

Building a Prosperous &
Sustainable Khyber Pakhtunkhwa

WHITE PAPER

2026-27





Alhamdulillah, Khyber Pakhtunkhwa has made notable progress in strengthening its financial position during the last two years through policy reforms, prudent financial management, and improved governance. These efforts have helped create fiscal space, improve resource

mobilization, strengthen public finances, and support the Government's development priorities despite continuing economic and fiscal challenges.

The Government has remained focused on building a stronger financial foundation for the province. One of the key achievements has been the growth in Provincial Own Source Revenue (OSR), which increased to Rs. 139.8 billion in June 2026, representing more than 100% growth within two years. This progress was achieved through policy reforms, improved administration, digitization, and effective enforcement. Building upon these gains, the Government has set an ambitious target of Rs. 182.4 billion for FY 2026-27.

At the same time, better management of provincial funds and investments has produced encouraging results. Investment income reached Rs. 23.7 billion against a budget target of Rs. 17.5 billion, providing additional resources to support the provincial budget. The Government is also strengthening long-term fiscal sustainability through improved cash management, establishment of dedicated provincial funds, and prudent investment practices.

Recognizing the growing challenges posed by climate change and natural disasters, the Government is working towards the establishment of a Disaster Risk Management Fund to provide a dedicated financing mechanism for disaster preparedness and response. Similarly, efforts are underway for the establishment of a Provincial Takaful Insurance Company to expand Shariah-compliant financial protection and support risk management within the province.

The Government is exploring innovative approaches, including Public-Private Partnerships (PPPs), to attract private sector investment and expertise in sectors where better services can be delivered with reduced pressure on public finances. These initiatives aim to improve efficiency, expand access to services, and deliver greater value for public resources.

The Budget 2026-27 is not merely a financial document. It outlines KP Government priorities, reforms, and commitment to building a stronger, more resilient, and financially sustainable Khyber Pakhtunkhwa. Under the leadership of Imran Khan and the guidance of Chief Minister, Muhammad Sohail Afridi, the Government remains committed to transparency, accountability, and responsible stewardship of public resources.

The true success of these reforms will be measured through stronger institutions, improved services, greater economic opportunities, and a better quality of life for the people of Khyber Pakhtunkhwa. With continued commitment and collective efforts, we remain confident in the province's journey towards sustainable growth and shared prosperity. **In Sha Allah.**

Muzzammil Aslam

Advisor to The Chief Minister for Finance



The preparation of the annual budget is more than an exercise in allocating resources. It is an opportunity to assess where we stand as a province, identify emerging challenges, and determine how public resources can be utilized to achieve the greatest benefit for our citizens. The White Paper for FY 2026-27 has been prepared

with this objective in mind.

This document provides an overview of the province's fiscal outlook, major budget priorities, ongoing reforms, and key financial developments. It explains the rationale behind important policy choices and highlights the measures being undertaken to strengthen public financial management and support sustainable development across Khyber Pakhtunkhwa.

The fiscal environment continues to evolve rapidly. Growing service delivery requirements, climate-related risks, infrastructure needs, and increasing expenditure commitments require government to make informed and responsible decisions. In response, the Government has continued its efforts to strengthen financial management systems, improve resource mobilization, and enhance the efficiency of public spending.

The preparation of this White Paper required close coordination among departments, detailed review of fiscal trends, and extensive consultation with stakeholders. The increasing use of data, financial analysis, and performance information in budgetary decision-making is helping improve the quality of planning and efficient resource allocation.

This document is not only a summary of budget figures, but also presents the broader reforms, priorities, and institutional improvements that are shaping the province's financial future. The Finance Department remains committed to strengthening transparency, improving accountability, and supporting sound financial governance across all sectors.

I would like to sincerely thank the team that worked on the preparation of the White Paper 2026-27. In particular, I appreciate Mr. Zubair Ahmad, Special Secretary – R&R, Mr. Abdul Haseeb, Additional Secretary – Regulation, and Mr. Abdul Qayyum Khan, Chief Team Lead, Debt/Risk Management Unit, for their leadership and commitment throughout the process. I also acknowledge the valuable contributions of all committee members, departmental representatives, and officers of the Finance Department. Special appreciation is extended to Mr. Khalid Iqbal, Special Secretary – Budget, for coordinating and supervising the preparation of this document.

Kamran Ahmed Afridi

Secretary Finance

Government of Khyber Pakhtunkhwa

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Executive Summary

The White Paper forms part of the annual budget documentation, presenting the Province's financial position, key policy priorities, major reforms, and the rationale behind the Budget 2026-27. It is intended to help citizens, policymakers, development partners, and other stakeholders understand how public resources are generated, allocated, and utilized to meet the needs of the people of Khyber Pakhtunkhwa.

The Budget 2026-27 has been prepared in a challenging global, national, and provincial backdrop. Geopolitical tensions, including the recent conflict between the United States and Iran, supply chain disruptions, energy market volatility, and slowing growth in several regions. At the national level, fiscal consolidation and revenue mobilization efforts are placing pressure on both the Federal and Provincial Governments. For Khyber Pakhtunkhwa, these pressures are compounded by its position as a landlocked province with strong economic linkages to Afghanistan and Central Asia, where trade disruptions, periodic border closures, and policy changes such as the Infrastructure Development Cess (IDC) affect trade

Despite these challenges, the Government has presented a deficit budget totaling Rs. 2,170.0 billion, with estimated fiscal deficit of Rs. 48.0 billion, comprising current expenditure of Rs. 1,645.7 billion and development expenditure of Rs. 524.3 billion. Out of total current budget, Rs. 1,465.7 billion is allocated to settled districts whereas Rs. 179.9 billion to Merged Districts. To strengthen fiscal sustainability and reduce reliance on external resources, Provincial Own Source Revenue (OSR) has been budgeted at Rs. 182.4 billion for FY 2026-27, up from Rs. 129.0 billion for FY 2025-26. Federal Tax Assignments are estimated at Rs. 1,240.7 billion, war on terror receipts 149.1 billion, straight transfers 53.6 billion, windfall levy 24.9 billion and receipts from Net Hydel Profits at Rs. 116.8 billion.

Health, Education, and Security continue to receive the largest share of the budget, accounting for nearly 50% of total spending, reflecting the Government's priority on human development, service delivery, and peace and security. Key flagship allocations include Sehat Card Programme, Medical Teaching Institutions, and Social Safety Net programmes, alongside funding for food security, medicines, public sector universities, public transport, police modernization, support for Temporarily Displaced Persons, and the Good Governance Roadmap.

To strengthen public finances and build resilience against future shocks, the Government is introducing reforms including the establishment of a Khyber Pakhtunkhwa Takaful Insurance Company, a Disaster Risk Management Fund, a strengthened Debt Management Fund, and improved cash, investment, and fiscal risk management. The Merged Districts remain a major priority, with a total allocation of Rs. 272.8 billion, comprising Rs. 179.9 billion for current expenditure and Rs. 92.9 billion for development, to support service delivery, infrastructure, social programmes, and economic opportunities.

CHAPTER

01

MACRO- ECONOMIC OUTLOOK 2026-27

Navigating Global Uncertainty,
Holding Provincial Stability



ECONOMIC OUTLOOK & LABOUR MARKET DYNAMICS

KHYBER PAKHTUNKHWA

1 GLOBAL ECONOMIC OUTLOOK



The global economy is expected to recover gradually, supported by lower inflation, strong labour markets and improved trade and investment flows.

GLOBAL GDP GROWTH PROJECTIONS (IMF)



RISKS & UNCERTAINTIES

- Geopolitical tensions
- Trade fragmentation
- Commodity price volatility
- Tightening financial conditions

2 PAKISTAN'S MACROECONOMIC OUTLOOK

REAL GDP GROWTH (Projected)



3.7%
in 2026

4.0%
in 2027

INFLATION OUTLOOK (Projected)



~6.7%
in 2026

Risk from global prices and domestic factors

EXTERNAL SECTOR



Current account broadly manageable.

Focus on reserves, exports and remittances

POLICY PRIORITIES



Fiscal Consolidation



Structural Reforms



External Stability & Competitiveness

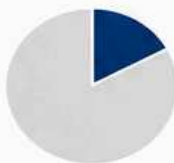


Macroeconomic Stability

3 KHYBER PAKHTUNKHWA: ECONOMIC STRUCTURE & CONTRIBUTIONS



KP contributes
10–11%
of Pakistan's GDP



KEY STRENGTHS & OPPORTUNITIES



Hydropower Generation



Mineral Resources



Tourism



Agriculture



Cross-border Commerce

GROWTH ENABLERS

- ✓ Investments in infrastructure, energy and industrialization
- ✓ CPEC initiatives, especially Rashakai Special Economic Zone
- ✓ Improved connectivity & linkages with domestic & international markets
- ✓ Attracting private investment, boosting exports and creating jobs

KEY CHALLENGES

- ! Narrow industrial base & infrastructure gaps
- ! Limited private-sector investment
- ! Low female labour force participation
- ! High informal sector prevalence
- ! Need for stronger revenue mobilization, better public spending efficiency and human capital development

4 LABOUR MARKET TRANSFORMATION & EMPLOYMENT DYNAMICS IN KP

CURRENT EMPLOYMENT STRUCTURE

- Agriculture (Largest Share)
- Trade (Small-scale)
- Construction
- Services (Expanding)
- Industry (Relatively Limited)
- Informal Sector (Predominant)

DEMOGRAPHIC ADVANTAGE

Young & growing population provides strong potential for growth and productivity.



GROWTH OPPORTUNITIES

- ✓ Infrastructure & industrial development
- ✓ Entrepreneurship & SME growth
- ✓ Technical & vocational training
- ✓ Digital connectivity & innovation
- ✓ Tourism development
- ✓ Regional connectivity expansion

KEY LABOUR MARKET CHALLENGES

- Youth Unemployment
- Low Female Labour Force Participation
- Skills Mismatches
- Predominance of Informal Employment

WAY FORWARD

- Invest in human capital and skills development
- Empower women in the workforce
- Promote private sector-led job creation
- Enhance productivity, competitiveness and inclusive growth



A more productive, skilled and inclusive workforce will be critical for enabling Khyber Pakhtunkhwa to achieve sustainable, broad-based and resilient growth.

Macro-Economic outlook

The global economy is expected to grow moderately despite continued risks from geopolitical tensions, trade fragmentation, and commodity price volatility. Pakistan's economic outlook has improved, supported by macroeconomic stabilization, moderating inflation, and ongoing structural reforms. Within this context, Khyber Pakhtunkhwa remains a key contributor to national economic growth through its strengths in agriculture, services, hydropower, minerals, tourism, and regional trade. While investments in infrastructure and industrial development are enhancing growth prospects, addressing structural challenges such as infrastructure gaps, limited private investment, and low labor force participation will be essential for achieving sustainable and inclusive economic development.

1.1. Global Economic Outlook

The global economy is projected to experience a gradual recovery over the medium term. According to the International Monetary Fund (IMF), global growth is expected to decrease from 3.4 percent in 2025 to 3.1 percent in 2026 and a slight increase to 3.2 percent in 2027. While these projections remain below the historical average growth rate of approximately 3.7 percent, they indicate improving economic conditions supported by easing inflationary pressures, resilient labor markets, and a gradual normalization of global trade and investment flows.

Nevertheless, the external environment remains subject to significant uncertainty. Geopolitical tensions, trade fragmentation, commodity price volatility, and tightening financial conditions continue to pose risks to the pace and sustainability of global recovery. Emerging and developing economies remain particularly vulnerable to external shocks, underscoring the importance of maintaining macroeconomic stability and advancing structural reforms.



1.2. Pakistan's Macroeconomic Outlook

Pakistan's economic outlook has improved following a period of macroeconomic adjustment and stabilization. Real GDP growth is projected to accelerate to approximately 3.7 percent in 2026 and further to 4.0 percent in 2027, supported by improved macroeconomic fundamentals, policy reforms, strengthening investor confidence, and a gradual recovery in private sector activity.

Inflationary pressures have moderated considerably compared to recent years, reflecting prudent monetary management and fiscal consolidation efforts. However, inflation remains vulnerable to fluctuations in international energy and commodity markets. Current inflation reported in May 2026 is 6.7 percent, driven primarily by global commodity price movements and ongoing domestic economic adjustments.

Pakistan's external sector is also expected to improve gradually. While the current account is projected to remain broadly manageable, rising imports associated with economic recovery and industrial expansion may place pressure on the external balance over the medium term. Strengthening foreign exchange reserves, enhancing export competitiveness, and sustaining remittance inflows will remain important policy priorities. Continued fiscal consolidation and structural reforms are expected to play a critical role in maintaining macroeconomic stability and supporting sustainable growth.



KEY ECONOMIC INDICATORS	2025 ESTIMATE	2026 FORECAST	2027 FORECAST
REAL GDP GROWTH	3.20%	3.70%	4.00%
INFLATION RATE (CPI)	4.60%	6.70%	8.40%
UNEMPLOYMENT RATE	7.10%	6.90%	6.50%
CURRENT ACCOUNT BALANCE (% OF GDP)	0.50%	-0.40%	-0.90%
POLICY INTEREST RATE	11.00%	11.50%	-
FOREIGN RESERVES (USD)	\$14.5B	\$17.1B	-

Source: IMF, World Economic Outlook (April 2026); Trading Economics

1.3. Provincial Economic Structure and Contributions

Pakistan’s economy is characterized by significant regional disparities in economic output, employment patterns, and revenue generation. Provincial economies differ considerably in terms of productive capacity, sectoral composition, and fiscal dependence, reflecting variations in industrialization, urbanization, resource endowments, and infrastructure development.

1.3.1. Khyber Pakhtunkhwa

Khyber Pakhtunkhwa (KP) is an increasingly important component of Pakistan’s economy, contributing approximately **10 percent of national GDP** and serving as a strategic gateway for regional trade and connectivity. The province possesses significant comparative advantages in hydropower generation, mineral resources, tourism, agriculture, and cross-border commerce, providing a strong foundation for long-term economic growth and diversification. Agriculture and services remain the principal drivers of provincial economic activity, while remittances continue to play a vital role in supporting household



incomes and local demand. Recent investments in transport infrastructure, energy development, and industrialization have strengthened the province’s economic outlook. Strategic initiatives under the China–Pakistan Economic Corridor (CPEC), particularly the **Rashakai Special Economic Zone**, are expected to accelerate industrial development, attract private investment, enhance exports, and generate employment opportunities. Improved regional connectivity and expanding economic linkages with domestic and international markets are further enhancing the province’s growth potential.

Despite these strengths, KP continues to face structural challenges that constrain productivity and economic transformation. These include a relatively narrow industrial base, infrastructure deficits, limited private-sector investment, low female labour force participation, and a high prevalence of informal economic activity. Addressing these constraints will require sustained efforts to strengthen domestic revenue mobilization, improve public expenditure efficiency, enhance the business and investment climate, and invest in human capital development.

With its strategic location, abundant natural resources, and growing infrastructure network, Khyber Pakhtunkhwa is well positioned to play a larger role in Pakistan's economic transformation. Unlocking this potential will be critical for accelerating provincial growth, strengthening fiscal resilience, and contributing to broader national development objectives.



Contributing nearly one-tenth of Pakistan's GDP, Khyber Pakhtunkhwa is strategically positioned to emerge as a major driver of national growth through its hydro power potential, mineral wealth, tourism assets, and regional connectivity advantages.

CHAPTER 02

BUDGET AT A GLANCE

Ehsaas Middle Class Ka

Financing Growth, Delivering Services, Building Resilience



KHYBER PAKHTUNKHWA BUDGET 2026-27 AT A GLANCE



Budget at Glance

The global and national economic outlook has shown signs of improvement, supported by moderating inflation, macroeconomic stabilization, and ongoing policy reforms. In this context, Khyber Pakhtunkhwa's FY 2026–27 Budget has been formulated to balance fiscal sustainability with development priorities amid continuing fiscal, security, and climate-related challenges. The Province has projected total revenues of PKR 2,122.0 billion against total expenditures of PKR 2,170.0 billion, resulting in a budget deficit of PKR 48 billion. The budget prioritizes investments in public service delivery, infrastructure, human capital development, climate resilience, and economic growth while maintaining fiscal discipline. Leveraging its strategic location, natural resources, hydropower potential, and expanding connectivity, Khyber Pakhtunkhwa remains well positioned to strengthen its contribution to national economic development.

2.1. Fiscal Overview and Budget Framework for FY 2026–27

The Government of Khyber Pakhtunkhwa has presented a deficit budget for FY 2026–27 amid a challenging macroeconomic environment characterized by external economic shocks, inflationary pressures, climate-related vulnerabilities, and persistent security challenges. Despite constrained fiscal space, the continuing impact of recent flood-related damages, rising security expenditures, and limited external financing, the Provincial Government has formulated a citizen-centered budget that seeks to strengthen public service delivery, advance inclusive and equitable development, and preserve macro-fiscal stability.

The total budget outlay for FY 2026–27 is estimated at PKR 2,170.0 billion, comprising PKR 1,465.8 billion for the Settled Districts, PKR 179.9 billion for the Merged Districts (MDs) on current side and PKR 524.3 billion for development expenditure.

On the revenue side, total receipts for FY 2026–27 are projected at PKR 2,122.0 billion. Federal Tax Assignment, are estimated at PKR 1,240.7 billion. Receipts under the War on Terror (WoT), Straight Transfers, and Windfall Levy are collectively projected at PKR 227.5 billion. Net Hydel Profits (NHP) are expected to contribute PKR 116.7 billion, while Provincial Own Receipts are estimated at PKR 182.4 billion, capital receipts at PKR 0.4 billion, reflecting ongoing efforts to strengthen domestic resource mobilization. In addition, Federal Government grants for the Merged Districts are projected at PKR 199.1 billion, while Foreign Project Assistance is budgeted at PKR 150.0 billion and receipts for PSDP tantamount to PKR 5.2 billion.

Tables 1(a), 1(b), and 1(c) present a consolidated overview of the Province’s budgeted receipts and expenditures for FY 2026–27. Total budgeted receipts are projected to increase by 0.14% percent compared with the estimated budgeted receipts of PKR 2,119.0 billion in the previous financial year, reflecting anticipated improvements in revenue performance and intergovernmental transfers. Similarly, the total expenditure outlay of PKR 2,170.0 billion represents an increase of 10.6 percent over the budgeted expenditure of PKR 1,962.0 billion in the preceding fiscal year.

The FY 2026–27 Budget reaffirms the Government’s commitment to maintaining fiscal discipline while advancing development priorities. The budget framework emphasizes enhanced domestic revenue mobilization, improved expenditure efficiency, and prudent fiscal management to safeguard fiscal sustainability. At the same time, it prioritizes investments in social protection, human capital development, infrastructure expansion, climate resilience, and sustainable economic growth. These measures are intended to support balanced regional development, strengthen economic opportunities, and improve the quality of public services across the province.

Overall, the FY 2026–27 Budget reflects the Government’s strategic approach to balancing fiscal responsibility with development needs, while laying the foundation for inclusive, resilient, and sustainable growth in Khyber Pakhtunkhwa.

2.2. Key Highlights for FY 2026-27

The Government of Khyber Pakhtunkhwa has provided block grants to selected departments to strengthen institutional capacity, improve operational effectiveness, and enhance service delivery across priority sectors. These allocations are intended to provide departments with greater financial flexibility and managerial autonomy, enabling them to

address sector-specific needs more efficiently, accelerate the implementation of strategic initiatives, and respond effectively to emerging service delivery requirements.

