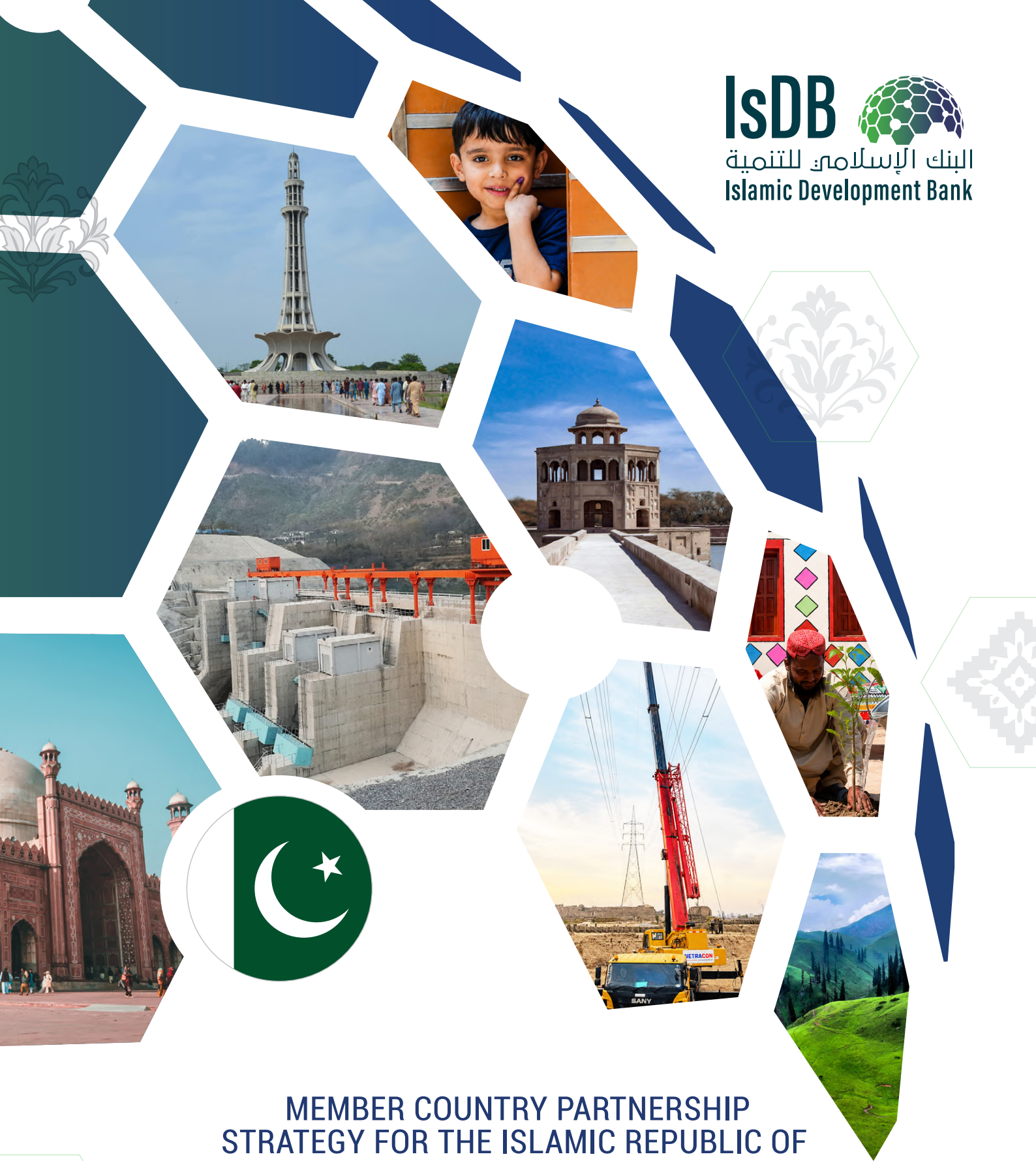




MEMBER COUNTRY PARTNERSHIP
STRATEGY FOR THE ISLAMIC REPUBLIC OF
PAKISTAN
(2026-2030)

Supporting Infrastructure Development &
Advancing Export-Led Growth and Private Sector Development

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ABBREVIATIONS

ADB	Asian Development Bank	MCPS	Member Country Partnership Strategy
AIIB	Asian Infrastructure Investment Bank	OCR	Ordinary Capital Resources
AWRD	Agriculture, Water Resources, and Rural Development	OOSC	Out-of-School Children
BPO	Business Process Outsourcing	PEFA	Public Expenditure and Financial Accountability
CEF	Country Engagement Framework	PFM	Public Finance Management
CSO	Civil Society Organization	PIASR	Project Implementation Assessment and Support Report
CPRN	Country Portfolio Review Note	PMU	Project Management Unit
DIOS	Digital Inclusion Operational Strategy	PHC	Primary Health Care
EFF	Extended Fund Facility	PPP	Public–Private Partnership
FDI	Foreign Direct Investment	PPRA	Public Procurement Regulatory Authority
FPO	Field Procurement Officer	RBMF	Results-Based Management Framework
GDP	Gross Domestic Product	RPO	Regional Procurement Officer
GFCF	Gross Fixed Capital Formation	SME	Small and medium-sized Enterprise
GHG	Greenhouse Gas	SBP	State Bank of Pakistan
ICD	Islamic Corporation for the Development of the Private Sector	TA	Technical Assistance
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit	TVET	Technical and Vocational Education and Training
IMF	International Monetary Fund	TWG	Technical Working Group
ICT	Information and Communication Technologies	UNDP	United Nations Development Programme
IsDBG	Islamic Development Bank Group	UNICEF	United Nations International Children's Emergency Fund
ITFC	International Islamic Trade Finance Corporation	WHO	World Health Organization
NCD	Non-Communicable Disease	WAPDA	Water and Power Development Authority



ACKNOWLEDGMENTS

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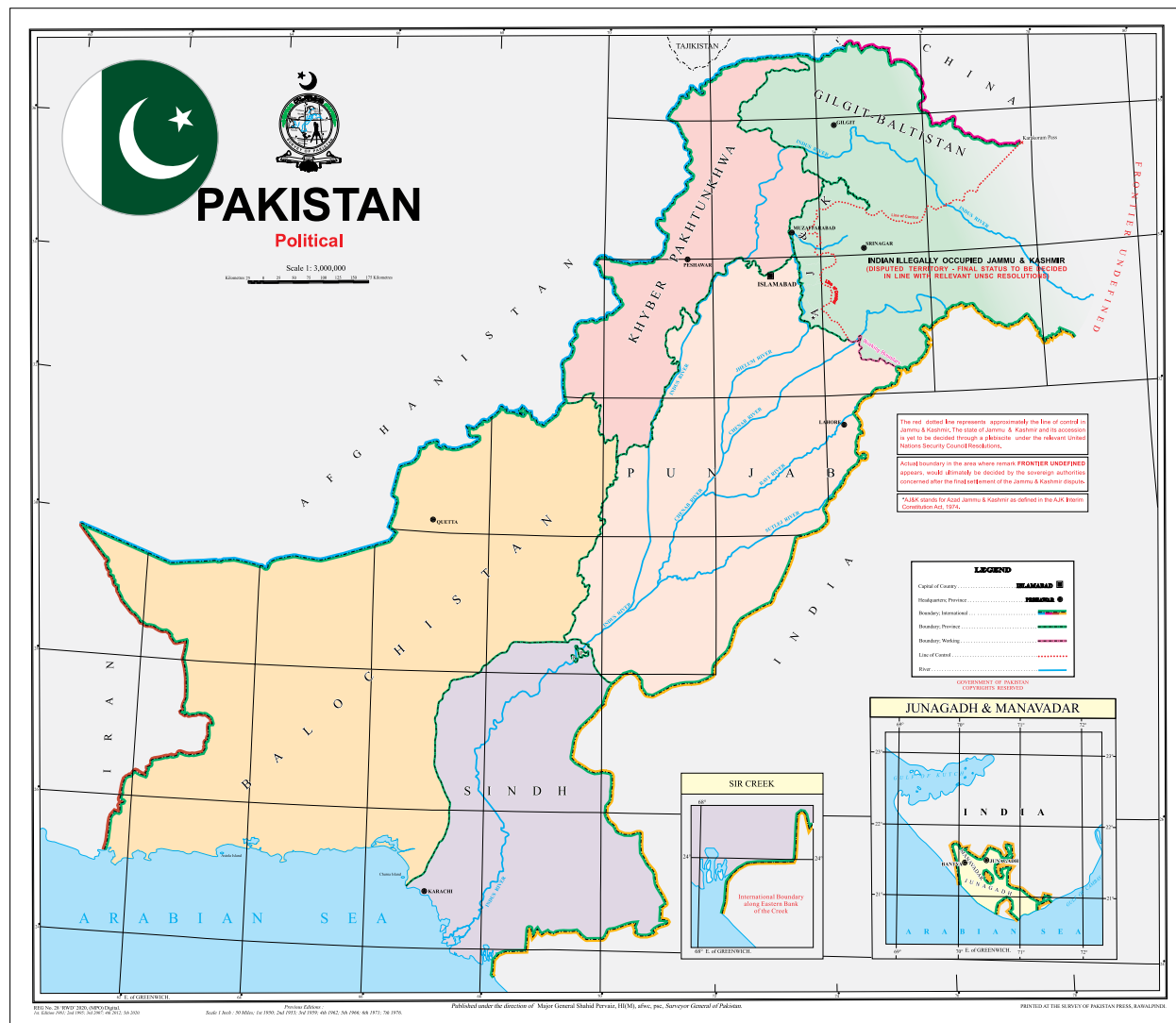
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MAP OF THE ISLAMIC REPUBLIC OF PAKISTAN



Disclaimer

The boundaries and names shown and the designations on this map do not imply official endorsement or acceptance by the Islamic Development Bank Group.

Source: <https://mofa.gov.pk/political-map-of-pakistan>



EXECUTIVE SUMMARY

Purpose. This Member Country Partnership Strategy (MCPS) for Pakistan (2026–2030) under the theme of “Supporting Infrastructure Development & Advancing Export-Led Growth and Private Sector Development” is the principal strategic instrument through which the IsDB Group will support the Government of Pakistan in accelerating its transformation toward a more diversified, resilient, and export-oriented economy. The five-year MCPS serves as the successor to the Country Engagement Framework (2023–2025), under which the IsDB Group approved US\$3.6 billion, and marks a shift toward longer-term programmatic engagement with one of the Bank’s largest and most longstanding member countries.

Rationale. Pakistan’s economy has long been characterized by recurring boom-bust cycles, structural dependence on a narrow export base concentrated in textiles and low-value agriculture, and persistent infrastructure deficits in energy, transport, and water that raise the cost of doing business. Exports have declined from 16% of GDP in the 1990s to roughly 10% in 2025, whereas investment has fallen to 13.8% of GDP, and only 5–6% of bank credit reaches SMEs. The Government has responded with the Uraan Pakistan-National Economic Transformation Plan (2024–2029), with the ambition of building a US\$1 trillion economy by 2035. The IsDB Group’s MCPS comes at an opportune time to support this major reorientation toward export-led growth, a dynamic private sector, macroeconomic stability, and structural transformation. Recent macroeconomic stabilization, reflected in moderating inflation, rising foreign exchange reserves, and ongoing fiscal consolidation, has strengthened the macroeconomic conditions that enable the structural transformation agenda underpinning the MCPS.

Country Ownership. The MCPS was developed through an **extensive consultative** process with government institutions, development partners, private sector stakeholders, and civil society. A high-level mission led by the IsDB Vice-President Operations in January 2026 reinforced the strategic partnership. A technical reconnaissance mission in February and a validation mission in March refined strategic priorities and the project pipeline. The process was complemented by close coordination across all IsDB Group entities to jointly define the MCPS’s strategic pillars, priorities, and a realistic project pipeline.

Strategic Role. This MCPS positions the IsDB Group as a trusted long-term partner in Pakistan’s transformation journey as envisioned in Uraan Pakistan. Fully aligned with **Uraan Pakistan and the IsDB Group’s 10-Year Strategic Framework** (2026–2035) as well as the **IsDB Five-Year Corporate Strategy** (2026–2030), the MCPS focuses on addressing binding infrastructure constraints and expanding the tradable sector by key supporting transformative projects, such as in transport, energy, water, and interventions to strengthen the private sector. The aim is to support a sustained shift from an inward-looking, consumption-led growth model toward export competitiveness, private sector-led investment, and integration into regional and global value chains.

Operational Role. The MCPS is structured around two **mutually reinforcing pillars and five cross-cutting areas**. The first pillar, *Investing in Strategic Infrastructure for Connectivity, Energy Security, and Water Systems*, targets three areas: transport, energy, and water systems. The second pillar, *Promoting Export-Led Growth, SME Competitiveness, and Private Sector Development*,



targets two areas: SME & export competitiveness, and private sector participation. Five cross-cutting enablers (digitalization, climate change, human and institutional capacity development, women and youth empowerment, and Islamic finance) are embedded across all operations.

Financing. The indicative envelope totals US\$5,600.25 million (excluding ICIEC insurance), **delivered under** the “One Bank, One Group” approach. IsDB tentatively allocates US\$2,000 million in sovereign financing for key infrastructure projects. ITFC’s allocation is US\$3,500 million in trade finance for essential commodity imports and export-oriented sectors, and support for capacity building projects. ICD is planning to contribute US\$100 million **in non-sovereign financing** through Shariah-compliant credit lines and capital market instruments. IsDBI allocates US\$0.25 million in technical assistance on Islamic finance. ICIEC will insure about US\$ 3,700 million in support for exporters and de-risk investors & international financial institutions by providing customized and structured solutions throughout the period. The Group will also **leverage co-financing and resource mobilization opportunities** with international partners.

Portfolio Improvements. This MCPS draws on lessons from **the IsDB Group’s** cumulative **approvals of approximately US\$17 billion** in Pakistan since inception. Key priorities include strengthening project readiness and appraisal quality, addressing procurement delays and executing agency capacity constraints, securing predictable counterpart funding, and improving disbursement through regular **joint portfolio reviews**. The shift toward larger, integrated programmatic operations will reduce transaction costs, strengthen procurement performance, and **enhance development impact**.

Implementation Mechanism. To **oversee and monitor** MCPS implementation, an **Implementation Working Group (IWG)** will be established in accordance with the MCPS Business Process, co-chaired by the Ministry of Economic Affairs and the IsDB Regional Hub Türkiye. The IWG will convene periodically to review implementation progress, identify bottlenecks and corrective actions, assess portfolio performance, and ensure that pipeline development and ongoing operations remain aligned with the MCPS strategic priorities and Pakistan’s national development agenda.



1

INTRODUCTION

1. Introduction

- 1. The Islamic Republic of Pakistan is one of the largest member countries** and a founding member of the Islamic Development Bank (IsDB) Group. With an estimated population of around 255 million in 2025, Pakistan is among the most populous countries in the world and possesses a large and youthful labour force that offers **significant opportunities** for economic growth and structural transformation.¹
- 2. In recent years, Pakistan's economy has experienced a gradual recovery** following a contraction in 2023. Growth is projected to strengthen steadily from 3% in 2025 to 4.5% by 2028, supported by improved macroeconomic management and a rebound in economic activity. The country's nominal GDP per capita was approximately US\$1,707 in 2025, reflecting its lower-middle-income status (Table 1.1). Inflation, which peaked at 29.2% in 2023, is estimated to decline



¹ Pakistan has one of the world's youngest populations, approximately 67% (roughly 161 million people) are under the age of 30, based on 2023 census data.



sharply to single digits by 2025/2026, although moderate inflationary pressures are projected to persist. External balances show a temporary improvement, with a current account surplus (0.5% of GDP) in 2025, before reverting to modest deficits over the medium term, indicating persistent structural external vulnerabilities. Fiscal consolidation is underway, as reflected in the gradual reduction of the general government fiscal deficit from 7.7% of GDP in 2023 to 5.4% by 2025, alongside a declining public debt trajectory. The unemployment rate is still high in the country, hovering around 7 to 8% between 2023 and 2025, given the limited number of additional jobs created annually.

3. More recently, positive macroeconomic developments in Pakistan include real GDP growth accelerating to 3.7% in Q1 FY2026 (from 1.6% a year earlier), a fiscal surplus of 0.4% of GDP in Jul–Dec FY2026 with a primary surplus of 3.2% of GDP, and total liquid foreign exchange reserves rising to US\$21.7 billion by 13 March 2026, consistent with the World Bank’s assessment that Pakistan has achieved macroeconomic stabilization through declining inflation, rising reserves, and fiscal consolidation, and the IMF’s assessment that program implementation remained broadly aligned with commitments through end-February 2026.

4. Pakistan’s economy is characterized by a structure in which the services sector accounts for the largest share of GDP, contributing about 58%, followed by agriculture (23.6%) and industry (18.1%) in 2025². Yet, in terms of employment, the agriculture sector employs 36.2% of the labour force, where informalities are high, productivity growth is limited, and export revenues through high- and medium-value-added products are low. Since 2000, the share of agriculture in GDP declined modestly from 31.7% to 23.6% by 2025; however, this remains significantly higher than the global average of 4.1%, underscoring a heavy and continued dependency on the primary sector. Between 2000 and 2025, the industrial sector’s contribution held flat at approximately 20%, while the services sector generated an average of 52.2% of total output. This modest shift toward services does not constitute robust evidence of a genuine transition to a services-led structure.

