



PRIME PLUS

OCTOBER 2025



THE PRICE OF UNPREPAREDNESS:

**Floods 2025 and Critical Analysis of Resource
Allocation and Government Performance**

About PRIME

Policy Research Institute of Market Economy is a public policy research and advocacy organization striving for an open, free, and prosperous Pakistan. PRIME was established in Islamabad in 2013 and has played a leading role in advancing ideas and policies for free market, open trade and economic competition in Pakistan through its research and advocacy.

Prime Plus is a quarterly report published by PRIME that provides economic and policy analysis explaining developments, opportunities, and challenges of Pakistan's economy.

Copyright Note:

All rights reserved. No portion of this report may be reproduced in any form without prior consent. The information has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its correctness. Opinions are presented without guarantee.

Prime Plus Research Team:

Zartasha Inayat, Research Economist

Article by:

Dr. Khalil Ahmad, Distinguished Fellow

Published by:

Policy Research Institute of Market Economy (PRIME)

For inquiries, please contact:

Hira Zia - Communications Manager

Email - hira@primeinstitute.org

Mailing Address:

PRIME

House#01 Street 58, F-7/4

Islamabad, 44000, Pakistan

Tel: 00 92(51) 8 31 43 38

www.primeinstitute.org

Table of Contents

<u>EXECUTIVE SUMMARY</u>	1
<u>INTRODUCTION</u>	2
<u>GOVERNMENT RESPONSE AND INSTITUTIONAL PERFORMANCE</u>	6
<u>REVIEW OF ANNUAL BUDGET ALLOCATIONS FOR DISASTER MANAGEMENT</u>	6
<u>PROVINCIAL FINANCING OF THE DISASTER RELATED AUTHORITIES</u>	10
<u>INTERNATIONAL FUNDING</u>	13
<u>RESOURCE UTILIZATION</u>	15
<u>THE BIGGER PICTURE OF CLIMATE FINANCE</u>	21
<u>CONCLUSION AND RECOMMENDATIONS</u>	25
<u>MAKING THE RIGHTSIZING OF THE GOVERNMENT TO CREEP</u>	27
<u>MACROECONOMIC ANALYSIS</u>	30
<u>ANNEX</u>	

List of Figures

Figure 1: List of Climate Finance available to Pakistan under GCF and GEF

Figure 2: NDMA Audit for FY2023-24

Figure 3: Monthly QIM Index

Figure 4: Trade Statistics

Figure 5: Government Domestic Debt

Figure 6: Trend in Credit to Private Sector

Figure 7: Net FDI, Inflows and Outflows

Figure 8: Total Liquid Forex Reserves

Figure 9: Exchange Rate

List of Tables

Table 1: Revised Budget for Disaster Management Authorities

Table 2: Federal and Provincial Framework for Climate and Environmental Management

Table 3: Total Funds and Projects under GCF and GEF

Table 4: Audit for NDRFM for FY 2023-24

Table 5: Audit of Balochistan's Climate related Authorities

Table 6: Audit of KP's Climate related Authorities

Table 7: Audit of Sindh's Climate related Authorities

Table 8: Audit of Punjab's Climate relevant Authorities

Table 9: FY2025-26 Federal Budget Allocation for Climate Change

Table 10: FY2025-26 Federal Budget Allocation for Disaster

THE PRICE OF UNPREPAREDNESS:
FLOODS 2025 AND CRITICAL ANALYSIS
OF RESOURCE ALLOCATION AND
GOVERNMENT PERFORMANCE

EXECUTIVE SUMMARY

1.Recurrent Flood Losses and Governance Gaps: The 2025 floods which caused estimated damages of Rs 822 billion, highlight that Pakistan’s disaster vulnerability stems not only from climate shocks but also from weak governance, fiscal misalignment, and underinvestment in adaptation. This also stresses the persistent lack of coordination between federal and provincial governments. There is not an adequate harmonized mechanism to translate federal commitments into provincial implementations.

2.Fiscal constraints and Misaligned Priorities: Budget allocation to climate relevant ministries and departments have been revised downward this year. This is particularly for the Ministry of Climate Change and National Disaster Risk Management Fund, which reflects low fiscal prioritization for disaster preparedness. Similarly, provincial ADPs diverge widely, where one province spends heavily on post flood housing reconstruction and the other merely on irrigation. Thus, there is little consistency in climate tagging or measurable outcomes.

3.Climate financing remains mitigation-heavy and donor-driven. Pakistan must rebalance toward adaptation, linking carbon revenues to resilience, and improving fund utilization in key sectors such as irrigation, local government, and housing.

4.Legal and Policy Strengthening: Amendments to the Climate Change Act (2017) and NDMA Act (2010) should mandate annual reporting on disaster preparedness, while provincial assemblies should table resilience audits with budgets to ensure transparency and accountability in implementation.

5.Sustained, Year-Round Climate Governance: Discussions on floods should not end with the monsoon season. Climate and Disaster preparedness must become a continuous, institutionalized priority, anchored in coordinated federal, provincial planning, enforcement of land-use laws, and investment in year-round risk reduction systems.



1. Introduction:

What was once considered a blessing, the monsoon rains have increasingly become a source of devastation for Pakistan. Year after year, the monsoon rains devastate the economic and social sectors of the country. These rains induce large-scale displacement, infrastructure damage, and fiscal distress across provinces. Though the country's economy hasn't completely recovered from the disaster of the 2022 floods, the 2025 monsoon has again caused severe humanitarian and financial losses. Heavy rains and overflowing rivers have swamped large parts of Punjab and Sindh, and even KPK and Gilgit Baltistan. This has submerged entire villages, disrupted transport networks, destroyed crops, and damaged homes and livelihoods.

These recurring floods imperil not only Pakistan's vulnerability to climate extremes but also the persistent weaknesses in disaster preparedness, resource allocation, and governance. The 2025 floods, much like those of 2022, have highlighted how weak fiscal capacity and frail infrastructure can turn a natural event into a full-blown economic and social crisis. Pakistan faces significant exposure to natural disasters, and over the past three decades climate-related disasters have significantly increased in Pakistan, causing losses of life and damaging the socioeconomic sector of the country. Between 1992 and 2021, climate and weather-related disasters caused a collective damage of \$29.3 billion of economic losses^[1], and these losses are increasing over the years both in humanitarian and economic ways.

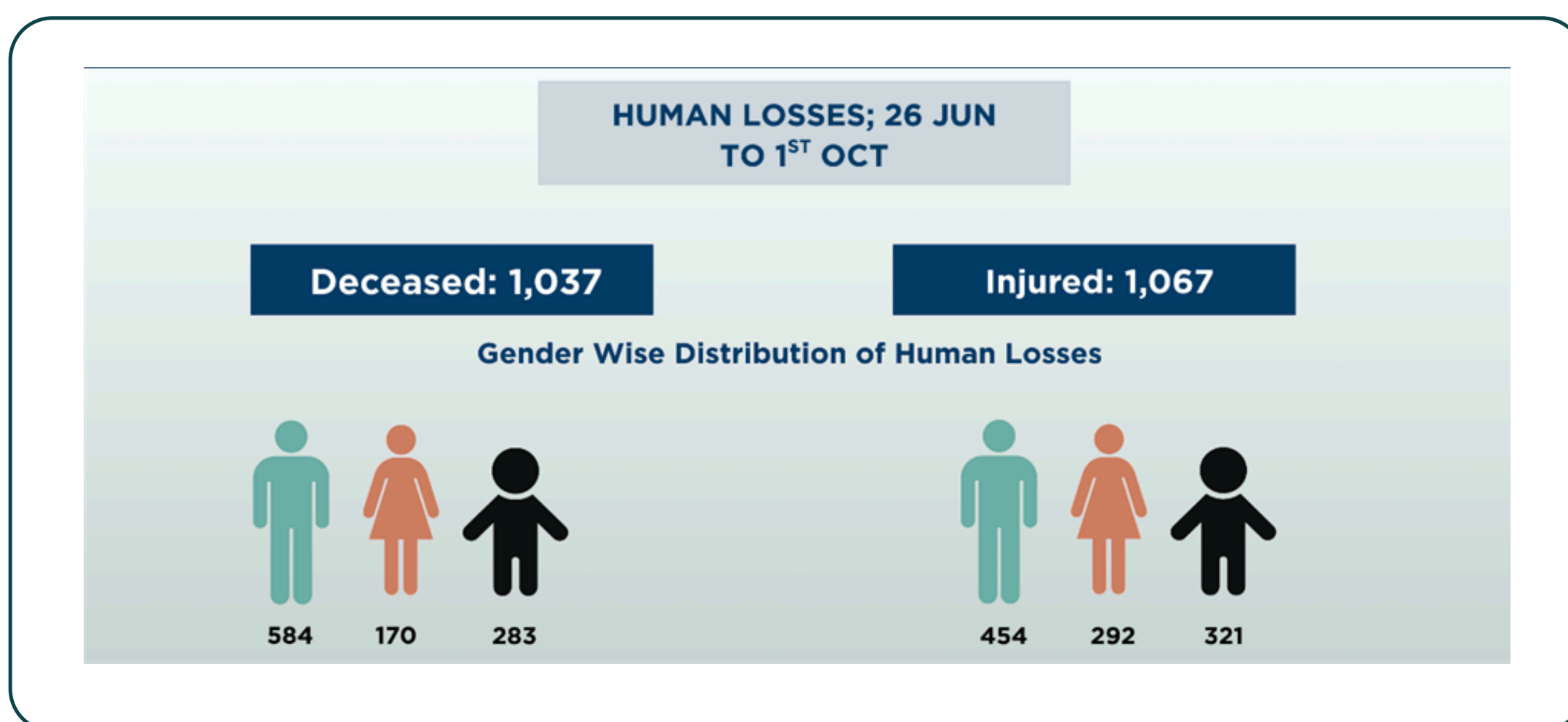
[1] Country Climate and Development Report, World Bank 2022

