BUDGET ANALYSIS
2008-09

Finance Department
Government of Sindh

FOREWORD

The Government budgeting is based on the principle of equitable distribution of resources among its citizens through the tools of various fiscal measures. Government first outlines its expenditure programmes and then follows planning for revenue generation. It is a well set rule in Public Finance that an increase in expenditure at a constant tax rate or a decrease in the tax rate at no change in expenditures will always lead to budget deficits. In case of a reverse scenario, a surplus budget will appear, while, balance budget is an equilibrium between receipts and expenditures. The need for any one of these three options depends upon the overall economy of the country or on the will of the government. A benevolent government always chooses the option which maximizes the welfare of the common man. Thus, it raises the issue of government intervention through reallocation of resources that generally intends to focus on equitable distribution of the available resource.

The Budget Analysis for 2008-09 portrays a comprehensive picture of the Sindh Government's finances. Almost, all major areas have been covered. However, special attention has been given to current revenue receipts and expenditures, capital receipts and expenditures, development budget, public accounts, local government finances and debt management. This document provides an insight on various financial issues of the Sindh Government for policy makers, researchers, economists and others.

In preparation of this document the valuable assistance of officers and officials of the Finance Department cannot be ignored. Especially, the services of Ms. Naheed S. Durrani, Special Finance Secretary(B&E/Res), , Dr. Noor Alam, Additional Finance Secretary(Resource), Mr.Rafeo Bashir Shah, Additional Finance Secretary (Development)Mr. Abdul Wahab Soomro, Deputy Secretary (Resource-I), Mr. Muhammad Pathan Abro, Programmer (Resource), Mr. Altaf Ahmed Soomro, Section Officer (PFC) and Mr. Ehtisham Asghar, Budget Examiner, Resource-II Section in this context are acknowledged. Their concerted efforts and commitment enabled us to publish this document.

Fazlullah Pechuho
Secretary Finance
Government of Sindh

January 26, 2009

TABLE OF CONTENTS

TABLE OF CONTENTS

CONTENTS **PAGE No.**

7. DEBT MANAGEMENT

8. FUND MANAGEMENT

9. PUBLIC ACCOUNT

10. MEDIUM TERM FISCAL FRAMEWORK (MTFF)

LIST OF ANNEXURES

LIST OF TABLES

LIST OF ACRONYMS

ABS	Annual Budget Statement
AD	Administrative Department
ADB	Asian Development Bank
ADP	Annual Development Program
BE	Budget Estimate(s)
BF	Benevolent Fund
BHU	Basic Health Unit
CBR	Central Board of Revenue
CCE	Current Capital Expenditure
CCRs	Current Capital Receipts
CDC	Commonwealth Development Corporation
CDLs	Cash Development Loans
CFY	Current Financial Year
CoA	Chart of Accounts
CRE	Current Revenue Expenditure
CRRs	Current Revenue Receipts
CVT	Capital Value Tax
DERA	Drought Emergency Relief Assistance
DGs	District Governments
DHQH	District Headquarter Hospital
DPC	Development Policy Credit (of World Bank)
DSG	District Support Grant
DSP	Decentralization Support Program
EC	European Commission
FCF	Federal Consolidated Fund
FDP	Federal Divisible Pool
FPA	Foreign Project Assistance
FY	Financial Year
GA	General Administration
GDS	Gas Development Surcharge
GPF	General Provident Fund
GST	General Sales Tax
HDA	Hyderabad Development Authority
IBRD	International Bank for Reconstruction and Development
ICAP	Institute of Chartered Accountants of Pakistan
IDA	International Development Association
IFAD	International Fund for Agriculture Development
KCDG	Karachi City District Government
KMC	Karachi Metropolitan Corporation (defunt)
KW&SB	Karachi Water and Sewerage Board
LGs	Local Governments
MTFF	Medium Term Fiscal Framework
NAM	New Accounting Model
NBP	National Bank of Pakistan

NFC	National Finance Commission
OZT	Octroi and *Zila* Tax (abolished)
PAA	Provincial Allocable Amount
P&D	Planning and Development (Department)
PCF	Provincial Consolidated Fund
PDP	Provincial Divisible Pool
PGDP	Provincial Gross Domestic Product
PRA	Provincial Retained Amount
PSDP	Public Sector Development Program
RE	Revised Estimate(s)
RHC	Rural Health Center
SBP	State Bank of Pakistan
SCARP	Salinity Control and Reclamation Project
SDSSP	Sindh Devolved Social Sector Program
SESRP	Sindh Education Sector Reform Program
SGA&CD	Services, General Administration and Coordination Department
SGPIF	Sindh General Provident Investment Fund
SLGB	Sindh Local Government Board
SLGO	Sindh Local Government Ordinance (2001)
SPF	Sindh Pension Fund
SPFB	Sindh Pension Fund Board
SSRF	Sindh Social Relief Fund
T-Bills	Treasury Bills
THQH	*Taluka* Headquarter Hospital
TMAs	Town / *Taluka* Municipal Administrations
UAs	Union (Council) Administrations
USAID	United States Agency for International Development
UTP	Urban Town Planning
WAPDA	Water and Power Development Authority
WB	World Bank
WT	Wealth Tax

BUDGET AT A GLANCE 2008-09

				Rs. in million
	CLASSIFICATION	2007-08		2008-09
		BUDGET ESTIMATES	REVISED ESTIMATES	BUDGET ESTIMATES
I-	CURRENT BUDGET			
	A. CURRENT REVENUE RECEIPTS			
	Federal Tax Assignment			
	1. Revenue Assignment	81,717.048	78,908.700	102,396.100
	2. Special Grant (Grant-in-Aid)	7,144.683	6,809.500	8,659.300
	Total Federal Tax Assignment - A	88,861.731	85,718.200	111,055.400
	3. Provincial Receipts	25,300.687	28,457.044	30,252.216
	4. Straight Transfers	42,054.648	42,293.260	40,796.143
	5. District Support Grant (including Other Grants)	20,381.805	20,388.702	25,732.253
	Total (3 to 5) - B	87,737.140	91,139.006	96,780.612
	Grand Total (A+B)	176,598.871	176,857.206	207,836.012
	B. CURRENT REVENUE EXPENDITURE			
	1. Provincial Government	93,904.702	90,264.012	102,997.632
	2. Local Governments (DGs, TMAs, UAs)	72,746.738	73,598.492	77,989.568
	Total Local Governments(2)	72,746.738	73,598.492	77,989.568
	Total (1+2) - B	166,651.440	163,862.504	180,987.200
	C. CURRENT CAPITAL RECEIPTS			
	Local Repayments	2,200.761	4,166.957	3,700.126
	SDSSP	0.000	309.780	345.561
	DPC, World Bank	6,000.000	0.000	6,750.000
	Europeon Commission Grant	770.000	0.000	1,000.000
	ADB Funding	0.000	0.000	2,700.000
	Total - C	8,970.761	4,476.737	14,495.687
	D. CURRENT CAPITAL EXPENDITURE			
	Current Capital Expenditure	7,941.596	8,369.095	9,460.813
	Total - D	7,941.596	8,369.095	9,460.813
Grand Total(A+C)-Revenue and Capital Receipts (AC)		185,569.632	181,333.943	222,331.699
Grand Total(B+D)-Revenue and Capital Expenditures(BD)		174,593.036	172,231.599	190,448.013
	(+)Surplus/(-) Deficit (AC-BD) - E	10,976.596	9,102.344	31,883.686

Rs. in million

CLASSIFICATION		2007-08		2008-09
		BUDGET ESTIMATES	REVISED ESTIMATES	BUDGET ESTIMATES
II-	PUBLIC ACCOUNTS OF THE PROVINCE			
	1- Receipts	239,331.327	212,834.121	198,389.907
	2- Disbursements	234,070.490	208,507.559	192,557.716
	Net Public Account of the Province((+)Surplus/(-)Deficit)- F	5,260.837	4,326.562	5,832.191
III-	PUBLIC SECTOR DEVELOPMENT			
	PROGRAMME			
	RECEIPTS			
	1. Carryover Cash Balance	12,500.000	20,369.100	6,000.000
	2. Provincial Contribution (E+F)	16,237.433	13,428.906	37,715.877
	3. Drought Emergency Relief Assistance (DERA)	510.000	720.900	510.000
	4. Foreign Project Assistance	5,660.000	4,395.274	4,355.000
	5. Sindh Devolved Social Services Programme (SDSSP)	0.000	2,190.256	0.000
	6. Sindh Cities Improvement Programme (SCIP)	0.000	0.000	2,008.500
	7. Other Federal Grants	14,381.054	13,021.900	12,707.800
	Total (Development Funding) - G	49,288.487	54,126.336	63,297.177
	EXPENDITURE			
	1. Provincial ADP	40,000.000	41,532.746	55,000.000
	2. District Governments ADP *	10,000.000	10,000.000	12,000.000
	3. Drought Emergency Relief Assistance (DERA)	510.000	349.076	510.000
	4. Foreign Project Assistance	5,660.000	4,395.274	4,355.000
	5. Sindh Devolved Social Services Programme (SDSSP)	1,078.766	533.760	2,735.260
	6. Sindh Cities Improvement Programme (SCIP)	0.000	0.000	2,008.500
	7. Other Federal Grants	14,381.054	15,448.272	12,707.800
	Net (Provincial Development Expenditure) excluding District Governments ADP - H	61,629.820	62,259.128	77,316.560
	Total Receipts of the Province [A+C+F+G-(E+F)] - J	223,881.523	226,357.935	253,745.190
	Total Expenditures of the Province [B+D+H] - K	236,222.856	234,490.727	267,764.573
	Surplus (+)/ Deficit (-) (G-H)	-12,341.333	-8,132.792	-14,019.383

* To be financed through single line transfers. The amount has been included at B(2)-Current Revenue Expenditure (Local Governments)

1. INTRODUCTION

1.1 OVERVIEW OF BUDGET 2008-09

The preparation of the Annual Budget Statement (ABS) is a constitutional requirement, which gives an account of all the estimated receipts and expenditures of the province pertaining to revenue, capital and development components. The ABS also provides complete account of all receipts and disbursements in Public Account. Thus, a review of ABS 2008-09 gives a complete picture of the provincial budget.

1.1.1 CURRENT REVENUE BUDGET

The Current Revenue Budget or what is also known as Revenue Account comprises of Current Revenue Receipts (CRRs) and Current Revenue Expenditures (CRE). Table 2.1 summarizes the BE 2008-09 for CRRs and the CRE, pitched at Rs.207.836 and 180.987 billion respectively.

1.1.2 CURRENT CAPITAL BUDGET

It includes Current Capital Receipts (CCRs) and Current Capital Expenditures (CCE) of the Provincial Government. The former comprises of receipts on account of domestic and foreign debt, repayments received from various institutions and persons on account of loans extended by the Provincial Government, while the latter includes debt servicing (principal account only) of domestic and foreign debt, principal repayments of floating debt obtained for wheat procurement and loans / advances to various institutions / persons.

1.1.3 DEVELOPMENT BUDGET

The development outlay, though extremely important for the economy and the general public, comes third in the order of priority, after establishment charges and operational expenses of the Provincial Government. The development budget comprises of *financing arrangement* and *spending plan*. The former comprises of net savings from current, capital and public accounts, carryover cash balance, federal grants and foreign assistance while the latter includes Provincial and District ADP, projects under FPA and SDSSP, and federally funded Schemes.

1.1.4 PUBLIC ACCOUNT ESTIMATIONS

Public Account comprises of receipt and disbursement transactions of the Provincial Government, which do not form a part of the Provincial Consolidated Fund (PCF). The monies in the Public Account are in the nature of a trust. These amounts include Assets (bank balances and receivables), deposits and reserves, unfunded debt (deferred liabilities) and remittances. Table 1.4 gives the summary of the Public Account of the province.

1.1.5 LOCAL GOVERNMENT FINANCES

In addition to the various components of the budget briefly stated above, the Budget Analysis 2008-09 contains an overview and analysis of 'local government finances' in Chapter 5, which includes a brief account of the previous arrangements for sharing of resources between the Provincial and DGs and the latest PFC Award 2007. All related information and figures regarding fiscal transfers at DG, TMA and UA level for the FYs 2007-08 and 2008-09 have been included in that chapter.

1.1.6 DEBT AND CONTINGENT LIABILITY MANAGEMENT

Chapter 7 gives an analysis of the 'debt and contingent liability management'. Debt analysis reveals that the debt liability of the province is growing rapidly while the debt servicing cost is decreasing due to effective debt management and reform agenda, adopted by the Government of Sindh.

1.1.7 FUND MANAGEMENT

The Government of Sindh has introduced the funds management system to cater for its employees liabilities of the Sindh General Provident Investment Fund (SGPIF), Sindh Pension Fund (SPF). A Sindh Social Relief Fund (SSRF) has also been created for Social Security of the poor in the province of Sindh. Chapter 8 discusses the fund management system in Sindh.

1.1.8 MEDIUM TERM FISCAL FRAMEWORK (MTFF)

Government of Sindh under the Sindh Education Development Policy Credit initiated preliminary work on Medium Term Fiscal Framework (MTFF) in 2006-07. A brief account of the MTFF and the analysis of the agreed MTFF targets in 2008-09 budget have been included at Chapter 10, which is the last chapter of this publication.

2. CURRENT REVENUE RECEIPTS

2.1. INTRODUCTION

The Current Revenue Receipts (CRRs) of the province comprise of two main sources: federal transfers and provincial own receipts. Federal transfers are received from the Federal Government and consist of Divisible Pool (DP) share and Straight Transfers. The DP is further broken down into Revenue Assignment, Grant-in-Aid (subvention), and District Support Grant (DSG). Each component is governed by a specific formula for sharing of resources. The straight transfers are remitted to respective provinces on actual basis. Provincial own receipts are bifurcated into tax receipts and non tax receipts, generated are collected within the province.

2.1.1 THE REVENUE ORDER 2006

The last NFC Award, announced in 1996, went into effect in July 1997 for a five years time span. It is still in force, despite expiry of the specific period because consensus could not be achieved amongst the stakeholders. The President amended the 1996 Award and promulgated ***"Distribution of Revenues and Grant-in-Aid (Amendment) Order 2006"*** (hereafter referred as the Order) effective from July 1, 2006.

As per this Order, the net proceeds of the DP, excluding 1/6th of the total proceeds of sales tax (GST), comprises of the revenue assignment for distribution between the Federal and the Provincial Governments. As against the previous sharing arrangement of the revenue assignment between the federation and all the provinces collectively i.e. 62.5% and 37.5% respectively, the combined share of the provinces has been enhanced from 37.5% to 41.5% in 2006-07. However, as the 41.5% share includes the 1/6th share of sales tax (2.5% OZT) and yearly incremental raise in the provincial share will be as under:

Year	2006-07	2007-08	2008-09	2009-10	2010-11 onwards
Share (%)	41.5	42.5	43.75	45	46.25

According to the 2006 Revenue Distribution Order, the provincial share of revenue assignment is distributed horizontally amongst the provinces on the basis of their respective population share in the national population census. The percentages are specified below:

Province	Punjab	Sindh	NWFP	Baluchistan	Total
Share (%)	57.36	23.71	13.82	5.11	100

The horizontal distribution of the Grant-in-Aid (subventions) among the provinces is as per the following shares:

Province	Punjab	Sindh	NWFP	Baluchistan	Total
Share (%)	11	21	35	33	100

Prior to promulgation of the Order, 2006, the subventions were given to the provinces of the NWFP and Baluchistan on account of their backwardness. The 2006 Order accommodates the remaining two provinces, the Punjab and Sindh, in the subvention pool, though their share is smaller as compared to that of the other two provinces. Most importantly, the criterion of horizontal sharing of subvention pool remains unspecified. The Grant-in-Aid is expected to increase annually in line with growth of the net proceeds of divisible pool taxes, for each year. The projections of the subventions provided by the Federal Government at the time of the promulgation of the Order and the Budget Estimates are as under:

Year	2006-07	2007-08	2008-09	2009-10	2010-11
Estimates of Fed. Govt.	6,050	7,010	8,190	9,530	11,170
Budgeted Estimates	5,290	7,145	8,659		

2.1.2 District Support Grant (DSG)

The Octroi and *Zila* Tax (OZT) was abolished in 1998-99, to remove multiple taxes and to reduce the overall cost of business for boosting investment in the country. The OZT was replaced by additional levy of 2.5% of sales tax, which was increased from 12.5% to 15%, to compensate the loss of revenue of the LGs. The horizontal distribution of such an amount amongst the provinces is as follows:

	Punjab	Sindh	NWFP	Baluchistan	Total
Collection (50%)	50.00	34.85	9.93	5.22	100
Population (50%)	57.36	23.71	13.82	5.11	100

The Governments of Sindh transfers entire DSG to the LGs including District Governments (DGs), Town / *Taluka* Municipal Administrations (TMAs) and Union Administrations (UAs), without retaining any part of it. Further, details on distribution arrangement of the DSG among the various LGs are discussed in Chapter 5.

2.1.3 STRAIGHT TRANSFERS

According to ***Article 161(1) of the Constitution*** net proceeds of the federal duty of excise on natural gas, levied at the well head, and of the royalty collected by the Federal Government shall not form part of the NFC and paid to the province in which the well-head of natural gas is situated.

Accordingly, the straight transfers are remitted to the province wherefrom the gas is drilled after deducting 2% on account of service charges. Excise duty on natural gas, royalty on natural gas / crude oil, and surcharge on natural gas (popularly known as Gas Development Surcharge or GDS) are included in the list of straight transfers. Besides, General Sales Tax (GST) on Services (provincial), which is a provincial levy but collected by the Federal Government through Federal Board of Revenue (FBR) is also transferred to the provinces after deduction of 2% service charges.

The Federal Government charges 2% as excise duty on natural gas and collects 12.5% as royalty on natural gas and crude oil. GDS is the differential of the commercial / selling price of the natural gas and the actual cost incurred on gas production and transportation.

GDS = [Commercial / selling price of natural gas] – [actual cost incurred on gas production + transportation]

Since the cost of production and transportation of the natural gas drilled from Sindh is lower as compared to the gas drilled from other provinces, the differential is higher.

2.2 PROVINCIAL OWN RECEIPTS

Province’s own revenues comprise of tax and non-tax receipts. The tax receipts are levied through an Act of the Provincial Assembly or an Ordinance promulgated by the Governor while the non-tax receipts are imposed through a Gazette Notification issued by the Administrative Department (AD) concerned after obtaining approval of the Competent Authority, the Chief Minister of Sindh. The list of provincial receipts is given below:

2.3 REVIEW OF THE CURRENT REVENUE RECEIPTS (CRRs)

As indicated at Table 2.1, the CRRs of the province have grown on an average by 14.43% per annum during FYs 2003-04 to 2006-07. For FY 2008-09, the CRRs are pitched at Rs. 207.835 billion with of 17.69% growth over BE 2007-08.

Table 2.1

Current Revenue Receipts (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Federal Transfers	73053.7	89349.3	110102	133233	151298	148400	177583	11.3838	17.3729	22.1771
Provincial Receipts	12585.2	15776	19153.1	18855	25301	28457	30252	50.9255	19.5684	14.4252
Total	85638.9	105125	129255	152088	176599	176857	207835	16.286	17.6874	21.0992
Federal Transfers (%)	85.3043	84.9931	85.182	87.6026	85.6732	83.9096	85.4442			
Provincial Receipts (%)	14.6957	15.0069	14.818	12.3974	14.3268	16.0904	14.5558			

* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.

** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.

2.3.1.2 FEDERAL TRANSFERS

Table 2.1 and Figure 2.1 reveal that the federal transfers, on an average, constitute 85% of the total CRRs of the province, which implies that even a small percentage decrease in federal receipts will result in a large percentage decrease in CRRs of the province. Further, the province has a very small tax base which needs to be broadened by transferring some of the federal taxes, particularly the GST on services, which is otherwise a provincial levy as per Constitution.

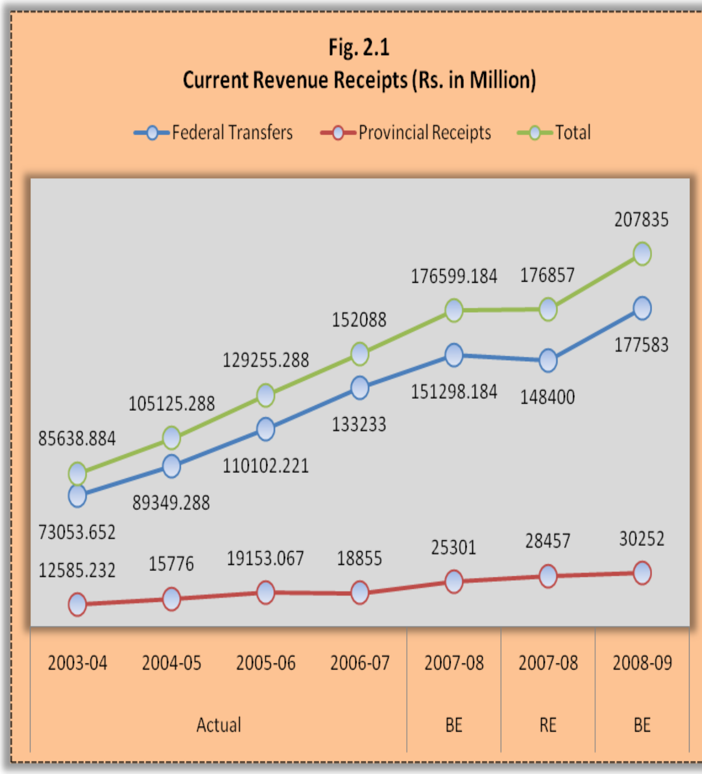


Fig. 2.1
Current Revenue Receipts (Rs. in Million)

Table 2.2										
Federal Transferss (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Revenue Assignment	37,578	49,992	56,683	63,653	81,717	78,909	102,396	23.97	25.31	19.21
Straight Transfers	26,263	29,554	39,733	47,112	42,055	42,293	40,796	-10.23	-2.99	21.51
Dist Support Grant	9,213	9,803	13,686	16,640	20,382	20,389	25,732	22.53	26.25	21.78
Special Grant (G-I-A)	0	0	0	5,828	7,145	6,809	8,659		21.20	
Total	73,054	89,349	110,102	133,233	151,298	148,400	177,583	11.38	17.37	22.18
* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.										
** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.										