5. The country faces persistent development challenges, including macroeconomic imbalances, infrastructure gaps, external financing constraints, and limited private-sector development. The rapid population growth and urbanization, along with underinvestment in key infrastructure, create pressure on key public services like education and health, which, along with poverty, ultimately constitute major constraints to human development.³ After dramatically reducing poverty from 64.3% in 2001 to 21.9% in 2018, compounding shocks in recent years have pushed poverty rates back up to an estimated 25.3% by 2023/24.⁴

6. At the same time, Pakistan presents significant development opportunities. Its large domestic market, strategic geographic location connecting South Asia, Central Asia, and the Middle East, and its young population provide a strong foundation for economic expansion. The country has a significant number of expatriate workers around the globe, whose remittances make up around 8-10% of the GDP annually. Furthermore, Pakistan has considerable untapped potential in sectors such as agribusiness, manufacturing, digital services, renewable energy, and Islamic finance.

“Pakistan presents significant development opportunities. Its large domestic market, strategic geographic location connecting South Asia, Central Asia, and the Middle East, and its young population provide a strong foundation for economic expansion”

² Pakistan Bureau of Statistics, 2025

³ In terms of human development, Pakistan remains in the low human development category, ranking 168th out of 193 countries according to the 2025 UNDP Human Development Report.

⁴ World Bank (2025). Reclaiming Momentum Towards Prosperity: Pakistan’s Poverty, Equity, and Resilience Assessment.



7. Recognizing these challenges and opportunities, the Government of Pakistan launched the Uraan Pakistan- National Economic Transformation Plan (2024–2029) as a comprehensive strategy to accelerate economic transformation and place the country on a path toward sustainable growth. The strategy represents a major shift in Pakistan's development approach, emphasizing export-led growth, macroeconomic stability, and institutional reforms to enhance productivity and competitiveness. In parallel, **Pakistan declared 2026 as the "Year of Institutional Reforms"** across 14 priority sectors, reflecting the Government's commitment to improving the business environment, reducing regulatory bottlenecks, and attracting domestic and foreign investment. These reforms aim to strengthen governance, enhance ease of doing business, and accelerate progress toward achieving the objectives of the Uraan Pakistan.

8. The IsDB Group has been a longstanding development partner of Pakistan for several decades, supporting the country's development through financing operations, trade facilitation, and capacity development initiatives across key sectors such as energy, transport, water and sanitation, agriculture, health, education, and private sector development. Pakistan is one of the largest recipients of IsDB Group support, reflecting the strong partnership between the Bank and the country. Most recently, **the IsDB Group successfully completed the Country Engagement Framework (CEF)** for Pakistan (2023–2025), which served as a strategic framework guiding the Bank's engagement with the country during that period.

Under the CEF, the IsDB Group approved US\$ 925.4 million in sovereign financing by IsDB, US\$1.3 billion in trade finance by International Islamic Trade Finance Corporation (ITFC), and more than US\$1.4 billion in insurance coverage by the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC).

9. Building on lessons learned in the CEF Pakistan (2023–2025) and the evolving development priorities of Pakistan, the IsDB Group and the Government of Pakistan have agreed to launch this Member Country Partnership Strategy (MCPS) for the period 2026–2030. The MCPS serves as the principal strategic instrument guiding the engagement of the IsDB Group in Pakistan and ensures stronger alignment between the Bank's interventions and Pakistan's national development priorities under Uraan Pakistan. The preparation of the MCPS followed a consultative and analytical process involving close engagement with government institutions, development partners, and private sector stakeholders. A technical reconnaissance mission was organized in February 2026 to initiate discussions with key ministries and institutions, while a validation mission was held in March 2026 to further refine the strategic priorities and operational pipeline of the partnership. Harnessing development opportunities requires sustained investments in infrastructure, export competitiveness, and private sector development in Pakistan. To this end, the MCPS provides a strategic guidance framework for both parties (the IsDB Group and Pakistan) over the 2026–2030 period to maximize development impact and channel resources optimally.

Table 1.1: Selected Economic Indicators: Pakistan

Selected Economic Indicators	2023	2024	2025	2026*	2027*	2028*
GDP Growth (%)	-0.2	2.6	3.0	3.2	4.1	4.5
GDP per capita (US\$, current)	1454.1	1574.1	1706.9			
Total GDP (US\$ billion, current)	336.6	371.4	410.5			
Inflation (%)	29.2	23.4	4.5	7.7	7.0	6.5
Current Account Balance (% of GDP)	-1.0	-0.6	0.5	-0.4	-0.4	-0.8
Gen. gov. overall balance (% of GDP)	-7.7	-6.8	-5.4	-5.1	-3.8	-3.2
Gen. gov. debt (% of GDP)	78.5	70.4	72.9	71.9	69.9	66.8
Unemployment rate	8.5	8.0	7.0			

Source: IMF, WEO, Jan. and April 2026. * Projections



2

STRUCTURAL TRANSFORMATION

2. Structural Transformation

10. Pakistan's economic performance over the past two decades has been characterized by recurrent boom–bust cycles in which periods of rapid economic expansion are followed by macroeconomic stabilization and slowdown. Historically, periods of expansion, such as the roughly 3.4% average real GDP growth over the past decade, have been led primarily by consumption and non-tradable activity rather than by a broadening export base. This has widened external imbalances, necessitating subsequent macroeconomic stabilization.⁵ This volatility was starkly evident when the economy contracted by 0.2% in 2023 amid a severe balance of payments crisis, before recovering to an estimated 3.0% GDP growth

in 2025 (Figures 1 and 2-Annex I). During these boom phases, exchange rate overvaluation severely compounds the negative effects of protectionist trade policies, disincentivizing export competitiveness, while surging domestic demand fuels unsustainable import growth.⁶

11. Pakistan's debt sustainability challenges reflect underlying structural fiscal constraints, notably persistent deficits and low domestic revenue mobilization⁷. These pressures have periodically required engagement with IMF-supported programs, which have played a stabilizing role at key moments.⁸



⁵ Pakistan's recurring growth volatility has been closely associated with pressures on the external account, reflecting a growth pattern historically driven by domestic consumption and import-intensive sectors rather than export expansion. This structural feature reinforces the importance of supporting export competitiveness and productivity-enhancing investments as part of the MCPs strategic focus.

⁶ Section II on Structural Transformation has extensively benefited from findings of the Country Diagnostic Study for Pakistan (2026) prepared by the IsDB Group Chief Economist Complex.

⁷ Tax revenues averaging around 11% of GDP, according to the World Bank Development Indicators, 2025.

⁸ Public debt increased markedly from about 60% of GDP in the early 2010s to a peak of 78.5% in 2023, before entering a gradual downward path projected at 72.9% in 2025.



12. These macroeconomic dynamics are closely associated with the country's sectoral structure and the pace of its structural transformation, which has progressed at a slower pace than that of regional peers over recent decades.

For instance, the value added (% of GDP) of each sector over the last 14 years has not significantly changed, averaging around 52.2% for services, 20% for industry, and 22.8% for agriculture (Figure 3-Annex I). While agriculture's share of employment has declined over time, the displaced agricultural labour has largely migrated into low-productivity informal services rather than high-productivity manufacturing. Consequently, value added per worker remains highly skewed; agriculture employs approximately 36.2% of the labour force but contributes only 23% of value added, whereas services generate over half of the economic output with a similar employment share, and industry absorbs just over a quarter of the workforce. Limited progress in industrialization and the upgrading of productive capabilities is reflected in Pakistan's Economic Complexity Index (ECI), which has largely stagnated since 2000 and keeps the country in the bottom tier globally for export sophistication (89th out of 145 countries)⁹. Without shifting labour into formal manufacturing and diversifying exports, the structural bottlenecks of low investment and chronic balance of payments pressures will remain entrenched.

13. One of the primary binding constraints to this transformation is the fiscal crowding out of productive investment.

Persistent fiscal deficits force the government to borrow heavily from domestic financial institutions, leading commercial banks to allocate between 60% of their assets to low-risk government securities¹⁰. The crowding-out effect is reinforced on the household side by the limited intermediation of domestic savings through the formal financial system: a significant share of private wealth is held in real estate and other non-tradable assets rather than in bank deposits or capital market instruments, reducing the pool of loanable funds available to finance tradable-sector investment. The State Bank of Pakistan has noted that, in a persistently high-inflation environment, households shift savings toward inflation-hedging assets such as gold and real estate, while equity-market intermediation

remains shallow, with stock market capitalization significantly lower than in peer economies; mortgage depth is correspondingly limited, with the outstanding housing-finance portfolio rising from PKR 70 billion in 2010 to PKR 366 billion by end-2021 from a very low base equivalent to roughly 0.2% of GDP¹¹. Amongst other reasons, a relatively high share of the informal economy also prevents the emergence of productive investments by the private sector. Overall, this mechanism has caused private sector credit to collapse from 24% of GDP in 2008 to under 11.4% by 2024, leaving negligible room for entrepreneurial growth¹². This financial stagnation is reinforced by a tax-to-GDP ratio of approximately 11% that must durably exceed 15% to provide the necessary fiscal space. Furthermore, intergovernmental fiscal architecture with limited coordination often fragments expenditure and revenue across federal and provincial levels, causing delays in key development projects.

14. The crowding-out dynamic is compounded by a trade regime that ranks Pakistan among the top 10% most protected economies, featuring an Most-Favored Nation (MFN) portfolio tariff of 19.6%.¹³

Tariff liberalization has advanced slowly and unevenly over the past decades, reflecting the influence of established beneficiary sectors on trade policy formulation and limiting the reallocation of resources toward exporting activities. The composition of exports illustrates the cost of this equilibrium: textiles and apparel account for more than half of merchandise exports¹⁴, high-technology products for only 2.4% (compared with 44.3% for Vietnam; see Table 2.1). Exchange rate overvaluation during boom periods (e.g., 2002–2007; 2013–2018) further hit the competitiveness of exporters, creating a system where resources are structurally disincentivized from entering global markets.

15. State-owned enterprises across commercial sectors further distort investment incentives, creating uneven competitive conditions for private firms regarding finance, contracts, and market access.

These factors collectively ensure that even when private investment occurs, prevailing incentives steer capital away from productive exports and toward real estate, informal services, and protected domestic industries. The

⁹ Harvard University, Atlas of Economic Complexity.

¹⁰ IMF (2024). The Sovereign-bank (Central bank) Nexus in Pakistan.

¹¹ State Bank of Pakistan (2025), Annual Report 2024–25, Chapter 6 “The Challenge of Low Savings in Pakistan,”; World Bank (2022), Pakistan Development Update – April 2022, on the housing-finance trajectory.

¹² World Bank. World Development Indicators.

¹³ A Most-Favored-Nation (MFN) tariff is the normal, non-discriminatory tariff rate a WTO member charges on imports from other WTO members.

¹⁴ World Bank. World Integrated Trade Solutions. <https://wits.worldbank.org/Default.aspx?lang=en>





net effect of these fiscal and structural distortions is a massive misallocation of capital, quantified by an estimated US\$60 billion annual export potential gap.¹⁵ This opportunity cost highlights that crowding out is not merely a lack of credit, but a fundamental redirection of investment into non-tradeable sectors that stifle long-term growth.

- 16. Pakistan's energy sector serves as another key binding constraint, where accumulated losses exceeding 4% of GDP create a systemic fiscal drain that crowds out essential investment.** While the country boasts an installed capacity of approximately 42,000 MW, the effective available capacity of roughly 27,000 MW reveals a 36% capacity gap—a significant inefficiency driven by aging distribution infrastructure and fragmented data systems. This structural weakness is exacerbated by a self-reinforcing circular debt crisis and a precarious reliance on imported fuels, which rose to 16.6% of the generation mix by 2022 and left the economy acutely vulnerable to external shocks.¹⁶ As a result of this vulnerability, Industrial competitiveness is further undermined by high electricity costs—about US\$0.16/kWh for businesses—compared with US\$0.10/kWh in Bangladesh and US\$0.108/kWh on average in Asia. Modernizing and expanding core infrastructure is

therefore critical to ensuring reliable energy supply, efficient transport networks, and modern logistics systems, all of which are essential for industrial growth and export competitiveness.

- 17. Persistent institutional and regulatory weaknesses across the power sector value chain have constrained generation capacity, undermined operational efficiency, and perpetuated a circular debt crisis now estimated to exceed PKR 2.6 trillion.** Governance gaps in procurement, tariff administration, and revenue collection have raised transaction costs and reduced the financial viability of distribution companies, creating a self-reinforcing cycle in which unpaid obligations cascade from consumers to distributors to generators to fuel suppliers. Over the longer term, rapid population growth alongside high transmission and distribution losses—estimated at 17–18% of total generation, well above the 8–10% benchmark in comparator economies, is expected to further widen the demand–supply gap.
- 18. Despite substantial development partner engagement, returns on energy sector investments have remained below expectations.** China has invested more than US\$50 billion since 2005, and the World Bank Group has committed over US\$4 billion

¹⁵ World Bank (2025), CPF: 2026–2035. Washington, DC.

¹⁶ Pakistan's economy is exposed to energy shocks because the country heavily relies on imported fuel to meet its energy needs, with over 80% of its oil and refined fuel requirements met through imports. A US\$ 10 increase in global oil prices increases Pakistan's annual petroleum import bill by approximately US\$ 2 billion. (Naurin, A. Policy Viewpoint No. 53:2026, PIDE, March 2026).



since 2014 while mobilizing an additional US\$6 billion from international financial institutions, commercial banks, and the private sector. Yet the sector continues to operate significantly below its potential, suggesting that financing alone is insufficient without parallel reforms in sector governance, contract enforcement, and institutional accountability. The gap between installed capacity (approximately 42,000 MW) and effective available capacity (roughly 27,000 MW) underscores the extent to which operational and institutional inefficiencies, rather than capital shortfalls per se, constrain reliable power supply.

“

Achieving Pakistan's target of generating 60% of electricity from clean energy by 2030, as articulated in its third Nationally Determined Contribution (NDC 3.0), will require significant additional investment

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19. Achieving Pakistan's target of generating 60% of electricity from clean energy by 2030, as articulated in its third Nationally Determined Contribution (NDC 3.0), will require significant additional investment.

However, the investment climate for capital-intensive energy projects faces several headwinds. Security considerations affecting project implementation, including the costs of protective arrangements, which are ultimately passed on to consumers, add to the already elevated cost of doing business. Liquidity constraints within the power value chain, driven by chronic payment arrears, reduce the creditworthiness of sector entities and raise the cost of capital for new entrants. Frequent changes in regulatory frameworks and tariff structures compound this uncertainty, as investors in long-duration energy assets require predictable policy environments to commit capital. Taken together, these factors help explain why Pakistan's energy sector has attracted less private investment than its market size and energy deficit would otherwise warrant.

20. Alongside energy, transport and digital infrastructure function as critical determinants of whether transformation pathways can materialize or remain stagnant. Pakistan's ranking on the World Bank's Logistics Performance Index has been uneven, standing at 122nd out of 160 in 2018 (after 68th in 2016), with the country not covered in the 2023 edition owing to data gaps¹⁷, at a time when regional peers such as India, Bangladesh, and Vietnam have continued to strengthen their logistics ecosystems. This weighs on regional competitiveness and increases the cost of doing business. For the agro-

processing sector, the absence of robust rural connectivity and specialized cold chain logistics constrains whether perishable products can reach international markets or simply expire in transit. Similarly, for the textiles industry, the logistical friction of moving goods to Karachi port ensures that even significant energy reforms may not translate into competitive export prices. Digital connectivity acts as a further constraint; while it serves as a general enabling factor for the “Uraan Pakistan” vision, the digital divide, with individuals using the internet (% of population) at 57% compared to 70% in India on the ITU/World Bank series (2024), becomes a binding bottleneck for the IT and Business Process Outsourcing pathways, limiting the country's ability to transition toward a high-value, service-oriented economy.

21. Pakistan's structural transformation is further constrained by persistent gaps in health, education, and labour market inclusion. Pakistan's Human Development Index ranked 168th out of 193, according to the 2025 UNDP Human Development Report. Despite some improvements, severe health and education gaps persist: maternal mortality dropped from 276 to 155 per 100,000 live births over the period 2006–2024, and neonatal mortality decreased from 52 to 37.6 per 1,000 live births¹⁸. In terms of education outcomes, the net enrolment rate (NER) at the primary level is approximately 64.6%, while the gross enrolment rate (GER) at the same level is near 77.9%, indicating gaps due to late enrolment and grade repetition¹⁹. The challenge is further compounded by a learning vacuum, with 25.1 million children out

17 A Policy Brief on Pakistan's Logistics Performance and Its Impact on Trade Competitiveness (2025)

18 World Bank, World Development Indicators.

19 World Bank, World Development Indicators.





of school and 33.9% of youth remaining idle (neither in education nor in employment)²⁰. These disparities are most pronounced across gender lines; Pakistan ranks 148th out of 148 in the Global Gender Gap Index, hampered by a low female labor force participation rate and limited digital inclusion²¹. These human capital gaps are not only social constraints; they directly weaken Pakistan's productivity, firm-level competitiveness, export upgrading, and absorptive capacity for technology, particularly in priority sectors such as textiles, agro-processing, digital services, and SMEs, where skills, women's economic participation, and youth employability are central to moving into higher-value activities.

