



PAKISTAN'S REGULATORY QUAGMIRE: An Analysis of the World Bank's B-READY Assessment

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INTRODUCTION

Global investors, multinational corporations, and Development Finance Institutions rely heavily on standardized indices to evaluate a country's investment climate. These benchmarks distill complex regulatory environments into comparable metrics on time, cost, procedural complexity, and quality of public services. The World Bank's former Doing Business report (discontinued in 2021 due to data irregularities) was long considered the gold standard, influencing billions of dollars in annual foreign direct investment (FDI) decisions. Firms used it to rank jurisdictions on ease of starting operations, paying taxes, enforcing contracts, and trading across borders. A higher rank signaled lower compliance friction, stronger rule of law, and predictability—key determinants of capital allocation alongside market size and labor costs.

Pakistan's last Doing Business 2020 ranking captured both progress and persistent challenges. The country climbed 28 places to 108th out of

190 economies (score 61.0), placing it among the top 10 improvers globally. Reforms included streamlined company registration through the Securities and Exchange Commission of Pakistan (SECP), improved cross-border trade, online tax filing, and simplification of construction permits. Yet weaknesses lingered: paying taxes ranked 161st (34 payments/year, 283 hours, 33.9% total tax rate), enforcing contracts 156th (1,071 days on average), and registering property 151st. These gaps highlighted multi-layered bureaucracy at the federal, provincial, and municipal levels.

The World Bank's successor Index for Investment Climate, Business Ready (B-READY), was launched in 2024 (the inaugural edition covered 50 economies), and the second report was published a few weeks later (expanding the number of covered economies to 101). This new index offers a more nuanced, three-pillar lens: Regulatory Framework (de jure rules), Public Services (infrastructure and digital tools), and Operational Efficiency (de facto experience via firm surveys). Unlike Doing Business' single ranking, B-READY uses quintiles

and topic scores (0–100) across 10 firm lifecycle areas, balancing firm burden with social benefits like worker protections and environmental standards. Pakistan appears in both reports and shows that it has remained mired in the lower tiers—fourth quintile overall in 2024 (weak regulatory framework and public services) and in a similar position in 2025. This persistence signals “regulatory sludge”: excessive, overlapping, paper-heavy compliance demands that waste time, money, and resources. The result is deterred investment, informality, and stunted growth. This article analyzes Pakistan’s B-READY performance relative to its Doing Business legacy, dissects the sludge at the federal-provincial-municipal interfaces, draws conclusions, and offers a forward path.

ANALYSIS: B-READY PERFORMANCE AND THE ANATOMY OF REGULATORY SLUDGE

B-READY’s methodology marks a shift from Doing Business’s SME-focused case studies to broader, balanced assessment incorporating ~1,200 indicators per economy. Pakistan’s 2024 placement in the fourth quintile reflected Regulatory Framework at ~59.1/100 and Public Services at ~44.97/100 (bottom 40%), with Operational Efficiency at 65.90/100 (third quintile). By 2025, scores edged up modestly: Regulatory Framework 62/100 (still bottom 40%), Public Services 55/100, Operational Efficiency 60/100. No single composite rank exists, but topic scores reveal an uneven reform story.

Strengths cluster in early lifecycle stages. Business Entry scored 91.50/100 in 2024 and ~87/100 overall in 2025 (top 20% of measured economies, i.e., the first quintile). Domestic firm registration takes just 5–7 days, costing 3–5% OF GNI per capita, and foreign firms fare similarly (7 days, costing 3% of GNI per capita). Pillar 1 (Regulatory Framework) hits 90–91.67/100 thanks to mandatory name verification, shareholder filings, annual returns, and electronic systems at SECP. No minimum capital or sociodemographic restrictions apply. Operational Efficiency (Pillar 3) reaches 94–97.5/100, reflecting real-world speed from online portals. These gains echo the SECP’s

Doing Business 2020 reforms and explain Pakistan’s earlier jump.

