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Sustainable Development Policy Institute

Strengthening Fiscal Policies for Inclusive and Sustainable Development: Advancing Child and Gender-Responsive Public Investments

EXPERTS ROUNDTABLE

May 21, 2025

Auditorium Hall,

Ministry of Planning, Development & Special Initiatives, Islamabad

Disclaimer

The views and opinions expressed in this report are solely those of the individual speakers and participants at the Experts Roundtable. They do not necessarily reflect the official policies, positions, or endorsements of UNICEF or any other partner organizations involved in the event.

Contents

Organizer:	Ministry of Planning Development & Special Initiatives (M/o PD&SI)
Partners:	• United Nations Children's Fund (UNICEF) • Sustainable Development Policy Institute (SDPI)
Moderator:	Ms Ambrina Bakhtiar, Chief of SDGs, Ministry of Planning Development & Special Initiatives (M/o PD&SI)
Target audience:	Parliamentarians, government officials, think tanks, INGOs, NGOs, civil society, public and private sector, UN agencies, academia, etc.

Key Activities

a. Finalization of core areas of concern for pre-budget cycle
b. Mapping of key thematic experts and speakers
c. Coordination with speakers and participants
d. Shortlisting of session preparation and key questions
e. Formulation of consensus-based policy recommendations

EXECUTIVE SUMMARY

The report is based on the experts' views and the threadbare discussions at an Experts Roundtable, tiled: Strengthening Fiscal Policies for Inclusive and Sustainable Development: Advancing Child and Gender-Responsive Public Investments. The roundtable served as a pre-budget dialogue to review the socioeconomic and fiscal landscape of the country through the lens of gender inclusivity, child protection, climate resilience and sustainable livelihoods. Looking back at the federal budget 2022-23, the speakers said that the budget deficit stood at 6.8% of the GDP, despite temporary relief in 2024-25. The situation continues to worsen by the debt-to-GDP ratio of over 70%, persistent low tax revenues below 10% of GDP, rising debt servicing obligations and inflationary pressure. With the major proportion of provincial development budgets dependent on foreign aid (62% in Sindh), another concern is raised about the need for internal resource mobilization. Tightening budgets and increasing socio-economic vulnerabilities are leading to significant cuts in other designated sectors of budgetary allocations with the social sector suffering the major blow. The most compromised sectors are health, nutrition, education and social protection. Illiteracy (approximately 26 million children being out-of-school), malnutrition (40% of children under the age of five being stunted), poor hygiene practices, weak protection system, poverty, unemployment and social instability are fueling the socioeconomic crisis, which is being exacerbated against the backdrop of cross-cutting issues such as climate vulnerability, lack of access to and compatibility with technological advancements and gender and regional disparity in the country. Children, adolescents and the youth constitute 60% of the country's population. Policy commitments and financial allocations towards the social sector do exist but are often misaligned with the needs of the vulnerable groups and following the 18th amendment, there is also a lack of coherence between national development commitments and provincial allocations.

The speakers discussed how to foster a candid conversation focusing on creating fiscal space in provincial budgetary outlays within the existing macroeconomic constraints and at the same time exploring alternative financing mechanisms (public-private partnerships, climate bonds, social and development impact bonds), with a firm commitment towards equity, transparency and sustainability.

Provincial Social sector investments in the backdrop of shrinking fiscal space, Provincial autonomy and mis aligned priorities post 18th amendment are challenges at one hand with opportunities on other hand. Baluchistan relies 90% on federal transfers with only 0.6% own source revenue. There is skewed spending towards infrastructure and only 0.01% for child protection. Sindh budget is dependent on federal transfers. Budget Expenditure is centered on social protection, post floods housing recovery and WASH. Public investments are integrated into fiscal policies and promoting rural growth, climate resilient planning and innovative financing (carbon credits, SRB reforms, Rural Growth centers) . KP has prioritized education and health, and large part of budget is diverted to the Merged districts via Accelerated Implementation Plan(AIP). Planning is data driven and current 6.2% allocation is for primary education and 17.2% ADP is for Health in merged districts. There is need for Federal-provincial alignment to address resource constraint and equity.

Speakers challenges the notion of putting sole responsibility to IMF for Pakistan fiscal deterioration. It is identified that interest rate hikes and currency devaluation are internal policy failure, political impasse over the NFC award, and low effectiveness of monitory policy is contributory to stagflation. The empirical evidence has shown Pakistan; s fiscal system increases poverty and inequality as lowest income quantile are paying 16% of Tax while upper most 10% rich population is paying only 9% tax on their income. These Tax exemptions of around 4 trillion largely benefits the elite. Long standing legal disputes have eroded the trust of taxpayer in institutional capacities. Parliamentary oversight in addressing the structural and institutional disparities in financing models and transparency of budgetary processes was particularly emphasized.

For exploring alternative financial allocations, adoption of impact finance tools such as social bonds, green bonds, and carbon credits and avoidance of narrative driven populist budgeting are the options. Gender -responsive budgeting is needed to bring 50% of the population at par for development. Public Private Partnership is presented as an alternative and supported by successful examples like Punjab Education Voucher Scheme and there are opportunities to practice PPP in pensions and housing to ease fiscal pressure and service delivery. There is a need for greater absorption and tracking of donor funds in education and at the same time for expansion of internal resource mobilization and leveraging CSR potential.

Keeping in mind the priorities of adolescent girls, youth and marginalized communities, discussion included the forward-looking initiative of the government URAAN Pakistan, the alignment of its equity and empowerment mandate with public finance decisions, and its vision of expanding access to education, digital and green skills, and civic engagement across Pakistan's poorest districts. Looking at the revenue generation side, tax expenditures, debt burden, tax justice and avenues of internal resource mobilization were also analyzed in depth.

Ultimately, this dialogue was about aligning Pakistan's fiscal strategy with its social and human development goals—ensuring that robust investments are made in a way that are inclusive, efficient, and sustainable. These vulnerable groups are the country's future, and the time has come that we invest in revamping the socioeconomic landscape of the country – a step that is not only an economic imperative but also a moral obligation as well. The way forward and key insights were assimilated into consensus-based policy recommendations to be presented to policymakers to serve as a key area of focus for the budgetary cycle for FY2025-26.

Recommendations

- Address structural and institutional disparities by establishing linkages between planning, budgeting and implementation.
- Establishment of interministerial and multisectoral approach for federal and provincial social sector budget alignment and to address complex cross cutting issues of climate change and gender inequality.
- There is a pressing need to consider robust and sustained investments in the Benazir Income Support Program (BISP) for the fiscal year 2025–26, ensuring that social protection remains a core pillar of inclusive and equitable growth
- Rationalize and reallocate tax expenditures
- Tax collection should be treated as a primary and strategic policy tool—with well-designed tax laws, improved compliance, broadened tax base, and stronger enforcement—so that it enables planned, equitable, and sustainable development.
- Expand the tax base through taxation of agricultural income and property, and by treating all income groups as subject to progressive taxation. Continued efforts to broaden the tax net, mobilize new income sources, and reduce reliance on regressive indirect taxation (like withholding taxes on utilities) are paramount.

- Critical step is reforms in subsidy spending to benefit the poorest, reducing state-owned enterprise subsidies through improved financial prudence.
- Major reorientation of public spending within social sectors to prioritize primary healthcare and education for those most in need.
- Do Not impose more taxes but target the gaps deliberately created to benefit the wealthy. Removing even 50% of these tax exemptions, can significantly increase revenue—not burdening the poor, but by correcting systemic injustice.
- Implement performance-based budgeting. Link budget allocations to specific human development indicators and national development goals, ensuring that the tax collection and distribution system effectively incentivizes desired outcomes, particularly in social sector investment.
- Establish clear Key Performance Indicators (KPIs) for all public sector spending, and ensure these are regularly reported and publicly accessible, moving beyond post-facto reports like the 'green book'
- **Leverage of public-private partners, Strategic**, scalable and cost-effective public-private partnership models can also play a vital role in expanding fiscal space, enhancing service delivery, and bringing innovation to social sector programming.
- **Internal resource mobilization and foreign aid alignment** The government needs to focus more on internal resource mobilization and harnessing the potential of untapped natural resources before turning to foreign aid. Sukuk (Islamic bonds), remittance-backed bonds, and nutrition bonds should be designed with a child- and gender-sensitive lens to ensure equity in innovative resource allocation.
- Across all sectors, emphasis should be placed on the efficient and effective utilization of public finances, with a focus on outcomes and evidence-based spending, transparency, and impact.
- Improve transparency and citizen inclusion in budgetary process. Prioritize efforts to build public trust in government spending by demonstrating clear results and accountability, similar to the transparency often seen in philanthropic organizations.

