Finance Department
Government of the Punjab

White Paper

The Budget for FY 2019-20

نیا پنجاب - نئی ترجیحات

Government of the Punjab
Finance Department

White Paper on the Budget

FY 2019-20

June 14, 2019

PREFACE

White Paper on the Budget is a lucid interpretation of the Annual Budget that primarily highlights the revenues and expenditures of the Province. It also outlines the short and long-term strategic direction, policies, and programmes of the Provincial Government. An overview of macroeconomic challenges and opportunities forms a part of this document as well, which, together with other chapters in the document, holistically presents the information in a transparent and comprehensible manner.

The Budget preparation this year is based on an exhaustive review and analysis of the Provincial economy and is aligned with the Punjab Growth Strategy 2023. Budgetary allocations, based on the Government's manifesto of Regional Equalization, Social Protection, Ease of Doing Business, etc., have been prioritized. To provide the fiscal space needed for improved service delivery, the Provincial Government's efforts have been multipronged where focus was not only on increasing Provincial Own Source Revenue (OSR) through a stronger resource mobilization effort but also on expenditure rationalization. Finally, role of Private Sector, by means of Public Private Partnerships (PPPs), has been explored anew and given a strategic direction.

The Finance Department of the Government of the Punjab makes a conscious effort to continually refine the White Paper. Last year, the look and feel of the document was revamped by employing infographics to better emphasize key elements. This year, in keeping with the emerging and felt needs, new chapters on 'Ease of Doing Business' and 'Public Private Partnerships' have been included. It is hoped that these efforts will make the White Paper more relevant and useful for the main stakeholders as well as the citizens.

For reasons related to a deeply stressed economy and the concomitant national macroeconomic imperatives, this financial year has been immensely challenging for officers and staff of the Finance Department. I would, therefore, like to take this opportunity to acknowledge the continuous and untiring efforts of the entire team involved in the preparation of the White Paper; in particular Mujahid Sherdil (SSF –Budget & Resources), Rana Obaid Ullah Anwar (AFS – Budget), Sarah Hayat (DS – Resources 1), Faisal Rashid (Senior Consultant), Bakht Jamal (IDAP) and Farhan Abbas (IDAP). The Finance team banked heavily on the wise counsel of Makhdoom Hashim Jawan Bakht, Minister Finance, right through the effort.

ABDULLAH KHAN SUMBAL
Finance Secretary
Government of the Punjab

June 14, 2019

TABLE OF CONTENTS

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
FD	Finance Department
FIEDMIC	Faisalabad Industrial Estates Development & Management Company
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

List of Abbreviations

J&C Program	Job & Competitiveness Program
JICA	Japan International Cooperation Agency
KIBOR	Karachi Inter Bank Offered Rate
KPRRP	Khadam-e-Punjab Rural Roads Programme
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
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

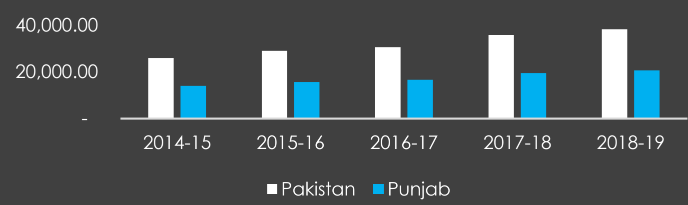
List of Abbreviations

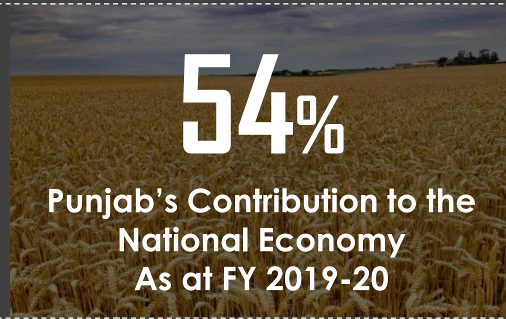
PPB	Punjab Privatization Board
PPF	Punjab Pension Fund
PPIC3	Punjab Police Integrated Command, Control & Communication Centre
PPMRP	Punjab Public Management Reform Program
PPP	Public Private Partnership
PRA	Punjab Revenue Authority
PRAL	Pakistan Revenue Automation (Pvt.) Limited
PSDP	Public Sector Development 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 2019-20

Pakistan vs. Punjab GDP (2014-15 to 2018-19)

in Billion PKR





Debt and Long-Term Liabilities

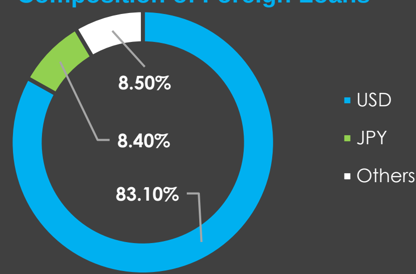
3.99%

Punjab's total Debt as % of GSDP

2.19%

Punjab's total Debt as % of National GDP

Composition of Foreign Loans



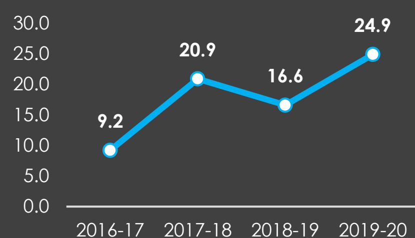
Pension Funds ROI

12.5% Fund Return per annum

07.9% CPI Inflation per annum

Real Return of Fund yield 04.55% per annum beating the benchmark return of 3.00% by 01.55%

Resource Mobilization Proposals



Based on the efforts of the RMC, the Government has been able to generate additional resources estimated at PKR 24.9 billion for FY2019-20 – **the highest in recent years**

Own Source Revenue

44.61% Increase

268.6 bn FY 2018-19 RE

388.4 bn FY 2019-20 BE

Current Expenditure

PKR 1,298.7 bn

FY 2019-20 Estimate

3%

Higher than FY 2018-19 Budget Estimates

Development Expenditure

PKR 350.0 bn

FY 2019-20 Estimate

47%

Higher than FY 2018-19 Budget Estimates

Capital Expenditure

PKR 418.9 bn

FY 2019-20 Estimate

11%

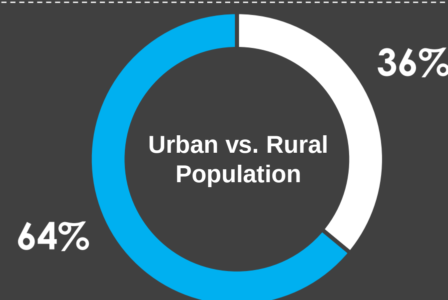
Higher than FY 2018-19 Budget Estimates

Socioeconomic Indicators

110 mn Population

Lowest

Multidimensional Poverty amongst the Provinces



Ease of Doing Business

14,000

Business Units registered through Business Registration Portal (BRP)

80.35%

Reduction in number of days to register property

PPPs to fill the Infrastructure Financing Gap

6.45%

Of GDP Infrastructure Financing need

4.24%

Gap can be best met through PPPs

2.26%

Of GDP invested in Infrastructure

EXECUTIVE SUMMARY

Pakistan's economy was passing through major imbalances at fiscal and current account fronts when the present government assumed office in August 2018. Fiscal deficit had soared to 6.6% of GDP in 2017-18 and the current account deficit had peaked at USD 19 billion or 6.1% of GDP. Public debt had increased to approximately PKR 30 trillion. The imbalances of this magnitude, especially the current account deficit, were not sustainable for a country like Pakistan. Foreign exchange reserves of the country were depleting and putting pressure on the value of Pak Rupee. Inflation had started to increase significantly. The Government, immediately after assuming office, started its efforts to overcome these macroeconomic imbalances. The measures included introduction of higher import duties for a number of products to reduce demand for imported goods especially the luxury goods, incentives to export industry including zero rating to overall sales, provision of subsidized electricity, subsidized credit and exemption from import duties on imported inputs into production for exports. These efforts have started to show signs of improvement. The trade deficit had come down to USD 9.6 billion in the first nine months of FY 2018-19 compared to USD 13.6 billion in this period last year. This has however resulted from reduction in imports as exports have not shown a major growth so far despite efforts. On the other hand, the State Bank of Pakistan has tightened monetary policy to help control inflation in the country.

Going back to IMF was the obvious choice to deal with the above-mentioned problems. In the initial few months when the IMF program was not forthcoming, the Government managed to get financial support from friendly countries to support the plunging foreign exchange reserves. In May 2019, the Government reached a Staff Level Agreement with IMF for a USD 6 billion Extended Finance Facility. The Facility will help build foreign exchange reserves. But, more importantly, it will help stabilize the economy through a more disciplined approach to macroeconomic management. It will also send a positive signal to international community to do business with Pakistan and make the country a more attractive destination for their investments. The program will also help Government access financial support from other multilateral agencies such as the World Bank and the Asian Development Bank. Successful completion of the program will require undertaking difficult decisions including increasing tax-to-GDP ratio, cutting down of wasteful and inefficient expenditures, reduction in losses of public sector enterprises, creating incentives to mobilize higher level of savings and increasing the level of private investments to boost economic growth. At the same time the Government will be required to have a wider social safety network to protect the poor and vulnerable segments of society from economic hardships.

Punjab is home to more than 110 million people. The Province accounts for over 54% of the country's annual production of goods and services. The Gross Subnational Domestic Product (GSDP) of the Punjab has grown at an average rate of almost 4.7% annually from 2010 to 2018, which is slightly higher than the average growth rate of the Gross Domestic Product (GDP) of Pakistan, averaging at 4.4% per annum over the same period. Despite the slight difference in growth, performance of the national economy is strongly correlated with that of the Punjab, making the key issues of Fiscal Deficit and Current Account Deficit equally disconcerting for the Province. In such a situation, it was extremely important that the Provincial Government supported the Federal Government in its efforts to stabilize the economy and helped put the country back on the path of higher economic growth. In order to help Federal Government keep its fiscal deficit to a manageable level, the Punjab Government has decided to target a cash surplus of PKR 233 billion.

Budget 2019-20 would be the first proper full-year budget presented by the new Government. Therefore, it was really important to go to the drawing board and develop a strategic policy document to guide the process of development in the Province. Therefore, for the first time the present Government developed an evidence-based strategy titled 'Punjab Growth Strategy 2023'. The strategy envisions Punjab as:

"A globally connected and competitive, equitable, culturally vibrant and technologically advanced Punjab with sustainable economic growth driven through a dynamic private sector, an efficient public sector, rich and productive human capital and, a regionally equalized development footprint by 2023"

To improve the economic performance of Punjab and promote higher growth through financial stability and private sector investments, Punjab Growth Strategy (PGS) presents various targets, policy initiatives and mix of strategies to maximize provincial growth in the next 05 years. These include:

While implementing the Punjab Growth Strategy 2023 and achieving the above development/growth targets, the Government would like to reduce regional inequality by targeting investments towards the lagging southern Punjab districts. Efforts would also be made to reduce multidimensional poverty in the province by investing in education, health, living condition of citizens and improving water supply and sanitation facilities in the province. Higher priority would be assigned to investments in human resource also because the strategy identifies that the investment provides greatest return.

Annual Development Plan (ADP) 2019-20 has been designed to help implement the recommendations of the Punjab Growth Strategy 2023. The size of ADP 2019-20 has been pitched at PKR 350.0 billion compared to PKR 238 billion in FY 2018-19. In this way, there would be an increase of approximately 47% in the size of ADP. The programme assigns highest priority to investments in social sectors with an allocation of PKR 124.9 billion which would be more than one third of the total development resources of the province. An allocation of PKR 87.7 billion has been proposed for infrastructure development in the province. Industrial development of the province is another important area of focus for Budget 2019-20. A sizable allocation has been proposed for production sectors and special initiatives of the Government. The salient features of the programme are as follows:

- Progression of Social Sectors including Education, Health and Water Supply & Sanitation
- Focus on schemes pertaining to Skills & Human Capital Development
- Equitable Development for all regions of Punjab
- Prioritization to schemes aligned with Sustainable Development Goals (SDG)
- New schemes for women empowerment, social inclusion of marginalized and disadvantaged
- Schemes that enhance urban clusters and ensure provision of requisite services

- R&D in Agriculture and Irrigation sectors to mitigate Climate Change risks to Punjab's Agrarian Land

The size of recurrent expenditure 2019-20 has been pitched at PKR 1,299 billion compared to PKR 1,264 billion in FY 2018-19 which is only 2.7% higher. Such a low level of growth in allocations for the recurrent budget of the province is reflective of the policy of Provincial Government to exercise maximum austerity and efficiency in resource allocation and utilization. Despite a low growth in overall

Higher revenue mobilization is the cornerstone of budget 2019-20. A decent tax collection effort of a government implies that its revenue collection should be close to the available potential. Similarly, it is important that the cost of public services (at least to the extent of economic services) is recovered from those who can afford to pay for them. Additional resources created through such cost recovery and higher tax collection can be channelized by the Government for the welfare of the poor and vulnerable segments of society. The governments in the past, however, seem to have desisted from establishing progressive tax collection systems that targeted the rich and failed to collect taxes from them in accordance with their capacity to pay. Tax rates were not revised for many years due to which the revenue collection lost its real value and collection remained well below its potential. Urban Immovable Property Tax and Agriculture Income Taxes are example of such taxes where tax rates were not revised despite the fact that the rates were fixed rates and needed to be revised to protect their real value. The policies in the past also provided incentives for speculative transactions in real estate and contributed to inefficient use of land in urban areas.

In a major break from the past, the present Government has adopted an aggressive resource mobilization strategy for next financial year. Revenue mobilization measures proposed in the budget include proposal for revision in the rates of land based Agricultural Income Tax (AIT). The rates were last set in 2001. In the income mode of AIT, the exemption threshold has been proposed to be raised from PKR 80,000 to PKR 400,000 to bring in greater horizontal equity in our taxation system vis-à-vis taxation of non-agricultural income. Revenue mobilization proposals pertaining to Urban Immovable Property Tax include: 1) extension of rating areas to bring commercial and residential properties along highways/main roads into the tax net; 2) expansion of rating areas to align actual city boundaries with existing rating areas; and 3) fresh survey of properties in Punjab as well as update of valuation tables. More services are being proposed to be brought to the net of sales tax on services. The Government is actively considering shifting from a positive list of taxable services in GST on Services Act 2012 to a system of negative list that will tax all services except those explicitly exempted by the law. This reform will, however, be finalized during the next financial year. In order to increase fiscal space available for service delivery initiatives, another priority area for the new Government has been the rationalization of untargeted subsidies. Similarly, a number of user fees have been proposed to be rationalized to generate more resources for the Government. Altogether the resource mobilization efforts are estimated to resulted in generation of additional resources worth PKR 24.9 billion in FY2019-20.

In order to enhance the business environment to make it more accessible for mass public, Government of the Punjab has embarked upon the agenda of implementing Ease of Doing Business Reforms to improve the subnational ranking of key Doing Business indicators that fall in the provincial domain. The Planning & Development (P&D) Department, in collaboration with the World Bank and multiple implementing agencies, has initiated targeted interventions, envisaged under the Ease of Doing Business Reform Agenda to enhance the Provincial business landscape. A key area of the Doing Business Reform is the ease of paying taxes. The Government has also taken lead on the agenda and signed a Tri-partite agreement with the State Bank of Pakistan and 1-Link to launch a system of electronic payment of taxes and non-tax receipts through online as well as alternative delivery channels (ADCs) such as ATMs, Mobile Banking etc. Under this agreement both electronic and physical mediums in 27 commercial banks across Pakistan can be utilized by taxpayers to initiate a transaction under the bill payment system (BPS).

Budget at a Glance

CLASSIFICATION	BE 2018-19	RE 2018-19	BE 2019-20
A - CURRENT BUDGET			
General Revenue Receipts	1,652.2	1,465.8	1,989.8
Current Revenue Expenditure	1,264.5	1,225.0	1,298.8
A- Net Revenue Account – Surplus (+) / Deficit (-)	**387.7**	**240.8**	**691.1**
B- CURRENT CAPITAL BUDGET			
Current Capital Receipts (A/C-I)	344.3	399.7	84.3
Current Capital Expenditure (A/C-I)	376.2	450.9	210.6
B- Net Capital Account - Surplus (+) / Deficit (-)	**(31.9)**	**(51.2)**	**(126.3)**
C- Surplus for Development (A+B)	355.8	189.6	564.8
D - ADP Resources			
Foreign Assistance for Projects	30.0	13.2	18.2
E- TOTAL RESOURCES (C+D)	**385.8**	**202.8**	**582.9**
F - Annual Development Program	238.0	227.9	350.0
Estimated Provincial Surplus /Deficit (E-F)	**147.8**	**(25.1)**	**232.9**

Executive Summary

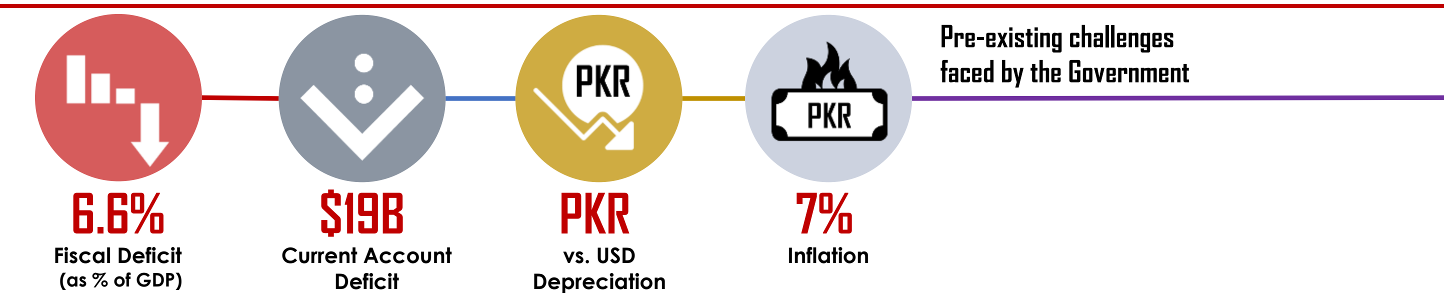
DESCRIPTION	BE 2019-20	DESCRIPTION	BE 2019-20
A - GENERAL REVENUE RECEIPTS		**A - CURRENT REVENUE EXPENDITURE**	
General Revenue Receipts	**1,989.8**	**General Revenue Expenditure**	**1,298.8**
Divisible Pool Transfers	1,601.5	01 - General Public Service	754.7
Provincial Tax Revenue	295.0	02 - Public Order and Safety Affairs	178.4
Provincial Non-Tax Revenue	93.4	03 - Economic Affairs	121.3
Straight Transfers (Excluding excise duty on NG)	6.8	04 - Environment Protection	0.5
Net Hydel Profit	10.0	05 - Housing and Community Amenities	13.8
Net Hydel Profit Arrears	22.0	06 - Health	145.2
Federal Grants	3.8	07 - Recreational, Culture and Religion	3.8
		08 - Education Affairs and Services	71.3
		09 - Social Protection	9.8
B - CURRENT CAPITAL RECEIPTS		**B - CURRENT CAPITAL EXPENDITURE**	
CAPITAL RECEIPTS	**292.6**	**CAPITAL EXPENDITURE**	**418.9**
Recoveries of Loans and Advances (A/C-I)	1.1	Public Debt	0.0
Debt (A/C-I)	41.2	Repayment of Principal	49.2
Innovative Financing including PPP mode	42.0	Investments	84.4
Recoveries of Investment-State Trading (A/C-II)	110.9	Loans and Advances (Principal)	76.9
Cash Credit Accommodation (A/C-II)	97.3	State Trading in Medical Stores	0.09
		State Trading (Wheat) (A/C -II)	157.0
		Repayment of Commercial Bank Loans (A/C - II)	51.3
C- DEVELOPMENT RECEIPTS		**C- DEVELOPMENT EXPENDITURE**	
Foreign Project Assistance	**18.2**	**Annual Development Program**	**350.0**
		Core ADP	350.0
		Other Development Initiatives	0.0
Total Receipts A/C-I	2,092.3	**Total Expenditure A/C-I**	**1,859.4**
Total Receipts A/C-II	208.3	**Total Expenditure A/C-II**	**208.3**
		Provincial Surplus	**233.0**
Total Provincial Consolidated Fund	**2,300.6**	**Total Provincial Consolidated Fund**	**2,300.6**

— CHAPTER 1 —

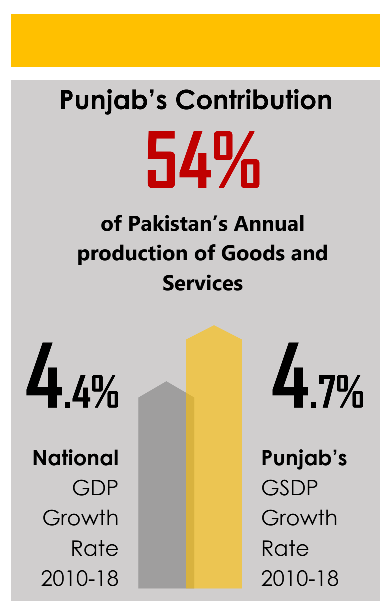
MACROECONOMIC OUTLOOK AND CHALLENGES

National Economic Outlook

The economy of Pakistan was already staring at the phenomenon known as the twin deficit (high Fiscal Deficit and the biggest Current Account Deficit that the country had witnessed) when the present Government assumed office in August last year. The Government was faced with numerous fiscal and macroeconomic challenges, some of which were:



During the current financial year, tax collection remained a little subdued whereas there was no sign of slowing down of the Government expenditure primarily on account of rising cost of a massive public debt that this Government had inherited. Fiscal Deficit, therefore, seems to be further widening this year. There was no option available to the new Government in the short run but to resort to borrowing to meet its fiscal needs. Public Sector borrowing is one of the major reasons that pushed up inflation which has touched 7% in the month of May 2019. In this situation, State Bank of Pakistan has been tightening Monetary Policy to cool down the economy, decrease money supply and reduce aggregate demand. The Monetary Policy announced on May 20, 2019 for a period of two months has increased discount rate from 10.75% to 12.25% due to increasing inflation, high Fiscal Deficit and exchange rate depreciation. In this way, the deposit holders are well poised to start earning a 5.25% Real Return which should be attractive enough for depositors. It is expected that this initiative will reduce money supply and decrease aggregate demand, thereby reducing inflationary pressure on our economy.



On the external front of the economy, the Current Account Deficit was recorded at about 6.1% of GDP in FY 2017-18 when the Government assumed office. This meant a gap of approximately USD 2 billion per month in Pakistan's external receipts and payments. The gap was a result of artificially maintained exchange rate by the previous Government and its inability to resolve structural problems that our industry was facing in general, including the export sectors in particular. The Deficit was deteriorating foreign exchange reserves and exerting further pressure on the exchange rate. Considering the gravity of the situation, the Government took various initiatives to control the Current Account Deficit and build foreign exchange reserves. While Pakistani Rupee was depreciating in value and getting closer to its Real Effective Exchange Rate (REEF), the Government increased import duties for a number of products to reduce demand for imported goods, especially the luxury goods, and provided incentives to export industry including zero rating to overall sales, provision of subsidized electricity, subsidized credit and exemption from import duties on imported inputs into production of exports. The efforts have started to show signs of improvement.

> *The Trade Deficit had come down to USD 9.6 billion in the first nine months of FY 2018-19 compared to USD 13.6 billion in this period last year. This has, however, resulted from reduction in imports as the exports have not shown a major growth so far despite efforts.*

In the initial few months, when a favourable IMF programme did not seem to be forthcoming, the Government relied on support from friendly countries to build foreign exchange reserves. This provided temporary support to foreign exchange reserves and the Government continued its negotiations with IMF for a programme of Structural Adjustment. Finally, in the month of May 2019, a staff level agreement has been reached between Government of Pakistan and IMF.

Staff Level Agreement

May 2019 for $6 Billion Extended Finance Facility

- **Help build foreign exchange reserves**
- **Help turn around expectations level about the economy**
- **Help the Government access financial support from other multilateral agencies such as the World Bank and Asian Development Bank**
- **Help make structural adjustments to our economy to address the causes of current macroeconomic imbalances**

Government of the Punjab is a key player in the national economy and hence, suffers or equally benefits from national events. The Punjab Government will support the Federal Government to resolve these issues as a matter of priority by implementing both short and medium term polices. The most immediate policy initiative will be to rationalize the fiscal expenditures in this year's budget to reduce the size of the deficit – a much needed correction. In the medium term, there is no alternative to raising more revenues by widening the tax base and empowering provinces to increase own revenue collections.

Overview of Provincial Economy

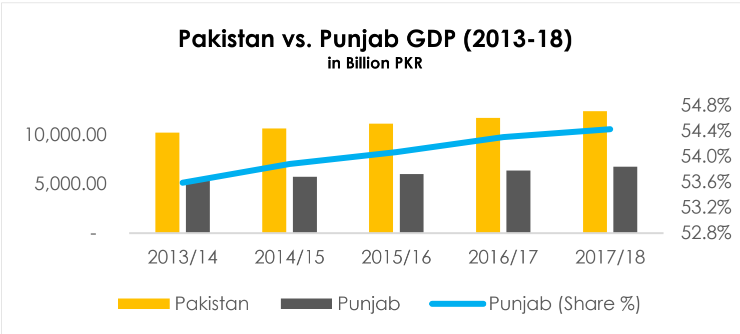


Figure 1: ***Source - Punjab Bureau of Statistics***

The Punjab lies at the center of the National Economy, and accounts for over 54 percent of the country's annual production of goods and services[1]. The weight of the province in entirety ensures that the performance of the National Economy remains strongly correlated with that of the Punjab's. Thus, the key issues of Fiscal Deficit and Current Account Deficit are equally worrying for the Punjab as they are for the National Economy. In terms of performance, the share of the Punjab in the national economy has been gradually increasing over the last five years, suggesting that the growth in the province has been faster than that at the National level.

Contribution to the Performance of the National Economy

The performance of the Punjab's economy moves in tandem with the national economy, and with the exception of FY 2012-13, exceeds the national GDP growth rate for all reported years.

