A ROADMAP FOR

STABLITY, GROWTH AND PRODUCTIVE EMPLOYMENT

Government of Pakistan
Finance Division
Islamabad

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Acknowledgement

This plan benefitted immensely from the work and recommendations of the Prime Minister' Economic Advisory Council and the Prime Minister's task force on Government Reforms and Austerity. The contributions of Pakistan development partners, especially World Bank and Asian Development Bank, which provided useful comments and suggestion on various drafts of the plan, are also gratefully acknowledged.

Executive Summary

It is the firm belief of PTI government, that the present economic situation does not reflect the true economic potential of Pakistan. Most economic experts and development professional agree with the government that the present situation is an outcome of poor economic policies and management. Past governments have repeatedly baulked at taking the bold corrective measures when they were needed, putting at risk country's economic sustainability.

Pakistan has all the requisites of being a major economic player in the region and Asia. Its economic potential is immense. According to a recent World Bank report, with sound economic policies, Pakistani economy could reach US$ 2 trillion by 2047. What is required is formulating and implementing these policies. Policies which liberates the economy from the clutches of vested interest groups and self-serving politicians, and which are for the good of the country and its people.

As such, the foremost commitment of the PTI government is to restore macroeconomic stability in the shortest period of time, but in a way such that required adjustment does not impose undue cost and pain to the poor and vulnerable segments of population. Moreover, by tackling the structural weaknesses of the economy the government intends to stop for good the recurrence of macroeconomic instability and pave way for accelerated growth and development thus eliminating recourse to seek bailout packages from IMF.

The government is convinced that its economic plan, which is detailed in this document, will lead to a new era of development and prosperity in the country. This plan is designed to first stabilize the economy and then unleash the investment and growth potential of the country. It will establish a fast growing and efficient economy which is capable of creating more quality jobs to absorb its labor force, especially the youth of the country; an economy which is more self-reliant yet economically better integrated with economies in the region and beyond; an economy which is forward and outward looking, willing and capable of competing for its rightful place in international trade and commerce.

Soon after taking office, the government took several steps to counter the immediate risks to the economy. It made successful efforts to mobilize financial assistance from friendly countries to ward off the risk of Pakistan defaulting on its external payment liabilities. This assistance also provided the government with time and space to formulate an appropriate and comprehensive package of economic reforms to address both the transitory and structural problems plaguing the economy.

The present economic instability is a direct outcome of the polices of the previous government, which led to collapse in exports and savings in the economy. The PTI government took immediate remedial measures to slow down the unsustainable C/A deficits and shore up external finances. These measures have started to yield results and country's external vulnerability is receding.

For the future, the government plan focuses on narrowing the three fundamental gaps in the economy. The plan envisages a complete overhaul of the government's fiscal apparatus so as to lower the revenue-expenditure gap. The tax system is being streamlined. As a first step, tax policy and tax administration functions have been separated so as to remove the apparent conflict of interest in tax collection. Tax policy is being designed to be fair, equitable and productive. The revenue and fairness objectives are pursed by expanding the tax base, reducing tax exemptions and through more efficient tax administration. Tax administration is being strengthen by allowing it access to third-party data and modern tools to identify and collect tax from tax defaulters.

Simultaneously, the plan intends to enhance the efficiency and effectiveness of public expenditure by framing laws to give greater autonomy, but with greater accountability, to the spending units; enforcing rules to stem leakages from the system; improving coordination within the federal government and with provinces; and reorienting expenditure priorities towards social welfare.

The export-import gap is to be reduced through promoting exports. For this the competitiveness of Pakistani exports has to be improved and the impediments to exports be removed. The government intends to establish an exchange rate regime which can avoid persistent overvaluation of local currency; reduce energy shortages and production cost by creating a more efficient energy sector; reviewing import tariffs; and streamlining custom rules and procedures to expedite clearance of both exports and imports. The government is also taking action to integrate Pakistani producers and exporters with international value chains.

The investment-saving gap has grown more acute in the last 10 years, greatly limiting the growth potential of the economy. In Pakistan, any acceleration in economic growth invariably leads to balance of payment difficulties, reversing the gains of higher GDP growth. The PTI government, is formulating a policy to increase the rate of national savings. It has amended laws and taken strong measures, particularly against the hundi and hawala systems, to discourage leakage of domestic savings to foreign countries. The Financial Inclusion strategy focuses on using digital platforms and non-banking channels to bring financial services to the masses. On the investment side, the government has already taken a number of actions to improve investment climate and enhance ease of doing business. A package for the support of manufacturing sector has been prepared and better access to finance for agriculture, housing and SME sectors have been ensured reducing tax on bank loans offered to these sectors.

The government is fully aware that despite its utmost efforts, the adjustment process will not be cost-free, and some of the cost of adjustment will be passed on to the vulnerable groups in the society. To protect these groups from the ill-effects of past polices and present economic adjustment, and other external or internal shocks, the government has recently announced *Ehsas* program which not only aims at integrating all government social protection initiatives under one roof but expands the coverage of social protection to ensure economic and social equality, human development, and jobs and livelihood for the poor families.

The government realizes that its policies are only as good as their implementation. In Pakistan, poor implementation originating from weak governance and management have stymied a large number of good policy initiatives. Therefore, improving governance is a key cornerstone of government's economic plan. Improving capacity of the government so that it can undertake its function more efficiently and with greater effectiveness is the fundamental factor behind governance reforms.

Civil service reforms being envisaged include: a merit-based recruitment and placement system; improving the performance evaluation and promotion processes; and ensuring the tenure of civil servants so that they can do their job without the fear of being transferred for not heading to the wishes of powerful. Efficiency and transparency of the government is to be enhanced through greater use of e-government; and making available to the public all the rule and regulations of the government.

I. Pakistan's Economy – A Plan for Achieving the Potential

Pakistan present economic situation stands in stark contrast to its economic potential. A country which in 1960s was a role model for developing countries in terms of converting its poorly developed economic resources to generate a rapid pace of economic growth and development, is current a laggard in its own backyard. Countries like Bangladesh and Nepal, which trailed Pakistan by a sizable margin, have now overtaking Pakistan in economic growth. Poor, myopic, politically motivated and self-serving economic policies and weak economic management underlies this sharp decline in Pakistan's economic fortune. Transient problems were allowed to fester for long periods to become structural bottlenecks. No serious attempt was made to tackle the structural problems for the fear of hurting interests of political favorites. Economic management was only to get through the passing month and year, and let future take care of itself. As such, Pakistan's economic assets and advantages were allowed to erode leading to the present economic malaise.

Pakistan has many assets which, if used well, can help Pakistan to retake its past economic position in international arena. All that is required are bold economic reforms which favor not a set of vested interest groups but the country and its people; and which are capable of converting these latent economic assets into active growth drivers. Pakistan has fertile land and substantial water resources. It has a large, young and hardworking labor force. With planned investment in people, i.e. education, health, skill development etc. the human capital element of the labor force can be enhanced to become the major contributor to growth. Pakistan also has a large and rapidly growing middle-class whose demand for, and contribution to production and supply of, better quality goods and services could also be a strong engine for higher exports and economic growth. Pakistan also has a huge geographical advantage, as it straddles the cross-road of civilizations. With large and fast-growing economies on its North and East, energy rich gulf countries in the west and south east; emerging Central Asian economies on the North-West, and a large coastline in the south, Pakistan potential of becoming a major hub for international commerce is fairly oblivious. Some key investment in infrastructure and supportive policies can go a long way in unlocking this potential. According to a recent World Bank report, with sound economic policies, Pakistani economy has the potential to become a US$ 2 trillion economy in next 28 years. The plan presented in this document is an important step towards formulating and implementing such policies.

With the set of actions already taken, the PTI government has already set the economy on the path of economic stability. In addition, the government is taking policy measures, which are highlighted in the document below, to tackle the structural problems plaguing the economy, which will unleash the growth potential of the country. Implementation of this agenda will put the economy on a higher growth trajectory; with growth being generated not by stoking consumption through borrowing, but through higher investment, efficiency and enhanced productivity. Growth which is export-led and is both inclusive and sustainable. A greater portion of investment will be financed from higher domestic savings rather than external borrowing. These measures will establish an economy which is self-reliant but is willing and capable of competing with its competitors for its rightful place in international trade and commerce. Export growth will out-pace the growth in import, leading to shrinking trade and current account deficits and rising foreign exchange reserves, which will reduce country's external vulnerabilities. Fiscal reforms will ensure an efficient and fair tax system which will be capable of generating sufficient revenue to meet a large portion of public expenditure and investment needs, leading to a decline in fiscal deficit and falling debt-to-GDP ratio. With enhanced autonomy and accountability given to spending units, public expenditure will much more prudently managed with increased efficiency and effectiveness. State Owned Enterprises will be efficient enough to be self-reliant and capable of performing at par with private sector. Additional fiscal space will also help the government to better protect the poor and vulnerable from economic and non-economic shocks. The plan will also make the government more efficient, productive and forward-looking. The plan will eliminate for good the recourse to seeking bailout packages from IMF.

A. Stabilizing the Economy

The re-current macroeconomic imbalances re-emerged in the last two years of the PML-N government, ballooning to crisis levels at the end of 2017-18. Fiscal and current account imbalances, following imprudent policies, were allowed to deteriorate. These deficits surged on the back of an exchange rate which was kept artificially low. The imports it encouraged contained inflation, which in turn suppressed interest rates. This prevented correction and stoked aggregate demand. Imprudent policy measures in the run up to the election were particularly egregious. So, did the tax concessions announced in the 2018-19 budget, which had no economy-wide or fiscal rationale but resulted in the erosion of the tax base and significant loss of revenue.

The macroeconomic imbalances, and the bouts of instability they afflict, are also caused by deep rooted structural problems that have gone unaddressed for the last thirty years. As a result, Pakistan's economy, the fastest growing in South Asia till the late-1980s, is now lagging the major economies in the region. The previous government promised to address the structural problems to correct the dismal trend. Instead, it left the economy with substantially larger imbalances. The promise of structural reform, made in agreements with the IMF, remained unfulfilled.

In the July 2018 election, citizens of Pakistan gave PTI government the mandate to both stabilize the economy as well as address the deep-rooted structural problems. This document presents the inherited economic challenges, steps taken by the PTI government to stabilize the economy and the challenges that remain. It also lays out the medium-term strategy for structural reform to put the economy on a trajectory of stable and moderately high growth, productive employment that extends the production possibility frontier of the economy and is thus able to accommodate the expansion in aggregate demand arising out of increased purchasing power; equitable distribution of income and movement of the population out of poverty. The lag between the domestic supply response and emerging demand impulses imposed by pick-up in growth rates has been one of the main causative factors of boom-bust cycle observed in the past.

This document presents highlights policies, investment and institutional measures for removing the impediments which results in recurrences of episodic imbalances in the economy. The document begins by outlining the measures already taken by the government and then elaborates the future course to first stabilize the economy and then put it on a path of sustained and accelerating growth and employment.

The main point of departure is that stabilization measures have been embedded in the medium-term growth and employment strategy. Right from August 2018, it is the endeavor of the present government to take stabilization measures with a view to overcome the economic imbalances but also to contribute towards structural reforms. The trade-off between the two is recognized explicitly and the phasing and design of policy interventions are aimed at social cost minimization in the short run and growth maximization in the medium run. It should however be realized that the five-year cycle is not necessarily going to be co-terminus with the implementation of the policies and reforms proposed here. The government will continue to be revised and improve its strategy as more policy actions are designed and implemented.

The Challenges

The ballooning fiscal deficit: The fiscal deficit, which under the IMF program was brought down to 4.6 percent of GDP in 2015-16, has shot-up to 6.6% in two years, mainly due to lack of effective coordination between the Federal and provincial governments that would bind the federation to a consolidated deficit target; and to the spending binge of the outgoing federal and provincial governments. Overall expenditure of the two tiers of the government increased by Rs 1.7 trillion (i.e. by 30 percent) over the last two years; with recurrent expenditure increasing by Rs 1.34 trillion and development expenditure by Rs 351 billion. As such, the overall fiscal deficit of the federal and provincial government reached 6.6 percent of GDP in 2017-18, the same level as in 2011-12. In addition, financial losses of state-owned enterprises were at a record high level of 1.4 percent of GDP, implying the overall fiscal and quasi fiscal deficit of about 8 percent of GDP. Moreover, the energy sector circular debt had crossed Rs 1.2 trillion mark.

High fiscal deficits adversely impacted economy for a variety of reasons: First, both a cause and an effect of high fiscal deficits is the substantial increase in public debt –foreign and domestic. The former, at US$ 71.6 billion in 2017-18, has increased by US$ 12 billion (21 percent) over the last two years, i.e. since the close of IMF program. During the same period, domestic debt increased by Rs 4.2 trillion (by 3.7 percent of GDP). The overall public debt at the end of 2017-18 stood at 76.1 percent of GDP, far in excess of the limit of 60 percent of GDP imposed by Fiscal Responsibility and Debt Limitation Act (FRDLA). Despite the artificial stability in interest and exchange rates, interest payments on domestic and foreign debt increased by 25 percent and 7 percent per annum, respectively. In addition, repayment of foreign debt led to an outflow of US$ 5 billion per annum. Second, as high fiscal deficits were financed by large-scale borrowing from the banking system, they also crowded out private sector credit. Bank borrowing by the government increased rapidly in the last two years – from Rs 787 billion in 2015-16 to Rs 1,120 billion in 2017-18. This implies that almost one and quarter trillions of rupees of bank system credit is siphoned by the government every year. In addition, financing is also required to meet the financial losses of Public Sector Enterprises and the market operations (largely for wheat procurement) of the federal and provincial governments. The share of government in the banking system (i.e. SBP and commercial banks) credit increased from 35 percent in 2005-06 to 74 percent in 2017-18. This leaves only 26 percent of bank credit for the private sector, thereby adversely affecting private investment.

