



KHUDDAAR

KHYBER PAKHTUNKHWA

BUDGET STRATEGY PAPER

2022-25



FINANCE DEPARTMENT
Government of Khyber Pakhtunkhwa



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1. Preface

The medium term forecasts contained in Integrated Budget Strategy Paper (IBSP) are prepared on a three year rolling basis. The budget for FY 2022-23 will form basis of the first year of the medium term, whereas projections for the remaining two years have been worked out on the basis of improved predictability of resources and expenditure requirements, aligned with the sectoral plans, policy objective and priorities of the government for the upcoming budget in relation to the fiscal outlook. The Integrated Budget Strategy Paper also reflects the strong emphasis of the government for efficiency in fiscal management, responsive budgeting, transparency and accountability.

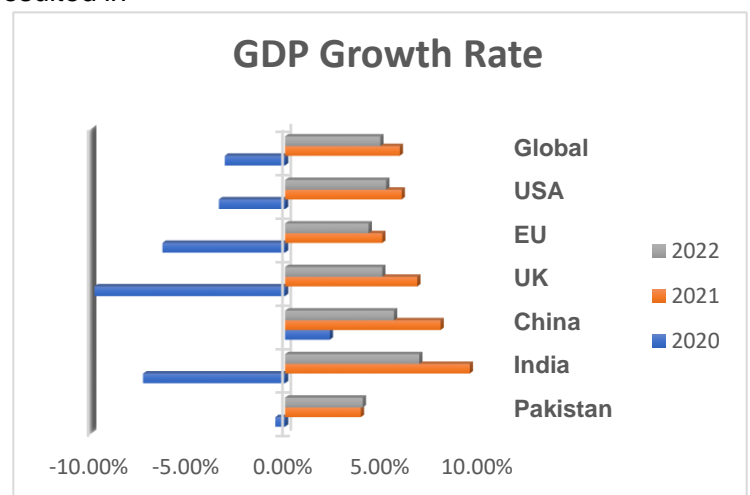
The Integrated Budget Strategy Paper sets out the budget ceilings to the administrative departments and is a useful tool for prioritising spending plans based on policy priorities. The BSP also assists the legislature to gauge the performance of the Government as well as to suggest improvements in the financial management. The fiscal projections are based on the socioeconomic outlook of the province; fiscal forecasts of the federal government, provincial revenue expectations and expenditure priorities, financing options and debt management. The BSP has been presented to the Cabinet for its approval on 13th June , 2022.

2. Economic Outlook

2.1. Global Economic Context

The 2020 was an unusual year as everyone was affected by COVID-19 everywhere. Supply and demand shocks to economies resulted in contraction of global economy by 3.1%. The post pandemic global economic recovery continues but the pace has been stifled by variants of COVID-19. Health risks still abounds and breaks in global supply chains resulted in longer than expected supply disruptions thus affecting full recovery. Global unemployment rate is projected at 5.7% for 2022. Risk of uptick in global inflation is on rise due to increase in international freight charges and global commodity prices. Divergence in economic prospects across nations is still a major concern too. The common factor behind multi challenges faced by world economies is the grip of pandemic across the globe and therefore the policy priority is to boost vaccination drive by all and make measures to prevent more virulent virus mutations¹.

Figure 1: Percentage Growth in Output



¹ WEO October 2021, IMF



The projected global economic recovery for 2022 is slightly on the lower side as compared with last year's growth of 5.9%. The post pandemic economic recovery has been seen across advanced, emerging and developing economies (see Figure. 1), however, in case of China and India, growth in their economies is projected to decelerate in 2022 as compared with last year's growth. In case of Pakistan, economic growth remained in the positive range as against the negative growth of 0.5% in 2020 and is expected to grow in 2022 by 4%, slightly up over last year's growth of 3.9% in 2021².

2.2. National Economic Outlook

Since imposing a widespread lockdown in response to the first COVID-19 wave, Pakistan has been effectively using localized lockdowns to curb the infection spread, allowing economic activity to largely continue. Expansion of the national cash transfer program, a mass vaccination campaign, accommodative macroeconomic policies, and supportive measures for the financial sector, all helped mitigate the adverse effects of the pandemic. As a result, growth of real GDP at constant factor 2015-16 prices rebounded to 5.6 percent in FY21, after contracting by 1.0 percent in FY20.³

During Fiscal year 2022, indicators have mostly signaled positive economic momentum. With continued improvement in community mobility and still robust official remittance inflows, private consumption is estimated to have strengthened. Similarly, investment is also expected to have increased with strong growth of machinery imports and government development expenditure. Government consumption also grew strongly with vaccine procurement. On the production side, agricultural output, mainly rice and sugarcane increased, reflecting better weather conditions. Similarly, large-scale manufacturing growth rose to 7.8 percent in FY22 (Jul – Mar), higher than the 2.2 percent in FY21 (Jul – Mar)⁴. In contrast, business and consumer confidence have fallen since June 2021, partly due to concerns about higher inflation and interest rates.

Headline inflation rose to an average of 10.8 percent for FY22 (Jul – Mar) from 8.3 percent in FY21 (Jul – Mar), driven by surging global commodity prices and a weaker exchange rate. Similarly, core inflation has been increasing since September 2021. Accordingly, the State Bank of Pakistan has been unwinding its expansionary monetary stance since September 2021, raising the policy rate by a cumulative 275 basis points (bps) and banks' cash reserve requirement by 100 bps.

The current account deficit (CAD) in FY22 (Jul – Mar) widened to US\$13.2 billion, from a surplus of US\$1.2 billion in FY21 (Jul – Mar), as imports values surged by US\$ 53.8 billion, doubled in value in comparison to the exports values of US\$ 23.7 (Jul – March) . Double-digit growth in remittances in FY21 and FY22 helped to finance the record-high trade deficit. The financial account recorded net inflows of US\$10.1 billion, supported by the new IMF SDR allocation, short-term Government deposits from Saudi Arabia, and a Eurobond issuance in July 2021. In January-February, the Government obtained US\$2.1 billion from International Sukuks and the IMF Extended Fund Facility (EFF). Despite these inflows, foreign exchange reserves had fallen to

² ibid

³ <https://www.worldbank.org/en/country/pakistan/overview#1>

⁴ https://www.finance.gov.pk/economic/economic_update_April_2022.pdf



US\$13.5 billion by March 25, 2022, equivalent to 2.0 months of imports of goods and services. Meanwhile, the Rupee depreciated by 14.3 percent against the U.S. dollar from July 2021 to end-March 2022.

Despite the high tax revenue growth with the surge in imports, the fiscal deficit widened by 20.6 percent in H1 FY22 due to higher spending on vaccine procurement, settlement of power sector arrears, and development projects. Public debt, including guaranteed debt, reached 70.7 percent of GDP at end-December 2021, compared to 72.0 percent at end-December 2020. To complement the tighter monetary policy, the Government approved a Supplementary Finance Bill in January 2022, withdrew tax exemptions, and cut back on federal development spending, while protecting social sector spending.

With the economic recovery and improved labor market conditions, poverty measured at the lower middle-income class poverty line of \$3.20 PPP 2011 per day is estimated to have declined from 37.0 percent in FY20 to 34.0 percent in FY21. Rising food and energy inflation is expected to diminish the real purchasing power of households, disproportionately affecting poor and vulnerable households that spend a larger share of their budget on these items. In response, the Government introduced a targeted food subsidy program (Ehsaas Rishan Riyat) in February 2022.

On the back of high base effect, recent macroeconomic adjustment measures and stronger inflation, real GDP growth is expected to slow to 4.3 percent in FY22 and to 4.0 percent in FY23. However thereafter, economic growth is projected to recover to 4.2 percent in FY24, supported by the implementation of structural reforms to support macroeconomic stability and dissipating global inflationary pressures. Inflation is estimated to rise to 10.7 percent in FY22 but moderate over the forecast horizon. Largely reflecting the imports surge in H1 FY22, the CAD is expected to widen to 4.4 percent of GDP in FY22. Macroeconomic adjustment measures and the weaker currency are expected to tame imports mostly in FY23. The CAD is expected to narrow to 3.0 percent of GDP in FY24, as reforms to reduce import tariffs and the anti-export bias of trade policy gain traction. The fiscal deficit (including grants) is projected to widen slightly to 6.2 percent of GDP in FY22, and gradually narrow over the medium term as revenue mobilization measures, particularly GST harmonization and personal income tax reform, take hold. Public debt as a share of GDP is projected to stay high, but to gradually decline over the medium term. The outlook is predicated on the IMF-EFF program remaining on-track.