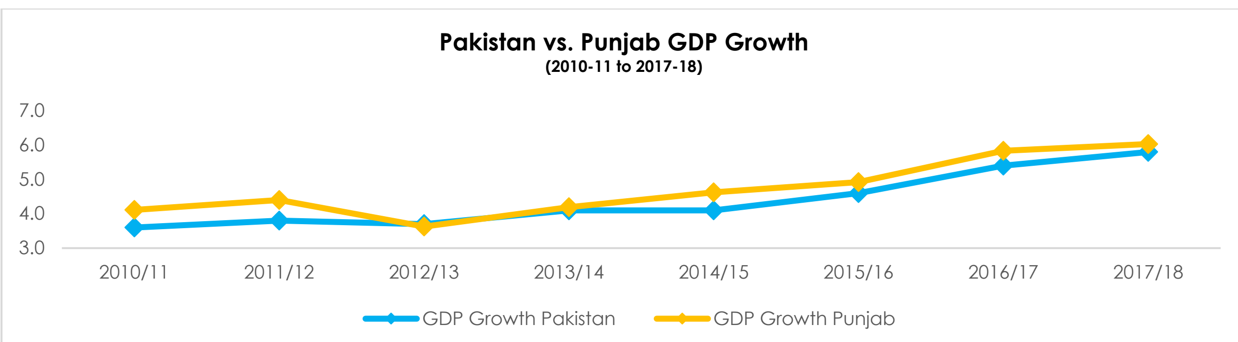


Figure 2 Source - Punjab Bureau of Statistics

[1] Punjab Economic Report 2017-18

Performance of the Economy

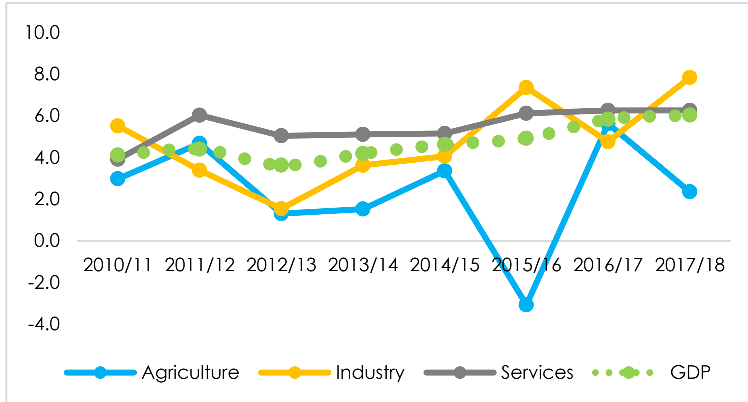


Figure 3: ***Source - Punjab Bureau of Statistics***

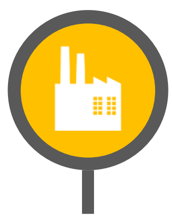
The Gross Subnational Domestic Product (GSDP) of the Punjab has grown at an average rate of almost 4.7 percent annually from 2010 to 2018 which is slightly higher than the average growth rate of the Gross Domestic Product (GDP) of Pakistan, which averaged 4.4 percent per annum over the same period. In terms of sectoral performance, **agricultural growth rates were highly volatile with a coefficient of variation of 112%**, making it about six times as variable as the GPP. This volatility was also much larger than that of the **Industrial Sector (44%)** and the **Services Sector (15%)**. In part, this reflects constraints on inputs (especially water and fertilizer) and in part a response to economic incentives, such as support prices of key agricultural crops.

Agriculture Sector

Agriculture: Worst Hit Sector

- Variable performance of key subsectors
- **Cotton was the most variable**
- **Climate change implications**, **frequent pest attacks** and **depressed commodity prices** resulted in lower yields
- The low yields adversely **impacted the ginning industry**

Industrial Sector



Industry: On Road to Recovery

- LSM sector in Punjab forecasted to **gain further momentum** from the development projects under CPEC

Services Sector

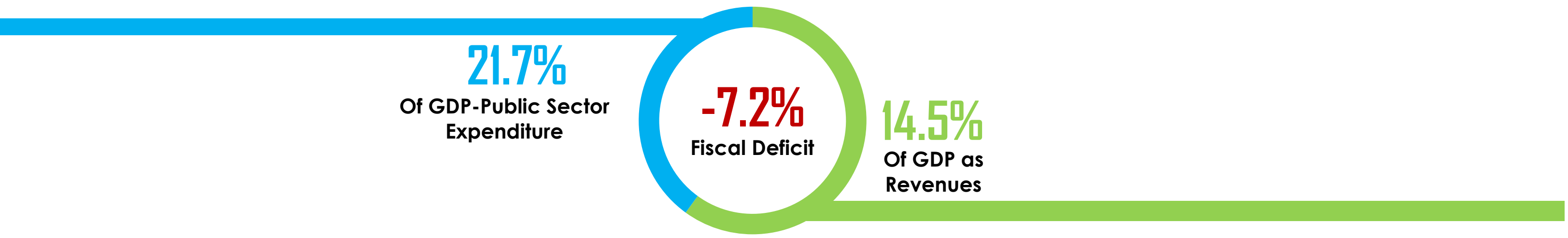
Services: Least Volatile

- **Construction**, **Wholesale & Retail**, and **Finance & Insurance** are the better performing sectors
- Likely to **continue on a positive growth trajectory**

Future Economic Outlook

As noted above, Pakistan has entered into a Staff Level Agreement with IMF for an Extended Finance Facility of USD 6.0 billion. This 39-month Programme is aimed at bringing the country out of the current macroeconomic imbalances. While, the Programme details have not yet been made public, it seems that the Programme is likely to target reduction in primary deficit (balance of revenues and expenditure excluding interest costs) and Current Account Deficit. During the first couple of years, the country may experience a slowdown in growth. It is, however, expected that growth will start to improve once stabilization has been achieved, with a caveat that carefully planned policy and implementation by the Government is the fundamental prerequisite.

Moreover, during the FY 2018-19, the Public Sector in Pakistan is currently spending more than its revenues generated as a percentage of GDP, which is an unsustainable situation and would require drastic measures.



Likely structural changes as a result of IMF Programme

- The IMF Programme is likely to push for increase in tax-to-GDP ratio of the country from current level of 12.5% - which is in any case quite low
- The Programme may call for reduction in Public Expenditure, especially the financial support provided to public sector enterprises, which may result in increase in prices of electricity and gas

These measures may temporarily suppress economic growth but are necessary steps for avoiding the economy from overheating and for reducing Fiscal Deficit. Inflation may also increase in next one year or so, but it is expected that with the start of reduction in Fiscal Deficit and money supply, inflation will start to gradually decrease. A more market-oriented exchange rate is likely to help bring down Current Account Deficit to a more manageable level.

The Role of Government in Economic Recovery

- Government must ensure necessary measures to spur economic growth - Federal and Provincial Governments will have to increase their tax revenues without burdening existing taxpayers
- Unnecessary exemptions will have to be rationalized
- Taxation structure must be made more progressive in this period to reduce burden on poor and middle-income segments of society
- Concrete measures need to be taken to reduce deficits of Public Sector Enterprises, which may require stringent control of electricity and gas leakages
- Import substitution has to be a key theme of our policies in near future. The Government must create incentives for sectors that can help substitute our imports - Edible oil is a case in point
- Import-Export Sectors must be supported to increase competitiveness and our exports
- While making the Structural Adjustments, the Government must protect the poor and vulnerable from the effects of inflation
- Social protection initiatives need to be expanded during this period
- We need to prioritize expenditure on Social Services due to higher return on such investments
- Public Sector must support projects that create employment opportunities for youth entering the job market
- Government must safeguard development expenditure to provide stimulus for economic growth, however, we should also continuously monitor growth of non-development expenditure

— CHAPTER 2 —

ESTIMATES OF RECEIPTS

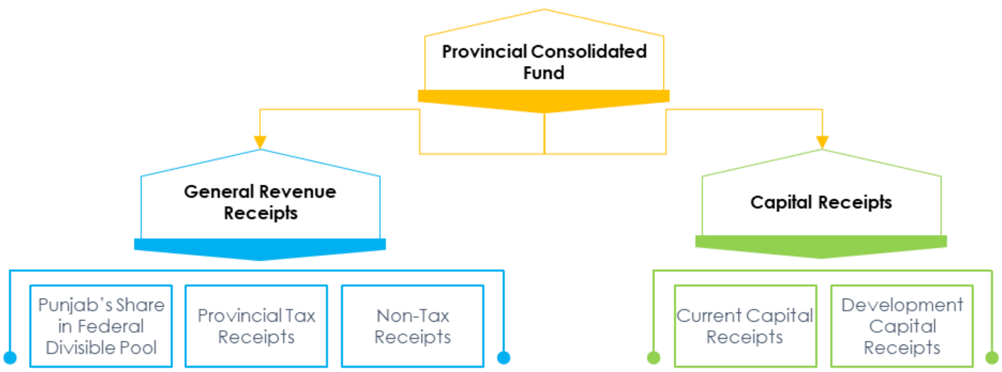
Estimates of Receipts

Annual Budget is regarded as the manifestation of the Service Delivery plan 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 2018-19 and projected for FY 2019-20.

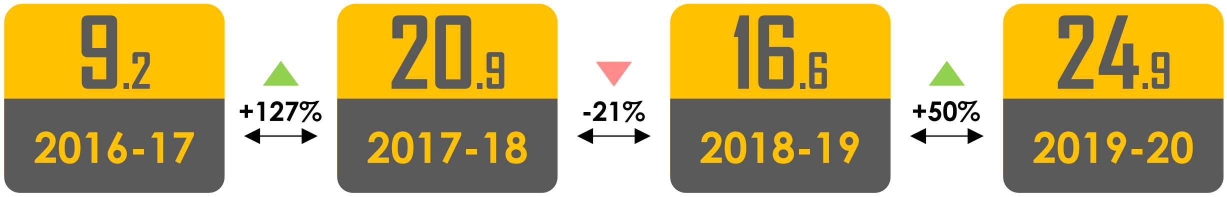
Classification of Receipts by the Provincial Government

1 General Revenue Receipts & 2 Capital Receipts

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



In a break from past practice, the Ministerial Committee of the Cabinet on Resource Mobilization (RMC) adopted a more rigorous strategy to increase the Provincial own source revenue. Apart from assessing the revenue potential of the Tax and Non-Tax Departments, the rationalization of subsidies was added as a key TOR. Based on the efforts of the RMC, the Government has been able to generate additional resources estimated at **PKR 24.9 billion** for FY2019-20 –the highest in recent years. The table below highlights the RMC effort over the last four years (*all numbers in PKR billion*):



Chapter II – Estimates of Receipts

The table below summarizes the estimates of total Provincial Receipts of the Government (*all numbers in PKR billion*):

Receipts	BE 2018-19	RE 2018-19	BE 2019-20
a. General Revenue Receipt	**1,652.176**	**1,465.835**	**1,989.826**
Federal Divisible Pool	*1,276.325*	*1,197.285*	*1,601.468*
Provincial Taxes	*275.784*	*208.500*	*294.963*
Provincial Non-Tax	*100.067*	*60.051*	*93.395*
b. Capital Receipts A/C-I	**94.886**	**76.946**	**60.496**
Current Capital Receipts	*64.895*	*63.701*	*42.307*
Development Capital Receipts (Foreign Projects Assistance)	*29.991*	*13.245*	*18.189*
c. Capital Receipts A/C-II	**279.454**	**335.979**	**208.255**
d. Innovative Financing	**-**	**-**	**42.000**
Total Provincial Consolidated Fund (a+b+c+d)	**2,026.516**	**1,878.760**	**2,300.577**

General Revenue Receipts

The main elements 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 2018-19 in comparison with the anticipated Budget Estimates for FY 2019-20. (*all numbers in PKR billion*)

General Revenue Receipts	BE 2018-19	RE 2018-19	BE 2019-20
Federal Divisible Pool Taxes	**1,276.325**	**1,197.285**	**1,601.468**
Tax on Income	493.556	417.997	598.349
Land Customs	212.131	225.255	286.448
Sales Tax	494.782	479.599	613.241
Capital Value Tax	1.873	0.943	1.136
Federal Excise	73.320	72.969	101.577
Excise Duty on Natural Gas	0.664	0.521	0.717
Provincial Tax Revenue	**275.784**	**208.500**	**294.963**
Board of Revenue	75.329	72.126	81.156
Excise, Taxation & Narcotics Control Department	37.650	30.500	39.700

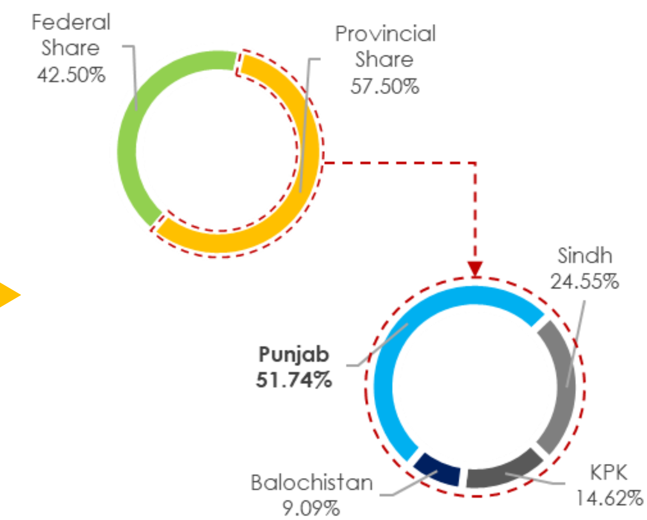
Transport	0.830	0.702	0.710
Finance (Punjab Revenue Authority)	155.575	105.000	166.550
Energy	6.400	0.172	6.847
Provincial Non-Tax Revenue (Excluding Straight Transfers and Grants)	**100.067**	**60.051**	**93.396**
Income from Property and Enterprise	41.485	7.442	32.354
Receipts from Civil Administration and Other Functions	16.745	11.895	18.285
Miscellaneous Receipts	41.837	40.714	42.757
Total General Revenue Receipts	**1,652.176**	**1,465.835**	**1,989.826**

Federal Divisible Pool Taxes

The major source of revenue for the Provincial Government is the receipt of Federal Divisible Pool share which constitutes 80.4% of the General Revenue Receipts projected for FY 2019-20. 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 of goods & 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



As per NFC Award, the distribution of resources among provinces is based on multiple criteria including

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 (*all numbers in PKR billion*):

	2015-2016	2016-17	2017-18
Budget Estimates	3,104	3,621	4,013
Actual Collection	3,113	3,361	3,841
Excess/Shortfall	9	-260	172
Excess/Shortfall (in Percentage)	**0.29%**	**-7.18%**	**-4.29%**

Punjab's Estimated Federal Divisible Pool Receipts

PKR 1,197.284 bn — R.E. FY 2018-19

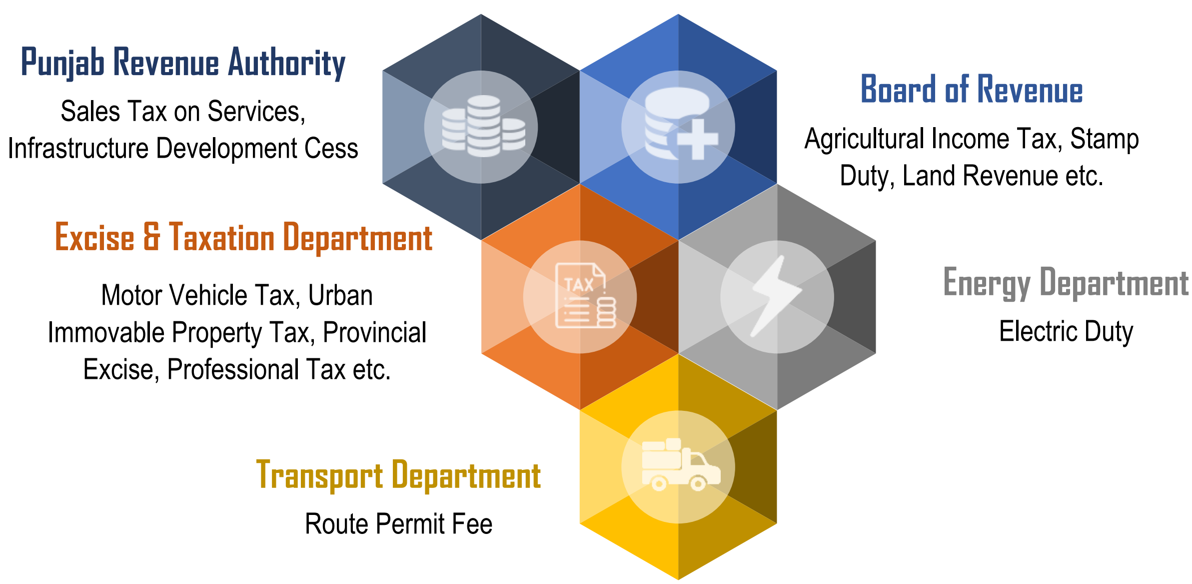
+33.8%

PKR 1,601.468 bn — B.E. FY 2019-20

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:

Provincial Tax Revenue Sources



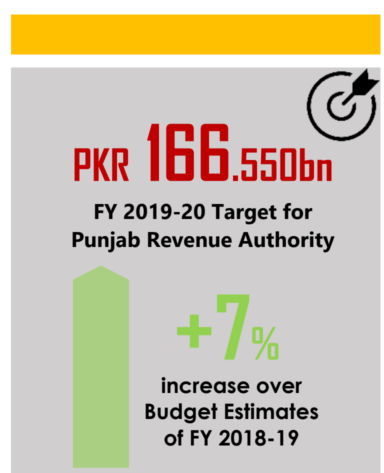
The details of taxes budgeted for FY 2018-19 is presented below (*in PKR billion*):

Tax Receipts	BE 2018-19	RE 2018-19	BE 2019-20
Punjab Revenue Authority	**155.575**	**105.000**	**166.550**
Sales Tax on Services	151.575	101.000	161.550
Punjab Infrastructure Development Cess	4.000	4.000	5.000
Board of Revenue	**75.329**	**72.126**	**81.156**
Agricultural Income Tax	1.650	1.100	2.074
Registration of documents	0.164	0.111	0.075
Land Revenue	16.680	16.100	18.286
Capital Value Tax	0.000	0.126	0.000
Stamp Duty	56.835	54.689	60.721
Excise, Taxation & Narcotics Control Dept.	**37.650**	**30.500**	**39.700**
Urban Immovable Property Tax	12.116	10.883	14.362
Tax on Professions, Trades and Callings	0.935	0.850	1.800
Receipts under Motor Vehicles	17.197	14.500	15.850
Other Direct Taxes	0.000	0.000	0.000
Provincial Excise	6.651	3.640	7.140
Tax on Luxury Houses	0.225	0.224	0.100
Other Indirect Taxes	0.525	0.403	0.448
Energy	**6.400**	**0.172**	**6.847**
Electricity Duty	6.400	0.172	6.847
Transport	**0.830**	**0.702**	**0.710**
Motor Vehicles fitness certificate and permit fee	0.830	0.702	0.710
Total Provincial Tax Revenue	**275.784**	**208.500**	**294.963**

The above table shows that tax collection by the Punjab Government during FY 2019-20 is estimated at **PKR 294.963 billion**, as compared to RE 2018-19 of PKR 208.500 billion. Major increase in provincial revenue is expected from Sales Tax on Services and Urban Immoveable Property Tax. Both taxes have high growth potential through expansion of tax base and effective enforcement.

PUNJAB REVENUE AUTHORITY (PRA)

PRA was assigned a revenue collection target of PKR 155.575 billion for FY 2018-19. 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.



Although, PRA has done exceedingly well to maintain very high growth in revenue collection over the past 3-4 years, due to litigation on collection of Sales Tax on Telecommunication Sector, PRA has not been able to fully capture the expected revenue gains for FY 2018-19. Based on the revenue trends and the available potential from Sales Tax on Services and Infrastructure Development Cess as well as disposal of pending litigation, PRA has been assigned a target of

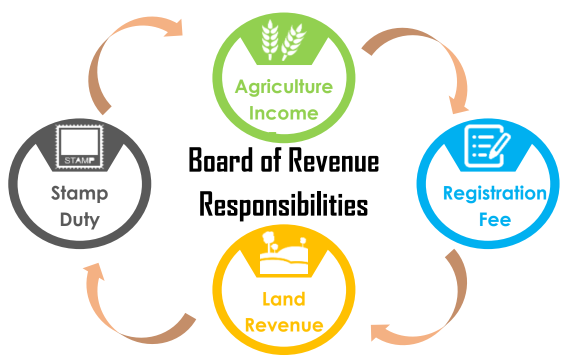
Rs.166.550 billion for FY 2019-20 with an increase of 7% over budget estimates of FY 2018-19. In the future, the Government intends to expand the base of Sales Tax on Services by moving to a methodology of **Negative List**. This step will remove anomalies and interpretational disputes and allow PRA to improve enforcement. Services such as Telecommunications, Banking/ Insurance, Contractual Execution, etc. were expected to be the primary revenue spinners for PRA during the financial year. The following table shows the Revised Estimates of collection from major services during the year (*in PKR billion*):

Sales Tax on Service Collection 2018-19

Service	Revised Estimates of Collection
Withholding	20.60
Telecommunication	16.30
Banking / Non-Banking/ Insurance	14.30
Franchise Services	7.50
Contractual Execution of work or furnishing supplies.	4.70
Construction services	4.10
Restaurants including cafes, food (including ice-cream) parlors, coffee house outlets etc.	2.90
Courier Services	2.60
Manpower recruitment agents	2.50
Technical scientific & engineering consultant	2.20
Security Agency	2.20
Hotels	1.90
Transport of goods, through pipeline, conduit or any other medium	1.80
Mining of minerals, oil & gas	1.70
Information Technology-based services	1.60
Other Services	14.18

BOARD OF REVENUE (BOR)

BOR's collection is estimated at **PKR 81.156 billion** for FY 2019-20. The major tax heads under BOR's purview are elaborated for the purpose of clarity:



a) 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. After 2001, the Government has decided to revise the land based AIT rates, w.e.f. from FY2019-20, by doubling the existing rates. Similarly, the exemption limit for the Income Based AIT rates has been raised from PKR 80,000 income per annum to PKR 400,000 per annum in order to improve the horizontal equity between taxes on agricultural and non-agricultural income.

PKR 1.100 bn
Revised Estimate 2018-19

PKR 2.074 bn
Budget Estimate 2019-20

b) 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 **PKR 18.286 billion** to the provincial exchequer during FY 2019-20.

c) 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. Budget Estimates of Stamp Duty for FY 2019-20 have been pitched at **PKR 60.721 billion**.

THE 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:

a) Motor Vehicle Taxes:

Excise, Taxation & Narcotics Control Department collects 'Tax on Registration' and 'Token Tax' on motor vehicles. The BE 2018-19 of MV Taxes was PKR 17.1 billion. The Revised Estimate for this tax has been pitched at PKR 14.5 billion, while the target for the next financial year has been estimated as **PKR 15.850 billion**.

b) Urban Immoveable Property Tax (UIPT):

The UIPT for FY 2019-20 stands at **PKR 14.362 billion** which is 19% higher than BE 2018-19. 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.

Key Reforms for UIPT planned for FY2019-20

Reform 1	Reform 2	Reform 3
Extension of property tax rating areas to bring commercial and residential properties along highways/ main roads into the tax net	Alignment of rating areas with actual city boundaries	Fresh survey of properties in Punjab as well as update of Valuation Tables

c) Professional Tax

The B.E for FY 2019-20 with respect to Professional Tax has been pitched at **PKR 1.800 billion** against the Revised Estimates for FY2018-19 to the tune of PKR 0.8 billion. This is primarily due to enhancement of professional tax rates.

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 2018-19 & Projected Budget Estimates FY 2019-20 (*in PKR Billion*) are:

Non-Tax Revenue	BE 2018-19	RE 2018-19	BE 2019-20
Income from Property and Enterprises	**41.485**	**7.442**	**32.354**
Electricity (Net Hydel Profit)	10.000	0.000	10.000
Net Hydel Profit Arrears	31.200	5.000	22.000
Interest on Loans to District Govts. / TMAs	0.052	0.052	0.045
Interest on Loans to Financial Institutions.	0.126	0.174	0.175
Interest on Loans to Non-Financial Institutions.	0.101	0.470	0.129
Interest on Loans & Advances to Govt. Servants	0.000	0.001	0.000
Interest on Loans – Others	0.006	0.005	0.005
Dividends	0.000	1.740	0.000
Civil Administration and other Functions	**16.745**	**11.894**	**18.285**
Fiscal Administration	**0.395**	**0.529**	**0.360**
Law and Order	**6.821**	**4.717**	**7.016**
Justice	0.666	0.415	0.513
Police Department	6.000	4.200	6.322
Jails including Civil Defense	0.155	0.101	0.181
Community Services	**5.706**	**3.109**	**5.211**
Communications & Works	5.000	2.900	5.000
Public Health	0.706	0.209	0.211
Social Services	**3.253**	**2.999**	**5.109**

Education	1.949	1.741	1.950
Health	1.304	1.258	3.159
Housing and Physical Planning	**0.570**	**0.541**	**0.589**
Miscellaneous Receipts	**41.837**	**40.715**	**42.757**
Agriculture	1.236	1.000	1.464
Board of Revenue	3.020	0.680	4.090
Fisheries	0.309	0.295	0.313
Forest & Wildlife	0.849	0.863	0.889
L&DD	1.493	1.008	1.100
Cooperative	0.003	0.003	0.003
Irrigation	2.001	1.560	4.201
Industries	0.335	0.315	0.341
Mines & Minerals	12.000	8.200	12.200
Home	0.880	1.005	0.900
Misc.	6.670	10.667	6.661
Federal / Foreign Grants	7.386	8.381	3.817
Straight Transfers	5.655	6.738	6.778
Total	**100.067**	**60.051**	**93.396**

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. Based on the decision of the Council of Common, interests as well as arrears of subsequent running payments the total arrears of NHP due by close of FY2019-20 amount to PKR 54.4 billion. The running payment for FY2019-20 is forecasted at **PKR 10.000 billion**. However, due to uncertainty in receipt of NHP over the years, an amount of PKR 32 billion has been budgeted for FY2019-20 in lieu of NHP with the following break-up:

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 Functions

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 been approved by the Government for w.e.f FY2019-20.

Social Services

These Receipts pertain to different social services like Health and Education etc. The Budget Estimate for FY 2019-20 has been set at Rs. 5.11 billion which is **57%** higher than the Budget Estimate for 2018-19. The increase is coming mainly due to revision in rates of diagnostic services in Government Hospitals.

