Southeast Asia shows that simplifying administrative procedures helps small firms more than large ones, because fixed compliance costs are a bigger burden for them.²⁴

Pakistan's own data fits the pattern. Small firms here face more than twice as many tax authority visits as larger firms and are three to four times more likely to pay speed money — a direct consequence of a compliance environment that small businesses simply cannot manage.⁹

2.3 Four Ways Regulatory Burden Becomes Economic Cost

The growth penalties described above flow through four specific channels. Each has a distinct policy fix.

Compliance costs. The biggest compliance cost is not the fees — it is the time. Research consistently finds that opportunity cost (time diverted from productive work) exceeds direct monetary compliance costs in most settings.²⁶ Regulations that tell firms exactly how to comply, instead of focusing on the result they need to achieve, can make the burden even heavier. A better approach is to use outcome-based standards, which set the goal but give firms flexibility in how to meet it. This is one of the simplest and most cost-effective ways to reduce compliance costs.

Approval delays. Delays impose costs that standard compliance metrics often miss. While approvals are pending, capital remains idle and investment decisions are delayed or abandoned. Evidence from seven East and Southeast Asian countries shows that reducing the number of sequential approval steps — without loosening standards — can improve business competitiveness.^{24,26} If standards are unrealistic or outdated to begin with, the damage is even greater. Firms are not only forced to wait longer; they are also required to comply with rules that may be impractical or impossible, raising costs, prolonging idle capital, and pushing investment toward delays, workarounds, or informality.⁹

Policy uncertainty. When rules keep changing, agencies give different instructions, and enforcement depends on the person managing the case, businesses stop planning ahead. Many choose to stay small, stay informal, and avoid investments that bring more attention. This is a common way in which overregulation pushes firms into informality in emerging economies.²⁵

Lost investment and FDI. A country's regulatory environment is one of the strongest predictors of the foreign investment it attracts. Critically, FDI only translates into broad growth above a minimum threshold of regulatory quality; below that threshold, investment pools in a few sheltered sectors and does little for the wider economy. Pakistan's private investment rate of 11-13 percent of GDP against a regional median of 18-22 percent consistently shows this.

SECTION 3

Pakistan's Regulatory Architecture

Fragmented governance, systemic duplication, and the costs of five parallel regulatory markets

3.1 A Fragmented Regulatory State

Pakistan's regulatory architecture was not designed as a coherent system; it accumulated over time. Authority is now dispersed across roughly 118 federal bodies, four sets of provincial authorities, and multiple municipal tiers, each operating under its own statutory mandate with limited coordination across institutions.^{7,8}

After the 18th Amendment, several areas of regulation were devolved without a matching framework for harmonization, leaving firms to navigate separate regulatory jurisdictions rather than a single national market. The result is not just complexity, but duplication: businesses often face parallel registrations, repeated inspections, inconsistent standards, and overlapping mandates across agencies.

These overlaps are visible across both general and sector-specific regulation:

| Area | Main overlap | Typical friction |
|---|---|--|
| Revenue and taxation | FBR and provincial revenue authorities | Separate registrations, multiple returns, overlapping audits |
| Food | Provincial food authorities, PSQCA, and relevant provincial departments | Dual standards, repeated testing, inconsistent enforcement |
| Pharmaceuticals | DRAP, provincial departments, and related approvals bodies | Multiple NOCs, site approvals, registration delays |
| Mining and large industry | Federal (Ministry of Energy, EPA), and provincial authorities like Revenue and Environment | Duplicative environmental clearances, unclear land-use jurisdiction |
| Energy | NEPRA, provincial energy departments, and federal ministries/agencies | Overlapping approvals, inter-agency conflict, tariff, and project uncertainty |
| Oil and gas | Federal regulators like Directorate General of Petroleum Concessions (DGPC) Ministry of Energy, and OGRA; and provincial energy departments | Ambiguous jurisdiction, conflicting interpretations, legal uncertainty |
| Securities and business operations | SECP alongside provincial and local operational requirements | Registration may be straightforward, but firms face layered compliance afterward |

A firm operating across Pakistan therefore does not deal with a single regulatory system, but with many. Federal regulators may govern core sector activity, provinces control key operational areas such as labour, food safety, environment, and services taxation, and municipal bodies add further requirements through business licensing, building approvals, and local inspections. The cumulative effect is a permission-heavy system that raises compliance costs, increases uncertainty, consumes management time, and can push firms toward delay, workaround, or informality.¹⁰

3.2 Duplication in Practice

The clearest result of fragmented authority is duplication: the same, or similar, requirements imposed by multiple agencies, without mutual recognition or a single compliance process. Four common patterns show this clearly.

■ Parallel sales tax regimes

The devolution of services taxation created four provincial revenue authorities alongside the federal tax authority, each with its own sales tax system for services. A firm operating across provinces must register separately with each one, file multiple monthly returns, and face separate audits for the same business activity. This has become a major barrier to formality and market entry.³

■ Dual environmental approvals

Projects with environmental implications may require impact assessment approvals from both provincial environmental protection agencies and the federal environmental body, whose criteria and timelines are not harmonised. Approval from one level does not guarantee approval from the other, and the requirements of the two can sometimes conflict. This kind of multi-agency approval is a well-known source of delay, especially in capital-intensive sectors.¹⁰

■ Multiple food safety regulators

Food businesses must satisfy provincial food authorities as well as the national quality control body, whose requirements differ and are not mutually recognised. A manufacturer selling across provinces faces different licensing and inspection requirements in each market. Firms in regulated sectors have reported visits from more than a dozen agencies, taking up management time and creating repeated opportunities for discretionary enforcement.⁹

■ Overlapping inspections

Beyond sector-specific regimes, formal businesses face overlapping inspection frameworks from labour inspectorates, environmental officers, tax authorities, and local government compliance teams, often operating independently and simultaneously. In twelve selected business activities alone, PIDE's sludge audits estimate that the monetary cost of regulatory friction amounts to more than 39 percent of GDP — not because of any single rule, but because of the cumulative burden of duplicated procedures, delays, repeated approvals, and overlapping enforcement.^{7,9}

3.3 Five Parallel Regulatory Markets

The 2010 constitutional reforms were the most important structural change in Pakistan's recent regulatory history. By abolishing the Concurrent Legislative List, which had allowed both the federal and provincial governments to legislate on certain subjects, the reforms shifted many areas — including agriculture, land, health, education, and tourism — to the provinces. This spread regulatory authority across the four provinces and, together with the federal capital territory, effectively created five separate regulatory markets within one economy.⁵

There is no permanent inter-governmental body responsible for harmonising standards across provinces or stopping regulatory differences from becoming barriers to internal trade and investment. In some sectors, provincial laws introduced after devolution have made the problem worse by creating province-specific barriers to competition that

did not exist under the earlier federal system. The result is more fragmented regulation—harder to understand, harder to comply with, and harder to reform.^{4,10}

3.4 Three Categories of Economic Harm

The fragmented system creates three clear and reinforcing types of harm.

Inconsistent enforcement. Research shows that in Pakistan, regulation often works in a restrictive and overly complex way, creating delays and raising the cost of doing business. Political interference, regulatory capture, and weak institutional capacity lead to uneven and delayed enforcement, which often benefits stronger and better-connected players. Enterprise survey data reflects this on the ground: firms report bribery risks in construction permits, government contracts, and meetings with tax officials—areas where regulatory discretion is especially high.^{13,17}

Higher transaction costs. Every extra registration, filing, inspection, and approval takes up management time, raises compliance costs, and delays the use of resources for productive business activity. The burden is substantial: firms make about 34 tax payments a year and spend roughly 283 hours on tax compliance, while getting an electricity connection takes around 206 days and costs more than 1234.5 percent of income per capita.^{28,31} Smaller firms are the hit hardest as they have less capacity to absorb these costs.

Delayed disbursement of tender payments adds another layer of strain. Firms that have already delivered on government contracts are often kept waiting for payment, sometimes for months, while continuing to service debt, meet payroll, and finance the next contract. For SMEs with limited working capital, even one delayed government payment can trigger a financing crisis that a larger firm could absorb more easily.

Investor uncertainty. Fragmented governance creates a different kind of risk beyond compliance cost: investors cannot clearly judge the full regulatory burden in advance because rules are overseen by multiple authorities whose requirements are not aligned. When this is combined with restrictions on profit repatriation and unclear clearance processes, it creates a restrictive investment environment.³ Royalty and technical-fee approvals are a specific and under-recognised source of uncertainty. Foreign technology partners cannot be sure that agreed payments will be remitted on time. When foreign exchange pressure rises, approvals often slow without warning, leaving Pakistani firms unable to meet contracts and foreign partners questioning whether continued technology transfer is worth the risk.

Bottom line:

These three outcomes—uneven enforcement, higher transaction costs, and deeper investment uncertainty—will not be resolved through isolated, statute-by-statute fixes alone. That does not mean every law must be overhauled at once; it means reform needs a clear system-level framework that prioritizes the highest-friction areas first, aligns incentives across federal and provincial governments, and gradually reduces overlap, inconsistency, and discretion across the regulatory system.

SECTION 4

Where Businesses Actually Experience Regulatory Burden

A lifecycle analysis of regulatory friction in Pakistan

Regulatory burden is not spread evenly across a firm's life. It concentrates at specific points — when a business starts up, builds, connects to utilities, pays taxes, trades across borders, hosts inspectors, and tries to enforce a contract. This section maps where that friction occurs in Pakistan, drawing on the World Bank's Doing Business and Business Ready (B-READY) indicators and the World Bank Enterprise Surveys.

Together, these sources paint a consistent picture: the heaviest friction falls on getting permits and connections, complying with taxes, and moving goods across borders. These are not minor inconveniences — each one adds time and cost that businesses and the formal sector in Pakistan must absorb before focusing on producing and competing.

4.1 Starting a Business

Registering a new business in Pakistan requires more steps and more time than most comparable economies. According to the World Bank Doing Business, starting a business took 12 procedures and 17.5 days. OECD economies averaged 5 procedures and 8.5 days.²⁹

The process spans multiple agencies — the Securities and Exchange Commission of Pakistan (SECP) for incorporation, the Federal Board of Revenue (FBR) for tax registration, and provincial labour and social security departments for workforce compliance. Each has its own form, its own timeline, and its own scope for delay. Before a business opens its doors, it has already navigated a multi-agency queue.

Starting a business cost around 6.9 percent of GNI per capita — a direct monetary barrier that is especially steep for first-time founders and small enterprises.^{29,30}

Some improvement has been made. The SECP's Virtual One-Stop Shop (VOSS) reduced company registration steps from 10 to 5. But downstream registrations — for tax, labour, and municipal licences — remain separate processes, so the practical burden of setting up a fully compliant business is still substantial.

4.2 Construction Permits

Obtaining a construction permit — a prerequisite for building or expanding any business — is one of the most friction-heavy processes in Pakistan's regulatory lifecycle. Enterprise Survey data finds that getting a construction permit takes around 27 days on average, with multiple agencies involved at each stage.^{30,31}

The process typically involves a building plan approved by the local development authority, a no-objection certificate (NOC) from the relevant utility companies, environmental clearance where applicable, and final site inspection. Each step is overseen by a different office, each follows its own criteria, and the process is strictly sequential—an applicant cannot move to the next stage until the previous one is cleared.

For some projects, especially those involving foreign investment or sensitive locations, an extra security clearance is added. This can delay the process by weeks or months, with no clear timeline, no way to track progress, and no alternative path forward.

The cost is also significant as a share of project value. Doing Business data placed Pakistan's permit cost among the higher end for the region, reflecting both official fee schedules and the informal payments that firms make to get approvals.