The provision of block grants is aligned with the Government's broader public financial management reforms aimed at promoting decentralized decision-making, improving accountability, and strengthening results-based management. By allowing departments greater discretion in the utilization of allocated resources within approved policy frameworks, block grants are expected to enhance resource allocation efficiency, support innovation in service delivery, and improve development outcomes.

Furthermore, this approach reinforces the Government's commitment to optimizing the use of public resources, strengthening institutional performance, and ensuring that budgetary allocations are translated into measurable improvements in public services. Through enhanced flexibility and performance-oriented management, block grants are expected to contribute to more effective governance and support the Province's broader objectives of inclusive, sustainable, and resilient socio-economic development.

Table 1 (a): Receipts Estimates from FY 2024-25 to -2026-27**(In Rs. Billion)**

Head	Budget 2025-26	Revised 2025-26	Budget 2026-27
Total Revenues	2,119.0	1,887.0	2,122.0
Federal Transfers	1,400.9	1,236.8	1,468.3
Federal Tax Assignment	1,147.8	1,055.1	1,240.7
1% for War on Terror	137.9	126.8	149.1
Straight Transfers	57.1	49.9	53.6
Windfall Levy	58.2	5.0	24.9
Profit from NHP	106.0	36.0	116.7
Regular Net Hydel Profit (NHP)	34.6	-	38.3
Arrears of Regular Net Hydel Profit (NHP)	71.3	36.0	22.3
Arrears of 5% Indexation	0.1	-	56.1
Provincial Own Receipts	129.0	139.8	182.4
Provincial Tax Receipts	83.5	87.4	115.9
Sales Tax on Services (KPRA)	45.5	57.0	80.0
Other Provincial Tax Receipts	38.0	30.4	35.9
Provincial Non-Tax Receipts	45.5	52.4	66.5
Other Receipts	10.3	0.4	0.4
Ways & Means Advance Facility from Fed. Govt.	10.0	-	-
Capital Receipts	0.3	0.4	0.4
Domestic Loan	-	-	-
Grants from Federal Govt (MDs)	292.3	301.8	199.1
Grants for Current Budget	80.0	80.0	95.0
Additional Financing Demand for Current Budget	80.0	66.0	-
Development Grant (ADP + AIP)	89.6	96.1	87.1
3% NFC Share – form Provinces	42.7	42.7	-
TDPs	-	17.0	17.0
Foreign Project Assistance (FPA)	177.2	163.9	150.0
FPA District Settled	171.8	159.0	145.2
FPA District Merged District	5.4	4.9	4.8
PSDP allocations for provincially executed projects	3.3	8.4	5.2

Table 1 (b): Expenditure Estimates from FY 2024-25 to -2026-27 (In Rs. Billion)

Head	Budget Estimates 2025-26	Revised 2025-26	Budget Estimates 2026-27
Total Expenditure	1,962.0	2,041.5	2,170.0
Current Revenue Expenditure	1,415.0	1,433.0	1,645.7
Salary	680.8	675.3	753.8
Settled-Provincial	288.5	285.5	334.3
Settled-Devolved	288.6	288.6	305.0
MDs Provincial	56.8	54.3	65.4
MDs Devolved	46.9	46.9	49.0
Pension	195.0	186.2	207.1
Pension expenditure funded from taxpayer proceeds	190.3	180.5	201.5
MDs	4.7	5.7	5.6
Non-Salary	539.3	571.6	684.9
Settled - Provincial O&M and Contingency	220.1	240.1	298.5
Settled - Devolved	37.5	35.8	43.5
NMAs - Provincial	37.6	26.7	29.9
NMAs - Devolved	10.3	9.4	13.0
MTIs	65.7	69.8	80.0
Food Security Net	12.1	12.1	12.1
Investment & Committed Contribution	42.0	42.0	69.0
Interest Payments	48.3	51.3	54.3
Grants to Local Council	14.8	23.0	22.2
COVID-19 Contingency	0.3	0.3	-
Capital Expenditure (Debt Principal Repayment)	40.4	41.1	45.4
TDPs	-	20.0	17.0
Repayment of Ways & Means Advance to Fed. Govt.	10.0	-	-
Total Development Expenditure	547.0	608.5	524.3
Development Expenditure (Excluding FPA + PSDP)	366.3	436.2	369.1
ADP (Provincial - Settled Districts)	195.0	258.4	235.0
ADP (Devolved - Settled Districts)	39.0	39.0	47.0
ADP (Provincial - Merged Districts)	33.0	35.9	29.0
ADP (Devolved - Merged Districts)	6.6	6.6	5.8
Accelerated Implementation Plan (AIP - Funded)	92.7	96.3	52.3
Foreign Project Assistance (FPA)	177.2	163.9	150.0
FPA Settled Districts	171.8	161.7	145.2
FPA Merged Districts	5.4	2.2	4.8
PSDP expenditure for provincially executed projects	3.5	8.4	5.2

Table 1(c): Summary, Expenditure, Budget Estimates, 2026-27**(In Rs. Billion)**

Head	Settled Districts	Merged Districts	Total
Total Expenditure	1,897.2	272.8	2,170.0
Total Current Expenditure	1,465.8	179.9	1,645.7
Salary (Settled + Tehsil)	639.3	114.4	753.7
Pension	201.5	5.6	207.1
Food Security Net	12.1	-	12.1
Investment & Committed Contributions	69.0	-	69.0
Interest Payments	54.3	-	54.3
Non-Salary (TDP 17 billion to MD)	444.2	59.9	504.1
Capital Expenditure (Debt Principal Repayment)	45.4	-	45.4
Total Development Expenditure	282.0	34.8	316.8
ADP (Provincial)	235.0	29.0	264.0
ADP (Devolved)	47.0	5.8	52.8
AIP	-	52.3	52.3
FPA+PSDP	149.4	5.8	155.2
FPA	145.2	4.8	150.0
Provincially Executed PSDP	4.2	1.0	5.2

Differences between budgeted allocations and actual expenditures are a common feature of public financial management systems and may arise due to changing fiscal conditions, implementation constraints, evolving policy priorities, and unforeseen expenditure requirements during the fiscal year. Consequently, budget estimates across expenditure categories may not always correspond fully with actual spending outcomes at year-end.

Recognizing the importance of strengthening budget credibility and improving fiscal forecasting, the Government of Khyber Pakhtunkhwa has undertaken a series of reforms aimed at enhancing the accuracy, realism, and transparency of the budgeting process. In particular, efforts have been made to align salary budgeting more closely with actual staffing levels and filled positions, rather than relying solely on sanctioned establishment strength. This approach is expected to improve expenditure forecasting, reduce over-budgeting, and facilitate more efficient allocation of fiscal resources.

The Government has also strengthened fiscal transparency and public accountability through the regular publication of annual budget execution and actual expenditure data. These measures enhance the availability of fiscal information, support evidence-based decision-making, and provide stakeholders with a clearer understanding of expenditure performance and resource utilization.

Going forward, continued improvements in budget formulation, expenditure forecasting, and financial reporting will be critical to strengthening budget credibility, improving expenditure management, and supporting the Government's broader objectives of fiscal sustainability, transparency, and results-oriented public financial management.

CHAPTER 03

ESTIMATES OF RECEIPTS

2026-27



Receipts

The Provincial Receipts framework of Khyber Pakhtunkhwa for FY 2026–27 is reflecting moderate growth driven primarily by federal transfers, own-source revenue, and development inflows. Federal transfers remain the dominant source, including NFC share, Net Hydel Profits, oil and gas receipts, and grants for merged districts, collectively accounting for the bulk of fiscal resources. Own-source revenue is showing strong growth of over 40 percent, supported by improved tax administration and higher non-tax collections. Capital receipts remain minimal, while development receipts are significant largely comprising federal support for merged districts and PSDP allocations. NFC allocations continue under the Seventh Award, with unresolved post-merger adjustments affecting the provincial share. Net Hydel Profits and oil and gas revenues remain key constitutional entitlements supporting fiscal stability. Overall, the budget reflects continued reliance on federal flows alongside gradual strengthening of provincial revenue mobilization.

3.1. Overview of Provincial Receipts

The revenue framework of the Government of Khyber Pakhtunkhwa is primarily supported by two broad sources: Federal Transfers and Provincial Own-Source Revenue. Federal Transfers comprise the Province's share in the divisible pool under the National Finance Commission (NFC) Award, straight transfers, and other federal grants. Provincial Own-Source Revenue consists of provincial tax revenues, non-tax receipts, and income generated from provincial properties and public enterprises. For analytical and reporting purposes, provincial receipts are classified into the following categories:

- General Revenue Receipts
- Capital Receipts
- Development Receipts

This classification provides a comprehensive overview of the Province's revenue structure and highlights the sources of fiscal inflows that support government operations, expenditure priorities, and development objectives.

For FY 2026–27, the total estimated receipts of the Government of Khyber Pakhtunkhwa are projected at PKR 2,122.0 billion comprise of:

- PKR 1,319.2 billion from the Federal Transfers including straight transfer and windfall levy;
- PKR 182.4 billion from Provincial Own-Source Revenue;
- PKR 116.7 billion from Net Hydel Profits (NHP);
- PKR 149.1 billion representing the share under the War on Terror arrangement;
- PKR 199.1 billion in Federal Government grants Merged Districts;
- PKR 150.0 billion are from foreign funded projects under (FPA) and

- PKR 0.36 billion are from capital receipts
- PKR 5.2 billion Public sector development programme

Overall, total estimated receipts for FY 2026–27 are projected to increase by 0.14 percent compared with the previous year’s budget estimate of PKR 2,119.0 billion, reflecting anticipated growth in federal transfers, provincial revenue mobilization, and other fiscal receipts.

3.2. General Revenue Receipts

General Revenue Receipts constitute the primary source of funding for the Government of Khyber Pakhtunkhwa and finance the delivery of essential public services, including education, healthcare, pensions, public administration, and other recurrent expenditures. These receipts are derived from three principal sources:

- **Federal Transfers** – Transfers received from the Federal Government under various constitutional and fiscal arrangements.
- **Net Hydel Profits (NHP)** – Revenues accruing to the Province from hydropower generation.
- **Provincial Own Receipts (Own Source Receipts)** – Revenues generated through provincial taxes, non-tax receipts, fees, and other sources.

For FY 2026–27, General Revenue Receipts are projected at PKR 1,767.4 billion, representing an increase of 8.0 percent over the previous year's budget estimate of PKR 1,635.9 billion.

The projected receipts comprise:

- **PKR 1,468.3 billion** from Federal Transfers;
- **PKR 116.7 billion** from Net Hydel Profits; and
- **PKR 182.4 billion** from Provincial Own Receipts.

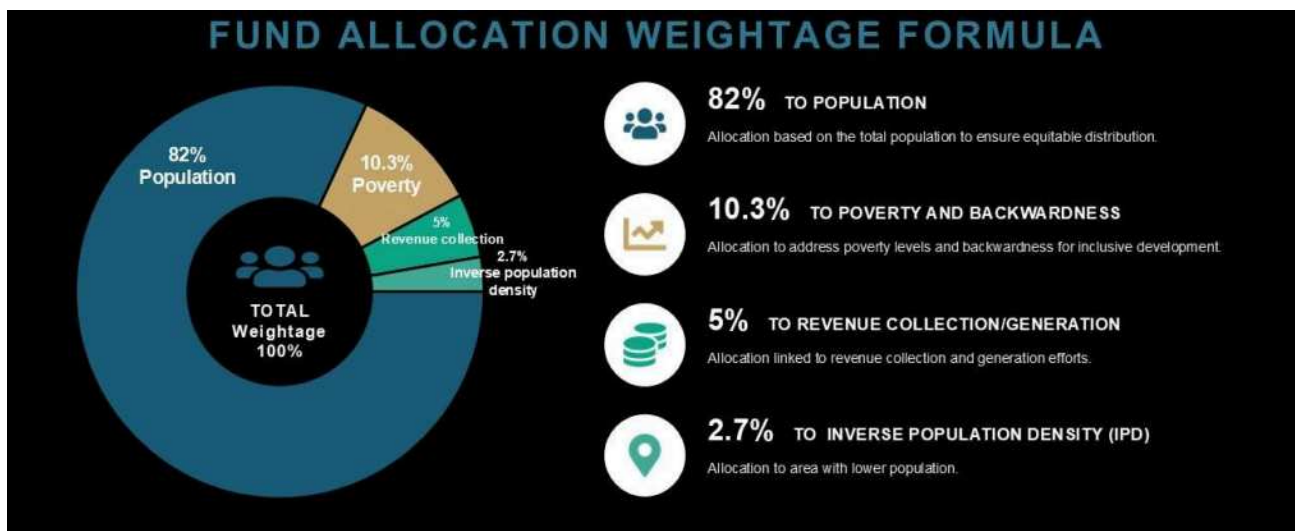
Federal transfers to Khyber Pakhtunkhwa primarily include:

- Province's share under 7th National Finance Commission (NFC) Award;
- Net Hydel Profits (NHP) arising from hydropower generation; and
- Receipts from Oil and Gas.(straight transfers)

Collectively, these transfers account for approximately 90 percent of the Province's total General Revenue Receipts, underscoring their central role in supporting fiscal sustainability, public service delivery, and development financing.

3.3. National Finance Commission (NFC)

Under the Seventh National Finance Commission (NFC) Award, the distribution of the provincial share of the Federal Divisible Pool was based on a Multiple-Criteria Formula, representing a significant shift from the previous population-based allocation framework. The revised formula was designed to promote greater fiscal equity by incorporating indicators that reflect both development needs and revenue-generating capacity across provinces.



The introduction of this multi-dimensional formula broadened the basis for intergovernmental fiscal transfers by recognizing disparities in poverty levels, development needs, revenue effort, and geographic characteristics. In particular, the inclusion of poverty and backwardness and inverse population density benefited relatively less-developed and geographically dispersed provinces by providing greater consideration to fiscal needs and service delivery costs.

The Seventh NFC Award therefore marked an important step toward strengthening fiscal federalism in Pakistan by balancing population-based allocations with measures of equity, development requirements, and revenue performance. This framework continues to serve as the foundation for provincial resource distribution and plays a critical role in financing public services and development expenditures across the provinces.

Under Clause 3(A) of Article 160 of the Constitution of the Islamic Republic of Pakistan, inserted through the Eighteenth Constitutional Amendment, the share of the Provinces in any future National Finance Commission (NFC) Award cannot be lower than the share allocated under the preceding Award. This constitutional safeguard strengthens fiscal federalism by ensuring a predictable and stable flow of resources to provincial governments.

For FY 2026–27, the Government of Khyber Pakhtunkhwa is expected to receive approximately PKR 1,389.8 billion from the Federal Government under the NFC Award. These transfers constitute the largest component of provincial revenues and play a critical role in financing public services, development programs, and socio-economic priorities across the Province.

The horizontal distribution of resources among the Provinces under the Seventh NFC Award is based on a multiple-criteria formula that incorporates population, poverty and backwardness, revenue generation, and inverse population density. This represented a significant departure from previous allocation mechanisms that relied predominantly on population as the sole criterion.

Since the promulgation of the Seventh National Finance Commission (NFC) Award in 2010, no subsequent NFC Award has been finalized. The Eighth NFC, constituted on 21 July 2010, the Ninth NFC, constituted on 24 April 2015 and subsequently reconstituted on 10 January 2019, and the Tenth NFC, constituted on 21 July 2020, were unable to reach consensus on a new Award. The Tenth NFC held only its inaugural meeting and completed its tenure in August 2025 without producing an agreed framework for resource distribution.

During the proceedings of the Tenth NFC, Khyber Pakhtunkhwa was assigned responsibility under Sub-Group V to develop recommendations regarding the development and mainstreaming of the erstwhile Federally Administered Tribal Areas (FATA), now the Merged Districts (MDs). Despite extensive deliberations and sustained engagement by the Province, the process did not result in an agreed mechanism for addressing the fiscal implications of the merger within the NFC framework.

Table 2: NFC share of MD withheld by Federal since 2018

Following the expiry of the Tenth NFC, the Government of Pakistan, through the President of Pakistan, constituted the Eleventh National Finance Commission vide Notification No. S.R.O. (I)/2025 dated 22 August 2025. During the inaugural meeting of the Eleventh NFC held on 4 December 2025, Sub-Group VII was established at the recommendation of the Chief Minister/Minister-In-Charge for Finance, Khyber Pakhtunkhwa. The sub-group was mandated to make recommendations regarding the fiscal implications of the merger of the erstwhile FATA and the determination of an appropriate share for the Merged Districts within the divisible pool

Two meetings of the sub-group were subsequently held on 23 December 2025 and 26 March 2026 under the convenorship of the Chief Minister/ Minister-In-Charge for Finance, Khyber Pakhtunkhwa. During these deliberations, the Province presented the constitutional and fiscal case for incorporating the Merged Districts into the NFC resource allocation framework following their integration into Khyber Pakhtunkhwa through the Twenty-Fifth Constitutional Amendment in 2018. The Province emphasized that the successful mainstreaming of the Merged Districts requires a corresponding adjustment in intergovernmental fiscal transfers to reflect the expanded population, development needs, and service delivery responsibilities arising from the merger.

Year	PKR in millions			
	Punjab's Contribution	Sindh's Contribution	Baluchistan's Contribution	Khyber Pakhtunkhwa (MDs Share Not Transferred)
2018-19	63,570	31,126	13,216	(107,911)
2019-20	59,098	28,936	12,286	(100,320)
2020-21	56,639	29,201	12,399	(101,238)
2021-22	69,824	34,188	14,516	(118,528)
2022-23	65,207	31,927	13,556	(110,691)
2023-24	65,729	32,183	13,665	(111,577)
2024-25	84,532	41,389	17,574	(143,496)
2025-26	100,380	49,149	20,869	(170,398)
Total (8 Years)	567,379	278,098	118,081	(964,158)

Khyber Pakhtunkhwa further highlighted that the continued application of horizontal distribution parameters based on pre-merger demographics does not fully reflect the Province's current constitutional and administrative responsibilities. The Province argued that, in the absence of a new NFC Award, the underlying allocation formula should have been updated following the merger to incorporate the population, geographic area, poverty levels, and development indicators of the Merged Districts. According to estimates prepared by the Finance Department, the inclusion of these factors would have increased the Province's horizontal share in the divisible pool from 14.62 percent to approximately 16.79 percent from FY2018-19 onwards.

Table 3: NFC Post Merger Scenario

NFC Indicators	Pre-Merger	Post-Merger	Change
Population	11.33	13.04	1.71
Poverty & Backwardness	2.87	3.26	0.39
IPD (Inverse Population Density)	0.17	0.2	0.03
Revenue Generation	0.25	0.29	0.04
Total	14.62	16.79	2.17

The Province also noted that constitutional precedent exists for modifying elements of the NFC framework in response to evolving federal circumstances. In particular, Presidential Order No. 6 of 2015 amended provisions of the Seventh NFC Award to preserve Balochistan's protected share beyond the original award period. This amendment, issued under Article 160(6) and 160(7) of the Constitution, demonstrates the flexibility available within the constitutional framework to address emerging fiscal requirements and changing realities within the Federation.

Against this backdrop, Khyber Pakhtunkhwa continues to advocate for an updated and equitable NFC framework that fully reflects the post-merger constitutional structure of Pakistan, recognizes the fiscal needs of the Merged Districts, and supports their long-term socio-economic integration and development.