For **Miscellaneous Receipts**, the budgetary estimates for FY 2019-20 have been pitched at **PKR 42.757 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 (*in PKR Billion*):

Component	**BE 2018-19**	**RE 2018-19**	**BE 2019-20**
Net Proceeds of Royalty on Crude Oil	3.162	4.051	3.780
Net Proceeds of Royalty on Natural Gas	1.582	2.400	2.426
Surcharge on Natural Gas-share of net	0.911	0.287	0.572
Total	**5.655**	**6.738**	**6.778**

Federal Grants

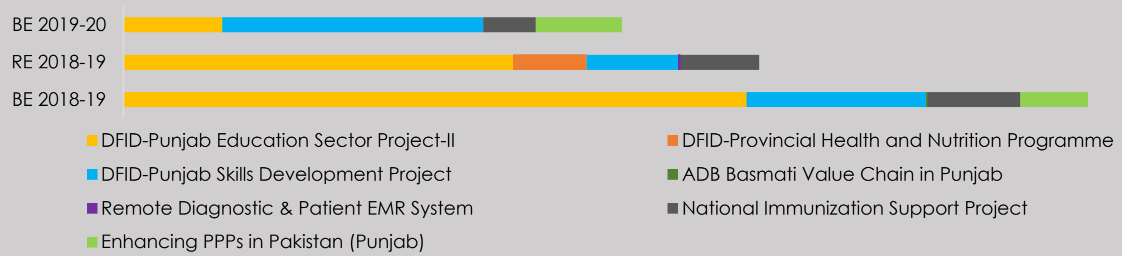
The PSDP grant are merely a pass-through item as far as Provincial budget is concerned as the same are passed on to different executing agencies for implementation of Federal Development Projects for which these development grants are received from the Federal Government.

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

Component	BE 2018-19	RE 2018-19	BE 2019-20
Programme Grants (Foreign i.e. PESP-II, NISP etc.)	7.39	4.87	3.82
PSDP Grants / Federal Grant (Dev + N.Dev)	0.00	124.61*	0.00
Total	7.39	129.48*	3.82

** Includes arrears of FDP (PKR 121.1 billion)*

Program Grants (in Billion PKR)



Particulars	BE 2018-19	RE 2018-19	BE 2019-20
DFID-Punjab Education Sector Project-II	4.770	2.985	0.757
DFID-Provincial Health and Nutrition Programme	0.000	0.562	0.000
DFID-Punjab Skills Development Project	1.374	0.701	1.998
ADB Basmati Value Chain in Punjab	0.015	0.000	0.000
Remote Diagnostic & Patient EMR System	0.000	0.017	0.000
National Immunization Support Project	0.707	0.602	0.402
Enhancing PPPs in Pakistan (Punjab)	0.519	0.000	0.660
Total	**7.386**	**4.867**	**3.817**

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.

Account I

- **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

Account II

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

Recorded in Account II

For the Financial Year 2019-20, estimate of Current Capital Receipts is pitched at **PKR 250.565 billion** compared to a Revised Estimate of PKR 399.679 billion during FY 2018-19. The table below provides a detailed comparison of Current Capital Receipts for FY 2018-19 and FY 2019-20 (*in PKR Billion*):

RECEIPTS	**BE 2018-19**	**RE 2018-19**	**BE 2019-20**
Loans & Advances/Recoveries of Loans and Advances	**10.742**	**3.659**	**1.097**
From District Governments/TMAs/Local Bodies	0.024	0.024	0.024
From Non-Financial Institutions	10.696	3.482	1.053
From D.G Khan Rural Development Project (ADB Loan No. 1531-Pak)	0.000	0.133	0.000
From Government Servants	0.022	0.020	0.020
From Private Sector (Taccavi Loans)	0.000	0.000	0.000
Debt	**54.152**	**60.042**	**41.209**
Permanent Debt-Domestic	0.000	0.000	0.000
Permanent Debt-Foreign	54.152	60.042	41.209
Account No. I Total	**64.890**	**63.700**	**42.310**
Recoveries of Investment-State Trading Schemes	149.360	203.475	110.926
Cash Credit Accommodation	130.090	132.504	97.329
Account No. II Total	**279.450**	**335.979**	**208.255**
Innovative Financing	**-**	**-**	**42.000**
Total Current Capital Receipts (Account No.I & II)	**344.340**	**399.679**	**292.565**

Account No. I - Permanent Debt: The Budget Estimates for FY 2019-20 for the permanent debt (foreign) have been estimated at **PKR 41.209 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 and Punjab Cities Program. The Revised Estimates of FY2018-19 were higher than the Budget Estimates due to excess disbursement of PKR 5.89 billion owing to foreign currency fluctuation and Punjab Cities Program which was not anticipated at the time of budget making for last financial year.

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

Details of Permanent Debt (Foreign) (in PKR Billion)

Detail of Loan	B.E. 2018-19	R.E. 2018-19	B.E. 2019-20
Punjab Health Sector Reforms Programme	3.171	2.425	0.000
Punjab Skills Development Project	1.287	1.419	1.878
Punjab Jobs & Competitiveness Project	2.340	2.800	2.800
Punjab Education Sector Reform Programme-III	9.045	10.873	6.720
Access to Clean Energy Investment Programme	1.822	2.674	3.500
National Immunization Support Program	0.503	0.000	0.401
Strengthening Markets for Agriculture and Rural Transformation (SMART) Punjab-Pak	2.982	2.891	4.900
Punjab Cities Program	0.000	1.960	6.860
Punjab Green Development Program	0.000	0.000	5.320
Metro Rail Transit System (Orange Line)	33.002	35.000	8.830
Total	**54.152**	**60.042**	**41.209**

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

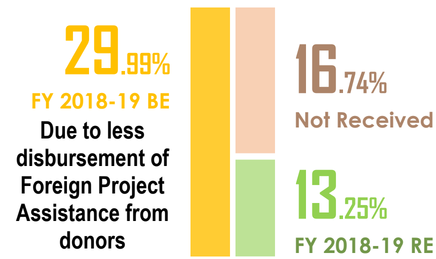
Wheat Grain procured directly from farmers by the Food Department with Financing from Banking Consortia

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

During FY2019-20, an amount of **PKR 208.255 billion** is estimated to be received for commodity operations compared to the amount of PKR 335.979 billion realized during FY2018-19.

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 18.189 billion worth of loans for Development projects are expected to be realized during the FY 2019-20. There was a difference between the FY 2018-19 BE and FY 2018-19 RE, which is explained by means of the figure on the right.



Moreover, Federal claims of various Provincial Departments have been identified during the year, which are pending with the Federal Government. These claims amount to **PKR 35.7 billion**, which, if received, it will create additional space in the development budget of the Province.

The Provincial Government has taken up the issue with the Federal Government during various meetings at Secretarial as well as Ministerial levels. The Chief Minister of Punjab has also requested the Prime Minister for his intervention. However, the settlement is taking 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 are at various stages and may not actualize during FY 2019-20.

Details for pending claims are as below:

Issues	Department	Amount *(Rs. Billion)*
Wrong transfer of PRA Receipt to FBR by NBP	PRA	4.57
Reconciliation of Cross-Adjustments of Taxes	PRA	1.82
Federal share of Subsidy on Wheat Export	Food	9.96
CDA share for operation of RWP-ISB Metro	Transport	4.06
Arrears of Lady Health Workers Programme	Primary Health	13.79
Health Insurance Scheme	Specialized Health	1.5
	Total	**35.7**

— CHAPTER 3 —

ESTIMATES OF EXPENDITURES

Overview of Expenditures

The primary objective of expenditures of the Government is the public welfare. The budget for FY 2019-20 has been prepared with this goal in mind - maximizing welfare of the people by allocating available resources efficiently and in the Government's priority areas, i.e. General Public Services, Healthcare and Education. The key objectives are to reduce disparity, when it comes to access to public services by doing away with wasteful expenditures and to prudently manage resources by anchoring investment in sectors that will not only foster human development but will also ensure social security for the vulnerable segments of the society.

Major Components of Government Expenditure

Current Expenditure	Enables government to maintain the current level of service delivery
Development Expenditure	Enhances capacity of Government to provide services to citizens
Capital Expenditure	Consists of Loans made, Loans repaid, and Contributions made to separate funds for meeting Long-Term Liabilities, such as Pensions

Current Expenditure	Development Expenditure	Capital Expenditure
PKR 1,298.7 bn	PKR 350.00 bn	PKR 418.90 bn
FY 2019-20 Estimate	FY 2019-20 Estimate	FY 2019-20 Estimate
3%	47%	11%
Higher than FY 2018-19 Budget Estimates	Higher than FY 2018-19 Budget Estimates	Higher than FY 2018-19 Budget Estimates

Abstract of Expenditure FY 2019-20 (in PKR Billion)

CLASSIFICATION	BE 2018-19	RE 2018-19	BE 2019-20
Current Revenue Expenditure	**1,264.488**	**1,225.036**	**1,298.773**
*General Public Services (including transfers to Local Governments)	709.965	697.364	754.681
Public Order & Safety Affairs	170.491	161.859	178.385
Economic Affairs	147.508	144.270	121.311

Environment Protection	0.568	0.464	0.503
Housing and Community Amenities	15.252	16.761	13.814
Health	137.910	123.220	145.151
Recreational, Culture and Religion	3.936	3.182	3.842
Education Affairs & Services	70.916	69.052	71.311
Social Protection	7.942	8.864	9.775
Current Capital Expenditure	**376.217**	**450.9**	**418.9**
Public Debt	0.000	0.000	0.000
Repayment of Principal	40.233	40.6	49.2
Investments	36.281	45.3	84.4
Loans and Advances (Principal)	20.166	28.9	76.9
State Trading in Medical Stores	0.093	0.093	0.093
State Trading (Wheat) (A/C-II)	168.424	178.3	157.0
Repayment of Commercial Bank Loans (A/C-II)	111.030	157.7	51.3
Development Expenditure	**238.000**	**227.864**	**350.000**
Annual Development Programme	238.000	227.864	350.000
Total Expenditure	**1,878.706**	**1,903.8**	**2,067.386**

Budgetary Framework under the Constitution

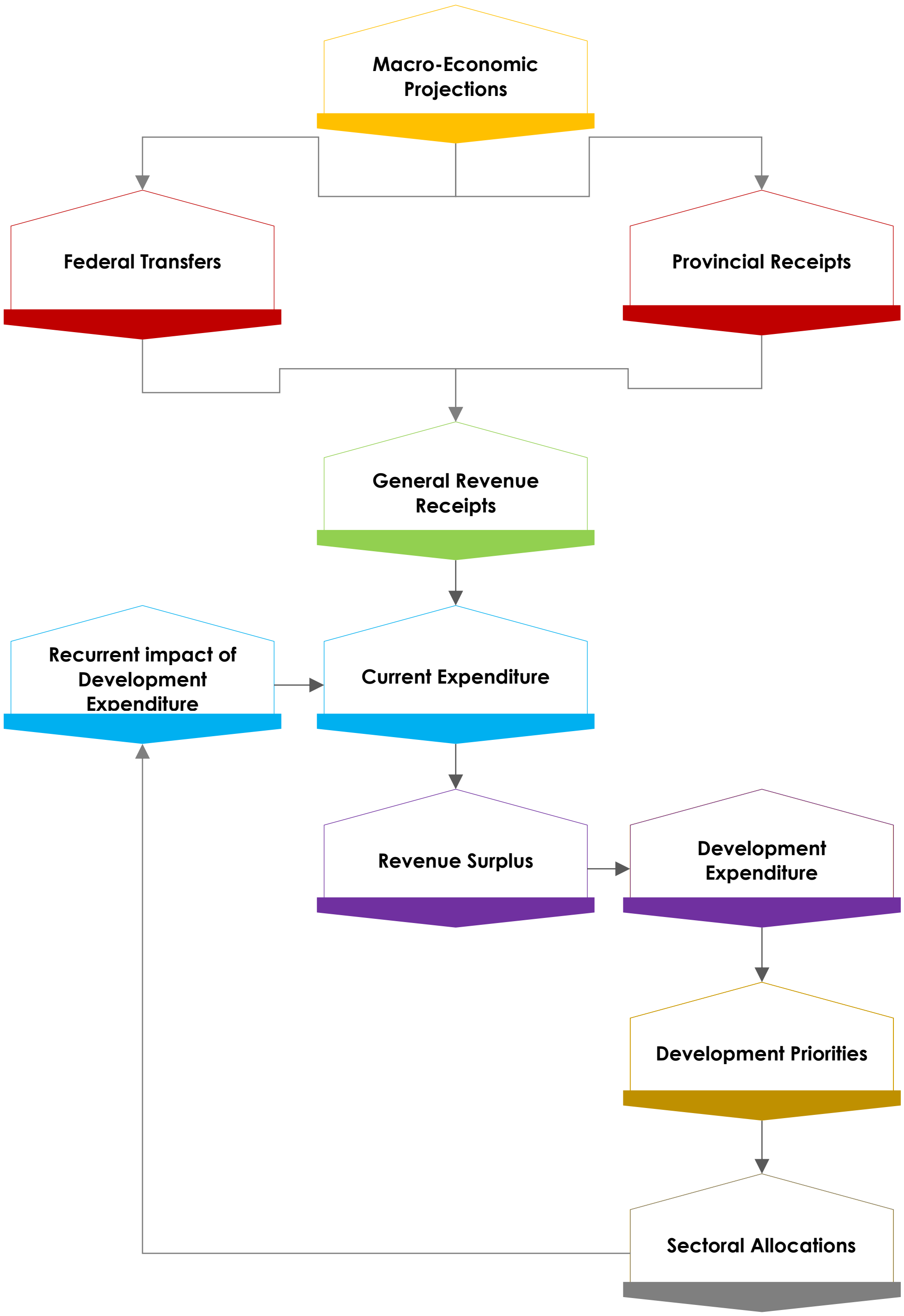
Articles 120 to 124 of the Constitution defines the **Budgetary Framework** that broadly represents the total receipts of Provincial Government comprising of Federal Transfers, Provincial Own Receipts, and the Total Expenditure. Overall expenditures of the government are classified under Provincial Consolidated Fund and Public Account of the province, pursuant to the Article 118 of the Constitution of Islamic Republic of Pakistan.

Article 121 of the Constitution relates to Expenditure incurred under Provincial Consolidated Fund. Expenditure from the Provincial Consolidated Fund can either be Development or Current Expenditure.

After accommodating the demands of current revenue expenditure and current capital expenditure, the net surplus is available for financing the Development Expenditure, which is additionally financed directly through foreign aided projects.

The budgetary allocations tend to strike a balance between the competing demands of Current and Development Expenditures. The balancing is done with the aim to maximize public welfare as per the priorities set by the Government. 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 2018-2019 and 2019-2020 are explained as under (*in PKR Billion*):

Chapter III – ESTIMATES OF EXPENDITURES

Classification	BE 2018-19	RE 2018-19	BE 2019-20
Current Revenue Expenditure	1,264.488	1,225.036	1,298.773
Current Capital Expenditure	376.227	450.947	418.876
Development Revenue Expenditure	168.532	169.561	255.309
Development Capital Expenditure	69.468	58.303	94.691
Total Provincial Consolidated Fund	**1,878.715**	**1,903.847**	**2,067.649**

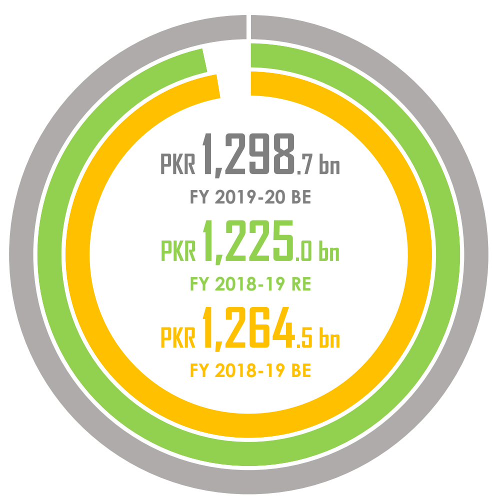
Current Expenditures

The Current Expenditure, which is classified into nine Functional Heads, has been estimated at PKR 1298.773 for FY 2019-20, which is 3% higher over last year's Budget Estimate.

Classification	BE 2018-19	RE 2018-19	BE 2019-20
General Public Services	709.965	697.326	754.681
Public Order & Safety Affairs	170.491	161.897	178.385
Economic Affairs	147.508	144.270	121.311
Environment Protection	0.568	0.464	0.503
Housing and Community Amenities	15.252	16.761	13.814
Health	137.910	123.220	145.151
Recreation, Culture and Religion	3.936	3.182	3.842
Education Affairs & Services	70.916	69.052	71.311
Social Protection	7.942	8.864	9.775
Total Current Expenditure	**1,264.488**	**1,225.036**	**1,298.773**

Budget classifications experiencing high growth in FY 2019-20 are discussed below:

- The proposed allocation for General **Public Services has increased by 6.3%** from the Budget Estimate of last year.
- The allocation for Public Order & Safety Affairs is projected to **increase by 4.6%** over Budget Estimates of last year.
- The allocation for Healthcare is proposed to **rise by 5.2 %** from the Budget Estimate of last year.
- The allocation for Social Protection has **increased by 23%** from that of last year.



General Public Service

General Public Services include the expenditure on the provision of services related to Executive & Legislative organs, Transfers to Local Governments, General Services and others. Transfers to Local Governments are made under the Provincial Finance Commission (PFC) Award. The details for allocations for next Financial Year in comparison with those of the previous financial year are illustrated as under:

General Public Services	BE 2018-19	RE 2018-19	BE 2019-20
Executive & Legislative Organs, Financial & Fiscal Affairs	253.417	254.642	300.564
Transfers to Local Governments and other entities	444.939	434.746	300.562
General Services	11.608	7.936	11.747
General Public Services not elsewhere defined	0.002	0.002	0.002
Total	**709.965**	**697.326**	**754.681**

Next year's budget for General Public Services is a **6.3 %** increase over last year's expenditure. This is a manifestation of the Government's policy and mandate. A higher expenditure under this head translates towards improving public welfare.

General Public Service

PKR 709.97 bn
FY 2018-19

+6.3%

PKR 754.68 bn
FY 2019-20

Executive & Legislative Organs, Financial and Fiscal Affairs have seen an increase of 18.6% for FY 2019-20.

Furthermore, it is of importance to note here that the Government believes in financial devolution to the grass roots level, i.e. the Local Government tier. The Government has framed the Local Government Act Punjab, 2019, with the objective of empowering Local Governments to incur expenditure. In this manner, expenditure will be Efficient, Effective and Economic. Next year's Budget Estimate is PKR 442.368 billion, which is higher than last year's Revised Estimate of PKR 434.746 billion. This will help improve the quality of Education, Health, Public Health Engineering and others.

Public Order and Safety Affairs

It has been the focus of the Government to ensure that the Judiciary and Policing system are at par with the needs of an exponentially growing population. It has always been the Government's priority to ensure Law & Order, Security, to curb criminal activities, and improve the performance of law enforcement agencies. This is only possible through an increased allocation.

The Government has increased its allocation for "Public Order and Safety Affairs" by almost 5%. The details are as below.

General Public Service

PKR 170.49 bn FY 2018-19 | +4.6% | PKR 178.36 bn FY 2019-20

Public Order and Safety Affairs	BE 2018-19	RE 2018-19	BE 2019-20
Law Courts (High Court & Lower Judiciary)	25.564	23.150	28.570
Police	113.687	113.415	117.315
Fire Protection (Civil Defence)	0.889	0.937	0.804
Prison Administration and Operations (Jails)	10.519	8.717	10.662
Administration of Public Order (including Rescue & Emergency Services)	19.832	15.679	21.034
Total	**170.491**	**161.86**	**178.385**

This functional head comprises of expenditure on Courts of law, Police, Prisons, and Emergency Services.

Law enforcement agencies, in particular Police, are facing numerous problems. Next years allocations are an increase of 3.2 % over last year's allocation. This will help in improvement of Counter Terrorism Department, Elite Police Force and District Police to provide better law and order to the general public.

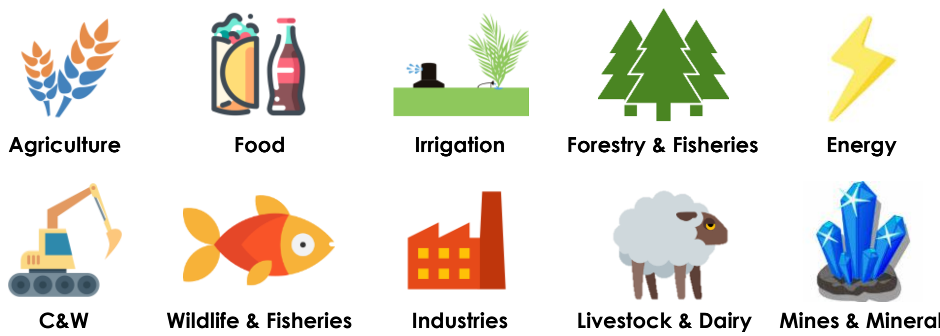
3.2%

Increase in Police Expenditure Budget Estimates from FY 2018-19

One of the most important components of "Public Order and Safety Affairs" is "Emergency Services". In the past, Emergency Services have been overlooked due to which many incidents became national tragedies. The Government has increased its budgetary allocation by 6 percent to a total of PKR 21.034 billion.

Economic Affairs

Economic Affairs is one of the most important heads of Expenditure. All the Government Departments contributing to economic development fall under this classification.



Economic Affairs	BE 2018-19	RE 2018-19	BE 2019-20
General Economic, Commercial & Labor Affairs	**0.892**	**0.776**	**1.006**
General Economic Affairs	0.353	0.300	0.461
General Labor Affairs	0.539	0.476	0.545
Agriculture, Food, Irrigation, Forestry & Fishing	**102.973**	**99.297**	**72.352**
Agriculture	41.426	38.020	44.248
Irrigation	15.417	16.748	16.205
Land Reclamation	0.378	0.381	0.377
Forestry	4.784	4.461	4.921
Fisheries	0.862	0.807	0.911
Food	40.107	38.881	5.691
Fuel and Energy	**0.142**	**3.140**	**3.136**
Administration	0.142	3.140	3.136
Mining and Manufacturing	**9.775**	**10.741**	**10.328**
Manufacturing	9.042	10.074	9.553
Mines	0.733	0.666	0.775
Construction and Transport	**33.703**	**30.291**	**34.460**

Roads & Transport	26.658	20.984	24.911
Construction & Works	7.045	9.307	9.550
Other Industries	**0.024**	**0.025**	**0.029**
Tourism	0.024	0.025	0.029
Grand Total	**147.508**	**144.270**	**121.311**

Pakistan is an agro-based economy, and Punjab is the agricultural hub of the country. Therefore, Agriculture is of prime importance and budget for agriculture has increased by 6.8%. This will help in improving research, extension and field services to farmers.

Other prominent sectors and sub-sectors that have witnessed a growth with a long-lasting impact are Construction and Transport, for which the budgetary allocation has increased to PKR 34.460 billion. The budget has been prepared to maximize the impact of the limited resources available at the disposal of the Government.

Housing and Community Amenities

Urban centers are the engines of growth that attract both foreign and local investments and create jobs. This sector includes expenditure on Housing, Urban Development & Public Health Engineering Department, Environment Protection Department and Local Government & Community Development Department.

Details of last years expenditure and allocations for next years allocations are given below.

Housing and Community Amenities	BE 2018-19	RE 2018-19	BE 2019-20
Housing Development	0.723	0.666	0.766
Community Development (incl. Ashiana Housing Scheme)	1.342	1.498	3.480
Water Supply & Sanitation	13.187	14.597	9.568
Total	**15.252**	**16.761**	**13.814**

Health Services

Provision of quality Healthcare services is one of the topmost priorities of the Government. Punjab is the most populous province of Pakistan and an increased budgetary allocation is dire need for Health sector. As far as the functional classification of Health Services is concerned, it includes allocation for Hospitals, Healthcare Institutes, Laboratories and other expenditure related to Health Administration. The details for budgetary allocation are given as under.

Health	BE 2018-19	RE 2018-19	BE 2019-20
Hospital Services	111.630	96.271	117.001
Public Health Services	5.898	5.248	6.213
Health Administration	20.382	21.701	21.938
Total	**137.910**	**123.220**	**145.151**

The Health Sector has been given an increase of 5.3%. This will enable an overall improvement in healthcare system

General Public Service

PKR 137.91 bn
FY 2018-19

+5.3%

PKR 145.15 bn
FY 2019-20

Hospital Services allocation has increased by 4.8% to a total of PKR 117.001 billion. Public sector hospitals are in dire need of improvement as the existing healthcare infrastructure is insufficient.

The Government intends to provide maximum resources for purchase of medicine and repair of machinery & equipment. The allocations will help the Government in improving the quality of health services to citizens in Punjab.

Recreational, Culture & Religion

The Government believes in providing an environment that promotes recreational activities. Punjab is a culturally rich and diverse province. The Government has had a focus on promoting the culture of the province. The Details of expenditures are given below.

Recreational, Culture & Religion	BE 2018-19	RE 2018-19	BE 2019-20
Recreational and Sporting Services	1.020	0.944	1.018
Cultural Services	0.992	0.902	1.036
Broadcasting and Publishing	1.189	0.883	1.036
Religious Affairs	0.561	0.305	0.570
Admn. Info. / Recreation & Culture	0.174	0.148	0.182
Total	**3.936**	**3.182**	**3.842**

Education Affairs and Services

Education Sector is one of the topmost priorities of the Government. In consonance with its mandate of economic growth through Human Capital Development, the Government has assigned education the first priority in budget. It, however, needs to be kept in mind that primary and secondary education is a devolved subject and PKR 273.0 billion has been allocated for District Education Authorities. In addition to this, an allocation of PKR 71.311 billion is proposed for Education sector at the provincial level.

Table below shows the breakup of different services under this functional classification and their allocations for financial year 2019-20 along with Revised Estimates for FY 2018-19.