Bribery exposure in the construction permit process is particularly noted in Enterprise Survey data, with a meaningful share of firms reporting that “gifts” were expected during the approval process.³⁰

4.3 Utilities – Getting Connected and Staying On

Connecting to the electricity grid is one of the costliest regulatory experiences in Pakistan's business environment. The cost of getting an electricity connection is recorded at 1,234.5 percent of income per capita - significantly higher than the regional average of 952.6 percent for South Asia and roughly 20 times the OECD average.²⁶

The process to obtain a connection involves multiple steps: a formal application, a site survey, internal DISCO (distribution company) approvals, and installation — each adding day. Enterprise Survey data finds that firms reported waiting an average of 20 days to get a connection, and that roughly half of all firms experienced power outages in a typical month, with around 22 interruptions per month on average.

These outages function as a hidden regulatory cost. Firms must invest in backup generation — generators, UPS systems — which add capital cost, operational expense, and management overhead. For manufacturing businesses and those that run continuous processes, the burden is especially acute.

4.4 Paying Taxes

Tax compliance in Pakistan is among the most burdensome in the region and has worsened over time. *Doing Business 2020* recorded 283 hours a year on tax compliance and 47 separate payments, against an OECD average of 12 payments. Pakistan ranked 161st on paying taxes, reflecting not just the time burden but also filing frequency, a post-filing score of only 10.5 out of 100, and a weak administrative environment. That post-filing score captured what happens after a return is filed, especially VAT refunds and audit outcomes, and it pointed to deeper structural problems.

By *B-READY 2025*, compliance time had risen to 311 hours a year, digital adoption for filing and payment remained the lowest in the peer group, and 87 percent of firms were not claiming VAT refunds because the process was more burdensome than the refund was worth. Pakistan's taxation regulatory framework score of 35.5, the weakest in its profile, reflects the structural causes: no unified taxpayer identification number, no binding advance rulings, no pre-filled returns, and no mandatory consultation before changes in tax law.

A major source of burden is the fragmentation of the tax system itself. Firms must register separately with the Federal Board of Revenue for federal income tax and sales tax, and then with each provincial authority—PRA, SRB, KPRA, and BRA—for services tax. A firm operating across provinces must file multiple monthly returns and faces overlapping audit exposure on the same transactions. This is compounded by the internal complexity of the federal tax code. The FBR operates a layered structure of minimum taxes, withholding taxes, advance income taxes, corporate taxes, and advance corporate taxes, each with its own calculation, filing, and reconciliation requirements. These levies do not replace one another; they stack. Double taxation also arises in specific cases: intercorporate dividends can face multiple deductions as they move across entities, while the Capital Value Tax is charged annually on the declared

value of assets but treated as income tax rather than wealth tax, hitting cash flow regardless of whether the asset generated income.

The burden is also distributed unevenly across sectors in ways that distort incentives. In FY23, industry accounted for 18.4 percent of GDP but contributed 70 percent of tax revenue. Agriculture accounted for 23 percent of GDP but contributed only 0.6 percent of tax revenue, while services contributed 58.4 percent of GDP and 29.4 percent of tax revenue.⁵⁴ Industry bears a disproportionate share partly because its transactions are formal and easy to document, and partly because the layered federal-provincial system falls most heavily on the kinds of activities industrial firms undertake. The result is a system that overtaxes formal industrial businesses while under taxing sectors where transactions remain informal and cash-based.

The same pattern appears within the formal economy. The salaried class makes up only around 2 percent of the labour force but contributes 15 percent of total tax revenue because its income is deducted at source and is hard to underreport; in FY24, salaried taxpayers paid 232 percent more than the combined taxes paid by exporters and retailers, and 39 percent more than the year before.⁵⁴ Rather than broadening the tax base, the system relies heavily on captive, documented taxpayers and remains tilted toward indirect taxes, reinforcing the advantage of informality over formal operation.

Another underappreciated source of burden is the collection-agent role imposed on businesses. Firms are held responsible not only for their own tax compliance but also for ensuring that their counterparties are registered taxpayers. If a supplier is unregistered, the purchasing firm bears the consequence of compliance. This effectively turns formal businesses into tax-enforcement agents for the state, with the cost of due diligence, documentation, and system updates falling on them. For firms dealing with many suppliers, this creates a continuous compliance burden unrelated to their own tax liability. At the same time, the FBR has often used Statutory Regulatory Orders to change rates and exemptions outside the normal legislative process. Because SROs can take effect immediately, businesses on fixed annual pricing or contracts are left to absorb the uncertainty with no clear remedy.

The audit and enforcement system adds further pressure. Tax authorities often issue inflated demand notices based on methods not shared with the taxpayer, creating immediate liabilities that firms must challenge. The appeals process offers limited relief: decisions rarely favour taxpayers, and even when they do, they are not always implemented, forcing firms to go to the High Court at high cost and delay. The audit process can also be used as pressure, as firms that challenge an assessment may face additional audits. The FBR also has very broad enforcement powers, including the ability to withdraw funds from company bank accounts without prior notice and to arrest or seize assets. These powers may be justified in cases of real evasion, but their wide use and the lack of quick corrective mechanisms create pressure on businesses to settle, even when the assessment is inflated.

A key problem is weak capacity within the FBR. Tax auditors are often not well equipped to deal with complex corporate structures, sector-specific accounting, or transfer pricing. This can lead to assessments that wrongly treat legitimate transactions as questionable, creating disputes that take years of management time and legal cost without resolving the real issue. There is also no independent system to check auditor competence at the point assessments are made. This helps explain why business surveys consistently identify tax administration, not just tax rates, as one of the biggest barriers to doing business in Pakistan. The *B-READY* finding that 87 percent of firms do not claim tax refunds because the process is not worth the effort captures the problem clearly.

A related burden appears on the government's expenditure side. Businesses that complete public contracts often wait months to be paid, with no binding deadline for procuring agencies and no penalty for delay. This shifts the financing cost of government operations onto the private sector. SMEs, which lack the balance sheet to absorb long payment gaps, bear that burden most heavily.

4.5 Imports and Exports

Pakistan's trade compliance process is significantly more time-intensive than in peer economies. Doing Business recorded border compliance for exports at around 58 hours, compared with 12–15 hours in OECD countries. For imports, the figure was 120 hours, against an OECD average of 11–12 hours. Container dwell time at Karachi port averaged around 16.5 days.³⁰ For import licences specifically, firms waited an average of 16.9 days for approval. Clearing direct exports took 18.6 days, while imports took 16.5 days.^{30,31}

The sources of delay are structural. Pakistan has overlapping documentation requirements, including customs declarations, import permits, regulatory duty schedules, and sector-specific approvals from ministries outside the main trade window. For some imported goods—especially technology, dual-use items, and regulated inputs—security clearances from other agencies are also required, creating unpredictable delays outside the customs system. Exporters face a heavy LC and export-paperwork burden in routine processing: exporting a standard container requires around 13 documents, 55 hours for documentary compliance, and \$118 in documentary-compliance cost, while exported goods take 19 days to clear all border control agencies.^{30,31} This documentation-heavy system functions like a regulatory tax, raising delivered costs and uncertainty.

The burden is compounded by the way SBP's trade-related regulatory regime is embedded in the transaction process. A more efficient approach would be to separate routine trade facilitation from prudential and foreign exchange controls. The same separation is needed for royalty and technical-fee remittances. Payments under pre-approved licensing agreements between established parties are routine and low-risk, yet they still go through the same SBP approval process as more sensitive foreign exchange outflows. This creates unnecessary delays in normal contractual payments and signals to foreign technology partners that their earnings from Pakistan depend on administrative discretion rather than contractual certainty.

The tariff structure adds another layer of burden. Pakistan has one of the widest tariff gaps in the region between consumer goods and raw material inputs. Regulatory Duties and SROs also allow rates to change in ways that are hard for firms to predict. This creates an implicit cost for exporters: firms often pay duties and taxes upfront on imported inputs but cannot recover them fully, automatically, or on time through the refund system. When refunds are delayed, disputed, or eroded by rule changes and administrative friction, the cost becomes a financing burden on working capital. That raises production costs, squeezes margins, and makes Pakistani firms less competitive in export markets.

4.6 Inspections

Inspections are a recurring source of regulatory friction across Pakistan's business lifecycle, and one of the most discretionary. Multiple agencies often have inspection powers over the same business, including federal and provincial tax authorities, labour departments, environmental bodies, food safety agencies, and municipal authorities. World Bank Enterprise Survey data shows that small and medium firms face more than twice as many tax authority visits as larger firms and are three to four times more likely to make informal payments during those visits.³⁰

The frequency and unpredictability of inspections create three problems. First, they take up management time: owners or senior staff often have to be present, records must be prepared, and the process has to be managed closely. Second, they create uncertainty: businesses often do not know when an inspection will happen, which agency will carry it out, or what standard will be applied. Third, where discretion is high and procedures are weakly standardised, inspections can become points of rent-seeking. Enterprise Survey evidence shows that bribery risk is pervasive across interactions with government, not confined to any single agency or transaction type — with construction permits, land title transfers, government contracts, and dealings with tax officials among the areas where it is consistently documented.³⁰

Punjab has taken an important step to address some of this through its Inspections Management System (IMS), developed under the Pakistan Regulatory Modernization Initiative. The system digitises parts of the inspection process, including inspector mapping, scheduling, QR-coded authorisation letters, digital reporting, and business feedback. It has been piloted across departments such as labour, social security, food safety, and environmental protection, and is meant to make inspections more transparent, traceable, and accountable.

But a system like this in one province, and not in others, creates a new kind of fragmentation. A business in Punjab may face a more structured and traceable inspection regime, while the same business elsewhere may still face manual, less transparent, and more discretionary processes. That creates uneven enforcement across provinces, raises compliance costs for firms operating in more than one jurisdiction, and weakens predictability at the national level. Digitisation in one province helps locally, but it does not solve the wider problem of fragmented enforcement.

There is also a limit even within a digitised system. Punjab's IMS may digitise the scheduling, approval, and tracking of inspections, but the inspection itself, and its outcome, still depends on the judgment of an individual official. Digitising the process around the decision is not the same as digitising the decision itself. If pass or fail, escalation, or extra document requests still depend on personal discretion rather than clear rules, the main source of unpredictability and informal payments remains.

Environmental inspections show the layering problem clearly. A single project may require approvals from a provincial Environmental Protection Agency and, in some cases, an additional federal clearance. Since standards and procedures are not harmonised across provinces, a firm operating in more than one jurisdiction may face different compliance requirements for the same activity.

4.7 Contract Enforcement

When a dispute arises, resolving it through Pakistan's commercial court system is slow and expensive. *Doing Business* data recorded contract enforcement taking over 1,000 days from filing to final judgment, at a cost exceeding 20 percent of the claim value.²⁹

The result is that businesses avoid using formal contracts for smaller transactions, prefer dealing with people they already know, and keep riskier dealings informal. This may be a practical response to a costly system, but it limits market size, weakens trust, and reduces the kind of open, arms-length transactions that competitive markets need.

Pakistan also lacks a robust system of specialised commercial courts with fixed timelines and enough technical capacity to manage complex business disputes. Dispute resolution within regulatory agencies—such as for tax reassessments, permit rejections, and licensing decisions—is also slow and often unclear, with no binding deadlines.