2.3.1.1 DIVISBLE POOL TRANSFERS

The composition and trends of the Divisible Pool transfers are given in Table 2.3 and Figure 2.3. Taxes on sales were the biggest contributor to the revenue assignment until 2005-06, which have been subsequently replaced by taxes on income.

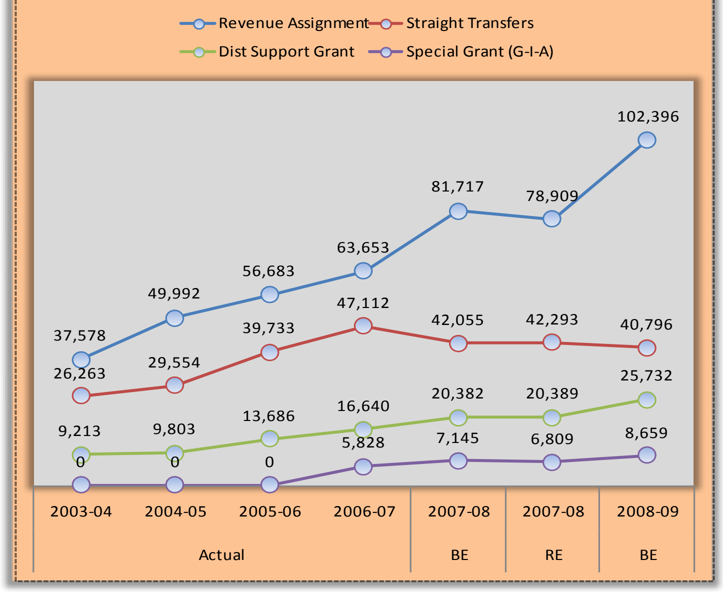
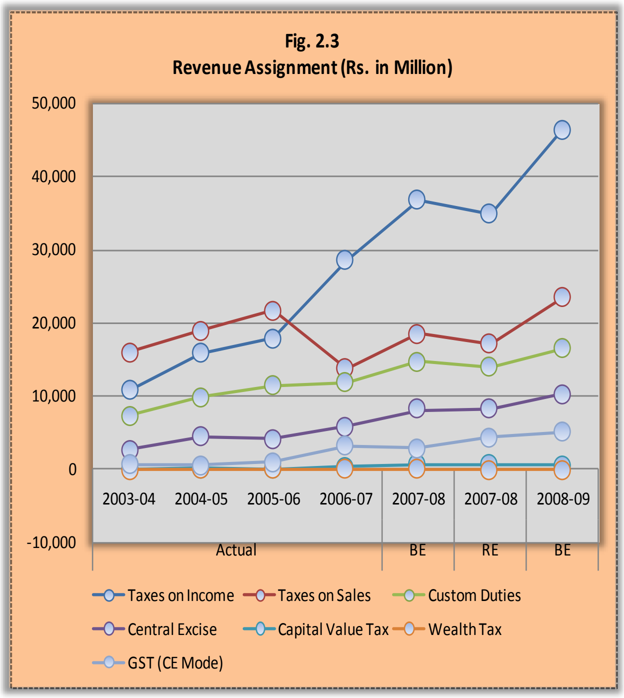


Fig. 2.2
Federal Transfers (Rs. in Million)

Table 2.3										
Revenue Assignment (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Taxes on Income	10,678	15,764	17,986	28,560	36,752	34,786	46,505	21.80	26.54	38.81
Taxes on Sales	16,099	19,105	21,790	13,768	18,621	17,049	23,425	23.83	25.80	-5.08
Custom Duties	7,317	9,902	11,408	11,869	14,742	13,902	16,432	17.13	11.46	17.50
Central Excise	2,774	4,391	4,227	5,934	8,107	8,170	10,364	37.68	27.84	28.84
GST (CE Mode)	583	667	919	3,100	2,872	4,451	5,023	43.58	74.90	74.51
Capital Value Tax	100	200	0.05	421	622	546	641	29.69	3.02	61.65
Wealth Tax	27	-36	0.00	1	0	5	6	400.00		-66.54
Total	**37,578**	**49,992**	**56,330**	**63,653**	**81,717**	**78,909**	**102,396**	**23.97**	**25.31**	**19.21**
* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.										
** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.										



The Divisible Pool transfers have grown at the average annual rate of 19.21% from 2003-04 to 2006-07. Based on the estimates provided by the Federal Government, the Divisible Pool transfers for 2008-09 has been pitched at Rs. 102.396 billion or 25.31% greater than BE 2007-08. This growth is largely accounted for by 26.54%, 25.80% and 27.84% increase in *taxes on income*, *taxes on sales and central excise* in BE 2008-09 over BE 2007-08. The blue line in Figure 2.3 representing taxes on income inclines almost at 45^{o} angle from 2003-04 onwards and clearly dominates the growth in the revenue assignment.

The *customs duties* have rapidly grown at an average annual increase of over 17.50% during FY 2003-04 to 2006-07 and are expected to maintain this growth rate during the CFY and the next FY. Although the BE 2007-08 of Rs. 14.742 billion was pitched higher than the actual receipts of FY 2006-07 (Rs. 11.869 billion), it was revised and reduced later in the CFY at Rs. 13.902 billion.

The *taxes on sales* although have recorded negative 5% growth during FY 2003-04 to 2006-07 as the red line in Figure 2.3 represents it was largely because of poor performance during the year 2006-07. These are, however expected to grow 23.83% per the R.E 2007-08 and 25.80% as per B.E 2008.09.

Sindh's share in Grant-in-Aid is 21% of the funds reserved by the Federal Government and has been budgeted at Rs 8,659 million for FY 2008-09, which is a 21.20% increase over BE 2007-08.

DSG is the second largest component of the federal receipts, after revenue assignment. This grant has increased on average at 21.78% per annum over the period from 2003-04 to 2006-07. According to RE 2007-08 communicated by the Federal Government, DSG will increase by 22.53% at Rs 20.389 billion over the actual receipts of Rs. 16.640 billion for the year 2006-07. The BE 2008-09 however, has been pitched at Rs. 25.732 billions which is a 26.25% growth over BE 2007-08.

2.3.1.2 STRAIGHT TRANSFERS

Straight transfers, received on account of various levies on natural resources, are principally provincial receipts which are collected by the Federal Government and transferred to Sindh, after deduction of 2% collection charges. The break-up and trends of straight transfers are given in Table 2.4 and Figure 2.4, respectively.

Table 2.4

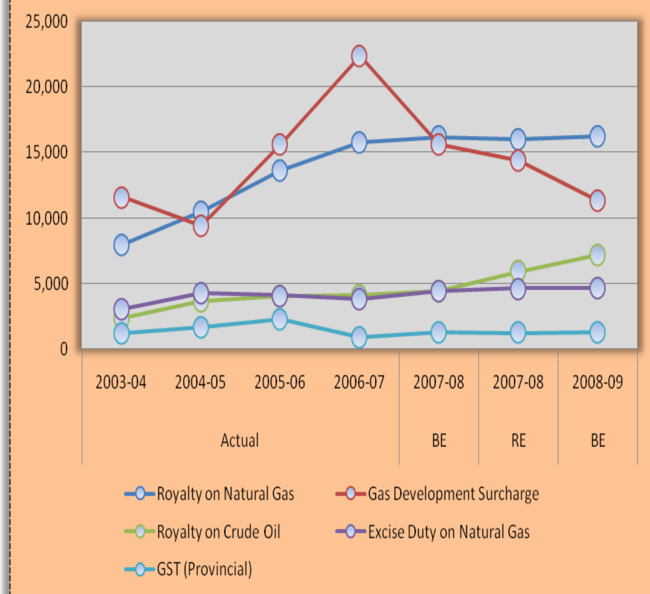
Straight Transfers (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Royalty on Natural Gas	7,975	10,481	13,626	15,771	16,223	16,018	16,269	1.57	0.28	**25.52**
Gas Development Surcharge	11,595	9,396	15,620	22,398	15,608	14,422	11,328	-35.61	-27.42	**24.54**
Royalty on Crude Oil	2,379	3,703	4,087	4,170	4,468	5,949	7,227	42.66	61.75	**20.57**
Excise Duty on Natural Gas	3,079	4,297	4,099	3,833	4,448	4,626	4,657	20.69	4.69	**7.57**
GST (Provincial)	1,234	1,677	2,301	940	1,307	1,278	1,315	35.96	0.61	**-8.68**
Total	**26,263**	**29,554**	**39,733**	**47,112**	**42,055**	**42,293**	**40,796**	**-10.23**	**-2.99**	**21.51**

*** Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.**

**** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.**

Straight transfers to Sindh have grown on average, at the rate of 21.51% per annum over the period from 2003-04 to 2006-07. GDS, has been the biggest contributor to this growth, followed by royalty on natural gas. Both collectively constitute almost 70% of the total straight transfers.

Fig. 2.4
Straight Transfers (Rs. in Million)



The straight transfers however are expected to increase by 0.57% at Rs. 42.293 billion as per RE 2007-08 and decline 3.54% at Rs. 40.796 billion as per B.E 2008-09. Contrary to the buoyant growth of straight transfers during 2003-04 to 2006-07, their slightly increase in 2007-08 and in the current year is mainly due to the low growth projected for GDS for RE 2007-08 and B.E 2008-09 (i.e. -49.08% and -27 respectively).

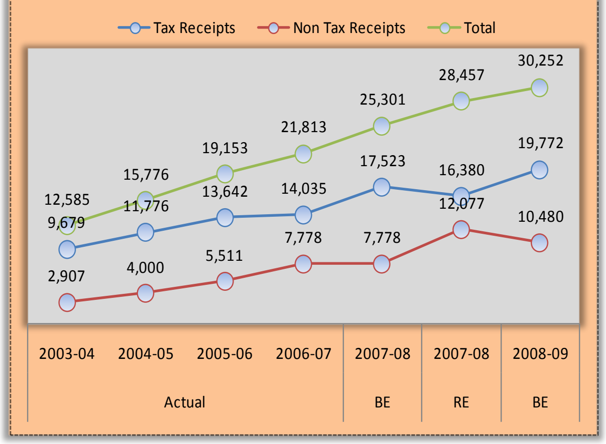
2.3.2 PROVINCIAL OWN RECEIPTS

Provincial own revenues comprise of tax and non tax receipts. Table 2.5 and Figure 2.5 reveal that provincial own receipts have grown at the average rate of 20.12% per annum over the period 2003-04 to 2006-07. RE 2007-08 shows that provincial receipts are growing by 30.46% at Rs. 28.457 billion over the actual receipts of 21.813 billion for FY 2006-07. These are expected to reach Rs. 30.252 billion in 2008-09 which is an increase of 19.57% over BE 2007-08.

Table 2.5										
Provincial Own Receipts (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Tax Receipts	9,679	11,776	13,642	14,035	17,523	16,380	19,772	16.71	12.83	13.19
Non Tax Receipts	2,907	4,000	5,511	7,778	7,778	12,077	10,480	55.27	34.74	38.83
Total	12,585	15,776	19,153	21,813	25,301	28,457	30,252	30.46	19.57	20.12
Tax Receipts (%)	76.90	74.65	71.23	64.34	69.26	57.56	65.36			
Non Tax Receipts (%)	23.10	25.35	28.77	35.66	30.74	42.44	34.64			
* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.										
** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.										

Tax receipts have remained the dominant source of provincial own receipts, contributing an average 70% of such receipts, as shown in Table 2.5 and Figure 2.5. The major provincial taxes include taxes on agriculture, professional tax, stamp duty, registration tax, motor vehicle tax (MVT), hotel tax, Special Development and Maintenance of Infrastructure (SD&MI) Cess, etc.

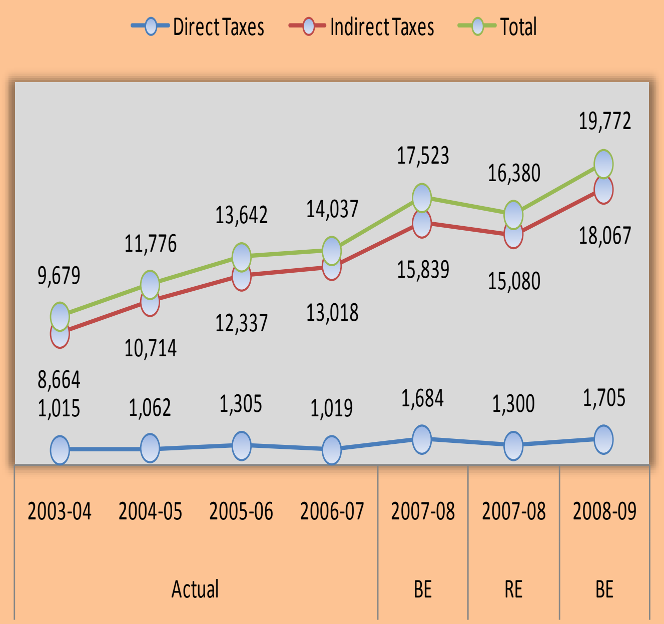
Fig. 2.5
Provincial Own Receipts (Rs. in Million)



As shown in Table 2.6 and Figure 2.6 the overall tax receipts have increased on average at 13.19% per year during the years 2003-04 to 2006-07. These are expected to increase by 16.69% in 2007-08 owing to higher growth of both direct and indirect taxes (27.58% and 15.84% respectively). The total provincial tax receipts have been pitched at Rs. 19.772 billion for the year 2008-09, which is 12.83% increase over BE 2007-08.

Table 2.6										
Tax Receipts (Rs. In Million)								**Growth (%)**		**Ave (%)**
	Actual				**BE**	**RE**	**BE**	**RE***	**BE****	**Actual**
	2003-04	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2007-08**	**2008-09**	**2007-08**	**2008-09**	**2003-07**
Direct Taxes	1,015	1,062	1,305	1,019	1,684	1,300	1,705	27.58	1.25	0.13
Indirect Taxes	8,664	10,714	12,337	13,018	15,839	15,080	18,067	15.84	14.07	14.54
Total	**9,679**	**11,776**	**13,642**	**14,037**	**17,523**	**16,380**	**19,772**	**16.69**	**12.83**	**13.19**
Direct (%)	10.49	9.02	9.57	7.26	9.61	7.94	8.62			
Indirect (%)	89.51	90.98	90.43	92.74	90.39	92.06	91.38			
*** Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.**										
**** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.**										

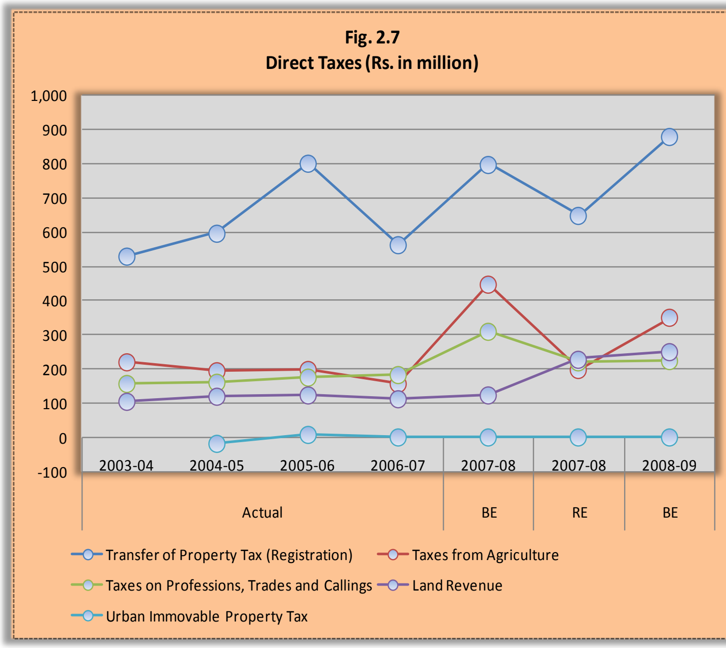
Fig. 2.6
Tax Receipts (Rs. in million)



Tax receipts are further divided into direct and indirect taxes. As shown in Table 2.6 and Figure 2.6, the percentage of direct taxes to overall tax receipts is very low and has declined over the years. The direct taxes are shown as 8.62% for the year 2008-09, whereas indirect taxes at 91.38% of the total tax receipts are continuously rising as a proportion of provincial tax revenue. This indicates greater reliance on indirect taxes.

Direct taxes of the province are given in Table 2.7 and graphically shown in Figure 2.7. On average, direct taxes have increased by 0.13% per annum over the four year period (2003-04 to 2006-07). These have been pitched at Rs. 1,705 million for the year 2008-09, which is just 1.25% growth over BE 2007-08.

Table 2.7										
Direct Taxes (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Transfer of Property Tax (Registratio	529	599	800	563	800	650	880	15.45	10.00	2.08
Taxes from Agriculture	221	197	198	158	450	200	350	26.58	-22.22	-10.60
Taxes on Professions, Trades and Ca	158	164	176	184	310	220	225	19.57	-27.42	5.12
Land Revenue	106	121	123	114	124	230	250	101.75	101.61	2.35
Urban Immovable Property Tax		-18	8	0	0	0	0			
Total	**1,015**	**1,062**	**1,305**	**1,019**	**1,684**	**1,300**	**1,705**	**27.58**	**1.25**	**0.13**
*** Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.**										
**** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.**										



Transfer of property tax is the largest component of direct taxes followed by taxes on agriculture income. The latter however has been recording negative growth in the past four years, primarily due to inefficient tax management and lack of automation of revenue records. The divisions and sub-divisions of land holdings, due to hereditary transfers or otherwise, with the passage of time also explain this contraction, albeit marginally.

2.3.2.1 Indirect Taxes

Table 2.8 gives the break up of indirect taxes, which reveal an average annual growth of 14.54% over the period from 2003-04 to 2006-07. Indirect taxes for 2008-09 have been pitched at Rs. 18.067 billion, which is an increase of 14.07% over BE 2007-08.

Table 2.8										
Indirect Taxes (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Stamp Duties	3,410	3,775	3,938	3,762	5,500	4,500	6,000	19.62	9.09	3.33
S.D&M of I Structure	2,561	3,633	4,603	4,721	5,500	5,500	6,500	16.50	18.18	22.62
Motor Vehicles	1,404	1,636	2,055	2,060	2,500	2,300	2,600	11.65	4.00	13.63
Provincial Excise	742	1,160	1,312	1,443	1,500	1,650	1,700	14.35	13.33	24.84
Electricity duty	360	280	109	734	500	810	886	10.35	77.20	26.85
Tax on Hotels	36	54	165	165	200	200	220	21.21	10.00	66.86
Cotton Fees (Net)	90	127	121	92	130	110	150	19.57	15.38	0.72
Others-All Types		21	2	9	9	10	11	11.11	22.22	
Entertainment Tax	62	28	30	32	0	0	0			-19.68
Total	**8,664**	**10,714**	**12,337**	**13,018**	**15,839**	**15,080**	**18,067**	**15.84**	**14.07**	**14.54**
*** Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.**										
**** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.**										

Stamp duty and SD&MI Cess continue to remain the two largest components of indirect taxes and have been growing at an average annual rate of 3.33% and 22.62% respectively in the past, followed by motor vehicle tax which has grown on average at 13.63% per annum for the same period. Stamp duties and SD&MI are expected to generate Rs. 6,000 and 6,500 million respectively in the year 2008.-09.

2.3.2.2 PROVINCIAL NON-TAX RECEIPTS

Province's non tax receipts have grown at a rate of 12.8% per year during four years from 2003-04 to 2006-07 as indicated in Table 2.9. The BE 2008-09 are pitched at Rs. 10.480 billion or a 22.34% growth over BE 2007-08.

Table 2.9										
Non Tax Receipts (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Extraordinary Receipts	242	979	2,852	2,128	2,114	6,000	4,000	181.95	89.21	106.38
Interest	1	2	3	2	1,286	1,283	1,262	64050.00	-1.83	18.11
Miscellaneous -Other	1,114	1,386	794	1,226	1,139	2,044	2,249	66.72	97.40	3.25
Police	495	549	525	307	970	900	950	193.16	-2.06	-14.73
Education	178	210	291	209	500	500	550	139.23	10.00	5.48
Irrigation	327	289	337	268	500	450	500	67.91	0.00	-6.44
Works	97	102	117	152	170	170	200	11.84	17.65	15.99
Others	452	483	592	528	789	730	769	38.26	-2.51	5.34
Total	**3,358**	**4,482**	**6,103**	**4,820**	**8,567**	**12,077**	**10,480**	**150.56**	**22.34**	**12.80**
*** Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.**										
**** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.**										

The federal indirect taxes, at 60.01%, are the biggest contributor to current tax revenues followed by federal direct taxes at 27.31%. Provincial direct taxes contribute to the extent of 1.09% only, whereas provincial indirect taxes contribute 11.58% to the overall current tax revenue for the province.

The trend analysis in Table 2.10 shows that on an average, direct and indirect tax revenues have grown at 36.25% and 16.19% respectively, over the years 2003-04 to 2006-07. The province largely depends on indirect taxes (that range from 71.6% to 83.6% over the years) for its overall tax receipts. Out of the total indirect taxes, the major chunk comes from federal transfers (almost 65%).

Table 2.10

Composition (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Federal Direct Taxes	10,845	13,538	17,090	28,982	28,755	35,624	42,599	22.92	48.15	38.77
Provincial Direct Taxes	1,015	1,062	1,305	1,019	1,684	1,300	1,705	27.58	1.25	0.13
Total Direct Taxes	11,860	14,601	18,396	30,001	30,439	36,924	44,304	23.08	45.55	36.25
Federal Indirect Taxes	51,777	60,621	75,002	81,782	83,621	82,444	93,603	0.81	11.94	16.46
Provincial Indirect Taxes	8,664	10,714	12,337	13,018	15,839	15,080	18,067	15.84	14.07	14.54
Total Indirect Taxes	60,440	71,335	87,339	94,800	99,460	97,524	111,670	2.87	12.28	16.19
Total Tax Revenue	72,301	85,936	105,734	124,801	129,898	134,448	155,974	7.73	20.07	19.96
Federal Direct (%)	15.00	15.75	16.16	23.22	22.14	26.50	27.31			
Provincial Direct (%)	1.40	1.24	1.23	0.82	1.30	0.97	1.09			
Total Direct (%)	16.40	16.99	17.40	24.04	23.43	27.46	28.40			
Federal Indirect (%)	71.61	70.54	70.93	65.53	64.37	61.32	60.01			
Provincial Indirect (%)	11.98	12.47	11.67	10.43	12.19	11.22	11.58			
Total Indirect (%)	83.60	83.01	82.60	75.96	76.57	72.54	71.60			
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**			

*** Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.**

**** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.**

It is further observed from the above table that provincial direct and indirect tax revenue at Rs. 19.8 billion, out of Rs. 136.0 billion, is only 12.68% of the total direct and indirect tax revenues of the province.

