



GOVERNMENT OF KHYBER PAKHTUNKHWA

Budget Strategy Paper (2015-16)

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Overview

The Government of Khyber Pakhtunkhwa prepares its Budget Strategy Paper every year as part of its annual budget process aimed at strategic prioritization and greater fiscal discipline while introducing participatory and inclusivity approaches in the budget formulation process. This Budget Strategy Paper (BSP) is the revised and updated version of the BSP earlier issued by the Government of Khyber Pakhtunkhwa at the very onset of the budget 2015-16 preparation process. The initial version of the BSP set the outlook for embedding the policy priorities of the Government in a preemptive manner and had therefore invited inputs from wide range stakeholder to shape the budget strategy for the ensuing year.

The early issuance of initial version of the BSP was followed by extensive deliberation throughout the year between the Finance Department and the line departments which effectively led to embarking upon participatory bottom-up approach. This empowered the line departments for bidding for resources strategically, and in line with the overall expenditure ceilings. Inputs obtained from pre-budget consultative workshop involving elected representatives of the citizens and civil society are also duly considered in the budget strategy of the Government.

This version of the BSP summarizes the results of the agreements consensually reached by the central departments with the line departments and priorities expressed in the consultative processes.

This publication of the Budget Strategy Paper assists the political leadership, elected representatives, government functionaries, and particularly the general public to understand the fiscal environment and the budgetary choices the Government has shaped to achieve a range of objectives to further the socio-economic uplift of the Province.

The Budget Strategy Paper is developed through a framework approach in order to induce greater synchronization with provincial and sectoral level strategies. The BSP appreciates the macroeconomic dynamics of the province as well as is been consistent with the Strategic

Key Policy priorities of Khyber Pakhtunkhwa

Accountable and transparent government able to protect life and property of citizens

Enhanced focus on social sectors especially on health and education

Strengthening peace and security to flourish provincial potential

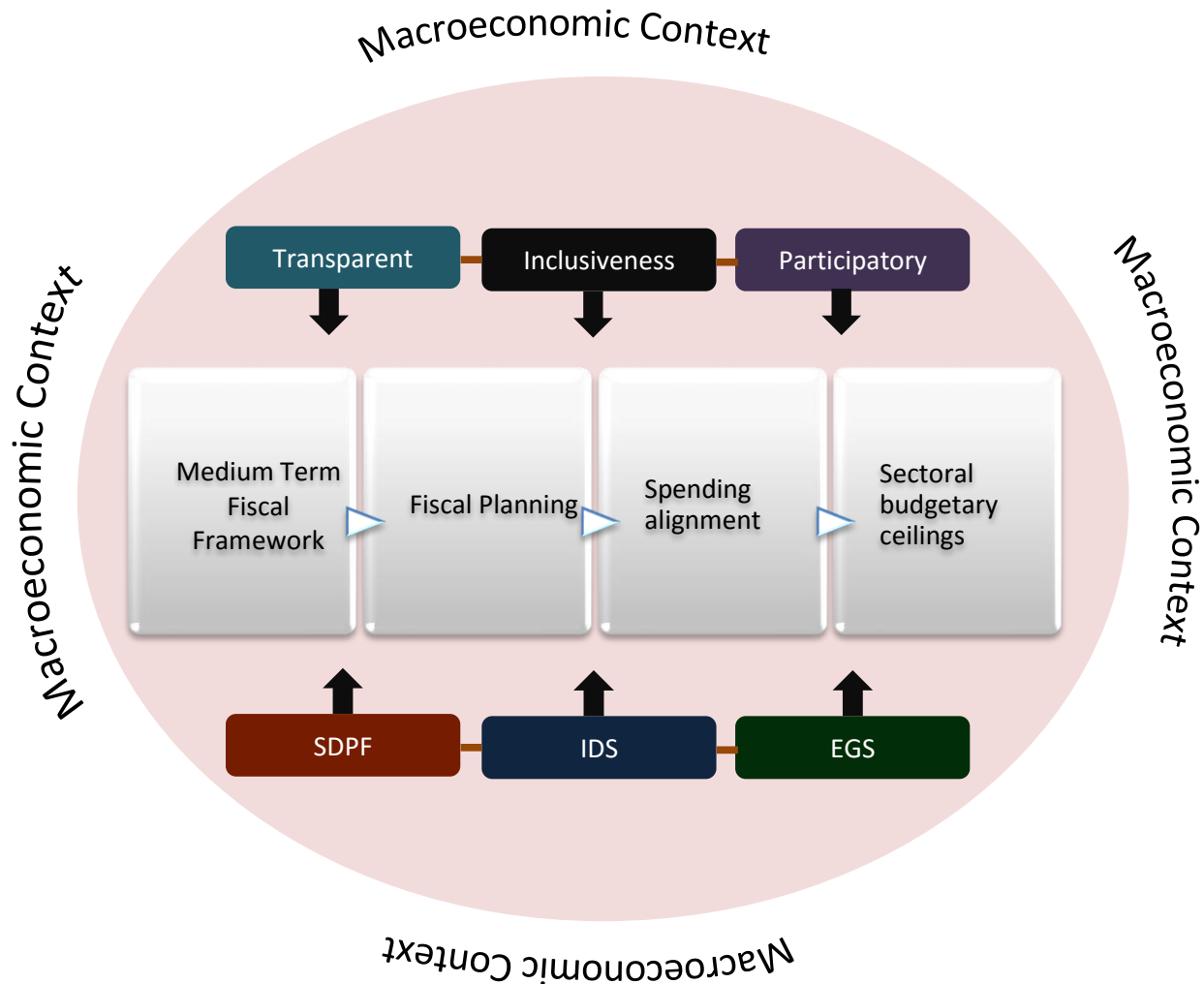
Fostering growth and employment-alleviating poverty through creating more job opportunities

Greater social protection and equity amongst the citizens

Strengthening peace and security to flourish provincial potential

Greater social protection and equity amongst the citizens

Bringing positive change in governance and service delivery through reforms



Development Partnership Framework, Integrated Development Strategy, and Economic Growth Strategy of the Khyber Pakhtunkhwa. This facilitates in creating greater inter-linkages between these strategies which in turn leads to enhanced synergies. The building blocks for formulating the Budget Strategy Paper (2015-18) are as follows:

- The Medium Term Fiscal Framework under the Medium Term Budgetary Framework. This serves as the top-down hard budget constraint.
- Fiscal planning, particularly annual budgeting, with a focus towards a medium term outlook, whilst at the same time endeavoring to improve effectiveness and efficiency in budgetary processes.
- Alignment of spending with policy priorities and the reforms agenda of the Provincial Government for “Change”.

- Overall spending ceilings, based on sectoral strategic priorities for the forthcoming year and indicative estimates for a further two years

The Provincial Government of Khyber Pakhtunkhwa, despite the challenges of stagnant economy, law and order, natural disasters and others, is firmly committed to graduate from stabilization to growth and from growth to inclusive development through the attainment of:

- A stable and peaceful political environment;
- Consistent and harmonized policy formulation and its effective implementation and oversight;
- Inclusivity and participatory democracy in policy formulation;
- Macro-economic stability;
- Rule of Law;
- Devolution of power at the grass root level through strengthened local government system;
- Transparency and social accountability through Right to Information and Right to Services; and
- Strengthened Public Financial Management systems and processes.

Macroeconomic Outlook

An analysis of the country economic outlook is critical in formulating budget strategies for the province in order to align public investment hypothesis gain maximum value for money in terms of creating impacts on socio-economic uplift of the citizens. High GDP growth rate may trigger enhanced revenue collection by federal government which results in increased federal transfers. Inflation rates on the other hand require compensatory adjustment in anticipated expenditures to catch up with the existing level. Similarly, high unemployment rates would force the government subsidize various items especially food intakes while pushing for pursuing strategies to trigger economic growth and job creation. Budget deficits generally trigger excessive borrowing or money supply – both leading to inflation through various channels.