This slowness discourages investment in formal businesses. It also disadvantages smaller firms, which lack the legal resources to sustain prolonged litigation and therefore absorb disputed losses.³⁰

Bottom line:

The seven areas examined here are not an exhaustive map of Pakistan's regulatory burden — they are the areas for which comparable cross-country data exists. The full burden extends further: NOC requirements that multiply across agencies for what should be a single approval; product registrations that take months across separate federal and provincial authorities; licence regimes requiring annual renewal regardless of any change in circumstances; and a court system where commercial disputes take years to resolve with no binding timeline. These dimensions are harder to quantify. They are not less real.

What the seven areas establish is the systemic character of the problem. Three features recur across all of them: multiple agencies handle what should be a single process; procedures remain paper-based or only partially digitised; and enforcement is discretionary, with informal payments reported consistently as a means of moving through the system. These are not isolated failures at specific touchpoints — they are how the regulatory system operates. Addressing individual friction points without addressing that underlying architecture produces marginal gains.

SECTION 5

What Businesses Say

Evidence from Stakeholder Engagement

The previous section showed where regulatory burden appears in the business lifecycle—approvals, utilities, taxes, trade, inspections, and dispute resolution. It mapped the main pressure points in the system.

But identifying friction points is only the first step. A diagnostic can show where delays, lengthy procedures, and weak enforcement occur. It cannot fully show what these mean for firms in practice. A permit delay can postpone production. A tax refund delay can tie up working capital. A slow border process can disrupt deliveries and weaken competitiveness.

This section makes that shift—from system-level friction to firm-level impact. This matters because regulatory burden is cumulative. Firms rarely face one single obstacle; they face repeated friction across routine operations. What looks manageable in isolation becomes costly when it is repeated across the life of a business.

The business perspective therefore adds economic meaning to the diagnostic. It shows how formal regulatory friction translates into lost time, higher costs, cash-flow pressure, planning uncertainty, and weaker business confidence.

Based on in-depth stakeholder interviews conducted across nine businesses spanning the IT, FMCG, SME manufacturing, agri-machinery, mobility, digital services, and cybersecurity sectors, this section is a structured synthesis of how businesses at different scales and in different sectors experience Pakistan's regulatory environment — the friction they absorb, the costs they cannot recover, and the behaviours the system drives them toward.

“The real tax on business in Pakistan is not any single regulation. It is the cumulative weight of uncertainty — not knowing what compliance will require, how long it will take, or whether the rules that apply today will apply tomorrow.” — Composite from stakeholder interviews

5.1 Why the Business Voice Matters

Regulatory reform in Pakistan has historically been designed from the top down — drafted in policy ministries, benchmarked against international indices, and measured by the number of procedures eliminated or days reduced. These are legitimate metrics. But they often miss the question that businesses are actually asking not how many steps are on paper, but whether the system works in practice.

The gap between formal rules and actual business experience is exactly why business voices matter. A rule may look clear on paper but be enforced unevenly. A refund may be legally due but still take months to arrive. An approval process may seem simple but start over when an official is transferred. The same compliance framework may apply to both a multinational and a ten-person SME, despite their quite different capacities. These are not isolated exceptions. They are the normal experience of formal businesses operating in Pakistan — and they do not show up in headline reform statistics.

What businesses say is also a useful diagnostic tool. When the same complaint — about fragmentation, discretion, or unpredictability — comes up across very different sectors, from apparel manufacturing to digital commerce, agri-machinery, and IT services, it points to a system-wide problem rather than a sector-specific one. It shows where the regulatory system is creating friction regardless of its stated purpose.

Nine businesses were interviewed across six sectors. The seven themes presented below were not based on a pre-set framework imposed on the interviews. They emerged from the interviews themselves — concerns raised independently by firms operating in very different industries and at very different scales. That convergence is important.

5.2 Seven Themes from the Field

01 Regulatory Complexity and Fragmentation

Businesses across sectors consistently describe Pakistan’s regulatory environment not as a single system, but as a maze of overlapping, inconsistent, and often contradictory rules. Rather than one unified framework, companies navigate multiple federal and provincial authorities — each with their own standards, definitions, and interpretations. The result is not just inconvenience; it is a structural penalty on businesses that choose to operate formally.

The global SAP system, which runs uniformly across dozens of markets, needs manual Pakistan-specific changes every June and July after the federal budget; no other market in its network requires this every year. The same company also faced definitional confusion when a single e-commerce notification classified it at once as an aggregator, an e-commerce platform, and a courier service, forcing lengthy discussions just to determine which rules applied.

An agri-machinery manufacturer describes customs valuation approaches accepted at one port being challenged at another — same product, same rules, different outcome. An FMCG company notes that even where product standards are 80–85 percent harmonised on paper, enforcement remains 100 percent inconsistent in practice. At one stage, it had to maintain separate inventories for different provinces simply to meet different labelling and recipe rules.

A cybersecurity firm described the same pattern in another form: multiple regulators increased audit frequency and compliance workload through overlapping evidence requests and different audit formats for essentially the same controls. The SME sector describes the simplest version of the same problem—having to visit the FBR, Social Security, and labour offices separately to complete what should be one process.

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| SME —Apparel | <i>“The FBR, Social Security, and labour offices all want their own compliance. We visit three departments to do what should be one transaction.”</i> |
| Multinational FMCG | <i>“We operate across 70 countries on one global system. Pakistan alone requires six different tax regimes just for food. No other market does this to us.”</i> |
| Agri-Machinery Manufacturer | <i>“A customs valuation approach accepted at one port is challenged at another. Same product, same rules, different outcome.”</i> |
| Cybersecurity Services | <i>“The multiplicity of authorities directly increases audit frequency and compliance burden, diverting resources away from productive activity.”</i> |

What this means for policy: *Businesses do not merely face regulatory burden — they face regulatory unpredictability. The fragmentation means no two compliance journeys are alike, making it impossible to plan, price, or invest with confidence.*

02 The Hidden Tax of Time and Uncertainty

When businesses calculate the real burden of regulation in Pakistan, the dominant cost is not money — it is time and uncertainty. Approvals take weeks, refunds take months, and businesses are rarely told how long anything will actually take. That unpredictability becomes a real operating cost: firms hold extra inventory to manage clearance delays, borrow costly working capital to replace funds stuck in the system, pull senior management away from core business, and build risk premiums into pricing. It rarely appears in financial statements or reform scorecards, yet it is often the first burden businesses point to.

An SME exporter in Sialkot describes sales tax blocked at every stage of the supply chain — capital stuck for five to six months while the firm borrows from banks at over 20 percent interest to stay operational. An agri-machinery manufacturer reports sales tax refunds routinely taking three to six months, sometimes more than a full fiscal year, while customs valuation disputes added another seven to twenty-one days per shipment and exposed the firm to re-clearance risk and demurrage.

A pharmaceutical manufacturer said that after moving a facility, the related regulatory and registration transitions took six to twelve months, directly delaying growth in that product line. That experience also reflects a wider problem with incomplete digitisation: businesses may submit documents online, but still have to appear in person for verification, wait for manual approval, or provide physical copies as well. Each handoff between the digital and manual parts of the process creates another delay and another opening for discretionary intervention. The same wider pattern was described by a digital platform operating in seventy countries, which said its Director for Policy and Public Affairs spends about half his working time travelling between Lahore and Islamabad to manage regulatory coordination and resolve tax disputes. In both cases, management time is diverted from growth to navigating fragmented and inconsistently digitised regulation.

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| SME — Apparel | <i>“Sales tax is blocked at every stage of our supply chain. Our capital is stuck for five to six months. Meanwhile, we borrow from banks at 20%+ interest to stay operational.”</i> |
| Agri-Machinery Manufacturer | <i>“Sales tax refunds take three to six months — sometimes beyond a fiscal year. These aren’t regulatory risks; they’re planning failures the government creates for us.”</i> |
| Cybersecurity Services | <i>“Senior management hours diverted to compliance activities is the most reliable indicator of regulatory burden. That is time not spent on innovation, delivery, or growth.”</i> |
| Pharmaceutical Manufacturer | <i>“Moving facilities required the company to update registrations, certifications, and compliance documents—a process that took six to twelve months to settle. Growth in that segment was directly slowed by regulatory transition, not by lack of demand.”</i> |

What this means for policy: *Businesses are not simply paying compliance costs — they are absorbing a chronic working capital drain, a planning handicap, and a management distraction that compounds every year.*

03 Uneven Enforcement Creates an Unlevel Playing Field

Perhaps the most damaging regulatory grievance is not what the rules say — but to whom they are applied. Formal, documented businesses face intensive scrutiny: audits, inspections, withholding tax obligations, and complex compliance requirements. Meanwhile, the informal sector — which represents roughly 85 percent of some markets — operates largely untouched. This asymmetry does not just feel unfair; it structurally disadvantages the very businesses that the economy needs most.

A listed manufacturing company operating across multiple product lines reports that its most damaging competitive pressure comes not from more organised rivals but from non-compliant ones. These competitors in the same markets evade taxes, declare artificially low import values at customs, and sidestep certification requirements — each shortcut reducing their cost base while the compliant firm absorbs the full burden. The cumulative effect is that honest investment becomes a structural disadvantage: the listed firm cannot match the prices of competitors whose economics are built on non-compliance, not efficiency.

An FMCG multinational makes the same point from a different angle: its branded products are targeted by regulators conducting visible, camera-ready inspections — filmed and posted online to demonstrate enforcement activity — while street vendors selling unregulated food in the same market are left entirely untouched. The enforcement apparatus is not absent; it is directed at whoever is easiest to film or could generate public commotion.

A third dimension of the same problem emerges from an SME apparel exporter in Sialkot. To understand the problem, it helps to see how the same sales tax rule affects different firms in very different ways. Under Pakistan's sales tax framework, tax is paid at each transaction in the production chain — and for an exporter, it is recoverable only at the end, once the goods leave the country. For a large, vertically integrated manufacturer that owns its own spinning, weaving, and dyeing facilities, this means one point of blockage: tax paid once, recovered once.

But for a small exporter that relies on outside suppliers and contractors at each stage, sales tax is paid at every transaction along that chain. This is not a design flaw from the SME's perspective; it is a structural feature of a tax architecture built around large integrated producers, applied without modification to small firms whose entire business model depends on specialised subcontracting. The same rule, even when applied equally, creates a much heavier burden for firms that cannot handle production in-house.

What businesses describe as discretionary enforcement and rent-seeking has a structural explanation that goes beyond individual official behaviour: several regulatory agencies have evolved into fee-dependent institutions with financial incentives to multiply inspections, and the burden of that model falls almost entirely on the formal firms that are visible, registered, and unable to refuse.

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| Pharmaceutical / Manufacturing | <i>“Competitors evade taxes, under-invoice imports, and bypass standards. They sell below our cost of production. That’s not competition — it’s a structurally unfair environment that punishes honest investment.”</i> |
| Multinational FMCG | <i>“Regulators target the formal sector for social media fame — filming inspections of branded products and posting them online as proof of enforcement activity, while street vendors selling unregulated food nearby are left entirely untouched. In the food and beverages retail market, an estimated 85% of sales flow through informal vendors — street stalls, loose goods, unbranded products — who face almost no equivalent scrutiny.”</i> |
| SME —Apparel | <i>“Large integrated units face sales tax blockage at one stage. We outsource every process, so we face it at every stage. The same rule creates a completely different burden depending on your size.”</i> |

What this means for policy: *When compliance is selective — applied aggressively to formal businesses while the informal economy is overlooked — regulation becomes a barrier to formalisation rather than a tool for fairness. This erodes the tax base, depresses investment, and discourages firms from growing.*

04 Policy Instability and Short Planning Horizons

Across industries, businesses describe the same fundamental problem: policy changes too frequently, too unpredictably, and without adequate consultation or transition time. Annual budget cycles bring new taxes, revised duties, and altered compliance obligations — each requiring costly system updates, operational adjustments, and renegotiated supply agreements. In global operations, this volatility marks Pakistan as a uniquely difficult market.