Large borrowing from the banking system creates a number of distortions in the capital market: First, by guarantying at least a minimum income through its large risk-free lending to the government, banks have no incentive to be more competitive or innovative in terms of introducing new products in the market for depositors or lenders.

The short-term nature of government borrowing from the banking system prohibits establishment of long-term yield curve, which in turn impedes development of capital market in the country. In addition, it has created fiscal vulnerabilities as any increase in the interest rate has a large negative impact the fiscal deficit through a magnified increase in the debt servicing cost.

Government's insatiable demand for financing has now spread to beyond the commercial banks and many institutional investors are also lending mostly to government. (e.g. insurance firms, mutual funds, pension funds etc.) further compromising development of capital markets.

Third, large fiscal deficits are symptomatic of persistently negative government savings leading to low overall savings and consequently low investment. Public dissaving over the last 5 years averaged 1.5 percent of GDP per annum. In 2017-18, private sector saving amounted to about 12.2 percent of GDP, of which 1.4 percent was preempted by the government to finance its consumption. A significant part of appropriation of private saving for government consumption takes place through the National Saving Schemes (NSS), These schemes use long-term retails savings to finance short-term government expenditures rather than long-term investment in the country. Consequently, savings in Pakistan, at 10.8 percent of GDP, is extremely low, limiting investment and increasing reliance on foreign savings.

Finally, and critically, higher fiscal deficits also contributed to higher current account deficits, adding to the external vulnerabilities (see below).

Consumption driven growth and bottoming out of domestic savings: Since the early-1980s, the preferred strategy has been to generate economic growth through large-scale borrowing and incentivizing consumption. This was also predominantly the case in the last two years of the PLM (N) government. GDP growth accelerated from 4.1 percent 2014-15 to 5.2 percent in 2017-18. There, however, were two disconcerting features of this acceleration in growth. First, the growth in agriculture, and more importantly in large scale manufacturing (LSM), lagged behind GDP growth. As a result, the share of LSM in GDP declined from 10.9 percent in 2014-15 to 10.3 percent in 2017-18. Second, the share of consumption increased from 90.7 percent of GDP in 2014-15 to 94.5 percent of GDP in 2017-18, implying that economic growth was predominantly consumption driven. Domestic savings thus plummeted from 9.3 percent of GDP in 2014-15 to 5.5 percent in 2017-18 and national savings declined, from 15.4 percent of GDP to 10.8 percent. This level of savings is less than half of Bangladesh's, about one-third of India's and almost one-fifth of China's. Nonetheless, domestic investment showed some improvement (from 15.7 percent of GDP in 2014-15 to 16.4 percent) propped up by foreign savings (as seen in the rising current account deficit).

Alarming increase in the current account deficit: As mentioned above, the artificial stability in the exchange rate and interest rate regimes in a period of galloping demand put pressure on the balance of payments. Imports increased by US$ 17 billion in the last two years (from US$ 50 billion in 2015-16 to US$ 67 billion in 2017-18), whereas the increase in exports was only US$ 2.5 billion (from US$ 27.6 billion in 2015-16 to US$ 30 billion in 2017-18). Consequently, the trade deficit ballooned from US$ 22.7 billion to US$ 36.9 billion. The problem of this large increase in trade deficit was compounded by a flattening of workers' remittances at about US$ 19 billion. As a result, the current account deficit (CAD) soared (from US$ 3.3 billion in 2015-16 to US$ 19 billion in 2017-18); leading to an outflow of US$ 8 billion from SBP reserves during the last two years of PML(N) government. The SBP reserves at the end of fiscal 2017-18 covered less than 2 months of imports. The economy was in full blown balance of payment crisis.

Adjustment scenarios

It is clear that the large macroeconomic imbalances, now faced by the newly elected PTI government, are a legacy of previous governments that remained unaddressed in the term of PML(N) government, presumably for political gains. Indeed, poor economic management by the PML(N) government further added to the imbalances. It left office with an economy in the grip of a severe macro-economic crisis. It is clear that in the absence of Orderly Managed adjustment by the Government, the macroeconomic imbalances would grow in magnitude forcing the economy to make its own disorderly adjustment. Depleting foreign exchange reserves would force the government to default on debt servicing and other payments liabilities, making it extremely difficult to arrange credit in international markets. At the same time, insufficient reserves would disrupt trade leading to massive compression of all categories of imports, including energy and raw material, badly affecting exports, growth and consequently, employment. Moreover, import compression would create shortages in energy and commodity markets, leading to a surge in inflation. The exchange rate and money markets would adjust to the worsening economic conditions leading to massive depreciation of the rupee and large increases in interest rates. Such an adjustment would be very costly in terms of the pain it imposes on the citizens, particularly on the poor and vulnerable segments.

With no-adjustment not being not an option, a decision had to be taken on the pace of managed adjustment. One option was to frontload the corrections removing the imbalances at the start of the PTI government term so that the economy recovers to a high growth and productive employment trajectory early in its term. The other was to take a more gradual adjustment path maintaining a balance of sharp price adjustments when needed and, at the same time, vigorously pursuing structural reform to strengthen the foundations of the economy. The government opted for the latter option for two reasons. First, the high cost of full adjustment in the first two years would fall disproportionately on the poor, and the public safety nets would not fully mitigate that cost. Second, the current economic instability is the outcome of imprudent decisions taken in the last 2-3 years of the previous government which were exacerbated by the deeper structural issues plaguing the economy. These had been unaddressed despite commitments given to domestic investors and the international community: back loading structural reform (to achieve higher tax revenue, lower subsidies, greater international competitiveness) had resulted in their abandonment. Not only the stabilization program initiated by the last government, almost all previous stabilization programs remained unsustainable because they were not accompanied by measures to address the structural problems, leading to periodic recurrence of instability.

To break the cycle of recurring instability, the present government is committed to the path of needed sharp adjustment and infusion of external financing and social safety nets for the poor combined with carefully planned structural reform particularly focusing on export competitiveness, re-establishing fiscal stability and improving governance in key utilities and SOE's. This will provide a solid foundation for economic recovery as the efficiency gains from structural reform will hasten recovery, sustain it longer and will mitigate the pain of a long period of stabilization related belt tightening, particularly for the vulnerable segments of the population. It is expected that the twin strategy of stabilization and structural reform will, in the medium term, help bring down the fiscal deficit to sustainable levels of around 4 percent, will reduce the current account deficit to manageable levels, will increase investments and promote productivity led exports. The expectation is that in the next 3-4 years, following the curtailment of aggregate demand, the growth of the economy will gradually accelerate to over percent per annum, which can be sustained to make Pakistan a higher-middle income economy with the following decade. The government is committed to stick to this path of economic transformation and is ready to take additional measures, if needed, to safeguard economic stability and maintain the growth momentum.

Stabilization measures

The foremost objective of the PTI government was to avoid default on its external debt servicing. Government has worked hard, and with considerable success, to mobilize additional financing from friendly countries in the form of short- to medium-term loans, deferred payment on imported oil, and temporary deposits in the central banks. Saudi Arabia has agreed to provide a US$ 6 billion assistance package – US3 billion in short term deposit already received by SBP and US$ 3 billion in the shape of deferred payment on oil imports starting in April. Similarly, the UAE government has agreed to place another US$ 3 billion in an SBP account, of which US$ 2 has already been received, whereas China too has put an additional US$ 2.2 billion with State Bank of Pakistan. These measures and inflows have strengthened Pakistan's foreign exchange reserves and reduced external vulnerabilities.

These efforts have helped to (i) avert the immediate threat of default on payment obligations; (ii) avoid painful sharp adjustment; and (iii) provide the fiscal space and time to pursue a balanced strategy of macroeconomic stabilization and structural reforms.

The package of stabilization and structural measures was rolled out. Exchange rate was adjusted by an additional 10 percent and policy interest rate was increased by 300 bps. On September 18, 2018, the government announced a revised budget with additional tax and expenditure measures to contain the fiscal deficit. To curtail the surging imports, additional regulatory duty was imposed on a large number of non-essential imported items.

There is clear evidence that these measures have started to work on external account. Balance of trade in the first 7 months of 2018-19 was almost US$ 2 billion lower compared to the first 7 months of 2017-18.[1] The current account deficit (CAD) during these 7 months declined from US$ 11.4 billion to US$ 8.8 billion, as it fell to only US$ 384 million in the month of February. Moreover, a sizeable adjustment has already been made in the interest and exchange rates to contain aggregate demand and ease the pressure on the balance of payments. On the domestic economy front, adjustments have been made in electricity and gas prices to improve the financial health of energy utilities, reduce their burden on the budget and part-finance the huge overhang of power sector "circular debt".

The government is trying to arrange additional financing to cover the financing gap in the immediate-run and increase the level of foreign exchange reserves to a level which is consistent with a sustainable balance of payments framework. In this regard, it has taken several decisions which will be put into implementation in next few months. Some of these include:

Diaspora Bonds. In the first phase, US$ bonds with 3 to 5-year maturity i.e. the *Pakistan Banao Certificates* have been issued, which are expected to bring in resources from non-resident Pakistanis across the world.

Foreign Currency Sukuk. These sukuk will be issued to capitalize on the rapidly growing potential for Shariah-compliant instruments. Sukuk are expected to gain substantive response from Shariah-complaint banking and non-banking financial institutions.

Euro Bonds. Issuance of Euro bonds is also expected to gain a good response from investors as in the case of previous bond issues. This response will further reduce the finance gap that the country is facing.

Market Financing. Pakistan has shown a good ability to obtain credit facilities from international commercial banks at reasonable rates. As the economy stabilizes, the potential to raise resources from commercial banks will further expand.

Bilateral Deposits. Arrangements for Foreign Currency deposits for Balance of Payment support have been arranged through friendly countries, including China, Saudi Arabia and UAE. These deposits are for a term of one to three years. However, Pakistan's requirement for bilateral support of this nature is expected to diminish as the economy improves.

[1] This is based on PBS (customs) data for July-January periods of the present and last fiscal year.

II. Structural Reform to Accelerate Economic Growth

The government is committed to eschewing the past practice of "borrowed growth" where internal and external borrowing were used to finance consumption driven growth (see Figure 1). Such growth is not sustainable and macro-imbalances recur. The path of sustained economic growth and productive employment requires structural reform to address three fundamental gaps: (i) revenue - public expenditure gap; (ii) export - import gap; and (iii) saving - investment gaps.

Under pinning the revenue-expenditure gap are failures of governance in a broad spectrum of government activity. On the revenue side, poor tax administration combined with persistent policy induced holes in the tax net and unaddressed areas of fiscal federalism require urgent attention. On expenditure side, governance failures manifest themselves in budget liabilities of loss-making utilities, mismanaged state-owned enterprises and bloated/redundant government departments.

At the heart of the export-import gap is stagnant/weak productivity growth in all three main areas of economic activity: agriculture, manufacturing and services. Poor productivity growth has resulted in loss of competitiveness across the board: agriculture performs far below potential; the share of manufacturing is stagnant; and the share of trade in GDP is declining.

Governance failures and weak productivity growth in a setting of poor financial intermediation cloud investment prospects. As a result, savings are parked in real estate and abroad and are poorly leveraged to fuel investment and economic growth. This results in the savings-investment gap.

The government is fully committed to structural reforms that address, along with policy inadequacies, the root causes of governance failures, stagnant productivity and weak financial intermediation to put the economy on a trajectory of productive investment, sustained high growth and creation of productive jobs.