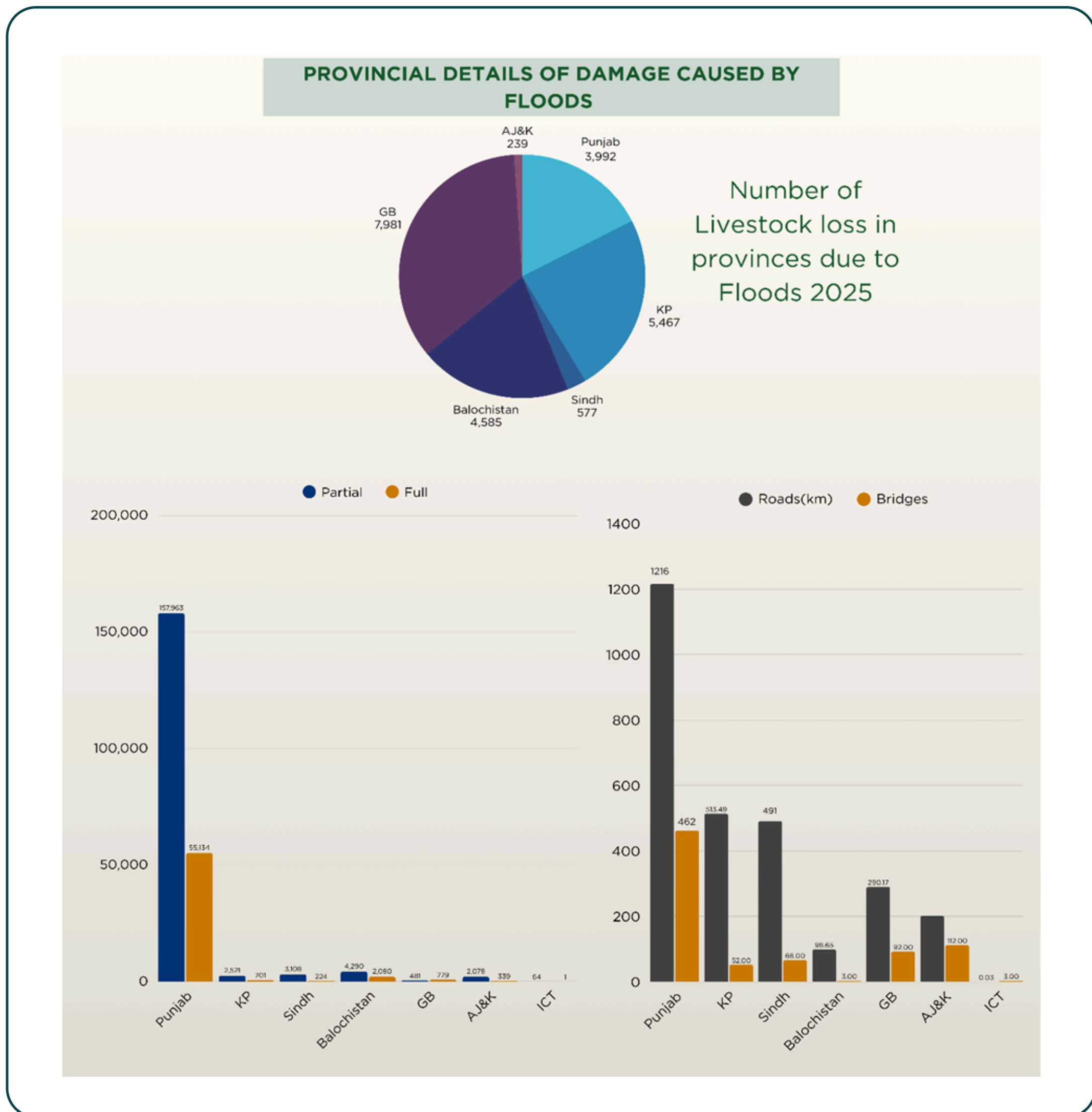
The 2025 floods have struck at a time when Pakistan is still struggling to recover from the devastation of 2022, when the country lost \$30 billion, or nearly 10 percent of GDP, to climate-induced flooding (World Bank, Post-Disaster Needs Assessment, 2023).

The latest Flood Assessment Report (2025) estimates \$2.9 billion loss this year, underscoring the recurrent economic toll of extreme weather events. Strikingly, Punjab alone accounted for nearly 76% of total losses, reflecting the scale of exposure in the province’s agriculture and infrastructure.

Despite repeated federal and provincial commitments to build climate-resilient infrastructure, including through Pakistan’s National Flood Protection Plan-IV (NFPP-IV) and successive NDCs, most of the country’s flood-mitigation projects remain incomplete or underfunded. The 2025 floods thus reinforce a familiar cycle, where each deluge brings new humanitarian and economic crises, while exposing the widening gap between planned resilience and actual preparedness.

According to the National Disaster Management Authority (NDMA), the estimated loss of lives and damage to infrastructure are as follows





Source: National Disaster Management Authority

The scale of devastation caused by the 2025 floods reflects both the intensity of the monsoon and the systemic vulnerabilities in Pakistan’s disaster management infrastructure. Punjab and Khyber Pakhtunkhwa emerged as the hardest-hit provinces, together accounting for more than 80 percent of total infrastructure losses. Punjab alone reported over 150,000 partially damaged homes and extensive damage to road networks, while Sindh and Balochistan faced heavy agricultural and livestock losses. Gilgit-Baltistan and Azad Jammu & Kashmir suffered localized but severe disruptions to road and bridge infrastructure, exposing the fragility of mountainous transport networks.

The Preliminary Assessment places total economic damages around Rs 822 billion or \$2.9 billion. The losses are heavily concentrated in agriculture (Rs. 430 billion), and infrastructure (Rs. 307 billion), followed by housing, and critical damage to power, health and education sector. These findings underscore that the 2025 floods are not merely an environmental event but a governance and fiscal failure, revealing how underinvestment in prevention and misalignment between federal and provincial priorities continue to deepen the scale of disaster impacts.

The Preliminary Assessment indicate the widespread damage to agriculture, where standing crops such as cotton, rice, and sugarcane have been severely affected. The estimated growth projections for the agriculture sector are also revised from a target of 4.5% to 3.0 – 3.8%, due to the crop damages. This level of damage undermines both household incomes and national export prospects. Most hit by the floods are the rural poor which were already strained by inflation and low productivity. Unable to relocate their families and livestock, low-income households are bearing the brunt of natural disasters once again as farmlands remain under water, livestock perish, and access to markets is cut off.

While the NDMA's estimates outline the material cost of the floods, they also provide a mirror for assessing how effectively government systems have functioned in prevention, preparedness, and mitigation. Despite a decade of policy frameworks, 1) the National Disaster Management Act (2010), 2) the National Flood Protection Plan-IV, and 3) the National Adaptation Plan (2023), implementation remains weak and fragmented. Provincial disaster authorities have improved response capacity, but the absence of integrated risk planning, coordinated early warning systems, and resilient infrastructure investment continues to amplify losses.

2. Government Response and Institutional Performance

The recurrent floods are not isolated event, rather they reflect a deeper flaw in how Pakistan plans, builds, and governs. While the impact of the 2025 floods still unfolds, the situation requires us to analyse the role of government in 1) preparedness to prevent the risk and 2) mitigation of the risk.

Over the years, Pakistan has set up a series of commissions and plans in the wake of every major flood. However, most of these documents have remained reactionary rather than reformative strategies. The National Flood Protection Plan-IV (NFPP-IV), prepared in 2017 with a projected cost of Rs 332 billion was meant to address these calamities. The document was aimed to modernize flood forecasting, strengthen embankments, and improve provincial coordination. However, even now, less than 1/3rd of the plan has been implemented, and the progress updates have not been published since 2021.

The National Disaster Risk Management Plan 2022-2030, along with its updated framework under NDMA's Resilience Roadmap is also meant to integrate early warning systems and community preparedness. However, the feasibility of both can be reflected by the fact that the most flood hit areas were not provided by the early warnings before the floods and communities were left stranded amid the floods. This reflects the financial gaps, weak adoption of the plans by provinces and limited federal monitoring.

3. Review of Annual Budget allocations for Disaster Management

In fiscal terms, while the federal budget 2025-26 have seen an

increase in climate adaptation and mitigation budget, it does not reflect the urgency to address the recurring floods. The principal body for flood protection and management, Water Resources Division saw a sudden decline from Rs. 184.6 billion in FY2024-25 to Rs. 133.4 billion in FY2025-26, a 27% cut. Meanwhile, the combined budget for NDMA and Cabinet Division for disaster response and rehabilitation stands at less than Rs. 20 billion in the current budget. Looking at the budget, one can wonder the loss floods have caused. Despite facing one of the worst economic disasters in form of 2022 which cost our economy \$30 billion, three years later we still stand at a place with no dedicated flood recovery fund or transparent mechanism for tracking post flood reconstruction spending.

The following budget allocations are made for respective areas closely related to flood management.

Table 1: Revised Budget for Disaster Management Authorities

Area	FY2024-25	FY2025-26	% Change in FY2024-25 and FY2025-26
National Disaster Risk Management Fund	2000	1,100	-45%
Climate Change Division	5,257	2,784	-47.05%
National Food Security & Research Division	23,928	4,254	-82.20%

The above presented numbers paint a worrisome picture of de-prioritization of institutions that are central to flood preparedness and management. The 45% reduction in NDRMF moves the fiscal system away from the goal of anticipatory financing. NDRM was originally established with the Asian Development Bank, to serve as dedicated institution for Pakistan’s disaster risk reduction projects, cofinancing provincial schemes related to embankment safety, early warning systems and climate resilient infrastructure. The sharp

reduction in its budget undermines the institute's ability to pre-finance flood protection works and crowd in donor funds, directly weakening the country's disaster preparedness capacity.

A similar contraction is similarly visible in the Climate Change Division's development budget, which fell by 47% compared to the previous year. Even though the division's mandate extends beyond climate adaptation to include coordination of flood risk governance, hydrometeorological upgrades and environmental regulation, it remains chronically underfunded. This trimming weakens the federal government's "coordination spine", the technical and institutional linkage between NDMA and Pakistan Meteorological Department (PMD) and the provinces. Without enough funding, federal agencies cannot standardize flood zoning regulations, upgrade forecasting systems or provide consistent disaster audits to the provinces.

However, the most alarming cut is in National Food Security and Research Division, whose development budget collapsed by 82%. This reduction directly affects Pakistan's capacity to recover from agricultural losses following floods. Research programs under the division such as development of flood tolerant crop varieties, saline soil management and post flood fodder rehabilitation are essential to restoring productivity in flood affected areas. The Post Disaster Needs Assessment 2022 suggests that agricultural losses accounted for nearly 40% of total flood related damages. Thus, cutting research funding in this area not only delays recovery but also increases future fiscal burden through higher import dependence for food and feed.

Taken together, these reductions reveal a bias in Pakistan's fiscal structure, where post disaster relief, in terms of emergency and relief camps, are more favoured than pre disaster protection.

Majority of the disaster funds are spent reactively after events, rather than allocating predictable resources beforehand[2]. This year’s budget reinforces this pattern. Instead of strengthening prevention through NDRMF, enhancing coordination via Climate Change Division, or supporting agricultural resilience through NFS&R, the government has chosen to scale them back.

In practical terms, this means Pakistan enters each monsoon season with fewer resources for early warning, flood zoning, and agricultural recovery, while retaining the same vulnerabilities that turned the 2022 floods into a \$30 billion catastrophe. The result is a cycle of reconstruction without reform, rebuilding the same embankments, replanting the same crops and revisiting the same budgetary neglect year after year.

Pakhtunkhwa have updated the maps marginally[3], while Sindh, one the most hit provinces every year by floods, still relies on almost a decade old map for the flood planning.

Following table reflects the different authorities and different plans made under federal and provincial authorities.