Macroeconomic risks are strongly tilted to the downside. They include faster-than-expected tightening of global financing conditions, further increases in world energy prices, and the possible risk of a return of stringent COVID-19 related mobility restrictions. Domestically, political tensions and policy slippages can also lead to protracted macroeconomic imbalances.



Table 1: Pakistan Major Economic Indicators

Major Economic Indicators	2018-19	2019-20	2020-21	2021-22
GDP Growth (%) ¹	2.1	- 0.5	3.9	4.0
Current Account Balance (\$bn) ²	-13.4	- 4.4	-1.9	- 5.1
Current Account Balance (% of GDP)	- 4.8	- 1.7	- 0.6	- 4.7
Fiscal Surplus/Deficit (% of GDP) ³	- 8.9	- 8.1	-7.1	-0.8
SBP Policy Rate (%) ⁴	12.2	7.0	7.0	8.75
Inflation (%) ⁵	8.0	8.6	9.7	11.5

Sources:

1. WEO 2021 IMF, Economic Survey 2020-21
2. State Bank of Pakistan, CAB 2021-22 is for the period of July-October 2021
3. Fiscal Operation MoF, data for 2021-22 pertains to July-September 2021 period.
4. State Bank of Pakistan, Policy Rate as of May 2019; as of June 2020; as of July 2021; and as of 19th November 2021.
5. Change in Consumer Price Index end June; Pakistan Bureau of Statistics, CPI 2021-22 as of November 2021.

2.3. KP Economic Outlook

The province of Khyber Pakhtunkhwa (KP) is the smallest province in Pakistan in terms of area, even including Newly Merged Areas (NMAs), but the third most populous one according to the latest census 2017. With 35.53 million people in an area of 101,741 sq.km², KP's population density is 340 persons/sq.km. A large segment of the population (approx. 84%) resides in rural areas and 64% of the population represents the youth bulge, i.e. those below the age of 24 years⁵. The literacy rate of the province is 53%. It is the third literate province of the country. The youth of the province is complemented with extensive vision and innovative ideas to transform the province. The government is empowering them with employable skills to unleash their potential. About 50% of the Khyber Pakhtunkhwa's population is young⁶.

The province contributes on average 11.5% to 13% to the national GDP, where in 2018-19 a major share was in services sector (58.9%) followed by industrial (22.8%) and agriculture (18.3%) sectors. KP's economy has grown by 5.8% on average in the last four years (3.7% in 2018-19), with agriculture, industry and services sectors growing on average by 2.4%, 4.9% and 7.4% respectively. Agriculture is the main source of livelihood for much of the rural populace. The employed labour is around 7.5 million of which 33% are in agriculture, 15.1% are in wholesale and retail trade, 13.7% are in construction, and 8.4% are in transportation and storage sectors.

⁵ Khyber Pakhtunkhwa Multiple Indicator Cluster Survey (MICS), 2016-17

⁶ <https://kp.gov.pk/>



The province has an unemployment rate of 7.16% which is higher from the national average of 5.8% and is also highest among the provinces⁷.

The economy of KP enjoys a comparative advantage in a few selected goods and sectors such as fruits and vegetables, tourism, mines and minerals etc. However, due to structural constraints the potential is not fully tapped. KP is also rich in natural resources like gemstones, gold, oil and gas deposits; however, only 30% of the province's total area has been explored so far. KP is also endowed with abundant water and a large capacity to produce electricity from its natural resources (water and gas). Yet these resources are vastly underpriced compared to their demand and remain underutilized⁸.

The province has been facing formidable challenges in the form of a high population growth rate, rising unemployment rate and poverty. There is high percentage of people living in multidimensional poverty (settled areas 49%, NMAs 73%) in KP with the highest level of poverty incidence in NMAs.

2.4.Social Development Outcomes

The status of socioeconomic development in KP has improved in recent years, however, social outcomes are still far from perfect. The Human Development Index (HDI) score for KP is 0.628, which is higher than the national value at 0.56 and lower only than Punjab at 0.7329. However, NMAs score the lowest out of all regions at only 0.216. Nearly half of the population in the province and 73% of the population in merged areas is facing multidimensional poverty in terms of education, health and living standards¹⁰.

Health outcomes are below par for settled areas and NMAs. The maternal mortality ratio (MMR) in NMAs is 395 per 100,000 live births, and the rest of the province is 206 per 100,000 live births. Similarly, the immunization rate for children aged 12-23 months is 33.9% in NMAs and 40% in the rest of KP.

Education outcomes are equally dismal. Literacy rate in NMAs is only 33.3% and the rest of KP is 53%¹¹, while Net Enrolment Rate at primary level in NMAs is 52.1% and the rest of KP is 59%%. Similar gaps exist at middle and high school levels.

⁷Labor Force Survey, 2017-18, Table 6 to 6.4

⁸ ibid

⁹ Pakistan National Human Development Report 2017, UNDP, (p.155)

¹⁰ Multidimensional poverty in Pakistan, UNDP 2015, (Table 3.3, p.15)

¹¹ KPESD Figures



Table 2: Human Development Index Indicators

	Pakistan	Punjab	Sindh	KP	Balochistan
Health					
Infant mortality rate per 1000 live births, 2017-18	62	73	60	53	66
Under five mortality rate per 1,000 live births, 2017-18	74	85	77	64	78
Water & Sanitation (percentage)					
Access to tap water resources 2014-15	27	18	41	35	33
Access to sanitation facilities (toilet with Flush) (2014-15)	73	79	67	76	31
Education (percentage)					
Overall Literacy Rate, 10 yrs & above (2017-18)	62.3	64.7	62.2	55.3	55.5
Net Enrollment Rate at primary level (6-10 years) % 2014-15	67	70	61	71	56
Population aged 10 and above ever attended school (2014-15) (%)	62	65	61	55	44
Rate of completion of Primary level or Higher 2014-15 (%)	52	54	53	44	35
Poverty (per thousand)					
Multidimensional Poverty Head Count	38.8	31.4	43.1	49.2*	71.2
Sources: Demographic and health survey 2017-18, Economic Survey 2018-19, PSLM 2014-15, MPI Pakistan; * (FATA 73.7%)					

The Government of Pakistan has committed to the goals and targets enshrined in Sustainable Development Goals. Several of these goals are being localized and adopted into development planning by Planning and Development Department.

3. Budget priorities for 2022-25

3.1. Key Challenges to the Budget 2022-25

While the Covid pandemic remains a challenge to economies around the world, the tides have begun to shift. 2022 marks the year the pandemic is at its downfall evident by the falling infection rates and overall increase in vaccinations. As the pandemic subsides, the government has shut down its National Command and Operation Centre (NCOC) which oversaw the pandemic situation and response in the country. As the Khyber Pakhtunkhwa (KP) government transitioned to a post-pandemic outlook, new challenges need to be addressed. The unemployment rate in KP stood at 8.6 percent in accordance with LFS 2012-13, so in the last nine years, it increased from 8.6 percent to 8.8 percent. In addition, KP has the second lowest monthly national average wage (24,172 Rs.) among all the provinces. Climate change is another pressing issue for KP, having already faced the brunt of the 2010 flash floods in the country, it is now expected that annual average increase by 2040 the province will see an increase of 1.77 degree centigrade



(average of three regions central, south and north region) in temperatures¹². This will likely result in lower food yields for the province and directly affect livestock. While the pandemics direct consequence was the provinces already strained health system, indirectly, other sectors like social welfare and education were drastically affected. In KP as a result there are more than two million of children out of school – two-thirds of them are girls.¹³

In light of these challenges the government has aligned its priorities to steer its people and economy to safety. In response to minimise the effects of job loss and economic slowdown, government has directed special attention towards reviving businesses that were hit by providing short to medium term financing. The introduction of creative fiscal measures will allow for job creations, providing medium term benefits and development gains. Government of Khyber Pakhtunkhwa has taken active measures in developing technologies for stronger coordination and supply management for better responses in disaster management. Health priorities include supplying personal protection equipment, strengthening intensive care units, improving the disease surveillance systems and establishing diagnostic facilities. KPs education sector is focusing on issues such as designing interventions to make up for the lost time of students during the pandemic and providing education for all, including marginalized groups of the province. Other education sector priorities include building healthier school infrastructure, accelerated learning through condensed curriculum and phased digitisation of education system. New to this year's priorities in budget is the issue of climate change. KPs very own Climate Policy and recently drafted Climate Change Action Plan 2022 show the governments commitment and resolve to deal with the matter.

