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Building Resilience with Active Countercyclical Expenditures (BRACE)

Quarterly Progress Report

30 Sept 2023

Finance Division (External Finance)
Government of Pakistan

Abbreviations

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

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Introduction

Background

1. The Pandemic (COVID) sent shock waves through the world economy which was further aggravated by Russian-Ukraine war. The cascading effect of COVID and the war resulted in income and job losses and demanded massive GOP spending on social protection to protect the most vulnerable population and promote economic recovery. GOP used digital tools to manage the massive amounts of administrative data needed to monitor the welfare of households and individuals and to design better-targeted programs.

Building Resilience with Active Countercyclical Expenditures Program

2. To support the government's efforts to provide immediate relief to the people of Pakistan, Asian Development Bank (ADB) approved a Countercyclical Support Facility Loan with a size of USD 1.5 billion on 21 October 2022-Building Resilience with Active Countercyclical Expenditures Program (BRACE).

Monitoring and Evaluation Framework

3. The monitoring and evaluation framework (framework) of the BRACE program builds on ADB's CARES program and is primarily based on the recommendations made by the Auditor General of Pakistan (AGP) in its audit report on expenditures incurred for the government's corona virus disease (COVID-19) pandemic response.

4. The objective of the framework is to (i) ensure regular and systematic reporting on the countercyclical development expenditure program (CDEP) announced in the fiscal year (FY) 2023 national budget, with a particular focus on the priority expenditure items outlined in the BRACE Program Design and Monitoring Framework (DMF), (ii) provide a platform for coordinated and informed discussions between the government and development partners on the implementation of the CDEP, and (iii) continue the ongoing policy dialogue with the government on its program to address longstanding structural constraints.

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

6. The framework sets reporting requirements for the government to (i) provide semi-annual progress reports, (ii) quarterly progress reports, and program performance reports that include progress achieved against DMF indicators with reasonable details for variation of the target

Quarterly Reports

7. After approval from Steering Committee, Finance Division shared the quarterly reports for the following period: (a) July 2022 – December 2022, (b) 1 January 2023 – 31 March 2023, and (c) 1 April 2023 – 30 June 2023. The report (i) summarizes the fiscal performance of country, (ii) the status of actual expenditures, (iii) comparative review of actual against budgeted figures and (iv) status of compliance with loan covenants.¹

Semi-annual Report

8. After approval from Steering Committee, Finance Division shared the semi-annual report for the period 1 January 2023 - 30 June 2023. The report (i) summarizes the fiscal performance of country, (ii) the status of half yearly actual expenditures, (iii) comparative review of actual against budgeted figures and (iv) status of compliance with loan covenants.

Fourth Quarterly Report

9. The current report will be titled as "*Fourth Quarterly Report*" and will cover the period from **1 July 2023 – 30 Sept 2023**. The report will provide details about the fiscal performance, details of first quarter expenditures in line with the expenditures reported in previous three quarterly reports, status of compliance with loan covenants, detail of expenditures on flood relief package, kissan package and different financing schemes.

Fiscal Performance

10. During the first quarter of FY 2024, Federal Board of Revenue (FBR) revenues grew by 25 percent to reach PRs 2,042 billion against PRs 1,634 billion in the same period of last year. Non-tax revenue witnessed a growth of 99.5 percent mainly due to higher receipts from petroleum levy, followed by markup (PSEs and others) and royalties on oil and gas.

11. The first quarter of FY 2024 witnessed a significant rise in total expenditures that grew by 25 percent to PRs.2,042 billion against PRs 1,634 billion in the first quarter of FY 2023. On the expenditure side, the primary concern is the rise in the cost of servicing public debt, with the rise in SBP policy rates to 22% and weaker PKR fueling the rise in servicing costs. Debt servicing costs increased 45% in Q1 to Rs 1.4 trillion.² Thus, the first quarter of FY2023 witnessed a fiscal deficit of PRs. 980 billion against PRs.819 billion during comparative period. The primary surplus increased to PRs 400 billion during the first quarter of FY2024 against PRs 135 billion in the comparative period of FY 2023.³