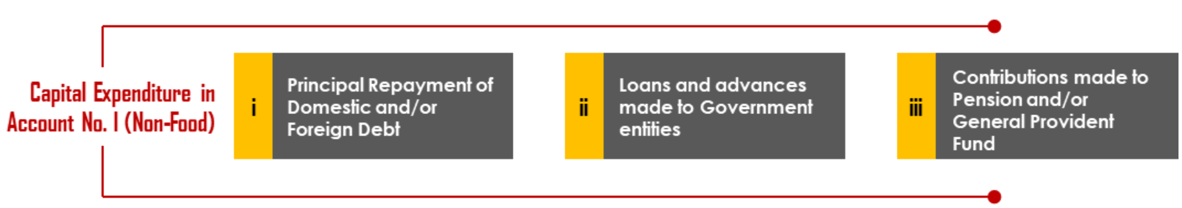
Education Affairs & Services	**BE 2018-19**	**RE 2018-19**	**BE 2019-20**
Pre. Primary Education Affairs & Services	1.321	1.128	1.712
Secondary Education Affairs & Services	32.682	30.061	29.332
Tertiary Education Affairs & Services	32.063	32.782	35.288
Education Services Non-Definable by Level	0.258	0.275	0.280
Subsidiary Services to Education	0.565	0.500	0.577
Education Affairs, Services Not Elsewhere Classified	4.026	4.306	4.122
Total	**70.916**	**69.052**	**71.311**

Tertiary Education Affairs & Services

PKR 32.06 bn FY 2018-19 | +10% | PKR 35.29 bn FY 2019-20

Through these resources colleges and universities in Punjab would be provided higher amount of resources.

Capital Expenditure



Capital Expenditures in Account No. II (Food) are mainly incurred on state trading operations of the government in food grains especially procurement of wheat and repayment of loans taken from the commercial banks for trading operations of Food Department

Capital Expenditure	BE 2018-19	RE 2018-19	BE 2019-20
Debt Management - Repayment of Principal	**40.233**	**40.6**	**49.2**
Domestic Debt Federal Government (CDL& CDL SCARP)	7.248	2.2	6.8
Foreign Debt (Debt Servicing)	32.884	38.3	42.2
Blocked Allocation for Exchange Risk Cover	0.100	0	0
Investment	**36.271**	**45.4**	**84.4**
Capitalization of Pension/GP Fund	36.271	45.4	84.4
Loans and Advances	**20.166**	**28.9**	**76.98**
Loans to other Non-Financial Institutions	20.166	28.946	76.977
Loans to Government Servants	0.000	0.000	0.000
State Trading in Medical Stores	**0.093**	**0.093**	**0.093**
Total Account No. I	**96.774**	**114.968**	**210.621**
Public Debt Account No. II	**279.454**	**336.0**	**208.3**
State Trading (Wheat)	168.424	178.3	157.0
Repayment of Commercial Bank Loans	111.030	157.7	51.3
Total Current Capital Expenditure	**376.227**	**450.947**	**418.876**

Under the PFM Reforms Agenda, Finance Department, Government of the Punjab, started the process to shift from Incremental Budgeting method to Medium-Term Budgeting Framework (MTBF). It will introduce a medium term planning process in the budget making process against a 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 Financial Year. The process was started with the issuance of the Budget Call Circular (BCC) FY 2019-20 in the month of November, 2018. The performances in BCC were amended to incorporate features of MTBF by collecting data for next three FYs. The whole concept of MTBF was discussed with all the administrative departments in detail by sending them indicative departmental ceilings for FY 2019-20. At the time of submission of Annual Budget by Administrative Departments, negotiations were held with them to bring their allocations within the ceilings.

With the introduction of MTBF for FY 2019-20, it is planned that other documents of MTDF will be incorporated in budget making process next year.

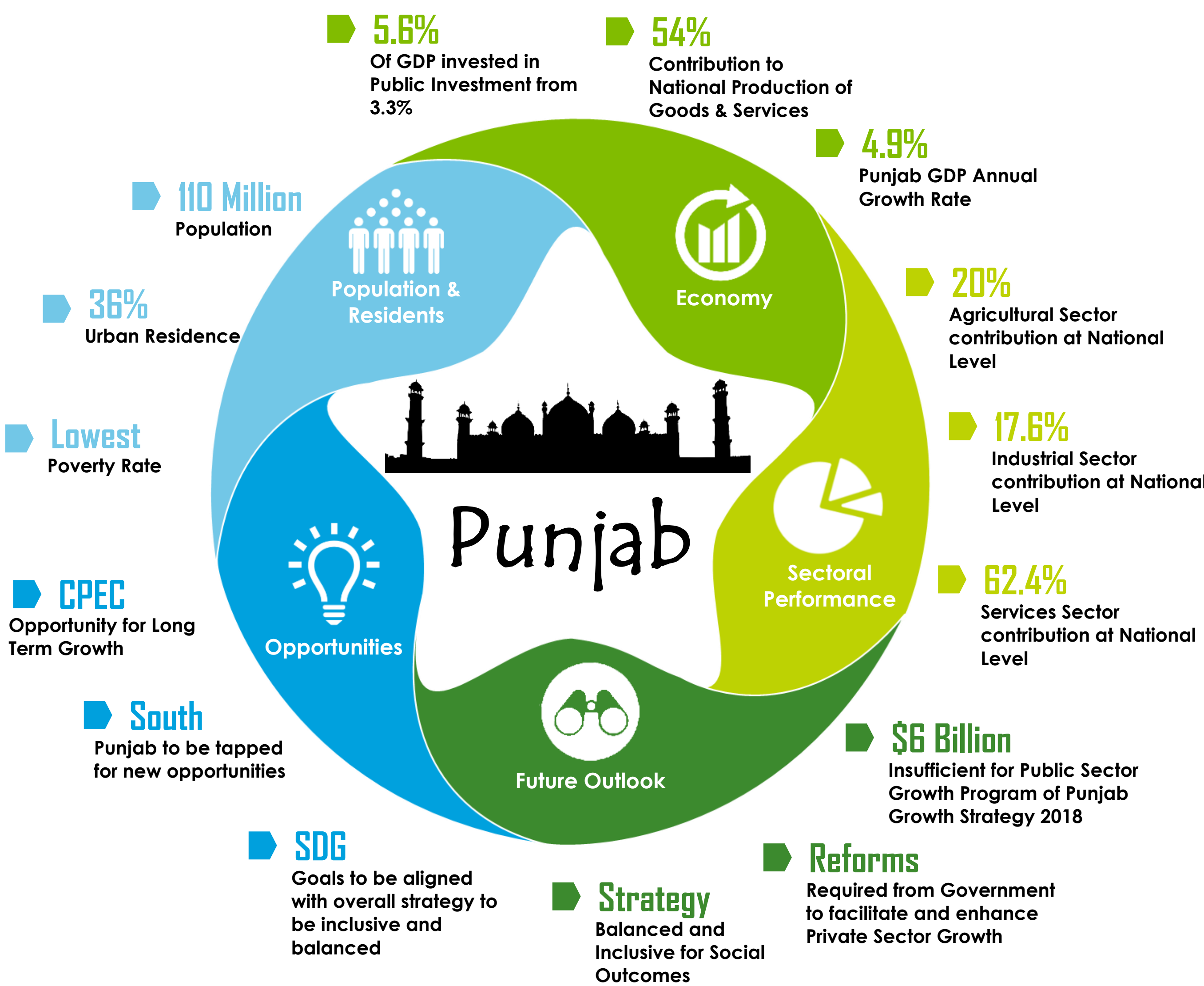
— CHAPTER 4 —

ANNUAL DEVELOPMENT PROGRAM

Section - I

Review of Developmental Program 2018-19 & Annual Development Program 2019-20

PUNJAB AT A GLANCE



Data Source: Punjab Bureau of Statistics, GoPb

Increased public expenditure has led to an unsustainable Budget Deficit which will not allow the Government to maintain the high spending levels of previous years, thereby in all likelihood leading to a fall in the growth rate of the provincial economy. To offset the decrease in public expenditure, the Government will have to promote private investment. However, the Government faces a challenge in increasing private investment since during the previous five years, private investment as a percentage of GDP has remained stagnant, fluctuating between 11 and 13 percent.

Punjab Growth Strategy 2023

> *A globally connected and competitive, equitable, culturally vibrant and technologically advanced Punjab with sustainable economic growth driven through a dynamic private sector, an efficient public sector, rich and productive human capital and, a regionally equalized development footprint by 2023*
>
> *Vision Punjab Growth Strategy 2023*

Pakistan's economy is undergoing a period of stabilization which involves contractionary fiscal and monetary policies, reflecting slower growth along with a decline in government expenditures. To support the efforts of the Federal Government in reviving the economy, Government of the Punjab is prioritising its spending and investments in areas that have the highest impact on Punjab's economy.

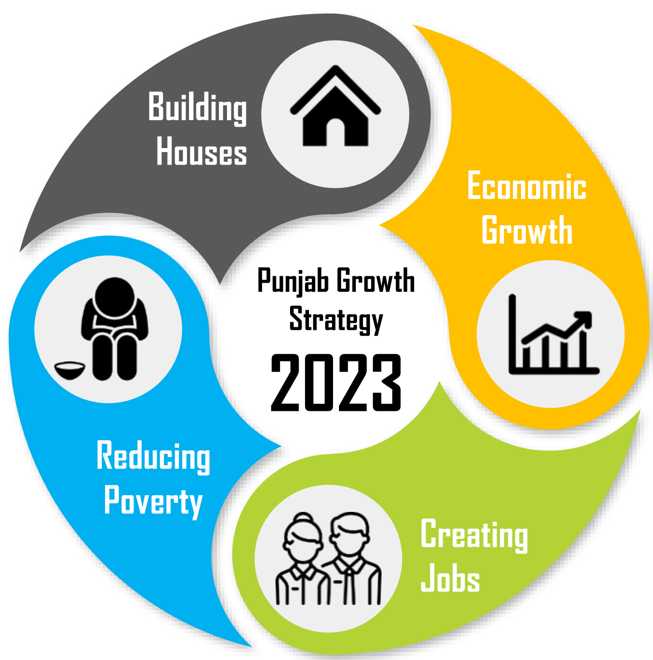
To improve the economic performance of Punjab and promote higher growth through financial stability and private sector investments, Punjab Growth Strategy (PGS) has been formulated which presents various targets, policy initiatives and mix of strategies to maximise provincial growth in the next 05 years.

01 A sustainable **annual economic growth of 7 percent** of the provincial GDP by the terminal year 2023

02 An average of **1.20 million new jobs annually over the next five years**, thereby contributing 60 percent to the national target of 10 million jobs. Reducing the idle youth in Punjab from 10.3 percent in 2017-18 to 8.8 percent by 2023.

03 Reducing Multi-Dimensional Poverty in Punjab from 26.2 percent in 2017-18 to **19.5 percent by 2023**

04 An increase in the average number of new housing units to **640,000 annually over the next five years**, thereby contributing 64 percent to the national target of 5 million new houses.



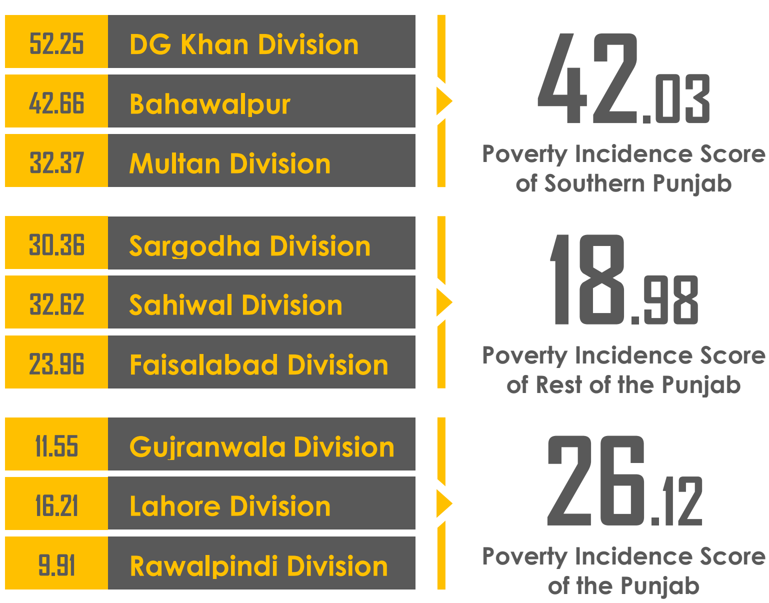
Under the Growth Strategy, the Government will focus on further developing human capital and its utilization by providing necessary jobs for Punjab's labour force. The Government will also work towards creating an enabling environment for the private sector to lead economic growth in the region. Other sectoral priorities for the Government include focusing on protecting Punjab's water resources for more efficient use in developing the Agriculture sector, reducing poverty and ensuring more equitable development of the Province.

The Punjab Growth Strategy 2023 also identifies Punjab's comparative advantages and will help the Government determine public investment and ADP sectoral priorities to maximize their impact on provincial growth. However, implementation of the Strategy will require a strong fiscal effort at mobilizing more revenues, substantially raising the size of the ADP along with a shift in allocations towards human development and away from over investment in physical infrastructure.

The Strategy has mapped out various growth paths that can be achieved and underscores the importance of the Provincial ADP and its role in achieving set growth targets. These targets set out in the Growth Strategy are in line with national priorities and will also help the Pakistan Government achieve its international commitments.

Regional Equalization

The key challenge of imbalanced development that Punjab faces today reflects the imbalanced public investment decisions of the past. There are disparities even in the provision of basic public services such as Health and Education. As a result, Southern Punjab has been deprived across several indicators, with relatively higher levels of poverty and poor performance in Education and Health outcomes. The following figures are a tell-tale:

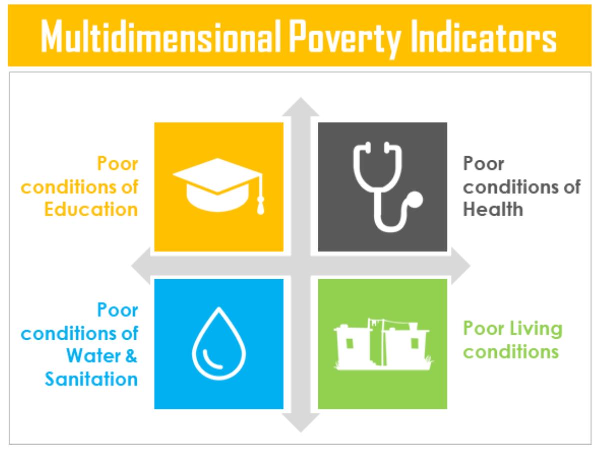


This figure clearly shows that the incidence of poverty in Southern Punjab region is considerably higher relative to Central and Northern Punjab. Also, the historical patterns of multi-dimensional poverty of South Punjab have remained poor over the past five years. Despite the stark regional disparities, public investments have not addressed the deteriorating human capital conditions and high poverty.

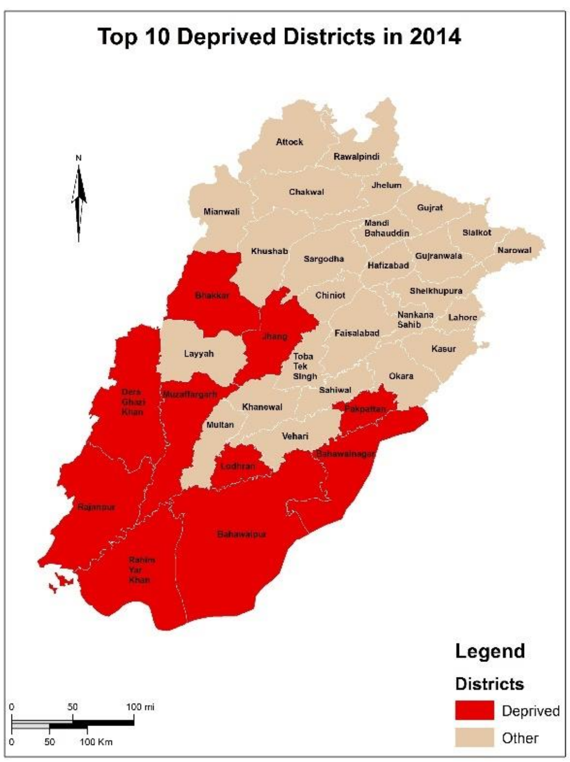
Source: Punjab Growth Strategy 2023

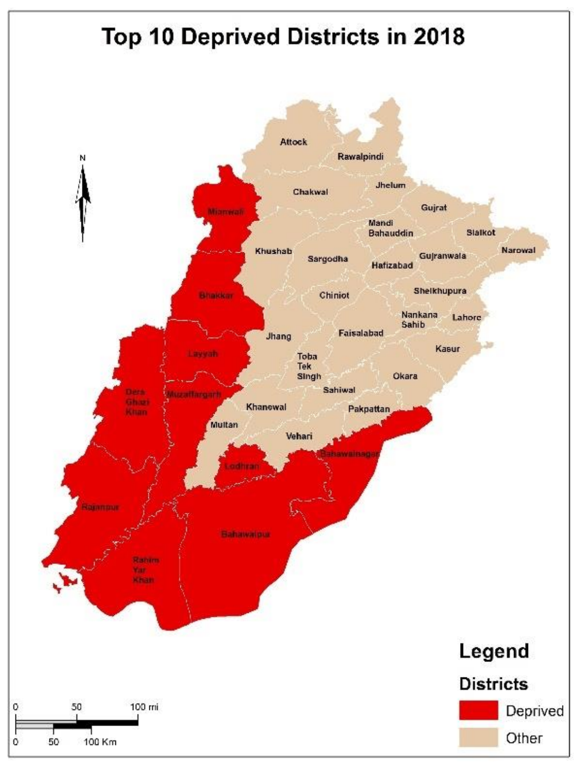
During last 4 years, the per capita expenditure in regions such as Bahawalnagar, Layyah and Pakpattan were only 5 percent of per capita expenditures in Lahore (PGS, 2019).

Higher multi-dimensional poverty indicates poor conditions of Education, Health, Living Standards and Water and Sanitation — the four main development indicators of multi-dimensional poverty. These deprivation patterns followed the previous spending patterns in the Province as the social sector expenditures in Southern Punjab are considerably lower relative to the rest of Punjab.



Considering the growing regional disparities within Punjab as shown by means of figures from 2014 and 2018, the Government will have to take conscious decisions to improve service delivery and governance structures in the deprived Districts to reduce imbalances. The Punjab Government has already established Industrial Estates in Vehari, Rahim Yar Khan and Bahawalpur. The Government is planning to establish a District Development Fund which will design 'need-specific' development interventions in the less developed Districts of Punjab. It will also make use of spatial planning to identify and fill key infrastructure gaps which include roads, training institutes and hospitals. Finally, the Government will promote the development of industry in South Punjab which will create employment opportunities for the local population.





China Pakistan Economic Corridor (CPEC)

The China Pakistan Economic Corridor has provided Punjab a unique opportunity in promoting trade and investment in the region. Punjab has had four major CPEC projects (two implemented by the Provincial Government and two Energy Sector projects implemented by the Federal Government), those being the **M-3 Allama Iqbal Industrial City in Faisalabad, Orange Line Metro Train Project in Lahore**. **2x660 MW Sahiwal Coal Fired Power Project and 3x100 MW Solar Power Project** have been completed and are contributing towards the National Grid.

Human Capital Development

The Government has identified Human Capital development as the single most important factor for increasing economic growth in the Province and has identified the provision of quality education, which also includes technical and vocational skills, as the prime building block in the formulation of productive human capital. In this respect, the Punjab government has established a large number of technical institutes under TEVTA with the aim of skill development of the Punjab workforce with the aim to focus on developing skills useful for employment in industries which it wishes to promote in the Province. It will also support Public Private Partnerships to support HR development and skills training programmes.

TEVTA

GOVERNMENT OF THE PUNJAB

Technical Education & Vocational Training Authority (TEVTA), Punjab

To enhance global competitiveness in Punjab, through a quality and productive workforce by developing demand driven, standardized, dynamic and integrated technical education and vocational training service.

The PGS 2023 also suggests that improving Human Capital has the greatest impact on growth for any sector - that by increasing average years of schooling by 1 percent of the employed increases large-scale manufacturing value added by almost 3 percent in Punjab whereas improvements in hard infrastructure only increase it by 0.3 percent. This highlights the importance of strong Human Capital for industrial development in Punjab and similar results are seen for the Transport and Wholesale & Retail Trade Sectors in the provincial economy. To improve Human Capital, the Government will explore opportunities for creating Technology Parks and ensure a strong linkage with local universities and local industry. It will also work towards the improvement of the Health sector and ensure greater gender equality through gender-based interventions. Another major aspect the Government will address is population growth as high growth rates have previously undermined Government programmes in improving Human Capital indicators.

Sustainable Development Goals

The Punjab Growth Strategy 2023 incorporates SDG targets to establish sectoral priorities and highlights reforms that will accelerate growth. The Strategy through the alignment of its goals with the SDGs also allows for SDG compliance measurement at the provincial level. It highlights the importance of creating multiplier effects that will have a far-reaching impact especially by prioritizing projects due to their relative importance and relevance for the Province. Recently, the Government has undertaken the Health Insurance and the *Insaf* Programmes (Rural Water Supply and Sanitation) and aims to undertake further programmes to promote the SDG agenda. Based on Provincial SDG Framework, measures will be taken to develop a competitive environment in the Province whereby all stakeholders would work together for achievement of SDGs in true spirit. Following are the key points of Government of the Punjab's approach to keep SDGs aligned with the Punjab Growth Strategy 2023:

Annual Development Program 2018-19

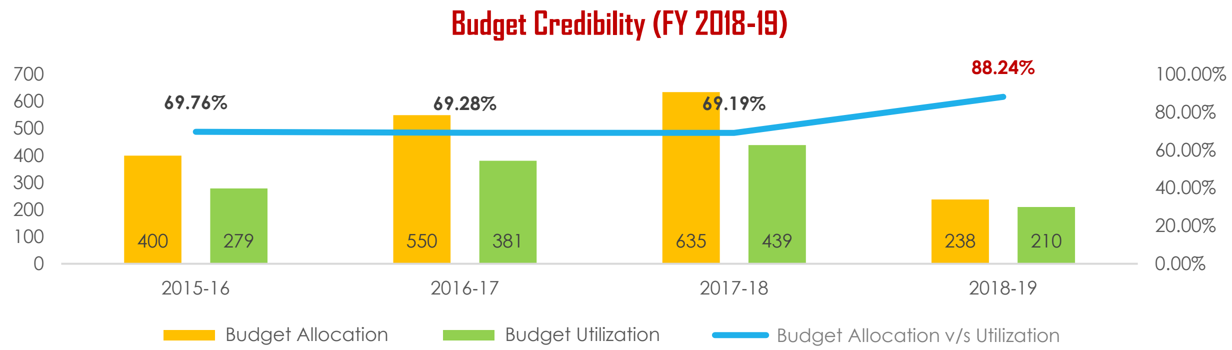
ADP 2018-19
PKR 238 Billion

Promoting 'Sustainable Development' which emphasized increased efficiency in planning and implementation of its multiple interventions.

Focus Areas

- Agriculture Sector
- Irrigation Sector
- Industrial Competitiveness
- SDG's

Considering the Government's focus on developing **Human Capital**, it allocated PKR 32 billion for the Education sector out of which PKR 25 billion were allocated for the development of School Education alone. Similarly, the Government **increased allocation to the Irrigation, Water Supply and Sanitation Sectors** to PKR 19.5 and PKR 20.5 billion respectively. To address **environmental challenges**, the Government allocated PKR 1.2 billion to promote Conservation and Environmental Governance. Figure below depicts the Annual Development Programme budget allocations along with utilization over the past four years. The present Government's decision to address the high Fiscal Deficit led to a sharp decline in the 2018-19 ADP budget. The figure also shows the credibility of the Budget for FY 2018-19, which shows a historically high utilization of 90.34%.



Major Milestones achieved during FY 2018-19

1. Provision of missing facilities in 149 schools, construction of 694 additional classrooms and rehabilitation/reconstruction of 241 dilapidated school buildings
2. Solarization of around 11,000 schools in South Punjab through Punjab Ujaala Programme
3. Afforestation of 9,523 acres on state lands and 3,960 acres of private land in Punjab. Reseeding of 13,400 acres of grasses in Punjab
4. Project proposal of 'Lahore Ring Road Southern Loop III', with an investment of PKR 9,999 million aproved by PPP Steering Committee and is currently at the Bidding Stage
5. Construction of Bridge Over River Chanab at Shahbaz Pur to connect District Gujrat with District Sialkot at a cost of PKR 4.781 billion
6. Under IFAD assisted Southern Punjab Poverty Alleviation Project (SPPAP), 150 low cost houses were constructed and handed over to the poorest women of the project area; small ruminant (2 goats package) to 5,000 poor people; vocational and entrepreneurship training to 3,000 unskilled people
7. Approval of SME promotion schemes i.e, Progressing Punjab by Entrepreneurial Development of SMEs, Developing SME Sector through Loan Mark-up Support Programme and Credit Guarantee Scheme
8. "Flood Emergency Reconstruction and Resilience Project (Irrigation Components)" approximately completed at a cost of PKR 6.7 billion
9. "Rehabilitation/lining of Sharqpur Distributary System" approximately completed at a cost of PKR 853 million and "Rehabilitation of Naushera Distributary System" completed at a cost of ~PKR 718 million
10. Improvement of 459 partially improved/additional lining of watercourses; Rehabilitation of 263 Irrigation Schemes in Non-Canal Command Areas; Installation of 10,000 High Efficiency Irrigation Systems; Horizontal Land Development of 25,160 acres and 318,149kg provision of certified seed (Rice, Wheat, Maize, Fodder, Vegetables etc.)
11. Provision of basic literacy skills to 33,000 illiterate adults/adolescents through establishment and operation of 2,160 Adult Literacy Centres in all Districts of Punjab
12. Provision of basic education to 450,000 children through the establishment and operation of 12,019 Non-Formal Basic Education Schools in 36 Districts
13. In the PPP Mode, Government of Punjab plans to expand its wheat storage capacity by establishing 'Food Grain Silos' - 2 sites have already been awarded with an investment of PKR 300 million

Major Milestones achieved during FY 2018-19

14. Widening/improvement of SCTM Road from Chakwal District boundary to Mianwali District from 176.39 km to 217.84km in Mianwali District at a cost of PKR 1.85 billion
15. Establishment of 27 Vehicle Inspection and Certification System (VICS) stations in Punjab
16. Under Cholistan Development Authority (CDA) portfolio, 11 water supply schemes (225 Kms), 11 roads rehabilitation schemes (30 Kms), 20 kunds and 02 mega water supply schemes were completed
17. Under Sustainable Land Management Programme (SLMP), 1,770 acres of rangeland was developed, dry afforestation on 750 acres of farmland, 88 water ponds and 13 water conveyance systems constructed

Annual Development Program 2019-20

P&D's ADP Formulation Strategies

The Government of Punjab has proposed an amount of PKR 350 billion for the 2019-20 development budget. The current government has emphasized the need for developing the province's human capital rather than just focusing on infrastructure development. For School Education, the government has allocated a total amount of PKR 32 billion, while for Higher Education the allocated amount is PKR 7.3 billion. For the Health sector, the government has allocated PKR 22 billion and PKR 23.5 billion for Specialized Health care & Medical Education and Primary & Secondary Healthcare respectively. Another notable feature is the PKR 22.4 billion allocation for Water Supply & Sanitation and the PKR 23.4 billion allocated for the Irrigation sectors.