- 22. These human capital gaps are sustained by a self-reinforcing feedback loop where a limited share of the government's borrowing from the domestic market is channelled towards education and health sectors, producing a low-skill workforce.**²² This limited human capital development diminishes the country's absorptive capacity for innovation and is associated with low-value-added economic activities. Ultimately, this low-productivity environment fails to generate the necessary tax revenue to fund human capital, restarting the cycle. Uraan Pakistan's equity and empowerment pillar is designed to disrupt this spiral

by specifically targeting the gender and youth gaps that currently act as a drag on national productivity and fiscal health.

- 23. Pakistan's structurally low domestic savings translate into a persistent investment gap, with gross fixed capital formation declining from about 16.3% of GDP in 2000 to around 13.8% in 2025, well below comparator economies such as Bangladesh and India,** where investment ratios exceed 25% (Figure 4- Annex I). The savings that are generated domestically are allocated in significant measure to government securities and non-tradable assets rather than to productive capital formation, and this pattern—compounded by macroeconomic instability—constrains capital accumulation and long-term productivity. This dynamic reinforces the fiscal crowding-out noted earlier, with the limited private credit envelope channeled disproportionately to large corporates, real estate, and consumer lending, and only 5–6% reaching SMEs. As a result, weak investment has curtailed the expansion of productive and export-oriented sectors, reinforcing structural external imbalances and limited export diversification. The balance of trade generated an annual average of US\$ 30 billion deficit over the 2020-2025 period (Figure 5).²³

- 24. Pakistan's persistent external imbalances are rooted in a stagnant productive base that has seen exports decline from approximately 16% of GDP in the 1990s to nearly 10% in 2025 highlighting a critical erosion of global competitiveness.** While workers' remittances reached a substantial US\$ 38.3 billion in 2025 (10% of GDP)²⁴, this inflow masks the structural absence of an export-led growth engine. This vulnerability is underscored by a volatile currency trajectory, with the Pakistani Rupee depreciating from roughly 85 in 2010 to 280 in 2025 per US\$. However, these periodic devaluations during crises have failed to catalyse sustained export growth. Analytically, the potential gains from a weaker currency are consistently neutralized by exchange rate overvaluation during economic booms and a high-tariff protection regime that skews investment toward the domestic market rather than high-complexity global value chains. Consequently, with a gross debt-to-GDP

20 UNICEF, 2024. Annual report "Building brighter future". <https://www.unicef.org/>

21 World Economic Forum, 2025. "Global Gender Gap Report 2025"

22 To illustrate, domestic general government health expenditure per capita in Pakistan was US\$ 54.3, whereas it was US\$ 135.1 in India in 2023 (World Bank).

23 The import composition analysis confirms a consumption-led diagnosis, as the trade gap widens during expansions due to energy and consumer goods rather than the acquisition of capital equipment.

24 Government of Pakistan Finance Division (2025). "Monthly economic update & outlook".



ratio nearing 75% (Figure 6 in Annex I and Table 1.1) and a merchandise basket still mainly concentrated in textiles, the economy remains trapped in a low-complexity “product space,” necessitating a fundamental shift toward technological upgrading and diversification to mitigate external shocks and debt sustainability risks (Table 2.1 in Annex I).²⁵

25. Pakistan's structural transformation is also shaped by cross-cutting governance and climate factors.

Beyond the sectoral political-economy dimensions discussed above, governance weaknesses at the macro level, particularly the state's limited capacity to sustain long-horizon reform commitments, the opacity of the regulatory environment facing private firms, and uneven rule-of-law protections for contracts and property, raise the perceived risk of productive investment and erode the predictability on which export-oriented, long-payback projects depend. Strengthening institutional credibility, fiscal transparency, and regulatory consistency is therefore a precondition for the constraints identified in the preceding paragraphs to be durably addressed. Climate vulnerability compounds the challenge: Pakistan's exposure to extreme weather events, combined with water stress and agricultural sensitivity, periodically disrupts rural incomes and agro-industrial supply chains and diverts fiscal resources toward reconstruction, constraining the space available for

the productive investments the transformation agenda requires. Besides, water security constitutes a critical structural constraint to Pakistan's transformation, with persistent inefficiencies in irrigation systems undermining agricultural productivity and resource use. The sector is further strained by unsustainable groundwater extraction, rising climate-induced variability manifested in recurrent floods and droughts, and inadequate water, sanitation, and hygiene (WASH) services, which also collectively weaken human capital outcomes and rural resilience.

26. To address the structural bottlenecks identified, Pakistan can leverage the principles of economic complexity by pivoting toward high-potential sectors that align with its existing productive capabilities.

International experience shows that countries diversify most successfully into activities closely related to those they already undertake, and three pathways emerge naturally from Pakistan's existing capabilities and the constraints set out above (among others). The first is upgrading the textile value chain: as the world's fifth-largest cotton producer²⁶ with established yarn and grey-cloth capacity, Pakistan is well positioned to move into finished garments and branded products, a transition currently held back by uncompetitive energy costs, crowded-out trade finance, and high logistics costs. The second is scaling IT and BPO services, where ICT services exports reached approximately US\$3.8 billion in FY25 on the strength of a large English-speaking youth population²⁷, but where further growth is constrained by limited digital connectivity, skills-training misalignment, and regulatory frictions on foreign exchange access, with the longer-term trajectory also shaped by the evolving impact of AI on services demand. The third is modernizing agro-processing: Pakistan's substantial raw production in rice, mango, and dairy is largely exported unprocessed, and moving up the value chain will require cold-chain infrastructure, international quality certification, and SME working capital, linking back to the logistics and credit constraints identified earlier. Realizing these pathways will depend on sustained progress against the binding constraints. Addressing fiscal crowding out, the trade regime, infrastructure and energy bottlenecks, human capital gaps, and the underlying governance environment in a mutually reinforcing manner will be central to sustaining Pakistan's structural transformation over the medium term.



²⁵ Islamic Development Bank Group (2026), Country Diagnostic Study for Pakistan, IsDB Group Chief Economist Complex.

²⁶ USDA FAS PSD Online – Cotton production table. 2026

²⁷ State Bank of Pakistan (2025), Annual Report 2024–25.



3

NATIONAL DEVELOPMENT PLAN PRIORITIES

3. National Development Plan Priorities

27. Pakistan's development agenda is guided by the Uraan Pakistan - National Economic Transformation Plan- (2024–2029), which provides a comprehensive roadmap to stabilize the macroeconomic environment, accelerate structural transformation, and place the country on a sustainable and inclusive growth trajectory. The strategy seeks to address persistent structural bottlenecks while leveraging

Pakistan's strategic location, demographic potential, and expanding digital economy. The national transformation framework is built around the "5Es" strategic pillars—Exports, E-Pakistan (Digital Transformation), Environment and Climate Change, Energy and Infrastructure, and Equity, Ethics and Empowerment (Table 3.1).

Table 3.1: The 5-E Framework of Uraan Pakistan (2024-2029)



Source: Uraan Pakistan





“ These pillars reflect the Government's integrated approach to promoting economic diversification, enhancing productivity, ensuring inclusive development outcomes, and strengthening climate resilience. ”

28. These pillars reflect the Government's integrated approach to promoting economic diversification, enhancing productivity, ensuring inclusive development outcomes, and strengthening climate resilience. The framework aims to support Pakistan's transition toward a more competitive and innovation-driven economy capable of generating sustainable employment and higher value-added production. The national economic transformation plan (Uraan) is not only a policy update, but a major strategic shift,

to reshape the economy and bring macroeconomic stability under the five-E pillars. The launch of the national economic transformation Plan -Uraan Pakistan (2024-2029)- is a key step to address the country's development challenges and move toward a more diversified and prosperous economy. Besides, Pakistan declared 2026 as the Year of Institutional Reforms across 14 priority sectors to cut red tape and boost investment. This decisive step is also essential to accelerate Uraan Pakistan's goals—higher growth, export competitiveness, FDI inflows, and ease of doing business, by removing structural bottlenecks and sustaining reform momentum in the country. The Uraan Pakistan aligns with IsDB's mission of sustainable development in member countries including the **IsDB Group's 10-year Strategic Framework** (2026-2035) 'Originality and Solidarity for Intergenerational Prosperity' and as well as the **IsDB Five-Year Corporate Strategy** (2026-2030). In other words, Pakistan's national development priorities highlighted in Uraan Pakistan provide the strategic foundation for engagement with development partners and also guide the formulation of the IsDB Member Country Partnership Strategy (MCPS) 2026–2030 by ensuring strong alignment between Pakistan's national development agenda and the IsDB Group's strategic objectives.



4

ISDB GROUP'S MEMBER COUNTRY PARTNERSHIP STRATEGY FOR PAKISTAN

4. IsDB Group's Member Country Partnership Strategy for Pakistan

4.1 Objectives of the MCPS

29. Strategic Perspective: The objective of the IsDB Group's engagement in Pakistan during the MCPS period (2026–2030) is to support the country's transition toward a more diversified, resilient, and export-oriented economic model, capable of sustaining higher and more stable growth with more effective key infrastructure particularly in energy, transport and water systems, while generating more export revenue and triggering private sector activities.

30. Operational Perspective: MCPS Pakistan is positioned as more than a project menu, serving four complementary roles. First, it acts as a **strategic instrument**, aligning IsDB Group support with Uraan Pakistan and the broader 10-Year Transformation

Framework. Second, it functions as an **operational delivery mechanism**, translating strategy into targeted interventions under the two MCPS pillars to ensure coherence and impact. Third, it provides a **financing and resource mobilization framework**, coordinating all IsDB Group entities and leveraging partnerships to crowd in public and private financing. Finally, it serves as a **portfolio improvement tool**, strengthening project readiness, procurement, and fiduciary systems to enhance implementation performance and development results.

31. Country Ownership: These pillars and their corresponding sectoral focus areas have been identified through **extensive consultations** with key government counterparts, private sector representatives, and development partners, while



ensuring alignment with Pakistan's national development priorities in Uraan Pakistan. Importantly, a set of specific filters that guided the choice of pillars and focus areas of the MCPS Pakistan that supports the ownership from the country: (i) alignment with IsDB's 10-Year Strategic Framework and its three strategic drivers as well as the IsDB Five-Year Corporate Strategy (2026-2030) (ii) alignment with Uraan and the 5Es, (iii) areas where the IsDB Group has demonstrated comparative advantage and operational track record, (iv) complementarity with other development partners to avoid duplication and maximize additionality²⁸, and (v) scalability and potential for leverage, prioritizing interventions that can attract co-financing and crowd in private capital. This turns the **selectivity logic** from implicit to transparent with a view to maximizing the **development impact**.²⁹

4.2 Strategic Pillars of the MCPS

32. The IsDB Group's engagement in Pakistan will be structured under the theme of "Supporting Infrastructure Development & Advancing Export-Led Growth and Private Sector Development" **around two main pillars and five cross-cutting pillars**, reflecting principles of selectivity, comparative advantage, and development impact maximization, and by considering the most binding constraints to the country's structural transformation and long-term growth identified in section II.³⁰

4.2.1 Pillar 1: Investing in Strategic Infrastructure for Connectivity, Energy Security, and Water Systems

33. Under this pillar, the IsDB Group will support strategic infrastructure investments in key sectors, particularly in energy, transport, and water sectors. These interventions aim to enhance connectivity, improve logistics efficiency, strengthen water security, and expand energy generation and transmission capacity while supporting resilience building and sustainability.

34. The transport sector constitutes a critical enabler of Pakistan's economic transformation agenda; however, it continues to face significant structural and connectivity-related challenges. In this context, the IsDB Group will scale up its support to the development of an efficient, integrated, and resilient transport network, particularly in the rail and road (highway) networks.³¹ Under the MCPS Pakistan, particular emphasis will be placed on enhancing connectivity and economic competitiveness through strategic transport investments that facilitate the movement of goods and people, strengthen trade linkages, and support structural transformation. The MCPS will prioritize climate-resilient and sustainable transport infrastructure to reduce vulnerability to climate shocks and ensure long-term development impact. Interventions will also contribute to improving energy efficiency in the transport system, thereby supporting broader efforts to reduce energy dependency. Where feasible, opportunities for private sector participation will be explored, with ICD playing a catalytic role in supporting PPP structures and mobilizing private investment in key transport segments.

35. In the energy sector, the MCPS will support Pakistan in transitioning toward a greener, more efficient, and affordable energy system, aligned with the IsDB Energy Strategic Framework (2022–2026) and its four strategic pillars: Access to Modern Energy Services, Renewable Energy, Energy Efficiency and Knowledge Services. Drawing on the structural analysis in Section II, which identifies persistent institutional and regulatory weaknesses as the primary factor limiting returns on energy sector investments³², the MCPS will be selective in identifying entry points where IsDB Group interventions can achieve measurable impact. This implies prioritizing subsectors and modalities where governance risks are more manageable, rather than directing resources toward segments of the power value chain where past development partner financing has not yielded commensurate results. **Priority interventions** will focus on: (i) improving the efficiency and sustainability of the generation

²⁸ Annex IV presents key development partners in Pakistan.

²⁹ These pillars are closely aligned with Uraan Pakistan, the IsDB Group's 10-Year Strategic Framework, the IsDB Five-Year Corporate Strategy (2026-2030), and the Sustainable Development Goals (SDGs), thereby ensuring that the Bank's interventions contribute effectively to addressing key development constraints while supporting inclusive, resilient, and sustainable development.

³⁰ Pillars/focus areas are presented in Table 4.1.

³¹ Some key initiatives may be prioritized as per their strategic importance for Pakistan, like "Modernizing the Backbone of Freight and Passenger Transport (Main Line-1 – ML-1)". Further consultations and final decision will be made during the programming exercise following the launch of the MCPS.

³² In the energy sector, while investments in generation and transmission remain important, sector diagnostics highlight that one of the critical constraints to competitiveness and fiscal sustainability lies in the distribution segment, including technical and non-technical losses, billing inefficiencies, and subsidy-related pressures contributing to circular debt.





mix, with emphasis on renewable energy sources, to reduce import dependence and lower the cost of generation; (ii) strengthening transmission and distribution infrastructure to reduce losses and improve reliability; (iii) supporting energy efficiency measures and innovative financing for energy projects, including through public-private partnerships designed to mitigate the liquidity constraints and regulatory uncertainty that have historically deterred private capital from the sector; and (iv) promoting clean cooking solutions, potentially through the Clean Cooking Trust Fund hosted by IsDB and sponsored by the Kingdom of Saudi Arabia. ITFC will continue its support to Pakistan in the area of energy security through financing the imports of essential energy commodities, including crude oil, petroleum products, and LNG. ICIEC will complement these efforts by offering risk mitigation instruments to enhance investor confidence and de-risk investments and will explore pipeline transactions with other MDBs in the sustainable energy space with a focus on long-term resilience and environmental sustainability.

- 36. Water systems** represent a critical pillar for Pakistan's agricultural productivity, food security, and rural livelihoods, yet they are increasingly constrained by water stress, inefficient irrigation infrastructure, and climate-related vulnerabilities, including floods and droughts. In this context, the IsDB Group will scale up its support to the development and modernization of

water and irrigation systems under the MCPS Pakistan, recognizing that improved water management is essential to unlocking productivity gains in agriculture and strengthening rural resilience. Interventions will focus on enhancing water-use efficiency, rehabilitating and upgrading irrigation infrastructure, and promoting integrated water resource management to address systemic inefficiencies and ensure sustainable water availability. The MCPS will also support targeted, programmatic interventions to address structural constraints in the agriculture–water and food security nexus. These include strengthening dam safety and water infrastructure management, deploying innovative solutions such as the Earth Observation eToolkit to improve data on water availability and climate monitoring, and promoting climate-resilient irrigation practices. Complementary interventions in soil fertility, land conservation and restoration³³, and livestock development will further enhance resource efficiency and agricultural productivity, while value chain support—particularly in strategic crops such as rice—will improve water-efficient production, post-harvest systems, and market access. Overall, water-systems-related interventions can be grouped under sub-areas: (i) strategic water infrastructure, multipurpose storage, and dam safety; (ii) irrigation modernization, water productivity and digital monitoring systems; (iii) groundwater and conjunctive water management; and (iv) WASH, wastewater, and climate-resilient service delivery; and (v) strengthen the multipurpose water infrastructure that supports hydropower, irrigation, flood management, resilience, and agro-industrial development.

“**Water systems represent a critical pillar for Pakistan's agricultural productivity, food security, and rural livelihoods, yet they are increasingly constrained by water stress, inefficient irrigation infrastructure, and climate-related vulnerabilities, including floods and droughts.**”

³³ Pakistan has its Clean Green Pakistan Initiative and is an endorsing country of the Middle East Green Initiative (MGI).



4.2.2 Pillar 2: Promoting Export-Led Growth, SME Competitiveness and Private Sector Development

37. Pillar 2 includes projects and programs aimed at promoting private sector investment, strengthening export competitiveness, and supporting the growth of small and medium-sized enterprises (SMEs) with the ultimate goal of enhancing private-sector-led development. Interventions will include improving access to finance, supporting financial institutions, developing innovative financing models for SMEs, strengthening public-private partnerships, enhancing foreign direct investment flows, and facilitating SME integration into regional and global value chains. Two main focus areas under Pillar 2 are formulated as “strengthening SME and export competitiveness” and “promoting private sector participation”.

