

Building Resilience with Active Countercyclical Expenditures (BRACE)
First Quarterly Progress Report
(Quarter Ended 31 December 2022)

Finance Division (External Finance)
Government of Pakistan

Abbreviations

ADB:	Asian Development Bank
AGP:	Auditor General of Pakistan
BISP:	Benazir Income Support Program
BRACE:	Building Resilience with Active Countercyclical Expenditures
CDEP:	Countercyclical Development Expenditure Program
CFY:	Current Financial Year
COVID:	Corona virus pandemic
DMF:	Design and Monitoring Framework
EA:	Executing Agency
EAD:	Economic Affairs Division
ECC:	Economic Coordination Committee
GOP:	Government of Pakistan
GMSS:	Government Markup Subsidy Scheme
IA:	Implementing Agency
IF&RSLF:	Interest-free loan to landless farmers in the flood affected areas
MMBtu:	Metric Million British thermal unit
MSRSSFM:	Mark-up subsidy and Risk sharing scheme for Farm Mechanization
NSER:	National Socio-Economic Registry
PASSCO:	Pakistan Agricultural Storage and Services Corporation
PSDP:	Public Sector Development Program
PMYBALS:	Prime Minister's Youth Business and Agriculture Loan Scheme
SME:	Small and Medium Enterprises
SNGPL:	Sui Northern Gas Pipeline Limited

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Introduction

Background

1. The COVID 19 Pandemic sent shock waves through the world economy and heightened concerns about high private and public sector debt levels. Although the immediate response by the Government of Pakistan (GOP / Government) to the crisis was largely effective at stabilizing output and protecting incomes, it also aggravated some preexisting financial risks to households and the financial sector that pose a threat to an equitable recovery in the longer term. While the GOP efforts were continuing to combat the adverse impacts of COVID, the Russian-Ukraine war escalated the geopolitical tension and triggered a possible energy crunch in the region. The cascading effect of COVID and the war resulted in income and job losses and demanded massive GOP spending on social protection to protect the most vulnerable population and promote economic recovery. GOP used digital tools to manage the massive amounts of administrative data needed to monitor the welfare of households and individuals and to design better-targeted programs.

Building Resilience with Active Countercyclical Expenditures Program

2. In order to support the government's efforts to provide immediate relief to the people of Pakistan, Asian Development Bank (ADB) approved a Countercyclical Support Facility Loan with a size of USD 1.5 billion on 21 October 2022-Building Resilience with Active Countercyclical Expenditures Program (BRACE). The program was aligned with the (i) Government's strategic priorities and the overarching objectives of promoting social inclusion by strengthening the support provided to poor and vulnerable groups, improving economic resilience, and supporting the trade-related sectors¹,(ii) ADB Strategy 2030², and (iii)ADB's country partnership strategy (2021-2025)³.

¹Government of Pakistan; Ministry of Planning, Development and Reform; Planning Commission. 2015. Islamabad.

² (i) Operational priority (OP) 1: addressing remaining poverty and reducing inequalities, (ii) OP 2: accelerating progress in gender equality, (iii) OP 3: tackling climate change, building climate and disaster resilience and enhancing environmental sustainability, (iv) OP 5: promoting rural development and food security, (v) OP 6: strengthening governance and institutional capacity, and (vi) OP 7: fostering regional cooperation and integration. ADB -2018 <https://www.adb.org/sites/default/files/institutional-document/435391/strategy-2030-main-document.pdf>

³ Reducing economic and social disparities, strengthening economic governance, and supporting private sector development. <https://www.adb.org/sites/default/files/institutional-document/674016/pak-cps-2021-2025.pdf>

Access Criteria

3. Pakistan met all the criteria required to access ADB's countercyclical support facility, which includes an (i) adverse impact of exogenous shocks, (ii) counter-cyclical development expenditure program, (iii) Pre-shock record of generally sound macroeconomic management, (iv) structural reforms, (v) debt sustainability, (vi) coordination with IMF, and (vi) monitoring and evaluation framework.⁴

Monitoring and Evaluation Framework

4. The monitoring and evaluation framework (framework) of the BRACE program builds on ADB's CARES program and is primarily based on the recommendations made by the Auditor General of Pakistan (AGP) in its audit report on expenditures incurred for the government's corona virus disease (COVID-19) pandemic response. The objective of the framework is to (i) ensure regular and systematic reporting on the countercyclical development expenditure program (CDEP) announced in the fiscal year (FY) 2023 national budget, with a particular focus on the priority expenditure items outlined in the BRACE Program Design and Monitoring Framework (DMF), (ii) provide a platform for coordinated and informed discussions between the government and development partners on the implementation of the CDEP, and (iii) continue the ongoing policy dialogue with the government on its program to address longstanding structural constraints.

