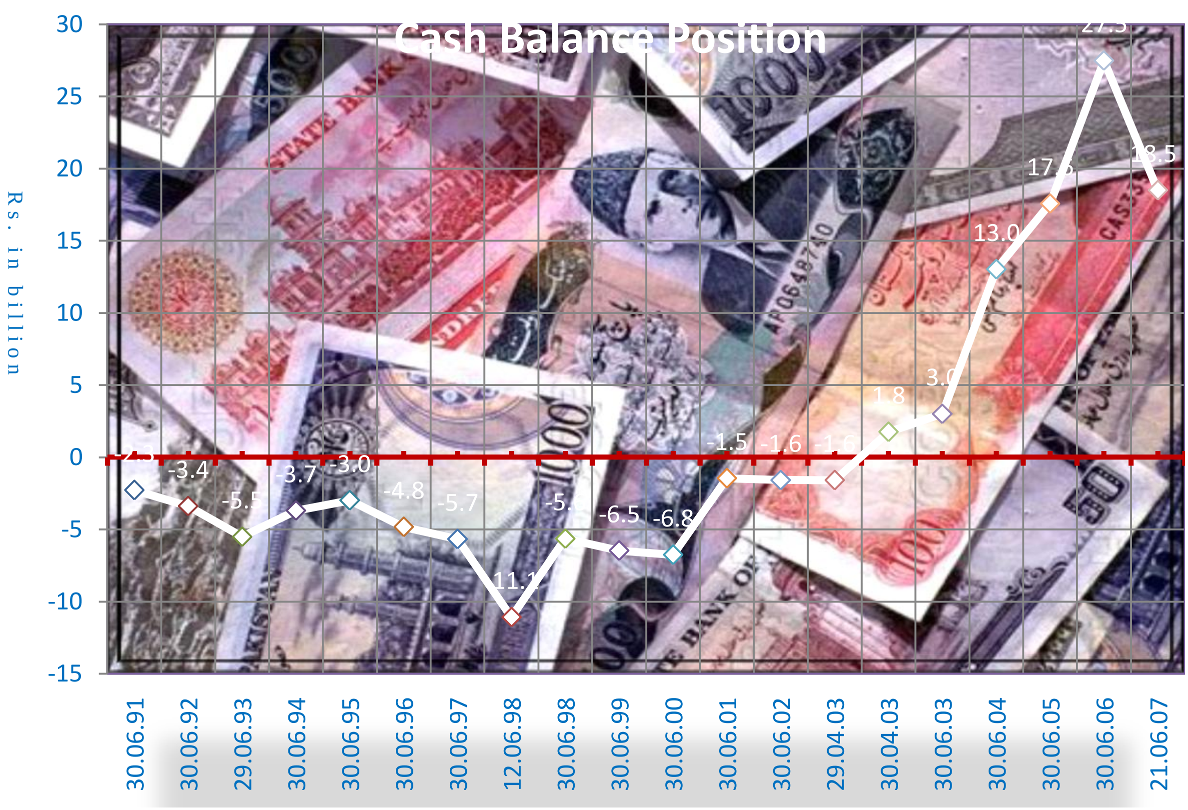
BUDGET ANALYSIS 2007-08



Finance Department
Government of Sindh

FOREWORD

Budget is a voluminous document which all governments prepare every year. In Sindh, the provincial budget comprises of eight volumes, all full of numbers and figures, coupled with mathematical formulas. At times budget documents become incomprehensible even for the educated, who do not have the background knowledge of public finance and budgeting. Budget Analysis is a brief commentary on the budget, which attempts to explain the facts behind the numbers and to translate them into common parlance.

Budget Analysis 2007-08 undertakes an exhaustive examination of various aspects of the provincial finances such as current revenue receipts and expenditures, capital financing and spending, development outlay, public account, local government finances, debt and contingent liability management, etc.

The most significant achievement of Government of Sindh in last few years is the effective and efficient management of public finances which remarkably improved cash reserves of the public exchequer and enabled the Provincial Government to expand its development outlay and improve public service delivery. Besides, we have been able to prematurely retire Rs. 15.59 billion of expensive CDLs and create three separate investment funds (whose deposits are likely to reach Rs. 25 billion approximately by 2007-08) to cater for the contingent liabilities and to meet our social responsibilities. It is because of these successful financial and fiscal policies / ventures that the Government of Sindh has been able to increase its spending in social and economic sectors and provide a record ADP of Rs. 50 billion (including Rs. 10 billion District ADP) for 2007-08.

The Budget Analysis 2007-2008 reviews the financial position of the Government of Sindh at the beginning of the financial year. It is hoped that this document would provide deep insight and useful data on various aspects of our resources and expenditures for policy makers, researchers, economists and others.

I must, of course, acknowledge with gratitude the valuable assistance I received from the officers and officials of the Finance Department in preparing this document. In particular, I appreciate the services of Mr. Abdul Aziz Uqaili, Additional Secretary (Resource), Mr. Abdul Wahab Soomro, Deputy Secretary (Resource-I), Mr. Aijaz Hussain Chandio, Section Officer (Resource-II), Mr. Muhammad Pathan Abro, Programmer (Resource Wing) and Mr. Ehtisham Asghar, Budget Examiner, Resource-II Section, whose concerted efforts and commitment enabled us to publish this document, after a gap of five years.

Malik Asrar Hussain
Finance Secretary
Government of Sindh

June 27, 2007

TABLE OF CONTENTS

TABLE OF CONTENTS

CONTENTS	PAGE #

7. DEBT AND CONTINGENT LIABILITY MANAGEMENT

8. PUBLIC ACCOUNT

9. MEDIUM TERM FISCAL FRAMEWORK (MTFF)

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

1. INTRODUCTION

1.1. WHY BUDGET ANALYSIS?

Generally 'Budget' is a reflection of the Government Policy Framework and allocation of resources to carry out the functions of the state based upon a vision and pursuing it through a set policy reform to improve the development outcome and the quality of life of its citizens. The Finance Department prepared budget 2007-08 for the Government of Sindh and presented it in Sindh Assembly on June 15, 2007. The budget document comprises of eight volumes with 3,747 pages. All these volumes are full of numbers, additions, subtractions, multiplications and divisions. In short, the budget document is studded with mathematics and arithmetic. There is hardly any English text to explain these figures. The Budget Analysis 2007-08 is not only an explanation of next year's budget, but it reviews the original and revised budget of 2006-07. Besides, it analyzes trends in receipts, expenditures and development allocations in past four years i.e. 2002-03 to 2005-06. Hence, the instant document is a concise commentary and comparative analysis on at least six budgets of the Government of Sindh.

We have attempted to briefly describe the basic concepts of public finance and budgeting wherever a new term / phrase appears in this document. Besides, relevant Articles of 1973 Constitution of the Islamic Republic of Pakistan (here after referred as "the Constitution") and Sections of other relevant laws have been quoted, where ever possible. This introductory chapter is also an executive summary or precise account of the eight remaining chapters of Budget Analysis, which overviews the budget 2007-08 in the backdrop of the original and revised budget 2006-07. '*Budget At A Glance*', which is a two page mathematical summary of original and revised budget 2006-07 and budget 2007-08, is provided at **Annexure-I** for the curious readers.

1.2 OVERVIEW OF BUDGET 2007-08

The preparation of Annual Budget Statement (ABS) is a constitutional requirement, which gives an account of all estimated receipts and expenditures of the province pertaining to revenue, capital and development components of the budget. The ABS also includes complete account of all receipts and disbursements in Public Account. Thus, a review of ABS 2007-08 gives a complete picture of the provincial budget. In this document we attempt to review and analyze various components and aspects of Sindh Budget 2007-08. A better idea of the BEs / allocations is given by a breakdown of the provincial budget into its components as listed below:

- Current Revenue Budget
- Current Capital Budget
- Development Budget
- Public Account Estimations

We have given a brief overview of receipts and disbursements in each of the four components of the provincial budget in this chapter, while the rest of the document contains a detailed review and an in-depth analysis of these components, along with their sub-modules.

1.2.1 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 1.1 summarizes the CCRs and the CRE. BE 2007-08 for CRRs are pitched at Rs.176.599 billion, while the CRE has been estimated at Rs 166.651 billion. Details are provided in Table 1.1.

Table 1.1			
CURRENT REVENUE BUDGET (Rs. In Million)			
RECEIPTS AND DISBURSEMENTS	**2006-07**		**2007-08**
	BE	**RE**	**BE**
A - CURRENT REVENUE RECEIPTS	**147,613**	**157,190**	**176,599**
Federal Revenue Assignment (Divisible Taxes)	63,469	64,512	81,717
Federal Grant in Aid	5,828	5,828	7,145
Provincial Receipts	21,808	22,145	25,301
Straight Transfers	37,902	47,802	42,055
District Support Grant	18,607	16,903	20,382
B - CURRENT REVENUE EXPENDITURE	**139,224**	**144,235**	**166,651**
a) Provincial Government	**82,470**	**84,757**	**93,905**
Total General Public Services	31,012	31,417	34,796
Public Order & Safety Affairs	18,186	19,416	19,897
Economic Affairs	12,340	13,393	14,476
Environment Protection	1,079	1,061	770
Housing and Community Amenities	411	557	422
Health	5,849	5,976	7,600
Recreattional, Culture and Religion	278	324	450
Education Affairs and Services	12,736	11,868	14,556
Social Protection	266	259	268
Others	312	485	669
b) Local Governments	**56,755**	**59,479**	**72,747**
District Governments	42,755	45,479	52,365
OZT Grant to Distt Govts, TMAs, Uas	14,000	14,000	20,382
NET REVENUE ACCOUNT (A - B) (+) SURPLUS / (-) DEFICIT	**8,389**	**12,955**	**9,947**

It is important to notice that

the Net Revenue Account is showing a surplus which is increasing over the years. The surplus for BE 2007-08 is Rs. 9,947 million as compared to Rs. 8,389 million estimated for 2006-07, showing a growth of 18.6%. This is primarily on account of increasing federal transfers, particularly the straight transfers. The detailed account of the Current Revenue Budget is at Chapter 2 (CRRs) and Chapter 3 (CRE).

1.2.2 CURRENT CAPITAL BUDGET

It includes Current Capital Receipts (CCRs) and Current Capital Expenditure (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.

Table 1.2

CURRENT CAPITAL BUDGET (Rs. In Million)

RECEIPTS AND DISBURSEMENTS	2006-07		2007-08
	BE	RE	BE
A - CURRENT CAPITAL RECEIPTS	**9,248**	**8,070**	**8,971**
Local Repayments (Recoveries from Loans and Advances)	1,904	1,726	2,201
SDSSP	345	345	0
Development Policy Credit (DPC) of World Bank	6,000	6,000	6,000
European Commission Grant	1,000	0	770
B - CURRENT CAPITAL EXPENDITURE	**11,727**	**12,363**	**7,942**
Repyament of Principal on Domestic Debt	8,117	9,299	4,567
Repyament of Principal on Foreign Debt	2,760	2,856	2,966
Transfers to Non Financial Institutions	500	100	300
Loan Advances to Government Servants	250	8	8
Government Investment	100	100	100
NET CAPITAL ACCOUNT (A - B)	**-2,479**	**-4,293**	**1,029**
(+) SURPLUS / (-) DEFICIT			

The Current Capital Budgets have usually remained in deficit as the debt servicing normally exceed the fresh loan receipts and repayments from borrowers. However, as is clear from Table 1.2 the Current Capital Account is in surplus by over Rs. 1,029 million for the year 2007-08. Bulk of the CCRs i.e. Rs. 6,770 million are coming from World Bank and European Commission while Rs. 2,200 million are due from local repayments. On the CCE side, Rs. 7,534 million are going in debt servicing while the remaining amount is earmarked for loans and advances, etc.

In-depth analysis of Current Capital Account is in Chapter 4.

1.2.3 DEVELOPMENT BUDGET

The development outlay, though extremely important for the economy and the general public, comes third in 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. Table 1.3 below summarizes the financing and expenditure on development side:

As we can see from the table, ADP 2006-07 (both original and revised) was well within the available resources, and hence, the surplus budget. On the contrary, the budget 2007-08 shows a deficit of Rs.12.341 billion, due to a gap between development financing and spending, which is likely to be filled up with enhanced federal transfers, particularly the straight transfers. The development budget will be scrutinized further in Chapter 6.

Table 1.3

DEVELOPMENT BUDGET (Rs. In Million)

RECEIPTS AND DISBURSEMENTS	2006-07		2007-08
	BE	RE	BE
A - RECEIPTS	**42,452**	**47,280**	**49,288**
Provincial Contribution	**10,980**	**12,787**	**16,237**
Net Revenue Account	8,389	12,955	9,947
Net Capital Account	-2,479	-4,293	1,029
Net Public Account	5,070	4,125	5,261
Carryover Cash Balance	13,323	18,037	12,500
Drought Emergency Relief Assistance (DERA)	250	250	510
Sindh Devolved Social Sector Programme (SDSSP)	1,952	1,952	0
Foreign Project Assistance (FPA)	5,373	3,206	5,660
Federal Grants for Development Projects	10,574	11,048	14,381
B - EXPENDITURE*	**42,149**	**47,197**	**61,630**
Provincial ADP	24,000	27,000	40,000
District Governments' ADP	8,000	8,000	10,000
Sindh Devolved Social Sector Programme (SDSSP)	1,952	874	1,079
Foreign Project Assistance (FPA)	5,373	3,206	5,660
Federal Grants for Development Projects	10,574	16,118	14,381
Drought Emergency Relief Assistance (DERA)	250	0	510
NET DEVELOPMENT BUDGET (A - B) (+) SURPLUS / (-) DEFICIT	**302**	**83**	**-12,341**

* Excluding District Governments' ADP

1.2.4 PUBLIC ACCOUNT ESTIMATIONS

Public Account comprises of receipt and disbursement transactions of the Provincial Government, which do not form 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.

The Public Account has remained in surplus over the years. It is primarily because of the fact that the receipts on account of trust funds, such as General Provident Fund (GPF) and Benevolent Fund (BF), have always exceeded the payments made under these funds. Hence, a surplus of Rs. 5,070 million was estimated in 2006-07 which has increased to Rs. 5,261 million in BE 2007-08. Chapter 8 of this document contains further explanation and analysis of the Public Account.

Table 1.4

PUBLIC ACCOUNT (Rs. In Million)

RECEIPTS AND DISBURSEMENTS	2006-07		2007-08
	BE	RE	BE
A - RECEIPTS	**193,095**	**236,972**	**239,331**
Assets	95,750	148,789	156,056
Deposits and Reserves	97,345	88,183	83,275
B - DISBURSEMENTS	**188,025**	**232,847**	**234,070**
Current Assets	104,855	131,211	130,511
Liabilities	83,170	101,636	103,560
NET PUBLIC ACCOUNT (A - B) (+) SURPLUS / (-) DEFICIT	**5,070**	**4,125**	**5,261**

1.2.5 LOCAL GOVERNMENT FINANCES

In addition to the various components of the budget, briefly stated above, the Budget Analysis 2007-08 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 2006-07 and 2007-08 have been included in that chapter.

1.2.6 DEBT AND CONTINGENT LIABILITY MANAGEMENT

Chapter 7 gives an interesting account of the overview and 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.

1.2.7 MEDIUM TERM FISCAL FRAMEWORK (MTFF)

Lastly, 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. A brief account of the MTFF and the analysis of the agreed MTFF targets in 2007-08 budget have been included at Chapter 9, 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 Federal Divisible Pool (FDP) share and Straight Transfers. The FDP 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 within the province.

2.2. FEDERAL TRANSFERS

Federal Transfers are the main source of income and constitute more than 85% of the CRRs of the province. The FDP Receipts and Straight Transfers are the two broad components of Federal Transfers. The FDP share is the major component of federal transfers, which is allocated on the basis of National Finance Commission (NFC) Award. The revenues on account of Straight Transfers, after collection from the respective federating units, are returned to them directly, without application of the NFC formula.

2.2.1 DIVISIBLE POOL TRANSFERS

Federal Tax Assignment or Assignment Account Transfer is the major component of the FDP, while DSG and subventions have been included in the FDP since 2000 and 2006 respectively. The NFC Award is a mechanism for distribution of financial resources among the federation and the provinces.

2.2.1.1 NATIONAL FINANCE COMMISSION (NFC)

Article 160 of the Constitution governs the distribution of the FDP revenues between the Federation and the Provinces. The President of Pakistan constitutes, at regular intervals not exceeding five years, a National Finance Commission (NFC), consisting of Finance Ministers of the Federal and the Provincial Governments and such other persons as may be appointed by the President, in consultation with the Governors of the Provinces.

It is duty of the NFC to make recommendations to the President as to the distribution between the federation and the provinces regarding:

i). The net proceeds of the taxes, mostly levied by the Parliament and provided in the Federal Legislative List (refer Article 70(4) and Fourth Schedule (Part I) of the Constitution) as per details given below:

  a. taxes on income including corporation tax but excluding taxes levied on income of remuneration paid out of the Federal Consolidated Fund (FCF);

  b. taxes on the sales and purchases of goods imported, exported, produced manufactured or consumed;

  c. export duties on cotton and other export duties as may be specified by the President; and

  d. Such other duties of excise and other duties as may be specified by the President.

ii). The making of grants-in-aid by the Federal Government to the Provincial Governments

Other responsibilities of the NFC include making recommendations to the President as to:

i). The exercise by the Federal Government and the Provincial Governments of the borrowing powers conferred by the Constitution; and

ii). Any other matter relating to finance referred to it by the President.

Thus, the FDP includes proceeds from income tax, sales tax, customs duties, central excise, General Sales Tax (GST) on services (CE mode), Capital Value Tax (CVT), and Wealth Tax (WT). The NFC makes recommendations for distribution of the revenues falling under the FDP. Such recommendations are codified in NFC Award or Presidential Order, as the case may be.

2.2.1.2 THE NFC AWARD / ORDER

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 expiration of the specific period, because consensus could not be achieved among all the stakeholders over the proposed formula during 2005 deliberations of the federation and the four provinces. Accordingly, the President exercised his powers by invoking Article 160(6) of the Constitution, amended the law relating to distribution of revenues between the Federal and the Provincial Governments, and promulgated *"Distribution of Revenues and Grant-in-Aid (Amendment) Order 2006"* (hereafter referred as the Order) effective from July 1, 2006.

The sharing arrangement of the FDP revenues comprises of three components:

- Revenue Assignment
- Grant-in-Aid (Subventions)
- DSG in lieu of OZT

Each of the above components is governed by a separate formula / arrangement for vertical distribution (between the federation and the provinces) and horizontal sharing (among the provinces).

2.2.1.2.1 Vertical Distribution

The distribution formula of each component is explained as under:

2.2.1.2.1.1 Revenue Assignment

The entire proceeds of the FDP, excluding $1/6^{th}$ of the total proceeds of sales tax (GST), comprises of the revenue assignment for distribution among 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. Thereafter, yearly incremental raise in the provincial share will be as under:

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

2.2.1.2.1.2 Grant-in-Aid (Subventions)

In addition to the above assigned share of the provinces, some amount is charged upon the share assigned to the federation each year as Grant-in-Aid of the revenues (usually called ‘subventions’). The tentative amount of the collective share of all provinces for vertical transfer from the federation has been specified, which progressively increases from 2006-07 to 2010-11.

2.2.1.2.1.3 District Support Grant (DSG)

As stated earlier, the excluded amount of $1/6^{th}$ share of GST is directly transferred to the provinces, as compensation in lieu of the abolished Octroi and *Zila* Tax (OZT), which used to be collected by the LGs until FY 1998-99.

The horizontal distribution of the above components of the FDP is discussed in the ensuing paragraphs.

2.2.1.2.2 Horizontal Distribution

The horizontal distribution of each component of the FDP, among the four provinces, is discussed in the following paragraphs:

2.2.1.2.2.1 Revenue Assignment

The horizontal distribution of the revenue assignment, which is the major chunk of the FDP revenues, has remained the most contentious issue during the deliberations of the successive NFC meetings. Sindh demands adoption of a multiple criteria, as per the best practice all over the (developed and developing) world, for distribution of the FDP transfers, while the Punjab sticks to the lone criteria of population. Sindh also demands constitution of an independent and apolitical NFC, like India.

According to the 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

2.2.1.2.2.2 Grant-in-Aid (Subventions)

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 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 has been determined arbitrarily as these are not based on any transparent and scientific formula. The Grant-in-Aid will 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 Federal Govt.	6,050	7,010	8,190	9,530	11,170
Budgeted Estimates	5,290	7,150			

Notwithstanding the fact that the Order of 2006 provides some relief to the provinces, their long standing demand for increase of the provincial share of the FDP to 50% in addition to subventions and the DSG remained unmet.

2.2.1.2.2.3 District Support Grant (DSG)

The Octroi and *Zila* Tax (OZT) was abolished in 1998-99 to purge multiple taxation 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 OZT comprised 90% of the total revenues of the LGs at the time of its abolishment. 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	100.00
Population (50 %)	57.36	23.71	13.82	5.11	100.00

The Provincial Governments transfer 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.

The horizontal distribution mechanism of such transfers has always been questioned by the Government of Sindh. As the logic demanded, the compensation on account of abolition of OZT, which was initially a local levy, was to be made on the basis of the actual collection of the sales tax. In the beginning such transfers were made on actual collection basis, which benefited Sindh, being major contributor of the OZT collection. However, such an arrangement was replaced by a formula which gave 62.5% weightage to the collection and 37.5% to the population, which hurt Sindh, being less populated as compared to the Punjab. The Order 2006 further increased the weightage of population to 50%, leaving behind only 50% weightage for the collection effort. This has severely affected the revenues of Sindh on this account.

2.2.2 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 FCF 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 Central Board of Revenue (CBR) 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. Therefore, Sindh receives handsome amount every year on account of GDS.

2.3 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:

2.3.1 TAX RECEIPTS

The Provincial tax receipts include:

- Taxes from Agriculture
- Transfer of Property Tax (Registration)
- Land Revenue
- Taxes on Professions, Trades and Callings
- Provincial Excise
- Stamp Duties
- Motor Vehicles
- Tax on Hotels
- Cotton Fees
- Electricity duty
- Others- All Types
- Sindh Development & Maintenance of Infra-Structure Cess

2.3.2 NON TAX RECEIPTS

The Provincial non tax receipts include:

- Interest
- Dividends
- Organs of State-Examination Fees
- Fiscal Administration-Audit
- Fiscal Administration-Receipts-in-aid of Superannuation
- Economics Regulation-Receipts under Weights and Measures and Trade Employment Act.
- Justice
- Police
- Jails
- Civil Defence
- Works
- Public Health
- Education
- Health
- Manpower Management
- Social Security & Social Welfare Measures
- Food
- Agriculture
- Fisheries
- Animal Husbandry
- Forest
- Cooperation
- Irrigation
- Receipts under Excise Duty on Mineral (Labor Welfare) Act, 1967
- Printing
- Stationery
- Industries
- Mines & Mineral
- Sugarcane Cess
- Extraordinary Receipts
- Miscellaneous Receipts-Other

2.4 REVIEW OF THE CURRENT REVENUE RECEIPTS (CRRs)

As indicated at Table 2.1, the CRRs of the province have grown averagely by 18.94% per annum during FYs 2002-03 to 2005-06, and are expected to grow by 21.50% at Rs. 157.599 billion in 2006-07, over actual receipts of Rs. 129.255 billion in 2005-06. For FY 2007-08, the CRRs are pitched at Rs. 176.599 billion at the estimated growth of 19.64% over BE 2006-07. Higher growth in RE 2006-07 and BE 2007-08 is mainly on account of higher growth in federal transfers, particularly the straight federal transfers.

Table 2.1

Current Revenue Receipts (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Federal Transfers	65,228	73,054	89,349	110,102	125,805	135,046	151,298	22.65	20.26	19.07
Provincial Receipts	11,282	12,585	15,776	19,153	21,808	22,144	25,301	15.62	16.02	19.29
Total	**76,510**	**85,639**	**105,125**	**129,255**	**147,613**	**157,190**	**176,599**	**21.61**	**19.64**	**19.10**
Federal Transfers (%)	85.25	85.30	84.99	85.18	85.23	85.91	85.67			
Provincial Receipts (%)	14.75	14.70	15.01	14.82	14.77	14.09	14.33			

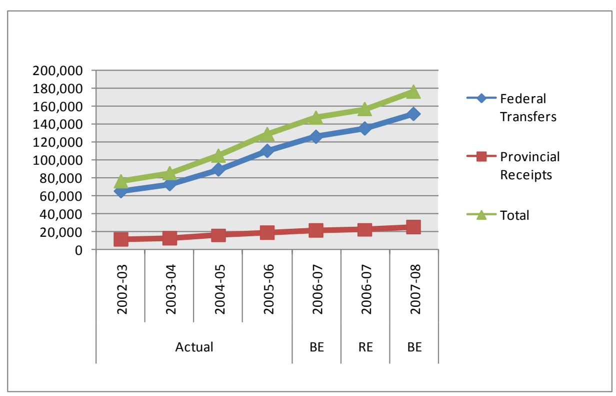
* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

2.4.1 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.

