PUNJAB

Finance Department
Government of the Punjab

WHITE PAPER 2021-22

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QUAID-E-AZAM








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Government of the Punjab
Finance Department

White Paper

Budget FY 2021-22

June 14, 2021

PREFACE

White Paper is an articulate interpretation of the Annual Budget that primarily highlights the Revenues and Expenditures of the Province. It further outlines the strategic direction, policies, and progammes of the Provincial Government. A focused overview of macroeconomic conditions, in light of the prevalent situation, sets the context of this White Paper.

The Budget preparation for Fiscal Year 2021-22 is based on extensive review and analysis of the Provincial economy and is primarily aimed to stimulate economic recovery of the province, along with, management of the COVID-19 pandemic. During the highly rigorous process of budget making, Finance Department continued to implement and ensure principles of Inclusive Budgeting, to promote participatory governance, financial transparency and increased accountability. Representatives of the civil society, academia, media, non-governmental organizations, businesses and financial institutions were formally engaged and proposals were received regarding key interventions in socio-economic sectors particularly Education, Health, Social Protection, Agriculture, Industry and Information Technology. These proposals have been reflected in the Budget 2021-22. Further, allocations, based on the Provincial Government's mission of Strengthened Economy, Equitable Growth, Human and Infrastructure Development etc. have also been prioritized.

Focus has been directed towards enhancing fiscal space by improving Provincial Own Source Revenue, rationalizing expenditure using strict fiscal discipline, and premeditated development across the Province. Ideas of linking levying of taxation with benefits derived by the taxpayers have been explored. Several taxes have been rationalized to capture true potential and update the existing system, moreover, documentation of economy and tax compliance has been incentivized to expand the tax base. Further, austerity measures and hard budget constraints have been imposed to ensure efficient and productive utilization of scarce resources.

With an economy recovering rapidly after COVID-19 crisis, the out-going Financial Year has been enormously challenging for the entire Finance Department team. Budget making in such a situation is a gargantuan exercise requiring teamwork followed with consistent motivation, hard work and due diligence. I would, therefore, like to take this opportunity to appreciate the continuous and untiring efforts put in by the entire team working on the Budget. As for the compilation of the White Paper, I would like to acknowledge the efforts of the entire team; in particular Mujahid Sherdil (SSF-Budget & Resources), Nauman Yousef (AFS-Budget), Bilawal Abro (DS-Resource-1), Saifullah Dogar (Consultant), Farhan Abbas and Hammad Uddin Khan (IDAP).The Finance Team relied heavily on the wise counsel of Makhdoom Hashim Jawan Bakht, Finance Minister, throughout the effort.

IFTIKHAR ALI SAHOO
Finance Secretary
Government of the Punjab

June 14, 2021

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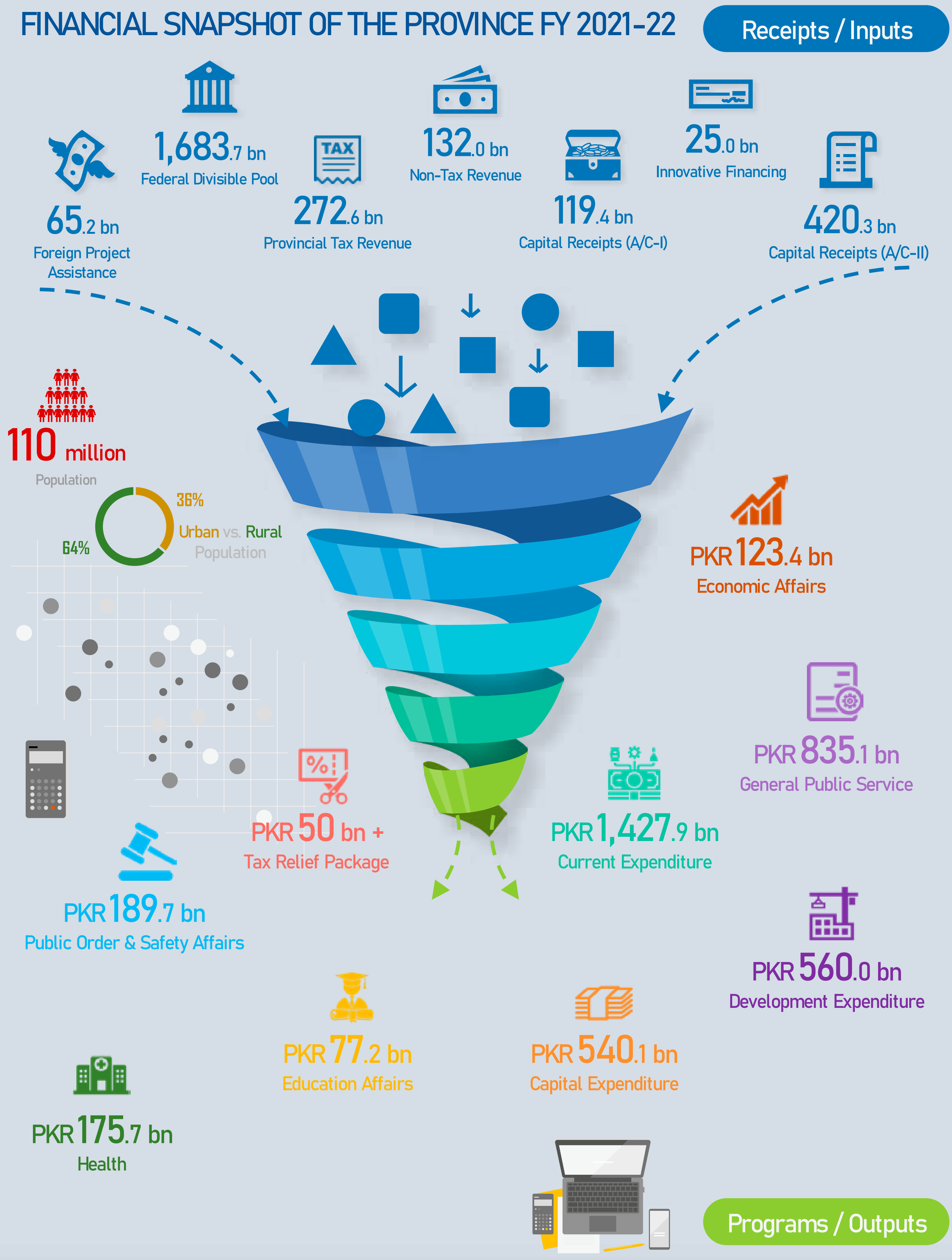
LIST OF ABBREVIATIONS

ABS	Annual Budget Statement
ADB	Asian Development Bank
ADP	Annual Development Programme
AIT	Agriculture Income Tax
APDP	Automated Pension Disbursement Project
BE	Budget Estimate
BF	Benevolent Fund
BOR	Board of Revenue
CDC	Central Depository Company
CDLs	Cash Development Loans
CFU	Corporate Finance Unit
CFY	Current Financial Year
CLC	Community Learning Centres
CMSES	Chief Minister's Self Employment Scheme
CTD	Counter Terrorism Department
CVT	Capital Value Tax
C&W	Communication & Works
DFID	Department for International Development
DMU	Debt Management Unit
E&T	Excise & Taxation
FBR	Federal Board of Revenue
EPS	Estimated Provincial Surplus
FD	Finance Department
FIEDMIC	Faisalabad Industrial Estates Development & Management Company
FRE	Framework for Rolling Expenditure
FY	Financial Year
GDP	Gross Domestic Product
GDS	Gas Development Surcharge
GI	Group Insurance
GIS	Geographic Information System
GP Fund	General Provident Fund
GoPb	Government of Punjab
GPF	General Provident Fund
GRP	Gross Regional Product
GRR	General Revenue Receipt
GSDP	Gross Subnational Domestic Product
GST	General Sales Tax
HUD & PHED	Housing Urban Development & Public Health Engineering Department
IBRD	International Bank for Reconstruction and Development
IC&YA	Information Culture & Youth Affairs
IDA	International Development Agency
J&C Program	Job & Competitiveness Program
JICA	Japan International Cooperation Agency
KIBOR	Karachi Inter Bank Offered Rate
L&DD	Livestock and Dairy Development
LFY	Last Financial Year
LG & CD	Local Government & Community Development
LIBOR	London Inter-Bank Offered Rate
LNFBE	Literacy & Non-Formal Basic Education Department
LRMIS	Land Record Management Information System
MDGs	Millennium Development Goals
MICS	Multiple Indicator Cluster Survey
MIS	Management Information System
MPDD	Management & Professional Development Department
MTDF	Medium Term Development Framework
MTFF	Medium Term Fiscal Framework
NFBE	Non Formal Basic Education
NFC	National Finance Commission
NFIS	National Financial Inclusion Strategy
NHP	Net Hydel Profit
NLTA	Non Lending Technical Assistance
NSS	National Savings Scheme
OSR	Own Source Revenue
PCF	Provincial Consolidated Fund
P&D	Planning & Development
PCGIP	Punjab Cities Governance Improvement Project
PEEF	Punjab Education Endowment Fund
PEF	Punjab Education Foundation
PEOP	Punjab Economy Opportunities Program
PESP	Punjab Education Sector Project
PFC	Provincial Finance Commission
PFM	Public Financial Management
PGPIF	Punjab General Provident Investment Fund
PHNP	Provincial Health & Nutrition Program
PHSRP	Punjab Health Sector Reforms Program
HRITF	Health Reforms Innovation Trust Fund
PIAIPP	Punjab Irrigated Agriculture Improvement Program Project
PIBs	Pakistan Investment Bonds
PIEDMIC	Punjab Industrial Estates Development & Management Company
PIFRA	Project to Improve Financial Reporting & Auditing
PKLI	Punjab Kidney Liver Institute
PLA	Personal Ledger Account
PPB	Punjab Privatization Board
PPF	Punjab Pension Fund
PPIC3	Punjab Police Integrated Command, Control & Communication Centre
PPMRP	Punjab Public Management Reform Program
PPP	Public Private Partnership
PRA	Punjab Revenue Authority

PRAL	Pakistan Revenue Automation (Pvt.) Limited
PSDP	Public Sector Development Programs
PSDP	Punjab Skills Development Project
PSIC	Punjab Small Industries Corporation
PSPA	Punjab Social Protection Authority
PSPC	Punjab Saaf Pani Company
RIMS	Restaurant Invoice Monitoring System
RE	Revised Estimate
RLNG	Regasified Liquefied Natural Gas
SBP	State Bank of Pakistan
SBS	Sector Budget Support
SED	School Education Department
SDG	Sustainable Development Goals
SNG	Sub-National Governance Programme
SPPAP	Southern Punjab Poverty Alleviation Project
S&GAD	Services & General Administration Department
TEVTA	Technical Education and Vocational Training Authority
TFCs	Term Finance Certificates
TMAs	Town Municipal Administrators
TRU	Tax Reform Unit
UIPT	Urban Immovable Property Tax
UNICEF	United Nations Children Fund
WDD	Women Development Department

FINANCIAL SNAPSHOT OF THE PROVINCE FY 2021-22



EXECUTIVE SUMMARY

Pakistan's economy is on the path to a strong recovery, despite the protracted COVID-19 pandemic. GDP growth for FY2021 is estimated at 3.94% with contribution from all three major sectors agriculture, industrial and services. The Government's prudent yet evidence based policies prioritizing macroeconomic stability, containment of COVID-19 spread and protecting the most vulnerable segments of society, have enabled Pakistan's v-shaped economic recovery and kept the impact of COVID-19 in check. Timings and imposition of smart lockdowns, targeted incentives for construction sector, augmented with monetary stimulus helped lifting up the growth in industrial and services sectors. The introduction of business responsive policies and Pakistan's advance in the "doing business" ranking has reinstated investor confidence leading to a significant increase in investment.

Punjab, having a central reinforced role in the performance and development of the national economy, played a critical role in the recovery of the national economy through contribution in all major sectors. Government of the Punjab calibrated its policies and strategies with the COVID-19 pandemic and developed a comprehensive response to COVID-19 through the Responsive Investment in Social Protection and Economic Stimulus (RISE) Punjab. Well-designed, targeted interventions helped in stimulating Provincial economic recovery and restricting the COVID-19 impact to the minimum, in spite of huge resource constraints. Extension of massive tax relief measures, worth more than PKR50 billion, aimed at businesses and sectors most hit by COVID-19, provided support to recover economic losses for survival in critical times. Even in such tough conditions, tax base widened, tax compliance increased and economic transaction improved due to targeted reduction of rates and tax incentives for several service sectors. It is important to mention that Government of the Punjab has delicately balanced provision of relief, resource generation, and disbursement for COVID-19 containment, social protection and essential development. Substantial public investment was made in key social sectors like health, education.

Budget 2021-22 has been designed with the ambition to sustain and accelerate the current economic growth rate. The total General Revenue Receipts of Government of the Punjab have been pitched at PKR 2,088.3 billion; including Federal Divisible Pool transfers of PKR 1,683.7 billion and Provincial Revenues of PKR 404.6 billion. The Current Expenditure of the Government has been pitched at PKR 1427.9 billion. During the CFY 2020-21, Government of the Punjab enforced a strict monitoring regime on expenditure with prudent spending. Expenditure on Health sector and allied services is expected to grow. Federal Government's priority program of provision of low cost housing to public as well as a boost to construction sector in general has also been kept in attention.

Development priorities and government spending for Annual Development Program, 2020-21 were guided by Punjab Growth Strategy 2023 and Punjab Spatial Strategy 2047. Priority areas were Livelihood security through social protection schemes; investments to fill health infrastructure gaps, ensuring food security; education and human capital development along with support to the MSME sector. Government of the Punjab aims to accelerate the growth momentum gained during the CFY, therefore, Annual Development Programme 2021-22 has been developed with the aim of increasing economic growth, job creation and productivity. This explains the increase in size of the Annual Development Program to PKR 560 billion. The guiding principles adopted for ADP 2021-22 include economic growth led investment, inclusive & balanced regional development, transformation of agriculture sector, human development through skills development, enabling environment for private sector resource mobilization, and targeted investments in priority projects through Economic Revival Programme. Focus on regional equalization for the development of South Punjab will also support the development of the backward areas of the Province. Some of the critical priorities for South Punjab include education and health, Infrastructure linkages/connectivity, Agriculture, Industrial and Urban development.

Punjab has amplified its commitment in expanding economic cooperation with China since inception of CPEC. After catering infrastructure, energy and connectivity, focus has now shifted towards industrial, agricultural and socio-economic cooperation. To further strengthen CPEC development in the province, Government of the Punjab is developing CPEC Strategy for Punjab, which is expected to be launched in the upcoming fiscal year, which will outline the roadmap to capture the maximum potential of this partnership with China and will mainly focus on development of strategies and plans in key cooperation areas of CPEC Long Term Plan 2030.

Further, the Government is determined to capitalize full potential of Public Private Partnerships (PPPs) in Punjab. Enactment of PPP Act 2019 facilitates the private sector investment along with mobilization of private finance and improved infrastructure delivery. At the development front, for FY 2021-22, a range of PPP project proposals, are under revision, pertaining to CETPs, Special Economic Zones, roads and transportation and real estate development.

Government of the Punjab has also made significant progress in calibrating its policies and frameworks with the Sustainable Development Goals (SDGs) while pledging adequate resources for the implementation of the 2030 Agenda for Sustainable Development. The targets include strengthening of data availability at the provincial/district level for supervision and decision making, formulation of sector-specific SDGs localization plans, vulnerability assessment of South Punjab region and development of South Punjab Regional Development Forum.

Punjab has been further striving for a strong PFM system, through reforms, to ensure most efficient use of resources. Few of the significant initiatives undertaken in the previous years include the creation of Punjab Revenue Authority, the establishment of Punjab Pension Fund, Debt Management Unit, Corporate Finance Unit, and the introduction of Medium-Term Budget Framework, Citizens budget and e-payments of taxes. Consequently, a marked improvement in the own-source revenue, fiscal responsibility, and quality of technical input for strategic and operational levels decision making, has been observed. Further, Finance Department, in collaboration with State Bank of Pakistan and Accountant General Punjab, is also working on the Treasury Single Account framework. It is expected to help in attaining improvement in the liquidity position of the government, allowing the government to optimize resource utilization. It shall further enable the government to consolidate and manage cash position, lowering debt servicing costs and reducing the fiscal deficit at the national level.

To enhance fiscal space through Own Source Revenue, the Government is undertaking several tax related reforms involving taxes such as Electricity Duty, Urban Immovable Property Tax, Motor Vehicle Tax etc. Efforts have also been made to include new taxes under purview of Epay Punjab. One such important initiative is E-Abyana which is expected to facilitate farmers to pay Abyana through electronic payments, and improve quality of assessments and transparency in billing system leading to enhanced revenue generation.

Following tables provide the key fiscal numbers for Budget 2020-21:

Budget at a Glance

(PKR Billion)

CLASSIFICATION	BE 2020-21	RE 2020-21	BE 2021-22
A - CURRENT BUDGET			
General Revenue Receipts	**1,750.0**	**1712.7**	**2088.3**
Current Revenue Expenditure	1,318.3	1314.9	1,427.9
A- Net Revenue Account – Surplus (+) / Deficit (-)	**431.7**	**397.8**	**660.4**
B- CURRENT CAPITAL BUDGET			
Current Capital Receipts (A/C-I)	111.6	73.5	79.2
Current Capital Expenditure (A/C-I)	128.4	87.2	119.8
B- Net Capital Account - Surplus (+) / Deficit (-)	**(16.8)**	**(13.7)**	**(40.6)**
C- Surplus for Development (A+B)	414.9	384.1	619.8
D - ADP Resources			
Foreign Assistance for Projects	47.1	30.9	65.2
E- TOTAL RESOURCES (C+D)	**462.0**	**415.0**	**685.0**
F - Annual Development Program	337.0	375.2	560.0
Estimated Provincial Surplus /Deficit (E-F)	**125.0**	**39.8**	**125**

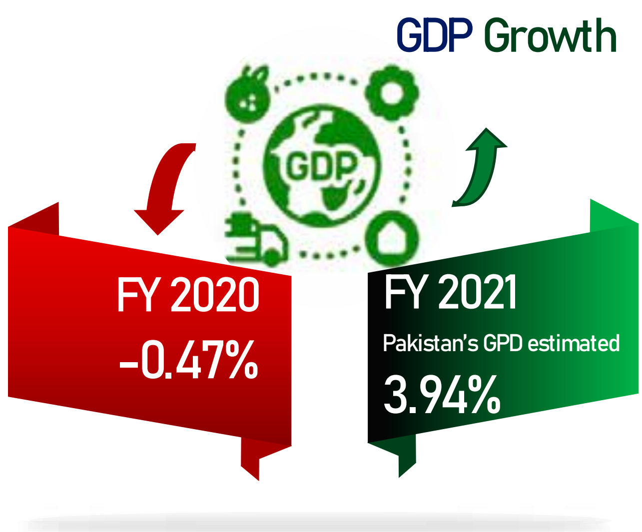
(PKR Billion)

DESCRIPTION	BE 2021-22	DESCRIPTION	BE 2021-22
A - GENERAL REVENUE RECEIPTS		**A - CURRENT REVENUE EXPENDITURE**	
General Revenue Receipts	**2088.3**	**General Revenue Expenditure**	**1,427.9**
Divisible Pool Transfers	1,683.7	01 - General Public Service	835.1
Provincial Tax Revenue	272.6	02 - Public Order and Safety Affairs	189.7
Provincial Non-Tax Revenue	132.0	03 - Economic Affairs	123.4
Straight Transfers (Excl. excise duty on NG)	7.4	04 - Environment Protection	0.5
Net Hydel Profit	*12.5*	05 - Housing and Community Amenities	11.9
Net Hydel Profit Arrears	*12.5*	06 - Health	175.7
Federal Grants	*2.4*	07 - Recreational, Culture and Religion	4.3
Provincial Own Non-Tax Revenue	*97.2*	08 - Education Affairs and Services	77.2
		09 - Social Protection	10.1
B - CURRENT CAPITAL RECEIPTS		**B - CURRENT CAPITAL EXPENDITURE**	
CAPITAL RECEIPTS	**499.5**	**CAPITAL EXPENDITURE**	**540.1**
Recoveries of Loans and Advances (A/C-I)	3.1	Public Debt	-
Debt (A/C-I)	51.1	Repayment of Principal	54.2
Innovative Financing including PPP mode	25.0	Investments	40.0
Recoveries of Investment-State Trading (A/C-II)	217.4	Loans and Advances (Principal)	25.6
Cash Credit Accommodation (A/C-II)	202.9	State Trading in Medical Stores	0.0
		State Trading (Wheat) (A/C -II)	273.1
		Repayment of Commercial Bank Loans (A/C - II)	147.2
C- DEVELOPMENT RECEIPTS		**C- DEVELOPMENT EXPENDITURE**	
Foreign Project Assistance	65.2	**Annual Development Program**	**560.0**
		Core ADP	515.6
		Other Development Initiatives	44.4
Total Receipts A/C-I	**2232.7**	**Total Expenditure A/C-I**	**2107.7**
Total Receipts A/C-II	**420.3**	**Total Expenditure A/C-II**	**420.3**
		Provincial Surplus	**125.0**
Total Provincial Consolidated Fund	**2,653.0**	**Total Provincial Consolidated Fund**	**2,653.0**

Macroeconomic Review and Outlook

National Macroeconomic Snapshot

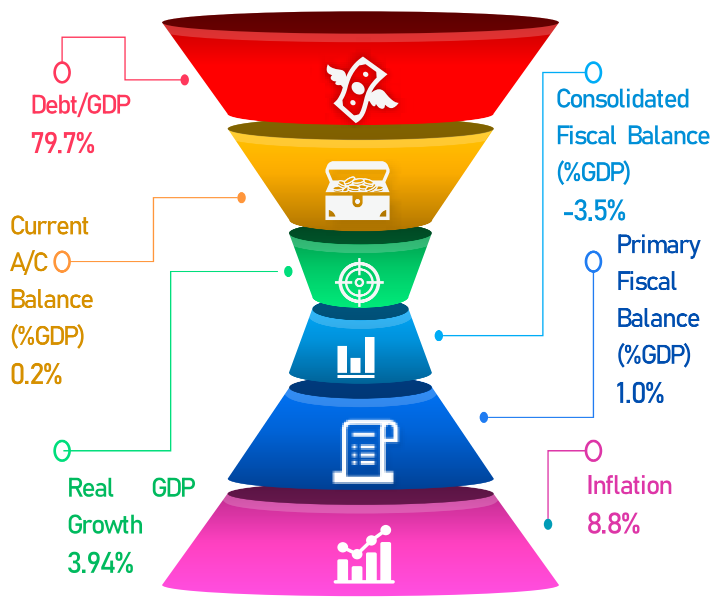
After showing contraction of 0.47% in FY2020 as the onset of COVID-19 pandemic aggravated the effects of policy options under the IMF's stabilization program, Pakistan's economy has made strong recovery in FY2021 despite facing the secondary and tertiary waves of COVID-19. GDP growth for FY2021 is estimated at 3.94%, significantly higher than the original target of 2.1% and IMF's forecast of 1.5%. The economic expansion has been broad-based with all three major sectors viz., agriculture, industrial and services, contributing to the GDP growth. Prudent economic policies have enabled strong recovery without compromising macroeconomic stability and protected the most vulnerable segments of the society while a combination of non-pharmaceutical interventions and vaccination drive have helped Pakistan keep the health crisis of COVID-19 well under control.



Timely and data-driven policies of the government have expedited economic recovery. There was a notable pickup in economic activity as restrictions eased, large-scale manufacturing gained traction, demand indicators started showing encouraging growth, and all major crops, except cotton, exceeded their respective production targets. The services sector also showed buoyancy, fiscal and external sector exhibited marked improvement as primary budget and current account balances have turned into surpluses. Key macroeconomic indicators show that Pakistan is on the path of economic recovery and sustainable growth, as can be seen in the table below.

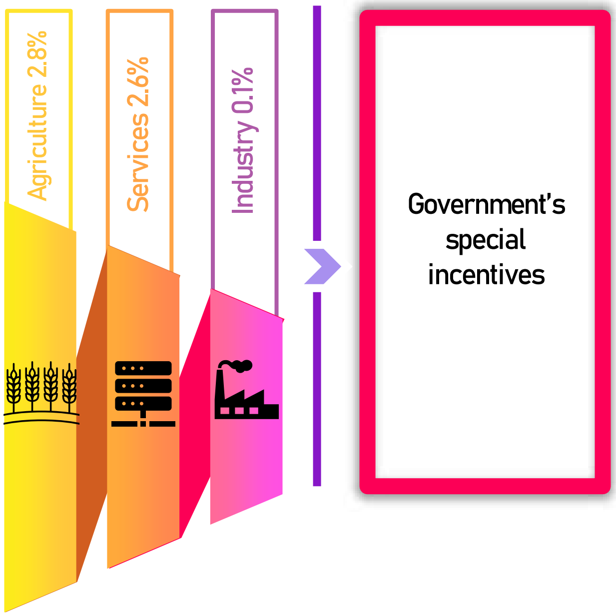
	FY 2020	FY 2021		
	Revised	Target	Actual	
Real GDP Growth (%)	-0.47	2.10	3.94	
Inflation (%)	10.7	6.5	8.8	Jul-May'21
Consolidated Fiscal Balance (%GDP)	-8.1	-7.0	-3.5	Jul-Mar'21
Primary Fiscal Balance (%GDP)	-1.8	-0.5	1.0	Jul-Mar'21
Current A/C Balance (%GDP)	-1.7	-1.6	0.2	Jul-Apr'21
Debt/GDP	87.6	87.7	79.7	Mar'21

Source: MOF, SBP, IMF.



Economic growth

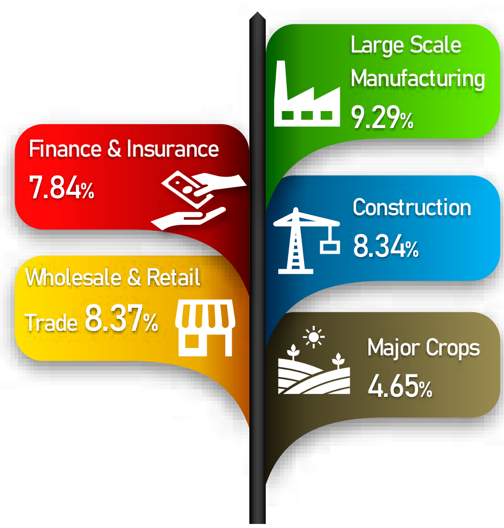
Pakistan's real GDP growth fell to -0.47% in FY2020, which was the second year of economic contraction in the country's history, after FY1952.



While contractionary macroeconomic policies were already in play as part of IMF's stabilization program, the arrival of COVID-19 pandemic towards the end of 3QFY2020 exacerbated the situation with lockdowns leading to sudden economic disruption and consequent surge in unemployment.

The Annual Plan for FY2021 envisaged GDP growth of 2.1% based on contributions from agriculture (2.8%), industry (0.1%) and services (2.6%). However, prudent policies and timely interventions of the government made economic contraction short and shallow with high frequency data started showing signs of recovery early into FY2021. While IMF had projected Pakistan's GDP growth rate at 1.5% for the fiscal year FY2021, provisional estimates by the National Accounts Committee placed the GDP growth for the year at 3.94%. Disaggregated data suggests that the growth has been well supported by all major sectors including agriculture, industry and services. Except for cotton, all major crops showed significant increases with wheat production touching all-time high. The government's special incentives for construction sector complemented by SBP's monetary stimulus helped lift the growth in industrial and services sectors albeit intermittent lockdowns continuing through the year.

	FY2019 Final	FY2020 Revised	FY2021 Provisional
GDP (Factor Cost)	**2.08**	**-0.47**	**3.94**
Agriculture	**0.56**	**3.31**	**2.77**
- Major Crops	-7.69	5.24	4.65
- Livestock	3.82	2.10	3.06
Industrial	**-1.56**	**-3.77**	**3.57**
- Large Scale Manufacturing	-2.60	-10.12	9.29
- Construction	-15.50	5.46	8.34
Services	**3.79**	**-0.55**	**4.43**
- Wholesale & Retail Trade	1.08	-3.94	8.37
- Finance & Insurance	4.51	1.13	7.84
- Housing Services	4.00	4.01	4.01

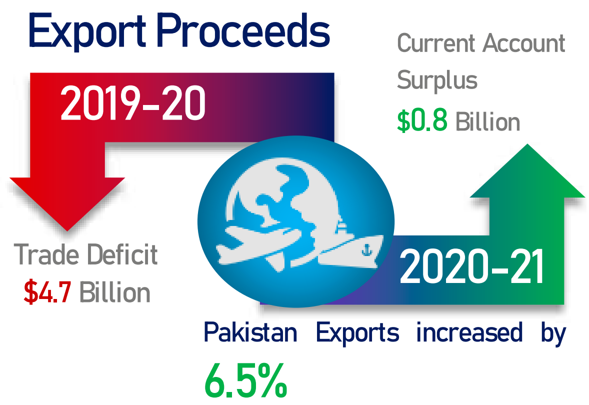


Inflation and the cost of living

Headline inflation remained elevated through FY2021 mainly due to domestic supply chain disruptions caused by the pandemic, hefty adjustment in electricity tariffs and sharp surge in international commodity prices, although the government absorbed a lot of the increase in international oil prices by reducing the petroleum levy.

National CPI averaged 8.83% during July-May'21 compared to 10.94% in the same period of the preceding fiscal year. Core inflation on the other hand showed some softening during FY2021. Urban core inflation averaged 5.9% in Jul-May'21 versus 7.6% in the same period for the preceding year. Likewise, rural core inflation came in at 7.6% in Jul-May'21 as against 8.7% in the same period of the preceding year.

Balance of Payments

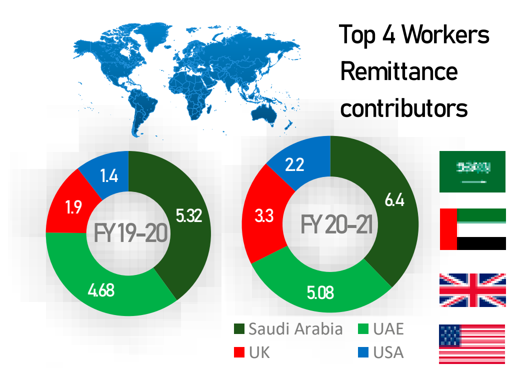


The Annual Plan for FY2021 in the evolving situation of the pandemic envisaged export growth of 1.5% and import growth of 1.1% while current account deficit at 1.6% of GDP with the underlying assumptions of modest global recovery and subdued domestic demand. However, the external sector performance recovered quickly as the global demand bounced back. Pakistan's exports increased by 6.5% in Jul-Apr'21 from the level in Jul-Apr'20. On the other hand, instead of decreasing, Pakistan's imports also increased by 13.5% over the same period leading to a higher trade deficit. However, the current account posted a surplus of $0.8 billion in July-April'21, as compared to a deficit of $4.7 billion in the corresponding period last year. This improvement is contributed by all components except the deterioration in trade imbalance. Increase in remittances contributed 87% or $4.5 billion of this improvement.

	2019-20 (Jul-Apr) External Sector	2020-21 (Jul-Apr)	Percent Change
Remittances ($ billion)	18.8	24.2	↑ 29.0
Exports FOB ($ billion)	19.7	21.0	↑ 6.5
Imports FOB ($billion)	37.3	42.3	↑ 13.5
Current Account Balance ($ billion)	-4.7	0.8	↑
Current Account Balance (Percent of GDP)	-2.1	0.3	↑
FDI ($ million)	2301.3	1553.4	↓ 32.5
Portfolio Investment –Public ($ million)	-234.5	2463.1	↑
Total Foreign Investment ($ million) (FDI & Portfolio Investment)	1884.1	3736.4	↑ 98.3
Forex Reserves ($ billion)	18.598 (SBP: 12.129) (Banks: 6.469) (on 20th May, 2020	23.016 (SBP: 15.846) (Banks: 7.170) (on 20th May, 2020	
Exchange rate (PKR/US$)	160.77 (on 20th May 2020	153.46 (on 20th May 2020	

Foreign Remittances, FDIs and Business Confidence

While the World Bank had projected a fall in remittances, the government and SBP policies incentivized inflow of remittances through formal banking channels. During Jul-Apr'21, remittances rose to $24.2 billion compared to $18.8 billion in the same period last year, which indicates a growth of 29%. As can be seen in the figure below, the major inflows of remittance were from Saudi Arabia, U.A.E, USA and U.K.

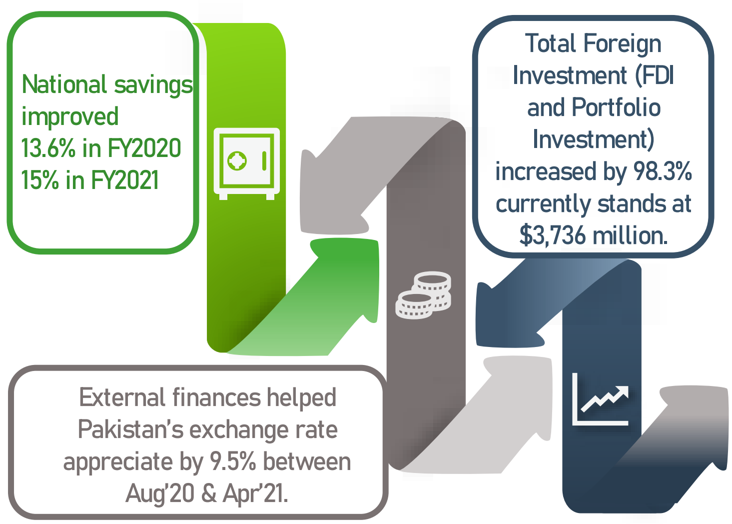


Remittances rose to $24.2 billion in FY 20-21 as compared to $18.8 billion in FY 19-20

Foreign Remittances Received

Country	FY 2021	FY 2020
Saudi Arabia	6.4	5.32
UAE	5.08	4.68
UK	3.3	1.9
USA	2.2	1.4
Total	**24.2**	**18.8**

As remittances rose over the last fiscal year so did Pakistan's national savings, helping finance investment needs. Pakistan's national savings improved to 15% of GDP in FY2021 from 13.6% in FY2020. In the last fiscal year, Pakistan's exchange rate had been depreciating, however by Aug'20 the exchange rate stabilized and subsequently started to appreciate. Strong external finances helped Pakistan's exchange rate appreciate by 9.5% between Aug'20 and Apr'21.