INTRODUCTION

The Experts Roundtable, titled: 'Strengthening Fiscal Policies for Inclusive and Sustainable Development: Advancing Child and Gender-Responsive Public Investments', was organized by the Ministry of Planning Development & Special Initiatives in collaboration with the United Nations Children's Fund (UNICEF) and Sustainable Development Policy Institute (SDPI). It comprised one inaugural plenary and three panel discussion sessions.

The objective behind this roundtable was to discuss how to align Pakistan's fiscal strategy with its social development targets. Pakistan is navigating a complex and fragile macroeconomic landscape. The budget deficit stood at over 6.8% of GDP in FY 2022–23,[1] while the debt-to-GDP ratio has exceeded 70%.[2] Persistently low tax revenues—below 10% of GDP combined with rising debt servicing obligations and inflationary pressures, continue to erode the fiscal space available for essential development investments. In this environment of tightening budgets and rising socio-economic vulnerability, difficult trade-offs are being made across government portfolios, with social sectors often the first to face cuts.

This contraction in fiscal space is already having visible consequences on public investments in health, education, nutrition, and social protection. Evidence from UNICEF's Public Expenditure Reviews (PERs) shows that while policy commitments to social development exist, actual allocations are often misaligned with the needs of vulnerable groups. For instance, provinces like Sindh have seen education spending drop to as low as 1.8% of GDP, with similar trends across other regions. The impact is especially severe for adolescent girls, out-of-school children, and children with disabilities—populations who were already underserved.

Significant disparities in social spending persist across provinces. With service delivery largely devolved, a lack of alignment between federal and provincial priorities weakens the coherence and effectiveness of public spending. However, these fiscal constraints also present an opportunity to explore practical and innovative approaches to enhance fiscal space. These include expenditure reallocation, public sector efficiency gains, and alternative financing mechanisms—such as partnerships with development actors and the private sector.

This dialogue has explored practical options for creating fiscal space through improved revenue mobilisation, reallocation of underperforming expenditures, and efficiency gains such as procurement reform and digitalisation. Equally important is the role of alternative financing mechanisms, including greater private sector participation and development partner engagement. These approaches must be underpinned by a firm commitment to equity, with deliberate prioritisation of adolescent girls, youth, and the most marginalised communities.

In line with this focus, the Government has formulated the URAAN framework—a forward-looking policy direction grounded in the 5Es strategy: Export , E-Pakistan, Environment & and Climate Change, Energy & Infrastructure and Equity & Empowerment. Under the Equity & Empowerment, URAAN signals a commitment to reorienting public investments towards the empowerment of women, youth, and vulnerable children. It envisions expanding access to education, digital and green skills, and civic engagement across Pakistan's poorest districts—laying the foundation for a more inclusive, resilient economy.

Parliamentary oversight will be critical in this effort—ensuring that public institutions are held accountable, that resources are allocated transparently and equitably, and that spending decisions reflect the needs of those most at risk of being left behind. As frameworks like URAAN take shape, parliamentarians also have a vital role in tracking progress on equity targets, assessing impact on children and youth, and ensuring budget alignment with inclusive policy commitments. This is a timely and necessary conversation aiming to facilitate a candid and solutions-oriented discussion among policymakers, parliamentarians, civil society, and technical experts. It seeks to collectively explore:

1. How fiscal space can be created within existing macroeconomic constraints;
2. What innovative financing or resource mobilization options could be pursued;
3. How frameworks like URAAN can inform inclusive budgeting practices, with a focus on equity, empowerment, and long-term resilience;
4. The role of parliamentary oversight in ensuring that public spending is transparent, equitable, and responsive to the needs of the most marginalized—particularly adolescent girls, youth, and underserved communities.

After inaugural session, three panel discussions were subsequently held, featuring representatives from the government, private sector, international non-governmental organizations (INGOs), and academia. The panelists focused on social sector investments in provinces, strategies to navigate macroeconomic instability, and the exploration of alternative financing mechanisms amidst fiscal constraints. Each panelist was presented with structured questions tailored to their thematic expertise. Their responses were analyzed in depth, and the insights gathered were synthesized into consensus points for policy recommendations.

INAUGURAL PLENARY

Name (s)	Designation(s)	Organization(s)
Ms.Ambreena Bakhtiar Wellcome Remarks	Chief SDG	MoPD&SI
Mr Muhammad Ali Talpur Chair -Key note speaker.	Joint Chief Economist	M/o PD&SI
Ms Sharmeela Rassool	Deputy Country Representative	UNICEF
Dr Abid Qaiyum Suleri	Executive Director	SDPI
Dr Saima Bashir (context setting and closing remarks)	Member Social Sector	M/o PD&SI

Ms. Ambrina Bakhtiar, Chief of SDGs at the Ministry of Planning Development & Special Initiatives, formally welcomed the participants and outlined the objectives of the roundtable. Mr Muhammad Ali Talpur chaired the inaugural plenary while Ms Sharmeela Rassool and Dr Abid Qaiyum Suleri were the main discussants. They highlighted both the challenges and advancements in the socioeconomic and fiscal landscape of Pakistan. The detailed comments of the speakers are given below.

Ms Sharmeela Rassool, Deputy Representative of UNICEF, Pakistan

Ms Sharmeela Rassool, while analyzing the current situation of the world, described it a world with Volatility, Uncertainty, Complexity, and Ambiguity (VUCA), which means a world that direly needs inclusive and resilient development. Regarding Human Capital Development, Pakistan's HCI score stands at 0.41, which reflects that the country is currently utilizing only 41% of its youth potential. This underscores the urgent need for strategic investments in the social sector and skills development to unlock human capital as a driver of economic growth.

Expressing concerns over the growing inequality in wealth distribution and allocations for social sector development in Pakistan, she said 26.9 million children are out of school, one in every three child is malnourished, and neonatal mortality remains alarmingly high. "Pakistan spends only 1.7% of GDP on education (lagging behind the global benchmark of 4.5%) and 2.9% on health (lagging behind the global benchmark of 6%)." Elaborating on the gravity of situation, she said the neonatal situation is so high that it is like two planes (on board with children) crashing every day. These are the data points that need to be converted into action points with allocations and public investments. Appreciating the Provincial Expenditure Reviews (PERs), she said it is a very smart move and positive step toward identifying fiscal gaps and constraints, enabling more targeted resource allocations and gradually moving towards the generation of a resilient population. She pointed out that the prevalent macroeconomic crisis continues to worsen the situation.

According to the Debt Limitation Act, the acceptable threshold for national debt is 56.7% of GDP, but our current liabilities stand at 67.5% of GDP which is the violation of debt limitation act, so something must be immediately done to make it align with the law. To address this issue, she said, fiscal discipline needs to be changed like PER being appreciated by UNICEF and UN system. Pakistan spends only 1.7% of GDP on education (lagging behind the global benchmark of 4.5%) and 2.9% on health (lagging behind the global benchmark of 6%), which requires immediate action in terms of increase in health and education budgets.

Pakistan's regressive tax system that is based on equity is a threat to the tax justice and disproportionately affects the poor. The poorest 10% of the population contribute 16% of its income to taxes whereas the richest 10% contribute only 9% of their income to taxesa. This needs to be addressed on the principles of tax justice. At UNICEF, it is believed that this inequality must end. With HDI of 0.41 in existing situation , It is fact that child born today will reach only to 40% of its potential in adult life not 100% of its potential. Thirdly, it is essential to ensure that all reforms are much more equitable, aligned with existing laws, policy frameworks, and institutional mechanisms, thereby promoting accountability and equity in Public Finance Management(PFM). She appreciated the holding of an innovative and informative dialogue with the hope of transforming the experts' suggestions and recommendations into actionable measures.

Dr Abid Qaiyum Suleri, Executive Director, Sustainable Development Policy Institute

Dr Suleri said whatever the situation of macroeconomic and social development of the country is, it is also important to consider significant positive developments. "Thanks to the IMF Extended Fund Facility Program 2024-27 due to which there have been apparent signs of economic improvement since the fiscal year 2022–23, as evident by the rise of GDP to $ 411 billion, stabilization of the rupee-dollar exchange rate and increase in foreign exchange reserves."

He further said that this is the first time that Pakistan is preparing budget and navigating two IMF programmes, such as Extended Fund Facility (EFF), and Resilience and Sustainability Facility (RSF). The restrictive EFF primarily aims to address macroeconomic imbalances by reducing the energy circular debt and increasing prices of electricity, gas, and diesel whereas the RSF focuses on long-term sustainability through investments in green technology, renewable energy, proactive climate resilience, and improved disaster preparedness. Though the objectives of the two programmes are in contradiction with each other, however, if managed wisely, they can mediate climate-resilient growth and help lay the foundation for sustainable and inclusive development, despite certain repercussions.