38. Strengthening SME and export competitiveness will be one of the central focus areas of the IsDB Group's engagement under the MCPS, with a coordinated set of interventions led by ITFC, ICIEC, and ICD. ITFC will play a key role in expanding access to trade finance, particularly for export-oriented sectors, by providing trade financing solutions and supporting trade facilitation initiatives aimed at enhancing liquidity and improving market access. The Islamic Corporation for the Development of the Private Sector (ICD) will complement these efforts by mobilizing long-term financing for private sector enterprises, particularly SMEs, and supporting the development of structured non-sovereign financing solutions, including Shariah-compliant instruments and risk-sharing facilities to strengthen industrial value chains and promote diversification. Together, these interventions are expected to improve access to finance, reduce trade-related risks, and facilitate greater integration of Pakistani firms into regional and global value chains, thereby supporting a sustained shift toward export-led growth.

39. Building on the strong track record of collaboration between ITFC and IsDB—particularly under the R1 Initiative and the successful execution of trade-related components in operations, there is a clear opportunity to further build on this partnership under the MCPS Pakistan. ITFC can play a pivotal role in complementing IsDB's project financing by structuring and delivering trade finance solutions, including the issuance of Letters of Credit and short-term commodity financing, for projects with

embedded trade elements. By working closely with relevant departments in the IsDB Group, ITFC can systematically identify and operationalize such opportunities, ensuring timely disbursement and enhanced impact. This integrated approach will not only optimize resource utilization and delivery efficiency but will also reinforce the “One Bank, One Group” vision by demonstrating seamless intra-group collaboration, leveraging synergies, and presenting a unified value proposition to Pakistan. ITFC's financing facilities have been utilized by the Government of Pakistan for its energy imports, a sector vital to the country's economic stability and growth. ITFC's financing supports Pakistan's energy security by supporting LNG and petroleum imports critical to key sectors like textiles. Under this MCPS, ITFC will continue supporting Pakistan in importing essential commodities such as oil, petroleum and LNG. In parallel, ITFC also aims to expand its financing into supporting the food, agriculture, and SME sectors, provide trade finance facilities to exporters, and coordinate with government entities for trade development solutions. ITFC is committed to continuing its support to meet Pakistan's financial needs for importing essential commodities as well as supporting export capacity through the following:



Providing financing facilities to meet Pakistan's import of crude oil, petroleum products, and LNG.



Expanding into financing the food and agricultural sector.



Supporting the SME sector by providing lines of finance to local banks. The banks will use these lines to provide trade finance facilities to their SME clients in the country.



Supporting the textile and agricultural sector through the ‘Supplier Financing Scheme’ in coordination with Pakistan EXIM Bank. This facility aims to provide exporters with the cash needed in a timely manner, allowing them to expand production and increase the country's overall export capacity.



Coordinating with relevant governmental entities to provide trade development solutions such as trade-related technical assistance (TRTA), and trade facilitation and promotion.



40. ICIEC will contribute by offering risk mitigation instruments, including export credit and investment insurance,

to enhance the creditworthiness of Pakistani exporters and attract foreign investment into export-oriented industries. ICIEC aims to support Pakistan's economic development and food security through its comprehensive suite of insurance and reinsurance (particularly expanding cooperation with EXIM Bank of Pakistan), hence positioning itself as a key enabler of trade, investment, and financial stability in the country. Through its interventions, the Corporation aims to strengthen resilience across critical sectors like energy and food security while facilitating sustainable economic growth.

41. ICIEC will collaborate with leading global and regional suppliers, provide budgetary support mechanisms, and actively explore opportunities in sustainable energy and food security transactions.

In parallel, ICIEC will continue to assist local banks and exporters in achieving the desired developmental and commercial outcomes by enhancing access to risk mitigation tools and international markets. There may also be ICIEC insurance/commitments, further reinforcing the Corporation's pipeline and forward-looking commitment to Pakistan's strategic sectors. Specifically, ICIEC will undertake the following strategic actions:



Sign agreements with leading food and agri-commodity suppliers to provide immediate and sustainable food security relief, as part of the IsDB's Food Security Response Program initiative, thereby ensuring continuity of essential imports and price stability;



Provide budgetary headroom by working in close coordination with other MDBs, leveraging synergies to maximize developmental impact and optimize resource utilization;



Continue to explore and develop pipeline transactions with MDBs, particularly in the areas of sustainable energy and food security, with a focus on long-term resilience and environmental sustainability;



Assist local banks — through insurance services extended to international confirming banks — to enhance the acceptability of LCs issued by Pakistani banks, thereby facilitating smoother trade flows and improving confidence among international counterparties; and



Cooperate closely with EXIM Bank Pakistan to support institutional capacity building and assist exporters in meeting trade credit and financing requirements, ultimately strengthening Pakistan's export ecosystem.

42. Promoting private sector participation is the second focus area,

which reflects the need to strengthen the role of the private sector as a key driver of investment, job creation, and economic diversification in Pakistan. The IsDB Group will consider PPP models to support funding of high-impact and critical infrastructure assets in Pakistan while adopting a coordinated approach, leveraging the complementary strengths of ICD, ITFC, and ICIEC. ICD will play a central role in mobilizing long-term financing for private enterprises, particularly SMEs, and supporting the development of innovative Shariah-compliant financing solutions, including lines of finance, equity participation, and capital market instruments. During the MCPS Pakistan, ICD's proposed engagement in Pakistan will focus on supporting strategically important sectors through financing, investment, and mobilization to



private sector entities. Given the significant financing and investment gap facing Pakistan's private sector—particularly SMEs, infrastructure, and export-oriented businesses—ICD will prioritize interventions that crowd-in private capital and strengthen the role of Islamic finance within the country's financial ecosystem. The approach will emphasize solutions that de-risk private sector participation in priority sectors and integrate Islamic financial instruments into existing economic value chains, rather than relying primarily on large, balance-sheet-intensive project financing transactions.

43. ICD will deploy a mix of direct corporate financing, equity investments, and credit lines through local financial institutions, complemented by partnerships with MDBs and commercial banks to mobilize co-financing and syndicated investments. In addition, innovative instruments such as risk-sharing facilities, value-chain financing, and blended finance structures will be utilized to enhance access to finance for underserved segments, particularly SMEs and exporters. Interventions will focus on high-impact sectors—including infrastructure, renewable energy, agribusiness, manufacturing, and strategic industries—while ensuring alignment with export growth, industrial development, and climate resilience objectives. To ensure sustainability and mitigate macro-financial risks, ICD will adopt a differentiated approach to foreign exchange exposure by targeting export-oriented firms with natural hedging capacity for USD financing, while advancing local currency solutions for domestically oriented sectors. Complementing its financing role, ICD will support the development of Islamic capital markets, particularly through USD-denominated sukuk instruments linked to infrastructure, exports, and green investments, thereby attracting international capital.

44. ICD will also play a strategic role in strengthening Pakistan's financial ecosystem through collaboration with regulators and its investee institution, AlBaraka Bank Pakistan, focusing on SME financing, product innovation, and institutional capacity building. These efforts will be reinforced by policy-level engagement to promote credit guarantees, blended finance mechanisms, and concessional hedging solutions, thereby enhancing financial inclusion and enabling a more robust and resilient private sector development trajectory. ITFC will complement these efforts by providing trade-related financing to financial

institutions and private firms, thereby easing liquidity constraints and facilitating business growth. ICIEC will contribute by offering risk mitigation instruments to enhance investor confidence and support private investment flows, including offering insurance for exporters and foreign direct investors. In parallel, the MCPS will support the strengthening of the enabling environment for private sector development, including improvements in access to finance, public-private partnership frameworks, and institutional capacity. Together, these interventions are expected to stimulate private investment, enhance firm productivity, and support the emergence of a more dynamic and competitive private sector. ICIEC's wide range of de-risk instruments and offerings will not only help create a more enabling environment for businesses but also help them to engage in more economic activities that would enhance the development of the private sector.

45. Drawing on the IsDB Group's broader operational experience, particular attention will be given to women- and youth-led enterprises and to their integration into priority value chains such as textiles and agro-processing, leveraging ICD's SME instruments and ITFC's export financing.

4.2.3 Cross-Cutting Pillars

46. MCPS will have five cross-cutting areas that will support both Pillar 1 and Pillar 2.

47. Digitalization is the first cross-cutting area in the MCPS Pakistan. Digital infrastructure and IT systems not only help improve economic competitiveness but also ease access to finance, energy, and information, both for people and businesses that could play a transformative role in development, such as by enhancing access to finance & information by SMEs, exporters, and people. IsDB's Digital Inclusion Operational Strategy (DIOS) 2024-27 & "Finance-Plus" Approach could also help the digital transformation agenda (E-Pakistan) in this area. The approach combines capital with technical and advisory support to ensure projects are investment-ready and sustainable. "Sovereign AI & Digital Infrastructure Development Initiative" is another area that IsDB will consider working with Pakistan in line with its E-Pakistan agenda, particularly under this cross-cutting area. Women and youth are positioned at the core of the digital transformation agenda: the





recently approved Y-DEEP operation will serve as a key delivery vehicle for youth digital skills, employment and entrepreneurship, and digital-inclusion design will explicitly address gender gaps in connectivity, skills and platform access.³⁴

- 48. Climate Change is the second cross-cutting area of the MCPS.** Pakistan faces significant exposure to climate-related risks, including glacial melt, riverine flooding, droughts, extreme heat, and sea-level rise. These hazards increasingly affect water availability, infrastructure, agriculture, and livelihoods, underscoring the need to strengthen climate resilience and adaptive capacity. In response, the Government of Pakistan has established a comprehensive policy framework, including the National Climate Change Policy (2021) and the National Adaptation Plan (NAP) 2023, which outlines priority actions for climate adaptation through 2030. These efforts are complemented by Pakistan's updated Nationally Determined Contribution (NDC 3.0) submitted in 2025, which commits to reducing greenhouse gas (GHG) emissions by up to 50% by 2035. Of this target, 17% will be achieved through domestic measures,

while the remaining reductions are conditional upon access to international climate finance, climate-friendly technologies, and capacity building support. To achieve these objectives, Pakistan has identified priority investments across key sectors to advance its climate commitments, including disaster risk management, water and irrigation systems, low-carbon energy, sustainable transport, and energy efficiency and waste management.

- 49. Addressing these priorities will require substantial financial resources,** with total investment needs estimated at approximately US\$ 565.7 billion by 2035. Within this context, the IsDB Group considers supporting Pakistan by integrating climate resilience and mitigation considerations across its operations. Potential areas of collaboration include strengthening early warning systems, enhancing flood protection and water conservation, supporting renewable energy development, and providing concessional financing and technical assistance. The Bank may also contribute to building climate-related skills and promoting green jobs, particularly for youth.³⁵

³⁴ <https://www.undp.org/blog/uniting-our-future>

³⁵ The Government of Pakistan has expressed interest in exploring collaboration under initiatives such as the Skills, Training, and Education Program (STEP) to equip youth with green skills in areas such as renewable energy, sustainable agriculture, forestry, and water management, while supporting workforce transitions from high-carbon sectors.



50. In addition to sovereign financing operations, the MCPS will leverage complementary upstream technical assistance and grant-based support to strengthen institutional readiness and the preparation of climate-resilient investments in priority sectors. In this regard, the IsDB Group is currently implementing a technical assistance program of approximately US\$1.1 million, financed by the NDC Partnership, to support the Government of Pakistan in developing a pipeline of priority interventions under the Water–Energy–Food (WEF) framework, expected to be finalized by the end of 2026. More broadly, the MCPS will continue to

leverage Global Practice support, PPF resources, and other grant-based instruments to strengthen safeguards systems, public financial management readiness, and upstream project preparation, reinforcing the Bank's role as both a financing and knowledge partner supporting sustainable structural transformation in Pakistan.

51. The third cross-cutting pillar is Human and Institutional Capacity Development. Health plays a vital role in socioeconomic development, as a healthy population enhances productivity, reduces poverty, and supports sustainable economics. Within the

Table 4.1: MCPS Pillars and Focus Areas

MCPS Pakistan Pillars	
 Pillar 1: Strategic Infrastructure for Connectivity, Energy Security And Water Systems	 Pillar 2: Promoting Export-Led Growth, SME Competitiveness And Private Sector Development
Alignment with URAAN Pakistan	
Concerned 5-Es Framework: - E4: Energy & Infrastructure - E1: Exports - E2: E-Pakistan	Concerned 5-Es Framework: - E1: Exports - E2: E-Pakistan
MCPS Pakistan Focus Areas	
Improving the transport network to enhance connectivity and competitiveness (SD1.1a, SD2.1a & E4) Strengthening energy security, clean energy transition, and transmission systems to ensure reliable, affordable, and sustainable power supply (SD1.1b, SD2.1a & E4) Enhancing climate-resilient water resource management systems to improve irrigation efficiency, agricultural productivity, and agro-industrial value chains (SD1.3b, SD1.3a & E3, E4)	Strengthening SME and export competitiveness by expanding participation in value chains and improving access to trade finance, supplier financing schemes, and export credit and investment insurance solutions to reduce trade-related risks and enhance market access (SD2.1b, CC.1 & E1) Promoting private sector participation through trade finance, PPP investment operations, and lines of financing supported by coordinated IsDB Group interventions (ICD, ITFC, ICIEC) to de-risk transactions and crowd-in private investment (CC.1, CC.2, SD2.1b & E1, E2)
Cross-Cutting areas	
- Digitalization (E2; SDG 4 and 9) (SD1.1c & GP.5) - Climate Change (E3; SDG 6, 7, and 13) (GP.2 & GP.3) - Human and Institutional Capacity Development (E5; SDG 11,12 and 17) (CC.3 & GP.1) - Women and Youth Empowerment (E5; SDG 4, 5) (GP.4) - Islamic Finance (E4; E5; SDG 10) (CC.2)	

Note: E refers to the Government of Pakistan's URAAN 5Es framework; SDX.X refers to the Strategic Directions of the IsDB Strategic Framework (SF) 2026-2035; CC.X and GP.X refer to the cross-cutting areas and guiding principles of the IsDB SF 2026-2035.



health sector, the priorities outlined by the MCPS are closely aligned with the overarching objectives of Uraan Pakistan and the draft National Health and Population Policy 2025–2034. In the health sector, issues related to nutrition and stunting reduction, fighting non-communicable diseases (NCDs), and polio eradication were highlighted as potential priority areas for future collaboration, given their importance for improving human capital outcomes and long-term productivity.

52. During the MCPS implementation, **key priorities of the IsDB in the health sector will include:** (i) Strengthening PHC through targeted investments in disease control and prevention, with particular focus on hepatitis and polio and improved management of non-communicable diseases (NCDs); (ii) Enhancing maternal, child, and nutrition outcomes by supporting comprehensive, multi-sectoral health and nutrition programs for mothers and children to address persistently high rates of stunting (iii) Advancing Self-Sufficiency in Pharmaceuticals and Vaccines via technical assistance, promoting knowledge exchange through South-South collaborations, to strengthen the health system as well as contribute to Pakistan's export economy by fostering pharmaceutical innovation and production. Additionally, leveraging information and communication technologies (ICT)

and digital solutions, as well as PPP, to improve the efficiency and accessibility of healthcare services at all levels; including specialized services. **Education** is widely recognized as a fundamental driver of economic growth and for the advancement of a knowledge-driven society. The IsDB's support in this sector will focus on the following strategic priorities: (i) Expanding access and improving the quality of education, with a strong emphasis on significantly decreasing the number of out-of-school children and tackling learning poverty; (ii) Advancing skills development by aligning curricula with the evolving needs of the labour market, ensuring that training programs and technical and vocational education and training (TVET) programs are directly connected to industry requirements and that the workforce is market-ready; and (iii) Promoting ICT integration and digitalization, including the adoption of e-learning platforms and digital tools, to reinforce the resilience of the education system and widen educational opportunities for students in remote and underserved areas. **Civil society plays a critical role in achieving inclusive human capital development.** In particular, NGOs and civil society could play a critical role in maximizing the impact of several initiatives in the education and health sectors, both in urban and rural areas. In the context of MCPS Pakistan, the Tadamon 2.0 program could be instrumental. Through this



program, the Bank can collaborate with Pakistani civil society organizations (CSOs) and NGOs as key delivery partners to reach underserved and hard-to-reach communities, particularly in fragile and vulnerable contexts.

53. Women and Youth Empowerment is the fourth cross-cutting area that will be mainstreamed in the MCPS. To support Pakistan's economic transformation while advancing gender equality, the MCPS will integrate gender-responsive approaches within key sectors such as infrastructure, energy, agriculture, digital economy, and financial inclusion. This includes improving women's access to economic opportunities, productive resources, digital technologies, and finance, while ensuring that development investments reduce structural barriers affecting women's participation in the economy. The MCPS will also support targeted initiatives that expand women's employment and entrepreneurship opportunities, including skills development for young women, access to finance for women-led SMEs, and integration of women entrepreneurs into domestic and export value chains, particularly in emerging sectors such as digital services and technology. The MCPS will further provide technical assistance to strengthen national and provincial women's machinery and sector institutions to design, implement, and monitor gender-responsive policies and programs. For youth bulge, the MCPS will support large-scale digital skills training targeting underserved youth—particularly women and rural populations—in high-demand competencies including Artificial Intelligence, Software Development, Data Analytics, Cybersecurity, e-Commerce, and Graphic Design. Training delivery will utilize blended learning approaches combining online platforms (the Skill Our Future platform developed by UNDP) with offline Training of Trainers (ToT) models, ensuring reach to low-connectivity areas across Pakistan's poorest districts in Balochistan, Sindh, Khyber Pakhtunkhwa, and Punjab. The MCPS will support youth-led digital entrepreneurship through integrated interventions combining business skills training, mentorship, access to startup capital, and market linkages. Priority sectors will include health-tech, ed-tech, green-tech, and agri-tech—areas where digital solutions can address development challenges while creating commercial opportunities. The MCPS will consider investing in: (i) Strengthening

Pakistan's Entrepreneurship Support Organizations (ESOs) through training in curriculum design, fundraising and financial sustainability, inclusive practices ensuring services reach women and marginalized groups, monitoring and evaluation systems, and scaling strategies; (ii) Establishing or strengthening Strategic Intelligence Hubs that translate project evidence into actionable policy reforms, identifying policy barriers to youth digital skills, employment, and entrepreneurship based on project implementation data, facilitating evidence-based policy dialogues with government, private sector, and civil society, and conducting collective intelligence workshops, co-creating solutions with diverse stakeholders. In general, across transport, energy, and water operations, the MCPS will also seek to capture employment and skills-development opportunities for the youth and women where feasible.