3.4. Net Hydel Profits (NHP)

Net Hydel Profits (NHP) constitute a constitutional entitlement of Khyber Pakhtunkhwa under the Constitution of the Islamic Republic of Pakistan. The provision recognizes the Province's rights arising from the utilization of its water resources for the generation of hydroelectric power and provides a mechanism for compensating the Province for the net benefits derived from electricity production at large hydropower facilities.

As one of the Province's most significant non-tax revenue sources, NHP plays an important role in strengthening fiscal sustainability, financing public services, and supporting socio-economic development. The determination and payment of NHP are governed by constitutional provisions, intergovernmental agreements, and various decisions of the Council of Common Interests (CCI).

For FY 2026–27, total receipts under Net Hydel Profits are estimated at PKR 116.7 billion . These receipts comprise the following components:

1. **Regular NHP** – representing the annual entitlement payable to the Province under the agreed NHP framework.
2. **Arrears of Regular NHP (previous years)** – reflecting outstanding amounts that have been mutually verified and agreed between the Federal Government and the Province.
3. **Arrears of 5% Indexation (2015-16 to till date)** – representing pending claims that remain subject to reconciliation and settlement.
4. **Claims under the A.G.N. Kazi Formula** – relating to the Province’s claims based on the methodology established under the A.G.N. Kazi Committee for the determination of hydel profits.

The Government of Khyber Pakhtunkhwa continues to pursue the timely settlement of outstanding NHP claims and advocates for a sustainable and transparent mechanism for the determination and payment of hydel profits in accordance with the constitutional framework. Ensuring the full realization of NHP entitlements remains important for strengthening provincial fiscal capacity, supporting development financing, and safeguarding the Province’s constitutional rights over its natural resources. The detailed breakdown of the Net Hydel Profits (NHP) budget for the Financial Year 2026–27 is given as

Table 4: Regular Net Hydel Profit (NHP) BE 2026-27

Rs. In Billion

Head	Budget Estimates 2025-26	Revise estimate 2025-26	Budget Estimates 2026-27
Total	106.0	36.0	116.7
Regular Net Hydel Profit (NHP) with 5% Indexation @1.792 (Data:21,365,269,732)	34.6	0	38.3
Arrears of Regular Net Hydel Profit (NHP) excluding 5% Indexation @1.10 (FY-2024-25 & 2025-26)	28.8	36.0	22.3
Arrears of 5% Indexation (2016-17 to 2025-26)	42.6	0	56.1

Note: Generation (**Data:21,365,269,732**)

3.5. Revenue from Oil and Gas

In consonance with Article 161 of 1973 Constitution, the Government of Khyber Pakhtunkhwa is entitled to receive revenues on account of the following:

1. Royalty on Oil & Gas
2. Gas Development Surcharge
3. Excise Duty on Gas
4. Excise Duty on Oil
5. Windfall Levy on Crude Oil
6. Petroleum Levy

The status of actual receipts from the Federal Government over the last 5 years and figures budgeted for this year are shown in the table below:

Table 5: Receipts from Federal Government on Account of Oil and Gas Rs. In Billion

Head	Actual 2024-25	Budget Estimate 2025-26	Revised 2025-26	Budget Estimate 2026-27
Total	58.5	57.1	54.9	78.5
Royalty on Crude Oil	24.8	25.5	16.8	17.5
Royalty on Natural Gas	29.6	22.4	18.3	20.2
Gas Development Surcharge	0.3	7.4	13.6	14.8
Excise Duty on Natural Gas	1.3	1.8	1.1	1.1
Windfall Levy	2.5	-	5.0	24.9

Oil and gas revenues constitute an important component of Khyber Pakhtunkhwa's provincial receipts and are derived from constitutional and statutory entitlements associated with the exploration and production of hydrocarbon resources within the Province. These revenues primarily comprise royalties on crude oil and natural gas, Gas Development Surcharge (GDS), Federal Excise Duty (FED) on natural gas, and Windfall Levy on Crude Oil (WLO).

1. Royalty on Crude Oil and Natural Gas

Under the Seventh NFC Award, Khyber Pakhtunkhwa receives royalties on crude oil and natural gas based on its contribution to national production. Exploration and production companies pay royalty at 12.5% of wellhead value, with 2% retained by the Federal Government and the remainder transferred to the Province. Royalties are payable monthly within 45 days of production, providing a significant source of constitutionally protected provincial revenue.

2. Gas Development Surcharge (GDS)

Gas Development Surcharge represents the difference between the consumer gas sale price and the prescribed price of gas companies under the Natural Gas (Development Surcharge) Ordinance, 1967. Under the Seventh NFC Award, provincial shares are determined through an agreed formula combining natural gas royalty and GDS, ensuring equitable distribution while safeguarding provincial rights under Article 161(1) of the Constitution.

3. Federal Excise Duty on Natural Gas

Federal Excise Duty on natural gas is collected by the Federal Board of Revenue (FBR) and transferred to Provinces through the Finance Division at a rate of Rs. 10 per MMBTU. These receipts provide an additional revenue stream linked to hydrocarbon production. To strengthen provincial participation in the energy sector, the Government established Khyber Pakhtunkhwa Oil and Gas Company Limited (KPOGCL) in 2013 to promote exploration and production activities.

4. Federal Excise Duty on Crude Oil

Article 161(1)(b) of the Constitution explicitly requires that the Federal excise duty on Oil levied at Wellhead and collected Federal Government shall be paid to Province in which the Wellhead of the oil is situated. It has been more than 15 years since the promulgation of 18th constitutional amendment yet this important constitutional provision has not been implemented by the Federal Government. Given that Khyber Pakhtunkhwa contributes more than 40% of Pakistan's crude oil production to the overall national crude oil production, the Province continues to seek operationalization of this constitutional entitlement.

5. Windfall Levy on Crude Oil

The Petroleum Exploration and Production Policy, 2012 provides for a Windfall Levy on Crude Oil, with proceeds shared equally between the Federal Government and the concerned Province under Article 172(3) of the Constitution. Following sustained provincial efforts, transfers commenced in October 2024, and during FY2025–26, Khyber Pakhtunkhwa received around PKR 3 billion as its share of Windfall Levy receipts.

6. Petroleum Levy

Petroleum Levy is collected by the Federal Government as a non-divisible levy and does not form part of the NFC divisible pool. Consequently, Provinces do not receive a share of these proceeds. Khyber Pakhtunkhwa continues to advocate for a review of resource-sharing arrangements to ensure that constitutional principles governing provincial ownership of natural resources are adequately reflected in fiscal transfers.

3.6. Provincial Own Receipts (Own Source Receipts)

Provincial Own Receipts are projected at Rs. 182.4 billion in FY 2026-27, comprising Rs. 115.9 billion in tax revenue and Rs. 66.5 billion in non-tax revenue. Compared to the FY 2025-26 budget estimate of Rs. 129.0 billion, provincial own receipts are expected to increase by approximately 41.3 percent, reflecting strengthened domestic resource mobilization and improved revenue administration.

Tax Revenue Performance

Provincial tax revenue is budgeted at Rs. 115.9 billion in FY 2026-27, representing an increase of 38.8 percent over the FY 2025-26 budget estimate of Rs. 83.5 billion and 32.6 percent above the revised estimate of Rs. 87.4 billion. Indirect taxes (PKR 106.3 billion) continue to dominate the provincial tax structure, accounting for 91 percent of total tax receipts, while direct taxes (PKR 9.6 billion) contribute around 9 percent.

Direct Taxes

Direct tax collection is estimated at Rs. 9.6 billion in FY 2026-27. Key contributors include:

Table 6: Contribution of Direct Taxes

Nomenclature	Rs. (Billion)
Land Revenue Fee	3.0
Property & Wealth Tax	4.0
Professional Tax	1.5
Registration Fee	0.6
Capital Value Tax (CVT)	0.3
Agriculture Income Tax	0.2
Total	9.6

The composition indicates continued reliance on land-based taxation and property-related revenues, while the contribution of Agriculture Income Tax remains modest.

Indirect Taxes

Indirect taxes are projected at Rs. 106.3 billion, remaining the principal source of provincial tax revenue. Major sources include:

Table 7: Contribution of Indirect Taxes

Revenue Source	Rs. (Billion)
Sale Tax on Services	60.0
Motor Vehicle Tax	3.2
Stamp Duties Fee	4.1
Electricity Tax	14.0
PTA (Route Permit under MVT)	0.6
Tobacco Development Cess	3.0
Infrastructure Development Cess	20.0
Motor Vehicle Fitness (MVT)	0.4
Others	1.0
Total	106.3

Sales Tax on Services alone contributes nearly 47.8 percent of total tax receipts, underscoring its critical role in provincial revenue generation.

Non-Tax Revenue:

Non-tax revenues are estimated at Rs. 66.5 billion in FY 2026-27, representing a substantial increase of 46.1 percent over the FY 2025-26 budget estimate of Rs. 45.5 billion and 26.9 percent over the revised estimate of Rs. 52.4 billion.

Table 8: Provincial Non-Tax Revenue comparison**Rs. In Billion**

Head	Actual 2024-25	Budget Estimate 2025-26	Revised Estimate 2025-26	Budget Estimate 2026-27
Mines & Minerals	10.7	14.0	14.0	18.0
Police	2.5	3.3	3.3	4.2
Finance	4.5	17.5	23.7	30.0
Home	2.3	2.5	2.2	3.0
Health	0.5	1.2	1.2	1.5
Others	8.0	7.0	13.9	9.7
Total	28.7	45.5	52.3	66.5

Table 9: Provincial total direct Tax Revenue comparison**Rs. In Billion**

Tax Head	Actual 2024-25	Budget Estimate 2025-26	Revised Estimate 2025-26	Budget Estimate 2026-27
Land Revenue Fee	1.1	4.4	2.6	3.0
Property & Wealth Tax	2.2	2.8	2.6	4.0
Registration Fee	0.5	0.6	0.5	0.6
CVT Fee	0.2	0.2	0.3	0.3
Agriculture Income Tax	0.1	0.1	0.1	0.2
Professional Tax	0.9	1.2	1.1	1.5
Total	5.0	9.3	7.2	9.6

3.7 Capital Receipts

Capital Receipts represent funds received by the Government from sources other than its regular revenue streams. These receipts primarily arise from the recovery of investments, loan recovery, and receipts from public institutions and corporate entities. While capital receipts do not constitute recurrent revenue, they provide an additional source of financing that supports the Province's overall fiscal position. Major sources of Capital Receipts include:

1. Recoveries from investments made through various funds;
2. Recovery of loans and advances from government employees;
3. Recoveries from financial and non-financial institutions, autonomous and semi-autonomous bodies.

For FY 2026–27, total Capital Receipts are estimated at **PKR 0.4 billion**.

Table 10: General Capital Receipts

Rs. In Billion

Head	Actual 2024-25	Budget Estimate 2025-26	Revised Estimate 2025-26	Budget Estimate 2026-27
Recovery of Investment & Loans	0.0	0.4	0.0	0.0
Ways & Means Advance Facility from Fed. Govt.	0.0	10.0	0.0	0.0
Capital Receipts	0.2	0.2	0.3	0.4
Total	0.2	10.6	0.3	0.4

Although Capital Receipts account for a relatively small share of total provincial receipts, they contribute to fiscal sustainability by generating non-tax resources and facilitating the recovery of public investments and advances. Effective management of these receipts remains important for strengthening public financial management and optimizing the utilization of provincial assets.

3.8 Development Receipts

Development Receipts consist of grants received for Merged Districts and the Public Sector Development Programmed (PSDP). Amounts received under each head of Development Receipts are depicted in the table below.

Table 11: Development Grants for MDs & PSDP

Rs. In Billion

Head	Actual 2024-25	Budget Estimate 2025-26	Revised Estimate 2025-26	Budget Estimate 2026-27
Grants from Federal Govt. (MDs)	138.4	297.7	304.0	203.8
Grants for Current Budget	66.0	80.0	80.0	95.0
Additional Financing Demand for Current Budget	0.0	63.0	66.0	-
TDPs	0.0	17.0	17	17.0
Development Grant (ADP+AIP+FPA)	72.4	95.0	98.3	91.8
3% NFC from Provinces	-	42.7	42.7	0.0
PSDP allocations for provincially executed projects	4.6	1.9	2.0	1.0
Total Development Grants	143.0	299.6	306.0	204.9

Following the merger of the erstwhile Federally Administered Tribal Areas (FATA) with Khyber Pakhtunkhwa through the Twenty-Fifth Constitutional Amendment in 2018, the Federal Government committed to providing transitional fiscal support to facilitate the integration, administration, and development of the Merged Districts (MDs). These grants remain a critical source of financing for meeting the current expenditure requirements of the region.

For FY 2024–25, the Federal Government increased the current grant allocation for the Merged Districts to PKR 66.0 billion. Similar to the previous year, the allocation was limited to salary and non-salary expenditures and did not include funding for TDP-related requirements. Despite the increase, the allocation remained insufficient to meet actual expenditure needs.

Looking ahead, the financing requirements of the Merged Districts are expected to increase further as the integration process advances and public service delivery obligations expand. Accordingly, the Provincial Government has reflected a requirement of PKR 180.0 billion in FY 2026–27 to adequately finance the current budget needs of the Merged Districts.

The persistent gap between federal grant allocations and actual expenditure requirements underscores the continuing fiscal challenges associated with the mainstreaming of the Merged Districts. Ensuring adequate and predictable financing remains essential for sustaining public services, supporting displaced populations, strengthening governance institutions, and advancing the long-term socioeconomic integration of the region.

3.9. The Khyber Pakhtunkhwa Revenue Authority (KPRA)

KPRA's revenue performance during FY2025-26 reflected mixed trends across its major revenue streams. Sales Tax on Services (STS) collections were maintained at the budgeted level of Rs. 50 billion in the revised estimates, reflecting sustained revenue mobilization supported by improved compliance, sectoral expansion, and enhanced enforcement and automation measures. In contrast, Infrastructure Development Cess (IDC) collections were revised downward from Rs. 10 billion to Rs. 7 billion, primarily due to prolonged border closures and disruptions in cross-border trade. Consequently, total collections under these two revenue heads were revised from Rs. 60 billion to Rs. 57 billion.

For FY2026-27, KPRA has set a target of Rs. 80 billion from these revenue streams, comprising Rs. 60 billion from Sales Tax on Services and Rs. 20 billion from Infrastructure Development Cess. The projected increase reflects expectations of stronger economic activity, improved compliance, and recovery in trade-related revenues. To support achievement of these targets, KPRA plans to introduce a Whistleblower Incentive Framework, expand electronic invoicing and POS monitoring, intensify risk-based audits, and further strengthen taxpayer facilitation and digital compliance measures.

Table 12: Sales Tax on Services and Infrastructure Development Cess (Rs. In Billion)

Taxes/Cess	BE 2025-26	RE 2025-26	BE 2026-27
Sales Tax on Services	50.0	50.0	60.0
Infrastructural Development Cess	10.0	7.0	20.0
Total	60.0	57.0	80.0

3.9.1. Projected Plans – FY 2026-27

For FY2026-27, KPRA's reform agenda is anchored on four strategic pillars: broadening the tax base, strengthening enforcement, advancing digital integration, and improving taxpayer facilitation. A flagship initiative for the year is the introduction of a Public Participation and Whistleblower Incentive Framework, under which citizens and consumers will be incentivized through structured financial rewards to report tax evasion, fake invoicing, POS manipulation, and other fraudulent activities – significantly enhancing market intelligence and deterrence. Simultaneously, electronic invoicing, real-time POS monitoring, digital audit tools, risk-based audits, and expansion of withholding regimes will be pursued to minimize revenue leakages and improve transaction documentation. On the facilitation side, simplified registration procedures, awareness campaigns, and targeted tax rate reductions in selected sectors will promote a compliance-friendly environment and encourage voluntary participation in the formal service economy – collectively aimed at establishing a transparent, technology-driven, and participatory tax administration system for sustainable provincial revenue growth.

CHAPTER 04

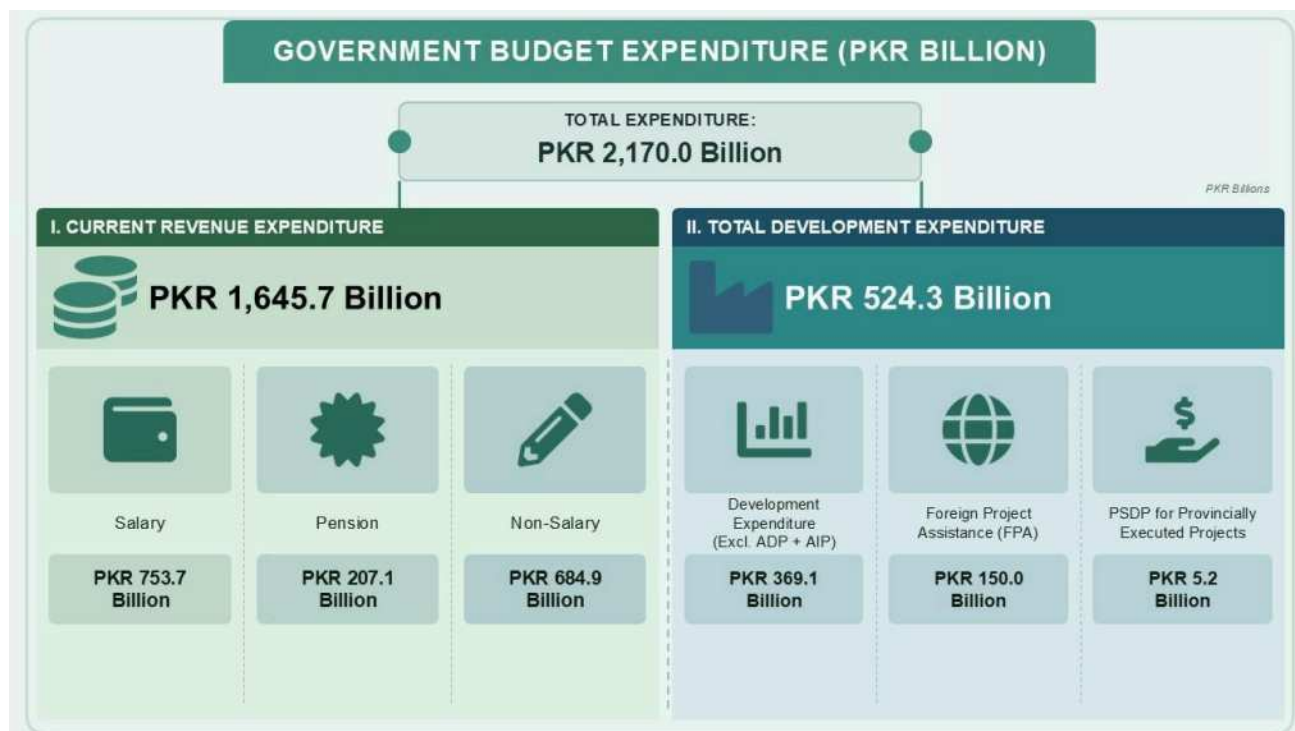
ESTIMATES OF EXPENDITURES

Smart Spending. Stronger Khyber Pakhtunkhwa. Better Tomorrow.