Considering the importance of the social sector as a core pillar of inclusive and equitable growth, with the second IMF programme, there are opportunities for spending money on the social sector. The proactive role of provinces is also crucial regarding spending on the social sector, as the federal government under commitment will not be able to spend on social development programmes designed for a province, so the province has to share the major burden. Accordingly, any major project exceeding PKR 7.5 billion must undergo a Climate Change Impact Assessment. Evaluating public spending through the lens of climate impact investment is new normal, as emphasized by the Climate Public Investment Management Assessment (C-PIMA). This will guide us to social sector spending on marginalized groups, who can be most affected by future climate events. In this regard, investing in children, adolescent girls and gender responsive budget allocations will act as levers to fill the lacuna. Thus, there is also a pressing need to consider robust and sustained investments in Benazir Income Support Programme (BISP) for the fiscal year 2025–26.

To protect marginalized and vulnerable groups such as women, adolescent girls, and children, fiscal discipline is extremely important, particularly against the backdrop of prevailing climate challenges as well as broader economic reforms. There is a dire need to merge climate change agenda with the 2030 agenda of "leaving no one behind". It is believed that the budget 2025-26 will fill many lacunas and today's discussion will not only focus on federal government but also highlight the role of provincial governments in addition to securing sustainable social policy for inclusive budgetary recommendations.

Chair: Mr Muhammad Ali Talpur:

Joint Chief Economist, Ministry of Planning Development & Special Initiatives.

In his keynote speech, Mr Talpur said that the Government of Pakistan is committed to forging a fiscal pathway that is not only sustainable but also deeply inclusive. The government's remarkable initiative, namely URAAN Pakistan, focuses particularly on the Equity and Empowerment agenda and calls for such a reorientation where fiscal policy becomes an engine of uplifting Pakistan's most underserved citizens. Fiscal choices are not just numbers on balance sheet; they are moral, social and development decisions. Every tax reform, every concession as well as every budget line is a decision about inclusion or exclusion and signals that whose lives matter the most in our national priorities.

Currently, he said, we are navigating one of the tightest fiscal spaces; public debt stands at over 70% of GDP and tax to GDP ratio remains below 10%, limiting the room for social investment and seriously affecting the most vulnerable groups. The situation seems even more concerning as obvious by 21.91% of Pakistan's population living below poverty line and with child productivity potential at 40%. However, URAAN Pakistan compels us to confront this reality with boldness to ensure that scarce resources are channeled to where the returns, both social and economic, are greatest and can transform human capital into creative assets for growth and resilience.

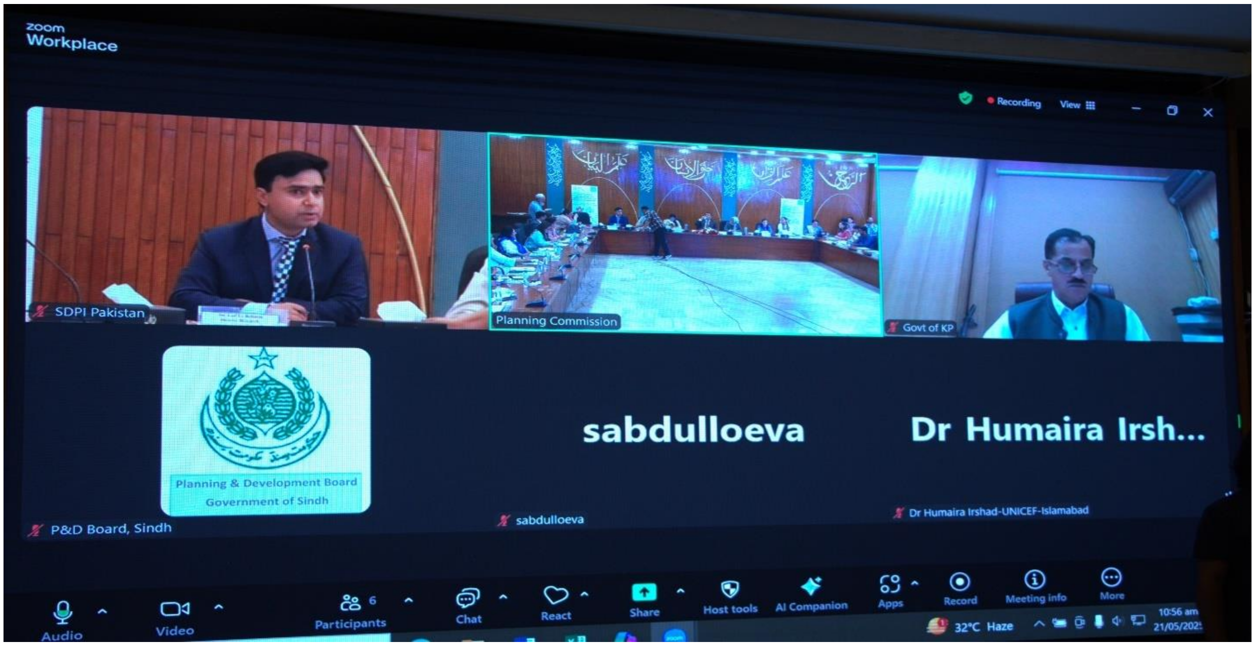
"Our development trajectory depends on the critical sectors of education, healthcare and protection. With female labour force participation below 25%, we must invest in breaking

structural barriers.” URAAN-Pakistan's equity and empowerment agenda underscores the need for integrated investments in education, digital skills and green livelihoods, particularly in the poorest districts of Pakistan.

Under URAAN Pakistan, the accountability of inclusive development does not rest with one ministry only but with the whole government. A high-level technical working group is being formed to bring together government, economists and development partners. This group will explore how we can reallocate existing funds, ensure alignment between URAAN Pakistan framework and Pakistan's SDGs commitment by identifying new fiscal incentives, finding alternative financing opportunities and building resilience through smarter, fairer spending. Today's dialogue is not a stand-alone event. It is a building block in a wider shift toward a rights-based, equity-focused fiscal component.

Alternative financing mechanisms such as digital public finance systems, results-based budgeting and transparent procurement are already under reform, but they must be strengthened via inter-governmental fiscal coordination, aligned priorities and parliamentary oversight. These are critical enablers of the equity and empowerment agenda, ensuring each rupee works harder for inclusion. It is high time to work beyond commitments and deliver concrete outcomes. Let’s leave here united in one resolve to ensure that every rupee spent in Pakistan advances the goals of equity and empowerment for every child, every woman and every underserved community.”

SESSION-1



Social Sector Public Investments in Provinces: Challenges & Opportunities

No.	Name(s)	Designation(s)	Organization(s)
1.	Dr Muhammad Ali Talpur (as Chair)	Joint Chief Economist	M/o PD&SI
2.	Dr Lutf-ur-Rehman	Director Research	P&D, Govt of Balochistan
3.	Mr Syed Bilal Khisro (Virtual)	Chief of Section (PSDP/MDS)	P&D, Govt of Khyber Pakhtunkhwa
4.	Ms Naila Sarfaraz Bhatti (Virtual)	Assistant Chief Planning	P&D, Govt of Sindh

Provincial allocations: reduced fiscal space, transparency gaps and misalignment with national goals

Main Thematic Question: How do you incorporate equity into budget planning and how do you address the specific issues catering to child protection and gender equality?

Secondary Questions: What reforms have been made at the local Government level to better target the issues of social inclusion and sustainability, while keeping in mind the aspect of provincial autonomy after the 18th amendment?

What are the key concrete actions being undertaken in each province that could be rightfully translated into actionable solutions for the coming generations?

Are there any innovative financing mechanisms being implemented in the provinces, and if so, what departments concerned are liable for their implementation?

Government of Baluchistan

To a question of issues faced by the provincial government regarding planning and budgeting in the social sector, **Dr Lutf-ur-Rehman, Director Research, Planning and Development Department, Baluchistan**, said:

Baluchistan is an Agri-based economy. As per the Public Expenditure Reviews conducted in the province, Baluchistan's tax base revenue amounts to just 0.6% of the provincial GDP, and around 90% of provincial spending is funded through federal cash transfers, which exposes the situation of province's limited fiscal autonomy. The UNICEF-supported Public Expenditure Review (PER 2017-2021) examined six critical sectors such as health, education, social protection, nutrition, child protection, and WASH (Water, Sanitation, and Hygiene). The total expenditure across these six sectors was 6% of GDP and it revealed the following: 47% of the spending was gender focused, Over the four years 18% went to education, of which 80% targeted child education. it was learnt that 59% of schools remain non-functional due to non-availability of teachers. It was also learnt that investments have prioritized infrastructure over quality, teacher enrolment and training. At least 12% were allocated to social protection, but only 3% benefited children, 4% was spent on nutrition, 5% went to WASH, and 50% of this was directed toward children. Alarmingly, only 0.01% was allocated to child protection — an extremely neglected area. Baluchistan has the highest OOP Health expenditure and per capita spending on health is the lowest of all provinces, 0.7% of GDP is spent on health in the backdrop of international benchmark of 3% of GDP.