“The MCPS will also support targeted initiatives that expand women's employment and entrepreneurship opportunities, including skills development for young women, access to finance for women-led SMEs, and integration of women entrepreneurs into domestic and export value chains, particularly in emerging sectors such as digital services and technology. The MCPS will further provide technical assistance to strengthen national and provincial women's machinery and sector institutions to design, implement, and monitor gender-responsive policies and programs.

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54. Islamic Finance is an enabler for growth and inclusion and is identified as the fifth cross-cutting area of the MCPS. Given Pakistan's advanced Islamic finance market and the SBP's institutional depth, IsDBI's engagement during the MCPS period should be calibrated to where genuine demand exists and where IsDB's contribution is meaningfully complementary to domestic institutions. The scope for IsDB involvement is narrow but concrete; particularly, IsDBI is expected to collaborate with the SBP to improve inclusivity and regulatory aspects of Islamic finance in Pakistan.³⁶ Another opportunity related to IsDBI's involvement is a follow-on technical assistance to Pakistan Exim Bank. The institution has set a target of full Shariah compliance by 2028, aligned with the constitutional deadline, and has explicitly requested expanded support from IsDBI, building on the existing TA relationship.³⁷

55. IsDB has several instruments that particularly support the implementation of MCPS that would help achieve its objectives, including **digital solutions, capacity development, South-South cooperation initiatives, including reverse linkage, civil society support initiatives, and scholarship programs**. In this regard, the MCPS will leverage IsDB's capacity development initiatives to complement investment operations in a focused and practical way. This includes institutional capacity development for project delivery through the **Technical Cooperation Program (TCP)** with targeted skills transfer via deployment of experts, study visits, and on-the-job technical training. Technical Assistance can also be extended to strengthen the implementation capacity of Executing Agencies and Project Management Units. The MCPS will also seek to mainstream digital solutions in health and education through private sector engagement in sovereign projects. **Scholarship programs** can be leveraged to support human capital development in national priority fields by aligning them with MCPS sectors such as infrastructure, energy, digital economy, and SMEs. This ensures that investments in education translate into measurable economic impact and are closely linked to labour market needs and national development priorities. The MCPS will further deepen **South-South knowledge exchange** through the Reverse Linkage mechanism, with Pakistan positioned not only as a recipient of knowledge, but also as a provider of expertise to share locally developed solutions with other member countries. This MCPS also provides an opportunity to further tap into the expertise identified under the Pakistan Mapping of Resource centres to benefit other member countries. IsDB, through its **Regional Cooperation and Integration** unit, can also support cross-border trade promotion and investment by leveraging Pakistan's Single Window platform, which offers a proven digital model for trade facilitation for countries seeking to modernise border processes and reduce trade costs through digitalisation.

³⁶ Although Pakistan is one of the most developed Islamic finance markets among IsDB member countries, several challenges remain in the sector. For example, Pakistan's banking sector holds approximately 60% of total assets in government securities, of which only around 14% are currently Shariah-compliant. In addressing some challenges of the sector, IsDBI, in the context of MCPS, will offer initiatives and programs, particularly on technical assistance and capacity development aspects, to relevant authorities, including SBP and EXIM Bank.

³⁷ IsDBI's support would broadly cover three areas: Islamic finance product development, Shariah governance, and capacity building, and possibly leveraging working with the Cooperation and Capacity Development team of the IsDB on reverse linkage opportunities with comparable institutions in other member countries.



5

OVERVIEW OF THE ISDB'S PARTNERSHIP WITH PAKISTAN

5. Overview of the IsDB'S Partnership with Pakistan

5.1 IsDB Group Portfolio Performance

56. Since its inception, the IsDB Group has demonstrated a strong and sustained commitment to Pakistan, with total approved financing amounting to approximately US\$17 billion as of end-March 2026, the third highest among the Bank's 57 member countries. This includes US\$3.52 billion in project financing by IsDB OCR, US\$246.9 million by ICD, and US\$8.26 billion in trade operations by ITFC, in addition to US\$5 billion mobilized through other IsDB Group funds and operations. Furthermore, ICIEC has supported Pakistan through US\$7.91 billion in insured business and US\$4.87 billion in new insurance commitments, reflecting the Group's comprehensive

engagement across public and private sector operations. The portfolio composition reflects a strong emphasis on trade finance, which accounts for 77.6% of total financing, followed by project financing at 20.6%, and concessional financing at 1.8%. This distribution highlights the important role of trade facilitation and private sector support in the IsDB Group's engagement in Pakistan. The IsDB Group's total disbursements have reached US\$10.50 billion, comprising US\$2.36 billion (22.5 %) by IsDB OCR, US\$7.94 billion (75.6%) by ITFC, US\$132 million (1.3%) by ICD, and US\$66.5 million (0.6%) by other funds. Total repayments stand at US\$9.58 billion, indicating a mature portfolio with strong financial turnover and sustained engagement over time.



57. The active portfolio currently consists of 42 operations with a total commitment of approximately US\$4.52 billion, representing 26.6% of the total portfolio size, while 376 operations have been completed, amounting to US\$12.5 billion (73.4%) of total approvals. This reflects a well-established and evolving portfolio, transitioning from a large historical pipeline to a more selective and active portfolio under implementation. The performance of the active portfolio has been satisfactory, with an average PIASR rating of 0.80 (on a scale of 0 to 1). This indicates generally strong implementation performance across ongoing projects, supported by improved supervision, strengthened monitoring mechanisms, and enhanced coordination with key stakeholders.

5.2 Current Implementation Issues and Lessons Learned

58. During the recently completed CEF for Pakistan over the period 2023-2025, the IsDB Group approved US\$ 3.6 billion, achieving around 70% of the total planned envelope. The lessons learnt highlighted in section 5.2.2 will provide strategic guidance to ensure the successful implementation of the MCPS in collaboration with the Governor's Office, line ministries, and executing agencies in Pakistan. These experiences gained during the CEF implementation provide valuable operational lessons that informed the design and implementation approach of the MCPS 2026–2030.

5.2.1 Systemic Issues

59. Design and Implementation Challenges: Several challenges that impact implementation have been observed in various projects across sectors. These include long start-up and implementation periods, as seen in projects like PAK0155 (CASA-1000), PAK1057 (SIHWEP), PAK1049 (Mohmand), PAK1061 (Poverty Graduation), and the previous projects of Basic Education for the Poor (PAK0144 and PAK0148). Additionally, poor design and quality at entry have had an impact on implementation, as seen in the PAK0148 (Support to Basic Education) project. Lack of concerted follow-up mechanisms previously, particularly coordination among co-financiers, has also affected project progress, as seen in the PAK0151 (Jamshoro Coal Power project). Furthermore, insufficient attention to readiness requirements has led to delays in the first disbursement of funds, such

as the PAK1049 (Mohmand) project, which has only just begun to recover from these issues and the flood damage. Yet, currently, the project faces contractor performance issues. Administrative or political interference in procurement matters by the executing agencies and local government has also posed a challenge, as seen in the Out of School Children project.

60. Procurement and Financial Management: Although the disbursement arrangements have generally been satisfactory throughout the portfolio, there have been challenges in ensuring the timely preparation and submission of acceptable financial audit reports. Therefore, care needs to be given to ensuring the timely audits during the project and also with regard to the Final Audit Reports.

61. Procurement for Projects: The recent projects saw the successful execution of most procurement activities by EAs. Nevertheless, there are ongoing challenges that need to be addressed, such as the need to improve capacity and comply with IsDB procurement requirements. For instance, the PAK1057 (SIHWEP) could benefit from enhancements in these areas, and extra attention will be given to the procurement aspects of the PAK1061 (Poverty Graduation Project). Additionally, it is important to establish a more organized and comprehensive procurement support arrangement programs (e.g., regular procurement clinics, technical backstopping) on a need basis.

62. Ensuring continued progress and supervision: It is crucial to establish regular monitoring and follow-up systems to enhance the efficiency and timeliness of project implementation. The success of the Polio Eradication Projects has shown the importance of this approach. Currently, monthly (or even more frequent) technical working group meetings have been organized for each of the active projects to ensure timely monitoring and addressing of issues, especially for those facing delays.

63. National Policy & Structural Changes: The processing of Poverty Graduation Project (PAK-1061) was successfully initiated, with all necessary codal/ bureaucratic and procedural formalities completed by both the Government of Pakistan and IsDB, and even the Minutes of the Negotiations Meeting were signed by all parties. However, due to national budgeting issues, because of the IMF negotiations,





whereby debt repayment responsibilities have been moved to the provincial governments in many cases, the Government of Pakistan delayed the acceptance of the essential financial terms. The provinces initially declined to participate in this national project, and finally, the matter was resolved, and the project was approved in a subsequent BED meeting from the originally intended session. This issue may affect similar projects implemented in provinces. Experience from the Sindh Integrated Health and Women Empowerment Project (PAK1057) emphasizes the need to move away from individual sector interventions towards an integrated, cross-sectoral approach.³⁸

64. Monitoring and Follow-up Mechanisms: Insufficient follow-up mechanisms in earlier phases affected implementation progress. Strengthened monitoring arrangements, such as Technical Working Groups, regular review meetings, and enhanced supervision, have proven effective in improving implementation performance and should be further institutionalized.

65. External and Regional Risks (New Emerging Issue): The implementation environment has also been affected due to an increase in regional geopolitical

tensions. Such regional developments pose security risks, including cross-border trade disruptions, supply chain interruptions, constraints on contractor mobilization, and potential delays to project implementation in border and sensitive regions.

5.2.2 Good Practices and Lessons Learnt from the Portfolio, and Action Taken

66. By implementing the recommendations summarized below, it is anticipated that the risks from the issues highlighted in the previous section would be managed/mitigated.

67. Design and Implementation: The following actions may improve this dimension: (1) Work to mutually agree on the availability of a strong and practical project pipeline, so that robust projects can be identified and processed; (2) Develop project designs that are tailored to the specific context, region and capacity; (3) Evaluate the capacity and ownership of the Executing Agencies and include any PMU strengthening; (4) Implement smart clustering and packaging of civil works and equipment activities; (5) Ensure that IsDB clearances are issued promptly; and (6) Establish appropriate limits and arrangements for Special Accounts (SAs).

³⁸ To this end, the MCPS draws on proven implementation experience and evidence-based entry points to systematically incorporate women's and young people's empowerment considerations into infrastructure, health, and human development operations.



Experience from large-scale water and hydropower projects in Pakistan, including the Mohmand Dam and Hydropower Project, as well as earlier projects such as the Khwar Hydropower Project (PAK0117), the Uch II Power Expansion Project (PAK0132) and the Patrind Hydropower Project (PAK0136), highlights the importance of robust feasibility studies, site investigations and safeguards in the upstream phase to minimize delays and cost overruns. These projects also emphasize the need for effective coordination among stakeholders and co-financiers, as well as clear implementation and disbursement planning, to prevent bottlenecks. Additionally, lessons from flood-related operations emphasize the importance of integrating climate-resilient design and disaster risk mitigation measures to ensure long-term sustainability. Besides, Polio Eradication Phase IV (PAK1058) and Sindh Flood Emergency Housing (PAK1060) demonstrate the benefits of strong readiness and digitalized implementation, whereas the Poverty Graduation Project (PAK1061) underscores the risks of weak coordination and delayed project start-up.

68. Financial Management: Regarding the timely audit assignments, in addition to the Hub efforts and follow-up during the regular TWG meetings, the Field Representative Office will also engage in the project to ensure that financial audits are conducted promptly and efficiently to ensure responsible financial practices. A template-based approach would also help in simplifying/ standardizing the process of preparing and submitting project audit reports, making it easier to achieve financial closure.

69. Procurement for Projects: Specialized workshops to improve comprehension of IsDB requirements and guidelines would help build the overall capacity of various Executing Agencies (Country Procurement Workshops). Building the procurement capacity of specific PMUs in the EAs, as well as directing and assisting the procurement processes, particularly at critical junctures, through procurement clinics, would also greatly facilitate the procurement processes, and the roles of the dedicated and experienced FPO and RPO in the Hub are essential for this. Exploring collaboration opportunities with partners in Country Assessments and Procurement Reforms, including the use of e-Government Procurement (e-GP), either partially or fully, is another initiative that would help with building local capacity and ownership to implement IsDB-financed projects.

70. Ensuring proper follow-up, oversight, and monitoring:

Some suggestions to enhance the project monitoring and implementation process are: 1) Enhance monitoring mechanisms through regular video calls, PIASRs, and progress reports. 2) Conduct physical missions for better supervision and oversight. 3) Continue and even enhance the Technical Working Groups and Steering/Review Committees among the financiers and the Government to improve the project-level, as well as MCPS implementation and results monitoring, contributing towards better evaluability. These strategies not only enable real-time monitoring of project progress but also facilitate well-informed decision-making and proactive problem resolution, thereby contributing to the achievement of project objectives

71. Ownership and commitment of the Parties Involved:

A crucial element for the success of projects like polio eradication or COVID-19 is the establishment of a strong institutional infrastructure that is fully supported and owned by the government. Additionally, it is essential to gain high-level agreement and acceptance of the Bank's procurement processes, which should then be effectively implemented at all levels. Another critical factor is ensuring prompt commitment to the availability and allocation of counterpart funds, especially in situations where fiscal resources are limited, as seen in the PAK-0155 (CASA-1000) project. Lastly, it is vital to obtain government assurance that the outstanding track record of timely payment of dues, including capital, operations, and dividends, will be upheld.

72. Continuous Assessment of National Policies & Structural Changes:

The key takeaway from the Poverty Graduation Program (PAK-1061) is the crucial need to ensure alignment among all stakeholders, particularly when projects have far-reaching implications across various government levels. Implementing effective strategies (e.g., establishing clear communication channels and streamlining decision-making processes) can help prevent bottlenecks. For future projects: (1) it is crucial to involve all stakeholders, including provincial governments, right from the start; (2) prioritizing the establishment of consensus on crucial matters like debt repayment responsibilities and IsDB financial terms is essential before engaging in processing of the project through preparation, appraisal and negotiations; (3) implementing



effective communication protocols that promote transparency and timely information sharing among all stakeholders can prevent misunderstandings and cultivate a collaborative environment; and (4) make it a priority to set clear timelines and expectations for decision-making and ensure that all involved parties are quickly informed of any updates.

5.3 Fiduciary Analysis

5.3.1 Procurement

73. Pakistan's public procurement system is governed primarily by the Public Procurement Regulatory Authority (PPRA) Ordinance of 2002 and the Public Procurement Rules of 2004, which establish the legal and regulatory framework for procurement across federal government entities. These instruments define procedures for procurement planning, bidding, evaluation, contract award, and complaint handling. The framework is based on core principles of transparency, fair competition, economy, efficiency, accountability, and integrity, and is broadly aligned

with internationally recognized procurement practices. Complementary regulations and instruments further support the system, including regulations for consultancy services, e-procurement, standard bidding documents for goods and works, and rules governing procurement advertisement.

74. Pakistan's procurement system is decentralized, with provincial governments establishing their own procurement regulatory authorities and legal frameworks. Provinces such as Punjab, Sindh, Khyber Pakhtunkhwa, and Balochistan have adopted procurement laws and rules that broadly align with federal principles. At the federal level, the Public Procurement Regulatory Authority (PPRA) serves as the main regulatory body responsible for developing procurement policies and guidelines, promoting transparency and competition, monitoring compliance with procurement rules, and providing capacity-building support to procuring entities. The procurement framework includes provisions aimed at strengthening accountability, integrity, and transparency in public procurement. Procuring



entities are required to publicly advertise procurement opportunities, disclose evaluation criteria, and publish contract awards. Oversight mechanisms include internal control systems within procuring entities and external audits conducted by the Auditor General of Pakistan. The framework also provides a formal complaint redress mechanism, whereby bidders may challenge procurement decisions through Complaint Redressal Committees established within procuring entities. Pakistan has made progress in strengthening the technological infrastructure supporting public procurement, notably through the introduction of electronic procurement platforms, including the Electronic Pakistan Acquisition and Disposal System (EPADS). The adoption of e-procurement has improved access to procurement opportunities, facilitated electronic submission of bids, and enhanced transparency through the online publication of procurement information. However, the implementation of digital procurement systems remains uneven across federal and provincial entities, and some agencies continue to rely on manual or partially digital processes due to limitations in ICT infrastructure and technical capacity.

75. Despite the existence of a comprehensive regulatory framework, several challenges remain. Procurement capacity varies across institutions, with many procuring entities facing constraints in procurement planning, preparation of bidding documents, bid evaluation, and contract management. In addition, **fragmentation between federal and provincial procurement frameworks** may lead to inconsistencies in procedures and implementation. Oversight and monitoring of procurement outcomes could also be strengthened, while the effectiveness and perceived independence of complaint handling mechanisms remain areas for improvement.