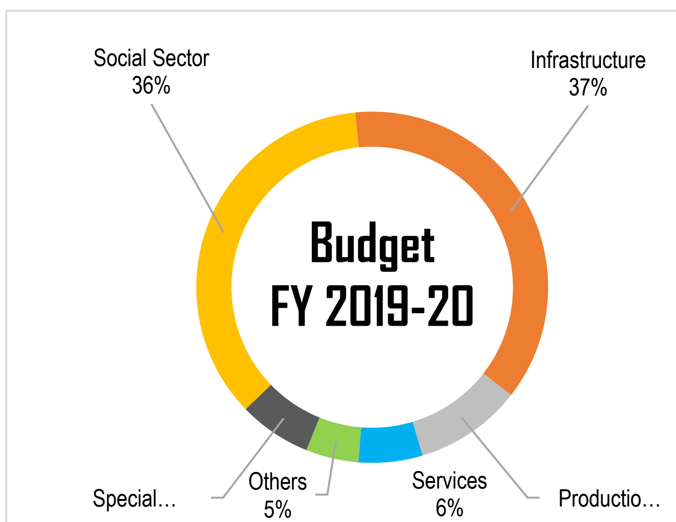


Figure below shows the main themes or Salient Features of the ADP 2019-20. A complete list of Major Projects/Programmes of ADP 2019-20 are given in **Annexure A.**

Salient Features ADP 2019-20	Progression of Social Sectors including Education, Health and Water Supply & Sanitation	Focus on schemes pertaining to Skills & Human Capital Development	Equitable Development for all regions of Punjab
Prioritization to schemes aligned with Sustainable Development Goals (SDG) SUSTAINABLE DEVELOPMENT GOALS	Schemes for women empowerment and social inclusion	Schemes that enhance urban clusters and ensure provision of requisite services	R&D in Agriculture and Irrigation sectors to mitigate Climate Change risks to Punjab's Agrarian Land

Foreign Funded Projects

The Government of the Punjab attaches great importance to collaborating with various international development partners and donor agencies to work for the economic and social upgradation of the people of Punjab. Over recent years, the size of donor and development partner engagement has increased manifolds in the Province. During the last year, the Government of Punjab managed a large portfolio of transactions, discussed and concluded several loan negotiations and tracked performance of large technical assistance programmes. The Government is in process of establishing donor coordination forums, tracking and monitoring dashboards and building loan and programme negotiation capacities. In addition to several small support programmes, the Government is majorly benefitting from technical and financial support from the World Bank (WB), Department for International Development (DFID), Asian Development Bank (ADB) and Asian Infrastructure Investment Bank (AIIB), among others.

Following are the major initiatives by Government of the Punjab in collaboration with the international agencies for the FY 2019-20:

The World Bank Group

1. Jobs and Competitiveness Programme for Results **($100M)**
2. Strengthening Markets for Agriculture and Rural Transformation (Smart) **($300M)**
3. Punjab Education Sector Reform Programme-III **($300M)**
4. Punjab Irrigated Agricultural Productivity Improvement Programme Project **(IDA)**
5. Punjab Irrigated Agricultural Productivity Improvement Programme Project **(IDA)** **(Additional Financing $130M)**
6. Health Sector Reform Programme
7. Punjab Skills Development Project
8. Punjab Disaster and Climate Resilience Improvement Project
9. Punjab Tourism Cultural Heritage and Economic Growth Project **($50M)**
10. Punjab Green Development Program (Punjab GDP) **($200M)**
11. Punjab Resource Mobilization Programme **($100M)**
12. Punjab Cities Program (PCP) **($200M)**

Asian Development Bank

1. Punjab Intermediate Cities Improvement Investment Program (PICIIP)
2. Jalalpur Canal Irrigation Project
3. Project for Enhancing Public Private Partnership in Punjab
4. Punjab Flood Emergency Reconstruction & Resilience Project
5. Rehabilitation & Improvement of Trimmu & Panjnad Barrages

DFID

1. DFID Support for Punjab Education Sector Programme (PESP)-II
2. Punjab Health and Nutrition Programme
3. Skills Development Project

AIIB

1. Construction of Waste Water Treatment Plants at Mehmood Booti, Shad Bagh and Shahdra, Lahore

French Funded

1. Extension of Water Resources in Faisalabad City Phase-II

IFAD Funded

1. Southern Punjab Poverty Alleviation Project Phase-II

Korean Funded

1. Establishment of Children Hospital at Bahawalpur

Chinese Funded

1. Lahore Orange Line Metro Train Project

JICA Funded

1. Punjab Irrigation System Improvement Project

Annual Development Programme 2019-20

Sector	Allocation
Social Sectors	**124,900**
Education	46,900
School Education	32,000
Higher Education	7,300
Special Education	1,000
Literacy & NFBE	2,600
Sports & Youth Affairs	4,000
Health & Family Planning	47,500
i. Primary and Secondary Health Care	*23,500*
ii. Specialized Health and Medical Education	*22,000*
iii. Population Welfare	*2,000*
Water Supply & Sanitation	22,400

Social Welfare	1,000
Women Development	800
LG&CD	6,300
Infrastructure Development	**87,700**
Roads	35,000
Irrigation	23,400
Energy	6,000
Public Buildings	9,800
Urban Development	13,500
Production Sectors	**34,500**
Agriculture	15,500
Forestry	3,430
Wildlife	520
Fisheries	1,050
Food	500
Livestock & Dairy Development	3,500
Industries, Commerce & Investment (inc. skills development)	7,500
Mines & Minerals	1,000
Tourism	1,500
Services	**20,600**
Governance & IT	6,000
Labour & HR Development	300
Transport & Mass Transit	13,500
Emergency Services (1122)	800
Others	**16,950**
Environment	1,000
Information & Culture	300
Archaeology	350
Auqaf & Religious Affairs	300
Human Rights & Minority Affairs	1,000
Planning & Development + PSDF	14,000
Special Initiatives	**65,350**
Special Programme / Initiatives	50,350
Community Development Programme	15,000
Total	**350,000**

Section - II

Punjab's Focus on Industrial Growth

Industry and investment constitute the backbone of any economy and declared top priorities of the Government. Punjab's current industrial growth is around 5.7% which needs to be substantially increased in order to meet the overall economic targets of the Province. Additionally, the Provincial Government aims to increase its Gross Provincial Product to 12.3% by 2023.

Policy Interventions

Punjab Industrial Policy 2018, addresses the reasons behind factor market failures and also provides support to address information failures that constrain industrial performance. The Policy has made set targets for the sector for the next five years, to be achieved by 2023, which include:

Development Interventions

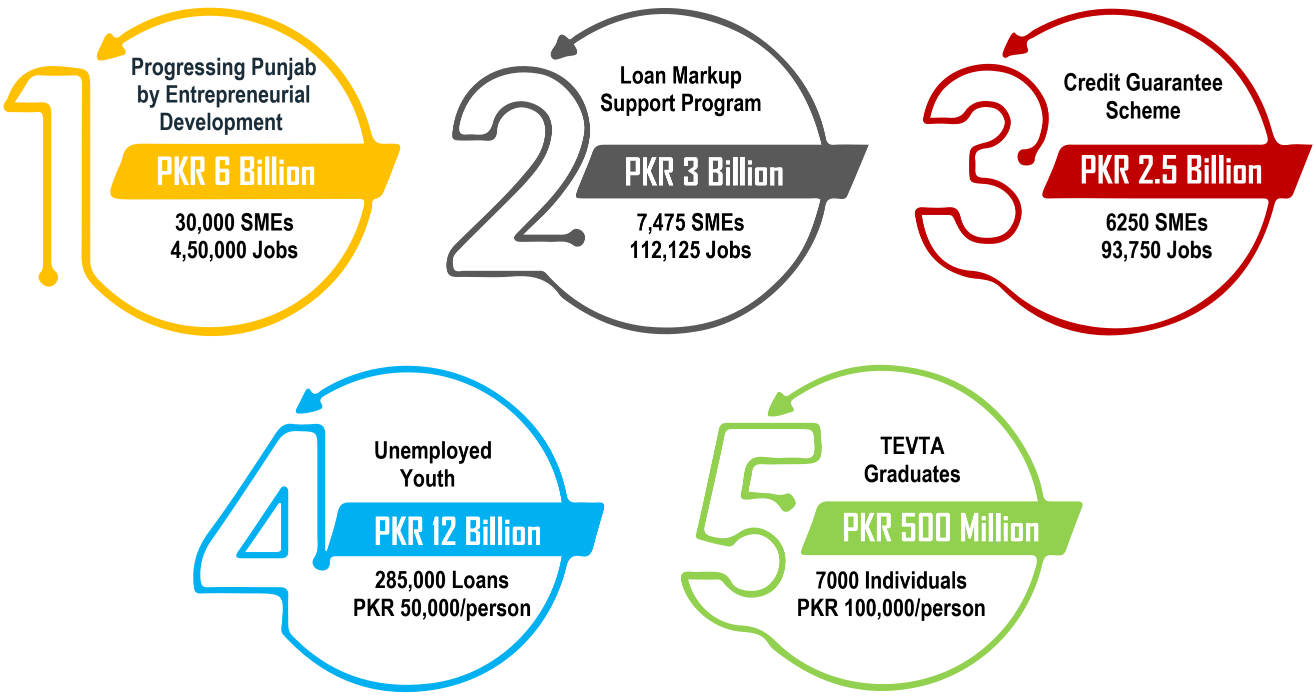
In order to transform the vision contained in the Industrial Policy a three-pronged approach has been adopted, as detailed below:

1 Industrial Estates

Providing developed space for the new industries on 10,769 acres is being developed in 9 different Industrial Estates. **Quaid-e-Azam Apparel Park**, a state-of-the-art industrial estate, will be established in PPP mode with a total project cost of PKR 22.79 billion and will provide 200,782 jobs. Land is also being acquired for establishment of **Allama Iqbal Industrial City (AIIC) Faisalabad** with a total project cost of PKR 23.05 billion and will provide 330,000 jobs.

2 Developing SMEs

For promotion and development of SMEs, the Government has initiated a Loan Mark-up Scheme for critically positioned SME industries to ensure affordable access to finance as well as an Enterprise Development Fund to encourage entrepreneurship at all levels. The Government has designed various interventions which will generate direct employment, which include:



3 Reforms

In order to strengthen skills, build capacity and generate efficiencies effort has been made to establish three new Technical Universities.

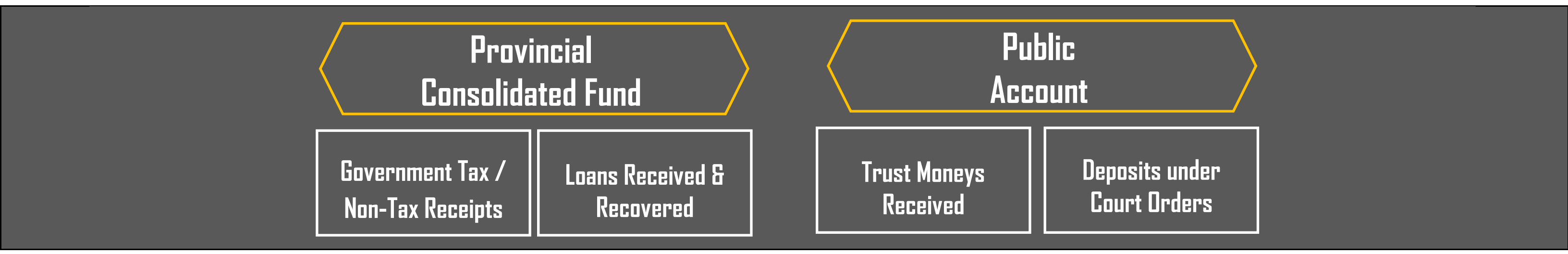
PKR 3.07	Punjab Tianjin University of Technology (PTUT), Lahore
PKR 2.17 bn	Punjab University of Technology Rasul, Mandi Bahauddin
PKR 2.00	Mir Chakar Khan Rind University of Technology, Dera Ghazi Khan

— CHAPTER 5 —

PUBLIC ACCOUNT OF THE PROVINCE

Introduction

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 of the Government, all loans raised by it and all moneys received by it in repayment of loans shall form part of the Provincial Consolidated Fund. Article 118 (2) further provides that all other moneys received by or on behalf of the 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 in Provincial Consolidated Fund and Public Account are deposited to the Government Treasury, cash of which is placed in a bank account maintained by the State Bank of Pakistan, under an agreement between the Governor of the Punjab and State Bank of Pakistan, titled "Punjab Account Number – I (Non-Food)". This account reflects a common cash balance of both PCF 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's / District Accounts Offices. It may also be worthwhile to add that the Government is authorized to open more than one bank account to run the system of the Government in a smooth manner. All such accounts would, however, form part of the Provincial Consolidated Fund or the Public Account of the Provinces depending upon the type of money. For example, Government of the Punjab has opened Provincial Account No. II (Food Account) with the State Bank of Pakistan for its commodity operations. This account is part of the Provincial Consolidated Fund and cash balance of the Government. However, the account is used only for the purpose of commodity operation in the province.

The Government, as a custodian of all moneys placed in the Public Account, has a fiduciary responsibility to receive and disburse these moneys but not at liberty to appropriate for the general service of the Government. The form and manner for disbursement of moneys from the Public Account is regulated under the Punjab Treasury & Subsidiary Treasury Rules and the Punjab Financial Rules, framed under the Article 119 of the Constitution. As the disbursement of moneys credited to the Public Account is not subject to the vote of the Provincial Assembly, therefore, the balances thereof, if any, are carried forward on year to year basis maximum for three financial years. Therefore, such money can be refunded within a span of three financial years. During the completion of life of three financial years the unpaid credits lapse and shifted to the Provincial Consolidated Fund as Miscellaneous receipts under Object code C03801-Unclaimed Deposits. Any claim arising thereafter is refunded from provincial receipt of "unclaimed deposits". The moneys tendered to the Public Account and its disbursement are generally governed by the agreement(s) / law / court orders etc. So far as the maintenance of accounts 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;

i	ii	iii
Cash and Bank balances, Receivable loans & advances, Physical Assets and Investments)	Liabilities, Loans, Deferred Liabilities, Trust Accounts, Special deposit Accounts etc.	Equities and Investment by Government

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

			(PKR in Billion)
	BE 2018-19	RE 2018-19	BE 2019-20
F & G-Public Account Receipt	**-1,896**	**-1,503**	**-1,578**
F02-Receivables	-2	-2	-2
F05-Other Assets	0	0	0
G01-Current Liabilities	-874	-750	-787
G02-Loans	0	0	0
G05-Control Accounts	-421	-484	-508
G06-Trust Account-Fund	-41	-33	-35
G10-Trust Accounts-Other	-401	-103	-108
G11-Special Deposit Investment	-152	-128	-134
G12-Special Deposit Fund	-7	-4	-4
F & G-Public Account Payment	**1,896**	**1,503**	**1,578**
F02-Receivables	0	0	0
F05-Other Assets	0	0	0
G01-Current Liabilities	875	747	784
G04-Other Liabilities	0	0	0
G05-Control Accounts	419	485	509
G06-Trust Account-Fund	31	35	37
G10-Trust Accounts-Other	402	110	115
G11-Special Deposit Investment	147	117	123
G12-Special Deposit Fund	23	8	9
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 of financing available during a financial year for PCF.

However, prudent financial management principles require that the moneys of Public Account are not utilized for the purpose relating to Provincial Consolidated Fund.

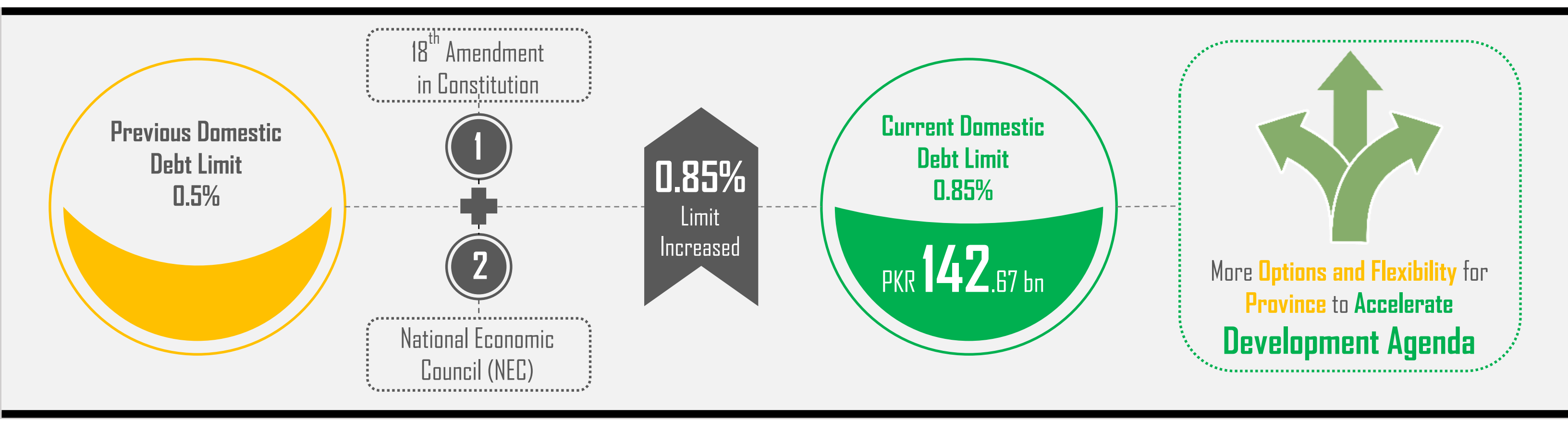
— CHAPTER 6 —

DEBT AND LONG-TERM LIABILITIES

Introduction

Article 167 of the Constitution of Pakistan 1973 (the Constitution) deals with the subject of provincial borrowing. Until the introduction of 18th Amendment to the Constitution, almost all provincial borrowing consisted of loans obtained directly from Federal Government or obtained by Federal Government and on-lent to the Provincial Government. In accordance with Article 167(4) of the Constitution, inserted by 18th Amendment, the National Economic Council (NEC) has allowed the provinces to directly raise domestic debt up to 0.85%[2] of the national GDP. This overall limit has been distributed among the provinces according to their horizontal share in the 7th NFC (National Finance Commission) Award.

Punjab Government has been authorised to raise debt or issue Guarantees up to Rs. 142.67[3] billion. These newly granted domestic borrowing powers have given more options and flexibility to the province to accelerate its development agenda.



Punjab's debt levels are currently quite low when measured as percentage of its GSDP (Gross Sub-National Domestic Product) or as a percentage of its annual revenue. Going forward, the major challenge of the province is to manage its debt operations to finance its large and growing development needs without impairing its capacity to repay the debt.

[2] Amount equivalent to 0.85% of the nominal Gross Domestic Product (GDP) of the country has been allocated among provinces i.e. PKR 305.31 billion out of which Punjab`s share is 51.74% of the total allocation.

[3] Gross borrowing limit for Punjab is PKR 157.97 billion which works out to PKR 142.67 billion after deducting outstanding domestic loans obtained from the Federal Government (Federal Notification of 17.08.2017).

Debt Stock

Punjab's debt consists mainly of long-term foreign loans obtained on concessional terms from international institutions by the Federal Government and on-lent to government of the Punjab. Bifurcation of Punjab's total debt is as below:

Punjab Total Debt Stock as on June 30, 2019 (PKR Billion)

Type of Loan	Outstanding as at Jun '18	Outstanding as at Jun '19	% Growth	% of total as at Jun '19
Domestic Loans[4]	10.89	8.65	-2.2%	1.02%
External Loans	682.48	832.80	150.5%	98.97%
Total	**693.37**	**841.45**	**148.3%**	**100%**

Debt stock as of Jun`19 shows a net growth of 21.38% (i.e. PKR 148.3 billion) with respect to debt stock of Jun' 18 out of which 77.65% (i.e. PKR 33.1 Billion) is a result of Pak Rupee devaluation against foreign currencies and remaining 22.35% (i.e. PKR 115.1 Billion) is the addition to stock due to new loans and disbursements against already obtained loans. (Jun`19 debt stock is calculated by using exchange rate of 14th May' 19).

3.99%

Punjab's total Debt as % of GSDP

2.19%

Punjab's total Debt as % of National GDP

The size of Punjab's debt is quite low when measured as a percentage of its Gross Sub-national Domestic Product (GSDP) and relative to National GDP

Sector Wise Composition of Debt Stock

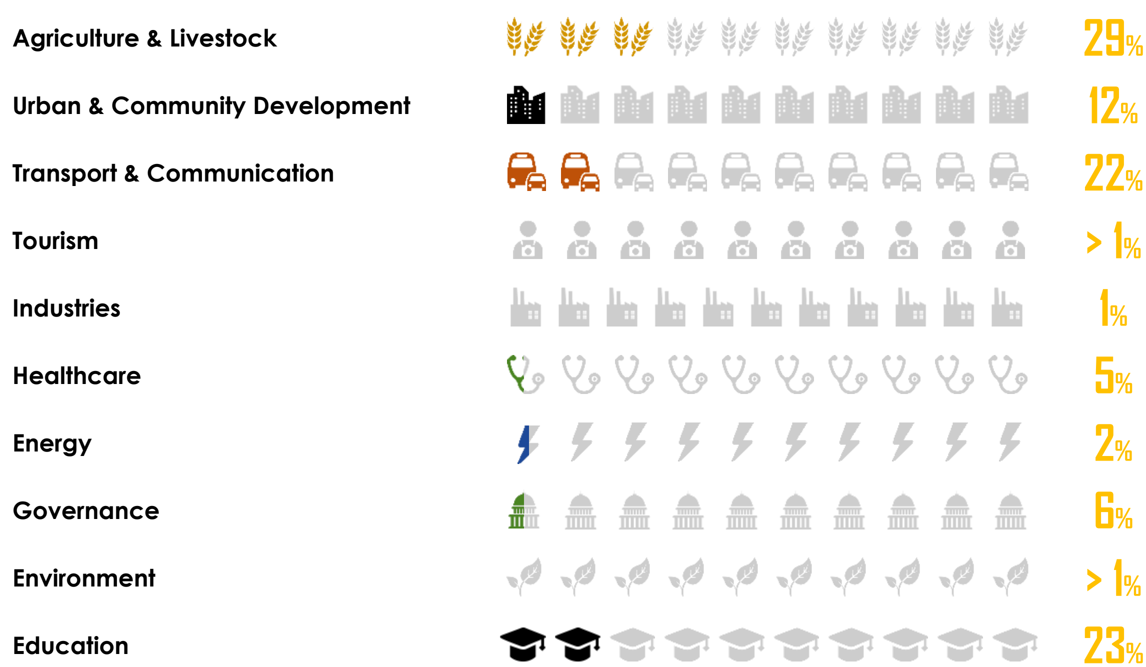
Government of the Punjab obtained multilateral loans from international financial institutions and a few bilateral loans to support the development needs of the province. The focus of external financing remains in the areas of Education, Agriculture, Transport, Urban Development etc. The sector-wise distribution[5] of total outstanding debt is shown below:

[4] Domestic loan amount is exclusive of Food Department's outstanding loans obtained for procurement of wheat i.e. PKR 335.95 billion as on 30.04.2019

[5] Sector classification is made internally by using the description of the loan program/project.

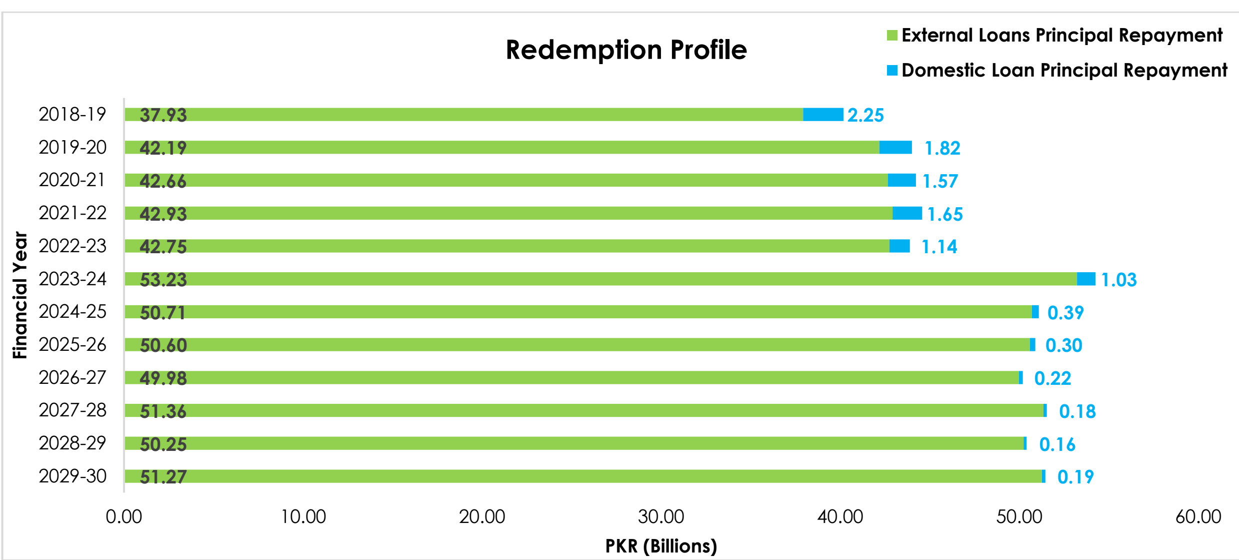
Sector Wise Composition of Total Outstanding Debt

(% of total outstanding debt as of June 30, 2019)



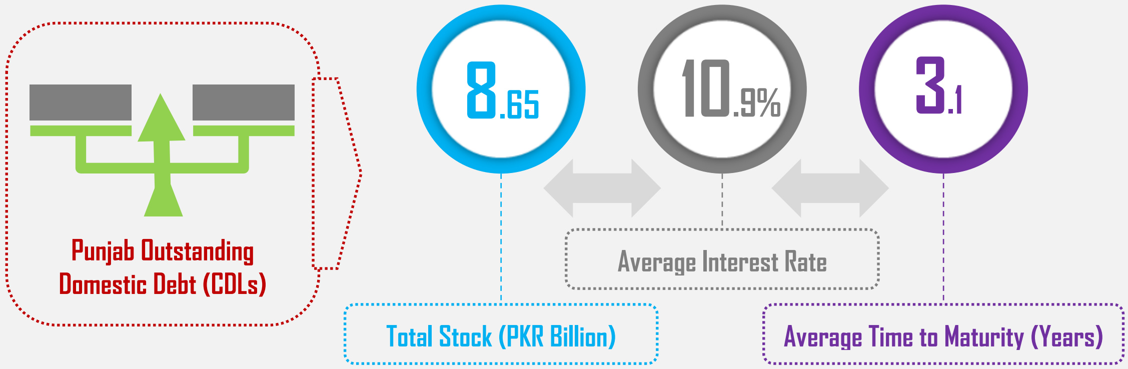
Redemption Profile

The Redemption Profile refers to the projections of annual principal repayments in future according to repayment schedules of underlying loans. It helps identify periods in which large principal repayments will be due and taking appropriate measures to deal with such challenges. Redemption Profile of Punjab's debt smoothly spread over a period of 38 years.