Macro-Economic Outlook of Khyber Pakhtunkhwa

Period	2013-14	2014-15	2015-16
GDP of Pakistan	25,068	27,384	30,533
KP GDP (Projected)¹	2,274	2,484	2,796
KP Budget Size			
Amount	344	405	488
% of Provincial GDP	15.1%	16.3%	17.6%
Federal Transfers			
Amount	250	284	300
% of Provincial GDP	11.0%	11.4%	10.8%
KP Own Receipts			
Total Tax and Non Tax	17	29	54
% of Provincial GDP	0.7%	1.2%	2.0%
Tax Receipts	10	20	23
% of Provincial GDP	0.4%	0.8%	0.8%
Non-Tax Receipts	7	9	32
% of Provincial GDP	0.3%	0.4%	1.1%

Though, at the targeted national GDP growth rate of 5.5% by the Federal Government for 2015-16, Khyber Pakhtunkhwa is expected to receive PKR 251 billion as Federal Tax Assignment and PKR 30 billion on account of 1% war on terror, however, the past trend predicts that these targets would remain tentative only. Provincial tax and non-tax receipts however would greatly depend upon concerted efforts of the provincial revenue management organizations, though

¹ Based on share of GoKP in the Federal Divisible Pool i.e. 9.07%

impacts of the national economy would still play a significant role.

Besides the indigenous factors of economy, regional developments, especially the situation in Afghanistan and insurgency in tribal areas of Pakistan, greatly impact the country as a whole with Khyber Pakhtunkhwa sustaining the worst impacts as compared to other provinces. Provincial budgets are therefore greatly influenced by macroeconomic and regional outlook of the country in a variety of manner. Obvious impacts of this can be gauged from the recent Millennium Development Goals (MDG) outcomes which exhibit failure to achieve the targets by stipulated period. The proportion of population below the poverty line in KP is at 39% which is substantially higher than the national average. Similarly, MDGs relating to education and health also show dismal picture which are substantially below MDG targets. On the other hand contraception, maternal mortality and infant mortality rates are also far below the respective MDG targets.

The budget strategy of Khyber Pakhtunkhwa therefore encourages huge allocation into social service sectors but has also focused adequately on growth sectors for sustained socio-economic development. The Provincial Government has deepened implementation of its reforms agenda which is evident from the below mentioned initiatives that the Government is being propelling for bringing positive changes in the lives of its citizens;

Key Economic Indicators - Pakistan²

GDP Growth Rate	4.2%
Inflation Rate	4.8%
Unemployment Rate ³	
Pakistan	6%
Khyber Pakhtunkhwa	8.6%
Budget Deficit	5%

<ul style="list-style-type: none"> • Devolution of power at the grass root level under LGA 2013 • Improved efficiency and effectiveness in public services delivery through Public Private Partnership • Improved accountability through establishment of District Performance Framework • Grievance redressal system through Chief Minister Complaint Cell • Constitution of highest strategic PFM Reforms Oversight Committee 	<ul style="list-style-type: none"> • Iqra Farogh-e-Taleem / Education Voucher Scheme • Revamping of Elementary Education Foundation • Sehat Ka Ittehad Programme in Khyber Pakhtunkhwa for Eradication of Polio • Establishment of Independent Monitoring Unit in Health Department • Police to Victim Services – Toll free number 0800-00400 	<ul style="list-style-type: none"> • Establishment of KP Board of Investment and Trade • Geo-chemical survey of minerals in Mardan, Peshawar, Kohat divisions • Feasibility study of 03 hydel power projects with installed combined capacity of 48MW • Completion of Machai Hyde Power Project with production capacity of 2.6MW • Promulgation of Khyber Pakhtunkhwa Farm Services Centers Act
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² Source: Economic Survey of Pakistan 2014-15 and budget speech of Federal Finance Minister

³ Source: Labor Force Survey 2014 – Pakistan Bureau of Statistics

- E-tendering system at all Local Councils in Khyber Pakhtunkhwa
- Constitution of High Powered Committee for taking back possession of Auqaf Properties
- First ever Budget Transparency Review
- Citizens' Budget

- Police Citizen Feedback Mechanism
- Establishment of Centre of Excellence for Special Education
- Formulation of Population Policy of Khyber Pakhtunkhwa

- Construction and rehabilitation of 245 km road
- Ghole Banda Dam, Mardan Khel Dam & Palai Dam completed, 7800 acres of previously rain-fed now under irrigation network
- Establishment of 4 number new water quality testing laboratories across the Province

Medium Term Fiscal Framework 2015-18

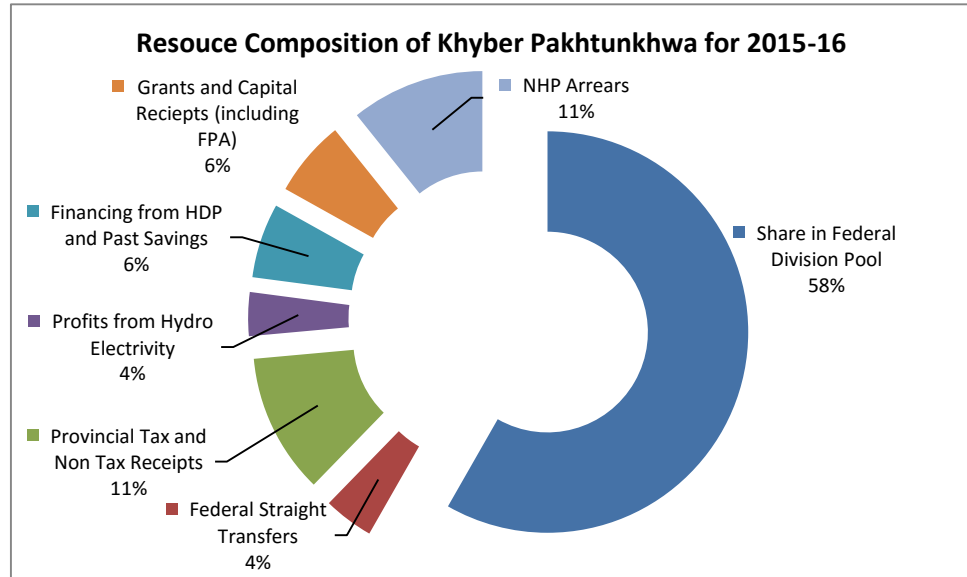
	Actual 2013-14	B.E 2014-15	R.E 2014-15	B.E 2015-16	Forecast 2016-17	Forecast 2017-18
Total Revenue	312,989	404,805	397,737	487,884	526,100	580,920
Federal Transfers	232,988	283,674	260,170	300,453	347,850	402,348
Federal Tax Assignment	180,013	227,121	210,677	250,893	286,100	328,900
1% for War on Terror	21,630	27,290	25,314	30,147	34,300	39,440
Straight Transfers	31,345	29,263	24,179	19,413	27,450	34,008
Provincial Tax & Non Tax Revenue	20,011	28,781	30,405	54,425	63,000	75,322
Provincial Tax Receipts	10,480	19,453	19,832	22,595	28,000	33,668
Property tax	463	123	123	218	257	306
General Sales Tax (Provincial)	5,668	12,000	12,000	14,000	18,000	22,000
Excise duties	25	33	33	38	42	46
Stamp duties	713	740	740	814	895	985
Motor vehicles tax	844	990	990	1,139	1,252	1,378
Infrastructure Dev Cess	-	2,000	2,000	1,000	1,100	1,210
Other	2,767	3,567	3,946	5,386	6,453	7,744
Provincial Non-Tax Receipts	9,531	9,328	10,573	31,830	35,000	41,654
Interest	339	116	321	116	128	140
Irrigation	845	500	525	551	650	767
Hydel Own Generation	2,800	2,850	2,850	3,300	3,600	4,000
Others	5,547	5,862	6,877	27,863	30,622	36,746
Profits from Hydro electricity	33,100	12,000	9,400	17,000	17,000	17,000
Financing From HDF	-	-	-	15,000	12,000	-
Financing From Past Savings	-	-	18,000	14,000	-	-
Grants	21,779	27,558	36,058	29,661	28,000	28,000
Population Welfare	834	477	1,283	-	-	-
Incentive on Cash Balance	1,504	-	4,378	2,000	1,000	1,000
Funds Transferred from Distt A/C-IV	5,690	-	-	-	-	-
Other Non-Development Grants from Federal			238			
PSDP(Federal)	2,866	-	3,437	-	-	-
Foreign Grants (PDMA)	-	-	1,500	-	-	-
Foreign Grants (Others)	-	-	1,388	-	-	-
Foreign Grants (FPA)	10,885	27,081	23,834	27,661	27,000	27,000
Capital Receipts	5,111	8,519	7,302	5,473	8,250	8,250
Recovery of Investment & loans	537	250	1,015	250	250	250
Access to Justice Programme	54	-	-	-	-	-