Trends and Gaps in Pakistani Economy

Figure 1: Economic Growth and Its Contributory Factors

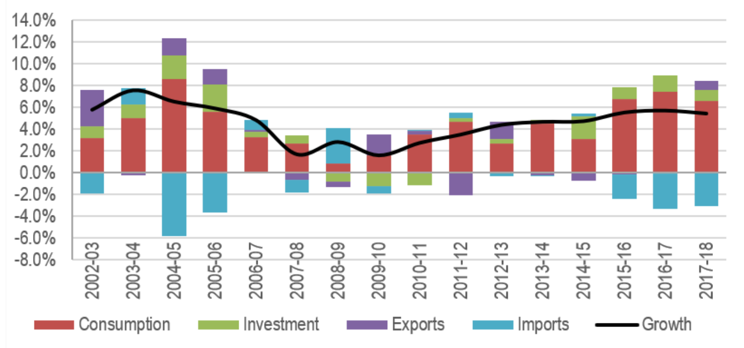


Figure 2: The Fiscal Gap

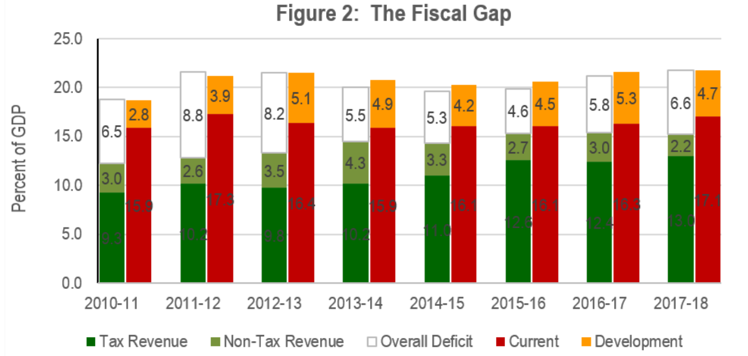


Figure 3: Trade Gaps

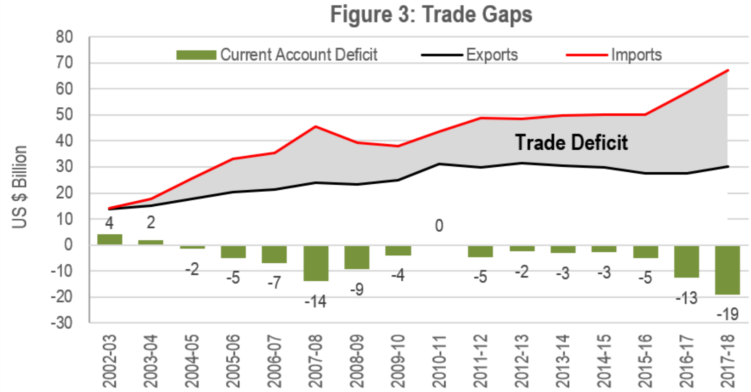
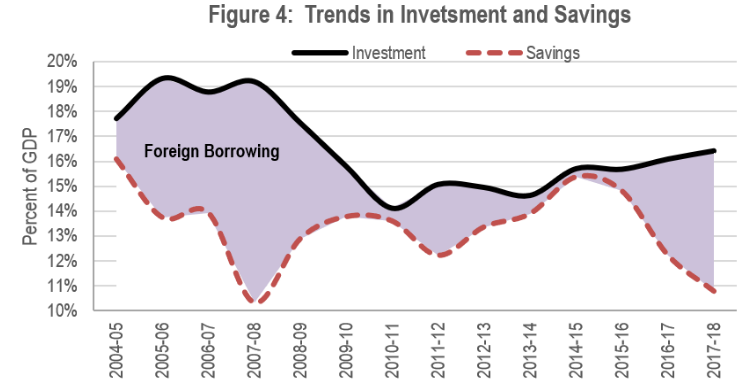


Figure 4: Trends in Invetsment and Savings



In the short run, the poor and the vulnerable are disproportionately affected by the hardships of stabilization and structural adjustment as gaps (i) to (iii) are addressed. Fortified, but fiscally prudent, (iv) social protection is thus essential to protect the poor in this transition period before they begin to benefit from productive job creation expected from reforms. Finally, (v) civil service reform and right sizing government administration are critical to both having the capacity for modern economic management of (i) to (iv) as well as to lower the fiscal burden of a bloated administration. Government's ongoing and proposed reforms in the five areas (i) to (v) are presented in the discussion that follows:

The Roadmap draws heavily on the ongoing work of the Prime Minister's Economic Advisory Council, various Task forces set up by the Prime Minister, Federal Ministries, State Bank of Pakistan and development partners.

The document presents five detailed sections on the Government's plans and proposals to **(1)** reduce fiscal deficits on a sustained basis by lowering revenue-expenditure gap **(2)** bring down current account deficit to manageable levels by narrowing the export-import gap **(3)** boost investment ratios and bridges the investment-domestic savings gap **(4)** protect the poor and vulnerable groups from the shocks of painful adjustment and **(5)** set the path forward for sustained equitable growth by introducing far reaching governance reforms.

It is envisaged that these reforms, if properly executed, would help both in meeting short term stabilization goals and medium-term growth acceleration which in turn will create more and better jobs. The timing, phasing and sequencing would pose daunting challenges as political capital cannot be eroded too quickly so that the road for subsequent reforms is blocked. Treading the path carefully would require political acumen and sagacity. Development is not always a linear process. Unshackling the entrepreneurial energies of the private sector by providing competitive markets, reducing the burden of over taxation and over regulation would be the main strategic thrust of this medium-term roadmap.

A. Lowering the revenue-expenditure gap

The vicious cycle of borrowing to meet the Government's financing needs has to be broken as the increasing burden of debt servicing in creating a formidable barrier for development expenditure and leading to chronic fiscal imbalances (see Figure 2). The following measures are either already taken or are intended to be taken in future to lower the revenue-expenditure gap.

Policy and administration reforms to improve revenue collection

Weak revenue effort remains at the heart of revenue-expenditure gap as seen from Pakistan's tax-to-GDP ratio, which is among the lowest in the world. This is an outcome of a narrow tax base, which is perforated by numerous exemptions; a tax policy, which has a revenue focus but questionable fairness and equity; a weak tax administration; and built-in disincentive against revenue collection both at the federal and provincial level. The lack of political will to adequately tax the powerful un-taxed and the lightly-taxed segments of the society remains a fundamental weakness. PTI government is committed to making best possible efforts to remove these weaknesses and disincentives in the tax system.

Despite some improvements in the last few years, the FBR tax- revenue remains at 13 percent of GDP. With geopolitical factors forcing continued high security expenditure, withholding of compensation from Coalition by the US administration for the war-on-terror expenditure, considerably higher debt servicing liabilities than in comparator countries due to past fiscal imprudence.

A low tax-to-GDP ratio implies that Pakistan spends much less than comparators on key public services, and/or runs a much larger fiscal deficit. The former adversely affects development of physical and human capital, while the latter, as mentioned above, inflicts recurrent macroeconomic instability and retards economic growth. These fundamental problems have remained unaddressed despite commitments given to domestic investors and the international community. For these reasons, the government intends to reform both tax policy and tax administration to bring about a tax structure that generate sufficient revenue to meet government's needs, reduces the burden of high taxes that distorts economic incentives, restores fairness and equity in taxation, and promotes international competitiveness. Some of these goals would require careful balancing acts as the short run, losses in revenues by removing some of the distortions such as advance taxes, holding back tax refunds, lowering the burden on manufacturing sector, reducing import tariffs to make exports competitiveness would only be offset in the medium term. In the interim, the immediate revenue requirements to meet primary balance target trajectory would have to be met. Accelerated efforts would have to be made in bringing those outside the tax net to expand the tax base.

The government has already created a Specialized Tax Unit for foreign assets in FBR, taken measures to broaden the tax base, and is promoting use of information technology for data mining to detect under reporting of tax liability by taxpayers. The government has come to understanding with different countries on sharing data on assets of Pakistani nationals in those countries. Data from OECD has already been received. This measure will make it very difficult for Pakistani tax evaders to hide their assets and bank accounts outside Pakistan.

Tax policy and tax administration functions have been separated, and the Ministry of finance, which has assumed the responsibility of formulating tax policy, and is in the process of strengthening its capacity to play this role. As an important step toward this separation an Independent Tax Policy Board has been constituted, which has already held its first meeting (on February 13, 2019).

Strengthening the Tax Structure

Aligning tax design with objectives of tax policy*:* Tax policy will have a medium to long term horizon and will not be changed every year as it creates uncertainty for businesses. From next fiscal year, the government will initiate a process of formulating a Medium-Term Tax Policy Framework (MTTPF), which will remove government's reliance on ad hoc annual tax measures thereby instilling greater certainty in the markets about tax policy direction.

The MTTPF will allow the government to cast its tax policy over a three-year period conveying the direction of tax policy thereby helping the business community plan their activities better. Importantly, it would provide a platform for elaborating the principles and objectives of tax policy at a more granular level (that annual budgets cannot do) providing guidance about priorities in different areas of tax policy planning and administration

The annual budgetary proposals, currently formulated more or less in an ad hoc manner, would be consistent with the medium-term direction of the tax policy. This will allow pre-budget vetting of proposals to ensure consistency between the two. This is an important step in changing the present perverse tax structure which penalize the existing tax payers to meet the revenue targets and implicitly rewards the tax evaders and non-filers by letting them stay outside the tax net.

In order to ground MTTPF is sound analytical bases, the government intends to establish a high-powered Tax Commission comprising area experts and federal and provincial representatives, who would define parameters of a tax system, which is well integrated across levels of government. The approval of these parameters would be a responsibility of the committee comprising federal and four provincial finance ministers.

The MTTPF will be a key component of a Medium-Term Revenue Strategy (MTRS) that will integrate both tax and non-tax revenues, while keeping in view the medium-term debt strategy. The latter will define government's borrowing and debt policies which will be consistent with the targets set by Fiscal Responsibility and Debt Limitation Act.

Expediting tax refunds*:* The practice of withholding payments of tax refunds has deprived exporters of funds that could have used to expand business activity. The government has already taken measures to expedite clearance of the present backlog of tax refund arrears through issuing of a negotiable financial instrument. For future, the government remains committed to streamline the system of tax refunds to reduce the time-lag in payment of these refunds so that there in buildup of refund arrears. Greater use of technology will help detect fraudulent claims and speed up refunds claims for honest taxpayers. Using these techniques prompt issuing of refunds within strict timeline will be ensured.

Aligning tax policy with economic policy: Tax policy has to balance the revenue objective with equity and growth objectives. Presently tax policy has a predominant revenue focus and as such is likely to create distortions in the economy which can adversely affect the growth and equity objectives. In addition, even the revenue objective is compromised by large scale exemptions. To correct this shortcoming, the government intends the following:

i) Enact a law to ensure that no tax exemption is allowed through law or notification without an estimate of its cost independently by the tax department as well as the concerned ministry. Such cost will be made public before notification of the exemption.

ii) Review all existing exemptions, with the purpose of eliminating as many of those as possible. Even if an exemption is to be retained its cost will be determined and made public. Ministry of Finance to publish annually a statement of tax expenditures to show how much revenue is being foregone due to exemptions.

iii) Ensure that all exemptions, existing or newly proposed, will have a sunset clause (ideally not more than 5 years).

iv) Publish a list of all government owned, quasi-government and government-linked enterprises availing tax exemption/concession in any way along with quantification of the tax expenditure. In addition, a plan be prepared for phasing out of these concessions.

v) Withdraw FBR powers to issue SROs to grant exemptions. This power will vest only with the Parliament.

vi) Ensure that all non-procedural existing SROs will expire at the end of the fiscal year. Steps taken over the last two years to incorporate all exemptions granted through SROs to be made part of the body of law.

Real estate sector: Since the federal government collects tax on income from property and provincial and local governments collect property and transaction tax on immovable property, all parties have an interest in proper documentation and valuation of property. The government intends to pursue a coordinated approach to taxation and valuation of the real estate sector in a way to collect optimum revenue from it without discouraging investment.

Correcting the tax structure

Withholding Taxes: Withholding taxes become regressive if people who are not liable to income taxes and/or if firms treat them as consumption taxes and are generally passed them on to the consumers, badly impacting the progressivity of the tax. As such, the tax needs some fundamental reforms. As a first step, the government intends to discontinue a large number of low yielding withholding taxes in the next year's budget.

Tax administration reforms

Strengthening tax enforcement and tax audits: Tax enforcement has remained one of the weakest areas of tax administration. The government intends to overcome this shortcoming by building enforcement capabilities within FBR through staff training and an intensive use of information technology. In this regard, priority is being given to putting in place a track-and-trace system and strengthening the risk-based tax audits.

Building data analytics capacity to utilize available information: This involves identifying and identifying and pursuing individuals falling outside the tax net through the use of third-party information on consumption patterns utilizing data from income, income tax returns and expenditure data from various sources such as travel, bank account, car ownership, property ownership, children studying abroad, children studying in expensive schools etc. Since FBR does not have adequate capacity to utilize these data using latest techniques available, it would be necessary to collaborate with researchers and experts to develop efficient and effective analytical tools. The government has also promulgated a law so as to allow FBR to access these third-party data bases.

Harmonizing the tax codes: The government is well aware that some tax issues (e.g. non-harmonized sales tax rates across tiers of government, taxation of real estate, etc.) adds to the cost of doing business by requiring multiple tax returns to be filed in a single tax year. While working with the provincial governments in the NFC framework, the federal government intends to harmonize the tax code and integrate tax processes through digitization and process automation. In addition, it intends to establish a mechanism to fast-track resolution of tax disputes, thus reducing compliance cost. This will reduce the cost of doing business to some extent and make it harder for taxpayers to play the tax administrations off against each other to evade taxes. An NFC sub-group (see below) has already been tasked with formulating recommendations to simplify payment of taxes to enhance ease of doing business in taxation area.

Striving for a new revenue revenue-sharing arrangement: The Ninth National Finance Commission (NFC) has already started deliberating on a new arrangement for sharing revenue between the federal and provincial governments and among provinces. The Commission has already held two meetings on 6th February and 29th March 2019. In the inaugural meeting, it was agreed to set up following 6 Sub Groups:

i) **Sub Group-I** with the mandate of proposing a Macro Economic Framework and determining the benchmarks for the receipts and expenditures of Federal and Provincial Governments. Government of Punjab was tasked to coordinate this assignment.

ii) **Sub Group-II** was to highlight issues with, and make recommendation for improving, vertical distribution of fiscal resources, including allocation of funds for Governments of AJK & GB; establishment of fund for national security, natural disasters and terrorism, etc. The federal government has been entrusted with coordinating this task.

iii) **Sub Group-III** was asked to firm-up of recommendations for formulation of formula for horizontal distribution of divisible pool resources, selection of indicators with reliable data. Government of Balochistan is coordinating this task.

iv) **Sub Group-IV** was to identify measures required to be taken to simplify tax procedures and payment systems to facilitate businesses (i.e. promoting ease of doing business). Government of Sindh is coordinating this important assignment.

v) **Sub Group-V** with the ToRs of making recommendations to NFC for the accelerated development of FATA as a result of its integration/merger with Khyber Pakhtunkhwa. NFC members from Government of Khyber Pakhtunkhwa is coordinate this work.

vi) **Sub Group-VI** with the ToRs "to suggest measures for streamlining the Straight Transfers". NFC members from Government of Balochistan will coordinate the working of this sub group.