3. CURRENT REVENUE EXPENDITURE

3.1. INTRODUCTION

The expenditure incurred from the Provincial Consolidated Fund (PCF) is broadly categorized as under:

- **Current Expenditure**
  - Current Revenue Expenditure (CRE)
  - Current Capital Expenditure (CCE)
- **Development Expenditure**
  - Development Revenue Expenditure
  - Development Capital Expenditure

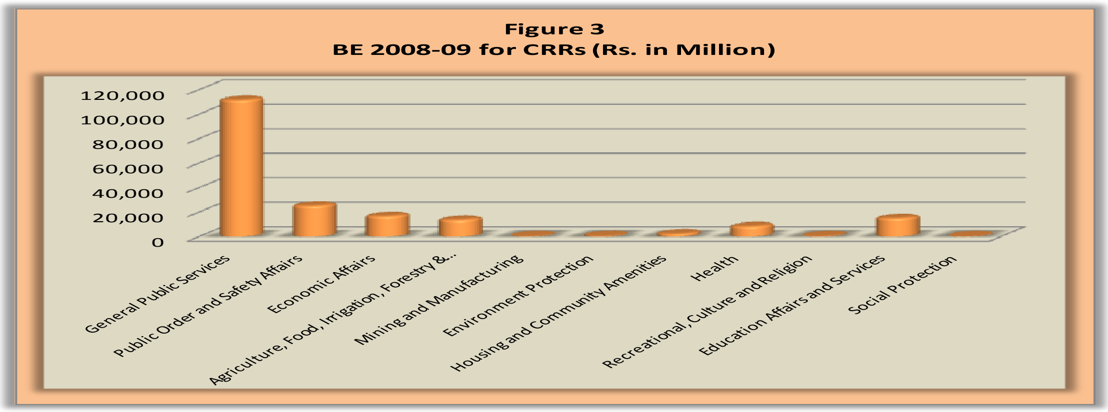
3.2. CURRENT REVENUE EXPENDITURE (CRE):

The CRE is the operational expenditure of the government through which almost all governmental activities <u>excluding new ventures</u> are funded.

The CRE for 2008-09 has grown by 8.6% over BE 2007-08. This is mainly on account of significant increase in the transfers to LGs and usual enhancement of allocations in other heads particularly Mining, Community Development, Health etc. The break up is discussed here under:

3.2.1. GENERAL PUBLIC SERVICES

This is the largest head under the CRE. Expenditures under this category include expenditures on a wide variety of services provided by Executive and Legislative establishments of the Provincial Government, discharge of fiscal liabilities in the shape of debt servicing (interest amount) and pension payments. Transfers made to various tiers of the LGs, which constitute the largest component of this classification, are also included in this head of account.



A comparison of BE & RE 2007-08 and BE 2008-09, as given in Table 3.1, depicts a rising trend in expenditures under this head. This trend can be attributed to pay revisions of the last several years and rise in prices warranting an increase in contingent expenditures. Further, increasing quantum of transfer payments, particularly to LGs, explains this rising trend. Transfers in general increased from Rs. 73.4 billion in BE 2007-08 to Rs. 78.4 billion in BE 2008-09 showing a 6.77% growth, in a year.

Debt Servicing and Pension Payments fall under the Financial and Fiscal functions performed by the Provincial Government. Chapter 7 includes detailed review of Debt Servicing on Foreign Loans and Domestic Debt, including interest payable on General Provident Fund (GPF) and Pension Payments.

3.2.1.1. PUBLIC ORDER AND SAFETY AFFAIRS

Included under this head are expenditures on courts of law, police, prisons, relief and disaster management, including fire protection, anticorruption establishment and civil defence. The overall growth in this head is 26.78% whereas allocations increased from Rs. 19.9 billion in BE 2007-08 to Rs. 25.2 billion in BE 2008-09.

3.2.1.2. ECONOMIC AFFAIRS

Expenditures on departments / sectors contributing to economic development like Agriculture, Food, Irrigation & Land Reclamation, Forestry, Fisheries, Fuel and Energy, Mining and Manufacturing, Transport (Roads), Works (Construction) and Industries are included under the Economic Affairs of the Provincial Government. The CRE in these sectors also includes allocations for research, extension and field services to farmers, maintenance and repair of the irrigation network and vocational training of the labor force. The budgeted expenditure under Economic Affairs for FY 2008-09 (Rs. 16.8 billion) is expected to grow by 15.76% over the budgeted amount in FY 2007-08 (i.e. Rs. 14.5 billion).

It is evident from Table 3.1 that all major infrastructures related and economic activity generating departments are included in this classification. The agriculture sector along with livestock and irrigation comprises the agriculture related portion of the current budget. Similarly the industrial sector is covered separately under mining and manufacturing and comprises departments of Industries, Mines and Minerals. There is an increase of 86.67% in the allocation of the mining sector during BE 2008-09 as compared to the CFY. The transport and communication sectors now comprise the major departments of Works & Services and Transport. The new classification under NAM is more closely related to the National Income Model.

3.2.1.3. HEALTH

The health sector is partially devolved to LGs where District Headquarter Hospitals (DHQHs), Rural Health Centers (RHCs), *Taluka* Headquarter Hospitals (THQHs) and Basic Health Units (BHUs) are with the DGs, while teaching and other specialized hospitals are with the Provincial Government. The funding for the CRE under this social service has increased from Rs. 7.6 billion in BE 2007-08 to Rs. 8.5 billion showing an increase of around 11.70%.

3.2.1.4. EDUCATION AFFAIRS AND SERVICES

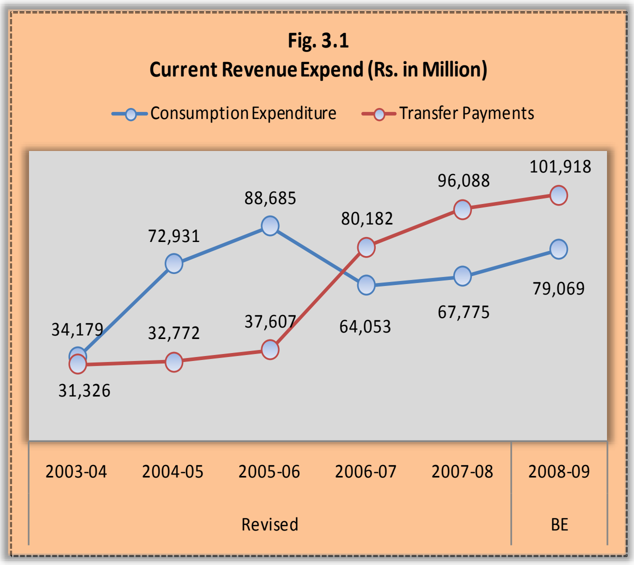
The bulk of public sector service delivery in education, comprising of primary and secondary education, has been devolved to the DGs. Therefore, there is a paltry increase of 3.43% in the CRE which rises from Rs. 14.6 billion (BE 2007-08) to Rs. 15.1 billion (BE 2008-09).

3.2.2. REVIEW OF THE CURRENT REVENUE EXPENDITURE SINCE 2003-04

Table 3.1

Current Revenue Expenditure (Rs. In Million)							Growth (%)		Ave (%)
	Revised					BE	RE*	BE**	Revised
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2007-08	2008-09	2003-07
Establishment Charges	17,345	20,138	25,199	29,595	30,925	39,620	4.50	28.12	15.55
Commodities and Services	14,460	10,405	13,689	18,204	19,493	22,119	7.08	13.47	7.75
Miscellaneous	150	39,015	45,525	9,322	11,298	11,985	21.20	6.08	194.60
R&M of Durable Goods	1,609	2,552	2,674	5,292	4,303	3,066	-18.69	-28.75	27.89
Purchase of Durable Goods	615	820	1,599	1,641	1,756	2,279	7.03	29.78	29.99
Consumption Expenditure	34,179	72,931	88,685	64,053	67,775	79,069	5.81	16.66	18.67
Grant and Subvention***	9,571	12,301	15,625	59,714	74,417	78,213	24.62	5.10	66.99
Pension	6,541	6,041	7,541	8,609	10,893	11,537	26.54	5.91	13.60
Interest	11,341	10,198	9,777	9,972	8,815	9,173	-11.60	4.06	-6.10
Subsidies	3,753	4,113	4,545	1,638	1,715	2,825	4.73	64.72	-17.78
Others	120	120	120	250	248	170	-0.89	-31.45	19.90
Transfer Payments	31,326	32,772	37,607	80,182	96,088	101,918	19.84	6.07	32.34
Total CRE	**65,504**	**105,703**	**126,293**	**144,235**	**163,863**	**180,987**	**13.61**	**10.45**	**25.76**
Consumption Expenditure (%)	52.18	69.00	70.22	44.41	41.36	43.69			
Transfer Payments (%)	47.82	31.00	29.78	55.59	58.64	56.31			
Total (%)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**			
*** Represents percentage increase in Revised Estimates 2007-08 over Revised Estimates of 2006-07.**									
**** Represents percentage increase in Budget Estimates 2008-09 over Revised Estimates 2007-08.**									
***** Includes transfers to local governments from 2006-07 onwards.**									

Table 3.1 and Figure 3.1 present the trend analysis and composition of the CRE, which has grown, on average, at 25.76% per annum over the years from 2003-04 to 2007-08. For the year 2008-09 it has been pitched at Rs. 180.987 billion which is a 10.45% increase over the revised estimates of 2007-08. Further discussion on the CRE is bifurcated into:



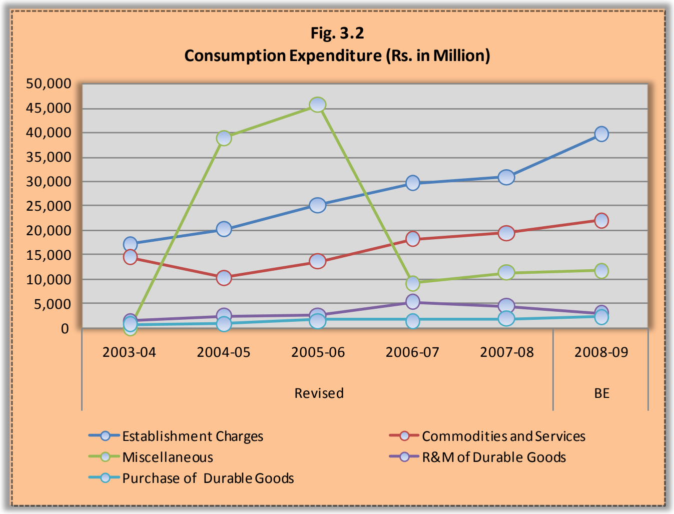
- Consumption / Transfer Payments Mode; and
- Functional Distribution Mode.

3.2.2.1. CONSUMPTION / TRANSFER PAYMENTS MODE

Table 3.1 shows that the consumption expenditure has grown on average at 18.67% whereas the average increase of transfer payments is 32.34% over the years (2003-04 to 2007-08). Over the years consumption expenditure has declined as a percentage of total current expenditure from 52.18% in 2003-04 to 43.69 % in 2008-09. Conversely, transfer payments, as a percentage of total current expenditure have increased from 47.82% in 2003-04 to 56.31 % in 2008-09. This has primarily occurred due to the shifting of expenditure on account of salary component of the DGs from Establishment Charges of the Provincial Government to DGs through 'Single Line Transfers' (Transfer Payments).

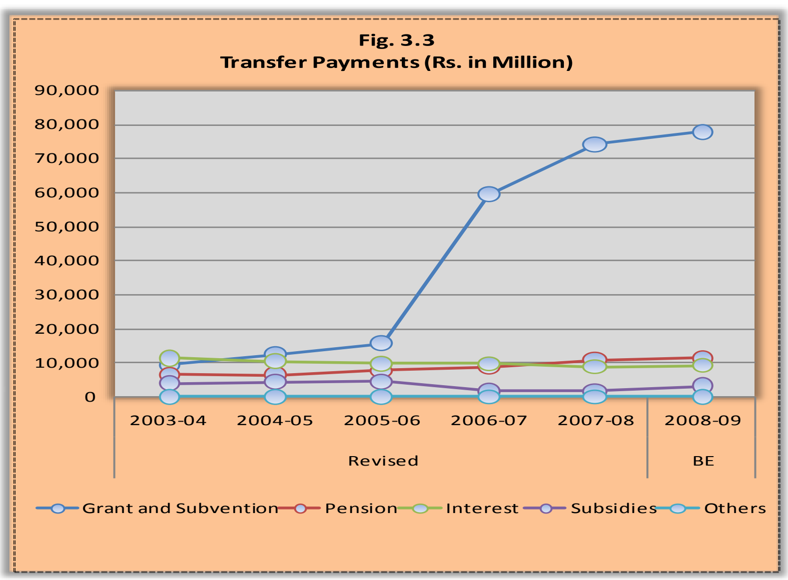
3.2.2.1.1. Consumption Expenditure

The consumption expenditure is the actual spending of the government machinery for its functioning. It includes establishment charges, purchase, repairs and maintenance of durable goods, commodities and services and other expenditures. Table 3.2 and Figure 3.2 reflect the trend of various components of consumption expenditure since 2003-04. Establishment charges constitute the largest portion of consumption expenditure followed by commodities and services. Consumption expenditure has been pitched at Rs. 79.069 billion for 2008-09 which is a 16.66 % increase over RE 2007-08.



3.2.2.1.2. Transfer Payments

Expenditures on account of debt servicing (interest payment), grants / subventions, subsidies, pension and other related items are booked under the transfer payments. Table 3.2



and Figure 3.3 reflect the trend of various components of transfer payments since 2003-04. The drastic increase noticeable after 2005-06 in Grants and Subvention component, which now constitutes the largest portion of transfer payments, has occurred due to transfer of LG expenditure from establishment charges of the consumption expenditure to this category. Transfer payments have been pitched at Rs. 101.9 billion for the year 2008-09 which is a 6.1% increase over RE 2007-08 of Rs. 96.1 billion.

Subsidies constitute an important component of transfer payments. Although subsidy allocations have decreased on average by 17.78% from 2003-04 to 2007-08, the allocation for BE 2008-09 is Rs. 2.8 billion which represents a huge increase of 64.72% over RE 2007-08. The allocations include subsidy for wheat procurement, subsidy on the electricity bills of agriculture tube wells, etc.

3.2.2.1.2.1. Social Services

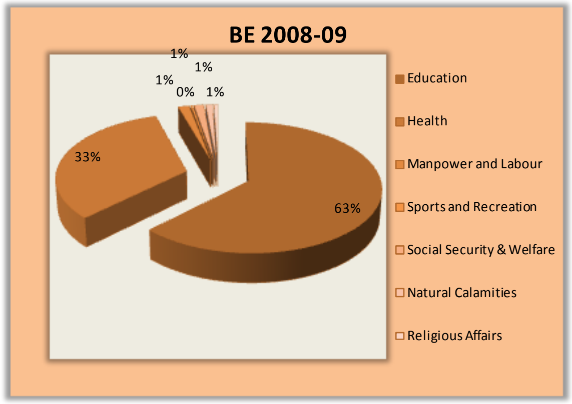
As shown at Table 3.2 expenditure on social services has decreased on an average by 22.43% annually in the past four years. It has been pitched at Rs. 24 billion for the year 2008-09, which is a 4.28% increase over Rs. 23.1 billion in BE 2007-08.

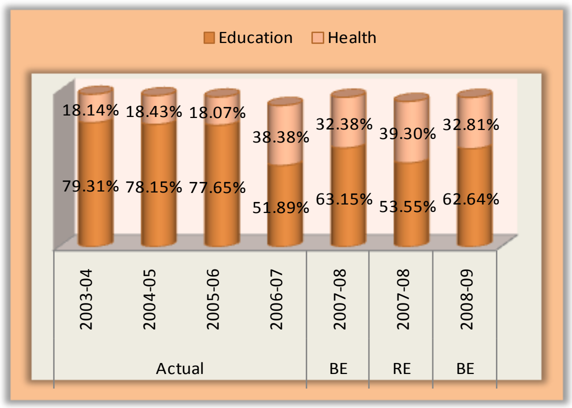
Table 3.2

Social Services (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Education	17,806	19,713	25,011	5,427	14,556	10,442	15,056	92.41	3.43	-32.70
Health	4,073	4,648	5,820	4,014	7,465	7,664	7,886	90.93	5.64	-0.49
Manpower and Labour	149	176	246	201	323	323	358	60.70	10.95	10.50
Sports and Recreation	77	38	112	52	65	135	67	159.62	2.32	-12.20
Social Security & Welfare	237	256	327	545	284	278	317	-48.99	11.54	31.94
Natural Calamities	97	388	684	201	214	536	228	166.67	6.77	27.38
Religious Affairs	10	6	8	18	144	121	124	572.22	-13.72	19.99
Total	22,450	25,224	32,209	10,458	23,050	19,499	24,036	86.45	4.28	-22.48

* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.
** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.

Figure 3.4





Looking at the components of social services in the Table 3.2 and Figure 3.4, we find that *education expenditure* is the biggest component of this head and which recorded an average decline of 32.7% per annum during 2003-04 to 2006-07. The reason for this average negative growth is that from year 2006-07, the salary component of educational institutions devolved to districts has been transferred to district through one line transfer. Education is followed by *health expenditure*, which has shrunk, on an average by 0.4% during the same period. The other sub-components of social services constitute less than or around 5% of the total allocations for the sector.

3.2.2.1.2.2. General Administration

General Administration Expenditure has increased at the average of 30.27% over the years 2003-04 to 2006-07. It has been pitched at Rs. 25.2 billion for the year 2008-09 which is a 4.65% decrease over Rs. 24.4 billion allocated under BE 2007-08.

3.2.2.1.2.3. Law and Order

It involves expenditures on administration of Justice, Police, Civil Armed Forces, Jails, Civil Defense, etc. as reflected in Table 3.3. Law and order expenditure has increased on average at 16.21% in the past four years and has been pitched at Rs. 24.4 billion for the year 2008-09, which is a 27.41% increase over Rs. 19.1 billion provided under BE 2007-08.

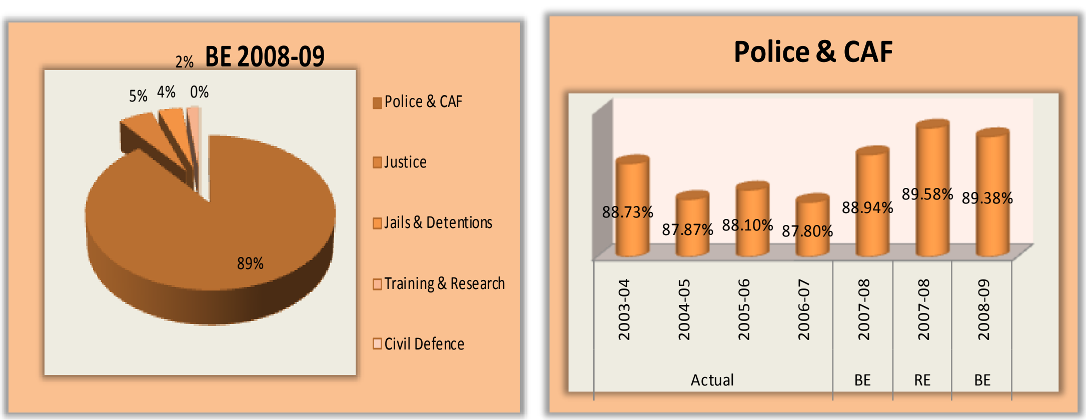
Table 3.3

Law and Order (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Police & CAF	8,093	9,266	10,863	12,569	17,028	18,652	21,801	48.40	28.03	15.80
Justice	531	624	788	911	983	1,130	1,263	24.04	28.42	19.69
Jails & Detentions	342	470	464	600	753	711	883	18.50	17.22	20.60
Training & Research	140	164	196	231	372	320	436	38.53	17.18	18.19
Civil Defence	15	21	20	4	8	8	9	100.00	10.55	-35.50
Total	9,121	10,545	12,331	14,315	19,145	20,821	24,392	45.45	27.41	16.21

* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.

** Represents percentage increase in Budget Estimates 2007-08 over Budget Estimates 2006-07.

Figure 3.5



As one can notice in Table 3.3 and Figure 3.5, the biggest chunk of law and order expenditure for 2008-09 is allocated to police, which has been budgeted at Rs. 21.8 billion. Police consumes around 88% to 90% of the total expenditure allocation under law and order component.

3.2.2.1.2.4. Community Services

Table 3.4										
Community Services (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Works & Services	1,436	2,062	1,949	1,414	2,118	711	822	-49.72	-61.20	-0.51
Public Health Services	488	186	229	169	1,041	756	1,129	347.34	8.42	-29.78
Urban Town Planning	8	9	14	12	23	24	2,068	100.00	9080.91	14.12
Other Community Services	10	12	0		16	1,146	1,264		7950.96	-100.00
Total	1,942	2,270	2,192	1,595	3,198	2,637	5,283	65.33	65.20	-6.35
* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.										
** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.										