A digital platform reports that every June, its global technical team must manually update Pakistan's systems — a requirement that exists for no other market in its 70-country network. An SME exporter describes being unable to quote prices to international buyers two years ahead when tax rules change every June. A cybersecurity services firm identifies abrupt shifts in taxes, tariffs, or compliance rules as a direct disruptor to bid pricing and partner confidence and calls for a stable policy horizon of three to five years in terms of tax and energy rates framework.

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| SME —Apparel | <i>“International buyers commit to prices years in advance. If our tax environment changes every year, we can't provide reliable quotes. We either absorb the risk or lose the contract.”</i> |
| Digital Platform | <i>“Every June, our global technical team has to manually update Pakistan's systems. No other market does this to them every year. It makes Pakistan look like a problem child.”</i> |
| Cybersecurity Services | <i>“Abrupt shifts in taxes, tariffs, or compliance rules directly disrupt bid pricing and partner confidence. A stable policy horizon of three to four years would materially change our investment calculus.”</i> |
| Agri-Machinery Manufacturer | <i>“Sudden sales tax changes directly affect affordability and demand volatility. Our customers delay purchases waiting for government subsidy announcements - particularly subsidised financing schemes and import duty waivers on farm machinery - tied to the annual budget cycle. Until the budget is announced, buyers hold off — and if the subsidy does not materialise, the purchase window is already lost.”</i> |

What this means for policy: *Businesses need policy horizons of at least two to five years to make investment decisions, price internationally, and build supply chains. Annual policy volatility is not just inconvenient — it structurally prevents long-term capital commitment.*

05 The Wrong Kind of Regulation — Not Enough of the Right Kind

Several stakeholders articulated a more nuanced position: the problem in Pakistan is not that there is too much regulation — it is that the regulation that exists is poorly designed, applied to the wrong entities, and missing where it is actually needed. IT companies comply with rules designed for manufacturers. SMEs navigate frameworks built for multinationals. And critical protections — IP enforcement, contract law, anti-counterfeiting — remain weak or selectively applied.

A policy economist makes the distinction sharply: Pakistan's problem is not overregulation, it is over-permissioning. The system is built around approvals and discretionary clearances — even for low-risk activities — instead of allowing entry and then monitoring behaviour. An IT firm describes being required to comply with regulations irrelevant to its industry while the protections it actually needs, such as IP enforcement and contract law, barely exist. A mobility startup argues the opposite of the standard complaint: in its sector, the single biggest bottleneck to scaling is not too much regulation, but a lack of enforcement.

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| IT Sector | <i>"IT companies are forced to comply with regulations irrelevant to our industry. What we actually need — strong IP enforcement and contract law — barely exists. We have the wrong regulations, not too many."</i> |
| SME — Apparel | <i>"The government applies a university curriculum to a school. SMEs cannot realistically meet the compliance standards designed for large multinationals."</i> |
| Policy Economist | <i>"Pakistan's problem is not overregulation. It is over-permissioning. The system is built around approvals and discretionary clearances — even for low-risk activities — instead of allowing entry and monitoring behaviour."</i> |
| Mobility Startup | <i>"In mobility, the single biggest bottleneck to scaling is not too much regulation — it's a lack of enforcement. Without enforcement, you cannot create structured mobility from informal transport patterns."</i> |

What this means for policy: *Businesses are not asking for deregulation. They are asking for smarter regulation: relevant, proportionate, clearly defined rules that enable compliance — and strong enforcement where it actually matters.*

06 Capital Trapped, Investment Deterred

Regulatory and financial system frictions are not just operational inconveniences — they affect whether capital enters Pakistan, and whether it can leave. Blocked refunds, repatriation difficulties, withholding tax obligations, and cash-backed bank guarantee requirements lock up working capital that businesses cannot afford to keep idle, especially at Pakistan's high interest rates. For global companies, this makes Pakistan a uniquely unattractive capital destination.

A digital platform identifies Pakistan and Ukraine as the only two markets where its global CFO has flagged free cash flow as a persistent problem. Royalty and technical-fee payments to foreign partners are another form of trapped capital. Even when contractually agreed, they need SBP approval before remittance, and delays often worsen during foreign exchange stress. This leaves Pakistani firms unable to meet obligations and makes foreign partners less confident about doing business in Pakistan, even though this risk is rarely captured in standard regulatory indicators.

An IT firm describes banks requiring cash-backed guarantees — capital stuck simply to secure a credit limit — and contrasts this with insurance-based guarantee models used in the US that allow firms to operate without freezing capital. A SME exporter describes the FBR holding sales tax refunds for months, effectively using blocked capital as interest-free liquidity while the firm borrows at market rates to replace it.

The same problem appears in public procurement. Firms that complete government contracts often wait months to be paid, with no enforceable deadline and no penalty on the agency for delay. For SMEs, this can turn a contract win into a cash-flow problem, as they must finance delivery themselves and absorb the cost of delayed payment. The result is that government contracting becomes less attractive to smaller firms and increasingly favors larger companies that can afford to wait.

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| Digital Commerce Platform | <i>“Pakistan and Ukraine are the only two countries out of 70 where we struggle with free cash flow. Global management knows money will get stuck here. That perception drives investment decisions.”</i> |
| IT Sector | <i>“Banks require cash-backed guarantees — your capital is stuck just to secure a limit. In the US, insurance-based guarantees let you operate without freezing capital. We need that model.”</i> |
| SME —Apparel | <i>“The FBR holds our sales tax refunds for months and uses that money as interest-free liquidity for the government. We borrow at high interest rates to replace capital the government is sitting on.”</i> |
| Agri-Machinery Manufacturer | <i>“Our finance costs spiked sharply in 2019, 2022, and 2024. A significant part of that is not interest rates — it's the working capital drain created by refund delays and regulatory uncertainty.”</i> |

What this means for policy: *Pakistan's regulatory environment actively traps capital that businesses need to operate, invest, and grow. This is not a peripheral inefficiency — it is a structural deterrent to the investment Pakistan needs.*

07 Discretion Over Rules — The Invisible Burden

Across sectors and company sizes, businesses describe a system where outcomes depend not on written rules but on the discretion of individual officials. Label approvals change when an officer is transferred. Customs valuations shift mid-process. Audit outcomes vary from inspector to inspector. This discretion is not just frustrating—it creates a system where businesses cannot clearly know the rules, cannot predict the cost of compliance, and often see informal solutions as the more practical option.

A FMCG multinational describes label approvals based on the personal perception of officials rather than established rules — and when that official is transferred, the company restarts a six-to-seven-month process from zero with their replacement. A cybersecurity firm notes that disputes remain unresolved beyond 90–180 days not because the rules are unclear, but because no one is accountable for resolving them within a published timeline. An agri-machinery manufacturer describes formally documented requirements where additional documentation is requested mid-process and timelines vary by office, officer, and province.

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| Multinational FMCG | <i>“Label approvals are based on the personal perception of officials — not rules. When that official is transferred, you restart the entire six-to-seven-month process from zero with their replacement.”</i> |
| Policy Economist | <i>“The biggest regulatory burden is not the regulation itself — it is discretion. When compliance becomes dependent on who you meet rather than what the rule says, it becomes a hidden tax on business.”</i> |
| Cybersecurity Services | <i>“Disputes remain unresolved beyond 90–180 days not because the rules are unclear — but because no one is accountable for resolving them within a published timeline.”</i> |
| Agri-Machinery Manufacturer | <i>“Requirements are formally documented, but practical predictability is limited. Additional documentation is requested mid-process. Timelines vary by office, officer, and province.”</i> |

What this means for policy: *Discretion in regulation is the enemy of investment. When businesses cannot know in advance what compliance will require, how long it will take, or what it will cost, they build in risk premiums — or they exit the market entirely.*

5.3 What the Themes Add Up To

Taken together, these seven themes point to a clear pattern. The formal sector operates in a compliance system that is fragmented across agencies, applied unpredictably, and especially burdensome for formal businesses. At the same time, the system is too lenient toward the informal economy and too discretionary toward the formal one.

None of these businesses called for deregulation. What they described — independently, across sectors — is a system that imposes high costs not because it has too many rules, but because those rules are poorly designed, inconsistently applied, and administered with too much discretion and too little transparency. The common message was simple: businesses want rules that are clear, stable, fairly enforced, and proportionate to the actual risk they pose.

The formal sector is not asking Pakistan to regulate less. It is asking the state to regulate better — with published procedures, time-bound approvals, risk-based enforcement, and consistent application regardless of which office, province, or official is involved.

This is also a diagnostic finding about where reform effort should focus. The themes do not primarily point to the content of regulations —the what. They point to the architecture and administration of the system —the how. Fragmentation between agencies, discretion built into procedures, unclear timelines and requirements, and uneven enforcement between the formal and informal sectors are problems of implementation, not of legislation. They can be fixed without fully rewriting sectoral laws. .

| # | Theme | What businesses consistently said |
|----|---|--|
| 01 | Regulatory complexity & fragmentation | No two compliance journeys are alike. Overlapping federal and provincial authorities, each with their own definitions and enforcement criteria, make the system unpredictable by design. |
| 02 | The hidden tax of time & uncertainty | The dominant cost of compliance is not money — it is time. Approvals take weeks, refunds take months, and no one can say how long anything will actually take. |
| 03 | Uneven enforcement / unlevel playing field | Formal businesses face intensive scrutiny while the informal sector — 85% of some markets — operates largely untouched. Compliance becomes a competitive disadvantage. |
| 04 | Policy instability & short planning horizons | Annual policy changes make long-term investment, export pricing, and supply chain planning structurally impossible. Businesses absorb volatility that the regulatory system creates. |
| 05 | The wrong kind of regulation | The problem is not too many rules — it is the wrong rules, applied to the wrong entities. Critical protections like IP enforcement remain weak while irrelevant compliance burdens accumulate. |
| 06 | Capital trapped, investment deterred | Blocked refunds, cash-backed guarantees, and repatriation restrictions tie up working capital and signal to global investors that money, once in Pakistan, may not come out. |
| 07 | Discretion over rules — the invisible burden | When outcomes depend on which official you meet rather than what the rule says, compliance becomes negotiation. Discretion is the hidden cost that no reform index captures. |

These findings raise an important question. Are these challenges unique to Pakistan, or have other economies faced—and successfully addressed—similar regulatory constraints? To answer this question, the next section benchmarks Pakistan's regulatory environment against a group of peer reformers—Malaysia, Indonesia, and Vietnam—that have implemented major regulatory simplification programs over the past two decades. Examining their reform trajectories helps identify practical lessons for reducing regulatory burden, improving administrative efficiency, and strengthening investment competitiveness.