Expenditure

The FY2026–27 Budget of the Government of Khyber Pakhtunkhwa envisages total expenditure of PKR 2,170 billion, a 10.6% increase over the previous year, reflecting a balance between fiscal sustainability and development priorities. Current expenditure is budgeted at PKR 1,645.7 billion, including PKR 753.7 billion for salaries and PKR 207.1 billion for pensions, while development expenditure stands at PKR 524.3 billion, supporting infrastructure, human capital, and economic growth. The budget includes the largest development program in the Province’s history, with significant allocations for the Merged Districts and local governments to strengthen service delivery and regional integration



4.1. Expenditure Outlook

The Government of Khyber Pakhtunkhwa has estimated total expenditure of PKR 2,170.0 billion for FY2026–27. The expenditure framework comprises three principal components: current expenditure, capital expenditure, and development expenditure, reflecting the Government’s commitment to maintaining fiscal stability while supporting economic growth and service delivery.

Development expenditure is budgeted at PKR 524.3 billion, underscoring the Government’s strategic emphasis on infrastructure development, human capital formation, and inclusive economic growth. The remaining allocations are directed toward current and capital expenditures to ensure the continued provision of essential public services, administrative operations, and fulfillment of financial obligations.

Allocations for salaries and pensions are estimated at PKR 753.7 billion and PKR 207.1 billion, respectively. Compared with the previous fiscal year, the salary bill is projected to

increase by 10.9 percent, while pension expenditures are expected to rise by 6.2 percent, reflecting the combined impact of workforce-related obligations, inflationary adjustments, and demographic trends.

Overall, the FY2026–27 expenditure envelope represents an increase of 10.6 percent over the previous year’s budget allocation of PKR 1,962.0 billion. The expansion in expenditure reflects the Government’s efforts to sustain public service delivery, meet growing recurrent commitments, and support development priorities amid evolving fiscal and economic challenges.

Notably, FY2026–27 includes the largest development program in the Province’s history. The enhanced development allocation is intended to accelerate economic recovery, stimulate employment creation, strengthen infrastructure, improve service delivery outcomes, and reduce regional disparities. By prioritizing investment in productive and social sectors, the Government aims to support more balanced, resilient, and inclusive development across Khyber Pakhtunkhwa.

A detailed breakdown of current, and development expenditures is presented in the following table.

Table 13: Details of Provincial Expenditure

Rs. In Billion

Head	Actuals 2024-25	Budget Estimates 2025-26	Revised Estimates 2025-26	Budget Estimates 2026-27
Total	1,504.6	1,962.0	2,041.5	2,170.0
Current Expenditure	1,232.0	1,415.0	1,433.0	1,645.7
Development Expenditure	272.6	547.0	608.5	524.3

4.2. Current Expenditure

Current expenditure includes both salary and non-salary, as well as debt servicing and pension payments.

Table 14: Details of Salary and Pension Expenditure

Rs. In Billion

Head	Actuals 2024-25	Budget Estimates 2025-26	Revised Estimates 2025-26	Budget Estimates 2026-27
Total	727.4	874.1	861.5	960.8
Salary	561.6	679.2	675.3	753.7
Settled-Provincial	227.9	286.9	285.5	334.3
Settled-Devolved	251.0	288.6	288.6	305.0
MDs-Provincial	47.4	56.8	54.3	65.4
MDs-Devolved	35.3	46.8	46.9	49.0
Pension	165.8	195.0	186.2	207.1
Pension expenditure Settled	161.4	190.3	180.5	201.5
Pension expenditure MDs	4.4	4.7	5.7	5.6

The above table shows the detailed breakdown of current expenditure since 2024-2025 actual as well as budgeted 2025-2026. Total projected salary bill in Financial Year 2026-27 will be PKR. 753.7 billion. This is approximately 11% increase in the salary bill from PKR. 679.2 billion.

The pension increase has been increased at rate of 10.6% to 207.1 billion for FY 2026-27 compared to 195.0 in the previous year. Along with salaries, this category constitutes the largest share of the provincial government's expenditure. The rising cost of pensions and salaries has limited fiscal space for other prioritizes particularly the development budget and non-salary spending. As a result, important areas such as infrastructure upgrades, provision of school textbooks, and essential medicines in healthcare facilities face funding constraints.

4.3. Revenue/Resource transferred to Local Governments under PFC award for 2026-27

In line with Article 37(i) of the Constitution of the Islamic Republic of Pakistan, which emphasizes the decentralization of administrative authority to enhance service delivery and improve public access to government services, the Government of Khyber Pakhtunkhwa has continued to strengthen the local governance framework through the implementation of the Khyber Pakhtunkhwa Local Government Act (LGA), 2013. The Act established a system of local governments aimed at promoting accountable, responsive, and citizen-centered governance while ensuring alignment with federal and provincial laws and policies.

The operationalization of the local government system on 5 June 2015 marked an important step toward deepening democratic governance, enhancing local accountability, and bringing public services closer to communities. Since then, local governments have served as key institutions for delivering essential municipal and social services at the grassroots level.

For FY 2026–27, and pursuant to the approval of the Competent Authority, the Government has approved an Interim Provincial Finance Commission (PFC) Award covering the period from 1 July 2026 to 30 June 2027. The Award provides the framework for the transfer of allocable resources from the Provincial Consolidated Fund to local governments to support the financing of salary expenditures, operational and maintenance costs, grants to local councils, and development activities. The PFC transfers are intended to strengthen local fiscal capacity, improve service delivery outcomes, and support the effective functioning of local governments across the province. The allocations reflect the Government’s continued commitment to fiscal decentralization, equitable resource distribution, and improved local governance.

Table 15: Share of Local Government in Current Expenditure (Settled) Rs. In Billion

Head	Actuals 2024-25	Budget Estimates 2025-26	Revised Estimates 2025-26	Budget Estimates 2026-27
Total	327.7	377.7	383.6	412.3
Salary	263.07	288.6	288.6	305.0
Non-Salary	29.59	37.5	35.8	43.5
Grant to Local Councils	11.07	12.6	20.2	18.9
Development Grant	24.00	39.0	39.0	44.9

Following the merger of the erstwhile Federally Administered Tribal Areas (FATA) into Khyber Pakhtunkhwa through the Twenty-Fifth Constitutional Amendment, 2018, dedicated fiscal provisions have also been incorporated to support local governments in the Merged Districts (MDs). Accordingly, the FY 2026–27 PFC framework includes specific allocations and grants for local governments in the Merged Districts to facilitate institutional strengthening, enhance service delivery, and support their gradual integration into the provincial local governance system.

Table 16: Share of Local Government in Current Expenditure (Merged) Rs. In Billion

Head	Budget Estimates 2025-26	Revised Estimates 2025-26	Budget Estimates 2026-27
Total	65.9	65.7	72.8
Salary	46.8	46.8	49.0
Non-Salary	10.3	9.4	13.0
Grant to Local Councils	2.1	2.8	3.2
Development Grant	6.6	6.6	7.5

4.4. Capital Expenditure

The Government of Khyber Pakhtunkhwa is committed to managing its debt carefully to support the province's ongoing economic growth by directing funds to productive sectors. As per Article 167(4) of the Constitution of Pakistan (1973), KP government borrowing limit has been set at Rs. 44 billion, as communicated by the National Economic Council (NEC). For the financial year 2026-27, KP government capital expenditure mainly includes loans and advances given to provincial government employees, along with repayments of the principal amount of debt. These details are provided in the table below.

Table 17: Capital Expenditure**Rs. In Billion**

Head	Actuals 2024-25	Budget Estimates 2025-26	Revised Estimates 2025-26	Budget Estimates 2026-27
Total	31.0	50.4	41.1	45.4
Loans & Advances to Provincial Government Employees	0.30	0.0	0.0	0.0
Capital Expenditure (Debt Principal Repayment)	30.7	40.4	41.1	45.4
Repayment of Ways and Means advances to Federal Government	0.0	10.0	0.0	0.0

4.5 Development Expenditure

Development expenditure remains a central pillar of the Government of Khyber Pakhtunkhwa's fiscal strategy for FY 2026-27. The Government is committed not only to maintaining a substantial level of development investment but also to strengthening the efficiency, effectiveness, and strategic prioritization of public development spending.

To enhance the quality and impact of development investments, a series of reforms have been introduced in the planning and implementation of the Annual Development Programme (ADP). These measures include the adoption of a revised ADP policy and

planning guidelines, efforts to reduce the backlog of ongoing projects (throw forward), and the implementation of a new fund release mechanism aimed at improving expenditure management and ensuring the timely utilization of development resources throughout the fiscal year.

The development program is designed to support economic recovery, stimulate employment generation, strengthen human capital development, and improve the delivery of public services across the province. It also seeks to enhance infrastructure, promote regional connectivity, and foster inclusive and sustainable economic growth.

A significant portion of the development budget has been earmarked for the Merged Districts, with an allocation of PKR 94.8 billion (Excluding TDPs allocation) to support their continued socioeconomic transformation and integration. These investments are being financed through multiple channels, including the Annual Development Programme (ADP), Foreign Project Assistance (FPA), and the Accelerated Implementation Plan (AIP).

Through these investments, the Government aims to accelerate development outcomes, reduce regional disparities, and improve the quality of life for citizens across Khyber Pakhtunkhwa.

Table 18: Development Expenditure

Rs. In Billion

Head	Actuals 2024-25	Budget Estimates 2025-26	Revised Estimates 2025-26	Budget Estimates 2026-27
Development Expenditure	272.6	546.9	608.5	524.3
Annual Development Programme	166.4	273.6	339.9	316.8
ADP (Provincial-Settled Districts)	147.8	195.0	258.4	235.0
ADP (Devolved-Settled Districts)	-	39.0	39.0	47.0
ADP (Provincial-Merged Districts)	18.6	33.0	35.9	29.0
ADP (Devolved-Merged Districts)	-	6.6	6.6	5.8
Accelerated Implementation Plan	29.8	92.7	96.3	52.3
Accelerated Implementation Plan	29.8	92.7	96.3	52.3
Foreign Project Assistance (FPA)	69.1	177.2	163.9	150.0
FPA Settled Districts	69.1	171.8	161.7	145.2
FPA Merged Districts	-	5.4	2.2	4.8
PSDP expenditure for provincially executed projects	7.3	3.5	8.4	5.2

The FY 2026–27 Budget reflects the Government of Khyber Pakhtunkhwa’s continued commitment to prudent fiscal management, efficient resource allocation, and citizen-centered development. By prioritizing essential public services, strengthening public financial management systems, and advancing key structural reforms, the Government aims to enhance service delivery, promote inclusive economic growth, and improve the overall well-being of its citizens. The budget underscores a balanced approach that combines fiscal sustainability with strategic investments in human capital, infrastructure, and institutional development.

CHAPTER 05

ANNUAL DEVELOPMENT PROGRAMME

2026-27



Annual Development Programme

The ADP 2026–27 of Khyber Pakhtunkhwa, with a total development outlay of Rs. 524.3 billion, operationalizes provincial priorities through 2,757 schemes focused on inclusive and sustainable growth. The framework emphasizes nine strategic pillars including youth empowerment, climate resilience, governance reform, and regional equity. Sectoral allocations prioritize infrastructure, followed by social and governance sectors, reflecting a development-led growth strategy. Special regional packages for Mardan, Hazara, and merged districts aim to reduce disparities and strengthen integration. A significant foreign-assisted portfolio (Rs. 150.0 billion) supports key reforms in energy, health, education, and climate resilience.

5.1 Overview

The Annual Development Programme (ADP) serves as the Government of Khyber Pakhtunkhwa’s principal instrument for planning, financing, implementing, and monitoring development interventions across the province. Approved annually by the Provincial Assembly as part of the provincial budget, the ADP translates the Government’s policy priorities, reform agenda, and strategic vision into funded and executable initiatives.

The ADP 2026–27 has been formulated through an extensive consultative process involving elected representatives, administrative departments, development partners, civil society organizations, and other stakeholders. It reflects the Government’s commitment to economic growth, social development, infrastructure expansion, improved governance, climate resilience, and enhanced public service delivery.

5.2 Development Budget at a Glance

The total development outlay for FY 2026–27 is Rs. 524.3 billion comprising:

Table 19: Development Expenditure

Rs. In Billion

Component	Allocation
Settled ADP	431.4
Merged Areas ADP	40.6
Accelerated Implementation Programme (AIP)	52.3
Total	524.3

5.3 Strategic Framework for FY 2026-27

The ADP has been structured around the following strategic priorities:

- Youth Empowerment
- Ehsaas Awam Ka – Good Governance, Service Delivery and Social Safety Nets
- Reducing Regional Disparities
- Economic Growth and Job Creation
- Water Conservation (Urban–Rural)
- Climate Resilience, Green Growth and Biodiversity
- Clean Drinking Water for All
- Digital KP
- Safe and Peaceful Khyber Pakhtunkhwa

5.4 Sectoral Allocation Framework

The development budget is distributed across sectors as follows:

Table 20: Sectoral percentage

Sector	Share
Infrastructure	44%
Social Sectors	19%
Governance	13%
Multi-Sectoral Development	10%
Production Sectors	9%
Green Development Initiatives	5%

5.5 Development of Newly Merged Districts

Special emphasis has been placed on the development of Newly Merged Districts through:

- Merged Areas ADP: Rs. 29.0 billion
- Accelerated Implementation Programme (AIP): Rs. 52.3 billion

The interventions focus on infrastructure, service delivery, governance, economic opportunities, and social development.

5.6 Foreign-Assisted Development Portfolio

The foreign-assisted component amounts to Rs. **150.0 billion**.

Table 21: Details of Foreign Project Assistance

Rs in Billion

Portfolio	
Category	Amount
Loans	140.5
Grants	9.4
Total	150.0
Project Distribution	
Area	No of Projects
KP Settled	56
Merged Districts	3

The foreign-funded portfolio supports infrastructure, energy, health, education, climate resilience, governance reforms, and social development.

5.7 Role of Planning and Development Department

The Planning and Development Department (P&DD) ensures alignment between development investments and provincial priorities and remains the Government's principal institution for:

- Development planning
- ADP preparation
- Project appraisal and approval
- Resource allocation
- Monitoring and evaluation
- Development coordination

5.8 Monitoring and Evaluation Framework

The Government continues to strengthen a results-based monitoring framework focusing on:

- Physical progress monitoring
- Financial performance tracking
- Outcome evaluation
- Transparency and accountability
- Timely corrective actions
- Assessment of donor-funded and provincial initiatives

5.9 Vision

To align development planning and public investment with provincial priorities through efficient resource allocation while promoting inclusive, sustainable, climate-resilient, and broad-based economic growth across all regions of Khyber Pakhtunkhwa.

5.10 Policy Directions

The Government will pursue the following policy directions:

- Integrated planning and development
- Private sector participation through PPPs
- Improved public service delivery
- Investment and employment generation
- Poverty reduction
- Climate resilience
- Digital transformation
- Gender-responsive development
- Regional equity and inclusion

5.11 Implementation Strategy

The implementation framework includes:

- Diagnostic review of ongoing interventions
- Prioritization of high-impact initiatives
- Integration of current and development budgets
- Institutional strengthening
- Thematic working groups
- Periodic performance reviews
- Evidence-based decision making

This framework aims to maximize development outcomes, improve implementation efficiency, and ensure sustainable socio-economic transformation across Khyber Pakhtunkhwa.

5.12 Priority Development Themes settled

Table 22: ADP Settled

Rs. In Million

S.No	Sector	Ongoing		New / Un-App		Total Schemes	
		No	Allocation	No	Allocation	No	Allocation
1	Agriculture	28	4,135.88	18	1,103.00	46	5,238.88
2	Auqaf, Hajj, Religious & Minority Affairs	19	1,127.34	15	342.52	34	1,469.86
3	Board of Revenue	21	738.03	11	111.32	32	849.35
4	District ADP	1	47,000.00	0	0.00	1	47,000.00
5	Drinking Water & Sanitation	45	7,677.10	46	2,636.00	91	10,313.10
6	Elementary & Secondary Education	35	4,778.90	51	2,474.73	86	7,253.62
7	Energy & Power	27	3,354.96	8	184.05	35	3,539.00
8	Environment	3	73.00	4	25.99	7	98.99
9	Excise, Taxation & Narcotics Control	7	185.00	5	46.00	12	231.00
10	Finance	3	23.00	2	17.00	5	40.00
11	Food	4	488.38	5	57.76	9	546.14
12	Forestry	28	3,371.93	27	824.00	55	4,195.93
13	Health	91	11,798.14	114	4,534.49	205	16,332.64
14	Higher Education	40	4,331.99	35	1,227.99	75	5,559.97
15	Home	41	5,049.47	29	15,128.64	70	20,178.11
16	Housing	8	817.00	3	25.00	11	842.00
17	Human Resource Management & Administration	16	1,023.00	11	134.00	27	1,157.00
18	Industries	18	1,342.83	30	509.16	48	1,851.98
19	Information	4	80.50	5	312.50	9	393.00
20	Labour	3	174.17	3	45.84	6	220.00
21	Law & Justice	22	4,184.38	17	1,098.44	39	5,282.81
22	Livestock & Dairy Development	26	2,317.95	19	272.05	45	2,590.00
23	Local Government	10	4,992.17	16	623.77	26	5,615.94
24	Mines & Minerals	7	178.79	8	83.21	15	262.00
25	Multi Sectoral Development	61	10,063.99	74	10,008.50	135	20,072.49
26	Population Welfare	3	485.42	3	83.58	6	569.00
27	Public Private Partnership	1	250.00	0	0.00	1	250.00
28	Relief & Rehabilitation	16	1,345.87	19	1,173.80	35	2,519.67
29	Roads	304	31,696.76	187	7,793.42	491	39,490.18
30	Royalties & Cess Development	11	6,779.00	0	0.00	11	6,779.00
31	Science Technology & Information Technology	13	1,027.00	6	210.00	19	1,237.00
32	Social Welfare	17	918.04	14	1,018.00	31	1,936.04
33	Sports	23	4,788.42	33	1,843.99	56	6,632.41
34	Tourism	28	2,962.37	24	765.01	52	3,727.38
35	Transport	4	411.66	12	108.00	16	519.66
36	Urban Development	33	22,255.50	19	15,993.95	52	38,249.45
37	Water	121	14,776.39	53	4,180.01	174	18,956.40
	Total	1142	207,004.29	926	74,995.71	2068	282,000.00

5.13 Priority Development Themes MDs

Table 23: ADP MDs

Rs. In Million

S.No	Sector	Ongoing		New / Un-App		Total Schemes	
		No	Allocation	No	Allocation	No	Allocation
1	Agriculture	0	0.00	1	200.00	1	200.00
2	Auqaf, Hajj, Religious & Minority Affairs	2	14.00	1	4.00	3	18.00
3	Board of Revenue	1	10.00	1	30.00	2	40.00
4	District ADP	1	5,800.00	0	0.00	1	5,800.00
5	Drinking Water & Sanitation	3	848.86	3	15.00	6	863.86
6	Elementary & Secondary Education	10	1,417.78	6	625.50	16	2,043.28
7	Energy & Power	7	152.00	3	71.00	10	223.00
8	Excise, Taxation & Narcotics Control	0	0.00	1	23.00	1	23.00
9	Finance	0	0.00	1	2.00	1	2.00
10	Forestry	0	0.00	5	19.00	5	19.00
11	Health	10	5,280.47	13	1,065.00	23	6,345.47
12	Higher Education	5	343.48	5	170.00	10	513.48
13	Home	2	3,277.50	2	1,800.00	4	5,077.50
14	Human Resource Management & Administration	1	96.00	0	0.00	1	96.00
15	Industries	4	165.89	1	100.00	5	265.89
16	Labour	0	0.00	1	38.00	1	38.00
17	Law & Justice	0	0.00	1	53.00	1	53.00
18	Livestock & Dairy Development	4	195.00	0	0.00	4	195.00
19	Local Government	1	500.00	1	10.00	2	510.00
20	Mines & Minerals	0	0.00	2	34.00	2	34.00
21	Multi Sectoral Development	18	1,613.00	10	2,091.81	28	3,704.81
22	Population Welfare	1	12.00	0	0.00	1	12.00
23	Relief & Rehabilitation	1	0.00	0	0.00	1	0.00
24	Roads	107	4,725.59	29	1,080.00	136	5,805.59
25	Social Welfare	2	30.00	1	80.00	3	110.00
26	Sports	3	186.17	5	86.00	8	272.17
27	Tourism	1	95.00	0	0.00	1	95.00
28	Transport	0	0.00	2	430.00	2	430.00
29	Urban Development	3	697.82	0	0.00	3	697.82
30	Water	24	1,157.12	6	155.00	30	1,312.12
	Total	211	26,617.69	101	8,182.32	312	34,800.00