Figure-3.6

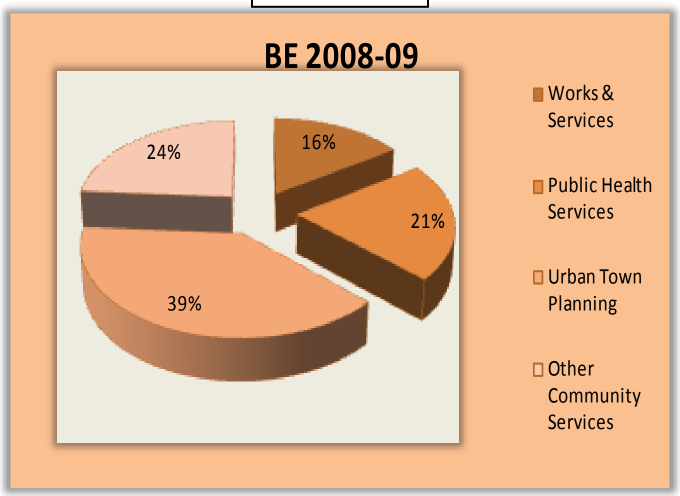
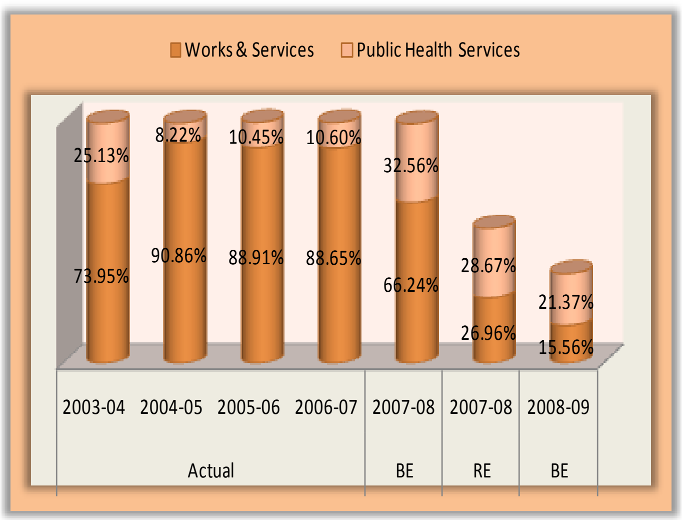


Table 3.4 shows various components of community services. One can notice from the table and Figure 3.6 that in the past that major portion of community services is spent on Works and Public Health Services, while Urban Town Planning and Other Community Services, being devolved at local level, form an insignificant part of this component. The expenditure under this category has contracted averagely by 6.35% in the past (2003-04 to 2006-07), because of the fact that Public Health remained devolved at local level during the period & hence negligible allocations were made.



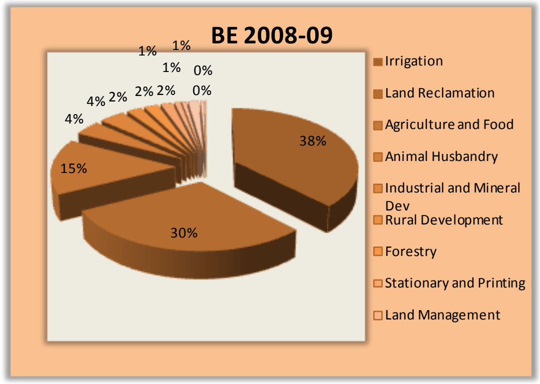
Expenditure under Works also shrank by less than 1%, on an average. Urban Town Planning & other Community Service budget allocations, however, have been substantially increased in year 2008-09, over B.E 2007-08, because of funding received from donors for these categories. For the next year total allocation under Urban Town Planning & Community Services has been pitched at Rs. 2.1 billion and Rs. 1.3 billion respectively, which is 9080% & 7950% increase respectively, over the BE 2007-08.

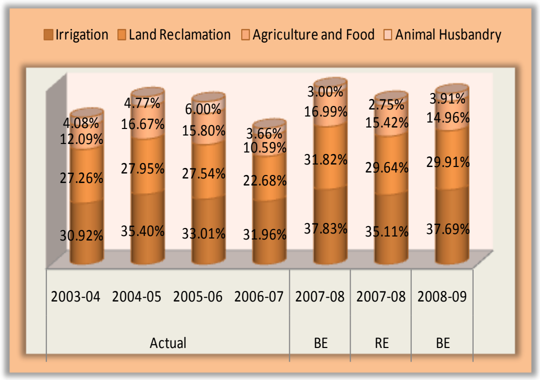
3.2.2.1.2.5. Economic Services

Table 3.5 shows various components of expenditure on Economic Services. Expenditure in this category has increased at the average rate of 12.68% in past four years. However, the budget estimates for the years 2008-09 have been pitched at Rs.11.7 billion against Rs. 10.5 billion allocated under BE 2007-08, showing a growth of 11.29%.

Table 3.5										
Economic Services (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Irrigation	2,181	2,526	2,731	3,225	3,972	4,107	4,404	27.35	10.87	13.93
Land Reclamation	1,923	1,994	2,278	2,289	3,340	3,467	3,495	51.46	4.63	5.99
Agriculture and Food	853	1,189	1,307	1,069	1,784	1,804	1,748	68.76	-2.00	7.81
Animal Husbandry	288	340	496	369	315	322	457	-12.74	45.26	8.63
Industrial and Mineral Dev	104	99	131	118	236	1,231	441	943.22	86.67	4.34
Rural Development	982	322	184	259	204	189	253	-27.03	23.86	-35.87
Forestry	215	159	186	169	192	194	241	14.79	25.79	-7.74
Stationary and Printing	135	134	155	141	174	165	198	17.02	14.12	1.58
Land Management	204	237	280	2,289	103	50	103	-97.82	0.34	124.01
Fuel and Power	20	33	376	69	58	54	76	-21.74	32.08	51.32
Fisheries	44	51	72	37	56	51	183	37.84	228.27	-5.67
Transport and communication	18	21	25	45	42	40	58	-11.11	39.06	35.63
Cooperation	88	28	51	13	25	23	27	76.92	8.75	-47.10
Total	**7,053**	**7,135**	**8,272**	**10,092**	**10,499**	**11,697**	**11,684**	**15.90**	**11.29**	**12.68**
*** Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.**										
**** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.**										

Figure 3.7





Irrigation, Land Reclamation, Agriculture, Food and Animal Husbandry together take away the major chunk (over 80%) of expenditure under this category. Irrigation is leading the group which has increased at an average rate of 13.93% during the past four years, while its growth in BE 2008-09 is 10.87% over BE 2007-08. Likewise, Land Reclamation expenditure has increased by 5.99% during the last four years and its growth is only 4.63% in BE 2008-09. Irrigation and Animal Husbandry and Industrial and Mineral Development have been prioritized by the government as we can see increasing allocations under these heads over here. This will also be noticed in the enhanced allocations for development expenditure for these two sectors, to be further discussed in Chapter 6.

4. CURRENT CAPITAL BUDGET

4.1. INTRODUCTION

The Current Capital Budget comprises of two main components:

- Current Capital Receipts (CCRs); and
- Current Capital Expenditure (CCE).

As the name signifies, the capital account relates to the capital revenues and spending such as receipts from the loans advanced earlier and the new loans raised. On expenditure, side it includes repayment of the principal amount of the borrowed money.

4.2. CURRENT CAPITAL RECEIPTS (CCRs)

The CCRs of the province are mainly obtained from two sources:

- New loans obtained by the Provincial Government; and
- Recoveries of loans extended by the government to its subsidiaries / autonomous organization and government employees.

Provincial Government may receive these receipts either in Provincial Government's Account No I (Non Food Account) or Account No II (Food Account), depending on the nature of receipts. Broadly, receipts on account of new loans and recoveries of old loans go to Non Food Account, whereas receipts on account of state trading in food commodities are deposited in Account No II.

Table 4.1 and Figure 4.1 illustrate the category-wise breakup of the CCRs, followed by a brief explanation of each category. On average CCRs of the province have increased at 7.4% per annum over 2003-04 to 2006-07. Although such receipts for 2008-09 are expected to increase by 18.05% over actual receipts of 2006-07, these have been pitched at Rs. 28.2 billion in year 2008-09, which is a decrease of 71.19% over BE 2008-09. Receipts on account of foreign debt (Account I) and floating debt for state trading (Account II) constitute over 85% of the CCRs. Higher estimated receipts in these accounts in 2008-09 as compared to BE 2008-09 explain the overall expansion in the CCRs of the province for the next year.

Table 4.1										
Current Capital Receipts(Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Investment Receipts	0	0	1		105	105	105	-	-	-
Recoveries of Loans and Advances										
From Distrcit Government/TMAs	374	0	0		1,912	2,054	2,486	-	30.00	-
From Non-Financial Institions	23	0	0		22	29	980	-	4354.55	-
From Government Servants	177	257	112	92	159	126	127	36.96	-20.32	-19.60
From Private Sector (Cultivators)	0	0	1	0	2	2	2	5960.61	-4.76	-0.99
Subtotal	574	257	113	92	2,096	2,211	3,595	2302.40	71.54	-45.67
Public Debt										
Domestic Debt (Permanent)	0	0	0		0	1,851		-	-	-
Floating Debt (Account No.I)	0	0	0		0			-	-	-
Foreign Debt (Permanent)	5,777	4,860	5,718	7,960	6,770	310	10,796	-96.11	59.47	11.28
Subtotal (A/C-I)	6,351	5,117	5,831	8,052	8,971	4,477	14,496	-44.40	61.59	8.23
Floating Debt-Account No.II	6,079	801	5,638	7,346	7,500	13,700	13,700	86.50	82.67	6.51
Current Capital Receipts	12,430	5,918	11,469	15,398	16,471	18,177	28,196	18.05	71.19	7.40
* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.										
** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.										

4.2.1. INVESTMENT RECEIPTS

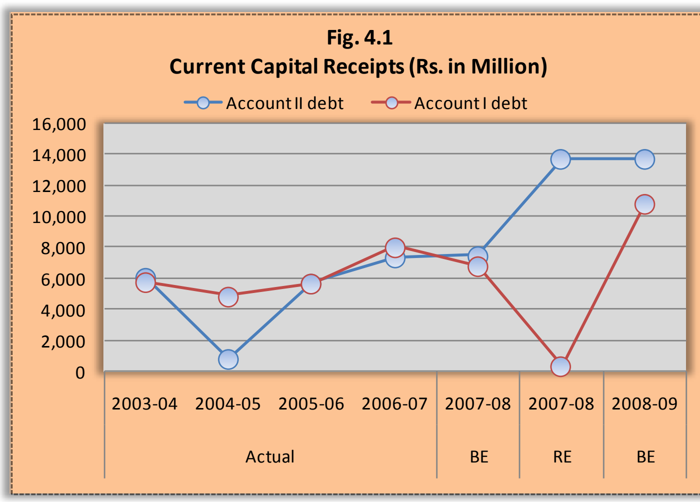


Fig. 4.1
Current Capital Receipts (Rs. in Million)

Receipts under this head constitute a very small portion of the total CCRs and comprise mainly of the proceeds received from disinvestment of various state owned concerns where Sindh Government had invested its capital. Such concerns include Thatta Sugar Mill and Dadu Sugar Mill. As the disinvestment of these mills is under process, every year Sindh Government estimates some receipts, expecting completion of the process. However, due to non-completion of privatization process these estimates are revised towards the end of the year to show nil recovery. Accordingly, Government of Sindh expects Rs. 105 million on account of disinvestment of these Mills, this year.

4.2.2. RECOVERIES OF LOANS AND ADVANCES

Government of Sindh extends loans to its employees, DGs, autonomous bodies, financial and non-financial institutions and private sector, from time to time. The recovery of principal amount of loans and advances on this account is reflected in this section. Loans advanced to autonomous bodies such as Karachi Water & Sewerage Board (KWSB), Hyderabad Development Authority (HDA), and defunct Karachi Metropolitan Corporation (KMC), are included in this head. Sindh Government expects to recover Rs. 3,595 million in 2008-09 under this head, against the revised estimates of Rs. 2,211 million in 2007-08.

The actual receipts from LG institutions and other autonomous organizations have remained negligible in the past, primarily due to their fragile financial position and large budgetary deficits. However, in view of their improving financial health in the recent years, the Provincial Cabinet has directed to make at-source deductions from LGs, like the Federal Government does to the Provincial Governments, to ensure recoveries of such outstanding receipts.

4.2.2.1. DOMESTIC DEBT (PERMANENT)

The Federal Government had extended Cash Development Loans to Provinces since 1970s under two categories, namely Normal and SCARP CDLs (Salinity Control and Reclamation Project Cash Development Loans). In case of former the amount was given to Government of Sindh while in the latter Federal Government directly remitted it to WAPDA for execution of the project. The Federal Government communicates the loan amount to Government of Sindh in the revised estimates. Accordingly, Rs. 1,851 million was communicated for RE 2007-08. Federal Government has discontinued Normal CDLs since 1998-99 and SCARP is also near completion.

4.2.2.2. FLOATING DEBT (ACCOUNT I)

There are short term borrowings termed as *Floating Debt*. Such loans are received by Government of Sindh from State Bank of Pakistan on account of meeting cash shortages, if any, in its day to day business. This type of debt is popularly known as ***SBP's Overdraft***. The cash balance position of the province has remained stable since last few years.

4.2.2.3. FOREIGN DEBT (PERMANENT)

Permanent foreign debt is received for budgetary support or otherwise from various donor agencies such as World Bank, ADB, European Commission, etc. on account of various programs such as SESRP, SDSSP, etc. Foreign debt is the second highest component of the CCRs and has been pitched at Rs. 10.796 billion for the year 2008-09. The estimated receipts on account of foreign loan for the next year include Rs. 6.8 billion Development Policy Credit (DPC) of the World Bank (budgetary support) under Sindh Education Sector Reform Program (SESRP), Rs.2.7 billion of ADB funding for Rural Sector Development Program, Rs. 1.0 billion European Commission (EC) grant for Education sector and Rs.346 million of ADB funding of T.A for SDSSP.

4.2.2.4. FLOATING DEBT (ACCOUNT NO II)

This type of debt is exclusively maintained for transactions on account of state trading in food commodities by the Food Department. Account No II is maintained with State Bank of Pakistan in a similar fashion as Account No I. The Provincial Government obtains loans from commercial banks under counter-finance arrangement with the SBP for financing operation of state trading in food grains (wheat procurement). Once the procured wheat is released from public godowns, the sale proceeds are directly deposited in Account No II to retire the loan taken from the consortium of banks. The amount of floating debt (Account No II) has been pitched at Rs. 13.7 billion for the year 2008-09.

4.3. CURRENT CAPITAL EXPENDITURE (CCE)

Current capital expenditure comprises of three major components:

- Debt servicing,
- Repayments, and
- Loans and Advances.

The trend over the past four years and current estimates of the CCE are illustrated below:

Table 4.2										
Current Capital Expenditure (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Debt Servicing	4,988	4,860	5,643	9,299	9,176	8,815	9,173	-5.20	-0.03	23.08
Repayments	9,388	4,260	4,991	10,816	7,532	8,167	9,050	-24.49	20.15	4.83
Government Investmnt	0	0	0	0	100	100	100		0.00	
Loans and Advances	2,073	2,678	825	39	308	202	411	417.95	33.44	-73.40
Total	16,449	11,798	11,459	20,154	17,116	17,284	18,734	-14.24	9.45	7.01
Repayments Account-II					7,500	13,700	13,700		82.67	
* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.										
** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.										

On average the CCE has shrunk by 7.01% annually from 2003-04 to 2006-07. As per RE 2007-08 it is likely to shrink by 14.24% at Rs. 17.284 billion, over the actual outflows in 2006-07. But it is again expected to rise by 9.45 % at Rs. 18.7 billion in FY 2008-09.

As we can observe from the Table 4.2, debt servicing on an average, has remained the largest component of the CCE in the past. For the FY 2008-09, however, debt servicing (both domestic and foreign) and repayments (on account of state trading) each constitute 49 percent of the total CCE.

5. LOCAL GOVERNMENT FINANCES

The new Local Government System in Pakistan is being run under the provisions of Local Government Ordinance 2001. In Sindh province this ordinance has been named as Sindh Local Government Ordinance 2001 (SLGO 2001). Provincial Finance Commission (PFC) is an apex body at provincial level for deciding the allocation of resources between Provincial Government and different tiers of Local Government from the Provincial Divisible Pool.

5.1 PROVINCIAL DIVISIBLE POOL (PDP)

The PDP consists of *federal transfers* (revenue assignment, straight transfers and subventions) and *provincial tax receipts* only. After setting aside the *priority expenditure* of the province from the PDP, the remaining amount (called net PDP) is distributed among the Province and DGs. The priority expenditure components include debt servicing, pension payment, GP Fund, subsidies, priority expenditure of Education, Social Relief Fund, Housing priority programme, Sindh Bank, Rural/Technical Education Reforms, special projects, etc. The proceeds of the net PDP are first *vertically divided* into 'Provincial Retained Amount (PRA)' and 'Provincial Allocable Amount (PAA)'. The former is retained by the Provincial Government and the latter is horizontally distributed to LGs as per agreed formula, to be discussed in the forthcoming paragraphs. The vertical sharing at present is as under:

PRA (Province) : PAA (DGs) → 45% : 55%

In addition to the above, the DSG or 1/6th of the GST share, as discussed in chapter 2, received from the Federal Government in lieu of the abolished OZT is directly transferred (without any retention in the PCF) to DGs, TMAs, UAs and SLGB so that their fiscal needs can be addressed separately for the smooth functioning of LG system.

5.2 PFC AWARDS- AT A GLANCE

The Provincial Finance Commission (PFC) in Sindh till now has given five Awards for distribution of funds amongst different tiers of Local Government. These awards are given in a summarized form at Annexures-I and II.

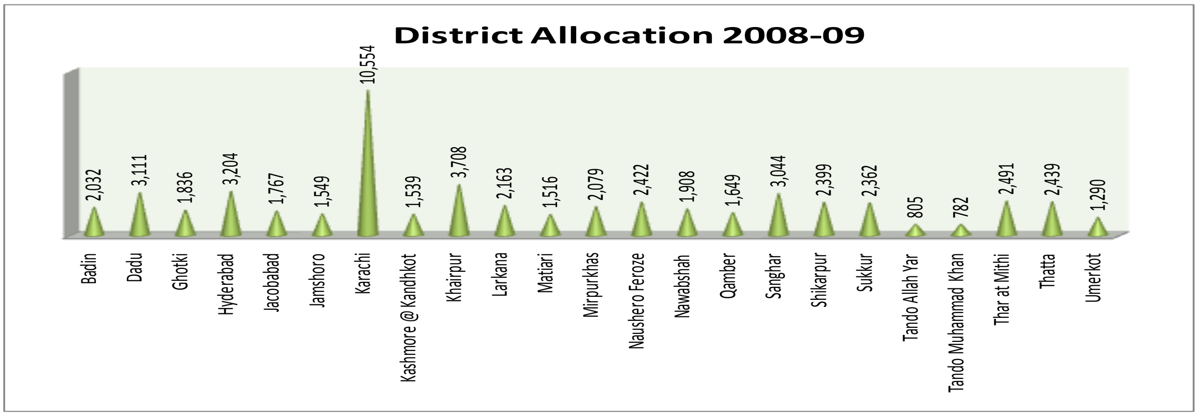
In the PFC Award for Fiscal Year 2007-08 to 2009-10, the performance benchmark (10%) during first Fiscal Year 2007-08 has been proposed to be distributed equally amongst all districts as the benchmarks and indicators for performance were not conveyed to Districts. The performance indicator for the next two years would likely be evaluated on the basis of revenue generation (5%) and primary school enrollment (5%). A PFC committee headed by ACS (Dev), P&D, would develop the procedure for this bench mark.

The PAA at 55% of the net PDP is worked out to be Rs. 56.6 billion during the FY 2008-09, which is 8.18% higher than the share allocated to the DGs under 2007-08 at Rs. 52.4 billion. The share assigned to each district, based on the formula mentioned above, is shown in Table 5.1 and Figure 5.1 represents it graphically. Karachi City District Government (KCDG) at Rs. 10,554 million takes 18.63% of the revenues from the PAA, while the remaining 81.37% is shared by remaining 22 DGs. In addition to the allocation of resources to districts from PAA Table 5.2 shows their share from OZT grant. Undoubtedly, being the biggest contributor of the defunct

Table 5.1
Indicative District Share
(Rs. in million)

	BE	RE	BE
District	2007-08	2007-08	**2008-09**
Badin	2,067	2,066	**2,032**
Dadu	2,400	2,286	**3,111**
Ghotki	1,806	1,806	**1,836**
Hyderabad	3,065	3,009	**3,204**
Jacobabad	1,677	1,612	**1,767**
Jamshoro	1,366	1,497	**1,549**
Karachi	9,948	10,860	**10,554**
Kashmore @ Kandhkot	1,542	1,626	**1,539**
Khairpur	3,676	3,632	**3,708**
Larkana	1,901	1,900	**2,163**
Matiari	1,003	1,188	**1,516**
Mirpurkhas	1,846	1,841	**2,079**
Naushero Feroze	2,250	2,267	**2,422**
Nawabshah	1,785	1,794	**1,908**
Qamber	1,736	1,745	**1,649**
Sanghar	2,806	2,792	**3,044**
Shikarpur	1,784	1,796	**2,399**
Sukkur	2,170	2,173	**2,362**
Tando Allah Yar	836	1,021	**805**
Tando Muhammad Khan	712	960	**782**
Thar at Mithi	2,601	2,569	**2,491**
Thatta	2,177	2,177	**2,439**
Umerkot	1,211	1,317	**1,290**
Total	**52,365**	**53,935**	**56,649**

OZT (now GST) all over the country, Karachi gets 72% from the historic share of the DSG / OZT grant.



5.3 DSG (2.5% GST)

The estimated receipts on account of DSG from the Federal Government for FY 2008-09 are Rs. 22.8 billion. The distribution of this amount is shown in Table 5.2. Figure 5.2 graphically represents that in all 65% of the pie from DSG goes to TMAs, while DGs get 22% only.