	Actual 2013-14	B.E 2014-15	R.E 2014-15	B.E 2015-16	Forecast 2016-17	Forecast 2017-18
Foreign Loans (FPA)	4,520	8,269	6,287	5,223	8,000	8,000
Operational shortfall	-	12,000	-	-	-	-
NHP arrears	-	32,272	-	51,872	50,000	50,000
Financing Savings in expenditure till June 2015	-	-	36,402			
Total Expenditure	290,668	404,805	397,737	487,884	526,100	580,920
Current Expenditure	191,000	250,000	255,000	298,000	330,000	367,000
Salary	118,419	145,772	143,652	82,445	90,690	99,780
Pension	21,439	31,000	31,442	37,043	42,600	48,990
Non-Salary O&M and Contingency	27,960	37,106	46,686	42,626	48,590	55,879
Relief Measures	2,494	4,202	4,356	4,202	4,620	5,100
Subsidy	2,500	2,715	2,715	2,900	2,900	2,900
Investment & committed contribution	9,500	12,000	13,944	13,400	14,700	16,000
Interest Payments	6,000	13,090	8,090	13,000	13,000	13,000
Transfer to Local Government	2,688	4,115	4,115	102,384	112,900	125,351
Local Councils	2,688	4,115	4,115	4,526	5,000	5,560
District Salary		-		92,555	96,800	107,851
District Non Salary		-		5,303	11,100	11,940
Capital Expenditure	14,481	15,000	8,000	15,000	11,100	12,120
Domestic Debt	680	1,530	1,230	500	-	-
Federal Debt	3,125	8,205	705	9,096	5,000	5,000
Foreign Debt	4,400	4,975	4,975	5,314	6,000	7,000
Initiatives & Others	6,276	290	1,090	90	100	120
Fiscal Space	107,508	139,805	134,737	174,884	185,000	201,800
Development Expenditure	85,187	139,805	134,737	174,884	185,000	201,800
ADP(Provincial)	67,044	98,378	98,719	111,726	118,500	131,772
ADP(Districts)	-	1,672	1,672	30,274	31,500	35,028
PSDP	2,738	-	4,225	-	-	-
Foreign Project Assistance	15,405	39,755	30,121	32,884	35,000	35,000
Total Revenue	312,989	404,805	397,737	487,884	526,100	580,920
Total Expenditure	290,668	404,805	397,737	487,884	526,100	580,920
Surplus /Deficit	22,321	-	-	-	-	-

Revenue

Total projected revenue receipts are pitched at PKR 488 billion which are 21% in excess of the previous year's budget projections. As aforementioned, the Province is heavily dependent on transfers from the Federal Government. Though the 18th Amendment in the Constitution of Pakistan

has significantly empowered the Provincial Governments in a number of realms including enhanced revenue collection, the provinces are still largely depended on transfers from the Federal Divisible Pool. The fiscal management is hence hampered



seriously by shortfalls in the anticipated revenue collection as against targets set at the beginning of the financial year by the Federal Government. Other factors that adversely affect the resource position of the Province are uncertain and erratic payment of NHP by the Federal Government, discontinuance of NHP arrears, and inability to penetrate and expand the existing low base of provincial own receipts.

In light of the 7th NFC Award the net proceeds of the Divisible Pool are distributed among the Federation and the Provinces in the ratio of 57.50:42.50. Khyber Pakhtunkhwa gets 14.62% of the Federal divisible pool which amounts to PKR 281 billion inclusive of the earmarked additional resources of PKR 30 billion for war on terror (1% of the Federal divisible pool/1.8% of the Provincial divisible pool) for the year 2015-16.

The installments of Net Hydel Profits were paid to the Province since 2009 to 2014-15, but huge amount of arrears are still pending against the Federal Government/WAPDA – estimated at PKR 152 billion. There has been significant progress in consultations for the amiable resolution of the long standing issue with the Federal Government. Should the consultation progress as anticipated, the Provincial Government is expecting receipt of the first installment of the arrears to the tune of about PKR 48 billion in the coming fiscal year.

In addition, the presently capped Net Hydel Profits at PKR 6 billion is also expected to melt down and the additional receipts of PKR 11 billion are budgeted for the next fiscal year. Provincial Government transfers 10% share of Net Hyde Profits receivable from WAPDA/Federal Govt. to the respective Districts where the dams are located. The funds are meant to be utilized on Developmental activities in these Districts. Provincial Government is continuously exploring avenues for enhancing provincial revenues out of which Hydel Power

generation can be the major future source. Estimated receipts for 2015-16 are PKR 3 billion.

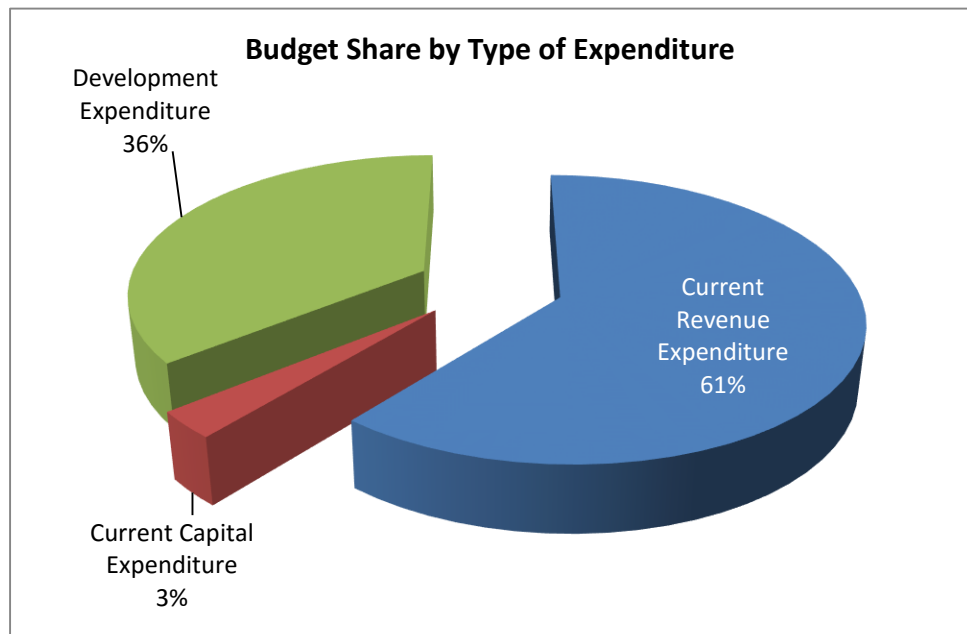
The Provincial Government gets revenues on account of royalty on oil and gas, gas development surcharge and excise duty on gas. Production bonus is being granted to those districts where oil & gas reserves are discovered. These funds are spent through Petroleum Social Development Committees (PSDC).