Domestic Debt

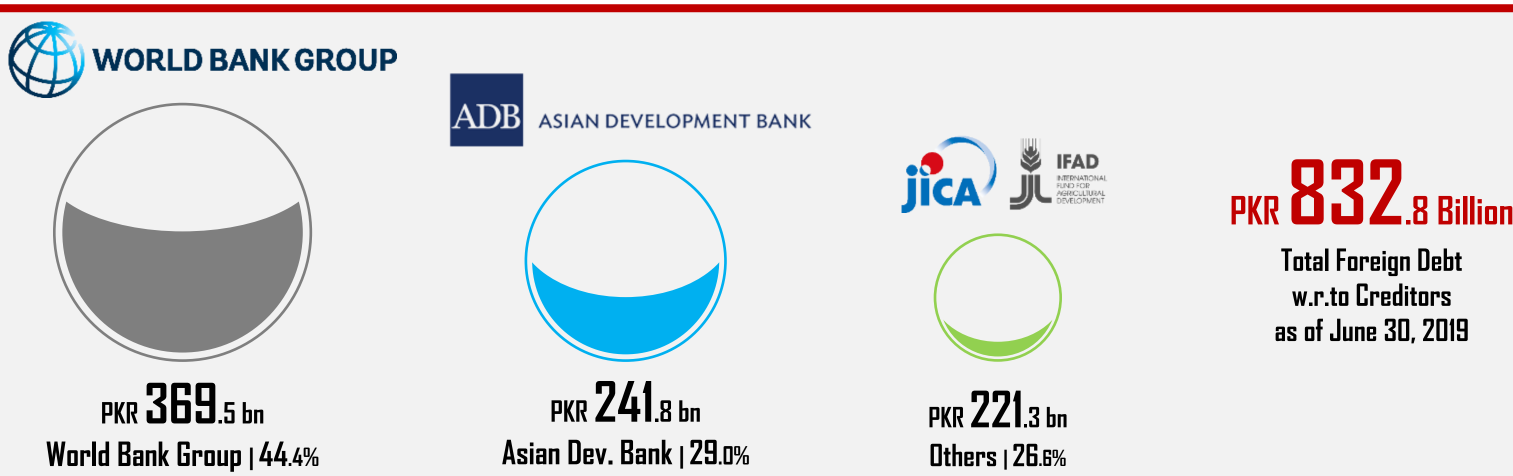
Domestic liability of the Government consists of Cash Development Loans (CDLs) obtained from the Federal Government for Agriculture purposes to control salinity and reclamation of barani areas of the Punjab mainly, at fixed interest rates with original maturity of 25 years. Many of these loans have already been repaid and the outstanding amount of CDLs as of Jun 2019 is estimated at PKR 8.65 billion. Domestic debt stock only includes direct borrowing by the Government. The borrowing on account of wheat procurement is not included in the domestic debt stock



Foreign Debt

Punjab's foreign debt portfolio is highly concessionary with an average maturity of 9.5 years as of June 2019. In addition to Multilateral Development Banks, Foreign Debt stock also includes bilateral loans from China and France.

> *The World Bank (including IBRD and IDA) is the leading creditor with 44% share of the total outstanding debt followed by ADB with 29% share in foreign debt stock.*



Punjab's foreign/external debt is heavily denominated in USD which is 82% of the total foreign loans followed by Japanese Yen (JPY) with a share of 8%. Figure below explains the composition of the foreign debt stock by currency as of end June 2019.

Foreign Debt Currency Composition as of June 30, 2019 (In Billion)

Currency	Outstanding PKR	% of Total
US Dollar (USD)	692.1	83.1%
Japanese Yen (JPY)	69.8	8.4%
Chinese Yuan Renminbi (RMB)	24.8	3.0%
European-American Unity and Rights Organization (Euro)	4.5	0.5%
Islamic Dinar (ID)	0.1	0.0%
Special Drawing Rights (SDR)	41.5	5.0%
TOTAL	**832.8**	**100.00%**

Debt Servicing

Debt Servicing refers to the amount of annual payments on account of principal and interest. Amount of debt servicing as compared to revenue receipts of the province is a good measure to scale the debt distress of a province/entity. Lower the amount of debt servicing as compared to revenue means the lower or no debt distress.

Punjab's estimated Debt Servicing for FY 2019-20 is relatively a small liability when compared to the size of average annual Revenues[6] of the last three years. i.e. 4.17%. This indicates that the province is self-sufficient to honor its obligations on account of debt servicing. Total amount of debt servicing for FY 2019-20 is estimated at PKR 60 billion including interest of PKR 16 billion and principal amount of PKR 44 billion.

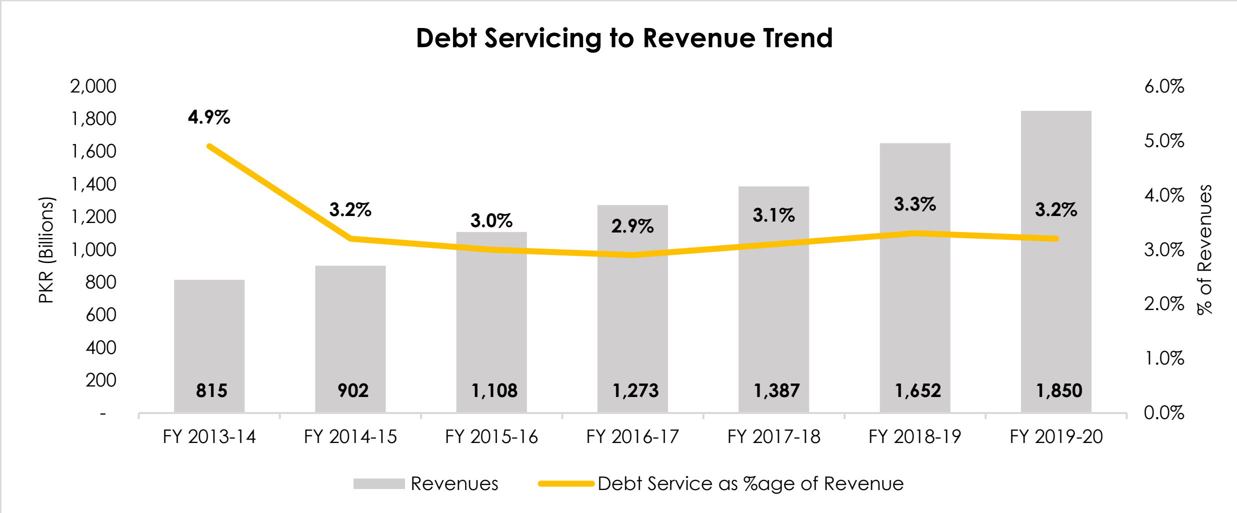
1.11%

For FY 2019-20:
Interest as % of Average Revenues for the last three years

4.17%

For FY 2019-20:
Debt Servicing as % of Average Revenues for the last three years

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



Debt servicing projection is based on the following assumptions:

- Exchange rates as of 29th Jun 2019
- In case of floating-rate foreign currency loans where interest payments are computed by using LIBOR as reference rate, LIBOR rates as of 29th Jun 2019 have been used for calculation of future interest payments.

Risk Analysis of Punjab's Debt

PKR 841.45 bn

Provincial Debt Amount

3.2% — **Debt Service to Revenue**

03.99% — **of GSDP**

Punjab's Debt poses very low risk to its finances

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 below given 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 imply higher risk exposure, as a large proportion of the existing loans will need to be replaced with new loans over a shorter period of time.

> *ATM of the Punjab`s total debt portfolio is 9.5 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.*

Estimated Refinancing/Rollover risk indicator as of 30.06.2019 are given below

Refinancing Risks are 'Low for Punjab'

4.98%
Debt maturing in 01 yr
(% of total)

9.5
Avg. Time to Maturity (ATM)
Foreign Portfolio (years)

3.1
Avg. Time to Maturity (ATM)
Domestic Portfolio (years)

9.4
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.

77%
Fixed rate debt (% of total)

26%
Debt Re-fixing in 1yr (% of total)

8.4
Avg. Time to Re-fixing Portfolio (years)

Interest Rate Risk

Punjab's debt has low exposure to interest rates

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 rate reset over a relatively shorter period of time.

ATR of the Punjab`s total debt portfolio is 9.4 years showing that total loan portfolio will be exposed to interest rate reset after a period of 9.5 years.

Foreign Exchange (FX) Risk

Foreign exchange 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:

98.97%

Share of Foreign Debt
(as % of total)

(i) low interest rates on foreign loans offset the adverse consequences of exchange rate depreciation

(ii) overall size of Punjab's debt portfolio is quite small as a percentage of the provincial GSDP which implies that repayment burden attributable to exchange rate depreciation is not too high as proportion of provincial GSDP

Contingent Liabilities

Domestic borrowing limit assigned by the National Economic Council (NEC) has been used by the Government to offer Guarantees to various Public Sector Entities (PSEs) to ensure/increase the bankability of their projects. All such guarantees are categorized as explicit guarantees for which Government is legally bound to pay to the investor directly in case the PSE fails to honor its obligations. Major beneficiary of the Government support in the form of Guarantees, in Punjab, is the energy sector (QATPL, PTPL) followed by roads & transportation sector.

> *As of 30.06.2019 the total amount of outstanding Guarantees is estimated at PKR 75 billion out of which PKR 4.7 billion is attributable to Public Private Partnerships (PPP) of the Government.*

Other Long-Term Liabilities

Pension

Government has a Defined-Benefit (DB) Pension Scheme for its permanent employees. The pension scheme is being managed on '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 rising burden of pension expenditure, Government has, over the last few years, been following a more systematic approach towards valuation, reporting and funding of pension liability.

Pension Liability and Contribution Rate

Actuarial valuation is an important exercise which provides valuable insights regarding sustainability of pension scheme. Government of the Punjab carried out actuarial valuation of its pension liability in 2007, 2009, 2010 and 2015. The present value of accrued pension liability and the contribution rate (as a percentage of pensionable salary) required to fund future accruals estimated by the latest actuarial valuation are summarized below:

June 30, 2015
Valuation Date

PKR 3,866 billion
Present Value of Accrued Pension Liability

60.7%
Contribution Rate

Actuarial valuation makes certain economic and demographic assumptions while estimating the pension liabilities that will be payable in future. Assumptions used for the above valuation are as under:

June 30, 2015	09.0%	08.0%	01.0%
Valuation Date	**Annual Increase in Pensionable Salary**	**Annual Increase in Pensions**	**New Hiring p.a.** 01% of the number of employees at the beginning of year

In case the Government does not align its HR policies with the above assumptions, the future pension payments may be higher than those projected by the Actuary. In the past, actual growth in salaries, pensions and number of employees has been much higher than the above rates assumed by the Actuary for the future. For instance;

Recent HR Practices

12.0%

Increase in Pensionable Salary

Per annum during the **last 14 years** compared to the assumed rate of 9% to 11%

12.0%

Increase in Pension

Per annum during the **last 14 years** compared to the assumed rate of 6% to 8%

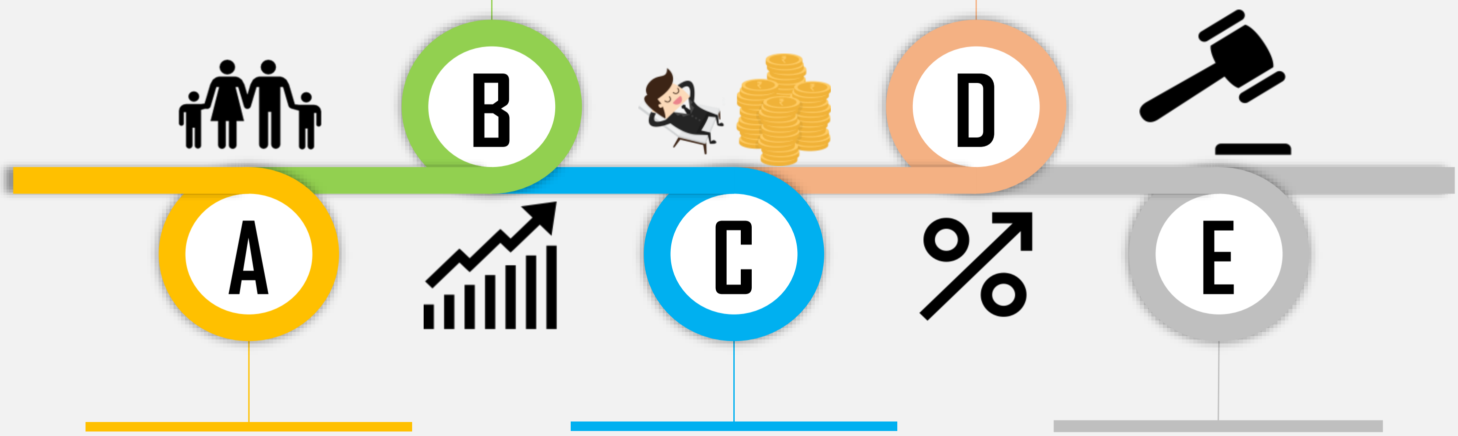
Employees Regularized

96,583 contract employees have been regularized until FY14-15. 173,741 employees were still on contract at June 30, 2015. However, the impact of regularization of contract employees through the Punjab Regularization of Services Act 2018 on pension liability will be determined in next actuarial analysis planned in FY19-20

In addition to the above, certain other policy changes, court decisions and employee behaviors combined with rising life expectancy have contributed to rapid growth in pension liabilities in recent years. For instance;

Increase in Minimum Pension
Increase in minimum pension from PKR 2,000 per month to **PKR 3,000 per month** w.e.f. July 1, 2010
Similarly, minimum family pension has been increased from PKR 1,000 per month to **PKR 2,250 per month** w.e.f. July 1, 2010

Increase in Net Pension
A policy is being followed to **increase net pension by 72%,** at the time the first pension is calculated. This is done by treating the adhoc allowances as part of pensionable salary at the time of retirement.



Increase in Family Pension
Increase in rate of Family Pension from 50% to 70% of gross and net pension **w.e.f. July 1, 2010**

Early Retirement Trend
Trend of early retirement has been growing. Retirement patterns in recent years indicate that almost **one-third** of new retirees are aged below the **age of superannuation** (i.e. 60 years)

Effect of Court Orders
As a result of court decisions, the Government has restored **commuted portion of gross pension** with retrospective effect

> *Based on the benefits promised by the current pension scheme, the Actuary has estimated a contribution rate of 60.7% for funding of future accruals of pension benefits.*

This implies that, every year, the Government needs to contribute 60.7% of the pensionable salary bill in an investment fund in order to meet the future pension payments attributable to the services rendered by the employees during that year. This is indeed a very high contribution rate and suggests that the Government needs to review and reform the pension scheme otherwise there is a risk that the scheme may become unsustainable with the passage of time.

Pension Expenditure

Pension is the second largest expenditure of Government of Punjab's Current Revenue Expenditure after salary. The manner in which this expenditure is growing is a matter of concern. A glance of Punjab's pension expenditure since FY10-11, reproduced below:

Current Year	Pension as Pension Expenditure (PKR Billion)	General Revenue Expenditure (PKR Billion)	Pension as %age of Rev. Expenditure (%age)	Revenue Receipts (PKR Billion)	%age of Revenue Receipts (%age)
FY 2010-11	36.4	370	9.8	539	6.8
FY 2011-12	50.1	444	11.3	606	8.3
FY 2012-13	67.4	534	12.6	703	9.6
FY 2013-14	76.4	569	13.4	815	9.4
FY 2014-15	88.8	670	13.3	902	9.8
FY 2015-16	113.7	730	15.6	1,108	10.3
FY 2016-17	141.0	900	15.7	1,405	10.0
FY 2017-18	172.9	1,021	16.9	1,402	12.3
CAGR	**24.9%**	**15.6%**		**14.6%**	

24.9%

CAGR

Pension Expenditure has grown over a period of seven years since FY 2010-11

15.6%

CAGR

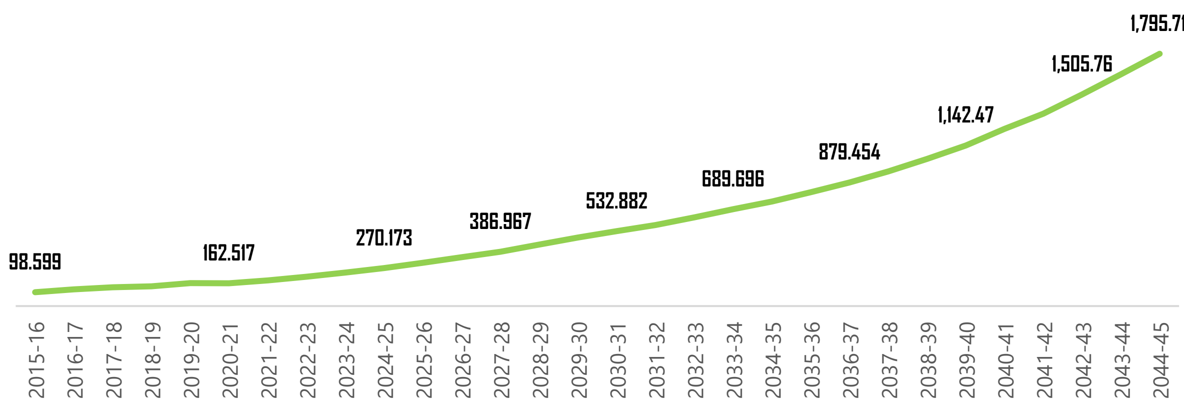
Current Expenditure over a period of seven years since FY 2010-11

14.6%

CAGR

General Revenue Receipts over a period of seven years since FY 2010-11

Pension expenditure to Current Revenue Expenditure has increased from 9.8% in FY10-11 to 16.9% in FY17-18. Similarly, pension expenditure to General Revenue Receipts has increased from 6.8% in FY10-11 to 12.3% in FY17-18. If pension expenditure continues to grow in a similar fashion, it will constrain the Government's fiscal space for other current and/or expenditures in future. Graphical representation of expected pension payments over 30 years is as under:



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

Year	Inflation (YoY CPI) %age	Salary Increase (%age)	Pension Increase (%age)
FY 2010-11	13.13	50	15
FY 2011-12	11.26	15	15
FY 2012-13	5.85	20	20
FY 2013-14	8.22	10	10
FY 2014-15	3.16	10	10
FY 2015-16	3.19	7.5	7.5
FY 2016-17	3.93	10	10
FY 2017-18	5.21	10	10
CAGR	**6.7%**	**15.9%**	**12.1%**

Annual increase in salary and pension without regard to inflation may lead to unmanageable pension expenditure and liabilities. It is imperative that annual increase in salary and pension be linked to inflation as practiced in developed economies.

Capitalization of Punjab Pension Fund through a clear Funding Strategy

Punjab Pension Fund has been created to invest funds set aside by the Government for meeting, at least partially, its future pension liability. The Government has approved Rs. 20 billion as contribution, in each year, to the Punjab Pension Fund. This amount was provided in the FY18-19 budget however due to cash constraints only Rs. 5.333 billion could be released to the Fund until May 2019. Higher contributions coupled with rationalization of pension benefits can improve funded status of the Fund.

> *Punjab Pension Fund's funded status (assets/liabilities) is 1.0% at June 30, 2018 which is quite low*

Punjab Pension Fund's Assets

Assets of the Punjab Pension Fund have soared to **Rs. 58.024 billion** (excluding unrealized loss of Rs. 449 million on debt securities) on March 31, 2019. The Government has contributed Rs. 29.333 billion into the Fund until March 31, 2019 while the remaining Rs. 28.691 billion, has been earned by the Fund through its investments.

Investment Classification

The Fund's exposure to different investment types is summarized as under:

(PKR Millions)

	30th June 2016		30th June 2017		30th June 2018		30th June 2018	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Pakistan Investment Bonds (PIBs)	7,511	19.7	7,526	16.0	10,941	21.3	33,978	58.5
Term Finance Certificates	393	1.0	322	0.7	886	1.7	-	-
National Saving Scheme Products	17,600	46.1	19,058	40.4	14,971	29.2	1,000 17,800	1.7
Treasury Bills	-	-	-	-	5,472	10.7	815	1.4
Bank deposits	10,800	28.3	11,800	25.0	13,400	26.0	5,226	9.0
Cash at bank	1,165	3.0	7,621	16.2	4,855	9.5	12,254	21.1
Accrued Mark-up	675	1.8	735	1.6	720	1.4	3,900	6.8
Other assets	60	0.1	67	0.1	100	0.2	781	1.4
Total Fund Size	**38,204**	**100.0**	**47,129**	**100.0**	**51,345**	**100.0**	**58,024**	**100**

Punjab Pension Fund's Performance

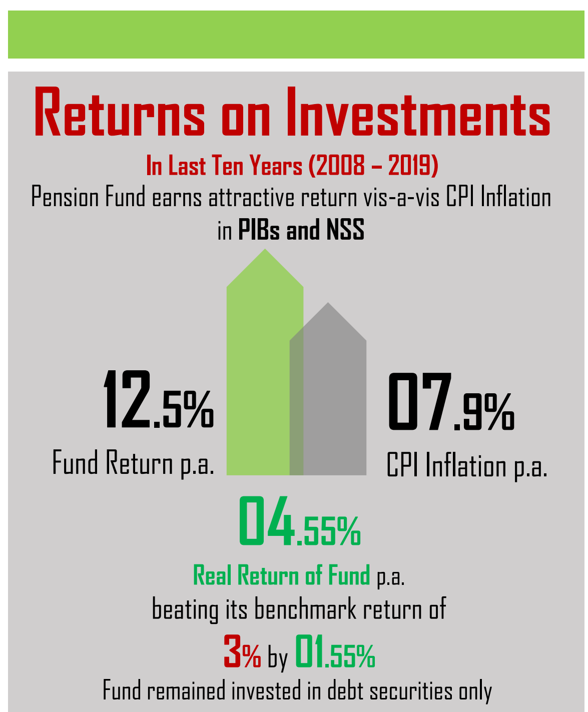
Time Weighted Return (TWR) earned by the Fund is summarized as under:

Period	Annualized Return for the period		Year End Discount Rate	YoY CPI Inflation	Long-term Benchmark CPI Inflation + 3%
	Gross Return	Net Return*			
FY 2008-09	15.21%	15.00%	14.00%	13.14%	16.14%
FY 2009-10	13.79%	13.61%	12.50%	12.69%	15.69%
FY 2010-11	13.48%	13.32%	14.00%	13.13%	16.13%
FY 2011-12	13.96%	13.79%	12.00%	11.26%	14.26%
FY 2012-13	12.85%	12.69%	10.00%	5.85%	8.85%
FY 2013-14	12.05%	11.90%	10.00%	8.22%	11.22%
FY 2014-15	15.88%	15.71%	7.00%	3.16%	6.16%
FY 2015-16	10.79%	10.63%	6.25%	3.19%	6.19%
FY 2016-17	10.28%	10.14%	6.25%	3.93%	6.93%
FY 2017-18	9.07%	8.95%	6.50%	5.21%	8.21%
FY 2018-19 (9 Months)	8.75%	8.65%	10.25%	10.25%	6.31%
Jul 2008 – Mar 2019	**12.65%**	**12.49%**	**9.99%**	**7.94%**	**10.95%**

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

The investment strategy followed over the years has worked well. Pension Fund continues to earn an attractive real rate of return over CPI Inflation because of its high yielding portfolio of PIBs, TFCs and NSS.

From July 2008 to March 2019, the Fund has managed to earn net cumulative average return of 12.49% against cumulative average CPI inflation of 7.94%. Hence the Fund has managed to post a real return of 4.55% p.a. since inception; beating its benchmark return of 10.95% by 1.55%.



To avert the possibility of using Public Account balances as a source of cash for meeting Government expenditures, there was a need to create a separate GP Investment Fund. There was also a need to replenish the amounts earlier utilized from GP Fund Account as the Government had historically maintained a common cash balance for both Provincial Consolidated Fund and Public Account. Based on these considerations, Government of the Punjab passed Punjab General Provident Investment Fund Act 2009 to establish an investment fund for management of GP Fund liabilities of the government.