While FY2021 has witnessed uncertainties due to the pandemic, the introduction of pro-business policies and Pakistan's improvement in the "doing business" ranking has aided in restoring investor confidence. However, this has not yet translated into substantial pick-up in FDI inflows. In Jul-Apr'21, FDI was recorded at $1,553.4 million compared to $2,301.3 million last year, indicating a 32.5% decrease. However, Total Foreign Investment (FDI and Portfolio Investment) increased by 98.3% over the last year and currently stands at $3,736 million.

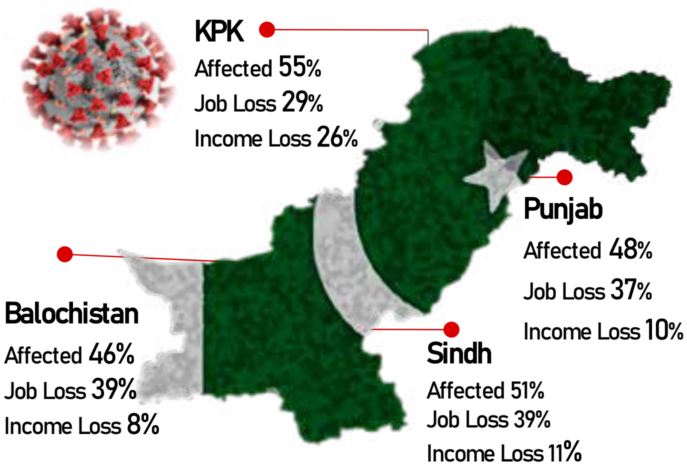
Pakistan's Economic Recovery from COVID-19 and challenges faced

With the onset of the COVID-19 pandemic, countries across the globe have been struggling to deal with unprecedented challenges to their health systems, social safety nets and economic structures. Pakistan like most other developing countries suffered more economically from policies of frequent lockdowns, both complete and smart, to contain the spread of COVID-19.

As these inevitable lockdowns were imposed across the country, many small and medium scale businesses shut down, workers especially daily wage and informal laborers and those in the informal economy found themselves unemployed and supply chains faced significant disruptions. Since a majority of Pakistan's workforce operates in the informal sector and employs a large proportion of the population as casual day laborers, the country overall faced adverse socio-economic impacts for this vulnerable population. Those already on the margins of poverty were pushed further into it, as pre-existing inequalities further deepened and they faced issues such as food insecurity, lack of income/savings, limited social safety protection, and lack of access to healthcare.

According to a survey on the Socio-economic Impacts of COVID-19 conducted by the Pakistan Bureau of Statistics in 2020, over 49% of Pakistan's working population suffered a loss of employment and/or a decrease in income during the pandemic.[1] The World Bank also affirmed these findings.[2]

[1] https://www.pbs.gov.pk/sites/default/files//other/covid/Final_Report_for_Covid_Survey_0.pdf
[2] https://openknowledge.worldbank.org/bitstream/handle/10986/35274/9781464817007.pdf



	Affected %	Job Loss %	Income Loss %
Punjab	48%	37%	10%
Sindh	51%	39%	11%
KPK	55%	29%	26%
Balochistan	46%	39%	08%
Pakistan	49%	37%	12%

Figure 4: Percentage of population across Pakistan affected by COVID-19, "Special Survey for Evaluating Socio-Economic Impact of COVID-19", Pakistan Bureau of Statistics

Almost half of the working population, mainly daily wage workers and casual workers in the informal sector, were affected due to the closure of businesses and lockdowns. The survey also found that job losses due to the initial wave of the pandemic were primarily in the Manufacturing, Construction, Transport and Retail industries. The loss of employment resulted in an increase in the incidence of poverty from 4.4% to 5.4%, with upwards of two million people falling below the poverty line. An additional 40% of households suffered from moderate to severe food insecurity.[3]

All these factors which were a consequence of the pandemic contributed to the aforementioned key macroeconomic indicators and Pakistan's negative economic growth rate in FY2020 (-0.47%). However, as said earlier, Pakistan's economy began recovering quicker than anticipated due to data-driven, timely and COVID-responsive policies by the government.

At the institutional and policy level, the Punjab government aligned all provincial policies, strategies and documents with the reality of the COVID-19 pandemic. By ensuring that key provincial documents are responsive to COVID-19 and its socio-economic impacts, the government ensured that every department effectively responds to the most critical needs. The Punjab government developed a comprehensive and holistic response to COVID-19 through the Responsive Investment in Social Protection and Economic Stimulus (RISE) Punjab. This document integrates seven critical pillars which provide Punjab with a realistic framework to overcome the current health, economic and social protection challenges.

To help different industries and sectors recover from the adverse economic impacts of lockdowns and COVID restrictions, the State Bank of Pakistan and the Government of Pakistan provided numerous economic stimulus packages, favorable loan policies, lower interest rates for borrowing, increasing credit limits to SMEs, tax relief on food/health items, funds disbursement to Utility Store Corporations and substantial support to all sectors through various policies. Further, relief of PKR 200 billion has been provided to Exporters, Agriculture and SME sectors, while the SBP has also cut the policy rate to 7.5% and has given relaxation of one year in repayment of principle under various refinance schemes. Stabilization and accommodative fiscal and monetary policies helped in mitigating the economic fallout of the COVID shock and laid the foundation of a V-shaped recovery.

One of the key reasons for Pakistan's economic recovery from COVID-19 has been its comprehensive and timely social protection response. The Federal Government announced a PKR 1.2 trillion relief and stimulus package, the largest ever stimulus package, focusing on healthcare, social protection and economic stability and stimulus. In order to provide comprehensive social protection to the most vulnerable segments of the population, the Ehsaas Emergency Cash Program worth PKR 150 billion was launched, out of which PKR 81 billion has been disbursed to over 6.6 million families and PKR 200 billion has been allocated to daily wage workers. According to a World Bank report on 'global social protection responses to Covid-19', Pakistan ranks fourth globally in terms of the number of people covered and third globally in terms of the percentage of population covered amongst those that covered over 100 million people. The Government has also been provided with external financing worth USD 6.74 billion through loans and grants.

[3] https://openknowledge.worldbank.org/bitstream/handle/10986/35274/9781464817007.pdf

Punjab's Contribution to Economic Recovery

The share of the key sectors in Pakistan's economy are agriculture 19.19%, industry 19.12% and services 61.68% (at constant basic prices, PBS 2020-21) and these sectors contribute to Punjab's economy 20%, 18%, and 62% respectively (PGS 2023). The sectoral share in the economy in Punjab, at the aggregate level, mirrors the sectoral contribution at the national level.

Punjab has a dominant role in the performance of the national economy. Although Punjab province, as a whole, contributes approximately 54% to the national income, 61% of the total employment in Pakistan (LFS, 2018), and houses 53% of the total population (Population Census, 2017). As per estimates, over a long run, Punjab's economy has generally performed better than the national economy.

Due to the significance of the province, the impact of COVID-19 on Punjab's economy is of critical importance to Pakistan. Consistent increase in COVID-19 cases has led Government of Punjab to impose several smart lockdowns across the province to curtail the spread of COVID-19.

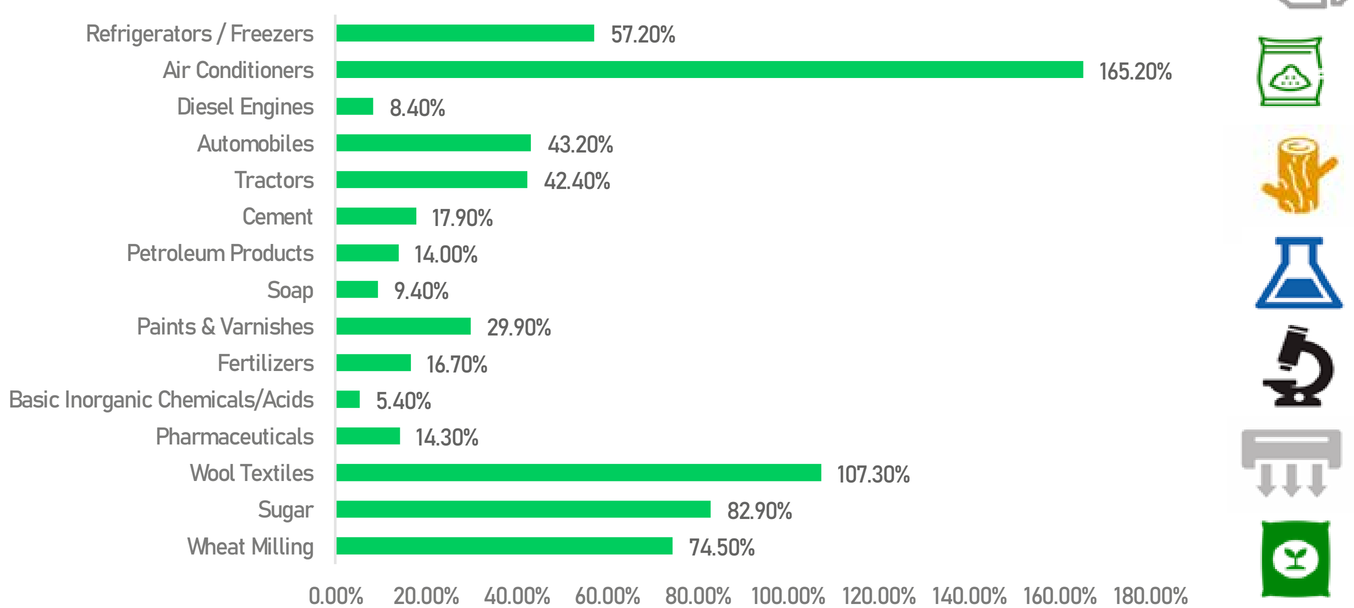
Frequent lockdowns have disrupted food supply chains of high-value agricultural products (vegetables, fruits, and milk) and farm inputs, but have had relatively less impact on the wheat harvest. Punjab contributes about 57% to the value of national agricultural production and produces more than 80% of the country's wheat and cotton, almost two-thirds of its sugarcane, and about half of its maize; and its horticultural output represents 67% of national production (Government of the Punjab 2018) making it inevitable for Government of the Punjab to take the necessary steps to revive the economy.

The decline in growth was more pronounced in the industrial and services sectors as opposed to the agriculture sector. The decline in economic activity and labor supply as well as the constraints on the movement of people impacted both manufacturing and the services sector resulting in the significant increase in poverty. Informal sector workers were the most vulnerable and many of them have lost their jobs due to the prevailing lockdown situation across the country.

The overall industrial production sector of Punjab reported a 6% increase in July-December 20-21 compared to the same period in the last financial year.[4]

[4] *http://bos.gop.pk/system/files/C.I.S%20Jan%2021.pdf*

% Increase in Production between July-December FY2019-20 and 2020-21 Punjab



% Decline in Production between July-December FY2019-20 & 2020-21 Punjab

The provisional numbers clearly show the upward trend in the second half of the CFY further strengthened taking the national growth in the LSM and construction sectors to 9.29% and 8.34% respectively.

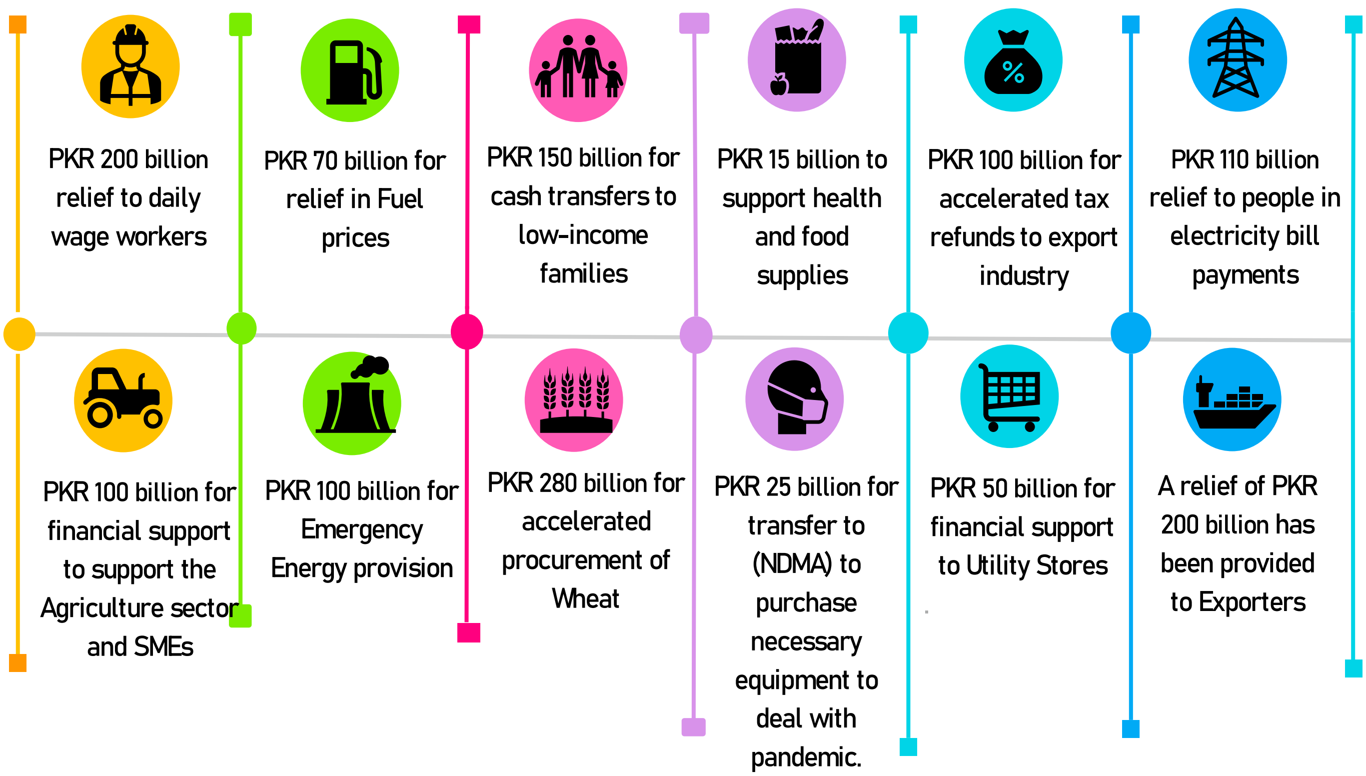
However, in addition to the introduction of PKR 1.24 trillion stimulus packages focusing on healthcare, social protection and economic stability, the opening up of the economy has provided the much-needed relief. The unprecedented concession for the construction and SME sectors by the government has also lessened the social and economic impact of the pandemic.

With the opening of the economy, private consumption has increased along with increase in inflow of remittance through formal banking channels leading to economic revival. Machinery imports and cement sales recorded double-digit growth rates suggesting a recovery in investment.

According to the World Bank, the industrial and services sector has shown recovery with "Large Scale Manufacturing" and business confidence indexes exceeding pre-pandemic levels, resulting in most informal workers affected by the pandemic being able to return to work. The World Bank estimates output growth to recover gradually over the medium-term, averaging 2.2% over FY2021-23, attributing mainly to contributions from private consumption.

Support Receipt from Federal Government

To face the challenges posed by the pandemic in March 2019 the Federal Government launched the Ehsaas program for social protection and poverty alleviation.



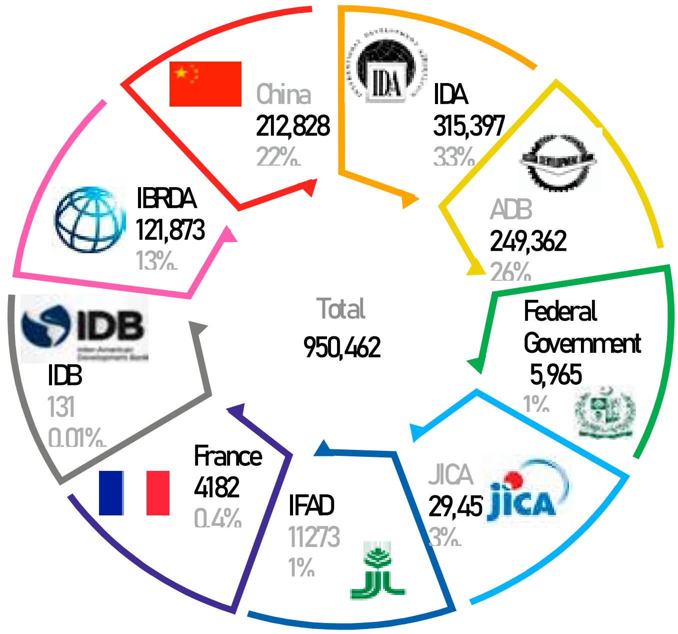
On 25th March 2021, the World Bank approved $600 million to the Government of Pakistan to expand the Ehsaas program.[5] These funds will support the government to gradually expand its flagship Ehsaas program, aiming to provide financial assistance to the underprivileged families across the country

Another major initiative of Punjab Government launched by the PM is the universal health insurance through the Sehat Insaf Card, a milestone program towards social welfare reforms; ensuring that the identified under-privileged citizens across the country get access to their entitled medical health care in a swift and dignified manner without any financial obligations. Almost 30 million families will benefit from this program.

The Federal Government has also been given external financing to overcome the crisis of COVID-19 consisting of loans and grants from the World Bank, IMF, Asian Development Bank, Islamic Development Bank, and countries such as China and France. The funding will be used for emergency medical supplies, relief funds, National Disaster Risk Management Fund, Development Policy Credit, reduction in interest payment and budgetary support. Additionally, on 24th March 2021, IMF announced an immediate purchase equivalent to about **US$500 million for** Pakistan **budget support** under the Extended Fund Facility.

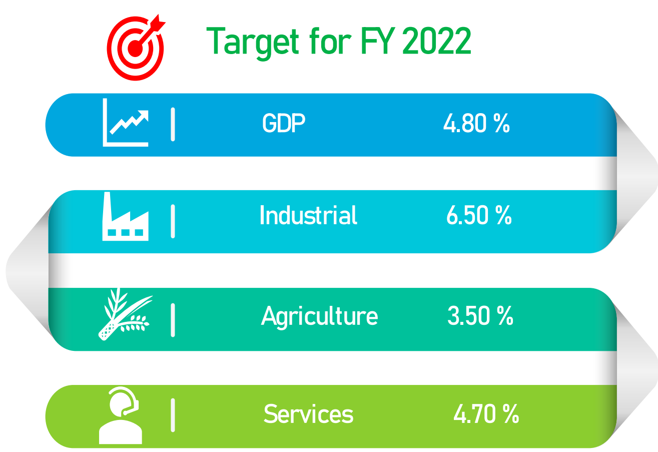
[5] *World Bank (2021b). World Bank Supports Expansion of the Ehsaas Social Protection Program in Pakistan to Increase Household Resilience to Economic Shocks.*

External Financing of USD 5,911 Million was made to Punjab through loans and grants. [6] As of 30th December 2020, the total outstanding debt for Punjab is PKR 950.4 billion, the details of which are provided below.



Future Outlook 2021-22

Having restored macroeconomic stability, economic policy focus is shifting towards growth. The economy is set to enter FY2022 with much improved business sentiments and significant momentum in economic activity. The impact of pandemic on economic activity is gradually subsiding with vaccine roll out and economies' adaptation of new ways of working with social distancing and restrictive protocols. Global growth outlook for the 2021-22 is optimistic for the global economy. Pakistan's well calibrated macroeconomic and social protection policies for the 2021-22 amidst COVID-19 has shown that the strategy of balancing between lives and livelihood is the durable and orderly way of delivering sustainable economic growth in the coming years. In FY2022, the economy is expected to consolidate on the growth momentum and a projected to deliver a healthy growth of 4.8%



	FY2020	FY2021	FY2022
	Revised	Provisional	Target
GDP	-0.47	3.94	4.80
Agriculture	3.31	2.77	3.50
Industrial	-3.77	3.57	6.50
Services	-0.55	4.43	4.70

Source: PBS, Planning Commission

Agriculture sector performance during FY2021 was impressive with crops sector showing exceptional performance baring cotton crop. There are bright prospects that the cotton crop will rebound in the coming year and remaining important crops will also build on the productivity gains achieved during FY2022.

[6] *World Bank (2021b). World Bank Supports Expansion of the Ehsaas Social Protection Program in Pakistan to Increase Household Resilience to Economic Shocks.*

Industrial sector has come into positive growth zone in FY2021, after two successive years of contraction. This broad-base revival of large-scale industries is expected to continue into FY2022. A combination of strong farm economics, construction sector boom and a likely acceleration in exports on the back of ongoing textile sector expansion to cater to stronger global demand will help lift the growth in the industrial sector to 6.5% in FY2020.

The services sector will likely benefit from further easing of pandemic induced restrictions as vaccination drive gains momentum. Moreover, strong agriculture output and growth in domestic demand would enable wholesale and retail trade continue its growth momentum. The overall services sector growth is projected at 4.7% in FY2022.

In view of the developing macroeconomic situation, Punjab government seeks to recalibrate tax policy providing tax relief to the most vulnerable segments of the society while withdrawing some of the general exemptions given in FYs 19 and 20. The government also intends to reduce tax expenditure as the economy has been impacted by COVID-19. Another important consideration for the government is to increase development expenditure to provide the much-needed fiscal stimulus to the recovering economy and to improve service delivery. The government is focusing on human capital development and social sectors. The government's planning a sizeable investment in the education and health sectors. One major initiative is the universal health coverage through the Sehat Insaf Card. It is also important for the government to increase social protection schemes to ensure that the vulnerable are protected against COVID-19. The government can expand its employment guarantee schemes to enable mass employment generation of semi to low skilled workers. It is important for the government to provide a stimulus package to the micro small medium enterprise sector. Similarly, public works programmes can be used as effective tools for employment generation. Efficient government expenditure on construction and public works increases investment in private sector. Government's efforts on PFM reforms should also be sustained so that a sound PFM system can be achieved that can help effective utilisation of resources.

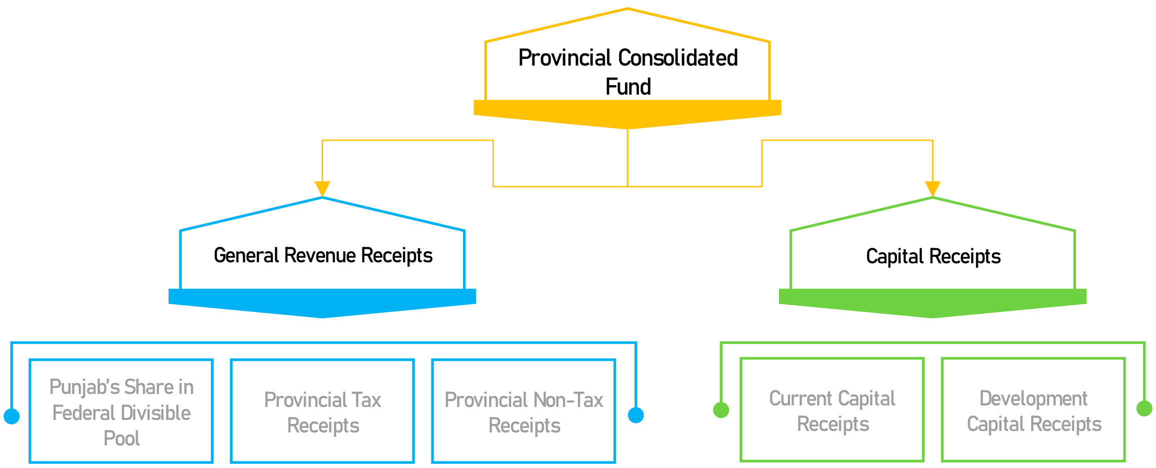
Chapter II – Estimates of Receipts

Annual Budget is regarded as the key manifestation of the priorities of a Government. For administrative purposes, however, the plan is reflected in terms of estimates of Receipts and Expenditure during a Fiscal Year. This Chapter is aimed at providing a comprehensive analysis of the Receipts of the Provincial Government in FY 2020-21 and projections for FY 2021-22.

Classification of Receipts by the Provincial Government

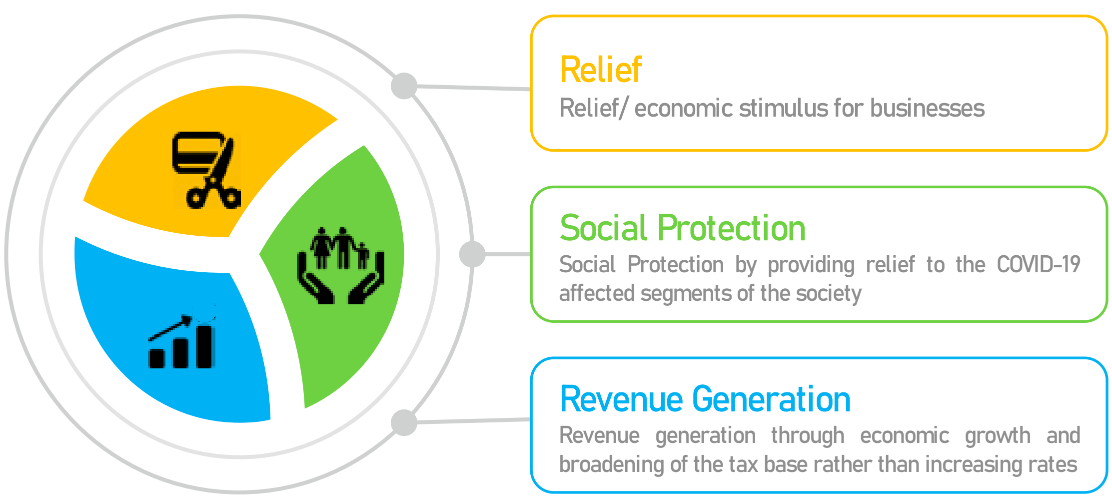
1 General Revenue Receipts & 2 Capital Receipts

The following diagram provides different sub-categories of the Receipts under the two main categories of Provincial Receipts:



Provincial Receipts mainly consist Federal Divisible Pool transfers, Own Source Revenue (Provincial Tax Receipts and Non-Tax Receipts) and loan amounts raised by and returned to the Province. It is pertinent to mention that the Divisible Pool transfers per capita (Inflation adjusted) have decreased over the years, resulting in shrinking of resources for provincial governments. To address this, Government of Punjab has been strategizing to enhance the Provincial Own Source Revenue and decrease dependence on the Divisible Pool transfers. This is essential to ensure financial sustainability and consistent allocation of sufficient resources for development in the Province. Focus has been mainly on increasing tax base by improving tax compliance and documentation of the economy, and increasing overall Tax and Non Tax receipts of the Province. Further, the Government is also engaging with multilateral development agencies to raise financial loans for undertaking major development projects.

Punjab has been leading, among federating units of the country, in its efforts to best deal with the COVID-19 pandemic. Government of Punjab has adopted a proactive approach to mitigate the negative impact on businesses by extending a Tax Relief Package worth more than PKR50 billion (discussed in detail below). Furthermore, subject to the outcome of the latest COVID-19 wave, it is expected that the provincial economy will recover from the impact of COVID-19 in FY 2021-22. Keeping in view the foregoing, the Ministerial Committee of the Cabinet on Resource Mobilization (RMC) adopted a multi-dimensional Fiscal Strategy with a focus



on striking a balance between provision of relief, revenue generation and social protection.

Based on multiple rounds of Finance Department's meetings with major Tax collecting Departments, and rigorous efforts of the RMC, a comprehensive tax-by-tax analysis of Punjab's Tax Relief Package and Departmental proposals for the FY2021-22 has been conducted. This has resulted in generation of additional provincial revenue estimated at Rs. 17.4 billion, for FY-2021-22. Following are the key recommendations finalized by the RMC:

Punjab's Tax Relief Package and Departmental Proposals: Key Recommendations

- Reduced PSTS to sectors closely associated with Construction sector including Architects, Town Planners, Supply of Machinery and Rental of Bulldozers
- Expansion of Reduced Rate on credit / debit card to mobile wallets & QR scanning to promote documentation of economy
- PSTS reduced to 5% for 10 sectors, including Fashion Designers, Dress Designing & Stitching Services, Laundries and Dry Cleaners, Commission (to the extent of Home Chefs) and Beauty Parlors
- Continuation of reduced rate of Stamp Duty from 5% to 1%
- Removing differential of property tax rate between commercial self & rented units
- Rationalization of the Board of Revenue valuation table
- Enhancement in Existing Land Based Rates of Agriculture Income Tax
- Enhancement in Water Rates to ensure efficient use of canal water

The table below summarizes the estimates of total Provincial Receipts of the Government:

(PKR Billion)

Receipts	BE 2020-21	RE 2020-21	BE 2021-22
a. General Revenue Receipt	**1,750.035**	**1,712.732**	**2,088.304**
Federal Divisible Pool	1,432.968	1,354.168	1,683.696
Provincial Taxes	220.886	228.650	272.566
Provincial Non-Tax	96.181	129.914	132.042
b. Capital Receipts A/C-I	**133.724**	**88.371**	**119.370**
Current Capital Receipts	86.630	57.497	54.148
Development Capital Receipts (Foreign Projects Assistance)	47.094	30.874	65.222
c. Capital Receipts A/C-II	**331.869**	**482.021**	**420.339**
d. Innovative Financing	**25.000**	**15.989**	**25.000**
Total Provincial Consolidated Fund (a+b+c+d)	**2,240.628**	**2,299.113**	**2,653.014**

General Revenue Receipts

The main components of General Revenue Receipts as per Annual Budget Statement are **Federal Divisible Pool**, **Provincial Tax Receipts** and **Provincial Non-Tax Receipts**. The table below shows the details of Budget Estimates and Revised Estimates of General Revenue Receipts for FY 2020-21 in comparison with the anticipated Budget Estimates for FY 2021-22.