¹ Reports are uploaded on Finance Division website at www.finance.gov.pk

² Finance Division, Monthly Economic Update and Outlook – August 2023

³ Finance Division, Monthly Economic Update and Outlook – August 2023

Table 1: Key Economic Indicators (External Sector)
Comparative Review
First Quarter of FY 2023 and FY 2024

Indicator	FY 2023 (Q1)	FY 2024 (Q1)
Remittance (USD billion)	7.9	6.3
Exports (USD billion)	7.4	7.0
Imports FOB (USD billion)	16.5	12.3
Current Account Deficit (USD billion)	2.4	1.0
FDI (USD million)	381	397.7
Portfolio Investment (USD million)	-30.0	9.9
Total foreign Investment (USD million)	351.7	407.6
Foreign Reserves (SBP) USD billion*	7.8	7.6
Exchange Rate (PRs/USD)	228.37	287.88

Source: Finance Division, EA Wing - *end period.

Table 2: Key Economic Indicators (Fiscal Sector)
Comparative Review
First Quarter of FY 2023 and FY 2024

Indicator	FY 2023 (Q1)	PRs (bil ion) FY 2024 (Q1)
FBR Revenue	1,634	2,043
Non-tax Revenue	235	469
PSDP (Including grants to Provinces)	75	53
Fiscal Deficit	819	980
Primary Balance	135	400

Source: Finance Division, Budget Wing

Status of expenditures

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

Social Protection

Pakistan Bait-ul-Mal

13. The detail of quarterly expenditures incurred against the allocated budget of PRs 864 million to Pakistan Bait ul Mal (PBM) is provided in Tables 3-5

**Table 3: Pakistan Bait ul Mal
Budget Vs Actual Expenditures
For the period 1 July 2023 - 30 September 2023**

Period	Released	PRs (million)
		Expenses
July 2023 - Sept 2023	864	760
Total	864	760

Source: Pakistan Bait-ul-Mal

**Table 4: Pakistan Bait-ul-Mal
Details of Expenditures
For the period 1 July 2023 – 30 September 2023**

Heading	PRs (million)
	Q1 2024
Individual Financial Assistance – Medical	183.9
Individual Financial Assistance – General	28.4
Individual Financial Assistance - Special Friends	1.8
Individual Financial Assistance – Education	37.0
Cochlear Implant	66.0
Schools of Rehabilitation for Child Labour	126.6
Women Empowerment Centres (WECs)	89.1
PBM Sweet Homes (PSHs)	165.2
PBM Old Home	2.5
PBM Shelter Homes	41.6
Roti Sab Ke Leay (<i>Bread for all</i>)	7.8
Institutional Rehabilitation (NGO's)	10.8
Total	760.0

Source: Pakistan Bait-ul-Mal

**Table 5: Pakistan Bait-ul-Mal
Month-wise Expenditures
For the period 1 July 2023 – 30 September 2023**

Description	Quarterly Budget	PRs (million)
		Expenses
Jul-23		7.3
Aug-23	864	426.6
Sep-23		326.1
Grand Total	864	760.0

Source: Pakistan Bait-ul-Mal

Benazir Income Support Programme (BISP)

14. The budgeted Vs actual expenditures position shows that 19% of annual allocated budget is utilized during the first quarter of FY 2024 as detailed in Tables 6.

**Table 6: Benazir Income Support Programme
Comparison of Budgeted and Actual Expenditures
For the period 1 July 2023 - 30 September 2023 (Quarter 1)**

Head	(PRs million)	
	Annual Budget	Actual (Quarter 1)
Benazir Kafaalat – UCTs	361,500	81,605
PM Ramadan Package	1,827	0
Benazir Taleemi Wazaif (CCT)	55,423	0
Benazir Nashonuma (CCT-HN)	32,268	5,521
Benazir Scholarship for undergraduate	5,928	0
National Socio-economic registry (NSER)	2,260	561
Direct Cost of Cash Transfer - Other programs	6,794	1,034
ERE and General Expenses	5,683	1,031
Total	471,683	89,752

Source: Benazir Income Support Programme

**Table 7: Benazir Income Support Programme
Quantitative Indicators - Comparison of Targets and Achievement
For the period 1 July 2023 to 30 September 2023**