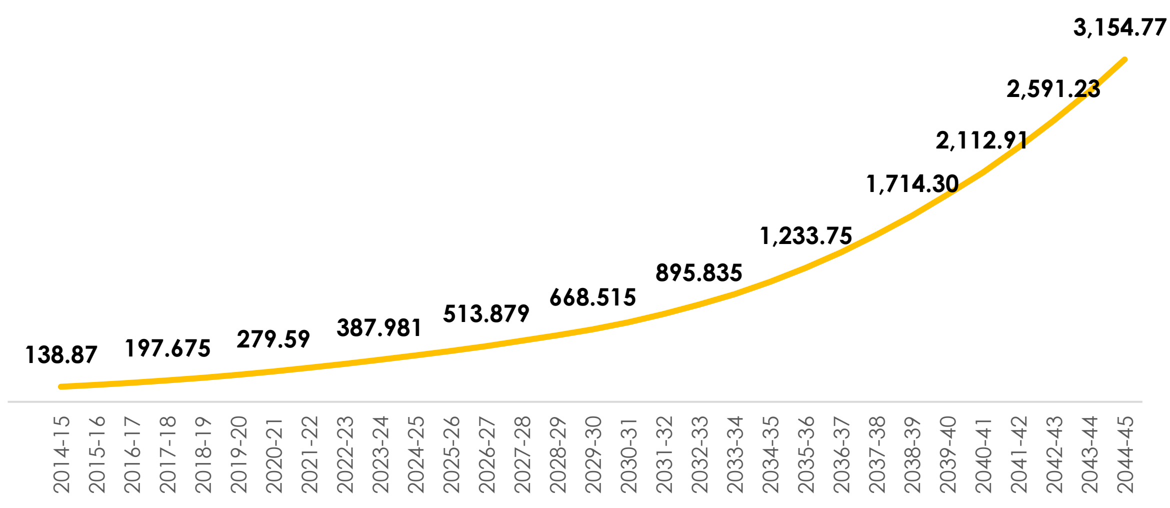
General Provident Fund Liability

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

PKR 138.870 billion

Accrued GP Fund liability at **June 30, 2015** is estimated based on the recent actuarial valuation

Graphical representation of expected GP Fund liability over 30 years' is as under:

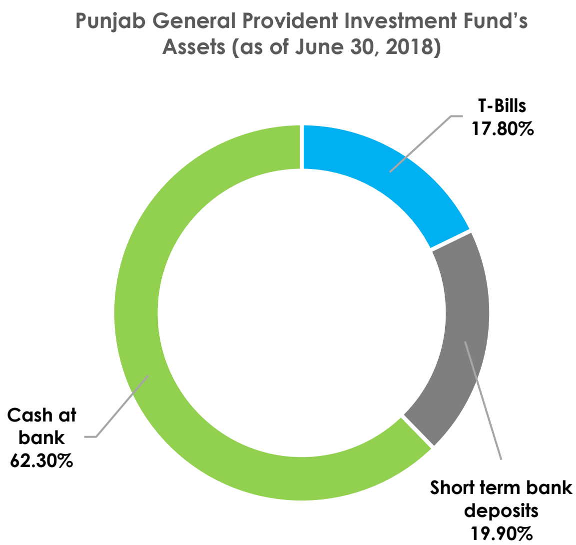


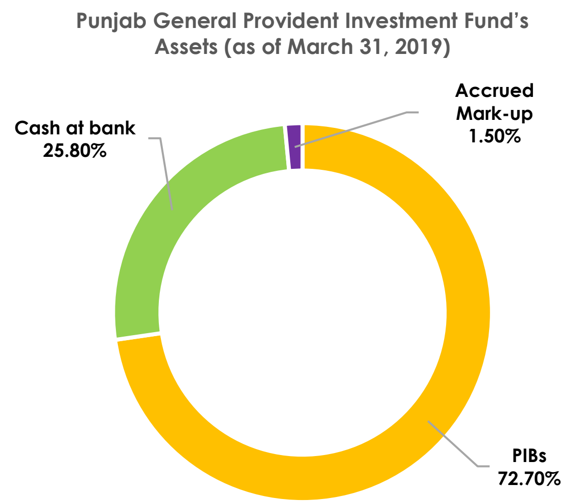
Capitalization of Punjab General Provident Investment Fund

The Government is working on modalities of transferring General Provident Fund contribution deducted from salaries of employees every month to the PGPIF to enable the Fund to achieve a fully funded status in the shortest possible time.

Punjab General Provident Investment Fund's Assets

The Government capitalized Punjab General Provident Investment Fund (PGPIF) on 22nd June 2018 with an amount of Rs. 5,879 million. On March 31, 2019 PGPIF's total assets amounted to Rs. 6,292 million summarized as below.





Punjab General Provident Investment Fund's Performance

The Punjab General Provident Investment Fund (PGPIF) made a net return of 5.61% during the FY17-18. Due to investment in medium to long term PIB's in early 2019 PGPIF's net return during first 9 months of FY18-19 has increased to 10.52%.

Concluding Remarks

Punjab's debt and contingent liabilities are manageable so far. In fact, the Province can create fiscal space for itself in future through the instrument of debt. Prudence, however, demands that the resources created through debt are only used for creation of resources that generate a higher return than the cost of debt. On the other hand, the Government has enormous Pension and GP Fund liabilities as explained above. These liabilities can potentially become unmanageable if necessary corrective actions are not taken in time. Therefore, the Government, in consultation with the Federal Government, is reviewing options to shift from the current system of 'pay-as-you-go' to 'pay-as-you-use' system for pension and GP Fund for its employees, at least the new entrants.

— CHAPTER 7 —

EASE OF DOING BUSINESS IN PAKISTAN

> *"Ease of doing business is an index published by the World Bank. It is an aggregate figure that includes different parameters which define the ease of doing business in a country" (World Bank)*

Introduction

Doing Business 2019 measures the processes for business incorporation, getting a building permit, obtaining an electricity connection, transferring property, getting access to credit, protecting minority investors, paying taxes, engaging in international trade, enforcing contracts and resolving insolvency. Doing Business collects and publishes data on labor market regulation with a focus on the flexibility of employment regulation as well as several aspects of job quality.

A conducive investment climate is instrumental in attracting both domestic and foreign investment by providing a more facilitative institutional, policy and regulatory environment for businesses to operate. In addition to being the main contributor of producing goods and services in Punjab, the role of Private Sector is becoming ever more integral as the fiscal space [7]of the government is limited and the restructuring plan with IMF is likely to influence further cuts on public expenditures.

More than 90%

Production of Goods and Services in Punjab is through Private Sector

Main driver of economic growth, employment, and social outcomes in Punjab

Therefore, creating an enabling environment in which private sector can flourish, is the most cost-effective way of achieving development and growth targets by the government. The Provincial Government under its 5-Year **Growth Strategy 2023**, explicitly emphasizes that whether it is optimising returns from CPEC, achieving compliance with SDGs, or attaining overall inclusive growth and employment targets, it is well poised to playing a supporting role, with private sector taking the lead in investment and delivering towards targets.

Private Sector Development requires a transparent, effective and well-functioning system of economic governance which reduces the cost and improves the ease of doing business by removing impediments to investment and business. The incentive to invest depends largely on profit; therefore, anything that impedes the investment process or increases the cost of doing business or reduces the

[7] Fiscal space is commonly known as the room in government's budget allowing allocation of resources for public purposes, without undermining fiscal sustainability.

ease, will discourage entrepreneurs from making desired investments. Since this has a direct impact on employment creation. Therefore, it requires a system that promotes facilitation by the public sector officers, reduced financial and time costs of compliance, security about rights and assets and effective compliance with contractual obligations. Resultantly, what gets generated is an environment of open and fair competition that minimizes costs and establishes an efficient mechanism for adjudicating and resolving commercial disputes.

Law Department & Justice Commission of Pakistan Statistics (Q1 2018)

1.8 million	65%	8.33%
Total Pending Court Cases	Pending at District Level	Pending in High Courts

Punjab will have to do much more to set the system in place to increase the confidence of the private sector and induce it to invest more as a vast majority of pending cases relate to disputes of commercial nature. Moreover, it is not just the pendency, but the time spent, and cost incurred in order to enforce a contract that adds a significant barrier to doing business. World Bank Investment Climate studies show that when the cases were taken up by the courts, it took an average of 46 steps and almost one-third of the contract's value to enforce it. Such slow and costly judicial procedures can act as a severe disincentive to business investment, especially foreign, that has a diverse range of investment choices.

Current Initiatives & Expected Impact

A standard international comparative measure of costs associated with business, is the World Bank Doing Business Rankings. Over the years, Pakistan has continuously fallen in the Doing Business rakings as shown below. Despite those being the national ratings, given that Punjab account for nearly 60 percent of the economy, the concerns about cost of doing business remains valid.

In 2009, World Bank conducted a sub-national Cost of Doing Business Survey in Punjab that highlighted city wise disparities of different indicators in Punjab and other cities of the country. An interesting disparity identified was in the time taken and the costs incurred in enforcing contracts. For seven major cities in Punjab, it took an average of 1,116 days to enforce a contract at an average cost of 31.9 percent of the value of the claim. The costs included attorney fees, court fees, expert fees, and enforcement fees. **The costs were the highest in Lahore, as high as 42.8 percent of the claim, with more than half of it representing attorney fees.**

Government of the Punjab has embarked upon the agenda of implementing Doing Business Reforms to improve the sub national ranking of key doing business indicators that fall under provincial domain to improve the overall business environment of the province. The Planning & Development (P&D) Department, in collaboration with the World Bank and multiple implementing agencies, has initiated targeted interventions, envisaged under the Ease of Doing Business Reform Agenda. In Punjab, this agenda is driven through a Provincial Working Group headed by the Chief Secretary and Minister for Finance whereas the P&D Department serves as its secretariat.

The Ease of Doing Business Reforms Agenda is being implemented in different sprints, each having a duration of 100 days approximately with a targeted set of interventions. During the current financial year, two sprints of reforms (October 2018 – April 2019) have been implemented by various entities.

Reforms/Interventions Implemented

Starting a Business

In order to provide ease in registering various types of business entities, a Business Registration Portal (BRP) was developed and operationalized which has reduced time and cost since the need to visit multiple offices has been eliminated. This portal registers business with Labour & Human Resource Department, Punjab Employees Social Security Institution (PESSI) and Registrar of firms and has been integrated with Virtual One Stop Shop (VOSS) and Securities Exchange Commission of Pakistan (SECP). A dedicated helpline has also been established to facilitate queries regarding business registration. Finally, a specimen partnership deed has been made available online for facilitating businesses.

14,000
Business Units registered through BRP

Dealing with Construction Permits

A building permit issuance system has been automated by Lahore Development Authority (LDA) in collaboration with Punjab Information Technology Board in order to provide ease to the general public regarding issuance of construction permits. Since the software includes electronic submission of applications, this automation will lead towards less human interface and reduce the hassles in obtaining permits, thereby substantially reducing time and cost. LDA has also set up a helpdesk of the Punjab Land Records Authority (PLRA) at their one window facility for timely verification and issuance of Fard. Finally, Water and Sanitation Agency (WASA) has removed the requirement of obtaining property valuation form (PT-1) from Excise & Taxation Department for obtaining water connection.

Registering Property

Under the property registration indicator, the PLRA has further simplified the procedure of registering property in Lahore. After digitization of maps and automation of procedures, property registration steps have been reduced from 7 to 4 and time taken to register a property has been reduced from 56 days to 11 days. This year, PLRA has notified complete registry processing at sub registrar office within 8 days. Additionally, a standardized specimen sale deed has been introduced and placed at a dedicated website established for Registration of Deeds (www.rodportal.punjab-zameen.gov.pk). Not only this but 'No Objection Certificates' (NOC) and clearances (one government principle) from Excise & Taxation Department for property in Lahore can now be accessed online at: www.excise.punjab.gov.pk. Lastly, 'Digital PLRA' mobile application has been developed for access of land records.

42.85%
Reduction in Property Registration Steps

80.35%
Reduction in Days taken to register property

Getting Electricity

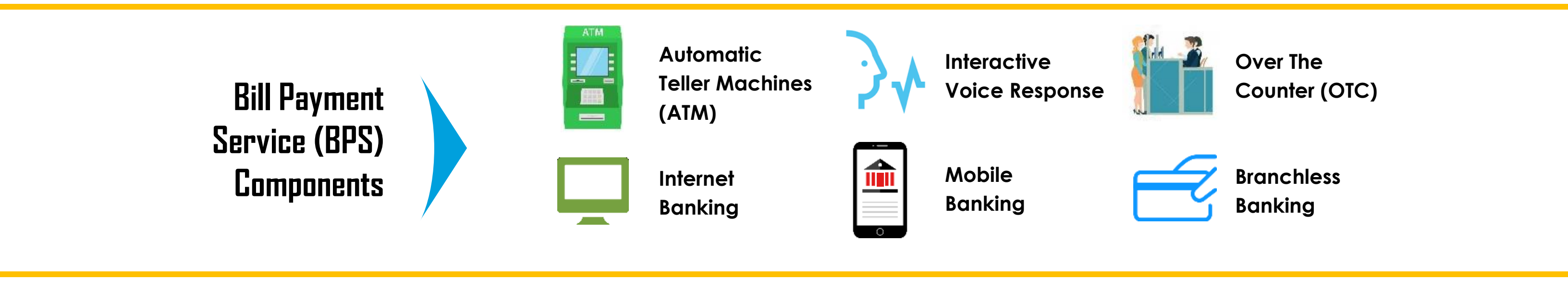
Unlike past practices, this year, the Government of Punjab specially focused on this indicator with interventions such as automation, introducing binding timelines and reducing power outages

Automation | Binding Timelines | Reducing Power Outage

The Lahore Electric Supply Company (LESCO) has rolled out a full online application system that has set up binding time limits on procedures to connect to the electricity grid. Another innovation introduced is the Cost Calculator in addition to providing the facility of online payment of Demand Notices. Additionally, LESCO has increased accessibility and transparency of electricity tariffs by communicating any possible changes through their website, as well as ensuring that the customers are notified one month in advance of the billing cycle. LESCO has also taken significant measures to reduce the duration and frequency of power outages and to make power supply more reliable and consistent.

Paying Taxes

Finance Department took an unprecedented step by the introduction of online payment facility for paying General Sales Tax (GST). The Government of Punjab, State Bank of Pakistan and 1-Link signed a Tripartite Agreement on 16.12.2018 to launch a system of payment of taxes (administered by its Revenue Collecting Agencies) electronically, through alternate delivery channels (ADCs). Under this agreement both electronic and physical mediums in 27 commercial banks across Pakistan (members of 1-Link consortium) can be utilized by a customer/taxpayer to initiate a transaction under the bill payment system (BPS).



Moreover, the Finance Department, in collaboration with the Punjab Revenue Authority (PRA) has introduced the facility to pay Punjab Sales Tax on Services (PSTS) online through mobile and web applications.

Finance Department has also partnered with the Punjab Information Technology Board to design the first ever government payment gateway/switch for all **Business to Government (B2G)** and **Public to Government (P2G)** payments. In the first phase, which is expected to go live by FY-19, the program will allow the citizens of Punjab to pay their taxes using three different electronic payment channels namely Internet Banking, ATM and Over the Counter (OTC) banking transactions.

The program is a complete departure from the erstwhile and decades old payment process which involved physical visits to the collection offices around the province for tax payments. Those visits required customers to stand in long queues and wait many hours to pay their tax dues to the government. The collection offices were invariably marked by the presence of informal touts, who though illegal, helped the clients go through complicated and complex procedures in relatively shorter duration for a certain sum of money. These practices that encouraged bribery and corruption are now being challenged which will allow the customer to pay his dues from even the comfort of his home.

It will allow the citizens of Punjab to generate a seventeen (17) digit unique PSID number that can be used to pay the necessary taxes thorough Internet Banking, ATM or by paying a visit to any bank. The solution will be an integrated and centralized system backed by GoPb web/mobile application that will include all the scheduled banks, State Bank of Pakistan (SBP) and 1-link for interconnectivity.

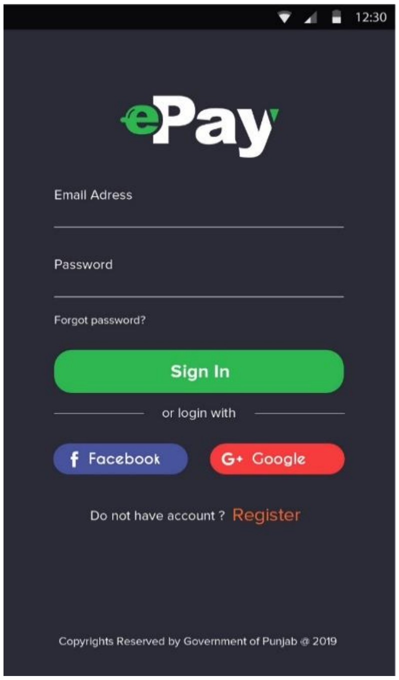
Going forward, it is envisioned to include multiple new payment channels like Debit / Credit card, Mobile wallets and TELCO Agent Networks to further increase the payment option available to the customer. Additionally, it is also planned to include G2P and G2B payment models in future to broaden the horizon of the program.

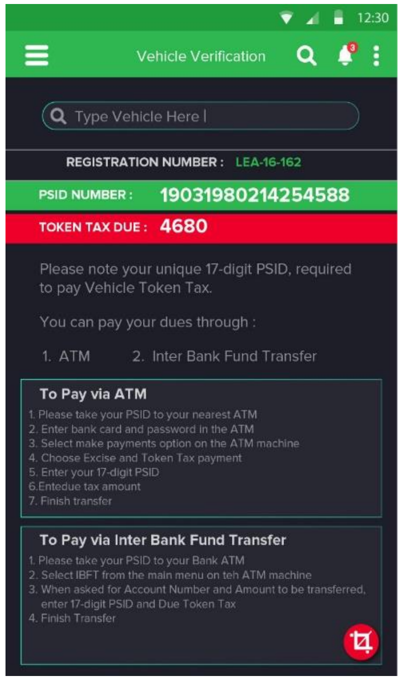
The program will provide general public with a stress-free and efficient method of paying taxes and payments to the government using ICT tools without going through the existing cumbersome processes and promises. This is a step in the right direction to alter the financial landscape of the province for the better.

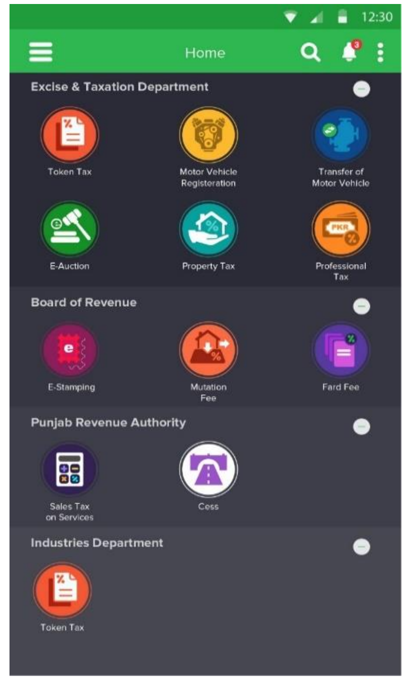
Benefits and Impact of the Program

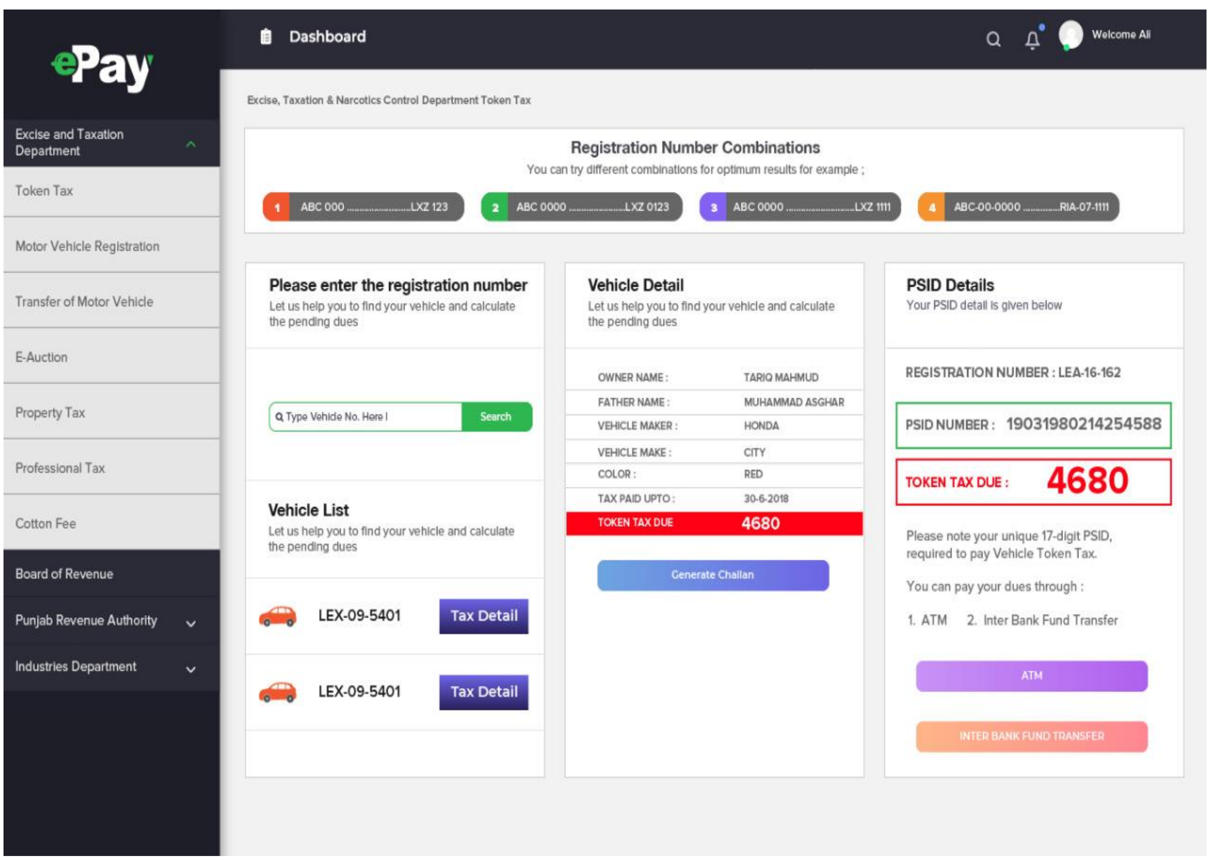
- **Increase Government collections and tax net by making the payments process easy**
- **Increase the digital & financial foot print among citizens of Punjab**
- **Track collections at the lowest level**
- **Provide a comprehensive analytics, & reporting tool to support policy & decision making**
- **Scalable solution to integrate Financial Institutions, Payment methods, and Government Receipts as and when directed**
- **Scalable solution to develop a reconciliation engine, complied with the Account General office, covering an end to end flow of a payment**
- **One click reporting for payments received against different levies**
- **Bank grade security as per the stated standards**
- **Solution complying to regulatory requirements**

Below are selected screenshots of the aforementioned program:









Following in the footsteps of the Finance Department, a number of allied departments have also taken notable strides in improving the system of payment of taxes and achieving automation. An important mention goes out to **Punjab Employees Social Security Institute (PESSI)**, which has automated the payment system for employers for paying monthly social security and pension contributions.

- **Employers can now pay monthly contributions online without going through the hassle of visiting the offices of PESSI or The Bank of Punjab**
- **The facility for over the counter payment is also made available for employers**

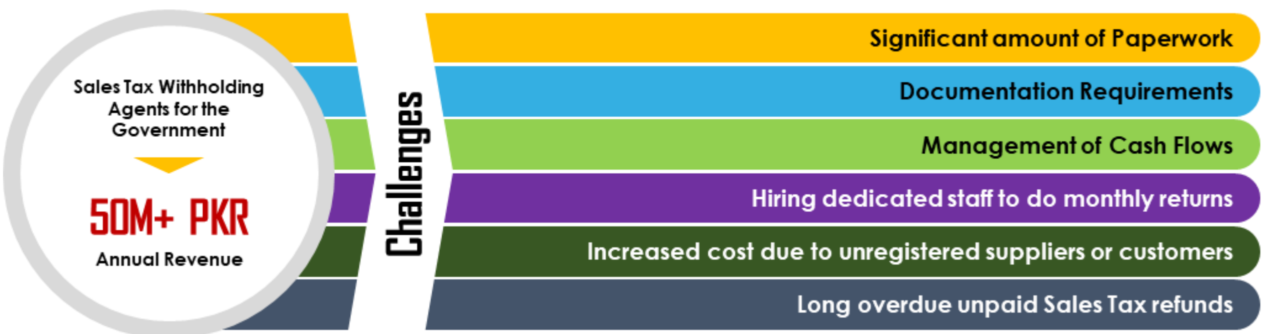
Furthermore, Finance Department, on behalf of the Punjab Government, is also pushing an ease of taxation reform agenda under the National Finance Commission.

The key recommendations being pushed with the Federal Government include:

Key Recommendations being pushed with the Federal Government

Withholding Tax & Sales Tax Refunds

Businesses that cross the annual revenue proceeds of PKR 50 million become Sales Tax withholding agents for the government. Below are some of the challenges that are currently being faced by the Government.



The Federal Government should consider increasing the threshold revenue value and simplifying the process by moving to quarterly or six-monthly filing of returns. The Federal Government also needs to devise a strategy to clear Sales Tax refunds and ensure that such accumulation does not take place in future

Conflict between Federal Board Revenue & Provinces

The provincial revenue authorities are under pressure to generate own source revenue by taxing services post devolution. However, there is still no clear definition of a 'good' and a 'service'. Eventually, this results in double taxation by both agencies. Toll services, designer goods and clothing, and restaurants have all been impacted due to this lack of clarity.

Moreover, provinces can greatly benefit from the databanks of the FBR. They can be given access to the IT system of FBR and an interface be established between PRAL and the provinces to resolve coordination problems between provinces. At present, a taxpayer operating in multiple jurisdictions has to comply with different laws, both at Federal and Provincial levels. For example, definition of "Goods" and "Services" is not comprehensive. **The Punjab Sales Tax on Services Act, 2012 defines service in section 2(38) as 'anything which is not goods or providing of which is not a supply of goods and shall include but not limited to the services listed in the First Schedule'**. As is apparent, the Act defines service by exclusion, saying that anything which does not fall under goods is a service, rather than giving a specific definition on the basis of which the categorization of something as a service could be achieved beyond any controversy. On the other hand, the **Sale of Goods Act, 1990 defines goods as 'every kind of movable property other than actionable claims and money; and includes electricity, water, gas, stock and shares, growing crops, grass, and things attached to or forming part of the land which are agreed to be severed before sale or under the contract of sale.'**

Clearly the above two definitions are contradictory and overlapping and there are a number of things that can be interpreted to be either goods or services. Since sales tax on goods is a Federal subject and is collected by the Federal Board of Revenue, this leads to a lot of controversy

The provincial revenue authorities and FBR must agree on a clear definition of a 'good' and a 'service' and any duplication of taxation should be avoided

Non-Harmonized Provincial Taxation and Lack of Mutual Recognition

There exist discrepancies between provincial rates of taxation amongst different provinces.

Moreover, there is a lack of agreement on the principle of taxation, i.e. **should the service tax be charged on basis of origin or destination?** This often results in double taxation as one province charges on the basis of origin and the other on the basis of destination. Moreover, the rates for specific sectors exhibit a lot of variation leading to making compliance complex in addition to providing an excuse to taxpayers to consider relocation of their businesses as a means of tax evasion.