5. Under the monitoring and evaluation framework, the executing agency (EA) i.e. Ministry of Finance is required to conduct quarterly meetings with the implementing agencies (IAs), that is, Ministries of Economic Affairs (EAD), Industries and Production, Food Security and Research, and Benazir Income Support Program (BISP), to review the progress of the implementation of the CDEP

⁴Government's Countercyclical Expenditure Measures

6. The framework sets reporting requirements for the government to (i) provide semi-annual progress reports, (ii) quarterly progress reports, and program performance reports that include progress achieved against DMF indicators with reasonable details for variation of the target indicators and the independent assessment report of the effectiveness and efficiency of the CDEP through a third-party survey of beneficiaries. The following are the relevant articles from the loan agreement that governs the program monitoring and submission of the quarterly progress report to ADB:

Article 6: *The borrower, through the executing agency shall ensure that a structured platform for policy dialogue with key stakeholders and implementation support is in place on the CDEP to (a) engage with such stakeholders in the design and implementation of CDEP; and (b) respond to implementation bottlenecks, if any.*

Article 7: *The borrower shall (a) monitor, evaluate and provide quarterly reports to ADB in accordance with MRF.*

Article 8: *The borrower, shall, monitor, evaluate and report to ADB on areas including (a) developments in its macroeconomic and fiscal conditions, including the CDEP; (b) the impact of its CDEP on poor and vulnerable groups, disaggregated by sex, including the number of beneficiaries of cash transfer scheme and other social assistance programs, and (c) implementation of a crisis's response plan.*

Article 9: *Within six months of the loan closing date, the borrower shall submit to ADB the program completion report.*

Steering Committee and Working Group

7. As required under the framework and with the approval of Finance Minister, Finance Division (FD) vide notification No 3(2) ADB/2022 dated 5 December 2022 constitute a steering committee and working group to monitor

the progress achieved on the countercyclical Development Expenditure Program (CDEP).

Steering Committee

Table 2: Composition of Steering Committee

Secretary, Ministry of Finance	Chairperson
Secretary, Economic Affairs Division	Member
Secretary, Ministry of National Food Security and Research	Member
Secretary, Benazir Income Support Program	Member
Secretary, Ministry of Industries and Production	Member
Executive Director, State Bank of Pakistan	Member

Terms of References:

- i. Engage in high-level policy dialogue with ADB and AIIB on the implementation of CDEP.
- ii. Conduct quarterly progress meetings with the implementation agencies to review the progress on the implementation of CDEP.
- iii. Approve quarterly progress report for submission to ADB and publish it on the website including updates on macroeconomic and fiscal performance, implementation, and overall financial progress of the CDEP, achievement of poverty, social and gender targets, and compliance with the loan agreement.
- iv. Approve quarterly BRACE program performance reports for submission to ADB and publish on the website including the execution of CDE, problems encountered, and future strategy and performance against Design and Monitoring Framework indicators.
- v. Approve semi-annual progress reports for submission to ADB covering macroeconomic and fiscal performance and fiscal performance, implementation of the CDEP, overall financial progress of these expenditures, achievement of poverty, and gender targets, compliance with the loan agreement, and budget execution.

Working Group

Table 3: Composition of the Working Group

Joint Secretary (EF CB)	Chair
Deputy Secretary (ADB – II) - Representative M/o Economic Affairs	Member
Deputy Secretary (PSD) - Representative of M/o Industries and Production	Member
Deputy Secretary (Plan) - Representative M/o National Food Security and Production	Member
Deputy Secretary (M&E) - Representative M/o BISP	Member
Senior Economist/ Senior Joint Director- Economic Policy/ Review Department Representative of the State Bank of Pakistan	Member

Terms of Reference

- i. Supporting the Steering Committee with monitoring, evaluating, and reporting of BRACE program performance indicators
 - ii. Draft progress reports (quarterly and semi-annual) for the approval of the steering committee to be submitted to ADB and published on the MOF website on a quarterly basis.
 - iii. Support implementation of the approved activities of the program
- Assess strategic level risks and undertake risk mitigation activities.

Quarterly progress report

8. GOP is required to submit the quarterly report as required under the framework and schedule 4 of the Loan Agreements⁵.

9. Under the framework, the quarterly progress report will cover the following components: (i) updates on the macroeconomic and fiscal performance, (ii) implementation of CDEP, (iii) overall financial progress of CDEP with the comparison of the budgeted expenditures and actual progress, (iv) achievement of poverty, social, and gender targets and, as feasible and based on sex-disaggregated data, the program's gender impact; and (v) compliance with the loan agreement.

Countercyclical Development Expenditures

10. The government introduced a countercyclical development expenditure program (or CDEP) in the fiscal year (FY) 2023 national budget to (i) increase social protection, (ii) increase food security, and (iii) enhance support for businesses. Detailed information and cost estimates are highlighted in Table 1:

⁵(i) Loan Number 4235-PAK (COL) ordinary operations (concessional) Loan, and (ii) Loan Number 4234-PAK for ordinary operations.