(PKR Billion)

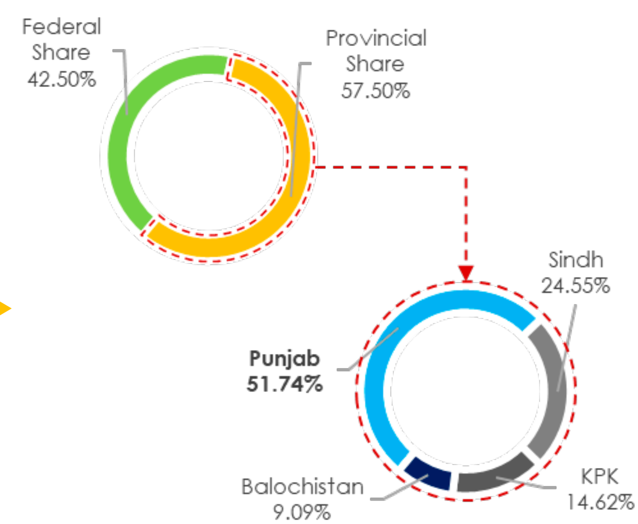
General Revenue Receipts	BE 2020-21	RE 2020-21	BE 2021-22
Federal Divisible Pool Taxes	**1432.968**	**1354.168**	**1683.696**
Tax on Income	587.887	513.756	626.878
Land Customs	184.043	201.503	225.971
Sales Tax	558.763	561.249	729.950
Capital Value Tax	0.887	0.146	0.164
Federal Excise	100.882	77.148	100.313
Excise Duty on Natural Gas	0.507	0.365	0.419
Provincial Tax Revenue	**220.886**	**228.650**	**272.566**
Board of Revenue	56.000	56.200	65.950
Excise, Taxation & Narcotics Control Department	32.364	30.500	42.766
Transport	0.675	0.600	0.700
Finance (Punjab Revenue Authority)	125.000	141.150	155.900
Energy	6.847	0.200	7.250
Provincial Non-Tax Revenue (Including Straight Transfers and Grants)	**96.181**	**129.914**	**132.042**
Income from Property and Enterprise	10.208	18.855	26.848
Receipts from Civil Administration and Other Functions	16.479	14.411	17.978
Miscellaneous Receipts	69.494	96.648	87.216
Total General Revenue Receipts	**1,750.035**	**1,712.732**	**2,088.304**

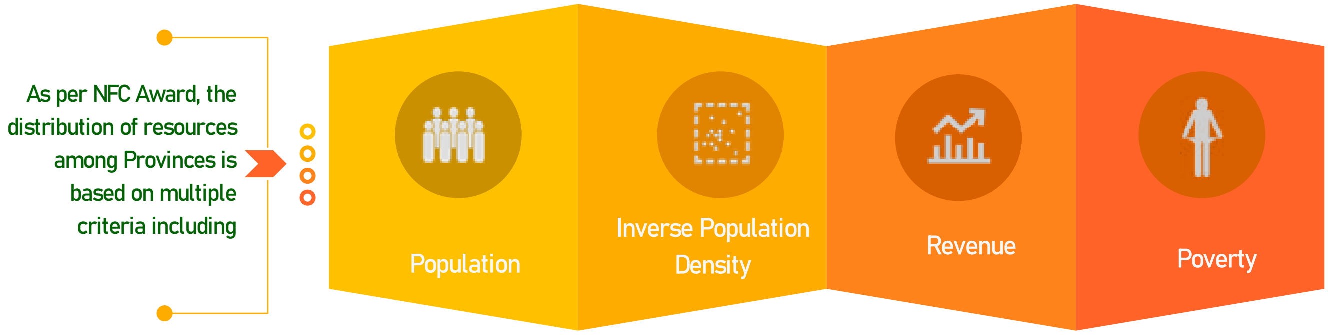
FEDERAL DIVISIBLE POOL TAXES

The major source of revenue for the Provincial Government is the receipt of Federal Divisible Pool share which constitutes **81%** of the General Revenue Receipts projected for FY 2021-22. Under the 7th NFC Award, the Divisible Pool of Taxes as collected by FBR has been laid down as under:

Divisible Pool of Taxes as collected by FBR (under the 7th NFC Award)

- Taxes on income
- Wealth Tax
- CVT
- Taxes on sales and purchase of goods imported, exported, produced, manufactured and consumed
- Export duties on Cotton
- Customs-duties
- Federal Excise Duties excluding the excise duty on gas charged at well heads





Since the Divisible Pool transfers constitute a large proportion of General Revenue Receipts, even a small percentage variation between Federal Board of Revenue's Budgeted Estimates and Actual Collection leads to a major re-adjustment in Provincial Receipts. The following table shows the variance between Budget Estimates and Actual Tax Collection by FBR during the last four years:

(PKR Billion)

	2016-2017	**2017-18**	**2018-19**	**2019-20**
Budget Estimates	3,621	4,013	4,435	5,555
Actual Collection	3,361	3,841	3,829	3,998
Excess/Shortfall	-260	-172	-606	-1,557
Excess/Shortfall (in Percentage)	**-7.18%**	**-4.29%**	**-13.66%**	**-28.03%**

Punjab's Estimated Federal Divisible Pool Receipts

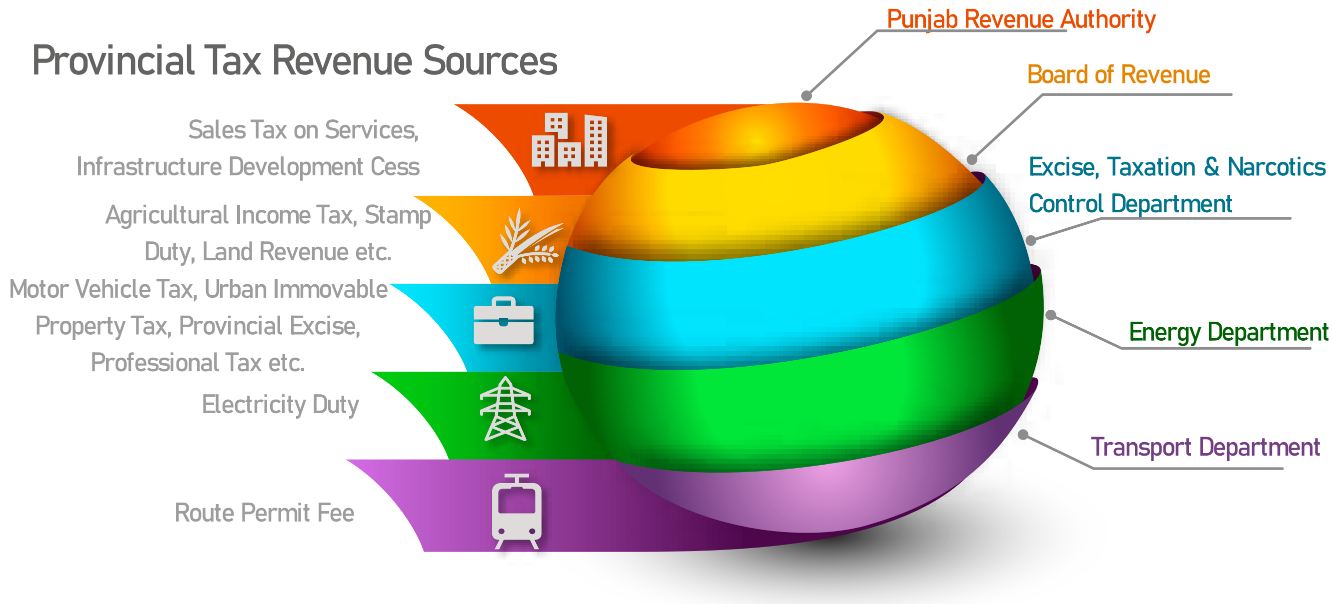
PKR 1,432.968 bn ← +17.5% → PKR 1,683.696 bn

B.E. FY 2020-21 | B.E. FY 2021-22

The last tranche of the FDP is received around the 28th of June each Financial Year. The common practice is to conduct the settlement and reconciliation exercise for the entire FY as well as the last two to three days of June and transfer the balance amounts to the Provinces in the form of arrears in the first quarter of the next FY.

PROVINCIAL TAX REVENUE

The second component of the General Revenue Receipts is termed as Provincial Tax Revenue. The tax revenue is collected by the following agencies of the Government:



The details of taxes budgeted for FY 2021-22 is presented below:

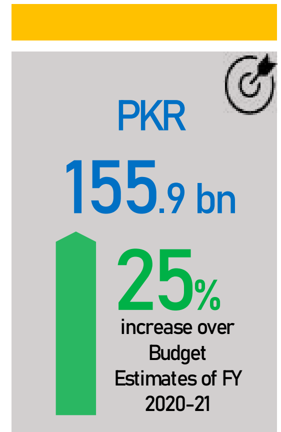
(PKR Billion)

Tax Receipts	BE 2020-21	RE 2020-21	BE 2021-22
Punjab Revenue Authority	**125.000**	**141.150**	**155.900**
Sales Tax on Services	121.000	136.650	150.900
Punjab Infrastructure Development Cess	4.000	4.500	5.000
Board of Revenue	**56.000**	**56.200**	**65.950**
Agricultural Income Tax	2.500	2.500	5.250
Registration of documents	0.074	0.587	0.700
Land Revenue	20.000	15.986	20.000
Capital Value Tax	0.000	0.100	0.000
Stamp Duty	33.426	37.026	40.000
Excise, Taxation & Narcotics Control Dept.	**32.364**	**30.500**	**42.766**
Urban Immovable Property Tax	14.500	14.408	22.230
Tax on Professions, Trades and Callings	1.200	1.050	1.366
Receipts under Motor Vehicles	13.031	12.500	15.560
Provincial Excise	3.114	2.200	3.194
Tax on Luxury Houses	0.092	0.092	0.060
Other Indirect Taxes	0.427	0.250	0.356
Energy	**6.847**	**0.200**	**7.250**
Electricity Duty	6.847	0.200	7.250
Transport	**0.675**	**0.600**	**0.700**
Motor Vehicles fitness certificate and permit fee	0.675	0.600	0.700
Total Provincial Tax Revenue	**220.886**	**228.650**	**272.566**

The above table shows that tax collection by the Punjab Government during FY 2021-22 is estimated at **PKR 272.57 billion** as compared to BE 2020-21 of PKR 220.89 billion. Major increase in Provincial revenue is expected from Sales Tax on Services and Urban Immoveable Property Tax. Both taxes have high potential through expansion of tax base and effective enforcement.

Punjab Revenue Authority (PRA)

PRA was assigned a revenue collection target of PKR 125.000 billion for FY 2020-21. The target was based on the revenue collection trends of the preceding years, the revenue generation potential of the assigned taxes and tax policy measures taken by the Government. In spite of overall impact of COVID-19 on the service sector and the reduction of PSTS on 20 plus sectors under the **Tax Relief Package,** PRA has performed exceptionally well in terms of collection, subsequently, the R.E for FY2020-21 has been set at **PKR 141.150 billion**. This amount also includes the transfer of PKR 16.6 billion received from the FBR against Cross-Adjustment of input taxes of PRA.



Services such as Telecommunications, Banking/ Insurance, Contractual Execution etc. were expected to be the primary revenue spinners for PRA during the financial year and have also generated the highest revenue amongst different sectors as shown below. The following table shows the Revised Estimates of collection from major Services during the year:

Sales Tax on Services Collection 2020-21 (Total PKR 141.150 bn)

PRA has done remarkably well to maintain very high growth in revenue collection over the past years. Based on the revenue trends, PRA has been assigned a target of **PKR 155.9 billion** for FY 2021-22 with an increase of **25%** over Budget Estimates of FY 2020-21. Further, the Government has reduced the PSTS for ten sectors from 16 to 5% to incentivize compliance.

Board of Revenue (BOR)

BOR's collection is estimated at **PKR 65.95 billion** for FY 2021-22. The major tax heads under BOR's purview are elaborated for the purpose of clarity:

Agricultural Income Tax:

Agricultural Income Tax (AIT) is an important Direct Tax of Provinces, collected under the AIT Act of 1997. It is levied as a fixed amount per acre of land, or as a percent of income of owners of agricultural land, whichever is higher. The rates of Land Based Agricultural Income Tax under the Punjab Agricultural Income Tax Act, 1997 were last time revised in 2019. With passage of time the prices of agricultural products have shown further rise, therefore, the tax rates have been further rationalized and enhanced from FY-2021-22 onwards. The BE for AIT for FY 2021-22 is set at **PKR 5.25 billion**.

Land Revenue:

Land revenue is a broad category and includes a number of receipts related to land revenue functions, the largest being mutation fee. This category of Provincial Tax Receipts has a lot of potential and is expected to contribute upto **PKR 16 billion** to the provincial exchequer during FY 2020-21. Further, the BE for Land Revenue for FY 2021-22 is set at **PKR 20 billion** which is 25% higher than the RE of FY 2020-21.

PKR 16 bn	PKR 20 bn
Revised Estimate 2020-21	Budget Estimate 2021-22

Stamp Duty:

Government has reformed the system by introducing e-Stamps to facilitate taxpayers, plug leakages in this tax collection and to ensure greater transparency in the process of transfer of property. This reform has shown a decent growth since implementation of reform initiative.

A priority area for the Federal and Provincial Governments has been the Construction Sector. In order to further boost the Sector, the Government of Punjab has continued the reduced Stamp Duty rates, for transactions of land in Urban areas to 1% from 5%, for FY 2021-22. Keeping in view the annual growth trajectory the Budget Estimates of Stamp Duty for FY 2021-22 have been pitched at **PKR 40 billion** which is 20% higher than the BE of FY 2020-21.

Excise, Taxation & Narcotics Control Department

Excise, Taxation & Narcotics Control Department provides services for collection of eight different levies/ taxes. The Department aims to promote automation of its functions to optimize service delivery through reduced interface between public and Government officials. The major tax heads under purview of Excise, Taxation & Narcotics Control Department are as indicated below:

Motor Vehicle Taxes:

Excise, Taxation & Narcotics Control Department collects 'Tax on Registration' and 'Token Tax' on motor vehicles. The BE 2020-21 of MV Taxes was PKR 13.031 billion. The Revised Estimate for this tax has been pitched at PKR 12.500 billion, while the target for the next Financial Year has been estimated as **PKR 15.56 billion**.

Urban Immoveable Property Tax (UIPT):

The UIPT for FY 2021-22 stands at **PKR 22.230 billion** which is 54% higher than BE 2020-21. This is a tax devolved to Municipal Committees, Municipal Corporations and Metropolitan Corporation under Local Government legislation in Punjab. However, for administrative purpose, it is being collected by the Provincial Government. The proceeds of this tax are passed on to the respective Local Governments/local agencies from where the tax is collected.

Administrative Relief Proposed for FY2021-22

Reg. Fee and Token Tax

1. Waiver of penalty on late payment of motor vehicle tax in 1st and 2nd Quarter of FY 2021-22
2. 5% Rebate for payment through ePay Punjab

UIPT

1. Waiver of surcharge on late payment of UIPT in 1st and 2nd Quarter of FY 2021-22
2. Collection of UIPT in 2 installments
3. 5% rebate for payment through ePay Punjab

Professional Tax

The B.E for FY 2021-22 with respect to Professional Tax has been pitched at **PKR 1.37 billion** against the Revised Estimates for FY2020-21 to the tune of PKR 1.05 billion.

Non-Tax Revenue

Categories of Provincial Non-Tax Revenue

- Income from publicly owned property and enterprises
- Receipts from Civil Administration and other functions
- Extraordinary Receipts
- Miscellaneous Receipts from toll, fees, cess etc. collected by Provincial Departments (excluding Federal Grants and Development Surcharges and Royalties)

Revised Budget Estimates FY 2020-21 & Projected Budget Estimates FY 2021-22 are:

(PKR Billion)

Non-Tax Revenue	BE 2020-21	RE 2020-21	BE 2021-22
Income from Property and Enterprises	**10.208**	**18.855**	**26.848**
Electricity (Net Hydel Profit)	5.000	7.500	12.500

Net Hydel Profit Arrears	5.000	7.500	12.500
Interest on Loans to District Govts. / TMAs	0.040	0.040	0.035
Interest on Loans to Financial Institutions	-	-	-
Interest on Loans to Non-Financial Institutions.	0.163	2.292	0.309
Interest on Loans & Advances to Govt. Servants.	-	-	-
Interest on Loans – Others	0.005	0.004	0.004
Dividends	-	1.519	1.500
Civil Administration and other Functions	**16.479**	**14.411**	**17.978**
Fiscal Administration	**0.815**	**1.200**	**1.205**
Law and Order	**6.878**	**5.884**	**7.555**
Justice	0.622	0.573	0.750
Police Department	6.100	5.125	6.600
Jails including Civil Defense	0.156	0.186	0.205
Community Services	**4.215**	**3.554**	**4.335**
Communications & Works	3.900	3.270	4.025
Public Health	0.315	0.284	0.310
Social Services	**4.036**	**3.307**	**4.292**
Education	1.950	1.757	2.106
Health	2.086	1.550	2.186
Housing and Physical Planning	**0.535**	**0.466**	**0.591**
Miscellaneous Receipts	**69.494**	**96.648**	**87.216**
Agriculture	1.072	1.092	1.147
Board of Revenue	20.356	10.250	30.356
Fisheries	0.320	0.421	0.380
Forest & Wildlife	0.918	0.865	1.020
L&DD	1.026	1.115	1.270
Cooperative	0.003	0.003	0.004
Irrigation	4.201	4.300	11.317
Industries	0.347	0.380	0.412
Mines & Minerals	11.000	10.000	11.660
Home	0.952	0.899	1.087
Misc.	18.974	20.939	18.724
Federal / Foreign Grants	4.177	39.526	2.437
Straight Transfers	6.148	6.858	7.402
Total	**96.181**	**129.914**	**132.042**

Income from Property & Enterprises mainly consist of profits of hydroelectricity generating units referred to as **'Net Hydel Profits' (NHP)** located in Punjab – in line with Article 161(2) of the Constitution of Pakistan 1973. An amount of **PKR 3.7 billion** was received as arrears of NHP during FY2020-21. The running payment for FY2021-22 is forecasted at **PKR 12.5 billion**. Further, an amount of PKR 25 billion has been budgeted for FY2021-22 in lieu of NHP with the following break-up:

PKR 12.5 bn
NHP Arrears Payment (Expected)

PKR 12.5 bn
NHP Running Payment (FY 2021-22 Forecasted)

PKR 25.0 bn
NHP Budget FY 2021-22

The other main source of Revenue under this category is '**Interest on Loans**' advanced by the Government to financial and non-financial institutions. The revenue from '**Civil Administration & Other Functions**' can be divided into:

Civil Administration & Other

Law and Order

Receipts collected by Law Department from *sale proceeds of unclaimed and escheated property, court fees realised in cash, general fee, fines & forfeitures, receipt of official record room & recoveries of over-payments, etc.*

Receipts collected by Home Department include sale proceeds of articles manufactured in jail, fines, payments on services rendered including supplies made by workshop of department

Receipts collected by Police Department on account of police personnel deputed at the strength of Railways, Federal Government, public departments, fees, fines, forfeiture, motor driving license fee, traffic fines, e-challans, police land receipts and recoveries of overpayments.

Community Services

The Receipts from 'Toll on Provincial Roads and Bridges' are the major sources of income in this category. Levy of toll on 13 new roads has already been approved by the Government since FY2019-20.

Social Services

These Receipts pertain to different social services like Health and Education etc. The Budget Estimate for FY 2021-22 has been set at PKR 4.292 billion

For **Miscellaneous Receipts**, the Budgetary Estimates for FY 2021-22 have been pitched at **PKR 87.22 billion**. Under Article 161 of the Constitution and the NFC Award, Straight Transfers to the Provinces include Net Proceeds of the Federal Excise Duty on Natural Gas**,** Net Proceeds of Royalty on Crude Oil and Natural Gas assigned to the Provinces under the Constitution. The table below compares Straight Transfers receipts:

(PKR Billion)

Component	BE 2020-21	RE 2020-21	BE 2021-22
Net Proceeds of Royalty on Crude Oil	4.616	3.615	3.648
Net Proceeds of Royalty on Natural Gas	1.629	1.548	1.732
Surcharge on Natural Gas-share of net	(0.097)	1.696	2.021
Total	**6.148**	**6.858**	**7.402**

Federal Grants

The PSDP grant are merely a pass-through item as far as Provincial budget is concerned as the same are passed on to different executing agencies for implementation of Federal Development Projects for which these Development grants are received from the Federal Government.

Foreign Program Grants
+
Public Sector Development Programs (PSDP)
=
Federal Grants

(PKR Billion)

Component	BE 2020-21	RE 2020-21	BE 2021-22
Programme Grants (Foreign i.e. PESP-II, NISP etc.)	4.177	3.710	2.437
PSDP Grants / Federal Grant (Dev + N.Dev)	0.000	35.816	0.000
Total	**4.177**	**39.526**	**2.437**

(PKR Billion)

Particulars	BE 2020-21	RE 2020-21	BE 2021-22
DFID-Punjab Education Sector Project-II	-	2.137	-
DFID-Punjab Skills Development Project	2.434	0.385	-
National Immunization Support Project	-	0.697	1.347
Enhancing PPPs in Pakistan (Punjab)	0.643	0.352	0.644
IFAD-Southern Punjab Poverty Alleviation Project Program	-	0.081	0.244
Hydraulic Model Study USA HRS Nandipur Irrigation Research Institute	-	0.003	-
JICA-Construction of Distribution Center, Rehabilitation of Old Jhal Khanuana Water Treatment Plant	-	-	0.202
Women's Income Growth and Self Reliance Program in Punjab (WINGS)	1.100	0.055	-
Total	**4.177**	**3.710**	**2.437**

CURRENT CAPITAL RECEIPTS

Current Capital Receipts of the Province include all the new loans borrowed or raised by the Provincial Government (except for loans for specific Development projects) and recoveries of loans granted to provincial entities/authorities/financial institutions, provincial employees or the District Governments. Current Capital Receipts may be credited either to the Provincial Government's Account No. I (Non-Food Account) or Account No. II (Food Account), depending on the nature of the receipt.

- Money raised through loans
- Budgetary support programmes of multilaterals
- Recoveries of principal amount of loans advanced by the Government to its Employees and Autonomous Bodies

Credited to Account I

- Receipts from sale of wheat
- Financing for procurement of wheat

Recorded in Account II

For the Financial Year 2021-22, estimate of total Current Capital Receipts is pitched at **PKR 499.487 billion** compared to a Budget Estimate of PKR 443.499 during FY 2020-21. The table below provides a detailed comparison of Current Capital Receipts for FY 2020-21 and FY 2021-22 (*in PKR Billion*):

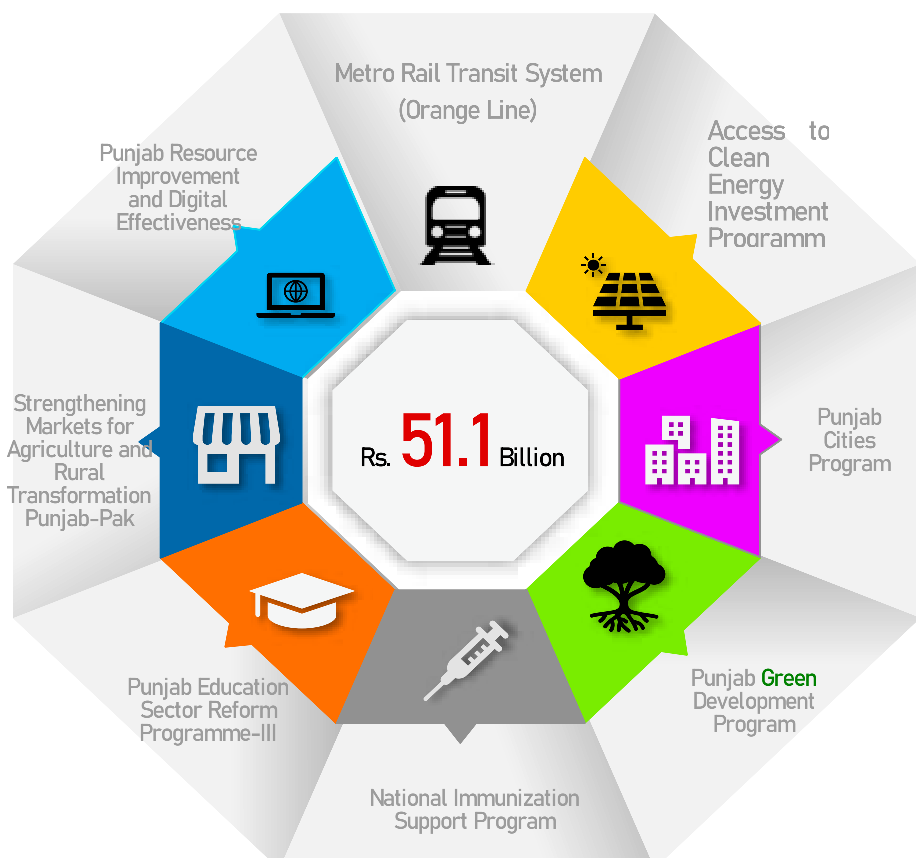
(PKR Billion)

Receipts	BE 2020-21	RE 2020-21	BE 2021-22
Loans & Advances/ Recoveries of Loans and Advances	**1.280**	**18.525**	**3.049**
From District Governments/TMAs/Local Bodies	0.024	0.024	0.017
From Financial Institutions	0.000	0.000	0.000
From Non-Financial Institutions	1.236	18.477	3.009
From Government Servants	0.020	0.024	0.024
From Private Sector (Taccavi Loans)	0.000	0.000	0.000
Debt	**85.350**	**38.972**	**51.099**
Permanent Debt-Domestic	0.000	0.000	0.000
Permanent Debt-Foreign	85.350	38.972	51.099
Account No. I Total	**86.630**	**57.497**	**54.148**
Recoveries of Investment-State Trading Schemes	173.913	198.571	217.434
Cash Credit Accommodation	157.956	283.450	202.905
Account No. II Total	**331.869**	**482.021**	**420.339**
Innovative Financing	**25.000**	**15.989**	**25.000**
Total Current Capital Receipts (Account No. I & II)	**443.499**	**555.507**	**499.487**

"Domestic and Foreign Loans borrowed directly or through the Federal Government comprise the Permanent Debt of the Provincial Government.

Account No. I - Permanent Debt: The Budget Estimates for FY 2021-22 for the permanent debt (foreign) have been estimated at **PKR 51.099 billion**. The Government would receive budgetary support loans from World Bank under Punjab Education Sector Reform Program, Punjab Skills Development Project, Punjab Jobs & Competitiveness Project, Strengthening Markets for Agriculture and Rural Transformation (SMART), Punjab Green Development Program, Punjab Cities Program and Punjab Resource Improvement and Digital Effectiveness (PRIDE) Program. The Revised Estimates of FY2020-21 were lesser than the Budget Estimates 2020-21 due to restructuring of Disbursement Linked Indicators (DLIs) of PESP-III and SMART Projects, which is under process with the consultation of World Bank, and owing to COVID-19 pandemic and subsequent lockdown.

Detail of Loan	B.E. 2020-21	R.E. 2020-21	B.E. 2021-22
Punjab Skills Development Project	1.587	1.714	-
Punjab Jobs & Competitiveness Project	2.291	1.263	-
Punjab Education Sector Reform Programme-III	12.464	7.614	4.962
Access to Clean Energy Investment Programme	3.300	2.424	1.597
National Immunization Support Program	-	0.703	0.932
Strengthening Markets for Agriculture and Rural Transformation (SMART) Punjab-Pak	7.425	4.206	5.670
Punjab Cities Program	3.878	3.807	3.807
Punjab Green Development Program	6.600	1.620	6.804
Punjab Resource Improvement and Digital Effectiveness (PRIDE)	1.650	4.779	12.150
Punjab Human Capital Investment (HCI) Project	5.364	-	-
Metro Rail Transit System (Orange Line)	40.791	10.842	15.177
Total	**85.350**	**38.972**	**51.099**



Account No. II - Public Debt (Food Account): Food Account of the Province, commonly known as Account No. II, is also maintained with the State Bank of Pakistan like Account No. I. However, the former account is meant exclusively for transactions relating to state trading in food commodities by the Food Department.

Finances for Food Commodity purchases raised through 'Cash Credit Accommodation', carried out by a Consortium of Banks

Wheat Grain procured directly from farmers by the Food Department with Financing from Banking Consortia

Receipts from sale of wheat are then deposited in Account No. II, from where these are utilised to retire the Consortia Loans

During FY2021-22, an amount of **PKR 420.339 billion** is estimated to be received for commodity operations compared to the amount of PKR 482.021 billion realized during FY 2020-21.

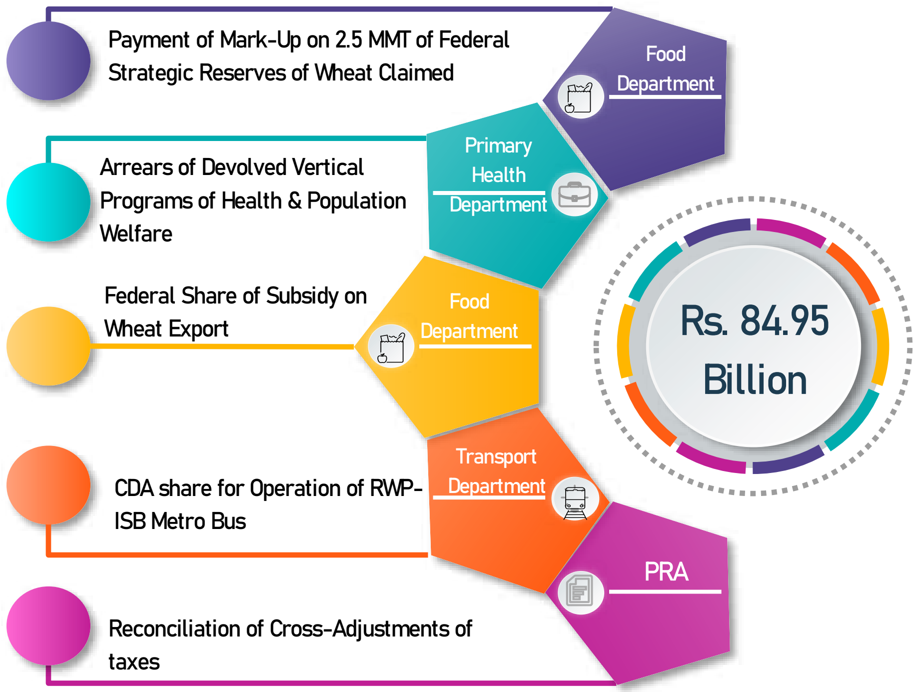
Development Capital Receipts

The loans borrowed from multilateral donor agencies through the Federal Government for specific foreign-assisted development projects are termed as **Development Capital Receipts** or **Foreign Project Assistance**. The estimated Receipts will be utilized for a number of Development projects for which, a total of PKR 65.222 billion worth of loans for Development projects are expected to be realized during the FY 2021-22 including 11 new projects (in pipeline) amounting to PKR 25.078 billion which are expected to be signed during next financial year and disbursements of these new projects will be received from respective donors accordingly. The difference between the BE and RE for FY 2020-21, PKR 16.220 billion less disbursed, arose as work could not be executed due to COVID-19 and subsequent lockdowns.

Further, at the start of FY2020-21, claims of various Provincial Departments, pending with the Federal Government came to the tune of PKR 99.58 billion (excluding NHP dues of approximately PKR 56.9 Billion). During the CFY, an amount of PKR 16.6 billion of PRA was settled and credited to Punjab. Whereas, the current claim of PKR 84.946 billion (excluding NHP dues) is still pending (detail in table below) with the Federal Government. These claims, which if received, will create additional fiscal space in the Development budget of the Province.

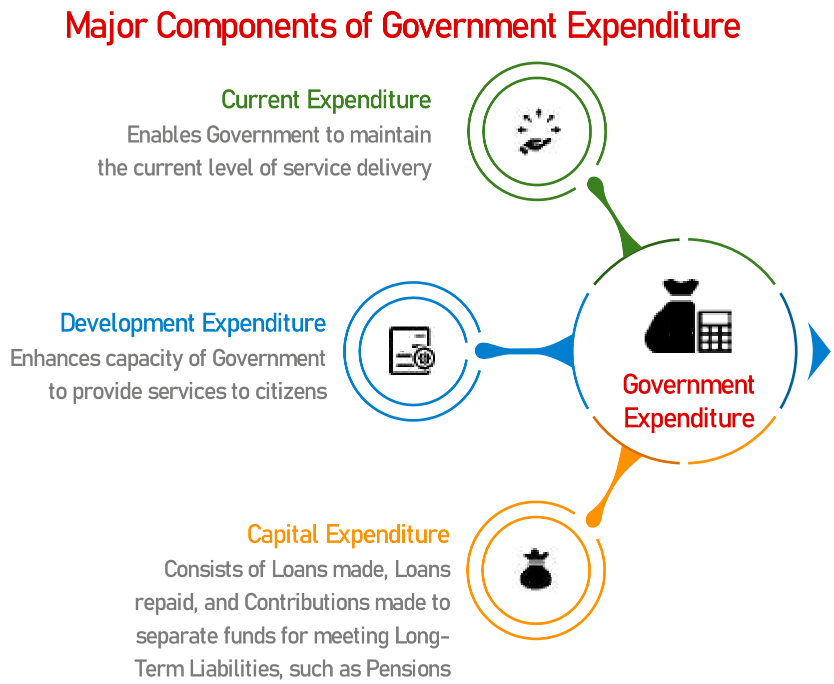
(PKR Billion)

Issues	Department	Amount
Payment of Mark-Up on 2.5 MMT of Federal Strategic Reserves of Wheat Claimed	Food	33.796
Arrears of Devolved Vertical Programs of Health & Population Welfare	Primary Health	32.28
Federal Share of Subsidy on Wheat Export	Food	9.96
CDA share for Operation of RWP-ISB Metro Bus	Transport	5.36
Reconciliation of Cross-Adjustments of taxes	PRA	3.55
Total	**Total**	**84.946**



The Provincial Government has taken up the issue with the Federal Government during various meetings. The Chief Minister of Punjab has also requested the Prime Minister for his intervention. However, the settlement might take longer than anticipated. It is, therefore, thought appropriate that these claims may not be budgeted as Receipts for the CFY as their reconciliation and settlement may not actualize during FY 2021-22.

Budgetary outlays for Financial Year 2021-22 have been formulated against the backdrop of a Covid 19 pandemic recovering economy. The FY 2020-2021 brought a host of fiscal challenges. Notwithstanding these, Government of the Punjab adopted a strict monitoring regime on expenditure, regular monthly reviews, with prudent spending being the order of the day, and without compromising on essential services delivery. Expenditure on Health sector and allied services continues to grow. Public Works program for employment generation is being promoted as an effective tool and will receive additional funds. It also coincides with Federal priority program of provision of low cost housing to public as well as a boost to construction sector in general. While essential expenditures cannot be truncated, stringent austerity measures to curtail nonessential spending is a need of the hour to achieve financial balance.



Public spending is critically significant in Pakistan's economy. Generally, Government expenditure is carried out for the purpose of public welfare by provision of Public Goods, investment in social sectors like Health and Education, for improvement in labour productivity, provision of subsidies where necessary, along with equitable redistribution of income. With massive resource constraints, consequent to the pandemic COVID-19, Government of the Punjab has made efforts to ensure that spending in key areas is not compromised and the benefits of expenditure reach all segments of society.