Figure 2.1



Federal transfers have grown @ 18.88 percent per annum over the years from 2002-03 to 2005-06. As per RE 2006-07 and BE 2007-08, federal transfers are likely to grow at 22.65% and 20.26% respectively. The federal transfers have been pitched at Rs.135.046 billion and Rs. 151.298 billion in FY 2006-07 and 2007-08 respectively.

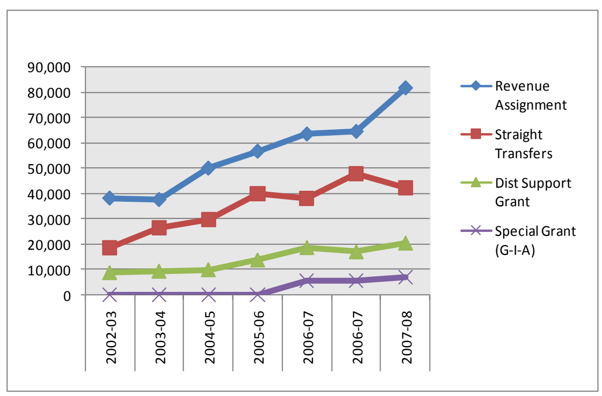
2.4.1.1 DIVISIBLE POOL TRANSFERS

Table 2.2 breaks up the federal transfers into its components and Figure 2.2 graphically presents the contribution of each component over the years.

Table 2.2										
Federal Transferss (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Revenue Assignment	38,165	37,578	49,992	56,683	63,469	64,512	81,717	**13.81**	**28.75**	**14.09**
Straight Transfers	18,409	26,263	29,554	39,733	37,902	47,802	42,055	**20.31**	**10.96**	**29.23**
Dist Support Grant	8,654	9,213	9,803	13,686	18,607	16,903	20,382	**23.51**	**9.54**	**16.51**
Special Grant (G-I-A)	0	0	0	0	5,828	5,828	7,145		**22.60**	
Total	**65,228**	**73,054**	**89,349**	**110,102**	**125,805**	**135,046**	**151,298**	**22.65**	**20.26**	**19.07**
* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.										
** Represents percentage increase in Budget Estimates 2007-08 over Budget Estimates 2006-07.										

Revenue Assignment continues to be the biggest component of the federal receipts, followed by straight transfers as shown in Figure 2.2. One can also notice that 28.75% growth in revenue assignment has significantly contributed to overall larger growth of 20.26 % in federal transfers in BE 2007-08. The blue line shows that there is a sharp incline in revenue assignment for BE 2007-08. On the other hand the red line of straight transfers dips from RE 2006-07 downwards to BE 2007-08. However, it is still higher than BE 2006-07. This has occurred because this year we received Rs.10 billion higher than the initial estimates (up from Rs.37.902 billion to 47.802 billion) while the BE 2007-08 was fixed at Rs.42.055 billion by the Federal Finance Ministry. It is strongly believed that this estimate will be revised upwards towards to the end of the FY 2007-08 which, together with the higher carryover cash balance, will fill the deficit of the budget.

Figure 2.2



2.4.1.1.1 Revenue Assignment

The composition and trends of the revenue assignment 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.

Table 2.3

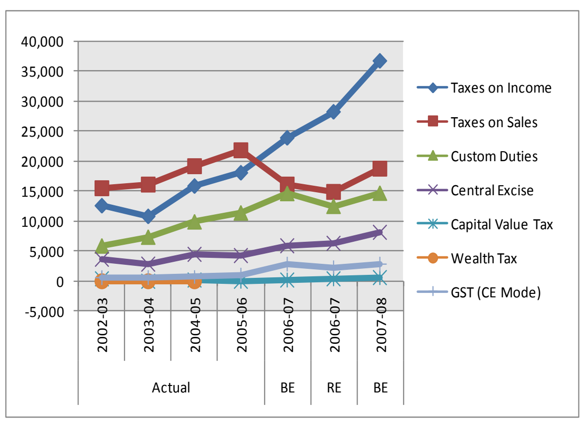
Revenue Assignment (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Taxes on Income	12,470	10,678	15,764	17,986	23,845	28,210	36,752	56.85	54.13	12.98
Taxes on Sales	15,447	16,099	19,105	21,790	16,023	14,809	18,621	-32.04	16.22	12.15
Custom Duties	5,830	7,317	9,902	11,408	14,685	12,526	14,742	9.80	0.39	25.08
Central Excise	3,506	2,774	4,391	4,227	5,806	6,174	8,107	46.07	39.64	6.43
GST (CE Mode)	510	583	667	919	2,839	2,326	2,872	153.00	1.16	21.71
Capital Value Tax	400	100	200	0	271	467	622		129.54	-95.00
Wealth Tax	2	27	-36							
Total	**38,165**	**37,578**	**49,992**	**56,683**	**63,469**	**64,512**	**81,717**	**13.81**	**28.75**	**14.09**

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

Revenue Assignment has grown at the average annual rate of 14.09% from 2002-03 to 2005-06. Based on the estimates provided by the Federal Government, the Revenue Assignment for 2007-08 has been pitched at Rs. 81.717 billion or 28.75% greater than BE 2006-07. This growth is largely accounted for by 54.13% increase in *taxes on income* in BE 2007-08 over BE 2006-07. 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.

Figure 2.3



The *customs duties* have rapidly grown at an average annual increase of over 25% during FY 2002-03 to 2005-06, but such duties are projected to stagnate during the CFY and the next FY. Although the RE 2006-07 of Rs. 12.526 billion is 9.8% higher than the actual receipts of FY 2005-06 (Rs. 11.408 billion), but it was revised and reduced later in the CFY by 17.34% as compared to BE 2006-07 set at Rs. 14.685 billion. Again, the BE 2007-08 is marginally above the BE 2006-07 @ 0.39%.

The *taxes on sales* have declined by 32% in RE 2006-07 from 2005-06 as the red line in Figure 2.3 represents, while the economy on the whole is growing and due to inflationary trends, prices of goods and services are increasing sharply. The GST being 15% of the price of goods and services sold, ought to have increased during the year. This anomaly needs to be further probed into.

2.4.1.1.2 Grant-In-Aid (Subventions)

Grant-in-Aid or subvention is received by the province as a budgetary support for creating fiscal space. It is given to provinces as compensation due to revision in the law pertaining to the distribution of resources between the federation and its units. Sindh's share in Grant-in-Aid is 21% of the funds reserved by the Federal Government and has been budgeted at Rs 7,145 million for FY 2007-08, which is 22.60% increase over BE 2006-07.

2.4.1.1.3 District Support Grant (DSG)

DSG is the second largest component of the federal receipts, after revenue assignment. This grant has increased on average at 16.51% per annum over the period from 2002-03 to 2005-06. According to RE 2006-07 communicated by the Federal Government, DSG will increase by 23.51% at Rs 16.903 billion over the actual receipts of Rs. 13.686 billion for the year 2005-06. The BE 2007-08, however, has been pitched at Rs. 20.382 billions which is 9.54% growth over BE 2006-07.

2.4.1.2 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

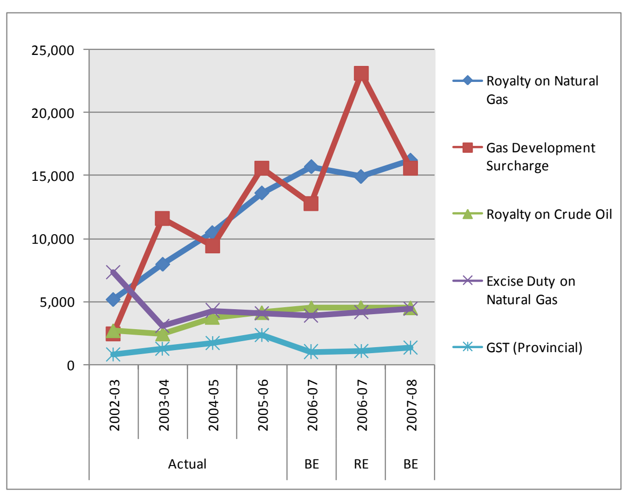
Straight Transfers (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Royalty on Natural Gas	5,180	7,975	10,481	13,626	15,713	14,925	16,223	9.53	3.25	38.04
Gas Development Surcharge	2,451	11,595	9,396	15,620	12,815	23,109	15,608	47.94	21.80	85.40
Royalty on Crude Oil	2,635	2,379	3,703	4,087	4,467	4,488	4,468	9.82	0.02	15.75
Excise Duty on Natural Gas	7,327	3,079	4,297	4,099	3,886	4,197	4,448	2.38	14.46	-17.60
GST (Provincial)	816	1,234	1,677	2,301	1,021	1,084	1,307	-52.89	28.04	41.30
Total	**18,409**	**26,263**	**29,554**	**39,733**	**37,902**	**47,802**	**42,055**	**20.31**	**10.96**	**29.23**

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

Straight transfers to Sindh have grown on average at the rate of 29.23% per annum over the period from 2002-03 to 2005-06. GDS, at the annual growth of 85.40%, has been the biggest contributor to this growth, followed by royalty on natural gas at 38.04%, while excise duty on natural gas is continuously pulling the overall growth down with 17.60% reduction per year, on an average.

Figure 2.4



The straight transfers are expected to reach Rs. 47.802 billion during 2006-07 at the growth rate of 20.31% over the actual transfers of Rs. 39.733 billion in FY 2005-06. These are, however, expected to increase only by 10.96% for FY 2007-08 over BE 2006-07 and have been pitched at Rs. 42.055 billion. Contrary to the buoyant growth of straight transfers during 2002-03 to 2005-06, the low estimated increase in BE 2007-08 is mainly due to lesser projected growth of GDS (i.e. @ of 21.8% as compared to the four years actual average growth of 85.4%). In order to evaluate the future potential of straight transfers, which are mainly on account of royalties, duties and surcharges on natural resources, the Finance Department plans to carry out a research, whose findings will be included in the Budget Analysis 2008-09.

2.4.2 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 19.29% per annum over the period from 2002-03 to 2005-06. RE 2006-07 shows that provincial receipts are growing by 15.62% at Rs. 22.145 billion over the actual receipts of 19.153 billion for FY 2005-06. These are expected to reach Rs. 25.301 billion in 2007-08 which is an increase of 16.02% over BE 2006-07.

Table 2.5

Provincial Own Receipts (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Tax Receipts	7,996	9,679	11,776	13,642	15,103	15,208	17,523	11.48	16.02	19.49
Non Tax Receipts	3,287	2,907	4,000	5,511	6,705	6,937	7,778	25.87	16.00	18.80
Total	**11,282**	**12,585**	**15,776**	**19,153**	**21,808**	**22,145**	**25,301**	**15.62**	**16.02**	**19.29**
Tax Receipts (%)	70.87	76.90	74.65	71.23	69.25	68.67	69.26			
Non Tax Receipts (%)	29.13	23.10	25.35	28.77	30.75	31.33	30.74			

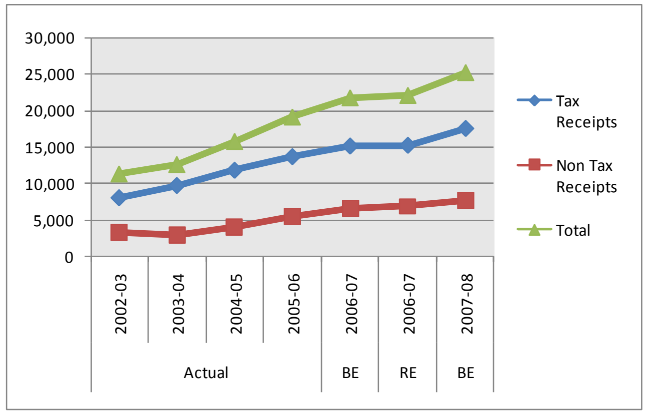
* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

As we can see from the above table, provincial tax receipts are the dominant component of Sindh's own revenues and have been contributing between 69% to 77% of the provincial own recourses over the years. The detailed analysis on both components of the provincial revenues is covered in the following paragraphs.

Figure 2.5

2.4.2.1 TAX RECEIPTS



Tax receipts have remained the dominant source of provincial own receipts, contributing at 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, Sindh Development and Maintenance of Infrastructure (SD&MI) Cess, etc.

As shown in Table 2.6 and Figure 2.6 the overall tax receipts have increased on average at 19.49% per year during the years 2002-03 to 2005-06. These were expected to increase by 11.48 % in 2006-07 owing to slower growth of indirect taxes (only 12.17% as compared to four year average of 23.33). The total provincial tax receipts have been pitched at Rs. 17.523 billion for the year 2007-08, which is 16.02% increase over BE 2006-07.

Table 2.6

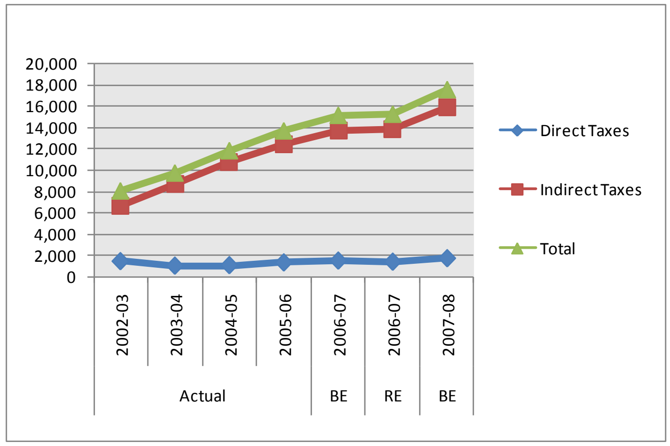
Tax Receipts (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Direct Taxes	1,419	1,015	1,062	1,305	1,470	1,370	1,684	4.98	14.56	-2.76
Indirect Taxes	6,576	8,664	10,714	12,337	13,633	13,838	15,839	12.17	16.18	23.33
Total	**7,996**	**9,679**	**11,776**	**13,642**	**15,103**	**15,208**	**17,523**	11.48	16.02	19.49
Direct (%)	17.75	10.49	9.02	9.57	9.73	9.01	9.61			
Indirect (%)	82.25	89.51	90.98	90.43	90.27	90.99	90.39			

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

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 9.61% for the year 2007-08, whereas indirect taxes at 90.39% of the total tax receipts are continuously rising as a proportion of provincial tax revenue. This indicates greater reliance on indirect taxes and reflects inefficient management of levy and recovery of direct taxes.

Figure 2.6



2.4.2.1.1 Direct Taxes

Direct taxes of the province are given in Table 2.7 and graphically shown in Figure 2.7. On average, direct taxes have reduced by 2.76% per annum over four year period (2002-03 to 2005-06). These have been pitched at Rs. 1,684 million for the year 2007-08, which is 14.56% growth over BE 2006-07.

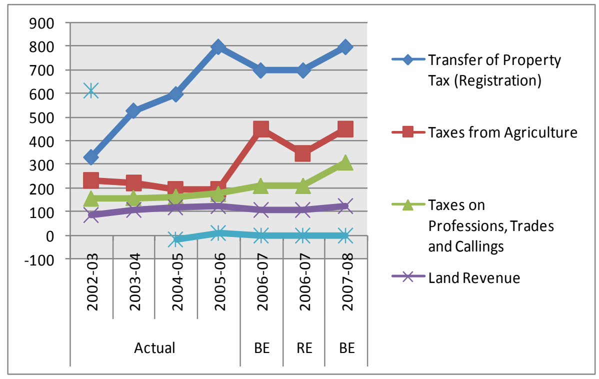
Table 2.7

Direct Taxes (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Transfer of Property Ta	332	529	599	800	700	700	800	-12.55	14.29	34.11
Taxes from Agriculture	232	221	197	198	450	350	450	77.21	0.00	-5.26
Taxes on Professions, T	156	158	164	176	210	210	310	19.60	47.62	4.07
Land Revenue	87	106	121	123	110	110	124	-10.61	12.73	12.17
Urban Immovable Prop	612		-18	8	0	0	0			
Total	**1,419**	**1,015**	**1,062**	**1,305**	**1,470**	**1,370**	**1,684**	**4.98**	**14.56**	**-2.76**

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

Figure 2.7



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.

2.4.2.1.2 Indirect Taxes

Table 2.8 and Figure 2.8 give the break up of indirect taxes, which reveal an average annual growth of 23.33% over the period from 2002-03 to 2005-06. Indirect taxes for 2007-08 have been pitched at Rs. 15.839 billion, which is an increase of 16.18% over BE 2006-07.

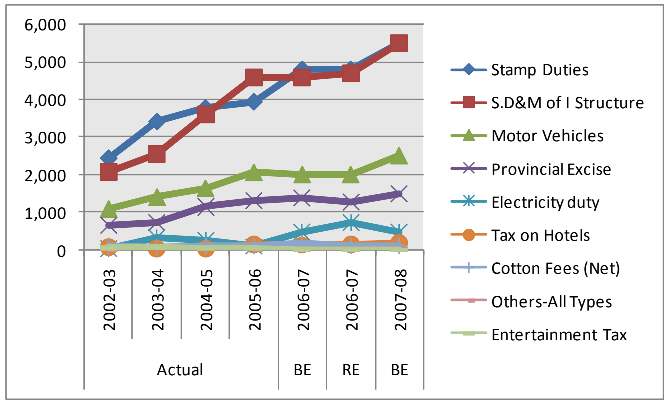
Table 2.8

Indirect Taxes (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Stamp Duties	2,434	3,410	3,775	3,938	4,800	4,800	5,500	21.89	14.58	17.40
S.D&M of I Structure	2,096	2,561	3,633	4,603	4,600	4,700	5,500	2.11	19.57	29.99
Motor Vehicles	1,089	1,404	1,636	2,055	2,000	2,000	2,500	-2.70	25.00	23.57
Provincial Excise	674	742	1,160	1,312	1,400	1,300	1,500	-0.93	7.14	24.90
Electricity duty	54	360	280	109	500	750	500	585.39	0.00	26.40
Tax on Hotels	75	36	54	165	140	160	200	-3.17	42.86	30.25
Cotton Fees (Net)	107	90	127	121	185	120	130	-1.18	-29.73	4.38
Others-All Types	0		21	2	8	8	9	361.63	12.50	
Entertainment Tax	48	62	28	30	0	0	0			-14.13
Total	**6,576**	**8,664**	**10,714**	**12,337**	**13,633**	**13,838**	**15,839**	**12.17**	**16.18**	**23.33**

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

Figure 2.8



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 17.40% and 30% in the past, followed by motor vehicle tax which has grown on average at 23.57% per annum, for the same period. SD&MI cess has also been contributing significantly and the revenue from this source is expected to increase to Rs. 5,500 million in the year 2007-08.

2.4.2.2 PROVINCIAL NON-TAX RECEIPTS

Province's non tax receipts have grown at 18.80% per year during four years from 2002-03 to 2005-06, as indicated in Table 2.9. These were estimated at Rs. 6,705 million in 2006-07 at the estimated growth of 25.86% over actual receipts of 2005-06. The BE 2007-08 are pitched at Rs. 7,778 million or 16% growth over BE 2006-07.

Table 2.9

Non Tax Receipts (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Extraordinary Receipts	390	242	979	2,852	1,800	1,900	2,114	-33.38	17.44	94.07
Interest	3	1	2	3	1,230	1,234	1,286	40823.64	4.56	2.07
Miscellaneous -Other	1,131	1,114	1,386	794	900	1,050	1,139	32.29	26.59	-11.14
Police	792	495	549	525	860	860	970	63.66	12.79	-12.79
Education	158	178	210	291	150	350	500	20.44	233.33	22.59
Irrigation	352	327	289	337	550	400	500	18.71	-9.09	-1.45
Works	57	97	102	117	175	135	170	14.93	-2.86	27.17
Others	404	452	483	592	740	707	789			
Total	**3,287**	**2,907**	**4,000**	**5,511**	**6,705**	**6,936**	**7,778**	25.86	16.00	18.80

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

2.4.3 COMPOSITION OF TAXES

To understand the extent to which the province relies on direct and indirect sources of its revenue, composition of direct and indirect tax revenue from federal and provincial side is shown at Table 2.10.

As we can observe from the table, for the year 2007-08 the federal indirect taxes, at 64.74%, are the biggest contributor to current tax revenue, followed by federal direct taxes at 21.91%. Provincial direct taxes contribute to the extent of 1.28% only, whereas provincial indirect taxes contribute 12.07% to the overall current tax revenue for the province.

Table 2.10

Composition (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Federal Direct Taxes	12,695	10,845	13,538	17,090	24,116	23,840	28,755	39.49	19.24	10.42
Provincial Direct Taxes	1,419	1,015	1,062	1,305	1,470	1,370	1,684	4.98	14.56	-2.76
Total Direct Taxes	14,114	11,860	14,601	18,396	25,586	25,210	30,439	37.05	18.97	9.23
Federal Indirect Taxes	44,002	51,777	60,621	75,002	77,255	87,340	84,976	16.45	9.99	19.45
Provincial Indirect Taxes	6,576	8,664	10,714	12,337	13,633	13,838	15,839	12.17	16.18	23.33
Total Indirect Taxes	50,579	60,440	71,335	87,339	90,888	101,178	100,815	15.85	10.92	19.97
Total Tax Revenue	**64,692**	**72,301**	**85,936**	**105,734**	**116,474**	**126,388**	**131,253**	**19.53**	**12.69**	**17.79**
Federal Direct (%)	19.62	15.00	15.75	16.16	20.70	18.86	21.91			
Provincial Direct (%)	2.19	1.40	1.24	1.23	1.26	1.08	1.28			
Total Direct (%)	**21.82**	**16.40**	**16.99**	**17.40**	**21.97**	**19.95**	**23.19**			
Federal Indirect (%)	68.02	71.61	70.54	70.93	66.33	69.10	64.74			
Provincial Indirect (%)	10.17	11.98	12.47	11.67	11.70	10.95	12.07			
Total Indirect (%)	**78.18**	**83.60**	**83.01**	**82.60**	**78.03**	**80.05**	**76.81**			
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**			

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

The trend analysis in Table 2.10 shows that on average, direct and indirect tax revenue has grown at 9.23% and 19.97% respectively, over the years 2002-03 to 2005-06. The province largely depends on indirect taxes (that range from 76.81% to 83.6% over the years) for its overall tax receipts. Out of the total indirect taxes major chunk comes from federal transfers (almost 65%).

It is further observed from the above table that provincial direct and indirect tax revenue at Rs. 17.523 billion, out of Rs. 131.253 billion, is only 13.35% 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) may be broadly categorized as under:

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

Article 120 of the Constitution requires the Provincial Government to prepare and submit before the Provincial Assembly the ABS containing estimated receipts and expenditures of the government. Further, the Constitution provides that the expenditure on revenue account be distinguished from other expenditure. Therefore, the Finance Department prepares a separate statement of each category of expenditure. We shall discuss and analyze the CRE in this chapter, while Current Capital Expenditure (CCE) and Development Expenditures (Revenue and Capital) are delved upon in Chapter 4 and Chapter 6 respectively.

3.2. CURRENT REVENUE EXPENDITURE (CRE):

The CRE is the operational expenditure of the government through which almost all governmental activities excluding new ventures are funded. It constitutes major component of the expenditure incurred from the PCF.

According to the Chart of Accounts (CoA) under New Accounting Model (NAM), which was adopted by the Provincial Government in FY 2005-06, the main categories of the CRE are given below:

- General Public Service
- Public Order and Safety Affairs
- Economic Affairs
- Environment Protection
- Housing and Community Amenities
- Health
- Recreational, Culture and Religion
- Education Affairs and Services
- Social Protection

3.3. REVIEW AND ANALYSIS

3.3.1. METHODOLOGY

The above classification has modified the earlier categorization of the CRE which was in vogue before the introduction of NAM in 2005-06. Therefore, the data about the actual CRE for the years from 2002-03 to 2004-05, on the basis of the above categorization, is not available. Accordingly, we have broadly reviewed the estimated CRE for 2006-07 and 2007-08 on new classification, while an in depth analysis of the CRE of previous years is carried out on the basis of the old classification.

3.3.2. THE CRE IN 2006-07 AND 2007-08 BUDGETS

Table 3.1 summarizes BE & RE 2006-07 and BE 2007-08.

