Discipline in Crisis: How IMF-Prescribed Public Financial Management Reforms Shape Pakistan's Fiscal Future

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The International Monetary Fund (IMF) has become a central influence in Pakistan's economic policymaking. Under the Extended Fund Facility (EFF) approved in September 2024, Pakistan is required to implement 64 reform measures, including complex and politically sensitive Public Financial Management (PFM) reforms. While public attention often focuses on tax measures and expenditure cuts, a less visible but equally significant struggle concerns improving how the government budgets, spends, and reports public funds.

The IMF-backed PFM reform agenda includes measures such as digitalizing budget execution, establishing Treasury Single Accounts, strengthening oversight of supplementary grants, and enhancing governance of state-owned enterprises. Although ambitious on paper, implementation has been uneven due to weak institutional ownership and political economy constraints. Recent studies suggest that the success of these reforms depends on political commitment, proper sequencing, digital readiness, debt transparency, and sustained civil society oversight. Without these elements, reforms risk becoming exercises in technical compliance rather than genuine institutional transformation.

Research increasingly highlights that PFM reform is fundamentally a political challenge rather than merely a technical one. Pakistan's experience reflects this reality, as governments have often complied with IMF programme reviews without achieving lasting changes in bureaucratic practices. The persistent "conditionality-ownership gap" remains a major obstacle, as IMF conditionalities cannot substitute for genuine domestic ownership of reforms. The growing number of structural benchmarks and reform conditions may also create compliance fatigue, prioritizing short-term fiscal consolidation over long-term institutional capacity building.

Advances in Digital PFM Systems: Promise vs. Practice

Full digitalization is the centerpiece to the currently-sweeping PFM reform wave. The Ministry of Finance has pledged to develop a digitized public finance management plan, establish a special oversight committee, implement complete e-office and e-PADs for the preparation of budgets, and do away with the old practice of data inconsistencies, under the guidance of the IMF (The Express Tribune, 2025). The intent is obvious: use technology to eliminate discretion, improve transparency and plug loopholes in the execution of the budget in the past.

International experiences have been cited in favor of the possibility that Integrated Financial Management Information Systems (IFMIS) help to improve the fiscal discipline. When assessing Zambia's IFMIS, Sikabanga and Haabazoka (2025) indicated that the system has improved "accuracy of financial reporting and compliance with the budgetary process" but faced a few challenges such as the downtimes, weak training intensity, and reluctance to adopt the system. In the same vein, Okpanachi et al. (2026) in their study on the impact of digitization on transparency in the public sector of Nigeria found that the application of digital tools like IFMIS and e-accounting systems influence transparency and efficiency positively but warned that while it can be done without an additional system, transparency cannot be guaranteed with e-payment alone.

Pakistan's story on digital PFM transformation, however, does sound as a cautionary tale in this context, when it comes to the Project to Improve Financial Reporting and Auditing (PIFRA) that was supported by the World Bank and launched in 1997. A World Bank (2005) case study noted that the officers of the Pakistan Audit & Accounts Service resisted the splitting of the audit and account's function, seeing it as a career risk, and original design flaws related to interactions with other functions in the bureaucracy, which they control, caused the implementation process to take over five years. It has recently been observed that even though up to one billion dollars have been invested in PFM digitalization programmes, the degree of automation remains confined to a few modules and there is no evidence of big funding, and PFM systems with a simple double-entry accrual accounting have been ignored by all governments (Shah, 2023). Experience has shown that even the best IFMIS will fail if they are not matched by change management, training of users and a commitment from leadership and user groups.

Debt Transparency and the Limits of Technical Reporting

One of the recurring issues in the countries interaction with IMF that it demands Pakistan to have more open the debt. The total external debt of Pakistan was about USD 126 billion as of June 2025, of which USD 82.5 billion amount is external public debt, and USD 43.5 billion is government-guaranteed debt (Business Recorder, 2025). The Ministry of Finance earlier has been assuring that "Pakistan has implemented a strong and internationally compliant debt-reporting framework and that it has been recommended by IMF that the debt strategy be formulated for a medium-term period ending 2025–28 and the reports be made half-yearly" (The News, 2025). But there have been glaring deficiencies identified in parliamentary oversight. During a Senate committee meeting in 2025, the Economic Affairs Division recognized that there was "no transparent mechanism available to assure that loans availed from the IMF were being effectively utilized for budgetary support or for balance of payment needs" (The Financial Daily, 2025), causing the chairman of the Senate committee to state that he was "concerned on the absence of a clear audit trail or transparent accounting".

