INTERNATIONAL THE NEWS

Keeping business first

Nasir Iqbal | 02nd June 2025

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BUDGET 2025-2026

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For decades, our budgets have revolved around populist announcements, superficial allocations, and burdensome taxation that chokes rather than catalyses the economy's businesses. This has stunted the growth of the manufacturing sector.

It is time to move away from the traditional pseudo-welfare-centric narrative and craft a 'Business-First Budget'.

The budget for FY2025-26 must be a declaration that Pakistan is open for business. What does this narrative mean, and what needs to be declared through measures? This means the government's role should not be that of a regulator obsessed with licensing -- to exert authority, registration -- just to know in numbers, and revenue collection without expenditure efficiency. Instead, it must be a facilitator for entrepreneurship, enterprise development, innovation and economic empowerment.

Specifically, our entire governance architecture is now designed to discourage business. Entrepreneurs face hurdles created by multiple regulators that create friction rather than ease. From the federal to provincial governments vertically, dozens of departments and ministries horizontally. Which seems to exist only to preserve bureaucratic empires, elite civil structures and absolutely not support enterprise development. Can we paddle on the same policy handles yet to create more hurdles to cross? No! It's time to rethink.

We must abolish all types of mandatory business registration unless a company crosses a reasonable income or employment threshold. Let the informal sector breathe. Remove the fear of regulators, allow easy access to digital finance, and create incentives to enter formality voluntarily -- not through coercion.

Let this budget start by announcing the elimination of all non-performing and redundant ministries/departments and the archaic regulations/registration requirements that serve no purpose for economic or governance functions. The world is much ahead of us in this regard. The UAE cancelled many Economic Substance Regulations Filings last October. These institutional dinosaurs in Pakistan drain resources without delivering services. Their existence is unjustifiable in an economy struggling with deficits and stagnation.

This is not a utopian dream. Countries across the globe are successfully running single-window digital platforms for business registration. PIDE Policy Viewpoint No 47 (2025) proposes a fully digital and AI-verified business registration system that links identity (CNIC/passport), banking access, and regulatory compliance -- all without setting foot in a government office.

Such a system would not only empower micro, small, and medium enterprises (MSMEs), but also generate a pipeline for tax expansion by building trust. More importantly, it would cut the transaction cost of doing business, especially in rural areas, where registration and licensing remain inaccessible.

Second, taxation reform must begin with reduction, not expansion, with new taxes and tariffs. Pakistan’s tax base has shrunk, because the system is designed to penalise formality. We tax businesses not when they profit, but simply for trying to exist. Withholding taxes, business registration, sales tax registration, income tax filing, property taxes, and dozens of other complex federal and provincial taxes.

While the world is moving towards simple, low, and few taxes, one report from late October 2024 suggested that out of around 200,000 companies registered for sales tax, only 40,000 to 60,000 actively pay sales tax. This indicates a substantial number of registered but inactive entities. The result is a growing informal economy and falling compliance.

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Pakistan must move from a licence-raj model to a growth ecosystem. This demands courage. It means saying no to rent-seeking, to protectionism, and to red tape. It means reducing income tax slabs, eliminating unnecessary federal-provincial overlaps, and dissolving redundant directorates.

Further, the FY2025- 26 budget must prioritise dissolving institutional obstacles and building a productive ecosystem. That means a complete overhaul of how budgets are framed. Currently, nearly 80 per cent of development allocations are absorbed by administrative structures and consultancy contracts. Because funding is not provided as per the PC-Is approved, new projects are always inserted in the PSDPs. This leaves little for real development -- roads, digital infrastructure, irrigation, vocational training and affordable housing, let alone soft capital development.

Social protection, too, needs a rethink. Allocating over Rs700 billion to BISP, without measurable outcomes on poverty or productivity, is neither justifiable nor sustainable. Rather, it creates a drag on the monetary policy effectiveness in combating inflation. Since these are unconditional unilateral transfers. Poverty alleviation must shift from handouts to handups. Establishing Village Economic Zones (VEZs) would allow communities to build local businesses with logistical, digital, and market support.

We must fund business training, digital inclusion, market linkages, and financial access instead of cash transfers to households that create dependency. The only solution is to give decent and sustainable jobs, and for that, businesses need to be empowered.

Third, budget planning must transition from input-based allocation to outcome-based, performance-based budgeting. Currently, ministries and departments demand funds based on historical allocations, regardless of effectiveness. This perpetuates inefficiencies and shields underperformers from accountability. A Business-First Budget should instead reward performance, innovation and value creation even in the public sector. While businesses compete with productivity and innovation, why can't the public sector ministries, whose budgets are way bigger than those of the big companies in Pakistan, do the same?

For example, funding to the Ministry of Industries should be tied to tangible indicators such as an increase in business registrations, export diversification, or the number of new industrial zones facilitated. Ministries should be evaluated not on how much they spend but on what economic results they deliver, switching from financial performance to actual performance and impact.

Fourth, we need a paradigm shift in public procurement and state-owned enterprise (SOE) management. The current procurement regime favours large contractors and excludes startups and small businesses. By simplifying rules and digitalising procurement, the state can open markets for SMEs, spur innovation and enhance service delivery.

SOEs that consume billions in bailouts must either be restructured under public-private partnerships or phased out entirely. These entities crowd out private investment and distort competition while delivering minimal public value. Their continued inclusion in the budget reflects a business-as-usual mindset that must change.

Finally, a business-first mindset requires cultural transformation. Public officials must shed their gatekeeping roles and adopt service-oriented KPIs. Budgets must embed reforms to reduce inspection visits, end harassment, and promote dispute resolution through digital ombudsman systems. Regulatory empathy is as critical as regulatory oversight.

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Wealth creation is the only sustainable path to poverty reduction, employment generation, and human development. It starts with enabling businesses to thrive. This is also the vision of URAAN Pakistan. Budget FY2025-26 must abandon the old playbook and declare that Pakistan means business -- the one envisioned in URAAN Pakistan.

The writer is an associate professor at the Pakistan Institute of Development Economics (PIDE).

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