The CRE for 2007-08 has grown by 19.70% over BE 2006-07. This is mainly on account of significant increase in the transfers to LGs and usual enhancement of allocations in other heads particularly Agriculture, Health, Education, etc. The break up is discussed here under:

3.3.2.1. 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 2006-07 and BE 2007-08, 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

Table 3.1

CURRENT REVENUE EXPENDITURE (Rs. In Million)

	2006-07		2007-08	%↑↓ over CFY	
	BE	RE	BE	BE *	RE**
General Public Services	**88,079**	**91,381**	**108,212**	**22.86**	**18.42**
Executive & Legislative Organs, Financial & Fiscal Affairs	29,433	29,615	33,136	12.58	11.89
Transfers	57,067	59,964	73,416	28.65	22.43
Total General Services	1,579	1,802	1,660	5.16	-7.86
Public Order and Safety Affairs	**18,186**	**19,416**	**19,897**	**9.41**	**2.48**
Law Courts	820	960	995	21.35	3.65
Police	16,253	17,235	17,400	7.06	0.96
Fire Protection	7	7	8	24.52	13.76
Prison Administration & Operation	693	724	753	8.65	4.09
Administration of Public Order	413	490	741	79.27	51.10
Economic Affairs	**12,340**	**13,393**	**14,476**	**17.31**	**8.09**
General Economic, Commercial & Labour Affairs	414	332	386	-6.78	16.04
Agriculture, Food, Irrigation, Forestry & Fishing	**9,569**	**10,717**	**11,661**	**21.86**	**8.80**
Agriculture	2,382	3,190	3,830	60.76	20.08
Irrigation	3,436	3,758	3,972	15.60	5.69
Land Reclamation	3,211	3,353	3,340	4.04	-0.38
Forestry	296	204	284	-3.91	39.26
Fishing	46	45	56	21.11	23.32
Food	148	115	121	-18.39	4.77
Fuel and Energy	50	52	58	14.91	10.76
Mining and Manufacturing	**184**	**161**	**236**	**28.64**	**46.46**
Manufacturing	36	36	36	0.00	0.00
Mining	148	125	200	35.63	59.81
Construction and Transport	2,137	2,146	2,160	1.06	0.67
Other Industries	36	36	33	-8.14	-6.79
Environment Protection	**1,079**	**1,061**	**770**	**-28.63**	**-27.46**
Rural	1,026	1,026	687	-33.09	-33.09
Pollution Abatement	32	30	74	130.68	149.99
Administration of Environment Proection	20	5	9	-54.08	74.40
Housing and Community Amenities	**411**	**557**	**422**	**2.70**	**-24.28**
Community Development	216	234	242	12.39	3.68
Water Supply	195	324	180	-8.01	-44.49
Health	**5,849**	**5,976**	**7,600**	**29.94**	**27.16**
Hospital Services	4,141	4,333	5,128	23.85	18.35
Public Health Services	234	219	218	-6.93	-0.71
Health Administration	1,475	1,425	2,254	52.87	58.25
Recreational, Culture and Religion	**278**	**324**	**450**	**61.80**	**38.78**
Recreational and Sporting Services	59	105	81	36.51	-22.32
Broadcasting and Publishing	158	161	225	42.70	39.96
Religious Affairs	61	59	144	136.03	143.95
Education Affairs and Services	**12,736**	**11,868**	**14,556**	**14.29**	**22.65**
Pre & Primary Education Affairs and Services	51	38	54	4.91	39.86
Tertiary Education and Services	5,380	4,514	6,029	12.06	33.56
Subsidiary Services to Education	225	199	233	3.58	17.12
Education Affairs and Services Not Elsewhere Defined	7,081	7,117	8,241	16.39	15.79
Social Protection	**266**	**259**	**268**	**0.68**	**3.60**
Administration	214	214	214	-0.35	-0.01
Others	52	45	55	4.93	20.65
Total Current Revenue Expenditure	**139,224**	**144,235**	**166,651**	**19.70**	**15.54**

* Represents percentage change for BE 2007-08 over BE 2006-07.
** Represents percentage change for BE 2007-08 over RE 2006-07.

warranting increase in contingent expenditures. Further, increasing quantum of transfer payments, particularly to LGs, explains this rising trend. Transfers made to / estimated for the DGs, TMAs and UAs will be discussed and analyzed in detail in Chapter 5. Transfers in general increased from Rs. 57.068 billion in BE 2006-07 to Rs. 73.416 billion in BE 2007-08 showing 28.65% 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.

3.3.2.2. 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 only 9.41% where allocations increased from Rs. 18.186 billion in BE 2006-07 to Rs. 19.897 billion in BE 2007-08.

3.3.2.3. ECONOMIC AFFAIRS

Expenditures on departments / sectors contributing economic development like Agriculture, Food, Irrigation & Land Reclamation, Forestry, Fishing, 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 in Economic Affairs for FY 2007-08 (Rs. 14.476 billion) is expected to grow by 17.31% over the budgeted amount in FY 2006-07 (i.e. Rs. 12.340 billion). Prominent increase is coming in agriculture and fishing sectors which are growing by 60.76% and 21.11% respectively.

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 comprise the agriculture related portion of the current budget. Similarly the industrial sector is covered separately under mining and manufacturing and comprises departments of Industries and Mines and Minerals. There is an increase of 28.64% in the allocation of mining sector during BE 2007-08 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.

3.3.2.4. 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. 5,849 million in BE 2006-07 to Rs. 7,600 million showing an increase of around 30%. The more than expected increase in this sector shows the commitment of the Provincial Government to improve services in the major public sector hospitals of the province.

3.3.2.5. 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 normal increase of 14.29% in the CRE which rises from Rs. 12.736 billion (BE 2006-07) to Rs. 14.556 billion (BE 2007-08).

3.3.3. REVIEW OF THE CURRENT REVENUE EXPENDITURE SINCE 2002-03

We shall now review and analyze the current and next year budgets vis-à-vis the estimates / actual expenditures of last four years (since 2002-03 to 2005-06) on the basis of Old Classification.

Table 3.2

Current Revenue Expenditure (Rs. In Million)							Growth (%)		Ave (%)
	Revised					BE	RE*	BE**	Revised
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2006-07	2007-08	2002-07
Establishment Charges	52,717	17,345	20,138	25,199	29,595	35,200	17.45	18.94	-13.44
Commodities and Services	2,953	14,460	10,405	13,689	18,204	19,036	32.99	4.57	57.58
Miscellaneous	144	150	39,015	45,525	9,322	11,271	-79.52	20.91	183.80
R&M of Durable Goods	296	1,609	2,552	2,674	5,292	4,679	97.92	-11.58	105.65
Purchase of Durable Goods	827	615	820	1,599	1,641	1,259	2.61	-23.23	18.69
Consumption Expenditure	**56,936**	**34,179**	**72,931**	**88,685**	**64,053**	**71,446**	**-27.77**	**11.54**	**2.99**
Grant and Subvention***	6,912	9,571	12,301	15,625	59,714	73,296	282.18	22.75	71.45
Pension	6,328	6,541	6,041	7,541	8,609	10,888	14.16	26.48	8.00
Interest	11,643	11,341	10,198	9,777	9,972	9,175	1.99	-7.99	-3.80
Subsidies	4,897	3,753	4,113	4,545	1,638	1,725	-63.97	5.34	-23.95
Others	1	120	120	120	250	120	108.14	-51.93	297.72
Transfer Payments	**29,781**	**31,326**	**32,772**	**37,607**	**80,182**	**95,205**	**113.21**	**18.74**	**28.10**
Total CRE	**86,716**	**65,504**	**105,703**	**126,293**	**144,235**	**166,651**	**14.21**	**15.54**	**13.56**
Consumption Expenditure (%)	65.66	52.18	69.00	70.22	44.41	42.87			
Transfer Payments (%)	34.34	47.82	31.00	29.78	55.59	57.13			
Total (%)	100.00	100.00	100.00	100.00	100.00	100.00			

* Represents percentage increase in Revised Estimates 2006-07 over Revised Estimates of 2005-06.
** Represents percentage increase in Budget Estimates 2007-08 over Revised Estimates 2006-07.
*** Includes transfers to local governments from 2006-07 onwards.

Figure 3.1

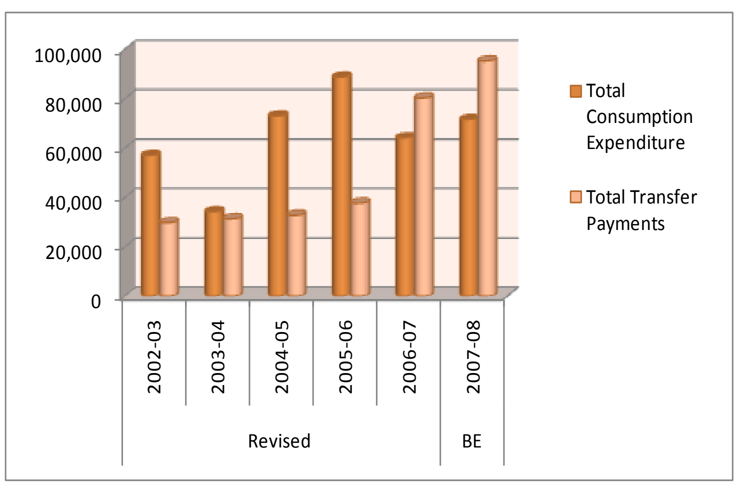


Table 3.2 and Figure 3.1 present the trend analysis and composition of the CRE, which has grown, on average, at 13.6% per annum over the years from 2002-03 to 2006-07. For the year 2007-08 it has been pitched at Rs. 166.651 billion which is 15.5% increase over the revised estimates of 2006-07. Further discussion on the CRE is bifurcated into:

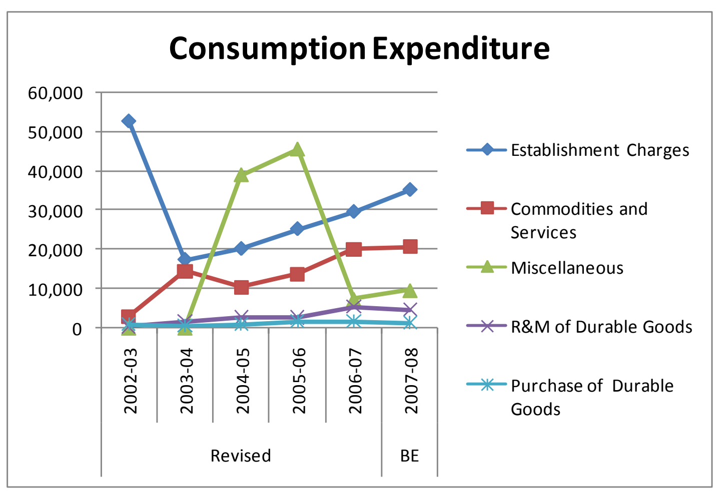
- Consumption / Transfer Payments Mode; and
- Functional Distribution Mode.

3.3.3.1. CONSUMPTION / TRANSFER PAYMENTS MODE

Table 3.2 shows that the consumption expenditure has grown on average at 2.99% whereas the average increase of transfer payments is 28.10% over the years (2002-03 to 2006-07). One can also notice from the table that over the years consumption expenditure has declined as a percentage of total current expenditure from 65.66% in 2002-03 to 42.87 % in 2007-08. Conversely, transfer payments, as a percentage of total current expenditure have increased from 34.34% in 2002-03 to 57.13 % in 2007-08. 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).

3.3.3.1.1. Consumption Expenditure

Figure 3.2

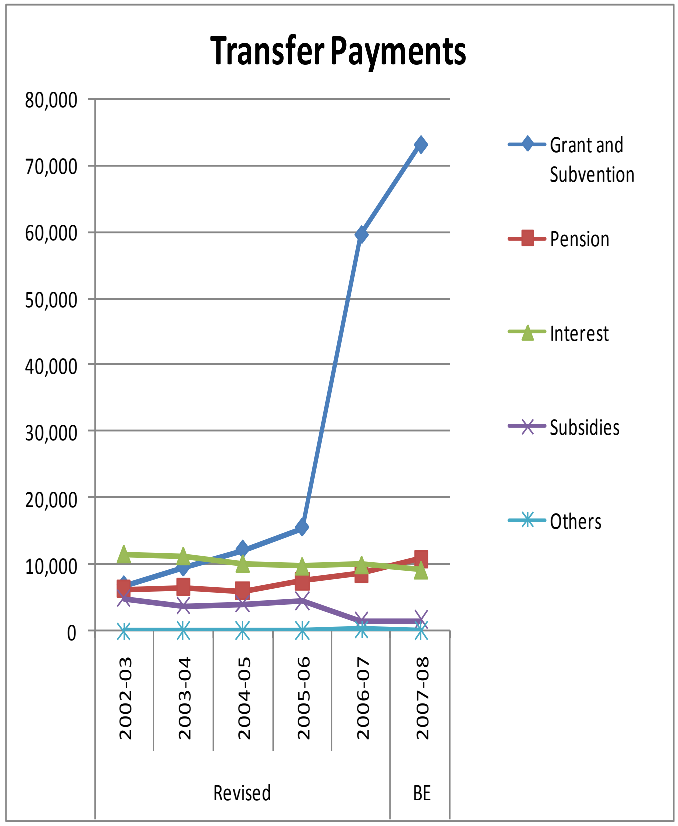


The consumption expenditure is the actual spending of the government machinery for its functioning. It includes establishment charges, purchase, repairs and maintenance of durable goods, commodities and services and other expenditures. Table 3.2 and Figure 3.2 reflect the trend of various components of consumption expenditure since 2002-03. Establishment charges constitute the largest portion of consumption expenditure followed by commodities and services.

Consumption expenditure has been pitched at Rs. 71.446 billion for 2007-08 which is an 11.54 % increase over RE 2006-07.

3.3.3.1.2. Transfer Payments

Figure 3.3



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 2002-03. 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. 95.205 billion for the year 2007-08 which is an 18.74% increase over RE 2006-07 of Rs. 80.182 billion.

Subsidies constitute an important component of transfer payments. The subsidy allocations have decreased by 23.95% from 2002-03 to 2006-07. The allocation for BE 2007-08 is Rs. 1,725 million which is a nominal increase of 5.34% over RE 2006-07. The allocations include subsidy for wheat procurement, subsidy on the electricity bills of agriculture tube wells, etc.

3.3.3.2. FUNCTIONAL DISTRIBUTION MODE

Another way of analyzing the CRE is by way of dividing its components into priority and non-priority areas. Table 3.3 reflects the trend in the two components of CREs since 2002-03. We can see from the table that priority expenditure is gradually increasing over the years, though very slowly, and hovers around 63% of the total CRE.

Table 3.3

Functional Distribution (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
PRIORITY EXPENDITURE	**46,138**	**41,452**	**51,296**	**63,510**	**86,641**	**88,224**	**105,522**	**38.91**	**21.79**	**11.24**
O&Z Grants	9,633	8,892	16,341	22,227	56,948	59,714	73,295	168.65	28.71	32.14
Social Services	19,417	22,450	25,224	32,209	19,367	18,539	23,050	-42.44	19.02	18.38
Debt Servicing, Investible funds, Grants	17,088	10,110	9,731	9,073	10,326	9,972	9,176	9.90	-11.13	-19.02
NON-PRIORITY EXPENDITURE	**30,454**	**27,638**	**30,193**	**43,111**	**52,584**	**56,011**	**61,129**	**29.92**	**16.25**	**12.28**
General Administration	8,555	8,534	9,346	15,591	21,121	21,965	26,442	40.88	25.19	22.15
Law and order	8,705	9,121	10,545	12,331	17,763	18,913	19,145	53.38	7.78	12.31
Economic Services	7,469	7,053	7,135	8,272	9,266	9,605	10,499	16.12	13.30	3.46
Community Services	2,458	1,942	2,270	2,192	3,494	3,640	3,198	66.02	-8.47	-3.74
Subsidies	3,242	507	507	4,431	820	1,638	1,725	-63.04	110.37	10.97
Other Expenditure	24	481	391	293	120	250	120	-14.52	0.00	129.24
Total:	**76,592**	**69,090**	**81,490**	**106,621**	**139,224**	**144,235**	**166,651**	**35.28**	**19.70**	**11.66**
Priority Expenditure (%)	60.24	60.00	62.95	59.57	62.23	61.17	63.32			
Non-priority Expenditure (%)	39.76	40.00	37.05	40.43	37.77	38.83	36.68			

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

3.3.3.2.1. Priority Expenditure

Over the years 2002-03 to 2005-06, priority expenditure has grown at 11.24% and has been pitched at Rs. 105.522 billion for the year 2007-08, which is 21.79% higher than Rs. 86.461 billion under BE 2006-07. We shall dissect and analyze *social services* component of the Priority Expenditure in the following paragraphs, while the *OZT grants* and *debt servicing* will be reviewed in Chapter 5 and Chapter 7 respectively.

3.3.3.2.1.1. Social Services

As shown at Table 3.4 expenditure on social services has increased at 18.38% annually in the past four years. It has been pitched at Rs. 23.050 billion for the year 2007-08, which is a 19.02% increase over Rs. 19.367 billion in BE 2006-07.

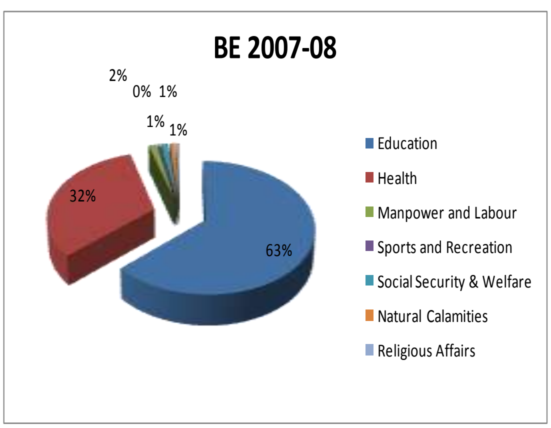
Table 3.4

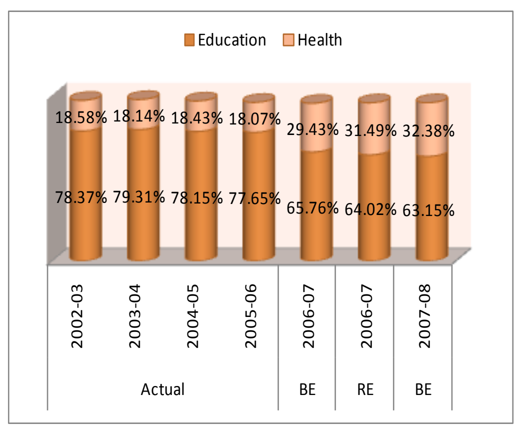
Social Services (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Education	15,217	17,806	19,713	25,011	12,736	11,868	14,556	-52.55	14.29	18.01
Health	3,608	4,073	4,648	5,820	5,700	5,837	7,465	0.28	30.95	17.28
Manpower and Labour	132	149	176	246	351	266	323	8.08	-8.03	23.14
Sports and Recreation	46	77	38	112	50	68	65	-39.43	32.23	34.56
Social Security & Welfare	193	237	256	327	255	227	284	-30.58	11.62	19.23
Natural Calamities	211	97	388	684	214	214	214	-68.78	-0.34	48.00
Religious Affairs	10	10	6	8	61	59	144	608.73	136.03	-5.98
Total	**19,417**	**22,450**	**25,224**	**32,209**	**19,367**	**18,539**	**23,050**	**-42.44**	**19.02**	**18.38**

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

Figure 3.4





Looking at the components of social services in the Table 3.4 and Figure 3.4, we find that *education expenditure* is the biggest component of this head and has been increasing at an average rate of 18.01% per annum during 2002-02 to 2005-06. Education is followed by *health expenditure*, which has grown by 17.28% during the same period. The other sub-components of social services constitute less than or around 5% of the total allocations for the sector.

3.3.3.2.2. Non-Priority Expenditure

As we can see from Table 3.3 above, over the years 2002-03 to 2005-06, non-priority expenditure has grown at 12.28% and has been pitched at Rs. 61.129 billion for the year 2007-08, which is 16.25% increase over Rs. 52.584 billion allocated under BE 2006-07. Further scrutiny of the various components follows as under:

3.3.3.2.2.1. General Administration

General Administration Expenditure has increased at the average of 22.15% over the years 2002-03 to 2005-06. It has been pitched at Rs. 26.442 billion for the year 2007-08 which is 25.19% increase over Rs. 21.121 billion allocated under BE 2006-07.

3.3.3.2.2.2. Law and Order

It involves expenditures on administration of Justice, Police, Civil Armed Forces, Jails, Civil Defense, etc. as reflected in Table 3.5. Law and order expenditure has increased on average at 12.31% in the past four years and has been pitched at Rs. 19.145 billion for the year 2007-08, which is a 7.78% increase over Rs. 17.763 billion provided under BE 2006-07.

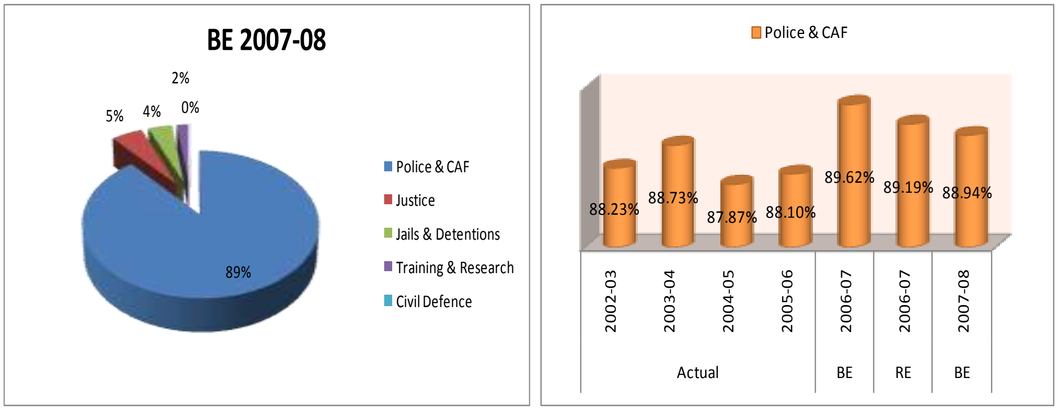
Table 3.5

Law and Order (Rs. In Million)	Actual				BE	RE	BE	Growth (%) RE*	Growth (%) BE**	Ave (%) Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Police & CAF	7,680	8,093	9,266	10,863	15,919	16,868	17,028	55.28	6.97	12.25
Justice	523	531	624	788	810	950	983	20.49	21.46	14.66
Jails & Detentions	369	342	470	464	693	724	753	56.05	8.65	7.92
Training & Research	120	140	164	196	334	364	372	85.62	11.25	17.79
Civil Defence	13	15	21	20	7	7	8	-63.51	24.52	14.69
Total	**8,705**	**9,121**	**10,545**	**12,331**	**17,763**	**18,913**	**19,145**	**53.38**	**7.78**	**12.31**

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

Figure 3.5



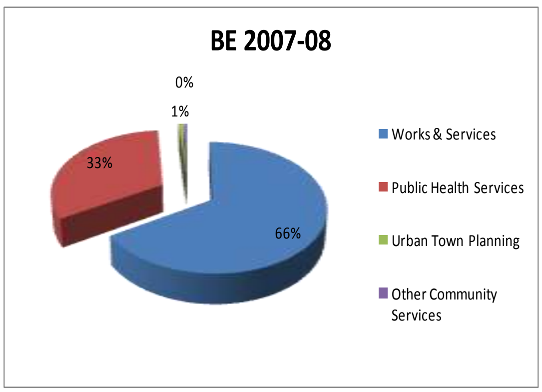
As one can notice in Table 3.5 and Figure 3.5, the biggest chunk of law and order expenditure for 2007-08 is allocated to police, which has been budgeted at Rs. 17.028 billion. Police consumes around 88 to 90% of the total expenditure allocation under law and order component.

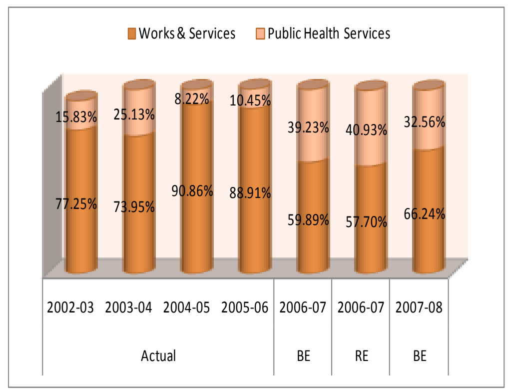
3.3.3.2.2.3. Community Services

Table 3.6 shows various components of community services. One can notice from the table and Figure 3.6 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 3.73% in the past (2002-03 to 2005-06), because of the fact that Public Health remained devolved at local level during the period and hence negligible allocations were made, while expenditure under Works increased by less than 1% on an average. The Public Health Engineering Department has been recently provincialized and its allocation has been enhanced by over 550% in BE 2006-07 over the actual expenditure of 2005-06. For the next year total allocation under Community Services has been pitched at Rs. 3,198 million which is 8.47% less than Rs. 3,494 million provided in BE 2006-07.