76. Continued efforts to strengthen procurement capacity, expand the use of electronic procurement systems, and improve coordination across procurement authorities will be important to further enhance the efficiency, transparency, and effectiveness of Pakistan's public procurement system. Periodic review and updating of procurement regulations, including the incorporation of international good practices such as sustainable procurement and improved integration with broader public financial management systems, may also help strengthen the overall procurement framework.

5.3.2 Public Financial Management

77. Pakistan has made notable progress in strengthening its public financial management (PFM) framework over the past decade. Since 2007, fourteen Public Expenditure and Financial Accountability (PEFA) assessments have been conducted, including two at the national level and twelve at the sub-national level. The most recent national PEFA assessment was completed in 2014. While the report was finalized following the PEFA quality assurance process, its detailed findings have not been publicly disclosed.

78. Despite the limited availability of recent PEFA information, Pakistan has undertaken important reforms to strengthen the legal and institutional framework governing public financial management. A key milestone was the adoption of the Public Finance Management Act (PFM Act) of 2019, amended in 2020, which provides the overarching framework for federal financial management. The Act defines the principles and procedures governing budgeting, accounting, financial reporting, procurement, and fiscal oversight. It also introduces a fiscal responsibility framework, including medium-term expenditure frameworks and fiscal rules aimed at improving fiscal discipline and strengthening budget planning. In addition, the Act enhances transparency and accountability by strengthening reporting requirements and establishing an Independent Fiscal Council tasked with providing independent analysis and advice on fiscal policy. Institutionally, the **Ministry of Finance** plays a central role in overseeing Pakistan's PFM system. It is responsible for fiscal policy formulation, preparation of the national budget, and overall financial management across government entities. The Finance Division manages budget execution and monitors financial reporting, while the Ministry of Planning, Development, and Special Initiatives guides national development planning and investment priorities. Oversight and accountability are further strengthened through the role of the **Auditor General of Pakistan**, which conducts independent audits of government entities to ensure compliance with financial regulations. **Pakistan has also taken steps to modernize financial management systems** through the introduction of the **Public Financial Management System (PFMS)**, an integrated platform for budgeting, accounting, and financial reporting. Complementary reforms include the adoption of International Public Sector Accounting Standards





(IPSAS) and the introduction of a Treasury Single Account (TSA) framework aimed at strengthening cash management and improving fiscal control.

79. Notwithstanding these reforms, **challenges remain in ensuring the effective implementation of PFM systems**. These include institutional capacity constraints, coordination challenges across government entities, and the need to further improve the timeliness and reliability of financial reporting. Continued efforts to strengthen **institutional capacity and fully operationalize modern financial management systems** will therefore remain important for enhancing the effectiveness and transparency of public financial management in Pakistan³⁹

5.4 Safeguards and Due Diligence

80. **Environmental and social safeguards** are a critical component of infrastructure and development projects in Pakistan. Key government entities, including WAPDA, the Ministry of Energy, and the National Highway Authority, conduct Environmental and Social Impact Assessments, develop resettlement action plans where necessary, and obtain approvals from relevant federal and provincial Environmental Protection Agencies before project implementation. These processes are designed to ensure that projects meet national requirements and are generally aligned with international standards,

particularly for initiatives financed by international financial institutions. Safeguard implementation typically spans the entire project lifecycle, from initial planning to construction and operational phases, to mitigate potential environmental and social risks.

81. **Further opportunities exist** to strengthen the integration of environmental and social risk management during early project preparation, which would allow for more **proactive identification and mitigation of potential challenges**. Current practices rely heavily on project-level studies and external consultants, while systematic, institution-wide approaches to risk assessment and documentation remain limited. Strengthening institutional capacity, enhancing risk monitoring and reporting systems, and improving inter-agency coordination will be essential to achieve more consistent and effective safeguard outcomes.
82. **The IsDB Group can play a strategic role in supporting Pakistan** by providing **technical assistance, capacity building, and knowledge sharing** to enhance safeguard practices. This may include support in developing comprehensive risk registers during project preparation, implementing robust monitoring and evaluation mechanisms, and ensuring that Bank-financed projects consistently apply international best practices to promote sustainable and socially responsible development.

39 In this context, IsDB could consider organizing training/capacity building activities to strengthen the PFM systems in the country.



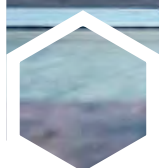
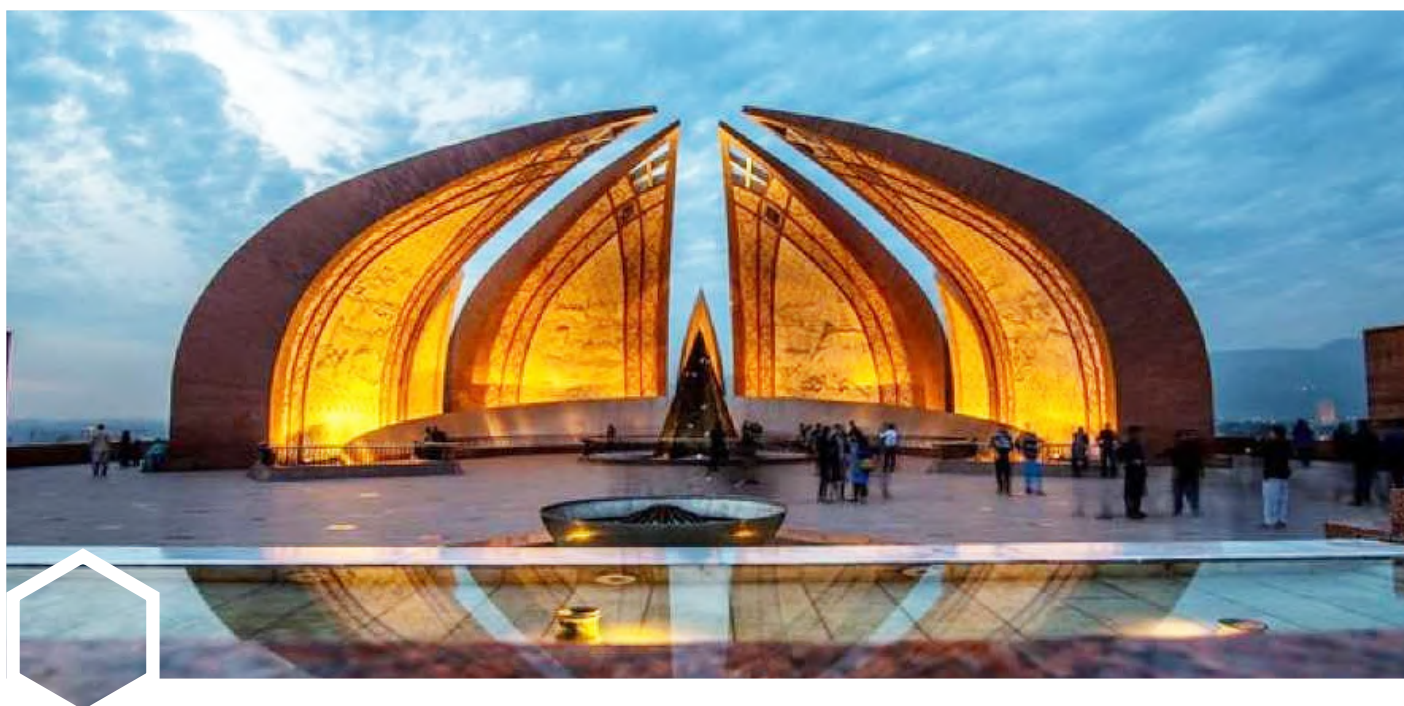
6

IMPLEMENTING THE MCPS FOR PAKISTAN

6. Implementing the MCPS for Pakistan

83. The successful implementation of the Member Country Partnership Strategy (MCPS) for Pakistan (2026–2030) requires a robust operational framework that ensures effective coordination between the Islamic Development Bank Group (IsDBG), the Government of Pakistan, and other development partners. The implementation arrangements outlined in this chapter aim to translate the strategic priorities of the MCPS into concrete operations and measurable development outcomes. The implementation framework emphasizes strong country ownership, coordination across IsDBG entities under the “One Bank, One Group” approach, effective resource

mobilization, and rigorous monitoring and evaluation mechanisms. The MCPS implementation framework is designed to ensure that IsDBG interventions remain closely aligned with Pakistan’s national development priorities, particularly the Uraan Pakistan National Economic Transformation Plan (2024–2029), while also reflecting the strategic directions of the IsDB Group 10-Year Strategic Framework (2026–2035). Through this approach, the MCPS will serve as the principal instrument guiding the Bank’s engagement with Pakistan and will facilitate the effective delivery of development support across the priority sectors identified in the strategy.



6.1 Setting up the Implementation Framework

84. The implementation of the MCPS will be guided by a structured coordination framework involving the Islamic Development Bank Group and the Government of Pakistan. This framework is designed to ensure effective strategic dialogue, efficient project implementation, and regular monitoring of progress toward achieving the MCPS objectives. At the national level, the Ministry of Economic Affairs will serve as the primary government counterpart responsible for coordinating IsDBG operations in Pakistan. The Ministry will facilitate engagement between the IsDBG and relevant line ministries, government agencies, and implementing entities. The Regional Hub Türkiye will be the main body responsible unit from the IsDBG for the coordination of the implementation of the MCPS.⁴⁰ This coordination role is critical to ensuring that MCPS-supported projects remain aligned with national development priorities and that project implementation challenges are addressed in a timely manner.

85. To strengthen institutional coordination, a Joint MCPS Implementation Working Group will be established following the approval of the MCPS. The Group will include representatives from the Government of Pakistan and the Islamic Development Bank Group. The Committee will meet periodically—typically every six months—to review progress during the implementation of the MCPS, assess the performance of ongoing projects, and provide strategic guidance for the development of new operations.

86. The Working Group will perform several key functions, including: (i) Reviewing progress in achieving the objectives of the MCPS; (ii) Identifying implementation bottlenecks and proposing corrective actions; (iii) Ensuring alignment between IsDBG-supported projects and Pakistan's national development priorities; and (iv) Facilitating coordination among different government institutions and development partners.

87. At the operational level, implementation responsibilities will be carried out by designated

executing agencies and project management units (PMUs) within the relevant government ministries and departments. These agencies will be responsible for project preparation, procurement, financial management, and reporting in accordance with IsDB policies and procedures. To enhance implementation effectiveness, the IsDB Group will continue to provide technical assistance and capacity-building support to executing agencies. Strengthening institutional capacity is particularly important in Pakistan, where implementation challenges—such as procurement delays, staff turnover, and limited project management capacity—have historically affected the efficiency of externally financed projects.

6.2 IsDB Group Indicative Financing

Table 6.1: IsDB Group's MCPS Pakistan (2026-2030) Indicative Financing

Entity	Indicative Financing (US\$ Million)
IsDB	2,000
ITFC	3,500
ICD	100
IsDBI	0.25
Total	5,600.25
ICIEC	3,700

Notes: (1) ICIEC's indicative financing will cover two categories: US\$2,500 million as business insured (BI) and US\$1,200 million as new insurance commitments (NIC) over the period 2026 -2030.

(2) Overall, the indicative financing amounts from IsDB and all entities are provisional and may change subject to IsDB Group management considerations, country absorptive capacity, project readiness, credit rating, and changes in the country's debt-carrying capacity.

88. The successful implementation of the MCPS will require mobilizing significant financial resources to support Pakistan's development priorities. The IsDB Group will contribute to these efforts through a combination of sovereign financing, private sector investments, trade finance operations, and risk mitigation instruments.

⁴⁰ The IsDB's Regional Hub Türkiye will play an important role in coordinating the implementation of the MCPS by facilitating operational dialogue with the Government of Pakistan.





89. The indicative amount from the IsDB Group identified is US\$5,600.25 million (excluding ICIEC insurance commitments), as shown in Table 6.1. The financial envelope will be comprised of US\$2,000 million of IsDB, US\$100 million of ICD, and US\$3,500 million of ITFC.⁴¹ IsDBI will extend US\$250 thousand in technical assistance. ICIEC's indicative financing will be around US\$3,700 million during the MCPS Pakistan implementation period (2026-2030).

90. Indicative financing under the MCPS will focus on supporting the two strategic pillars of the partnership framework. A significant share of the IsDBG financing under the MCPS is expected to support strategic infrastructure investments under Pillar 1 that will mainly focus on sovereign projects in key critical sectors, including transport, energy and water systems. In some segments of the identified projects, the **PPP modality** can also be considered in consultation with the Government of Pakistan.

91. Under the second pillar, IsDBG's financing will support initiatives aimed at strengthening Pakistan's export competitiveness and promoting private sector development. This includes support for small and medium-sized enterprises (SMEs), development of industrial value chains, trade facilitation initiatives, and financial sector development. Most of these interventions will be operationalized by ITFC, ICD, and ICIEC and will include credit lines to financial institutions, support for export-oriented industries, and the development of innovative Islamic finance instruments to facilitate private sector investment.

92. The indicative pipeline for the MCPS period presented in Annex III, which will be further updated based on consultations between the IsDB Group and the Government of Pakistan, taking into account project readiness, national priorities, and the availability of financial resources. In addition to sovereign financing operations, the IsDB Group will leverage financing instruments from its entities to maximize development impact.

⁴¹ It is important to note that a significant portion of ITFC's operations is supported through resource mobilization; therefore, the proposed financing package is on a best-efforts basis and remains subject to prevailing market appetite and Pakistan's risk profile.



6.3 One Bank, One Group: Synergy of the IsDB Group

93. To complement the core strategic focus of the MCPS and enhance its development impact in Pakistan, the entities of the IsDB Group adopt a coordinated approach both during the preparation and implementation stages of the MCPS that are aligned with its two main identified pillars. This 'group synergy' approach will leverage the respective comparative advantages of each entity. A coordinated engagement is expected to enhance the overall effectiveness of the IsDB Group's operations in Pakistan by improving resource utilization, strengthening synergies across sectors, and supporting a more comprehensive and sustained response to the country's development needs. Under this framework, the roles of the different IsDBG entities will be complementary and mutually reinforcing. IsDB will primarily focus on sovereign financing operations that support public sector investments in infrastructure, social services, and institutional development. ICD will focus on promoting private sector investment in Pakistan. ITFC will support Pakistan's trade sector by

providing trade financing facilities that facilitate the import of strategic commodities and the country's exports. ICIEC will mainly provide risk mitigation solutions aimed at encouraging foreign investment and supporting trade flows. IsDBI will contribute to the MCPS through knowledge services, research initiatives, and capacity-building programs related to Islamic finance and economic development.

94. During the implementation of the MCPS, the IsDB and entities will be part of the relevant missions, working group meetings, and any other relevant engagements with the Government of Pakistan to reflect the **group synergy and maximize their impact on the implementation.**

6.4 Partnerships and Co-financing Opportunities

95. Partnerships and co-financing constitute a central pillar of the IsDB Group's engagement in Pakistan, leveraging complementary expertise, financial resources, and implementation capacities of key development partners to enhance development impact and sustainability. IsDB will further deepen engagement with a broad range of partners, including the Asian Infrastructure Investment Bank (AIIB), United Nations agencies, and Arab Coordination Group (ACG) institutions, to scale up co-financing and technical assistance. Strategic initiatives such as a proposed Pakistan-ACG co-financing platform, joint missions, and blended finance facilities will facilitate the development of bankable pipelines in key sectors like transport, energy, and water systems. In parallel, IsDB will expand collaboration in innovative areas such as capacity development, while leveraging partnerships to strengthen human capital, social protection systems, and private sector development, thereby supporting Pakistan's long-term transformation agenda.⁴² Collaborations with the United Nations Development Programme (UNDP) and various UN agencies will enable IsDB to support SDG-focused programs, including enhancements to social protection networks, climate resilience planning, and implementation of Pakistan's National Adaptation Plan (NAP) 2023.

“ICD will focus on promoting private sector investment in Pakistan. ITFC will support Pakistan's trade sector by providing trade financing facilities that facilitate the import of strategic commodities and the country's exports. ICIEC will mainly provide risk mitigation solutions aimed at encouraging foreign investment and supporting trade flows.”

⁴² The MCPS includes an indicative pipeline of 21 potential operations classified according to their level of readiness for processing. Several projects are expected to be developed through co-financing arrangements with development partners, including the World Bank, Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), and others. The exact volume of co-financing will be determined during project preparation and appraisal and will depend on partner participation, project design, and financing requirements.





Co-financing and parallel financing arrangements may also involve collaboration with bilateral partners and development agencies that are actively engaged in Pakistan's development agenda (Annex IV). Such partnerships can help strengthen coordination among development partners and reduce duplication of efforts.

- 96. The IsDB Group will also seek to leverage its expertise in Islamic finance** to mobilize additional financial resources. Islamic finance instruments—such as sukuk, Islamic investment funds, and Shariah-compliant project financing structures—can play an important role in financing infrastructure development and private sector investment.

6.5 MCPS Monitoring and Evaluation of Results

- 97. Monitoring and evaluation** will be central to the implementation of the MCPS, ensuring effective delivery and accountability of results. The IsDB Group will apply a results-based management approach with progress tracked against a clearly defined Results Framework (Annex V). Implementation progress will be supported through regular portfolio and implementation review missions, close coordination with government counterparts, and periodic reporting (e.g., CPRN)

to identify bottlenecks and enhance performance. To oversee and monitor MCPS implementation, an Implementation Working Group (IWG) will be established in accordance with the MCPS Business Process, co-chaired by the Ministry of Economic Affairs and the IsDB Regional Hub Türkiye. In addition, periodic progress reports from the operations team (e.g., CPRN) will provide updates on key performance indicators, highlight emerging challenges, and identify opportunities for improving implementation effectiveness.