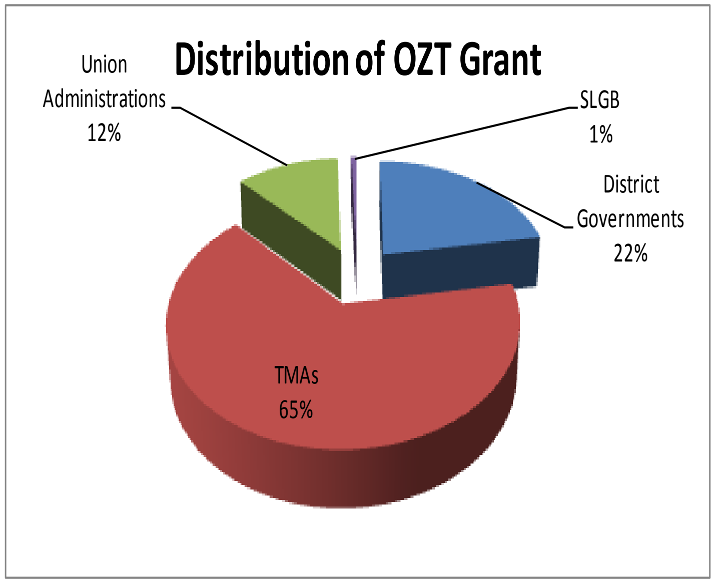
The historical shares of OZT funds for DGs and TMAs have been increased by 20%.

Table 5.2

Distribution of OZT Grant (Rs. In Million)

	Protection to Historic Shares	**Amount**
1	A. District Governments	3,600
	B. TMAs	4,013
	C. Rural Octori	275
	Total A+B+C	**7,888**
2	Fixed Grant of Rs. 24 Lac per annum to UAs	2,659
3	Pension Contribution to SLGB	140
4	**Total 1 and 2**	**2,799**
5	Residual Amount for TMAs, (Population 50%; HDI 40%; Area 5%; Performance 5%)	10,654
6	Transfertred to Provincial Allocable Amount	1,500
	Grand Total (4+5)	**22,841**

Figure- 5.2



The Sindh Local Government Board (SLGB) has been allocated Rs. 140 million and the monthly fixed grant for all UAs has been increased from Rs. 100,000 to Rs. 200,000 for each UA. The residual amount of OZT funds, after accounting for all the above shares, amounting to Rs. 10.65 billion shall be distributed amongst TMAs on the basis of the following criteria:

▪ Population	50%
▪ Human Development Index	40%
▪ Area	5%
▪ Performance	5%

The historical share of rural octroi amounting to Rs. 275 million shall be distributed amongst TMAs of Sindh as per previous decision of PFC. Annexure-III shows the allocations to TMAs on account of 'protection to historic shares' and 'residual amount' and is pitched at Rs.14.666 billion.

6. DEVELOPMENT BUDGET

6.1. INTRODUCTION

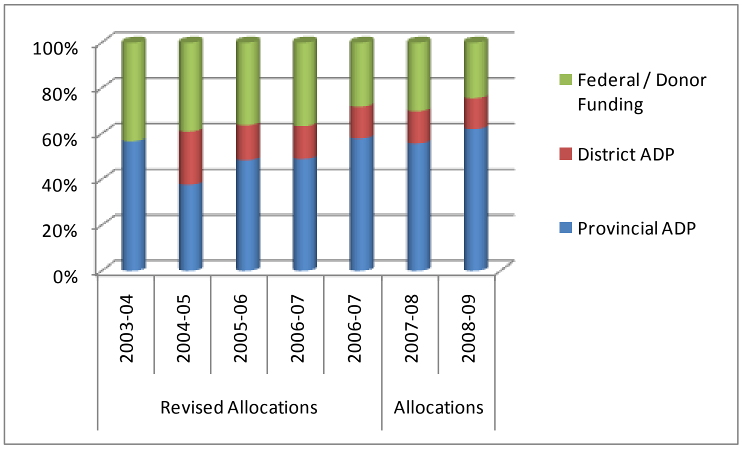
The government spending on development sector plays a key role towards the economic growth of the country. It is the government which first takes initiative towards the establishment of basic infra structures of the country that acts as a catalyst for the domestic and foreign investments. Thus policy makers always give priority consideration to the development sector. However, this depends on the availability of funds after the allocation of operational expenditures of the government which are usually salaries, utilities etc. The development program of the Government of Sindh is funded through provincial government's own resources plus federal and foreign assistances. The federal and foreign assistances come in the shape of either grants or loans. The growth in development expenditure during 2003-2009 of GOS depicts a much higher trend. In Annual Development Program (ADP) the growth is 103%, federal and donors' funding reveals 32% and the total PSDP recorded 72.8% of growth.

The total PSDP for Sindh at Rs. 89 billion is 23.73% higher than the originally earmarked PSDP of Rs. 72 billion. Figures 6.2 and 6.3 portray a comparative scenario of contribution of ADP during 2008-09 and 2003-04 respectively. In 2008-09 the provincial component of the ADP constitutes the major chunk of Sindh's total PSDP, followed by federal grants / external assistance and District ADP. This has reversed the trend of the 2003-04 when Provincial ADP formed smaller component vis-à-vis federal/foreign share of Sindh's PSDP.

Table 6.1 shows the summary position of (and Figure 6.1 depicts graphically) the total revised development allocations (from 2003-04 to 2007-08) for 2007-08 and 2008-09 and original PSDP allocations for Sindh:

Table 6.1										
Total PSDP (Rs. In Million)								Growth (%)		Ave (%)
	Revised Allocations					Allocations		*Revised Allocation	**Allocation	Revised Allocation
Year	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-09
Provincial ADP	10,849	11,074	20,664	27,000	41,533	40,000	55,000	32.42	37.50	81.39
District ADP	-	6,885	6,593	8,000	10,000	10,000	12,000	20.00	20.00	
Total ADP	10,849	17,959	27,257	35,000	51,533	50,000	67,000	30.01	34.00	103.51
Federal / Donor Funding	8,246	11,494	15,499	20,197	20,197	21,630	21,630	7.09	0.00	32.46
Total PSDP	**19,095**	**29,453**	**42,756**	**55,197**	**71,730**	**71,630**	**88,630**	**23.56**	**23.73**	**72.83**
* Represents percentage increase in 2007-08 Allocations over 2006-07 Revised Allocations.										
** Represents percentage increase in 2007-08 Allocations over 2006-07 original Allocations.										

Figure 6.1



Thus, starting from Rs. 10.85 billion revised ADP in 2003-04, the total ADP has reached Rs. 67 billion (including Rs. 12 billion District ADP) in 2008-09, which shows an average annual growth of 72.83%. The district component of the ADP was separately shown in the budget documents of the province from 2004-05 onwards. DG's began actual financing of their development component since 2006-07, after the introduction of "Single Line Transfers", of their respective share of resources. The ADP for 2008-09 is 23.73% higher than the initial ADP of 2007-08, which was pitched at Rs. 50 billion.

Figure 6.2

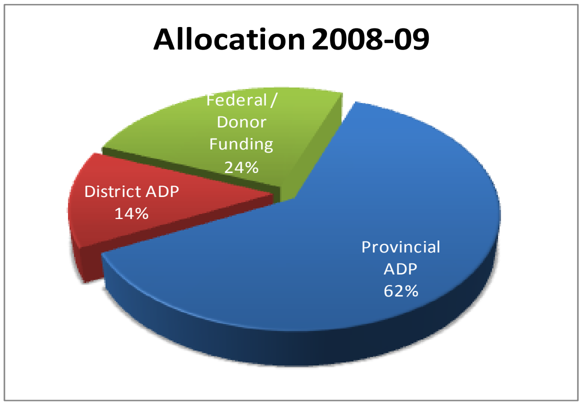
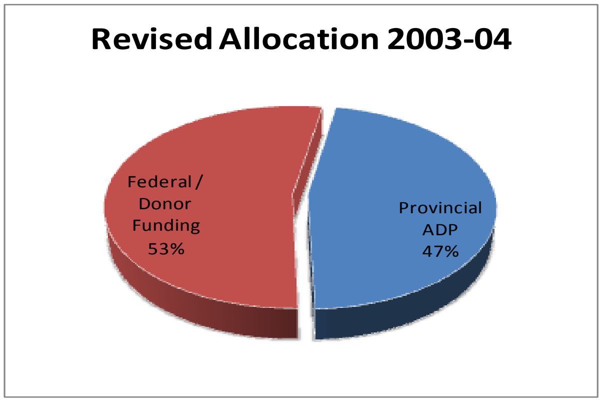


Figure 6.3



6.2. DEVELOPMENT BUDGET:

The financing arrangement and spending plan of the PSDP are discussed in the forthcoming sub-sections 6.2.1 and 6.2.2.

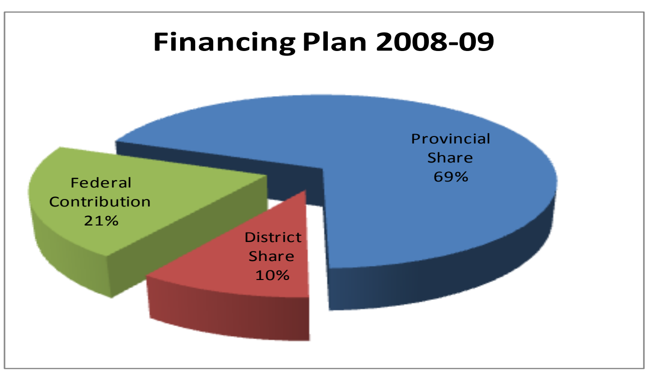
6.2.1. FINANCING ARRANGEMENT (RESOURCES)

Table 6.2 reflects the financing picture of Sindh's PSDP for 2008-09. This financing has been done through provincial contribution, district funding, foreign / donor assistance and federal grants. Figure 6.4 shows that the major chunk of development funding i.e., 69% comes from the Provincial Government, followed by 21% of federal contribution, and 10% of District Governments.

Table 6.2

FINANCING PLAN	2007-08		2008-09	% Share
	Allocation	Revised Allocation	Allocation	
Provincial Share	28,737	33,798	43,716	69.06
Carryover Cash Balance	12,500	20,369	6,000	
Provincial Contribution	16,237	13,429	37,716	
Net Current Account	9,947	12,995	26,849	
Net Capital Account	1,029	-3,892	5,035	
Net Public Account	5,261	4,327	5,832	
Donor / External Assistance	5,660	6,585	6,364	10.05
Foreign Project Assistance (FPA)	5,660	4,395	4,355	
Sindh Cities Improvement Prog.(SCIP)	0	0	2,009	
SDSSP	0	2,190	0	
Federal Contribution	14,891	13,743	13,218	20.88
DERA	510	721	510	
Other Federal Grants	14,381	13,022	12,708	
Total Development Financing	49,288	54,126	63,298	100.00

Figure 6.4

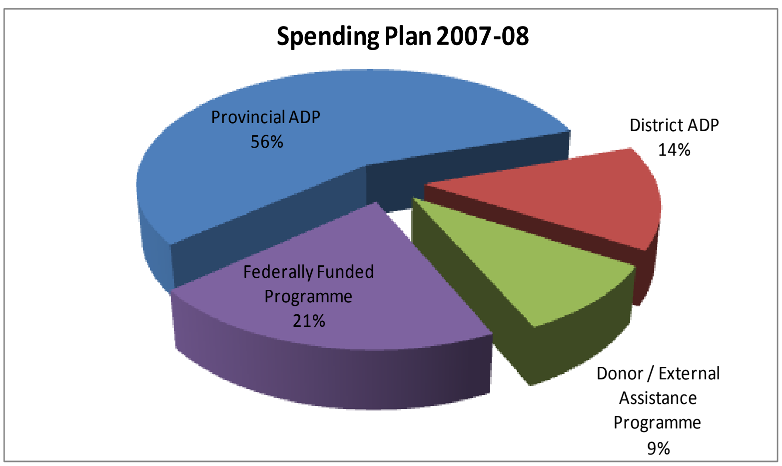


6.2.2. SPENDING PLAN (EXPENDITURE)

Table 6.3			
SPENDING PLAN	2007-08		2008-09
	Allocation	Revised Allocation	Allocation
Provincial ADP	**40,000**	**41,533**	**55,000**
District ADP*	**10,000**	**10,000**	**12,000**
Donor / External Assistance Programme	6,739	4,929	9,099
FPA Sectoral Allocations	5,660	4,395	4,355
Sindh Cities Improvement Prog.(SCIP)	0	0	2,009
SDSSP Spending on LGs	1,079	534	2,735
Federally Funded Programme	**14,891**	**15,797**	**13,218**
DERA Projects	510	349	510
Other Federally Funded Projects	14,381	15,448	12,708
Total Sindh PSDP	**71,630**	**72,259**	**89,317**
* Financed by District Governments through Single Line Transfers.			

Table 6.3 shows broad categorization of Sindh's PSDP 2008-09. The development outlay of Sindh consists of Rs. 55 billion Provincial ADP; Rs.12 billion District ADP; Rs. 9.1 million External/ Donor Assisted component and Rs.13.3 billion federally funded projects. Figure 6.5 reflects the share of each component in the total of development outlay.

Figure 6.5



6.2.3. NET DEVELOPMENT BUDGET

The comparison of Table 6.2 and Table 6.3 reveals that the development outlay for next year exceeds its financing. Notwithstanding, an increase trend in budget deficit from Rs. (-8.1) billion in 2007-08 to Rs. (-14.1) billion in 2008-

09, a substantial amount of funding has been diverted towards the development sector.

Although an increase of 73.5% in budget deficit has been witnessed in 2008-09 over 2007-08, this increase appeared because of an unprecedented increase in the share of Provincial ADP as well as PSDP.

As mentioned earlier, an upward trend in government development spending increases the economic activity and reduces the rate of unemployment. As a result, the per capita income increases. This phenomenon is quite in conjunction with the established norms of Public Finance which spells out the most important objective of the government should be to ensure the equitable distribution of resources through its prudent policy decisions. This can be achieved only through such policies of the government that affects the economy of the country in positive direction.

6.3. SALIENT FEATURES OF PROVINCIAL ADP 2008-09

The Provincial Government gave very special attention to its development spending focusing to provide services and initiate programs that can facilitate urgent relief and help move towards long term economic consolidation and growth. The major features of Development Portfolio for 2008-09 are;

- The total size of Development Portfolio adds to **Rs. 89.3 billion** as under:
  - Provincial ADP Rs. 55.0 billion
  - District Governments Rs. 12.0 billion
  - Federal Development Grants Rs. 12.7 billion
  - Foreign Project Assistance Rs. 9.09 billion
  - DERA Rs. 0.51 billion

- This Development Portfolio is 23% higher than Revised Development Budget of Rs. 72. 3 billion for 2007-08.
- In terms of Provincial and District ADP, **Rs. 67 billion have been earmarked for 2008-09 against Rs. 50 billion of 2007-08 indicating an increase of 34%.**
- In terms of Sectoral allocation; the biggest share of 16% has gone to Transport & Communication sector (which includes significant allocation for farm to market roads), where budget has been raised to Rs. 9 billion against of budget Rs. 7.7 billion for 2007-08.
- Through this allocation 586 schemes covering a road network of 1200 kms, improvement in 500 Kms and 10 bridges are being taken up. 45 schemes are expected to be completed.
- In terms of strategic arteries and bridges, the Khairpur -Larkana Bridge over Indus is being implemented by NHA and another **Bridge on Indus from Sakrand to Sehwan has also been included in Federal PSDP**
- The Allocation for MPAs under Priority Program has been raised from **Rs. 5 to Rs. 10 million.**
- Rs. 1 billion have been allocated for Village Electrification and Provision of Sui Gas to villages in next Budget.
- Sindh has a rich history and its historical heritage needs to be protected and projected in multiple ways, for which Sindh Heritage Fund of Rs. 1 billion is being set up. For this an allocation of Rs. 200 million has been made. This Fund will be managed through a Board comprising public and private sector people having a background of this subject.

6.4. REVIEW AND ANALYSIS OF PROVINCIAL ADPs (2007-08 AND 2008-09):

Table 6.4 shows sector wise allocations of the Provincial Annual Development Plan for 2007-08 and 2008-09. On the whole, the Provincial ADP for 2008-09 has grown by 37.5% over 2007-08 ADP wherein, the highest increase can be seen in manpower and employment followed by Statistical and Economic Research, Food Storage, Science and Information Technology, Education, Women's Development, Health and so on. However, in terms of share, Agriculture, Transport and Communication, Education, Water and Power, Physical Planning and Housing and Health are at the top of the list. The detail of on-going and new schemes are at Annexure-IV.

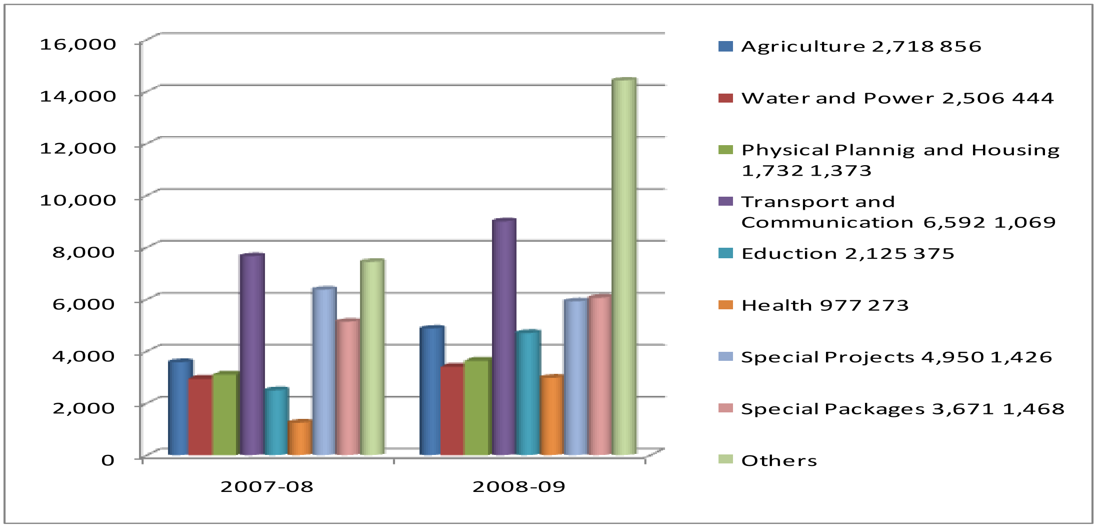
Table 6.4

Annual Development Programme(ADP) (Rs. In Million)

S. NO.		2007-08	2008-09	% ↑↓	Percentage Share 2007-08	Percentage Share 2008-09
1	Agriculture	3,574	4,873	36.34	8.94	8.86
	I) Agriculture Proper	1,725	2,293	32.92	4.31	4.17
	II) Food Storage	50	175	253.54	0.12	0.32
	III) Animal Husbandry	1,253	1,604	28.00	3.13	2.92
	IV) Fisheries	547	801	46.60	1.37	1.46
	Total Agriculture	3,574	4,873	36.34	142.97	103.69
2	Forest, Wildlife & Coastal Dev. Authority	386	554	43.50	0.97	1.01
3	Industries	722	1,129	56.38	1.81	2.05
4	Mines and Mineral Development	1,250	1,581	26.50	3.13	2.87
5	Water and Power	2,950	3,400	15.25	7.38	6.18
6	Physical Plannig and Housing	3,105	3,636	17.10	7.76	6.61
7	Transport and Communication	7,660	9,000	17.49	19.15	16.36
8	Rural Development	80	0	-100.00	0.20	0.00
9	Eduction	2,500	4,700	88.00	6.25	8.55
10	Health	1,250	2,978	138.23	3.13	5.41
11	Sports Youth Affairs	76	238	-	0.19	0.43
12	Culture and Tourism	200	252	26.00	0.50	0.46
13	Auqaf	85	130	-	0.21	0.24
14	Manpower and Employment	70	370	428.57	0.18	0.67
15	Information and Archives	42	78	85.71	0.11	0.14
16	Stastistical & Economic Research	366	1,704	365.42	0.92	3.10
17	Science and Information Technology	278	860	209.16	0.70	1.56
18	Poverty Aleviation	296	0	-100.00	0.74	0.00
19	Women's Development	80	173	116.19	0.20	0.31
20	Environment	100	150	50.00	0.25	0.27
21	Special Projects	6,377	5,923	-7.12	15.94	10.77
22	Allocation for Emergent Works	500	500	0.00	1.25	0.91
23	Allocation for Priority Programme	1,100	1,950	77.27	2.75	3.55
24	Special Packages	5,139	6,065	18.02	12.85	11.03
25	Thar Package	179	51	-71.56	0.45	0.09
26	Population Welfare Programme	55	24	-57.05	0.14	0.04
27	Matching Allocation for Fed. Directives	1,479	2,506	69.46	3.70	4.56
28	Allocation for CCB Schemes	100	150	-	0.25	0.27
	A - TOTAL PROVINCIAL ADP	**40,000**	**55,000**	**37.50**	**55.84**	**80.68**
	B-DISTRICT PROGRAMME	**10,000**	**12,000**	**20.00**	**13.96**	**17.60**
	C-FEDERALLY FUNDED PROGRAMME	**14,891**	**1,167**	**-92.16**	**20.79**	**1.71**
	D-FOREIGN AIDED PROGRAMME	**6,739**		**-100.00**	**9.41**	**0.00**
	GRAND TOTAL	**71,630**	**68,168**	**-4.83**	**100.00**	**100.00**

Figure 6.6 shows the growth in allocations in priority sectors of ADP 2008-09.

Figure 6.6



In the upcoming sub-sections we have focused on priority sectors of 2008-09 ADP and compared them with the allocations made in these sectors in 2007-08 ADP. We have attempted to highlight major achievements of the CFY and important development initiatives planned for next year in each sector.

6.4.1. TRANSPORT AND COMMUNICATIONS

In terms of sectoral allocation in 2008-09 ADP, Transport and Communication Sector has been assigned the highest priority as the Government of Sindh considers it as a major vehicle for development. Under this sector Rs. 9 billion, which is 17.49% of the total provincial ADP, has been allocated for the roads.

6.4.2. AGRICULTURE

Agriculture sector includes Agriculture (plant protection, research, education, mechanization, marketing and extension services) and Livestock (food storage, animal husbandry and fisheries). The ADP 2008-09, has been enhanced by 36% over the current financial year.

6.4.3. EDUCATION

Low enrolments and poor quality of education is a result of years of poor governance. Institutional weaknesses, lack of monitoring and absence of accountability have impacted adversely on outcomes. The Government of Sindh has been working on a reform agenda in this sector.

The allocation for next year ADP at Rs. 4.7 billion is 88.00% enhanced from the provision in the CFY, which was Rs. 2.5 billion. Primary, Secondary and Territory Education take the major chunk of the total 2008-09 ADP allocation.