Table 1: Countercyclical Development Expenditures Program (FY 2023)

	PRs millions	\$ million
Social Protection⁶	369,778	1,687
Benazir Income Support Program	364,078	1,661
<i>Unconditional cash transfer</i>	240,100	1,096
<i>Fuel subsidy scheme</i>	48,000	219
<i>conditional cash transfer for education</i>	35,000	161
<i>national socio-economic registry</i>	1,703	8
<i>undergraduate scholarship</i>	9,270	42
<i>conditional cash transfer for health and nutrition</i>	21,380	98
<i>Employee-related expenses</i>		16
<i>and General Expenses</i>	4,078	
<i>Direct Cost Cash Transfer</i>	4,547	21
Bait-ul-Mal	3,700	17
National Poverty Graduation Program (NPGP)	2,000	9
Food Security	71,000	324
PASSCO	7,000	32
USC	17,000	78
Fertilizer plant subsidy	15,000	68
subsidy for import of urea or fertilizer	6,000	27
Agriculture relief initiatives	10,000	46
Sales tax exemption on import of seeds and tractors	16,000	73
Support for Businesses	70,000	320
Entrepreneurship and employment schemes	10,000	46
Support for export-oriented industries	60,000	274
<i>Subsidy for electricity</i>	20,000	91
<i>Subsidy for RLNG</i>	40,000	183
Total	510,778	2,331

FY = fiscal year, PASSCO = Pakistan Agricultural Storage & Services Corporation Ltd, PRs = Pakistan Rupee, RLNG = re-gassified liquefied natural gas, USC = Utilities Stores Corporation.

Source: Government of Pakistan

⁶ The targeting and distribution of benefits to low-income households and those affected by the macroeconomic and cost-of-living crises will be done through agencies and channels that have been tried and tested including, most recently, through the 2020 COVID-19 pandemic. Social protection measures will be channeled through the Benazir Income Support 2 Program, Pakistan's flagship social protection program

Proceedings of Working Group

11. The Working Group held its first meeting in the Finance Division on 25 January 2023 to monitor & evaluate first quarters' performance under the CDEP. The meeting was chaired by Joint Secretary (External Finance) and attended by representatives from the Ministry of Food, Ministry of Industries, Benazir Income Support Program, State Bank of Pakistan and ADB.

During the meeting the concerned implementing agencies were requested to share the actual expenditures *under different sub-headings to provide comprehensive details of the expenditure*. In addition to this, they were also requested to provide details of other social protection initiatives taken during the reporting period.

Accordingly, the data was received and the report was compiled by the Finance Division being the Executing Agency. The report was shared with all the members of Working Group and comments were obtained, which were duly incorporated.

First Quarterly Report (October to December 2022)

Fiscal Performance (July to December FY 23)

12. During the first half of FY2022-23, total revenues grew by 18.8 percent to reach PRs 4,699 billion against PRs 3,956 billion in the same period of last year. The major contribution to this growth came from a 26.4 percent increase in non-tax collection, while tax collection has also shown remarkable performance by posting a growth of 17 percent during the first half of the current fiscal year.

13. Total expenditures grew by 19.8 percent to PRs 6,382 billion in Jul-Dec FY 2023 against PRs 5,328 billion in the same period last year. Current expenditures increased by 30 percent to PRs 6,061 billion in Jul-Dec FY 2023 against PRs 4,676 billion in the comparable period of the last year. The bulk of this rise stemmed from a sharp rise in mark-up payments which grew by 77

percent driven by higher servicing on domestic and foreign debt due to a higher level of interest rates. Public Sector Development Program (PSDP- Federal and Provincial) grew by 4.5 percent during the first half of the current fiscal year.

Table 4: Key Economic Indicators (External Sector) - Comparative Review

Indicator	2021-22 (July – January)	2022-23 (July – January)
Remittance (USD billion)	18.0	16.0
Exports (USD billion)	17.7	16.4
Imports FOB (USD billion)	42.3	33.5
Current Account Deficit (USD billion)	11.6	3.8
FDI (USD million)	1,224.7	683.5
Portfolio Investment (USD million)	650.7	(1,024.9)
Total foreign Investment (USD million)	1,875.4	(341.4)
Foreign Reserves (SBP) USD billion -24 Feb 2022 Vs 2023	16.5	3.8
Exchange Rate (PRs/USD) 24 Feb 2022 Vs 2023	176.39	259.99

Source: Finance Division, Monthly Economic Update, and Outlook - February 2023

14. Thus, the fiscal deficit during Jul-Dec FY2023 has been contained at 2.0 percent of GDP as it was in the same period last year while the primary balance posted a surplus of PKR 890 billion (1.1 percent of GDP) against the surplus of PKR 81 billion (0.1 percent of GDP) last year.