5.14 Priority Development Themes AIP

Table 24: AIP

Rs. In Million

S.No	Sector	Ongoing		New / Un-App		Total Schemes	
		No	Allocation	No	Allocation	No	Allocation
1	Agriculture	7	1,250.79	8	524.52	15	1,775.31
2	Auqaf, Hajj, Religious & Minority Affairs	2	90.00	1	20.00	3	110.00
3	Board of Revenue	2	500.00	1	80.00	3	580.00
4	Drinking Water & Sanitation	5	715.00	7	315.00	12	1,030.00
5	Elementary & Secondary Education	13	2,604.65	15	793.36	28	3,398.01
6	Energy & Power	9	615.01	8	13,523.00	17	14,138.01
7	Food	2	75.00	0	0.00	2	75.00
8	Forestry	7	204.14	3	52.00	10	256.14
9	Health	13	3,317.47	13	1,174.94	26	4,492.41
10	Higher Education	8	680.00	7	220.00	15	900.00
11	Home	5	4,080.41	2	1,750.00	7	5,830.41
12	Housing	1	7.01	0	0.00	1	7.01
13	Industries	5	281.00	4	113.17	9	394.17
14	Information	1	19.65	2	130.00	3	149.65
15	Law & Justice	2	500.00	3	170.00	5	670.00
16	Livestock & Dairy Development	9	1,037.79	6	275.62	15	1,313.40
17	Local Government	0	0.00	1	10.00	1	10.00
18	Multi Sectoral Development	8	1,684.00	19	1,934.49	27	3,618.49
19	Population Welfare	1	60.00	0	0.00	1	60.00
20	Relief & Rehabilitation	5	590.24	6	249.00	11	839.24
21	Roads	71	5,998.22	27	1,602.00	98	7,600.22
22	Science Technology & Information Technology	3	461.64	4	63.50	7	525.14
23	Social Welfare	5	239.02	2	58.00	7	297.02
24	Sports	2	310.00	4	262.00	6	572.00
25	Tourism	3	352.16	1	80.00	4	432.16
26	Transport	2	174.93	0	0.00	2	174.93
27	Urban Development	8	603.41	3	175.00	11	778.41
28	Water	19	1,763.88	12	493.00	31	2,256.88
	Total	218	28,215.40	159	24,068.60	377	52,284.00

5.15 Foreign Project Assistance Settled

Table 25: FPA Settled

Rs. In Million

S#	Portfolio	Loan	Grant	Total	No. of Projects
1	Agriculture	5,510.00	1,174.50	6,684.50	3
2	Drinking Water & Sanitation	2,030.00	435.00	2,465.00	2
3	Elementary & Secondary Education	8,758.00	0.00	8,758.00	2
4	Energy & Power	23,806.10	0.00	23,806.10	10
5	Finance	7,998.20	0.00	7,998.20	3
6	Forestry	0.00	435.00	435.00	1
7	Health	18,908.00	1,218.00	20,126.00	9
8	Industries	0.00	319.00	319.00	1
9	Livestock & Dairy Development	0.00	58.00	58.00	1
10	Local Government	0.00	200.10	200.10	1
11	Multi Sectoral Development	9,570.00	565.50	10,135.50	7
12	Relief & Rehabilitation	58.00	0.00	58.00	1
13	Roads	41,359.80	0.00	41,359.80	4
14	Science Technology & Information Technology	0.00	435.00	435.00	1
15	Tourism	2,958.00	0.00	2,958.00	2
16	Urban Development	18,023.50	0.00	18,023.50	4
17	Water	1,305.00	58.00	1,363.00	4
Grand Total		140,284.60	4,898.10	145,182.71	56

5.16 Foreign Project Assistance MDs

Table 26: FPA MDs

Rs. In Million

S#	Portfolio	Loan	Grant	Total	No. of Projects
1	Elementary & Secondary Education	0.00	487.20	487.20	1
2	Multi Sectoral Development	290.00	4,060.00	4,350.00	2
Total		290.00	4,547.20	4,837.20	3

* PSDP PKR 5.2 billion for the FY 2026-27

CHAPTER 06

MERGED DISTRICTS DEVELOPMENT FRAMEWORK

Stronger Districts. Shared Progress. Brighter Future.



Merged Districts Development Framework

The FY2026–27 budget framework for the Merged Districts reflects continued fiscal prioritization of post-merger integration, with total expenditure of about Rs. 274.8 billion, comprising Rs. 180.0 billion current and Rs. 94.8 billion development spending. Current expenditure is driven by expanded governance structures, staffing needs, and institutional integration, particularly in law and order, education, health, and local government. Development allocations focus on infrastructure, human capital, and service delivery under ADP, AIP, and federal and provincial financing streams. Despite rising allocations, significant financing gaps persist due to shortfalls in expected federal releases and committed NFC-related transfers, constraining full development potential.

6.1. Budget Framework for FY2026–27 – Merged Districts

The Government of Khyber Pakhtunkhwa continues to prioritize the socio-economic integration and development of the Merged Districts through sustained fiscal support and targeted public investments. The FY2026–27 budget framework reflects the Province’s commitment to strengthening service delivery, enhancing institutional capacity, and addressing development gaps in the region as part of the broader integration agenda.

For FY2026–27, total expenditure for the Merged Districts is estimated at approximately Rs. 272.8 billion, comprising both current and development allocations. Current expenditure is projected at Rs. 180.0 billion, primarily to support the provision of essential public services, including education, health, law and order, local governance, and administrative functions. These allocations are intended to ensure continuity in service delivery while strengthening the institutional foundations required for effective governance and long-term development. The proposed budget reflects a balanced approach that combines operational financing with strategic development investments. Development expenditures will continue to focus on improving infrastructure, expanding access to basic services, strengthening human capital, and creating economic opportunities for local communities. Through these investments, the Government aims to accelerate convergence between the Merged Districts and the settled areas of the Province, promote inclusive growth, and support the long-term objective of sustainable and equitable regional development.

Table 27: Expenditure of Merged Districts**(Rs. In Billion)**

Head	B.E 2026-27
Total	272.8
Current Expenditure	180.0
Salary	120.0
Non-Salary-O&M and Contingencies	60.0
Development Expenditure	87.1
ADP (Provincial-MDs)	29.0
ADP (Devolved-MDs)	5.8
Accelerate Implementation Plan	52.3
FPA (3% of total FPA)	4.8
PSDP (55% of total PSDP)	1.0

6.2 Increasing Current Expenditure Requirements in the Merged Districts

Since the merger, current expenditure requirements in the Merged Districts have increased substantially as a result of the progressive expansion of government functions, institutional integration, and the extension of public service delivery systems. The mainstreaming process required the establishment and operationalization of key governance structures, including local governments, Tehsil Municipal Administrations (TMAs), Village Councils, and the extension of provincial administrative and judicial institutions to the region. These reforms were essential to strengthening state presence, improving governance, and ensuring equitable access to public services.

The expansion of administrative responsibilities and service delivery mandates necessitated a corresponding increase in human resources and operational expenditures. A significant contributor to this growth was the integration of the former Levies and Khasadar forces into the regular government structure, alongside the regularization of personnel previously engaged under project-based arrangements. These measures were critical for ensuring institutional continuity, enhancing security and governance outcomes, and aligning the Merged Districts with provincial administrative systems.

As a result, recurrent expenditure has grown steadily over the post-merger period, reflecting the fiscal implications of institutional integration and the Government's commitment to extending public services and governance structures to previously underserved areas. While these expenditures have increased budgetary pressures, they represent necessary investments in state-building, service delivery, and the long-term socio-economic integration of the Merged Districts into the provincial framework.

**GENERAL ABSTRACT OF BUDGET
ESTIMATES (M.Ds) Current Expenditure**

DEMAND NO	DEPARTMENTS	BUDGET ESTIMATES 2025-26	REVISED ESTIMATES 2025-26	POSTS 2026-27	BUDGET ESTIMATES 2026-27		
					SALARY	NON SALARY	TOTAL
61	ADMINISTRATION OF JUSTICE	1,154,469,000	1,377,894,000	1,061	1,161,723,000	164,505,000	1,326,228,000
61	AGRICULTURE	504,450,000	446,796,000	516	475,122,000	132,554,000	607,676,000
61	ANIMAL HUSBANDRY	528,098,000	524,837,000	151	152,927,000	396,819,000	549,746,000
61	AUQAF RELIGIOUS MINORITY & HAJJ AFFAIRS	237,820,000	217,320,000	-	-	223,620,000	223,620,000
61	BUILDING & STRUCTURE (RE)	202,408,000	202,408,000	-	-	207,710,000	207,710,000
61	BUREAU OF STATISTICS	7,397,000	5,323,000	10	7,557,000	535,000	8,092,000
61	COMMUNICATION AND WORKS	2,109,576,000	1,962,779,000	2,532	2,299,575,000	119,082,000	2,418,657,000
61	ELEMENTARY AND SECONDARY EDUCATION	2,098,528,000	2,151,754,000	280	380,128,000	2,340,777,000	2,720,905,000
61	ENERGY AND POWER	33,046,000	45,459,000	28	34,637,000	500,495,000	535,132,000
61	EXCISE AND TAXATION	73,964,000	63,294,000	183	80,705,000	93,096,000	173,801,000
61	FINANCE DEPARTMENT	10,575,591,000	6,580,403,000	78	3,814,868,000	1,530,347,000	5,345,215,000
61	FISHERIES	72,985,000	68,270,000	78	68,309,000	10,776,000	79,085,000
61	FORESTRY (WILDLIFE)	1,678,926,000	1,682,633,000	2,023	1,694,151,000	145,999,000	1,840,150,000

61	GENERAL ADMINISTRATION	159,189,000	94,550,000	100	72,798,000	110,918,000	183,716,000
61	GRANT TO LOCAL COUNCILS	2,147,945,000	2,832,695,000	-	-	3,260,025,000	3,260,025,000
61	HEALTH	16,521,426,000	17,300,948,000	16,599	14,838,398,000	8,922,667,000	23,761,065,000
61	HIGHER EDUCATION, ARCHIVES & LIBRARIES	3,006,570,000	2,935,963,000	2,434	3,420,690,000	885,303,000	4,305,993,000
61	HOME DEPARTMENT	870,906,000	710,881,000	546	858,781,000	82,037,000	940,818,000
61	INDUSTRIES	46,767,000	39,277,000	56	45,577,000	5,421,000	50,998,000
61	INFORMATION & PUBLIC RELATIONS	57,071,000	99,619,000	39	55,740,000	6,297,000	62,037,000
61	IRRIGATION	418,823,000	427,486,000	345	389,567,000	62,488,000	452,055,000
61	JAILS & CONVICTS SETTLEMENT	508,689,000	481,599,000	594	497,967,000	82,906,000	580,873,000
61	LABOUR	65,460,000	129,182,000	111	66,186,000	13,906,000	80,092,000
61	LOCAL GOVERNMENT	117,275,000	280,938,000	66	96,814,000	230,259,000	327,073,000
61	MINERAL DEVELOPMENT AND INSPECTORATE OF MINES	192,229,000	231,091,000	295	187,102,000	26,265,000	213,367,000
61	PENSION	4,670,019,000	5,651,394,000	-	-	5,595,919,000	5,595,919,000
61	PLANNING & DEVELOPMENT	409,021,000	461,963,000	310	438,907,000	6,249,000	445,156,000
61	POLICE	30,828,356,000	32,356,572,000	36,730	29,557,307,000	6,108,250,000	35,665,557,000
61	POPULATION WELFARE	36,345,000	41,966,000	15	25,866,000	20,249,000	46,115,000
61	PUBLIC HEALTH ENGINEERING	1,808,743,000	1,938,702,000	2,608	1,734,387,000	344,093,000	2,078,480,000
61	RELIEF REHABILITATION AND SETTLEMENT	18,452,796,000	21,868,013,000	2,440	1,892,037,000	17,552,561,000	19,444,598,000

61	REVENUE & ESTATE DEPARTMENT	15,588,000	69,036,000	8	12,857,000	4,000,000	16,857,000
61	ROADS HIGHWAYS & BRIDGES (REPAIR)	250,978,000	445,237,000	-	-	1,773,200,000	1,773,200,000
61	SOCIAL WELFARE & SPECIAL EDUCATION	713,543,000	763,492,000	100	116,606,000	9,076,000	125,682,000
61	SPORTS CULTURE TOURISM & MUSEUMS	48,167,000	62,910,000	42	50,050,000	34,384,000	84,434,000
61	SUBSIDIES	1,500,000,000	1,500,000,000	-	-	1,500,000,000	1,500,000,000
61	TECHNICAL EDUCATION AND MANPOWER	453,489,000	434,054,000	526	668,527,000	26,183,000	694,710,000
61	TEHSIL GOVERNMENT NON SALARY	10,338,578,000	9,448,407,000	-	-	13,033,000,000	13,033,000,000
61	TEHSIL GOVERNMENT SALARY	46,864,877,000	46,864,877,000	47,607	49,000,000,000		49,000,000,000
61	TRANSPORT DEPARTMENT	27,758,000	21,669,000	104	27,516,000	3,329,000	30,845,000
61	TREASURIES	145,057,000	128,534,000	114	152,625,000	6,318,000	158,943,000
61	ZAKAT & USHER DEPARTMENT	47,077,000	49,775,000	70	47,327,000	5,048,000	52,375,000
TOTAL (REVENUE BUDGET)		160,000,000,000	163,000,000,000	118,799	114,423,334,000	65,576,666,000	180,000,000,000

C A P I T A L E X P E N D I T U R E - F O O D (A C C O U N T - I I)

66	STATE TRADING IN FOOD GRAINS AND SUGAR	370,907,000	451,393,000	126	134,825,000	309,603,000	444,428,000
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6.3 Development Financing in the Merged Districts

Since the merger, development financing for the Merged Districts has increased substantially, reflecting the Government's commitment to accelerating socio-economic development and reducing historical infrastructure and service delivery gaps. Development investments have supported the expansion of basic services, connectivity, livelihoods, and institutional capacity, contributing to the broader objective of integrating the Merged Districts into the provincial and national economy.

In January 2025, the Federal Government notified a Steering Committee to identify and prioritize development interventions in the Merged Districts for implementation through Federal Executing Agencies. While the initiative aims to strengthen coordination and accelerate project delivery, any disruption in the existing development financing framework could adversely affect the implementation of the current portfolio. Sustained and predictable financing remains essential to avoid delays in project execution and to preserve development gains achieved since the merger.

The development financing framework for the Merged Districts was originally anchored in the national commitment to support accelerated socio-economic transformation under the Tribal Decade Strategy. However, actual resource flows have remained below projected requirements constraining the pace of implementation across key sectors. Such financing gaps pose risks to ongoing investments in infrastructure, education, healthcare, water supply, and economic development, and may slow progress toward achieving convergence with the rest of the Province.

6.4. Guiding Principles for Utilization of Development Resources

The Government of Khyber Pakhtunkhwa recognizes the strategic importance of the Merged Districts and remains committed to ensuring that development resources are utilized in a manner that maximizes socio-economic impact and supports long-term regional integration. Accordingly, the following principles guide the allocation and utilization of development resources:

- Maintain flexibility in resource utilization to enable timely responses to emerging development priorities and local needs.
- Prioritize investments with direct and measurable benefits for citizens, particularly those that improve access to services and economic opportunities.
- Focus development spending on human capital sectors, including education, healthcare, employment generation, livelihoods, and poverty reduction initiatives.
- Support infrastructure investments that improve connectivity, energy access, market integration, and broader economic development.

- Align planning and investment decisions with the integration of the Merged Districts into the provincial economy, emphasizing connectivity and regional economic linkages.
- Adopt a coordinated financing approach that enables investment in strategic projects of provincial and national significance, including energy, transport, and trade infrastructure, where such investments contribute directly to the socio-economic transformation of the Merged Districts.

Through these principles, the Government seeks to ensure that development resources are deployed efficiently, transparently, and strategically to accelerate inclusive growth and improve living standards across the Merged Districts.

6.5 Securing a Just NFC Share and Sustainable Financing for the Merged Districts

The long-term socio-economic transformation of the Merged Districts is intrinsically linked to the availability of adequate, predictable, and sustainable fiscal resources. While the Government of Khyber Pakhtunkhwa has continued to finance both current and development expenditures from its own resources, the Province maintains that the constitutional and policy commitments made at the time of merger must be fully honored to ensure the successful integration and development of the region.

The merger of the former Federally Administered Tribal Areas (FATA) with Khyber Pakhtunkhwa significantly increased the Province's population, geographical coverage, administrative responsibilities, and development requirements. According to the 2023 Population Census, the Merged Districts account for approximately 2.94 percent of Pakistan's total population, underscoring the need for their full recognition in intergovernmental fiscal transfers and resource allocation frameworks. The Government therefore reiterates the importance of recalibrating fiscal distribution arrangements to reflect the Province's revised demographic profile and expanded governance responsibilities.

In line with the national consensus reached at the time of merger, Khyber Pakhtunkhwa continues to advocate for the full implementation of the commitment to provide an additional 3 percent share of the National Finance Commission (NFC) divisible pool for the accelerated development of the Merged Districts. This commitment formed the financial foundation of the Tribal Decade Strategy and the Accelerated Implementation Programme (AIP), which were designed to address decades of underinvestment and to accelerate the region's socio-economic convergence with the rest of the country.

The Province further emphasizes that sustainable financing for the Merged Districts extends beyond development grants alone. Constitutional and legal entitlements, including the Province's share in net hydel profits, revenues arising from natural resources, and other federal transfers, remain critical components of a comprehensive financing framework.

Timely settlement of these obligations would strengthen fiscal sustainability, reduce financing uncertainties, and enable the Government to sustain investments in infrastructure, education, healthcare, livelihoods, and economic development across the region.

A predictable and equitable NFC arrangement will not only support the development aspirations of the Merged Districts but will also contribute to broader national objectives of social cohesion, economic inclusion, poverty reduction, and regional stability. Ensuring that Khyber Pakhtunkhwa receives its rightful share of national resources will strengthen the Province's capacity to deliver services, accelerate development outcomes, and realize the vision of a prosperous, integrated, and resilient Merged Districts region within a stronger Pakistan.

CHAPTER

07

KP PUBLIC DEBT MANAGEMENT & FUNDS



KP Public Debt & Management Funds

Khyber Pakhtunkhwa maintained a sustainable debt position in FY 2025-26, with debt servicing constituting only 2.5% of total receipts and no domestic debt liabilities. The province's external debt portfolio, largely financed by multilateral development partners on concessional terms, is estimated to be increased by 11% due to higher development-related disbursements. Alongside prudent debt management, the Government continued to strengthen its financial resilience through dedicated funds, including the GPI Fund, Pension Fund, Hydel Development Fund, RBDC Fund, Debt Management Fund, and SGLA investments, all of which recorded growth and generated substantial investment returns. These funds support employee benefits, hydel development, debt servicing, and cash management while reducing future fiscal pressures.