He presented a comparison of expenditure on health, food, public health engineering, higher education, and social welfare pre & post 18th amendment. From 1993 onwards Baluchistan had spent PKR 220 billion on these sectors, and from 1993 to 2010, the spending was PKR 112 billion as compared to the next 15 years that was PKR 118 billion. Considering inflation during these years, Baluchistan lags behind spending on the social sector. This downward trend correlates with the 18th Amendment, and trend of provincial expenditure towards infrastructure. Growth in social protection spending (79% to 90%) is poorly represented by non-contributory pensions, which indicates a heavy dependence on government subsidies rather than contributory models like social insurance.

An important point raised was the involvement of local government in provincial fiscal reforms for enhanced outcomes. Though laws such as the Local Government Act 2011 were introduced to mediate this step and ensure effective service delivery, fiscal transparency, and accountability, many provinces are reluctant to accept the feasibility of this reform. To ensure that fiscal policies translate into tangible outcomes, strengthening the linkages between planning, budgeting, and implementation is essential to ensure service delivery in education, health, and social protection. Moreover, addressing complex, cross-cutting challenges such as gender inequality, climate vulnerability, and youth development requires coordinated multi sectoral approach to deliver more impactful public investments.

Strategic public-private partnerships can also play a vital role in expanding fiscal space, enhancing service delivery, and bringing innovation to social sector programming.

Government of Khyber Pakhtunkhwa

To a question as to how the fiscal space, expenditure and policies are considered in provincial planning and budgeting, Syed Bilal Khisro, the Chief of Section (PSDP/MDS), Planning and Development Department, Khyber Pakhtunkhwa, said:

Social sector financing is top priority of the Government of Khyber Pakhtunkhwa. Similarly, promotion of primary education for girls and health in tribal regions/merged districts of KP remain the top priority as well, considering their transformative potential for community development and economic resilience. In the context of the tribal areas, now referred to as the merged districts, a significant portion of resources is being directed toward essential services. Although health indicators like maternal and infant mortality are not very promising, provincial investment in health and education is being taken care of. For the current financial year, 6.2% of the budget is allocated to primary education, while 17.2% of the Annual Development Program is dedicated to the health sector. These districts are being supported through two key initiatives. In addition to the mainstream development budget, the Accelerated Implementation Program (AIP) specifically targets the most remote and underserved regions. Under this programme, 9.2% of the funding goes to elementary education and 9.7% to health services in the eight previously identified underdeveloped districts. This represents a substantial investment of over 18% in education and health — critical pillars for inclusive development and long-term stability in these areas. These allocations are supported by institutional reforms, legal frameworks, steering, and robust monitoring.

However, this goal is being challenged by a broader economic downturn, which has constrained public resources and heightened the need for strategic, equity-focused spending, particularly amidst the alarming rates of inflation. Federal Public Sector Development Program (PSDP) allocations have fallen to less than 1% of GDP, limiting the central government's capacity to support provincial PSDPs. As mentioned before, the post-18th Amendment fiscal architecture has further complicated coordination between federal and provincial responsibilities. Out of the 36 districts of KP, 8 stand out as critically underdeveloped and in urgent need of attention. While promoting transparent, equitable financing remains essential, these efforts are significantly complicated by persistent geopolitical and security challenges. These crises not only demand immediate and robust interventions but also pose serious hurdles to implementing a truly inclusive development agenda.

One of the strategic ways to move forward and achieve fiscal objectives is the use of aggressive datasets for evaluation and correlation. Currently, the KP government is working on UNICEF's Multiple Indicator Cluster Survey (MICS) for the year 2025, and datasets are critical not only for monitoring social indicators, but also for informing and aligning with the financing strategy, employing a standardized approach for data analysis and ensuring focused equitable financing in the underserved sectors and populations.

To ensure effective service delivery and development impact, there is a critical need to align federal and provincial budgetary allocations, particularly in sectors like education and health, where shared responsibility is essential, especially keeping in mind the mandate of URAAN Pakistan. While there exists financial constraints in provincial budgets, institutional and legal frameworks, robust monitoring mechanisms and decision support systems based on aggressive datasets are still underway to complement the main objective. However, achieving equity-based financing remains a complex and time-intensive challenge that demands sustained effort and greater commitment. Impactful forums such as these can greatly aid in helping formulate a comprehensive strategy that aligns the population needs with the SDGs as well as the mandate of URAAN Pakistan.

1. Aggressive data sets need to be used for planning and allocation with equity,
2. Strategic support through alignment with URAAN programme is critical for equity based allocations.

Government of Sindh

Ms. Naila Sarfaraz Bhatti, Assistant Chief Planning, Planning and Development Department, Government of Sindh, said:

The fiscal situation in Sindh is similar to that of KP and Baluchistan where 62% of revenues is dependent on federal transfers. For the Fiscal Year 2025-26, Sindh is drafting PKR 01 trillion budget and revenue will come from federal grants, PSDP and foreign-funded programmes. As social sector financing is priority, so loans are received from international development partners/organizations such as World Bank, Asian Development Bank, and European Investment Banks for service delivery in health and education, out of school children and social protection. With technical and financial support from the World Bank, efforts are underway to enhance service delivery mechanisms, particularly in underserved regions.

Another sector of priority in budget is the housing sector. Keeping in mind the catastrophic effects of floods in Pakistan (particularly 2010 and 2022), the province, in collaboration with international development partners, is also investing in a mega housing scheme, to address urban and rural housing deficits. Moreover, there have been targeted interventions in the

Water, Sanitation, and Hygiene (WASH) programme to uplift public health outcomes and overall productivity of the vulnerable population.

Regarding innovative financing streams — several important steps have been taken in this direction. Firstly, the provincial government aims to establish a consistent revenue stream. To that end, Sindh Revenue Board (SRB) has been engaged to enhance revenue collection at the provincial level. The Government of Sindh has already undertaken several climate-resilient measures across sectors such as energy, housing, and biogas with one example of a Climate Planning and Development Unit (CPDU) that is in the process of setting up and meant to generate carbon credits. Sindh is actively consulting with international development partners, including UNEP and UNDP, who have expressed their support for this initiative.

In addition, Sustainable Development Goals (SDGs) are gradually being integrated into provincial policies; out of 169 SDG targets, many have aligned them with approximately 60 provincial policies. SDG reporting capacity has increased by 33%. Through effective tracking of development investments, digitalization and institutional transparency efforts are also underway. To better serve the marginalized communities, the Poverty Reduction Strategy was launched in 2018, which was formally approved by the cabinet. Based on this strategy, and with support from the European Union and the Government of Sindh, Rural Growth Centers have been established in Chohar, Jamali, and Sujawal. They are already yielding promising results.

For the Fiscal Year 2025-26, Sindh has presented a balanced budget with a total outlay of PKR 959 billion (including receipts of federal grants and provincial transfers), reflecting a commitment to fiscal responsibility and targeted development spending. In the context of inflationary pressures and economic uncertainty, the provincial government is increasingly utilizing direct cash transfer programmes to support vulnerable populations ensuring inclusiveness.

The next five years plan of Sindh is fully aligned with 5Es framework of URRAN Pakistan. These concerted efforts reflect the Government of Sindh's resolve to steer the province toward sustainable and inclusive development, despite fiscal constraints and external challenges and laying the groundwork for resilient infrastructure, human capital development, and long-term socio-economic transformation.

Concluding Remarks by the Chair of Session 1:

As far as challenges at the provincial level are concerned, the distinguished speakers have mentioned that there are budget proposals and allocations in place to address, mitigate, and overcome these challenges, offering a sense of relief as well. The set of components and targets under URAAN Pakistan also includes the tasks and actions required to tackle these challenges and our commitment to the Sustainable Development Goals further compels us to address them. As highlighted by the speakers, sustainable development units have been established at the provincial level as well and inclusive growth is priority of provincial governments. This is just the beginning and under URAAN Pakistan, the time is approaching when we will see substantial allocations dedicated to these efforts and look forward to far-reaching tangible results in the coming years.

Session 2.