Table 5: Key Economic Indicators (Fiscal Sector) – Comparative Review PRs (billion)

Indicator	2021-22 (July – Dec)	2022-23 (July – Dec)
FBR Revenue (July-Jan)	3,351	3,966
Non-tax Revenue	765	967
PSDP (including grants to Provinces)	288	162
Fiscal Deficit	1,372	1,683
Primary Balance	81	890

Source: Finance Division, Monthly Economic Update and Outlook – February 2023

Progress on the countercyclical development expenditure program (CDEP)

15. The countercyclical development expenditures consist of three major components under (i) social protection, (ii) food security, and (iii) support for businesses. Progress will be discussed in this part of the report by (i) comparing the budgeted and actual expenditures, and (ii) measures taken by the government to implement CDEP.

Social Protection

(i) Pakistan Bait-ul-Mal

16. An amount of PRs 3.7 billion has been allocated to Pakistan Bait ul Mal under IB-5194, Demand / Grant No 083 for FY 2022-2023, and as per strategy for the release of the budget being issued by Finance Division, 40%, i.e., an amount of Rs 1.48 billion release to Pakistan Bait ul Mal till 31 December 2022 which has been fully utilized on different initiatives. The expenditures are detailed below from **Table 6 – 8**.

**Table 6: Pakistan Bait ul Mal – Budget Vs Actual Expenditures
For the first half of FY 2022-2023**

PRs (million)					
Budget	3,700	Released	1,480	Expenditures	1,442

Table7: Details of Expenditures for first half of FY 2022-2023

Description	PRs (Million)
Individual Financial Assistance – Medical	551.1
Individual Financial Assistance – General	41.5
Individual Financial Assistance – Special Friends (disabled)	30.9
Individual Financial Assistance – Education	47.6
Schools of Rehabilitation for Child Labour (SRCLs)	128.9
Women Empowerment Centres (WECs)	118.7
PBM Sweet Homes (PSHs)	243.6
PBM Old Home	3.7
PBM Shelter Homes	63.9
Roti Sab Ke Leay	15.5
NGO's	24.7
Administration	171.8
Grand Total	1,441.9

Source: Pakistan Bait-ul-Mal

Table8: Month-wise Expenditures for the first half of FY 2022-2023

Description	Quarterly Allocation	PRs (Million)
July 2022	629	15.8
August 2022		344.8
September 2022		267.9
October 2022	851	129.4
November 2022		483.4
December 2022		200.6
Grand Total		1,441.9

Source: Pakistan Bait-ul-Mal

(ii) Benazir Income Support Program

18. The budgeted Vs actual expenditures position shows that considerable progress has been achieved as it constitutes a major component of the overall CDEP. **Tables 8 and 9** provide a detailed analysis of the amount budgeted and expenditures incurred till 31 December 2022.

Table 9: BISP - Comparison of the budgeted and actual expenditures PRs (million)

Budget Head	Annual Budget	Actual expenditures (31 Dec 2022)	% age achievement
Unconditional cash transfers	240,100	118,651	49.4
Fuel Subsidy Scheme	48,000		
Conditional cash transfers for education	35,320	12,849	36.3
National Socio-economic Registry (NSER)	1,703	114	6.6
Undergraduate scholarship	9,270	8,615	92.9
Conditional cash transfer for health and nutrition	21,480	8,830	41.1
Employee related expenses	3,578	1,572	43.9
Administration and other program expenditures	4,627	1,410	30.4
Total	364,078	152,041	41.8

Source: Benazir Income Support Program

Table 10: BISP - Quarterly expenditures for the first half of FY 2022-2023
PRs

(million)

Budget Head	Q1 ending 30 Sep 2022	Q2 ending 31 Dec 2022	Total
Benazir Kafalat-unconditional cash transfers	59,752	58,899	118,651
Fuel Subsidy Scheme			
Conditional cash transfer for education		12,849	12,849
NSER project	1	113	114
Undergraduate scholarship program	2,242	6,373	8,615
Conditional cash transfer for health and nutrition	8,273	557	8,830
ERE and General Expenses	766	806	1,572
Administration and other program expenditures	198	1,212	1,410
Total	71,232	80,809	152,041

Source: Benazir Income Support Program

19. In addition to that, BISP has also disbursed an amount of Rs 50.420 billion on account of Emergency Flood Relief Cash Assistance i.e. 50.188 billion in 1st Quarter and 0.232 billion in 2nd Quarter as per direction of the Federal Government. The scheme was an extension of the Fuel Subsidy Scheme launched in mid June 2022 to provide Rs. 2,000/- per family to cushion against negative impact of unprecedented rise in prices of petroleum products. The amount could be utilized for purchase of fuel or any other household item as per requirement of the targeted family. Government allocated Rs. 25 billion for the program but only Rs. 16.76 billion was utilized to cover 8.36 million families.

To continue the benefits of the scheme in next financial year i.e. 2022-23, an amount of Rs. 48 billion was allocated to BISP under Fuel Subsidy Scheme. However, due to unprecedented rain during the month of July and August 2022 and subsequent floods in low lying areas, the amount for fuel subsidy was re-allocated to Flood Relief Cash Assistance, whereby Government committed an amount of Rs. 70 billion.