Indicators	Unit	Target	Actual
Unconditional Cash Transfer	Female heads of poor families		
Conditional Cash Transfer	New Children (*Note 2)	744,000	760,113
Undergraduate Scholarship		No new student was enrolled	
	Additional Districts	1	1
CCT Health and Nutrition	Mothers		185,276
Note 3	Children under 2 years of age	1,769,000	160,928

* Annual Target

Note 2: Conditional Cash Transfer - New Children

Total	Primary	Secondary	Higher
760,113	581,692	159,191	19,230

National Poverty Graduation Program

15. The budgeted allocation and expenditures incurred by National Poverty Graduation Program (NPGP) are explained in Table 8

**Table 8: Budget Vs Expenditures Status for NPGP
For the period 1 July 2023 – 30 September 2023**

Budget	Expenditures	Variance
		PRs (million)

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Description	Total
Fertilizer plant subsidy	-
Subsidy for import of urea	-
Utility Store Corporation	-
Subsidy to Utility Stores Corporation for Ramadan Package	-
Prime Minister Package to Utility Stores Corporation (USC) - Subsidy	2,49.0

Source: Ministry of Industries and Production

Note: * The budget for "subsidy for import of urea of fertilizer" has been allocated under Grant No 45-FC21G01-Grants, Subsidies and Miscellaneous Expenditure being dealt by Finance Division

Kissan Package

19. The details of expenses incurred under Kissan package and other schemes pertaining to SBP are as follows:

Table 12: Details of Expenditures incurred Under different schemes of Kissan Package For the period 1 July 2023 – 30 September 2023

Scheme	Details
Provision of subsidy for interest-free loans to subsistence farmers in flood affected areas	SBP issued the scheme vide AC&MFD Circular No. 03 of 2022 dated 21 December 2022 to all banks/ MFBS for implementation. The scheme was initially valid for 3 months but was extended till 31 December 2023 by the Government. Markup subsidy claims of Rs 468.6 million for quarter ended on 30 September 2023 were received from banks, which have been sanctioned by Finance Division, GoP and subsequently reimbursed to banks.
Markup Subsidy & Risk Sharing Scheme for Farm Mechanization (MSRSSFM)	SBP issued the scheme vide AC&MFD Circular No. 04 of 2022 dated 21 December 2022 to all banks/ Islamic banks for implementation. The scheme was initially valid for 1 year but it was extended till 30 June 2023 by GoP As per the features of the scheme, markup subsidy for this scheme is claimed by banks on half yearly basis.
Interest free loans to landless Farmers in flood affected areas	SBP issued the scheme vide AC&MFD Circular No. 03 of 2022 dated 21 December 2022 to all banks/ MFBS for implementation. The scheme was initially valid for 3 months but was extended till 31 December 2023 by GoP. As per the features of the scheme, markup subsidy for this scheme is claimed by banks on half yearly basis.
Other Schemes	Total payment of Rs 12.32 million has been made to banks from 01 July 2023 till 30 September 2023 to

	Financial Institutions (FIs) related to subsidy claims under various GoP Schemes.
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Kissan Package Releases

**Table 13: Financing Schemes under Kissan Package
Funds Released by Finance Division
For the period 1 July 2023 - 30 September 2023**

Scheme	PRs (Million)
Provision of subsidy for interest free loans to subsistence farmers in flood affected areas	-
Interest free loans to landless farmers in flood affected areas	-
Markup subsidy and risk sharing schemes for farm mechanization	-

Source: State Bank of Pakistan

1. Under provision of subsidy for interest-free loans to subsistence farmers in flood affected areas, subsidy amount of Rs. 468.6 million (Quarter ending Sept 2023) was incurred. The amount was sanctioned by Finance Division on April 22, 2024. Hence funds released during Quarter ending on Sept 2023 is NIL. 2. As per the features of the scheme, markup subsidy for Interest free loans to landless farmers in flood affected areas and Markup subsidy and risk sharing schemes for farm mechanization is claimed by banks on half yearly basis. Hence funds released during Quarter ending on Sept 2023 is NIL as well for aforementioned schemes.

Flood Relief Package

20. BISP disbursed PRs 69,222 million to 2.769 million flood affectees families @ PRs 25,000 per family across Pakistan during FY 2022-2023. To meet this budget requirement from within the approved allocation of BISP for FY 2022-2023, an amount of PRs 50,419 million was re-allocated under the head of "Emergency Flood Relief Cash Assistance" as given in table below. Remaining amount was charged to the head "unconditional cash transfer".