Table 2: Federal and Provincial Framework for Climate and Environmental Management

Legislative		Administrative		Policies and Plans	
Federal	Provincial	Federal	Provincial	Federal	Provincial
Pakistan Environment Protection Act, 1997	Provincial Environmental Protection Acts	Ministry of Climate Change, 2011	Environment Protections Departments	National Climate Change Policy 2012 and 2021	Provincial Climate Change Policy
National Disaster Management Act, 2010		National Disaster Management Authority, 2007	Provincial and District Disaster Management Authorities	Nationally Determined Contributions 2023	Provincial Climate Action Plans
Climate Change Act, 2017		Pakistan Climate Change Authority		National Adaptation Plan, 2023	

[2] Options to Strengthen Disaster Risk Financing in Pakistan, World Bank 2023

[3] Waterways hit by unregulated construction: FFC underscores need for updating Pakistan’s flood mapping systems

4. Provincial Financing of the Disaster Related Authorities

From a fiscal perspective, Pakistan's climate governance model suffers from a mismatch, where provinces control the sectors, the federation controls the commitments. Provincial ADPs for FY2025-26 allocated around Rs. 2.87 trillion in total, with nearly Rs.180 billion or 6% of the budget identified as climate or disaster relevant spending. Yet, none of the provinces publish climate expenditure reports or use budget codes for adaptation or mitigation activities. Sindh FY2025-26 development portfolio remains the most flood oriented among the provinces. Sindh's development budget doesn't include any new projects and focus only on previous projects. The development budget is dominated by Sindh Flood Emergency Housing Reconstruction Project (SFEHRP) with a total allocation of Rs. 104.25 billion. This program, cofinanced by World Bank, Islamic Development Bank and Asian Development Bank, aims to rebuild over 700,000 flood damaged houses and WASH infrastructures in Sindh. Similarly, Sindh Annual Development Programme (ADP) earmarks Rs. 13 billion for flood emergency rehabilitation in irrigation and Rs. 12.28 billion for Planning and development component of flood recovery. These allocations combined represent around 25% of Sindh's total development outlay for the flood management. However, what is concerning is government's focus on not addressing the cause but the damage which has done. Preventive infrastructure and preparedness for the floods in terms of river training, embankment strengthening and drainage rehabilitation remains underfunded, receiving less than Rs. 20 billion combined, compared to Rs. 104 billion for post flood housing.

province doesn't build a resilient infrastructure to withstand heavy rainfalls, a trend Pakistan has been witnessing lately, it would run out of money for rehabilitation, which is not a substantial measure.

Punjab's fiscal structure embeds flood related spending within broader infrastructure categories, reducing transparency and traceability.

The province's ADP 2025-26 includes Rs. 38 billion for the Irrigation department which houses flood protection and river training projects. Within this, Rs. 12 billion is marked for drainage and flood control, Rs. 8.5 billion for barrages and canals rehabilitation and Rs. 5 billion for river embankment strengthening. While the magnitude of allocation is growing, if we compare it to previous years, the lack of dedicated Flood management or disaster rehabilitation head can often dilute the resource management and flow of funds. The lack of project level budget tagging makes it difficult to distinguish between routine irrigation maintenance and flood defensive investments. In Punjab, like rest of the country, relief and compensations are handled through off-budget cabinet grants, often announced after the damage assessment by Provincial Disaster Management Authority.

Khyber Pakhtunkhwa's budget also depicts a picture of visible but modest disaster management allocation.

The budget allocated Rs. 3.2 billion to Relief and Rehabilitation department, which covers 26 projects. These projects focus on emergency relief, rehabilitation and infrastructure repair. This constitutes roughly 0.5% of province's total ADP of Rs. 650 billion. Additionally, Rs. 9.8 billion has been set aside for under Irrigation department for flood protection Structures, while Rs. 3 billion under local government covers stormwater drainage in flood-prone urban areas. The province's PDMA continues to rely on federal grants. While there exists institutional

clarity in KP's budget allocation, the scale of allocation remains inadequate relative to exposure. Flash floods in KP this year alone have affected 1.57 million people, whereas the estimated loss of 2022 floods stands at Rs. 30 billion for the province. **Without scaling up preventive investment, PNDMA remains confined to relief operations rather than disaster risk reduction.**

Balochistan's PSDP allocates Rs 96.8 billion to the Irrigation Department, covering 641 schemes with an overall estimated cost of Rs 261 billion. This represents nearly 23% of the province's total development budget, the highest departmental share. However, a closer look reveals that most of these schemes relate to canal lining, small dams, and water storage rather than dedicated flood-defense infrastructure.

The absence of flood-specific budget tags or measurable output indicators, such as kilometers of embankments reinforced or drains rehabilitated, makes it impossible to evaluate how much of this investment addresses flood risk. The NDMA's Provincial Flood Protection Audit (2024) also noted that Balochistan's irrigation portfolio is "fragmented and lacks prioritization by flood vulnerability." Despite suffering flash floods that displaced nearly 250,000 people in 2022 (UN OCHA, 2023), the province's FY2025–26 PSDP does not include any standalone flood-management program or disaster fund.

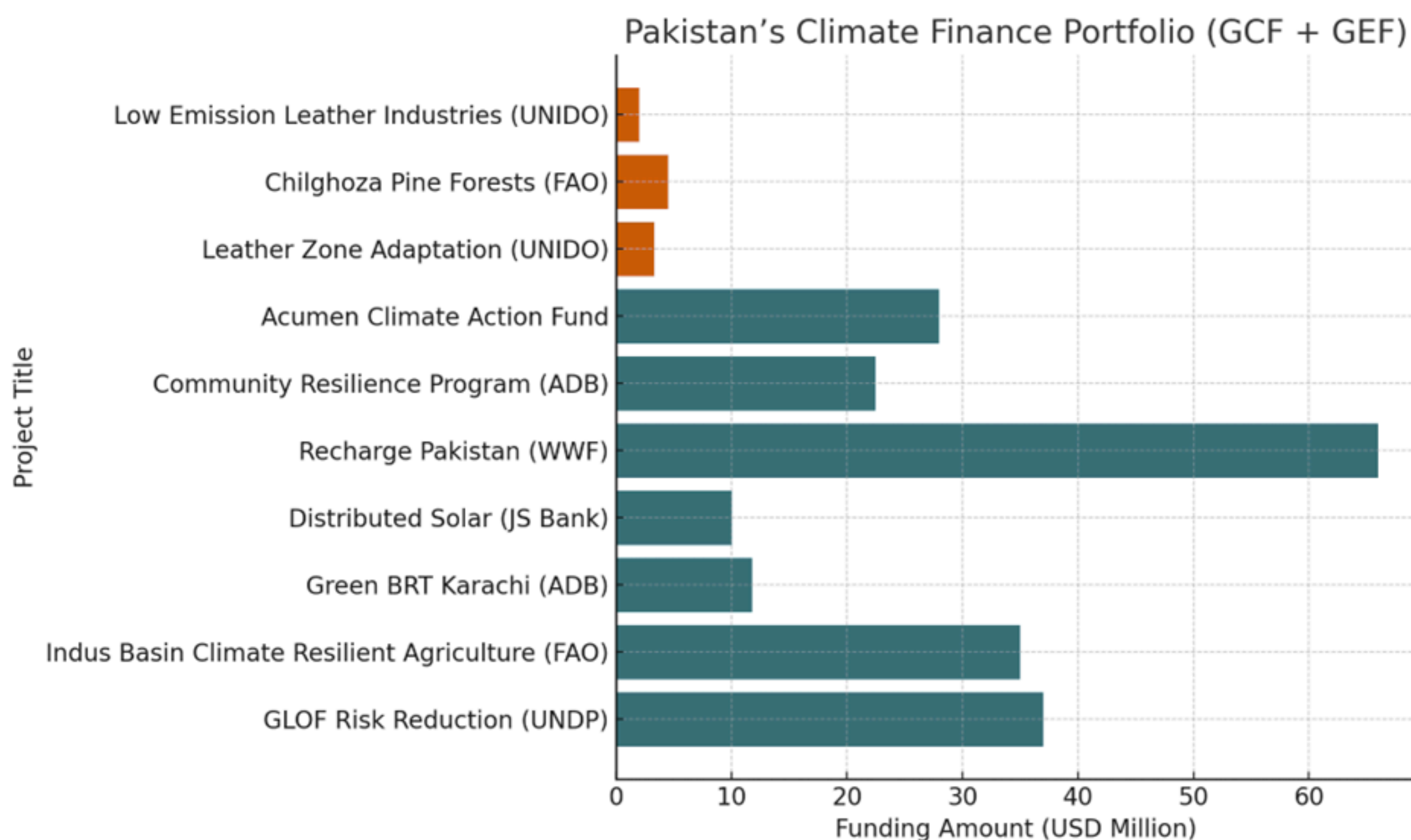
While over the years, both federal and provincial budget allocation for climate-related events and disaster preparedness and management has increased, the spending still lacks coherence and balance. Sindh leads in fiscal magnitude in terms of resource allocation on the subject, but focuses on post-disaster relief, Punjab invests heavily in irrigation without tagging resilience

outcomes, KP maintains institutional clarity but limited scale, and Balochistan allocates generously to water infrastructure without targeting flood-prone zones. However, this is still much to do. Though devolved to provinces, the climate has not been effectively devolved to municipalities or local governments, making it challenging for effective resource allocation and management. Thus, making national policies may look good on document, its effectiveness is crucial to ensure the viability of the policy.

5. International Funding

Apart from the financing climate related events at federal and provincial level, Pakistan has received significant financing from multilaterals.

Figure 1: List of Climate Finance available to Pakistan under GCF and GEF



Source: Ministry of Climate Change

The chart above presents Pakistan’s climate finance portfolio through the Green Climate Fund (GCF), and the Global Environment Facility (GEF) is structured around highly concessional grant-based financing, reflecting the country’s developing economy and high vulnerability to climate impacts. Out of the ten projects, eight are fully funded through grants and two projects leverage blended or innovative financial instruments such as equity and guarantees to catalyse private sector investment.