With the establishment of Khyber Pakhtunkhwa Revenue Authority (KPRA) in 2013-14 for the collection of GST on services after the subject has been provincialized. The province is set to collect PKR 12 billion in financial year 2014-15. Revisions are being made in the Second Schedule of the Finance Act 2013 to broaden the tax net and hence the target for 2015-16 has been set at PKR 14 billion. In addition, the Provincial Government is embarking upon other sources of revenue and expects to generate PKR 14 billion from the housing sector. The estimated Provincial Own Receipts (Tax & Non Tax) for 2015-16 are PKR 54 billion with a significant increase of 89% over 2014-15.

The international development partners of Khyber Pakhtunkhwa have rigorously supported the transformational reform agenda of the Government and are being aligning their country strategies with the Khyber Pakhtunkhwa Provincial strategic priorities. It is expected that the international development partners will sustain their commitments which is projected to the tune of PKR 32.8 billion for 2015-16.

Expenditure

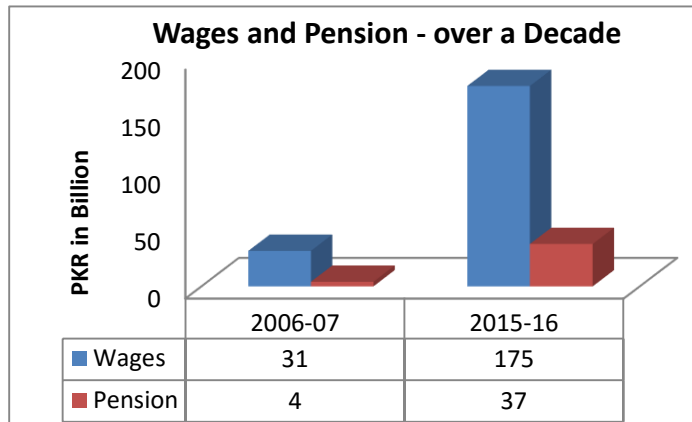
Budget 2015-16 has a structural change owing to the ongoing transition of fiscal and administrative functions to the local levels. In terms of the type of expenditures, however, the budgetary outlook suggests mostly sustained proportional balance between various types of expenditures as was noted in the preceding year's



budget. The total size of the budget is PKR 488 billion which is 21% in excess over the last year. The Revised Budget for 2014-15 stands at PKR 398 billion with deviation of just 2% from its base i.e. the original estimate for the year of PKR 405 billion. The budget turn out ratio as small as this is generally considered a good indicator of sound system of budgeting which signifies

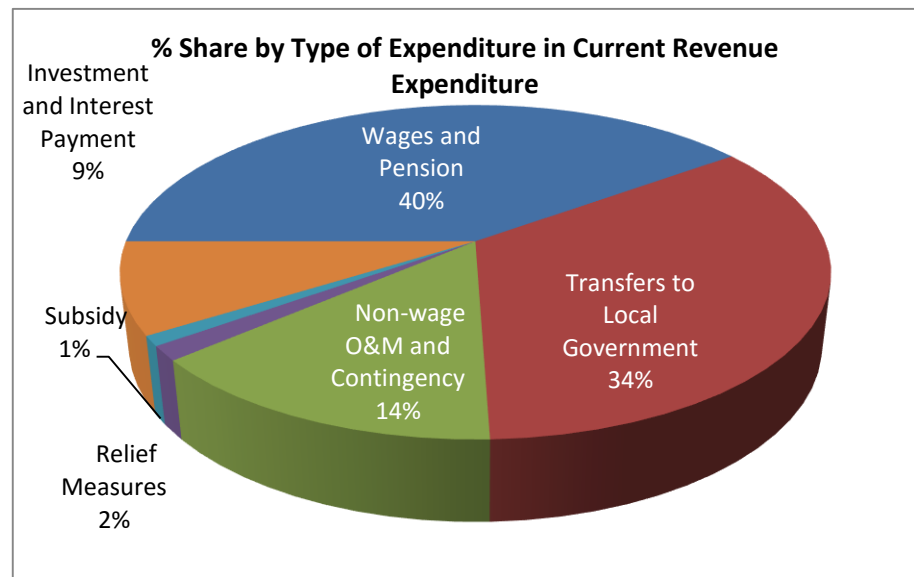
robust fiscal discipline in the affairs of public finance management.

Budget 2015-16 comprises of PKR 298 billion as current revenue expenditure, PKR 15 billion as current capital expenditure and PKR175 billion as development expenditure.



Salary and pension expenditure continues to drain major chunk on the budget. The salary budget has increased almost 6 times during decade time from PKR 31 billion in 2006-07 to PKR 175 billion in 2015-16⁴. Similarly, pension liabilities has grown almost 10 times from PKR 4 billion in 2006-07 to its current level of PKR 37 billion in 2015-16. The excessively large allocations to the two heads have historically left little fiscal space for development portfolio.

In a bid for preparation for the fiscal decentralization and to facilitate smooth transition of the fiscal and administrative devolution to local governments, Finance Department has caused the required structural changes in the budget configuration. This has portrayed a big shift in the resources, mainly drawing upon wages and O&M expenditure, towards transfers to local government. As shown in the figure, only 41% of the current revenue budget is now absorbed in salary which historically has remained above 70%. In contrast, Transfers to Local Governments has whooped up to 34% which was a mere 2% in 2014-15. Nevertheless, wages, pension, and transfers to local government collectively accounts for 74% leaving only 26% for provincial level expenditures on debt servicing, subsidy on wheat, committed contributions for different funds and non-salary expenditure of all departments, such as utilities, repairs, electricity, purchases, POL and all types of unforeseen expenses etc.



The development expenditure estimates have been prepared in a

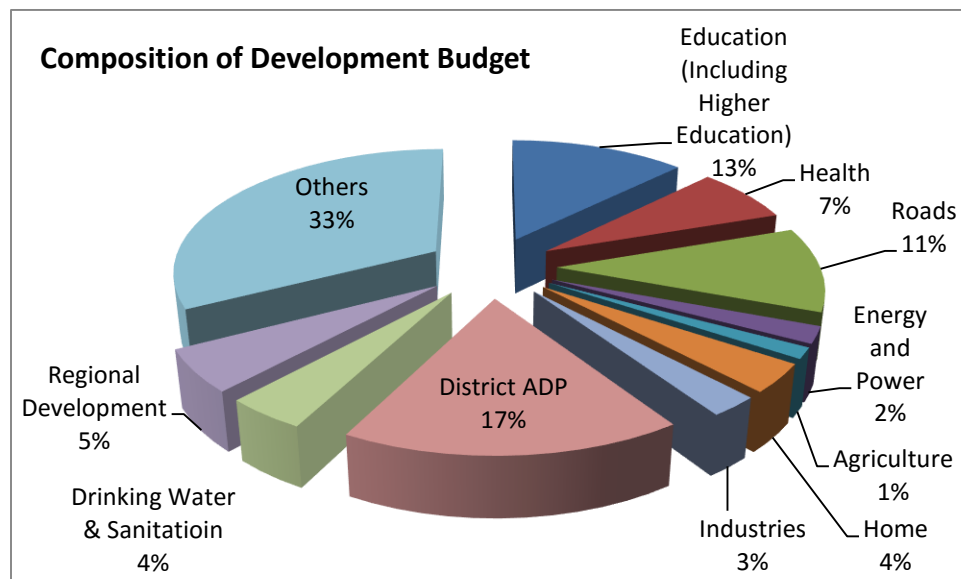
way to ensure not only macroeconomic stability, but also to provide a platform for growth, effective service delivery, job creation and ultimate improvement in the quality of life of

⁴ Including transfers to local governments on account of district salaries

ordinary people. Emphasis remains on economic revival and pro-poor welfare schemes, with an array of policy priorities as the agenda for change. The total development budget outlay has been estimated at PKR 175 billion which is 25% in excess over 2014-15.