Understanding the Macroeconomic Context — Tax Justice, Debt Management, and Fiscal Constraints

1.	**Ms Ayesha Javed (as Chair)**	**Deputy Secretary (Finance)**	**Ministry of Finance**
2.	Dr Ashfaque Hassan Khan	Member, Academic Committee Former Special Secretary	International Finance Forum (IFF) Ministry of Finance
3.	Mr Tobias Haque	Lead Country Economist	World Bank Pakistan
4.	Dr Ikram-ul-Haq Javed	Tax Laws Expert	Advocate, Supreme Court of Pakistan
5.	Dr Asim Bashir	Public Finance Expert	UNICEF

Ms Ayesha Javed – Deputy Secretary, Ministry of Finance

Ms Ayesha Javed, chair of the session, said the dialogue is timely and meaningful. Being part of the Ministry of Finance, she said she issued the budget ceilings for the Public Sector Development Programme (PSDP), which currently stands at less than 1% of the projected GDP for the upcoming fiscal year.

Giving a brief context-setting overview of recent initiatives by the federal government, she had the privilege of leading Pakistan's first-ever Strategic Budgeting Initiative. Just a few years ago, the concept was unfamiliar with limited acceptance, but the need for such reform had emerged after expert /public consultations organized by the Planning Commission. After transitioning from M/o PDSI to the Ministry of Finance, she was able to successfully integrate these agendas into the national budgetary framework. One of the most significant achievements, was the development of Pakistan's first gender-responsive federal budget. Moreover, climate change considerations are also gradually being incorporated with gender lens into Public Finance Management (PFM) tools, starting from strategic budgeting to budget planning and budget tagging, with further steps being taken to align with other Sustainable Development Goals (SDGs). In this connection, she added, an institutional framework capturing the green component of subsidized systems has also been established.

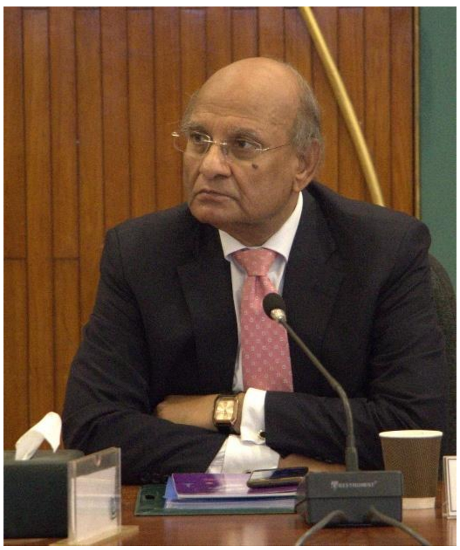
Main theme : Based on your experience in the finance sector, how do you see all the systems of planning and budget formulation evolving over the years. Additionally, what role can academia play in sensitizing and generating some advocacy for the integration of social sector considerations into the budget planning and execution?

Secondary themes:

1. Given the current fiscal deterioration and turmoil, to what extent do you believe the IMF programme is contributing to these challenges?
2. In light of the pension reforms, and corrective measures for inflation control and fiscal stability, do you believe the government's claim of a "V-shaped" recovery is credible?

3. Since we are currently operating within an IMF-led framework, the measures you've suggested for fiscal management, which largely focus on the expenditure side—how feasible are these under IMF oversight?
4. Why did Pakistan enter another IMF program, and what factors contributed to this decision? As obvious by the doubling of the public expenditure as a percentage of the GDP, the tax-GDP ratio remaining stagnant, and the political failure of the NFC Award, one needs to consider, is IMF totally responsible for this situation or is it the doing of the Government of Pakistan?

Dr Ashfaque Hassan Khan, Member, Academic Committee NUST , Former Special Secretary



The accumulation of national debt is directly linked with budgetary deficit — a result of excess of expenditure than revenue. Larger the deficit, the greater the need for borrowing will be. In this context, the role of IMF programmes is important. Whenever a country enters into an agreement with foreign aid organizations due to confidential push and pull factors, it loses its ability to make independent policy decisions and compromises its financial sovereignty. While the IMF guides fiscal policies, its primary interest lies in ensuring repayment of the financial aid it extends. The real culprit in our fiscal crisis is interest payments. Approximately 81% of tax revenue is consumed by interest payments/debt servicing, leaving negligible funds for essential public services and development spending. Over the last five years, interest payments have grown at an average rate of 35% annually, far exceeding the pace of tax revenue growth, making it impossible to bridge the gap. The State Bank of Pakistan's policy is responsible for raising interest rates that worsened the country's economic woes. Inflation in Pakistan is mainly driven by supply-side issues, thus increasing interest rate has led to stagflation that is high inflation combined with low growth. With a real interest rate of about 10% and GDP growth under 3%, Pakistan faces serious instability. The prolonged high interest rates have severely damaged the country's budget, as only 1% hike adds over PKR 300 billion to the interest rate.

Pakistan's fiscal policy has now become subservient to its monetary policy. Inflation has now come down to around 1%, an aspect that is often credited to the State Bank's tight monetary policy. It had surged due to factors such as senseless devaluation of the currency, which is inherently inflationary. Currency devaluation triggers inflation, prompting the State Bank to raise interest rates. This cycle of devaluation, inflation, and interest rate hikes was well documented in the Economic Survey of Pakistan. The real drivers of inflation were currency devaluation, global commodity price spikes (especially after the Russia-Ukraine crisis), rising domestic food prices, and increases in utility rates — all of which raised the cost of production and consumer prices. Now, the declining inflation is due to a stabilized exchange rate, declining global and domestic commodity and food prices, a strong wheat harvest, timely imports, and lower energy prices. The common prevalent myth that keeps the exchange rate artificially stable can effectively control inflation. Such short-term fixes fail to address the deeper structural problems in the economy.

In the overall fiscal framework of the country, several structural and institutional flaws were also highlighted by the speaker. On the expenditure side, Current Expenditure covers recurring expenses such as salaries, pensions, subsidies, and crucial interest payments on existing debt. Public Sector Development Programme (PSDP) Expenditure represents investments in infrastructure, social services, and other development projects aimed at long-term growth. PSDP often appears to be residual and squeezed. From 2018 to-date, the proportion of total revenue for debt servicing has risen from 29% to 60%. This trend severely undermines the state's capacity to fund essential development and public services. On the revenue side, the Federal Board of Revenue (FBR) is the primary source of government income, contributing an estimated 80% to 85% of total revenue. However, FBR revenue target is often treated as a "residual number" not based on a realistic assessment of economic activity and growth. This explains why Pakistan's tax-to-GDP ratio remains stagnant and low compared to regional and global benchmarks.

To address these fiscal challenges, following measures are suggested.

1. Public Sector Development Program (PSDP) should see no increase for at least two years. Instead, resources should be allocated strategically to ongoing projects, particularly those of a strategic nature. There are approximately 12,000 ongoing

projects with a massive "throw forward" amounting to almost PKR 11 trillion, indicating significant project backlog and potential inefficiencies.

2. On the revenue side, aggressive implementation of Point of Sale (POS) systems is recommended to enhance tax collection.
3. Tax collection should be treated as a primary and strategic policy tool—with well-designed tax laws, improved compliance, broadened tax base, and stronger enforcement—so that it enables planned, equitable, and sustainable development.

The discussion concluded by emphasizing that such strategic budgeting initiatives are not about increasing spending rather about spending effectively, a crucial distinction often misunderstood in the broader macro-fiscal considerations.

Mr Tobias Haque, Country Economist, The World Bank

What sort of corrective measures can be helpful to prioritize child-sensitive budgeting in developing countries like Pakistan, in terms of tax restructuring, tax reforms, and other reforms in the fiscal side?

Pakistan's recent macroeconomic policies have demonstrated significant success over the past 18 months. Inflation has notably decreased from 40% to single digits, allowing the policy rate to fall to approximately 11%, resulting in a real interest rate of around 2%. This progress has helped reduce debt servicing costs, effectively bringing macroeconomic stability under control. While acknowledging the difficulty of this adjustment, the central bank's actions are aligned with textbook economic principles, yielding tangible results in managing inflation. This renewed stability provides crucial fiscal space to refocus on development and enhance the progressivity and utility of public spending.

Given a poverty rate of 40%, this implies that 30% of the poor are net contributors to the fiscal system, suggesting that the current fiscal framework contributes to poverty.

Despite these macroeconomic achievements, Pakistan's fiscal policy falls short in reducing poverty and inequality. Empirical analysis reveals that only the bottom 10% of households are net beneficiaries of the fiscal system, who received more than they contribute to taxes. Given a poverty rate of 40%, this implies that 30% of the poor are net contributors to the fiscal system, which suggests that the current fiscal framework contributes to poverty. In contrast to most low- and middle-income countries where fiscal systems typically reduce inequality by around 6% (based on the Gini coefficient), Pakistan's system offers negligible reduction. This indicates a significant deficiency in the redistributive function of the fiscal system, an unusual international anomaly.