A uniform tax rate across the country for all sectors of the economy would simplify compliance of law. As a first step all the provinces should evolve a uniform tax rate in the coming budget

Creation of a Negative List for Services Tax

At present, all services are taxable as and when they come in the net. This increases cost of doing business and discourages firms form making productive investments. For example, skills training expense attracts service tax. Similarly, labour canteen in factory attracts service tax.

All such inconsistencies should be abolished across all provinces and a uniform negative list may be developed clearly listing activities that are tax exempt

Multiplicity of taxes and agencies and extortionary behaviour

The Private Sector reports that it has to deal with more than 27 public sector Inspectors and officers and in most cases, a payment of tax or a fee is also associated. Punjab is already working on an inspection-free and ease of paying taxation regime. Moreover, businesses complain about extortionary behaviour of public sector Inspectors. This increases the cost of doing business due to rent-seeking tendencies of the Inspectors.

There is a strong case to move towards a single authority tasked with the Taxation related areas in every province. For example, PRA, E&T, BOR all need to be merged together to constitute one agency with a unified tax charge. This should happen across all the provinces. The inspections regime must also be reformed with reduced contact and move towards third party and self-assessments

Other Reform Actions

Lastly, the Government of the Punjab, in addition to the above reforms, is vigorously implementing initiatives to improve the business and investment climate in the province to support business growth. Two key initiatives include:

1 Inspection Free Regime

Inspection Free Regime for industries is being designed for the province led by the Industries, Commerce, Investment and Skills Department. The manufacturing sector currently has to engage and entertain a large number of intrusive inspections. The main ones include boiler inspections, weights and measures, labour, PESSI, environment, electrical safety and civil defence. The Department has come up with virtually an inspection-free regime and at the same time, one that is compliant to all safety checks and international commitments. The measures include use of credible third-party certifiers, insurance products and self-assessment with random audit.

2 Implementing Regulatory Guillotine

Implementing Regulatory Guillotine to eliminate all illegal, redundant regulations and reform the ones that are not business friendly. The Punjab Board of Investment & Trade (PBIT) has initiated the process on implementing regulatory streamline across the board in the Punjab. This is likely to reduce the regulatory burden on the private sector noticeably.

Conclusion

As a result of the steps taken by the Government mentioned above, Lahore city's performance in the latest Doing Business Report has shown a substantial improvement. The performance under the World Bank methodology is measured by the distance from the frontier with 100 being the top performance. Lahore fares better than Karachi in 5 indicators, does worse in one and is at par in the remaining indicators.

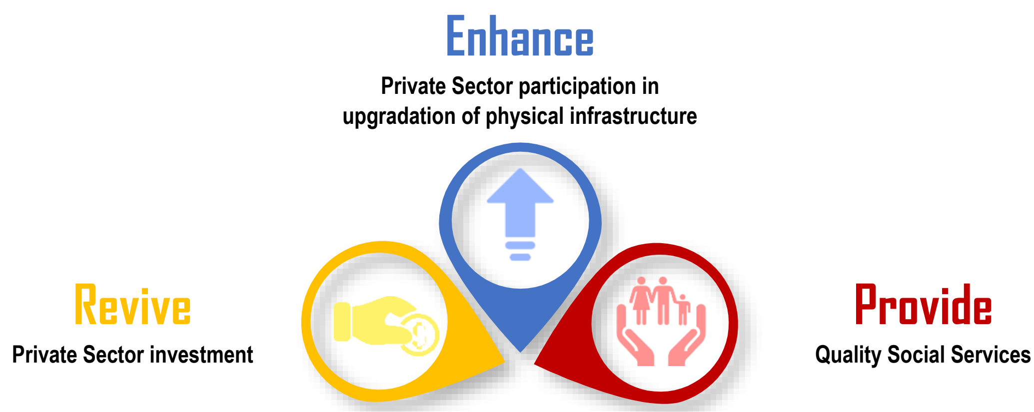
	LAHORE	KARACHI
Construction Permits	58.16	51.13
Getting Electricity Connections	46.86	43.62
Property Registration	66.38	33.47
Resolving Insolvency	60.9	59.29
Enforcing Contracts	41.86	44.36

— CHAPTER 8 —

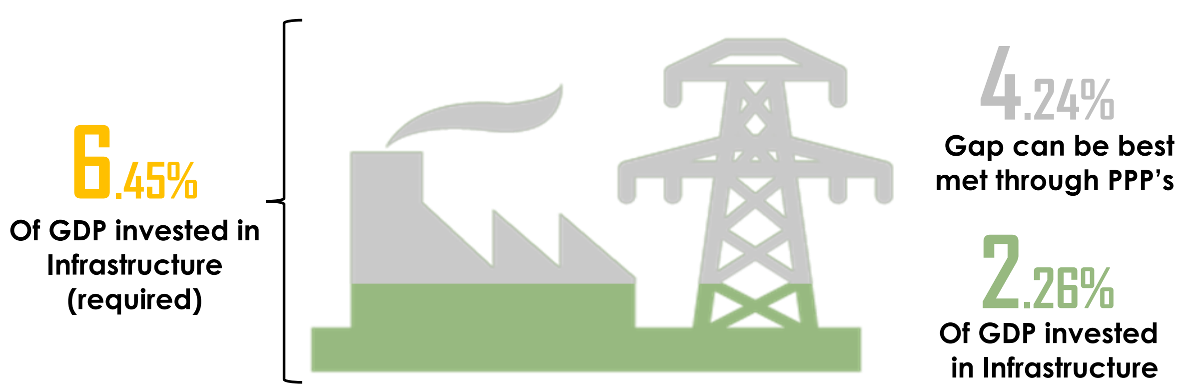
PUBLIC PRIVATE PARTNERSHIPS

Rationale and Need for PPP in Punjab

Successful Public-Private Partnerships (PPPs) play an important role in economies globally in delivering development objectives by leveraging private capital for public sector. One of the most effective vehicles to attain growth objectives, PPPs serves the following purposes in an economy:

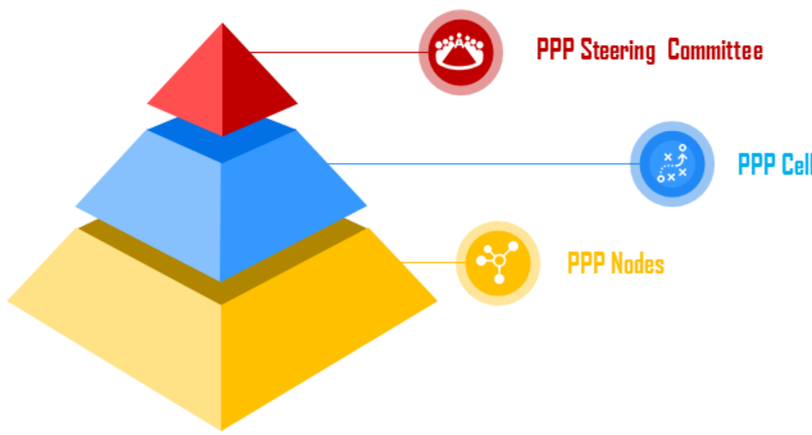


They also help in attracting private capital investment, increasing efficiency through the profit motivation of the private sector, and helping reform the selected sectors through the reallocation of roles and risks. Given the burgeoning population, rapid urbanization and improved expectations of service delivery standards in regions such as Punjab, the traditional modes of resource generation are bound to fall short of meeting the ever-growing needs. That is where PPPs come in and bridge this gap by creating an incentive structure to mobilize private sector resources, develop synergy and foster a win-win situation for all stakeholders. Moreover, infrastructure spending and economic growth are strongly correlated. Continuous investments in infrastructure are imperative to ensure a steady and sustainable growth trend and to ensure that the growth rate is not stifled by infrastructure bottlenecks.



History of PPP in Punjab

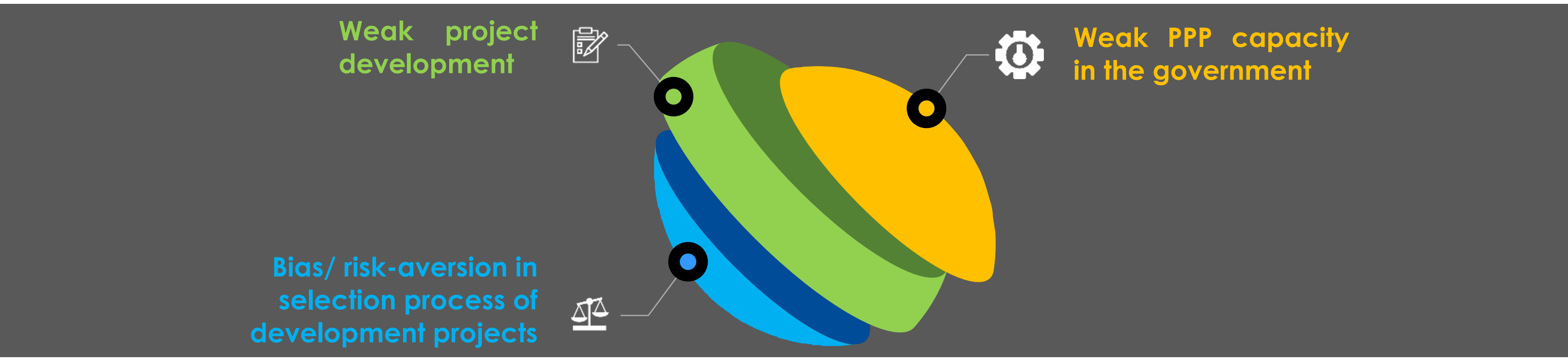
The earliest experimentation with PPP mode of development in the Punjab was undertaken with the establishment of Public-Private Partnership Cell as a project in 2009, which was housed in Planning & Development Department. Later, the Provincial Assembly passed "Punjab Public Private Partnership for Infrastructure Act, 2010" which formally established the legal and institutional framework to facilitate the structuring, approval and implementation of PPPs in the province. The said Act was subsequently repealed and replaced by the "Punjab Public Private Partnership Act, 2014". The purpose was to extend the narrow focus of the previous Act on physical infrastructure and include the services sector in the PPP regime as well. Both the Acts aimed to foster an enabling environment for mobilizing private sector resources for financing, construction, maintenance and operation of projects for delivery of physical and social infrastructure services. This framework, which is still in place, consisted of the three statutory / regulatory bodies, i.e.



The framework also included Risk Management Unit in Finance Department as an independent evaluator of risks and contingent liabilities arising out of PPP projects. PPP Nodes in selected Administrative Departments were at centre-stage in developing and executing the PPP projects, assisted by the aforementioned entities. A Project Development Facility (PDF) to support the use of transaction advisory services and a Viability Gap Fund (VGF) for the public financing portion of PPPs were also established.

While significant effort has been put in to ensure a conducive habitat and creating a favourable investment-climate for attracting private capital, successful PPP projects have been rare and may be considered exceptions rather than the norm. The list of existing operational PPP projects in Punjab includes projects such as Lahore Ring Road Southern Loop-1 & 2 (BOT), Lahore Ring Road Southern Loop-3 (BOT) – Prequalification Stage, Construction and management of 32 Vehicle Inspection Centres across Punjab (BOT basis) and Flyover Railway Crossing at Kahna Kachha (BOT basis).

Several reasons can be attributed to this modest performance of PPP framework over the last 10 years in Punjab that can be broadly categorized in three classes



Additionally, the administrative officials lack adequate skills for carrying out tasks such as forecasting use of assets, estimation of revenues & cashflows, risk allocation, calculation of rates of return, and legal and corporate structuring of PPPs as independent transactions. In addition to these, a weak capital market for private infrastructure finance has been another impediment to the growth of PPPs. Regional experiences (particularly those of China and India) testify to the factors that yield optimum results and are instructive.

A detailed comparative evaluation revealed that while Pakistan does well in the domains of maturity, investment-climate and institutions, it severely lags in areas of regulations and financing. This need for structural and institutional reform has now been realized and has resonated with the newly incumbent Provincial Government, which has taken upon itself to overhaul the PPP framework.

Vision for FY 2019-20

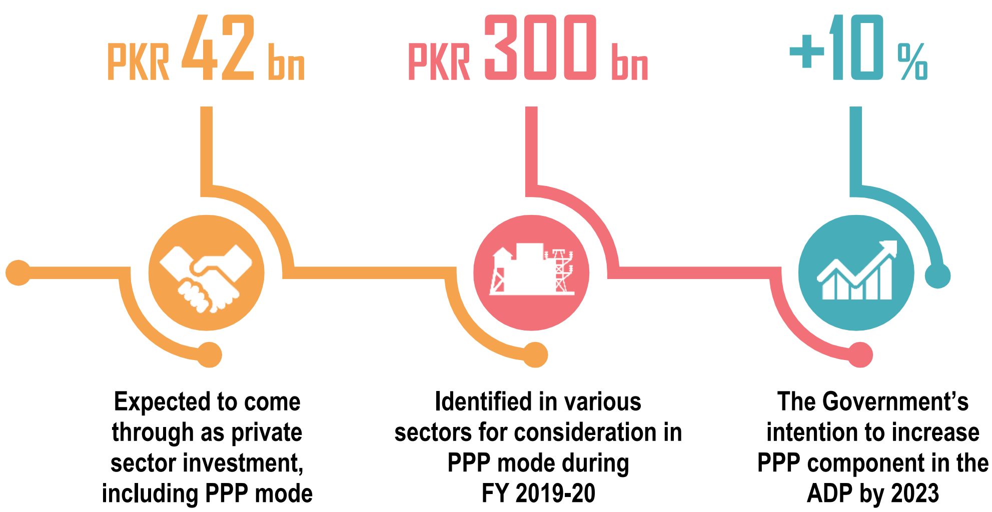
In a recent development driven by needs, the PPP framework in Punjab is being revisited and reformed. A new PPP legislation titled "**Punjab Public Private Partnership Act, 2019**" is in the process of enactment. It is heartening to see that a concerted effort is being made to make Punjab's PPP framework more enabling and attractive by plugging the holes that have so far marred the successful implementation of PPPs. The proposed framework consists of a PPP Policy Board headed by the Chief Minister, and a PPP Authority, a statutory body, along with its Executive Committee. In a significant departure from the past, both the identification as well as execution of multi-sectoral PPP projects is planned to be entrusted to the PPP Authority itself, thus addressing arguably the two strongest limiting factors i.e. the lack of capacity and the risk-aversion in the Departmental Nodes. The role of Risk Management Unit, housed in Finance Department, has been retained to function independently and implement strong risk management policies to identify as well as mitigate potential project and fiscal related risks emanating from PPP supported projects.

It is expected that in further contrast with the previous legislations, the proposed Act will not be over-inclined (or heavily leaning) towards infrastructure sector and will provide explicit enabling provisions to encourage and facilitate PPPs in Social Services sector as well (in form of Service and Management Contracts particularly), thereby providing better quality and generating Value for Money (VFM). Projects deemed feasible under PPP mode are expected to be discouraged for execution through public finance, unless advised otherwise by the PPP Policy Board.

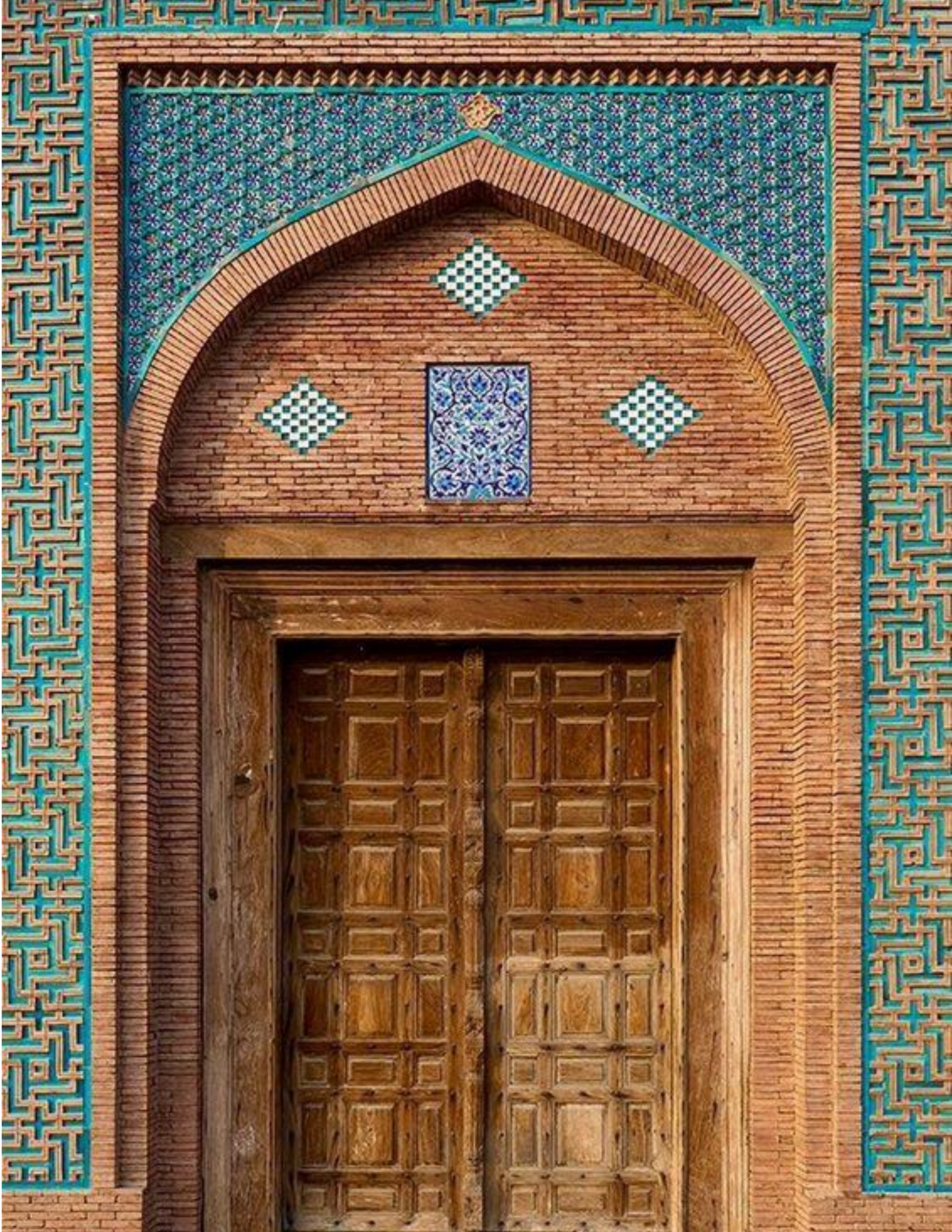
A comprehensive capacity and institution-building response from the development partners is also required to address the current needs of PPP development in Punjab. In its endeavour for establishment of a dynamic PPP regime, the Government of Punjab is being assisted by the Asian Development Bank through a USD 200 million loan program titled "Enhancing Public Private Partnership in Punjab", which comprises matching counterpart funding by ADB and Government of the Punjab. Spanning a range of technical and financial assistance initiatives, it includes Project Development Facility (PDF) and Viability Gap Funding (VGF). As part of the pre-conditions for its disbursement, comprehensive draft VGF Guidelines have already been prepared jointly by Finance Department and the PPP Cell, while the strengthening of RMU is in process. A grant of USD 23.6 million by DFID is also a part of this program which includes PDF, VGF and Technical Assistance components.

The Concluding Note

Given the macroeconomic challenges being faced by Pakistan, and the consequent stress on public finances, currently the magnitude of the Infrastructure and Social Sectors' service delivery outstrips the fiscal and institutional capacity of the government. Other alternatives, therefore, must be considered to provide the required economic stimulus and achieve sustainable development. For this purpose, the Annual Budget 2019-20 envisages the following under innovative financing:



It is hoped that with establishment of the PPP Authority, and the redistribution of responsibilities, a healthy pipeline of bankable projects will become available for processing. The advent of PPPs in Infrastructure and Services sectors shall also create additional fiscal space for undertaking Social Sector schemes, which otherwise often remain neglected due to paucity of Development funds. Moreover, in the Social Services sector, VGF can be used as subsidy to bridge the viability gap and make the non-viable projects, viable, in turn providing better quality of service. Additionally, it is also expected to build capacity of private sector and financial institutions, resultantly generating employment and investment opportunities for local and international investors.



Annexure A: Major Projects/Programmes of ADP 2019-20

1. The Health Insurance Programme will be expanded in all 36 districts of Punjab;
2. Rural Accessibility Programme (Phase-I) PKR 15,000 Million;
3. Punjab Arterial Roads Improvement Programme PKR 2,000 Million;
4. "*Hunermand Nojawan*" which will increase the training capacity from 90,000 to 150,000 per annum;
5. Construction of Mir Chakar Khan Rind University of Technology D.G Khan;
6. Construction of Angoori Dam with an estimated cost of PKR 4000 Million for which PKR 1,000 Million has been earmarked for FY 2019-20;
7. Construction of Manga Dam with an estimated cost of PKR 1,100 Million for which PKR 300 Million has been earmarked for FY 2019-20;
8. Construction of Ghambir Dam with an estimated cost of PKR 6,500 Million for which PKR 1,000 Million has been earmarked for this year 2019-20;
9. Construction of building at University of Okara (Phase-I) with estimated cost of PKR 5,000 Million for which PKR 300 Million has been allocated for FY 2019-20;
10. National Programme for Improvement of Watercourses in Pakistan Phase-II with an estimated cost of PKR 18,333 Million;
11. National Programme for Productivity Enhancement of Wheat in Punjab with estimated cost of PKR 9,137 Million;
12. National Oilseed Enhancement Programme with an estimated cost of 2,007 Million for which PKR 208.6 Million has been allocated for this year 2019-20.
13. Productivity Enhancement of Sugarcane with an estimated cost of PKR 744 Million for which PKR 432.8 Million has been allocated for FY 2019-20;
14. National Programme for Enhancing Profitability through Increasing Productivity of Rice with an estimated cost of PKR 4,633 Million;
15. Enhancing Beef Production through Save the Buffalo Calves and Feedlot Fattening with an estimated cost of PKR 1,471.200 Million;
16. Propagation of backyard poultry for increased availability of Animal Protein to counter stunted growth with an estimated cost of PKR 125.9 Million out of which PKR 29.1 Million has been allocated for this year 2019-20;
17. Construction of Mini Dam around Fort Munro D.G. Khan with estimated cost of PKR 800 Million for which PKR 200 Million has been earmarked for this year 2019-20;
18. Management of Mithawan Hill Torrent D.G. Khan will be improved with an estimated cost of PKR 2000 Million out of which PKR 500 Million has been earmarked for this year 2019-20;
19. Management of Vidore Hill Torrent (Phullar & Suchani Branch) D.G. Khan with an estimated cost of PKR 2,500 Million for which PKR 800 Million has been earmarked for this year 2019-20;
20. Management of Sakhi Sarwar Hill Torrent D.G. Khan with estimated cost of PKR 800 Million for which PKR 200 Million has been allocated for FY 2019-20;
21. Construction of Sheikh Zayed Medical Complex along with 1,250 Bedded Hospital in Rahim Yar Khan, along with other facilities with estimated cost of PKR 6,076.1 Million for which PKR 1,152.2 Million has been allocated for this year;
22. Population Welfare Programme with an estimated cost of PKR 6,941.8 Million for which PKR 1,908.4 milion has been allocated for FY 2019-20;
23. Construction of Additional Bridge on River Indus at Ghazi Ghat on N-70 (District DG Khan) with estimated cost of PKR 2,097 Million out of which PKR 629 Million has been earmarked for this year;

24. Construction of overhead bridge on G.T road (N-5) at Shahdhara More District Lahore with estimated cost of PKR 1,078 Million for which PKR 323 Million has been earmarked for this year;
25. Construction of Road (Dualized) to connect Faisalabad to Lahore Multan Motorway (District Multan) with estimated cost of PKR 3812 Million for which PKR 1,144 Million has been allocated for FY 2019-20;
26. Minority Development Fund (MDF) with the total cost of PKR 320 Million;
27. Reclamation of agriculture land in command area of Abbasia Canal and Abbasia Link Canal costing PKR 1,545 Million;
28. Rehabilitation and Modernization of Islam Barrage costing PKR 3,279 Million;
29. Infrastructure development of 03 large industrial estates including Quaid-e-Azam Apparel Park, Allama Iqbal Industrial City and Bahawalpur Industrial Estate;
30. Under the project Progressing Punjab by Entrepreneurial Development of SMEs 3,000 SMEs will be developed and 45,000 direct employments will be generated;
31. Completion of Lahore Orange Line Metro Train Project;
32. Establishment of 39 Vehicle Inspection and Certification Stations in Punjab;
33. Programme for Establishment of Model Markets in Punjab (Cost PKR 21,375 M);
34. Green Pakistan Programme Reclamation & Development of Forest Areas in Punjab (Cost: PKR 15,313.762 Million);
35. Punjab Ujaala Programme (Central Punjab) to solarize 4,400 schools so as to complete the target of solarizing 1,5000 schools (DLI Based) under Access to Clean Energy Investment Programme;
36. Saving of 5GWh of Energy units through World Bank funded project named Retrofitting of Public Institutes;
37. Establishment of 63 degree colleges in the Punjab (Cost PKR 8,214 Million);
38. Provision of Missing facilities to 51 colleges in the Punjab (Cost PKR 3,507 Million);
39. Establishment of Punjab Police Integrated Command Control and Communication Centre (PPIC3) in seven major cities;
40. Construction of 10-Nos Buildings of Special Education centres in Jhelum, Gujrat, Kasur, Multan, Vehari, Bahawalpur, R.Y. Khan, Lahore, and Sheikhupura districts (Cost: PKR 770 Million);
41. Provision of Missing Facilities in 150 schools on need basis, Provision of 655 additional classrooms in schools, Provision of IT Labs in 340-Elementary, Secondary and Higher Secondary Schools, Reconstruction of 100-Dilapidated school buildings in Punjab, Provision of buildings for 30-Shelter-less schools, Establishment of 3,250 ECE rooms
42. Establishment of Guru Nanak University at District Nankana Sahib

FOR FURTHER INFORMATION

Rana Obaid Ullah Anwar
Additional Finance Secretary (Budget)
Finance Department
Government of the Punjab

+92 42 99 211 076
fd.afs.budget@punjab.gov.pk

Ms. Sarah Hayat
Deputy Secretary (Resources-I)
Finance Department
Government of the Punjab

+92 42 99 211 078
fd.ds.res@punjab.gov.pk

Finance Department

Government of the Punjab

Punjab Civil Secretariat, Lahore.

+92 (42) 99211078

fd.ds.res@punjab.gov.pk

https://finance.punjab.gov.pk/