Utility Services and Financial Services also perform respectably (59–78/100 range), with regulations on tariff monitoring and secured transactions scoring well.

Weaknesses, however, dominate operational and market-participation stages, exposing sludge. International Trade languishes at 45.71/100 (2024) with Operational Efficiency Pillar 3 at just 25.50/100 in 2025. Export clearance takes 15 days; import clearance takes 38 days; compliance costs 17% of the shipment value. Limited Trusted Trader programs, poor digital infrastructure at borders, and overlapping federal-provincial export requirements (Pakistan Customs, provincial trade bodies) create redundancy. Taxation scores 57.48/100 (2024) and remains weak in 2025 (Regulatory Framework 35.47/100); clarity/transparency only 7/40, digital services fragmented. Firms file with the federal revenue agency FBR (income tax, sales tax) plus provincial revenue authorities (SRB in Sindh, PRA in Punjab, KPRA in Khyber Pakhtunkhwa, & BRA in Balochistan) and municipal levies. PIDE estimates that compliance alone consumes hundreds of hours yearly.

Dispute Resolution is among the weakest at 41.99/100 (2024) and 40/100 (2025). Court litigation drags (historical Doing Business 1,071 days); transparency is low; alternative dispute resolution (ADR) is underdeveloped (Pillar 2 Public Services 29.82/100). Market Competition (46.24/100) and Business Insolvency (48.79/100) suffer similarly: liquidation takes 24–48 months (cost 5–9% of firm value); reorganization takes 12–17 months. No specialized Micro & Small Enterprises insolvency regime or cross-border framework exists.

The deepest sludge arises from multi-tiered governance. The 18th Constitutional Amendment (2010) devolved labor, environment, and many taxes to the provinces, while most Federal Ministries & Divisions continued to exist, creating 118+ federal regulatory bodies, plus provincial equivalents, and 800+ municipal agencies. PIDE’s “Sludge Audits” (Vols 1–3) quantify the burden: unnecessary frictions—repetitive No Objection Certificates (NOCs), inspections, renewals, and reporting—cost Pakistan ~39% of GDP (\$132 billion in 2023 terms). Examples abound:

- Labor compliance: Federal EOBI and provincial Social Security Institutions (e.g., Punjab / Sindh Employees Social Security Institutions) plus Workers' Welfare Fund (WWF/WPPF) at both levels require dual registrations, dual filings, dual contributions and dual inspections.
- Permits and location: Business Location scores remain in the moderate range $\sim 54/100$ (2024), but are not conducive to attracting investors. Construction permits can take 45–60 days, but costs can hit 425% GNI per capita in some scenarios. Environmental permits (EPA federal/provincial) require 120+ days and multiple NOCs; building approvals involve municipal town administrations, cantonment boards, and development authorities with manual or non-interoperable digital systems.
- Taxes and operations: FBR's IRIS portal coexists with provincial revenue authorities. Municipal "visibility tax" or advertisement levies (often outsourced) add disputes. The Federal PSQCA's quality marks and provincial food authorities' licenses impose overlapping certifications with high costs.
- Inspections and renewals: Non-risk-based, frequent visits across labor, environment, fire, and health departments consume managerial time. The Pakistan Regulatory Modernization Initiative (PRMI) and "Asaan Karobar" efforts aim to address these pain points, but progress is gradual & incremental.

Firm surveys in B-READY's Operational Efficiency pillar capture de facto pain: SMEs report the highest friction, pushing 40%+ of activity into the informal sector. Larger firms navigate compliance through compliance officers, but FDI inflows remain subdued (World Bank data shows Pakistan lags regional peers like Bangladesh and Vietnam).