Expenditure & Subsidies

- Benazir Income Support Program (BISP) 0.5% of GDP,
- State-owned enterprise subsidies 1.5% of GDP
- Interest payments 6%.

Effectively Higher Resource allocations and subsidies to higher income groups

- Only 70% of the poorest decile even have an electricity connection.
- Large gas circular debt, 4-5% of GDP, excludes 85% of the bottom decile who lack gas connections.
- Spending on tertiary education is 17.5 times higher than per primary student, .

This lack of progressivity stems from fundamental issues in both expenditure allocation and the tax system. On the expenditure side, progressive social transfers (like the Benazir Income Support Program) account for only 0.5% of GDP, dwarfed by state-owned enterprise subsidies at 1.5% of GDP and interest payments consuming 6%. Furthermore, significant spending on electricity subsidies disproportionately benefits higher-income groups, as only 70% of the poorest decile even have electricity connection. Similarly, large gas circular debt, around 4-5% of GDP, provides services that exclude 85% of the bottom decile who lack gas connections. Spending on tertiary education also shows disproportionality, with 17.5 times more expenditure per tertiary student than per primary student, effectively allocating resources to higher-income groups.

The tax system further exacerbates the problem. While direct taxes (personal and corporate income tax) are crucial for progressivity, (accounting for about 40% of tax revenue in average low- and middle-income countries) Pakistan collects only 20% from these sources.

Consequently, households across all income brackets contribute approximately 8% of their income to taxes, indicating a lack of progressive taxation.

Encouragingly, the government is making strides in the right direction. Efforts are underway to reduce electricity and gas subsidies, moving towards targeting them based on household welfare rather than consumption.

Following measures need to be taken.

1. Expand the tax base through taxation of agricultural income and property, and by treating all income groups as subject to progressive taxation.
2. The next critical steps involve further reforms in subsidy spending to benefit the poorest, reducing state-owned enterprise subsidies through improved financial prudence,
3. Major reorientation of public spending within social sectors to prioritize primary healthcare and education for those most in need.
4. On the tax front, continued efforts to broaden the tax net, mobilize new income sources, and reduce reliance on regressive indirect taxation (like withholding taxes on utilities) are paramount.

Dr Ikram-ul-Haq Javed, Advocate, Supreme Court of Pakistan

Focusing on the aspect of revenue generation and based on your experience in the legal system and tax regime of Pakistan, how responsive are the existing tax laws in catering to the needs of the vulnerable groups of the population?

In Pakistan, the incidence of taxation falls disproportionately on the poor and less privileged. We often talk about increasing taxes but let me remind you that our tax expenditure in 2023 was PKR 4 trillion. Though we push for more taxation, Pakistan already has one of the highest effective tax burdens, i.e. over 50% like Scandinavian countries. Unlike those countries, we receive very little in return. Most of our revenues go directly to debt servicing, leaving little fiscal space for social investments. There are three key issues that demonstrate how our current tax system is oppressive, anti-business, and anti-people. Firstly, over 98% of tax collection is now done through withholding agents, not by the FBR itself. Only 2% of tax collection last year came from the FBR's direct efforts — through audits or assessments. Moreover, the FBR has entangled taxpayers in endless legal battles. There are more tax cases filed than actual taxpayers. The tax administration litigates so aggressively that it takes nearly 25 years for a tax dispute to reach a final settlement in the Supreme Court, making lives difficult for common citizens.

Tax Disputes

- FBR and taxpayers endless legal battles.
- More tax cases filed than actual taxpayers.
- Aggressive Litigation
- It takes nearly 25 years for final settlement in the Supreme Court,
- Making lives difficult for common citizens

As mandated under the Public Finance Management Act of 2019, the FBR must publish a **Tax expenditure report** alongside the **Finance Bill**; it is something which is routinely ignored. It shows PKR 4 trillion in tax exemptions, most of which benefit the rich and powerful — and benefit the colonial-style ruling elite, their luxurious residences, and privileges.

Few Recommendations:

1. Do Not imposing more taxes but target the gaps deliberately created to benefit the wealthy.
2. Removing even 50% of these tax exemptions, can significantly increase revenue—not burdening the poor, but by correcting systemic injustice.
3. Creation of fiscal space is needed to invest in social services to benefit everyone, especially the marginalized.

Dr Asim Bashir, Public Finance Expert, UNICEF

The key Question :Keeping in mind the socioeconomic crises in the country, what is the role of parliamentarians and policymakers in the advocacy of significant efforts in budgetary planning and implementation and how can this role be strengthened?

In Pakistan, despite there is a direct income tax system is in place, the overall taxation system is highly regressive, overly reliant on transactional taxes (like withholding taxes) rather than tracking actual income. This leads to a situation where the incidence of taxation is borne heavily by those with lower disposable incomes. For instance, tax rates, including sales tax on services (like telecom services at 19.5%, which, with advanced income tax, can effectively reach 34.5%), are exceptionally high, comparable to OECD or EU countries, even though Pakistan's per capita income falls among the lowest globally. This significantly reduces already meagre disposable incomes.

Furthermore, tax expenditures (concessions and exemptions) have ballooned from 0.3% of GDP in 2003 to 3.7% in 2024. Simulations suggest that a mere 20% reduction in these expenditures could double federal social protection spending in a single year, highlighting a significant imbalance in benefit distribution. Secondly, the tax collection and distribution system needs scrutiny. This includes assessing whether the system is performance-based, incentivizes desired outcomes such as social sector investment, and effectively supports national development goals.

Thirdly, the spending of taxpayers' money is a critical component of tax justice. An unambiguous difference exists between the public's trust in philanthropic organizations and government bodies. While philanthropic spending often demonstrates high transparency and credibility, with visible results fostering public trust, similar transparency and trust are largely absent in public sector spending, be it at federal or provincial levels. This indicates a significant public sector failure in demonstrating effective and trustworthy utilization of public funds.

Finally, the impact of public sector performance on human development indicators is a direct reflection of tax justice. Pakistan's declining Human Development Index (HDI) ranking, from 145 out of 193 countries in 2008 to 163-164 out of 193 countries currently, signifies a regression from medium income to a low human development country, placing it among the bottom 30 countries in terms of per capita income. This continuous decline, despite high tax rates, underscores the failure of public sector governance and the inefficient use of taxpayers' money to translate into tangible human development improvements.

Regarding the next year's budget and tax distribution, while constitutional taxation powers rest with the federal government, the current distribution mechanism under Article 160 of the Constitution is flawed. The formula for provincial distribution, though multi-factor, gives an overriding 82% consideration to population – a non-performance-based indicator. Other factors include poverty (10.3%), revenue collection (5%), and area (2.7%). This non-performance-based approach incentivizes factors unrelated to real effort or improvements in human development. We should seriously consider revising this tax distribution to incentivize performance, such as improvements in human development conditions or reductions in population growth and fertility rates, rather than just population size. No country globally assigns such a high weight (82%) to population; many cap it at 50%, with India at merely 25%, prioritizing demographic performance and real tax effect. By achieving justice in tax distribution, we can truly incentivize performance.

Beyond internal governance challenges like accumulated debt and historical issues with taxation, transparency, accountability, and citizen non-inclusion in the budgetary process, exogenous factors like climate change pose significant threats. The recent IMF review report highlighted Pakistan's low preparedness for climate change adaptation, which compromises its ability to provide public goods and invest in human development. From 1950 to 2024, floods alone have caused Pakistan $54 billion in losses, exceeding the $47 billion in US aid received during the same period. The recent catastrophic floods further underscore these losses.

Therefore, we must focus on:

1. Transparency and inclusion in spending what remains after non-discretionary expenditures.
2. Citizen Participation in budgetary process at federal, provincial, or district levels
3. Access to information on budget KPIs, outputs, or outcomes. While a 'green book' provides some post-facto KPIs.
4. Pakistan needs a functional, performance-based medium-term budgetary framework where allocations are determined by prior year performance.

SESSION-3

Leveraging Alternative Financing Opportunities to Create Fiscal Space for funding Public Services

1.	Dr. Saima Bashir (as Chair)	Member, Social Sector	M/o PD&SI
2.	Dr Sajid Amin Javed	Deputy Executive Director (Research)	Sustainable Development Policy Institute Islamabad
3.	Dr Ali Salman	Founder and Executive Director	PRIME
4.	Ms Baela Raza Jamil	Chief Executive Officer and Educationist	Idara-e-Taleem-o-Agahi

Dr Sajid Amin Javed, Deputy Executive Director, SDPI

What practical fiscal reforms can be introduced to reallocate finances towards the underserved sectors of society, particularly adolescent girls and vulnerable children?