4. Key Sectoral Strategic Objectives

4.1. Health Sector

Health indicators for KP¹⁴ reflects that there is a dire need for formulating better strategies and capacitating health institution to deal with ever-growing population of the province. The urge to strengthen institutional capacity was heavily felt with the advent of global pandemic which has necessitated the dire need for redefining the health sector reforms. The government of KP is committed to solving the unsatisfactory health situation which in turns stems from other socio-economic indicators such as low-literacy rates, low household incomes, and high unemployment. Furthermore, health scenario in the province is further aggravated by the environmental degradation and catastrophes.

Government of KP aims to provide accessible, equitable and quality healthcare to all the people of Khyber Pakhtunkhwa and formulated Khyber Pakhtunkhwa Health Policy (2018-25)¹⁵. 5 main priorities of the policy are, i) Enhancing coverage and access of essential health services for all especially the poor and vulnerable, ii) Programmes to ensure measurable reduction in the burden

¹²<https://www.phedkp.gov.pk/KP%20IWRM%20Strategy/Infographics/SubSector%20Provincial%20Snapshots/Climate%20Change%20and%20Water.pdf>

¹³ <https://www.unicef.org/pakistan/stories/bringing-out-school-girls-back-education-khyber-pakhtunkhwa>

¹⁴ Multiple Indicators Cluster Survey, 2017

¹⁵ <http://healthkp.gov.pk/public/uploads/downloads-41.pdf>



of disease especially among the vulnerable segment of the population, iii) Health department's commitment to achieve National Human Resource for Health Vision 2018-2030, iv) Strengthening Governance, Regulation and Accountability within the health system of Khyber Pakhtunkhwa where the services rendered by the healthcare providers should meet an established standard and serve the target population, v) Enhancing Health Financing for efficient service delivery and financial risk management for people of Khyber Pakhtunkhwa.

Given the Khyber Pakhtunkhwa Health Policy and the existing health scenario in the province, strategic objectives of major health interventions are as follows (Need to be updated as per departmental strategy 2022-25):

- Enhanced access to primary, secondary, tertiary and specialized healthcare services
- Subsidized curative healthcare services for emergency/accident patients and poor/underprivileged population subgroups
- Preventive healthcare services focusing child immunization, reproductive health and malnutrition in vulnerable segments of the society
- Prevention from common diseases through promotion, early detection followed by subsidized curative support
- Improved emergency and epidemic response
- Improving quality of education in medical and para medical colleges with an emphasis on continued medical education
- Strengthened personnel section and enhanced capacities of health workforce through strengthening of Provincial Health Services Academy and its network and improving the quality of training
- Improved accountability and transparency for quality health services
- Strengthening of stewardship function with improved planning and policy making
- Enforcement and review of health regulations and food safety act

Health Sector 2021-22 Schemes

Status	Number
New	5
Ongoing	159
Completed	36

4.2. Education Sector

Quality education is directly tied to prosperity of the nation and has always been a top priority area for the government of KP. For the last five-to-six-year, government has investment heavily in the education sector, specifically the elementary and secondary education, and aims to do so in future. Since the major portion of the provincial budget is a part of education-related schemes and reforms, it is very important for such projects to be sustainable and effective in terms of service delivery.



According to the development statistics of 2020-21¹⁶, the gross enrolment rate (GER) in KP settled districts for male at primary level is 100% and for female is 77%, at middle, high, higher secondary level, the GER for male is 60% and for female GER is 35%. Whereas for newly merged districts GER for male at primary level is 78% and for female GER is 40%, at middle, high, higher secondary level, the GER for male is 33% and for female GER is 7%. In terms of the literacy rate, the rural areas are lagging with an enrolment rate standing at 66.98% for male and 34.8% for female. To maximise the enrolments and to make quality education accessible in a more equitable manner for everyone in the province, Ministry of Education Department of Primary and Secondary Education of KP announced a 5-year plan; from 2019 to 2023. Seven main objective that were made part of this plan included, i) Reforming primary education by enhancing access to primary schooling and transforming pre-primary education for 800,000 children by 2023, ii) Close the gap in secondary education by raising standards of teaching and learning in secondary schools, iii) Partnering with private sector with a target of enrolling 300,000 to be enrolled through public-private partnership and 1,000 new school to be opened through private sector collaboration, iv) Improving Education Management in the Districts by recruiting additional 65,000 teacher and 7,000 schools leaders to oversee running of schools, v) Engaging the community by implementing a school rating programme for communities to hold schools accountable, vi) Special Reforms for newly merged districts by offering a special reform package to ensure every child receives the same quality of education as offered in the rest of Khyber Pakhtunkhwa, and vii) Special initiatives to be undertaken by establishing 5,000 new playgrounds in schools, promoting cost-effective IT innovation in the province education system.

The strategic objective different sectors under education are given below:

Sector	Objective
Primary and Secondary Education	1. Ensure implementation of monitoring & performance framework
	2. Ensure effectiveness & operationalization of Education Management Information System (EMIS) system
	3. Ensure effectiveness & operationalization of Parent Teachers Councils (PTCs)
	4. Provision for improved school governance
	5. Improved financial management & budgetary allocations
	6. Improved enrolment and retention rate
	7. Better supported and more effective schools

¹⁶http://175.107.63.45/NewIMUSite/images/reports/ASC_Report_2020-21_Final.pdf&



	8. Provision of education to all through minimizing social and gender disparity
	9. Improved teacher management and learning methodologies
Higher Education, Libraries and Archives	10. Provision of equitable and quality education services at colleges and universities
	11. Promotion of higher education through performance and need based scholarship incentives
	12. Human resource development of teaching and administrative staff
	13. User friendly libraries / archives services to facilitate knowledge acquisition
	14. Improved policy, planning, financial management, monitoring and sector regulation

<i>E&SE ADP 2021-22 Schemes</i>		<i>Higher Education ADP 2021-22 Schemes</i>	
Status	Number	Status	Number
New	22	New	68
Ongoing	104	Ongoing	17
Completed	39	Completed	17

4.3. Climate Change

Climate change poses a serious and substantial threat to Pakistan. Pakistan currently ranks 8th on most affected countries due to climate adverse impacts.¹⁷ With the 2010 floods causing over 10 billion dollars in damages, KP faced the full force of this impact. Of all the sectors in the province the agriculture and livestock sectors will suffer the most, lower food yields and widespread disease among livestock are a bitter taste of things to come if the situation is not controlled. This in turn will affect the livelihoods of labours dependent on this sector. According to a recent IMF report¹⁸, Pakistan ranks 3rd in the world among countries facing acute water shortage. Reports by the United Nations Development Program (UNDP) and Pakistan Council of Research in Water Resources (PCRWR) have warned that Pakistan will reach absolute water scarcity by 2025. This shortage can be directly linked with climate change and shows how critical the situation is and urgently needs to be addressed.

The province has its own Climate Change Policy drafted in 2016 and recently updated in March 2022. In addition, a KP Draft Climate Change Action Plan 2022 has also been prepared illustrating

¹⁷ <https://www.germanwatch.org/en/17307>

¹⁸ <https://pndkp.gov.pk/download/final-sustainable-development-strategy-22-july-2019/>



in detail action plans outlining the strategies and measures that will be implemented into the provincial sectors aligning with the National Climate Change Policy (NCCP). To streamline the KP's climate resilience initiatives into the provincial outlook the Green Growth Initiative (GGI) strategy has been set as the roadmap for province. The GGI aims at introducing climate resilience initiatives while at the same time addressing economic, social, and environmental objectives. The initiative key focus areas include Forestry, Protected Areas/ National parks, Clean Energy, Climate Resilience, Water/ Sanitation, Waste Management. Initiatives branching off from these focus areas have resulted in heavy investments to promote climate friendly reforms within KP. In FY 2021-22¹⁹, a total fund of PKR. 3.7 billion 22 was allocated to forestry schemes which constitutes 31 ongoing schemes and 7 new schemes. Major ongoing projects to promote forestry with the province of KP include Up-Scaling Green Pakistan Program, Revival of Forestry Resources in Khyber Pakhtunkhwa (ADP & PSDP Funded), Billion Tree Afforestation Support Projects, Establishment of Zoo for Peshawar Division, and Merged Areas Integrated Forestry Sector Project.