6.4.4. HEALTH

The development allocation for next year ADP at Rs. 2.97 billion is 138.23% higher than 2007-08 ADP which was Rs. 1.25 billion. The public sector hospitals, including those attached with the Teaching Medical Institutions, take the major chunk of the total provincial ADP allocation for Health.

6.4.5. IRRIGATION

The economy of Sindh, being predominantly agricultural, is inextricably linked with greater availability of water. Therefore, the government has all along given serious attention to *irrigation and water management*. In CFY the overall planned investment in this sector was Rs. 1.9 billion, which has been almost Rs. 3.4 million for 2008-09.

6.4.6. MINES AND MINERAL DEVELOPMENT

ADP allocation for this sector is Rs. 1.6 billion which is 26.50% higher than ADP 2007-08, wherein Rs. 1.2 billion was allocated.

6.4.7. INDUSTRIES

Government of Sindh has adopted a very liberal policy for industrialization in the province. The ADP allocation for this sector is Rs. 1.1 billion which is 56.38% higher than ADP 2007-08 wherein Rs.772 million were allocated for the same.

6.4.8. SPECIAL PACKAGES

In terms of allocations Special Packages are getting third highest funding in 2008-09 ADP after Transport & Communication and Special Projects.

6.5. ANALYSIS OF THE DEVELOPMENT EXPENDITURE:

Table 6.5 shows development expenditures in old functional classification (for the years from 2002-03 to 2006-07) which was in vogue prior to the introduction of New Accounting Model (NAM). We have attempted to analyze trends in development spending of the past four years in the following paragraphs.

Table 6.5

Total PSDP Expenditure (Functional Distribution) (Rs. In Million)

	Actual				Ave (%)
	2003-04	**2004-05**	**2005-06**	**2006-07**	**2003-07**
General Administration	360	738	182	656	22.12
Community Services	9,116	11,588	18,942	14,241	16.03
Social Services	1,399	1,425	7,252	16,188	126.17
Economic Services	2,544	4,791	9,587	16,109	85.00
Debt Servicing	1,879	3,542	6	26	-75.99
Social Protection	1	0	577	155	391.06
Grand Total* **	**15,300**	**22,085**	**36,545**	**47,375**	**45.75**
Total PSDP Allocations	**19,095**	**29,453**	**42,756**	**42,756**	**30.83**
% Spending	**80.13**	**74.98**	**85.47**	**85.47**	

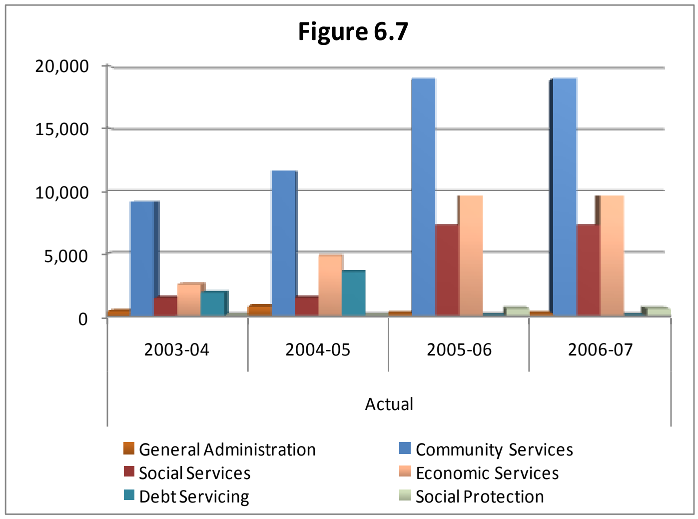
* Represents percentage increase in 2007-08 Allocations over 2006-07 Revised

** Represents percentage increase in 2007-08 Allocations over 2006-07 original

*** Actual spending (2002-03 to 2006-07) includes District component of ADP and federal / donor funding. Further, BE 2006-07 includes District ADP and

Table 6.5 Shows an average annual increase of 30.83% in total PSDP during the period of 2003-04, that has been revised to 81.39% during 2003-09 (see table 6.1). The average expenditure during the period is 85.47% which shows that on an average over 14.53% of the funding lapsed annually during past four years. Lately, the consumption trend of development funds is showing signs of improvement as it reached 80% and 85% in 2003-04 and 2006-07 respectively.

Figure 6.7 shows the trend of development spending in various functional categories. There is a gradual increase in almost all services / sectors. Community Services are leading in terms of expenditure while Social Services have registered the highest growth in expenditure in past four years.



As mentioned earlier, the governmental development spending plays a catalytic role towards the economy of the country. The trend in Provincial ADP and PSDP shows that the Sindh Government is fully aware of this. The Provincial Government is giving priority attention to its various development programs. Transport and Commutation, Agriculture, Education and Health sectors are especially on the top of the agenda of the Government.

7. DEBT MANAGEMENT

7.1. INTRODUCTION

In government, the debt always refers to the term ‘Sovereign or Public Debt’. Thus managing these debts means ‘Sovereign or Public Debt Management’. The prime objective of the government should be to manage its debt at lowest minimum cost and bare minimum risk. The growth in debt should be matched with the growth in revenues so that servicing of the debt could be made without sacrificing any economic goal. The utilization of borrowed monies prudently and its channelization through productive means are imperative for an effective and efficient public debt management.

For the federal government domestic borrowing is comparatively an easy venture as compared to foreign borrowing. In domestic debt the government has the tool of monetary policy to handle it while in case of foreign loans it has no option except to go for default or rescheduling. Thus, a great care is needed in policy decision on foreign borrowing. On the other hand, the position of provincial government is precarious in domestic as well as in foreign borrowing because, in both cases it does not have any tool in hand. However, it may be the Federal Government who could provide relief to Provinces under their crisis period.

Under fiscal federalism, the debts are managed at each tier of the government (federal, provincial, and district level). The provision of borrowing for provincial government exists in the Constitution of Islamic Republic of Pakistan under Article 167 however it does not specify the nature or kind of borrowing. Nevertheless, for external or foreign borrowing of provincial governments, the guarantee of the Federal Government is essential.

Presently, the Sindh Government's domestic debt portfolio comprises of Cash Development Loans (CDLs-Normal) and Cash Development Loans for SCARP (CDLs-SCARP) while the external debt portfolio includes soft-term and commercial loans from World Bank (IDA-Credit), Asian Development Bank Loans (ADB-Loans)and other loans.

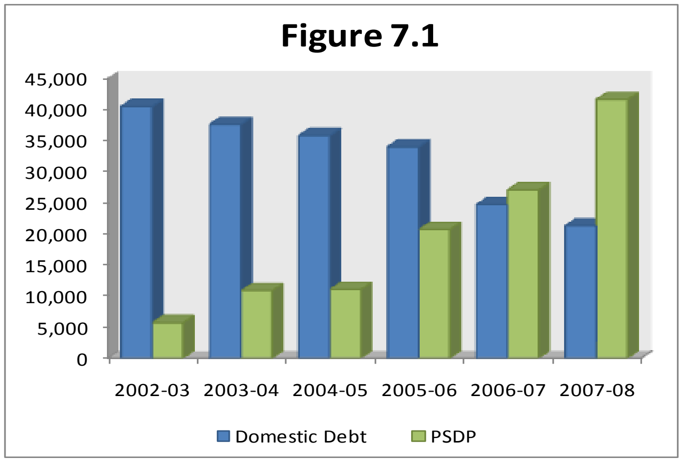
Presently, the level of domestic debt of Sindh Government has been reduced tremendously because of speedy retirement of CDLs indicating some how a certain degree of prudent debt management strategy. The saving so far achieved has been diverted towards financing the development expenditure of the Provincial Government. This is also a sign of efficient public finance management as an increasing trend in development expenditure usually signals a positive growth in the economy. The next section 7.2 highlights the trends in domestic debt and development expenditures of the Sindh Government.

7.2 DOMESTIC DEBT AND DEVELOPMENT EXPENDITURE

Previously, Federal Government was extending Cash Development Loans (CDLs) to Sindh Government for funding its Annual Development Program (ADP). In Table 7.1, the trends in domestic debt and public sector development program (PSDP) are seemed to be interlinked indicating an inverse relationship i.e. a decrease in domestic debt leading to an increase in the PSDP. No doubt, an increase in trend of government development expenditure indicates a good signal for the economic growth of the Province.

		Table 7.1		(Rs. in million)
Years	**Domestic Debt**	**Growth %**	**PSDP**	**Growth %**
2002-03	40,393	-	5,737	-
2003-04	37,536	-7.1%	10,849	89.1%
2004-05	35,751	-4.8%	11,074	2.1%
2005-06	33,917	-5.1%	20,664	86.6%
2006-07	24,650	-27.3%	27,000	30.7%
2007-08	21,290	-13.6%	41,533	53.8%
Average Growth		**-11.6%**		**52.5%**

The average growth in domestic debt shows a decrease of 11.6% accompanied by an increase of 52.5% in PSDP during the period from 2002-03 to 2007-08 reflecting a significant achievement and a positive sign for the economy.



It is a well-set rule in economics that government development spending is imperative for the economic growth in the country as it acts as a catalyst for the economic activity and helps in reducing unemployment rate. Once, the economy of the country takes boom it increases the government revenues which in turn enhances the debt servicing capacity of the government. Ultimately, at a certain point of time, the level of debt starts to decline thus the government spending on debt servicing also depicts a downward trend. Now whatever the government saves because of decrease in debt servicing spending, it diverts this amount toward its development program. Figure 7.1 is the best advocate of this scenario as mentioned earlier.

7.3. FOREIGN AND DOMESTIC LOANS

The public debt portfolio of the Government of Sindh comprises of domestic debt and foreign debt both which are discussed in upcoming sub-sections 7.3.1 and 7.3.2 respectively.

7.3.1. DOMESTIC LOANS

Table 7.2 shows the outstanding payable by Sindh Government towards Federal Government on account of Normal CDLs and SCARP CDLs. The Normal CDLs are development loans extended by Federal Government to all provincial governments for financing their Annual Development Programme (ADP). The interest rates range from 7.42% to 17.71% per annum on these loans. These loans include a total amortization period of twenty five years including a five year grace period. During the grace period (the very first five years), the borrower is required to pay interest on original loan only. After grace period the repayments of loan are started with meager principal component which an upward pressure on interest payments of the loan, as a result, the cost of debt increases manifolds under the menu of 'Time Value of Money' (TVM in short, wherein a constant interest rate increases the cost of debt with increase in length of time). Thus, the provinces bear a huge burden of cost of CDLs in terms of interest payments which constitutes approximately 85 to 90 percent of the total payments on those loans. The main contributory factors in this context were the Grace Period (GP) and the Amortization Schedule (AS) of CDLs on the payments of interest only during GP and meager principal during early period increased the cost of borrowing to an undesirable level.

Table 7.2

Domestic Debt Liability

Rs. in Million as on June 30,2008

	30.6.2001	30.6.2002	30.6.2003	30.6.2004	30.6.2005	30.6.2006	30.6.2007	30.6.2008
Normal CDLs	29,968	29,255	26,150	21,018	19,763	18,291	9,593	5,051
SCARP CDLs	13,807	14,413	14,243	16,518	15,988	15,626	15,057	16,240
Grand Total	**43,775**	**43,668**	**40,393**	**37,536**	**35,751**	**33,917**	**24,650**	**21,291**

Similarly, the SCARP-CDLs are another problematic issue that inflicted severe financial loss to the Sindh province. These loans are flowing towards provinces via WAPDA since 1976 for various SCARP projects. There is a dispute between GOS and WAPDA on actual and booked loan amount of SCARP. Federal Government has booked Rs. 20 billion against GOS whereas actual expenditure on SCARP projects as per WAPDA is about 5.7 billion. Sindh Government has paid 33.9 billion which includes Rs.5.2 billion of principal (15.2%) and Rs.28.7 billion of interest (84.8% of the total payments i.e. Rs.33.9 billion). If, we treat Rs. 5.7 billion (the actual expenditures verified by WAPDA) as SCARP-CDLs then the total payments on account of Principal/Interest (as per rates specified by Finance Division for each SCARP-CDL) would be to the extent of Rs. 16.3 billion. However, the Federal Government has deducted at source Rs. 33.9 billion during the period from 1976-77 to 2006-07. This indicates an excess payment of Rs.17.6 billion on account of SCARP-CDLs by Government of Sindh during the said period.

The discrepancies in figures are because of the fact that the Finance Division has been maintaining its accounts on SCARP based on estimated figures. The estimated figures are usually preliminary data that are worked out before embarking on the project which are finally changed after the completion of the project. The lack of proper reconciliation among all relevant agencies on SCARP-CDLs could be the main source of this problem.

7.3.2 FOREIGN LOANS

The need for foreign loan arises under the scarcity of domestic resources and no doubt they are used for the domestic capital formation. Great care is needed in handling foreign loans as it is inherent with the foreign exchange risk problems. Especially the time factor plays a vital role in projects funded with foreign loans therefore the timely completion of foreign aided projects need priority consideration.

Fig 7.2

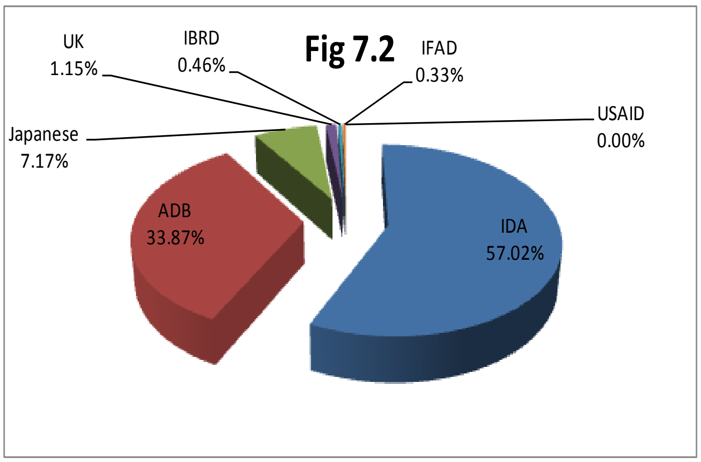


Table 7.3 shows that external funding has been procured mostly through World Bank (WB) and Asian Development Bank (ADB) that constitute 57% and 42.5% respectively of the total foreign loan. The third major source of funding

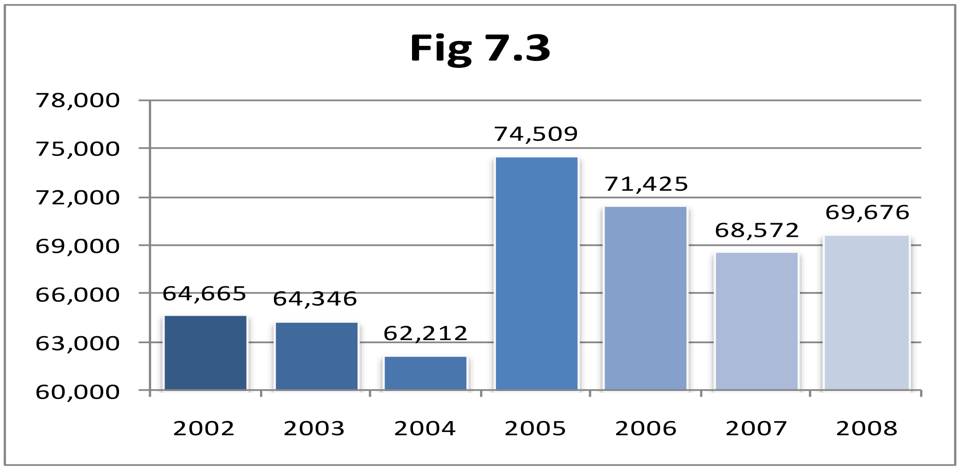
comes through Japan indicating a share of 7.2%. Rest of the loans hold almost negligible share of the total foreign debt portfolio. Figure 7.2 depicts a glimpse of proportionate share of each donor in GOS foreign debt portfolio.

Table 7.3					
Foreign Debt Liability Details					
Amount in Million as on June 30, 2008					
Donor / Lender	**No. of Loans**	**Interest Rate**	**Loan Amount Foreign Currency**		**Pak Rs.**
IDA	39	0.75%	US $	635	39,732
ADB	27	1.00%	US $	377	23,599
Japanese	2	2.60%	Jap. Yen	8,930	4,996
UK	1	8.00%	Sterling £	7	802
IBRD	1	1.00%	US $	5	318
IFAD	2	1.00%	US $	4	229
USAID	4	2.50%	US $	0.041	0.003
Total	**76**				**69,676**

The foreign loans have been procured on both concessional and commercial rates. All WB loans have been taken on concessional lending rates while ADB loans are based on mixed mode i.e., concessional and commercial rates both, however its major portions are on concessional term. The basic difference between these two kinds of lendings is the rate of interest and the length of maturity. Usually, in concessional lending, the maturity period indicates a longer span of time period for repayments of the loan as compared to the commercial lending and the rates of interest vary from 1 to 2%. On the other hand, the commercial lending is usually based on London Inter Bank Offered Rates (LIBOR).

Table 7.4 shows a zigzag trend in foreign loans of GOS i.e., an increase in loan amount in 2003 over 2002, then a decrease in 2003 over 2004 and so on. The trend over the years shows that the foreign debt liability of the Government of Sindh is increasing at an average annual growth of 1.25%.

Table 7.4							
Foreign Debt Liability							
Amount in Million as on June 30							
Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Amount	64,665	64,346	62,212	74,509	71,425	68,572	69,676



More recently, the GOS has been negotiating new loans to the extent of US $ 12 billion with donors, which are under finalization. Most of these loans are on commercial lending rates indicating that in future the Commercial loans will occupy the major space in GOS foreign debt portfolio.

In addition to domestic and foreign debts, the General Provident Fund is another big component of Sindh Government's liabilities. Under outstanding debt liability of GOS it constitutes the second biggest component.

The total debt liability of the Government of Sindh comprising of foreign and domestic loans and GPF liability is given in Table- 7.5.

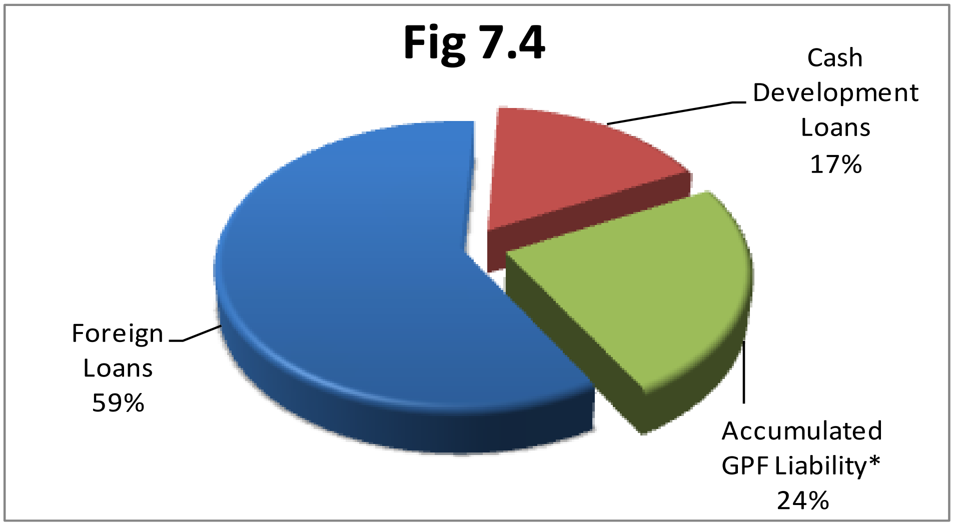
Table 7.5

Total Debt Liability (Rs. In Million)

Category of Loans	**Amount**	**Percentage**
Foreign Loans	69,676	58.34
Cash Development Loans	21,291	17.83
Accumulated GPF Liability*	28,463	23.83
Grand Total	**119,430**	**100.00**

*** upto 2006-07**

Figure 7.4 shows that more than half of the total debt liability comprises of foreign loans, followed by nearly a quarter of GPF liability, while the domestic loans only constitutes 17% of the total liabilities of GOS.



7.4. DEBT SERVICING:

The debt servicing includes the payments on accounts of interest and principal against domestic and foreign debt of the Government of Sindh. The payments on interest are booked under Current Revenue Expenditure while payments of principal are booked under Current Capital Expenditure. These payments are made through at source deductions by Federal Government from monthly divisible pool share of the Provincial Government. The interest on GPF deposits is booked annually in favor of the depositors however it is paid at the time of actual disbursement of the fund to the individuals.

Table 7.6

Debt Servicing (Rs. In Millions)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Principal	14,376	16,341	10,634	20,115	10,877	12,155	9,173	-39.57	-15.67	11.85
Interest	10,111	9,731	9,060	7,753	10,326	9,972	9,050	28.62	-12.36	-8.47
Total	**24,487**	**26,072**	**19,694**	**27,868**	**21,203**	**22,127**	**18,223**	**-20.60**	**-14.05**	**4.41**

* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.

** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.

Table 7.6 above depicts the position of debt servicing since 2003-04. The actual repayments trend in four years (2003-04 to 2006-07), Revised Estimates 2007-08 and Budget Estimates 2008-09 show a negative trend in debt servicing particularly in the interest component. The interest payments recorded a decrease of 8.47% annually during 2003-04 to 2006-07, while 12.36% less estimation has been for the year 2008-09 over 2007-08.

Table 7.7

Debt Servicing Vis-a-Viz CRR and GRR (Rs. In Millions)

	Actual				BE	RE	BE	Growth (%) RE*	Growth (%) BE**	Ave (%) Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
Current Revenue Expenditure	69,040	81,490	106,621	129,701	166,651	163,863	180,987	26.34	8.60	23.39
Debt Servicing (Interest)	10,110	9,730	9,060	7,753	9,176	8,815	9,173	13.70	-0.03	-8.47
% of Current Revenue Expenditure	**14.64**	**11.94**	**8.50**	**5.98**	**5.51**	**5.38**	**5.07**			
General Revenue Receipts	98,114	119,471	156,817	169,438	191,512	190,636	221,076	12.51	15.44	19.98
% of General Revenue Receipts	**10.30**	**8.14**	**5.78**	**4.58**	**4.79**	**4.62**	**4.15**			

* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.