Abstract of Expenditure FY 2021-22

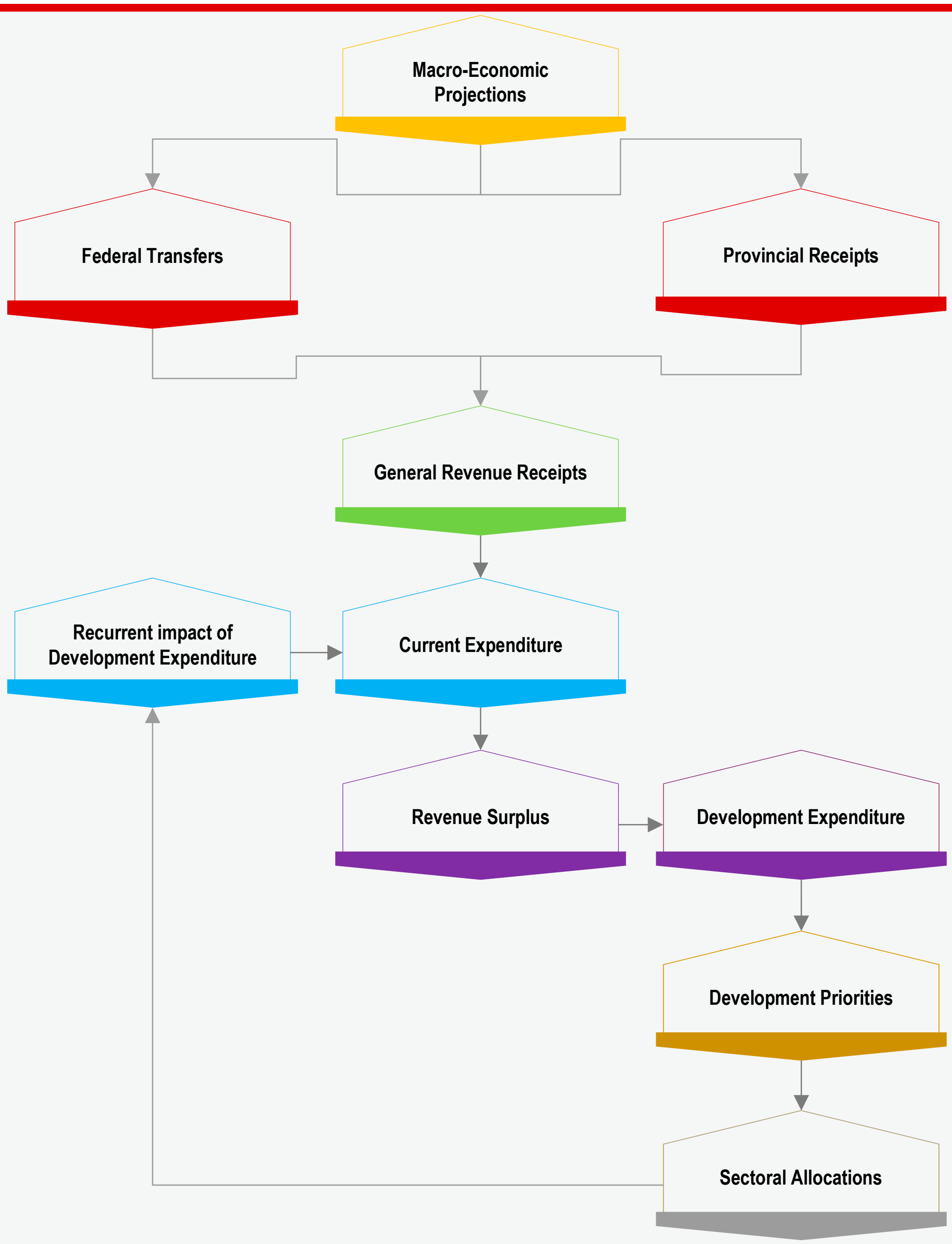
(PKR Billion)

CLASSIFICATION	BE 2020-21	RE 2020-21	BE 2021-22
Current Revenue Expenditure	**1,318.338**	**1,314.906**	**1,427.900**
Social Sectors	681.798	663.150	744.403
Infrastructure Development	49.268	60.057	47.636
Production Sectors	61.180	63.806	66.703
Services Sectors	513.894	515.642	557.045
Others	12.196	12.249	12.110
Current Capital Expenditure	**460.292**	**569.193**	**540.114**
Repayment of Principal	55.084	48.297	54.158
Investments	43.800	11.290	39.995
Loans and Advances (Principal)	29.411	27.464	25.621
State Trading in Medical Stores	0.127	0.121	-----
State Trading (Wheat) (A/C-II)	217.211	349.264	273.122
Repayment of Commercial Bank Loans (A/C-II)	114.659	132.756	147.217
Development Expenditure	**337.000**	**375.222**	**560.0**
Annual Development Programme	337.000	375.222	560.0
Total Expenditure	**2,115.628**	**2259.320**	**2528.013**

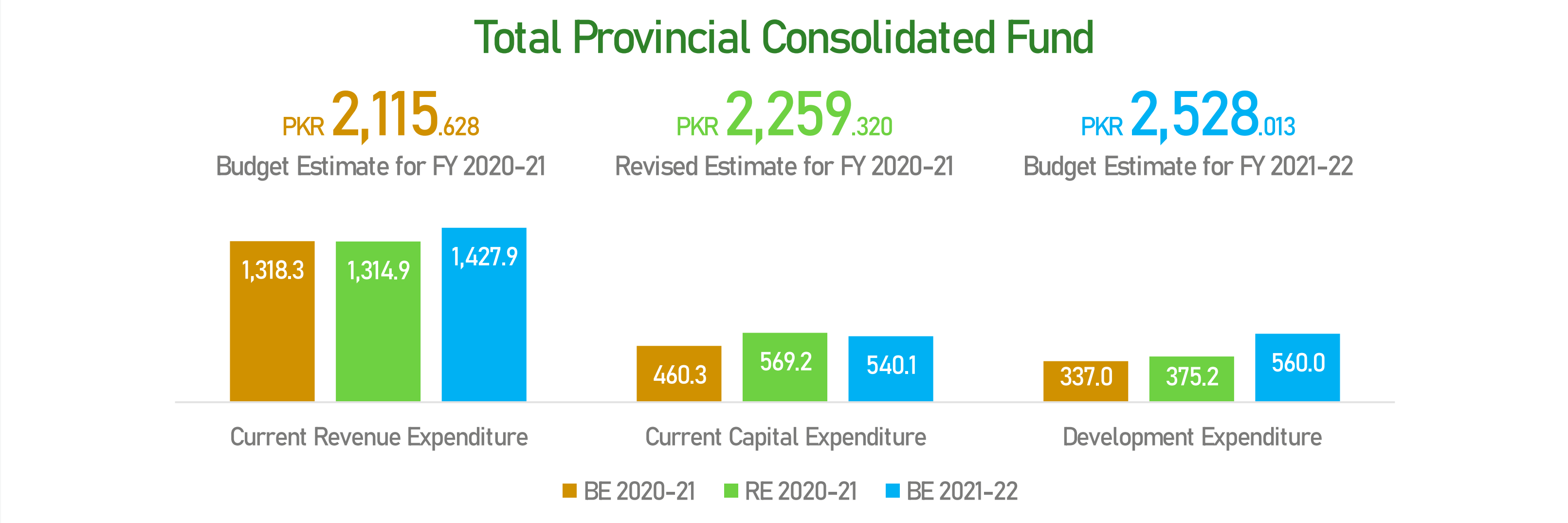
Articles 120-126 of the Constitution of Islamic Republic of Pakistan, 1973 provide framework for Annual Budget Statement, Demand for Grants, Charged and Voted Expenditure out of Provincial Consolidated Fund, procedure for Annual Budget Statement, Authentication of Schedule of Authorized Expenditure and procedure for Supplementary Grants for excess expenditure.

After accommodating the demands of Current Revenue Expenditure and Current Capital Expenditure, the net surplus is available for financing the Development Expenditure, which may be additionally financed through foreign aided projects. The budgetary allocations tend to strike a balance between competing demands of Current and Development Expenditures. Without compromising on essential areas of Current and Capital Expenditure, the Provincial Budget bids to ensure maximum surplus for Development Expenditure.

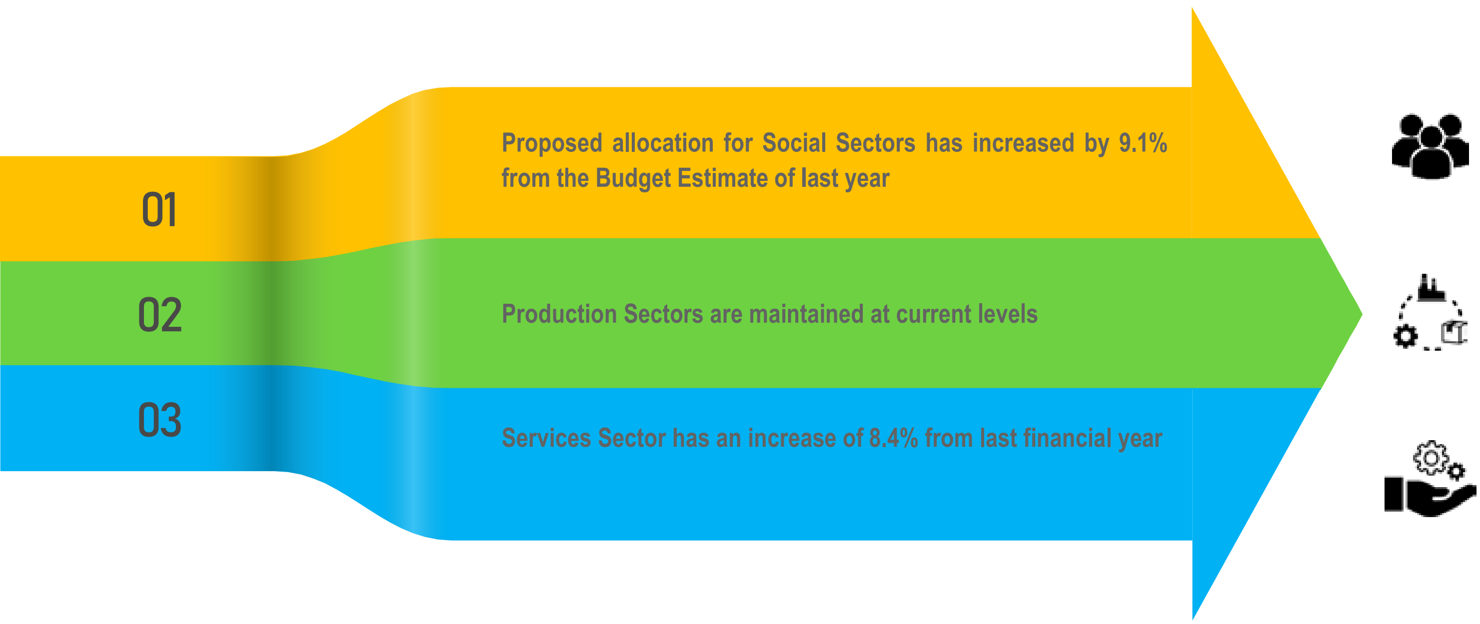
Budgetary Framework



Against the various components of expenditure, a comparison of allocations in year 2020-21 and 2021-22 is explained as follows:



The Current Expenditure, which is classified into five sectors, has been estimated at PKR 1,427.900 for FY 2021-22, which is (8.3%) higher than the outgoing Financial Year's Budget Estimates.

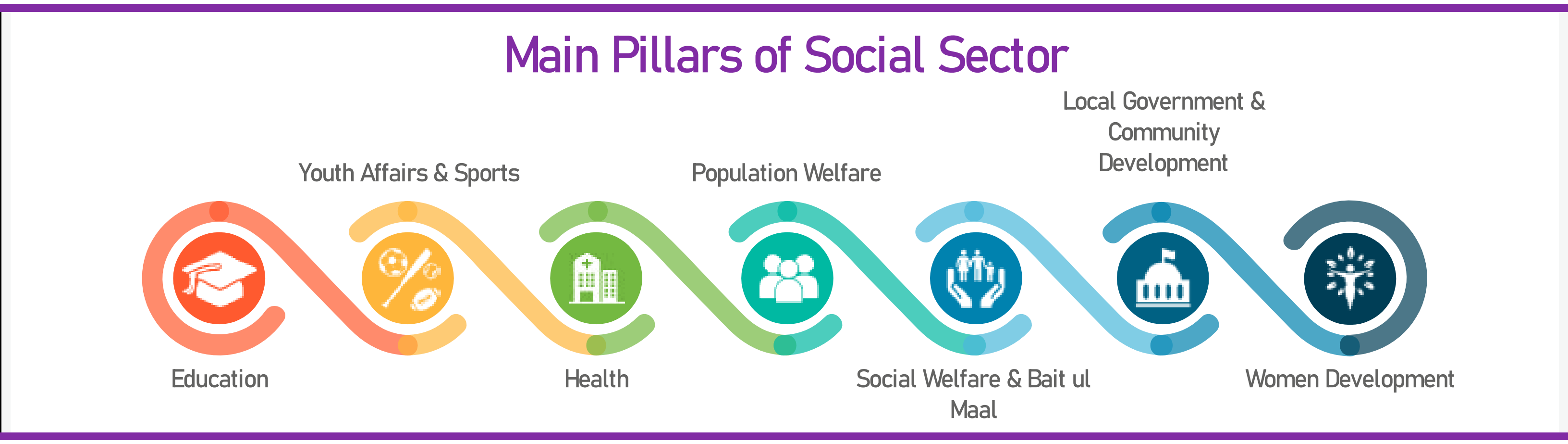


SOCIAL SECTOR

Social Sectors	BE 2020-21	RE 2020-21	BE 2021-22
School Education	322.579	314.836	349.433
Higher Education	33.685	33.991	37.478
Special Education	0.271	0.326	0.291
Literacy and Non Formal Education	0.507	0.427	0.483

Education		0.183	0.269
Youth Affairs & Sports	0.879	0.954	1.173
Specialized Health & Medical Education	127.761	119.492	137.919
Primary & Secondary HealthCare	123.003	124.358	135.474
Health		0.0316	0.0408
Population Welfare	5.120	5.307	7.443
Social Welfare & Bait ul Maal	2.613	2.637	2.960
Women Development	0.289	0.236	0.342
Local Government & Community Development	65.087	60.365	71.092
Total	**681.798**	**663.150**	**744.403**

COVID-19 and its serious threat to public health was a major driver for budgetary allocations for Non-Development and Development Expenditure in the Social sector for FY 2020-2021. Its overarching impact on all matters pertaining to public health initiatives, as well as emergency initiatives taken to respond to the seriousness of the pandemic will be discussed in more detail in a separate chapter. However, it is important to note that formulation of budget estimates for healthcare and allied services is centered on operational costs of special COVID related curative centers alongside improvement of diagnostic facilities, ongoing purchase of vaccines along with running of vaccination centers. Simultaneously, financial support for eradication of other communicable and non-communicable diseases must continue unabated. After promulgation of Local Government Act Punjab, 2019, funds are transferred to District Health Authorities in order to empower Local Governments to incur expenditure in accordance with the needs of local public.



> Provision of Public Goods is one of the most important objectives of public sector spending. Community development, provision of clean drinking water and sanitation services are crucial to urban growth. These Urban Centers in turn become a hub for foreign and local investments and also create job opportunities.

Education is a most significant social service and the very premise on which growth takes place, be it economic, or human capital, social or cultural. Education improves individuals and society as a whole and is closely linked to health through understanding of preventive care and sanitation along with improved nutritional intake. An educated population will be better able to make informed choices in public decision making. Education Sector is of interest to all policy makers and practitioners alike. District Education Authorities have also been established under the Local Government Act, 2019 empowering local governments to spend on educating children who are the future of Pakistan.

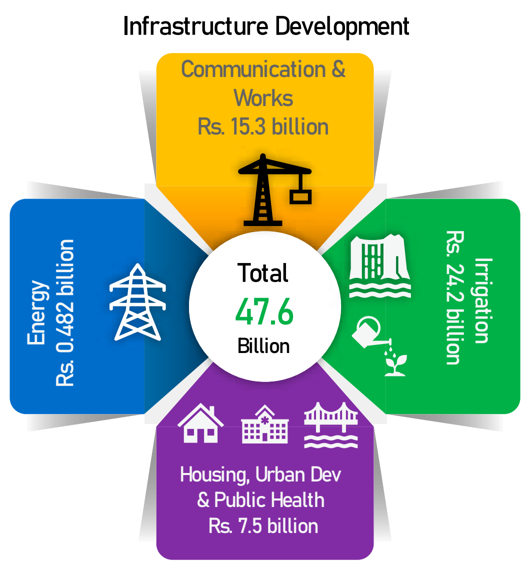
After promulgation of Local Government Act Punjab, 2019, funds are transferred as PFC share to Metropolitan Corporation, Municipal Corporations, Union Councils and Town Councils, in order to empower Local Governments to incur expenditure in accordance with the needs of local public. Devolution of financial powers inculcate positive changes including ensuring equitable distribution of national resources, uplifting marginalised communities, increasing employment opportunities and faster decision making in facilitating economic development.

Government of the Punjab is focused on creating a conducive environment for promotion of sports. Sports activities not only boost a healthy lifestyle but help in molding well rounded personalities with sportsman spirit who go on to represent the country in various international sports events and competitions.

INFRASTRUCTURE DEVELOPMENT

Infrastructure Development	BE 2020-21	RE 2020-21	BE 2021-22
Communication & Works	22.083	26.372	15.321
Irrigation	19.912	21.482	24.242
Energy	0.426	0.455	0.482
Housing, Urban Development & Public Health Engineering	6.845	11.747	7.590
Total	**49.268**	**60.057**	**47.636**

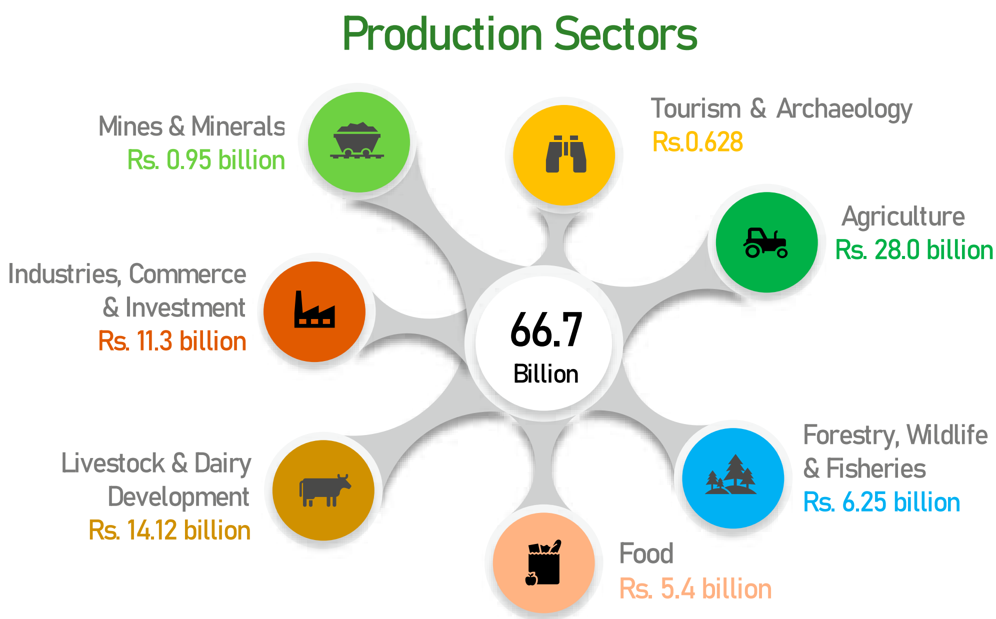
Government's spending on construction and infrastructure vouches net increase in physical capital assets and brings about economic gains alongside increase in employment opportunities. Efficient Government Expenditure in construction and public works also attracts private sector investment. Provision of affordable housing units is another target which Government of the Punjab has set for itself. Various options were considered, after which Government of Punjab has agreed that peri urban state land qualifies for affordable housing schemes. Government of the Punjab is committed to providing 3 Marla affordable housing units with covered area of 500 sft. Construction of 1000 housing units will be undertaken in the first phase on state land identified for the purpose. An amount of Rs. 01 billion has been released for the project in FY 2020-2021 while an amount of Rs. 02 billion has been budgeted in CFY 2021-22.



PRODUCTION SECTORS

Production Sectors	BE 2020-21	RE 2020-21	BE 2021-22
Agriculture	23.980	28.399	28.006
Forestry, Wildlife & Fisheries	5.982	6.119	6.248
Food	7.730	3.685	5.453
Livestock & Dairy Development	11.632	13.068	14.115
Industries, Commerce & Investment	10.306	11.122	11.300
Mines & Minerals	0.836	0.895	0.950
Tourism & Archaeology	0.712	0.514	0.628
Total	**61.180**	**63.806**	**66.703**

Province of Punjab, is predominantly agrarian and remains the food basket for the entire country. The Production sector is focused on Food Security, provision of raw inputs to Agri-based industry. It provides employment to a large segment of the population and also generates sizable revenue through exports. In addition to the Current Non-Development Expenditure in FY 2021-22; Government of Punjab has committed resources for several initiatives to strengthen the production sector and provide support to small scale farmers particularly. An amount of PKR 1.200 billion is allocated for Crop Insurance Program, farmers shall be provided subsidy on agricultural inputs and an amount of PKR 2.400 billion is earmarked for Interest Free Loan Schemes for farmers. Budgetary allocations for agriculture during FY 2021-22 will contribute towards improved research and better extension and field services for farmers. Afforestation is another area of concern in light of growing population and starkly reduced ratio of no of trees per person; to address this issue, regular tree plantation campaigns are organized across the Punjab.



SERVICES SECTORS

Services Sectors include current expenditure on provision of services which relate to executive and Legislative organs. Punjab Government is fully committed to improve performance of its administrative and regulatory institutions through provision of sufficient budgetary support for operational Expenditures.

SERVICES SECTORS	BE 2020-21	RE 2020-21	BE 2021-22
Services & General Administration	35.435	37.888	41.050
Labour & Human Resource	1.110	0.730	1.377
Transport	13.360	12.613	15.844
Home Department	21.849	23.916	25.070
Punjab Police	119.177	132.969	128.940
Law & Parliamentary Affairs	1.907	2.271	2.264
Provincial Assembly	2.639	2.306	2.992
Management & Professional Development	0.198	0.203	0.219
Chief Minister’s Secretariat	0.588	0.799	0.780
Chief Minster’s Inspection Team	0.110	0.131	0.124
Governor Secretariat	0.489	0.427	0.542
Board of Revenue	14.107	14.128	14.449

Excise & Taxation	1.530	3.008	2.207
Relief	1.481	0.388	1.499
Finance	299.907	283.857	319.682
Total	**513.894**	**515.642**	**557.045**

Budgetary estimates for Financial Year 2021-22 for Services Sector record 8.3% increase over last year's Budget Estimates. Security, a very prominent part of Services Sector, though highly priced is closely linked to economic activity. Effective policing not only helps reduce crime rate but also has positive social and economic implications. A secure environment boosts economic activity while increase in crime rate has a negative impact on trade and industry, leading to stalled economic growth. Despite financial stress, Government of Punjab is committed to providing financial support to Home Department and Punjab Police. Government of the Punjab firmly believes that spending on judicial and policing services will safeguard economic affairs and social sector public investments.

OTHERS

This Sector incorporates areas of governance and administration which are drivers of change and improvement. Planning & Development Department leads the development portfolio of the Punjab. Its sector wise work distribution ensures that all departments receive due representation in allocation of development budget. Not only this, Planning & Development through effective monitoring and evaluation ensures proper closure of timeline driven projects and programs with completion of all deliverables on the part of the project/program.

Government of the Punjab is focused on creating a conducive environment for promotion of cultural activities. Tourism especially cultural and religious tourism will serve to highlight the indigenous potential of the Province which has rich and diverse cultural history, for generations to come. Needless to say, these activities will also attract investment and help in economic growth while also providing employment for the local population.

Others	BE 2020-21	RE 2020-21	BE 2021-22
Environment & Climate Change	0.559	0.619	0.598
Information & Culture	2.235	2.191	2.488
Auqaf & Religious Affairs	0.096	0.080	0.101
Human Rights & Minorities Affairs	0.383	0.213	0.402
Planning & Development	4.806	5.012	4.005
Zakat & Ushr	0.320	0.313	0.363
Cooperatives	1.461	1.449	1.568
Prosecution	2.333	2.368	2.582
Total	**12.196**	**12.249**	**12.110**

Current Expenditure in Account No. I (Non-Food)

Government of Punjab maintains Provincial Account No. II (Food) with the State Bank of Pakistan. Capital Expenditure out of this account is incurred on state commodity trading operations in food grains especially procurement of wheat for maintaining critical stocks of the staple food. Out of sale proceeds of the grains released to the Flour Mills, loans obtained from the commercial banks for trading operations of Food Department are repaid.

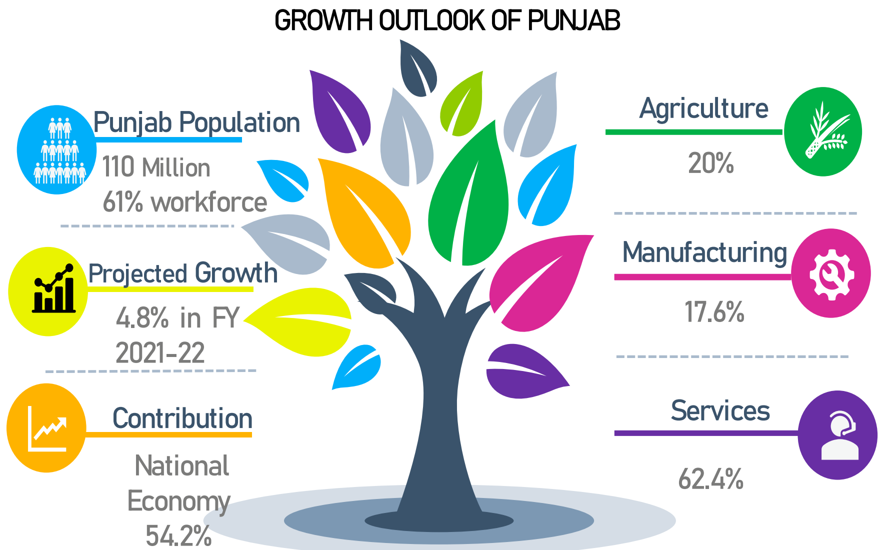
Capital Expenditure	BE 2020-21	RE 2020-21	BE 2021-22
Debt Management - Repayment of Principal	55.084	48.297	54.158
Investment	43.800	11.290	39.995
Loans and Advances	29.537	27.585	25.621
Loans to other Non-Financial Institutions	29.411	27.464	25.621
Loans to Government Servants	0.000	----	0.000
State Trading in Medical Stores	0.127	0.121	-----
Total Account No. I	128.422	87.172	119.775
Public Debt Account No. II	331.869	482.021	420.339
Total Current Capital Expenditure	**460.292**	**569.193**	**540.114**

Public Financial Management Reforms has changed focus from Incremental Budgeting to Medium-Term Budgeting Framework (MTBF) against the traditional yearly approach. On the basis of macroeconomic indicators, a Medium-Term Fiscal Framework (MTFF) was developed to finalize an indicative resource envelope for next three Financial Years.

Finance Department has introduced a Framework for Rolling Expenditure to control and monitor expenditure on the basis of demand as against traditional supply model. The Framework makes budgetary allocations resilient enough to combat unexpected macroeconomic challenges. With the introduction of the Framework, Administrative Department demands release of allocated monies spread over the entire fiscal years based on actual needs at a given time.

GROWTH OUTLOOK OF PUNJAB

The population of Punjab, now in excess of 110 million people, is the highest in terms of province wise proportion (53 percent). The province has the highest labour participation rate and employment level compared to the national average, and employs over 61 percent of Pakistan's workforce. Contributing over 54.2 percent to the national economy, the sectoral share in Punjab's economic structure comprises 20 percent Agriculture, 17.6 percent Manufacturing and 62.4 percent Services.



In the FY 2020-21, Pakistan's economy recorded negative growth as a result of the COVID-19 economic downturn. Despite the onset of the pandemic and the consequent adverse socio-economic impacts of it, Government of the Punjab has made substantial progress and is on the road to economic recovery. In the current fiscal year, strategic support was provided to economic sectors to recoup economic losses and substantial public investment was made in key social sectors like Health, Education and reforms to support the private sector and improve investment climate were also implemented. Development priorities and Government spending for Annual Development Program (ADP) 2020-21 was guided by Punjab Growth Strategy 2023 and Punjab Spatial Strategy 2047. As a result of effective planning and purposeful perseverance by Government of the Punjab to trigger drivers of growth, the provincial economy improved significantly reporting a growth rate of 4.2% in FY 2020-21. Figure 1 presents a GDP growth trajectory for Punjab over the next two years, projecting that the economy will reach a growth rate of around 4.8 percent in FY 2021-22.

Figure 1: Provincial GDP Growth Projections, Punjab Growth Strategy 2023

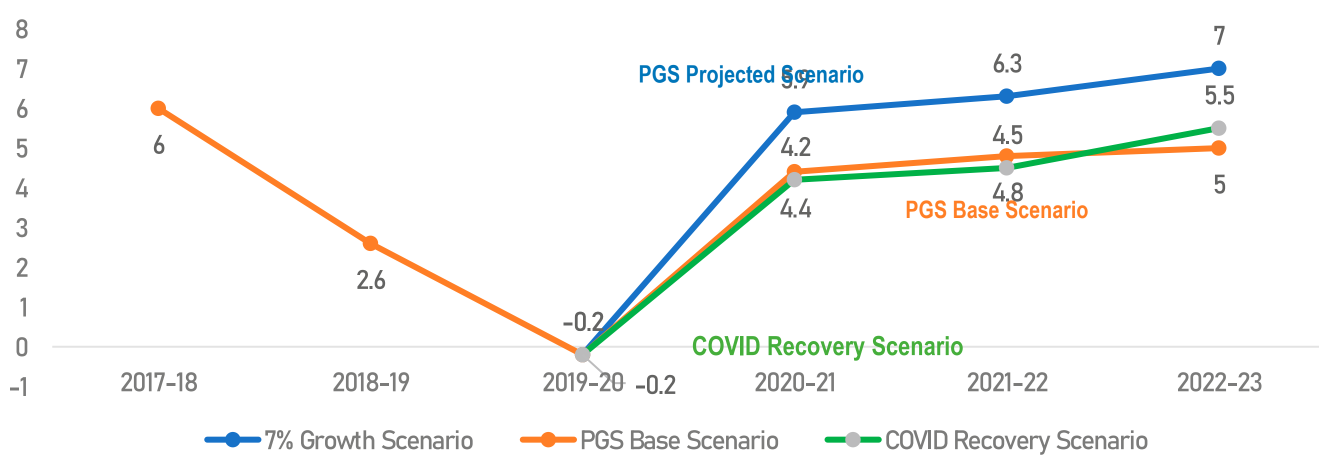
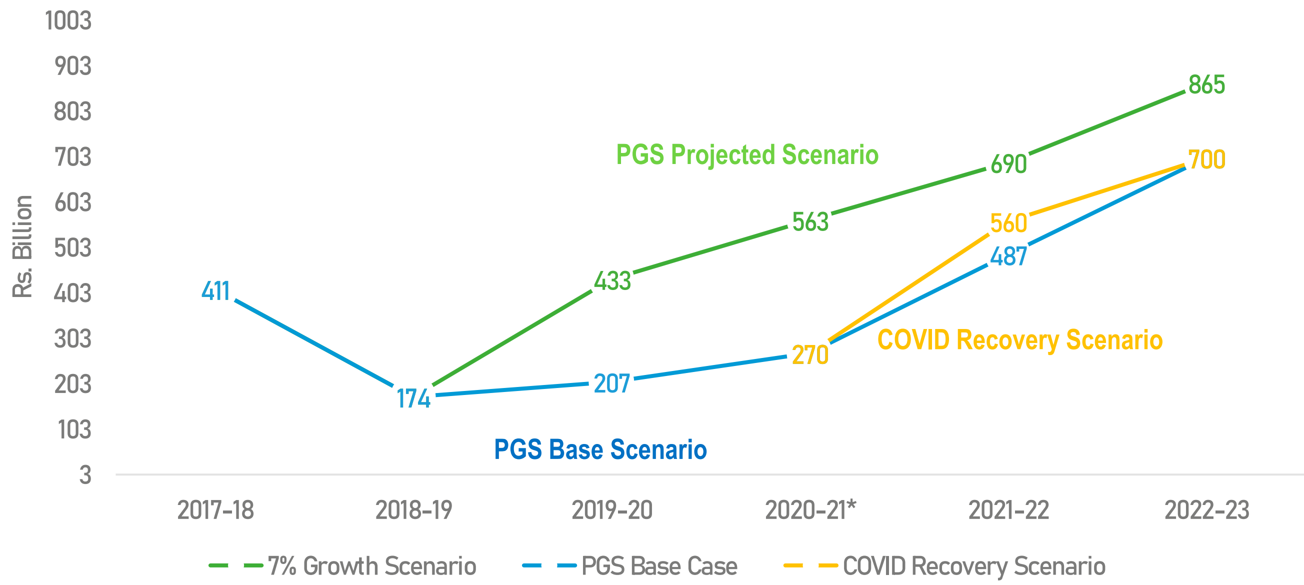
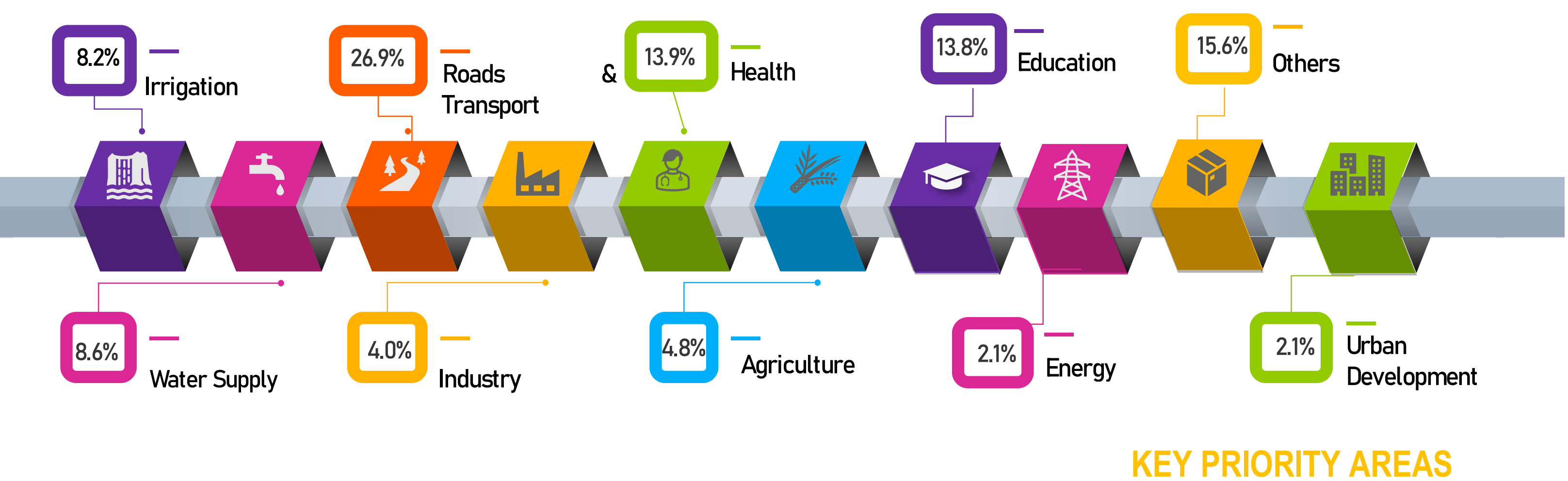


Figure 2: Size of ADP, Punjab Growth Strategy 2023, P&D Board



Enhanced Government spending through the Annual Development Program in different sectors of the economy is the basic pre-condition for staying on the path for achieving the targeted growth rate. According to Punjab's Growth Model a 1 percent increase in ADP spending will lead to a provincial GDP growth of 2 percent which leads to 1 percent improvement in employment level and 4 percent improvement in poverty, translating into over 300,000 new jobs and pulling 0.5 million households out of poverty in FY 2021-22.