The subgroups held their meetings on 19th, 25th and 28th March in Islamabad, Karachi and Lahore. In the 2nd meeting of reconstituted NFC held on 29th march, 2019 in Lahore. The six sub-groups gave presentation on various aspects of resources distribution as per tasks assigned to the groups. The main focus of all sub-groups' deliberations was transparency, harmonization and sharing of data, with the focus on coming to a revenue sharing arrangement which not only meets the expenditure needs of each government but also promote fiscal equalization and reduce economic and social disparity among provinces.

B. Streamlining government expenditure

Strengthening budgeting and public financial management

The government is also working on increasing the efficiency of public expenditure. Two task forces, one on civil service reforms and the other on austerity and government reform, have been constituted. The latter taskforce has prepared a roadmap to improve the budgeting and public financial management system for implementation. A comprehensive Public Financial Management Act (PFMA) has been drafted, which after necessary reviews will be presented for approval to the Parliament in 2018-19. The Act aims to fill the gaps in the present PFM system, update the outdated PFM-related legal provisions and eliminate most of the distortionary features in the present PFM system. In addition, by making a deviation from the established norms of best budgetary practices a breach of law (as against the present system of infringement of rules and procedures), the law will help in more prudent expenditure and financial management within the federal government.

Also, the government is presently reviewing a separate draft Public Investment Management Bill, which intend to enhance the efficiency of federal investment (including PSDP) by reviving economic planning within the government and streamlining investment management process. The draft law not only makes it difficult to circumvent government procedures for project identification, public procurement and project implementation, but also define clear responsibilities of government departments and institutions in management of public investment, thereby enhancing accountability of the system.

Moreover., the Government Reform Task Force too has made several separate recommendations to improve the government expenditure management. The key recommendations include:

i) Rather than providing budgetary funds to the line ministries in itemized details, the budget allocations for each ministry will be made under only two heads (i) employee related expenses and (ii) single line item for all operational spending. This is an important step towards ultimate removal of artificial distinction between recurrent and development expenditure and opens the possibility of delegation planning and development functions to line ministries. Such a move will reduce expenditure rigidities, gives line ministries a greater control over their budgets, and enhance accountability of expenditure management system. In addition, the Principal Accounting officer (PAO), assisted by the Chief Financial officer (CFO), would be empowered to run the operational expenses without prior approval of the MOF except in case of acquisition of assets. In addition, all supplementary grants would require prior parliamentary approval.

ii) The computer based Financial Accounting and Budgeting System (FABS) will be used not only for transactions but also as a tool for decision-making; the system will be fully interlinked among all stakeholders and participants, gaps filled, and the system capabilities enhanced, coverage extended, and functionalities added; both standardized as well as tailor-made reports will be easily accessible from the dash boards.

Fortifying treasury single account

Another issue that weakness fiscal management is that many public sector agencies park unspent monies outside the Treasury Single Account (TSA). By end 2018 there was an estimated Rs 1.4 trillion in these accounts. This reflects a clear case of lack of oversight of public finances. These accounts of the public agencies are not linked to the Treasury Single Account (TSA) and while these amounts are reflected in SBP reports, they remain outside the fiscal reporting framework of the government. Some of the monies are due to "leakages" from the fiscal management system and are reported as expenditure in the past fiscal reports. Thus, showing a larger than actual fiscal deficit. Moreover, these accounts adversely impact government's cash management and audits of public expenditure.

The government has introduced an enabling provision for Treasury Single Account (TSA) regime for Government' cash management system has been incorporated in the draft Public Finance Management and Administration Bill. This provision gives a rule-based regime of cash management through the TSA. Simultaneously a policy for TSA is being drafted in consultation with stakeholders and expected to be ready soon for submission to the Federal Cabinet for approval. State Bank has been instructed to design administrative procedures, and an IT system, for rolling back public monies from commercial banks to TSA.

Strengthening fiscal management

Removing anomalies in management of floating debt: In order to remove the potential distortions that these can create in managing of monetary policy and being used as a source of whitening black money and money laundering, the government has decided to convert all prize bonds, except those of smallest denominations, from bearer to registered instruments in a phased manner. The new higher denomination (Rs 100,000) prize bond is issued only as a registered instrument, while the Prime Minister has approved the conversion of Rs 40,000 prize bond into a registered instrument. The government intends to gradually phase out other non-registered bonds over time.

Improving fiscal coordination between the federal and provincial governments*:* After the 7th NFC Award, the weight of provinces in overall fiscal affairs of the government has sharply increased. In addition, the Award also opened up a possibility for the provinces to borrow from the domestic and international financial markets and donors. While these provisions help the provinces to focus more intently on local development, they also raise certain fiscal and macroeconomic risks. For example, the escalation of fiscal deficit during the last two years was partly because of spending spree by the provinces. The government plans to use the Fiscal

Coordination Board (FCB) – which comprises the federal and all four provincial Finance Ministers, as a mechanism to better coordinate federal and provincial fiscal activities so as to ensure greater fiscal discipline and that all governments to move toward attainment of common macroeconomic goals.

Reforming state-owned enterprises

To address structural weaknesses of SOEs, improve their efficiency and functioning and thereby reduce the drain on the budget, the government has established a holding company, namely '*Sarmaya-e-Pakistan Limited*' (SPL). SPL has representation from a broad range of eminent professionals in its Board and will have qualified professionals in its management. The existing SOEs will be gradually transferred to SPL and thereafter SPL shall perform the functions of key appointments on the Board and management of SOEs as well as guidance of these entities.

On 20th December 2018, cabinet also approved the constitution of Cabinet Committee on State Owned Enterprises (CCoSOEs) for oversight of SPL and approved Secretaries Ministry of Finance, Ministry of Industry and Production, and Ministry of Energy and 08 members on the board of SPL. Subsequently, SPL was incorporated on 13th February 2019. The positions of Chief Executive Officer, Chief Financial Officer & Company Secretary have been advertised. First Board meeting of SPL was held on 13th March 2019, which elected a chairman and also approved the advertisement for hiring of Chief Executive Officer, Chief Financial Officer, and Company Secretary.

Reinvigorating Privatization program: Privatization remains a key component of our overall economic and financial policy framework**.** After a gap of many years, the government has put privatization of state-owned enterprises on the front burner. The government has strategized selection of Public Sector Entities, bearing minimal operational, financial and Human Resource issues, for immediate privatization so as to realize best value and attract strategic partnerships for these assets. In the first phase of renewed privatization, the government has approved sale of two newly commissioned RLNG power plants at Balloki and Haveli Bahadur; two specialized banks, namely SME Bank and First Women Bank (FWBL); two real estate assets namely Jinnah Convention Centre-Islamabad and Services International Hotel-Lahore; besides offering for sale the remaining 18.4 percent of state equity in Mari Petroleum.

C. Narrowing the export-import gap

A fundamental structural weakness in the economy is the large and growing gap between exports and imports (Figure 3 above). This gap, despite large inflow of workers' remittances, has been the primary source of balance of payment fragilities and macroeconomic instability. In recent years, the problem has become even more acute because of a surge in imports and a declining trend in the country's exports. In the early 2000s exports used to Finance 80 percent of imports but their ratio plummeted to as low as 40 percent in 2017/18.

Research suggests that in Pakistan only 5 percent of economic growth is consistent with BOP equilibrium. This is below the long-run rate of GDP growth of 7-8 percent per annum needed to provide quality jobs to the rapidly growing labor force. Attempts to accelerate economic growth beyond 5 percent per annum are thwarted by emergence of a balance of payment crisis. This is mainly because of the composition of country's imports and exports. As three-fourth of country's imports comprise energy, industrial raw material, fertilizer, chemicals and machinery, even a moderate increase in economic growth leads to a sharp escalation in imports.

Several policies, institutional and structural factors have consistently led to export growth deceleration. The major policy distortion pertains to the exchange rate. Since 2000, Pakistani rupee has remained overvalued for almost

90% of the entire duration, thus creating an unfavorable macroeconomic environment for the export sector and hence industrialization. The resulting loss of competitiveness is striking. Exports have failed to make a transition from low technology to high technology products as about 70 percent of country's export continue to be low technology products. In addition, the country has failed to diversify its export commodities and export markets. Textiles and clothing sector, which contributes about 5% to world trade[2], dominates the country's exports, accounting for around 58% of total exports in 2017–18, while more than 50% of exports rely on only four markets - USA, EU, China and Afghanistan. The country has been losing competitiveness in international markets and finds it harder by to sell even in its traditional exports within its traditional markets. The overall exports to GDP ratio have declined. Pakistan's loss of competitiveness is evident from the fact that Pakistan's export to GDP ratio was only 8.2 percent in 2017, whereas the same ratio in the same year in India was 19.0 percent and in Bangladesh, 15.0 percent.

Loss of export competitiveness reflects poor underlying total factor productivity growth. Several factors have contributed to this. The persistently over valued exchange rate has already been mentioned. It reflects a focus on the fiscal cost of exchange rate adjustment, ignoring the impact on trade and balance of payment.

Another factor is the tariff structure that has a significant anti-exports bias. Within the tariff policy space, a large number of SROs distort the trade regime by modifying the notified import duties selectively without any economic justification. No importer is ever quite sure what taxes/duties apply to the item being imported. The problem is compounded by FBR's power to issue SROs at any time without parliamentary approval or independent scrutiny – this together with Section 31A of the Customs Act increases uncertainty for importers by allowing FBR to change applicable tariff for goods between opening of LC and landing at the port. The resulting low import content restricts products to a narrow range of low value-added exports, based primarily on locally produced raw materials such as cotton, leather, etc. this restricts Pakistan's integration with global value chains.

Other contributing factors to loss of competitiveness and poor productivity growth have been the high cost of energy, an unfavorable regulatory environment and poorly educated and skilled workforce.

Trade financing has remained a major weakness in promoting trade. There is a need to strengthen trade financing facilities to help local exporters to get access to much needed financing as well as export credit insurance to competitively trade internationally.

Human resource development to increase productivity and make exports more competitive is discussed in section 4.

Structurally, the anti-export bias, relative higher returns in domestic markets government guaranteed fixed returns in alteration investments have not allowed corporate sector to invest in export-oriented manufacturing. Most foreign direct investment has also been channelled into telecom and financial sector.

Based mostly on recommendations of Prime Minister's Economic Advisory Council, the government intends to move aggressively in following areas:

Revitalizing the Energy Sector

In the immediate past, Pakistan's GDP growth and exports were constrained by growing energy deficit. Energy sector continues to be highly inefficient due to unreliable and expensive fuel mix for power generation, high losses in distribution both in power and gas, transmission constraints in power, and poor governance in

[2] World Trade Statistical Review 2017 by WTO

government owned companies. Meanwhile, government's fiscal problems have resulted in inadequate investments to modernize and expand the energy infrastructure, while the private sector has demanded ever increasing returns given the poorly governed sector leaving imbalance in financial flows in the sector. The burden of energy shortfall and inefficiency is borne by the economy at large, but especially industry and small businesses. Electricity and gas shortages have been a real threat to the competitiveness of the country and its economic growth potential. At its peak in 2012, overall direct cost of power crisis to the economy was estimated at Rs 380 billion per year, about 2 percent of GDP.

The supply gaps in electricity have narrowed in the last two years, partly because of investments made under CPEC, but inefficiencies of the sector have remained high and continue to impose a significant drain on limited fiscal resources in the form of subsidies and grants provided from the budget. Policies of the past government did not help in reducing the problems faced by the sector. For example, quarterly adjustments in power tariffs were delayed leading to major cash shortfalls in the revenues of power sector and resultant rapid build-up of Circular Debt. Similarly, in gas sector, while Oil and Gas Regulatory Authority (OGRA) continued to make determinations of gas prices, since 2015 the government opted not to pass on the price increases to the consumers. This resulted in accumulated revenue shortfall of around Rs 172 billion by the end FY 2017-18 in the gas sector.

The Government of Pakistan has decided to undertake major reforms in the energy sector to bring the sector to financial sustainability. In order to do so, the government has initiated a process of bringing energy prices to the cost recovery levels, while at the same time making efforts for cost-saving and greater efficiency of the system.

On the electricity side, this has four main steps: (a) full cost recovery, (b) elimination of all unfunded subsidies from the fiscal year starting July 2019, (c) major antitheft and recovery drive, (d) elimination of transmission constraints and technological interventions in distribution, and (e) governance improvement and optimization of existing system. As a first step in this direction, the government notified the National Electric Power Regulatory Authority (NEPRA) determined power tariffs for 2017-18 on January 01, 2019. This notification, which implies an average 11% increase in power tariffs, will significantly reduce the financial gap for power sector utilities. In addition, automatic quarterly tariff adjustments, which were stalled until December 2018, have been restarted so that any change in cost of supplying electricity could be passed on to consumers without much delay. In the medium term, the focus is on lowering cost of generation from new plants and decommissioning of older plants to lower the average cost of generation. A long-term integrated energy plan is also under preparation to change the fuel mix over time to lower the cost. In order to improve efficiency of the system, the government intends to establish a more market-based energy sector.

Similarly, in the gas sector, prices have been increased approximately 26% in December 2018. This increase will result in achieving near cost recovery positions starting next year. At the same time, excess distribution losses above those allowed by OGRA are to be brought down to zero in next few years through detailed measures to control Unaccounted for Gas (UFG). At the same time, bottlenecks are being removed from the imported LNG chain to eliminated gas shortages, while a renewed push is being made to increase E&P activity to increase domestic production of gas. Similarly, refining capacity is being increased to reduce imports of finished petroleum products while interventions are being done in the downstream oil marketing sector.