This hindrance of sight is intentional. The overall design of IMF governed surveillance is "a framework of 'financial discipline' that holds executives of fiscal ministries, regulatory institutions and monetary policy authorities accountable to a surveillance mechanism through the leverage of global financial capital" (The News, 2026). IMF conditionality turns into "a mechanism through which global finance gains over domestic governance on how budgets are designed, how institutions work and how public authority is exercised." This leads to debt transparency reforms for Pakistan to improve the economy (both necessary but sufficient) being at the same time instruments of foreign control – presenting constant tension with national sovereignty and the global financial system.

The political economy literature is clear in its treatment of external conditionality in the management of debt. As reported by Maxmudova (2025), the IFI-led debt initiatives have a number of issues to contend with including conditionality, dependence on debt, and a lack of reform ownership by the local partner. Governments might see reform as just the cost of continued lending and lack an interest in reform as a self-interested policy decision (IMF, 2001). In Pakistan, formal compliance and substantive transparency have almost no correlation; formal compliance has improved, but an audit trail of utilization of the IMF loans is still not available.

Audit and Parliamentary Oversight as a Key Role

Auditing and Parliamentary supervision are one of the ongoing "structural" benchmarks on the part of the IMF. The current EFF has laid out the changes in Pakistan's Public Finance Management Act (PFM) to cap discretionary spending, and a special audit for the supplementary grants given in the last ten years, directed by the IMF (Daily Times, 2025). The IMF has also attributed the elimination of preferential treatment to state-owned enterprises in procurements to the government to "distort competition, create opportunities for abuse and increase corruption risks" (The Express Tribune, 2025).

But the effectiveness of the audit conditionality greatly relies upon independence and capacity of the Auditor General of Pakistan (AGP). CG and auditing reports are not submitted to the Parliament on time, resulting in inadequate audit coverage as well as lack of judicial curiosity and follow-ups on audit paras, which are some of the major weaknesses of the AGP identified through critical analysis of auditing practices in Pakistan (Ullah, 2023). Alternatively, the PIFRA evaluation by the World Bank identified the resistance of the civil service cadre to separating audit and accounting as well as the loss of project momentum when PIFRA champions went on retirement as hindrances to the project's implementation (World Bank, 2005). Assessing the institutional realities of governance, it is clear that these criteria would need to be accompanied by actions to ensure independence for AGPs and that the PACs of parliaments are effective, as well as punitive measures for non-compliance, if any changes are to be made.

As Maxmudova (2025) reports, a successful reform implementation with the support from IFIs has common features of local ownership and locally adapted strategies in some countries, e.g. Ghana, Jamaica, Rwanda. In contrast, if conditionality is put in without investing in institutional capacity and political consensus, then the reforms that are carried out tend not to be on the ground.

Fiscal Federalism and the NFC Perspective

Pakistan's fiscal federalism arrangement is a key enabler to understanding PFM reforms in the country. The federally determined vertical and horizontal distribution of funds is taken care of by the National Finance Commission (NFC) Award, which is fixed every 5 years in terms of the Constitution. The Higher Provincial Fiscal Transfer of 57.5 percent (increased by the 7th NFC Award, in 2010) marked the first milestone for devolution, yet led to what a recent study calls "a structural trap of provincial reliance on Federal transfers, discouraging receipts from own sources and efficient service provision" (Pakistan Institute of Development Economics, 2026).

IMF experience attaches conditionality to federal PFM systems, however with the proviso that the proposed reforms are adhered to by the provinces. There is not one single PFM system at the federal and provincial level which has resulted in "disconnected systems" which have been continuously pointed out by the World Bank and IMF as a PFM inefficiency and data inconsistency (ICMA, 2025).

The latest push to accomplish 100% digitalization of PFM systems will need to be taken to the provincial levels as well, where there is a technical and political challenge.