- 98. A mid-term review** of the MCPS will also be conducted to assess progress and adjust, if necessary, the strategy in the middle of the implementation period. A **completion review** will also be conducted at the end of the MCPS period to evaluate the overall effectiveness of the partnership strategy and identify lessons learned for future engagement frameworks.



7

RISKS AND MITIGATIONS

7. Risks and Mitigations

99. A summary of the risks and the corresponding mitigation measures is presented in the Risk and Mitigation Matrix in Annex VI. Key risks stem from Pakistan's historical **macroeconomic volatility**—characterized by fiscal imbalances, exchange rate pressures, external financing constraints, high debt servicing obligations, and limited foreign exchange reserves—which may constrain fiscal space and public investment. In addition, global commodity price fluctuations, particularly in energy, could increase project costs. These risks will be mitigated through close coordination with the Government and international financial institutions, alongside MCPS interventions aimed at strengthening export competitiveness, enhancing external sector resilience, and supporting energy security and efficiency.

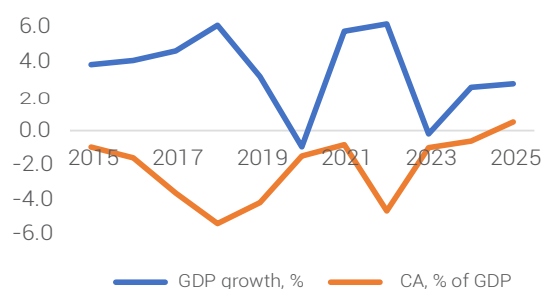
100. Political, governance, and institutional risks also remain significant. Changes in policy priorities, delays in reforms, regulatory bottlenecks, and administrative inefficiencies may affect project continuity and timely implementation. Pakistan's federal structure further requires strong coordination between federal and provincial authorities. Moreover, limited technical and managerial capacity within implementing agencies, coupled with high staff turnover, may affect project preparation, procurement, and financial management. To address these risks, the MCPS ensures strong alignment with national priorities, including the Uraan Pakistan framework, and promotes continuous policy dialogue, supported by coordination mechanisms such as the MCPS Implementation Working Group. In parallel, targeted technical assistance and capacity development will be provided to strengthen institutional capabilities, project preparation, and implementation efficiency.

101. Operational and environmental risks further affect MCPS delivery. Procurement delays, financial management constraints, and limited data availability may hinder implementation and results monitoring, while Pakistan's high vulnerability to climate-related shocks—such as floods, droughts, and water scarcity—poses additional risks to infrastructure and development outcomes. These will be mitigated through strengthened procurement planning, enhanced fiduciary oversight, and the application of results-based monitoring systems. At the same time, climate resilience and environmental sustainability will be integrated into project design through investments in resilient infrastructure, water management, and irrigation systems, alongside the application of environmental safeguards. Continuous risk monitoring, including periodic portfolio reviews and MCPS Implementation Working Group oversight, will ensure adaptive implementation and achievement of MCPS objectives.



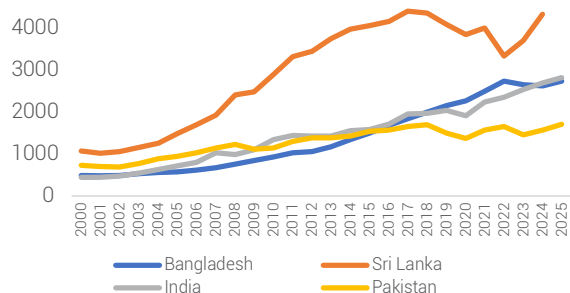
ANNEX 1: FIGURES RELATED TO THE STRUCTURAL TRANSFORMATION JOURNEY OF PAKISTAN

Figure 1. Inverse relationship between Growth and CA balance



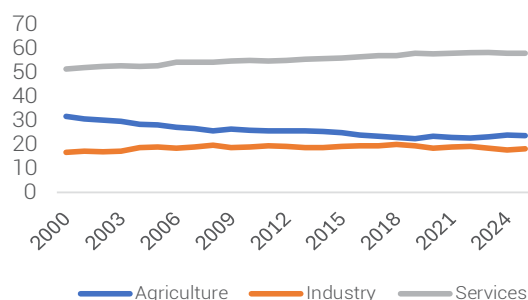
Source: International Monetary Fund, World Economic Outlook, 14 April 2026

Figure 2. Evolution of GDP per capita (current prices, US\$)



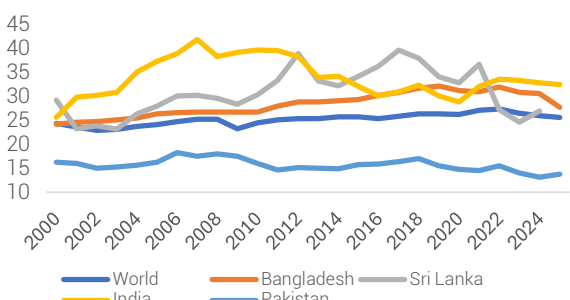
Source: International Monetary Fund, World Economic Outlook, 14 April 2026

Figure 3. Sectoral structure of the economy (Percent contribution to GDP)



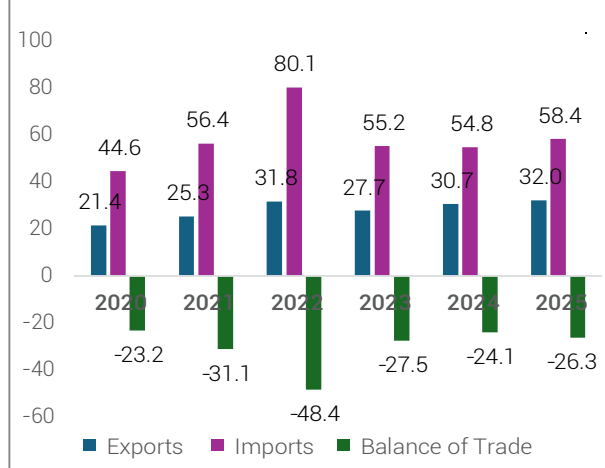
Source: Pakistan Bureau of Statistics

Figure 4. Gross fixed capital formation (GFCF) (Percent of GDP)



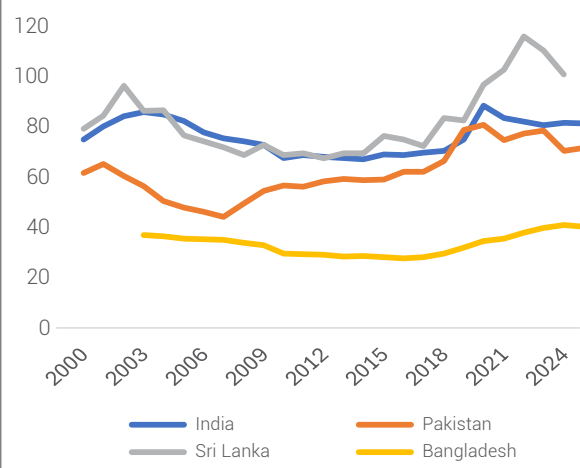
Source: International Monetary Fund, World Economic Outlook, 14 April 2026

Figure 5. International trade (Billion US\$)



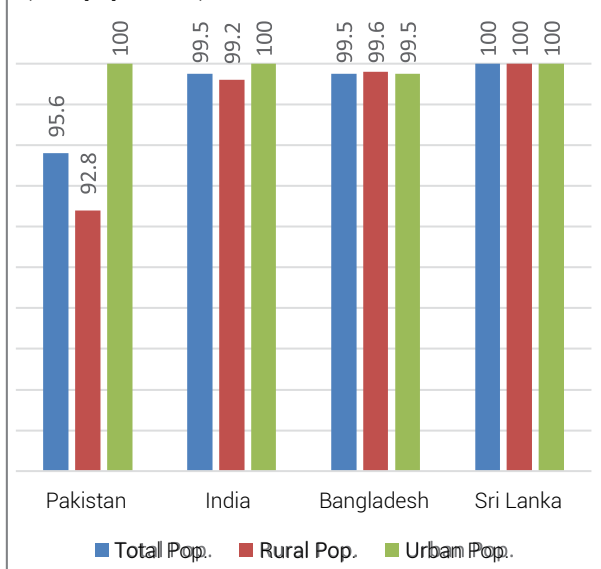
Source: Pakistan Bureau of Statistics

Figure 6. Gross debt (% of GDP)



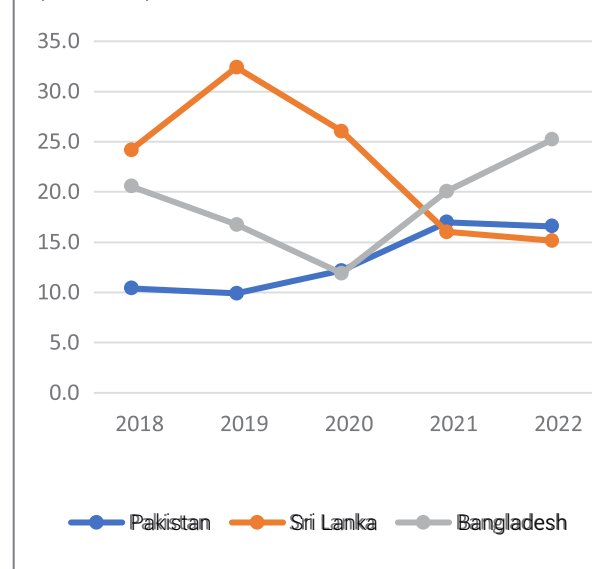
Source: International Monetary Fund, World Economic Outlook, 14 April 2026

**Figure 7. Access to electricity
(% of population), 2023**



Source: The World Bank, World Development Indicators, April 2026

**Figure 8. Electricity production from oil sources
(% of total)**



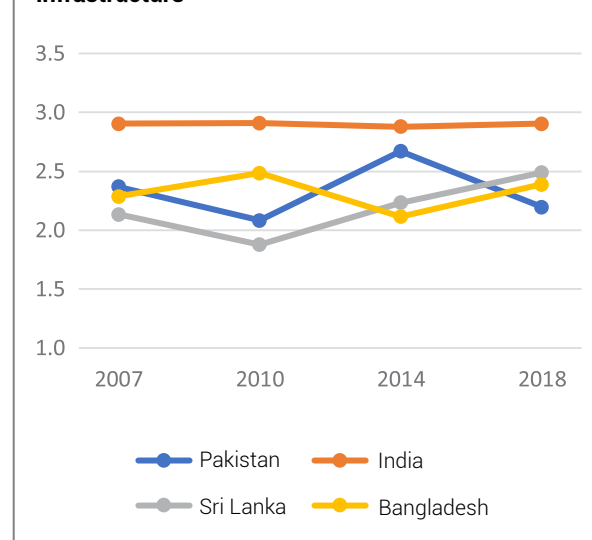
Source: The World Bank, World Development Indicators, April 2026

Table 2.1 Selected Manufacturing Indicators

Indicators	Pakistan	Bangladesh	Vietnam
High-technology exports (% of manufactured exports)	2.4	0.5	44.3
Manufactures exports (% of merchandise exports)	67.9	94.5	85.0
Manufactures imports (% of merchandise imports)	46.1	67.0	74.7
Medium and high-tech exports (% manufactured exports)	10.7	1.9	57.5

Source: The World Bank, World Development Indicators, April 2026, and Country Diagnostic Study for Pakistan (2026) prepared by the IsDB Group Chief Economist Complex

Figure 9. Quality of trade- and transport-related infrastructure



Source: The World Bank, Logistics Performance Index (LPI) Database, 2026



ANNEX 2: KEY DEVELOPMENT CHALLENGES

Table 7: Development Challenges Alignment Matrix for Pakistan

Key Development Challenges	URAAN (5Es Framework)	IsDB Strategic Framework (2026–2035)	SDGs Alignment
Infrastructure Gaps and Inefficiencies • Inadequate transport network and digital infrastructure • Limited and ineffective energy generation and transmission • Underdeveloped water and irrigation canals	E4: Energy & Infrastructure E2: E-Pakistan	Channel 1.1: Productivity-Enabling Infrastructure • Ch.1.1.a. Transport • Ch.1.1.b. Energy • Ch.1.1.c. Digital infrastructure • Ch.1.1.d. Rural development Channel 3: Resilience • Ch.3.a. Agriculture and food sec. • Ch.3.b. Water and sanitation	7, 8, 9, 11
High sectoral concentration in exports with limited value addition • Low agricultural productivity • slow structural transformation • External imbalances and narrow export base (mainly composed of textiles and agri.products) • informal economic activities	E1: Exports E4: Energy & Infrastructure E2: E-Pakistan	Channel 1.1: Productivity-Enabling Infrastructure • Ch.1.1.a. Transport • Ch.1.1.b. Energy • Ch.1.1.c. Digital infrastructure • Ch.1.1.d. Rural development Channel 2.1: Regional Integration • 2.1.b. Trade finance Cross-cutting: • CC.1 Private sector development	8, 9, 17
Limited private sector development • limited access to finance for the private sector and SMEs • skills mismatch • informal economic activities • public sector crowding out the private sector	E4: Energy & Infrastructure E1: Exports E2: E-Pakistan	Channel 1: Productivity-Enabling Infrastructure • Ch.1.1.a. Transport • Ch.1.1.b. Energy • Ch.1.1.c. Digital infrastructure Channel 2.1: Regional Integration • 2.1.b. Trade finance Cross-cutting: • CC.1 Private sector development	7, 8, 9, 17
Weak human capital outcomes • low education access, • skills mismatch • health problems • nutrition • gender gaps • limited economic participation of women and youth	E5: Equity & Empowerment E2: E-Pakistan	Channel 1.2: Human capital development • Ch.1.2.a. Education • Ch.1.2.b. Health	3, 4, 5, 8, 10
Institutional capacity constraints • Fiscal and financial management limitations • Climate change/disaster risk management	E5: Equity & Empowerment E3: Environment & Climate Resilience	Cross-cutting: - CC.3: Capacity development - CC.2: Islamic finance - CC.1: Private sector development	16, 17

Note: URAAN pillars follow the Government of Pakistan's 5Es framework: E1 (Exports), E2 (E-Pakistan), E3 (Environment & Climate Resilience), E4 (Energy & Infrastructure), E5 (Equity & Empowerment). The IsDB Strategic Framework alignment reflects priority areas under the 2026–2035 strategy. SDG alignment is indicative.



ANNEX 3: INDICATIVE COUNTRY PIPELINE AND PROGRAMMING APPROACH

Table 8: Preliminary and Indicative Pipeline of Potential Projects under the MCPS Pakistan (2026-2030)

No	MCPS Year	Project Name	Sector	Pillar	Ministry/ Department	Level of Readiness	Type of Financing (Sovereign or Non-sov.)	Total Amount of Project (US\$ Million)	Total Financing Gap in the Project (US\$ Million)	Name of the Co-financier and its Contribution (US\$ Million) (If any)
1.	2027	Railway Linkages (ML-1)	Transport	1	Min. Railways	FS ready	Sov.	Total Amount of Project= 6,678 Karachi-Rohri & Walton Academy = 2058 Rohri-Multan = 1258 Multan-Lahore = 882 Lahore-Rawalpindi=1556 Rawalpindi-Peshawar & Dry port = 924	Total Financing Gap = 4,620	ADB and its co-financiers are financing Karachi-Rohri section
2.	2027	Diamer-Bhasha Dam	Water	1	Min. Water/ WAPDA	FS ready	Sov.	2563		
3.	2028	Chasma Right Bank Canal	Water	1	Min. Water/ WAPDA	FS ready	Sov.	677.17		
4.	2029	Chiniot Dam Project	Water	1	Min. Water/ WAPDA	FS ready	Sov.	1070		
5.	2029	Kachhi Canal Project (Phase II)	Water	1	Min. Water/ WAPDA	FS ready	Sov.	293		
6.	2026	Boosting Energy Security Through Transmission in Pakistan Phase-1- Grid Stabilization Enhancement Project	Energy	1	Min. Energy/NGC	FS ready (Cat-A Project)	Sov.		697	AIIB, WB and NGC
7.	2027	Installation of 750MWh Battery Energy Storage System	Energy	1	Min. Energy/NGC	FS ongoing	Sov			ADB as lead, including WB, AIIB and EIB
8.	2028	Matiari-Moro-Rahim Yar Khan Transmission Line	Energy	1	Min. Energy/NGC	FS ongoing	Sov			ADB as lead, including WB, AIIB and EIB
9.	2028	Power Evacuation at C-5 Nuclear Power Plant	Energy	1	Min. Energy/NGC	FS ready	Sov.			
10.	2028	2nd Source of Supply to Sheikh Muhammadi 500 KV	Energy	1	Min. Energy/NGC	FS ready	Sov.	100	100	



No	MCPS Year	Project Name	Sector	Pillar	Ministry/ Department	Level of Readiness	Type of Financing (Sovereign or Non-sov.)	Total Amount of Project (US\$ Million)	Total Financing Gap in the Project (US\$ Million)	Name of the Co-financier and its Contribution (US\$ Million) (If any)
11.	2027	Upgradation of Mansehra-Naran-Jalkhad Chilas Highway (N-15)	Transport	1	NHA / Min. Communications	FS is being finalized	Sov.			
12.	2027	Karachi-Hyderabad New Alignment (M-10)	Transport	1	NHA / Min. Communications	FS ready	Sov.			
13.	2029	Widening of M1, M2 and Link Road Rawalpindi	Transport	1	NHA / Min. Communications	FS ready	Sov.			
14.	2030	Constructing of Lalamusa bypass on N-5	Transport	1	NHA / Min. Communications	FS ready	Sov.			
15.	2028	Khawazakhela-Besham Express Way	Transport	1	NHA / Min. Communications	FS ready	Sov.			
16.	2027	Line of Finance for Export	Finance	2	Exim Bank		Non-Sov.			
17.	2026	Emergency Plan for Polio Eradication 2026 – 2029 Phase V	Health	CC	Ministry of National Health Services, Regulations & Coordination	Implementation started	Sovereign	639.54	154	USD 485.54 million from BMGF, Rotary International, Government of Japan, Government of Canada. UAE-PAP, USAID, US-CDC.
18.	2026	Projects to be confirmed following the submission of proposals by the Ministry of National Health Services, Regulations & Coordination	Health	CC			Sov.			
19.	2026	Projects to be confirmed following submission of proposals by the Ministry of Federal Education and Professional Training	Education	CC			Sov.			