Table 3.6										
Community Services (Rs. In Million)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Works & Services	1,898	1,436	2,062	1,949	2,092	2,100	2,118	7.74	1.25	0.89
Public Health Services	389	488	186	229	1,370	1,490	1,041	550.09	-24.02	-16.17
Urban Town Planning	160	8	9	14	21	13	23	-3.38	7.56	-55.99
Other Community Services	10	10	12	0	10	37	16		57.79	
Total	**2,457**	**1,942**	**2,270**	**2,192**	**3,494**	**3,640**	**3,198**	**66.02**	**-8.47**	**-3.73**
* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.										
** Represents percentage increase in Budget Estimates 2007-08 over Budget Estimates 2006-07.										

Figure 3.6





3.3.3.2.2.4. Economic Services

Table 3.7 shows various components of expenditure on Economic Services. Expenditure in this category has increased at the average rate of only 3.46% in past four years. However, the budget estimates for the years 2007-08 have been pitched at Rs.10.499 billion as against Rs. 9,266 million allocated under BE 2006-07, showing a growth of 13.30%.

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 10.72% during the past four years, while its growth in BE 2007-08 is 15.6% over BE 2006-07. Likewise, Land Reclamation expenditure has increased by 10.9% during the last four years and its growth is only 4.04% in BE 2007-08. Agriculture and Animal Husbandry 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.

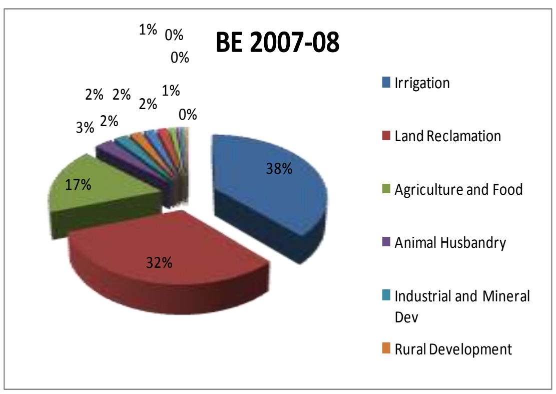
Table 3.7

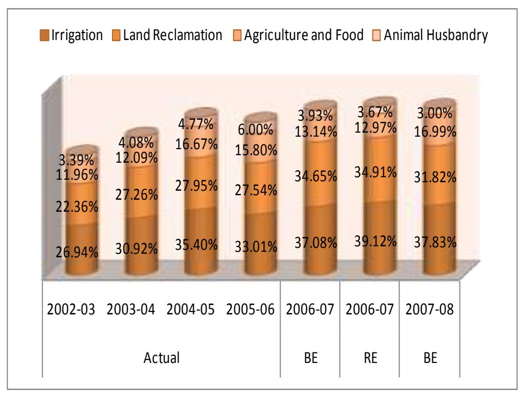
Economic Services (Rs. In Million)	Actual				BE	RE	BE	Growth (%) RE*	Growth (%) BE**	Ave (%) Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Irrigation	2,012	2,181	2,526	2,731	3,436	3,758	3,972	37.62	15.60	10.72
Land Reclamation	1,670	1,923	1,994	2,278	3,211	3,353	3,340	47.19	4.04	10.90
Agriculture and Food	893	853	1,189	1,307	1,218	1,246	1,784	-4.67	46.48	13.54
Animal Husbandry	253	288	340	496	365	353	315	-28.96	-13.69	25.19
Industrial and Mineral Dev	56	104	99	131	182	161	236	22.88	29.49	32.84
Rural Development	2,031	982	322	184	195	184	204	0.14	4.85	-55.10
Forestry	146	215	159	186	209	178	192	-4.40	-8.19	8.43
Stationary and Printing	107	135	134	155	182	161	174	3.91	-4.63	13.16
Land Management	195	204	237	280	101	43	103	-84.63	1.22	12.80
Fuel and Power	17	20	33	376	50	52	58	-86.20	14.91	180.79
Fisheries	39	44	51	72	46	45	56	-37.44	21.11	22.82
Transport and communication	16	18	21	25	45	45	42	85.33	-7.57	15.31
Cooperation	34	88	28	51	27	26	25	-49.58	-7.22	14.15
Total	**7,469**	**7,053**	**7,135**	**8,272**	**9,266**	**9,605**	**10,499**	**16.12**	**13.30**	**3.46**

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

Figure 3.7





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.

Both components of the Current Capital Budget and their transactions are explained and analyzed in the forthcoming paragraphs.

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 break up of the CCRs, followed by a brief explanation of each category. On average CCRs of the province have increased at 16.58% per annum over 2002-03 to 2005-06. Although such receipts for 2006-07 are expected to increase by 35.76% over actual receipts of 2005-06, these have been pitched at Rs. 16.471 billion in year 2007-08, which is a decrease of 4.51% over BE 2006-07. Receipts on account of foreign debt (Account I) and floating debt for state trading (Account II) constitute over 85% of the CCRs. Lesser estimated receipts in these accounts in 2007-08 as compared to BE 2006-07 explain the over all contraction in the CCRs of the province for the next year.

Table 4.1

Current Capital Receipts (Rs. In Million)

	Actual				BE	RE	BE	Growth (%) RE*	Growth (%) BE**	Ave (%) Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Investment Receipts	**0**	**0**	**0**	**1**	**105**	**0**	**105**	-	-	-
Recoveries of Loans and Advances										
From Distrcit Government/TMAs	0	374	0	0	1,513	1,513	1,912	-	26.41	-
From Non-Financial Institions	0	23	0	0	22	22	22	-	0.00	-
From Government Servants	56	177	257	112	97	157	159	39.78	64.94	25.99
From Private Sector (Cultivators)	1	0	0	1	2	2	2	189.26	0.00	-10.12
Subtotal	**57**	**574**	**257**	**113**	**1,634**	**1,693**	**2,096**	**1402.24**	**28.30**	**25.50**
Public Debt										
Domestic Debt (Permanent)	314	0	0	0	0	32	0	-	-	-
Floating Debt (Account No.I)	0	0	0	0	165	0	0	-	-	-
Foreign Debt (Permanent)	37	5,777	4,860	5,718	7,345	6,345	6,770	**10.96**	**-7.82**	**436.64**
Subtotal	**351**	**5,777**	**4,860**	**5,718**	**7,510**	**6,377**	**6,770**	**11.52**	**-9.85**	**153.50**
Floating Debt-Account No.II	6,831	6,079	801	5,638	8,000	7,500	7,500	33.03	-6.25	-6.20
Current Capital Receipts	**7,239**	**12,430**	**5,918**	**11,469**	**17,248**	**15,570**	**16,471**	**35.75**	**-4.51**	**16.58**

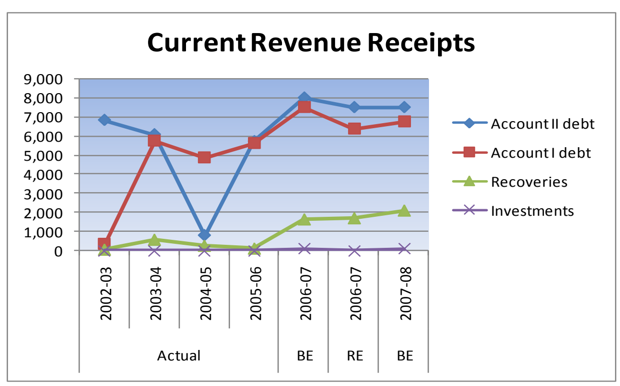
* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

4.2.1. INVESTMENT RECEIPTS

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

Figure 4.1



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. 2,095 million in 2007-08 under this head, against the revised estimates of Rs. 1,693 million in 2006-07.

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.

4.2.3. PUBLIC DEBT

Public Debt of the Provincial Government is of two types:

- Domestic Debt (permanent debt, floating debt and unfunded debt); and
- Foreign Currency Debt (long, medium and short term).

A detailed review and analysis about Debt and Contingent Liability of the Provincial Government can be found in Chapter 7. Here we have briefly stated the basic concepts of various categories of Public Debt and reviewed analyzed the CCRs and CCEs.

4.2.3.1. DOMESTIC DEBT (PERMANENT)

This type of debt is extended by Federal Government every year since 1970s, on account of Normal and SCARP CDLs. In case of former the amount is given to Government of Sindh while in the latter Federal Government directly remits 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. 32 million were communicated for RE 2006-07. For next year we shall be able to know the loan figures when communicated by the Federal Government in the revised estimates of the same year. There are no receipts for three years (2003-04 to 2005-06) because the Federal Government has discontinued Normal CDLs since 1998-99 and SCARP is also near completion.

4.2.3.2. FLOATING DEBT (ACCOUNT I)

Borrowing of a purely temporary nature with a currency of not more than twelve months is 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*. Fortunately, such type of debt has now become a history (of 1990s) for Sindh. The cash balance position of the province has greatly improved during the recent years. Therefore, there is no overdraft since 2002-03 and hence receipts were not shown for past four years. Although, Rs. 165 million were pitched for this purpose in the year 2006-07, which was later on revised to zero.

4.2.3.3. 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, DSP, etc. Foreign debt is the second highest component of the CCRs and has been pitched at Rs. 6,770 million for the year 2007-08.

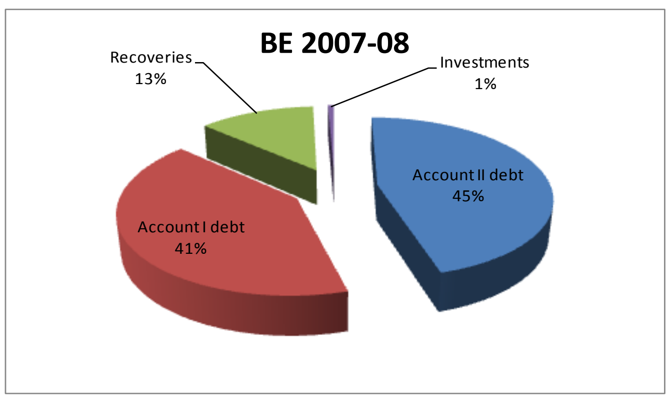
The estimated receipts on account of foreign loan for the next year include Rs. 6,000 million Development Policy Credit (DPC) of the World Bank (budgetary support) under Sindh Education Sector Reform Program (SESRP) and Rs. 770 million European Commission (EC) grant for Education sector.

4.2.3.4. 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 go-downs, 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. 7,500 million for the year 2007-08.

Figure 4.2 shows percentage contribution of each component towards overall CRRs for BE 2007-08.

Figure 4.2



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 in Table 4.2 and Figure 4.3.

Table 4.2

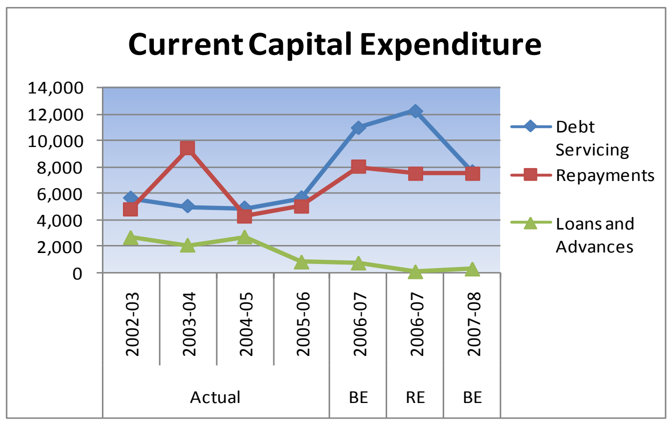
Current Capital Expenditure (Rs. In Million)	Actual				BE	RE	BE	Growth (%) RE*	Growth (%) BE**	Ave (%) Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Debt Servicing	5,619	4,988	4,860	5,643	10,977	12,255	7,634	117.18	-30.46	0.14
Repayments	4,758	9,388	4,260	4,991	8,000	7,500	7,500	50.26	-6.25	1.61
Loans and Advances	2,633	2,073	2,678	825	750	108	308	-86.91	-58.93	-32.07
Total	**13,009**	**16,449**	**11,798**	**11,459**	**19,727**	**19,863**	**15,442**	**73.34**	**-21.72**	**-4.14**

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

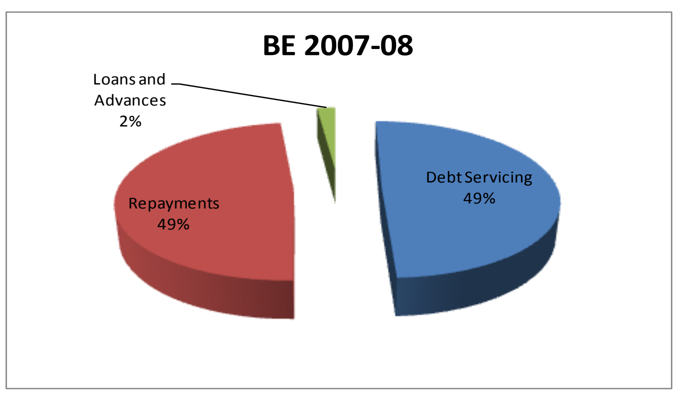
On average the CCE has shrunk by 4.14% annually from 2002-03 to 2005-06. As per RE 2006-07 it is likely to increase by 73.34% at Rs. 19.863 billion, over the actual outflows in 2005-06. But it is again expected to decline by 21.72 % at Rs. 15.442 billion in FY 2007-08.

Figure 4.3



As we can observe from the Figures 4.3 and 4.4, debt servicing, on average, has remained the largest component of the CCE in the past. For the FY 2007-08, however, debt servicing (both domestic and foreign) and repayments (on account of state trading) each constitute 49 percent of the total CCE.

Figure 4.4



4.3.1. DEBT SERVICING

The debt servicing under Capital Budget comprise of repayment of the principal amount of the borrowed money. The debt servicing, as we saw from Table 4.2 has barely grown at 0.14% annually, on average, over 2002-03 to 2005-06. In RE 2006-07, it shows 117.18% growth over actual payments of FY 2005-06. It has been pitched at 7,634 million for FY 2007-08 which is a 30.46% decline from BE 2006-07. As we shall discuss in Chapter 7 this declining trend is primarily due to premature debt retirement in last few years. The higher figures in 2006-07 and 2007-08 include the additional allocations earmarked for premature debt retirements.

Debt Servicing comprises of the following components:

4.3.1.1. FLOATING DEBT DISCHARGED

Ways and Means advances which are obtained from the SBP for financing the day to day cash balance deficits, if any, are repaid under this head. See paragraph 7.5.1 in Chapter 7 for further details.

4.3.1.2. PERMANENT DEBT DISCHARGED

This is the redemption of market loans liability. Paragraph 7.2.3. (Chapter 7) may be seen.

4.3.1.3. LOANS FROM FEDERAL GOVERNMENT

This pertains to repayment of the principal to the Federal Government. At paragraph 7.2.2 we have given further details about this type of debt.

4.3.1.4. DEBT RAISED ABROAD

Foreign Loans Principal amount is repaid under this head. For details see paragraph 7.2.1 in Chapter 7.

The debt servicing under the CCE represents repayment of principal amount of the loans, while the interest repayment is booked under the CRE. The payment is done by way of at-source deduction by the Federal Government from the monthly releases of the FDP transfers to the Provincial Government. An increase in this head mostly appears due to the impact of currency rate fluctuations in case of foreign loans or inclusion of new loans in re-payment schedule.

4.3.2. REPAYMENTS

These are the repayments of the principal amount of loan obtained from the commercial banks for financing the procurement operations of food-grains in Account No II. Expenditure on this account has grown nominally, on average, at 1.61 % per annum over 2002-03 to 2005-06. Practically speaking, this expenditure is related to capital receipts under the same head, in the same way as two sides of the coin are related to each other. What comes into the government kitty from commercial banks to purchase food grains goes out to same banks as repayment. It is just a loan-cash-purchase-sale-cash-repayment cycle that is completed in one financial year.

4.3.3. LOANS AND ADVANCES

Funds under this classification are provided for non-development activities of LG Institutions, Non-Financial Institutions and other organizations in the private sector including cultivators. These loans are advanced on certain specified terms and conditions. Loans to government servants used to be disbursed for construction / purchase of houses, motorcars, motorcycles, scooters and bicycles. This policy has now been discontinued since 2006-07.

Expenditure under this head has declined annually, on average, by 32.07 % per annum over 2002-03 to 2005-06. It also shows a huge decline in RE 2006-07 (by 86.91%) and BE 2007-08 (by 58.93%). One explanation is that the scheme of advancing loans to government servants has been discontinued.

5. LOCAL GOVERNMENT FINANCES

5.1. INTRODUCTION

The devolution plan was implemented in the country by promulgating Sindh Local Government Ordinance (SLGO), 2001, which replaced the erstwhile Local Government Ordinance, 1979. Prior to August 14, 2001, there were four levels of municipal government in the *urban areas* viz. Town Committees, Municipal Committees, Municipal Corporations and Metropolitan Corporations. *Rural areas* were supposed to have a three-tier system of local governance i.e. Union Councils, *Tehsil* or *Taluka* Councils and District Councils. Practically, however, Union Councils and District Councils existed, which were elected on the basis of universal adult franchise. Broadly, two types of functions were allocated to LGs i.e. compulsory and optional. *Compulsory functions* for urban local councils included sanitation and solid waste disposal, water supply, drainage, primary education, fire-fighting, public streets, street lighting, social welfare, etc. while major functions of rural councils included provision, maintenance and improvement of public roads, water supply, drainage, primary schooling, medical and veterinary services.

The new LG system under SLGO 2001 envisages three tiers of local governance: District, *Taluka* / Town, and Union. Each tier is headed by a *Nazim*, who is elected by the respective Assembly / Council (*Zila*, *Taluka* and Union). Each level and has an administrative structure such as District Government (DG), *Taluka* / Town Municipal Administration (TMA) and Union Administration (UA). The elected bodies / houses are headed by *Naib Nazim* who act as their speaker. The DGs have been assigned certain functions of local nature which were previously performed by the Provincial Governments including district development planning, revenue collection, education, health, community development, infrastructure development, agriculture extension, etc. while the TMAs have been made responsible mostly for the municipal functions.

5.2. PROVINCIAL FINANCE COMMISSION (PFC)

Financing of the LGs, as per their requirement, is crucial for their success. In order to ensure that various tiers of the LG perform their functions effectively, efficiently and autonomously the system of resource allocation for them has been institutionalized through Provincial Finance Commission (PFC). Under Section 120-A of SLGO, 2001, Governor of the province constitutes PFC, in a prescribed manner, which is then required under Section 120-D of the said Ordinance to distribute between the Provincial and the LGs, the proceeds of the Provincial Divisible Pool (PDP).

5.2.1. 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, 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 $1/6^{th}$ 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.

5.2.2. PREVIOUS PFC AWARDS

PFC, since its inception has given five Awards for distribution of funds amongst various tiers of the LG. The first award was for the FYs 2002-03 and 2003-04 while the latest 2007 Award is for three consecutive years i.e. from 2007-08 to 2009-10.

The First PFC Award estimates the share of Provincial and District Governments separately for current and development expenditures from two separate pools. For current expenditure, divisible Pool comprised the following heads:

- Federal Divisible Pool transfers,
- Straight transfers
- Provincial tax revenue (excluding district tax revenue).

This divisible Pool divided between the province and LGs as Provincial Retained (60%) and Provincial Allocable (40%).

The bench marks for current expenditure for the Provincial and DGs were determined on the basis for their budgetary current expenditure figures for the year 2002-03. These estimates were taken as given and the share for the province and districts worked out to be 67% and 33% respectively. The formula for the *horizontal distribution* of recurrent allocations during tenure of the first PFC Award primarily works on the principle of fiscal need, fiscal capacity and / or effort and was given as under:

- Population 50%
- Backwardness 17.5%
- Tax Collection 7.5%
- Transitional Transfers 25%

The indicator "Transitional Transfers" was added which represents gap filling approach to maintain recurrent expenditures after allocating funds on the basis of other three indicators viz. Population, Backwardness and Tax Collection in order to safeguard the districts.

Divisible Pool for development expenditure was determined after reserving funds in Annual Development Programme (ADP) for counterpart funding for foreign aided Projects and reserving 5% of the remaining ADP for compensating governments that may not have adequate funds on the basis of distribution formula. The divisible pool is then distributed in the ratio of 30:70 between the province and districts respectively. The formula for its horizontal distribution was:

- Population 50%
- Backwardness 30%
- Equal Share 10%
- Backlog on going scheme 10%

The PFC formula sought to provide incentives for scheme completion in the inter district distribution of development fund. Amounts equivalent to remaining costs of completion were budgeted in the LG shares in accordance with the location of the ongoing schemes.

Second PFC Award was given in 2004. This time the practice for specifying separate divisible pool for current and development expenditure was done away with. After deducting funds for priority expenditures the remaining PDP was divided between province and districts in the ratio of 45:55.

The horizontal distribution of funds among various DGs, for the FYs 2004-05 and 2005-06, from the allocable amount was decided as per following agreed criteria:

- Population 50 %
- Backwardness 17.5%
- Tax Collection 7.5%
- Transitional Transfers 20%
- Performance 5%

In this award the share of transitional transfers was reduced to 20% and an incentive criterion of performance was added. However, since the data on performance benchmark for districts was not available, its percentage (5%) was added to the transitional transfer component for smooth flow of funds to districts.

In the PFC Award for FY 2006-07 the fiscal issues of districts were addressed in a relatively more logical manner in comparison to previous Awards. The distribution of allocable amount among the districts was made on the principle that the salary of all employees of the DGs was protected in the first instance and the remaining amount was distributed on the basis of the following agreed indicators:

- Population 40 %
- Service Infrastructure 35%
- Development Needs 15%
- Performance 10%

5.2.3. PFC AWARD 2007

In the recent meeting of the PFC, held on 26th May 2007, the PFC Award 2007 was unanimously approved for three consecutive years. As, in the case of earlier awards PDP comprises of the same heads and after protecting the priority expenditures the provincial divisible pool was divided between Province (PRA) and local governments (PAA) in the ratio of 45:55. It was decided that the salary of all employees of the respective DGs will be protected from the PAA in the first instance. The remaining amount shall be distributed as per following criteria:

- Population 40%
- Service Infrastructure 35%
- Development needs 10%
- Area 5%
- Performance 10%

The latest Award, introduces an indicator for ‘Area’, which is assigned 5% weightage. The intention is to facilitate districts with larger territorial boundaries but meager resources to develop and maintain their infrastructures or to extend service delivery to the scattered populace, by providing additional fiscal support to such districts.

The proportion of share under performance indicator, during the first year 2007-08, have been proposed to be distributed equally amongst all districts as the benchmarks and indicators for performance were not conveyed to the DGs. However, 10% allocation under this indicator for the next two years will be based upon the performance of each district. The performance criteria will most likely be evaluated on the basis of dual criteria of revenue generation (5%) and primary school enrollment (5%). A PFC Committee, headed by Additional Chief Secretary (Development), P & D Department, will further deliberate upon the issue and develop a procedure to be adopted for allocation of resources under the performance yardstick.

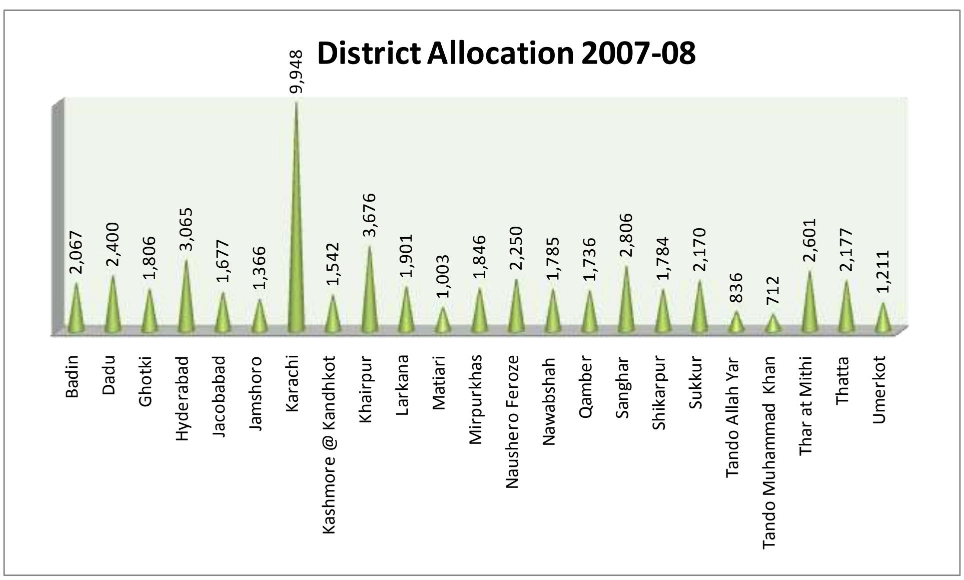
The PAA at 55% of the net PDP was worked out to be Rs. 52.365 billion during the FY 2007-08, which is 22.5% higher than the share allocated to the DGs under 006-07 at Rs. 42.754 billion. The share assigned to each district, based on the formula mentioned above, is shown in Table 5.1 and Figure 5.1 represents it graphically. Karachi City District Government (KCDG) at Rs. 9,948 million takes 19% of the revenues from the PAA, while the remaining 81% is shared by remaining 22 DGs. In addition to the allocation of resources to districts form PAA Table 5.1 shows their share from OZT grant. Undoubtedly, being the biggest contributor of the defunct OZT (now GST) all over the country, Karachi gets 79% from the historic share of the DSG / OZT grant.