The government realizes that price adjustments is an important but only one action to ensure financial viability and efficiency of the sector. Given its forward linkages in the economy and public finances, improvements in energy sector, both for governance and efficiency, remains the foremost priority of the government. A Task Force on Energy Reforms was constituted by the federal Cabinet and has been working on short term policy interventions, long term planning, as well as coordination between power and gas petroleum divisions in addition to planning and finance. Some of the specific actions in the energy sector that are completed, or underway, are as follows.

Power sector

1. A National Electricity Policy is being prepared- for the development, reform, improvement and sustainability electricity market and sector. This policy provides the vision of the government for the electricity sector, sets the goals for the sector, set key guiding principles, and provides policy level direction for the electricity sector.
2. Under the new electricity policy, a 5-year National Electricity Plans will be prepared to provide guidelines for specific initiatives which may be required in a particular sub-sector / segment of the electricity sector. Meanwhile, a 25-year demand/supply projection of Power has been prepared and submitted to the regulator to set the long-term direction for the sector.
3. A new renewable energy policy has been drafted, with a focus to increase the percentage of renewable energy in the overall mix, to 25%-30%, and opening up the market for all sizes as well as bilateral arrangements. Many renewable energy projects that were stuck due to earlier decisions of the government have been cleared already.
4. The government is also starting of a very extensive antitheft and recovery campaign from October 2018. The campaign has already started to show results. From November 2018 to January 2019 (compared to the corresponding period of previous year), AT&C losses are on a declining trend, in January 2019 alone, there is a marked improvement with a combined effect of about PKR 22 billion.
5. Automated Metering Infrastructure is under implementation to use technology like detect theft and leakages and well as manage billing and collections.
6. Large investments in power transmission and distribution to reduce technical losses as well as improve service delivery are being done.
7. Expensive currently outstanding circular debt has partly been refinanced through longer term, and much cheaper Sukuk.
8. Making energy conservation an important pillar of government's energy policy and a NEECA is being revitalized, while the Task Force is preparing Policy recommendations in consultation with bodies like UNIDO and EU.

Petroleum sector

- Third Party Access Rules have been developed and notified.
- A consultative process is reaching completion on Integration of Gas Transmission Business under one National Gas Transmission Company through unbundling of Transmission and Distribution business of both gas utility companies.
- Multiple gas distribution companies/cost centers will be created on regional basis aimed to increase efficiency, accountability and transparency in the sector.
- A detailed plan to reduce the Unaccounted-for Gas (UFG) has been prepared to bring the losses down to those allowed by the regulator within 2 years. The plan will address the technical losses through technological

intervention by using the latest underground gas leak detector, replacement of faulty meters and installation of electronic volume corrector on bulk meters. Provincial governments are also being engaged for detecting and prosecuting those involved in gas theft.

- New private LNG terminals are being developed to allow private sector to import and sell LNG using existing pipelines. A third pipeline to carry LNG from south to north is under approval process to further enhance the infrastructure to allow opening up of the gas sector.
- A new refinery by PARCO is under implementation, while feasibility of another refinery is being considered.

Revamping exchange rate management

The exchange rate is one of the most important prices and is determined by underlying economic fundamentals. These fundamentals ensure that it would adjust to its equilibrium value over the long run. As mentioned earlier, Pakistan's approach over the last two years to manage the exchange rate was structurally flawed, as it focused more on the overriding desire to avoid unnecessary volatility in the foreign exchange market and avoid fiscal cost of exchange rate adjustment, even when it was needed. This led to persistent overvaluations of rupee contributing to a massive increase in trade and current account deficits; which was the central to the macroeconomic instability faced by the country today. The recent pressures on external fronts are a manifestation of the misaligned exchange rate for the past two years.

Against this background, the principal idea now is to enshrine an exchange rate policy which enhances competitive of Pakistani exports, by avoiding the persistent overvaluation of rupee. Accordingly, the Pakistani rupee has depreciated around 33.4 percent since November 2017. The depreciation has moved the exchange rate to a level, which is more reflective of economy's medium-term needs and market conditions while at the same time minimizing disorderly fluctuations. Going forward, the near-term goal of this policy is to move towards an exchange rate regime which SOEs not allow overvaluation of rupee on persistent basis.

In order to bring greater discipline in money market and exchange rate regimes, the government is considering giving the State Bank of Pakistan (SBP) greater operation and institutional independence. In this context, the State Bank Act would be amended to further strengthen the autonomy of SBP and clarify its objectives and functions. Specifically, the government, in consultation with SBP and other stakeholders, will finalize proposals to facilitate implementation of the new exchange. The existing exchange rate arrangements and possible limits of government borrowing from SBP will also be clarified in line with prioritizing price stability as an objective of monetary policy. In order to bring greater discipline in money market and exchange rate regimes, the government is considering giving the State Bank of Pakistan (SBP) greater operation and institutional independence. In this context, the State Bank Act would be amended to further strengthen the autonomy of SBP and clarify its objectives and functions. Specifically, the government, in consultation with SBP and other stakeholders, will finalize proposals to facilitate implementation of flexible inflation targeting as envisage in SBP Vision 2020. The existing exchange rate arrangements and possible limits of government borrowing from SBP will also be clarified in line with prioritizing price stability as an objective of monetary policy.

The medium-term plan for strengthening manufacturing and exports

Enhancing Productivity: Enhancing productivity is essential for increasing competitiveness and for Pakistan's industry to move up the technology ladder. Increasing competition in domestic markets, liberalizing product markets and services will do a lot to improve competition and productivity. When firms compete, they innovate and deploy factors of production most productively. In order to promote export growth on sustainable basis the government intends to:

- Develop and implement a program for measuring and monitoring productivity growth by industry/sector – using latest CMI data for the base line
- Develop a Productivity Enhancement Plan.
- Gradually and predictably reduce tariffs on final goods so that Pakistani firms can compete domestically and go global.
- Establish a Technology Up-gradation Fund with following features:
    - Operational design, implementation and impact evaluation of the fund would be undertaken in collaboration with researchers and experts.
    - The operating principle of the Fund will be that “funds for technology up-gradation would only be provided on a matching grant basis”
    - Priority sectors will be identified and a sector-wise technology “need assessment” will be undertaken for the priority sectors.
- Establish as pilot a Garment City with provision of requisite infrastructure

Connecting with Global Value Chains (GVCs): According to the World Investment Report (2013) GVCs account for more than 60% of world trade and Pakistan is not a part of any GVC, except Garments. It is necessary to leverage Pakistan’s large and growing domestic market to connect to GVCs. For this purpose, the government intends to provide incentives for foreign investment aimed at ‘producing for / selling in’ the domestic market (as well as for MNCs already operating in the country) but linked to exports of related products, e.g. in the case of assembly plants for autos/motorcycles /white goods/electronics/etc. incentives will be linked to a commitment to export parts and components from Pakistan.

Developing a Strategic Trade Policy Framework: The government has been issuing an Annual Trade Policy (ATP) which was substituted by a midterm 3-year Strategic Trade Policy Framework (STPF) in 2009, mainly due to the consideration that the trade policy interventions, unlike budgetary measures, have a long gestation period. In view of low implementation level, the government is considering increasing the policy period to 5 years thus assuring predictability to potential investors who set up export firms in sunrise industries.

Adopting a National Tariff Policy: It is important that the tariffs are employed as a trade policy instrument rather than a revenue generation tool. The Ministry of Commerce and National Tariff Commission will develop a National Tariff Policy, aimed at: (a) making the tariff structure a true reflection of trade policy priorities; (b) improving competitiveness through duty-free access to imported raw materials; (c) rationalizing the tariff structure for enhancing efficiencies; (d) reducing the relative “disincentive” for the exporting activities; (e) improving the growth potential and increase employment opportunities by attracting investment into efficient industries; (f) limiting the negative impact on budgetary revenue and adjustment costs to the domestic industry by phasing in the tariff reforms; (g) encouraging value addition through the principle of cascading of tariffs; (h) promoting competitive import substitution through time-bound protection, which will be phased out (with a clear and automatic criteria for the ‘sunset’ clause) to make the industry competitive for export-oriented production and (i) removing anomalies in the tariff structure which is causing distortions between sectors and in the value chain of the same sectors.

Developing a Trade Related Investment Policy Framework: Investment and trade have a critical nexus. The government will devise a Trade Related Investment Policy Framework to channelize investment into export-oriented production. The policy is likely to include the following areas:

- Identification of priority sectors to incentivize and facilitate efficiency seeking investment in the manufacturing sector.
- Leveraging Pakistan's strategic location, natural endowments, large domestic market, human resource base and opportunities arising from CPEC to attract investment in export-oriented sectors.
- Identification of critical enablers for attracting trade related investment – e.g. competitive production environment, market size and time-bound protection, market access and investment eco-system etc.
- Framing of policy measures for each investment enabler.
- Preparing strategy for investment promotion and monitoring and evaluation of the policy.

Implementing the National Single Window (NSW) Strategy: An NSW strategy will be fast tracked. This strategy will connect trade-related stakeholders, such as banks, businesses (i.e. exporters, importers, shipping lines, freight forwarders, etc.) and government/regulatory agencies within the country through a single data information exchange platform.

Strengthening Competition Policy: The government also intends to frame a healthy pro-competition policy that lowers entry barriers and prevents anti-competitive behavior can lead to greater innovation, increased efficiency, higher productivity, lower prices and improved quality. Strong competition policy not only benefits local consumers, but also makes firms/sector more competitive at the international level and can be an important vehicle for increasing global competitiveness. Pakistan has robust competition laws (Competition Act 2010) but enforcement is weak. For example, in the latest Global Competitiveness Report, Pakistan is ranked 120 out of 137 countries on the "intensity of competition indicator". Lack of competition in certain export-oriented industries (e.g. spinning and weaving) and major domestic oriented industries (e.g. Sugar, Cement and Automobiles) is an obstacle to efficient allocation of economic resources and export competitiveness. The Competition Commission of Pakistan (CCP) would be adequately resourced and supported to aggressively promote competition in the domestic market, starting with the key industries/sectors mentioned above.

Preparing a Road-Map for Institutional Reform: In a highly competitive and dynamic international trading environment, the trade support institutions (TSI), in the private and public sector, are challenged to adopt professionalism, specialization, agility and pro-activeness for an effective service delivery. In order to address the above-mentioned challenges, an exhaustive performance review and organizational analysis of TSIs is continuously required to match their service offerings with the dynamic requirements of the market. A comprehensive reform plan for overhauling the institutional framework related to trade and investment will be developed and rolled out within the shortest period of time. The first step in this regard is to undertake a comprehensive institutional reform diagnostic exercise to identify institutional gaps impeding their performance.

***Maximizing the Benefits form Regional Trade and Cooperation*:** Pakistan's strategic location has not been utilized for promoting regional economic integration and connectivity. A beginning has been made under CPEC but other available opportunities with Afghanistan, Central Asian States, Turkey, Iran and India have not been fully explored. It is the intention of the Government to further bolster and sustain these relationships.

The government is committed to explore and advance trade ties within the region. In this regard, CPEC provides an excellent opportunity to expand North-South trade. Pakistan can use CPEC to connect to global value chains and get better access to Chinese markets for its exports. Fast tracking the development of SEZs under CPEC would provide an unprecedented opportunity to both expand exports and connect to global value chains. Finally, the government is exploring possibilities for 'Joint Ventures' with Chinese companies which can help Pakistani business move up the technology ladder in a number of sectors. Third, as part of CPEC, China has given a positive signal to open to some extent its Agri-market to Pakistan, in line with its other partners. The reassurance of a ready captive Agri-market offers Pakistani producers a good opportunity to invest in the production of better-quality produce which is highly priced (example better quality cotton, sugar and wheat) and increase exports earnings. With a captive demand in place, there are good reasons for a public (for collection and grading of produce) and private (for investing in better quality production of produce) partnership to work.

The government is fully cognizant of possibilities from expanded East-West trade ties (i.e. trade with Afghanistan, Iran and India). Historically Afghanistan has been a major trading partner of Pakistan with Peshawar serving as the transit hub of trade between China and India, on the one hand, and Afghanistan and Central Asia, on the other. Trade with Afghanistan, which had been suspended after the Soviet invasion in 1979, revived in 2002 and expanded rapidly with exports reaching US$ 1.7 billion in 2010 (given the large scale of informal trade across borders in this region, actual exports are estimated to be about twice that) or about 8% of Pakistan's total exports in that year. To expand trade ties with Afghanistan, the government is actively considering of facilitating trade through the Torkham border. Pakistan's trade with Iran is presently hampered by the US trade sanctions imposed on Iran. As Iran borders the two least developed provinces of Pakistan, these sanctions adversely affect the poor of Pakistan and encourage smuggling across the border. A selected easing of these sanction can greatly help Pakistan trade and growth possibilities. Similarly, while there is substantial potential of trade between India and Pakistan, heightened political tensions have prohibited realization of this potential. Easing of these tensions can help realization of this potential which can immensely help economic growth and development in both the countries. The government will formulate a policy specifically aimed at furthering trade with India, which can be implemented as soon as geopolitical situation improves.

***The Strategic Economic Framework Between Pakistan and Turkey*:** Subsequent to the Prime Minister's visit to Turkey a Strategic Economic Framework (SEF) is being developed to enhance bilateral economic cooperation between two countries. The Framework is based on mutuality of strategic interests and commonality of goals for shared prosperity and welfare of people of both the countries. It intends to leverage the already strong historical and cultural ties between the two countries to enhance economic trade and investment relations.