Support for Businesses

20. Expenditures incurred on entrepreneurs and employment schemes during the first half of FY 2022-2023. The list of schemes is as follows:

**Table 11: List of different entrepreneurs' scheme and the utilization
HY- FY 2022-2023**

Program	Payment Q1	Payment Q2	PRs
			Total Payment
PM's Youth business loan scheme	150,928,687	147,030,004	297,958,691
Kamyab Pakistan Program	617,317,962	682,894,681	1,300,212,643
PM Youth Business and Agriculture Loan Scheme (PMYB&ALS)	-	-	-
PM's Kamyab Jawan Youth Entrepreneurship Scheme	1,426,612,699	1,638,505,440	3,065,118,139

Source: Finance Division and State Bank of Pakistan

PM's Youth Business and Agriculture Loan Scheme (PMYBALS)

SBP has issued instructions to banks vide SBP circular No 12 dated 12 December 2022 for implementation of PM's Youth Business and Agriculture Loan Scheme (PMYBALS). The scheme is accessible at SBP website at below mentioned link:

<http://www/sbp.org.pk/sme/d/circulars/2022/circulars/2022/C12.htm>

Under this scheme, the target of Rs 30 billion has been assigned to 15 banks for small and medium (SME) and Agricultural loans combined, of which Rs 15 billion will be disbursed to the agriculture sector. The PMYBALS portal has been launched as of 10 February 2023. As the scheme was revised and re-launched in December 2022, therefore, the expected financing and budgetary impact would be during 2023.

Energy Sector

21. The government is providing gas / re-gassified liquefied natural gas (RLNG) at concessionary rates of US\$ 9 per MMBtu all-inclusive to five export-oriented industries across Pakistan. For this purpose, a subsidy amounting to Rs 40 billion has been budgeted for the five export-oriented sectors during the CFY 2022-23. Out of the total subsidy for the CFY, Rs 3.5 billion has been earmarked for the export-oriented consumers of Sui Southern Gas Company Limited's system while the remaining amount is allocated for similar consumers on Sui Northern Pipeline Limited's network.

22. The Economic Coordination Committee (ECC) deferred the electricity bills for domestic consumers in flood-affected areas for September 2022 until the next billing cycle and waived off electricity bills for non-Time of Use domestic consumers who use less than 300 units for August and September 2022. An additional supplementary grant of Rs10.34bn was approved to cover the waiver of electricity bills in flood-affected areas.

23. Till December 2022, a subsidy amounting to Rs 14.03 billion has been given to the five export-oriented industries in gas / RLNG supply tariff on the Sui Northern Gas Pipeline (SNGPL's) network out of which Rs 4.55 billion has been released to SNGPL against the tariff differential whereas Rs 9.47 billion subsidy is estimated to be required for the export-oriented sectors. Further, the month-wise subsidy claims details by SNGPL till December 2022 are as under:

Table 12: Power Sector Subsidy Release

Month	Subsidy claim (Rs)
July 2022	2,351,482,300
August 2022	2,327,657,800
September 2022	2,231,913,130
October 2022	1,231,133,600
November 2022	1,048,054,740
December 2022	4,848,994,800
Total	14,038,236,370

Source: Ministry of Energy

Food Security

24. The food security component consists of support provided through (i) PASSCO, (ii) Utility Stores Corporation, (iii) Fertilizer plant subsidy, (iv) subsidy for import of urea or fertilizers, (v) agriculture relief initiatives, and (vi) sales tax exemption on import of seeds and tractors.

Pakistan Agricultural Storage and Services Corporation (PASSCO)

25. For the FY 2022-2023, the government made an allocation of PRs 7 billion. However, to date, no release has been made from PRs 7 billion.

Industries and Production Division

Table 13: Food Security Expenditures
Comparison of budgeted and actual expenditures

Description	Budget	PRs (million)		
		Q 1	Q2	Total
Fertilizer plant subsidy	15,000	6,703	8,297	15,000
Subsidy for import of urea or fertilizer*	6,000	-	-	-
Utility Store Corporation	17,000	6,000	2,851	8,851

Source: Ministry of Industries and Production

Kissan Package

26. The Economic Coordination Committee of Cabinet, in its meeting held on 14 November 2022, approved a summary titled “*Kissan Package*” and its decision was ratified by the cabinet on 28 November 2022. The decision of ECC duly ratified by the Cabinet was forwarded by *M/o NFS&R to Finance Division on 7 December 2022.