Table 5.1

Indicative District Share (Rs. In Million)

	Provincial Allocable			OZT	Total
	BE	RE	BE	BE	BE
District	2006-07	2006-07	2007-08	2007-08	2007-08
Badin	1,626	1,730	2,067	47	2,114
Dadu	1,873	1,992	2,400	66	2,466
Ghotki	1,424	1,515	1,806	91	1,897
Hyderabad	2,158	2,295	3,065	80	3,145
Jacobabad	1,340	1,425	1,677	35	1,712
Jamshoro	1,312	1,395	1,366	13	1,379
Karachi	8,155	8,675	9,948	3,412	13,360
Kashmore @ K. kot	1,436	1,527	1,542	12	1,554
Khairpur	2,374	2,525	3,676	55	3,731
Larkana	1,489	1,584	1,901	24	1,925
Matiari	1,168	1,242	1,003	28	1,031
Mirpurkhas	1,407	1,497	1,846	39	1,885
Naushero Feroze	1,986	2,113	2,250	41	2,290
Nawabshah	1,521	1,618	1,785	57	1,842
Qamber	1,486	1,581	1,736	22	1,758
Sanghar	2,056	2,187	2,806	62	2,868
Shikarpur	1,555	1,654	1,784	24	1,809
Sukkur	1,749	1,860	2,170	50	2,220
Tando Allah Yar	1,003	1,067	836	27	863
T M Khan	944	1,004	712	24	736
Thar at Mithi	1,674	1,780	2,601	9	2,610
Thatta	1,726	1,835	2,177	75	2,253
Umerkot	1,295	1,377	1,211	25	1,237
Total	**42,755**	**45,479**	**52,365**	**4,318**	**56,683**

Figure 5.1



5.2.3.1. DSG (2.5% GST)

The estimated receipts on account of DSG from the Federal Government for FY 2007-08 are Rs. 20.381 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 21% only.

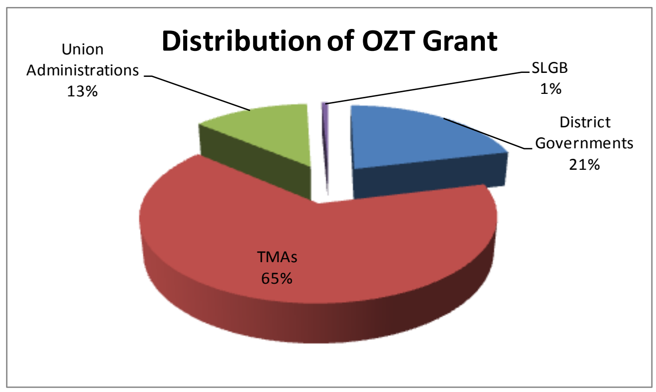
Table 5.2

Distribution of OZT Grant (Rs. In Million)

	Protection to Historic Shares	Amount
1	A. District Governments (with 20% increase over amount of Financial Year 2006-07)	4,318
	B. TMAs (with 20% increase over amount of Financial Year 2006-07)	5,776
	C. Rural Octori	262
	Total A+B+C	**10,355**
2	Fixed Grant of Rs. 24 Lac per annum to UAs	2,659
3	Pension Contribution to SLGB	140
4	**Total 1 to 3**	**13,154**
5	Residual Amount for TMAs, (Population 50%; HDI 40%; Area 5%; Performance 5%)	7,227
	Grand Total (4+5)	**20,382**

The historical shares of OZT funds for DGs and TMAs have been increased by 20% over the existing amount for FY 2006-07. 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 all the above shares, amounting to Rs. 7,227 million shall be distributed amongst TMAs on the basis of the following criteria:

Figure 5.2



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

The historical share of rural octroi amounting to Rs. 261.67 million shall be distributed amongst TMAs of Sindh as per previous decision of PFC. Table 5.3, on next page, shows the allocations to TMAs on account of 'protection to historic shares' and 'residual amount' worked out to be 13.003 billion.

Table 5.3
Allocations For TMAs (Rs in Million)
BE 2007-08

I	**Badin**		5	Gulshan-e-Iqbal	337.199	**XII**	**Mirpurkhas**		**XVIII**	**Sukkur**	
1	Badin	92.450	6	Jamshed	313.737	1	Digri	75.292	1	New Sukkur	81.27
2	Matli	80.696	7	Kemari	248.953	2	Hussain Bux Marri	36.304	2	Pano Akil	78.16
3	S. Fazal Rahu	70.979	8	Korangi	301.639	3	Jhudo	82.501	3	Rohri	155.18
4	Talhar	59.386	9	Landhi	342.841	4	Kot G M	64.214	4	Salehpat	50.34
5	Tando Bago	78.233	10	Liaqatabad	327.735	5	Mirpurkhas	136.682	5	Sukkur	143.04
Total		**381.744**	11	Liyari	326.588	6	Sindhri	50.843	**Total**		**508.01**
			12	Malir	255.978	**Total**		**445.836**			
II	**Dadu**		13	N. Nazimabad	281.881						
1	Dadu	92.186	14	New Karachi	352.007	**XIII**	**Naushero Feroze**		**XIX**	**Tando Allah Yar**	
2	Johi	67.243	15	Orangi	405.965	1	Bhiria	60.746		Chambar	54.18
3	Khairpur N S	67.811	16	Saddar	283.947	2	Kandiaro	69.985		Jhundo Mari	49.04
4	Mehar	75.838	17	Shah Faisal	229.246	3	Mehrabpur	59.432		Tando Allah Yar	75.16
5	Sehwan	61.424	18	SITE	285.281	4	Moro	65.625	Total		**178.39**
Total		**364.502**	**Total**		**5,685.922**	5	Naushero Feroze	71.698			
						Total		**327.486**	**XX**	**T M Khan**	
III	**Ghotki**		**VIII**	**Kashmore @ KK**					1	Bulri S Karim	53.58
1	Daharki	61.362	1	Kandhkot	67.418	**XIV**	**Nawabshah**		2	T G Hyder	46.17
2	Ghotki	90.134	2	Kashmore	59.709	1	Daulatpur	58.310	3	T M Khan	57.44
3	Khan Garh	34.651	3	Tangwani	62.887	2	Daur	80.287	**Total**		**157.20**
4	Mirpur Mathelo	51.847	Total		**190.014**	3	Nawabshah	120.237			
5	Ubauru	62.548				4	Sakrand	72.361	**XXI**	**Thar at Mithi**	
Total		**300.542**	**IX**	**Khairpur**		**Total**		**331.195**	1	Chachro	95.31
			1	Faiz Ganj	48.662	**XV**	**Qamber**		2	Diplo	66.42
IV	**Hyderabad**		2	Gambat	59.532	1	Kamber	70.586	3	Mithi	84.00
1	Hyderabad (R)	66.505	3	Khairpur	134.690	2	Miro Khan	44.779	4	Nangarparkar	47.42
2	Hyderabad City	272.614	4	Kingri	52.752	3	Nasirabad	52.080	**Total**		**293.16**
3	Latifabad	184.215	5	Kotdiji	65.731	4	Qubo Saeed Khan	37.547			
4	Qasimabad	94.966	6	Nara	76.848	5	Sajawal Junejo	45.124	**XXII**	**Thatta**	
Total		**618.300**	7	Sobho Dero	64.983	6	Shahdadkot	59.271	1	Ghorabari	42.04
			8	Thari Mirwah	64.985	7	Warah	45.568	2	Jati	67.58
V	**Jacobabad**		**Total**		**568.183**	**Total**		**354.955**	3	Mirpur Bathoro	57.37
1	Garhi Khero	34.070							4	Mirpur Sakro	80.83
2	Jocobabd	86.121	**X**	**Larkana**		**XVI**	**Sanghar**		5	Shah Bunder	58.62
3	Thull	64.976	1	Bakrani	49.071	1	Jam Nawaz Ali	45.011	6	Sujawal	50.25
Total		**185.167**	2	Dokri	54.006	2	Khipro	83.067	7	Thatta	95.43
			3	Larkana	130.137	3	Sanghar	88.571	**Total**		**452.13**
VI	**Jamshoro**		4	Ratodero	66.351	4	Shahdadpur	90.121			
1	Kotri	74.245	**Total**		**299.565**	5	Sinjoro	60.793	**XXIII**	**Umerkot**	
2	Manjhand	48.738				6	Tando Adam	89.177	1	Kunri	82.43
3	Thana B Khan	57.203	**XI**	**Matiari**		**Total**		**456.740**	2	Pithoro	43.36
Total		**180.186**	1	Hala	50.258				3	Samaro	50.69
			2	Matiari	48.284	**XVII**	**Shikarpur**		4	Umerkot	127.17
VII	**Karachi**		3	Saeedabad	40.401	1	Garhi Yaseen	68.200	**Total**		**303.66**
1	Baldia	267.460	**Total**		**138.943**	2	Khanpur	63.316			
2	Bin Qasim	456.298				3	Lakhi	59.437			
3	Gadap	429.598				4	Shikarpur	90.054			
4	Gulberg	239.569				**Total**		**281.007**		**Grand Total**	**13,002.863**

6. DEVELOPMENT BUDGET

6.1. INTRODUCTION

As a general practice in public finance, budget makers assign third priority to development allocations, after establishment charges and other operational expenses of the government machinery, under the current revenue budget. The development outlays of the developing countries, therefore, usually remain eclipsed by their CRE. The development program of the Government of Sindh has remained nominal and limited to few billion rupees in the past few years. In 2002-03, total size of the revised Annual Development Program (ADP) was Rs. 5,737 million, while the total (revised) Public Sector Development Program (PSDP) allocation was Rs. 12,268 million. The former is exclusively funded by the Provincial Government, while the latter in addition to the ADP, includes financing from the Federal Government and other external / donor agencies.

However, during the last few years development allocation and spending in Sindh has increased phenomenally. Table 6.1 shows the summary position of (and Figure 6.1 depicts graphically) the total revised development allocations (from 2002-03 to 2006-07) and 2006-07 and 2007-08 original PSDP for Sindh:

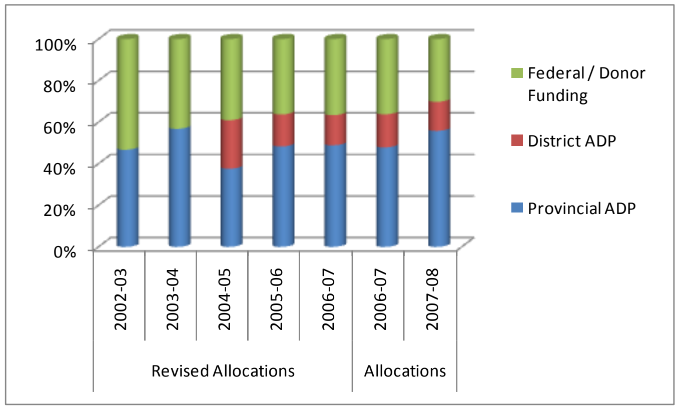
Table 6.1

Total PSDP (Rs. In Million)								Growth (%)		Ave (%)
	Revised Allocations					Allocations		*Revised Allocation	**Allocation	Revised Allocation
Year	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2006-07**	**2007-08**	**2006-07**	**2007-08**	**2002-08**
Provincial ADP	5,737	10,849	11,074	20,664	27,000	24,000	40,000	48.15	66.67	119.45
District ADP	-	-	6,885	6,593	8,000	8,000	10,000	25.00	25.00	
Total ADP	**5,737**	**10,849**	**17,959**	**27,257**	**35,000**	**32,000**	**50,000**	**42.86**	**56.25**	**154.31**
Federal / Donor Funding	**6,531**	**8,246**	**11,494**	**15,499**	**20,197**	**18,149**	**21,630**	**7.09**	**19.18**	**46.24**
Total PSDP	**12,268**	**19,095**	**29,453**	**42,756**	**55,197**	**50,149**	**71,630**	**29.77**	**42.83**	**96.78**

* 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. 5,737 million revised ADP in 2002-03, the total ADP has reached Rs. 50.00 billion (including Rs. 10.00 billion District ADP) in 2007-08, which shows an average annual growth of 154.31%. The district component of the ADP was separately shown in the budget documents of the province from 2004-05 onwards, while DGs 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 2007-08 is 56.25% higher than the initial ADP of 2006-07, which was pitched at Rs. 32.00 billion.

If we count federal grants, external funding and foreign project assistance, the total development outlay (to which we refer 'total PSDP for Sindh') for next year exceeds Rs. 71 billion, which shows an average annual increase of 96.78% in the total development allocations in Sindh since 2002-03. The total PSDP for Sindh at Rs. 71.630 billion is 42.83% higher than the originally earmarked PSDP of Rs. 50.149 billion.

As we can see from Figure 6.2 the provincial component of the ADP constitutes the major chunk of Sindh's total PSDP (2007-08), followed by federal grants / external assistance and District ADP. This has reversed the trend of the yesteryears when Provincial ADP formed smaller component vis-à-vis federal / foreign share of Sindh's PSDP. Figure 6.3 shows graphical representation of the trend in 2002-03 PSDP.

Figure 6.2

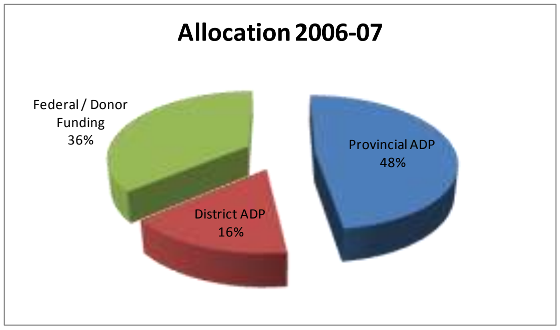
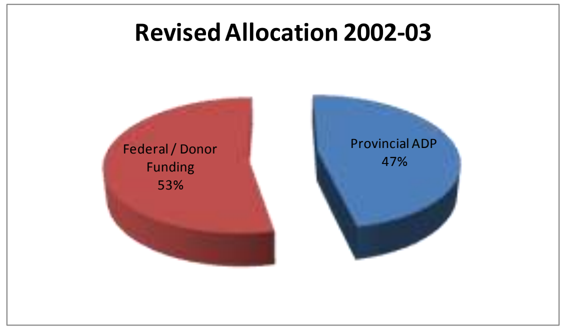


Figure 6.3



6.2. DEVELOPMENT BUDGET:

The development budget includes financing arrangement and spending plan of the PSDP which are discussed in the following paragraphs.

6.2.1. FINANCING ARRANGEMENT (RESOURCES)

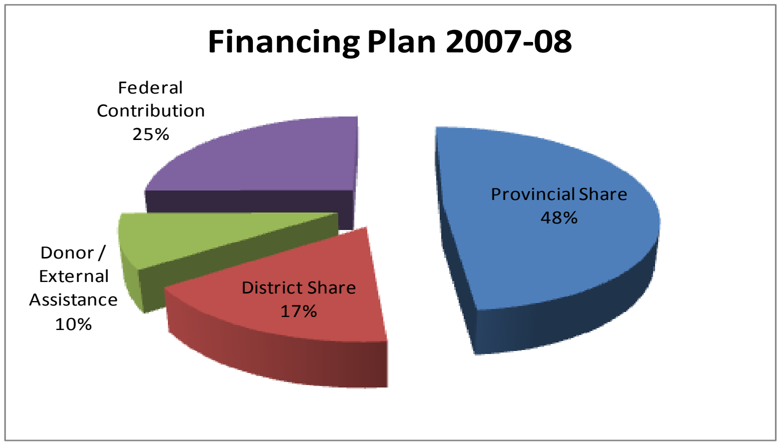
As we can see from Table 6.2 Sindh's PSDP for 2007-08 is financed through provincial contribution, district funding, foreign / donor assistance and federal grants. Figure 6.4 shows that the major chunk of development funding (48.47%) comes from the Provincial Government, followed

Table 6.2

FINANCING PLAN	2006-07		2007-08	% Share
	Allocation	Revised Allocation	Allocation	
Provincial Share	**24,302**	**30,824**	**28,737**	**48.47**
Carryover Cash Balance	13,323	18,037	12,500	
Provincial Contribution	10,980	12,787	16,237	
Net Current Account	8,389	12,955	9,947	
Net Capital Account	-2,479	-4,293	1,029	
Net Public Account	5,070	4,125	5,261	
District Share	**8,000**	**8,000**	**10,000**	**16.87**
Donor / External Assistance	**7,325**	**5,158**	**5,660**	**9.55**
Foreign Project Assistance (FPA)	5,373	3,206	5,660	
SDSSP	1,952	1,952	0	
Federal Contribution	**10,824**	**11,298**	**14,891**	**25.12**
DERA	250	250	510	
Other Federal Grants	10,574	11,048	14,381	
Total Development Financing	**50,452**	**55,280**	**59,288**	**100.00**

by a quarter, one-sixth and one-tenth share of financing coming from the Federal Government, DGs and Donors respectively.

Figure 6.4



6.2.2. SPENDING PLAN (EXPENDITURE)

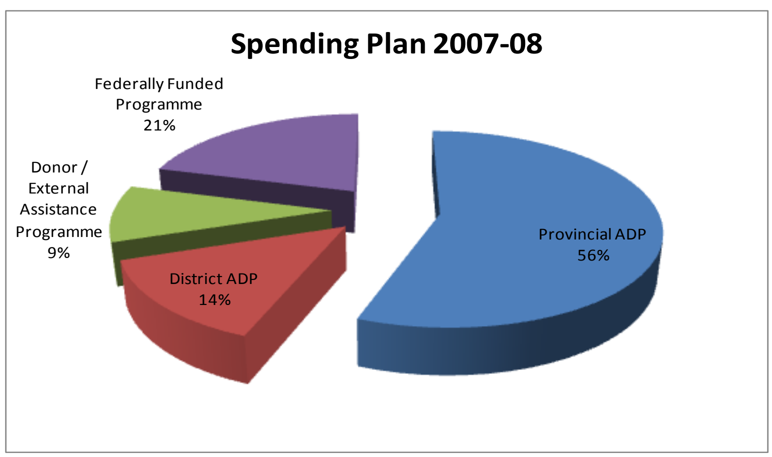
Table 6.3 shows broad categorization of Sindh's PSDP 2007-08. The development outlay of Sindh consists of Rs. 40 billion Provincial ADP; Rs.10.000 billion District ADP; Rs. 6,739 million External / Donor Assisted component and Rs. 14.891 billion federally funded projects. Figure 6.5 expresses the share of each component in the pie of development outlay.

Table 6.3

SPENDING PLAN	2006-07		2007-08
	Allocation	Revised Allocation	Allocation
Provincial ADP	**24,000**	**27,000**	**40,000**
District ADP*	**8,000**	**8,000**	**10,000**
Donor / External Assistance Programme	**7,325**	**4,079**	**6,739**
FPA Sectoral Allocations	5,373	3,206	5,660
SDSSP Spending on LGs	1,952	874	1,079
Federally Funded Programme	**10,824**	**16,118**	**14,891**
DERA Projects	250	0	510
Other Federally Funded Projects	10,574	16,118	14,381
Total Sindh PSDP	**50,149**	**55,197**	**71,630**

** Financed by District Governments through Single Line Transfers.*

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. Therefore, unlike Rs. 302 million surplus budget of 2006-07, budget 2007-08 shows a deficit of Rs. 12.341 billion. The budget deficit is expected to be bridged through increased federal straight transfers during the year, as was noticed during the CFY. During 2006-07 the straight transfers surpassed the estimations by over Rs. 10 billion.

6.3. SALIENT FEATURES OF PROVINCIAL ADP 2007-08

The summary position of the Provincial ADPs 2006-07 and 2007-08, showing number of schemes in each sector / sub-sector, allocations for the ongoing and new schemes is presented in Table 6.4 for detailed scrutiny. The salient features of the Provincial ADP for the next year are:

- Maximum funding of on-going projects (Ongoing: New :: 76.17% : 23.83%). Full funding for projects to be completed.
- 410 schemes out of 1521 are likely to be completed.
- Full funding for Foreign Aided and Mega Projects as per requirement.
- Focus on Services and Urban Sectors specially covered through Karachi, Hyderabad and special projects of Karachi and Hyderabad.
- Emphasis on social sectors i.e. Education, Health, Water Supply and Sanitation (receive funds of Rs.5,297 million).

- Continued emphasis on rural areas specially through Rural Packages and Chief Minister's emergent funds and Priority Program for MPA's Schemes

- Focus on infrastructural investments (20%).

- Allocation to Pro-Poor Sectors (78%).

Table 6.4

Annual Development Programme(ADP)

S.#	SECTOR	No. Schemes for 2006-07			Allocation for 2006-07			No. of Schemes for 2007-08			Allocation for 2007-08		
		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
	b) Agriculture Research	8	1	9	103	20	123	5	2	7	147	10	157
	c) Agriculture Educaiton	2	1	3	28	1	28	3	0	3	43	0	43
	d) Agriculture Mechanizaiton	4	3	7	95	41	135	5	1	6	230	100	330
	e) Agriculture Extention	8	3	11	413	65	478	9	2	11	965	20	985
	f) Agriculture Marketing		3	3		347	347	3	0	3	200	0	200
	Total Agriculture Propper	22	11	33	640	473	1,113	25	6	31	1,585	140	1,725
	II) Food Storage	1		1	10	87	97	1	1	2	22	28	50
	III) Animal Husbandry	10	7	17	65	65	130	17	11	28	927	327	1,253
	IV) Fisheries	5	4	9	25		25	7	9	16	185	362	547
	Total Agriculture	**38**	**22**	**60**	**740**	**624**	**1,364**	**50**	**27**	**77**	**2,718**	**856**	**3,574**
2	Forest, Wildlife & Coastal Dev. Authority	31	3	34	258	16	274	30	8	38	350	36	386
3	Industries	9	4	13	483	117	600	13	4	17	680	42	722
4	Mines and Mineral Development	39	9	48	681	319	1,000	39	9	48	900	350	1,250
5	Water and Power			0			0						
	I) Survey and Investigation	6	2	8	45	4	49	9	1	10	96	4	100
	II) Drainage / Reclamation & Tube wells			0			0	1	0	1	20	0	20
	III) Open Canal	65	26	91	1,032	142	1,174	61	50	111	1,949	440	2,389
	IV) Power Sector	2	1	3	60	5	65	3	0	3	441	0	441
	V) Special/Federally Funded/Donor Prog.	2		2	212		212						
	Total Water and Power	**75**	**29**	**104**	**1,349**	**151**	**1,500**	**74**	**51**	**125**	**2,506**	**444**	**2,950**
6	Physical Plannig and Housing												
	I) Jail Department	6	8	14	100	20	120	13	6	19	185	35	220
	II) Building Department	5	1	6	75	5	80	5	4	9	75	25	100
	III) S&GAD	8	8	16	63	42	105	15	5	20	125	30	155
	IV) Judicial Department	13	3	16	167	3	170	16	7	23	166	54	220
	V) Police Department	8	2	10	104	36	140	10	0	10	169	0	169
	VI) Finance Department		3	3		15	15	3	2	5	17	13	30
	VII) Excise and Taxation Department	1	2	3	5	5	10	3	2	5	11	1	12
	VIII) Chief Minister's Inspection Team			0			0	1	0	1	1	0	1
	IX) Provincial Ombudsman		1	1		10	10	1	0	1	15	0	15
	X) Sindh Assembly			0			0	0	2	2	0	104	104
	XI) Board of Revenue			0			0	1	3	4	10	25	35
	XII) Local Government Department	10	48	58	152	483	635	55	10	65	958	1,086	2,044
	XIII) Basic Development		1	1		5	5						
	Total Physical Planning and Housing	**51**	**77**	**128**	**666**	**624**	**1,290**	**123**	**41**	**164**	**1,732**	**1,373**	**3,105**

Table 6.4													
Annual Development Programme(ADP)													
S.#	**SECTOR**	**No. Schemes for 2006-07**			**Allocation for 2006-07**			**No. of Schemes for 2007-08**			**Allocation for 2007-08**		
		On-Going	**New**	**Total**	**On-Going**	**New**	**Total**	**On-Going**	**New**	**Total**	**On-Going**	**New**	**Total**
7	Transport and Communication	264	64	328	4,409	91	4,500	322	187	509	6,592	1,069	7,660
8	Rural Development	1		1	80		80	1	0	1	80	0	80
9	Eduction			0			0						
	a) Elementry Education	8	1	9	510	8	518	17	5	22	640	63	702
	b) Teacher Education	7	1	8	64	2	66	8	2	10	70	10	80
	c) Educaiton Foundation	2		2	20		20	0	2	2	0	18	18
	d) Special Education	2		2	21		21	2	0	2	8	0	8
	e) Secondary Educaiton	4	3	7	188	96	284	14	5	19	251	113	364
	f) Technical Education	3	3	6	79	29	108	7	3	10	235	27	262
	g) College Education	10	6	16	262	58	319	21	8	29	688	98	786
	h) Education Administration	2	1	3	12	5	17	3	1	4	93	4	97
	i) Miscellaneous	6	5	11	96	50	146	8	6	14	140	42	182
	Total Education	**44**	**20**	**64**	**1,252**	**248**	**1,500**	**80**	**32**	**112**	**2,125**	**375**	**2,500**
10	Health												
	i) Teaching Hospital	21	7	28	283	57	340	19	12	31	410	181	591
	ii) Other Hospital	12	11	23	81	98	179	18	6	24	258	85	343
	iii) Medical Education	12	4	16	83	29	112	10	1	11	106	7	113
	iv) PHC Administration /Training	4		4	26		26	3	0	3	23	0	23
	v) Preventive Programme	9		9	141		141	9	0	9	165	0	165
	vi) Foreign Aided Projects	3		3	47		47	2	0	2	16	0	16
	vii) Nutrition Programme	1		1	4		4						
	Total Health	**62**	**22**	**84**	**666**	**184**	**850**	**61**	**19**	**80**	**977**	**273**	**1,250**
11	Sports Youth Affairs							4	7	11	60	16	76
12	Culture and Tourism	24	23	47	121	29	150	26	9	35	160	40	200
13	Auqaf			0			0	7	5	12	64	21	85
14	Manpower and Employment	8	2	10	40	10	50	9	2	11	56	14	70
15	Information and Archives	2	1	3	28	7	35	3	0	3	42	0	42
16	Stastistical & Economic Research	13	9	22	208	67	275	21	10	31	293	74	366
17	Science and Information Technology	20	6	26	264	25	289	16	6	22	253	25	278
18	Poverty Aleviation	5	1	6	283	10	293	1	6	7	11	285	296
19	Women's Development	8	3	11	50	9	59	10	2	12	70	10	80
20	Environment	6	3	9	13	4	17	8	8	16	52	48	100
21	Special Projects	18	20	38	680	390	1,070	56	34	90	4,950	1,426	6,377
22	Allocation for Emergent Works	1		1	500		500	1	0	1	500	0	500
23	Allocation for Priority Programme	1	1	2	240	840	1,080	1	1	2	260	840	1,100
24	Special Packages	55	2	57	4,000	1,500	5,500	28	4	32	3,671	1,468	5,139
25	Thar Package	3	5	8	246	194	440	6	0	6	179	0	179
26	Population Welfare Programme	2		2	47		47	2	0	2	55	0	55
27	Matching Allocation for Fed. Directives	8	9	17	377	860	1,237	14	4	18	1,131	348	1,479
28	Allocation for CCB Schemes			0			0	0	39	39	0	100	100
	Total	**788**	**335**	**1,123**	**17,680**	**6,320**	**24,000**	**1,006**	**515**	**1,521**	**30,468**	**9,532**	**40,000**
	B-DISTRICT PROGRAMME												**10,000**
	C-FEDERALLY FUNDED PROGRAMME							**16**	**0**	**16**	**26,170**	**0**	**26,170**
	GRAND TOTAL	**788**					**24,000**	**1,022**	**515**	**1,537**	**56,637**	**9,532**	**76,170**

6.4. REVIEW AND ANALYSIS OF PROVINCIAL ADPs (2006-07 AND 2007-08):

Table 6.5 shows sector wise allocations of the Provincial ADP for 2006-07 and 2007-08. On the whole, the Provincial ADP for 2007-08 has grown by 66.67% over 2006-07 ADP.