Government’s focus on the social uplift and provision of security to its citizens with adequate opportunity for livelihood has thoroughly been factored in the budget for 2015-16. Education, health and security being the priority sectors have combined budgetary allocation in 2015-16 of about 24% of the total proposed budget amounting to the tune of PKR 41 billion. The budget allocation 2015-16 proposed for Elementary & Secondary Education is PKR16 billion, Higher Education PKR6.2 billion, Health PKR12.4 billion and Law & Order PKR6.3 billion.

Local governments are now set to be constituted after the landmark elections to elect around 40,000 local level public representatives – a step regarded as the Government’s effort to deepen its commitment of good governance and bringing state closer to the public. The Act clearly assigns huge responsibilities to local tiers of governments as it is regarded as “the last tier of government but the first tier of good governance”. The local government institutions are seen as primary vehicle for carrying out developmental activities at local levels for the provision of basic civic amenities to citizens and therefore an allocation of PKR 30.3 billion has been set aside for the district ADP including PKR 13 billion for village/neighborhood councils.



The Government has initiated a number of pro-poor schemes during the past several years, exhibiting innovative ways of improving service delivery. These include several initiatives to improve and promote education in the province,

providing improved healthcare services and coverage, motivation of the youth and utilization of their potential etc. Most of these schemes have been highly effective in providing opportunities to the general public for socio-economic growth.

Debt

All Foreign Exchange Loans are handled by the Federal Government. These loans are used for the financing of specific developmental projects. Outstanding liability on account of these loans is PKR 87,401.529 million (closed projects) and PKR 28,668.538 million (on-going projects).The outstanding debt liability of the Provincial Government on account of Federal Cash

Development Loans is PKR 5,103.055 million. Thus, the total outstanding debt against the Provincial Government as on 1st July, 2015, is PKR 121,173.122 million.

Policy Priorities

Sectoral Priorities & Initiatives

Despite the accelerated allocations in the **education sector** in the past few years, the achievement of Millennium Development Goals has yet to be reached which was initially targeted to be achieved by 2015. A number of factors have contributed to this failure the most prominent of which is the unfavorable law and order situation in the Province – though in the recent past the law and order situation in the Province has remarkably improved except from the 16th December incident which claimed lives of more than 130 innocent children. The SDPF and the IDS both recognize the non-achievement of the MDGs and have spelled promising strategies and plans to cause significant improvement within stipulated time period. IDS anticipate achieving a 90% NER with no out of school children by 2018. Similarly, it is also firmed to enhance the completion rate of the primary level education to 80% by the end of its stipulated period i.e. 2018. Besides the IDS recommended policy actions which are aligned with the Education Sector Plan strives to enhance quality of education standards in Khyber Pakhtunkhwa viz. a viz. removing gender and ethnic disparities.

Conscious of the slow progress in the educational outcomes of the province and its critical role in the economic and social uplift of the people, the Government has declared an education emergency in the province. The Government of Khyber Pakhtunkhwa will promote primary education, reduce the gender gap, and create an enabling environment by fulfilling the requirements of existing institutions including staff, equipment, furniture, teachers training, additional classrooms and essential repairs. Education system will be standardized and the conditions of existing schools will be improved.

A number of initiatives are being undertaken for impacting the desired results in the education sector including Iqra Farogh-e-Taleem/Education voucher scheme, daily independent monitoring of schools, school-based teachers' recruitment, restructuring of Textbook Boards etc. Proximity has been identified as one of the key factor in school enrolment and retention. To improve accessibility, an amount of PKR 2 billion has been allocated for the establishment of primary and secondary schools as well as another PKR 1.6 billion allocated for up gradation from one level to next higher level in the budget. In order to reap the benefits of participatory development, PKR 399 million have been allocated for up gradation and provision of missing facilities at schools through the Parent-Teacher Council (PTC). To counter the gender disparity, the Government has introduced the Girls Community School project and has allocated PKR 250 million during 2015-16. Furniture will be provided on need basis for which an amount of PKR 1.5 billion has been allocated this year. An amount of PKR 91 million has been allocated for the Early Child Care Education program for FY 2015-16. Additionally, laboratories will be established and modern equipment will be provided for which PKR 500 million has been allocated. PKR 500

million have been allocated for the continuous capacity building of PTCs. To ensure good quality education, trainings will be imparted to teachers and managers for which an amount of PKR 566 million has been allocated. Female education will be incentivized through provision of stipends for girls in secondary school for which an allocation of PKR 1200 million have been set aside.

As like the education sector, the Khyber Pakhtunkhwa is striving to reach the MDGs in the **Health** sector. Adequate attention is therefore pondered in the SDPF and IDS. The Khyber Pakhtunkhwa will now achieve a well reduced Infant Mortality Rate of 40 as well as Maternal Mortality rate of 140 per thousand by 2018. In addition, 100% of children will be able to get immunized against all major diseases. Key policies of the government are; up gradation of health care facilities; Building upon and improving health delivery systems and health management systems with measurable impact on health MDGs 4, 5 & 6; social protection for low income and vulnerable groups; capacity building for evidence and outcome based planning and focusing on community led community health programmes and public private partnerships. Improvements in management and emergency response are also included.

In health sector several initiatives have been undertaken that includes Healthcare Insurance for Critical Illnesses, Insulin for Life, Mother and Child Health (MCH) Special Initiative for enhancing immunization coverage. It has been planned to set up a Widows and Orphans Welfare Foundation, with the objectives to implement measures for wellbeing, assistance and rehabilitation of deserving widows and special persons in the province. A total of PKR 12.4 billion has been allocated to this sector in the ADP 2015-16 to carry out the following key initiatives.

- Establishment of Divisional Food & Drug Testing Laboratories at Swat, D.I.Khan and Abbottabad.
- Up-gradation of 06 BHUs to RHCs.
- Establishment of Works Directorate in Health Department.
- Purchase & Installation of new AC Plant at KTH, Peshawar.
- Construction of purpose built buildings for Nowshera, Zulfiqar Ali Bhutto, Gajju Khan and Timergarah Medical Colleges.
- Establishment of Orthopedic and Spine Surgery Hospital at HMC, Peshawar.
- Integrated HIV, Hepatitis and Thalassemia control Program.
- KP Immunization Support Program.