Table 3: Total Funds and Projects under GCF and GEF

Fund	No. of Projects	Total Portfolio (USD Million)	Total GCF/GEF Financing (USD Million)	Approx. Co-Financing (USD Million)
Green Climate Fund (GCF)	7	≈ 947.3	≈ 249.0	≈ 12.5
Global Environment Facility (GEF)	3	≈ 9.8	≈ 9.8	
Total (GCF + GEF)	10 Projects	≈ 957.1	≈ 258.8	≈ 12.5

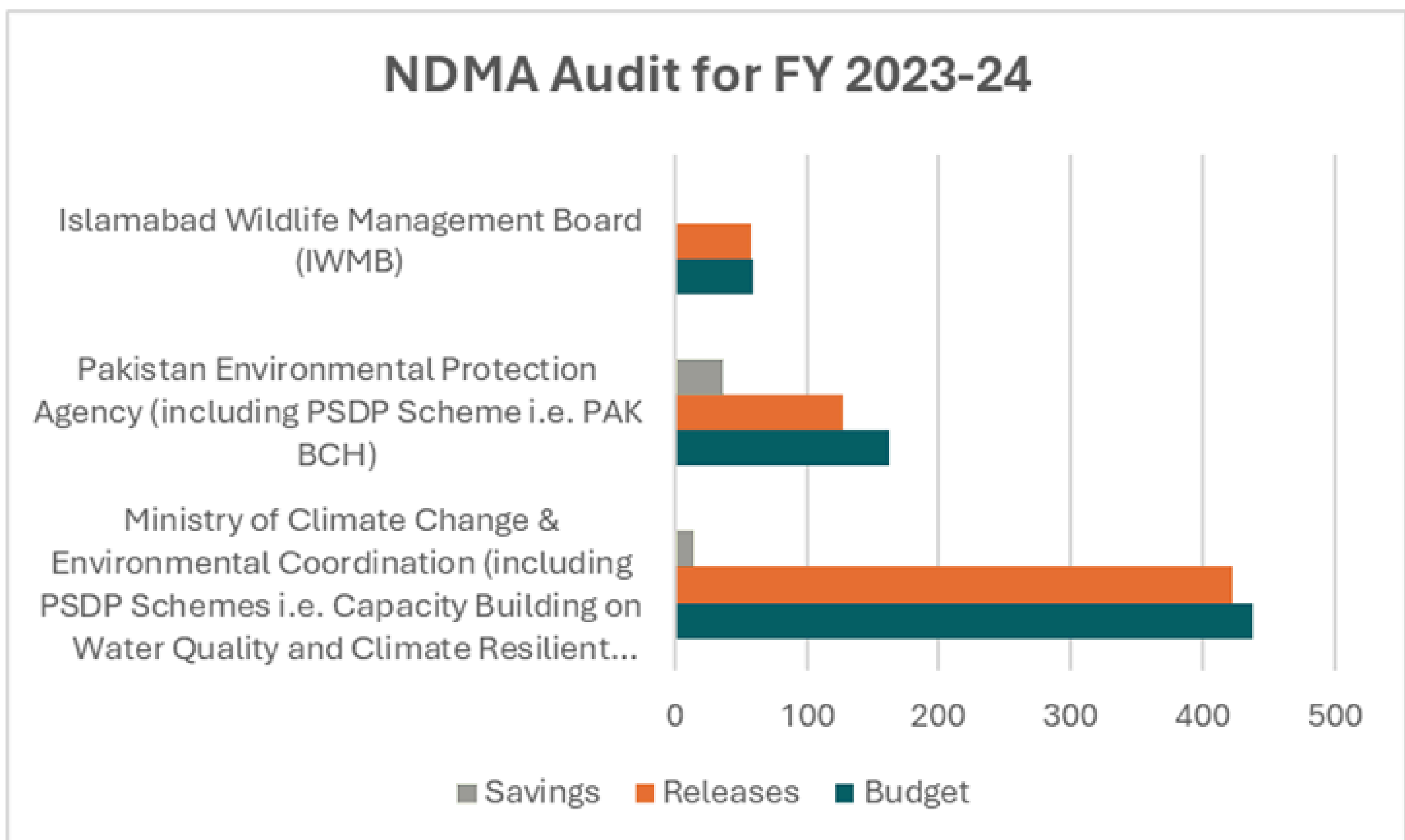
In addition to that Pakistan also secured \$1.2 billion under the IMF’s Resilience and Sustainability Facility (RSF). This program is designed to support long-term reforms that strengthen climate resilience and sustainable growth. The financing, approved alongside Pakistan’s new Extended Fund Facility (EFF), aims to help the government integrate climate risk management into fiscal policy, improve public investment efficiency, and enhance disaster preparedness. Key reform areas under the RSF include the establishment of a national climate finance framework, strengthening the National Disaster Risk Management Fund (NDRMF), and promoting climate-resilient infrastructure investment.

6. Resource Utilization

The above analysis notes that both federal and provincial governments have increased the budget for flood management over the years. However, the coordination between both level of governments remains low. Now we will try to analyse the resources available to governments and their utilization.

Interestingly, while Pakistan's climate finance per capita remains one of the lowest in the region, the recent audit reports suggest that there exist deep inefficiencies in Pakistan's disaster and climate financing architecture.

Figure 2: NDMA Audit for FY2023-24



Source: General Audit Report FY 2024-25

For NDMA, spending patterns highlight persistent execution gaps and poor internal controls. The authority continues to carry forward large unutilized balances each year,

reflecting limited absorptive capacity rather than funding shortfalls. Audit suggests that Pakistan’s central disaster response body struggles more with financial governance than with resource scarcity. NDRFM, which was established to enable pre-disaster financing, records near complete utilization on paper but lacks transparency in project verification and climate relevance. Its Portfolio remains largely reactive and oriented towards post-flood recovery rather than anticipatory risk reduction. The audit also suggests no categorized spending on adaptation or mitigation, underscoring the absence of climate finance framework within the fund’s operation.

Table 4: Audit for NDRFM for FY 2023-24

Entity	Budget	Expenditure	Savings/Lapse of Funds
NDRFM	11,524.42	11,296.44	227.973

Source: General Audit Report, 2024-25

Similarly, the MoCC and its attached entities show a pattern no different than the NDMA. Despite having allocations, the execution of the projects is delayed. Projects like Ten Billion Tree Tsunami Programme and Pakistan Environmental Protection Agency underspent their annual releases.

Overall, the federal audit reinforces systematic concerns of weak financial controls, a reactive spending structure and fragmented institutional reporting. Pakistan’s disaster and climate institutions continue to operate in silos with no unified financial tracking, or coordination across the institutions.

A review of provincial audit data for FY2023–24 reveals mixed trends in resource allocation and utilization across disaster management and environmental agencies. While budget execution in core emergency institutions such as PDMA and Rescue services has remained relatively strong, underutilization persists in regulatory and environmental departments. This imbalance underscores both the growing maturity of operational disaster response and the persistent institutional weaknesses in preventive and environmental governance.

In Balochistan, the Provincial Disaster Management Authority (PDMA) and associated DDMA demonstrated steady fund absorption with minimal lapses. This reflects functional continuity in core relief operations and maintenance expenditures. However, the Balochistan Environmental Protection Agency (EPA) spent slightly below its allocation, pointing to recurring capacity constraints in project execution and delayed procurement processes. The province’s financial performance suggests that while emergency response systems are operationally stable, its environmental regulatory functions remain underfunded and underperforming.

Table 5: Audit of Balochistan’s Climate related Authorities

Rs. Millions

Entity	Year	Allocated Budget	Expenditure	Savings/Lapse of Funds
PDMA/DDMAs (Balochistan aggregate)	2023-24	10519.985	10172.729	347.256
Balochistan EPA	2023-24	156.391	148.469	7.922

Source: General Audit Report, 2024-25

Khyber Pakhtunkhwa (KP) presents a similar dual picture, where PDMA achieved high utilization levels, indicating an effective operational response framework that has matured over successive crises. However, the Secretary Relief and Rehabilitation Office, which oversees centrally managed relief initiatives, reported higher lapses. This points to procedural bottlenecks in fund release and implementation oversight at the secretariat level. The KP EPA also showed moderate underspending, largely due to delays in administrative approvals and technical staffing shortages. Collectively, KP's performance demonstrates the advantage of decentralized disaster management, where field-level agencies spend efficiently, while central secretariats and regulatory bodies lag in execution.

Table 6: Audit of KP's Climate related Authorities

Rs. Millions

Entity	Allocated Budget	Expenditure	Savings/Lapse of Funds
Khyber Pakhtunkhwa - Secretary Relief, Rescue & Rehabilitation	92.573	72.649	19.924
Khyber Pakhtunkhwa - PDMA/DDMAs	14442.358	14396.395	45.963
Khyber Pakhtunkhwa - Civil Defence	30.541	30.542	-0.001
KP Environmental Protection Agency	116.712	98.429	18.283
Khyber Pakhtunkhwa - Total	16819.986	16717.448	84.169

Source: General Audit Report, 2024-25

In Sindh, PDMA executed most of their allocated funds, indicating that front-line relief operations remain functional and responsive. However, the province’s environmental institutions, including the Department of Environment, Climate Change and Coastal Development and the Sindh EPA, also reported considerable unspent balances.

Table 7: Audit of Sindh’s Climate related Authorities

Rs. Millions

Entity	Allocated Budget	Expenditure	Savings/Lapse of Funds
Sindh PDMA (including DDMA's)	2165.847	2092.776	73.071
Sindh Environment, Climate Change & Coastal Development Dept.	373.386	213.356	160.03
Sindh EPA, Karachi	194.208	147.784	46.424
Sindh Regional Office SEPA, Karachi	64.205	52.103	12.102
Sindh Regional Office SEPA, Hyderabad	88.421	71.841	16.58
Sindh Environmental Protection Tribunal	236.117	173.355	62.762
Sindh Coastal Development Authority	112.092	111.922	0.17

Source: General Audit Report, 2024-25

These shortfalls stem from administrative inefficiencies, slow project approvals, and weak interdepartmental coordination. While the Coastal Development Authority achieved near-complete utilization, demonstrating effective project management in targeted coastal initiatives, other entities such as the Environmental Tribunal underperformed due to procedural delays and limited case throughout.

For Punjab, the budget execution also reflects a similar pattern. While the overall utilization rate stood at 89.2 percent, the distribution of lapses points to a worrying trend: climate-relevant departments such as **Irrigation and Local Government & Community Development (LG&CD)**, which form the backbone of flood control, water management, and resilient infrastructure, recorded the highest under-expenditure.

Table 8: Audit of Punjab's Climate relevant Authorities

Department	Original Budget (Rs in Billion)	Revised Budget (Rs in Billion)	Actual Expenditure (Rs in Billion)	% Variation (Revised vs Expenditure)
C&W	278.267	246.338	233.215	-5.33
HUD&PHE	61.567	65.08	63.687	-2.14
Irrigation	20.044	26.035	21.769	-16.39
LG&CD	40.586	47.175	25.503	-45.94
Others	11.74	10.35	8.176	-21
Total	412.204	394.978	352.35	-10.79

Source: General Audit Report, 2024-25

The Irrigation Department's 16 percent shortfall is particularly significant given the recurring monsoon floods. This under-execution translates into delayed maintenance of embankments, canal desilting, and drainage improvement projects, activities that directly mitigate flood risk. Similarly, the LG&CD's nearly 46 percent lapse indicates stalled progress in urban drainage, solid waste management, and climate-resilient municipal works. These gaps have direct implications for adaptive capacity, as local governments are often the first responders to climate-induced flooding and waterlogging. Overall, the data suggest a clear structural pattern across provinces: operational disaster management agencies are generally able to utilize their funds, while environmental governance institutions remain constrained by bureaucratic, procedural, and capacity limitations. The higher utilization rates in PDMAs and Rescue Services indicate growing institutional resilience in emergency response. In contrast, consistent under-execution within EPAs and environmental departments highlights the need for stronger planning, procurement management, and fiscal autonomy.