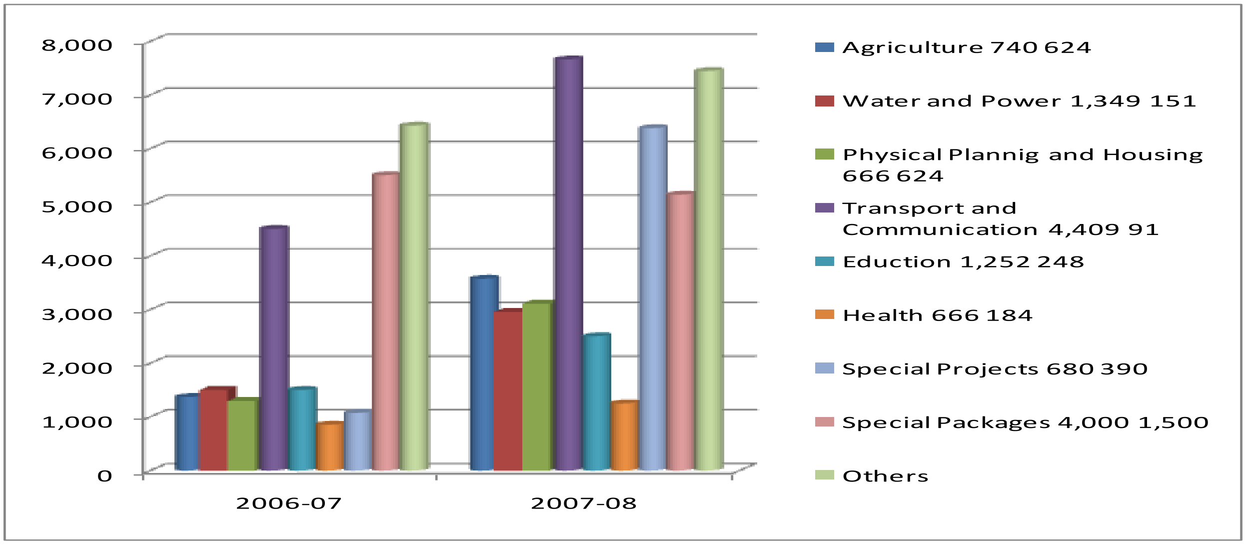
Table 6.5

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

S. NO.	SECTOR	2006-07	2007-08	% ↑↓	Percentage Share 2006-07	Percentage Share 2007-08
1	**Agriculture**	**1,364**	**3,574**	**162.04**	**5.68**	**8.94**
	I) Agriculture Proper	1,113	1,725	55.03	4.64	4.31
	II) Food Storage	97	50	-48.70	0.40	0.12
	III) Animal Husbandry	130	1,253	864.62	0.54	3.13
	IV) Fisheries	25	547	2086.55	0.10	1.37
2	Forest, Wildlife & Coastal Dev. Authority	274	386	40.92	1.14	0.97
3	**Industries**	**600**	**722**	**20.37**	**2.50**	**1.81**
4	**Mines and Mineral Development**	**1,000**	**1,250**	**25.00**	**4.17**	**3.13**
5	**Water and Power**	**1,500**	**2,950**	**96.67**	**6.25**	**7.38**
6	**Physical Plannig and Housing**	**1,290**	**3,105**	**140.70**	**5.38**	**7.76**
7	**Transport and Communication**	**4,500**	**7,660**	**70.22**	**18.75**	**19.15**
8	Rural Development	80	80	0.00	0.33	0.20
9	**Eduction**	**1,500**	**2,500**	**66.67**	**6.25**	**6.25**
10	**Health**	**850**	**1,250**	**47.06**	**3.54**	**3.13**
11	Sports Youth Affairs	0	76	-	0.00	0.19
12	Culture and Tourism	150	200	33.33	0.63	0.50
13	Auqaf	0	85	-	0.00	0.21
14	Manpower and Employment	50	70	40.00	0.21	0.18
15	Information and Archives	35	42	20.00	0.15	0.11
16	Stastistical & Economic Research	275	366	32.90	1.15	0.92
17	Science and Information Technology	289	278	-3.61	1.20	0.70
18	Poverty Aleviation	293	296	1.02	1.22	0.74
19	Women's Development	59	80	35.36	0.25	0.20
20	Environment	17	100	488.24	0.07	0.25
21	**Special Projects**	**1,070**	**6,377**	**495.94**	**4.46**	**15.94**
22	Allocation for Emergent Works	500	500	0.00	2.08	1.25
23	Allocation for Priority Programme	1,080	1,100	1.85	4.50	2.75
24	**Special Packages**	**5,500**	**5,139**	**-6.56**	**22.92**	**12.85**
25	Thar Package	440	179	-59.24	1.83	0.45
26	Population Welfare Programme	47	55	17.02	0.20	0.14
27	Matching Allocation for Fed. Directives	1,237	1,479	19.56	5.15	3.70
28	Allocation for CCB Schemes	0	100	-	0.00	0.25
	A - TOTAL PROVINCIAL ADP	**24,000**	**40,000**	**66.67**	**47.86**	**55.84**
	B-DISTRICT PROGRAMME	8,000	10,000	25.00	15.95	13.96
	C-FEDERALLY FUNDED PROGRAMME	10,824	14,891	37.57	21.58	20.79
	D-FOREIGN AIDED PROGRAMME	7,325	6,739	-8.01	14.61	9.41
	GRAND TOTAL	**50,149**	**71,630**	**42.83**	**100.00**	**100.00**

Figure 6.6 shows the growth in allocations in priority sectors of ADP 2007-08.

Figure 6.6



In the following paragraphs we have discussed priority sectors of 2007-08 ADP and compared the allocations made in these sectors under 2006-07 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 2007-08 ADP Communications (Roads) Sector has been assigned the highest priority as the Government of Sindh considers it as a major vehicle for development. Rs. 7,660 million, which is 19.15% of the total provincial ADP, has been allocated for the roads. This is 70% above the current allocation of Rs. 4,500 million, for development of road network.

Rs.3,050 million ADB assistance for Sindh Road Sector Development Project (SRDP) will also be available next year. Funds have been allocated for construction of 90 kms of Sindh Coastal Highway (Phase-I). Besides, 330 kms of existing roads will be upgraded and improved along with the construction of 270 kms of new roads, in 2007-08.

Major achievements in this sector during the CFY include

- Improvement of 434 kms of existing roads and construction of 389 kms of new roads with 15 bridges, including Johi – Gorakh Hill; and
- Development of the road network in Mirpurkhas and Thar districts linking Islamkot to Nangarparkar, which is aimed at poverty alleviation and exploiting mineral resources for export.

6.4.2. AGRICULTURE

Agriculture sector includes Agriculture Proper (plant protection, research, education, mechanization, marketing and extension services) and Livestock (food storage, animal husbandry and fisheries). This is the second (single) priority sector in ADP 2007-08, whose allocation on the whole has been enhanced by 162% over the current financial year. Within agriculture, the major increase is in the Livestock and Fisheries, which is being discussed here under, in addition to agriculture proper.

Agriculture sector receives Rs. 1,725 million in next ADP, which is 55% higher than the existing allocation of Rs. 1,113 million. Significant accomplishments of the CFY are:

- Provision of Paddy and Wheat Threshers, Rotavators, Disc Harrow and Laser leveling equipment to growers at subsidized rates to promote mechanized farming;
- Installation of 800 tube-wells on 50% subsidized rates; and
- Improvement of 5000 watercourses under federal / donor funded NPIW. Upgrading 9032 watercourses is the target for 2007-08.

In order to boost *Agriculture Sector* major development activities for the next year are:

- Establishment of a modern Meat, Fish and Vegetable Market near Super Highway Hyderabad costing Rs. 1,965 million;

- Construction of three cold storages at Mirpurkhas, Tando Allahyar and Shahpur Jahanian at the cost of Rs. 500 million;

- Establishment of Training & Research Institute of Agriculture Engineering at the cost of Rs. 300 million; and

- Procurement of Crawler Tractors i.e. earth moving machinery at the cost of Rs. 800 million.

6.4.3. LIVESTOCK AND FISHERIES

Development funding for Livestock *and* Fisheries has been drastically raised to Rs. 1,850 million or 637% over the existing allocation of Rs. 251 million. Development initiatives in this sector are aimed at poverty alleviation, attracting local and foreign investment, raising exports and improving hygienic conditions to meet European Union standards. These include:

- Establishment of Cattle Colonies duly equipped with modern facilities at various places in the province costing Rs. 3,328 million.

- A State of the Art Dairy Village and Meat Processing Zone is being set up at Bhambhore costing Rs. 450 million

- Establishment of Fish Hatcheries on major public waters at the project cost of Rs. 335 million and setting up of Model Villages for fishermen and provision of Fishing Gears, costing Rs. 500 million.

- Introduction of Salvage Farming for Calves and Dry Buffaloes.

6.4.4. EDUCATION

In *Education Sector,* the issues in Sindh are not much different from elsewhere in Pakistan as these too primarily revolve around *access, quality, equity and sustainability of programs*. 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 only way we can fight illiteracy is by staying on the right track for quite some time. We have accordingly been working on a reform agenda.

The allocation for next year ADP at Rs. 2,500 million is 66.67% enhanced from the provision in the CFY, which was Rs.1,500 million. Elementary, Secondary and College Education take the major chunk (i.e. Rs. 1,853 million or 74%) of the total 2007-08 ADP allocation.

The progress in this sector includes:

- Increase in enrolment from 3.76 to 4.11 million in last year showing an increase of 9.3%. The drop out rate fell from 19% to 18%;

- In order to improve their capacity and quality 10,000 teachers were trained this year, while 15,000 will be trained next year;

- Provision of Rs. 1,100 million to SMCs, which have been extended to Middle and Secondary levels. An “impact assessment” has been commissioned to evaluate the effectiveness of SMCs in order to improve their working and devise further interventions;

- Free distribution of Text Books to all 4.2 million enrolled children up to class 10 in public sector schools at a cost of Rs.609 million; and

- Payment of Rs. 1000 stipend per annum to all girl students in class 5 to 10 through Post Office, costing Rs. 500 million.

The significant targets for 2007-08 ADP include:

- Incentive of formula based funds to SMCs for improving enrollments;

- Establishing Engineering Colleges at Jacobabad, Larkana and Badin;

- Upgrading 810 schools at various levels; and

- Revitalization of Teachers Training Institute with Rs. 1 billion CIDA assistance to train 27,000 PSTs and 8,200 JSTs for quality education.

6.4.5. HEALTH

On the side of *health care*, Government of Sindh is fully alive to the challenges it is confronted with and has been making efforts to improve the coverage and quality of health services. Given the poverty levels in the province there is huge segment of population that depends on public sector services. But, despite concerted efforts, there continue to be some gaps, which the government is striving to overcome gradually.

The development allocation for next year ADP at Rs. 1,250 million is 47.06% higher than 2006-07 ADP which was Rs.1,500 million. The public sector hospitals, including those attached with the Teaching Medical Institutions, take the major chunk (i.e. Rs. 955.59 million or 76.45%) of the total provincial ADP allocation for Health.

Significant achievements during the CFY include:

- Upgrading Taluka Hospital Ghotki to the level of a Civil Hospital and provision of Coronary Care and Dialysis Unit;

- Provision of Lithotripsy Machine in CMCH Larkana and installation of cancer equipment for Cancer Center at SIUT Karachi;

- Completion of ADB assisted Women Health Project providing gynae, mother and child health care facilities to the women in eight districts;

- Tele-medicine services extended in 12 districts of interior Sindh;

- With a view to encourage public private partnership and to improve primary health service delivery BHUs of 10 districts will be managed by Sindh Rural Support Organization (SRSO) in collaboration with Government of Sindh;

- Specialist cadre comprises of highly qualified doctors. Ironically their service structure remained least attractive, which has been revamped to better their chances of promotion; and

- Government offered Rural Incentive Allowance to doctors and paramedics to improve access and service delivery in the country side.

Major development initiatives for the next year are:

- Establishment of three Accident Emergency (Trauma) Centers at PMCH Nawabshah, LMUH Hyderabad and Civil Hospital Karachi and provision of Emergency Centers at each District;

- Upgrading equipment at Sindh Government Hospitals Korangi, Liaquatabad and Orangi Town, costing Rs. 100 million;

- Improvement of all public sector Medical Colleges;

- The monthly stipend for Postgraduate Students has been increased from Rs. 6,000 to Rs. 10,000 to encourage higher studies;

- Around 260 non-functional health facilities in Sindh will be operationalized by spending Rs. 500 million through SNEs;

- 1050 vacancies of doctors in BS-17 and 18 and 473 posts of Nurses in BS-16 will be filled on district basis; and

- In order to improve health care of mothers, neonates and children a Rs. 5 billion mega Project is being launched with the collaboration of Federal Government and Royal Government of Norway.

6.4.6. 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. 1,500 million, which has been almost doubled to Rs. 2,950 million for 2007-08. This year, channel regulators were rehabilitated to effectively regulate the discharge and to facilitate equitable distribution of water. Likewise, Small Dams Organization has been established to harness rain water in Kohistan and Thar regions. Next year's significant development initiatives include:

- Upgrading Keenjhar Lake System to increase water supply to Karachi;
- Construction of Bund Weir-III across River Malir to harness rain water for agriculture purposes; and
- Execution of ongoing federally funded mega projects viz. Revamping and Rehabilitation of Irrigation and Drainage System; Extension of RBOD from Sehwan to Sea; and Lining of Distributaries and Minors.

6.4.7. MINES AND MINERAL DEVELOPMENT

There is enormous potential of *mining* in Sindh. Thar is a region of special focus. Significant achievements in this development area are:

- Signing of MoU with Cathay Oil, a Canadian Firm, for exploration of Coal Bed Methane (CBM) gas which will attract investment of US $ 50 million and generate employment in next three years;
- Awarding of a formal study to Sindh University for identification of specific areas of granite reserves, known to be 15 billion tons in Thar;

- Exploring new coalfields of 4 billion tons in Thar / Badin; and
- Earning Rs. 335 million as royalty of minerals, in near future.

2007-08 ADP allocation for this sector is Rs. 1,250.00 which is 25% higher than ADP 2006-07, wherein Rs. 1,000 million was allocated.

6.4.8. INDUSTRIES

In line with Federal Government’s policy, Government of Sindh has adopted a very liberal policy for industrialization in the province whereby:

- Permission for setting-up an industrial unit, excepting a few security and public safety related categories, has been done away with.
- Colonization Act 1912, has been amended for streamlining land grant policy whereby land for industrialization and incremental housing will now be available at 25% of the market value.
- The allocation for facilitating industrial development in Sindh have been increased from Rs. 600 million to Rs. 722.20 million showing an increase of 20.37% over 2006-07 ADP.

6.4.9. SPECIAL PACKAGES

In terms of allocations Special Packages are getting third highest funding in 2007-08 ADP after Transport & Communication and Special Projects.

Under Special Packages viz. Karachi, Hyderabad and Rural Development, we allocated Rs. 5.6 billion in the CFY and Rs. 5.14 billion are earmarked in next ADP. In three years, total allocations for such packages crossed Rs. 17.6 billion. The Federal Government also contributed Rs. 3.3 billion for Karachi and Hyderabad Packages.

6.5. ANALYSIS OF THE DEVELOPMENT EXPENDITURE:

Table 6.6 shows development expenditure in old functional classification (for the years from 2002-03 to 2005-06) which was in vogue prior to introduction of NAM. We have attempted to analyze trends in development spending of the past four years in the following paragraphs.

Table 6.6

Total PSDP Expenditure (Functional Distribution)

(Rs. In Million)

	Actual				Ave (%)
	2002-03	2003-04	2004-05	2005-06	2002-06
General Administration	519	360	738	182	-29.56
Community Services	3,639	9,116	11,588	18,942	73.31
Social Services	965	1,399	1,425	7,252	95.85
Economic Services	1,710	2,544	4,791	9,587	77.64
Debt Servicing	2,082	1,879	3,542	6	
Social Protection	0	1	0	577	
Grand Total* **	8,917	15,300	22,085	36,545	60.03
Total PSDP Allocations	12,268	19,095	29,453	42,756	51.61
% Spending	72.68	80.13	74.98	85.47	

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

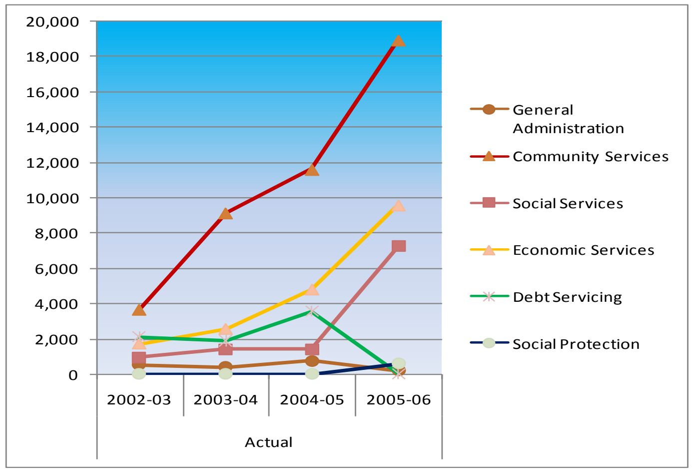
** Represents percentage increase in 2007-08 Allocations over 2006-07 original Allocations.

*** Actual spending (2002-03 to 2005-06) includes District component of ADP and federal / donor funding. Further, BE 2006-07 includes District ADP and SDSSP funding

As we can see from Table 6.6 total development spending has increased on average by 60.03% annually as compared to 96.78% growth in allocations during the same period (refer Table 6.1). The average expenditure during the period is 78.32% which shows that averagely over 21% 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 2005-06 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.

Figure 6.7

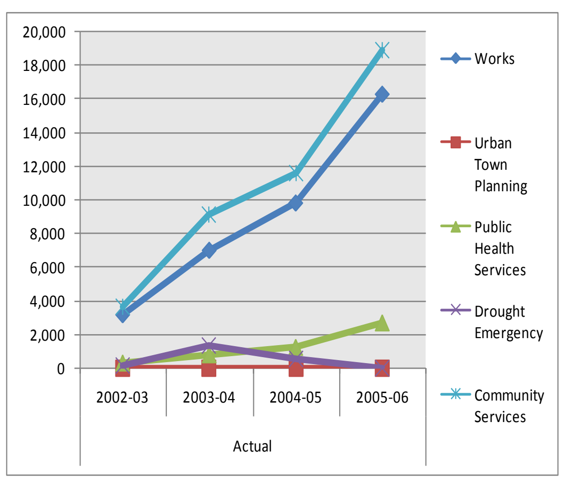


As we can see from Table 6.6 Community, Social and Economic Services together with Social Protection comprise bulk of the development expenditure (over 95% in three years). Therefore, further review and analysis of the development expenditure will be focused on the significant components of these four categories of the PSDP for Sindh.

Table 6.7					
Community Services (Rs. In Millions)					**Ave (%)**
	Actual				**Actual**
	2002-03	**2003-04**	**2004-05**	**2005-06**	**2002-06**
Works	3,159	6,982	9,790	16,249	72.61
Urban Town Planning	1	1	0	3	53.91
Public Health Services	288	779	1,225	2,689	110.67
Drought Emergency	191	1,354	573	1	-81.24
Community Services	**3,639**	**9,116**	**11,588**	**18,942**	**73.31**

Note 1: BE & RE 2006-07 and BE 2007-08 for "Works" include Rs. 4,500 million, Rs. 9,601 million and Rs. 7,600 million for "Roads".

Figure 6.8



6.5.1. COMMUNITY SERVICES:

Works, Urban Town Planning (UTP) and Public Health are included in this category. As we can see from Table 6.7, Works is the major component of this group, followed by Public Health Services. On the whole, spending on community services has grown by 73.31% per annum during the past four years.

Works includes Roads and Building Construction. The spending in this sector has grown on average by 72.1% per year, in the past four years. On the other hand, expenditure in Public Health Services has grown by 110.67%.

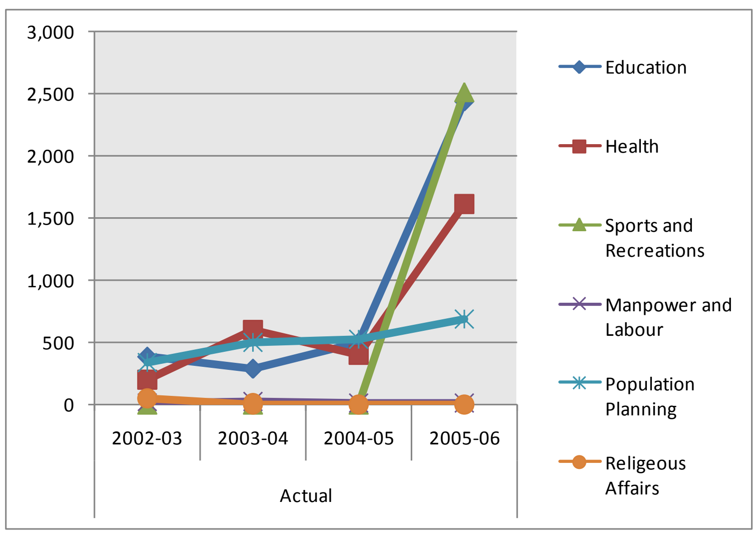
6.5.2. SOCIAL SERVICES

As we can see from Table 6.8 and Figure 6.9 Education and Health are the major components of this group, while the remaining portion is shared by others. On the whole, spending on social services has grown averagely by 95.85% annually, during the past four years.