To achieve a growth rate of 4.8 percent in 2021-22, the size of the Annual Development Program is being increased to Rs. 560 billion. The Government of Punjab is targeting a growth rate of 5.5 percent by 2022-23, for which size of the ADP will have to be increased substantially (Figure 2). Table 1 highlights the proposed ADP shares by sector for Punjab to achieve its economic growth targets.



Regional Equalization

Government of the Punjab has made conscientious efforts to address the Development disparities across the different regions of Punjab through increased funding, improvements in the governance structure, and capacity building measures. South Punjab, being the geographical centre of Pakistan, has linkages to most deprived regions such as interior Sindh, Baluchistan, and South of KP, therefore Punjab's focus on

Regional Equalization for the development of South Punjab will also support the Development of the most vulnerable areas of Pakistan connected with this region. Some of the most critical priorities for South Punjab are as follows:

Most Critical Priorities for South Punjab

- Addressing regional disparities, especially in Education and Health.
- Human Development with a focus on Poverty Reduction
- Infrastructure linkages – while connectivity with the Federal capital and the provincial capital has improved due to motorway connectivity within South Punjab is a need
- Urban development in intermediate cities/peri-urban areas through land master planning and Improvement in urban infrastructure
- Agriculture Development – focusing on wheat, livestock, cotton, and fruit. Agriculture value addition is a lever for the economic growth of South Punjab
- Industrial Development – establishing Industrial Estates, identifying where and how to develop and improving the infrastructure leading to them
- Public-Private Partnerships – targeted and result-oriented approach in exploring avenues of public-private collaboration
- Clean and Green initiative – South Punjab offers a large land mass, both mountainous and desert

Poverty Headcount Ratio in South Punjab is twice as much as rest of the province and has a 32 percent share in provincial population. In FY 2021-22, a 35 percent share in ADP has been earmarked for the development of South Punjab.

China Pakistan Economic Corridor

Government of the Punjab is committed to expanding economic cooperation with China under CPEC. From the inception of CPEC, Punjab province has seen a rise in Chinese Corporations and Companies working in various businesses and projects in public and as well as the private sector. With the most conducive business environment, Punjab has the potential to take lead in attracting more Chinese investments. This is likely to augur well for economic and livelihood prospects of its citizens. After bridging the infrastructure, energy and connectivity gaps, focus of the CPEC Punjab is now on Industrial, Agriculture and Socio-Economic Cooperation.

After inevitable delays due to COVID-19 pandemic, the flagship project Orange Line Metro Train commenced operations in October 2020. The ridership of the project is at 70,000 passengers per day which is expected to rise gradually. Government of the Punjab is working on developing an integrated system to increase train ridership and at the same time make the project as much self-sustainable as possible. In ADP 2021-22, funds amounting to Rs. 10 billion have also been reserved for Special Initiatives for CPEC Economic Growth.

In FY 2020-21, work on the ongoing CPEC project Allama Iqbal Industrial City, Faisalabad was expedited on priority. Land acquisition process was completed and work on infrastructure and provision of utilities is being undertaken in full swing. Adequate resources have been prioritized in the coming fiscal year for the completion of Phase – I of the project, expected to be completed in June 2022. In addition to this, Government of the Punjab also plans to fast-track implementation of CPEC socio-economic projects in FY 2021-22 since this mandate also suffered setbacks due to the pandemic.

In order to strengthen CPEC development in the province, Government of the Punjab is developing CPEC Strategy for Punjab, which is expected to be launched in the upcoming fiscal year. The Strategy will outline the roadmap to capture the full potential of this partnership with China and will focus on the following:

1	2	3	4
Development of Targeted Strategies and Plans in key cooperation areas of CPEC Long Term Plan 2030	Evaluation of shortcomings/issues hampering growth of key sectors and policy measures for improvement in the context of CPEC	Regulatory Reforms to strengthen the key sectors and improve overall investment climate	Alignment of Ongoing Development Programs of the Punjab with the CPEC investments.

Revitalizing potential of PPPs in Punjab

The Public Private Partnerships (PPPs) stand as the most viable mechanism towards achieving the targets and long-run vision. This is mainly due to due to influx of private finances, specialist skills and performance-based remuneration in PPPs. With enactment of new PPP Act 2019, Government of the Punjab has reshaped the regulatory framework for PPPs. The new PPP Act enables the conducive environment for private sector investment along with mobilization of private finance and improved infrastructure delivery due to envisaged efficiencies in PPPs. Besides, the new Act strengthens institutional capacity of the Government for successful implementation of the PPPs. The additions in the institutional arms include PPP Policy and Monitoring Board (PPP P&M Board), PPP Authority and Executive Board of PPP Authority, whilst role of PPP Cell and Risk Management Unit, which were existent already, have been redefined with clear allocation/segregation of duties.

At the front of development of PPP initiatives in the province, during FY 2020-21, construction of Food Grain Silos project has been completed with total project cost of Rs. 300 million. On Lahore Ring Road Southern Loop (SL-III) with total project cost of Rs. 10,448 million, the process of financial close is in advanced stage and major hindrances in construction work have been resolved. Moreover, effort on a number of new PPP projects have been commenced which include (i) Parking cum commercial plaza in Rawalpindi (3 Projects); (ii) Multan Vehari Road; (iii) Faisalabad Chiniot Sargodha Road; (iv) Lai Expressway Rawalpindi; and (v) Parking cum commercial plaza at Old Mayor House Faisalabad. Estimated cost of these projects on cumulative basis is Rs. 96 billion. Furthermore, a project of Procurement, installation and O&M of Water meters in Lahore was launched for investor solicitation in the previous year with an estimated cost of Rs. 10.40 billion. The project will be awarded shortly following conclusion of the bidding process.

For FY 2021-22, a pipeline of imminent PPP projects exists where project proposals are under revision process. These projects pertain to Combined effluent Treatment Plants (CETPs), Special Economic Zones, roads and transportation and real estate development. Additionally, a number of projects have been envisaged by Government of Punjab which include (i) Parking Plazas – 4 projects (1 in Rawalpindi, 2 in Faisalabad and 1 in Sargodha; (ii) Commercial use of BOR land on Jail road Lahore; (iii) PPP projects on lands under control of Auqaf Department; and (iv) Naya Pakistan Housing Development Plan, Faisalabad. Estimated cost of these projects on cumulative basis is Rs. 25 billion. Hiring of Transaction Advisors for these projects is under process and feasibility study of these initiatives will commence shortly.

Sustainable Development Goals (SDGs)

Government of Punjab has made significant progress in aligning its provincial plans, policies and frameworks with the Sustainable Development Goals (SDGs) and committing resources for the implementation of the 2030 Agenda for Sustainable Development. Integration of SDGs into planning and budgetary processes along with focus on policy coherence and mainstreaming approaches in order to achieve Inclusive and Sustainable Development has also been ensured. For the FY 2021-22, the following goals/targets for SDGs have been set by Government of the Punjab:

01 Data Availability

Strengthening of data availability at the Provincial/ District level for monitoring and reporting on SDGs indicators for data-driven policy making

02 Localization Plans

Formulation of sector-specific SDGs localization plans/ action plans, District level localizations of SDGs and Scenario planning and Strategic Forecasting for SDGs in Punjab

03 Regional Development Forum

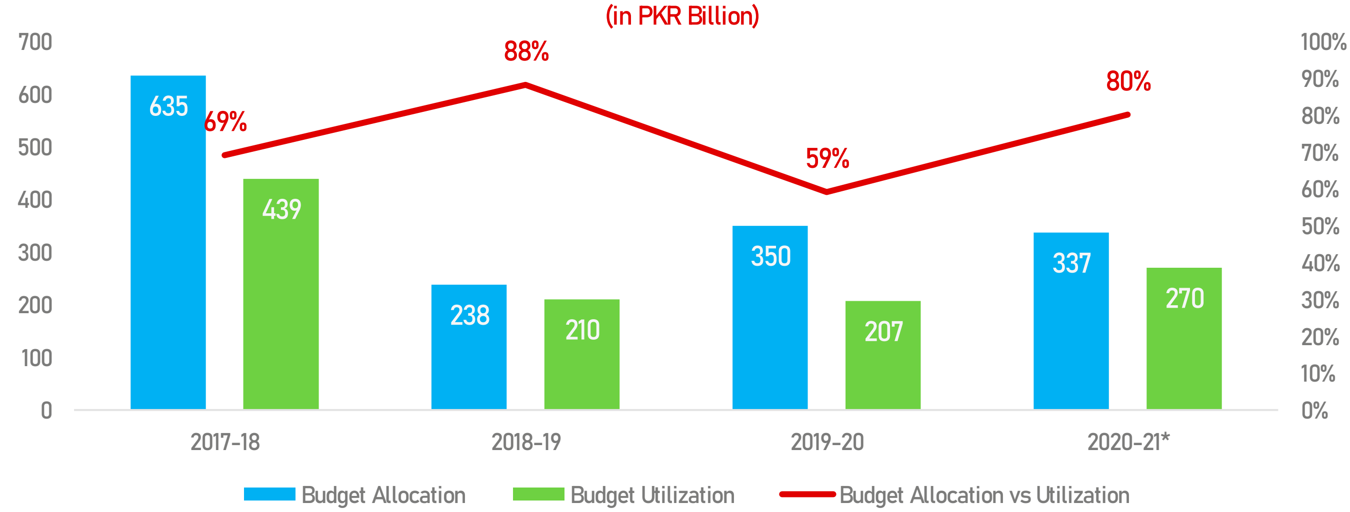
Vulnerability assessment of South Punjab region and development of South Punjab Regional Development Forum

REVIEW OF ANNUAL DEVELOPMENT PROGRAM 2020-21

COVID-19 remained a challenge for Government of the Punjab in FY 2020-21. Initial estimates predicted economic slowdown and slow revival at the start of the financial year. Due to effective Government policies and public investments, economic recovery and growth picked up at a much higher pace. Annual Development Programme 2020-21 was developed as a sustainable investment plan for Punjab to counter the effects of COVID-19 and at the same time accelerate growth in key sectors of the economy. Priority areas in ADP 2020-21 were livelihood security through Social Protection schemes; investments to fill Health infrastructure gaps, ensuring Food Security; Education and Human Capital Development along with support to the MSME sector.

The size of the Annual Development Programme 2019-20 was set at Rs. 337 billion. Considering the government's focus on developing human capital, it allocated Rs. 36.3 billion for the Education Sector. For the Health sector, Rs. 42.38 billion and Rs 11.3 billion was allocated for Specialized Healthcare & Medical Education and Primary and Secondary Healthcare respectively. Furthermore, Rs. 20.1 billion was allocated for the Irrigation Sector and Rs 11.99 billion for the Agriculture sector. To address environmental changes and promote conservation and environmental governance, Rs. 5.2 billion was allocated in FY 2020-21. **Figure 3** depicts the ADP budget over the last four years along with its revision and utilization.

Figure 3: ADP Allocation & Utilization (FY 2021-22)
(in PKR Billion)



**Source:* *Planning and Development Board, Government of the Punjab*

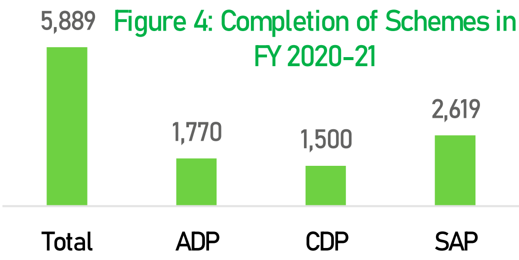


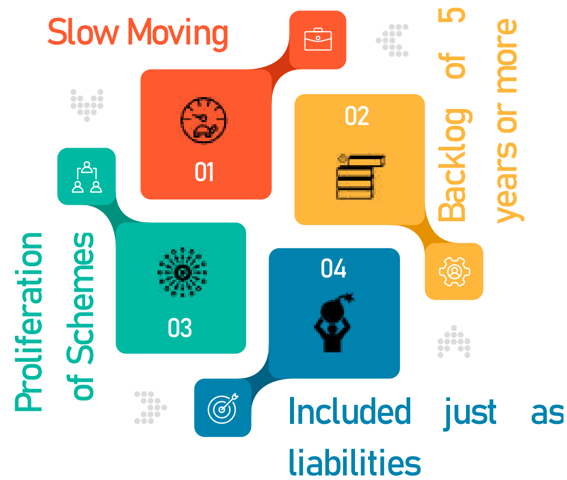
Figure 4: Completion of Schemes in FY 2020-21

Figure 4 illustrates the number of schemes that are expected to complete by end of June 2021. A total of 5,889 schemes are expected to be completed on priority, out of which 1,770 are ADP schemes, 1,500 belonging to Community Development Programme and 2,619 schemes of Sustainable Development Achievement Programme. This number of completed schemes is being shared with a great sense of satisfaction.

**Source: Planning and Development Board, Government of the Punjab*

Management of Throw Forward

Punjab has been making efforts to reduce the size of the Throw Forward. A comprehensive detailed analysis was done to rationalise the throw forward in ADP 2020-21. An Online Tool has also been developed to manage the Throw Forward. The following four Pruning Filters / Criteria were used to rationalize the size of Throw Forward:



Source: Planning and Development Board, Government of the Punjab

Figure 5: Throw Forward FY 2018-19 to FY 2021-22

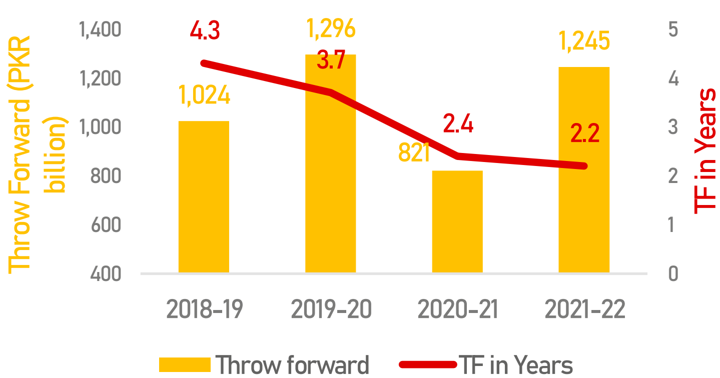


Figure 5 shows that during FY 2020-21, Government of the Punjab has substantially improved the Throw Forward liability from 3.7 to 2.4 times of the Budget Allocations, which was reduced from Rs. 1,296 billion to Rs. 821 billion in absolute numbers.

During the current Financial Year (2021-22), the size of the Throw Forward in absolute numbers has increased to Rs. 1,250 billion, however in comparison with the size of current Budgetary Allocations, the Throw Forward liability has reduced further to 2.2 times of the Budgetary Allocations (2021-22). This has been achieved using the above listed objective criteria to manage the Throw Forward in Punjab.

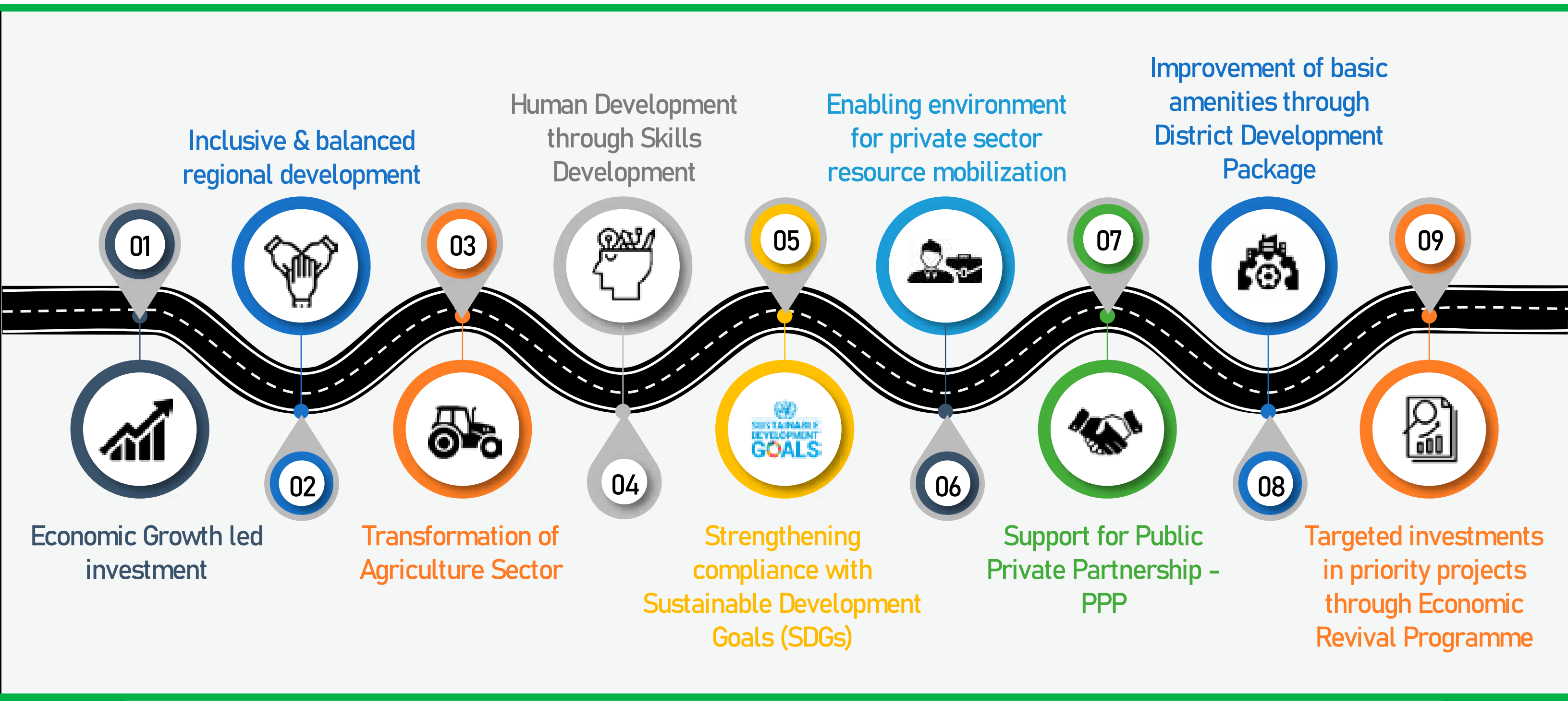
Major Achievements during the FY 2020-21

- TB Control Programme (Rs 3,498 million), Infection Control Programme (Rs 2,873 million), and provision of Ultrasonography Machines in 24/7 BHUs of South Punjab (Rs 364 million)
- Up-gradation of Radiology / Specialties Department in Services Hospital, Lahore (Rs. 2320.166 million)
- Provided Basic Education to 463,276 out of school children through 13,519 Non-Formal Basic Education Schools, and Non-Formal Education Feeder Schools in 36 Districts / basic literacy skills to 34000 illiterate adults across Punjab
- Establishment of University of Veterinary and Animal Sciences at Bahawalpur (cost Rs 3,100 million), Registration of 37,250 calves in all districts of Punjab (cost Rs. 1,800 million), Establishment of training centre for biologics at UVAS, Ravi Campus Pattoki (cost Rs. 398 million)

- Completion of 8 roads of DG Khan Package (cost Rs. 2,430 million), Completion of Dualization of: Sargodha – Mianwali Road (Phase-I) (cost Rs. 4,800 million), Muzaffargarh – D.G. Khan Road (cost Rs. 11,000 million) and Dina – Mangla Road (cost Rs. 1,300 million)
- Training of 550,000 individuals through Skills Development Programme / projects of PSDF, TEVETA and PVTC. Operationalization of Punjab Rozgar Scheme to facilitate SMEs. Training Facility of TEVTA institutions increased from 90,000 to 150,000 under Hunarmand Nojawan Program
- Higher Education Department initiated 08 New Universities (Rs. 8097.310 million) and established 32 New Colleges (Rs.4264.446 million), established IT Labs in 38 colleges (Rs.149.978 million), provided Missing Facilities to 223 Colleges (Rs.1534.783 million) and awarded 53,551 scholarships of worth Rs.6910.00 million to talented & needy students through PEEF
- Punjab Barrages Improvement Phase-II (PBIP-II) Jinnah Barrage (cost Rs. 14,427 million), New Khanki Barrage Construction Project (cost Rs. 23,442 million) and Up gradation of Trimmu Barrage, Punjnad Head Works (cost Rs. 16,800 million)
- Established 05 Special Education Centres, strengthened 7 Special Education Institutes and Upgraded 4 Special Education Institutes to secondary level
- Solarization of 11,000 Public Schools in South Punjab through Punjab Ujaala Programme (cost Rs. 8,251 million)/ Saving of 5GWh of energy units through retrofitting of Public institutions (cost Rs. 357 million)
- Automation of Stamp Papers (e-stamping) in 36 Districts of Punjab (cost Rs. 606 million), Online Payment of Government receipts (cost Rs. 236.1 million), Establishment of Citizen Facilitation Centres in all Divisional Headquarters of Punjab (cost Rs. 1,810 million)
- Under Southern Punjab Poverty Alleviation Project (SPPAP) 662 women given low cost houses, 743 women given small land plots, small ruminant (2 Goats packages) to 19,777 poor women, vocational and enterprise trainings to 4,118 and 1,662 were given to women, respectively (cost Rs. 15,524.5 million)
- Under Tribal Area Development Project (TADP), 120 kms of metaled roads, 14 kms of roads rehabilitation, 36 Nos. of Community Development Sub Projects, 16 Nos. of Community Solar Tube well Sub Projects and 16 Nos. of community Drinking Water Supply Sub Project were completed

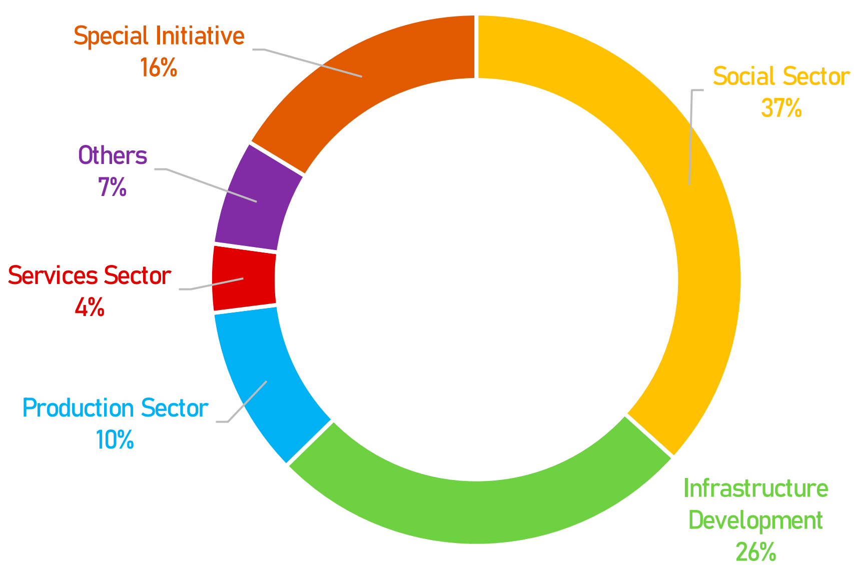
Annual Development Programme 2021-22

In FY 2021-22, Government of the Punjab aims to accelerate the growth momentum that is already indicating promising signals. The Annual Development Programme 2021-21 has been developed with the aim of increasing economic growth, job creation and productivity. The guiding principles adopted for ADP 2021-22 are the following:



Government of the Punjab has proposed an amount of Rs.560 billion for the Annual Development Programme 2021-22. Rs.212.2 billion is the proposed allocation for ongoing projects, Rs.277 billion for new initiatives, Rs.81 billion for Foreign Assistance projects and Rs. 43.38 billion for Other Development Projects. The sector wise distribution of ADP 2021-22 is illustrated in Figure 6.

Figure 6: Sectoral Share in ADP for FY 2021-22



For School Education an amount of Rs.35. billion has been allocated. Higher Education has been allocated Rs.15.05 billion. In Health sector, Rs.78.7 billion for Specialized Healthcare & Medical Education and Rs.17.21 billion for Primary & Secondary Healthcare has been allocated. Another notable feature is Rs.12.2 billion allocation for Industries and Skills Development sector, Rs. 30.04 billion allocation for Urban Development, Rs.18.76 billion allocation for Water Supply & Sanitation, Rs.31.49 billion allocation for the Agriculture sector, Rs.30.77 billion allocation for the Irrigation sector, and Rs.58.29 for the Road sector.

In FY 2021-22, Economic Growth Initiative is being launched by Government of the Punjab, that will be an essential part of Annual Development Programme (ADP). It will aim at stabilizing the economy and initiating a rapid recovery. The Programme will be used as a springboard to accelerate structural shifts towards a frame worked and well thought out way forward to mitigate the effects of COVID-19 pandemic and catapulting the provincial economy on route to long-term growth. Through the programme, government spending in initiatives of highly productive sectors of the economy will be increased and key initiatives focusing on Human Capital Development, Infrastructure Development to boost the Construction sector, MSME support for spurring economic activity, Skills Development through improved Education system and Vocational Trainings, improving agriculture productivity and building a robust Healthcare system will be implemented. This Programme will be implemented with an allocation of Rs. 10 billion in FY 2021-22 in the most targeted manner. CPEC initiatives will also be funded through this arrangement.

District Development Package (DDP)

Another key initiative of ADP 2021-22 will be the District Development Package (DDP) that will address challenges of service delivery, rehabilitation & improvement of infrastructure, creation of job opportunities for the unemployed and excluded groups. Under the DDP, Development schemes have been identified by the local stakeholders and District Coordination Committees (DCC) comprising District functionaries. The schemes identified under DDP reflect immediate needs of the community, particularly pertaining to Roads (construction & Rehabilitation), Sewerage/Street Pavement/ Provision of Water Supply, Improvement and Establishment of Health & Education facilities. Substantial importance has also been given to the establishment of Higher Education institutions at the District/Tehsil level.

The Package will be implemented with a budget of Rs 360 billion over the next three years by the line Departments under the supervision of the District Administration. Around 3,600 Schemes have been prioritized in all Districts of the Punjab. Following is the scheme and cost wise break-up of the Package:

Sr. No.	Sector	No of Scheme	Cost (Rs. in Million)
1	Roads and Bridges	1138	146,403
2	Water Supply & Sanitation and Urban Development	1075	57,335
3	Local Government and Community Development	752	26,507
4	Education	342	33,924
5	Health	197	18,692
6	Agriculture and Irrigation	23	3,806
7	Sports and Tourism	31	2,015
8	Others	47	6,284
	Total	**3,605**	**294,966**

The major projects/ initiatives planned for Annual Development Programme 2021-22 are the following:

Flagship Projects Completing in 2021-22

1. Nishtar – II Hospital Multan (cost: Rs. 8,842 million)
2. Punjab Agriculture Food and Drug Authority (cost: Rs 6,322 million)
3. Mother & Child Hospital Mianwali (cost: Rs 4,783 million)
4. Institute of Urology & Transplantation Rawalpindi (cost: Rs 4,370 million)
5. Dera Ghazi Khan Institute of Cardiology (cost: Rs 4,285 million)
6. CPE Institute of Cardiology, Multan (cost: Rs 3,147 million)
7. Upgradation of THQ Hospital Taunsa, D.G Khan (cost: Rs 1,201 million)
8. 10 sewerage schemes by WASA in Southern Punjab (cost: Rs 2,817 million)
9. Rehabilitation / Improvement of Sewerage System in Jhang (cost: Rs 1,262 million)
10. Promotion of High value Agriculture through Solarization of Drip & sprinkler Irrigation System (cost: Rs 1,929 million)

Major New Initiatives

Major New Initiatives during the FY 2020-21

- Implementation of Universal Health Coverage under Health Insurance Program in Punjab (Cost: Rs 80,000 million; Allocation: Rs 60,000 million)
- Integrated Reproductive Maternal Newborn & Child Health (IRMNCH) & Nutrition Program (Phase-III) (Cost: Rs 6,706.999 million; Allocation: Rs 400 million)
- Enhanced HIV / AIDS Control Programme Punjab (Phase II) (Cost: Rs 2,080.9 million, Allocation: Rs. 400 million)
- Integrated Program for Communicable Disease Control, Punjab (Cost: Rs 2,356 million, Allocation: Rs. 250 million).
- Establishment of 1000-Bedded General Hospital, Lahore (Cost: Rs. 14,000 million; Allocation: Rs 200 million)

- Establishment of 4 Mother & Child Hospitals in District, Layyah, Rajanpur, Attock and Bahawalnagar (Cost Rs.2,400 million, Allocation: Rs. 40 million)
- Strengthening of Basic Health Units of Punjab (Phase – II) (Cost: Rs. 5,500 million, Allocation: Rs. 1,100 million)
- Establishment of 19 Universities in various Districts of Punjab (Cost: 38,414, Allocation: Rs.1,542 million)
- Insaaf Afternoon Schools Programme (Cost: Rs 6,500 million; Allocation: Rs.6,500 million)
- Establishment of Special Children Village at Sharaqpur, District Sheikupura (Cost: Rs.800 million, allocation of Rs.150 million)
- World Bank funded programme "Punjab Rural Sustainable Water Supply & Sanitation Programme" will be launched phase wise in 2009 villages of 16 tehsils across the Punjab (Cost: USD 553 million).
- Punjab Poverty Graduation Initiative (PPGI) (Cost: Rs. 9,000 million, Allocation: Rs. 500 million)
- Chief Minister Punjab's Road Rehabilitation Program (Cost: Rs. 8,000, Allocation: Rs. 8,000 million)
- Dualization of Sargodha – Mianwali Road (Phase-I) (Cost: Rs. 4,786 million)
- Dualization of Dina – Mangla Road, Length 12.83 Km (Cost: Rs. 1,300 Million)
- Construction of Flyover at Nadirabad Phatak to Industrial Estate, Multan (Cost: Rs. 2,842 million).
- Construction of Sorra Dam (Cost: Rs. 4,500 million, Allocation: Rs.1,150 million)
- Chaubara Branch Canal Construction Project - Greater Thal Canal (Phase-II) (Cost: Rs.20,076 million, Allocation: Rs. 830 million).
- Rural Enterprises in Agriculture Development (READ) (Cost: Rs. 1,262.9 million, Allocation: Rs. 240 million).
- Rural Employment and Agriculture Promotion (REAP) Projects (Cost: Rs. 7,600 million, Allocation: Rs. 450 million).
- Program for Establishment of Model Markets in Punjab (Cost: Rs.15,000 million, Allocation: Rs. 4860 million).
- Monitoring and Evaluation of Ten Billion Tree Tsunami Programme (Cost: Rs. 13,187 million, Allocation: Rs. 2,567 million)
- Establishment of Punjab Health and Wellness Radio Station (Cost: Rs. 70 million, Allocation: 70 million)
- Establishment of Surgical City at Sialkot (Cost : Rs.1,721 million, allocation Rs.300 million)
- Establishment of High Performance Cricket Centres at Lahore, Faisalabad and Sialkot (in consonance with the Prime Minister's Vision of regionalizing domestic Cricket structure) (Cost: 1750 million, Allocation: 660 million).
- Pilot/Demonstration Resource Efficiency & Cleaner Production Investments in key Industrial Sectors (Cost: 2,000 million, Allocation: Rs. 250 million)
- Skilling Youth for Income Generation (SYIG) project (Cost: Rs. 9,500 million, Allocation: Rs. 1,500 million)
- Installation of Air Quality Monitoring System in Punjab (Cost: Rs.2,000 Million, Allocation: Rs.1,000 million).
- Establishment of Environmental Monitoring Center (Cost: Rs.1,000 million, Allocation: Rs.100 million).
- Installation of Water Quality Monitoring System in Punjab(Cost: Rs.1,400 million, Allocation Rs.400 million).

Foreign Funded Projects

The technical and financial assistance extended by international development partners supplements Punjab's domestic resources for achieving accelerated growth in priority development areas. Foreign funded development projects in Punjab for FY 2021-22 amounting to US$ 568.745

million have been undertaken through the Annual Development Program (ADP), focusing on health, education, skill development, water and sanitation, agriculture, livestock, irrigation, energy, physical infrastructure, urban development, and governance.