7.1. Public Debt Management

Khyber Pakhtunkhwa's public debt position remains well within manageable limits, with debt servicing obligations currently accounting for approximately 2.5% of the province's total receipts. This modest debt servicing requirement demonstrates that the province's existing loan portfolio does not exert undue pressure on the provincial budget. The provincial government's commitment to maintaining this discipline has ensured that its borrowings remain a facilitator of capital investment rather than a constraint on budgetary flexibility.

The Government of Khyber Pakhtunkhwa has undertaken major policy initiatives, including the introduction of statutory debt ceilings through proposed amendments to the Fiscal Responsibility and Debt Management Act, 2022

Under the proposed amendments (Bill 2026) to the Fiscal Responsibility and Debt Management Act, 2022, the following key provisions have been introduced:

1. Financing of fiscal deficits will be permitted only under special circumstances.
2. The limit for net investment in non-financial assets has been increased from 10% to 20% of the province's average revenue.
3. Annual debt servicing has been capped at 5% of the province's average revenue.
4. The ceiling on total public debt stock at any point in time has been reduced from 150% to 75% of provincial revenue.

7.2. Domestic Debt

The Provincial Government has no domestic debt liability as on June 30, 2026.

7.3. Foreign Debt

Khyber Pakhtunkhwa's current loan portfolio comprises loans obtained from international development partners on concessional terms, structured over repayment periods of 20 to 25 years with a grace period of five to seven years during which only interest is payable. The

cost of borrowing is low, with interest rates generally ranging between 2% and 2.5% per annum, and more than 70% of the portfolio is denominated in US Dollars. These loans are project-tied, disbursed against specific development projects in accordance with financing agreements executed between Government of Khyber Pakhtunkhwa and Federal Government with sovereign guarantees.

Table 28: KP Foreign Loans

Rs. In Million

Description	Outstanding/ loan disbursed 30 th June 2025	Principal Repayment s (1 Jul 2025 – 30 Jun 2026) (Estimated)	Disbursement s (1 Jul 2025 – 30 Jun 2026) (Estimated)	Closing Outstanding (30 June 2026) (Estimated)
KP Foreign Debt	776,321*	33,392	112,841	855,771**
Exchange Rate (Rs./US\$)	280	280	280	280

* Outstanding loan in White paper for the FY 2024-25 was quoted as Rs. 723,139 million (Estimated), actual outstanding loan after reconciliation as on June 30, 2025 is Rs. 776,321million

** Will be reconciled with EAD after the year end.

During the Financial Year 2025-26, the province's outstanding debt portfolio increased by 11.0% due to an increase in net receipts (disbursements minus principal repayments) of PKR 79,449 million.

Table 29: Principal and Interest Repayments

Rs.in Million

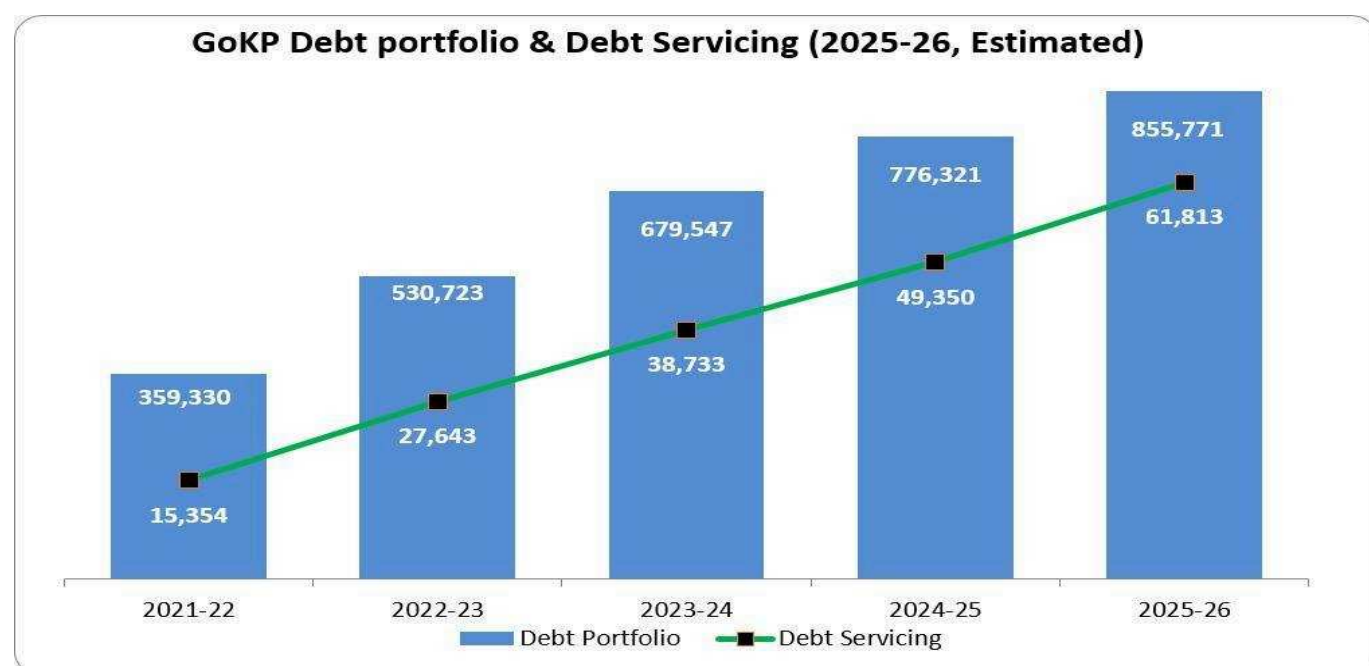
Nomenclature	(BE) 2025-26	(RE) 2025-26	(BE) 2026-27
Principal Repayment	40,000	40,000	45,000
Interest Payment	25,000	25,000	26,000
Total (I+II)	65,000	65,000	71,000

Creditor-wise bifurcation of the outstanding debt stock, together with the projected year-on-year movement, is set out in the following table. The two dominant creditors, ADB and IDA, together account for more than 80% of the total portfolio, reflecting the province's continued reliance on multilateral development financing as its primary source of external capital.

Table 30: Lenders During FY 2025-26 and FY 2026-27**Rs. In Million**

Lenders	FY 2025-26 (Estimated)	FY 2026-27 (Estimated)
ADB	361,600	390,762
IDA	380,356	426,343
AFD	21,111	20,773
JICA	36,847	34,865
AIIB	11,879	17,757
IFAD	421	376
IBRD	1,018	1,231
Germany	42,538	58,569
Total	855,771	950,677

The graph below presents a comprehensive assessment of KP's debt sustainability indicators, confirming that the province's external debt obligations remain at manageable levels relative to its overall fiscal capacity.



7.4. Fund Management

Over the years, Khyber Pakhtunkhwa (KP) funds have shown steady growth, driven by sound investment policies and regular government contributions. For instance, the General Provident Investment Fund and the Pension Fund have evolved into sizable pools of capital that help offset future employee-related liabilities. Similarly, Debt Management Fund has been established to earn a return for reducing the province's debt burden. Hydrel Development Fund has supported key energy projects, while the Retirement Benefit and

Death Compensation Fund provide a social safety net for government employees. These funds have been established under separate Acts, Ordinances, or Rules.

- Khyber Pakhtunkhwa General Provident Investment Act, 1999
- Khyber Pakhtunkhwa Pension Fund Act, 1999
- Khyber Pakhtunkhwa Hydel Development Fund Ordinance, 2001
- Khyber Pakhtunkhwa Retirement Benefit and Death Compensation Act, 2014
- Khyber Pakhtunkhwa Debt Management Fund Rules, 2024

Objective & Strategy

The strategy focuses on achieving long-term returns by investing in secure, income-generating instruments with the aim of diversifying investments, improving fund governance, and integrating digital systems for more efficient fund administration and timely service delivery.

7.5. Asset Allocation

Bills (T-Bills), Bank Deposits, and National Savings Schemes (NSS). However, with more capacity and skill, Funds aims to move towards greater diversification among asset classes.

7.6. General Provident Investment (GPI) Fund

The General Provident Investment (GPI) Fund was established by the GoKP in 1991-92 with an initial allocation of PKR 200 million as equity. The total Fund size is now PKR 155,598 million, with PKR 50,000 million having been contributed directly by KP Government. GPI fund is expected to earn a profit of PKR 18,544 million during the FY 2025-26. The Fund size has grown over time, as evident from the table given below, and it plays a crucial role in managing the retirement benefits of Government employees in Khyber Pakhtunkhwa.

Table 31: GPI Fund

Rs in Million

Year	Opening Balance	GoKP Equity Injection	Profit Earned/Accrued	Interest Paid to GoKP	Closing Balance
2021-22	84,581	-	8,270	-	92,857
2022-23	92,857	-	12,895	10,000	95,752
2023-24	95,752	10,000	19,413	-	124,800
2024 - 25	124,800	10,000	21,090	-	155,890
2025 - 26*	155,890	-	18,544	-	174,434

* Estimated

The GPI-Fund has evolved into a financially stable and self-sustaining vehicle for the Government of Khyber Pakhtunkhwa, delivering consistent returns through prudent investment practices. It now generates sufficient income to cover markup payments on GP Fund balances without requiring extra budgetary support.

7.7. PENSION FUND (PF)

The Pension Fund (PF) was established by the Government of Khyber Pakhtunkhwa (GoKP) in the year 1997-98 with an initial allocation of PKR 150 million as equity. The total fund size is now approximately PKR 62,500 million, out of which PKR 45,000 million is contributed by the GoKP. The Fund is governed by an Act and Rules made thereunder to manage its affairs. No deductions are made from the provincial government employees. Consequently, GoKP bears exclusive liability for the funded status of this Fund. The fund size as shown in the following table:

Table 32: Pension Fund

Rs. In Million

Year	Opening Balance	GoKP Equity Injection	Profit Earned/Accrued	Fund Utilized	Closing Balance
2021-22	53,680	0	4,590	10,000	48,270
2022-23	48,270	0	6,434	10,000	44,704
2023-24	44,704	10,000	7,801	-	62,506
2024-25	62,506	10,000	9,654	-	82,160
2025-26*	82,160	-	12,350	-	94,510

* Estimated

7.8. Hydel Development Fund (HDF)

The Hydel Development Fund (HDF) was established by the Government of Khyber Pakhtunkhwa (GoKP) in 1992 with an initial allocation of PKR 50 million. The Fund is governed by an Act and Rules made thereunder to manage its affairs. Unlike the GPI and PF, which are intended to fund GoKP's growing pension liabilities, HDF has a different mandate. HDF's objective is to develop hydel electricity generation capacity in the Khyber Pakhtunkhwa Province, primarily by funding projects executed by the Pakhtunkhwa Energy Development Organization (PEDO). HDF is funded from GoKP's own resources. The size, inflows, and outflows of the fund over time are presented in the table below.

Table 33: Hydel Development Fund**Rs. in Million**

Year	Opening Balance	GoKP Equity / PEDO	Profit Earned/Accrued	Fund Utilized	Closing Balance
2021-22	6,236	3,282	342	10,169	30
2022-23	30	7,226	367	5,426	2,197
2023-24	2,197	6,000	2,357	6,400	4,154
2024-25	4,154	8,497	509	4,384	8,776
2025-26*	8,776	6,230	300	6,230	300

- Estimated
- PKR 8,776 million deposited in the Govt: Treasury.

7.9. Retirement Benefit and Death Compensation Fund (RBDC)

The Government of Khyber Pakhtunkhwa introduced the Retirement Benefit and Death Compensation (RB&DC) Fund under RB&DC Act, 2014, and Rules made thereunder for running the affairs of the fund. The scheme offers another layer of social protection and enhances benefits from only death compensation to retirement benefits as well for employees of the Government of Khyber Pakhtunkhwa. Unlike the other three funds, which are funded by the Government of Khyber Pakhtunkhwa on behalf of subscribers. The RBDC Fund is made up of contributions from the provincial government employees, like the Benevolent Fund. The Fund is managed by the Fund Management Unit, Finance Department.

Total contribution made by the employees of Khyber Pakhtunkhwa is PKR 33,600 million, out of which PKR 24,752 million was paid to claimants on retirement and death during service of civil servants. Even after making the payment, fund size has increased since inception. The fund's size, inflows, and outflows over time are given below.

Table 34: Retirement Benefit and Death Compensation Fund**Rs. In Million**

Year	Opening Balance	Contribution received	Total	Profit Earned/Accrued	Benefits disbursed	Closing Balance
2021-22	10,556	3,505	14,061	1,033	2,719	12,375
2022-23	12,375	3,475	15,850	2,038	2,210	15,678
2023-24	15,678	3,670	19,348	3,682	2,317	20,713
2024-25	20,713	3,291	24,004	3,716	2,824	24,896
2025-26*	24,896	3,657	28,553	3,748	2,756	29,545

*Estimated

7.10. Debt Management Fund (DMF)

The Debt Management Fund (DMF) was established in 2024. The Fund will invest unutilized balance from the Government Treasury into low-risk instruments, which will generate revenue to offset debt obligations, optimize cash management, and create fiscal space to prioritize expenditure on service delivery.

In FY 2024-25, a sum of PKR150,000 million was transferred to the fund. The Fund has been successfully invested in high-yield, low-risk instruments, primarily in the form of term deposits with commercial banks offering competitive rates and Government Securities i.e., T-bills. As a result, the fund size has also grown over time, as shown under:

Table 35: Debt Management Fund

Rs in Billion

Year	Opening Balance	Equity	Profit Earned/Accrued	Closing Balance
2024-25	-	150,000	4,067	154,067
2025-26*	154,067	-	17,399	171,466

* Estimated

7.11. Subsidiary General Ledger Account (SGLA)

As per the IMF pact, provincial governments are refrained from investments with commercial banks, as in this case, investments will be considered as expenditure and maturity amounts will be considered revenue, resulting in overstating expenditure and revenue. Provincial governments were allowed to invest surplus/idle funds from the Provincial Account No. I (Non-Food) in Federal Government securities (Treasury-Bills) by participating in the auctions through placing Competitive Bids (CB) or Non-Competitive Bids (NCB). Accordingly, Government approved the opening of a Subsidiary General Ledger Account (SGLA) with the State Bank of Pakistan (SBP) to ensure smooth financial transactions, to enable investment of surplus funds in short-term Government Securities (Treasury Bills).

An Investment Committee was constituted to manage surplus funds transparently by participating in Treasury Bills auctions through Non-Competitive Bidding (NCB) via the SGLA. Consequently, investments were made on various dates, resulting in cumulative profits of Rs. 8,161 million. Details are as follows:

Table 36: Subsidiary General Ledger Account

Rs. In Million

Financial Year	Opening Balance	Equity	Profit Earned	Matured*	Closing Balance
2025-2026	-	197,224	8,161	130,000	71,700

* PKR 130,000 million deposited in the Govt: Treasury.

7.12. Future Strategy and Outlook

All Funds have reached a significant stage of maturity and are poised to play a growing role in supporting the Province's long-term fiscal sustainability and development objectives. Going forward, the primary focus will be on preserving capital, optimizing risk-adjusted returns, and ensuring that each fund continues to meet its respective obligations, including employee benefits, pension liabilities, debt servicing requirements, and strategic development priorities. Continued government contributions, together with prudent investment management, are expected to strengthen the financial position of the funds further and reduce future fiscal pressures on the provincial budget.

To support these objectives, Government of Khyber Pakhtunkhwa will pursue enhanced governance, portfolio diversification, digital transformation, and strengthened risk management practices across all funds. Emphasis will also be placed on improving operational efficiency, increasing transparency, and building institutional capacity to ensure sustainable long-term growth. As the funds continue to mature, investment income and accumulated reserves are expected to play an increasingly important role in financing future obligations, supporting strategic initiatives, and promoting overall fiscal resilience for the Government of Khyber Pakhtunkhwa.

CHAPTER

08

REFORMS FOR FISCAL STABILITY & ADMINISTRATIVE EFFECIENCY

Prudent Policies. Efficient Systems.
A Prosperous Future.



Reforms and initiatives

During FY2025–26, the Government of Khyber Pakhtunkhwa advanced a comprehensive reform agenda focused on strengthening public financial management, governance, digital transformation, and fiscal sustainability. Key achievements included implementation of Treasury Single Account (TSA) reforms, establishment of a Cash Flow Management Unit, expansion of digital governance platforms, and improved oversight of public sector entities. Major initiatives such as Cashless KP, KP Digital Workspace, and the expansion of Islamic finance through Takaful companies enhanced transparency, efficiency, and financial inclusion. World Bank-supported programs (KPRMP and KP SPEED) strengthened revenue mobilization, expenditure management, and service delivery in health and education. The Province also institutionalized Climate and Gender Budget Tagging, allocating 7% and 11% of the current budget respectively to climate-related and gender-responsive expenditures. These reforms collectively support better governance, improved fiscal discipline, and more effective public service delivery across the Province.

8.1 Transforming Public Financial Management and Governance

During FY2025–26, the Government of Khyber Pakhtunkhwa accelerated a broad agenda of public financial management (PFM), governance, and digital transformation reforms aimed at improving fiscal sustainability, enhancing transparency, strengthening accountability, and delivering better services to citizens.

These reforms collectively represent a shift from fragmented financial management systems toward an integrated, data-driven, and performance-oriented governance framework. Major achievements include the operationalization of the Treasury Single Account (TSA) reform, establishment of a Cash Flow Management Unit (CFMU), expansion of digital government platforms, strengthening of public sector governance, implementation of climate and gender-responsive budgeting, and progress under the World Bank-supported Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management Program (KPRMP) and KP SPEED Program.

8.2 Treasury Single Account and Cash Management Reforms

The establishment of the Cash Flow Management Unit (CFMU) marks a significant milestone in the Province's journey toward modern cash and liquidity management. As the institutional anchor for Treasury Single Account (TSA) implementation, the CFMU has initiated the consolidation of government cash resources previously dispersed across numerous departmental and project bank accounts.

The reform is transforming the way public funds are managed by providing the government with a comprehensive and real-time view of available cash resources. This enables better forecasting, improved expenditure planning, reduction in idle balances, and more efficient utilization of public funds.

During FY2025-26, the Government completed a province-wide mapping and classification of designated bank accounts, initiated daily sweeping arrangements for major spending departments, commenced closure of dormant accounts, and introduced departmental cash planning mechanisms. The TSA reform has already expanded beyond initial pilot departments and is laying the foundation for a unified treasury system that will strengthen fiscal discipline, reduce financing costs, and improve budget execution.

Expected Impact

The implementation of the Treasury Single Account (TSA) is expected to significantly strengthen the Province's cash and liquidity management framework by providing greater visibility over government cash resources and enabling more accurate cash forecasting. The reform will facilitate the timely availability of funds for priority expenditures, reduce idle balances held across multiple accounts, and minimize the need for short-term borrowing.

8.3 Strengthening Governance of Public Sector Entities

Recognizing the growing fiscal and operational significance of autonomous bodies and public sector entities, the Government is developing a comprehensive governance framework to strengthen oversight, transparency, and accountability.