**Table 14: Benazir Income Support Programme
Flood Relief Package
Trend in Expenditures**

Financial Year 2022-2023				Financial Year 2023-2024	
1 July 2022 - 30 September 2022	1 October 2022 - 31 December 2022	1 January 2023 - 31 March 2023	1 April 2023 - 30 June 2023	1 July 2023 - 30 September 2023	1 October 2023 - 31 December 2023
50,188			231		

21. **Gender Mainstreaming:** The program is categorized as effective gender mainstreaming and focuses on mitigating negative effects of crises caused by macroeconomic vulnerabilities coupled with cumulative exogenous shocks on women and girls through the CDEP. The program supports:

- Distribution of unconditional cash transfers to female heads of poor families.

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- Provision of cheaper financing to women through the government's entrepreneurship and employment schemes, as at least 15% of the borrowers under these schemes are targeted toward companies owned by women. This will mitigate the loss of income for companies led by women, as well as help maintain employment.⁴
- Health and nutrition facilities to mothers and children under 2 years of age

Compliance with loan agreements:

22. The status of compliance with the covenants laid down in loan agreements⁵ is explained in Table 12 -13

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

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

Table 16: Article IV- Particular Covenants

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

Table 17: Schedule 4: Program Implementation and other matters

Covenant	Status of Compliance
Implementation arrangements: 1) The borrower, through the program executing agency, shall be responsible for the implementation	Being complied with

⁴ Report and Recommendation of the President to the Board- PAK BRACE Program

⁵ Loan Number (i) 4235 - PAK (COL), and Loan Number (ii) 4234 - PAK

<p>of the program, including monitoring or and reporting on the implementation of the program.</p>	
<p>Policy Dialogue: 2) The borrower, through the program executing agency, shall (a) promptly inform ADB about any issues and constraints encountered during the implementation of the program; and (b) proactively engage with ADB to adopt appropriate measures to address and mitigate such issues and constraints. 3) The Borrower, through the program executing agency, shall keep informed of policy discussions with other multilateral and bilateral and agencies that may have implications for the implementation of the program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower, through the program executing agency, shall take into account ADB's view before finalizing and implementing any such proposal.</p>	<p>Not applicable at this stage as there are no issued being faced currently. ADB is being informed of the outcome of discussions between GOP and IMF.</p>
<p>Use of counterpart funds: 4) The Borrower shall ensure that the counterpart funds are used to finance the implementation of certain programs and activities consistent with the objectives of the program.</p>	<p>Complied with</p>
<p>Governance and Anticorruption: 5) The Borrower and the program executing agency shall (a) comply with ADB's anticorruption policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive proactive relating to the program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.</p>	<p>Being complied with</p>
<p>Monitoring, Review and Reporting: 6) The Borrower, through the program executive agency, shall ensure that a structured platform for policy dialogue with key stakeholders and implementation support is in place on the CDEP to (a) engage with such stakeholders in the design and implementation of the CDEP, and (b) respond to implementation bottlenecks, if any 7) The Borrower shall (a) monitor, evaluate and provide quarterly reports to ADB in accordance with MRF; and (b) ensure that adequate budgetary and human resources are made available to fully implement the MRF.</p>	<p>Complied with—With the approval of Finance Minister, Finance Division (FD) vide notification No 3(2) ADB/2022 dated 5 December 2022 constitute a steering committee and working group to monitor the progress achieved on the countercyclical Development Expenditure Program</p>

<p>8) The Borrower shall, in particular, monitor, evaluate and report to ADB on areas including (a) developments in its macroeconomic and fiscal conditions, including the CDEP, (b) impacts of its CDEP on poor and vulnerable groups, disaggregated by gender, including the number of beneficiaries of cash transfer schemes and other social assistance programs; and (c) implementation of its crisis's response plan.</p>	<p>(CDEP).</p> <p>Being complied with</p> <p>Complied with – First quarterly report submitted to ADB</p>
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Persistent Challenges

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

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

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

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

27. **Floods:** While the global crisis, because of the Russian-Ukraine War, was expected to result in slowing down the economic growth in

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