** Represents percentage increase in Budget Estimates 2007-08 over Budget Estimates 2006-07.

The two most frequently used methods to determine the debt sustainability are the debt servicing to non-development expenditure (Current Revenue Expenditure or CRE in the instant case) ratio and the revenues (General Revenue Receipts or GRR) ratio. Table 7.7 shows that the debt servicing on the whole has shrunk from 15.41% of CRE and 13.47% of the GRR in 2002-03 to 8.5% and 5.78% respectively in 2005-06, depicting a positive trend. This shows that weightage of debt servicing as a component of CRE and proportion of GRRs is gradually declining.

Table 7.8 depicts the proportions of interest payment in various loans of the Government of Sindh. The CDLs show the highest level of interest payments which is 62.6%, followed by GFF of 24.2%, Foreign Loans of 7.6%, and Overdraft of 5.7%.

Table 7.8						
INTEREST PAYMENT (Rs. In Million)						
		Domestic Debt				
Fiscal Year	**Foreign Debt**	**CDLs**	**GPF Liability**	**SBP Overdraft**	**Total**	**Grand Total**
1992-1993	89	3,834	778	685	5,297	5,386
1993-1994	538	4,038	838	929	5,804	6,342
1994-1995	153	4,534	886	400	5,820	5,973
1995-1996	152	4,715	934	637	6,286	6,438
1996-1997	444	4,673	1,383	1,087	7,143	7,586
1997-1998	620	6,296	1,795	1,363	9,454	10,074
1998-1999	705	5,592	2,201	1,179	8,973	9,677
1999-2000	778	7,190	2,643	650	10,483	11,260
2000-2001	862	6,666	1,918	212	8,796	9,659
2001-2002	864	6,656	2,619	196	9,471	10,334
2002-2003	932	6,234	2,914	29	9,177	10,109
2003-2004	874	6,007	3,153	2	9,162	10,036
2004-2005	957	5,243	3,188	0	8,431	9,388
2005-2006	929	5,048	3,072	0	8,120	9,049
2006-2007	890	4,337	2,989	0	7,326	8,216
Total	**9,787**	**81,062**	**31,311**	**7,368**	**119,741**	**129,528**

The above discussion shows that Sindh Government has managed its debt wisely especially the domestic debt (CDLs). The speedy retirements of CDLs has not only reduced the level of the domestic debt but it has also decreased the government spending on debt servicing. The saving thus achieved were diverted towards the development programs indicating a positive sign for the economy.

8. FUND MANAGEMENT

8.1. INTRODUCTION

The policies on human resource management especially in case of government employees are traditionally linked with longer span of careers and loyalty. The consideration in terms of monetary incentives has always remained in isolation and it is rarely linked to productivity if we compare it with the private sector. The increase in compensation generally takes place gradually on a scale basis that is closely linked with the years of service, merit-related mechanisms and budget constraints. Thus a relatively more generous retirement scheme is expected to function as an incentive to employment.

It is almost universal that government servants are the first category covered by social security schemes then next to them the rest of the citizens stand in the queue. For instance, some European pre-Bismarck pension schemes for civil servants were mostly earning-based which were created as a reward for the length of service dedicated to the state. The 20th century witnessed the maintenance of separate and comparatively more generous sub-systems for civil servants in several countries. No doubt this happened despite the gradual broadening of social insurance policies and the development of national pension schemes.

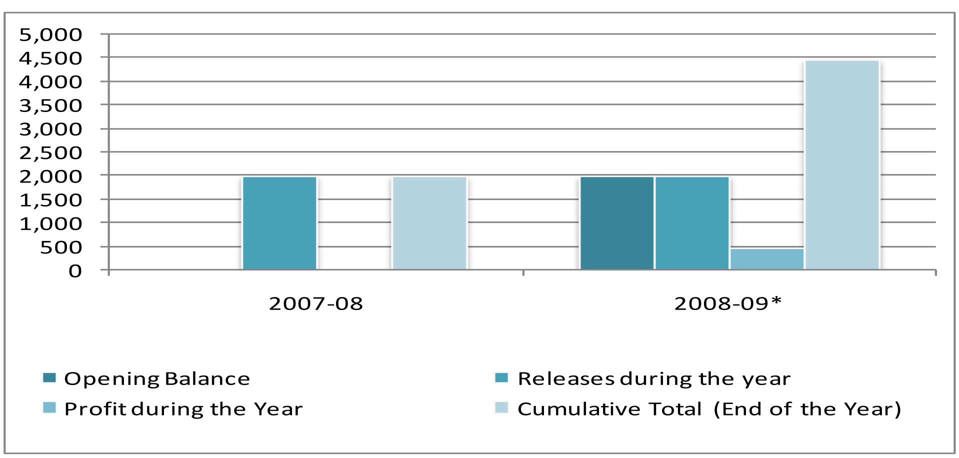
However, the extent of separation and generosity is presently explained by special labour conditions prevailing in public sector employment. The Government of Sindh has introduced the funds management system to cater for its employees liabilities of the Sindh General Provident Investment Fund (SGPIF), Sindh Pension Fund (SPF). It has also created the Sindh Social Relief Fund (SSRF) for Social Security of the poor peoples in the province of Sindh. The source and level of funding, current reserves and investments of these funds are briefly enumerated as under:

8.2 SINDH GENERAL PROVIDENT INVESTMENT FUND (SGPIF):

Table 8.1				
Sindh General Provident Fund				
Rs. in Million				
Year	Opening Balance	Releases during the year	Profit during the Year	Cumulative Total (End of the Year)
2007-08		2,000	2	2,002
2008-09*	2,002	2,000	477	4,479
Grand Total		**4,000**	**479**	**4,479**

The Government of Sindh had no full-fledged investment for meeting future liabilities on account of General Provident Fund Scheme. The amount deducted from employee's salaries being utilized by Government was ever increasing which might have taken care of during the period of self-sufficiency and increasing cash inflows. Under such circumstances, it was imperative to establish the Sindh General Provident Investment Fund. This SGPIF became operational with effect from 01-07-2007. The said fund was established on the pattern of Sindh Pension Fund, with seed money of Rs.2 billion that had been allocated in the FY 2007-08. In this context the main objective of the Government is to invest reserves of the fund appropriately in the safest instruments to reap maximum profits. The returns so earned will be used to pay off public servants' liabilities including their profit amount which is generally fixed by the Federal Government on yearly basis. For this purpose, a fund management board under the chairmanship of Chief Secretary Sindh has been constituted.

Figure-8.1



8.3 SINDH PENSION FUND (SPF):

This was a fund established by the Sindh Government to facilitate and organize the investment of employees' retirement funds contributed by the government. The Pension fund is a common asset pool meant to generate stable growth over long term and provide pensions for employees when they reach the end of their working years and stand retired.

The SPF was established in 2003 to meet the ever increasing pension liabilities of the retired government servants. The fund was created with the seed money of Rs. 1.2 billion which has now been enhanced to Rs. 3 billion per annum. Total funding from the government since creation of the fund is Rs. 14.8 billion, while profits accrued during the life of the fund are Rs.3.02 billion. The SPF is likely to grow to Rs. 17.8 billion by June 2009. Management of the fund and investment decisions are taken by Sindh Pension Fund Board (SPFB) which is headed by the Minister / Advisor Finance, Chief Secretary Sindh, Secretary (GA), SGA&CD, Secretary Finance and a representative of ICAP are members of the Board.

Table 8.2
Sindh Pension Fund
Rs. in Million

Year	Opening Balance	Releases during the year	Profit during the Year	Cumulative Total (End of the Year)
2002-03		1,200		1,200
2003-04	1,200	1,200	8	2,408
2004-05	2,408	1,200	28	3,636
2005-06	3,636	2,200	270	6,106
2006-07	6,106	3,000	354	9,460
2007-08	9,460	3,000	814	13,274
2008-09*	13,274	3,000	1,546	17,820
Grand Total		**14,800**	**3,020**	**17,820**

In the year 2007-08, the total return on the investment of Sindh Pension Fund came to Rs. 814.0 million which was Rs. 460.0 million more than the last year return on the investment. This meant that the profit on investment was 229% higher than the profit earned during the year 2006-07. It is worth mentioning that the fund management of Sindh government led to that much increase although the investment portfolio increased just by Rs. 3 billion as the annual release to the funds. Likewise, the return on Sindh Social Relief Fund was also improved significantly as the same investment practices were followed in the investment of SSRF.

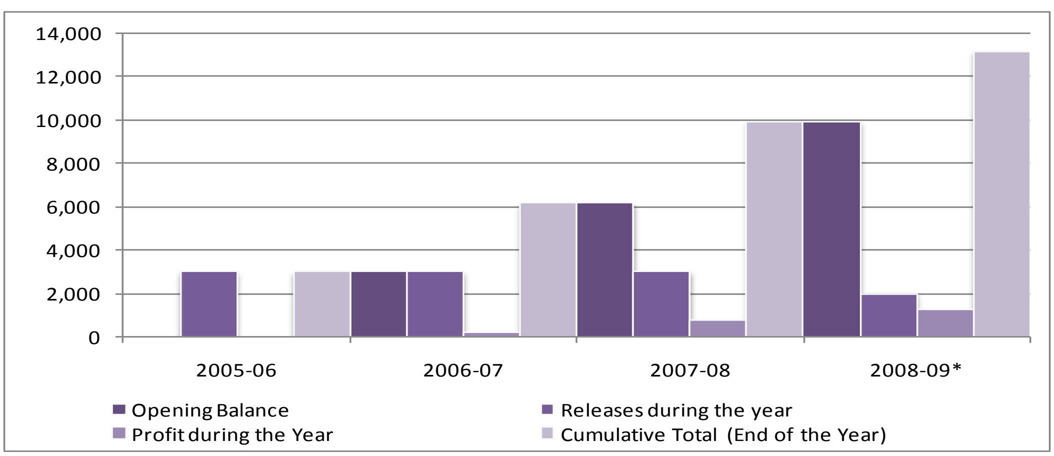
8.4 SINDH SOCIAL RELIEF FUND (SSRF):

The SSRF was established in 2005 with a broad objective of moving towards some form of direct intervention in providing relief to the vulnerable and disadvantaged people of the province. The fund was created with the seed money of Rs. 3 billion and the total funding from the government since creation of the fund is Rs. 12 billion. The SSRF is likely to grow to Rs. 14.19 billion by next F.Y. The management of the fund and investment decisions are taken by a high powered committee presided over by Chief Secretary Sindh, which includes Additional Chief Secretary, P&D Department, Secretary *Zakat* & *Ushr*, Secretary Finance and two representatives of the private sector.

Table 8.3
Sindh Social Relief Fund
Rs. in Million

Year	Opening Balance	Releases during the year	Profit during the Year	Cumulative Total (End of the Year)
2005-06	0	3,000		3,000
2006-07	3,000	3,000	183	6,183
2007-08	6,183	3,000	784	9,967
2008-09*	9,967	2,000	1,232	13,199
Grand Total		11,000	2,199	13,199

Figure-8.2



The total cumulative investments and profits under the above three funds of the Sindh Government will reach Rs. 37.5 billion approximately in 2008-09. This shows the great success of the Provincial Government of Sindh which in a short span of five years not only recovered from the SBP's overdraft and prematurely paid off Rs. 19.95 billion CDLs, but also successfully separated Rs. 37.5 billion from the PCF and deposited the same in these investment funds.

Following are some of the reasons which contributed to the improvement in the return on the investment.

- The returns on the investment have been higher during this year due to efficient fund management by the Sindh Government through rapid and viable reinvestments of these funds from the very next day of their maturities.

- The funds were invested with best available options. All the fixed income and equity market investment options were minutely studied and the best available options were adopted which resulted in the efficient growth of the funds.

- Only this year, the funds were invested in the Pakistan Investment Bonds (PIBs) and mutual funds, which caused an augmented outlook in the fund growth.

- In order to achieve better rate of return and keeping complete security of the funds as the top priority, funds were very wisely diversified.

- Some studies have also been carried out in the pension system to gauge the pension liability level with a view to comprehend the level of pension investment which could generate return enough to meet the pension liabilities.

Thus, it can be subsumable to deduct that the Fund Boards in Sindh are performing efficiently and taking advantage of the stock market boom and investing cautiously in the stock market through Fund Management.

This year, Sindh Government worked very hard to bring corporate and investment governance culture in the fund management. The Provincial Government established fund management rules, devised Investment Policy, restructured its investment portfolio and introduced financial corporate governance. The funds are being audited on a yearly basis with a satisfactory note by the well reputed audit firms.

9. PUBLIC ACCOUNT

The Public Account represents those monies for which the Government has fiduciary duty but which it is not at liberty to appropriate for the general services of the Government.

The Public Account consists of trust accounts and special deposit accounts. These are defined as follows:

- **Trust Accounts-** legal entities in their own right, under the stewardship of the Government, and as such are expected to produce financial statements in their own name. These trust accounts are normally established under an Act of Parliament or a Presidential Order.

  Examples of trust accounts include provident and benevolent funds, employee's insurance funds and trust accounts of certain departments (eg. Railways)

- **Special deposit accounts-** those accounts comprising of Public Account monies that are operated under the authority of the Ministry of Finance, but are not trusts. As they are not legal entities, reporting would be generally by way of statements of receipts and payments.

  Examples of special deposit accounts include relief funds, civil and criminal court deposits, welfare funds and development funds.

The following are its main elements:

- **Assets**
  - Cash and Bank Balances
  - Receivables
  - Other Assets

- **Liabilities**
    - Current Liabilities
    - Deferred Liabilities
    - Other Liabilities
    - Control Accounts
    - Trust Account – Funds
    - Trust Account – Others
    - Special Deposit – Investments
    - Special Deposit – Funds

9.1 FINANCING DEFICITS

Public Account has generally provided the balances for financing deficits on account of revenue as well as development budgets; as such transactions have usually remained in credit balance in Sindh. A major portion of these balances is generated on account of reserves / deposits in Trust Account Funds such as GPF, BF, etc. where the receipts have generally been more than the disbursements, resulting in surplus accounts. Similarly the balances have also been generated under the heads of deposits and reserves where the PWD deposit work and securities provide temporary balances for deficit financing.

Table 9.1

Public Account (Rs. In Millions)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
RECEIPTS	160,693	194,311	234,827	263,699	239,331	212,834	198,390	-19.29	-17.11	17.95
Assets	98,748	111,904	142,777	175,197	156,056	137,332	107,848	-21.61	-30.89	21.06
Liabilites (Receiveable)	61,945	82,407	92,050	88,502	83,275	75,502	90,542	-14.69	8.73	12.63
DISBURSEMENTS	159,282	192,070	231,788	262,516	234,070	208,508	192,557	-20.57	-17.74	18.12
Assets	100,312	111,890	142,774	175,204	130,511	126,668	103,046	-27.70	-21.04	20.43
Liabilities (Payable)	58,971	80,180	89,014	87,312	103,560	81,840	89,511	-6.27	-13.57	13.98
Net	1,411	2,241	3,039	1,183	5,261	4,326	5,833	265.68	10.88	-5.70

* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.

** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.

Table 9.1 presents classification of Public Accounts after the introduction of New Accounting Model (NAM). The net balance during 2003-04 amounting to Rs.1.4 million has to increase upto to Rs.1.2 million in Actual terms (-5.7%). This could possibly be explained by higher percentage growth in disbursement (18.12%) as compared to increase in receipts (17.95%) for the same period. Net public account is expected to increase by 10.88% in FY 2008-09 and has been pitched at Rs.5.8 billion.

9.1.1 RECEIPTS

The Public Account receipts can broadly be categorized as Assets and Deposits & Reserves.

Assets comprise of those receipts which include cash and bank balances, investments, loans, imprest monies, advances to departments and returns from investments and loans etc. Although assets had been recording average growth of 21.06% in the past, however the expected target for FY 2008-09 would be to the extent of Rs.198.4 billion.

These include intergovernmental adjustments, remittances, suspense funds, special deposit fund, welfare fund, development fund, education & training fund, Income Tax deductions from salaries, Personal Ledger Accounts (PLAs) and most importantly, the Trust Account Fund. Deposits and reserves were increased at an average rate of 12.63% in the past. However, these are expected to stand at Rs.90.5 billion during the FY 2008-09.

Trust Account Fund is the most important public account and comprises of the Provident, Benevolent and Insurance Fund receipts. Table 9.2 details the Trust Account Fund.

Table 9.2										
Trust Account Fund (Rs. In Millions)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09	2007-08	2008-09	2003-07
RECEIPTS	**5,498**	**5,713**	**5,313**	**2,067**	**1,443**	**4,788**	**6,361**	**131.64**	**340.67**	**-27.83**
Provident Fund	4,621	4,942	4,558	1,458	1,074	4,165	5,221	185.67	385.99	-31.92
Benevolent Fund	262	260	302	285	224	246	578	-13.68	158.40	2.90
Insurance	616	511	453	324	145	377	562	16.36	286.29	-19.26
DISBURSEMENTS	**2,085**	**2,458**	**2,477**	**2,259**	**2,500**	**2,204**	**2,770**	**-2.44**	**10.80**	**2.71**
Provident Fund	1,361	1,735	1,908	2,259	2,025	1,973	2,024	-12.66	-0.04	18.39
Benevolent Fund	250	461	308	0	0	0	484	-100.00	#DIV/0!	-92.15
Insurance	474	262	262	0	475	231	262	-	-44.87	-100.00
Net	**3,413**	**3,255**	**2,836**	**-192**	**-1,057**	**2,584**	**3,591**	**-1444.99**	**-439.86**	**-138.33**
* Represents percentage increase in Revised Estimates 2007-08 over actuals of 2006-07.										
** Represents percentage increase in Budget Estimates 2008-09 over Budget Estimates 2007-08.										

9.1.2 DISBURSEMENTS

These represent outflows from Assets, which have grown on average at 20.43% in past four years as shown in Table 9.1. Budgeted at Rs. 103.0 billion for FY 2008-09, disbursements of current assets are likely to decrease by -21.04 % over BE 2007-08, which was estimated at Rs. 130.5 billion.

Liability is a contra-receipts account and represents payouts from deposits and reserves account showed on receipts side. As we can notice from Table 9.1 liability has been increasing at the average of 5.50% in the past four years, whereas it is likely to decrease by -13.57% in FY 2008-09 and has been pitched at Rs. 89.5 billion.

10. MEDIUM TERM FISCAL FRAMEWORK (MTFF)

10.1. INTRODUCTION

Government of Sindh has remained involved with multiple reforms in the last five years or so with the major objective of accelerating the pace of economic activity in the province and to reduce poverty. These reforms have been undertaken in various sectors and under the overall fiscal and financial management side with the support of various international donors. The basic objective of these reforms have been to improve public service delivery in the critical sectors of education and health; rationalization and restructuring of tax and non-tax revenue systems aimed at revenue mobilization; broadening of revenue bases and improved tax payer compliance and a revamping of the budgetary systems through a shift from the present input-based annual incremental budgeting to a medium-term outcome-based program budgeting and improved public financial management. Accordingly, Finance Department, Government of Sindh agreed with the World Bank Missions for Sindh Education Development Policy Credit for preparation of Medium Term Fiscal Framework (MTFF) in 2006-07.

10.2. FORMULATION OF MTFF

The formulation of the estimates included in the MTFF involves the use of extensive econometric methodology. In a simpler formatting, it involves, in some cases base-line projections or formulation of estimates taking into account the buoyancy and elasticity factors affecting revenues and the past autonomous rates of growth of expenditures. Projections from a base year have limited usefulness and it is for this reason that this practice has yielded place to rolling estimates. Each year estimates are made for the following two or three years and the formulation of annual budget provide an opportunity to revisit the estimates and to revise them in the light of changing economic variables.

An important analytical component of the MTFF is the deficit or surplus emerging from the exercises. A surplus may imply a potential for reduction in future tax rates, while the persistence of deficits would imply the need for a comprehensive fiscal strategy aimed at reducing the levels over the medium term, thus improving the prospects of fiscal sustainability.

The MTFF prepared by Finance Department provides three years projections (from 2006-07 to 2009-10) for revenues and expenditures of the Provincial Government. Its major assumptions are:

- Federal Tax Transfers during (2006-07 to 2009-10) would increase @ 14% per year.
- Federal Grants would increase @ 10% per annum
- Provincial own source revenue would grow annually @ of 13.8% during the period.
- The aggregate revenue growth of the province is, therefore, expected to maintain at 13.5% per annum.
- The recurrent expenditure is projected to increase by 13.4% per annum.
- The development expenditure is projected to increase by 15% per year.

The budget is expected to remain balanced with fiscal deficits remaining under 0.5% of Provincial Gross Domestic Product (PGDP). It also ensures improvement in overall PRSP expenditure over this period of time.

Summary table of MTFF may be seen at Table 10.1.