The strategic objectives for this sector are as follows:

- Enhancing institutional capacity of relevant agencies
- Creating awareness on environmental issues
- Monitoring of pollution level in air, surface and underground water
- Initiating studies on environmental issues
- Capacity building of Environmental Protection Agency, Khyber Pakhtunkhwa
- Conservation and improvement of forests and wildlife
- Development and strengthening of Non-Timber Forest Production
- Promoting human resource development for skilled workforce
- Improved policy, planning, budgeting and monitoring

4.4. Social Protection

Social Protection Systems are essentially designed to address economic and social vulnerability and provide support to all who need it the most. KP has younger population with majority of the population living in rural areas. There is a minimal women work force participation and the lowest labour force participation in country. ²⁰According to the Labour Force Survey of 2020-21, the employment to population ratio for KP is 36 percent, where male employment to population ratio is 58.7 percent and female employment to population ratio is 13.3 percent.

With millions of internally displaced persons, the incidence of poverty is high in KP as compared to other regions. According to 2018-19 data on poverty incidence at provincial level, KP after the inclusion of FATA stood at 26.2 percent²¹. Thus, marginalized communities of the province are at great risk and in dire need of social protection initiatives to be undertaken by the government.

¹⁹ <https://pndkp.gov.pk/download/kp-adp-2021-22/>

²⁰ https://www.pbs.gov.pk/sites/default/files/Labour%20Force/publications/lfs2020_21/Key_Findings_of_Labour_Force_Survey_2020-21.pdf

²¹ <https://www.pide.org.pk/pdf/PIDE-Knowledge-Brief3.pdf>



After the emergence of Covid -19, KP province recognized an essential need to have a well formulated social protection framework. The framework is expected to bring a transformational change in the KP province for the years to come. During the last decade key laws such as Khyber Pakhtunkhwa Domestic Violence Against Women Act 2021 & Khyber Pakhtunkhwa Payment of Wages Act 2015 were passed to protect the marginalized segments of society. Recently introduced policies like Khyber Pakhtunkhwa Human Rights Policy 2018 cover awareness and capacity building of women, transgender and children's issues. Moreover, institutional reforms in the area of social protection have been made over the past few years, such as the establishment of Social Protection & Gender Mainstreaming Section (SP&GM) and Social Protection Reform Unit (SPRU). In addition, the province has also prepared its first ever Social Protection Policy draft to serve as a foundation for all social protection initiatives in KP.

The strategic objectives for this sector are as follows:

- Rehabilitation of persons with disability by provision of special education, mobility aids, and advocacy and enforcement of their rights
- Standardized institutional cum residential care provided for rehabilitation and reintegration of beggars, drug addicts, and destitute women, children and senior citizens
- Enhanced community awareness and social mobilization
- Improved institutional mechanisms and government responsiveness to reduce gender discrimination and violence against women and girl children
- Women and destitute people equipped with market oriented skills to enable their economic stability
- Enforcement of relevant legal and institutional frameworks for collection of Zakat & Ushr and its transparent disbursement
- Improved planning, financial management, monitoring and cross-sectoral coordination

4.5. Agriculture and Livestock

Agriculture sector is considered as the backbone for Khyber Pakhtunkhwa's economy and employs more than 40 percent of KP's labour force. This sector contributes to more than 20 percent of the provincial GDP and has been the main source of livelihood and growth in the province. On the other hand, agriculture sector is also faced with a lot of challenges that include the conversion of agricultural land into human settlements leading to less area available for cultivation. Land fragmentation and small landholdings result in less land use efficiency and no mechanisation can be undertaken on such lands. Farming sector in KP mostly employ farmers who lack value adding knowledge which ultimately lead to less production and less income. Creating value from agricultural activities requires modern techniques and high-end machineries to execute those techniques which do not materialise due to lack of credit facilities and agricultural loans available to farmers. Moreover, unregulated disposal of waste and industrial effluents on lands and water bodies also contributes to the downgrading of agriculture sector in KP.



Agriculture, livestock and curative department is committed to the promotion agricultural reforms within the province. In 2020-21, an amount of Rs. 8220 million was allocated to 133 projects²². 7183 Acres of curable waste land developed. To equip students with modern techniques and research in agriculture, the government started acquisition of land for the construction of Agriculture University of Swat. 2352 fertilizers bag and weedicide for 2891 acres provided at subsidized rates. 1455 water courses lined and 400 water storage tanks constructed, and 1455 soil conservation structures constructed. 2 Trout Fish Hatcheries (Swat and Mansehra), and 107 trout Fish farms in cold regions of the province are under construction.

The strategic objectives for this sector are as follows:

- Improved climate adaptive extension services to farmers including information and techno support to increase climate resilient agriculture productivity
- Improved livestock and aqua-culture productivity
- Availability of statistical information ensured for better monitoring of agriculture and livestock sector
- Climate friendly Vibrant cooperative societies
- Environmental risk associated with unsustainable means of agriculture production minimized
- Climate adaptive and improved use of water resources promoted and ensured
- Climate change adaptive Improved policy, budgeting and monitoring

Mines and Minerals ADP 2021-22 Schemes

Status	Number of Projects/ Schemes
New	20
Ongoing	115
Completed	65

4.6. Mines and Minerals

Khyber Pakhtunkhwa is a resource rich province with multiple natural resources that include oil, gas, gemstones and marbles, etc. General categories of mines and minerals that exists in KP, i) Dimension stones (Marble, Granite and other Decorative stones), Industrial Rocks and Minerals (Phosphate, Soapstone, Feldspar, Gypsum, Rock Salt, Limestone, Silica sand, etc.) and Metallic Mineral (Gold, Silver, Copper, Zinc, Lead, Antimony). Hardly 30 percent of the total province area is mapped geologically and within that 30 percent exist huge reserves of precious minerals. In 2018-19, Pakistan produced a total of 89069 thousand tons of minerals out of which 31 percent a total of 27,714 thousand tons of minerals were produced by KP, with limestone topping production quantity at almost 73 percent of the total produce²³.

²² <https://www.finance.gkp.pk/article/budget-estimates-for-service-delivery-2021-2024>

²³ https://kp.gov.pk/uploads/2021/08/Development_Statistics_2020.pdf, p.VIII.



Total Exports of marble and granite from Khyber Pakhtunkhwa is estimated at Rs. 4 billion in the Year 2018²⁴. Exports of gemstones from Pakistan were \$ 1.18 billion in 2014-2015²⁵. Given the huge demand for gemstone internationally, 75 percent of gemstones from Pakistan are exported to countries including China, Thailand, United States of America (USA), United Kingdom (UK) and other European countries²⁶. 90 percent of the processed gemstones are exported while only 10 percent is utilized locally. Although endowed with huge reserves of rare and valuable gemstones, there still exist a gap in supply and demand of gemstones due lack of required technology and skills, gaps in the government policies to promote and facilitate gemstone exporter and lack of marketing effort to promote this sector on international level.

The Khyber Pakhtunkhwa government has decided to set up a Minerals Development Company and a draft law has also been prepared for the purpose. The step has been taken to strengthen the minerals sector along modern lines and encourage the private sector for joint ventures with the government with the aim to exploit the minerals sector potentials of the province to the optimum, Similarly, a modern laboratory was being set up for international certification of the mineral products²⁷.

The strategic objectives for this sector are as:

- Initiating Mining Cadastral System Project which will enhance security of investment transparency and improved service delivery functions
- Initiation of Geological Mapping Project in whole Khyber Pakhtunkhwa to map the untapped minerals potential.
- Establishment of modern digitizing weigh stations in mining cluster areas to counter under reporting in mineral transit and ensure recovery of royalties on minerals on actual production.
- Strengthening of linkages between the Department & Academia, Establishment of Marketing Wing, Litigation and Planning Cells Human Resource Development for mining sector.