Under this framework, the two countries have agreed develop a five-year roadmap for promotion of trade, investment and economic cooperation. A High-Level Cooperation council will provide overall vision and guidance for the Framework. A Strategic Economic Group (SEG), co-chaired by Finance Minister of Pakistan and the Vice President of Turkey will provide strategic advice and policy direction for the Framework, it will also monitor implementation progress and will serve as the apex decision-making body. Seven Joint Work Groups (JWGs) will: (i) develop sectoral action plans; (ii) evaluate specific proposal for bilateral cooperation; and (iii) oversee implementation. In the immediate run, the Framework will explicitly focus, among other areas, on the following possibilities:

- Giving Pakistan a GSP Plus status by Turkey.
- Develop a vision and a long-term plan for creation of a regional trade corridor.
- An FTA between two countries on "best treatment basis".
- Simplification of customs procedures and enhanced cooperation (through electronic data exchange) between two countries.
- Elimination of non-trade barriers between the two countries.
- Undertaking joint ventures.
- Development of infrastructure.
- Transfer of Turkish textile technology to Pakistan.
- Cooperation in anti-money laundering and combating terror financing.
- Exchange of information on investment opportunities in automobile industry, special economic zones, mining and minerals, food processing, tourism and hospitality, construction sector, diesel and electric locomotives and railway wagons.
- Expanded cooperation in agriculture, energy, health and tourism sectors.

Enhancing productivity in agriculture

High performing agriculture sector is the center piece of government growth and poverty alleviation strategy. Over the last decade, performance of Pakistan's agriculture sector has been disappointing, primarily due to low yields of all major crops including wheat, rice and cotton. In particular, production of cotton contracted by nearly 30 percent in 2016. Furthermore, crop diversification is unsatisfactory. Over the last fifteen years, the total cropped area of the five traditional crops has remained unchanged. Thus, farmers have not benefited from the income effect of high-value crops such as vegetables, cut flowers and fruits.

The Prime Minister's taskforce on agriculture has made some sound recommendations on improving productivity of agriculture sector. Based on those recommendations, the government will formulate a comprehensive agriculture policy, which can help transform the sector in foreseeable future.

Nonetheless, the government has already some measure to revitalize agriculture sector. Some of the important measures include:

Reduction in price of fertilizer. Government has reduced duties on the two most-used fertilizers: as a result, the price of a bag of urea and diammonium phosphate.

Enhancing famers' access to bank credit. To improve farmers' access to bank credit, the government has reduced the rate on bank credit provided to agriculture.

Improving farming practices through better extension support and direct training of farmers as has begun with programs such as the Punjab Skills Development Fund and the learning from ongoing World Bank/IGC research.

Creating more and better jobs

The government is evaluating specific proposals for job creation with strong participation by the private sector. Fiscal and financial viability is at the heart of the ongoing evaluation of these initiatives. The initiatives include:

***Naya Pakistan Housing Program*:** One of the flagship projects of the current administration is the construction of 5 million homes over the next five years. According to estimates once the program is implemented it alone will create millions of jobs in the country. As first step towards implementation of Naya Pakistan Housing Program, the government has encouraged credit for housing sector by reducing the tax on bank lending for housing sector by one-half. With its strong backward linkages, development of housing sector will also lead to significant increase in growth of at least 20 different industries.

State Bank of Pakistan (SBP) has formulated a new policy to help the housing finance and housing sector, particularly low-cost housing, in the country. Other than establishing rules and regulations for low-cost housing finance, the policy has established of a new Pakistan Mortgage Refinance Company (PMFC) which will assist in exploring fixed rate or hybrid models of housing mortgages, improving liquidity of the financial system for housing finance, and enabling banks to match maturity profile of their assets and liabilities. To allow PMFC company to keeps its rates low, the federal government as exempted income of PMFC from payment on income tax. In addition, SBP has relaxed its prudential regulations to help banks provide more and inexpensive finance for low-cost housing. SBP has also introduce a financing facility of its own for low cost housing, which will provide loans at subsidized rates.

Kamyab Jawan (SME) program: In order to generate more job opportunities for the youth, the government has launched a new program – the Kamyab Jawan program. Under this program, the National Bank of Pakistan, Bank of Punjab and Bank of Khyber will provide low cost loans to the youth (agreed between 21 – 45 years) for establishing of small businesses enterprises. These loans will be classified in three tiers.

> Tier I: Loans between Rs 100,000 and 0.5 million, with a debt-equity ratio 90:10 at interest rate of 6 percent. The government will pay the difference between the applied interest rate and KIBOR + 500 bps.
>
> Tier II: Loans between Rs 0.5 and 10 million; with a debt equity ratio of 80:20 and carrying an interest rate of 8 percent. The government will pay the difference between the applied interest rate and KIBOR + 400 bps.
>
> Tier III: Loans between Rs 10 and 25 million; with a debt equity ratio defined by bank's lending policy; and carrying an interest rate of 9 percent. The government will pay the difference between the applied interest rate and KIBOR + 400 bps.

Over the next 5 years, it is estimated, that 138 thousand youth will benefit from Kamyab Jawan program, with banks disbursing a cumulative sum of Rs 200 billion.

***Support for Agriculture sectors*:** Agriculture is the biggest employer of labor in Pakistan. As mentioned above, in order to promote growth and employment agriculture, the governments have reduced the rate of tax on Bank loans to these sectors by one-half.

Digitization: The PTI government announced the Digital Policy 2018 with the vision to transform Pakistan into a knowledge economy by making IT the top contributor to Pakistan's exports and job creation. The government aims to create 1 million high paying jobs for the youth in this sector. Six key interventions under this program have been identified; promoting E-government, develop IT skills through targeted skills development programs, connecting Pakistani business to global markets, improving IT infrastructure and connectivity, promoting entrepreneurship through incubators and similar programs, and lastly having the right policies and regulations in place to support the sector's growth.

Tourism: It is estimated that investments in tourism can generate over half a million new direct and induced jobs over the next five years. Development of tourism requires three broad initiatives: cross-departmental/cross-agency coordination to meet, in a consistent manner, tourism development needs spanning connectivity and transport, local government support for proper land use, municipal services, policing etc.; maintaining a balance between pro-consumer and pro-business regulations to ensure both provision of quality services as well as promotion of investment; mandating specialized organizations to take over heritage sites and other areas with tourism potential currently managed by local governments and preparation of investment-ready master plans for key locations. Federal ministry and provincial tourism departments' capacity and mandate will be strengthened to perform these tasks.

10 Billion Tree Tsunami: The government has launched a large-scale plantation program whereby it plans to plant 10 billion trees nationwide over the next five years. The program will create a total of 2 million jobs over the life of the project. These are also the kind of jobs that will have social spillovers by creating green jobs which contribute to sustainability and improvement in the environment.

Social Protection Programs: The newly announced Ehsas program (see below) and the expanded Benazir Income Support Program (BISP) will have considerable spillover effects on creating jobs through attached skills training programs for the unemployed. The Agricultural and the Industry Census as well as the Business Register are revamped to collect gender and disability disaggregated information including wage practices of employers. A certain set of employment opportunities are included in the Ehsaas framework to promote jobs and livelihoods, despite current limitations. The new policy of Solutions Innovation Challenge, Prize Funding, and venture capital funding will be implemented to develop value chains and solutions for poverty at scale by identifying private sector partners. Two categories of solutions challenges will be developed; one with public good like effect and others that are specific to Geographic Opportunity Clusters in lagging areas. This approach will help to develop agriculture and industrial value chains and address the drivers of poverty in a local context. In addition to Solutions challenges, government has identified three areas where there is opportunity to create jobs through a quick win approach for disadvantaged populations in general and disadvantaged areas in particular, under the Ehsaas program—these areas include aspects of the IT sector, the TVET sector and Manpower export.

Monitoring employment and human development: A productive employment data monitoring office will be established in the Planning Commission to monitor productive job creation at the national level. This will require proper accounting of new jobs created in the private sector and also via Public Sector Development Program projects. On the supply side, initiatives that strengthen the quality of workers such as the HDI index and its relevant components. Monitoring will not just be restricted to assessing numbers but also the quality of the jobs created. HDI and other employment related indicators will be highlighted upfront in government documents and discussions of development initiatives.

D. Bridging the saving-investment gap

Pakistan's sub-optimal savings rate has accentuated both fiscal and current account imbalances and acted as a powerful deterrent to invest in human and physical capital. Excessive borrowing by drawing upon private savings and heavy reliance on foreign borrowing has reduced the room for the Government to appropriately manage its finances. The Government therefore has to reverse the trend of dissaving's in public sector and the flight of capital through greater financial inclusion.

Reversing the trend of Dissaving's

Weak fiscal position of the government has contributed to the present high levels of current account deficits and the investment-saving gap. Pakistan's present and future growth prospects are constrained by low levels of investment in the country. Both the domestic and direct foreign investment levels are low in comparison to levels in comparator countries, and to the growth aspiration of the people. Although overall investment has increased from 14.6 percent of GDP in 2013-14 to 16.1 percent in 2017-18,[3] it is still significantly below the levels in Bangladesh, India and China. Inadequacy of investment is only partly attributable to the security concerns. Fiscal weaknesses, poor macroeconomic fundamentals, weak economic management, inadequate infrastructure, and a complex tax structure all contribute to the gap between actual and desired level of investment.

However, the most important factor behind inadequate level of investment is the low level of saving (see Figure 4 above). Pakistan's domestic saving has been very low and, as a percent of GDP, and has been falling. Domestic saving in 2017-18 (at only 5.5 percent of GDP) was less than one-third of the level achieved in 2003-14(17.4 percent of GDP). High volumes of workers' remittances from abroad helps in shoring national saving. Yet at 10.8 percent of GDP (in 2017-18), is still only half the saving rate achieved in 2002-03, and about one-third the saving ratio in India (34 percent of GDP).

Saving in Pakistan is influenced by both transitional and structural factors. Nonetheless, four factors stand out when it comes to determining the level of saving in the country. First, the high rate of population growth keeps the age dependency ratio high[4] which continues to expand consumption at the expense of saving. Second, as already highlighted above, weak tax effort coupled with a sharp increase in government's consumption expenditure has led to negative government saving, which lowers the level of national saving. Third, deposit rates have been negative in 15 out of 20 years implying that savers have been subsidizing investors. Four, relatedly real interest rates have been suppressed due to a persistent rupee overvaluation-since 1973 rupee has overvalued 70% of time according to empirical estimates, raising incentives for consumption over savings. Five, there is reluctance to save in PKR because the currency carries a high financial risk as it is prone to periodic devaluation. This instability also contributes to public shunning holding the rupee as an asset. Finally, tax policy which taxes withdrawal of cash (in excess of Rs 50,000 per day) from bank deposits in a largely cash-based business environment makes bank deposits a less attractive mean for business transactions.

Low level of national saving implies that higher investment could only be financed by mobilizing higher volumes of foreign saving, i.e. current account deficit. Being a capital scarce country, there is nothing unusual

[3] Pakistan Bureau of Statistics data.
[4] The ratio of population in non-earning ages (0-15 years and 65+ years) to population in earning age (16-64 years).

in utilizing foreign saving to fund higher level of investment. However, continued heavy reliance of foreign saving (or CAD) for a long period of time leads to BOP fragility and builds-up of foreign.

Other than low level of saving, investment is also constrained by a non-favorable investment and business climate created by multi-tiered regulations and taxation,[5] and weakness of Pakistan's financial sector. In Pakistan investors' access to finance is not only restricted by high interest rates but also by thinness of capital markets, weak financial intermediation, high intermediation cost; high collateral requirements, and wide spread financial illiteracy. The wide spread between lending and deposit rates is a clear indicator of inadequate competition among commercial banks to attract additional depositors and/or borrowers the competition in the financial sector is stymied by large government borrowings from central and commercial banks. This guarantees a minimum income to every bank without taking any risk and reduces the need for the banks to be more innovative and aggressive in their deposit mobilization and lending policies.

In addition, in recent years, there has been a large outflow of domestic savings into real estate markets in Dubai and other countries. Most of outflow of savings happen through the notorious *hundi and hawala* systems, which have operated on the fringes of law. As mentioned above, the government has amended to the law to and is strongly cracking down on these systems, thereby significantly reduce the leakages of domestic savings from the country through hawala and hundi system.

Enhancing Ease of Doing Business

In order to promote investment in the country, the government is actively working to remove the impediments to investment and enhance ease of doing business. In this regard, the government is taking following actions:

- Merit based and transparent appointment of the Chief Executives of State-owned Banks, financial institutions.
- Ease of Doing Business placed under the Prime Minister's office for regular monitoring, coordination and remedial actions. The focus of doing business reforms will be comprehensive – expanding beyond Lahore and Karachi – under a National Business Climate Reform Unit reporting to Prime Minister. This unit will also have provincial representation as a substantial part of operational level business regulation belongs to subnational domain. Such a unit would not limit its mandate to monitoring, coordination and remedial actions. It would proactively interact with stakeholders, primarily with private sector, understand investment climate barriers, design reforms through consultation and lead implementation and communicate completion of reforms to build investor confidence

Furthermore, on January 23, the government presented its Economic Revival Package to the Parliament. The package contains many structural adjustment measures aimed at removing basic impediments affecting business environment and investment in the country.

Starting a Business:

- A critical measure for improving saving and investment climate in the country is revamping of Securities and Exchange Commission (SECP). An Independent Policy Board of SECP consisting of highly qualified and eminent professionals delinking the Ministry of Finance from Chairmanship of the Policy Board.

[5] For example, potentially an average business has to file 60 sales tax returns (one federal and 4 provincials every month) in a year. Similarly, it has to comply with federal, provincial and local regulatory regimes.

- Integration of SECP's Virtual One-Stop Shop with provincial business portals.
- Streamlining of inspections by federal and provincial agencies.
- Ensuring availability of online fee payment facility on federal and provincial levels.