SECTION 6

Peer Reformers and the Lessons for Pakistan

Cross-country benchmarking: Malaysia, Viet Nam, and Indonesia

This section draws on cross-country benchmarking data to examine what Pakistan's peer reformers — Malaysia, Viet Nam, and Indonesia— are doing differently to ease regulatory burden. The analysis moves beyond headline rankings to identify the specific institutional mechanisms, operational practices, and reform architectures that differentiate higher-performing economies. The section concludes with a synthesis of Pakistan's four main burden channels and the strategic implications for reform prioritization.

| Regulatory Burden Dashboard | | | | | | |
|---------------------------------------|--|----------|----------|----------|-----------|------------|
| Pakistan vs Peer Reformers | | | | | | |
| Dimension | Indicator | Pakistan | Malaysia | Viet Nam | Indonesia | Bangladesh |
| Business Entry – Time | Time to register domestic firm (days) | 5 | 4 | 4 | 16 | 19 |
| | Time to register foreign firm (days) | 6 | 5 | 5 | 18 | 20 |
| Business Entry – Cost | Cost to register domestic firm (% of GNI per capita) | 3 | 17 | 0 | 6 | 11 |
| | Cost to register foreign firm (% of GNI per capita) | 3 | 17 | 0 | 6 | 11 |
| Land & Construction – Time | Time to transfer property (days) | 111 | 16 | 57 | 13 | 264 |
| | Time to obtain building permit (days) | 120 | 55 | 166 | 77 | 210 |
| | Time to obtain environmental permit (days) | 30 | 14 | 25 | 20 | 35 |
| Land & Construction – Cost | Cost to obtain building permit (% of GNI per capita) | 3.6 | 1.1 | 0.6 | 2.3 | 2.2 |
| Trade – Time | Time for exports to clear border agencies (days) | 5 | 2 | 3 | 3 | 6 |
| Trade – Constraint | Customs & trade regulations perceived as constraint | 0.33 | 0.15 | 0.28 | 0.25 | 0.41 |
| Tax Administration – Time | Hours required to prepare/file/pay taxes | 311 | 174 | 384 | 191 | 435 |
| Tax Administration – Digitalization** | Firms using electronic systems to file taxes (%) | 79 | 97 | 96 | 92 | 64 |
| | Firms using electronic systems to pay taxes (%) | 73 | 96 | 94 | 90 | 61 |
| Insolvency – Time* | Time to resolve liquidation (months) | 30 | 18 | 60 | 24 | 48 |
| Insolvency – Cost* | Cost of liquidation (% of company value) | 4 | 10 | 15 | 22 | 25 |

Source: B-READY 2025

* Pakistan's insolvency figures measure a process most firms never use. Director personal liability — despite limited liability status — deters formal filing. The numbers reflect the law, not practice.

** The 79% and 73% figures cover registered firms only. Exclude the informal sector — which does not file at all — and the effective digitalisation rate is substantially lower.

Note: B-READY indicators measure the formal regulatory framework and the experience of formally registered firms. Where informal sector size is large — as in Pakistan — figures on compliance rates, digitalisation, and system usage reflect a subset of the business population and should be interpreted accordingly.

6.1 The Starting Point: Pakistan's Regulatory Gap

Pakistan's economy has lagged behind its peers for well over a decade. From 2000 to 2022, GDP per capita grew at an average annual rate of only 1.9 percent — compared to Bangladesh (4.8%), Malaysia (2.8%), Indonesia (3.7%), and Vietnam (5.1%). A cumbersome and inconsistent regulatory regime has been identified as one of the central contributors to this underperformance.³²

The regulatory burden Pakistan faces is not primarily a matter of total regulatory absence or the sheer volume of rules on the books. The benchmarking data show that the problem is unevenness: a few areas of good performance alongside high-friction parts of the business environment, especially after firms have formally entered the market. The World Bank has documented that Pakistan's business environment is marked by onerous and discretionary regulatory enforcement, which creates significant costs as firms spend resources navigating hurdles that could otherwise be directed toward productive activity.³³

Peer reformers — Malaysia, Vietnam, and Indonesia — were selected because they share relevant structural characteristics with Pakistan: all are large developing economies that have confronted entrenched regulatory complexity, all have operated at comparable or lower income levels during their reform periods, and all have made measurable improvements in the post-entry business environment without relying on broad deregulation alone. Their approaches differ in important ways, and those differences offer useful lessons. Their challenge — like Pakistan's — was not the number of rules on the books but the cost of complying with them: overlapping approvals, licensing complexity, paper-based procedures, and weak regulatory predictability. Their reform response was to make regulation more proportionate, more digital, more risk-based, and less costly to comply with. Where they succeeded, business conditions improved; where legal and back-end institutional systems remained weak, bottlenecks persisted.

6.2 What Each Peer Reformer Does Better

■ Malaysia: Institutional Completeness and Reliability

Malaysia stands out not for having the least restrictive legal framework, but for the strength of its connections between regulation, service delivery, and operational reliability.³⁶ Malaysia's starting point was not unlike Pakistan's: administrative burdens on start-ups were relatively high, licences and permits to start a business were burdensome, and restrictions in professional services and other product-market areas limited competition and dynamism. What changed was not the removal of regulation but its quality. Malaysia built a systematic reform architecture — first through PEMUDAH, a government-business task force that streamlined regulatory frameworks and pushed agencies to adopt information technology, and then through the National Policy on Development and Implementation of Regulations (NPDIR) in 2013. Finally, the National Policy on Good Regulatory Practice (NPGRP) in 2021 institutionalised Regulatory Impact Assessments (RIAs) for all significant proposals and established the Malaysian Productivity Corporation (MPC) as a whole-of-government oversight body. These successive frameworks shifted Malaysia from ad hoc simplification toward sustained, evidence-based regulatory quality improvement across government.

The reforms that followed were practical and traceable. PEMUDAH drove one-stop shops for construction permits, online GST registration and tax filing, an online single-window platform for property searches, and a risk-based inspection system at ports. Infrastructure upgrades at Port Klang improved trade throughput. The MPC's pioneering Reducing Unnecessary Regulatory Burden (RURB) methodology — subsequently adopted across ASEAN — gave regulators a structured tool for identifying, costing, and eliminating bottlenecks sector by sector.³⁸

Today, the MPC has set an explicit compliance-cost reduction target of up to 1 percent of GDP, with a minimum 25 percent improvement required per initiative.⁵⁰ These gains are visible in the benchmarking data: Malaysia now performs strongly in utility services, business entry interoperability, and automated registry updates. Its remaining weaker area — insolvency — reflects the limits of front-end reform when back-end judicial infrastructure has not kept pace.

Malaysia's lesson for Pakistan: *The reform path is not deregulation — it is systematic improvement in regulatory quality. PEMUDAH, NPDIR, and NPGRP show that a structured, whole-of-government approach to compliance-cost reduction produces measurable gains without dismantling the regulatory function. The instrument is better regulatory design and digital delivery, not fewer rules.*

■ Vietnam: Low-Cost Operational Execution

Vietnam's pre-reform challenge was specific: excessive licensing conditions, high compliance costs, slow administrative handling, and a regulatory model built around pre-approval control rather than risk-based supervision. For domestic private firms especially, licensing and operating conditions imposed disproportionate burdens while productivity lagged. Despite these structural problems, Vietnam demonstrates that measurable progress does not require resolving everything at once.³ Zero registration cost for both local and foreign firms reflect a deliberate policy choice to make formal business registration easier and less burdensome. Its stronger trade performance similarly reflects sustained efforts to reduce time and costs at the border through electronic systems, even before the legal framework was fully modernized.

The reform tools were practical and sequential. Earlier rounds reduced registration costs, moved company incorporation notices online, improved tax administration, upgraded electronic customs systems, and published court judgments online. By 2019, the National Public Services Portal had digitalized over 70 percent of public administrative services.³⁹ Vietnam's most recent reform agenda — anchored in Resolution 68 — is the most ambitious: it targets a 30 percent reduction in business licensing and operating conditions, a 30 percent cut in compliance costs and administrative processing time, and a structural shift from pre-approval control toward post-audit and self-declaration mechanisms.⁴⁰ In customs, the February 2026 regulatory updates introduced electronic indirect customs-value consultation for high-compliance firms and applied risk-based supervision to destruction procedures — reducing reliance on in-person, paper-based processes that created delay and discretion at the border.⁵³

The World Bank has argued that the next reform phase for Vietnam should centre on digital transformation and risk-based regulation, particularly in licences and inspections.³⁹ Vietnam's experience also shows that regulation does not work the same way everywhere within a country. Provinces with clearer procedures, less bureaucracy, and fewer informal payments tend to attract more new firms. That suggests regulatory quality directly shapes investment and formalization.⁴¹ Where reforms have worked, they have done so by making compliance cheaper, faster, and more predictable — not by removing regulation altogether.

Vietnam's lesson for Pakistan: *Reduce the practical cost of compliance — in time, fees, and procedural steps — before the legal framework is perfected. Measurable, time-bound targets create accountability. Digitalization of public services can deliver rapid gains even in the absence of comprehensive legal reform.*

■ Indonesia: Risk-Based Administrative Architecture

Indonesia's pre-reform regulatory problem revolved around regulations not being well matched to the problem they were meant to solve, alternatives not being properly considered, and many rules creating overlap, confusion, and unnecessary compliance costs. The result was fragmented licensing authority across hundreds of agencies, overlapping approval requirements with no single point of accountability, and legal uncertainty that made investment planning difficult. Although Indonesia's overall operational-efficiency remains close to Pakistan's, its reform trajectory

is instructive: its international-trade framework is now substantially more developed, with customs risk management, multi-agency integration, automated profiling, and post-clearance audits all in place, and its competition and IP institutions are significantly more digitized than Pakistan's.

The centrepiece of Indonesia's reform effort was the 2020 Omnibus Law on Job Creation, which amended 76 existing laws across nine regulatory clusters,⁴³ replaced the negative investment list with a positive list, and introduced a risk-tiered licensing architecture: low-risk businesses require only a registration number, medium-risk a standard certification, and high-risk a full business licence. The licensing process was centralized into the Online Single Submissions (OSS) system, where businesses no longer had to deal with multiple ministries separately. Earlier reforms had already moved tax filing and payment online, combined social-security registrations, reduced notarization fees, expanded one-stop-shop registration, improved online customs processing, and introduced electronic case management in courts. In 2025, Indonesia went further by replacing the earlier licensing framework with a new risk-based system that covered more sectors, reorganized classifications, and aimed to speed up approvals, make licensing more predictable, and reduce administrative uncertainty. The reform is still ongoing, and its main goal is to make regulation easier to navigate, not to remove regulation altogether.

Indonesia's approach is particularly instructive because it used the omnibus legislative mechanism to break regulatory gridlock: instead of trying to reform the system one law at a time, the government passed a single overarching law that harmonised and overrode conflicting provisions across dozens of existing laws.⁴² That is especially relevant for countries like Pakistan, where the regulatory system is fragmented. The results are visible in areas like property transfer, land administration, and registration, which have become more efficient and transparent. But progress has been uneven. Insolvency remains weak, digitalization in insolvency is still limited, and labor protections continue to lag. Indonesia's experience shows that licensing and registration can be improved relatively quickly, but deeper reforms in courts, insolvency, and enforcement take longer and need a different kind of effort.

Indonesia's lesson for Pakistan: *Target the architecture of administration — risk tiering, single-window portals, automated profiling, post-clearance audits — to reduce the operational burden on businesses without requiring a complete rewrite of sectoral law. The omnibus approach offers a mechanism to harmonize overlapping regulations at scale.*

6.3 Comparative Summary

| Country | Standout Area | Key Reform Mechanisms | Lesson for Pakistan |
|-----------|--|--|---|
| Malaysia | Institutional completeness & reliability | Full interoperability for company-info exchange; automated registry updates; strong ADR and court reliability; utility regulation paired with public-service infrastructure | Build institutional linkages — connect rulemaking to service delivery and enforcement |
| Vietnam | Low-cost operational execution | Zero registration cost for domestic and foreign firms; five-year reform programme targeting 20% compliance-cost reduction; 70%+ of public services digitalized via NPSP; risk-based licensing shift | Even an imperfect legal framework can sharply reduce burden by cutting time and cost in practice |
| Indonesia | Risk-based administrative architecture | Omnibus Law harmonized 76+ laws across 9 clusters; replaced negative list with positive list; risk-tiered licensing (low/medium/high); OSS single-window portal; post-clearance customs audits; multi-agency integration | Target administrative architecture — not just law rewrites — to reduce overload at lower-middle-income levels |

The table shows a common pattern across all three countries. What reduced the burden was not fewer rules, but making compliance cheaper, faster, clearer, and less repetitive. The main tools were one-stop systems, online filing, electronic certificates, risk-based inspections and licensing, stronger regulatory review, and targeted reforms in areas like tax, customs, and land administration. Where these worked, procedures became shorter and more

predictable. The main weakness that still remains across all three is that insolvency, courts, and enforcement have improved far less than business registration, licensing, and customs. That asymmetry is directly relevant to Pakistan, where the same pattern holds.