27. Accordingly, upon the direction of the Finance Division, the State Bank of Pakistan (SBP) issued instructions to concerned banks for the implementation of schemes vide circulars dated 21st December 2022. The detail of the estimated fiscal outlay / budgetary requirement for FY 2022-23 and FY 2023-24 of the following four schemes is as under:

Table 14: Prime Minister Kissan package

PRs (million)

PM's Kissan Package Schemes Components	Budgetary requirement		Details	Implementation Status
	FY 2022-23	FY 2023-24		
Waiver of mark-up on outstanding loans for subsistence farmers in the flood affected areas.	5.31	-	The fiscal outlay of Rs 10.62 billion has been approved by GoP for this scheme as a mark-up waiver cost against agriculture loans of up to Rs 500,000/- in flood-affected areas. 50% mark-up waiver cost will be borne by banks / (Microfinance banks) MFBs whereas the remaining 50% by GoP itself against which banks/ MFBs will submit markup subsidy claims for reimbursement during FY 2022-23.	Upon receipt of the Finance Division letter dated 19 December 2022 regarding the approval of the scheme, SBP has issued AC&MFD circular No 03 of 2022 dated 21 December 2022 to all banks / MFBs for implementation ⁷ . The subsidy claims under the mark-up waiver scheme is being finalized and will be submitted during the third quarter of FY 2022-23.
Provision of subsidy for interest-free loans for subsistence farmers in the flood affected areas.	1.2	7.0	Total fiscal outlay of Rs 8.2 billion has been approved by GoP for this scheme as mark-up subsidy cost against interest free loans of up to Rs 500,000/- to be extended through banks in flood affected areas. Out of it, Rs 1.2 billion will be required in FY 2022-23 for quarter ending March 2023 and remaining Rs 7.0 billion will be required during FY 2023-24.	

⁷The scheme may be accessed at: <http://www.sbp.org.pk/acd/2022/C3.htm>

<p>Mark-up subsidy & risk sharing scheme for farm mechanization (MSRSSFM)</p>	<p>-</p>	<p>6.4</p>	<p>As per this scheme, the disbursement target of Rs 56 billion has been assigned to banks to extend subsidized loans during 2023 for a period up to 7 years. Accordingly, the fiscal outlay of Rs 6.4 billion is estimated for FY 2023-24 as mark-up subsidy cost to be borne by GoP against such loans.</p>	<p>Upon receipt of the Finance Division letter dated 20 December 2022 regarding the approval of the scheme, SBP has issued AC&MFD circular No 04 of 2022 dated 21 December 2022 to all banks/Islamic banks for implementation.⁸</p> <p>Based on the GoP allocations under Markup subsidy and risk sharing scheme for farm mechanization, SBP has allocated limits of Rs 56 billion to 24 banks including Islamic banks in line with the already allocated for farm mechanization (tractor, thresher, combined harvester, planter, tube well etc).</p> <p>MFNSR, jointly with the PM office, has developed an online portal within PMYB&ALS, which is being tested for the processing of loans under the scheme. SBP will share details and mechanisms of the online portal with participating banks once received from MNFSR.</p> <p>As the scheme launched in late December 2022,</p>
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⁸The scheme may be accessed at: <http://www.sbp.org.pk/acd/2022/C4.htm>

				therefore, the expected financing and budgetary impact would be during 2023.
Interest-free loans to landless farmers in the flood affected areas. (IF&RSLF)	2.0	1.3	Rs 5.0 billion inclusive of existing Rs 1.7 billion lying with SBP (as of June 2022) has been approved for IF&RSLF under PM Kisan Package by GoP to provide interest free loans of up to Rs 200,000/- to small and marginalized farmers in flood-affected areas for the period of 6 months in line with GoP's ongoing scheme of CGSMF. Hence, GoP will add Rs 3.3 billion to facilitate risk coverage and markup subsidy under this scheme. Out of it Rs 2.0 billion will be required in FY 2022-23 to add in credit guarantee funds. However, Rs 1.3 billion will be required in FY 2023-24 on account of markup subsidy to banks/MFBs under IF&RSLF.	Upon receipt of Finance Division letter dated 19 December 2022 regarding the approval of the scheme, SBP has issued AC&MFD circular No 03 of 2022 dated 21 December 2022 to all banks/MFBs for implementation. ⁹ Accordingly, SBP has assigned indicative targets to banks for financing to subsistence farmers in flood-affected districts. Banks are advertising the scheme and are reporting financing under the scheme. As the scheme was launched in late December 2022, therefore, the expected financing and budgetary impact would be during 2023.

Source: Finance Division and State Bank of Pakistan

28. No allocation/release has been made so far under the above-mentioned four schemes and during CFY 2022-23, Rs 8.51 billion is required which has already been communicated to the budget wing of the Finance Division on 13 February 2023.

⁹The scheme may be accessed at <http://www.sbp.org.pk/acd/2022/C3.htm>

Other components of Kissan Package and implementation Status

29. SBP has allocated an indicative agriculture credit disbursement target of Rs 1,819 billion for FY 2022-23, which is 28% higher than last year's disbursement of Rs 1,419 billion. The agriculture credit target includes Rs 400 billion recently announced under the PM Kissan package. During the first quarter of FY 2022-23, agriculture lending banks disbursed Rs 383.8 billion which increased to Rs 842.4 billion by quarter ended December, for the period 1 July 2022 to 31 December 2022. Around 46% of the overall annual target has been achieved in the first two quarters of FY 2022-23.