TABLE 10.1									
Sindh Medium Term Table 6: Fiscal: Framework 2006/07 to 2009/10									
(Rs Million)									
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	AAGR
	Actual	Actual	Actual	P. Actual	Proj.	Proj.	Proj.	Proj.	FY06-FY10
Total Revenues	79,403	94,761	114,867	141,585	158,900	181,687	207,085	235,202	13.5%
Tax Transfers	57,944	63,841	79,620	96,361	107,106	123,785	142,967	164,528	14.3%
Provincial Revenues	11,817	14,648	16,350	19,727	22,876	25,904	29,294	33,088	13.8%
Tax Revenues	8,506	11,167	11,776	13,642	15,618	17,783	20,203	22,898	13.8%
Non-Tax Revenues	3,311	3,481	4,574	6,085	7,258	8,121	9,091	10,190	13.8%
Federal grants	9,642	16,272	18,897	25,497	28,918	31,998	34,824	37,585	10.2%
o/w OZT replacement g	7,053	10,886	9,810	13,686	17,107	20,187	23,013	25,774	17.1%
Total Expenditures	86,166	91,244	106,953	140,604	160,727	182,627	208,818	237,746	14.0%
Current Expenditures	77,312	76,093	85,055	106,620	120,825	136,269	154,957	176,405	13.4%
Wages	10,496	12,307	20,370	25,434	27,723	29,667	31,663	33,867	7.4%
Pension	3,876	4,393	4,216	4,825	5,115	5,421	5,801	6,207	6.5%
Repairs and Maintenance	2,120	1,552	2,553	2,674	3,476	4,519	6,984	9,079	35.7%
Commodities & Services	4,699	4,622	4,877	13,697	18,420	25,682	34,035	43,640	33.6%
Interest Payments	10,317	10,110	9,731	9,060	9,377	9,705	10,045	10,397	3.5%
Subsidies	3,242	507	507	4,431	2,216	1,772	1,418	1,134	-28.9%
Grants to LG & others	9,716	14,220	9,232	8,443	9,288	10,217	11,238	12,362	10.0%
Transfers to District Govts	14,098	8,165	10,676	13,784	17,462	19,208	21,129	23,242	14.0%
Salary to District Government	18,748	20,217	22,894	24,271	27,749	30,077	32,644	36,478	10.7%
Total Development Expenditure	7,654	13,951	20,698	32,785	37,702	43,358	49,861	57,340	15.0%
Development Exp & Invest.	8,854	15,151	21,898	33,985	39,902	46,358	53,861	61,340	15.9%
o/w Investment into Pension Fu	1,200	1,200	1,200	1,200	2,200	2,000	2,000	2,000	13.6%
Investment into GP Fund	0	0	0	0	0	1,000	2,000	2,000	--
Fiscal Deficit	-6,763	3,517	7,914	981	-1,827	-940	-1,734	-2,544	--
Current Account Balance	2,092	18,668	29,812	34,965	38,076	45,418	52,127	58,797	13.9%
Overall Fiscal Balance	3,555	13,627	17,645	10,040	7,550	8,765	8,311	7,853	-6.0%
Net Financing	6,763	-3,517	-7,914	-981	1,827	940	1,734	2,544	--
Public Debt (net)	1,134	-3,153	-3,485	726	2,496	8,435	5,658	7,758	80.8%
Domestice Debt (net)	-170	-1,424	0	0	0	0	0	0	--
Federal Debt	-3,273	-5,469	-990	-715	-1,993	-2,149	-2,276	-2,340	34.5%
Foreign debt	4,577	3,740	-2,495	1,441	4,489	10,584	7,934	10,098	62.7%
Net GP Fund Receipts	2,675	3,258	3,207	2,693	2,731	2,762	2,783	2,794	0.9%
Utilization of Cash Balances	2,953	-3,622	-7,636	-4,400	-3,401	-10,257	-6,708	-8,008	16.2%

10.3. EDUCATION SECTOR FINANCING

The Financing Framework of Education Sector Reform Program has been integrated in MTFF to ensure the availability of required financial resources during program period. The projections for education sector expenditure have been made in alignment with the policy Matrix agreed with the World Bank Missions. It ensures a steady increase in non-salary and development expenditures at 18% and 15% respectively in education sector and increasing Education Sector Expenditure to almost 1.4% of the PGDP from 1.1% in 2005-06.

10.4. MTFF AND BUDGET 2008-09

The percentage growth in BE 2008-09 over BE 2007-08 against each component is discussed here under:

On *revenue side*, the *federal tax transfers* are estimated to increase by 15.02% as against the target of 14%. This is primarily on account of 1% increase in the share of the provinces in the net FDP and general growth in the economy. The federal grants are decreasing by -11.64% on the whole, as against 10% target fixed under MTFF. If we disaggregate the data into Subventions and DSG, the former is growing by 22% while the latter is increasing by 12.07%. The provincial own receipts are projected to grow by 1957.% vis-à-vis 13.8% mark.

The *recurring expenditure (CRE)* of the Provincial Government (excluding LG transfers) has been estimated to increase by 8.60% as against the required target of 13.4%.

The provincial *development expenditure* has been increased by 37.50% as against the projection of 15% under MTFF.

During the financial year 2008-09 is estimated a deficit budget but the fiscal deficit is near the range of 0.5% of the PGDP as envisaged under MTFF.

DISTRIBUTION OF PROVINCIAL ALLOCABLE AMOUNT AMONGST DISTRICTS.

S.No	PFC Award	Provincial Retained Amount	Provincial Allocable Amount	Criteria
1.	PFC Award for F.Y 2002-03 and F.Y 2003-04	60%	40%	(a) Population : 50% (b) Backwardness: 17.5% (c) Tax Collection: 7.5% (d) Transitional Transfer: 25%
2.	PFC Award for F.Y 2004-05	45%	55%	(a) Population : 50% (b) Backwardness: 17.5% (c) Tax Collection: 7.5% (d) Transitional Transfer: 25%
3.	PFC Award for F.Y 2005-06	45%	55%	(a) Population : 50% (b) Backwardness: 17.5% (c) Tax Collection: 7.5% (d) Transitional Transfer: 25%
4.	PFC Award for F.Y 2006-07	45%	55%	(a) Population : 40% (b) Service Infrastructure: 35% (c) Development needs: 15% (d) Performance: 10%
5.	PFC Award for F.Y 2007-08 to 2009-10	45%	55%	(a) Population : 40% (b) Service Infrastructure: 35% (c) Development needs: 10% (d) Area: 5% (e) Performance: 10%

DISTRIBUTION OF OZT FUNDS

S.No	PFC Award	OZT Funds for LGs	Criteria
01	PFC Award for FY 2002-03 & FY 2003-04	For Districts including TMAs and UAs.	As per base year of 1998-99
02	PFC Award for FY 2004-05	(a) Districts	As per base year of 1998-99
		(b) TMAs	The amount as per base year of 1998-99 + Residual amount on the basis of formula: (a) Population : 50% (b) Human Development Index (HDI): 40% (c) Collection: 10%
		(c) UAs	Fixed grant of Rs. 1 Lakh per month per each UA.
		(d) SLGB	Rs. 140.00 million.
03	PFC Award for FY 2005-06	(a) Districts	As per base year of 1998-99
		(b) TMAs	The amount as per base year of 1998-99 with 20% increase + Residual amount on the basis of formula: (a) Population : 50% (b) Human Development Index (HDI): 40% (c) Collection: 10%

S.No	PFC Award	OZT Funds for LGs	Criteria
		(c) UAs (d) SLGB	Fixed grant of Rs. 1 Lakh per month per each UA. Rs. 140.00 million.
04	PFC Award for FY 2006-07	(a) Districts (Zilla Tax) (b) Districts (Rural Octori) (c) TMAs (d) UAs (e) SLGB	As per base year of 1998-99 with 20% increase. As per base year of 1998-99 The amount as per base year of 1998-99 with 20% increase + Residual amount with 20% increase on the basis of formula: (d) Population : 50% (e) Human Development Index (HDI): 40% (f) Collection: 10% Fixed grant of Rs. 1 Lakh per month per each UA. Rs. 140.00 million.
05	PFC Award for FY 2007-08	(a) Districts (Zilla Tax)	As per amount of FY 2006-07

S.No	PFC Award	OZT Funds for LGs	Criteria
			with 20% increase.
		(b) Districts (Rural Octori)	As per base year of 1998-99.
		(c) TMAs	The amount as per 2006-07 with 20% increase + Residual amount on the basis of formula:- (a) Population: 50% (b) Human Development Index (HDI) 40% (c) Area 5% (d) Performance 5%
		(d) UAs	Fixed grant of Rs.2 Lakh per month per each UA.
		(e) SLGB	Rs.140.0 million.

Allocations For TMAs (Rs in Million)											
BE 2008-09											
I	**Badin**		5	Gulshan-e-Iqbal	324.955	**XII**	**Mirpurkhas**		**XVIII**	**Sukkur**	
1	Badin	120.967	6	Jamshed	300.671	1	Digri	91.316	1	New Sukkur	90.378
2	Matli	106.323	7	Kemari	218.143	2	Hussain Bux Marri	53.517	2	Pano Akil	108.914
3	S. Fazal Rahu	97.666	8	Korangi	274.397	3	Jhudo	98.121	3	Rohri	165.244
4	Talhar	78.538	9	Landhi	319.654	4	Kot G M	87.001	4	Salehpat	74.221
5	Tando Bago	107.216	10	Liaqatabad	298.834	5	Mirpurkhas	145.743	5	Sukkur	145.055
Total		510.710	11	Liyari	300.343	6	Sindhri	74.948	**Total**		583.812
			12	Malir	245.823	**Total**		550.646			
II	**Dadu**		13	N. Nazimabad	269.916						
1	Dadu	117.424	14	New Karachi	327.551	**XIII**	**Naushero Feroze**		**XIX**	**Tando Allah Yar**	
2	Johi	97.773	15	Orangi	387.856	1	Bhiria	81.115		Chambar	76.842
3	Khairpur N S	97.259	16	Saddar	273.922	2	Kandiaro	95.188		Jhundo Mari	72.301
4	Mehar	106.840	17	Shah Faisal	214.264	3	Mehrabpur	76.460		Tando Allah Yar	89.170
5	Sehwan	85.591	18	SITE	271.203	4	Moro	89.983	**Total**		238.313
Total		504.887	**Total**		5,188.360	5	Naushero Feroze	96.682			
						Total		439.428	**XX**	**T M Khan**	
III	**Ghotki**		**VIII**	**Kashmore @ KK**					1	Bulri S Karim	77.153
1	Daharki	73.788	1	Kandhkot	77.398	**XIV**	**Nawabshah**		2	T G Hyder	67.442
2	Ghotki	117.102	2	Kashmore	80.811	1	Daulatpur	70.190	3	T M Khan	65.938
3	Khan Garh	51.080	3	Tangwani	91.320	2	Daur	108.232	**Total**		210.533
4	Mirpur Mathelo	66.518	**Total**		249.529	3	Nawabshah	134.281			
5	Ubauru	85.897				4	Sakrand	97.210	**XXI**	**Thar at Mithi**	
Total		394.385	**IX**	**Khairpur**		**Total**		409.913	1	Chachro	140.507
			1	Faiz Ganj	70.383	**XV**	**Qamber**		2	Diplo	95.659
IV	**Hyderabad**		2	Gambat	81.901	1	Kamber	99.410	3	Mithi	114.371
1	Hyderabad (R)	94.883	3	Khairpur	143.593	2	Miro Khan	65.028	4	Nangarparkar	69.899
2	Hyderabad City	251.815	4	Kingri	72.808	3	Nasirabad	73.163	**Total**		420.436
3	Latifabad	196.326	5	Kotdiji	91.040	4	Qubo Saeed Khan	55.350			
4	Qasimabad	106.206	6	Nara	113.283	5	Sajawal Junejo	66.518	**XXII**	**Thatta**	
Total		649.230	7	Sobho Dero	88.585	6	Shahdadkot	77.022	1	Ghorabari	61.974
			8	Thari Mirwah	89.039	7	Warah	65.826	2	Jati	97.371
V	**Jacobabad**		**Total**		750.632	**Total**		502.317	3	Mirpur Bathoro	79.170
1	Garhi Khero	48.872							4	Mirpur Sakro	111.503
2	Jocobabd	94.970	**X**	**Larkana**		**XVI**	**Sanghar**		5	Shah Bunder	84.612
3	Thull	88.125	1	Bakrani	71.919	1	Jam Nawaz Ali	64.550	6	Sujawal	69.120
Total		231.967	2	Dokri	77.426	2	Khipro	113.683	7	Thatta	125.810
			3	Larkana	157.636	3	Sanghar	111.644	**Total**		629.560
VI	**Jamshoro**		4	Ratodero	90.971	4	Shahdadpur	113.930			
1	Kotri	100.088	**Total**		397.952	5	Sinjoro	81.058	**XXIII**	**Umerkot**	
2	Manjhand	70.301				6	Tando Adam	110.736	1	Kunri	97.644
3	Thana B Khan	82.522	**XI**	**Matiari**		**Total**		595.601	2	Pithoro	60.321
Total		252.911	1	Hala	61.359				3	Samaro	70.681
			2	Matiari	64.683	**XVII**	**Shikarpur**		4	Umerkot	151.429
VII	**Karachi**		3	Saeedabad	56.011	1	Garhi Yaseen	97.395	**Total**		380.075
1	Baldia	242.423	**Total**		182.053	2	Khanpur	92.434			
2	Bin Qasim	364.393				3	Lakhi	86.296			
3	Gadap	342.102				4	Shikarpur	117.434			
4	Gulberg	211.910				**Total**		393.559		**Grand Total**	**14,666.809**

S.#	SECTOR	No. of Schemes for 2007-08			Allocation for 2007-08			No. of Schemes for 2008-09			Allocation for 2008-09		
		On-Going	New	Total	On-Going	New	Total	On-Going	New	Total	On-Going	New	Total
	A- PROVINCIAL PROGRAMME												
1	Agriculture												
	I) Agriculture Proper												
	a) Plant Protection	0	1	1	0	10	10			0			0
	b) Agriculture Research	5	2	7	147	10	157	5	5	10	107	88	195
	c) Agriculture Educaiton	3	0	3	43	0	43	1	0	1	29	0	29
	d) Agriculture Mechanizaiton	5	1	6	230	100	330	5	4	9	225	370	595
	e) Agriculture Extention	9	2	11	965	20	985	8	8	16	480	610	1,090
	f) Agriculture Marketing	3	0	3	200	0	200	4	0	4	383	0	383
	Total Agriculture Propper	25	6	31	1,585	140	1,725	23	17	40	1,225	1,068	2,292
	II) Food Storage	1	1	2	22	28	50	2	1	3	75	100	175
	III) Animal Husbandry	17	11	28	927	327	1,253	21	9	30	837	768	1,604
	IV) Fisheries	7	9	16	185	362	547	9	5	14	529	273	801
	Total Agriculture	**50**	**27**	**77**	**2,718**	**856**	**3,574**	**55**	**32**	**87**	**2,665**	**2,208**	**4,873**
2	Forest, Wildlife & Coastal Dev. Authority	30	8	38	350	36	386	15	12	27	245	309	554
3	Industries	13	4	17	680	42	722	10	5	15	379	750	1,129
4	Mines and Mineral Development	39	9	48	900	350	1,250	24	6	30	552	1,029	1,581
5	Water and Power												
	I) Survey and Investigation	9	1	10	96	4	100	7	1	8	136	5	142
	II) Drainage / Reclamation & Tube wells	1	0	1	20	0	20	7	13	20	233	107	340
	III) Open Canal	61	50	111	1,949	440	2,389	58	34	92	1,765	403	2,169
	IV) Power Sector	3	0	3	441	0	441	3	4	7	235	515	750
	V) Special/Federally Funded/Donor Prog.												
	Total Water and Power	**74**	**51**	**125**	**2,506**	**444**	**2,950**	**75**	**52**	**127**	**2,369**	**1,031**	**3,400**
6	Physical Plannig and Housing												
	I) Jail Department	13	6	19	185	35	220	6	9	15	144	97	240
	II) Building Department	5	4	9	75	25	100	4	4	8	80	30	110
	III) S&GAD	15	5	20	125	30	155	10	8	18	86	157	243
	IV) Judicial Department	16	7	23	166	54	220	12	7	19	164	98	262
	V) Police Department	10	0	10	169	0	169	6	1	7	174	12	186
	VI) Finance Department	3	2	5	17	13	30	2	1	3	18	14	32
	VII) Excise and Taxation Department	3	2	5	11	1	12	0	1	1	0	10	10
	VIII) Chief Minister's Inspection Team	1	0	1	1	0	1	1	0	1	2	0	2
	IX) Provincial Ombudsman	1	0	1	15	0	15	0	1	1	0	24	24
	X) Sindh Assembly	0	2	2	0	104	104	1	1	2	20	95	115
	XI) Board of Revenue	1	3	4	10	25	35	3	2	5	29	13	42
	XII) Local Government Department	55	10	65	958	1,086	2,044	29	138	167	939	1,432	2,371
	XIII) Basic Development												
	Total Physical Planning and Housing	**123**	**41**	**164**	**1,732**	**1,373**	**3,105**	**74**	**173**	**247**	**1,656**	**1,981**	**3,637**

Annual Development Programme(ADP)													
S.#	SECTOR	No. of Schemes for 2007-08			Allocation for 2007-08			No. of Schemes for 2008-09			Allocation for 2008-09		
		On-Going	New	Total	On-Going	New	Total	On-Going	New	Total	On-Going	New	Total
7	Transport and Communication	322	187	509	6,592	1,069	7,660	362	224	586	6,628	2,372	9,000
8	Rural Development	1	0	1	80	0	80	0	0	0	0	0	0
9	Eduction												
	a) Elementry Education	17	5	22	640	63	702	19	0	19	412	0	412
	b) Teacher Education	8	2	10	70	10	80	5	1	6	35	12	47
	c) Educaiton Foundation	0	2	2	0	18	18	2	3	5	180	260	440
	d) Special Education	2	0	2	8	0	8	1	1	2	30	50	80
	e) Secondary Educaiton	14	5	19	251	113	364	15	5	20	524	517	1,041
	f) Technical Education	7	3	10	235	27	262	9	2	11	133	121	254
	g) College Education	21	8	29	688	98	786	21	9	30	654	443	1,097
	h) Education Administration	3	1	4	93	4	97	2	0	2	59	0	59
	i) Miscellaneous	8	6	14	140	42	182	9	4	13	70	1,200	1,270
	Total Education	**80**	**32**	**112**	**2,125**	**375**	**2,500**	**83**	**25**	**108**	**2,097**	**2,603**	**4,700**
10	Health												
	i) Teaching Hospital	19	12	31	410	181	591	23	4	27	589	47	636
	ii) Other Hospital	18	6	24	258	85	343	18	12	30	362	1,283	1,645
	iii) Medical Education	10	1	11	106	7	113	8	3	11	61	71	132
	iv) PHC Administration /Training	3	0	3	23	0	23	2	0	2	15	0	15
	v) Preventive Programme	9	0	9	165	0	165	9	2	11	160	338	498
	vi) Foreign Aided Projects	2	0	2	16	0	16	2	0	2	53	0	53
	vii) Nutrition Programme												
	Total Health	**61**	**19**	**80**	**977**	**273**	**1,250**	**62**	**21**	**83**	**1,239**	**1,739**	**2,978**
11	Sports Youth Affairs	4	7	11	60	16	76	5	8	13	85	153	238
12	Culture and Tourism	26	9	35	160	40	200	28	6	34	192	60	252
13	Auqaf	7	5	12	64	21	85	8	6	14	73	57	130
14	Manpower and Employment	9	2	11	56	14	70	10	3	13	100	270	370
15	Information and Archives	3	0	3	42	0	42	2	1	3	38	40	78
16	Stastistical & Economic Research	21	10	31	293	74	366	12	18	30	395	1,309	1,704
17	Science and Information Technology	16	6	22	253	25	278	12	2	14	260	600	860
18	Poverty Aleviation	1	6	7	11	285	296			0			0
19	Women's Development	10	2	12	70	10	80	11	5	16	111	62	173
20	Environment	8	8	16	52	48	100	6	3	9	30	120	150
21	Special Projects	56	34	90	4,950	1,426	6,377	72	19	91	4,377	1,546	5,923
22	Allocation for Emergent Works	1	0	1	500	0	500	1	0	1	500	0	500
23	Allocation for Priority Programme	1	1	2	260	840	1,100	1	1	2	270	1,680	1,950
24	Special Packages	28	4	32	3,671	1,468	5,139	26	6	32	596	5,470	6,065
25	Thar Package	6	0	6	179	0	179	3	0	3	51	0	51
26	Population Welfare Programme	2	0	2	55	0	55	1		1	24	0	24
27	Matching Allocation for Fed. Directives	14	4	18	1,131	348	1,479	12	9	21	1,014	1,490	2,504
28	Allocation for CCB Schemes	0	39	39	0	100	100	0	78	78	0	150	150
29	Antiquities							6	7	13	118	307	425
30	Allocation for Directives							0	1	1	0	1,600	1,600
	Total	**1,006**	**515**	**1,521**	**30,468**	**9,532**	**40,000**	**976**	**723**	**1,699**	**26,065**	**28,935**	**55,000**
	B-DISTRICT PROGRAMME						**10,000**						**12,000**
	C-FEDERALLY FUNDED PROGRAMME	**16**	**0**	**16**	**26,170**	**0**	**26,170**	**11**	**0**	**11**	**1,167**	**0**	**1,167**
	GRAND TOTAL	**1,022**	**515**	**1,537**	**56,637**	**9,532**	**76,170**	**987**	**723**	**1,710**	**27,232**	**28,935**	**68,167**

DONORS / LENDERS

ASIAN DEVELOPMENT BANK (ADB)

ADB is a multilateral development financial institution which extends loans and provides technical assistance to member countries (mostly developing nations) for broad range of development projects and programs. The work of ADB is aimed at the welfare of the people in Asia and the Pacific. It also promotes and facilitates investment of public and private capital for economic and social development of the region. ADB began its operations in Pakistan in 1968.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

The IBRD is an international organization which was established on December 27, 1945, with the objective to finance the reconstruction of nations, devastated by World War II. The scope its activities has been expanded to fight poverty by financing various states. IBRD provides loans to governments and public enterprises always with a government or sovereign guarantee for repayment.

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

IDA is part of the World Bank that assists the world's poorest countries by extending long term interest free or soft loans and grants, with repayment periods of 35 to 40 years. IDA loans address primarily education, basic health services, clean water and sanitation, environmental safeguards, business climate improvement, infrastructure and institutional reforms.

INTERNATIONAL FUND FOR AGRICULTURE DEVELOPMENT (IFAD)

IFAD is a specialized agency of the United Nations, which was established as an international financial institution in 1977. This agency was established to finance agriculture development projects for food production in developing countries.

SAUDI LOAN

Such loans have been offered on soft terms with 25 years repayment period and 3% service charges.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

USAID has been the principal US Agency to extend assistance to countries recovering from disasters; trying to escape poverty; and engaging in democratic reforms. It advances US Foreign Policy objectives by supporting economic growth, agriculture and trade, global health and democracy, conflict prevention and humanitarian assistance.

UK LOANS

An agreement was signed between Government of Pakistan and Commonwealth Development Corporation (CDC) in the UK for a loan to carry out Karachi Water and Sewerage Board (KW&SB) Project, which was declared effective on 07-12-1989 in London. Its salient features are:

1)	Amount of Loan	:	£ 25 million (Sterling Pounds)
2)	Rate of Interest	:	8% per annum
3)	Payment period	:	18 years including 5 years grace period.