Mines and Minerals ADP 2021-22 Schemes

Status	Number of Projects/Schemes
New	5
Ongoing	7
Completed	5

²⁴ Author's calculation based on commodities trade data on UNCOMTRADE

²⁵ 'Gem and Jewelry'.

²⁶https://www.pc.gov.pk/uploads/report/Cluster_StudyGemstone_Processing_Namakmandi_Peshawar_KP.pdf

²⁷ <https://www.thenews.com.pk/print/935973-kp-to-set-up-minerals-development-company>



4.7. Tourism

Tourism is a thriving sector in Pakistan and is among of the major sources of employability for the people of Pakistan. Tourism industry contributes 2.9 percent to Pakistan's GDP and supports 1.5 million jobs across Pakistan. On national level, share of Khyber Pakhtunkhwa tourism industry equals 19% with 8.8 million domestic visitors annually a few years ago. In the northern areas of Pakistan, tourism is the sole source of their livelihood and this sector can employ unskilled and semi-skilled worker including women due to its labour intensive nature. Thus, tourism has proven to be source of prosperity and growth of the marginalised and poor segment of the society.

COVID-19 led to the huge losses in tourism receipts globally and Pakistan is no less. In 2020, the virus caused of more than 10 billion rupees to the tourism industry of KP and shut down many businesses tied with the tourism industry. Other challenges to the tourism industry include the lack of infrastructure to accommodate the increased visitor traffic. Securities issue in the far-flung areas which holds most value to the visitors. Visa and security clearance issues often proves to be the hurdle towards enhancement in foreign tourism which accounts for the major portion of revenue of this sector. Lack of regulations and institutional weaknesses within tourism sector are the major reasons why the true potential hasn't been realised yet in the province.

KP in comparison to the other provinces has greater tourist attraction, and this in part is mainly due its current institutional set up. Tourism Corporation of Khyber Pakhtunkhwa TCKP and the Department of Tourist Services are playing an important role in promoting public-private partnership in the tourism sector of KP and are also responsible for promoting both local and foreign tourism.

The strategic objectives for this sector are as follows:

1. Develop and implement tourism and youth policies
2. Provision of facilities and infrastructure at the grass root level through development of PPP framework for increased private sector investment in Khyber Pakhtunkhwa tourism sector.
3. Ensure PKR XX billion investment (domestic and foreign) in the provincial tourism sector over the medium term

Tourism ADP 2021-22 Schemes

Status	Number of Projects/ Schemes
New	9
Ongoing	106
Completed	21



5. Budget Performance for FY 2021-22

The projections for total receipts during FY 2021-22 based on actual receipts so far shows materialization of more than budgeted level of PKR 1,118 billion by 18%. Transfer from the Federal Divisible Pool is expected to be 0.4% less than the budgeted amount of PKR 634 billion. The provincial own receipts are expected to be 3% more than the budgeted amount of PKR 75 Billion. Based on the available actual data for FY 2021-22, receipts under federal tax assignment for the year is expected to end up at PKR 498 billion which is 6% more than the budgeted amount for the whole current financial year. Similarly, straight transfers and receipts under 1% war on terror heads are also expected to be more than the budgeted targets by 29% and 5% respectively.

With respect to merged areas' developmental and non-developmental receipts, the existing data shows an expected shortfall of 3% in non-developmental receipts and would result in shortfall of PKR 4.4 billion for current financial year. The provincial own source revenues are expected to be increase than the budgeted target (PKR 75 billion) by PKR 2 billion during the current financial year. Provincial tax revenues are projected to surpass the budgeted target (PKR 43.2 billion) by 3%. Similarly, provincial non-tax revenues are also expecting to surpass the budgeted target of PKR 31.8 billion by 2%. Receipts under profits from hydel electricity miss the target by 32%. Receipts under NHP arrears is expected to be at PKR 20 billion against the budgeted level of PKR 45 billion, thus missing the desired target by 56%. Moreover, Capital receipts are reflecting increase of 82% which is mainly due to increase in recoveries under dormant accounts and Ways & Means Advance Facility from Federal Government.



PKR Billion

Table 3: Estimates of Receipts

Head	Budget 2021	Revised 2021	Projected 2022	% BE Change
A - Federal Transfers	559	592	670	20%
Federal Tax Assignment	476	498	571	20%
1 % for War on Terror	57	60	69	20%
Straight Transfers	27	34	31	17%
B - Profit from Hydro Electricity (NHP)	75	40	62	-17%
Net Hydel Profit (Current Year)	30	20	30	0%
Reconciled Arrears	37	12	11	-70%
Unreconciled Arrears (Indexation)	8	8	21	160%
NHP as per AGN Kazi formula (KCM)	-	-	-	0%
C - Grants from Federal Govt. (MAs)	188	183	209	11%
Grants for Current Budget	77	77	60	-22%
Additional Financing Demand for Current Budget	22	18	64	191%
Development Grant (ADP + AIP)	54	54	50	-7%
NFC Share from Other Federating Units	35	35	35	0%
D - Provincial Own Receipts	75	77	85	13%
Tax Receipts	43	45	53	22%
Non-Tax Receipts	32	32	32	2%
E - Other Receipts	113	303	205	82%
Recovery from Designated Accounts	5	10	10	117%
Recovery of Investment & Loans	0	0	0	20%
Domestic Loan	44	-	50	14%
Profit from Pension Fund for payment of pensions	10	10	10	0%
Profit from GPI Fund for interest to the Subscribers	-	-	10	-
Other Revenue Sources	44	142	50	14%
Savings from operational shortfall	-	-	49	
Ways & Means Advance Facility from Federal Government	10	140	25	150%
F - Foreign Project Assistance (FPA)	89	88	93	5%
FPA Settled	86	86	89	4%
FPA MAs	3	3	4	29%
G - PSDP (Federal)	20	32	8	-58%
Total Revenues	1,118	1,315	1,332	19%



Figure 2: Receipts 2021-22 – Budgeted vs Revised (Rs in billion)