6.4 Pakistan's Four Main Burden Channels

Taken together, the cross-country data and peer comparisons point to four main channels through which regulatory burden falls on Pakistani businesses. These channels are not evenly distributed across the regulatory system — they concentrate in the after-entry operating environment, explaining why even firms that navigate business entry successfully face high ongoing compliance costs.

| # | Burden Channel | Description |
|---|--|--|
| 1 | Unreliable Dispute Resolution | Pakistan materially underperforms peers on court reliability and ADR reliability. Businesses face high uncertainty in enforcing contracts, raising the effective cost of all transactions. |
| 2 | Fragmented Trade Facilitation | While Indonesia has introduced customs risk management, multi-agency integration, automated profiling, and post-clearance audits, Pakistan's trade facilitation system remains fragmented and heavily manual. |
| 3 | Under-digitised Competition & IP Institutions | Both Indonesia and Malaysia operate significantly more digitized competition and intellectual property institutions, reducing the administrative burden on firms in knowledge-intensive and export-oriented sectors. |
| 4 | Weak Legal Protection in Business-Location Disputes | Property registration and land-related dispute resolution remain a friction point. Malaysia's fully automated property information updates stand in sharp contrast to Pakistan's slower, less transparent systems. |

6.5 Benchmarking Conclusion

Key Finding

Pakistan's regulatory burden appears to stem less from business-entry rules and more from a weak after-entry operating environment. The evidence points to five main burden channels: unreliable dispute resolution, fragmented trade facilitation, under-digitized competition and IP institutions, weak legal protection in business-location disputes, and a tax administration system marked by overlapping federal-provincial obligations, opaque audit processes, limited appeals integrity, and an 87 percent VAT refund forfeit rate (B-Ready 2025) that signals systemic dysfunction rather than isolated friction.

Peer reformers reduce burden not by having fewer laws, but by making rules interoperable, digitised, risk-based, and enforceable at lower time and cost. Malaysia performs better on institutional reliability; Vietnam on low-cost operational execution; Indonesia on risk-based administrative architecture. None has resolved its tax administration challenge through deregulation — all have invested in system integration, binding timelines, and enforcement consistency.

Pakistan's reform priority is therefore not deregulation — it is closing the gaps between rulemaking, agency coordination, and practical compliance. Tax administration sits at the centre of that agenda, not at its margins.

Two implications follow for how Pakistan's reform effort should be sequenced. First, the reform agenda should be organized around the burden channels identified above — dispute resolution reliability, trade facilitation integration, digital administration for competition and IP, and business-location security — rather than primarily around headline deregulation. Second, the peer evidence consistently shows that administrative and operational reforms can yield significant results without waiting for comprehensive legal overhaul: Vietnam's compliance-cost reduction programmes, Indonesia's OSS single-window portal, and Malaysia's PEMUDAH and RURB frameworks all demonstrate that process engineering and digital delivery can outpace legislative reform in delivering burden reduction to firms. The common lesson is not deregulation — it is making regulation simpler, more digital, more risk-based, more predictable, and less costly to comply with.

The peer experience also contains a more specific lesson about what digitisation must reach to be effective. Vietnam and Indonesia have both moved toward post-audit and self-declaration models that remove discretion from the approval decision itself, not just its administration. That is different from partial digitisation, where online portals handle submission and tracking, but officials still control the final outcome manually. It is this deeper kind of reform that lowers compliance costs and informal payments, because the real source of discretion was always the decision, not the filing process.

Critically, Pakistan already has the foundational conditions. It has a regulatory system with demonstrated capacity for reform — evidenced by its recognition as a top reformer in South Asia in the World Bank's Doing Business 2020 report, where six major reforms were recorded in a single cycle.⁴⁶ The challenge going forward is not to build from scratch, but to close the unevenness: to extend the quality of Pakistan's best-performing domains into the high-friction areas that currently impose disproportionate cost on businesses operating in, trading through, and disputing within the Pakistani regulatory environment.⁴⁷

SECTION 7

Reform Agenda and Implementation Roadmap

A programme to reduce regulatory burden

The preceding sections established where Pakistan's regulatory burden falls, what businesses experience on the ground, and how peer reformers have achieved measurable improvements. This section turns to the reform agenda: what Pakistan has tried, what is currently under way, and what a prioritised programme adequate to the diagnostic would look like.

7.1 Current Reform Landscape in Pakistan

■ Previous Reform Efforts

Pakistan has made periodic attempts to address regulatory burden over the past two decades, with results that are real but partial. The most notable was the Ease of Doing Business (EoDB) reform cycle of 2018–2020, during which the country was recognised by the World Bank as one of South Asia's top reformers — recording six major reforms in a single assessment cycle and climbing from 147th to 108th in the Doing Business rankings. Reforms in that period included streamlining business registration through the SECP's Virtual One-Stop Shop (VOSS), which reduced company incorporation steps from ten to five, and improvements in construction permit processes and electricity connection procedures.

The Pakistan Regulatory Modernisation Initiative (PRMI), launched under the Board of Investment in 2019, aimed to identify and eliminate redundant regulations, NOCs, and inspection requirements across federal ministries. PRMI remains active as of 2026, but has evolved considerably. It now functions less as a standalone initiative and more as the implementation arm of a broader regulatory reform architecture centred on the BOI, the Cabinet Committee on Regulatory Reforms (CCoRR), and the Asaan Karobar platform. The Asaan Karobar Act, 2025, enacted on 25 November 2025, gave this reform effort statutory backing for the first time. By early 2026, the reform had moved into an active implementation phase: in February 2026, CCoRR approved Regulatory Reform Package IV, described as part of a broader effort to reduce bottlenecks and make regulation faster, clearer, and more predictable. The PRMI/Asaan Karobar site now publicly tracks reform items by department and sector across agencies including SECP, DRAP, IPO, PSQCA, CDA, and others, functioning as a live reform pipeline rather than a completed exercise.

However, the gains have been uneven and, in some areas, short-lived. The improvement in Ease of Doing Business rankings reflected procedural changes more than lasting improvements in how the system worked in practice. This is exactly the gap that the World Bank's newer B-READY framework is meant to capture, by looking not only at rules on paper but also at public service delivery and the actual experience of firms. Stakeholder consultations also suggest that many of the reforms did not lead to meaningful change on the ground. Tax complexity, frequent inspections, discretionary enforcement, and refund delays largely remained in place.

Three structural factors help explain this gap. First, most reforms focused on business entry, while the post-entry operating environment changed much less. Second, after the 18th Amendment, regulatory authority was spread across five jurisdictions, but the reform effort remained mostly federal, leaving provincial and local frictions largely

untouched. Third, there was no strong mechanism to stop new regulations from piling up as older ones were being removed.

■ The Asaan Karobar Act 2025 – Objectives and Design

The Asaan Karobar Act 2025 (Act No. XXXVIII of 2025)⁴⁸ is the federal government's most ambitious regulatory reform legislation to date. It directly acknowledges the failures of previous reform cycles — fragmented laws, thousands of overlapping regulatory instruments, high compliance costs, non-transparent procedures, and manual processes — and attempts to address them through an institutional framework rather than piecemeal amendment.

The Act rests on three institutional pillars.

1. **The Asaan Karobar Technical Unit (AKTU)** serves as the reform's technical arm. It can review existing laws and regulatory instruments, conduct impact assessments, recommend repeal or amendment of outdated rules, set standards for new regulation, and review draft laws before they go to Cabinet. Final decisions, however, remain with the Cabinet Committee on Regulatory Reforms.
2. **The Pakistan Regulatory Registry** is a digital record of all business-related regulations. Its most important feature is the guillotine mechanism: once the registry is certified, only regulations formally entered on it remain valid, while all others lapse. This puts the burden on regulators to justify and register their requirements and could remove many outdated or hidden rules if applied properly.
3. **The Pakistan Business Portal** is designed as a national digital one-window for applications, licences, permits, payments, and approvals. Electronic submissions and approvals are given legal recognition, and existing one-window systems are expected to connect to it, although provincial integration depends on their agreement.

In short, it aims to make doing business in Pakistan “smarter” and faster through technology and transparency, rather than by removing the government's role in licensing and regulation.

What the Act does not cover is as important as what it does. Tax imposition and structure, criminal law, the judiciary, national security, and constitutional bodies are all explicitly excluded from the scope of the legislation. The Act is therefore procedural and governance-oriented in nature with a ‘review and simplify’ mandate. The Asaan Karobar Act 2025 is better understood as a regulatory modernisation measure than full deregulation.

It aims to catalogue, standardise, and digitise licences and approvals through a single-window system, but it does not automatically remove permits, create deemed approval for delayed decisions, eliminate NOCs, or impose personal liability on officials for delays. Tax rates and customs duties are appropriately outside its scope — these are matters of fiscal legislation. More significant is what the Act leaves unaddressed within its own scope: tax administration — refund timelines, audit procedures, the appeals architecture, and filing obligations — is procedural in nature and falls squarely within the Act's regulatory modernisation mandate yet receives no substantive treatment in the legislation.

| Layer | Institution | Role |
|-----------|--|---|
| Technical | Asaan Karobar Technical Unit (AKTU) | Reviews existing laws and RLCOs, conducts RIA, recommends repeal or amendment, prescribes regulatory quality standards, coordinates across ministries |
| Political | Cabinet Committee on Regulatory Reforms | Final decision authority on all regulatory changes proposed by the AKTU |
| Digital | Regulatory Registry + Pakistan Business Portal | Transparency backbone and one-window compliance interface for businesses |

■ Assessing the Asaan Karobar Act Through the B-READY Framework

When assessed through the World Bank's B-READY framework—which looks at regulatory burden across three pillars and ten stages of the business lifecycle—the Act shows clear potential, but its impact is limited to certain areas.

In the **Regulatory Framework** pillar, its main strength is improving transparency. The Registry requires all regulatory instruments to be formally recorded, while RIA introduces review requirements for new regulations. If the guillotine mechanism is properly enforced, it could remove a large number of outdated or hidden rules.

In the **Public Services** pillar, the Pakistan Business Portal offers the strongest near-term potential. By bringing together SECP, FBR, BOI, SBP, quality-related regulators (such as PSQCA, PPD, and AQD), manufacturing-related agencies (such as EDB and DRAP), energy-related regulators (such as NEPRA, OGRA, AEDB, and NEECA), and labour-related processes into one online system, it could significantly improve business entry if agencies are properly integrated and implementation is strong.