Though blessed with huge hydel potential and large reserve of oil and gas, **energy and power** sector has yet to be explored for the benefit of accelerating economic growth in Khyber Pakhtunkhwa. Two broad possibilities are raised. First, the province can earn revenue by selling electricity on the national grid. Second, the province can set up electricity stations that, while

covering their costs, could sell power within the KP at a lower rate. The lower price for electricity could help to offset some of the transport disadvantages arising from the province's geographical location that affect competitiveness. Currently, one hydel project has been completed which has added 2.6MW electricity whereas another project is nearing to its completion which will produce 53.6MW of additional power. In addition, three projects are ready for construction these are Sharmai (150 mw), Shahgai (144 mw) and Zandoli (132 mw). These projects await approval by the Federal Government. Production of oil and gas in Khyber Pakhtunkhwa has opened new avenues of economic development in the province. Huge deposits of oil & gas have been discovered in southern belt of the Province, including district Kohat, Karak and Hangu. The establishment of Khyber Pakhtunkhwa Oil & Gas Company for increased oil and gas production and exploration in the province is one such landmark achievement. In addition to fast pace completion of hydel projects, some fast moving alternative energy projects will also be initiated. These include;

- Electrification of Un-Electrified villages through Solar/Alternate energy in remaining Districts of KP.
- Initiation of construction of various hydel power projects having capacity of 1112MW
- Construction of 10 mini and micro hydel power projects on canals
- Development of Renewable energy in Khyber Pakhtunkhwa

Economic Management: About three quarters of the population in Khyber Pakhtunkhwa are at least partly dependent on **agriculture** having majority at rural areas where the poverty ratios are generally higher than those in urban areas. The policy of the government is to shift from conventional cropping patterns to high value, high yield varieties of crops, fruit and vegetables; to promote efficient use of water resources; to minimise the environmental risks associated with unsustainable means of agricultural production and reforming the agricultural marketing system to improve profitability, productivity and value for money for producers and consumers; and to revitalize/reform the agriculture research and extension system of the Province, including the induction of private sector in research and extension. A number of initiatives are tailored to achieve the policy objectives of the government in this sector including quality seed production and distribution, establishment of carp fish hatchery at Swabi District, productivity enhancements through conservation and efficient use of water resources for higher agriculture production, improvement of lining of water courses etc.

Khyber Pakhtunkhwa is going through stagnation in industrial sector. This is partly due to law and order situation, flight of capital and energy shortages. Government is striving to support growth of locally and internationally competitive industries, generating employment and technological up-gradation. For accelerated growth in the industrial sector, which has direct impact on reducing unemployment and thus poverty, the government will undertake a number of initiatives including:

- Establishment of small industrial Estate Swat
- Establishment of construction machinery training institute at Swabi
- Establishment of KP SMEs Development Authority
- Construction of 132 KV Grid Station at Industrial Estate Hattar
- Acquisition of land for small industrial estate at Swat
- One liner provision for improvement & development of technical Education
- Support to Economic Zone Development & Management company (EZDMC)

KP is blessed with vast reserves of minerals and gemstones. The mining sector has the potential to be a key driver of economic growth. The sector suffers from a number of challenges. The most significant of which is the use of outdated technology that results in wastage of minerals, lack of large scale investment, and inaccessibility to mineral bearing areas. The government is committed to encourage research in this sector for promoting and introducing modern technology and is also planning to establish Metallurgy Research Center. In addition, the GIS mapping will be extended to other areas and further potential sites will be explored for constructing roads to improve accessibility to mineral bearing areas.

The services in technical education are constrained by limited funding. The Government is committed to improving the scope and content of technical education to match more closely the needs of employers in Khyber Pakhtunkhwa. Concrete steps taken by the Provincial Government are the operationalization of TEVTA as an autonomous body, adoption of National Vocational Qualification Framework, Khud Kafalat Scheme, Roshni Scheme, Youth Challenge Fund, Skill Development Programme and MASAADA Interest Free micro credit scheme.

Urban Development: The future economic growth rate in KP is likely to be driven by Urbanization, Trade and Connectivity, Remittances and Fiscal Transfers. Urbanization is important in the context of agglomerations, whose importance comes from their potential role in facilitating growth through their high density populations. The Government has developed Urban Development Plans for 22 urban areas in Khyber Pakhtunkhwa. These cover the main public services, including water, sanitation, drainage, streets and public infrastructure to accommodate private services in transport, agriculture and trade. Urban Policy Unit is overseeing the planning and policy framework, policies, byelaws and rules relating to urban development. Key initiatives will be as follows:

- Mass Transit Facility in Peshawar (Public Private Partnership)
- F/S and Reference Design for Mass Transit System in Peshawar
- Feasibility study for Second Ring Road Peshawar
- Provincial Land Use Plan, Khyber Pakhtunkhwa
- Designing and construction of Flyover at Phase-III entry, Hayatabad, Peshawar

- Construction of Bus stands/terminals in selected districts of KP
- Establishment of Bachat Bazars in Selected Districts of KP
- Modernization of slaughter Houses in Peshawar Region on Public Private Partnership on the concept of Lahore Meat Company
- Beautification of Peshawar city (through outsourcing)
- Uplift & Beautification of Divisional Headquarters in Khyber Pakhtunkhwa and Peshawar uplift program

Infrastructure: The government visualizes an upgraded and well maintained road network for the uplift of socio-economic development. The government has adopted multi-pronged policy to embark upon infrastructure development which include; enhance existing road densities through construction and up-grading of existing network; rehabilitation of roads that have outlived their design life; and construction of missing road links viz. a viz. preparing Asset Management Plan for the provincial road sector. Keeping in view, the deplorable conditions of roads special attention is being given to the improvement of existing infrastructure in the neck and corner of the province. Efforts will be made to extend the existing road network to the remote and less developed areas of the Province. A number of initiatives have been planned including widening, rehabilitation and improvement of roads, construction/pavement of roads, and construction of a number of bridges. Total of 180 Km of roads and 24 major bridges have been planned to be constructed during 2015-16.

Agriculture productivity can be enhanced should the requisite, equitable, and reliable irrigation supplies to cultivable lands of KP is ensured. There are substantial opportunities for expanding the irrigated area in Khyber Pakhtunkhwa. The policy of the government is; sustainable development of irrigation infrastructure with focus on holistic management and institutional reforms; transparent and sustainable management of water resources; improving irrigation service delivery and improving on farm water management. For this purpose, the government is planning to further extend its irrigation channel network as well as construction of dams, ponds, culverts, small dams etc. PKR 6.8billion have been earmarked for irrigation schemes. Key activities are construction of Latamber Dam District Karak, and Marobi Dam District Nowshera, construction of Protection Structures on L/S of Kabul River U/S and D/S Nowshera Mardan Road Bridge, District Nowshera, construction of Protection Structures on R/S of Kabul River U/S and D/S Nowshera Mardan Road Bridge, District Nowshera, canal petrol roads, construction of Flood Protection Structures at Vulnerable Locations on Rivers, Nullahs and Khawars, installation of Solar based Irrigation/ Augmentation Tube Wells and Small Life Irrigation Schemes.

Tourism: The tourism sector is considered to be a key source of inclusive poverty reduction in the developing world. Job creation through tourism often occurs in locations where other employment opportunities are limited. As a labor-intensive sector, it employs a large share of

unskilled or semi-skilled workers, including youth and women, thus maximizing impact for the poor and marginalized in the population. Government therefore strives to promote KP as preferred tourist destination for both national as well as international tourists. Key initiatives planned for 2015-16 include establishment of network of tourist information centers, establishing walking and jeepable tracks and picnic parts, establishment of tourist water sports, as well other tourism promotion activities.

Targeted **food subsidy under Pro-poor Special Initiatives** to the tune of PKR 5 billion has been earmarked under Sasta Aata Ghee Khasoosi package through which more than 500,000 of the poorest people in the province will be provided cards to purchase wheat/ghee at subsidized rates.

The **Community Driven Local Development Policy** clearly outlines the GoKP major reform initiative of providing space to citizens to fully participate in development activities through governance institutions' re-engineering and development project investments. An amount of PKR 2 billion has been earmarked for this purpose through which over 1000 projects to be implemented through community based organizations.