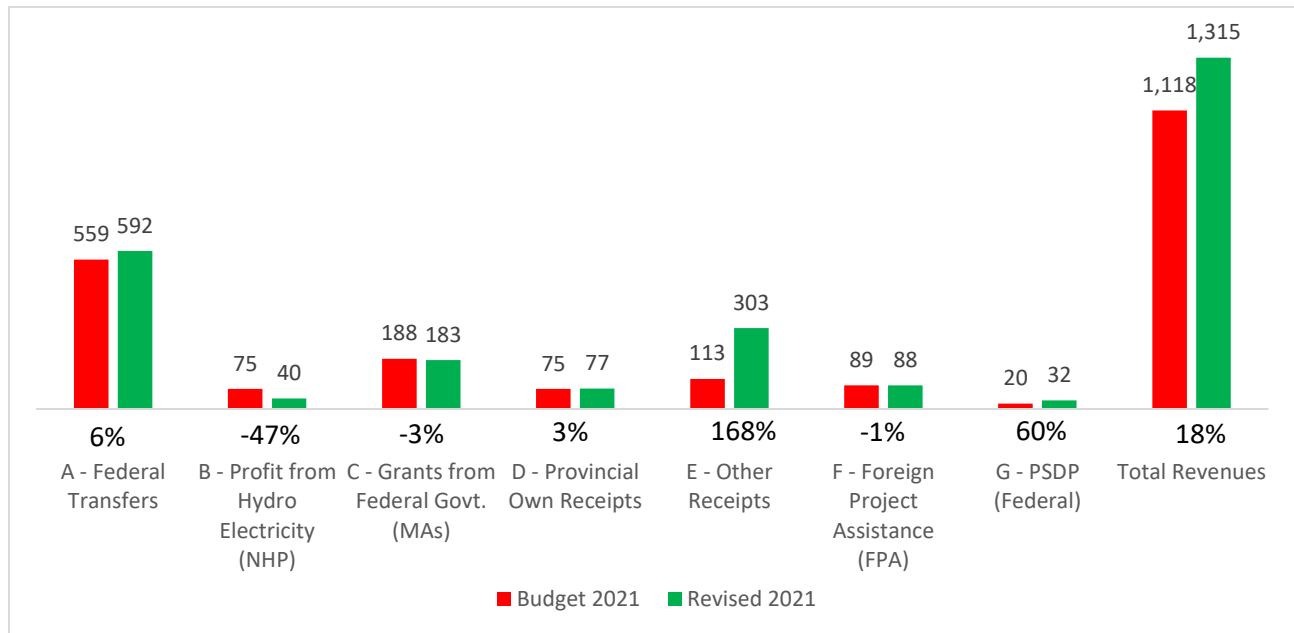
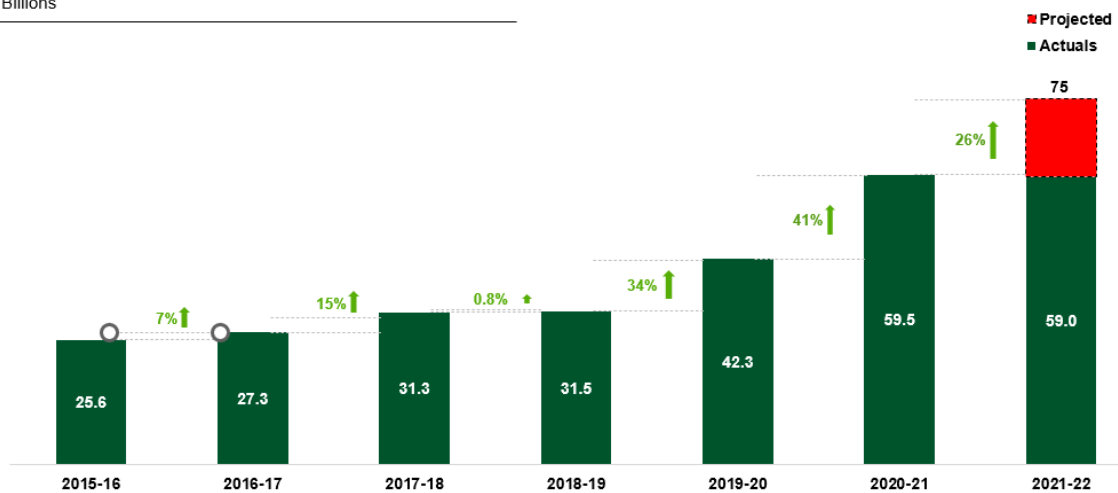


Figure 3: Provincial OSR – Budgeted vs Actual/Revised (Rs in billion)

Provincial Own Receipts – Actuals
Rs. Billions





5.1.Total Budget Expenditure

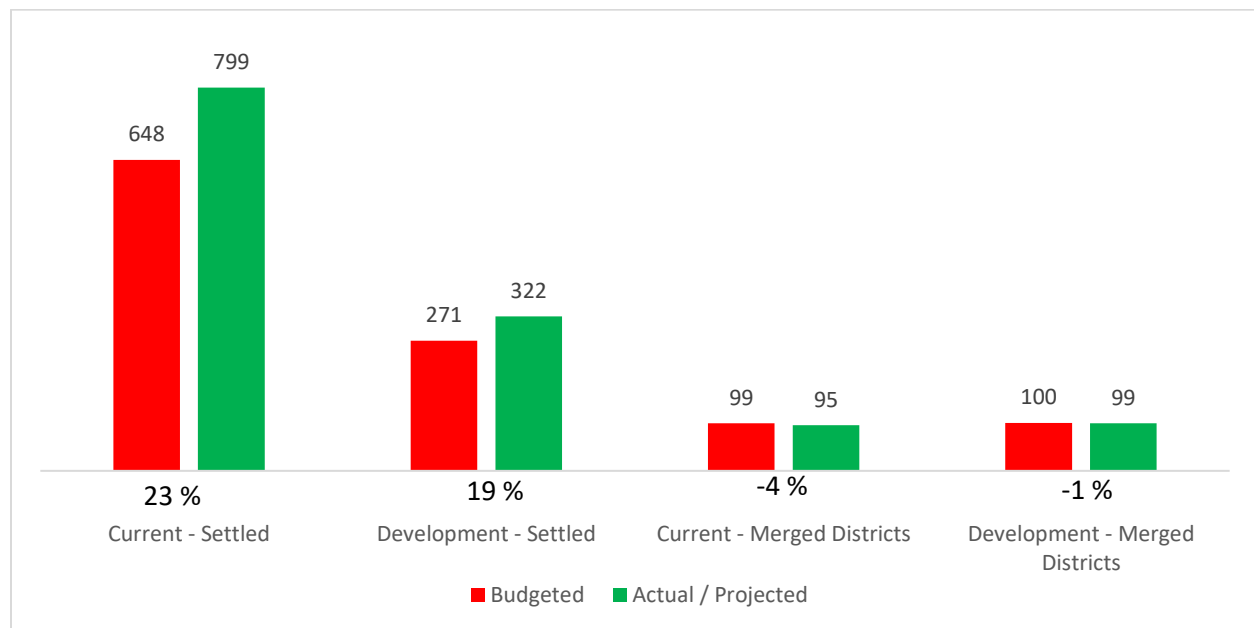
The projected increase in the total expenditure during FY2021-22 stood at 18% more in comparison to the budgeted figure for 2021-22. Based on the available budget data, the current and development projected annual expenditures for settled ends up above the budgeted figures, while for newly merged district the expenditures ends up below the estimated amounts.

Table 4: Total Expenditure 2021-22

PKR Billion

Type	Budget 2021	Revised 2021	Difference %
Current - Settled	648	799	23%
Development - Settled	271	322	19%
Current - Merged Districts	99	95	-4%
Development - Merged Districts	100	99	-1%
Total	1118	1315	18%

Figure 4: Development and Current Expenditure 2021 (Settled + NMAs)



5.2.Current Expenditure

The projected difference between budgeted and revised figures in current expenditure is 20% (PKR 147 billion), contributed by increase in current expenditure of settled areas. The huge difference in projected current expenditure (PKR 799 Billion) and the budgeted amount (PKR 648) in settled is mainly driven by the non-salary head. Salary budget of the settled has also end up



below expenditure amount by PKR 17 billion, while pension expenditure equates the total budgeted amount.

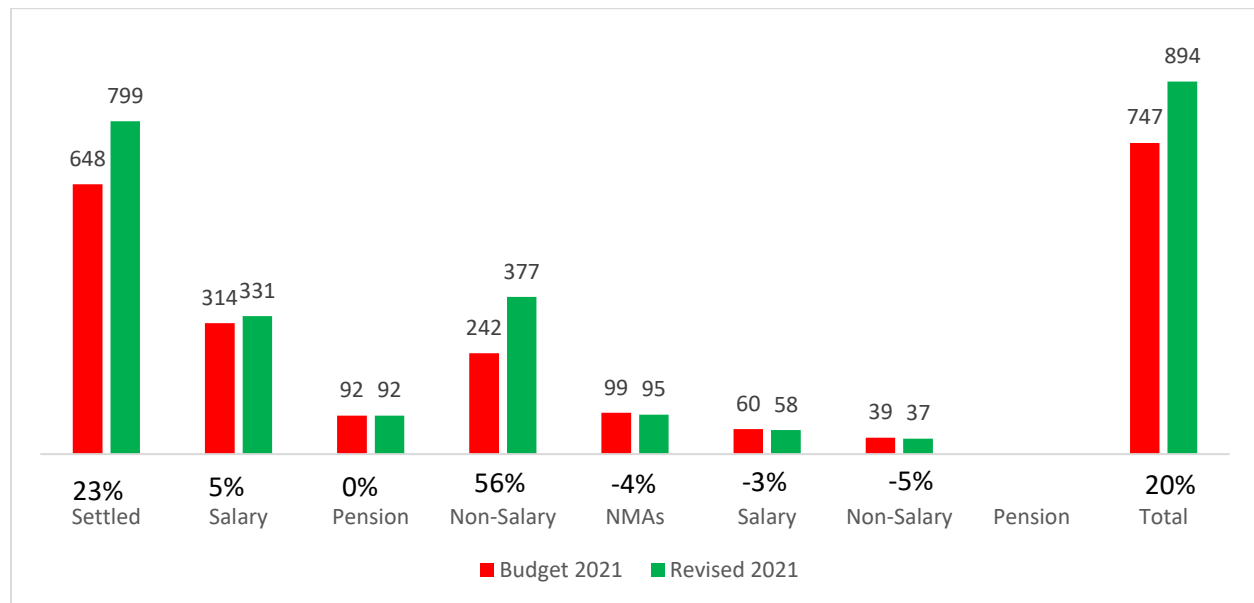
In case of NMAs, both the salary and non-salary budgeted amounts exceed their expenditures by PKR 4 billion in total.