In the **Operational Efficiency** pillar, the gains are less direct. Over time, the guillotine and public comment requirements could reduce uncertainty and discretion, but that will depend on whether the registry is fully populated, whether agencies follow it in practice, and whether the portal actually replaces physical steps rather than just putting them online.

| B-READY Topic | Act's Direct Impact | Strength | Key Limitation |
|----------------------------|---|--------------|---|
| Business Entry | Portal-based registration; Registry reduces uncertainty on applicable rules | High | Simplification depends on actual repeal of rules |
| Business Location | Potential digitisation of permits and NOCs | Moderate | Mostly provincial jurisdiction — needs concurrence |
| Utility Services | Possible application digitisation if utilities integrate | Moderate | State-owned utility autonomy; integration uncertain |
| Labour | Review of burden through RIA; no labour law substantive change | Low–Moderate | Labour law substance unchanged |
| International Trade | Potential permit integration; procedural enablement only | Low–Moderate | Customs policy and tariff regime unchanged |
| Taxation | Procedural digitisation only; tax policy explicitly excluded | Low | Tax complexity and FBR architecture untouched |
| Dispute Resolution | Minimal — judiciary and courts excluded from scope | Very Low | Structural judicial reform required separately |
| Insolvency | No direct linkage | None | Requires entirely separate legislative reform |

The Act is most likely to improve B-READY outcomes in Business Entry, regulatory transparency, and digital public services within twelve months if enforced in full. It has limited direct effect on Taxation, Dispute Resolution, Financial Services, and Insolvency — which require substantive legal and structural reforms beyond the procedural machinery created here.

■ Early Assessment: Gaps and Criticisms

The Asaan Karobar Act has also attracted substantive criticism from policy analysts, business associations, and research institutions. These critiques are not arguments against reform — they are arguments about whether this particular design is adequate to the problem.

Bureaucratic control of governance structures. The committees and councils created under the Act are dominated by government officials and political appointees, with limited input from private-sector practitioners, SMEs, and academic experts. Critics argue that a reform meant to reduce the burden on businesses should involve more people who actually face that burden, not mainly those who administer the system.

The risk of institutional layering. Pakistan already has a history of ease-of-doing-business committees and reform bodies that produced limited real change. The Act adds new structures—the Asaan Karobar Technical Unit, Cabinet Committee, Regulatory Registry, and Business Portal. Without clear performance targets and binding timelines, these could become another layer of government rather than reducing the layers businesses deal with. The Act also does not set any deadlines for cabinet decisions or create an independent body to ensure accountability.

Digital red tape. Business groups have repeatedly warned that putting a broken process online does not fix it. If the number of approvals, inspections, and submissions is not reduced, the Pakistan Business Portal could simply reproduce the same bureaucratic problems in digital form. But this does not mean simplification must be completed before digitisation begins. In practice, the two should move together: digital platforms can expose duplication, reduce in-person rent-seeking, and speed up processing, while simplification ensures that digitisation actually lowers the burden instead of just changing its format. The real test is whether each round of digitisation is matched by a genuine reduction in steps.

There is also a further risk. If applications are filed online but decisions still depend on manual judgment, the main problem remains. Businesses still face the same discretion and delays — only through a portal instead of a paper file.

Provincial fragmentation risk. KP and Punjab have introduced their own versions of Asaan Karobar, but with different designs, scopes, and portals. A business operating across provinces could end up dealing with several different “simplified” systems. Without real coordination across provinces, the reform could deepen fragmentation rather than solve it.

Key cost pressures remain outside the bill. Businesses consistently point to energy costs, tax complexity, refund delays, and weak dispute resolution as their biggest constraints. These issues are largely outside the scope of the Act. Procedural simplification is useful, but on its own it is not enough.

The Act also does not address another important issue: many regulators now operate partly as revenue-raising bodies. Fees from inspections, registrations, and approvals can create an incentive to keep processes complex, repeat enforcement, and resist simplification. The PSQCA—provincial food authority dispute shows this clearly. Even where national standards are agreed, parallel inspections continue because there is no settled arrangement for sharing Marking Fee revenue. That means real reform will require not just better procedures, but also fixing the financial incentives that drive regulatory duplication.

The Asaan Karobar Act is ambitious and well-designed on paper. But its success will depend on political continuity, strong digital execution, disciplined enforcement, and support from the provinces—the same factors that have weakened earlier reform efforts. Without clear targets, independent oversight, and broader structural reforms, it risks becoming just another portal and another committee.

■ The 2025 Regulatory Reforms Initiative – Quantified Progress and Gaps

Beyond the Asaan Karobar Act, the government's Pakistan Regulatory Reforms 2025 report⁴⁹ documents a wider reform effort that began to show measurable outputs in 2024–25. For the first time, the government has tried to estimate the economic cost of its own regulatory system and publish a reform scorecard against that baseline. The headline numbers are significant enough to deserve serious attention, even though the government also notes important implementation challenges.

| | | | |
|---|--|---|---|
| 89 | 241 | PKR 356.5 bn | PKR 2.5 tn |
| <i>redundant regulatory requirements eliminated</i> | <i>regulations simplified or digitalised</i> | <i>estimated annual compliance cost reduction</i> | <i>projected savings over the next decade</i> |

The initiative eliminated 89 redundant regulatory requirements outright and simplified or digitalised a further 241. These actions are estimated to generate an annual compliance cost reduction of Rs356.5 billion — a material figure for an economy where regulatory friction has consistently been identified as a primary deterrent to formalisation and investment. Savings from the efforts could reach Rs2.5 trillion over the next decade⁴⁹.

The initiative also produced sector-specific reforms across several high-burden areas.

| Sector | Reform | Effect |
|-----------------------------|--------------------------------------|--|
| Corporate (SECP) | Companies Regulations 2024 | Statutory forms reduced from 75 to 28 — a 63% reduction in routine administrative documentation burden |
| Taxation (FBR) | Single Portal + AI-automated refunds | Unified filing and payment interface; AI-driven refund processing reduces procedural friction for compliant businesses |
| Oil & Gas (OGRA) | Gas Network Code (PGNC) amendments | Rigid capacity thresholds replaced with flexible case-by-case evaluations, reducing rent-seeking and facilitating private participation |
| Commerce / Trade | Pre-shipment and Gwadar Free Zone | Streamlined pre-shipment inspections and simplified export rules for the Gwadar Free Zone — lower transaction costs for SMEs |
| Technology | STZA One-Window Portal | Digital licensing replacing traditional bureaucratic layers for Special Technology Zones — direct reduction of entry friction for the IT sector |
| Cross-cutting | Business Facilitation Centre (BFC) | Launched in August 2025 consolidates 341 registrations, licences, and permits into a single physical interface, reducing coordination failures across fragmented federal departments |

Implementation performance, however, tells a more cautious story. The same government report notes that only 52 of 330 proposed regulatory reforms were completed during the reporting period—a completion rate of about 16 percent. This gap between planned and completed reforms is itself an important finding: lack reform ideas; it lacks the institutional ability to carry them out consistently. The report points to inter-ministerial delays, uneven digital capacity across departments, and weak interoperability between government systems as the main reasons why implementation remains slow and why further reductions in compliance costs are hard to achieve.

7.2 Reform Agenda and Policy Recommendations

The reform agenda is organised into four clusters, moving from basic structural changes to sector-specific and monitoring reforms. These are not small adjustments—they are the deeper changes Pakistan needs if its regulatory system is to stop discouraging formal business and start supporting it.

Cluster 1 – Structural Simplification and One-Window Consolidation

The most consistently raised reform across every sector and firm size was some version of the same request: stop making businesses deal with multiple agencies for what could be one activity.

R1 — Establish a genuine One-Window system. A genuine one-window must consolidate all approvals and tax authorities — not just add a new front-end while agencies continue working separately in the background. Indonesia's Online Single Submission (OSS) system shows what this looks like: one entry point for businesses, backed by a risk-based structure that adjusts compliance requirements according to actual risk rather than treating all activities the same. Pakistan's Business Portal under the Asaan Karobar Act is similar in concept, but its success will depend entirely on whether back-end integration is actually enforced. The main risk is that it becomes a “new entity trap,” where the reform creates another layer—such as separate federal and Punjab versions—instead of removing existing ones. Digitising only the front-end risks recording discretionary, manual decisions; real integration must ensure approvals are rule-based, auditable, and generated through structured criteria, not individual judgment.

R2 — Eliminate duplication: one submission, one inspection, one approval. Multiple agencies currently regulate the same activity, requiring businesses to submit identical information repeatedly and undergo redundant inspections for the same risk. Malaysia's RURB (Reducing Unnecessary Regulatory Burden) approach offers a clear model: identify each cluster of burden, measure its cost, remove duplication, and only then digitise what remains. The Pakistan Halal Authority illustrates the accumulation dynamic: rather than consolidating food safety oversight, it added a third registration layer on top of existing federal and provincial requirements.

R3 — Harmonise provincial and federal tax and compliance requirements. A firm operating across provinces currently navigates different regulatory requirements for the same activity. Malaysia was able to harmonise regulatory standards across its thirteen states through a coordinated government approach. Pakistan's constitutional setup makes this more difficult, but the Council of Common Interests provides the right mechanism for this kind of coordination across jurisdictions. This problem cannot be solved by the federal government alone.

R4 — Reduce the cost of compliance. Vietnam's zero-cost business registration and its target of a 30 percent reduction in compliance time, cost, and procedures show that cost reduction can be achieved rapidly when governments commit to measurable targets. Pakistan should set similar targets: clear reductions in the number of tax filings, the cost of customs clearance, and the time needed to get sector-specific licences—and report progress on them every year.

Cluster 2 – Transparency, Predictability, and Procedural Certainty

A key issue of concern is that businesses are less able to price, plan, or invest when rules are unclear, timelines are open-ended, and outcomes depend on which official manages the matter.

R5 — Publish and standardise all regulatory procedures. Every regulatory procedure should have a public checklist, a clear timeline, a set fee schedule, and a published appeals process, applied consistently across offices and provinces. The Regulatory Registry can help create this foundation, but the real test is enforcement: ministries must keep procedures updated, and businesses must be able to challenge requirements that are not officially published.

A major gap in this framework is security clearances. When investment, technology imports, or project location triggers a security review, businesses often face a process with no clear criteria, no fixed timeline, and no way to follow up. At a minimum, the government should publish which activities need security clearance, which agency handles each case, the maximum processing time, and the escalation route if that time is exceeded. Security reviews should also run in parallel with other approvals, rather than holding up the entire licensing process.

R6 — Commit to policy stability over three-to-five-year horizons. Annual budget cycles introduce regulatory and tax changes that make long-term investment planning, export pricing, and supply chain commitments impossible. At a minimum, major policy changes should be consulted on in advance and announced with enough notice, while the core policy framework should remain stable for at least two years.

R7 — Introduce enforceable agreements and deemed approval. Regulatory timelines currently vary by office, officer, and province, with no binding completion date and no consequence for delay. For low-risk activities, the default should move to deemed approval: if the regulator does not decide within the published timeline, the application should be treated as approved. This is common in many reforming economies and helps create stronger incentives for regulators to act on time.

The same principle should apply to government as a payer, not just as an approver. Procuring agencies should be required to pay within a clear legal deadline after delivery and acceptance. This would show that the state holds itself to the same standard it expects from businesses. Without it, delayed public payments continue to hurt smaller suppliers most, weaken competition in procurement, and make formal business less attractive.

R8 — Rule-based approval for royalty and technical-fee payments. Payments under pre-registered licensing agreements between known parties should be processed within a fixed legal timeline, regardless of foreign exchange conditions, with automatic approval below a defined threshold. If approval is delayed beyond that period, the reason should be recorded and reviewed at a higher level. This would not weaken FX controls; it would simply separate routine, disclosed contractual payments from discretionary outflows that need case-by-case scrutiny. Without that distinction, foreign technology partners bear the cost of Pakistan's FX stress, making the market less attractive for technology licensing and joint ventures.