Public Financial Management Reforms

Fiscal Decentralization to Local Governments

Without adequate fiscal decentralization, true devolution of power to local governments will seriously be undermined which would restrain in attaining the fruits of decision making autonomy at the grass root level. The Government of Khyber Pakhtunkhwa, conscious of the complexities in impacting smooth and effective transition of local governments, has taken a number of preemptive steps in a bid to prepare itself for cruising into deepest devolution setup in the history of Pakistan.

For this purpose a sub-committee was formed having representation from Finance Department, Planning and Development Department, and Local Government Department whereas technical support was available from Sub-National Governance program. The sub-committee held a number of meetings to mutually discuss and agree on the broader principles viz. a viz. robust institutional



Ensuring adequate fiscal transfers measures



Determining suitable level of autonomy to local governments



Effective oversight mechanism for development activities



Implanting adequate fiscal controls over affairs at the local level



Proper institutional arrangements for enabling the neonate local governments by providing adequate establishment

mechanism for seamless implementation of the new local government system in the most efficient and effective manner. The sub-committee also took a note of the spade work that has been done at various departments which contributed to various aspects of the overall devolution in general and fiscal decentralization in particular. In addition, pre-arrangements for transfers to local councils have been internalized through restructuring of budget configuration.

Integrated PFM Reforms Strategy

The Government of Khyber Pakhtunkhwa has strong commitment in streamlining PFM systems and processes as a cornerstone for improved public service delivery. The first ever PFM strategy for Khyber Pakhtunkhwa was adopted in 2010-11 having objectives around modernizing PFM systems for greater alignments of resources with provincial policies and priorities, attaining fiscal discipline, and improving budget execution and reporting. In order to streamline the process and gain the results from consolidating the earlier reform initiatives, development of an updated Integrated PFM Reforms Strategy has been initiated. To effectively oversee its robust implementation, a PFM Reforms Oversight Committee has been constituted by the Chief Minister of Khyber Pakhtunkhwa under the Chair of Minister Finance and having membership of Senior Minister Local Government, Ministers for Health and Education, Advisor to CM for P&D, Secretaries of Finance, P&D and Local Government Departments, and Reforms Coordinator RMU. This oversight committee is mandated to provide overall strategic guidance and policy direction on the core objectives of the PFM Reforms Strategy viz. a viz. effective monitoring over the progress against key deliverables.

Budget Transparency Review

Finance Department with the support of SNG programme and Omar Asghar Khan Foundation conducted a Budget Transparency Review in March 2014. The objective was to establish a baseline for effectively responding to the KP Right to Information and Right to Services Acts by bringing the elements of transparency and accountability in budgetary processes at par with international best practices.

During budget preparation for FYs 2014-15 & 2015-16 stern efforts were made by Finance Department to mitigate some of the gaps/weaknesses identified by the BTR report including the publication of Citizen Budget, inclusion of actual expenditure outcomes for the preceding year(s) of the budget year included in budget documents, timely release of Budget Strategy Paper etc. As a result of these efforts the BTR score is projected to show an improvement of 7% over the baseline. In order to further improve the baseline score through more concerted efforts towards greater transparency and openness, Finance Department is in the process of implementing Budget Transparency Improvement Measures more specifically in the areas of improved budget execution reporting and effective citizens' feedback and communication mechanisms.

Fiscal Policy Guidelines for Budget Strategy 2015-16

1. Expenditure from allocated HDF shall be confined to hydel sector and other sectors only with enabling amendments in HDF Act / Rules.
2. Separate ADP portfolio for Rs. 77 billion may be identified by P&DD which may be implemented only on availability of funds against uncapping of NHP and receipt of arrears thereof.
3. Merging of Ad-hoc increase of 2011 and 2012 in the pay scales.
4. 10% ad-hoc relief allowance on running pay to all provincial government employees in BS-1 to BS-22 w.e.f., 1st July 2015.
5. 25% increase in medical allowance to all provincial government employees w.e.f. 1st July 2015.
6. A uniform Ph.D allowance @ Rs.10,000 per month to all provincial government employees, replacing the existing science and technology allowance of Rs.7,500 per month and Ph.D allowance of Rs. 2,250 per month w.e.f., 1st July 2015.
7. Two pay scale upgradation to all provincial government employees in BS-1 to BS-5.
8. One pay scale upgradation to all provincial government employees in BS-6 to BS-15.
9. 10% increase in net pension to all pensioners of provincial government w.e.f., 1st July 2015.
10. 25% increase in medical allowance to all pensioners of provincial government w.e.f., 1st July 2015.
11. Revival of policy for restoration of surrendered portion of commuted value of pension after outliving the prescribed period on the parameters at par with Federal Government.
12. Complete ban on creation of posts except posts required for completed Developmental Projects. However, in case of exigencies, the Chief Minister may relax the ban on case to case basis.
13. Complete ban on treatment abroad on Provincial Government's expense. In exceptional deserving cases, the ban may be relaxed by the Chief Minister on case to case basis.
14. Participation in workshops/seminars and training abroad involving Provincial Funds will be considered only in very special cases with the approval of the Chief Minister

on case to case basis.

15. Complete ban on purchase of new vehicles. Project vehicles shall be exempted. However, in case of exigencies, the Chief Minister may relax the ban on case to case basis.
16. All Administrative Secretaries and Heads of Autonomous/Semi-Autonomous Bodies, being Principal Accounting Officers, shall conduct meetings of Departmental Accounts Committees, regularly so as to ensure Internal Audit of their respective Departments/Organizations.
17. To achieve the budgeted Provincial Revenue targets, the Administrative Secretaries/Heads of Autonomous/Semi-Autonomous Bodies, shall convene monthly meetings and minutes thereof shall be sent to Finance Department regularly.
18. No appointment of contingent paid staff to be made during the course of the financial year without prior approval of Finance Department.
19. No appointment against leave vacancies to be made without prior approval of Finance Department.
20. Consumption of Electricity and POL shall be economized.
21. All Government Rest Houses/Guest Houses etc., may be managed on commercial basis through appropriate institutional arrangements.
22. Expenditure shall be restricted to the funds released and the Administrative Departments shall not incur expenditure in anticipation of additional grant or supplementary grant.
23. No developmental scheme involving creation of posts will be considered without prior clearance of Finance Department.
24. No Department shall retain receipts in Bank Accounts. The Departments must remit all Receipts to Provincial Account forthwith except where Departments/facilities have been specifically permitted under some Statute/Act.
25. Expenditure on "Advertising & Publicity" shall be restricted to the bare minimum.