There is an urgent need for Gender-Responsive Budgeting. Applying a gender lens to policy analysis is essential to ensure that fiscal decisions are inclusive, equitable, and responsive to the needs of women, girls, and marginalized communities.

Generally, the situation is analyzed with respect to the concept of populism, something that is no longer limited to politics but is increasingly shaping the policy framework as well. Public discussions are often based on narratives that have no factual backing, leading to decisions based more on perception than evidence. A concerning pattern has emerged based on this strategy, where whenever our economic growth falls below 3% , we move to IMF programmes rather than addressing structural flaws. There exists a diverse range of alternative financing mechanisms such as impact investment, social bonds, and impact bonds. However, our current investment and budgeting frameworks are not designed or aligned to support impact-driven financing and evaluation frameworks also remain underdeveloped. Without these foundational elements, we cannot effectively manage and assess alternative financing for sustainable outcomes.

Alternative Financing Mechanisms

- Impact investment,
- Social bonds,
- Impact bonds.
- Carbon credits
- Green bonds
- Blended finance models.
- Climate finance

Pakistan must strengthen its institutional and regulatory readiness to manage impact investments and social bonds, which can serve as powerful tools for financing inclusive development. Strengthening M&E and promoting transparent procurement systems are also essential for enhancing efficiency and accountability. There is a need to establish a unified public finance framework to support alternative financing instruments such as impact investments, carbon credits, green bonds, blended finance models and climate financing. For alternate financing, coordination among player organizations such as Planning Commission, ssMinistry of Finance, and Ministry of Climate Change. Aligning key existing institutions, including taxation bodies, registration authorities, and regulatory agencies, is crucial for a robust fiscal framework. Most importantly, establishing dedicated national forums will help build investor confidence, encourage innovation, and align private sector contributions with national development goals. In this way, there is need to:

1. Avoid populist and narrative based policy frameworks, switch towards evidence based innovative financing policy.
2. Create enabling environment in the form of frameworks and regulatory support.
3. Narrow down interventions within the existing frameworks and coordinate for new frameworks.

Dr Ali Salman - Policy Research Institute of Market Economy (PRIME)

Based on your experience, are there any successful or promising alternative financing models in Pakistan—such as public-private partnerships or social impact bonds—that have been effectively used to support child- and gender-responsive service delivery?

There is a need to analyze case studies based on models of alternative financing, focusing on three key sectors, i.e. education, pension and housing. With reference to child education, the PM declared an emergency characterized by the alarming number of out-of-school children, but unfortunately, no prompt action was taken. A major concern in Pakistan is the distrust that people have in functionality of government schools. Even the children from low-income families prefer to opt out of school despite having limited options, hence underscoring the need for innovative solutions.

One such example is the Education Voucher Scheme launched by the Government of Punjab 13 years ago. Initially launched in Lahore, it helped approximately 10,000 students return to school, helping cover education-related expenses. The programme proved to be successful and is now supporting over one million students. While the government spends PKR 4,000 per student per month in public schools, the voucher programme enables private schooling at just PKR 600–700 per student per month and is an excellent example of a cost-effective financing model. This approach has allowed the government to retain its role as the guarantor of education while enhancing the efficiency and reach of private schools and has allocated PKR 670 billion to the education sector.

In the pension sector, the government is exploring private sector engagement and capital market instruments to reform and sustain pension systems, aiming to reduce long-term fiscal burdens while ensuring retirement security for both civilians and ex-military personnel. Private sector participation in housing schemes is also being leveraged to meet growing urban housing needs and improve affordability through innovative financing, impact assessment and construction models. In short, across all sectors, emphasis should be placed on the efficient and effective utilization of public finances, with a focus on outcomes-based spending, transparency, and impact.

Ms Baela Raza Jamil, Chief Executive Officer, Idara-e-Taleem-o-Agahi

How can foreign aid and external financing be better aligned with national goals and the mandate of URAAN Pakistan based on "Equity and Empowerment,"

There are certain principles that need to be highlighted when talking about the approach to child and gender-focused development. Assigning a cost to every missed school day, every stunted child and every maternal fatality would allow us to better prioritize resources and confront the hard choices we face in an increasingly complex fiscal and social environment. The educational crisis is deeply linked with nutrition, climate vulnerability and gender inequality and hence requires a multisectoral approach, extending support to individuals from birth to adulthood.

Another principle is informed decision-making through strong data governance. Currently, less than 50% of children in Pakistan have their births registered which disrupts the entire cycle of human development, from education and healthcare to access to social protection. The connection between social protection and registration authorities needs to be strengthened, calling in player institutions such as NADRA. Free birth registration, particularly for low-income families, is one approach that can aid in facilitating the underprivileged fractions of society.

There is a need to focus more on domestic resource mobilization before turning to donors. As discussed before, Sindh allocates 62% of its development budget to social sector where a large share is donor-driven, and the time has come to go beyond traditional aid. There is also vast potential in mobilizing revenues from natural resources — oil, gas, and minerals — which remain untapped.

In terms of innovative financing mechanisms such as Public Private Partnerships in the education sector, the Punjab Education Foundation (PEF), has managed to enroll over three million children and Khyber Pakhtunkhwa and Sindh Education Foundation have enrolled one million students each. Hence, proving to be examples of scalable, cost-effective models of which many citizens of the country are not even aware. We have underutilized Corporate Social Responsibility (CSR) in Pakistan. By contrast, India's Access to Education Fund requires 1–2% CSR contributions and is a model worth replicating. Outcome-based financing mechanisms such as Social Impact Bonds and Development Impact Bonds need to be explored as these tools reward promising results and shift risk away from the public sector. Sukuk (Islamic bonds), remittance-backed bonds, and nutrition bonds should be designed with a child- and gender-sensitive lens to ensure equity in resource allocation.

There is also the concern of aligning foreign with national priorities and development goals. Pakistan has received substantial external support—for example, International Finance Facility for Education (IFFE) offered $500 million, just for revamping the education sector. However, without effectively absorbing, aligning, and tracking aid, these funds are hugely wasted.

Lastly, the mechanism of budgetary allocations also needs to be rethought. The National Finance Commission Award divides federal resources among provinces based solely on population size and ignores development needs and structural weaknesses. This exacerbates socioeconomic crises, and the time has come to adopt a focused, needs-based approach. Pre-budget forums such as the Experts Roundtable can prove to be extremely vital in highlighting institutional flaws and moving towards strategic, fruitful outcomes for the future of the country.

CLOSING REMARKS

Dr. Saima Bashir, Member, Social Sector and Devolution, M/o Panning Development &Special Initiatives.

Dr Saima Bashir, Chair of the third session, said that this is a timely dialogue that initiated a solution-oriented discussion among policymakers, parliamentarians, civil society, and technical experts, who not only explored practical options for creating fiscal space within the existing budgetary capacities but also considered the possibility of exploring alternative financing mechanisms, bringing private sector into the picture, and ensuring that resources are allocated transparently and equitably.

This dialogue unfolds against the backdrop of a transforming macroeconomic landscape, marked by signs of considerable GDP growth and stability. However, no macroeconomic recovery can be truly sustained without meaningful progress for women, children, and social sector investment.

Ultimately, this dialogue is about aligning Pakistan's fiscal strategy with its social and human development goals ensuring that robust investments are made in a way that are inclusive, efficient, and sustainable. Inclusive development is not an expense; it is an investment in the nation's long-term resilience, prosperity, and equity.

The vulnerable groups highlighted throughout the dialogue are our country's future and the time has become that we invest in revamping the social landscape of our country and generating actionable recommendations that place our children at the heart of Pakistan's development agenda.

CONSENSUS POINTS FOR POLICY RECOMMENDATIONS

Address structural and institutional disparities by establishing linkages between planning, budgeting and implementation.

- Essential to ensure that fiscal policies translate into tangible outcomes, particularly in education, health, and social protection for children and marginalized groups.
- Establishment of interministerial and multisectoral approach for federal and provincial social sector budget alignment and to address complex cross cutting issues of climate change and gender inequality**.** The education crisis is deeply linked with nutrition, climate vulnerability and gender inequality and hence requires a multisectoral approach, extending support to individuals from birth to adulthood.
- Ensure effective service delivery and development impact, there is a critical need to align federal and provincial budgetary allocations, particularly in sectors like education, health and youth development, with the mandate of URAAN Pakistan, while addressing cross-cutting issues of gender inequality, climate vulnerability, etc.
- National Finance Commission Awards should be granted based on structural weaknesses and development needs of provinces, instead of a population-based approach.

Improve transparency and citizen inclusion in budgetary processes

- Establish proper mechanisms at federal, provincial, and district levels to enable meaningful citizen participation in the budgetary process. This includes pre-budget consultations and feedback loops.
- Ensure that comprehensive, understandable, and timely information on budget allocations, expenditures, outputs, and outcomes is readily accessible to the public through online portals and other accessible formats

Resource allocation and inclusivity of social protection programmes.