Senior Provincial Minister has reiterated that the NFC "should function as a partnership between the government and federating units, and all assessments be done in a cooperative, fair and transparent manner" (Pakistan Observer, 2026). But this can only be realized by using IMF-recommended e-enhanced means of fiscal devices, as well as a commitment by all stakeholders to fiscal devolution, which unfortunately has been dysfunctional since the expiration of the 7th NFC Award in 2015. A "performance-based reward and incentive model" is clearly vital for providing any incentive for provincial revenue generation and service delivery as suggested by the Pakistan Institute of Development Economics (2026), but this change requires political commitment beyond the IMF programme cycles.

Civil Society, Media and Citizens' Oversight: The Missing Link

Less used of the tools to PFM accountability is civil society engagement. But as other countries have shown, a wide array of civic engagement, transparency platforms and media investigation can play a huge role in boosting fiscal accountability. It has been increasingly acknowledged by the IMF which has published a Fiscal Transparency Code and an Open Contracting Data Standard that calls for public access to the information about the budget and procurement processes (ICMA, 2025). However, access to PFM data by civil society is still quite limited in Pakistan. The Financial Accounting and Budgeting System (FABS) system is used to prepare budgets and financial reports for the federal, provincial and district levels, but there are still access restrictions and the asset management modules are underutilized (Shah, 2023).

The functions of the legislature are also limited. A World Bank case study (2005) concluded that the lack of a sound fiscal reporting system is one of the reasons why the Government cannot manage its fiscal resources and donors and international financial institutions cannot evaluate the impact of their assistance. As a result, reliable fiscal data is also essential for parliamentary scrutiny, which is otherwise affected by the lack of such data. The Public Accounts Committee (PAC) has had a hard time in insuring that audit recommendations are followed and successive governments have giving fiscal reports in a tardy and inaccurate manner. A comprehensive study on PFM in Pakistan concluded that "After 3 decades of effort and billions of dollars of investments made across a number of programmes, the governments don't prepare and report reliable financial statements, which show accurate results of its policies and actions measured in terms of fiscal deficits, assets and liabilities" (Shah, 2023).

Therefore, to try to break this cycle, IMF conditionality should demand open budget data portals to be created, audit reports to be made available in a set time period, and legal access to real-time fiscal information. Civil society organizations such as ICMA and Transparency International, play an important part in promoting these standards and keeping a close eye on the implementation thereof.

Conclusion

Fiscal transparency and accountability in Pakistan need certain environment, which is necessary but not sufficient, provided by IMF-prescribed PFM reforms in Pakistan. The existing EFF has spurred the government towards digitalization, the reporting of debt, oversight on audits and reform of procurement processes; all of which are integral parts of a modern PFM. But the evidence that we covered in this article reveals five conditions that need to be met for success to occur:

So, first, there needs to be genuine political ownership, rather than implementation which is compliance-driven. Political constraints cannot be ignored; the sequencing and domestic-prioritization and capacity of reforms cannot be ignored as Allen (2026) wants them to do. Second, to implement digital reforms, such as the IFMIS, the investments in change management, training and infrastructure maintenance must be made in parallel (as was abundantly shown in PIFRA). Third, debt transparency should not just be about reporting, but also involve a verifiable audit trail of IMF loan utilization and as mentioned have an access to Parliament and the public. Fourth, Audit and Parliamentary oversight need strengthening via independent capacity in AGP and with empowered PACs having credible enforcement ability. Fifth, robust civil society and media involvement should be made permanent to be a check on the discretion of the Executive.

It is a critical time for an ongoing journey of PFM reform in Pakistan. According to Daily Times 2025, the country has deep systemic flaws in its legal and administrative framework, based on the country's Governance and Corruption Diagnostic Assessment conducted by the IMF. How much political economy constraints are recognized and addressed, and how much the current reform wave is successful at doing so, will determine whether this is yet another layer of unimplemented action plans or a successful reform. Technical checklists and procedural milestones can be negotiated, and can be changed much more easily. No external lender can be solely responsible for reconfiguring incentives and accountability mechanisms to drive real reform, though political will is essential to making this happen.

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