Table 5: Current Expenditure 2021-22 (Settled & NMAs)

PKR Billion

Head	Budget 2021	Revised 2021	Difference %
Settled	648	799	23%
Salary	314	331	5%
Pension	92	92	0%
Non-Salary	242	377	56%
NMAs	99	95	-4%
Salary	60	58	-3%
Non-Salary	39	37	-5%
Pension			
Total	747	894	20%

Figure 5: Current Expenditure 2021-22: Budgeted vs Revised (Settled & NMAs)



5.3. Development Expenditure

During the current financial year, the budgeted expenditure of PKR 421 billion is going to be above the current year budget estimate by 13% (PKR 50 billion). The increase in the actual



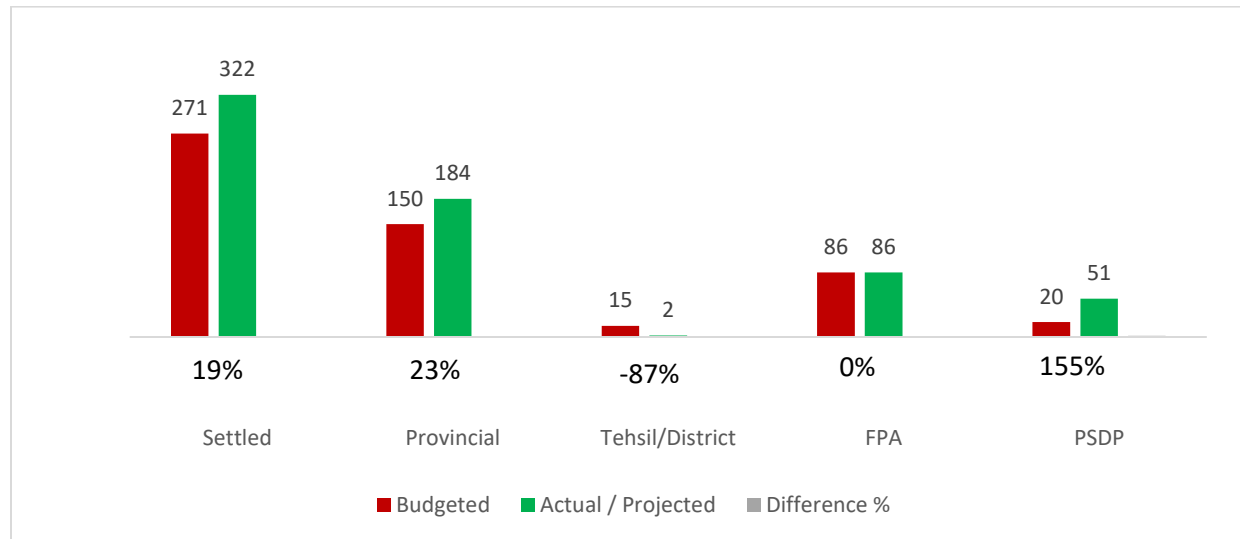
development expenditure is mainly due to increase in the provincial as well PSDP expenditures by PKR 34 billion and PKR 31 billion respectively.

Table 6: Development Expenditure 2021-22 (Settled)

Head	Budget 2021	Revised 2021	Difference %
Settled	271	322	19%
Provincial	150	184	23%
Tehsil/District	15	2	-87%
FPA	86	86	0%
PSDP	20	51	155%

PKR Billion

Figure 6: Development Expenditure 2021-22: Budgeted vs Revised (Settled)



For NMAs, the budgeted amount exceeds the projected expenditure by PKR 1 billion. All the head NMAs development expenditure amounted to increase budget amount, except for the AIP where



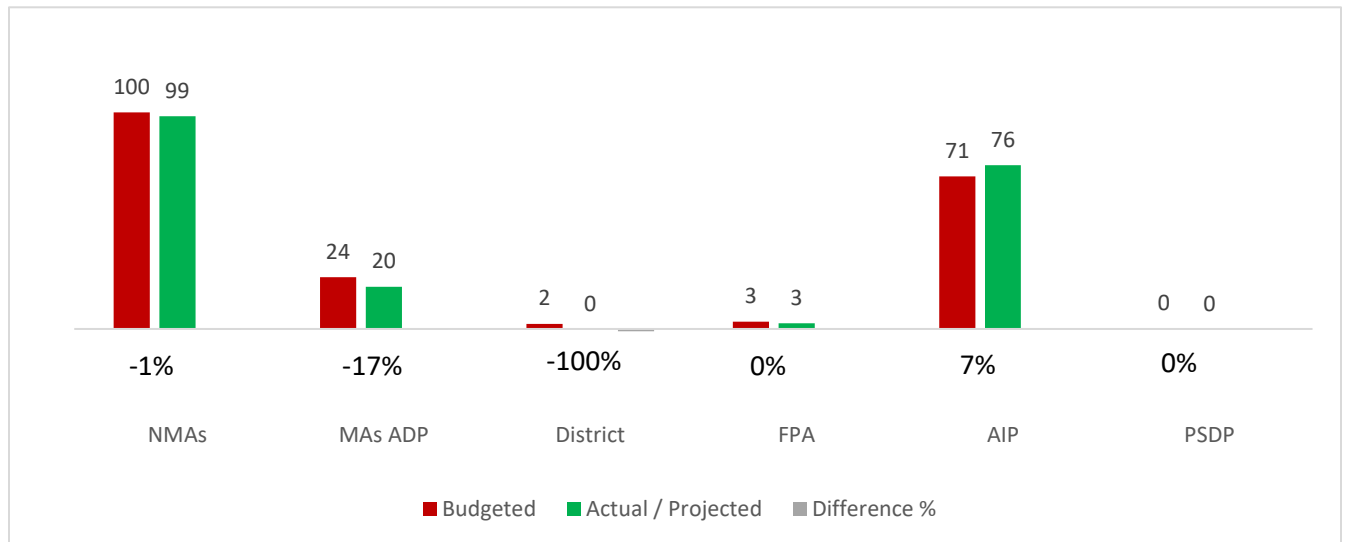
the revised amount exceed the budget by PKR 5 billion and FPA where there budgeted and revised figures are same.

Table 7: Development Expenditure 2021-22 for NMAs

Head	Budget 2021	Revised 2021	Difference %
NMAs	100	99	-1%
MAAs ADP	24	20	-17%
District	2	0	-100%
FPA	3	3	0%
AIP	71	76	7%
PSDP	0	0	0%

PKR Billion

Figure 7: Development Expenditure 2021-22: Budgeted vs Revised (NMAs)





6. Medium-term Fiscal Framework 2022-23 – 2024-25 – Khyber Pakhtunkhwa

6.1. Combined Khyber Pakhtunkhwa Budget

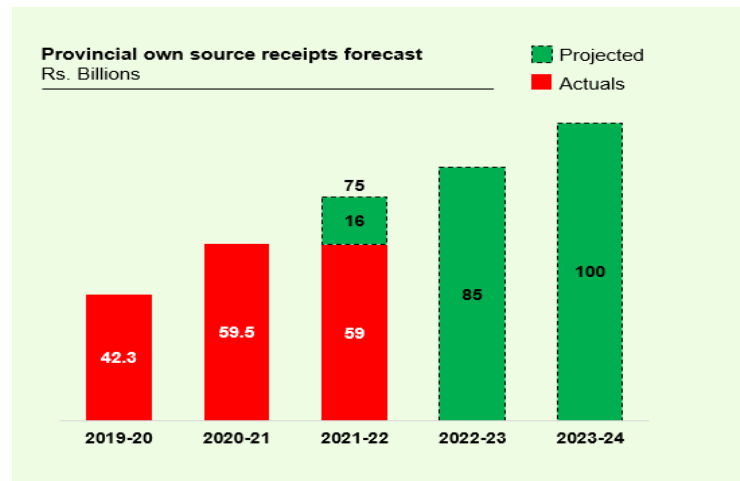
Total Budget for FY 2021-22 was PKR 1118 Billion both for settled and newly merged areas against the Revised Budget of PKR 1315 billion. Budget Estimate for FY 2022-23 is PKR 1332 billion.