Recurrent Budget Ceilings 2015-18

	Rs in Million		
	BE 2015-16	Forecast 2016-17	Forecast 2017-18
NC11053 LOANS AND ADVANCES	90	100	120
Non Salary	90	100	120
NC14057 DEBT SERVICING (LOAN FROM FEDERAL GOV'T.	14,910	11,000	12,000
Non Salary	14,910	11,000	12,000
NC21001 PROVINCIAL ASSEMBLY	177	197	220
Salary	125	138	152
Non Salary	52	59	68
NC21002 GENERAL ADMINISTRATION	2,314	2,590	2,914
Salary	1,181	1,299	1,429
Non Salary	1,133	1,291	1,485
NC21003 TREASURIES	295	326	360
Salary	265	291	320
Non Salary	30	34	39
NC21004 FINANCE DEPARTMENT	3,485	3,892	4,366
Salary	2,013	2,214	2,436
Non Salary	1,472	1,678	1,930
NC21005 LOCAL FUND AUDIT	120	133	146
Salary	115	126	139
Non Salary	6	6	7
NC21006 PLANNING & DEVELOPMENT DEPARTMENT	221	245	272
Salary	174	191	210
Non Salary	47	54	62
NC21007 BUREAU OF STATISTICS	39	43	47
Salary	33	37	41
Non Salary	5	6	7
NC21009 REVENUE & ESTATE DEPARTMENT	1,972	2,215	2,502
Salary	828	911	1,002
Non Salary	1,144	1,304	1,500
NC21010 EXCISE AND TAXATION DEPARTMENT	593	659	736
Salary	410	451	497
Non Salary	183	208	239
NC21011 HOME DEPARTMENT	1,435	1,611	1,818
Salary	618	680	748
Non Salary	817	931	1,070
NC21013 JAILS & CONVICTS SETTLEMENT	1,728	1,928	2,159
Salary	1,057	1,163	1,279
Non Salary	671	765	880

	Rs in Million		
	BE 2015-16	Forecast 2016-17	Forecast 2017-18
NC21014 POLICE	32,745	36,187	40,051
Salary	28,565	31,421	34,570
Non Salary	4,181	4,766	5,480
NC21015 ADMINISTRATION OF JUSTICE	3,492	3,862	4,279
Salary	2,963	3,259	3,586
Non Salary	529	603	693
NC21016 HIGHER EDUCATION, ARCHIVES & LIBRARIES	9,268	10,233	11,313
Salary	8,311	9,142	10,058
Non Salary	957	1,091	1,255
NC21017 HEALTH	21,576	23,988	26,754
Salary	15,208	16,729	18,405
Non Salary	6,368	7,259	8,348
NC21018 COMMUNICATION AND WORKS DEPARTMENT	1,252	1,384	1,533
Salary	1,073	1,181	1,299
Non Salary	179	204	234
NC21019 ROADS HIGHWAYS & BRIDGES (REPAIR)	2,322	2,646	3,043
Non Salary	2,322	2,646	3,043
NC21020 BUILDING & STRUCTURE (REPAIR)	977	1,114	1,281
Non Salary	977	1,114	1,281
NC21021 PUBLIC HEALTH ENGINEERING	1,571	1,771	2,009
Salary	504	555	610
Non Salary	1,067	1,216	1,398
NC21022 LOCAL GOVERNMENT DEPARTMENT	8,298	9,448	10,850
Salary	270	297	327
Non Salary	8,027	9,151	10,523
NC21023 AGRICULTURE	2,349	2,613	2,918
Salary	1,600	1,760	1,936
Non Salary	749	854	982
NC21024 FISHERIES	122	135	150
Salary	101	111	122
Non Salary	21	24	28
NC21025 ANIMAL HUSBANDRY	976	1,088	1,218
Salary	608	669	736
Non Salary	368	419	482
NC21026 CO-OPERATION	58	64	71
Salary	43	47	51
Non Salary	15	17	20
NC21027 ENVIRONMENT AND FORESTRY	1,838	2,032	2,251
Salary	1,567	1,724	1,897
Non Salary	271	308	355

	Rs in Million		
	BE 2015-16	Forecast 2016-17	Forecast 2017-18
NC21028 FORESTRY (WILDLIFE)	382	424	470
Salary	311	342	377
Non Salary	71	81	93
NC21029 IRRIGATION	3,609	4,022	4,499
Salary	2,310	2,541	2,796
Non Salary	1,299	1,481	1,703
NC21030 INDUSTRIES	419	465	518
Salary	303	333	366
Non Salary	116	132	152
NC21032 MINERAL DEVELOPMENT AND INSPECTORATE OF	503	561	628
Salary	318	350	385
Non Salary	185	211	242
NC21033 STATIONERY AND PRINTING	128	143	161
Salary	70	77	85
Non Salary	58	66	76
NC21036 TECHNICAL EDUCATION AND MANPOWER	1,755	1,935	2,135
Salary	1,646	1,811	1,992
Non Salary	109	124	143
NC21037 LABOUR	297	331	370
Salary	201	221	243
Non Salary	97	110	127
NC21039 SOCIAL WELFARE, SPECIAL EDUCATION	551	620	703
Salary	199	218	240
Non Salary	353	402	462
NC21040 ZAKAT & USHER DEPARTMENT	194	214	237
Salary	166	183	201
Non Salary	28	32	36
NC21041 PENSION	36,651	42,149	48,471
Non Salary	36,651	42,149	48,471
NC21042 SUBSIDIES	2,900	2,900	2,900
Non Salary	2,900	2,900	2,900
NC21043 GOVT INVESTMENT & COMMITTED CONTRIBUTION	13,400	14,700	16,000
Non Salary	13,400	14,700	16,000
NC21045 AUQAF, RELIGIOUS, MINORITY & HAJJ	92	104	118
Salary	25	27	30
Non Salary	67	77	88
NC21048 INFORMATION TECHNOLOGY DEPARTMENT	75	83	93
Salary	52	57	62
Non Salary	23	26	30
NC21049 DISTRICT NON SALARY	5,303	11,100	11,940

	Rs in Million		
	BE 2015-16	Forecast 2016-17	Forecast 2017-18
Non Salary	5,303	11,100	11,940
NC21050 GRANT TO LOCAL COUNCILS	4,526	5,000	5,560
Non Salary	4,526	5,000	5,560
NC21051 HOUSING DEPARTMENT	35	39	44
Salary	22	24	27
Non Salary	13	15	17
NC21068 DISTRICT SALARY	92,555	96,800	107,851
Non Salary	92,555	96,800	107,851
NC21070 INTER PROVINCIAL COORDINATION DEPTT	40	44	49
Salary	26	28	31
Non Salary	14	16	18
NC21071 ENERGY AND POWER DEPARTMENT	70	78	87
Salary	49	54	59
Non Salary	21	24	28
NC21073 ELEMENTARY AND SECONDARY EDUCATION	12,536	14,031	15,781
Salary	6,485	7,133	7,848
Non Salary	6,051	6,898	7,933
NC21074 RELIEF REHABILITATION AND SETTLEMENT	5,637	6,240	6,941
Salary	400	440	484
Non Salary	5,237	5,800	6,457
NC24001 PROVINCIAL ASSEMBLY	613	683	762
Salary	414	456	501
Non Salary	199	227	261
NC24002 GENERAL ADMINISTRATION	521	590	673
Salary	101	111	122
Non Salary	421	480	552
NC24015 ADMINISTRATION OF JUSTICE	1,386	1,539	1,714
Salary	1,029	1,132	1,246
Non Salary	357	407	468
NC24020 BUILDING & STRUCTURE (REPAIR)	4	5	5
Non Salary	4	5	5
NC24041 PENSION	392	451	519
Non Salary	392	451	519
NC24051 DEBT SERVICING (INTEREST PAYMENT)	7,021	7,021	7,021
Non Salary	7,021	7,021	7,021
NC24052 DEBT SER. (APPRO. FOR REDUCTION OR	5,979	5,979	5,979
Non Salary	5,979	5,979	5,979
NC21047 POPULATION WELFARE	429	480	539
Salary	237	261	287
Non Salary	192	219	252

	Rs in Million		
	BE 2015-16	Forecast 2016-17	Forecast 2017-18
NC21038 INFORMATION & PUBLIC RELATIONS	166	186	210
Salary	79	87	95
Non Salary	87	100	115
NC21046 SPORTS, CULTURE, TOURISM & MUSEUMS	386	432	485
Salary	204	225	247
Non Salary	181	207	238
NC21072 TRANSPORT & MASS TRANSIT DEPARTMENT	222	246	274
Salary	168	185	203
Non Salary	54	62	71
Grand Total	313,000	341,100	379,120