Expected cash inflows for FY 2021-22 amounting to US$ 733.05 million in the shape of Projects (US$ 506.53 Million) and Programs (US$ 226.55 Million) comprises of loans and grants provided by our major International Development Partners including the World Bank (US$ 353.6 million), Asian Development Bank (US$ 182.891 million), Danish International Development Agency (US$ 26.117 Million), French Development Agency (US$ 23.5 Million), International Fund for Agricultural Development (US$ 19.014 Million), Asian Infrastructure Investment Bank (US$ 29 Million) and Exim Bank of China (US$ 93.96 million), Foreign Commonwealth & Development Office UK (US$ 3.98 million) and Japan International Development Cooperation Agency (US$ 1.25 million)

Major Initiatives by Government of the Punjab in collaboration with International Agencies for FY 2021-22

World Bank Projects

- Punjab Urban Land system Enhancement (PULSE) Project
- Punjab Rural Sustainable Water and Sanitation Project
- Support to Naya Pakistan Housing Program in Punjab

ADB Projects

- Punjab Agriculture Markets Development Projects
- Greater Thal Canal (GTC) Project
- Improving Work Force Readiness in Punjab
- Punjab Sustainable Highway Development

AIIB Projects

- Sewerage Scheme for Larech Colony to Gulshan-e-Ravi
- Construction of Surface Water Treatment Plant at BRBD Lahore
- Construction of Waste Water Treatment Plant at Mehmood Booti & Shahdra

DANIDA Projects

- Construction of Eastern Waste Water Treatment Plant at Faisalabad City

AFD Projects

- Heritage & Urban Regeneration: Tourism Development in Lahore Fort and its Buffer Zone

IFAD Projects

- Rural Employment and Agriculture Promotion (REAP)

JICA Projects

- Construction of Distribution Centre, Rehabilitation of Old Jhal Khanuana

Annual Development Programme 2021-22

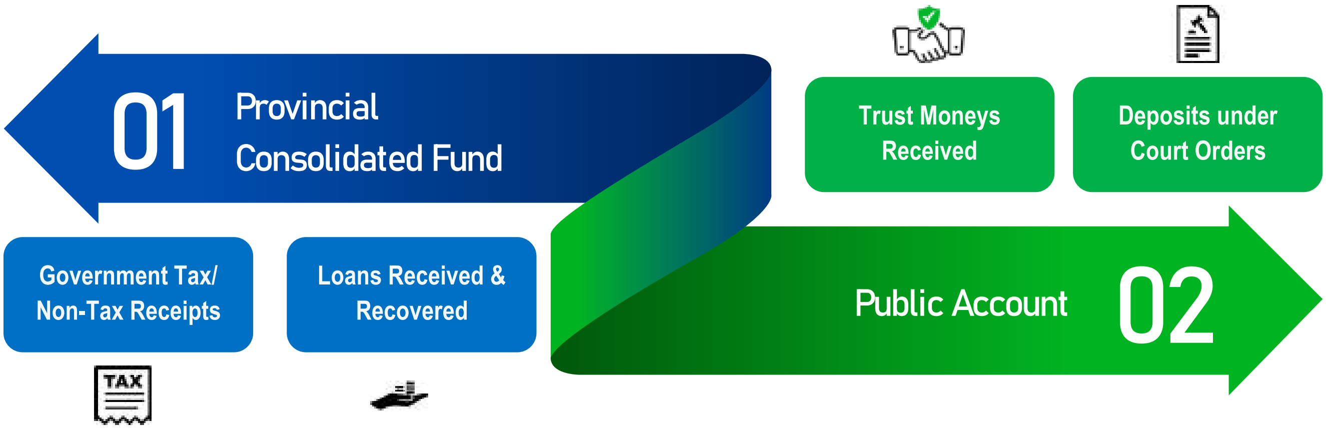
(PKR million)

Sr. No.	Sector	Allocation
Social Sectors		**205,498**
1	Education	**54,220**
	i. School Education	35,500
	ii. Higher Education	15,065
	iii. Special Education	755
	iv. Literacy & NFBE	2,900
	v. Sports & Youth Affairs	6,150
2	Health & Family Planning	**98,012**
	i. Specialized Health and Medical Education	17,212
	ii. Primary and Secondary Health Care	78,700
	iii. Population Welfare	2,100
3	Water Supply & Sanitation	18,764
4	Social Welfare	1,221
5	Women Development	500
6	LG&CD	26,631
Infrastructure Development		**145,403**
7	Roads	58,299
8	Irrigation	30,778
9	Energy	7,000
10	Public Buildings	19,277
11	Urban Development	30,049
Production Sectors		**57,900**
12	Agriculture	31,497
13	Forestry	4,000
14	Wildlife	1,000
15	Fisheries	1,000
16	Food	500
17	Livestock & Dairy Development	5,000

Sr. No.	Sector	Allocation
18	Industries, Commerce, Investment & Skills Development	12,200
19	Mines & Minerals	1,450
20	Tourism	1,253
Services		**23,375**
21	Governance & IT	5,075
22	Labour & HR Development	400
23	Transport	16,800
24	Emergency Services (1122)	1,100
Others		**36,410**
25	Environment & Climate Change	5,000
26	Information & Culture	510
27	Archaeology	700
28	Auqaf & Religious Affairs	700
29	Human Rights & Minority Affairs	2,500
30	Planning & Development	27,000
Special Initiatives		**91,414**
31	Special Programmes / Initiatives	91,414
	Total	**560,000**

The mammoth size of this ADP will be most appropriately complemented by the substantial allocation made under the Public Sector Development Programme (PSDP) by the Federal Government. The Punjab Government intends to put in place a robust mechanism for effective and efficient utilization of this huge development portfolio.

The Provincial Consolidated Fund (PCF) has been established under Article 118 (1) of the Constitution of Islamic Republic of Pakistan, 1973. The Constitution requires that all revenues received by the Provincial Government, all loans raised by that Government and all moneys received by it in repayment of loan, shall form part of a Consolidated Fund, to be known as Provincial Consolidated Fund. Article 118 (2) further provides that all other moneys received by or on behalf of the Provincial Government; or received by or deposited with the High Court or any other court established under the authority of the Province; shall be credited to the Public Account of the Province.



The moneys received and forming part of the Provincial Consolidated Fund (PCF) and Public Account (PA), are deposited to the Government Treasury, cash of which is placed in a bank account titled “Punjab Account Number – I (Non-Food)”, under an agreement between the Governor Punjab and State Bank of Pakistan, which is maintained by the State Bank of Pakistan. This account reflects a common cash balance of both Provincial Consolidated Fund and the Public Account. However, separate sets of books of accounts for receipts and expenditure of Provincial Consolidated Fund and Public Account of the province are maintained by the AG / District Accounts Offices. It may also be worthwhile to add that the Government is authorized to open more than one bank account, to keep the cash pertaining to the Provincial Consolidated Fund and Public Account separately. Moreover, to run the system of the Government in a smooth manner, more accounts can be established with the State Bank of Pakistan. All such accounts would, however, shall form part of the Provincial Consolidated Fund or the Public Account of the Province as composite cash balance of the PCF or PA, respectively. For example, Government of the Punjab has opened Provincial Account Number - II (Food) with the State Bank of Pakistan for its commodity operations. Similarly, Provincial Account Number – V (District Education Authorities) and Provincial Account Number – VI (District Health Authorities) have also been opened with the State Bank of Pakistan. The cash balances of these accounts are treated part of the composite cash balance of the Punjab Account No-I(NF) for the purpose of overdraft facility of the Punjab Government.

The Government, as a custodian of all moneys placed in the Public Account, has a fiduciary responsibility to receive and disburse these moneys but is not at liberty to appropriate the money pertaining to Public Account for the general service of the Government. In terms of Article 119 of the Constitution of Pakistan, the Treasury & Subsidiary Treasury Rules and Punjab Financial Rules have been framed to: a) regulate the disbursement of moneys from the Public Account and b) form & manner to keep the accounts thereof.

As the disbursement of moneys credited to the Public Account is not subject to the vote of the Provincial Assembly, therefore balance do not lapse on close of the financial year. However, the deposits not exceeding five rupees unclaimed for one whole account year, balances not exceeding five rupees of deposits partly repaid during the year then closing, and all balances, unclaimed for more than three complete account years will, at the close of June in each year shall lapse and is credited to Government through transfer entries. Thus, the balance of the money credited to the Public Account are carried forward on year-on-year basis, maximum for three complete financial years for the money exceeding five rupees. Therefore, such money can be refunded within a span of three financial years after the year of deposit. On completion of life of three financial years the unpaid credits are shifted to the Provincial Consolidated Fund as Miscellaneous receipts under Object code “C03801-Unclaimed Deposits”. Any claim arising thereafter is refunded, as prescribed, from provincial receipt of “unclaimed deposits”.

The moneys credited to the Public Account and its disbursement are generally governed by the agreement(s) / law & rules / court orders etc. So far as to distinguish the different kinds of credits / debits and the maintenance of Public Account is concerned, various codes with nomenclature have been allotted at Major, Minor and Detailed levels in the Chart of Accounts (CoA).

The credits and debits of Public Account are categorized in following three categories:

Cash and Bank balances, Receivable loans & advances, Physical Assets, and Investments

Liabilities, Loans, Deferred Liabilities, Trust Accounts, Special Deposit Accounts, Revolving Fund etc.

Equities and Investment by Government

Annual Budget Statement (ABS): Summary of Major Elements of Public Account

(PKR in billion)

	BE 2020-21	RE 2020-21	BE 2021-22
Assets & Liabilities – Public Account Receipt	**(1,640.000)**	**(586.092)**	**(369.647)**
F01-Cash and Bank Balances	-	1,218.478	1,406.809
F02-Receivables	(2.000)	(2.250)	(2.276)
F05-Other Assets	-	-	-
G01-Current Liabilities	(887.000)	(916.439)	(813.073)
G02-Loans	-	-	-
G05-Control Accounts	(450.000)	(529.685)	(547.995)
G06-Trust Account-Fund	(37.000)	(36.311)	(58.814)
G10-Trust Accounts-Other	(120.000)	(210.259)	(221.255)
G11-Special Deposit Investment	(139.000)	(103.330)	(122.438)
G12-Special Deposit Fund	(5.000)	(6.296)	(10.605)
Assets & Liabilities – Public Account Payment	**1,640.000**	**586.092**	**369.647**
F01- Cash and Bank Balances	-	(1,324.763	(1,536.678)
F02-Receivables	1.000	0.442	0.467
F05-Other Assets	-	-	-
G01-Current Liabilities	832.000	1,028.879	957.833
G04-Other Liabilities	-	-	-
G05-Control Accounts	515.000	540.332	548.012
G06-Trust Account-Fund	46.000	45.949	54.982
G10-Trust Accounts-Other	111.000	193.366	210.743
G11-Special Deposit Investment	128.000	97.023	124.684
G12-Special Deposit Fund	7.000	4.864	9.604
Net of Public Account (+) (-)	-	-	-

Positive net reflects the position of more credits and less debits and vice versa. The net of Public account (+) or (-) may be treated as source/ financing available during a financial year for PCF. However, prudent financial management principles require that the money of Public Account may not utilized for the purpose relating to Provincial Consolidated Fund.

The provisions of Financial Rules demand prudent Cash Management inter alia the cash pertaining to the Public Account need to be deposited into Government Treasury and not to be kept apart from the Punjab Account No.- I (Non-Food) maintained by the State Bank of Pakistan. The Federal Government has framed Cash Management and Treasury Single Account Rules 2020 under the Public Finance Management Act, 2019. Foregoing in view, Government of the Punjab is also taking measures for promulgation of a similar PFM Act. In the mean while Provincial Government has initiated amendments in the existing financial rules to adopt the principles of Treasury Single Account. These amendments together with the proposed PFM Act, shall restrict government offices from undertaking any cash operation outside the Treasury Single Account or the principal Government account i.e., Punjab Account No.1 (Non-Food).

To ensure transparency in the disbursement from Public Account by maintaining prudent financial management the Federal Government has devised a procedure to deposit and disburse money from Public Account, known as "*Special Assignment Account, procedure for withdrawal of funds from the Public Account of the Federation 2021*". The prime objective of devising this procedure is to facilitate the government offices in closure of the commercial bank accounts, transfer of all the available balances to the Public Account / Account No.1 (Non-Food) and undertake further public account transactions through the Account No.1 (Non-Food). It has therefore been found expedient to prescribe a dedicated and hassle-free procedure for withdrawal of funds from the Public Account through non-lapsable special assignment account, as the existing Assan Assignment Account procedure is for withdrawal of funds from the Consolidated Fund only. Considering the features of the Special Assignment Accounts, the same has been adopted by the Punjab Government and the process of its dissemination / training of the DDOs is already underway.

Debt, pension and GP Fund involve major financial liabilities of the Government. As per the international best practice, the Government specifically includes details of these liabilities in the white paper on budget for policy makers and legislators to keep a close eye on them. If not managed, these liabilities can erode fiscal space and adversely affect the credibility of budget.

Debt Stock

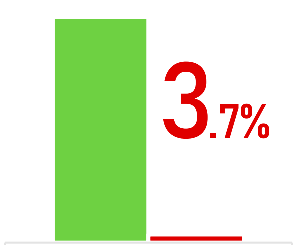
Punjab's debt levels are relatively low when measured as percentage of its GSDP (Gross Sub-national Domestic Product) and as a percentage of its annual revenue. Punjab's debt consists mainly of long-term loans obtained on concessional terms from multilateral institutions by the Federal Government and on-lent to Government of the Punjab. The focus of external financing remains in the areas of Education, Agriculture, Transport, Urban Development etc. Breakdown of Punjab's total debt is as under:

[7]Punjab`s Debt Stock as of 30.06.2021 (Rs. Billion)

Type of Loan	as at Jun '20	as at Jun`21	% Growth from Jun`20	Rupee Value growth from Jun`20	Net New Debt	Exchange Rate Loss /(Gain)
[8]Domestic Debt	6.7	5.2	-22.9%	-1.5	-1.5	0
External Debt	991.0	951.2	-4.0%	-39.8	34.3	-74.1
Total Debt	**997.7**	**956.4**	**-4.1%**	**-41.3**	**32.8**	**-74.1**
Exchange Rate (PKR/USD)	**168.35**	**154.41**				
External Debt (USD mln)	**5,927**	**6,194**	**4.5%**			

The decline in debt stock is mostly attributed to Pak Rupee appreciation against foreign currencies i.e. Rs.74.1 billion and remaining Rs.32.8 billion is the amount of new loans (net of repayments) added in debt stock during this financial year, against new as well as already contracted loans of Government of the Punjab.

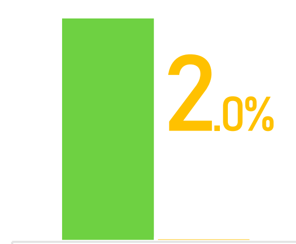
> **Debt stock in Rupee terms as of Jun`21 shows a decline of 4% (i.e., Rs 41.3 billion) with respect to debt stock of Jun`20.**



Punjab's total Debt as %age of GSDP

Rs

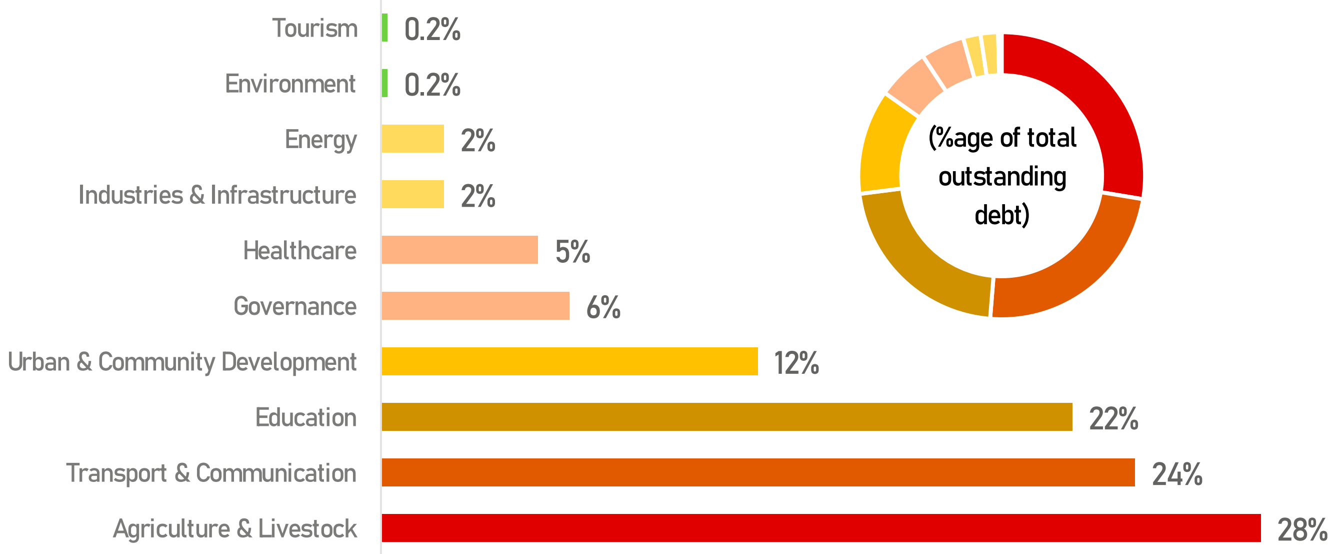
Punjab`s GSDP (Gross Sub-National Domestic Product) is estimated at 55% of the National GDP and the size of Punjab's debt is quite low when measured as a percentage of its Gross Sub-national Domestic Product (GSDP) i.e., 3.7% and the ratio goes down when debt stock is compared with national GDP.



Punjab's total Debt as %age of National GDP

[7] *Debt stock includes actual disbursements till 15.05.2021 and the estimates of loans receipts for the remaining period till 30.06.2021.*
[8] *Domestic debt amount is exclusive of outstanding commodity/wheat debt obtained by Food Department for procurement of wheat, estimated at Rs 560 billion as on 31.06.2021. Revised Gross Domestic Product (GDP) estimate of FY2021 issued by State Bank of Pakistan (SBP) i.e. PKR 46,675 bln is used for calculation of percentages.*

Sector Wise Composition of Total Outstanding Debt as of 30-06-2021



Sector Wise Composition of Total Outstanding Debt as of 30-06-2021	%age Debt as of Jun 30, 2021
Agriculture & Livestock	28%
Transport & Communication	24%
Education	22%
Urban & Community Development	12%
Governance	6%
Healthcare	5%
Industries & Infrastructure	2%
Energy	2%
Environment	0.2%
Tourism	0.2%

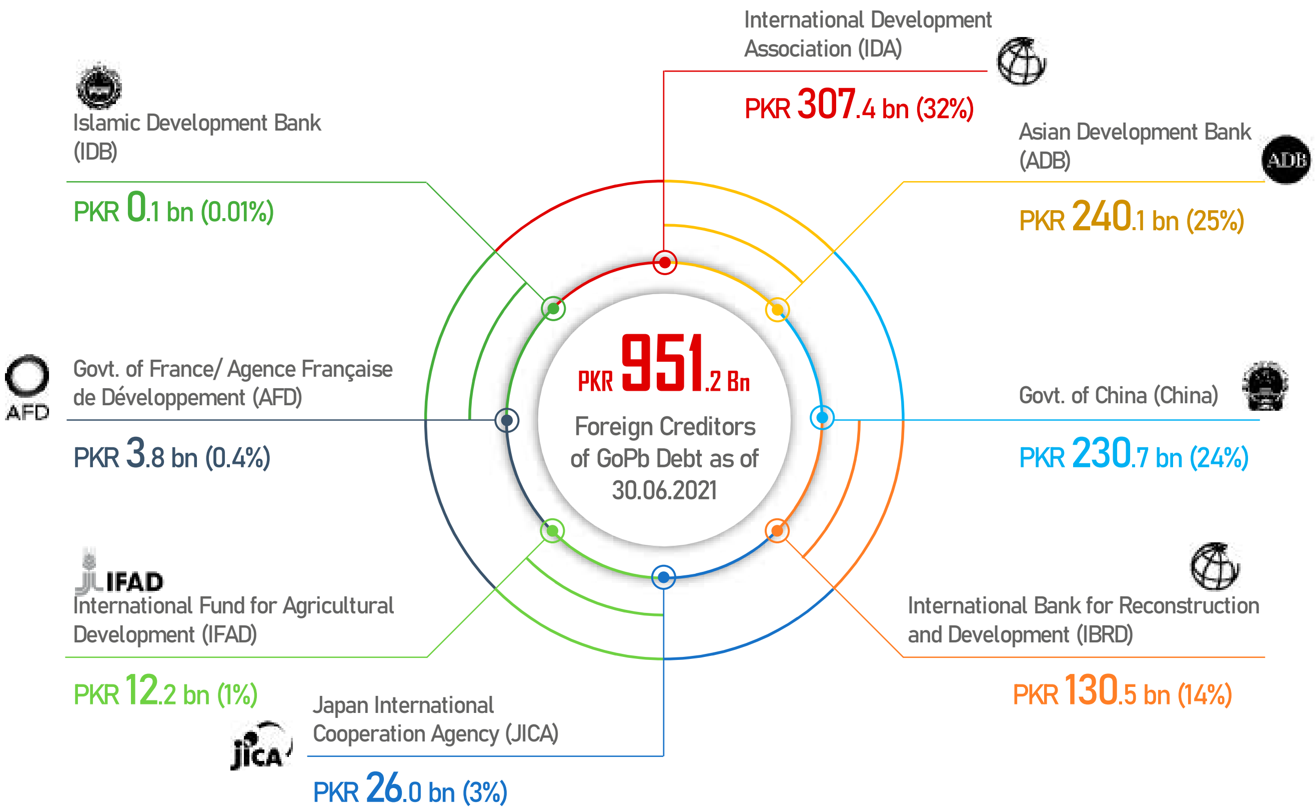
Domestic Debt

Domestic Debt of the Government consists of Cash Development Loans (CDLs) obtained from the Federal Government. CDLs are agriculture program loans at fixed interest rates with original maturity of 25 years. Many of these loans have already been repaid and the outstanding amount of CDLs as of Jun`21 is estimated at Rs.5.2 billion which will be get repaid in full by FY2030

External Debt

Punjab's External Debt is concessional in nature with an average borrowing rate of 1.41% p.a. and average maturity of 8.8 years as of June '21. The World Bank Group (including IBRD and IDA) is the leading creditor with 46% share followed by ADB with 25% share in External Debt stock. A relatively smaller proportion of External Debt stock consists of bilateral loans including those from China, Japan and France. Creditor wise composition is provided below.

PKR 5.2 bn
outstanding amount of CDLs as of Jun`21



Punjab`s External Debt is denominated mainly in US Dollar (75%) followed by Special Drawing Rights (14%) and Japanese Yen (7%). Table below explains the composition of External Debt stock by currency;

(Rs Billion)

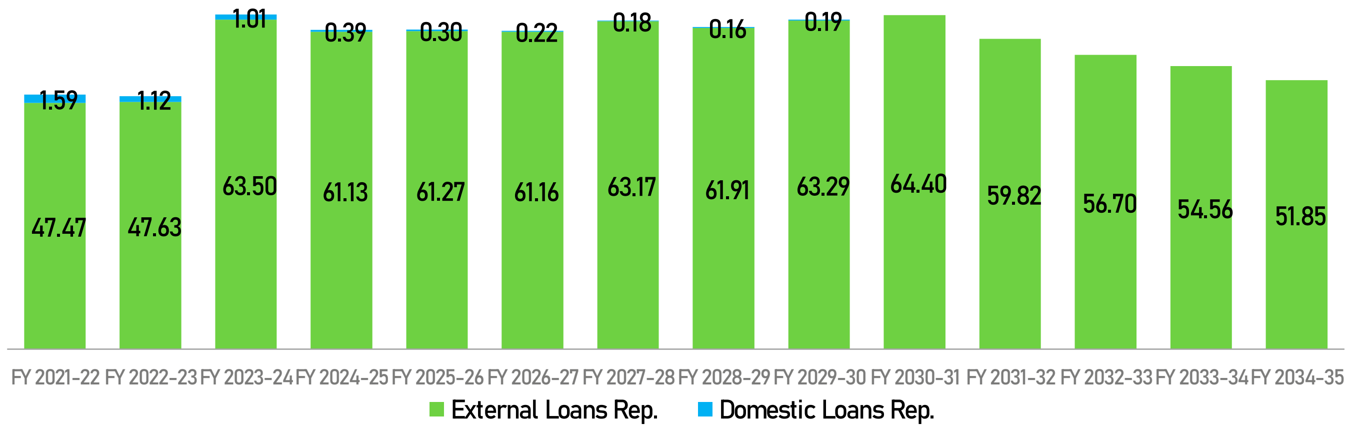
Foreign Debt Stock by Currency as of 30.06.2021

Currency	Outstanding	% of Total
US Dollar (USD)	715.80	75%
Special Drawing Rights (SDR)	137.72	14%
Japanese Yen (JPY)	64.85	7%
Chinese Yuan Renminbi (RMB)	28.88	3%
European-American Unity and Rights Organization (Euro)	3.84	0.4%
Islamic Dinar (ID)	0.11	0.01%
Total	**951.2**	**100%**

Redemption Profile

The redemption profile refers to the projections of annual principal repayments according to repayment schedules of underlying loans. It helps in identifying periods in which large principal repayments will be due and taking appropriate measures to deal with such challenges. Redemption profile of Punjab's debt is quite smooth and is spread over a period of 36 years. Projections of principal repayments for next 14 years are shown below:

Redemption Profile of Principal Amount (PKR Billion)

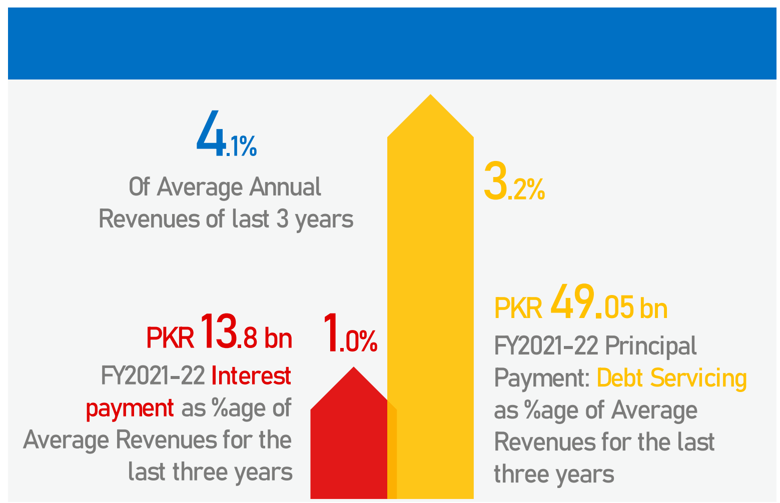


Debt Service

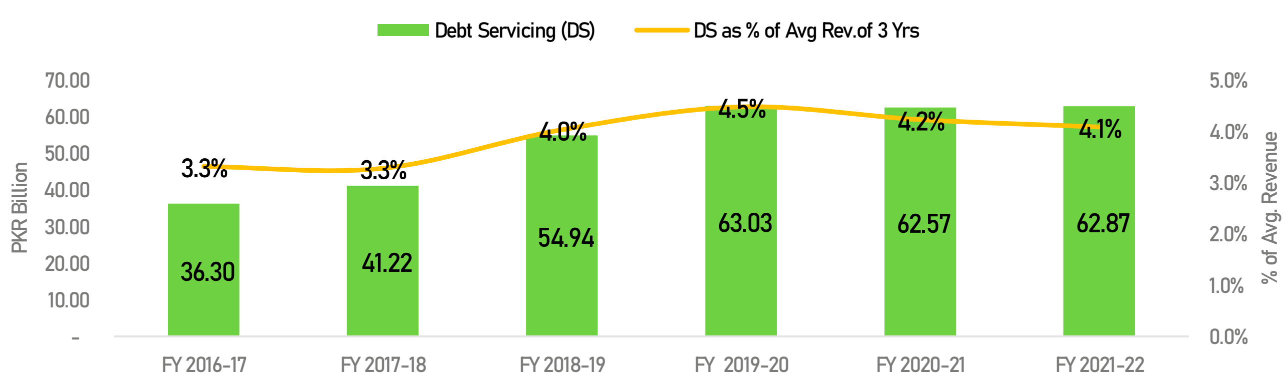
Debt Service refers to the amount of annual payments on account of principal and interest. Ratio of Debt Service to Revenue is a good measure to assess the risk of debt distress. Lower ratio demonstrates debtor's ability to service debt without distress.

Punjab`s Ratio of Debt Service to Avg. Revenue is 4.1% for FY 2021-22 which is quite low and indicates low risk. Debt Service[9] estimates of FY2021-22 are illustrated here.

Punjab`s estimated Debt Servicing for FY 2021-22 is marginal when compared to the size of average annual Revenues[10] of the last three years i.e., 3.9%. This indicates that the province is self-sufficient to honor its obligations on account of debt servicing. Debt servicing estimates of FY2021-22 are summarized below:



Debt Servicing w.r.t. Revenues



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[9] *Exchange rates communicated by Federal Government are used for calculating debt servicing in Rupee. In floating-rate foreign loans, LIBOR rate of 15.05.2021 has been used for calculation of future interest payments.*

[10] Revenue means annual General Revenue Receipts of the province which is exclusive of capital receipts i.e. loan amount.

Risk Analysis of Punjab's Debt Profile

A number of indicators are used to monitor and control risks associated with government's debt. Risk indicators act as a guideline to devise future borrowing strategies. A few risk indicators are explained in the following paragraphs:

Refinancing / Rollover Risk

Refinancing/Rollover risk refers to the risk of refinancing retired portion of the debt at a higher interest rate. Debt maturing in a year and Average Time to Maturity (ATM) are the two indicators used to measure this Refinancing/Rollover risk. ATM shows the average time-to-retirement of the entire debt stock. High proportion of debt maturing in a year and shorter ATM implies higher refinance risk, as a large proportion of the existing loans will need to be refinanced in a shorter period of time.

> *ATM of the Punjab's total debt portfolio is 8.7 years which is quite reasonable and indicates low exposure to refinancing risk. Similarly, the portion of outstanding debt retiring in a year ahead is also not material*

Proportion of Debt maturing in a year and ATM of Debt stock as of **30.06.2021** are given below:

Refinancing Risks are 'Low for Punjab'

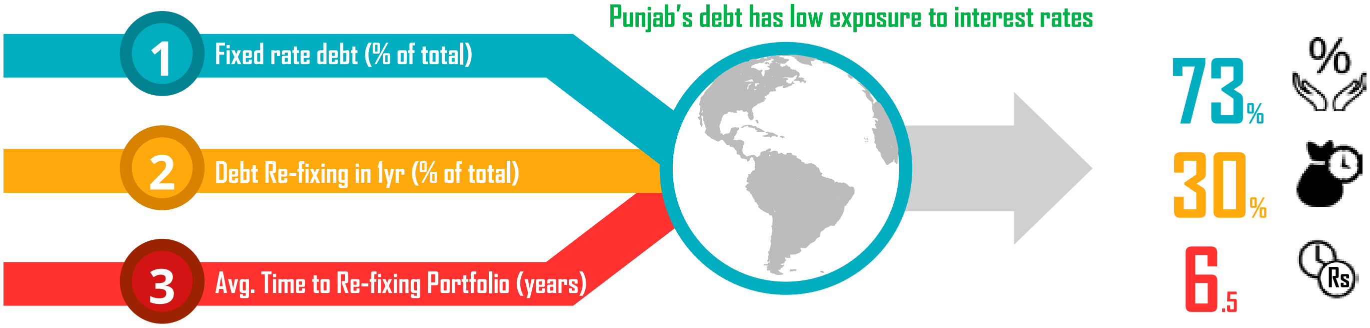
5.0%	8.8	2.6	8.7
Debt maturing in 01 yr (% of total)	Avg. Time to Maturity (ATM) Foreign Portfolio (years)	Avg. Time to Maturity (ATM) Domestic Portfolio (years)	ATM Total Portfolio (years)

Interest Rate Risk

Interest Rate Risk refers to the exposure of debt portfolio to changes in interest rate. Proportion of Fixed Rate Debt, Average Time to Re-fixing (ATR) and share of debt stock exposed to interest rate re-fixing in one year are the key indicators. Fixed rate debt is considered less risky as it is not exposed to interest rate fluctuations during its life. ATR indicates the average time after which the interest rate on the entire debt portfolio is reset. Low ATR and high proportion of debt re-fixing in one year indicate high interest rate risk and imply that debt stock is significantly exposed to interest rate resetting over a relatively shorter period of time in case of a rising interest rate environment. Estimated indicators of Interest Rate risk as of **30.06.2021** are given below:

Interest Rate Risk

Punjab's debt has low exposure to interest rates



Exchange Rate Risk

Exchange Rate risk refers to the exposure of the debt portfolio to changes in exchange rate. Government of Punjab`s debt is highly exposed to FX Risk as 99% of the total outstanding debt stock is denominated in foreign currency. However, this seemingly high risk is partially mitigated by two factors;

99%

Share of Foreign Debt
(as % of total)

01
low interest rates on foreign loans offset the adverse consequences of exchange rate depreciation

02
overall size of Punjab's External Debt is low as a percentage of the provincial GSDP i.e.3.7%

Guarantees

The Government issues guarantees mainly to Public Corporations and Public Private Partnerships (PPPs) as government support to enhance financial viability of the projects undertaken by these entities. Currently, the outstanding guarantees pertain mainly to Public Corporations operating in the energy sector and PPP projects in roads & transportation sector. The size of guarantees issued by General Government is quite small compared to the provincial Revenue (2.85%) and provincial GDP (0.2%). As of 30.06.2021 the total amount of outstanding Guarantees is estimated at PKR 48.7 billion out of which PKR 4.7 billion is attributable to Public Private Partnerships (PPP) while the remaining Guarantees worth PKR 44 billion are issued to power projects of Punjab

> *Domestic borrowing limit assigned by the National Economic Council (NEC) has so far been used by the Government to offer Guarantees to various Public Sector Entities (PSEs) to ensure/ increase the bankability of their projects.*

PENSION

Government has a Defined-Benefit (DB) Pension Scheme for its permanent employees. The pension scheme is being managed on a 'pay-as-you-go' basis, i.e. pension payment during a year is made out of that year's revenues regardless of the time of accrual of the liability. Considering the sharply increasing burden of pension expenditure, Government is considering various options for reforming the Pension Scheme.