R9 — Eliminate personal discretion from regulatory decisions. Regulatory decisions must be rule-bound, documented, and institutional — not dependent on the individual official who happens to oversee a file. When an official is transferred, the next official should continue from the existing file instead of restarting the process.

■ Cluster 3 — From Gatekeeping to Market Facilitation

Pakistan's regulatory system is built around approval before action — even for low-risk activities. The reform required is not deregulation but redesign: move from a gatekeeping model to a monitoring model.

R10 — Replace ex-ante approvals with notification for low-risk activities. For low-risk activities, businesses should only have to notify the regulator and begin operating, with checks carried out later on a risk basis. This is the approach used in countries like Indonesia and Vietnam. Pakistan has already moved in this direction in some areas under BOI-led PRMI reforms. Examples include Lahore's risk-based construction permitting, removal of NOC requirements for low-risk buildings, fewer inspections for low-risk and compliant businesses, and simplified registration for low-risk medical devices. The next step is to make this economy wide. Instead of applying risk classification case by case, Pakistan should publish a clear cross-sector risk matrix so low-risk businesses can move to notification-based compliance as a matter of right. The Asaan Karobar Act, 2025 provides the framework, but that shift still needs to be operationalized.

R11 — Shift regulatory philosophy from command-and-control to market facilitation. Malaysia's transformation of its regulatory philosophy by repositioning regulators from gatekeepers to market-enablers is the most direct model. Pakistan needs a shift not only in laws, but also in institutional culture: rules should be clear, compliance should be easy, enforcement should focus on real risk, and rules should be applied consistently. The current system often treats formal businesses as entities to be controlled, while peer experience shows that they can instead be regulated in a way that supports compliance and growth.

R12 — Introduce mutual recognition of certifications and prior approvals. A certification issued by one agency should not require re-verification by another for the same activity. Mutual recognition frameworks eliminate duplicated oversight and send a signal that regulatory system works as one coordinated system, not as a set of separate agencies acting on their own.

R13 — Ground all regulations in evidence and industry input. All new regulatory instruments should go through regulatory impact assessment, be published in draft for public comment, and remain proportionate to the actual risk they are meant to address. SMEs cannot be held to compliance standards designed for multinationals.

■ Cluster 4 – Enforcement Fairness and Level Playing Field

Regulatory burden that falls only on the formal sector while the informal sector operates without scrutiny is not regulation — it is a structural subsidy to non-compliance. Several recommendations address this directly.

R14 — Apply enforcement consistently across all market participants. Formal, tax-paying businesses should not face heavy regulatory scrutiny while competitors evade taxes, under-invoice imports, and ignore industry standards. Enforcement needs to be applied across the whole market, not just to formal firms. Enforcement falls disproportionately on formal businesses not only because the informal sector is harder to reach, but also because formal, registered firms are more reliably profitable to inspect — generating fee income and repeat visits that regulators have a structural incentive to maximise. This would broaden the tax base, create fairer competition, and reduce the incentive to remain informal.

R15 — Automate tax refunds and customs clearance. When sales tax refunds are delayed, it is not just a regulatory inefficiency—it effectively ties up business working capital in the hands of the government. At a minimum, refund processing and customs clearance should be fully automated from start to finish, with clear service timelines that must be met.

R16 — Separate federal quality standard-setting from provincial enforcement. The quality standards issue in food regulation has been partly solved. Provinces have agreed to use the national standards set by PSQCA, which is an important step toward harmonisation. The real problem now is enforcement. PSQCA and provincial food authorities still inspect the same businesses because there is no final agreement on how PSQCA's Marking Fee revenue should be shared with the provinces. So the duplication is no longer about different standards. It continues because both sides still have a financial reason to carry out their own inspections and collect fees.

This means the problem is mainly fiscal and administrative, not technical. The solution is for the federal government and provincial food authorities to agree on a formal revenue-sharing arrangement, with the provincial share linked to actual enforcement rather than duplicate inspections. Once that incentive is removed, the intended model can work better: the federal level sets the standards, and the provinces enforce them. In other sectors where harmonisation has not yet been achieved, the broader principle still applies: National standards should be set once and enforced consistently, instead of multiple bodies claiming overlapping powers and adding extra registration layer.

R17 — Reform tax audit and enforcement. Tax administration — not just tax rates — is one of the main burdens on formal businesses. Four structural changes are needed. First, demand notices should clearly state the audit method and the exact transactions in dispute at the time they are issued. Second, the appeals system should be made independent: the Commissioner (Appeals) should not sit within the FBR, and tribunal decisions in favour of taxpayers should be implemented within a fixed legal timeline. Third, the FBR's powers to withdraw funds from company accounts or make arrests should require prior judicial approval, except in clear cases of imminent asset flight. Fourth, auditor qualifications should be independently verified, especially in complex areas such as transfer pricing, corporate structures, and sector-specific accounting. Without these checks, weak assessments go uncorrected at source, and disputes consume years of management time and legal cost without resolving the real issue.

7.3 Implementation Roadmap

The fifteen reforms are not equally urgent or equally difficult, so sequencing matters. Not because government needs fixed deadlines, but because each reform demands a different kind of action. Some can be implemented within the current Asaan Karobar Act through administrative decisions. Others require coordination across agencies and integration of systems. Some go further still, needing legislative change, constitutional alignment, or sustained political commitment over more than one electoral cycle.

The table below groups the fifteen reforms into three tiers based on how difficult they are to implement, and the kind of political economy challenges they involve.

Tier 1 — Administrative feasibility: reforms achievable through executive action within the current Asaan Karobar Act framework, without new legislation or inter-governmental negotiation.

Tier 2 — Coordination-dependent: reforms that require structured inter-agency or inter-governmental agreement, systems integration, or sustained ministerial-level engagement across departments.

Tier 3 — Structural: reforms that require new legislation, constitutional frameworks, or a sustained political commitment extending across more than one government.

| # | Reform | Tier |
|-----|--|--------|
| R1 | Genuine One-Window system | Tier 1 |
| R5 | Publish all regulatory procedures | Tier 1 |
| R7 | Enforceable SLAs + deemed approval | Tier 1 |
| R15 | Automate tax refunds and customs clearance | Tier 1 |
| R2 | One submission, one inspection, one approval | Tier 2 |
| R8 | Rule-based approval for royalty and technical fees | Tier 2 |
| R9 | Eliminate personal discretion | Tier 2 |
| R10 | Notification model for low-risk activities | Tier 2 |
| R12 | Mutual recognition of certifications | Tier 2 |
| R13 | Evidence-based regulation — risk assessment | Tier 2 |
| R3 | Harmonise provincial and federal requirements | Tier 3 |
| R6 | Long-term policy stability | Tier 3 |
| R4 | Reduce cost of compliance | Tier 3 |
| R11 | Shift to market facilitation model | Tier 3 |
| R14 | Consistent enforcement across formal and informal | Tier 3 |
| R16 | Resolve the federal-provincial quality enforcement and revenue-sharing impasse | Tier 3 |
| R17 | Reduce cost of tax compliance | Tier 3 |

A reform agenda of this scale needs a government-owned implementation roadmap. The Cabinet Committee on Regulatory Reforms, through the Asaan Karobar Technical Unit, should prepare and publish a multi-year Regulatory Reform Implementation Plan. It should set out which reforms will be taken up in each period, which ministry or agency will lead each one, what results are expected, how progress will be reported publicly, and how provincial governments will be involved where reforms cut across jurisdictions.

The Asaan Karobar platform already tracks reforms by agency and sector, so the basic structure exists. What is missing is a single public plan that brings everything together and reflects a clear government commitment.

7.4 Conclusion: What the Reform Agenda Requires

The Asaan Karobar Act is the most serious federal effort in years to reform Pakistan's regulatory system. It identifies the right problems — fragmentation, weak transparency, manual processes, accumulation of outdated rules — and introduces useful instruments: the guillotine mechanism, the Regulatory Registry, and the Pakistan Business Portal. These are genuine steps forward, and they should be recognised as such.

But the Act is a process reform, not a competitiveness reform. It can change how regulation is managed. It cannot, by itself, address the cost pressures that businesses consistently identify as binding: tax complexity, refund delays, energy costs, weak contract enforcement, blocked capital, and the cross-border payment frictions that deter foreign technology partners. These remain outside the Act's scope by design, and the reform agenda this report sets out is the broader programme within which the Act plays a useful but limited role.

■ What the 17 Reforms Cover

The 17 reforms address four core problems in Pakistan's regulatory system. First, duplication — too many overlapping agencies, approvals, and no real single window. Second, unpredictability — unclear timelines, high discretion, and delays in payments, including government contracts, royalty remittances, and security clearances. Third, over-reliance on approvals — replacing them with notification and post-audit for low-risk activities. Fourth, uneven enforcement — formal firms are heavily regulated while informal ones largely escape.

Two broader issues cut across all of this. Many regulators now have financial incentives to increase inspections and resist simplification, which drives duplication. And incomplete digitisation has not reduced discretion — it has often just moved it online. Real reform must fix incentives and make decisions rule-based, not just digitise processes.

■ What Peer Experience Confirms

The experience of Malaysia, Vietnam, and Indonesia shows that administrative and operational reforms can reduce business burden even before major legal reform is completed. Vietnam's compliance cost reduction targets, Indonesia's OSS system and new licensing rules, and Malaysia's reform frameworks all produced results without waiting for a full legal overhaul. But they also show two common mistakes: digitising only the front end while leaving decisions discretionary, and improving licensing while leaving insolvency, enforcement, and courts weak. Pakistan shows the same pattern.

Pakistan already has the basic capacity to reform. The 2018–2020 ease-of-doing-business cycle showed that major reforms can be delivered in a short period. PRMI has also evolved into part of a broader reform structure under BOI, CCoRR, and the Asaan Karobar platform, now backed by law. The real problem is not lack of ideas or ambition, but weak follow-through. The clearest sign is that only 52 of 330 proposed Pakistan Regulatory Reforms 2025 reforms had been completed — a completion rate of 16 percent.

■ What the Implementation Roadmap Requires

A reform agenda of this scale needs a government-owned implementation plan, not just recommendations in a report. The Asaan Karobar platform already tracks reforms, but what is missing is a single multi-year public plan that clearly sets out priorities, lead agencies, expected results, public reporting, and provincial coordination where needed.

The seventeen reforms can be grouped into three tiers based on complexity. Some can be done through administrative action under the current framework, some need inter-agency coordination and systems integration, and others require legislative change or longer-term political commitment. The first two tiers cover the reforms that matter most for the day-to-day business environment, while the third contains the deeper structural changes needed for lasting improvement.

■ Final Assessment

Pakistan's regulatory reform effort is more credible today than before. The diagnosis is clear, the institutional structure is taking shape, and there is real political commitment at the federal level. The Asaan Karobar Act gives the reform agenda a legal foundation it did not previously have.

The main gap is execution. The 16 percent completion rate of Pakistan Regulatory Reforms 2025 points to a practical problem: inter-ministerial delays, uneven digital capacity, and weak coordination across government systems. These are implementation constraints, not deeper structural failures.

The seventeen reforms set out the wider agenda. Some can move forward under the Act, while others will need broader political commitment, coordination across governments, and deeper structural change. The real challenge is to turn a credible reform design into sustained implementation.

Pakistan's investment-to-GDP ratio is unlikely to rise much from the current 13 percent toward the 22 percent needed for stronger growth unless the post-entry business environment improves — especially in taxes, energy, trade facilitation, dispute resolution, security clearances, and cross-border payment systems that shape foreign investor confidence.

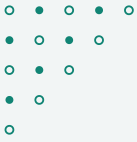
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