No	MCPS Year	Project Name	Sector	Pillar	Ministry/ Department	Level of Readiness	Type of Financing (Sovereign or Non-sov.)	Total Amount of Project (US\$ Million)	Total Financing Gap in the Project (US\$ Million)	Name of the Co-financier and its Contribution (US\$ Million) (If any)
20.	2026	SME Facilitation Centre Islamabad	Industry	2	Ministry of Industries & Production/ Small and Medium Enterprises Development Authority	Concept developed	Non.Sov.	7		
21.	2027	National AI Compute & High-Performance Data Centers (NAIC)	Digitalization	CC	Ministry of Information Technology and Telecommunication	Concept developed	Sov.	400		

Note: The projects listed in Annex represent an indicative pipeline of potential operations. The list reflects preliminary discussions with sector ministries and institutions and remains subject to further technical review, feasibility assessment, project readiness evaluation, and internal approval processes of the IsDB Group. The proposed amount of IsDB Group financing will be determined in due course, taking into consideration financial, operational, and risk assessment dimensions as well as co-financing options and macro-level considerations. The inclusion of a project in this list does not constitute a financing commitment by the IsDB Group. These figures are subject to change and will be fine-tuned once the IsDBG receives further information from the Government and relevant Ministries.

Programming Approach

The Regional Hub Türkiye will develop a tentative pipeline of potential IsDBG interventions for 2026-2030 in Pakistan. This list is subject to changes based on **priority, readiness factors, and guidance from the IsDB management**. The indicative **list mentioned at the project level should not be considered a commitment** from the IsDBG.

IsDB Quality and Prioritization Requirements are internal IsDB criteria that will assess various quality and prioritization parameters for each project before being included in the 5-year and Annual Work Programs as Category A or Category B projects.

- **Partnerships** are also essential, given that there is a huge financing need, especially given the ongoing economic turmoil that has slowed down infrastructure investments. Each development partner comes with its comparative advantage and value-additions. Given the current global and country contexts, there is a possibility that IsDBG may consider co-financing some projects during the MCPS Period with partners.
- **Processing Readiness** would include, but not be limited to, the readiness and quality of the project proposal from the Executing Agency, the status of internal processing and clearance of the proposal within the government bureaucracy, the status of a capable Project Management Unit (PMU), the readiness in terms of the land clearances, as well as environmental and social safeguards, and other standard prerequisites.
- **Implementation Readiness** covers all elements ensuring quality-at-implementation dimensions, such as a detailed and up-to-date financing plan, preliminary project designs (at least at the preliminary level), project management monitoring structures, procurement strategies and plans, and pragmatic implementation schedules.



ANNEX 4: MAPPING DEVELOPMENT PARTNERS IN PAKISTAN

Table 9: Mapping Development Partners and Sectors/themes

Development Partner (last 5 years)	Sectors										Cross-cutting themes
	Energy	Trade Finance	Roads	Water & Sanitation	Agriculture	Public Finance	Private Sector	Health	Education	Regional Cooperation	Youth & Gender
World Bank Group (~US\$9 bn)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Asian Development Bank (~US\$9.8 bn)	✓		✓	✓	✓		✓	✓	✓	✓	✓
Asian Infrastructure Investment Bank (US\$ 250 mln.)	✓		✓	✓							
OPEC Fund (US\$ 123 mln.)	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓

Source: Websites/reports/strategies of the concerned development partners



ANNEX 5: RESULTS FRAMEWORK

This Results Framework is an indicative list of indicators from the URAAN that the IsDB will contribute to, and other indicators derived from the priorities identified by this MCPS. All interventions anticipated over the MCPS timeframe will be aligned with the Sustainable Development Goals (SDGs), National Priorities, and specific indicators of the IsDB's Results-Based Management Framework (RBMF) as potential projects from the indicative pipeline are entered into the IsDB's project cycle.

Table 10: Tentative Indicators and Results Areas Expected across the MCPS Pillars-Results Framework

MCPS Outcome	Key Result Indicator	Means of Verification	Indicative IsDB Group Contributions
Improving transport connectivity and competitiveness			
Improved accessibility, reduced travel time, and enhanced freight capacity across road and rail networks	People with improved access to sustainable transportation infrastructure/services increased (number) [RBMF 2.1] Baseline and targets will be established from project appraisal documents (PADs) for ML-1, M-10, N-15, and highway projects upon approval. Share of railway in freight transport (%) Baseline: 8% (Pakistan Railways, 2024) Target: 25% [URAAN]	Ministry of Communications NHA Ministry of Railways	The IsDB Group will contribute to transport connectivity through: • Railway Linkages (ML-1) – US\$475M (IsDB, 2027) • Upgradation of Mansehra-Naran-Jalkhad Chilas Highway (N-15) – US\$1,071.4M (IsDB, 2027) • Karachi-Hyderabad New Alignment (M-10) – US\$946.4M (IsDB, 2027) • Widening of M1, M2 and Link Road Rawalpindi – US\$55.4M (IsDB, 2029) • Constructing of Lalamusa bypass on N-5 – US\$68.85M (IsDB, 2030) • Khwazakhela-Besham Express Way – US\$416.57M (IsDB, 2028) • ICIEC: Insurance coverage for transport investments
Strengthening energy security and clean energy transition			
Increased electricity access and higher share of renewable energy in the energy mix	Households connected to electricity increased (%) [RBMF 1.1] Baseline: 95.6% electrification rate (2023, WDI) Target: Universal by 2030 Baseline is WDI. Target aligned with SDG 7. Share of renewable energy in power generation (%) Baseline: 5% for wind/solar/bagasse (FY24, NEPRA State of Industry Report 2024) Target: >10% [URAAN] Note: URAAN target of >10% refers to variable renewables (wind/solar/bagasse) excluding hydro.	Ministry of Energy NGC / NEPRA WAPDA	The IsDB Group will support energy security through: • BEST-PAK Grid Stabilization Project (Phase-1) – US\$92.7M (IsDB, 2026; co-fin. AIIB, WB)⁴³ • 750MWh Battery Energy Storage System – US\$100M (IsDB, 2027; co-fin. ADB, WB, AIIB, EIB) • Matiari-Moro-Rahim Yar Khan Transmission Line – US\$100M (IsDB, 2028) • Power Evacuation at C-5 Nuclear Power Plant – US\$492M (IsDB, 2028) • 2nd Source of Supply to Sheikh Muhammadi 500KV – US\$80M (IsDB, 2028) • ITFC: Trade finance for energy imports (crude oil, petroleum, LNG) – part of US\$3,500M • ICIEC: Risk mitigation for sustainable energy investments

43 KPIs for BEST PAK will be established after the project appraisal in 2026. The project targets by 2030 (i) Enhancement in voltage regulation; (ii) Grid stability and reliability; (iii) Improvement in grid resilience against disturbances; (iv) Enhance South-North transmission network capacity; (v) Enable efficient utilization of generation resources, leading to reduced electricity prices for consumers.



MCPS Outcome	Key Result Indicator	Means of Verification	Indicative IsDB Group Contributions
Enhancing climate-resilient water resource management for irrigation and agricultural productivity			
Improved water security, increased irrigated agricultural productivity, and expanded access to safely managed water and sanitation	Increase in surface water storage capacity (million acre-feet) Baseline: 13.7 MAF (WAPDA, 2024) Target: +10 MAF [URAAN] Expansion of cultivable command area (million acres) Baseline: 45.5 Mn acres (PBS, 2024) Target: +20.3 Mn acres [URAAN] Farmers benefited from agricultural services and investments (number) Baseline: 0 at the beginning of MCPS cycle Target: Aggregated from project appraisal documents upon approval	Min. of Water Resources WAPDA Min. of Food Security	The IsDB Group will contribute to water security through: • Diamer-Bhasha Dam – US\$500M (IsDB, 2026): multipurpose storage, hydropower, irrigation, flood management • Chasma Right Bank Canal – US\$200M (IsDB, 2026): irrigation expansion • Chiniot Dam Project – US\$250M (IsDB, 2029): water storage and flood protection • Kachhi Canal Project (Phase II) – US\$150M (IsDB, 2029): irrigation in Balochistan • ITFC: Trade finance for agricultural inputs and food imports • ICIEC: Insurance for water infrastructure and food security transactions
Strengthening SME and export competitiveness through value chains, trade finance, and insurance solutions			
Increased export diversification, competitiveness, and market access	Total annual goods exports (US\$ billion) Baseline (FY24): \$31.0 bn (PBS) Target (FY29): \$60 bn [URAAN] SME financing as share of total private sector credit (%) Baseline: 5.2% (Sep 2024, SBP/SMEDA) Target: 17% by 2028 [GoP target, Finance Minister FfD4 statement July 2025]	Min. Economic Affairs Ministry of Commerce SBP	The IsDB Group will support export competitiveness through: • ITFC (US\$3,500M): Supplier Financing Scheme with EXIM Bank; SME lines of finance; trade development solutions • ICIEC (US\$3,700M): Export credit and investment insurance; food security agreements; LC enhancement; cooperation with EXIM Bank Pakistan • ICD: Line of Finance for Export – US\$50M (Non-Sov., 2027) • SME Facilitation Centre Islamabad – US\$7M (2026) • IsDBI: TA on Islamic finance (US\$0.25M) incl. EXIM Bank Shariah compliance
Promoting private sector participation through PPPs and coordinated IsDB Group interventions			
Strengthened private sector contribution to the economy	People with access to financial services increased (%) [RBMF 13.2] Baseline: 21% financial inclusion rate (2021, Global Findex, World Bank) Target: 50% by 2030 Small/medium enterprises established or promoted (number) [RBMF 13.3] Baseline: 0 (new MCPS cycle) Target: to be set upon approval of SME Facilitation Centre and ICD credit lines Domestic credit to private sector (% of GDP) Baseline: 11.4% (2024, WDI) Target to be determined GoP/SBP	Ministry of Planning Ministry of Labour SBP	The IsDB Group will promote private sector participation through: • ICD (US\$100M): Corporate financing, equity investments, credit lines, risk-sharing facilities, sukuk; collaboration with AlBaraka Bank Pakistan • ITFC: Trade financing lines to financial institutions and private firms • ICIEC: De-risk instruments for exports, strategic imports and Foreign Direct Investments both for Equity and Debt • IsDB: PPP modalities in sovereign projects where feasible



MCPS Outcome	Key Result Indicator	Means of Verification	Indicative IsDB Group Contributions
Improving education and health outcomes			
Improved education and health outcomes with expanded access to services	Polio cases reported per year Baseline: 24 (as of Sept. 2025, WHO). Target: 0 by 2030 Out-of-school children (million) Baseline: 25.1M (UNICEF, cited in MCPS). Target: reduction at project approval Stunting prevalence under 5 (%) – Baseline: ~38% (WHO/UNICEF/WB) Target: reduction at project approval.	Min. of Federal Education Min. of National Health Services	The IsDB Group will support human capital through: • Emergency Plan for Polio Eradication 2026-2029 – US\$154M (IsDB, 2026; co-fin. BMGF, Rotary, Japan, Canada, USAID) • Health sector projects (US\$50M, TBC): PHC, hepatitis, NCDs, stunting • Education sector projects (US\$50M, TBC): OOSC reduction, TVET, e-learning • Tadamon 2.0 with CSOs/NGOs • TCP, Reverse Linkage, Scholarship programs
Deepening Islamic financial inclusion and intermediation			
Deepened Islamic financial inclusion and intermediation	Islamic finance products and services developed (number) [RBMF 14.1] Baseline: Pakistan EXIM Bank partially Shariah-compliant (2026) Target: Full EXIM Bank Shariah compliance by 2028 [GoP constitutional deadline] Share of Islamic banking assets in total banking assets (%) Baseline: ~20% (2024, SBP Islamic Banking Bulletin) Target: Determined by SBP	SBP Pakistan EXIM Bank	IsDBI will contribute through: • TA to SBP on inclusivity and regulatory aspects (US\$0.25M) • Follow-on TA to Pakistan EXIM Bank for Shariah compliance by 2028 • ICD: Islamic capital markets development (sukuk) • ICIEC: Reinsurance solutions providing TA to EXIM Bank of Pakistan • Reverse Linkage with comparable institutions in other MCs



ANNEX 6: RISKS AND MITIGATION MATRIX

Table 11: Risks and Mitigation Matrix – MCPS Pakistan (2026–2030)

Risk Category	Specific Risk	Description	Scale of Risk	Mitigation Measures
Macroeconomic Risks	Macroeconomic instability	Pakistan's economy remains vulnerable to fiscal imbalances, exchange rate volatility, and external financing pressures that may affect public investment capacity and development programs.	High	Maintain close coordination with international financial institutions supporting stabilization programs and support reforms that enhance fiscal sustainability and export competitiveness.
Macroeconomic Risks	External financing constraints	High debt servicing requirements and limited foreign exchange reserves could constrain public investment and infrastructure financing.	Medium	Strengthen export diversification and trade financing through ITFC and support projects that improve external sector resilience.
Macroeconomic Risks	Inflation and energy price shocks	Global commodity and energy price volatility may increase project costs and affect economic stability.	High	Promote investments in renewable energy, energy efficiency, and infrastructure that enhances energy security.
Political and Governance Risks	Policy changes and reform delays	Changes in policy priorities during the MCPS implementation period may affect the continuity of reform efforts and the sequencing of project implementation.	Medium	Align MCPS interventions with Pakistan's national development agenda, active and close follow-up via the regular working group meetings.
Political and Governance Risks	Regulatory and governance bottlenecks	Complex regulatory processes and administrative procedures may slow investment decisions and project approvals.	Medium	Strengthen policy dialogue with government stakeholders and support reforms that improve the investment climate.
Political and Governance Risks	Federal–provincial coordination challenges	Pakistan's decentralized governance structure requires coordination across multiple levels of government, which may slow project implementation.	Medium	Strengthen coordination through the MCPS Implementation Working Group and regular consultations with federal and provincial authorities.
Institutional and Capacity Risks	Limited institutional capacity	Weak technical and managerial capacity within implementing agencies may affect project preparation, procurement, and implementation efficiency.	High	Provide targeted capacity-building programs, technical assistance, and project implementation support.
Institutional and Capacity Risks	High staff turnover	Frequent changes in personnel within implementing agencies and project management units may disrupt project continuity.	Medium	Strengthen institutional knowledge through training and standardized project management procedures.



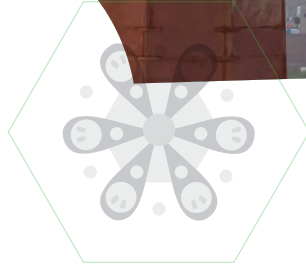
Risk Category	Specific Risk	Description	Scale of Risk	Mitigation Measures
Institutional and Capacity Risks	Weak project preparation	Limited feasibility studies and insufficient project design may delay project approval and reduce implementation efficiency.	Medium	Provide project preparation support through feasibility studies and technical assistance programs.
Operational and Implementation Risks	Procurement delays	Complex procurement procedures may delay project execution and disbursement.	Medium	Strengthen procurement planning and provide technical support to implementing agencies.
Operational and Implementation Risks	Financial management constraints	Weak (public) financial management systems may affect the efficient disbursement and monitoring of project funds.	Low	Strengthen fiduciary oversight and provide financial management training for implementing agencies.
Operational and Implementation Risks	Monitoring and evaluation challenges	Limited availability of reliable data may affect the monitoring of development results.	Medium	Strengthen monitoring systems aligned with the IsDB Results-Based Management Framework.
Environmental and Climate Risks	Climate-related disasters	Pakistan is highly vulnerable to floods, droughts, and other extreme weather events that may disrupt infrastructure projects.	High	Integrate climate resilience and disaster risk management into infrastructure design and project planning.
Environmental and Climate Risks	Water scarcity	Increasing water stress may affect agricultural productivity and economic stability.	High	Support investments in water resource management, irrigation modernization, and climate adaptation.
Environmental and Climate Risks	Floods	Floods can pose a real risk that could affect the development of the country and IsDB projects	High	Irrigation modernization, development of canals and upgrading of water management systems.
Environmental and Climate Risks	Environmental degradation	Rapid urbanization and industrialization may increase environmental pressures affecting sustainable development.	Medium	Promote environmentally sustainable infrastructure and ensure compliance with environmental safeguards.



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