Table 6.8

Social Services (Rs. In Millions)					Ave (%)
	Actual				Actual
	2002-03	2003-04	2004-05	2005-06	2002-06
Education	385	288	499	2,437	84.97
Health	197	595	401	1,613	101.43
Sports and Recreations	0	0	0	2,512	
Manpower and Labour	12	21	11	5	-24.33
Population Planning	327	493	514	684	27.95
Religeous Affairs	44	2	0	0	
Social Services	**965**	**1,399**	**1,425**	**7,252**	**95.85**

Figure 6.9



The development spending in Education sector has grown on average by 84.97% annually in the past four years. On the side of *health care*, the development expenditure during the same has grown on average by 101.43% per annum.

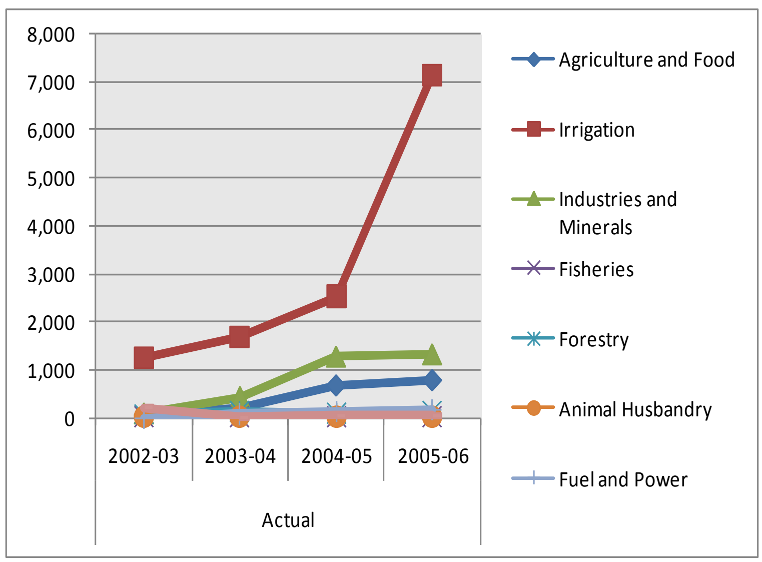
6.5.3. ECONOMIC SERVICES

Agriculture and Food, Fisheries and Livestock, Irrigation, Industries and Minerals are the major components of this category. As we can see from Table 6.9 and Figure 6.10, on the whole spending on economic services has grown averagely by 77.64% annually, during the past four years.

Table 6.9					
Economic Services (Rs. In Millions)					**Ave (%)**
	Actual				**Actual**
	2002-03	**2003-04**	**2004-05**	**2005-06**	**2002-06**
Agriculture and Food	45	179	662	772	157.61
Irrigation	1,261	1,692	2,539	7,131	78.17
Industries and Minerals	96	441	1,288	1,335	140.17
Fisheries	5	11	23	15	40.69
Forestry	79	124	96	137	20.17
Animal Husbandry	5	11	18	5	
Fuel and Power	0	83	126	157	
Rural Development	218	2	40	35	
Economic Services	**1,710**	**2,544**	**4,791**	**9,587**	**77.64**

The development spending in Irrigation has increased by 78.17% per annum over the past four years, while Agriculture and Food registers 157.61% average annual growth in development expenditure. Likewise, development spending on Industries and Minerals increased on average increased by 140.17%.

Figure 6.10



7. DEBT AND CONTINGENT LIABILITY MANAGEMENT

7.1. INTRODUCTION

Article 167 of the Constitution authorizes the Provincial Government to borrow upon the security of the PCF within certain limits as may be prescribed by the Provincial Assembly. However, such borrowing powers of the Province have been restricted by a condition that, until there exists an outstanding liability of a loan already made or guaranteed by the Federal Government, the Provincial Government can not borrow, without the consent of the Federal Government. The constitution does not specifically mention whether the Province can or can not borrow outside Pakistan. But the foreign trade and foreign exchange is controlled by the Federal Government. Therefore, it is obvious that a province can not resort to external borrowing, without the consent of the Federal Government. Accordingly, the Government of Sindh has been borrowing from, and with the consent of the Federal Government from time to time.

Effective debt management is integral part of the sound expenditure management and contributes to the creation of fiscal space, which can be exploited for diverting resources to the development portfolio and for improving public services. The Government of Sindh is pursing fiscal and financial reform agenda in which effective management of debt and contingent liabilities assumes special importance. Accordingly, expensive Cash Development Loans (CDLs) were prematurely retired through less costly foreign loans from the World Bank (WB) and Asian Development Bank (ADB). The space created as a result of savings in debt servicing has been used for providing additional allocations to the development outlay. The strategy also stresses the need for creation of various investment funds and making necessary provisions for their professional management. Description of various categories of loans and liabilities; review of the debt and other liabilities of the province and analysis of the debt servicing ensues in the following paragraphs.

7.2. CATEGORIES OF LOANS:

The provincial debt portfolio essentially comprises of the Federal Loans, which include three major categories:

- Foreign Exchange Loans;
- Rupee loans or Cash Development Loans (CDLs); and
- Counterpart Fund Rupee Loans.

7.2.1. THE FOREIGN EXCHANGE LOANS

These loans are handled by the Federal Government. The same terms and conditions of the loans are passed on to the Provincial Government as are offered by the Lending Agencies except the interest rate which include foreign exchange rate risk. Foreign Loans can be broadly divided into two categories: Federal Government Loans and Guaranteed Loans. The Provincial Governments borrow and service Federal Government Loans. The Autonomous Organizations, on the other hand, contract loans with foreign countries under the guarantee of the Federal Government and the responsibility for servicing such loans, called ***Guaranteed Loans***, lies on the borrowing Autonomous Organization. No transaction relating to such loans pass through Provincial Government Account.

7.2.2. THE RUPEE LOANS (OR DOMESTIC LOANS)

This category of loans was primarily extended by the Federal Government to all the Provincial Governments from 1972 to 2000 in the form of Cash Development Loans (CDLs) for financing their development budgets. The basic concept during this period was that the Revenue Assignment, extended under the NFC framework, barely catered for the CRE needs of the provinces. Therefore, the Federal Government facilitated the provinces with CDLs, along with the foreign loans, for financing their development outlay. The Provincial Governments thus financed their entire development portfolio either through domestic or foreign loans, which were largely borrowed through the

Federal Government. The existing Domestic Debt of the province may be broadly divided in two categories: Normal CDLs and SCARP CDLs. The former were advanced for financing the general development portfolio of the province in last three decades, while the latter were booked by the Federal Government against the respective provinces for installation of tube-wells under Salinity Control and Reclamation Project (SCARP), which was executed by Water and Power Development Authority (WAPDA).

CDLs are payable in twenty five years with five years grace period, during which only mark-up is payable. CDLs stand discontinued from FY 2000 and as such the responsibility of financing ADPs now lies with the Provincial Governments.

7.2.3. THE COUNTERPART FUND RUPEE LOANS

Included in this category is the debt incurred by the province by way of getting market loans, which were primarily borrowed during 1990s for improving ways and means position. All such loans have been retired during FY 2003-04.

7.3. DEBT LIABILITY OF THE PROVINCE

7.3.1. FOREIGN DEBT LOANS

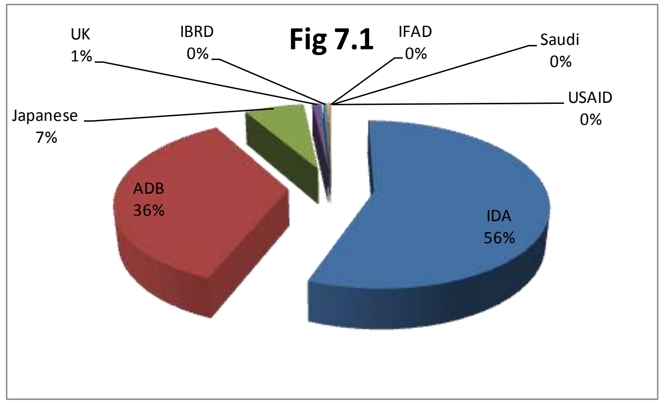
Table 7.1

Foreign Debt Liability Details

Amount in Million as on June 30, 2007

Donor / Lender	No. of Loans	Interest Rate	Loan Amount Foreign Currency		Pak Rs.
IDA	39	0.75%	US $	677	**38,350**
ADB	27	1.00%	US $	443	**24,399**
Japanese	2	2.60%	Jap. Yen	9,952	**4,586**
UK	1	8.00%	Sterling £	11	**689**
IBRD	1	1.00%	US $	6	**313**
IFAD	2	1.00%	US $	4	**229**
USAID	6	2.50%	US $	0	**6**
Saudi	1	3.00%	Saudi Rls.	0	**0**
Total	**79**				**68,572**

The foreign debt liability of the Government of Sindh has increased manifold in the last two decades. Earlier, bulk of the foreign loans used to be contracted by the Government of Pakistan and passed on to the provinces through umbrella projects, which have recently been done away with. Now, with the consent of the Federal Government, the provinces borrow for their development programs directly from the donors. Bulk of the foreign loans has been borrowed from the multilateral international development agencies such as ADB and WB at concessional rates ranging from 1% to 2% interest and long repayment periods. However, a part of the lending has been on commercial rates, which include mainly the loans taken on account of KW&SB water projects, sugar mills etc. Details of foreign loans as on 30th June, 2007 is shown in Table 7.1. Figure 7.1 shows that bulk of the foreign loans or 91.5% are borrowed from IDA (WB) and ADB. A brief introduction of the donors / lenders, as shown at Table 7.1, is at **Annexure-II.**



The foreign debt liability of the province as increased from Rs. 70 million in 1973-74 to Rs. 71,425 million in 2005-06 (Table 7.2). The trend over the years shows that the foreign debt liability of the Government of Sindh is increasing at an average annual growth of 3.16 %.

Table 7.2

Foreign Debt Liability

Amount in Million as on June 30, 2007

Year	2001	2002	2003	2004	2005	2006	2007
Amount	56,890	64,665	64,346	62,212	74,509	71,425	68,572

In addition to the foreign debt liability mentioned above, the Government of Sindh is negotiating for loan of US $ 1,644.40 to 1,944.40 million for six other projects, as per details given at **Annexure-III.**

7.3.2. DOMESTIC DEBT LIABILITY

The CDLs advanced by the Federal Government are the most expensive loans of the Provincial Government, which severely hurt the province due to their exorbitant interest rates, ranging from 7.42% to 17.71% per annum. The total domestic debt liability of Sindh, as on June 30, 2007 is given in Table 7.3.

Table 7.3

Domestic Debt Liability

Rs. in Million

	2,007
Normal CDLs	9,593
SCARP CDLs	15,057
Market Loans	0
Grand Total	**24,650**

7.4. CONTINGENT LIABILITY:

The contingent liability of the province includes:

- General Provident Fund
- Pension Payment

7.4.1. GENERAL PROVIDENT FUND LIABILITY:

Successive governments in the province, like other Provincial Governments, have been traditionally utilizing the net savings from the Public Account to finance their development portfolio. The savings consumed by the government are mostly the net

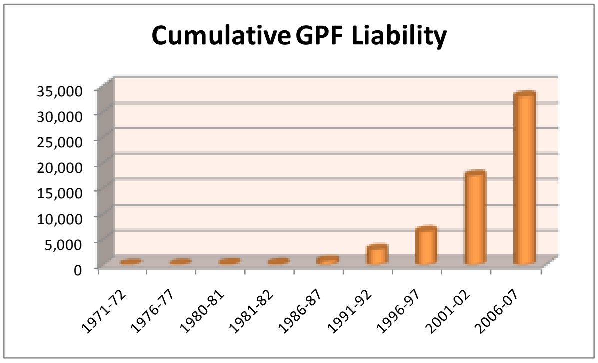
Table 7.4

Cumulative GPF Liability (Rs. in Million)

	Actual								RE
Year	**1971-72**	**1976-77**	**1980-81**	**1981-82**	**1986-87**	**1991-92**	**1996-97**	**2001-02**	**2006-07**
Accumulated Liability	12	68	183	228	768	3,022	6,587	17,458	32,956

proceeds (receipts minus disbursements) of the General Provident Fund (GPF) contributions of the public sector employees and other savings in the Public Account. The amount consumed by the government is a contingent liability, against which the interest amount is paid to the depositors. The cumulative pubic liability of the Government of Sindh on account of GPF has increased from Rs. 12 million in 1971-72 and piled up to Rs. 32,956 million in RE 2006-07 (see Table 7.4). Figure 7.2 shows the steep rise in the growth of this liability which warrants immediate steps for its proper management.

Figure 7.2



The Government of Sindh pays annual interest to the GPF depositors, as determined / notified by the Federal Government each year. Table 7.5 shows average interest rate the government has been paying to its depositors.

Table 7.5	
Interest on GP Fund	
Fixed by Federal Govt.	
Fiscal Years	Average (%)
1971-72 to 1975-76	9
1976-77 to 1980-81	12
1981-82 to 1985-86	14
1986-87 to 1990-91	20
1991-92 to 1995-96	20
1996-97 to 1999-2000	21
2000-01 to 2005-06	13
Total Average	**15**

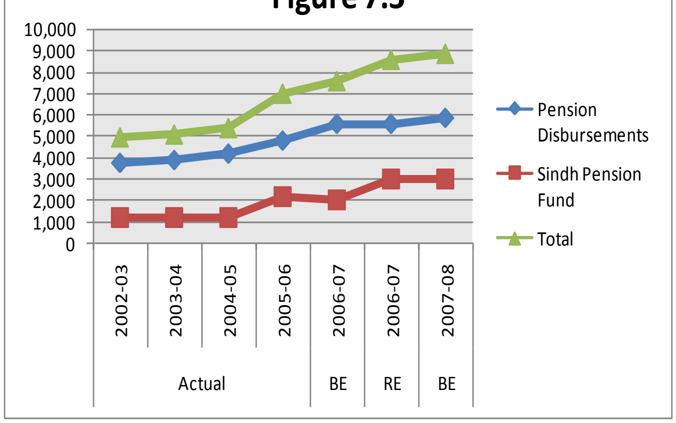
7.4.2. PENSION PAYMENT

Pension is a post retirement benefit, which an employee receives as a compensation for his services. Payment of pensions is also an explicit liability for the government. The

Table 7.6										
Pension Liability (Rs. In Millions)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Pension Disbursements	3,784	3,916	4,216	4,825	5,609	5,609	7,888	16.26	40.64	8.44
Sindh Pension Fund	1,200	1,200	1,200	2,200	2,000	3,000	3,000	36.36	50.00	22.39
Total	**4,984**	**5,116**	**5,416**	**7,025**	**7,609**	**8,609**	**10,888**	**22.56**	**43.10**	**12.12**
* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.										
** Represents percentage increase in Budget Estimates 2007-08 over Budget Estimates 2006-07.										

allocation for pension has gradually increased over the past few years. A comparison of the actual expenditure / allocations for pension for the period 2002-03 to 2007-08 is at Table 7.6 and Figure 7.3. The actual expenditure on pensions has grown by over 12% from 2002-03 to 2005-06, while the allocation for 2007-08 is showing an increase of 40.64% over B.E.2006-07.

Figure 7.3



Although treated as a public liability, Pension payment is not included in the debt portfolio of the province and is a part of the CRE.

Thus, total debt liability of the Government of Sindh comprising of foreign and domestic loans and GPF liability is given in Table 7.7.

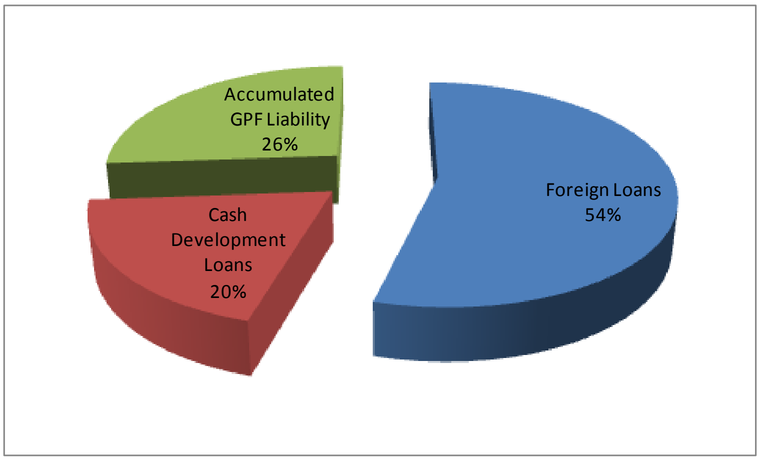
Table 7.7

Total Debt Liability (Rs. In Million)

Category of Loans	Amount	Percentage
Foreign Loans	68,572	54.35
Cash Development Loans	24,650	19.54
Accumulated GPF Liability	32,956	26.12
Grand Total	**126,178**	**100.00**

Figure 7.4 shows that more than half of the total debt liability is that of foreign loans, followed by a quarter of domestic loans and the rest is GPF liability.

Figure 7.4



7.5. DEBT SERVICING:

The Provincial Government is making payments to the Federal Government against interest and principal amounts of CDLs as well as foreign loans on monthly installments basis to the Federal Government. These payments are made through at source deductions from monthly divisible pool share of the Provincial Government. The interest payments are booked under the CRE while the principal components constitute the current capital account. The interest on GPF deposits is booked annually in favor of the depositors, but paid at the time of actual disbursement of the fund to the individuals.

Table 7.8										
Debt Servicing (Rs. In Millions)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Principal	10,376	14,376	16,341	10,634	10,877	12,155	7,532	14.30	-30.75	0.82
Interest	10,346	10,111	9,731	9,060	10,326	9,972	9,176	10.07	-11.14	-4.33
Total	**20,722**	**24,487**	**26,072**	**19,694**	**21,203**	**22,127**	**16,708**	**12.35**	**-21.20**	**-1.68**

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

Table 7.8 depicts the position of debt servicing since 2002-03. The analysis of actual repayments of four years (2002-03 to 2005-06) and the estimations of CFY and 2007-08 show an overall declining trend in debt servicing charges, particularly in the interest amount payments. The interest payment have declined by 4.33% per annum during the four year period (2002-03 to 2005-06), while BE 2007-08 as 11.14% lesser compared with BE 2006-07. This is primarily on account of better debt management as we shall discuss later.

Table 7.9										
Debt Servicing Vis-a-Viz CRE and GRRs (Rs. In Millions)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
Current Revenue Expenditure	66,959	69,040	81,490	106,621	139,224	144,235	166,651	35.28	19.70	16.77
Debt Servicing (Interest)	10,317	10,110	9,730	9,060	10,326	9,972	9,176	10.07	-11.14	-4.24
% of Current Revenue Expenditure	**15.41**	**14.64**	**11.94**	**8.50**	**7.42**	**6.91**	**5.51**			
General Revenue Receipts	76,575	98,114	119,471	156,817	156,861	165,260	185,570	5.38	18.30	26.99
% of General Revenue Receipts	**13.47**	**10.30**	**8.14**	**5.78**	**6.58**	**6.03**	**4.94**			

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.

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

Another way of analyzing debt sustainability of the province is to compare debt servicing vis-à-vis the CRE and General Revenue Receipts (GRRs). Table 7.9 shows that the debt servicing on the whole has shrunk from 15.41% of CRE and 13.47% of the GRRs 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.

7.5.1. MARK UP ON OVERDRAFT:

Financial position of the Government of Sindh remained extremely fragile during the years from 1991-92 until 2002-03, when the province had to resort to *State Bank's Overdraft* to meet its budgetary deficits.

The State Bank of Pakistan has fixed Rs. 2,150 million as the *ways and means limit* for Government of Sindh. Such a benchmark is fixed by SBP in case of all Provincial Governments, to cater for the Province's remittances / cash receipts in transit. The moment government account goes in debit, the SBP bails out the government by extending the overdraft facility but the bank immediately starts charging mark up on the said overdraft on daily basis. The markup on overdraft is charged on quarterly rate of the auction of Government Treasury Bills (T-Bills), which remained 9 to 10% in the CFY. Significance of the ways and means limit is that within its range simple markup (i.e. quarterly rate of the auction of T-Bills) is charged (from zero balance to Rs. 2,150 million debit) until the limit is crossed. If the debit account goes below Rs. 2,150 million, then a penal interest of 4% over and above the T-Bills rate (which means 9 to 10% plus 4% for the CFY) is charged by SBP on daily basis, until the overdraft is recouped.

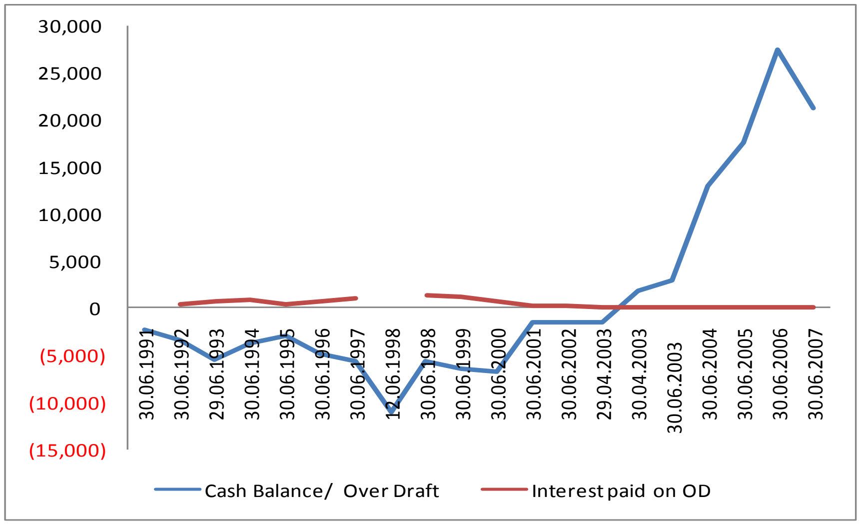
Table 7.10
Cash Balance Position of Government of Sindh (Rs. In Million)

Financial Year	Date	Cash Balance/ Over Draft	Interest paid on OD
1990-91	30.06.1991	(2,285)	
1991-92	30.06.1992	(3,389)	302
1992-93	29.06.1993	(5,509)	685
1993-94	30.06.1994	(3,699)	929
1994-95	30.06.1995	(2,993)	400
1995-96	30.06.1996	(4,831)	637
1996-97	30.06.1997	(5,680)	1,087
1997-98**	**12.06.1998**	**(11,085)**	
1997-98	30.06.1998	(5,641)	1,363
1998-99	30.06.1999	(6,478)	1,179
1999-00	30.06.2000	(6,767)	650
2000-01	30.06.2001	(1,461)	212
2001-02	30.06.2002	(1,585)	196
2002-03	29.04.2003	(1,593)	0
2002-03***	**30.04.2003**	**1,750.68**	0
2002-03	30.06.2003	3,004.92	29
2003-04	30.06.2004	13,022.73	2
2004-05	30.06.2005	17,578.11	0
2005-06	30.06.2006	27,489.91	0
2006-07	30.06.2007	21,196.95	0
Total			**7,670**

*** Maximum Overdraft*
****Credit Position*

Table 7.10 shows the cash balance / overdraft position of the province of Sindh from 1990-91 to 2006-07 and the interest paid to the SBP on the overdraft during these years. Sindh remained under overdraft for fourteen years from 1990-91 to 2002-03. Once the provincial exchequer came out of the overdraft trap, the financial position started improving. During last five years the cash balance / credit level of Sindh is improving with each passing year. Figure 7.5 (a) represents the above position graphically.

Figure 7.5 (a)



During the period from 1991-92 to 2003-04 the Government of Sindh paid Rs. 7,670 million as interest on overdraft of the SBP, as per details given in Table 7.10.