- The connection between social protection and registration authorities needs to be strengthened, calling in player institutions such as NADRA. Free birth registration, particularly for low-income families, is one approach that can aid in facilitating the underprivileged fractions of society.
- There is a pressing need to consider robust and sustained investments in the Benazir Income Support Program (BISP) for the fiscal year 2025–26, ensuring that social protection remains a core pillar of inclusive and equitable growth

Macroeconomic Context — Tax Justice, Debt Management, and Fiscal Constraints

- Rationalize and reallocate tax expenditures. Immediately initiate a comprehensive and time-bound review of all tax expenditures (concessions and exemptions), which have ballooned to 3.7% of GDP.
- Implement policies to transparently reallocate substantial savings from reducing tax expenditures directly into federal social protection programs, such as the Benazir Income Support Program (BISP). Even a modest 20% reduction could significantly increase funding for the most vulnerable.

    - Tax collection should be treated as a primary and strategic policy tool—with well-designed tax laws, improved compliance, broadened tax base, and stronger enforcement—so that it enables planned, equitable, and sustainable development.
    - Expand the tax base through taxation of agricultural income and property, and by treating all income groups as subject to progressive taxation. Continued efforts to broaden the tax net, mobilize new income sources, and reduce reliance on regressive indirect taxation (like withholding taxes on utilities) are paramount.
    - Critical step is reforms in subsidy spending to benefit the poorest, reducing state-owned enterprise subsidies through improved financial prudence.
    - Major reorientation of public spending within social sectors to prioritize primary healthcare and education for those most in need.

- Do Not impose more taxes but target the gaps deliberately created to benefit the wealthy. Removing even 50% of these tax exemptions, can significantly increase revenue—not burdening the poor, but by correcting systemic

Implement performance-based budgeting

- Develop and rigorously implement a functional, performance-based medium-term budgetary framework where allocations are determined by prior-year performance, output, and outcomes of government programmes and projects, rather than historical allocations.
- Link budget allocations to specific human development indicators and national development goals, ensuring that the tax collection and distribution system effectively incentivizes desired outcomes, particularly in social sector investment.
- Establish clear Key Performance Indicators (KPIs) for all public sector spending, and ensure these are regularly reported and publicly accessible, moving beyond post-facto reports like the 'green book'
- Avoid populist and narrative based policy frameworks, switch towards evidence based innovative financing policy. Create enabling environment in the form of frameworks and regulatory support. Narrow down interventions within the existing frameworks and coordinate for new frameworks

Leverage of public-private partnerships

- Strategic, scalable and cost-effective public-private partnership models can also play a vital role in expanding fiscal space, enhancing service delivery, and bringing innovation to social sector programming
- Dedicated national forums need to be established to promote and facilitate social investments that will help build investor confidence, encourage innovation, and align private sector contributions with national development goals.

Alternative Financing Opportunities to Create Fiscal Space for funding Public Service

- Establish a unified public finance framework to support alternative financing instruments such as impact assessments, carbon credit, green bonds, blended finance models and climate financing—with coordination among player organizations such as Planning Commission, Ministry of Finance, and Ministry of Climate Change. Player institutions, such as taxation bodies, registration authorities, and regulatory agencies, need to be aligned for a robust and accountable fiscal framework.

Internal resource mobilization and foreign aid alignment

- The government needs to focus more on internal resource mobilization and harnessing the potential of untapped natural resources before turning to foreign aid. Sukuk (Islamic bonds), remittance-backed bonds, and nutrition bonds should be designed with a child- and gender-sensitive lens to ensure equity in resource allocation..
- Foreign aid needs to be timely absorbed, aligned and tracked with respect to national goals and development priorities

Integrate climate change adaptation into fiscal planning

- Develop and implement a "climate-sensitive" budgetary framework that systematically assesses and allocates resources for climate change adaptation and mitigation across all sectors.
- Prioritize investments in climate resilience measures to reduce the devastating economic losses caused by climate-induced disasters (e.g., floods, which have cost Pakistan $54 billion since 1950), thereby protecting public goods and human development investments.
- Address the low preparedness for climate change adaptation highlighted by the IMF, by ensuring fiscal policies support robust disaster risk reduction and response mechanisms.
- Across all sectors, emphasis should be placed on the efficient and effective utilization of public finances, with a focus on outcomes and evidence-based spending, transparency, and impact.

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Appendix I

Agenda of the Event

Agenda

Strengthening Fiscal Policies for Inclusive and Sustainable Development: ***Advancing Child and Gender-Responsive Public Investments***

Date: Wednesday, May 21st, 2025
Time: 09:00 am – 1:45 pm
Venue: Main Auditorium, P-Block, Planning Commission, Islamabad

Timings	SESSIONS
09:00 am - 09:30 am	**Registration**
09:30 am - 09:35 am	**Recitation from the Holy Quran National Anthem**
09:30 am - 09:50 am	**Welcome, Objectives and Context Setting** **Dr. Saima Bashir** – Member Social Sector/SDG Chief, Ministry of Planning, Development and Special Initiatives
09:50 am - 10:30 am	**Opening Remarks** **Mr. Abdullah Fadil** UNICEF Country Representative **Dr. Abid Suleri** Executive Director, Sustainable Development Policy Initiatives **Chief Guest – Keynote Address** **Professor Ahsan Iqbal** Federal Minister/Deputy Chairman Ministry of Planning Development and Special Initiatives
	PANEL DISCUSSIONS This high-level moderated roundtable will convene government stakeholders, economists, parliamentarians, and development partners to explore Pakistan's fiscal policies, macroeconomic challenges, and the evolving aid landscape through children, gender and equity lenses. The discussion will center on how revenue strategies, and budget allocations can prioritize social sector investment especially in adolescent girls, youth, and marginalized communities as part of a more inclusive and sustainable economic agenda. It will also examine the critical role of parliamentary oversight in promoting transparency, accountability, and equitable public finance.
10:30 am – 11:30 am	**Session 1: Social Sector Public Investments in Provinces: Challenges & Opportunities** **Chair: Dr. Muhammad Ali Talpur** – Joint Chief Economist, Economic Policy **Speakers** - **Representative** – Planning and Development Board Punjab (TBC) - **Mr. Rafique Mustafa Shaikh** – Member Social Sector, Planning & Development Department, Government of Sindh, Karachi (Virtually) - **Mr. Muhammad Aslam Soomro** – Chief Economist, Planning & Development Department, Government of Sindh (Virtually) - **Dr. Lutf Ur Rehman** – Director Research, Government of Balochistan Planning and Development Department Government of Balochistan

	- **Mr. Pir Aimal** – Assistant Chief IDS, Planning and Development Department, Government of Khyber Pakhtunkhwa.
11:30 am – 12:30 pm	**Session 2: Understating Macroeconomic Context: Issues of Tax Justice, Debt Management and Fiscal Constraints** **Chair: Dr. Nadeem Javed** – Vice Chancellor PIDE **Speakers** - **Dr. Ikram-ul-Haq** – Advocate Supreme Court/Tax Laws Expert - **Ms. Ayesha Javed** – Deputy Secretary, Ministry of Finance - **Dr. Asim Bashir** – Public Finance Expert, UNICEF - **Mr. Tobias Haque** – Lead Country Economist, Program Leader - Economic Policy, Finance, Poverty, Governance – Pakistan, World Bank - **Dr. Ashfaque Hassan Khan** – Member Academic Committee, International Finance Forum (IFF), Former Special Secretary Finance **Q&A session from the audience**
12:30 pm – 01:30 pm	**Session 3: Leveraging Alternative Financing Opportunities to Create Fiscal Space for funding Public Services** **Chair: Mr. Bilal Azhar Kiyani** – State Minister for Railways (TBC) **Speakers** – **Ms. Sabeen Quereshi** – Additional Secretary, Ministry of Economic Affairs – **Ms. Sharmeela Rasool** – Deputy Representative, UNICEF – **Dr. Nafisa Shah** – Special Committee on Gender Mainstreaming Senate (TBC) – **Mr. Ali Salman** – Founder and Executive Director, PRIME Institute – **Dr. Sajid Amin** – Deputy Executive Director Research, SDPI – **Dr. Baela Raza Jamil** – CEO, Idara-e-Taleem-o-Aagahi (ITA), Centre for Education and Consciousness **Q&A session from the audience**
01:30 pm – 01:45 pm	**Closing remarks** **Dr. Imtiaz Ahmed** – Chief Economist Ministry of Planning Development and Special Initiatives
01:45 pm	**Lunch and Networking**

Appendix II

Picture Gallery


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