CONCLUSIONS

Pakistan's B-READY results confirm that Doing Business gains in entry were real but insufficient for the overall regulatory environment. The country has not "slid" dramatically—modest 2024–2025 improvements reflect ongoing digitization—but remains stuck in lower quintiles because sludge is systemic, not episodic. Fragmented & overlapping three-tier regulation has become more cumbersome post-devolution, with paper-heavy processes and low digital interoperability, multiplying compliance

costs without proportional social gains. Investors interpret low scores as signals of unpredictability: delayed dispute resolution erodes contract enforcement; trade barriers raise export costs; tax complexity & opacity invite burdensome compliance requirements and burdensome audits. Consequences include lower FDI (Pakistan attracts $\sim 1\%$ of South Asian inflows despite a population of 250 million), SME informality, reduced innovation (Market Competition Pillar 3 $\sim 32/100$), and forgone growth. PIDE's sludge estimate (at 39% of GDP in 2022) underscores macroeconomic drag—equivalent to erasing entire sectors. These need to be cross-checked against recent data to measure progress or otherwise over the past 4 years. One thing is certain: without deeper reform, Pakistan risks a perpetual middle-income trap, unable to leverage demographics or CPEC 2.0.

RECOMMENDATIONS: THE WAY FORWARD

Pakistan can exit the regulatory quagmire through targeted, sequenced actions aligned with B-READY's pillars and PRMI framework: Capacity and Transparency: Train regulators at every level in SMART regulations, focusing on the toolkit used for this purpose; publish annual compliance cost reports (building on PIDE audits) for both the Federal Government and all provincial governments/regions through hand-holding initiatives; incentivize provinces via performance-linked federal grants tied to B-READY topic improvements.

Regulatory Impact Analysis (RIA) and Sunset Clauses: Institutionalize RIA for all new/existing RLCOs across federal/provincial/municipal levels; carry out large-scale review of sub-national RLCOs in PRMI Phase 2; convert low-risk licenses to declarations; eliminate unjustified renewals; introduce automatic sunset after 5 years unless re-justified.

Risk-Based and Reduced Inspections: Shift all departments to risk-based (data-driven/AI-enabled) regimes. Strictly limit routine visits; publish inspection calendars and outcomes. Leverage B-READY firm survey data for prioritization.

Judicial and Insolvency Reforms: Roll out a sufficient number of commercial/insolvency

courts with digitalization (e-case management, virtual hearings) with MSME convenience & fast-track decisions; review existing ADR mechanisms in line with global best practices for simpler, quicker proceedings with enforceable awards;

Harmonization Across Tiers: Establish a National Regulatory Coordination Council (federal, provinces, and local reps, with equal representation from the private sector & academia with expertise in regulatory affairs) to standardize labor, environmental, and tax rules, declarations & compliance regimes. Harmonize WWF/WPPF and social security; create uniform NOC templates with fixed timelines and deemed approval regulations.

Full Digitization and Single Window: Fast-track the development of the Pakistan Business Portal into a true one-stop platform integrating Federal, Provincial, and municipal authorities; mandate electronic filing, interoperability, and unique business IDs. Specify quantifiable Targets for reducing time, cost and complexity of compliance by 30-50% within two years.

Monitoring and Private Sector Input: Track progress via annual B-READY updates and domestic “Sludge Index.” Engage the private sector, including sectoral associations, chambers, and business councils, in regulatory review panels.

Implementation requires political will and an expert team with institutional memory & experience in regulatory reforms, along with the required support, including resources. While the former seems abundantly available, the latter suffers from gaps, routine changes within the team, and insufficient resources. The lessons learned during the implementation of reforms under the Doing Business program (which was recognized globally as a success story) seem to have been lost over the past few years. Success stories from other countries (e.g., Rwanda’s top-Africa B-READY ranking via digitization) also prove that rapid gains are possible. Pakistan’s unsatisfactory 2025 B-READY scores underscore the challenges facing the country, which could further deteriorate amid global economic pressures, particularly in the energy sector. However, getting the reform strategy right could lift Pakistan to the third quintile or better by 2027, helping unlock domestic investment and FDI, creating formal jobs, boosting exports, and achieving sustained 5–6% growth.

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