Table 8: Projections 2022-23 (Current and Development)

PKR Billion

Type	Budget 2021	Revised 2021	Projection 2022
Current - Settled	648	799	790
Development - Settled	271	322	319
Current - Merged Districts	99	95	124
Development - Merged Districts	100	99	99
Total	1118	1315	1332

Based on the projection for FY 2022-23, the Khyber Pakhtunkhwa's own source revenue is projected to increase by 13% to PKR 85 billion in FY2022-23 against PKR 75 billion during the current financial year. Similarly, provincial own tax and non-tax revenues are projected to increase by 22% and 2% respectively in FY 2022-23 from the current year's budget estimates. The projected increase in the provincial tax revenue is going to be broad based and contributed by all main tax heads with growth rates in the range of 17% to 36%. The current expenditure is projected to increase by 22% and the development expenditure is projected to increase by 13%, an increase of PKR PKR 47 billion as compared to 2021-22 budget.



6.2. Budget Forecasts FY 2022-23 – Settled Areas

Total budget estimate for settled district is PKR 1109 billion which is 21% above the last year budget (PKR 919 billion). All the heads under current side are increased in comparison to the last year budget. While on the development side all the heads except for the PSD have been



increased. Tehsil/ district development budget has been increased more than double as compared to the last year's budget.

There is a projected increase of 15% on account of enhancement in pension and addition of new pensioners to the system. The government expenditure on pensions is anticipated to be on the higher side i.e. PKR 106 billion for FY 2020-21 as compared with PKR92 billion for the ongoing fiscal year. Projected subsidies are same as compare to budget estimates for 2021-22. The projected/ actual figure for Sehat Insaf card has increased by 14 % due to provision of health coverage to more citizen of the province. Because of much needed interventions carried out by the government in response to COVID-19 outbreak last year, the effect and spread of the virus has subsided to a greater extent. Because of this, the projected figure for COVID-19 contingency has gone down by more than two fold decrease as compared to the budgeted figure of last year.

Table 9: Projection 2022-23 (Settled)

PKR Billion

Head	Budget 2021	Revised 2021	Projection 2022
Current	648	799	790
Salary	314	331	372
Pension	92	92	106
Non-Salary	242	377	311
Development	271	322	319
Provincial	150	184	185
Tehsil/District	15	2	37
FPA	86	86	89
PSDP	20	51	8

6.3. Budget Forecasts FY 2022-23 Newly Merged Areas

Expenditure of Newly Merged Areas (NMAs) are maintained separately by the government with two broader classification i.e. Current Expenditure and Development Expenditure of NMAs. Total budget estimate for NMAs is PKR 223 which is 12% higher than the last year's budget estimate (PKR 199 billion). On the current side, budgets for both salary and non-salary are above the previous year's budget estimates. Moreover, as opposed to the last year's budget, an amount of PKR 1 billion has been added under NMAs pension head for FY 2022-23.



Table 10: Projections 2022-23 (NMAs)

PKR Billion

Head	Budget 2021	Revised 2021	Projection 2022
Current	99	95	124
Salary	60	58	76
Non-Salary	39	37	47
Pension		0	1
Development	100	99	99
MAs ADP	24	20	20
District	2	0	4
FPA	3	3	4
AIP	71	76	71
PSDP	0	0	0

7. Financial Impact of Increase in Government Size and Scale

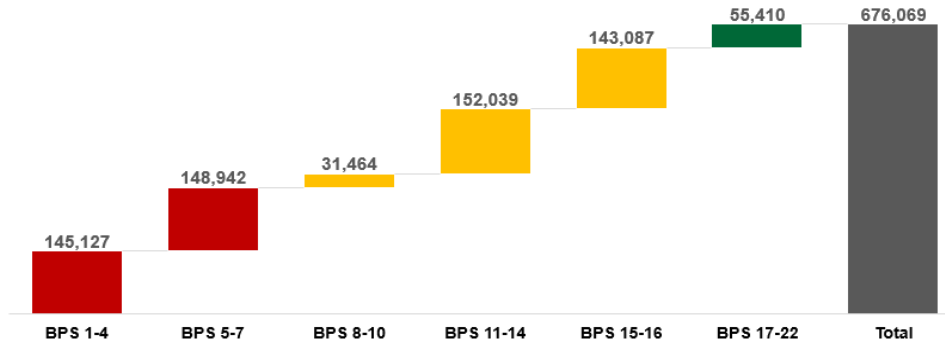
In case of size, scale and productivity of government associated fixed costs, Government expenditures on the salaries and the pension is increasing. The salaries and pension constitutes an amount of PKR. 555 Billion which equals 42 % of the total budget for 2022-23. The budget estimate of 2021-22 for pensions and salaries amounts to PKR. 466, while the total actual expenditure of salary and pension for the current year is PKR. 481 Billion which amounts to 37% of the total projected expenditure for FY 2021-22. There has been an increase of 19 % in the estimated of salaries and pensions amounts from 2021-22 to 2022-23. Over the last few, the salaries and pension expenditure increased drastically. The reason for that is the increase in size of the government by 2 times since the 18th amendment. Other major reason for such an increase is the rise in sanctioned posts and an increase in salary expenditure over the years.

The pension expenditure is increasing each year during the last 15 years. This signifies that the Government spending on pension increased each year, and the estimates entail that if the same trend continue, pension will rise to PKR 460 Billion by 2030. The Government in this case have to reform policies and make structural amendments to address such massive increase in pensions.

See below figure for details:



Grade-wise breakdown of sanctioned posts – KP
2022-23



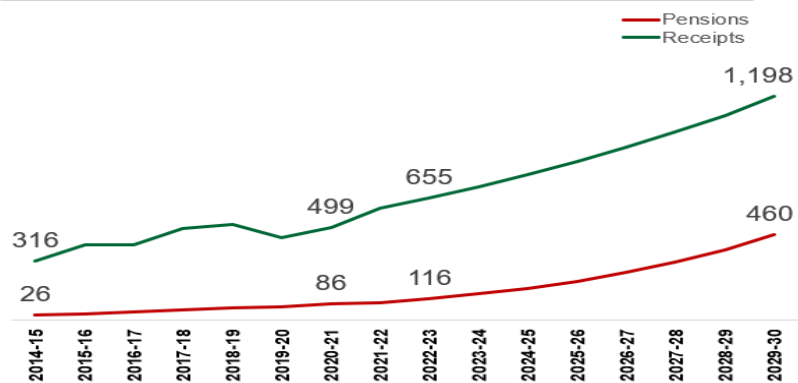
>100x
Increase in pensions since 2003-04 from 1% of the budget, to 13.8% of the budget

Pension expenditure
Rs. Billions



Pension Projections - till 2030
Rs. Billions

40%
Pensions as a % of Receipts in 10 years.
22% & 9% Annual Compounded growth rate of Pensions & Receipts for the last 5 years
With the same trend, in 10 years, pensions will reach around half a trillion





8. Budget Strategy FY 2022-23


The Finance Department is revising and reconsidering every cost, reducing unnecessary allocation and only prioritizing the services in Education, Health, Forestry, Agriculture & Governance Reforms. Key features of the next financial year's budget are an increase in allocations for operational expenditure with an aim to enhance staff productivity for better service delivery, prioritization of social sector development with particular focus on health and education sectors, focus on the poor through increasing the minimum wage to Rs. 21,000 and provision of basic food items on subsidised prices. Further highlights of the budget include the provision of Sehat Card Plus scheme, leveraging Khyber Pakhtunkhwa's comparative advantage through investments in energy, tourism and IT sectors; unleashing the potential of the private sector through Public Private Partnerships (PPP) for investment in infrastructure sector; paying attention to the geographical equity in allocation for development spending across the province, Government's commitment to reform and innovations in the form of pension reforms, performance management with appropriate reward system for improved governance and better service delivery.





For more information and feedback:


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