Paying Taxes:

- Reduction of number of tax and contribution payments.
- Ensuring all payments can be made fully electronically.
- Reduction of time required to obtain VAT refunds.
- Separation of Tax policy from Tax Administration.
- Establishment of an independent Tax Policy Board.

Trading Across Borders:

- Ensuring 50% reduction of customs related processing time at Karachi port.
- Reduction in hours required to prepare export and import documents by over 50%.

Getting Electricity:

- The government has already launched a full online application system in Lahore.
- Made more transparent the processes, guidelines and fees for getting the business connections.
- Undertake a detailed study to understand the bottlenecks of the electrical connection process.

Registering Property:

- Launched an electronic database (Lahore) to check property encumbrances (liens, mortgages etc.).
- Allowed online payment for, and issuance of Fard.

Getting Construction Permits:

- Establishing an electronic one-window operation at Sindh Building Control Authority.

Enforcing Contracts:

- Operationalizing commercial benches on courts.
- Improvements in Case Management System.

In addition to these interventions, the steering committee will ensure that detail of reforms undertaken are communicated adequately across the business and investor community, so the World Bank's surveys accurately reflect improvements on the ground.

Improving Public Debt and Credit Management

Relative to GDP, and to other countries in the region, Pakistan's financial sector has stagnated for the last two decades. Key benchmarks for measuring financial intermediation, such as private credit, bank deposits and advances have failed to keep pace with the requirements of the economy. Secondary financial markets have not developed. The development sectors (SME, Agriculture and Housing) remain largely unintegrated into banking markets. With time, the gap between what is needed for inclusive development and what we have, has grown steadily.

Overwhelmingly controlled by the commercial banks, loanable funds in the economy are dominated by direct and indirect lending to the government, 65%, with much of the rest allocated to the Large-Scale Manufacturing (LSM) sector. Only about 12% is made available to the 'development' sectors, i.e. SME, Agriculture and Housing –where the needs of the bulk of our population lie.

This limited allocation of national credit greatly sets back the substantial potential for employment and growth of the development sectors the urgency now assumes greater importance as LSM investment growth has declined steadily, falling from 20% to 15% of GDP over the last decade. Economic growth has to find a much wider and more diversified base. Even within the LSM sector, financial sector intermediation has to move well beyond simple lending to much greater value-added intervention.

The banks are well capitalized, profitable and operate with contemporary modern technology and good quality management. Once LSM growth momentum began to slow a decade ago, they are likely to have been compelled to create sustainable business propositions for broader based entry into the development sectors This impetus for more diversified bank credit was stymied by huge government borrowing from commercial banks, which continues to date.

The government has identified four priority areas for early actions to promote financial markets to take up a more dynamic engagement in leveraging socio-economic growth. First, diversifying the ownership of Government securities to outside the commercial banks. The extremely short-term deployment of Government securities, with 60% of the total bunched at 3-month maturities, also has to be lengthened. In the current structure, the market runs very significant liquidity risks, given the rising volume and shortened time-frame, of maturing debt – and the Government runs the risk of rates being forced up by banks who have become monopolist buyers

Second, reversing the past neglect of Development Finance Sector by contributing more intently on capacity-building area, enhancing productivity; and in assisting in developing market-access and formation of supply-chains; etc.

Third, expansion of electronic banking which can help Pakistan leapfrog the stages of conventional banking products and services development.

Lastly, reduction in government's financial liabilities for public projects through greater resort of Public-Private Partnership (PPP). Presently an overwhelming number of Government Infrastructure projects are funded either directly through budget, or indirectly through provision of sovereign guarantees. There are significantly possibilities that many of these could be implemented under appropriate PPP arrangement, which would reduce government's liability a limited part of the project cost (the "Viability Gap"). The institutionalization of this capacity is now being addressed by the government on priority basis, but needs fine-tuning and regulatory/fiscal adjustments, however.

In addition, to plug the gap in the financial markets for financing large infrastructure projects, the Pakistan Development Fund (PDF) has been established and negotiations with IFC are taking place to set up an infrastructure Development Fund in which PDF would participate. Such a facility can also spur the capital market since that would be its main conduit for raising capital.

Strengthening of Debt Management Office (DMO). The government is considering in expanding the scope and powers of Debt Policy Coordination Office (DPCO) into a more effective DMO, which may have authority to determine price, maturity, and structure of all domestic debt, including the National Saving schemes. As such, the DMO will facilitate creation of a liquid long-term sovereign yield curve. The DMO:

1. Will be staffed with qualified and experienced market professionals.
2. Will report directly to the Minister of Finance and have an operational office at SBP.
3. Have priority goal of reducing government reliance on borrowing from the banking system.

4. Would be a required signatory on all Contingent liabilities, and all foreign currency borrowings by Government.
5. Would be able to recommend, and execute, the hedging of currency and commodity exposure, as conditions warrant.

Enhancing development finance capabilities

1. Development Finance Institutions (DFIs) such as ZTBL & HBFC, need infusion of capital and professional manpower, to provide both comprehensive advisories, as well as lending, services, to end users

2. These institutions would maintain their public sector ownership structure, but with predominantly private sector management, and BOD with majority representation from Private sector.

3. SBP would support these DFIs with refinance mechanisms and draw up regulation for new product development.

4. SBP/MOF would establish conduits for soft funding from international agencies for wholesale lending facilities as well as for technical support for institutional/development functions.

5. Government would help in setting up Venture Capital Fund for investment, selectively, in DFI projects.

Expanding Financial Sector base

1. Withholding tax on financial transactions would be done away with in order to incentivize deposit mobilization and encourage financial inclusion.
2. The Minimum Saving Rate (MSR), imposed by SBP, would be *capped in the periods of high interest rates* in order to incentivize banks to mobilize remunerative deposits.
3. Pakistan Stock Market would offer new products such as voluntary pension funds and explore distribution channels to bring in retail investors to at least 1 million.
4. Insurance penetration rates are quite low in Pakistan. With the introduction of Takaful, a large number of population that does not participate in the existing Insurance products may be attached thus raising the penetration rate.
5. Promoting Islamic banking.

Institutionalizing Infrastructure Finance and establishing REITs for Housing projects.

1. Present Government initiatives to support Infrastructure finance, include Pakistan Infrastructure Bank, for Infrastructure projects. A PPP authority (PPPA) operationalized separately for Value for Money assessment and to crystallize Viability Gap, to be provided by Government.
2. As PPPA becomes operational it would screen all projects for suitability for whether project will be entirely public sector or in PPP mode.
3. Given fundamental, technical and critical role of Viability Gap assessment, this function within PPPA would be handled in a cell headed by experienced professional.
4. Precondition for maintaining recurring flow of finance for long-term projects, is existence of liquid Sovereign yield curve. Ensuring sufficiency of long-term liquidity would be joint responsibility of Debt Management Office, working with PPPA.

5. REITs model may be used for development of public housing on government land, under PPP format. An overarching PPP) arrangement between private builders and the Government of Pakistan (GOP) maybe developed for this purpose.

6. The government would examine structuring a sizeable programmed lending scheme for low income suburban and rural housing exclusively through Microfinance banks. The backstop will be provided by PMRC and PMIC, including liquidity support as well partial first loss credit guarantees.

7. Legal framework from PPP needs to be strengthened by supplementing rules and regulations, and institutionalization of the proposed viability gap fund for supporting PPP projects, as well as a project development fund to provide financial assistance to ministries and federal agencies to develop projects by bringing onboard technical experts, including transaction advisors.

Tackling money laundering: Moreover, to be FATF compliant, the government has taken many actions to check flow of dubious funds into or out of the country. As a first step towards this goal, the government has prepared a Terrorist Financing Risk Assessment Report and sectoral risk assessment on Cash Couriers. Both the Assessments have been completed, using the World Bank Methodology and shared with the FATF along with Pakistan's progress report as on January 4, 2019. The AP-Joint Group has shown its satisfaction on Pakistan's progress. A CFT Task Force was established to help improve inter-agency coordination between provincial and federal authorities for combating Terrorist Financing (TF) risks, including pursuing TF investigations and prosecutions. The major outcome includes increased awareness and capacity development on CFT matters, improved sharing of information among stakeholders, sharing of best practices within provinces, access to available databases within the country, development of a Model Law on charities for provinces, enhanced focus on TF investigations and implementation of asset freezing under United Nation's regulations.

In the coming months, the financial sector supervisors are expected to demonstrate that supervisory activities are carried-out on a risk-sensitive basis. Both the regulators (SBP and SECP) have devised strategy to implement this item of the action plan. In addition, financial sector supervisors, NACTA, FMU, along with concerned ministries are carrying out outreach sessions for all stakeholders. The guidance is being provided to our Law Enforcement Agencies (LEAs) and CTDs to carry out investigations, prosecutions and exhibit convictions to meet the targets set for them. Here, it is important to mention that Pakistan has also initiated consultation with the World Bank to provide Technical Assistance for carrying out National Risk Assessment (NRA) on Money Laundering in the Year 2019. The scope of NRA shall include full review of the earlier NRA Report with focus on Priority areas i.e. DNFBPs and NPOs. In addition, actions have been planned to further enhance the effectiveness of Financial Monitoring Unit (FMU), as an independent and autonomous agency, through improvement in its governance framework, its Human Resource policies and technological improvements. This is expected to allow FMU to play a more proactive role in generating quality financial intelligence reports for consumption of LEAs and financial sector regulators and coordination among AML/CFT stakeholders domestically and internationally.

Financial Inclusion

Access to finance is a prerequisite for equitable distribution of economic opportunities, poverty reduction and achieving financial stability, thereby leading to sustainable and inclusive economic growth.

Much remains to be done on financial inclusion. As of 2015, merely 16 percent of the adult population had a bank account, with account ownership for women standing at a dismal 11 percent, whereas a large segment of faith-sensitive population remained voluntarily excluded. Financing to priority sectors such as agriculture and housing remained constrained, with SMEs claiming a minuscule share. Moreover, regional disparities increased over time.

The National Financial Inclusion Strategy (NFIS), developed and adopted by the government in 2015, aimed at achieving inclusive economic growth through enhanced access to finance and deposit base, promotion of small and medium enterprises, easy and affordable access to finance to farmers, facilitation in low cost housing finance and provision of Shariah-compliant banking solutions.

Digitization of payments across the country borders is a priority of the Government and the following targets have been set for achievement by 2023:

- Enhance usage of Digital Payments (65 million active digital transaction accounts, with gender segregation of 20 million accounts by Women).
    - By digitizing government payments and receipts, automation of CDNS branches, and digitization of services provided by Pakistan Post the Government san kick start digitization of payments.
    - Separately, SBP to expedite issuance of Payment licenses to Fintech companies with established customer base; development of Micro Payment Gateway (MPG) for retail payments; facilitate expansion of national merchant integration into mobile payments and commence operationalization of *Asaan Mobile Account* (AMA) Scheme.
- Fiscal concessions may be offered on mobile phone duties (< Rs 8k), and sales tax for user charges for Data be refunded into subscriber account monthly by Telephone companies, against Government refunds, or suitable alternative method.
- To oversee progressive digitization of government payments and to coordinate regulatory enabling, the Government may consider institutionalizing centralized responsibility under a Chief Digital Officer at the Ministry of Finance. It would be necessary to hire a market professional for this function.
- Enhance Deposit Base (Deposit-to-GDP ratio to 55%)
- Promote SME Finance (Extend finance to 700,000 SMEs; 17% of the private sector credit)
- Increase Agricultural Finance (Serve 6 million farmers through digitalized solutions; enhance annual disbursement to Rs1.8 trillion)
- Enhance share of Islamic Banking (25 percent of the banking industry; increase branches of Islamic banks to 30 percent of the banking industry)

It is expected that achieving these five-year targets can translate into creation of 3 million new jobs, and additional exports of US$ 5.5 billion through enhanced access to finance to SMEs[6].

To-date following NFIS-related tasks have been completed:

[6] A key assumption in this respect is to allow reduced income tax (20%) on income earned by commercial & microfinance banks on SMEs, Housing & underserved areas for priority sectors

- To promote low cost housing in Pakistan the Prime Minister launched SBP's policy for Low Cost Housing Finance on March 11, 2019 which included: (i) regulatory incentives and (ii) SBP's refinance facility for low cost housing for the special segments with end user rate of 6% for 12½ years.
- Agriculture disbursement has increased from Rs 570 billion during Jul-Feb-2018 to Rs 701 billion during the same period of the current year showing -- a growth of 23%.
- Land Record Management System (LRMS) has been automated in Punjab and banks will adopt the same for Agriculture lending by mid-April 2019.
- SME finance has crossed Rs 513 billion mark on December 31, 2018, which is all time high representing 24% growth against the previous quarter.
- In order to support SME finance for special persons, SBP also launched on March 19, 2019, a refinance facility at end user rate of 5% with 60% risk coverage.
- In order to create charge on a moveable asset of small entities, government has issued notification for establishment of e-Registry and appointed a Registrar for the same.
- Incorporation of the Credit Guarantee Company for SME sector is in final stages. The Board has been appointed and rest of the formalities are being completed.
- Islamic banking industry's share in Deposits has touched at 15.5% which is the highest in history.
- Government of Pakistan has issued Rs 200 billion energy sukuk to address liquidity management issues of Islamic Banking Industry. Further, Government of Pakistan has also allowed SLR eligibility to SBP's Bai Muajjal transactions.
- Shariah compliant version of SBP's conventional refinance schemes has also been issued.