The provincial analysis also reflects a broader policy gap between disaster response and environmental management. While emergency agencies operate within well-established budget cycles and mandates, environmental and climate institutions lack the same procedural clarity, multi-year budgeting, and technical staff support.

7. The Bigger Picture of Climate Finance

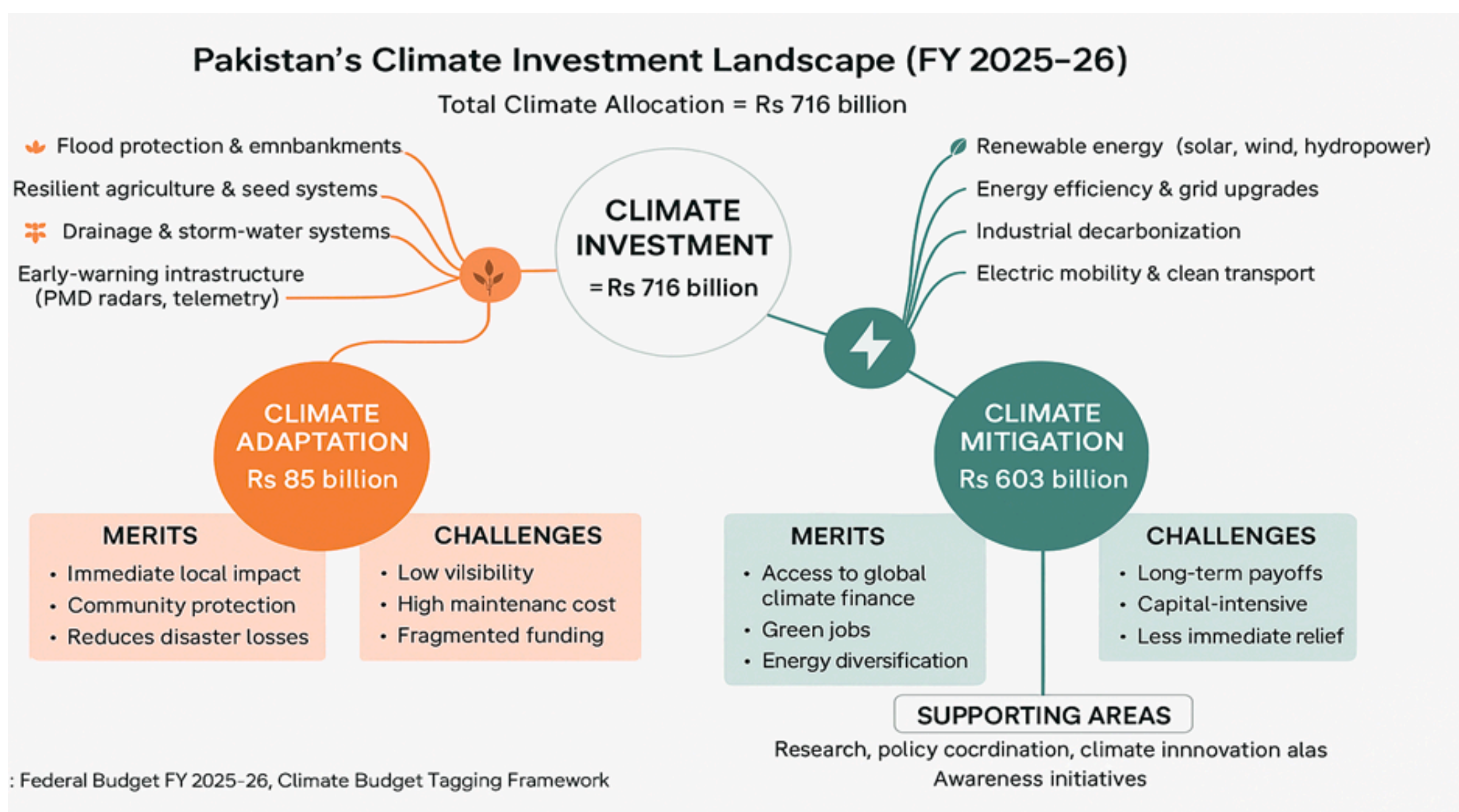
The analysis of floods cannot be separated from the investment in climate. We draw the analysis by comparing the numbers for federal budget FY2025-26 with FY2024-25. The numbers, as shown below, highlight that overall investment in areas of climate adaptation, mitigation and supporting areas has been increased

Table 9: FY2025-26 Federal Budget Allocation for Climate Change

Area	FY2024-25	FY2025-26	% Change in FY2024-25 and FY2025-26
Adaptation	46,625	85,435	83.30%
Mitigation	212,861	603,000	183.30%
Supporting Areas	18,887	28,331	49.90%

Source: Federal Budget FY2025-26

The numbers suggest that the focus of the budgetary allocation is inclined heavily towards climate mitigation instead of climate adaptation. However, it is a phenomenon that needs to be understood that Pakistan’s current climate challenge needs attention in adaptation more than mitigation. For a country contributing less than one percent to global emissions yet ranked among the top ten most climate-vulnerable nations (Germanwatch, Global Climate Risk Index 2024), a mitigation-heavy strategy risks misallocating scarce fiscal resources. This is because Pakistan’s share of renewable energy is already around 30%, and country is committed to keep the commitment to increasing share to 50%. Using 80% of the total climate finance to mitigation, while allocating only of 20% to climate adaptation doesn’t reflect a balanced approach in this. While the policies should never pick and choose between two, over emphasizing on one side while paying little attention to the other doesn’t help.



Similarly, while the 80% of the climate related investment made under PSDP program are directed towards the mitigation efforts, which is primarily aimed to reduce the greenhouse gas emissions through cleaner energy transitions, the policy environment remains inconsistent at times. On one hand, the federal Budget FY25-26 acknowledges the urgency of climate action by imposing carbon levy of 2.5 on the fuel, on the other hand, same budget introduces custom duties for solar panels from 0% to 10%, reversing fiscal incentives that had supported renewable energy adoption across household and industries.

Pakistan's fiscal priorities must reflect its lived climate reality. The focus of climate spending should shift, or at least balance more decisively toward adaptation. Investments in early warning systems, irrigation modernization, coastal protection, and resilient housing yield immediate social and economic returns, while also reducing the long-term cost of disasters. According to the World Bank's Climate Development Diagnostic (2023), every dollar spent on

climate adaptation in Pakistan can save up to six dollars in post-disaster recovery costs.

The following table also presents a similar picture, where the budget under the disaster preparedness, while overall dominates the budget, has decreased by 30% this year. The overall trend reflects a reactive rather than proactive disaster management approach. While funds for response are rising, the decline in preparedness implies reduced emphasis on resilience-building. A more balanced allocation, strengthening preparedness and recovery, would enhance long-term disaster resilience.

Table 10: FY2025-26 Federal Budget Allocation for Disaster

Disaster	FY2024-25	FY2025-26	% Change
Preparedness	47434	33163	-30.08601425
Response	12999	15876	22.13247173
Recovery & Rehabilitation	444	1142	157.2072072

Source: Federal Budget FY2025-26

In conclusion, while mitigation efforts remain important for aligning with global commitments, adaptation is where Pakistan's survival and fiscal stability lie. A balanced approach, where carbon pricing revenues are earmarked for local resilience programs and provincial adaptation funds, is essential. Unless the country recalibrates its climate financing architecture toward protecting lives and assets from recurring climate shocks, mitigation will remain a distant aspiration overshadowed by the cost of unmitigated disasters.



8. Conclusion and Recommendations

The 2025 floods reaffirm that Pakistan's vulnerability to climate related disasters remain rooted in fiscal misalignment and governance weakness, as much as it does in intensifying climate crisis. Despite an expanding policy framework of NDC 3.0, Climate Adaptation Plan and Climate Change Act 2017, execution remains fragmented. The Preliminary Damage Assessment Report (2025) highlighting the provincial losses is a stand-alone example of the non-coordinated fiscal planning when it comes to climate disasters. The challenge now is not only to rebuild but to ensure that every rupee spent reduces future vulnerabilities.

8.1 Fiscal Recommendations:

Climate Adaptation must be embedded across all development sectors and not treated as a separate agenda. This year, with the help of Adam Smith International, the program named Revenue Mobilisation, Investment and Trade (REMIT) was introduced for climate budget tagging and is being expanded to provincial levels. This is a significant step and should be expanded to tap into blended finance products to promote sustainability.

Similarly, the government should require a defined share of PSDP and ADP funds to be directed to climate resilient infrastructure which has ability to withstand the floods. **Provincial governments' development spending exceeds the federal development spending; thus, provincial governments should be incentivized to participate in Climate Action through fiscal transfers.** The National Finance Commission should incorporate a climate resilient performance Grant to reward provinces that meet measurable land use and flood mitigation targets.

8.2 Institutional Recommendations:

Encroachments along rivers and floodplains have magnified the flood damage. Provinces must strictly enforce zoning under their Environmental Protection Acts to prohibit new riverside developments and penalize unauthorized construction.

Disaster Management and Climate Resilience remain share responsibilities. Provinces must be formally integrated into federal policy formulation through joint planning. Similarly, provinces should also be required to submit their NDCs based on their challenges and risk assessment of that province and those NDCs should be integrated into federal NDC which is submitted to UNFCCC every five years.

Just like the provincial and federal coordination, Inter-departmental coordination is essential. Flood resilience demands integrated action between irrigation, agriculture, energy and infrastructure departments. The synchronization of investment across these departments should be operationalized and the energy and transport projects must meet the adaptation standards. Discussions surrounding floods in Pakistan should not be confined to the monsoon months nor quickly displaced by concerns over winter smog. Flood management and climate adaptation must be treated as year-round governance priorities, integrated into planning, budgeting, and institutional performance cycles. To ensure continuity and accountability, the Climate Change Act (2017) and the National Disaster Management Act (2010) should be amended to include mandatory annual reporting on disaster preparedness and resilience measures. Furthermore, provincial assemblies should be required to present resilience audits alongside their annual budget statements, thereby embedding transparency and enabling public oversight of adaptation and disaster management efforts across all levels of government.

MAKING THE RIGHTSIZING OF THE GOVERNMENT TO CREEP

Rajiv Gandhi, the assassinated prime minister of India, used to say in Hindi/Urdu:

ہم نے یہ بنانا ہے، ہم نے وہ بنانا ہے۔

[We are to make this. We are to make that.]

Someone retorted, "You are up to a banana republic."

In the same vein, it can be added that our politicians also believe in making a banana republic and not "dismantling" the banana republic they had already built up.

Also, our politicians, especially ones who are in the government, always talk in a future tense. And that future tense of theirs never transforms into a present tense. Or if it so happens, it happens so seldom that no one ever believes something has come to be realized and materialized.

The same is the case with the incumbent government's drive of cutting or reducing or rightsizing or downsizing (all these epithets are used by the same politicians) the government.