If we analyze the interest payment on account of various categories of loans over the years we notice that the proportion of interest payment on account of foreign loans is smaller as compared to that of domestic loans or GPF liability. Table 7.11 and figure 7.5 (a)

Table 7.11

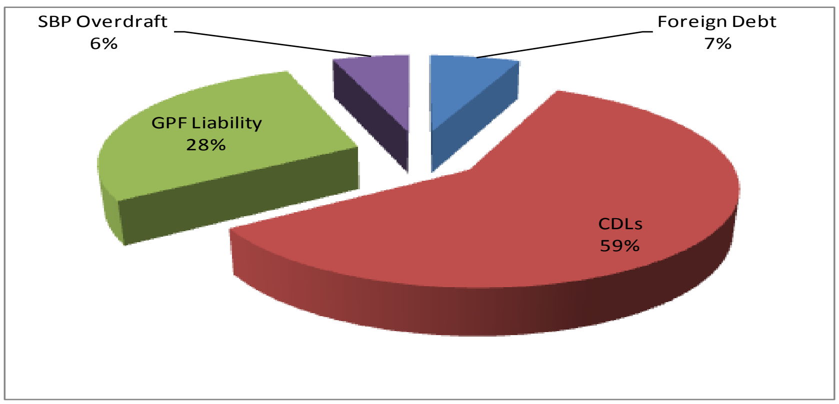
INTEREST PAYMENT (Rs. In Million)

Fiscal Year	Foreign Debt	Domestic Debt				Grand Total
		CDLs	GPF Liability	SBP Overdraft	Total	
1991-1992	98	3,397	1,016	302	4,715	4,814
1992-1993	89	3,834	1,441	685	5,960	6,049
1993-1994	538	4,038	1,143	929	6,110	6,648
1994-1995	153	4,534	648	400	5,582	5,735
1995-1996	152	4,715	868	637	6,220	6,372
1996-1997	444	4,673	3,092	1,087	8,851	9,295
1997-1998	620	6,296	3,766	1,363	11,425	12,045
1998-1999	705	5,592	3,826	1,179	10,598	11,303
1999-2000	778	7,190	3,627	650	11,467	12,244
2000-2001	862	6,666	2,912	212	9,790	10,653
2001-2002	864	6,656	3,084	196	9,935	10,799
2002-2003	932	6,234	3,151	29	9,414	10,346
2003-2004	874	6,007	3,228	2	9,237	10,112
2004-2005	957	5,243	3,531	0	8,774	9,731
2005-2006	929	5,048	3,083	0	8,130	9,060
Total	**8,995**	**80,122**	**38,416**	**7,670**	**126,208**	**135,203**

above depict the picture very clearly.

If we compare Figure 7.5 with Figure 7.4 it transpires that while the foreign debt liability is 54% of the total debt liability of the Province, the payment of interest is only 7 % of the total debt servicing. This is because of the longer periods of repayments and lower interest rates of the foreign loan.

Figure 7.5



7.6. FISCSAL AND FINANCIAL MANAGEMENT REFORM AGENDA

As discussed and analyzed in the foregoing paragraphs, the domestic debt burden, including contingent liabilities, over the provincial exchequer is heavier as compared to the foreign debt. Therefore, the Government of Sindh has adopted a two pronged reform strategy:

- Premature retirement of expensive CDLs through less costly foreign loans; and
- Creation of various Funds to cater for the contingent liabilities.

7.6.1. PREMATURE DEBT RETIREMENT

The Government of Sindh prematurely retired expensive CDLs and market loans respectively amounting to Rs. 14.164 billion and Rs. 1.424 billion during FYs 2002-03, 2003-04 and 2006-07. Thus, on premature retirement of Rs. 15,588 million expensive loans the government saved Rs. 15.9 million on account of interest payment, which should have been paid if such loans had to be retired in their normal course i.e. until 2018-19. The details are given at Table 7.12

Table 7.12 Premature Debt Retirement (Rs. In million)	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Amount Retired	2,198	5,593	0	0	7,797	15,588
Average Interest Rate (%)	16.65	16.15	0.00	0.00	14.90	15.90
Net Saving	3,620	6,738	0	0	5,578	15,936
Annual Saving	261	396	0	0	338	995

7.6.2. CREATION OF INVESTMENT FUNDS:

The “Funds” created by Government of Sindh, to cater for the contingent liabilities and to meet our social responsibilities, are:

- Sindh Pension Fund (SPF)
- Sindh General Provident Investment Fund (SGPIF)
- Sindh Social Relief Fund (SSRF)

The objectives, source and level of funding, current reserves and investments of these funds are briefly enumerated here under:

7.6.2.1. SINDH GENERAL PROVIDENT INVESTMENT FUND (SGPIF):

The Chief Minister Sindh has accorded approval for creation of this fund in May, 2007, to cater for the increasing public liabilities on account of GPF contributions. The SGPIF will be formally created in 2007-08 with the seed money of Rs. 2,000 million and supplemented annually by the net receipts of the GPF contributions of the government servants, in addition to the provincial funding of Rs.2,000 million.

Such funding will be repeated every year so as to overcome GPF liabilities in next 10-15 years. The reserves of the fund will be suitably invested in the safest instruments to reap profits to pay off public servants' liabilities including their profit amount which is fixed by the Federal Government on yearly basis. The management of the fund and investment decisions will be taken by a high powered committee presided over by Chief Secretary Sindh, which includes Secretary (GA), SGA&CD, Secretary Finance and a representative of the private sector.

7.6.2.2. SINDH PENSION FUND (SPF):

The SPF was established in 2003 to meet ever increasing pension liabilities of the retired government servants. The fund was created with the seed money of Rs. 1,200 million which has now been enhanced to Rs. 3,000 million per annum. Total funding from the government since creation of the fund is Rs. 8,800 million, while profits accrued during the life of the fund are Rs. 565 million. The SPF is likely to grow to Rs. 12.959 billion by June 2008. Management of the fund and investment decisions are taken by Sindh Pension Fund Board (SPFB) which is headed by Minister / Advisor Finance. Chief Secretary Sindh, Secretary (GA), SGA&CD, Secretary Finance and a representative of ICAP are members of the Board.

7.6.2.3. 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. 3,000 million and the total funding from the government since creation of the fund is Rs. 6,000 million. The SSRF is likely to grow to Rs. 9,761 million 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.

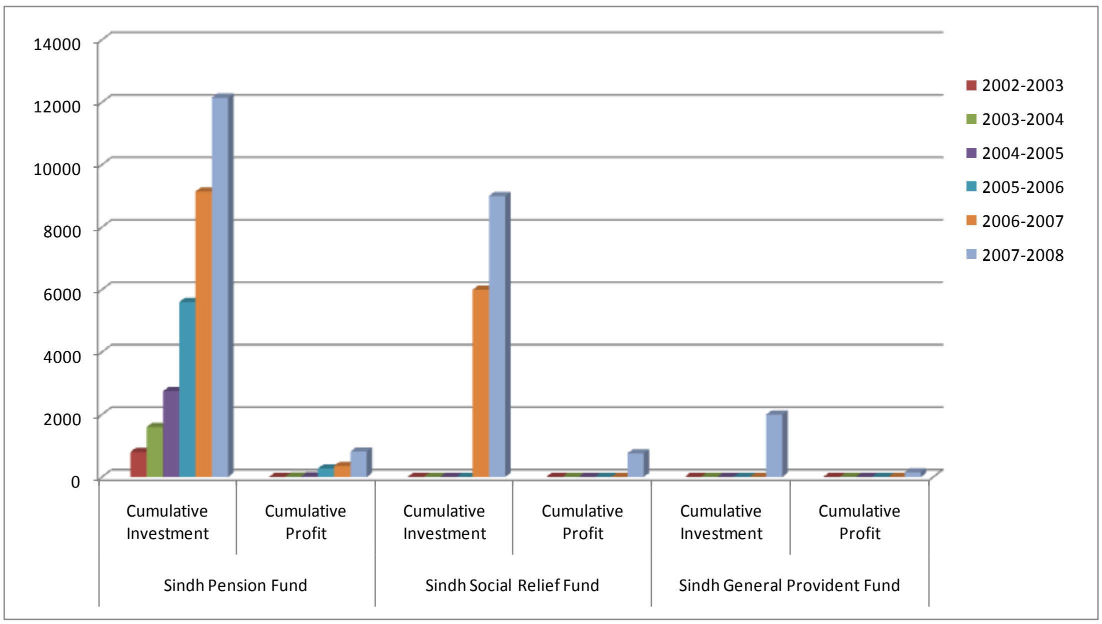
The details of investments made and the profits accrued over the years for the three funds are at Table 7.13.

Table 7.13
INVESTMENT FUNDS (Rs. in million)

Year	Sindh Pension Fund			Sindh Social Relief Fund			Sindh General Provident Fund		
	Cumulative Investment	Cumulative Profit	Cumulative Total	Cumulative Investment	Cumulative Profit	Cumulative Total	Cumulative Investment	Cumulative Profit	Cumulative Total
2002-2003	800	0	800	-	-	0	-	-	0
2003-2004	1,600	8	1,608	-	-	0	-	-	0
2004-2005	2,750	28	2,778	-	-	0	-	-	0
2005-2006	5,604	270	5,874	-	-	0	-	-	0
2006-2007	9,146	354	9,500	6,000	0	6,000	-	-	0
2007-2008	12,146	814	12,959	9,000	761	9,761	2,000	148	2,148

Note: Figures for 2007-08 are projections on the basis of the budgetary allocations and past trend of profits.

Figure 7.6



As we can see from Table 7.13 and Figure 7.6, the total cumulative investments and profits will reach Rs. 25 billion approximately in 2007-08. This shows a great success of the Provincial Government which in a short span of five years not only recovered from the SBP's overdraft and prematurely paid off Rs. 15.59 billion expensive CDLs, but successfully separated Rs. 25 billion from the PCF and deposited the same in these investment funds.

8. PUBLIC ACCOUNT

8.1. INTRODUCTION

The Constitution makes clear distinction between the PCF and the Public Account. According to Article 118, “all revenues received by the Provincial Government; all loans raised by that Government and all moneys received by it in repayment of any loan, shall form part of a fund” called PCF. On the other hand, “all other moneys (a) received by or on behalf of the Provincial Government; or (b) received by or deposited with the High Court or any other Court established under the authority of the Province shall be credited to” and forms part of the *Public Account* of the Province.

According to Article 119, the custody of the PCF and the Public Account; payment of moneys and withdrawals there from; and all matters pertaining to the PCF / Public Account shall be regulated by an Act of the Provincial Assembly or (until passage of an enactment) by Rules made by the Governor.

In essence, therefore, Public Account of Sindh Government consists of transactions of those specific purpose moneys, not forming part of the PCF but for which the government has a statutory or other obligation to account for. This implies that Public Account moneys are not available to government for appropriation against its general operations. The Public Account will, therefore, consist of a series of accounts, which will have specific rules governing its operation. The following are its main elements:

- Assets
    - Cash and Bank Balances
    - Receivables

- Deposits and Reserves / Liabilities

  - Control Account
  - Trust Account – Funds
  - Trust Account – Others
  - Special Deposit – Investments
  - Special Deposit – Funds

8.2. 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 8.1

Public Account (Rs. In Millions)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
RECEIPTS	**142,727**	**160,693**	**194,311**	**234,827**	**193,095**	**236,972**	**239,331**	**0.91**	**23.95**	**18.05**
Assets	86,666	98,748	111,904	142,777	95,750	148,789	156,056	4.21	62.98	18.11
Deposits and Reserves	56,061	61,945	82,407	92,050	97,345	88,183	83,275	-4.20	-14.45	17.97
DISBURSEMENTS	**130,911**	**159,282**	**192,070**	**231,986**	**188,025**	**232,847**	**234,070**	**0.37**	**24.49**	**21.01**
Current Assets	86,669	100,312	111,890	142,774	104,855	131,211	130,511	-8.10	24.47	18.10
Liability	44,242	58,971	80,180	89,212	83,170	101,636	103,560	13.93	24.52	26.34
Net	**11,816**	**1,411**	**2,241**	**2,841**	**5,070**	**4,125**	**5,261**	**45.20**	**3.76**	**-37.82**

*** Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.**

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

Table 8.1 presents classification of Public Accounts after the introduction of New Accounting Model (NAM). On average the net balance in public account has shrunk by

37.82%, from Rs. 11,816 million to Rs. 2,841 million every year for the period 2002-03 to 2005-06. This could possibly be explained by higher percentage growth in disbursements (20.98%) as compared to increase in receipts (18.05%) for the same period. Net public account is expected to increase by 5.85% in FY 2007-08 and has been pitched at Rs. 5,261 million.

8.2.1. RECEIPTS

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

8.2.1.1. ASSETS

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 have been recording average growth of 18.11% in the past, these are expected to grow by 62.98% at Rs. 156.056 billion in FY 2007-08.

8.2.1.2. DEPOSITS AND RESERVES

These include intergovernmental adjustments, remittances, suspense funds, special deposit fund, welfare fund, development fund, education & training fund, Income Tax deductions from salaries, Public Ledger Accounts (PLAs) and most importantly, the Trust Account Fund. Deposits and reserves have increased at an average rate of 17.97% in the past. However, these are expected to record negative growth rate of 14.45% in FY 2007-08.

Trust Account Fund is the most important public account and comprises of the Provident, Benevolent and Insurance Fund receipts. Table 8.2 details the Trust Account Fund.

Table 8.2										
Trust Account Fund (Rs. In Millions)								Growth (%)		Ave (%)
	Actual				BE	RE	BE	RE*	BE**	Actual
	2002-03	2003-04	2004-05	2005-06	2006-07	2006-07	2007-08	2006-07	2007-08	2002-06
RECEIPTS	**1,961**	**5,498**	**5,713**	**5,313**	**6,368**	**6,126**	**1,443**	**15.29**	**-77.33**	**39.42**
Provident Fund	1,604	4,621	4,942	4,558	5,467	5,457	1,074	19.73	-80.35	41.64
Benevolent Fund	248	262	260	302	285	141	224	-53.46	-21.65	6.88
Insurance	109	616	511	453	615	528	145	16.57	-76.35	60.80
DISBURSEMENTS	**1,974**	**2,085**	**2,458**	**2,477**	**2,579**	**2,717**	**2,984**	**9.67**	**15.72**	**7.87**
Provident Fund	1,831	1,361	1,735	1,908	1,820	1,758	2,025	-7.86	11.28	1.38
Benevolent Fund	53	250	461	308	484	484	484	57.33	0.00	79.37
Insurance	90	474	262	262	275	475	475	81.31	72.75	42.78
Net	**-13**	**3,413**	**3,255**	**2,836**	**3,789**	**3,409**	**-1,541**	**20.20**	**-140.66**	**-8.84**

* Represents percentage increase in Revised Estimates 2006-07 over actuals of 2005-06.
** Represents percentage increase in Budget Estimates 2007-08 over Budget Estimates 2006-07.

8.2.2. DISBURSEMENTS

8.2.2.1. CURRENT ASSETS

These represent outflows from Assets, which have grown on average at 18.8% in past four years as shown in Table 8.1. Budgeted at Rs. 130.511 billion for FY 2007-08, disbursements of current assets are likely to increase by 24.47 % over BE 2006-07, which was estimated at Rs. 104.855 billion.

8.2.2.2. LIABILITY

Liability is a contra-receipts account and represents payouts from deposits and reserves account showed on receipts side. As we can notice from Table 8.1 liability has been increasing at the average of 26.24% in the past four years, whereas it is likely to increase by 24.52% in FY 2007-08 and has been pitched at Rs. 103.560 billion.

9. MEDIUM TERM FISCAL FRAMEWORK (MTFF)

9.1. 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.

9.2. FORMULATION OF MTFF

The formulation of the estimates included in the MTFF involves the use of extensive econometric methodology. In a simpler formatting, it involve, 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.

9.3. SINDH MTFF

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

Following are the salient features of MTFF:

9.3.1. REVENUE SIDE

- 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.

9.3.2. EXPENDITURE SIDE

- 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 9.1.

Table 9.1

Sindh Medium Term Fiscal: Framework 2006/07 to 2009/10

(Rs. In 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**	**13.50%**
Tax Transfers	57,944	63,841	79,620	96,361	107,106	123,785	142,967	164,528	14.30%
Provincial Revenues	11,817	14,648	16,350	19,727	22,876	25,904	29,294	33,088	13.80%
Tax Revenues	8,506	11,167	11,776	13,642	15,618	17,783	20,203	22,898	13.80%
Non-Tax Revenues	3,311	3,481	4,574	6,085	7,258	8,121	9,091	10,190	13.80%
Federal grants	9,642	16,272	18,897	25,497	28,918	31,998	34,824	37,585	10.20%
o/w OZT replacement grants	7,053	10,886	9,810	13,686	17,107	20,187	23,013	25,774	17.10%
Total Expenditures	**86,166**	**91,244**	**106,953**	**139,733**	**159,725**	**181,475**	**207,494**	**236,222**	**14.00%**
Current Expenditures	**77,312**	**76,093**	**85,055**	**106,620**	**120,825**	**136,269**	**154,957**	**176,405**	**13.40%**
Wages	10,496	12,307	20,370	25,434	27,723	29,667	31,663	33,867	7.40%
Pension	3,876	4,393	4,216	4,825	5,115	5,421	5,801	6,207	6.50%
Repairs and Maintenance	2,120	1,552	2,553	2,674	3,476	4,519	6,984	9,079	35.70%
Commodities & Services	4,699	4,622	4,877	13,697	18,420	25,682	34,035	43,640	33.60%
Interest Payments	10,317	10,110	9,731	9,060	9,377	9,705	10,045	10,397	3.50%
Subsidies	3,242	507	507	4,431	2,216	1,772	1,418	1,134	-28.90%
Grants to LG & others	9,716	14,220	9,232	8,443	9,288	10,217	11,238	12,362	10.00%
Transfers to District Govts	14,098	8,165	10,676	13,784	17,462	19,208	21,129	23,242	14.00%
Salary to District Government	18,748	20,217	22,894	24,271	27,749	30,077	32,644	36,478	10.70%
Total Development Expenditure	**7,654**	**13,951**	**20,698**	**31,914**	**36,701**	**42,206**	**48,536**	**55,817**	15.00%
Development Exp & Invest.	**8,854**	**15,151**	**21,898**	**33,114**	**38,901**	**45,206**	**52,536**	**59,817**	**15.90%**
o/w Investment into Pension Fund	1,200	1,200	1,200	1,200	2,200	2,000	2,000	2,000	13.60%
Investment into GP Fund	0	0	0	0	0	1,000	2,000	2,000	--
Fiscal Deficit	**-6,763**	**3,517**	**7,914**	**1,852**	**-825**	**212**	**-409**	**-1,020**	**--**
Current Account Balance	2,092	18,668	29,812	34,965	38,076	45,418	52,127	58,797	13.90%
Overall Fiscal Balance	3,555	13,627	17,645	10,911	8,552	9,917	9,636	9,376	-3.70%
Net Financing	**6,763**	**-3,517**	**-7,914**	**-1,852**	**825**	**-212**	**409**	**1,020**	**--**
Public Debt (net)	1,134	-3,153	-3,485	726	2,496	8,435	5,658	7,758	80.80%
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	34.50%
Foreign debt	4,577	3,740	-2,495	1,441	4,489	10,584	7,934	10,098	62.70%
Net GP Fund Receipts	2,675	3,258	3,207	2,693	2,731	2,762	2,783	2,794	0.90%
Utilization of Cash Balances	2,953	-3,622	-7,636	-5,271	-4,402	-11,409	-8,032	-9,531	16.00%

9.4. 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.

9.5. MTFF AND BUDGET 2007-08

On the whole Budget 2007-08 has achieved all targets fixed under MTFF. The percentage growth in BE 2007-08 over BE 2006-07 against each component is discussed here under:

On *revenue side*, the *federal tax transfers* are estimated to increase by 28.75% 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 increasing by 12.66% on the whole, as against 10% target fixed under MTFF. If we disaggregate the data into Subventions and DSG, the former is growing by 22.6% while the latter is increasing by 9.54%. The provincial own receipts are projected to grow by 16.02% vis-à-vis 13.8% mark.

The *recurring expenditure (CRE)* of the Provincial Government (excluding LG transfers) has been estimated to increase by 13.87% as against the required target of 13.4%.

The provincial *development expenditure* has been drastically increased by 66.7% as against the projection of 15% under MTFF.

2007-08 is a deficit budget but the fiscal deficit is near the range of 0.5% of the PGDP as envisaged under MTFF.

BUDGET AT A GLANCE 2007-08

Rs. in million

CLASSIFICATION	2006-07		2007-08
	BUDGET ESTIMATES	REVISED ESTIMATES	BUDGET ESTIMATES
I- CURRENT BUDGET			
A. CURRENT REVENUE RECEIPTS			
Federal Tax Assignment			
1. Revenue Assignment	63,468.589	64,512.446	81,717.048
2. Special Grant (Grant-in-Aid)	5,827.500	5,827.500	7,144.683
Total Federal Tax Assignment	**69,296.089**	**70,339.946**	**88,861.731**
3. Provincial Receipts	21,808.000	22,144.522	25,300.687
4. Straight Transfers	37,902.123	47,802.321	42,054.648
5. District Support Grant (including Other Grants)	18,606.801	16,903.310	20,381.805
Total (3 to 5)	**78,316.924**	**86,850.153**	**87,737.140**
Grand Total ? A	**147,613.013**	**157,190.099**	**176,598.871**
B. CURRENT REVENUE EXPENDITURE			
1. Provincial Government	82,469.706	84,756.835	93,904.702
2. Local Governments (DGs, TMAs, UAs)	56,754.784	59,478.536	72,746.738
Total Local Governments(2)	**56,754.784**	**59,478.536**	**72,746.738**
Total (1+2) ? B	**139,224.490**	**144,235.371**	**166,651.440**
C. CURRENT CAPITAL RECEIPTS			
Local Repayments	1,903.875	1,725.521	2,200.761
SDSSP	344.520	344.520	0.000
DPC, World Bank	6,000.000	6,000.000	6,000.000
Europeon Commission Grant	1,000.000	0.000	770.000
Total ? C	**9,248.395**	**8,070.041**	**8,970.761**
D. CURRENT CAPITAL EXPENDITURE			
Current Capital Expenditure	11,727.242	12,363.137	7,941.596
Total ? D	**11,727.242**	**12,363.137**	**7,941.596**
ue and Capital Receipts (AC)	**156,861.408**	**165,260.140**	**185,569.632**
e and Capital Expenditures(BD)	**150,951.732**	**156,598.508**	**174,593.036**
(+)Surplus/(-) Deficit (AC-BD) ? E	**5,909.676**	**8,661.632**	**10,976.596**

Rs. in million

CLASSIFICATION	2006-07 BUDGET ESTIMATES	2006-07 REVISED ESTIMATES	2007-08 BUDGET ESTIMATES
II- PUBLIC ACCOUNTS OF THE PROVINCE			
1- Receipts	193,094.674	236,971.874	239,331.327
2- Disbursements	188,024.605	232,846.737	234,070.490
Net Public Account of the Province((+)Surplus/(-)Deficit)? F	**5,070.069**	**4,125.137**	**5,260.837**
III- PUBLIC SECTOR DEVELOPMENT PROGRAMME RECEIPTS			
1. Carryover Cash Balance	13,322.500	18,037.128	12,500.000
2. Provincial Contribution (E+F)	10,979.745	12,786.769	16,237.433
3. Drought Emergency Relief Assistance (DERA)	250.000	250.000	510.000
4. Foreign Project Assistance	5,373.000	3,205.517	5,660.000
5. Sindh Devolved Social Services Programme (SDSSP)	1,952.280	1,952.280	0.000
6. Other Federal Grants	10,574.196	11,048.104	14,381.054
Total (Development Funding) ? G	**42,451.721**	**47,279.798**	**49,288.487**
EXPENDITURE			
1. Provincial ADP	24,000.000	27,000.000	40,000.000
2. District Governments ADP *	8,000.000	8,000.000	10,000.000
3. Drought Emergency Relief Assistance (DERA)	250.000	0.000	510.000
4. Sindh Devolved Social Services Programme (SDSSP)	1,952.280	873.514	1,078.766
5. Foreign Project Assistance	5,373.000	3,205.517	5,660.000
6. Other Federal Grants	10,574.196	16,117.970	14,381.054
Net (Provincial Development Expenditure) excluding District Governments ADP ? H	**42,149.476**	**47,197.001**	**61,629.820**
Total Receipts of the Province [A+C+F+G-(E+F)] ? J	**193,403.453**	**203,878.306**	**223,881.523**
Total Expenditures of the Province [B+D+H] ? K	**193,101.208**	**203,795.509**	**236,222.856**
Surplus (+)/ Deficit (-) (J-K)	**302.245**	**82.797**	**-12,341.333**
IV- STATE TRADING			
1- Receipts	7,177.000	9,881.287	11,536.000
2- Expenditure	7,302.088	9,874.147	8,767.459
(Net State Trading)	**125.088**	**-7.140**	**-2,768.541**

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

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 anum
3)	Payment period	:	18 years including 5 years grace period.

FOREIGN LOANS UNDER NEGOTIATION WITH DONORS

S. No.	Name of Project	Negotiation Details	Donor / Lender & Nature of Loan	US $ In Million
1.	Sindh Coastal and Inland Community Development Project	Negotiations held on 16-17 November, 2006	ADB ADF Loan	36.00
2.	Sindh Water sector improvement Phase-I Project.	Negotiated held on 28-31 March, 2007	IDA Credit	150.20
3.	First Sindh Education Sector Development Policy Credit	Negotiated held on 2nd March, 2007	IDA Credit	100.00
4.	Sindh Cities Improvement Program	Negotiations likely held in near future	ADB (A blend of ADF & OCR loan)	500.00 to 800.00
5.	Karachi Mega City Development Project (Investment Program)	Negotiations for Investment Project expected in near future	ADB (A blend of ADF & OCR loan)	800.00
6.	Sindh Rural Road Construction Phase-II Project	Negotiation expected soon	JBIC ODA Loan	58.20
		Total		**1,644.40 to 1,944.40**