Pension Expenditure

Pension is the second-largest expense of the Government of Punjab. It has been growing at a very high rate in recent years. The steep rise in Pension Expense as a proportion of Revenue over time is a matter of concern. A glance at Punjab's pension expenditure since FY10-11 is as under:

Year	Pension Expense (Rs. in billion)	Revenue (Rs. in billion)	Pension Expense / Revenue %
FY10-11	36.40	539.00	6.75
FY11-12	50.10	606.00	8.27
FY12-13	67.40	703.00	9.59

FY13-14	76.40	815.00	9.37
FY14-15	88.80	902.00	9.84
FY15-16	113.80	1,108.00	10.27
FY16-17	141.00	1,405.00	10.04
FY17-18	172.90	1,387.00	12.47
FY18-19	205.20	1,426.00	14.39
FY19-20	228.80	1,408.00	16.25
CAGR	**22.66%**	**11.26%**	

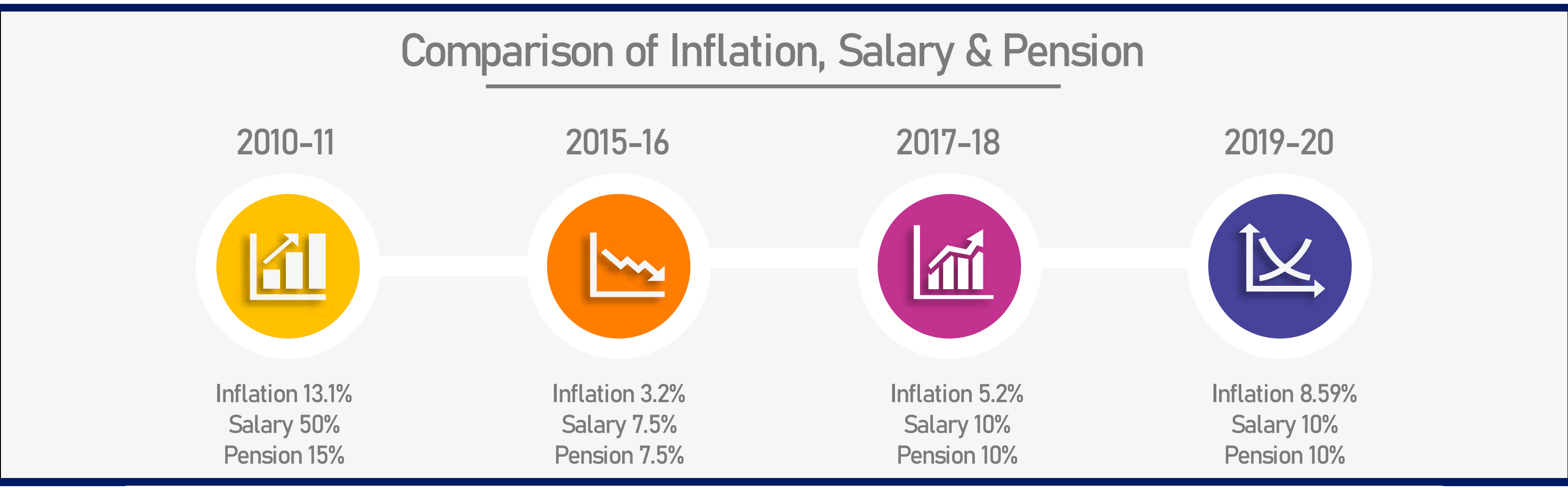
Pension expense has grown at a compound annual growth rate (CAGR) of 23% since FY10-11 while Revenue has grown at a CAGR of 11% respectively during the same period. As a result, Pension Expense to Revenue has increased from 6.75% in FY10-11 to 16.25% in FY19-20. Evidently, pension liability has become one of the major sources of fiscal risk for the Government and there is an urgent need to reform the Pension Scheme.

The government of Punjab follows the Federal Government in allowing an annual increase in salary and pension. Comparison of inflation and salary and pension increases have given by the Government of Punjab since FY10-11 is as under:

Year	Inflation (YoY CPI) %	Salary Increase %	Pension Increase %
FY10-11	13.13	50.00	15.00
FY11-12	11.26	15.00	15.00
FY12-13	5.85	20.00	20.00
FY13-14	8.22	10.00	10.00
FY14-15	3.16	10.00	10.00
FY15-16	3.19	7.50	7.50
FY16-17	3.93	10.00	10.00
FY17-18	5.21	10.00	10.00
FY18-19*	8.00	10.00	10.00
FY19-20**	8.59	10.00	10.00
CAGR	**6.42%**	**12.84%**	**11.33%**

*CPI is based on new base year 2015-16;

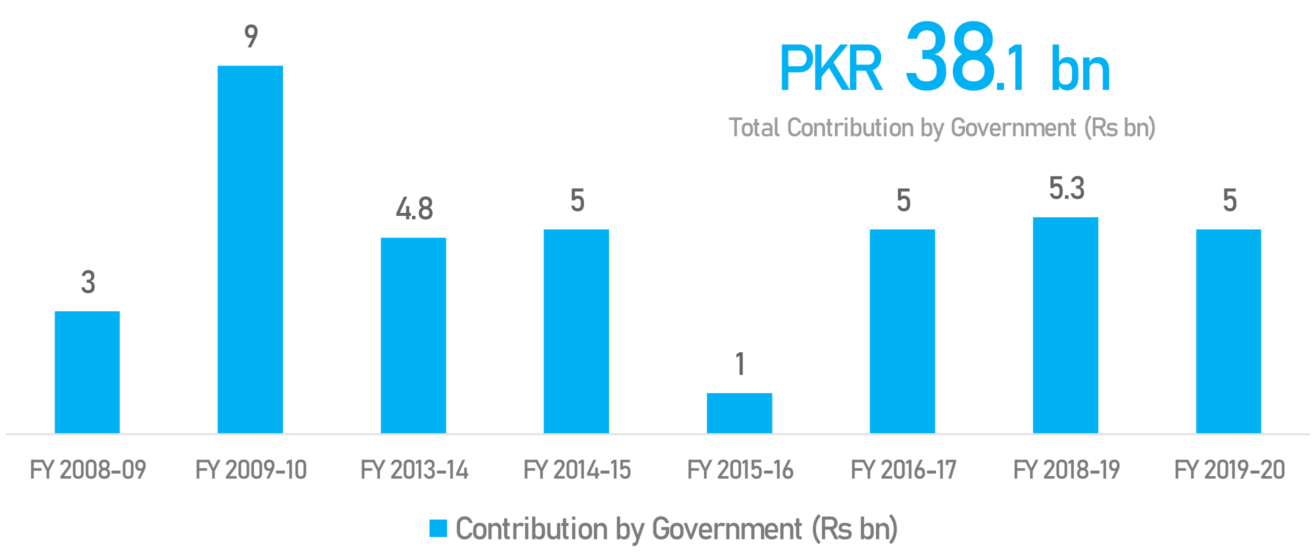
**Salary increase as: Grade 1-16 10%; Grade 17-20 5%; Grade 21-22 Nil



An annual increase in salary and pension without regard to inflation may lead to unmanageable pension expenditure and liabilities. Potential reforms to Pension Scheme should include a policy to ensure that annual increase in pension should not be higher than the annual inflation rate.

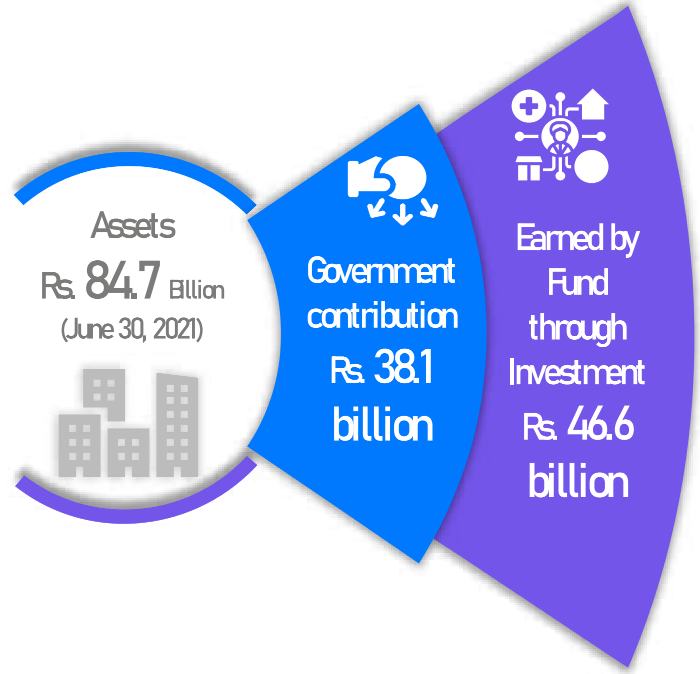
Punjab Pension Fund

Punjab Pension Fund has been created to invest funds set aside by the Government for meeting its future pension liability. Punjab Pension Fund's Funding Ratio (market value of assets / present value of accrued pension liabilities) is estimated at 1.3%, on 30th June 2021. The Funding Ratio is extremely low. A combination of higher pension contributions in Pension Fund and rationalization of pension benefits is necessary to increase the Funding Ratio. And for this, a concerted effort in being made in collaboration with federal government and other federating units. The history of capitalization of the fund by the Government is summarized as under:



Size of Pension Fund

Assets of the Punjab Pension Fund are estimated at Rs. 84.7 billion on 30th June 2021. The Government has contributed Rs. 38.1 billion into the Fund until 30th April 2021, while remaining Rs. 46.6 billion has been earned by the Fund through its investments.



Performance of Pension Fund

Time-Weighted Return history is presented below:

Period	Rate of Return (nominal)	
	Gross Return	Net Return*
FY 2008-09	15.21%	15.00%
FY 2009-10	13.39%	13.21%
FY 2010-11	10.96%	10.81%
FY 2011-12	17.03%	16.86%
FY 2012-13	20.62%	20.46%
FY 2013-14	5.80%	5.65%
FY 2014-15	21.74%	21.57%
FY 2015-16	11.28%	11.14%
FY 2016-17	10.01%	9.88%
FY2017-18	8.08%	7.97%
FY 2018-19	1.43%	1.34%
FY 2019-20	17.81%	17.72%
FY 2020-21 (Projected)	12.98%	12.90%
Jul 2008-June 2021 (CAGR)	12.66%	12.52%

*Net Return means the return after deducting expenses incurred on the management of PPF

The investment strategy followed over the years has worked well. Pension Fund continues to earn an attractive real rate of return because of its high yielding portfolio of PIBs, TFCs and NSS. The Fund's equity portfolio has also posted a healthy return of 28.8% during the current Financial Year.

The Fund has earned a reasonable real rate of return of 4.26% p.a. since its inception which illustrates the success of its investment strategy.

GENERAL PROVIDENT FUND (GPF)

In addition to the Pension Scheme, Government requires its permanent employees to subscribe to the General Provident (GP) Fund, which is a Defined Contribution Scheme. General Provident Fund contributions are deducted from salaries of Government employees and credited to the GP Fund Account, which is part of the Public Account of the Province. The preferred way to manage GPF is to put the GPF contributions in a separate Fund, invest these contributions in the financial markets, and maintain individual employee accounts to keep track of the GPF balances. However, this approach has not been followed in the past. Over the years, most of the GPF balances have been used to finance the budget deficit and, as a result, a shortfall has arisen in GFP balances relative to the GPF liabilities payable by the Government. The government has been announcing a notional rate of profit every year in respect of GPF balances and has been running the GPF Scheme on a 'pay as you go' basis.

A few years ago, the need to establish a separate Fund, for investing GPF contributions and to gradually increase its Funding Ratio to 100% in order to make it a fully-funded off-budget GPF scheme, was realized. The Government passed Punjab General Provident Investment Fund Act 2009 to establish an investment fund for the management of GP Fund liabilities of the government. The Government has been transferring a significant portion of GPF contributions into the Fund in recent years.

General Provident Fund Liability

The amount of GP Fund payment of a Government employee is the accumulated contribution deducted from his/her salary during service plus the profit announced by the Government on such contributions on annual basis.

Based on the actuarial valuation, accrued GP Fund liability is estimated at Rs. 279.6 billion on 30th June 2021. Considering the GP Investment Fund size of Rs 11.6 bn, the Funding Ratio of the Scheme stands at 4.1%.

Funding Ratio of GP Investment Fund

Although the Funding Ratio of GPF is still quite low, the Government is committed to increasing it steadily to 100% over time. The Government is considering a range of reforms to GPF Scheme and its management such as steadily increasing the contributions in the GP Investment Fund; linking the notional profit rate on GPF balances with inflation rate or the actual rate of return earned by the GP Investment Fund; fully funding the GPF scheme for new employees or the employees hired after a reference date.

Contributions made so far by the Government in GP Investment Fund are summarized below:

Year	Contributions (Rs bn)
FY 2013-14	3.4
FY 2016-17	1.0
FY 2018-19	1.0
FY 2019-20	1.7
Total	7.1

Size of GP Investment Fund

Assets of the Punjab General Provident Investment Fund are estimated at Rs. 11.6 billion on 30th June 2021. The Government has contributed Rs. 7.1 billion into the Fund until 30th April 2021, while remaining Rs. 4.6 billion has been earned by the Fund through its investments.

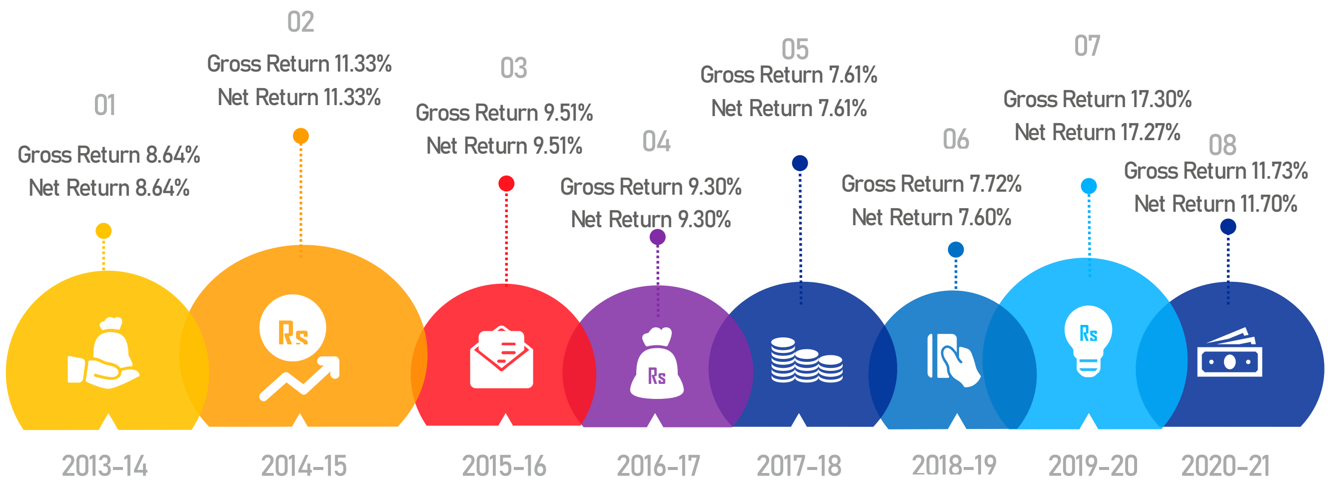
Performance of GP Investment Fund

Time-Weighted Return history is presented below:

Period	Rate of Return (Nominal)	
	Gross Return	Net Return*
FY 2013-14	8.64%	8.64%
FY 2014-15	11.33%	11.33%
FY 2015-16	9.51%	9.51%
FY 2016-17	9.30%	9.30%
FY2017-18	7.61%	7.61%
FY 2018-19	7.72%	7.60%
FY 2019-20	17.30%	17.27%
FY 2020-21 (Projected)	11.73%	11.70%
Jul 2013-June 2021 (CAGR)	10.35%	10.33%

*Net Return means the return after deducting expenses incurred on the management of PGPIF

Punjab General Provident Investment Fund's Performance



The Fund has been investing mainly in a mix of short-term and long-term government securities in order to earn relatively higher yield with a lower level of volatility. The Fund has earned a reasonable real rate of return of 4.04% p.a. since its inception which illustrates the success of its investment strategy.

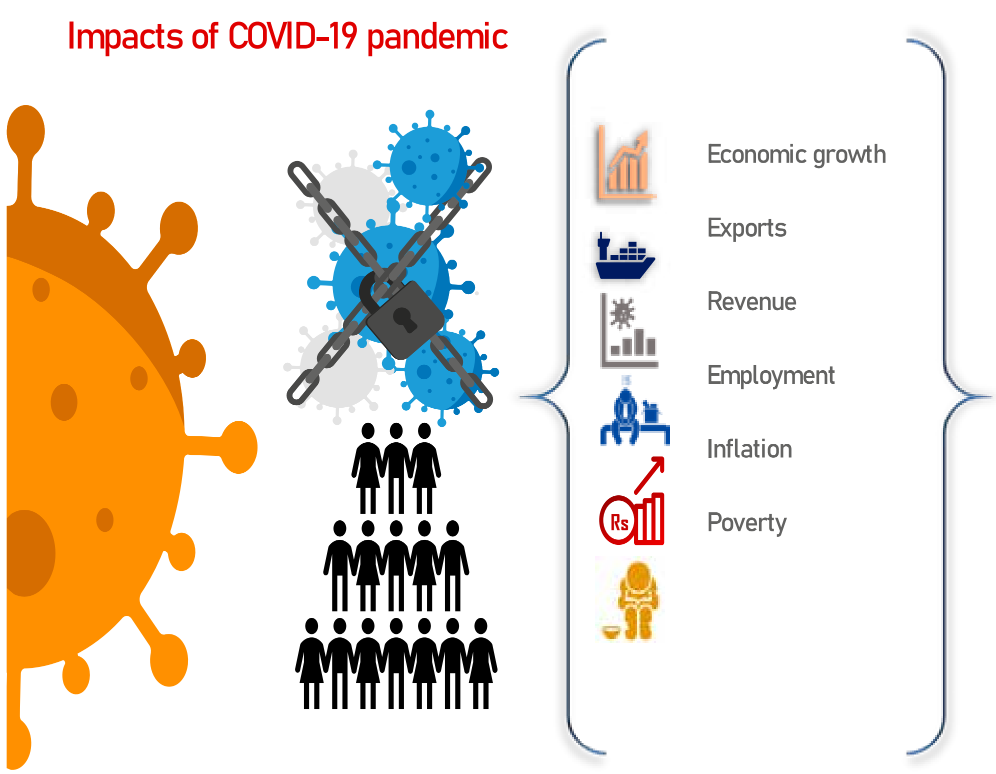
POST – COVID-19 FISCAL CHALLENGES & MEASURES FOR ECONOMIC RECOVERY

This fiscal year began in the uncertain and highly volatile reality of the COVID-19 pandemic, which threatened to derail the hard-earned stabilization and nascent recovery of the pre-COVID period. The global pandemic impacted countries across the world, where the WHO has reported 1170.81 million confirmed cases of Covid-19 worldwide, with 3.55 million deaths as of June 2, 2021.[1] Adverse socio-economic impacts and unprecedented stress to health systems caused by the COVID-19 pandemic, have directly threatened the world's economy and wellbeing whilst jeopardizing progress towards the United Nation's 2030 Agenda for Sustainable Development[2]. As of June 3, 2021, a total number of 926,695 confirmed cases were reported in Pakistan, with a death toll of 21,022. More specifically Punjab has the highest number of reported cases among all provinces, where the number of COVID-19 confirmed cases is 340,989, with 10,132 reported deaths.[3]

Financial and Economic Challenges exacerbated by COVID-19

The COVID-19 pandemic has exacerbated the economic and financial challenges for the Government of Pakistan in general and Government of the Punjab in particular, as Punjab is the most populous province of the country. Even before the spread of the pandemic, Pakistan's economy was struggling with an economic crisis, mainly due to substantial fiscal and current account deficits, overburdening foreign and local debt, and the local currency's devaluation against the US dollar.[4]

Inevitably as lockdowns were imposed in 2020 by the federal and provincial governments to contain the viral spread of COVID-19, businesses closed down, supply chains were disrupted and casual workers who relied on daily labor found themselves out of work. Some of the direct impacts felt through the COVID-19 pandemic include impacts on Pakistan's economic growth, exports, revenue, employment, inflation, incidence of poverty among the most vulnerable segments of society and challenges to Small and Medium-sized Enterprises (SMEs) among other sectors. Reportedly, Pakistan lost one-third of its revenue and exports dropped by 50 percent in 2020. Even though the economy started recovering quickly and Pakistan's exports began fetching higher prices in the international market, the 6.5% increase in exports from Jul-Apr 2019-20 to Jul-Apr 2020-21 was unable to cover for the 13.5% increase in imports over the same period. This led to a trade imbalance. Furthermore, Pakistan's GDP growth contracted to -0.5% in FY 2020-21 as a direct impact of the COVID-19 pandemic even though it had earlier been projected to a 2.4% growth rate in March 2020, before the onset of the pandemic.



Inflation rose considerably over the past fiscal year as supply chain disruptions impacted food commodity prices in both urban and rural areas of Punjab. Inflation climbed to 9 percent in September 2020 across Pakistan, while double-digit food inflation continues to erode citizens' purchasing power[5]. This worsened the situation for millions of households who have seen a decline in their purchasing power since 2016, according to data from the Pakistan Bureau of Statistics. Despite being an agrarian economy, Pakistan's population continues to face food insecurity and price volatility for basic commodities.

In fact, over 49% of Pakistan's working population suffered a loss of employment and/or a decrease in income during the pandemic, according to a survey conducted by the Pakistan Bureau of Statistics in 2020[11]. As a result, the incidence of poverty increased in fiscal year 2020, with more than two million additional people falling below the poverty line. Moreover, 40% of households suffered from moderate to severe food insecurity[8].

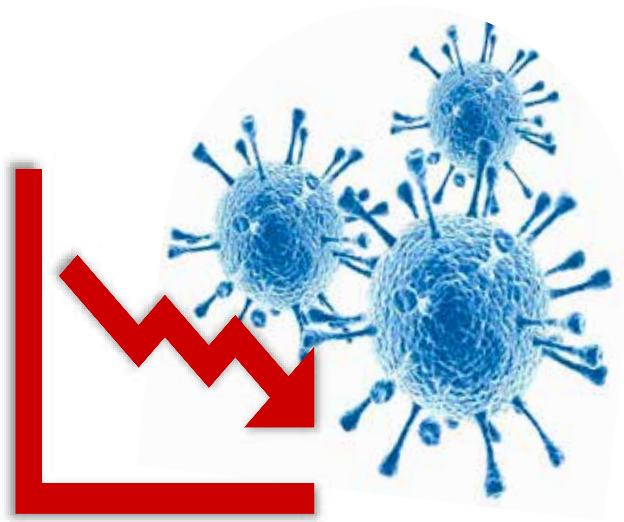
Cumulatively, Pakistan has faced an estimated financial loss of up to Rs **2.5 trillion** because of the COVID-19 pandemic in the FY 2020-21.[7] While the monetary policy is accommodative and fiscal policy is prudent, public debt guarantees have increased to **92.8% of the GDP** [6]. The *Federal Government sought debt relief and secured an additional $1.3 billion from the IMF.* This increase in debt relief does not resolve Pakistan's long-standing problems with overburdening foreign and local debt but in fact exacerbates them and hinders sustainable solutions in the long-term.

Nonetheless, using the $1.3 billion debt relief from the IMF, the federal government rolled out a Rs. 1.2 trillion relief and stimulus package, the largest ever stimulus package, focusing on healthcare, social protection and economic stability and stimulus. This package aims to not only help the businesses but also to help the most vulnerable segments of the population to alleviate their miseries and suffering[7]. Deviating from its known stand, the IMF supported Pakistan's stimulus package for opening the labor-intensive construction industry, including tax amnesty to those investing primarily in housing building, where the unemployed daily wage workers could be absorbed[9]. Cash transfer programs have also been expanded to protect the most vulnerable segments of society. Additionally, the State Bank of Pakistan cut interest rates (from 13 percent to 7 percent) and provided monetary stimulus to businesses[4].

However, it must be noted that merely providing liberal fiscal and monetary stimulus to a few sectors of the economy is not sufficient for a developing country like Pakistan that needs to generate more than 1.3 million jobs a year but its growth rate is less than 2 per cent[6]. Such stimulus may produce only sporadic growth that will not be sustainable. In this regard, synchronized and sustained growth in all sectors of the economy is required, which would require overcoming these tough fiscal challenges.

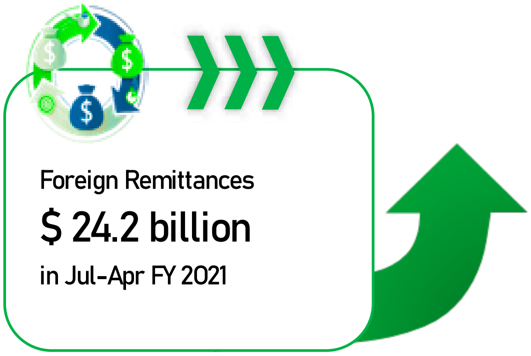
A perennial fiscal challenge that continues to plague Pakistan's economy severely due to COVID-19 is its gaping fiscal deficit. The State Bank of Pakistan has noted there may be some risks that may hinder achieving revenue targets. A financial loss of Rs 2.5 trillion because of COVID-19 during the FY 2020-21 is an extraordinary shock[7]. This means that the Government must keep a consistent check on its expenditures and raise revenue by expanding tax base to develop capabilities (i.e. health and education) of its people. In this context, the United Nations has also urged the national governments to cope with the impacts of COVID-19 by: (a) introducing essential measures to check the vulnerability of healthcare systems, (b) accelerating the use of information and communication technologies in the societies' core activities, (c) increasing the use of technologies and distance learning in education sector.

At the same time, a weak economic recovery around the world, particularly in the European Union and the United States, has subdued demand for Pakistan's exports. While exports did increase in the past fiscal year by 6.5% as noted earlier, this was primarily due to global price changes as opposed to increased demand for Pakistani goods. The issue has been further exacerbated by chronic structural inefficiencies — exporters who have received additional orders during health emergency days are facing energy and raw material (especially cotton) shortages. Any country's industrial sector cannot grow sustainably and meet its full potential with an energy sector plagued by debt, lack of investments and a growing dependency on imports. This structural issue with Pakistan's economy, i.e. its inability to earn sufficient foreign income to pay for its import bill and debt servicing needs, remains its Achilles' heel[7].



[11] https://www.pbs.gov.pk/sites/default/files//other/covid/Final_Report_for_Covid_Survey_0.pdf

During the COVID-19 pandemic, Pakistan's Small and Medium-sized enterprises (SMEs) were impacted severely as many shut down and others faced unprecedented economic disruptions. SMEs are crucial for the economy as these businesses are spread all over Pakistan in rural and urban areas and provide employment to a large proportion of Pakistan's working population. They constitute over 90 percent of the estimated 3.2 million business enterprises and contribute 40 percent to the GDP with over 40 percent of export earnings[6]. Therefor e, the revival and growth of the SME sector is one of the significant tasks ahead for the Government and is already a part of key government strategy documents such as the Punjab Growth Strategy 2023.



While the GDP growth fell, inflation rose and there was a trade imbalance, Pakistan's foreign remittances rose to $ 24.2 billion in Jul-Apr FY2021 compared to $ 18.8 billion last year, which indicates a growth of 29 percent. Foreign remittances received by Pakistan are estimated by the World Bank to be approximately 8 to 9 percent of the total GDP[10]. Even though the flow of foreign remittances has increased despite the COVID-19 pandemic, a few economists argue that this increase will be short-lived due to diaspora job losses, particularly in countries like Saudi Arabia and the United Arab Emirates. The State Bank of Pakistan, however, is optimistic in its outlook, arguing that Pakistan's external sector will remain stable during the current fiscal year[7].

The ultimate goal of the Government of Punjab's prudent development financing is to meet the ambitions and aspirations of the youth. To do that, the Government is working to generate millions of jobs that expand citizens' purchasing power and mitigate Pakistan's risks of turning demographic dividend into a demographic disaster. The latter section of this chapter will elucidate the Punjab Government's efforts in restoring economic growth and setting Punjab on the path to sustainable development.

In comparison to many other countries across the world, including neighboring countries, Pakistan has been able to effectively contain the spread of COVID-19 and provide socio-economic relief to its people. Both the federal and provincial governments have increasingly relied on evidence-based policy making to take critical decisions on a timely basis. For instance, the Punjab Government has been actively monitoring provincial and district level data on COVID-19 cases to track infected individuals, isolate them, and/or impose smart lockdowns in heavily infected areas. Traditional silos that have hindered inter-departmental communication and coordination have been overcome to a large extent during the COVID-19 crisis, especially through the persistent use of technology. Coordination between government departments in the Punjab Government as well as coordination between the center and provinces has considerably improved. Consequently, Punjab government has been able to curtail the spread of COVID-19 and as a result economic activity is gradually picking up after the third wave. Business confidence is also restoring in Pakistan. According to the report of *Moody's Investors Service, Pakistan's economy will return to a modest 1.5% GDP rate in FY 2020-21 and accelerate to 4.4% in 2022*[11]

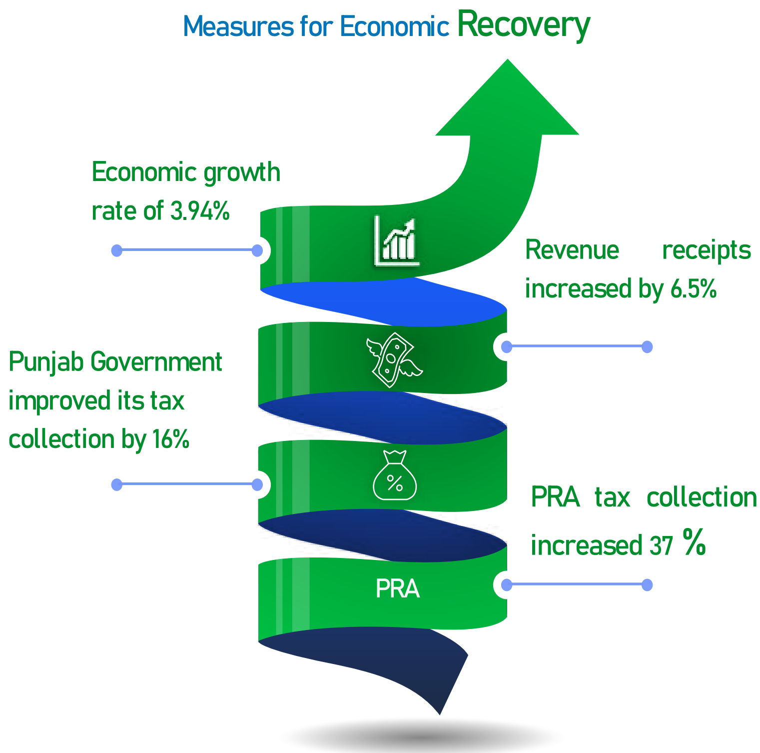
Measures for Economic Recovery

Despite the economic crisis brought on by the COVID-19 pandemic and deteriorating macroeconomic indicators, Pakistan's economy was able to recover at much quicker pace than had been anticipated due to timely data-driven policies by the government. The third wave of COVID-19 presented serious challenges to the economy as many thought the worse was behind us. As restrictions eased, lockdowns lifted and business conducive policies were developed by the government, the economy exhibited marked improvement.

Despite a negative economic growth rate in FY 2020-21, the National Accounts Committee has estimated an economic growth rate of 3.94% for FY 2021-22 and the IMF has projected a 1.5% increase for the same time. Both of these estimates are significantly better than the economic growth rate of FY 2020-21 and suggest that Pakistan is on the road to economic recovery. Despite the high volume of COVID-19 related expenditures, and concessions on different taxes, fees, and loan repayments etc., the fiscal sector has also performed beyond the expectations as a result of the government's efforts to maintain fiscal discipline. During first three quarters of FY 2020-21, total revenue receipts increased by 6.5% percent with total volume of Rs.4993 billion, and expenditures grew by 4.3 percent (Rs. 6645 billion). Fiscal deficit remained 3.5

percent of GDP as compared to 4.1 percent during same period of last year. Following in the footsteps of the Federal Government, the Punjab Government has also improved its tax collection by 16 percent to Rs. 191.5 billion during the same period. In fact, the Punjab Revenue Authority has outperformed all other revenue collecting provincial agencies by increasing its collection of sales taxes on services by 37 percent to Rs. 117 billion from Rs. 85.5 billion during same period of the last fiscal year. Additionally, the Excise and Taxation Department has slightly increased its revenue collection to Rs. 26.6 billion from Rs. 22.1 billion a year ago.

Other sectors of the economy also showed a healthy trend of significant improvement during the three quarters of the current fiscal year as compared to last year. Growth rate of Large Scale Manufacturing (LSM) increased from negative 9.9 percent a year ago to positive 5 percent. Except cotton, all major Kharif Crops exceeded their respective production targets. The Government's incentives to the construction sector also proved to be a catalyst for growth of its allied manufacturing segments. Amidst the lockdown, more Pakistanis, who had been previously hesitant, began online shopping and using other online services which contributed significantly to the positive growth of the services sector especially in segments including wholesale and retail, transportation, free lancing, e- commerce, communications, and online certifications. Inflation remained subdued during first two quarters and resurfaced since February 2021. However, it remained significantly low at 8.6 % as compared to 11.2 % last year.