Who would cut off the branch on which they sit!

One more thing that needs to be kept in view is the fact that whatever parts of the body of the government have been planned to be severed, most of that is still on the paper. That amounts clearly at least to two things. First, it is still gulping the tax money of the people; and, second, the plans for its winding down also require more funds.

Here is a case in point: "Govt approves Rs30b for USC closure. Of this amount, Rs25b will be spent on severance package for utility store staff.

And here is something like a decorative piece, both from the government's point of view and from this scribe's point of view. That is, "Pakistan nears completion of First Women Bank's privatization."

Let me clarify: this First Women Bank is, almost from the very beginning, on the list of entities to be privatized. It is no wonder that it is still in the 'nearing' phase.

In sum, the progress report enlists very few entities that have witnessed their closures and that they stand on the various stages of the closure tracks. PWD; USC; FWB.

So far as the power sector is concerned, which is of paramount importance to the growth of the economy but really is proving like a stumbling block in the way of the economic development, it is still languishing in the hands of government employees and getting from bad to worse with no hope of any resolution in the near future.

The white elephants. As the government assumed 80% of PIA's legacy debt, it came to show a return to profit. But generally speaking, during the last many years, it had incurred losses to the tune of billions of rupees, and if its privatization does not materialize soon, it will again.

The same is the case of the Pakistan Railways. The pace of its downslide/dismantling has gone faster. The more measures are taken to improve its conditions, the worse it becomes. It seems it has already been thrown to the dogs—by whom? By the government. To the government. We must abandon any hope of resolution of any of its maladies it is afflicted with soon.

Another giant SOE is the Pakistan Steel Mills. True, it reached a stage where nothing could be done to cure the chronic patient. So, the resolution comes from both governments, federal and Sindh, that it will remain in the Intensive Care Unit (ICU) of the state. An industrial zone has been planned to be built on the huge tract of land that belongs to the PSM.

As for the Roosevelt Hotel, it is hanging in the balance. Nothing final has come its way.

Better gift it to Donald J. Trump, the POTUS. It may accrue a lucrative return on investment!

Note that more money is going to upgrade the PTV World to enhance its global reach; for what purpose is not clear.

One must be eager to see what developments are taking place with regard to the government's commitment to move towards an electricity market (CTBCM). No good news from this front either.

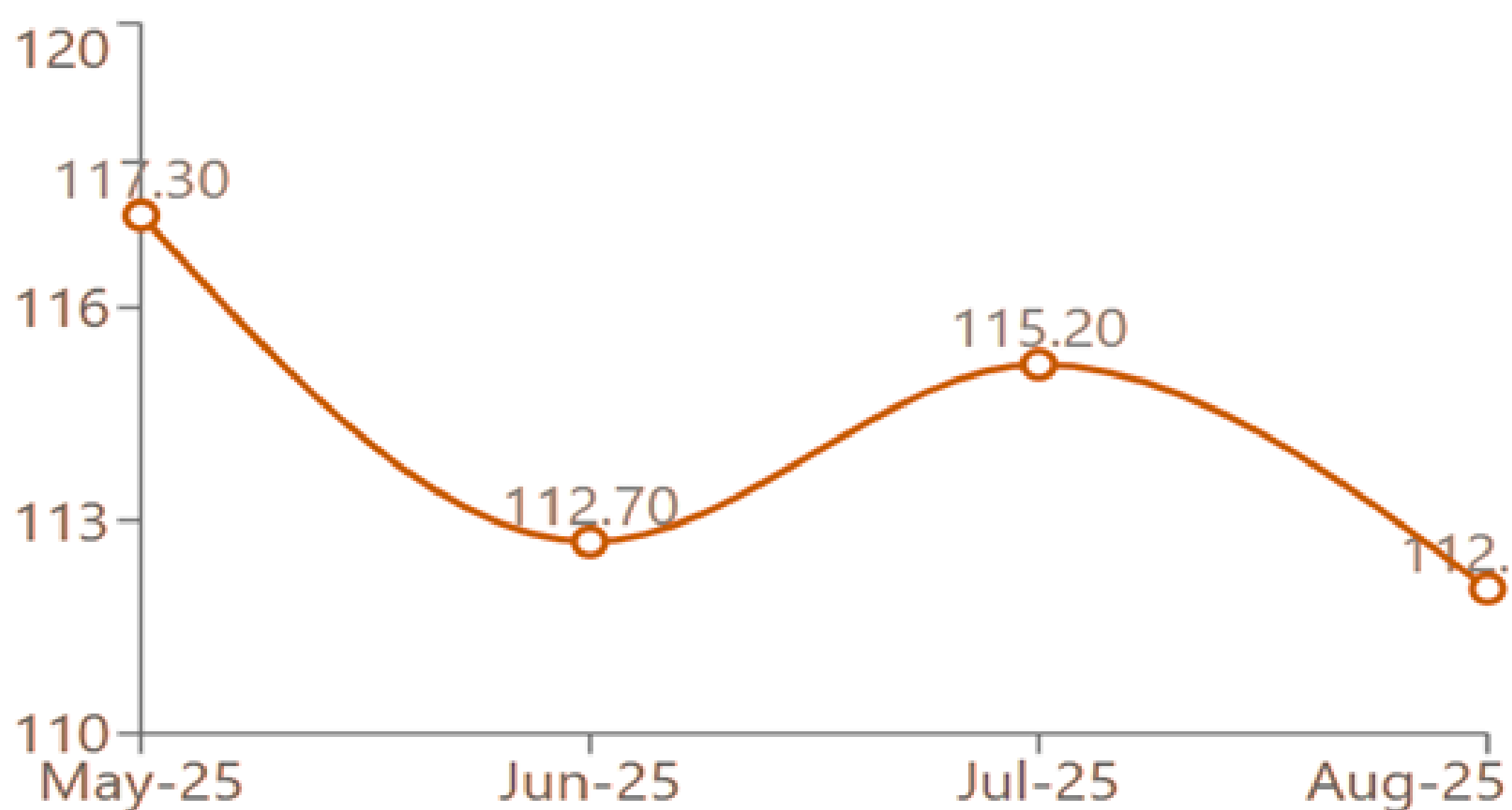
Whatever relevant information was reported in various newspapers regarding the incumbent government's efforts to limit its footprint in the economy from July 14, 2025 to October 10, 2025, has briefly been arranged in chronological order with issues and entities collated together.

Khalil Ahmad

MACROECONOMIC ANALYSIS

1. ECONOMIC GROWTH

Figure 3. Monthly QIM Index



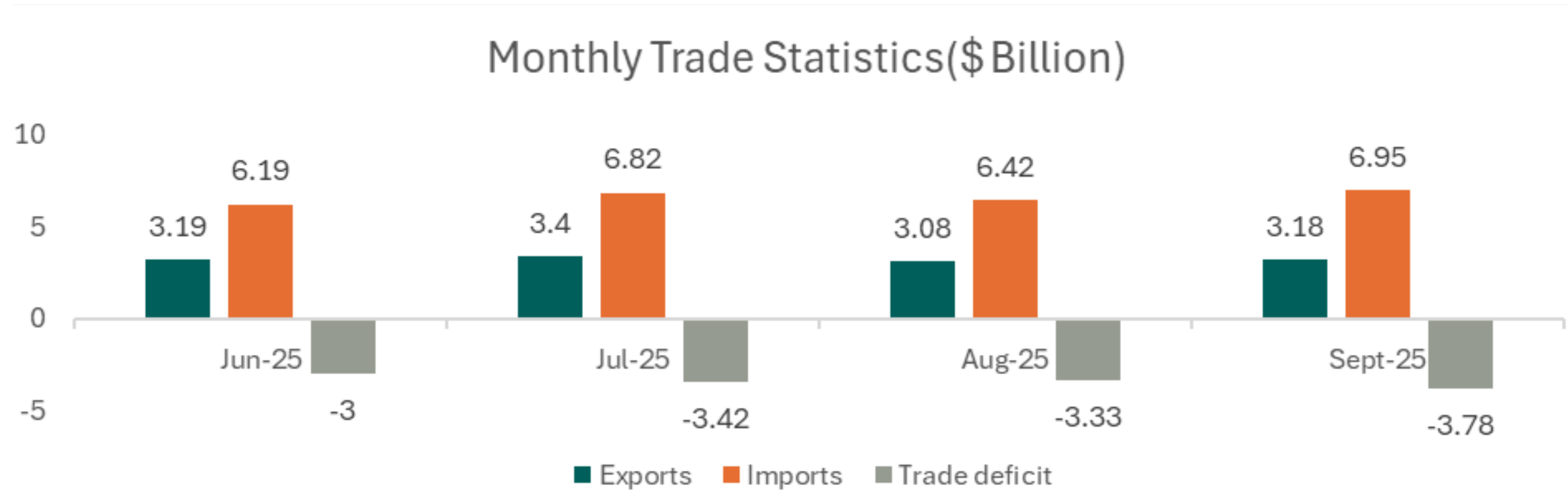
Source: Pakistan Bureau of Statistics

KEY INSIGHTS

- Industrial output softened as QIM declined by 4.5% over the period.
- Volatility reflects energy shortages and weak domestic demand.
- Policy note: Indicates limited industrial momentum and the need for supportive policies to revive manufacturing growth.