The proposed legislation will introduce standardized governance structures, strengthen fiduciary responsibilities, institutionalize performance management systems, and improve financial reporting across public entities. It will also establish stronger internal control, audit, and risk management mechanisms to reduce fiscal risks and improve operational efficiency.

The reform is expected to create a more transparent and results-oriented public sector ecosystem where institutional performance is linked to clearly defined objectives, financial sustainability, and service delivery outcomes.

Expected Impact

The proposed governance framework is expected to enhance transparency, accountability, and overall governance standards across public sector entities. By strengthening financial management, oversight, and performance monitoring mechanisms, the reform will help mitigate fiscal risks and contingent liabilities while improving operational efficiency.

8.4 Driving Financial Innovation and Digital Transformation

Khyber Pakhtunkhwa Takaful Initiative

In a landmark step toward expanding Islamic finance, the Provincial Cabinet approved the establishment of Khyber Pakhtunkhwa General Takaful Company Limited and Khyber Pakhtunkhwa Family Takaful Company Limited.

The initiative aims to strengthen the Province's Islamic financial ecosystem while providing Shariah-compliant solutions for health protection, family security, pension management, and public sector financial obligations. The companies will support the Government's broader transition toward a Riba-free financial framework and expand access to inclusive financial services.

The initiative is expected to play an important role in managing social protection programs, supporting pension sustainability, and mobilizing long-term domestic savings through Islamic financial instruments.

Cashless Khyber Pakhtunkhwa

The Cashless Khyber Pakhtunkhwa Initiative has emerged as a flagship digital governance reform focused on increasing transparency, convenience, and financial inclusion through digital payments.

More than 201 government services have been integrated into digital payment systems, over 500,000 digital transactions have been processed, and electronic collections have exceeded PKR 3 billion. Khyber Pakhtunkhwa has also become the first province to operationalize RAAST aggregation capabilities through KPITB.

The initiative is strengthening Government-to-Person (G2P), Person-to-Government (P2G), and Person-to-Merchant (P2M) payment ecosystems while promoting digital commerce, reducing transaction costs, and improving revenue collection efficiency.

Khyber Pakhtunkhwa Digital Workspace

The KP Digital Workspace (KP-DWS) has become one of the largest digital governance platforms in the Province, connecting departments, autonomous bodies, commissioner offices, and district administrations through a unified digital workflow system.

The platform has significantly reduced reliance on manual processes, accelerated decision-making, improved interdepartmental coordination, and saved more than 1.3 million sheets of paper. Mobile-enabled access has further enhanced responsiveness and administrative efficiency across government institutions.

Combined Impact

Collectively, these initiatives are accelerating Khyber Pakhtunkhwa's transition toward a modern, digitally enabled, and inclusive governance framework. They are improving the speed, transparency, and accessibility of public services while reducing administrative costs and reliance on paper-based processes. At the same time, the expansion of digital payments and Shariah-compliant financial services is promoting greater financial inclusion, enhancing citizen convenience, supporting business activity, and strengthening public trust in government service delivery.

8.5 World Bank-Supported Reform Programs

Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management Program (KPRMP)

KPRMP continues to serve as the Province's flagship institutional reform program for strengthening domestic revenue mobilization, public financial management, and governance systems. The program has delivered substantial results in expanding the tax base, improving taxpayer compliance, digitizing tax administration, strengthening cash management, and modernizing financial management systems.

Key achievements

Under KPRMP, the Government of Khyber Pakhtunkhwa has achieved notable progress in strengthening revenue administration and public financial management. Key accomplishments include improved taxpayer compliance, digitization of urban property tax records in major cities, and enhanced automation and integration of revenue systems. The program has also expanded financial management systems to all 131 Tehsil Municipal Administrations and strengthened digital governance through electronic workflow solutions.

These reforms are improving revenue performance, strengthening expenditure quality, and enhancing transparency in public resource management.

KP SPEED Program

The World Bank-supported Spending Effectively for Enhanced Development (SPEED) Program continues to strengthen the efficiency and effectiveness of spending in education and healthcare sectors.

The program has disbursed USD 281 million, representing 70 percent of total financing, while supporting critical reforms in budgeting, expenditure monitoring, procurement, asset management, and pension sustainability.

Major achievements

The KP SPEED Program, supported by the World Bank, has significantly enhanced the efficiency and effectiveness of public spending in education and healthcare through a series of structural reforms. It has introduced facility-level budgeting, strengthened real-time expenditure monitoring, and improved procurement and asset management systems. The program has also increased education financing by PKR 6 billion, doubled allocations for Primary Healthcare Management Committees, and ensured better availability of medicines and school supplies worth PKR 866 million. These reforms are complemented by pension restructuring measures expected to substantially reduce long-term fiscal liabilities. Collectively, the program is strengthening service delivery, financial discipline, and sustainability in key social sectors.

8.6 Bank of Khyber: Expanding Financial Inclusion and Islamic Banking

The Bank of Khyber (BoK) continued its transformation into a leading Islamic and digitally enabled financial institution during FY2025. A major strategic milestone was the accelerated conversion toward full-fledged Islamic banking, with 199 out of 254 branches operating as Islamic Banking Branches by the end of 2025. Islamic deposits increased substantially and now account for more than half of the Bank's deposit base.

The Bank also recorded strong financial performance, with profit before tax increasing by 51 percent and profit after tax increasing by 61 percent compared to the previous year. In parallel, BoK expanded digital banking services, strengthened SME and agricultural financing, and advanced green finance initiatives through renewable energy investments and sustainable financing products.

These achievements reinforce the Bank's role as a catalyst for financial inclusion, private sector development, and sustainable economic growth across Khyber Pakhtunkhwa. The Bank of Khyber's initiatives are expanding access to Shariah-compliant financial services while enhancing financial inclusion across the Province. Increased financing for SMEs and the agriculture sector is supporting entrepreneurship, investment, and economic growth. At the same time, the expansion of digital banking services is improving accessibility and customer convenience, while green finance initiatives are promoting environmentally sustainable and climate-resilient development.

8.7 Climate and Gender Budget Tagging in Khyber Pakhtunkhwa

Government of Khyber Pakhtunkhwa has institutionalized Climate Budget Tagging (CBT) and Gender Budget Tagging (GBT) to systematically identify, classify, and monitor expenditures that contribute to climate action and gender-responsive development. Given the Province's exposure to climate-related risks and its commitment to equitable growth, these tagging mechanisms provide an important tool for aligning public spending with strategic policy objectives.

Climate Budget Tagging – FY 2025-26

Of KP's PKR 1.415 trillion current budget, PKR 95.06 billion (7%) was tagged as climate-related, spanning 3,745 DDOs (35% of the total). The allocation breaks down as follows:

Table 37: Climate Budget Tagging share

Rs. In Million

Category	Share	Allocation
Adaptation – resilience to floods, droughts, heatwaves, water scarcity	66%	62,923
Enabling actions – policy, institutions, governance, climate information systems	13%	12,296
Mitigation – clean energy, energy efficiency, sustainable transport	13%	11,884
Combined adaptation & mitigation	8%	7,955

Leading departments by share of departmental budget tagged as climate: Climate Change, Forestry, Environment & Wildlife (69%), Irrigation (46%), Energy & Power (40%), Agriculture (28%), Science & IT (38%), Public Health Engineering (33%), Transport & Mass Transit (29%).

Gender Budget Tagging – FY 2025-26

Over time the development model has shifted decisively away from large-scale, state-sponsored infrastructure projects toward investment in human capital as the basis for sustainable economic growth. Pakistan's Vision 2025 reflects this shift "People First, Developing Human and Social Capital" as its first pillar. Realizing this vision a significant change in policy direction, planning priorities, and budgetary processes are required.

Women constitute nearly 50% of the population therefore narrowing gaps and inequalities across society particularly the discrimination faced by women is required. Gender-responsive planning and budgeting (GRPB) is a critical tool in this effort, ensuring equitable allocation of resources, improving living standards, and expanding opportunities for all citizens.

PKR 93.22 billion (7% of the current budget) was tagged as gender-responsive, with 3,014 DDOs carrying gender allocations:

Table 38: Gender Budget Tagging share

Rs. In Million

Category	Share	Allocation
Education & skills development	66%	18,704
Health & reproductive care	21%	27,564
Social protection & gender-based violence response	6%	7,049
Governance, participation & leadership	3%	35,872
Climate resilience, environment & infrastructure	2%	3,101
Women's economic empowerment & employment	2%	927

Leading departments by share of departmental budget tagged as gender-responsive: Population Welfare (77%), Sports & Youth Affairs (28%), Higher Education (22%).

Outlook for FY 2026-27

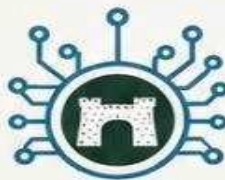
A provincial Disaster Risk Reduction (DRR) Policy comprising 13 strategic policy pillars and 176 actionable recommendations covering hazards such as floods, droughts, heatwaves and earthquakes has been proposed. A Disaster Risk Financing Strategy (DRFS) 2026-2036 has been developed, setting out objectives to strengthen public financial management practices for disaster funding, build financial protection instruments, and improve the efficiency of post-disaster fund utilization. Once approved, these instruments are intended to guide more efficient, risk-informed allocation of climate-related expenditure and reduce reliance on ad hoc post-disaster reallocations.

During the FY2026-27 exercise is expected to draw further on KP's Women Empowerment Policy framework. The Framework directs all provincial departments to mainstream gender-responsive planning and budgeting through resourced action plans.

FLAGSHIP INITIATIVES

KHYBER PAKHTUNKHWA

9 CHAPTER

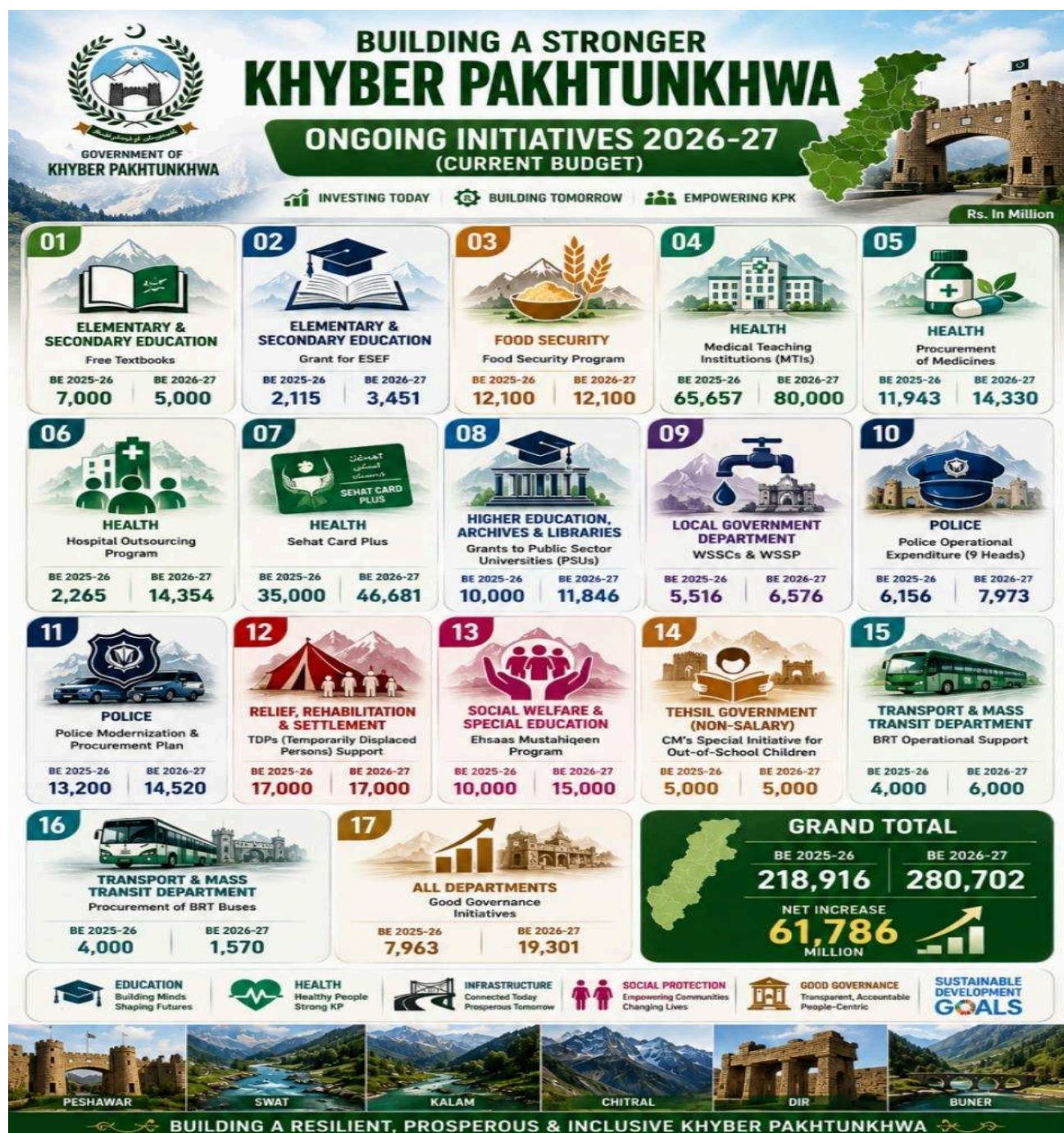


Flagship initiatives

The KP Budget 2026-27 outlines a broad portfolio of flagship initiatives in different sectors including welfare, health, education, governance, transport, agriculture, technology, and social protection programs. These Flagship Initiatives have been divided into two categories. The ongoing initiatives which have been continued with enhanced budgeting and initiatives which have been newly introduced.

9.1 Ongoing initiatives

There are sixteen ongoing flagship initiatives which have been included in the KP Budget 2026-27. These programmes represent continuity of strategic investment across health, education, governance, social protection, security, and transport sectors. The combined allocation for ongoing initiatives amounts to PKR 280.7 billion in FY 2026-27, up from PKR 218.9 billion in FY 2025-26.



9.1.1 Sehat Card

The Sehat Card initiative represents one of the flagship health financing programmes of the Khyber Pakhtunkhwa Government, providing cashless inpatient medical treatment to all families across public and private hospital networks. The programme has been progressively expanded to cover the Merged Areas, with an additional allocation of Rs. 3.8 billion earmarked specifically for these regions in FY 2026-27. The budgetary provision has been increased from PKR 35.0 billion in FY 2025-26 to PKR 46.7 billion in FY 2026-27, reflecting a growth of approximately 33.4%. This substantial enhancement underscores the government's resolve to extend universal health coverage to vulnerable segments of the population and to reduce out-of-pocket healthcare expenditure, thereby advancing health equity across the province.

9.1.2 Management of Teaching Institutions (MTIs)

The MTIs initiative funds the autonomous management of major public teaching hospitals, ensuring that tertiary healthcare facilities operate with institutional efficiency, medical expertise, and high clinical standards. These hospitals serve as the backbone of the provincial healthcare delivery system, catering to hundreds of thousands of patients annually while simultaneously supporting medical education and specialist training. The allocation for MTIs has been raised from PKR 65.7 billion in FY 2025-26 to PKR 80.0 billion in FY 2026-27, making it the single largest line item under ongoing flagship initiatives. This increase of approximately 21.8% reflects the government's recognition of the critical role these institutions play in advancing quality healthcare and professional hospital management in Khyber Pakhtunkhwa.

9.1.3 Outsourcing of Hospitals

The Outsourcing of Hospitals initiative is a transformative healthcare reform aimed at improving the quality and availability of public health services by engaging professional management entities to operate district and sub-district hospitals. In FY 2026-27, the initiative has been expanded to include 72 new hospitals, representing a significant scaling up of this public-private partnership model. The budgetary allocation has increased dramatically from PKR 2.3 billion in FY 2025-26 to PKR 14.4 billion in FY 2026-27, a growth of over 526%. This exceptional rise demonstrates the government's bold commitment to reforming hospital governance, reducing inefficiencies in public health delivery, and bringing professionally managed services closer to communities that have historically been underserved.

9.1.4 Health Purchase of Drugs & Medicines

The provision for drugs and medicines is a fundamental component of the public health system, ensuring that essential pharmaceuticals are available to patients at government health facilities without financial burden. Inadequate drug supply has historically been one of the most persistent challenges faced by public hospitals in KP, undermining the quality of care despite available medical staff and infrastructure. The allocation under this head has been increased from PKR 11.9 billion in FY 2025-26 to PKR 14.3 billion in FY 2026-27, an increase of approximately 20.2%. This enhanced investment signals the government's commitment to ensuring that healthcare facilities are adequately stocked and that patients receive prescribed treatments without unnecessary delays or costs.

9.1.5 Public Sector Universities

Public sector universities are the primary institutions responsible for producing the next generation of graduates, professionals, researchers, and innovators in Khyber Pakhtunkhwa. Universities are facing serious crises and previous year Rs. 10.0 B have been released. They are facing pensions issues, shortage of salaries and other operational deficiencies. The allocation for public sector universities has been increased from PKR 10.0 billion FY 2025-26 to PKR 11.8 billion for FY 2026-27 (18% increase), indicating policy continuity and the government's stable commitment to higher education financing. Their sustained funding is essential for maintaining academic standards, supporting faculty development, upgrading research infrastructure, and expanding enrolment capacity. While unchanged in absolute terms, this sustained provision ensures that universities can continue to function without disruption and plan their academic and developmental activities with budgetary certainty.

9.1.6 Chief Minister's Initiative for Out of School Children

The Chief Minister's Initiative for Out of School Children directly addresses one of the most critical education challenges in the province: a significant proportion of school-age children, particularly girls and those in remote or conflict-affected areas, remain outside the formal education system. This programme deploys targeted interventions including enrolment drives, conditional stipends, and community-based learning centers to bring these children back into education. The allocation has been maintained at PKR 5.0 billion in FY 2026-27, matching the preceding year's provision. This sustained commitment reflects the government's recognition that universal primary enrolment is not merely an educational goal but a foundational prerequisite for long-term human development, poverty reduction, and social inclusion.

9.1.7 Grant for ESEF & Free Text Books

The Education Sector Endowment Fund (ESEF) and the Free Text Books programme together form a critical support mechanism designed to remove financial barriers to education for low-income families across Khyber Pakhtunkhwa. The free distribution of textbooks to students at public schools ensures that no child is denied learning materials due to cost, while ESEF grants provide supplementary institutional support to strengthen educational quality. The allocation under this head has been slightly adjusted from PKR 9.1 billion in FY 2025-26 to PKR 8.4 billion in FY 2026-27. Despite a modest reduction, the maintained scale of this investment demonstrates the government's enduring prioritization of equitable access to education and its commitment to keeping public schooling effectively free at the primary and secondary levels.

9.1.8 Good Governance Roadmap (GGRM)

The Good Governance Roadmap is a comprehensive administrative reform framework designed to modernize public service delivery, enhance departmental accountability, institutionalize performance measurement, and reduce bureaucratic inefficiencies across KP's government machinery. It encompasses digital transformation, capacity building of civil servants, e-governance initiatives, and the rationalization of public expenditure. The allocation under the GGRM has been significantly increased from PKR 7.9 billion in FY 2025-26 to PKR 19.3 billion in FY 2026-27, an increase of approximately 144.3%. This

enhanced provision reflects the government's strong commitment to institutional reform and its recognition that improved governance structures are a precondition for the effective delivery of all other public services.