Inclusion of agro-based SMEs in SME modernization scheme

30. SBP has shared details with the implementation committee vide email dated 27 December 2022. As of 31 December 2022, Rs 4,291 million have been disbursed under the SBP's modernization of SMEs scheme of which Rs 2,829 million have been availed by agro-based SMEs.¹⁰

Interest-free and risk-sharing scheme for landless farmers for financing up to Rs 200,000 to landless farmers

31. Upon receipt of Finance Division letter dated 19 December 2022 regarding the approval of the scheme, SBP has issued AC&MFD circular No 03 of 2022 dated 21 December 2022 to all banks/MFBs for implementation¹¹ As the scheme has launched in late December 2022, therefore, the expected financing and budgetary impact would be during 2023.

¹⁰The scheme is accessible at <http://www.sbp.org.pk/lncen-others/sme-1.asp>

¹¹The scheme may be accessed at: <http://www.sbp.org.pk/acd/2022/c3.htm>.

Compliance with loan agreements:

The status of compliance with the loan agreements¹² is provided in Table 15 - 17

Table 15: Article III - Use of proceeds of the loan

Covenant	Status of Compliance
Section 3.01: The borrower shall cause the proceeds of the loan to be applied to the financing of expenditures on the program in accordance with the provisions of this loan agreement.	Complied with
Section 3.02: The proceeds of the loan shall be withdrawn in accordance with the provisions of schedule 3 of this loan agreement, as such schedule may be amended from time to time by agreement between the Borrower and ADB.	Complied with

Table 16: Article IV- Particular Covenants

Covenant	Status of Compliance
Section 4.01: In the carrying out of the program, the borrower shall perform, or cause to be performed, all obligations set forth in schedule 4 of this loan agreement.	Being complied with
Section 4.02: As part of the reports and information referred to in sections 6.01 and 6.05 of the loan regulations, the borrower shall furnish, or cause to be furnished, to counterpart funds and the use thereof; and (b) the implementation of the program, including the accomplishment of the objectives, policies and action set out in the policy letter.	Being complied with

Table 17: Schedule 4: Program Implementation and other matters

Covenant	Status of Compliance
Implementation arrangements: 1) The borrower, through the program executing agency, shall be responsible for the implementation of the program, including monitoring or and reporting on the implementation of the program.	Being complied with
Policy Dialogue: 2) The borrower, through the program executing agency, shall (a) promptly inform ADB about any issues and constraints encountered during the implementation of the program; and (b) proactively engage with ADB to adopt appropriate measures to address and mitigate such issues and constraints.	Not applicable at this stage as there are no issues being faced currently.

¹²Loan Number (i) 4235 - PAK (COL), and Loan Number (ii) 4234 - PAK

<p>3) The Borrower, through the program executing agency, shall keep informed of policy discussions with other multilateral and bilateral and agencies that may have implications for the implementation of the program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower, through the program executing agency, shall take into account ADB's view before finalizing and implementing any such proposal.</p>	<p>ADB is being informed of the outcome of discussions between GOP and IMF.</p>
<p>Use of counterpart funds: 4) The Borrower shall ensure that the counterpart funds are used to finance the implementation of certain programs and activities consistent with the objectives of the program.</p>	<p>Complied with</p>
<p>Governance and Anticorruption: 5) The Borrower and the program executing agency shall (a) comply with ADB's anticorruption policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive proactive relating to the program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.</p>	<p>Being complied with</p>
<p>Monitoring, Review and Reporting: 6) The Borrower, through the program executive agency, shall ensure that a structured platform for policy dialogue with key stakeholders and implementation support is in place on the CDEP to (a) engage with such stakeholders in the design and implementation of the CDEP, and (b) respond to implementation bottlenecks, if any 7) The Borrower shall (a) monitor, evaluate and provide quarterly reports to ADB in accordance with MRF; and (b) ensure that adequate budgetary and human resources are made available to fully implement the MRF. 8) The Borrower shall, in particular, monitor, evaluate and report to ADB on areas including (a) developments in its macroeconomic and fiscal conditions, including the CDEP, (b) impacts of its CDEP on poor and vulnerable groups, disaggregated by sex, including the number of beneficiaries of cash transfer schemes and other social assistance programs; and (c) implementation of its crisis's response plan.</p>	<p>Complied with—With the approval of Finance Minister, Finance Division (FD) vide notification No 3(2) ADB/2022 dated 5 December 2022 constitute a steering committee and working group to monitor the progress achieved on the countercyclical Development Expenditure Program (CDEP). Being complied with Complied with – First quarterly report submitted to ADB</p>

Persistent Challenges

32. Fuel Prices: Overall, the impact of Russian-Ukraine war on the economy of Pakistan is significant, mainly due to high fuel prices. Fuel prices have relatively high multiplier effects and high fuel prices can cause reduction in economic activity across different sectors. High fuel prices not only reduce the direct consumption of petroleum products but also shrink other sectors such as electricity production, industrial demand, goods transportation, travelling, mining, construction, and many others.