MACROECONOMIC ANALYSIS

Figure 4. Trade Statistics



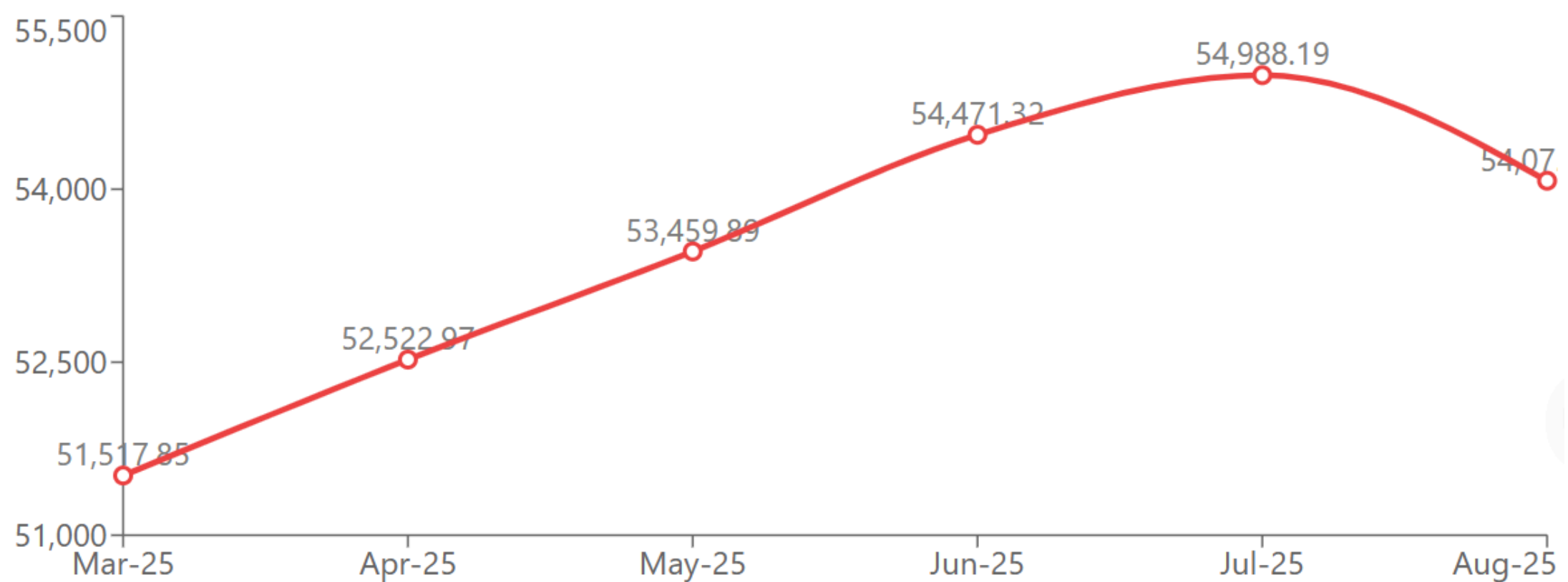
Source: State Bank of Pakistan

- Pakistan's exports fell 3.8% YoY in Jul–Sep FY2025-26, as gains in textiles and leather (+5%) were offset by sharp declines in agro & food (-28%) and engineering goods (-2%).
- Regionally, exports to Europe (+1%) and America (+8%) increased modestly, while shipments to Asia (-15%) dropped sharply, signalling weaker regional demand (Trade Development Authority).
- The overall trend highlights a narrow export base and regional concentration, underscoring the need for market and product diversification to sustain external-sector stability.

MACROECONOMIC ANALYSIS

2. ECONOMIC FREEDOM VIA GOVERNMENT SIZE

Figure 5. Government Domestic Debt (Billions PKR)

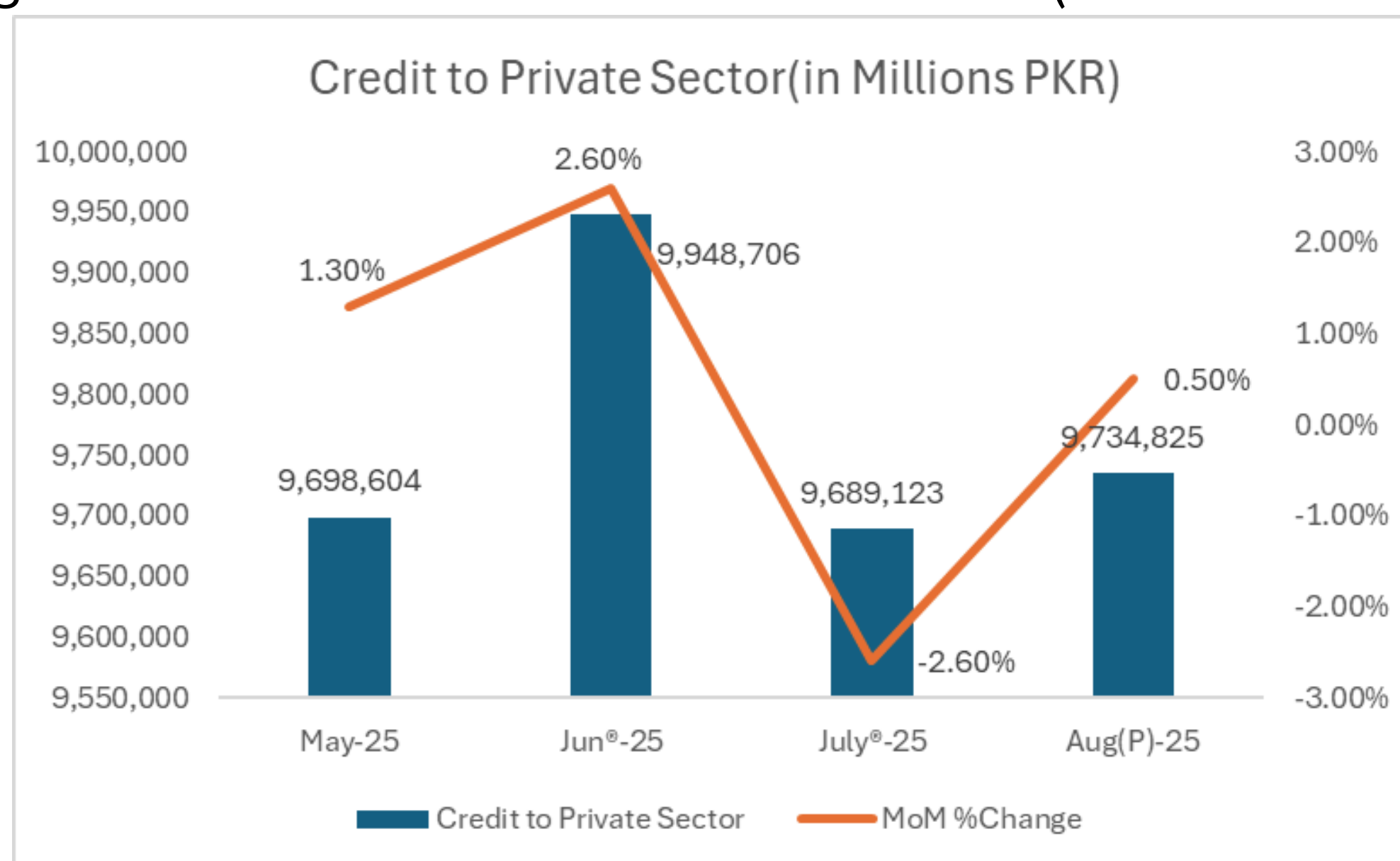


KEY INSIGHTS

- Government domestic debt increased by ~5.0% between March and August 2025, reflecting higher fiscal financing needs.
- The July peak coincides with end-of-year budgetary adjustments and rollover of maturing debt instruments.
- Policy takeaway: Persistent domestic borrowing highlights fiscal pressures and limits credit space for the private sector.

MACROECONOMIC ANALYSIS

Figure 6. Trend in Credit to Private Sector (in Millions PKR)



Source: State Bank of Pakistan

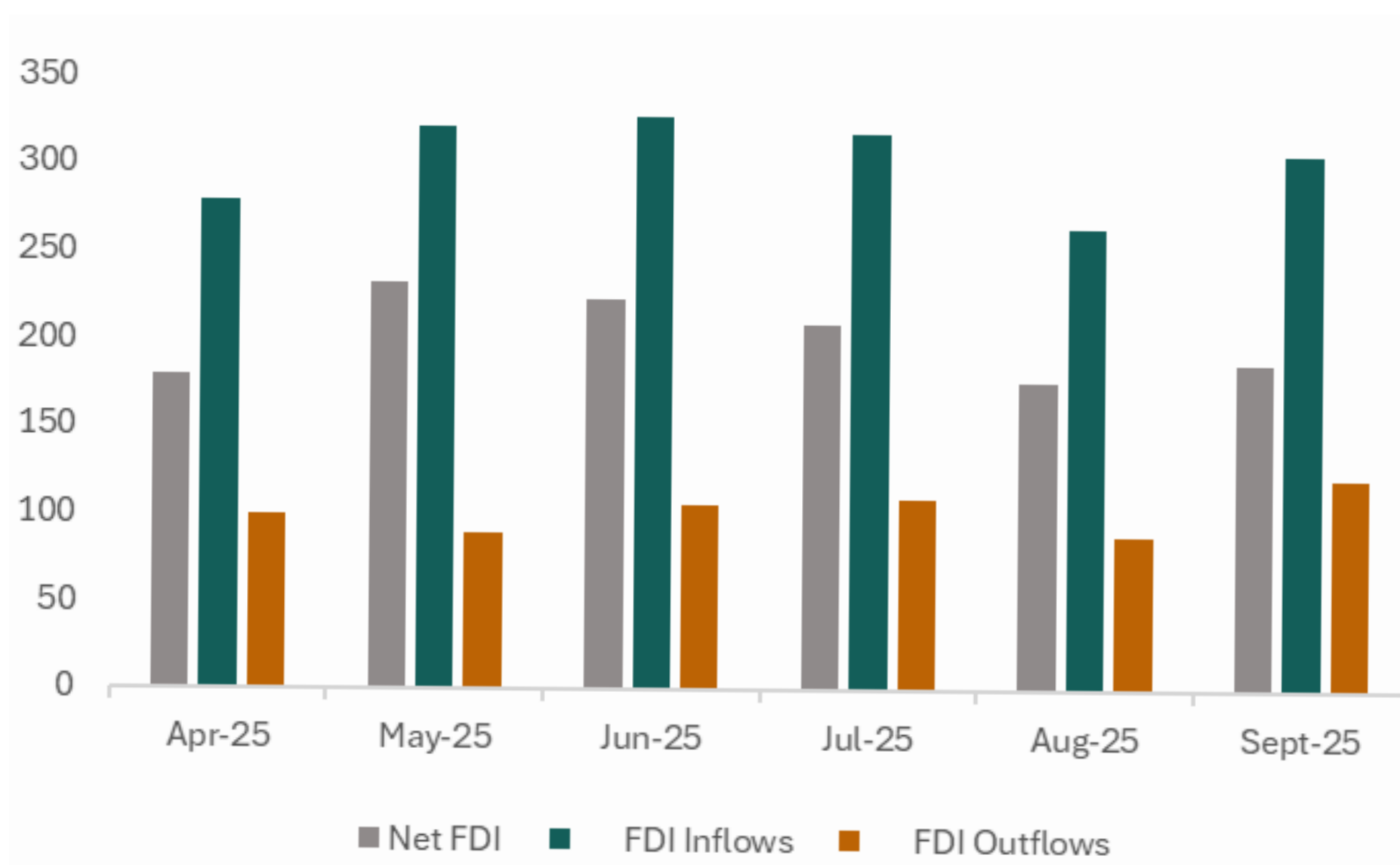
KEY INSIGHTS

- Credit to the private sector increased marginally by 1.7% between April and August 2025, showing cautious borrowing amid tight monetary conditions.
- The June peak reflected working capital demand before quarter-end settlements, while the July dip indicates repayment cycles and high interest costs.
- Policy takeaway: Limited credit expansion underscores low private investment appetite and persistent crowding-out by government borrowing.