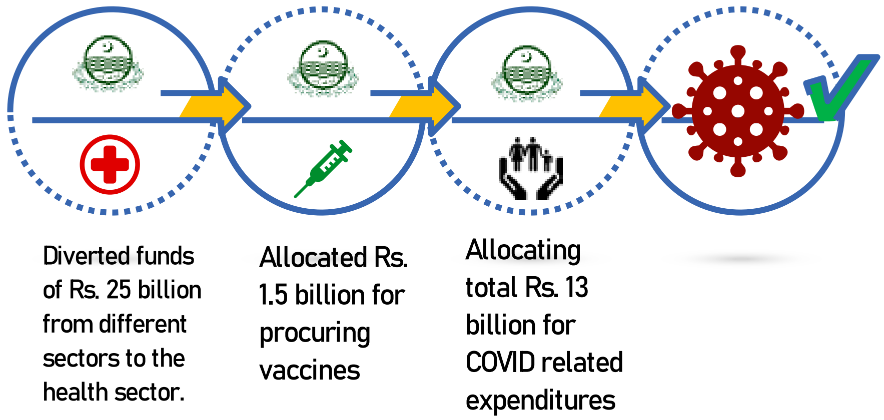


As the economy of Pakistan as well as that of Punjab has begun recovering from the devastating effects of COVID-19 owing to the vision and commitment of the Government and its institutions, the Punjab Government is committed to completely bring the economy of the province out of clutches of the pandemic and make it self- sufficient and advanced. In that regard, the Punjab Government has introduced schemes, packages, projects, and developed policies to aid the province's economic recovery in a sustainable and inclusive manner. Some of these are:

Strategic & Policy Oversight through Cabinet Committee to Combat Coronavirus

The Punjab Government notified a Cabinet Committee to combat coronavirus under the chairmanship of Minister for Law and Parliamentary Affairs. A provincial version of the National Command Operational Centre (NCOC), the Committee is the highest forum in the Punjab to deliberate issues related to the pandemic, make policies and strategies, and supervise their implementation across the 36 districts of Punjab. By ensuring timely and data-informed policies are used to make critical decisions for the population of the province, the Cabinet Committee is responsible for effectively managing COVID-19 challenge. The Committee utilized the expertise of individuals and organizations across various sectors, and used a consultative and participatory approach to ensure timely data is received to make evidence-based decisions. For instance, effective coordination with public and private hospitals, laboratories, ventilator suppliers, monitoring of COVID positive cases in the province, quarantining of infected individuals and imposing smart lockdowns in districts with high infection rates are just some of the things this Committee was responsible for. Further, the Committee also ensure strict adherence to COVID SOPs in public spaces, and markets across Punjab with the support of law enforcement agencies. A key reason for effective control of COVID-19 is the coordination between the federal and provincial governments which ensured strategic insight and support is provided to the province.

COVID-19 responsive budgets



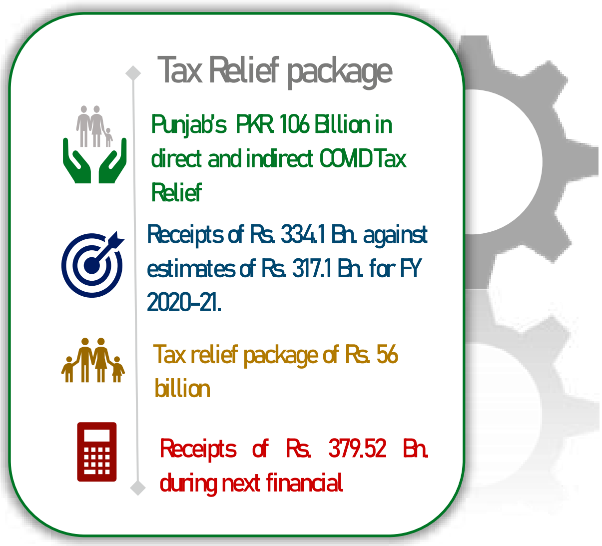
In order to effectively control the spread of COVID-19, it was essential for the Punjab Government to not only earmark funds for this but to ensure that policies and budgets are responsive to the current reality. For this reason, during FY 2019-20, the Punjab Government diverted funds of Rs. 25 billion from different sectors to the health sector. For the current financial year, Rs. 10 billion were allocated for expenditures related to COVID-19 only. The Government took every possible measure to save lives of its people by making large scale COVID related procurements, upgrading hospitals, and establishing Corona Vaccination Centers all across the province. Committed to achieve the Federal Government target of vaccinating 70 million people across the country, the Punjab Government has allocated Rs. 1.5 billion for procuring vaccines in addition to vaccine doses received from the Federal Government. For the next financial year, the Government is allocating total Rs. 13 billion for COVID related expenditures mainly aiming for vaccinating maximum possible people.

COVID-19 responsive policies and frameworks

At the institutional and policy level, the Punjab government aligned all provincial policies, strategies and plans with the reality of the COVID-19 pandemic. By ensuring that key provincial documents are responsive to COVID-19 and its socio-economic impacts, the government ensured that every department effectively responds to the most critical needs. The Punjab government developed a comprehensive and holistic response to COVID-19 through the Responsive Investment in Social Protection and Economic Stimulus (RISE) Framework. This document integrates seven critical pillars which provide Punjab with a realistic framework to overcome the current health, economic and social protection challenges.

Tax relief package

Despite the constraints, Punjab was able to offer PKR. 106 Billion in direct and indirect COVID Tax Relief making it the largest relief package offered in Punjab's history. To support the economy due to COVID-19, the Punjab Government introduced a highly generous tax relief package of Rs. 56 billion by reducing sales tax on services for different sectors, stamp duty, property tax, rate of entertainment duty, to name a few. As a result of the positive effects generated by this relief package, the Government is expecting a total receipt of Rs. 334.1 billion against budgeted estimates of Rs. 317.1 billion for FY 2020-21. Similarly, for the next financial year the Government has extended a Tax Relief Package worth Rs. 50 plus billion that will further bolster the recovering economy of the province. With this package, the Government is hopeful to make total receipts of Rs. 379.526 billion during next financial year 2021-22.

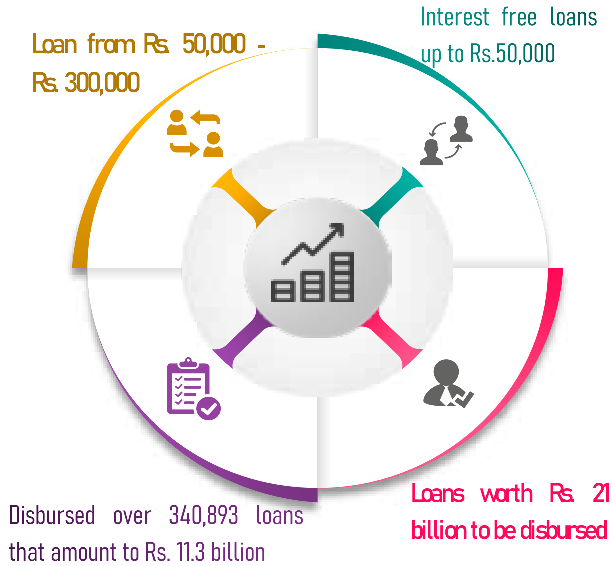


Punjab Rozgar Scheme

Government of the Punjab launched the Punjab Rozgar, a soft loan scheme for SMSEs, in October 2020. The scheme has become very popular in the public and within very short time of 6 months, 13,740 applications of loans amounting to Rs.18785.27 million have been received. Out of these 596 applications, sound business plans have been approved and loans amounting to Rs. 426.1 million would be disbursed by the end of current financial year. It shows higher success ratio of the scheme along with the potential job creation for about 1.1 million individuals. During the next financial year, the Government is expecting total loan disbursement more than Rs. 10 billion.

Chief Minister Self Employment Scheme

Another pro-poor financial assistance scheme of the Punjab Government is the Chief Minister Self Employment Scheme under which interest free loans up to Rs.50,000 are given to those in need for starting or improving their own small-scale businesses. During the current financial year, the Government has disbursed over 340,893 loans that amount to Rs. 11.3 billion. For year 2021-22, loans worth Rs. 21 billion are expected to be disbursed through revolving the fund amounting to Rs. 12 billion. Due to the popularity of the scheme and its considerable economic impacts on people living below the poverty line, the Government is planning to enhance the limit of the loan from Rs. 50,000 to Rs. 300,000.



Technical and Vocational Education

The technological shift post-COVID-19 has also brought opportunities for talented Pakistani youth as demand for Pakistan's technical and vocational professionals and semi-professionals increases. TEVTA has trained over 25,000 trainees in collaboration with Amazon, Facebook, Dell, and Daraz etc. All of these trainees were in turn hired after the successful completion of IT programs and courses. In addition to this, the number of graduates of TEVTA has remained 105,000 for general skills, e-commerce, and IT related courses. Some of these graduates are earning as high as $300 to $500 per month through free lancing, according to market estimates. In the FY 2021-22, TEVTA is aiming to train 225,000 students as it sees the value in investing the skills of the Pakistani youth.

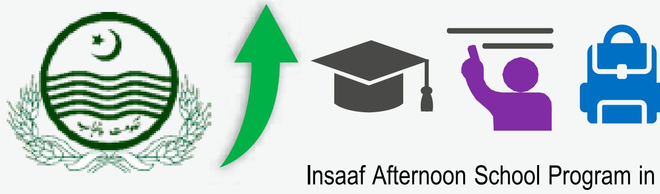
Healthcare Reforms

The greatest impact of the COVID-19 pandemic has been on the healthcare infrastructure and systems of Pakistan and all its provinces, highlighting critical areas that need improvement. As a result, the Punjab government increased the total Health sector allocation by 22% (FY2017-18: Rs. 233 Bn to FY202-21: Rs. 284.4 Bn) and will further increase this substantially in the forthcoming budget. One of the key initiatives that the Punjab Government undertook is the provision of Health cards to under-privileged households so their healthcare needs may be effectively met. Over 5.4 million households have received health cards until now and by December 2021 the health card will provide universal health coverage to the 110 million inhabitants of Punjab. Other health related interventions by the Punjab government include immunization of 81% of its children in 2019-20 that increased from 70% in 2014-15; induction of over 32,000 healthcare professionals to improve the provision of healthcare to people; upgradation of 49 nursing schools and introduction of a new service structure of nurses. Further 173 hospitals were dedicated for Corona patients; additional 15721 beds including 787 oxygen beds were added in these hospitals and 2284 HDUs were reserved for Corona patients. 43 testing labs for Covid-19 tests with accumulative capacity of more than 40,000 test per day and 857 vaccine centers are working in the whole province. To meet the inflated demand of HR due to high pressure of corona cases in hospitals, 490 doctors (MOs/WMOs), 2 consultants, 795 nurses, 250 allied, and 419 support staff were recruited in addition to existing HR.

Education Reforms

One of the most significant and pressing challenges being faced by school-going children across the globe is on learning losses as a direct consequence of COVID-19. Many schools, colleges and universities shut down for long periods of time to curtail the spread of COVID-19 and led to major learning losses. In a country where enrollment is already very low and the literacy rate needs further improvement, this proved to be a colossal loss. Therefore, the Government of Punjab increased allocation to the Education sector by 13.4% in FY 2020-21. Further to ensure uninterrupted education of students from vulnerable communities, the Punjab Government gave a waiver of admission and tuition fee to overcome declining admission and enrollment rates. Other interventions that the Government of Punjab has introduced over the last year includes the Insaaf Afternoon School Program in 577 schools across 22 districts and increase in the number of high schools across Punjab by 20% since 2018, to name a few.

Government of Punjab increased allocation to the Education sector by 13.4% in FY 2020-21



Insaaf Afternoon School Program in 577 schools across 22 districts

Social Protection Reforms

The lockdowns and disruptions in businesses led to increased unemployment and/or income losses among over half of Pakistan's working population. Those who were near the poverty line were pushed into poverty as COVID-19 further deepened inequalities. One of the key highlights of the government's COVID responsive interventions has been its focus on the most vulnerable and marginalized segments of the population, which has been lauded internationally. In order to provide comprehensive social protection to the most vulnerable segments of the population, the Ehsaas Emergency Cash Program worth PKR 150 billion was launched, out of which PKR 81 billion has been disbursed to over 6.6 million families and PKR 200 billion has been allocated to daily wage workers. Furthermore, interest free loans up to Rs. 50,000 are also being provided to those in need.

Some other programs introduced by the Punjab Government include the establishment and operation of 93 Pannah Gahs and 121 Langar Khanas; Ba-Himmat Bazurg Program for person older than 65 year; Nai Zindagi Program; Unconditional Case Transfer for Persons with disabilities; Income Generation Scheme for disabled people; Women Income Growth and Self Reliance Programme at a cost of PKR 7.14 Billion with 292000 beneficiaries; increase in Social Security coverage for Workers where 251,445 cards have been issued between 2018-2021 compared to only 89,241 cards issued from 2013-2018.

Public Private Partnership (PPP)

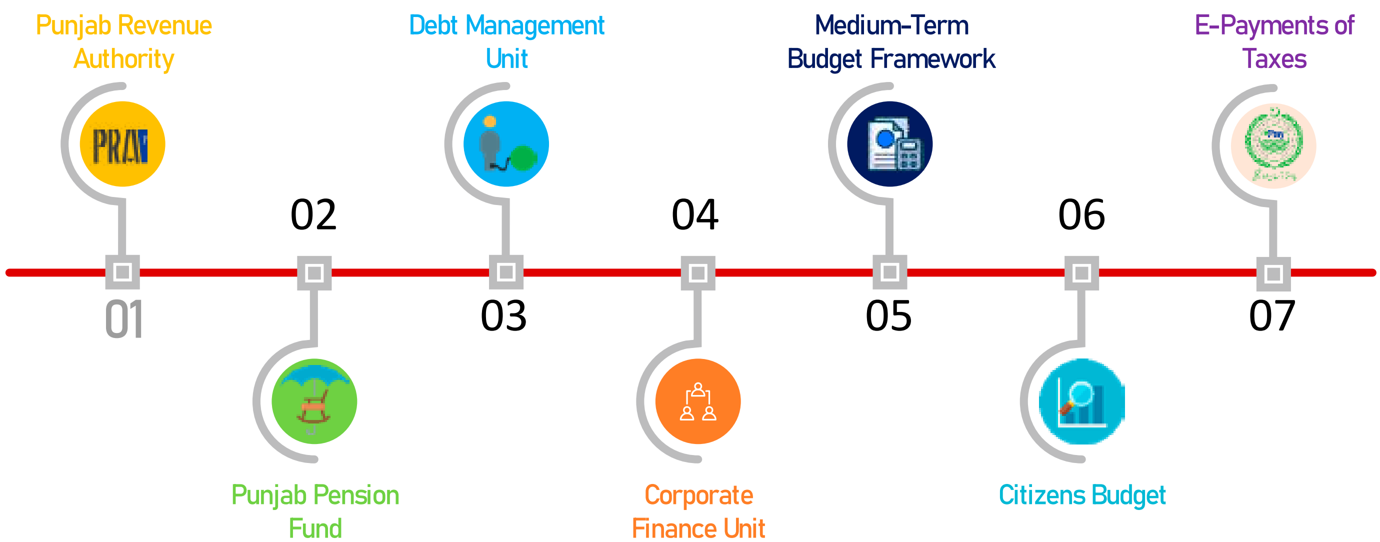
Although the economy has started recovering from shock of COVID -19, the Punjab Government is still facing hard challenge of expanding its development portfolio that can meet the actual needs of the province. Therefore, the Government is committed to extend its full support to the private sector and to encourage it to make maximum investments in partnership with the public sector for implementing social development projects. The PPP Authority has worked out different infrastructure and other infrastructure projects of total worth Rs.190 billion to be executed in PPP mode during FY 2021-22.

Increased funding to Annual Development Program 2021-22

Investments through Annual Development Programs are very crucial for the equitable and inclusive economic progress of the province. Due to COVID-19, the government had to squeeze its development expenditure by diverting Rs. 25 billion to the health sector for combatting the pandemic. While this was an urgent need of the hour, it imposed major economic repercussions. Similarly, during the FY 2020-21 the Annual Development Program's budget amounted to Rs. 337 billion because of which numerous sectors could not generate considerable economic activity. However, as the provincial economy is on the road to recovery and has higher collections of revenues (both Federal and provincial), the Government has not only enhanced revenue targets for FY 2021-22 but has also increased the ADP funding by 53% percent to Rs 550 billion. This increase in ADP funding along with the PPP package of 190 billion will play crucial role in accelerating the recovery of the Punjab economy and achieving the target of 5 percent GDP growth rate in FY 2021-22. It is pertinent to highlight that due to prudent financial management, Punjab Government was able to divert additional funds worth Rs. 22 billion for development program during the current financial year.

Public Financial Management (PFM) reforms refer to the set of laws, rules, systems, and processes used by national and sub-national governments to mobilise revenues, allocate funds, undertake public spending, account for funds and audit results. A strong PFM system is an essential aspect of the institutional framework for an effective state. Improving effectiveness in PFM systems allows governments to make the best use of resources.

Over the years, Government of the Punjab (GoPb) has achieved some key milestones in this journey of PFM reforms, which clearly demonstrates the priority assigned to the instant policy space. Some of the momentous initiatives undertaken in the previous years include the creation of Punjab Revenue Authority, the establishment of Punjab Pension Fund, Debt Management Unit, Corporate Finance Unit, and the introduction of Medium-Term Budget Framework, citizens budget and e-payments of taxes. Some of these reforms have contributed to a marked increase in the own-source revenue, fiscal responsibility, improved quality of technical input for strategic and operational levels decision making and improvement in Pakistan's ranking on the Ease of Doing Business Index.



Foundation of the Next Generation of Reforms

Public Expenditure and Financial Accountability Assessment (PEFA) is a globally recognized methodology to assess the performance of any PFM system. In 2019, PEFA was undertaken for GoPb with technical assistance from World Bank and Foreign Commonwealth Development Office (FCDO, formerly DFID), UK. This identified the gaps in the PFM system which include weaknesses in policy-based budgeting, budget unreliability, low budget transparency, low predictability in budget execution, weak legislative scrutiny and ineffective accountability mechanisms. PEFA 2019 has helped shape the reforms for the coming years.

Vision: PFM Reform Strategy 2025

> *Upon approval of the Strategy by GoPb, the World Bank adopted the same as the foundational document for its USD 304 million Programme titled 'Punjab Resource Improvement and Digital Effectiveness (PRIDE)'.*

To address the issues highlighted in the PEFA 2019, a systematic approach was adopted by Finance Department (FD). The department took development partners on board to structure the reform agenda. The World Bank and FCDO became the leading partners to the reform efforts of the Finance Department. FCDO's technical assistance through the Subnational Governance (SNG) Programme helped the department in developing a holistic Public Financial Management Reform Strategy 2025 to address the deficiencies highlighted in the assessment.

The PFM-RS comprises nine pillars, each of which addresses a major area within the PFM system. The pillars are presented in a Results Framework that specifies thevision, result areas, issues, and recommended actions to counter these challenges. PFMRS 2025 aims to develop a robust PFM system setting out long-term goals and a vision for PFM reforms defining priorities and sequencing of the reform process. Effective implementation of the strategy is expected to build the capacity of Finance Department officials and increase tax and non-tax revenue

eventually leading to improved service delivery. The strategy includes a pillar on disaster risk financing (DRF) systems, which is extremely relevant given the COVID-19 pandemic. The inclusion of DRF not only improves budget credibility through improved fiscal risk assessment but will also help provisioning for pre-arranged disaster financing instruments. This is the first time DRF has been included in any provincial PFM strategy in Pakistan. In the coming Fiscal Year, GoPb will be conducting an analysis of climate and disaster related expenditure along with an assessment of climate and disaster budget tagging and tracking systems. Moreover, a donor coordination forum has been notified to coordinate the efforts of all donors involved in PFM and oversee the implementation of the strategy.

Punjab Resource Improvement and Digital Effectiveness Programme

During FY 2020-21, the government started the implementation of a USD 304 million PRIDE programme based on the PFM Reform Strategy. The objectives of the programme are to increase own-source revenue and improve the reliability of resource allocation and access to digital services for people and firms in Punjab.

Without an effective oversight and implementation mechanism, even the best of the strategies may fail. Realizing this, relevant fora of Programme Steering Committee for PRIDE, Donor Coordination Forum, and Advisory Committee on Provincial Finance have been created to provide guidance and oversee implementation of the strategic vision.

Medium-Term Fiscal Framework

Over the years, GoPb has been working towards institutionalization of the medium-term fiscal framework and medium-term budgetary framework in its processes and systems. The government developed its projections for MTFF considering the pandemic. MTFF includes forecasts of the government's revenues, expenditures and debt providing the government with a medium-term horizon, enabling better fiscal discipline. FD also conducted a training on MTFF to develop the capacity of its officials. The budget call circular was revised to align with MTBF guiding line departments on how to prepare their budget submissions with a medium term perspective. Budget ceilings were also published to the line departments giving them a resource envelope for the upcoming budget. MTBF will improve aggregate fiscal discipline and strategic prioritization of available resources. In the coming FY2021-22, GoPb aims to improve MTBF processes by preparing a Budget Strategy Paper that will provide intersectoral strategic priorities, forward estimates and space for priority setting.

Regulatory and Legal Reforms

Currently, the GoPb is in a process of finalizing two laws to improve the regulatory function envisaged under Article 119 of the Constitution of Pakistan: first, Public Financial Management Act, and second, Fiscal Responsibility Debt Management Act (FRDMA). The former, in addition to strengthening management of public finances to improve implementation of fiscal policy for better macroeconomic management and to strengthen budgetary management, will fulfill the constitutional requirement to regulate the provincial financial management through an Act of Provincial Assembly, which is being regulated through rules duly approved by the Governor. It may also address the issues of outdated provisions of existing rules, regulation of separate legal entities created by the successive governments under different laws, weak controls of regulatory entities, and cash management practices. And the latter will pave way for prudent fiscal and debt management by laying down key principles of financial management to ensure financial discipline by embedding a few quantitative targets pertaining to fiscal and debt management. This is also in line with the direction of reforms envisaged under the PRIDE Programme. This year, Finance Department is presenting a Fiscal Risk Statement to the legislature, disclosing all major risks to the provincial finances.

01
Public Financial Management Act

02
Fiscal Responsibility Debt Management Act (FRDMA)

Treasury Single Account

Finance Department, in collaboration with State Bank of Pakistan and Accountant General Punjab, is working on the Treasury Single Account framework. Through the TSA framework, the government can bring in cash, placed in commercial accounts maintained by government entities, helping address issues of fiscal deficit. The government will also introduce a policy for the opening of new commercial bank accounts. Through the implementation of TSA, the government expects an improvement in the liquidity position of the government, allowing the government to enhance resource utilization. It enables the government to consolidate and manage cash resources, lowering debt servicing costs and reduce the fiscal deficit at the national level.

Budget Transparency

Budget transparency and accountability are important elements in budget efficiency. Improvements in budget transparency will also strengthen scores in PEFA indicators. To increase budget transparency, Finance Department prepared the first ever mid-year budget execution report in FY 2020-21. The mid-year budget execution report allows for the analysis of budget spending and enables a comprehensive assessment of actual spending and revenue collection against original estimates at the midpoint of the budget year. It also helps identify the need for changes in budget allocation, including whether there is a need for supplementary budgets. Budget execution reports will help identify variances between actuals and allocations and present recommendations to ensure that variance is within an acceptable limit. This practice will not only continue next year but the government will also prepare a year-end report looking at the government's performance for the entire year. This will have a comprehensive assessment of actual spending and revenue collection against budget estimates at the end of the financial year. Year-end report will help take stock of the government's performance in realising its targets and performance indicators and informs future policy direction.

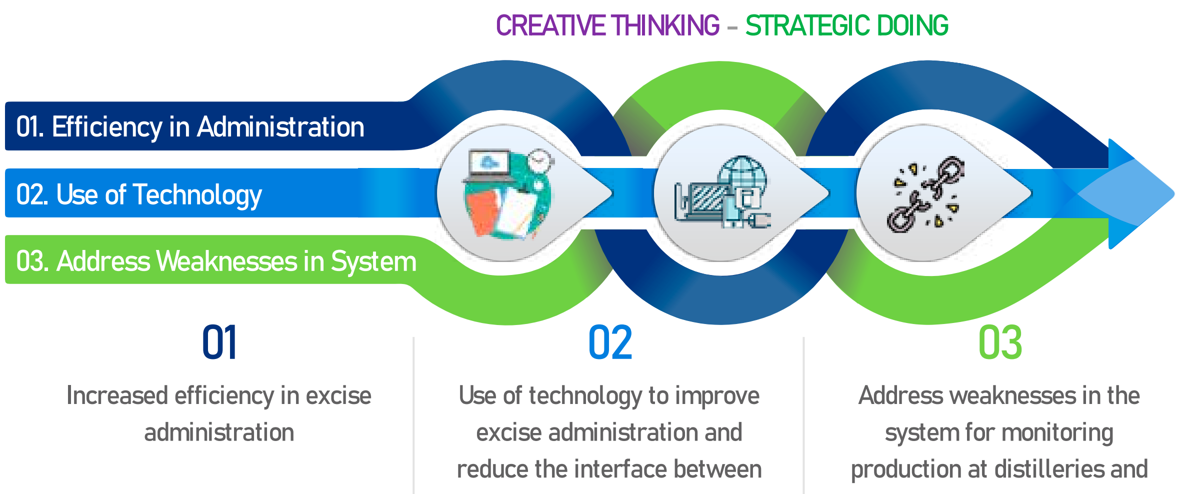
While last year's white paper included information on contingent liabilities, an important element of PEFA's Performance Indicator-5 i.e., budget documentation, this year's budget will include disclosure of financial assets, fiscal risk statement, explanation of budget implications of new policy initiatives and quantification of tax expenditures.

Fiscal Space Reforms

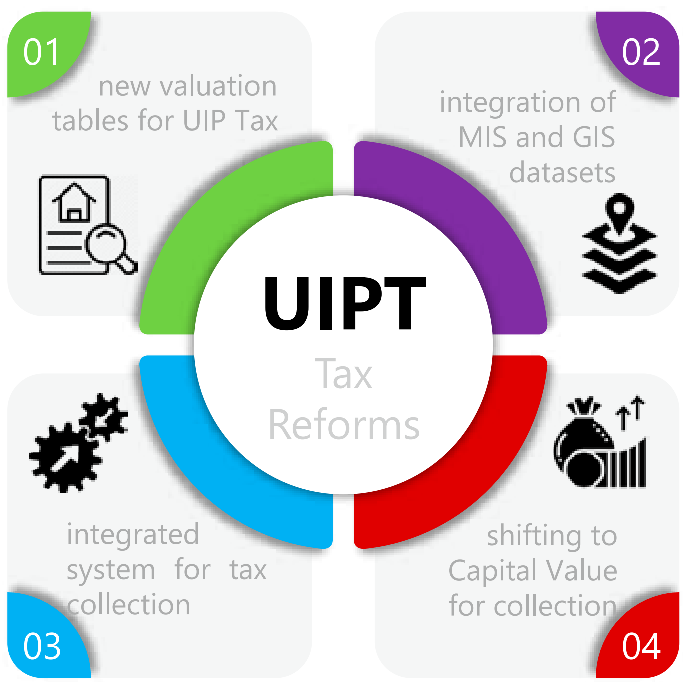
PKR 3.1 billion

third largest tax collected by the Excise Taxation & Narcotics Control (ET&NC) Department

Reforms undertaken by FD have not only focused on improving budgeting and fiscal strategy but also to increase fiscal space. To increase its own source revenue, the government is undertaking different reforms relating to different taxes. Provincial excise is the third largest tax collected by the Excise Taxation & Narcotics Control (ET&NC) Department, however, the efficiency of excise duty collection is undermined by the outdated legal framework, the Excise Duty Act (1914), and an outdated system of tax collection, monitoring, record keeping, regulation of licenses/ permits and transport of spirit and liquor. The ET&NC Department is revising the Excise Duty Act and its rules to improve the efficiency of revenue collection while minimising associated risks. The revisions will aim at addressing issues related to:



In FY2021-22, GoPb also plans to reform Urban Immovable Property Tax (UIPT) and Motor Vehicle Tax (MVT). UIPT, a local government tax, is an extremely important tax for ET&NC Department. By realizing its potential, the dependence of local governments on provincial transfers can be reduced. This could also help in establishing a link between local taxation and local provision of services and potentially create a system of local accountability. The reforms in this space include formulation and implementation of new valuation tables for UIP Tax, integration of MIS and GIS datasets and effectively use the integrated system for tax collection, and deliberations to move from Gross Annual Rental Value to Capital Value for assessment of UIPT.



> Motor Vehicle Tax (MVT) is also a significant tax for ET&NC Department. The government has tried to automate motor vehicle base for the regulation of motor vehicles and collection of MVT. Currently, a pilot is underway that is testing the use of handheld readers in parking lots and gantry readers placed at main entry/exit points and main roads to identify vehicle token tax defaulters, increasing efficiency as traffic stops will be linked to an E-Pay system for spot collection of dues from defaulters. The pilot is expected to help reduce tax evasion and thereby support an increase in revenue.

In the context of Covid situation, GoPb has not only developed Covid-sensitive taxation and revenue proposals but also focused on areas of taxation and revenue reforms that would improve the collection by improving the efficiency of tax collection. Concessions were allowed on property tax and motor vehicle tax by extending the rebate period. Moreover, to encourage payments through e-pay a special discount of 5% was offered on MVT and UIPT. The department is supporting revenue-raising pilots including automation and integration of GIS/MIS data for property taxes, the use of 'track and trace' for distilleries/breweries, and integration of tax databases to identify sales tax evasion. The pilot of integration of property tax system will automate property surveys, integrate the use of MIS and GIS, identify excluded areas, develop an application for updating property details, enable property owners to review property details for tax computation, and test the use of barcodes for auto-property surveys.

> *It is estimated that the innovation will increase the current tax yield of PKR 13 billion through increased efficiency of property tax management structure, increased coverage, and reduced human error. The intervention linking MIS and GIS data will make it easier for the ET&NC Department to identify taxable properties and improve the overall administration of UIP Tax.*

To achieve the DLIs under the PRIDE programme and to bring efficiency in tax administration, GoPb will also be focusing on the integration of databases of provincial taxes in the coming FY. Currently, all databases are operating in silos. Integration of taxes is expected to increase compliance with the taxpayers and prevent revenue leakages.

Finance Department Punjab has gone beyond meeting the requirements of the PRIDE programme and has linked integration with simplification and harmonization of taxes within the province and across federating units. Punjab is proactively engaging with other jurisdictions to set the agenda to achieve the optimum level of harmonization. These efforts are helping a great deal in narrowing down the form and degree of harmonization on the various dimension of taxation across jurisdictions. Punjab has finalized the proposals of simplification of tax regime within the province to facilitate the process and bring uniformity across provinces. The next step is the end the fragmentation of tax bases and differentiated tax rates. Currently, the provinces, including Punjab, are levying and collecting this tax both on the origin and the destination basis. Moreover, Punjab seeks to settle the definitional and jurisdictional issues and decrease the compliance costs to taxpayers by moving from multiple tax returns to a single tax return.

Another initiative worth mentioning here is e-Pay, the first ever Government payment aggregator which was launched by Government of Punjab, in 2019, for citizen facilitation and ease of business by enabling citizens across Punjab to pay their taxes using electronic payment channels. It has increased the digital transactions of Own Source Revenue drastically and collected PKR 25 Billion plus from 5.9 million plus transactions till May 2021 in CFY while facilitating 4.7 million beneficiaries using the system. A total of 9 departments and 20 taxes have been digitized with seamless and convenient online payment methods. Moreover, newly added levies, *interalia*, in FY 2020-21 were Vehicle Fitness Certificate, e-Challan, e-Auction, PEPRIS and Workers Participation Fund. In FY 2021-22, several levies are being planned to be added in e-Pay including Agriculture income Tax, Domicile Fees, Character Certificate Fees, Cattle Market Fees etc. On the other hand, Government of the Punjab is also planning to implement disbursement module, on the lines of collection of receipts, in upcoming version of e-Pay which is expected to help in efficient utilization of Government funds.

Further, in FY2021-22, the Government, through Irrigation Department, is launching e-Abyana pilot in 04 canal divisions, giving an option to farmers to pay Abyana through electronic payments, paving the way for improved quality of assessments and increased transparency in the overall process of issuance of bills and payments made by farmers. This system is expected to allow higher visibility of performance of irrigation revenue staff down to the grass root level combined with the use of satellite based information sources. Moreover, electronic payments will allow real time re-conciliation of accounts at each Canal Division and lower levels which will lead to improved focus on recovery and enhance revenue generated through Abyana in the long run.

Considering the income shock and decline in the aggregate domestic demand, the Government decided not to raise tax rates or impose new taxes. It, however, decided to explore options to raise revenues without any incidence on the taxpayers. The Government intends to use the "Land Utilization Policy" for efficient and productive use of its assets. This policy envisages disposal of State Land through various modes including sale and lease using a competitive and transparent process. The purposes may include cultivation, commercial, industrial, and charitable. The new dispensation is aimed at generating revenue, attracting investment in backward areas, and supporting economic growth.

Pension Reforms

Moreover, the government is also maximizing its existing resources through the identification and implementation of efficiency gains by reforming the pension system. GoPb is undertaking a review of policy options for the pension system, including the development of a direct contributory scheme for new hires along with proposing changes to the existing direct benefit scheme. GoPb has recently raised the minimum voluntary retirement age to 55 years of age or completing a minimum of 25 years of service, whichever is later. Other changes under the direct benefit scheme that are being considered are indexation of pension to inflation, the merger of ad hoc allowances into the basic pay scale and reduction in the rate of commutation. GoPb has also launched a proof of life pilot where GoPb in partnership with NADRA that will have an online and mobile-based application using biometric verification of pensioners for proof of life. The current practice of physical certificates is susceptible to fraud and manipulation, with the risk that pensions can continue to be claimed for pensioners who may have died. These reforms are expected to bring in efficiency savings of at least PKR 68 billion over three years.

Conclusion

PFM is an essential part of the development process. A sound PFM system supports aggregate control, prioritization, accountability, and efficiency in the management of public resources and delivery of services, which are critical to the achievement of public policy objectives. GoPb is committed to improving governance in Punjab and achieving greater transparency and accountability, the foundation for which is in a robust PFM system.

FOR FURTHER INFORMATION

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