33. Edible Oil: After fuel, edible oil has the most impact on the GDP and household consumption, but it is almost double for the poor. Due to the relatively higher elasticity of oil with its price, demand shock is greater than wheat and almost double in poor households. As Pakistan remains largely dependent on imported palm oil (all from Malaysia and Indonesia), it remains highly prone to any upward shock in prices and can also cause deterioration in the healthy diet structure of children.

34. Poverty: The Russian-Ukraine war crisis has a serious impact on poverty that can increase the burden on the already tightened fiscal space. Post-Disaster Needs Assessment Report of the 2022 floods, released by Ministry of Planning, Development & Special Initiatives stated that the national Poverty rate may increase by 3.7-4.0 percent by pushing 8.4-9.1 million more people into poverty due to devastating calamity. Any potential cash handouts or expansion of Benazir Income Support Programs (the existing transfer payment program) can further increase the existing high fiscal deficits.

35. Inflation: Rising inflation, particularly food inflation (highest in the history of Pakistan), increase in administered prices of petroleum products, electricity, and gas and continuous depreciation of the country's currency have a negative impact on household consumption which will lead to greater poverty, particularly in rural areas.

36. Floods: While the global crisis, because of the Russian-Ukraine War, was expected to result in slowing down the economic growth in Pakistan, its adverse impact on poverty, food insecurity and deteriorated diet quality are likely to be more pronounced. However, the cataclysmic floods in 2022 in Pakistan affecting 33 million people and 1.8 million hectares of cropland across the country; damaging cotton and rice crops, perishing to 1.16 million as per the NDMA Post-Disaster Needs Assessment Report of 2022 floods and major damages to public infrastructure and private properties will lead to lower economic growth in FY2023, higher poverty and food insecurity, and worsened diet quality, especially in rural areas.

Conclusion

The quarterly progress report (end 31 December 2022) shows that the financial progress achieved till 31 December 2022 on CDEP is satisfactory as 41.5% of the budget, under social protection, is utilized. To support the business and agriculture sectors, the government is taking measures to generate employment, protect job losses, and ensure food security. The overall financial progress achieved shows that 38.3% of budget has been utilized till 31 December 2022, which is expected to improve in the remaining two quarters of FY 2022-2023.

**Table 18: Countercyclical development expenditure program
Comparison of Budgeted and Actual Expenditures
As on 31 December 2022**

	Budgeted FY 2022- 2023 PRs millions	Actual (HY) PRs million
Social Protection¹³	369,778	155306
Benazir Income Support Program	364,078	152,041
<i>Unconditional cash transfer</i>	240,100	118,651
<i>Fuel subsidy scheme</i>	48,000	-
<i>conditional cash transfer for education</i>	35,000	12,849
<i>national socio-economic registry</i>	1,703	114
<i>undergraduate scholarship</i>	9,270	8,615
<i>conditional cash transfer for health and nutrition</i>	21,380	8,830
<i>Employee-related expenses</i>		1,572
<i>and General Expenses</i>	4,078	
<i>Direct Cost Cash Transfer</i>	4,547	1,410
Bait-ul-Mal	3,700	1,442
NPGP	2,000	1823
-		
Food Security	71,000	23,851
PASSCO	7,000	-
USC	17,000	8,851
Fertilizer plant subsidy	15,000	15,000
subsidy for import of urea or fertilizer	6,000	-
Agriculture relief initiatives	10,000	-*
Sales tax exemption on import of seeds and tractors	16,000	-
Support for Businesses	70,000	18,701.2
Entrepreneurship and employment schemes	10,000	4663.2
Support for export-oriented industries	60,000	14,038
<i>Subsidy for electricity</i>	20,000	14,038
<i>Subsidy for RLNG</i>	40,000	
Total	510,778	197858.2

* The ECC of Cabinet in its meeting held on 14 November 2022 approved a summary titled "Kissan Package" and its decision was ratified by the cabinet on 28 November 2022. No allocation/release has been made so far under the above-mentioned four schemes and during CFY 2022-23, Rs 8.51 billion is required.

** ** PM's Youth business loan scheme (Rs 297.9 Mn); Kamyab Pakistan Program (Rs 1,300.2 Mn); PM's Kamyab Jawan (Rs 3065.1 Mn)

¹³ The targeting and distribution of benefits to low-income households and those affected by the macroeconomic and cost-of-living crises will be done through agencies and channels that have been tried and tested including, most recently, through the 2020 COVID-19 pandemic. Social protection measures will be channeled through the Benazir Income Support 2 Program, Pakistan's flagship social protection program.