MACROECONOMIC ANALYSIS

3. FOREIGN DIRECT INVESTMENT IN PAKISTAN

Figure 7. Net FDI, Inflows and Outflows (Million USD)



Source: State Bank of Pakistan

KEY INSIGHTS

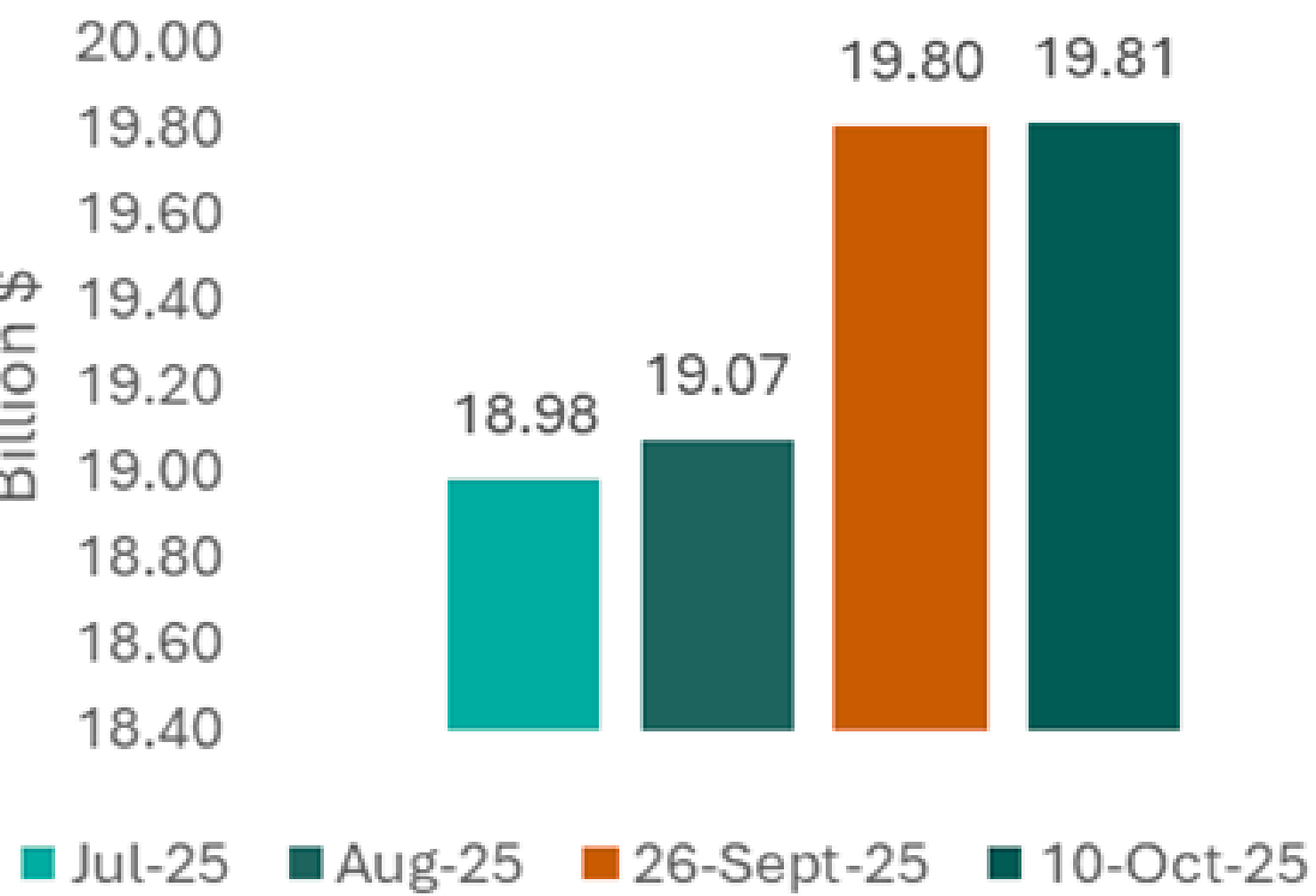
- Net FDI in Pakistan fell to \$175 mn in August before a mild recovery to \$186 mn in September.
- Inflows averaged \$300 mn, while outflows remained contained, indicating investor caution but sustained engagement.
- Policy takeaway: Stability in the external sector and predictable regulations are essential to attract long-term FDI amid global uncertainty.

MACROECONOMIC ANALYSIS

4. MACROECONOMIC STABILITY

Figure 8. Total Liquid Forex Reserves (Billions USD)

Total Liquid Forex Reserves



Drivers:

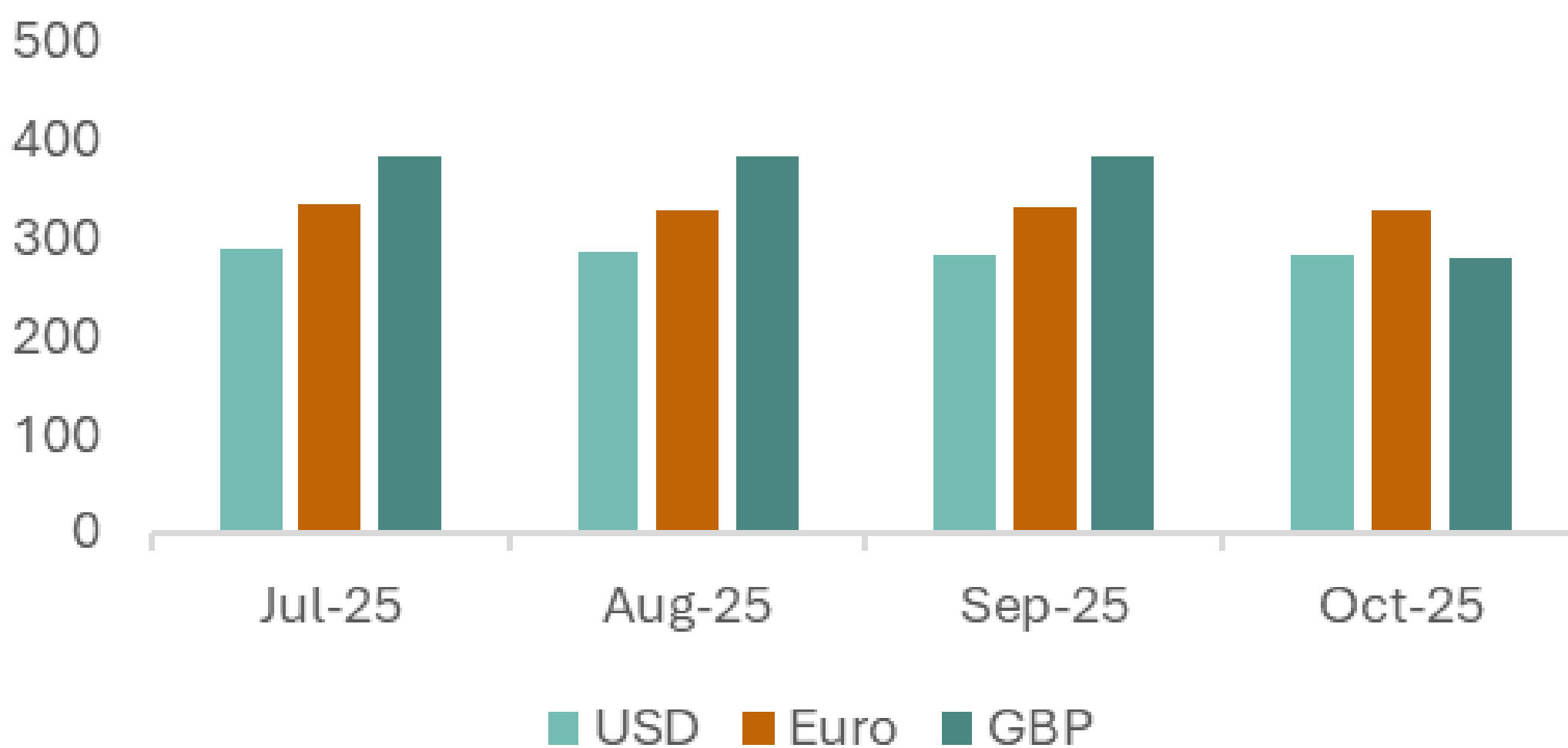
- IMF inflows caused forex reserve stability
- Remittances steady at \$3.1 bn/month
- Oil bill eased on stable prices
- Policy note: reserves signal consolidation still covers only 3.1 months of imports, below the comfort

Figure 9. Exchange Rate

Drivers:

- Overall currency remained stable throughout the quarter with minor corrections in GBP.
- Policy takeaway: Stable exchange trends show external-sector discipline, aided by IMF inflows and import control.

Exchange Rate Trend





Annex

1. Physical Size: Government Departments and Employees

PM forms panel to finalise proposals for restructuring ministries and institutions

USC to be shut down by 31st (July 2025), employees offered VSS

Govt moves to close or privatise USC this month

VSS being readied: USC shutdown decision is final, NA panel told

After 54 years, govt closes the chapter on Utility Stores

Cabinet approves USC dissolution

Govt approves Rs30b for USC closure

Of this amount, Rs25b will be spent on severance package for utility store staff

'Smooth' USC closure

Rs30.216bn TSG approved by ECC

2. Non-Development Spending

Govt to save Rs70bn annually through 100 reforms across 24 ministries

3. Power Sector: Privatization of GENCOs and DISCOs

Lapses, delays hamper auctions of power plants. Energy Task Force decides to bypass traditional bidding due to repeated failures and internal resistance within Genco. No international party participated in bidding

Govt sells obsolete Genco plants to Wah Industries

Discos draw investor interest

Privatisation of profit-making Discos worries NA committee

Govt actively considering privatisation of DISCOS: finance minister

4. The SOEs: Privatization of PIA, Pakistan Steel Mills, Etc.

Govt targets PIA privatisation in 90 days

Four bidders get access to PIACL virtual data

NA panel endorses PIA privatisation

PIA draws investor interest

NA Question-Hour: PIA among 10 key entities to be privatised in first phase

Lahore High Court nixes plea against PIA sale

PIA privatisation likely by November, Senate panel told

PIA to be privatised by November

Pakistan enters final stage of PIA privatisation as part of wider economic reforms

Many SOEs have fallen in financial red zone
PM orders removing bottlenecks in privatisation of SOEs
PM wants privatisation process to be transparent
Industrial zone on PSM land planned
ECC also diverts Rs2.9b publicity funds to upgrade PTV World for global outreach
ECC okays industrial estate on Pakistan Steel Mills land
PIDC asked to retain PSM liabilities
Millions paid for release of ships
South African court seizes vessels due to financial claims against steel mill
ECC rejects Roosevelt's \$17.6m bailout
Roosevelt may make way for new NYC skyscraper
Pakistan nears completion of First Women Bank's privatization

5. Liberalization and Deregulation

Leghari tells World Bank delegation: CTBCM to enter final phase in two months
Finally, Power Div unveils CTBCM
Pakistan to overhaul corporate laws, ease business and save Rs250bn
Govt eyes sugar industry deregulation, lifts ban on new mill licences
Govt decides to deregulate sugar sector: minister
Power users paying dearly for regulatory failures

PUBLISHED BY
PRIME



HOUSE 1, STREET 58, F-7/4, ISLAMABAD, 44000

TEL:+92 (51) 8 31 43 38