In order to achieve the target of 65 million active digital accounts, 100% of the government payments and receipts will be digitized, along with back-end automation. Two key public sector organizations – Pakistan Post and Central Directorate of National Savings (CDNS) – accounting for a big volume of transactions will be digitized. In addition, the government will launch a fully functional *Assan* Mobile Account (AMA) Scheme and a transformation office will be established at the PM Secretariat to oversee these activities.

The target of enhanced deposit-to-GDP ratio of 55% will be achieved by expanding outreach of banks in rural and semi urban areas and facilitating fully functional digitized echo system (universal service fund would be used for digital infrastructure in the underserved areas) to attract savings in underserved and hard-to-reach areas. Additionally, banks will be encouraged to develop innovative and specialized products for targeted segments to encourage deposits.

In order to promote SME finance by bank, the Government has already reduced income tax rate to 20% on income earned by commercial and microfinance banks on SMEs, Housing and underserved areas for private sector. The government will launch a fully functional Credit Guarantee Company and an e-registry for creation of charge. Additionally, the state owned First Women Bank Limited and SME Bank will be privatized, while the government will launch refinance schemes for tourism and IT sector sin banking courts, speedy disposal of SME loan cases will be ensured, and a census of business enterprises will be undertaken to inform planning and targeting. A national SME Policy will be developed, and provincial governments will also be encouraged to plan an active role for SME finance development. SMEDA will be empowered and restructured to create requisite capacity to undertake and drive this work.

The government will also develop a roadmap for promotion of Islamic banking industry and will provide enabling legal and regulatory environment, efficiency in liquidity management and awareness raising and capacity building measures. The recent issuance of Sukuk of Rs 200 billion for power sector will be followed by regular issuances of bonds of varying tenors.

- Agriculture financing would be facilitated by providing smart subsidy for agriculture inputs to 3 million small farmers (up to 5 acres)
- Legal amendments will be enacted to establish Collateral Management Companies for Warehouse Receipt Financing (WHRF) where the farmers can store their produce soon after harvest and withdraw gradually as market price become favorable to them.

It is expected that these actions will catalyze the process of financial inclusion in the country and increased access of individuals and businesses to finance will lead to positive externalities, contributing in to broad-based and sustainable economic growth.

III. Protecting the Poor and the vulnerable

Despite the episodic and relatively low growth over the last two decades, Pakistan has made considerable progress in reducing poverty. Government's latest estimates show that headcount poverty in the country has declined from 61.3 percent of population in 2001-02 to 24.3 percent in 2015-16.[7] This signifies that whatever modest growth Pakistan was able to achieve in this period, has been relatively pro-poor. Moreover, this notable reduction in poverty is made more remarkable by the fact that this was achieved during the period of only marginal improvement in human development indicators. One area of concern in this otherwise remarkable poverty reduction performance, is that poverty reduction has been stronger in urban areas thus exacerbating the urban-rural income inequality. Urban poverty declined from 18.2 percent in 2013-14 to 12.5 percent in 2015-16 (5.7 percentage points reduction), whereas rural poverty fell from 35.6 percent in 2013-14 to 30.7 percent in 2015-16 (4.9 percentage points reduction). This has caused poverty to be mainly a rural problem as presently 82 percent of the poor live in rural areas. The role of targeted poverty interventions in form of social safety nets has been salient in achieving this outcome.

A. The Ehsas Program

On March 27, the Prime Minister announced the launch of the "Ehsaas" program, with the objective of to reducing income and social disparities; investment in people; and uplift of lagging districts. Ehsas aims at creating a 'welfare state' by countering elite capture and leveraging 21st century tools—such as using data and technology to create precision safety nets; promoting financial inclusion and access to digital services and creating jobs in quick win areas. Ehsaas is about girl's education, the economic empowerment of millions of women, investments in human capital and much more. The welfare state envisioned under Ehsaas aims to exploit synergy between human capital development, economic progress and wellbeing.

The program's approach centers on tapping whole of government for solutions; ensuring joint federal-provincial leadership; and mainstreaming the role of the private sector through an approach which will provide a level playing field on the one hand and foster locally relevant innovation on the other. The program's premise is grounded in the importance of strengthening institutions and good governance. Its principles resonate with the spirit of the sustainable development agenda.

Ehsaas' poverty reduction strategy is articulated in four pillars: making the government system work to create equality, safety nets for the disadvantaged segments of the population, jobs and livelihoods, and human capital development.

The framework of the program centered on four pillars:

(ii) **Making government work for equality:** The most important action under this pillar is to make a constitutional amazement to redefine basic needs (food, clothing, heath, education and housing) as a fundamental human right. In addition, the pillar aims at increasing allocation for social protection in the 2019-20 budget by Rs 80 billion. This will be enhanced to Rs 120 billion in the 2020-21 budget. Moreover, a new ministry, Ministry of Social Protection and Poverty Alleviation Coordination, will be created to address the current fragmentation of social protection programs. Benazir Income Support Program, Pakistan Bait-ul-Mal, Zakat, Pakistan Poverty Alleviation Fund, Trust for Voluntary Organizations, the SUN Network, Center for Social Entrepreneurship, etc. will all come under the umbrella of this new ministry. This consolidation of social protection program under "one administrative roof" will help create one-window operation for social

[7] World Bank data may differ from Government of Pakistan estimates.

protection initiatives thereby increasing their efficiency and effectiveness. In addition, equality promotion will become a fundamental criterion for selection of PSDP projects.

(iii) **Social safety nets:** Presently 39 percent of country's population lives below the poverty line, with 24 percent classified as severely poor i.e. those who cannot afford to satisfy their basic food and non-food needs. The government intends to better identify these poor for targeting of its social protection programs. In this regard, the government will develop a new National Socioeconomic Registry to identify the poor. This registry will have multiple validation using surveys and big data analytics. This will ensure that no poor is left out of the registry. Two new social protection programs are being introduced—Kifalat and Tahafuz. Executed through the Benazir Income Support Program, the Kifalat program will ensure financial and digital inclusion of around 6 million women through the one woman one bank account policy. The cash support from the Kifalat program will be indexed to inflation thereby protecting the support from erosion of inflation. The Tahafuz program will involve one-time economic support to help the population which may be undergoing hardship due to external or internal shock.

(iv) **Human development:** Human capital development is a significant contributor to the wealth of a nation. In this digital age, accelerations in technology require countries to urgently invest in their people if they hope to compete in the economy of the future. Human capital development necessitates prioritizing investments in early years—tackling malnutrition, preschool or early education, protecting children from harm; ensuring access to quality education, skills and jobs; long-term commitment to Universal Health Coverage, and measures for empowering women and girls.

Pakistan is facing a crisis in terms of malnutrition that is among the worst in the world; our country is losing 3 percent of its GDP to stunting every year—a situation in which children cannot grow in height, their brains don't grow, and cognitive abilities don't develop, a major setback in today's knowledge economy. Stunting is the result of malnutrition and recurrent infections, in early childhood and/or malnutrition before birth brought on by a malnourished mother. Undernutrition in young children and over nutrition later in life lead to higher risk of costly diseases, like hypertension and diabetes. These are impoverishing through healthcare costs and by negatively impacting economic development by incurring productivity losses. Therefore, malnutrition has long lasting consequences for families and countries. Several initiatives address malnutrition in this framework, including nutrition-related initiatives, especially for babies and children and asset transfers initiatives to making the poor economically viable and for graduation from the BISP.

(v) **Jobs and livelihoods:** As mentioned above, job creation is one the key objective of government economic reform program. As such, Ehsas program aims at creating employment opportunities by working in partnership with private sector.

This entire agenda of Ehsas is heavily skewed towards the uplift of poor women—from the 6 million women who are estimated to benefit from the "*Kifalat*" to preferential support for women through "*Tahafaz*". More than 50% of the education vouchers and scholarships will be given to women. *Insaf* Card covers health conditions for women preferentially.

Not just health and education, but jobs and economic empowerment is crucial for poor women. In this regard, the graduation initiative solely serves women. Through the Labor Commission the government will explore ways to recognize the work of rural women, pave the way for equal wage and cover domestic work under legislation.

B. Benazir Income Support Program (BISP)

BISP will continue to be the biggest cash transfer program. It will continue to provide unconditional conditional cash transfers to low income households, particularly those belonging to the poorest quintile and the groups most vulnerable to natural disasters and policy shocks. Similarly, BISP will continue with its conditional cash transfers for furthering education and health objectives of the government.

After the success of its unconditional cash transfer program, BISP has also started providing conditional cash transfers, particularly for primary education. *Waseela-e-Taaleem* program started in partnership with provinces, supports primary education of 4 to 12 years old children of BISP beneficiary families conditioned upon for their enrolment and staying in school. Each beneficiary child receives a cash transfer of Rs 750 per quarter upon meeting the admission verification in 1st quarter and attendance requirement of 70% in subsequent quarters till completion of the primary education. So far, over 2.2 million children in 50 districts of the country have benefited from this program.

Being aware that stabilization and structural adjustment policies are likely to have an adverse short-term impact on the wellbeing of the poor and vulnerable segments of population, the government intends to strengthen the national social safety nets by expanding its coverage, streamlining the conditional cash transfers and establishing appropriate graduation programs. The government has taken several initiatives to expand the coverage of social safety net programs beyond their traditional areas and to improve their effectiveness. The first in this direction is the appoint of a global acclaimed professional to head BISP. Other initiatives include:

Anti-stunting nutrition program: To reduce the proportion of stunted children in the country from 44 percent to 30 percent the government is starting a nutrition program with BISP. The program will target 2 million children in ages of 6-23 months and 2 million pregnant or lactating women.

Expanding the coverage of Waseela-e-Taaleem program: The program is to be expanded to enroll 9million out of school children from the poorest families over the next four years; and expansion of program from 50 districts to 154 districts.

Income enhancement through asset transfer: This initiative will help 3 million poor beneficiary households of BISP and Pakistan Poverty Alleviation Fund (PPAF) to graduate out of poverty through provision of assets like livestock, enterprise, house, etc. During 2019, a pilot program, covering 100,000 households, will be completed.

Insaf health card: After its acclaimed success in Khyber Pakhtunkhwa, the government is launching this health insurance scheme across the country. Under this scheme, a poor patient can get medical benefit of Rs 500,000 through any public health facility.

Low cost housing: The government intends to provide low cost houses to 160,000 beneficiary families of BISP and PPAF. For this, interest free loans will be provided to these families from the Rs 5 billion revolving fund set up by the government specifically for this purpose.

IV. Governance Reforms

The underpinning of the structural reforms proposed in Section (1) to (4) above lies in the Governance Reforms. Behind every crisis or policy failure the weak administrative capacity of the institutions implementing these reforms has proved to be the major inhibiting factor. The capacity has deteriorated over time and the Government is fully convinced that Civil Service reforms and enhancing the efficiency and transparency of Government departments and agencies is the sine qua non for achieving the desired results envisioned in the structural reform program outlined in i) to iv) requires an efficient administration comprising well trained civil servants. The Prime Minister has set up a Task Force to recommend changes needed to achieve such administration. The principles on which reforms would take place have been endorsed by the Cabinet and are summarized below.

A. Civil Service Reform

i) Open, transparent merit - based recruitment to all levels and grades of public services with Regional Representation as laid down in the constitution. Instead of one general examination for all cadre services, the candidates would be given option to appear at tests for any of the four different clusters with specialized domain

ii) The present system of Confidential reports which are highly subjective would be replaced by Objective based Performance evaluation with key performance indicators. Promotions and career progression for all public sector employees would take place on the basis of performance and training outcomes.

iii) Compulsory systematic training at post induction, mid-career and senior management levels would be offered to all civil servants in cadre and non-cadres to enhance their competencies in managerial skills as well as specialized fields.

iv) Equality of opportunities for career advancement would be provided to all employees without preferences or reservations for any particular class.

v) The concept of Superior Services would be replaced by equality among all cadres and non-cadres of public servants in terms, conditions, training and career advancement.

vi) Compensation package would be revised from time to time to provide a decent living wage including decent retirement benefits to all civil servants.

vii) Security of tenure of office would be ensured for a specified period of time except if the officer is found guilty of malfeasance, misconduct, insubordination.

viii) Opportunities would be provided to induct professionals and technical experts from outside the regular civil service on contractual basis to fill in the gaps in the skill sets unavailable in the Ministries and departments

B. Enhancing the efficiency and transparency of Government

i) e-governance would be introduced in next two years in all Ministries and government agencies to ensure transparency, efficiency and convenience to citizens in their transactions with the Government. Introduction of e-government would be accelerated with local area network connectivity, websites, data bases, electronic filing and tracking, all correspondence through emails forming a minimum package for all Divisions/s/ attached departments/ autonomous bodies. It is realized that Technological solutions, hardware and software applications are easy part of the process, but the most difficult aspect would be the Training and a change in the culture, attitude and practices. e-government would be driven by business needs rather than crafted as an elegant technical solution.

ii) All laws, rules, regulations, circulars, guidelines issued by any Government ministry/ department/ agency would be made available in its most up dated version to the general public free of cost in a user-friendly manner on web page and in electronic and print forms at public places.

iii) Service standards with timelines for each type of service rendered at the District, Tehsil and Union level will be developed, widely disseminated and posted at public places in each department.

iv) Rules of business at the Federal, Provincial and District Governments will be revised to make them simple, comprehensible empowering the Secretaries/ Heads of Departments/ Local Government Officers to take decisions without multiple references, clearances and back and forth movement of files. Post-audit of the decisions taken will be used to ensure accountability rather than prior clearances.

v) Estacode, Financial Rules, Accounting and Audit Rules, Fundamental Rules and all other rules in force would be reviewed systematically and revised to bring them in line with modern management practices.