9.1.9 Temporarily Displaced Person (TDPs)

The Temporarily Displaced Persons (TDPs) programme addresses the urgent humanitarian and rehabilitation needs of communities displaced by military operations, natural disasters, and security-related disturbances in Khyber Pakhtunkhwa, including the Merged Areas. The initiative encompasses relief provision, safe return facilitation, infrastructure rehabilitation, and socio-economic reintegration support for affected families. The allocation has been maintained at PKR 17.0 billion in FY 2026-27. This reflects both the continuing scale of displacement challenges and the provincial government's steadfast commitment to fulfilling its humanitarian obligations and accelerating the restoration of normalcy for displaced citizens.

9.1.10 Food Security Net (Wheat & Sugar)

The Food Security Net initiative, covering subsidized provision of wheat and sugar, is a vital social protection measure designed to shield low-income households from inflationary pressures on essential food commodities. By maintaining accessible pricing for staple goods, this programme directly supports food security and the nutritional well-being of vulnerable families, particularly in the face of recurring commodity price shocks. The allocation has been maintained at PKR 12.1 billion for both FY 2025-26 and FY 2026-27. This policy continuity demonstrates the government's unwavering commitment to shielding the poorest segments of the population from market volatility and ensuring that basic food needs remain within reach across the province.

9.1.11 Ehsaas Mustahiqeen Ka

The Social Safety (Ehsaas Mustahiqeen Ka), provides targeted financial and material relief to low-income families. The allocation has been increased from PKR 10.0 billion in FY 2025-26 to PKR 15.0 billion in FY 2026-27, a rise of 50%. This enhanced provision reflects the government's commitment to expanding the reach and value of social protection mechanisms and to standing in solidarity with the province's most economically vulnerable households during a period of particular significance.

9.1.12 Water Supply and Sanitation Companies (WSSCs & WSSP)

The Water Supply and Sanitation Companies (WSSCs) and Water & Sanitation Services Peshawar (WSSP) are institutional bodies responsible for the delivery of clean water and sanitation services to urban populations across major cities in Khyber Pakhtunkhwa, including Peshawar, Abbottabad, and Mardan. Access to safe drinking water and proper sanitation is a fundamental public health imperative, directly linked to the reduction of waterborne diseases and improvement of living standards. The allocation for these institutions has been increased from PKR 5.5 billion in FY 2025-26 to PKR 6.5 billion in FY 2026-27, reflecting incremental investment to sustain and improve urban water and sanitation infrastructure and service quality.

9.1.13 Police Procurement Plan

The Police Procurement Plan provides for the systematic modernization and operational equipping of the Khyber Pakhtunkhwa Police, enabling the force to respond effectively to evolving security challenges through better tools, vehicles, communication systems, and protective equipment. A well-equipped police force is essential for law enforcement efficiency, public safety, and the maintenance of law and order across an increasingly complex security environment. The allocation has been enhanced from PKR 13.2 billion in FY 2025-26 to PKR 14.5 billion in FY 2026-27, reflecting the government's commitment to a capable and professionally equipped law enforcement apparatus capable of protecting citizens and deterring criminal activity.

9.1.14 Police Monthly Operational Support

Police Monthly Operational Support provides recurrent financial provision for the day-to-day operational costs of the KP Police, including fuel, utilities, consumables, and logistics expenses that are essential for sustaining active policing functions at the station and district levels. The allocation has been increased from PKR 6.1 billion in FY 2025-26 to PKR 7.9 billion in FY 2026-27, an increase of approximately 29.5%. This enhanced provision underscores the government's commitment to maintaining a consistently operational and responsive policing system that can meet the day-to-day law enforcement needs of communities across the province required for maintaining peace and law and order in the province.

9.1.15 BRT – Operational Subsidy

The Bus Rapid Transit (BRT) Operational Subsidy sustains the functioning of Peshawar's flagship mass urban transit system, which serves hundreds of thousands of daily commuters and represents the most significant public transport investment in the city's history. BRT provides an affordable, efficient, and environmentally sustainable alternative to private transport, reducing road congestion and improving air quality in an increasingly urbanized metropolis. The operational subsidy has been increased from PKR 4.0 billion in FY 2025-26 to PKR 6.0 billion in FY 2026-27, reflecting growing ridership and operational cost requirements. This enhanced allocation demonstrates the government's commitment to sustaining a high-quality public transport system that serves the mobility needs of Peshawar's citizens.

9.1.16 BRT – Purchase of Vehicles

The BRT Vehicle Purchase programme funds the procurement of additional buses and rolling stock to support the capacity and operational sustainability of the Peshawar Bus Rapid Transit system. Fleet renewal and expansion are critical to maintaining service reliability, reducing mechanical breakdowns, and meeting growing passenger demand. The allocation under this head has been reduced from PKR 4.0 billion in FY 2025-26 to PKR 1.5 billion in FY 2026-27, reflecting a strategic shift in emphasis from capital fleet acquisition toward the operational sustainability of the existing BRT network. This reallocation suggests a maturation phase in the BRT programme, with the government prioritizing the maximization of value from the existing fleet while channeling greater resources into the system's operational continuity.

9.2 New Initiatives

Beside continuing the previous flagship initiatives, new flagship initiatives have been introduced in FY 2026-27. These programmes represent fresh policy directions spanning disaster risk management, digital economy, agricultural financing, social protection, and green transport.

GOVERNMENT OF KHYBER PAKHTUNKHWA NEW INITIATIVES 2026-27 (CURRENT BUDGET)					
		INVESTING IN PEOPLE	BUILDING RESILIENCE	EMPOWERING COMMUNITIES	DRIVING PROSPERITY
		Rs. In Million			
DEPARTMENT	INITIATIVE	BE 2025-26	BE 2026-27		
 AGRICULTURE	Ehsaas Kisan Ka	550	2,000		
	Interest Payment for Agricultural Financing Support Scheme	–	1,500		
 AUQAF, RELIGIOUS, MINORITY & HAJJ	Endowment Fund for Rehabilitation of Minorities – Victims of Terrorism	–	100		
 GOVT INVESTMENT & COMMITTED CONTRIBUTION	Disaster Risk Management Fund	–	12,000		
	Takaful Insurance Company KP	–	3,000		
 HIGHER EDUCATION, ARCHIVES & LIBRARIES	Flexible Hiring of Lecturers	–	1,500		
	Insaf Female & Orphan Education Card	–	385		
	Interest Free Loan for University Students	–	2,000		
	Technical Training for MDs Students	–	500		
	Ehsaas Internship Program	–	1,500		
	KP Education Foundation	–	132		
	Student Attendance System	–	200		
 INDUSTRIES	Subsidized loans to more than 350 Small Industrial units	–	200		
	Women Economic Empowerment Endowment Fund	–	50		
	Women Economic Empowerment Endowment Fund	–	50		
	Subsidy on SBP Loan Scheme for Women Entrepreneurs	–	25		
	Office Furnishing for Women Chamber of Commerce	–	5		
 INFORMATION TECHNOLOGY DEPARTMENT	Establishment of AI Authority	–	1,000		
	Free Public WiFi for Peshawar	–	500		
 LABOUR	Interest payment on subsidized loan for overseas workers	–	2,000		
 SOCIAL WELFARE, SPECIAL EDUCATION	Ehsaas Maa – Naye Zindagi, Naye Umeed, Sehetmand Maa	–	1,000		
	Interest Payment on account of Ehsas Initiatives	–	2,000		
 TRANSPORT & MASS TRANSIT DEPARTMENT	Interest Free Loans for E-Bikes and E-Rikshaws	–	2,500		
	Public Sector Transport Initiative	–	2,000		
GRAND TOTAL		550	36,147		


EMPOWERING FARMERS


EDUCATING YOUTH


PROTECTING COMMUNITIES


STRENGTHENING ECONOMY


DIGITAL CONNECTIVITY


WOMEN EMPOWERMENT


SUSTAINABLE TRANSPORT


PESHAWAR


SWAT


KALAM


CHITRAL


DIR


BUNER

TOGETHER FOR A PROSPEROUS, PEACEFUL & INCLUSIVE KHYBER PAKHTUNKHWA

9.2.1 DAP Fertilizer Subsidy

The DAP (Di-Ammonium Phosphate) Fertilizer Subsidy is designed to support agricultural productivity by reducing the cost of essential fertilizers for smallholder and subsistence farmers across Khyber Pakhtunkhwa. DAP is a critical input for most major crops and its high market price has historically constrained farm-level application, suppressing yields and farmer incomes. The allocation has been increased from PKR 0.6 billion in FY 2025-26 to PKR 2.0 billion in FY 2026-27, representing a more than threefold enhancement. This significant scale-up reflects the government's renewed emphasis on agricultural input support as a tool for rural economic development, food security, and farmers' livelihoods improvement.

9.2.2 Disaster Risk Management Fund

The Disaster Risk Management Fund is a newly established financial mechanism introduced in FY 2026-27 with an allocation of PKR 12.0 billion, compared to zero provision in the preceding year. Khyber Pakhtunkhwa is among Pakistan's most disaster-prone provinces, regularly affected by floods, landslides, earthquakes, and glacial lake outburst floods (GLOFs). The creation of a dedicated disaster risk fund represents a proactive and forward-looking approach to disaster preparedness and emergency response, enabling the provincial government to mobilize resources rapidly without disrupting regular development expenditure. This substantial first-year allocation demonstrates the government's commitment to building institutional resilience and protecting communities from climate-related and natural hazards.

9.2.3 Interest Payment on Account of Ehsaas Initiatives

This new budgetary provision, allocated at PKR 2.0 billion in FY 2026-27, covers interest obligations arising from financing arrangements linked to Ehsaas social protection programmes operationalized in the province. Ehsaas is a national social protection framework targeting the poorest households through cash transfers, financial inclusion, and livelihood support. The provincial government's budgeting for interest servicing related to this initiative reflects both its financial accountability and its continued integration with national social safety net programmes. This allocation signals the government's recognition that the financial costs of social protection financing must be transparently budgeted to ensure the long-term sustainability of these essential programmes.

9.2.4 Interest-Free Loans for University Students

The Interest-Free Loans for University Students programme, allocated PKR 2.0 billion in FY 2026-27, is a transformative higher education support initiative designed to ensure that financial constraints do not prevent deserving students from pursuing university education. By providing zero-interest loans repayable after graduation and employment, this programme enables access to higher education on equitable terms, reducing the burden of student debt and expanding opportunities for talented young people from low-income backgrounds. This initiative reflects the government's philosophy that higher education is a public good and that investment in human capital is the most durable foundation for long-term economic and social development in Khyber Pakhtunkhwa.

9.2.5 Interest-Free Loans for Overseas Immigrant Workers

The Interest-Free Loans for Overseas Immigrant Workers programme, with a new allocation of PKR 2.0 billion in FY 2026-27, is designed to support KP citizens seeking employment abroad by providing accessible, interest-free financing to cover migration costs including travel, documentation, training, and placement fees. Labour migration is a significant economic lifeline for many KP families, generating substantial remittance inflows that contribute to household income and provincial foreign exchange earnings. By removing the financial barrier to overseas employment through this programme, the government is making a strategic investment in the economic mobility of its citizens and the long-term prosperity of their families.

9.2.6 Insaf Female & Orphan Education Card

The Insaf Female and Orphan Education Card, newly allocated PKR 0.4 billion in FY 2026-27, is a targeted social protection instrument providing financial support to female students and orphaned children to enable their continued participation in education. Girls and orphans face disproportionately high dropout rates due to financial hardship, socio-cultural barriers, and the absence of adult guardianship, making targeted incentive programmes such as this critical to achieving inclusive educational outcomes. Though the initial allocation is modest, this initiative represents a principled policy commitment to ensuring that the most marginalized children are not left behind by the educational system, and its scale is expected to expand in subsequent fiscal years.

9.2.7 Flexible Hiring of Lecturers in Higher Education Department

The Flexible Hiring of Lecturers in Higher Education Department programme, allocated PKR 1.5 billion in FY 2026-27, enables public universities and colleges to recruit qualified academics on flexible contractual terms to address faculty shortages and specialization gaps in a timely and cost-effective manner. Rigid civil service hiring processes have historically limited the ability of higher education institutions to attract skilled professionals in specialized and emerging fields. By introducing flexible hiring mechanisms, the government is modernizing academic recruitment practices, ensuring that students have access to qualified and current expertise, and improving the overall quality and responsiveness of higher education provision in the province.

9.2.8 Subsidized Financing Schemes for SMEs (Markup)

The subsidized Financing Schemes for SMEs, allocated PKR 0.2 billion in FY 2026-27, provide markup support to small and medium-sized enterprises accessing credit from financial institutions. SMEs constitute the backbone of Khyber Pakhtunkhwa's private sector economy, contributing significantly to employment generation, local value addition, and economic diversification. High interest rates and limited credit access have long constrained SME growth; by subsidizing financing costs, the government is directly stimulating private sector investment, entrepreneurship, and job creation. This initiative reflects a strategic recognition that sustainable economic development requires a thriving private sector supported by enabling financial conditions.

9.2.9 KP Takaful Insurance Companies

The KP Takaful Insurance Companies initiative, allocated PKR 3.0 billion in FY 2026-27, supports the establishment and operationalization of Shariah-compliant insurance institutions in the province, providing Islamic financial protection products to individuals, households, and businesses. Conventional insurance penetration in KP remains extremely low due to religious sensitivities regarding interest-based financial products, leaving large segments of the population and the business community exposed to unmitigated financial risks. The development of a Takaful industry in the province reflects the government's commitment to inclusive financial protection and its recognition of the importance of aligning financial products with the values and preferences of the local population.

9.2.10 Agricultural Financing Support Scheme (Markup)

The Agricultural Financing Support Scheme, allocated PKR 1.5 billion in FY 2026-27, provides markup subsidy on agricultural credit extended to farmers through the formal financial system, enabling access to affordable seasonal financing for the purchase of seeds, fertilizers, and other farm inputs. The majority of KP's farming community lacks access to formal credit, limiting their ability to invest in productivity-enhancing technologies and exposing them to exploitative informal lending. By reducing the effective cost of agricultural borrowing, this scheme promotes financial inclusion in the rural economy, enhances farm productivity, and supports the government's broader agricultural development and food security objectives.

9.2.11 Establishment of AI Authority

The Establishment of an Artificial Intelligence Authority, allocated PKR 1.0 billion in FY 2026-27, reflects the provincial government's forward-looking commitment to positioning Khyber Pakhtunkhwa as a technology-driven, knowledge-based economy. The proposed AI Authority will provide institutional infrastructure for the regulation, promotion, and strategic deployment of artificial intelligence technologies across public service delivery, governance, and the private sector. As AI transforms industries and government operations globally, this initiative demonstrates the government's intent to proactively embrace innovation, reduce the digital divide, and create an enabling environment for technology entrepreneurship and digital skill development in the province.

9.2.12 Free Public WiFi for Peshawar

The Free Public WiFi for Peshawar initiative, allocated PKR 0.5 billion in FY 2026-27, aims to expand digital access by providing free wireless internet connectivity at public spaces, educational institutions, commercial centres, and community areas across the provincial capital. Digital access has become an essential public utility, underpinning education, e-commerce, e-governance, and social communication. By investing in public WiFi infrastructure, the government is reducing the digital divide, enabling citizens without private internet subscriptions to benefit from digital services, and laying the groundwork for a more connected and digitally empowered urban population in Peshawar.

9.2.13 Incentivize Electric Vehicle (EV) Adoption

The Electric Vehicle Adoption Incentive, allocated PKR 2.5 billion in FY 2026-27, is a green economy initiative designed to accelerate the transition from conventional fossil fuel-powered vehicles to clean electric alternatives in Khyber Pakhtunkhwa. Urban air pollution, high fuel import costs, and carbon emissions are pressing challenges in the province's major cities; promoting EV adoption addresses all three simultaneously. Through subsidies, reduced registration fees, or charging infrastructure investment, this programme signals the government's alignment with national and global commitments to environmental sustainability and clean energy transition, while simultaneously reducing citizens' long-term transportation costs.

9.2.14 Women Economic Empowerment Endowment Fund

The Women Economic Empowerment Endowment Fund, allocated PKR 0.1 billion in FY 2026-27 as a seed provision, is designed to establish a sustainable financial mechanism supporting women's entrepreneurship, skills development, and economic participation across Khyber Pakhtunkhwa. Women's labour force participation in KP remains among the lowest in Pakistan, reflecting a combination of socio-cultural barriers, limited access to capital, and skills constraints. The establishment of this endowment fund represents a policy commitment to structurally addressing gender-based economic exclusion and to creating a long-term institutional resource for women-focused economic development interventions in the province.

9.2.15 Ehsaas Maa – Nayi Zindagi, Nayi Umeed

Ehsaas Maa – Nayi Zindagi, Nayi Umeed is a maternal health and social support programme with an allocated budget of PKR 1.0 billion in FY 2026-27, targeting pregnant and lactating women from low-income households. Maternal and infant mortality rates in KP remain elevated, with socio-economic factors – including poor nutrition, limited antenatal care access, and financial barriers – playing a significant role. This programme provides financial stipends, health support, and nutrition assistance to expectant and new mothers, enabling them to access proper healthcare and maintain adequate nutrition during critical phases of pregnancy and early childhood. The initiative reflects the government's commitment to maternal health as both a human rights imperative and a public health priority.

Annexures

List of Acronyms

ADP	Annual Development Programme
ADB	Asian Development Bank
AFD	Agence Française de Développement
AIIB	Asian Infrastructure Investment Bank
AIP	Accelerated Implementation Programme
BoK	Bank of Khyber
CCI	Council of Common Interests
CFMIS	Comprehensive Financial Management Information System
CFMU	Cash Flow Management Unit
CVT	Capital Value Tax
DBAs	Designated Bank Accounts
DDOs	Drawing and Disbursing Officers
DMF	Debt Management Fund
FATA	Federally Administered Tribal Areas
FBR	Federal Board of Revenue
FED	Federal Excise Duty
FPA	Foreign Project Assistance
FSU	Funds Support Unit
FY	Fiscal/Financial Year
G2P	Government-to-Person
GDS	Gas Development Surcharge
GST	General Sales Tax
HDF	Hydel Development Fund
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
JICA	Japan International Cooperation Agency
KCM	Kazi Committee Methodology
KP	Khyber Pakhtunkhwa
KP-DWS	Khyber Pakhtunkhwa Digital Workspace
KPOGCL	Khyber Pakhtunkhwa Oil & Gas Company Limited
KPRMP	Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management Program
KPRA	Khyber Pakhtunkhwa Revenue Authority
KP-SPEED	Khyber Pakhtunkhwa Spending Effectively for Enhanced Development
MDs	Merged Districts
MMBTU	Million British Thermal Units
MPG	Micro Payment Gateway
MTIs	Medical Teaching Institutions
MVT	Motor Vehicle Tax


NFC	National Finance Commission
NHP	Net Hydel Profit
O&M	Operations and Maintenance
P2G	Person-to-Government
P2M	Person-to-Merchant
PEDO	Pakhtunkhwa Energy Development Organization
PFC	Provincial Finance Commission
PforR	Program-for-Results
PKR	Pakistani Rupee
POS	Point of Sale
PPPs	Public-Private Partnerships
PSDP	Public Sector Development Programme
QR	Quick Response Code
RAAST	Pakistan's Instant Digital Payment System
RB&DC	Retirement Benefit and Death Compensation
SBP	State Bank of Pakistan
SRO	Statutory Regulatory Order
TDPs	Temporarily Displaced Persons
TSA	Treasury Single Account
USD	US Dollar
WLO	Windfall Levy on Crude Oil
WoT	War on Terror


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