

**POVERTY REDUCTION STRATEGY PAPER:
PROGRESS REPORT FOR THE THIRD QUARTER
OF YEAR 2005-06**

June 2006

PRSP Secretariat - Finance Division
Government of Pakistan

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1 Introduction

1.1 This Poverty Reduction Strategy Paper (PRSP) progress report for the third quarter (Q3) of FY06 is the nineteenth report, since the monitoring of pro-poor budgetary and non-budgetary expenditures began in 2001. PRSP has been a successful strategy, as sound progress has been made during last five years in its four pillars i.e. accelerating economic growth, improving governance, investing in human capital and targeting the poor and vulnerable. The FY06, when real GDP grew at 6.6% despite extraordinary surge in oil prices and the destructive earthquake of October 8,2005, is the fourth consecutive year that Pakistan's economic performance has been robust, which owes to dynamism in industry, agriculture and services sectors.

1.2 This sustainable growth over the past four years has contributed in lowering unemployment level to 6.5% during July-December 2005, as compared to 7.7% in 2003-04. Decline in unemployment rates occurred in rural as well as urban areas and among male as well as female. Poverty levels have also declined from 34.46% in 2000-01 to 23.9% in 2004-05. This decline in poverty has been observed in urban as well as in rural areas.

1.3 Pakistan is well ahead of its target on PRSP budgetary expenditures, which increased by 34.3% to Rs 258 billion during Q3 FY06 over Q3 FY05. During the same period, as a percentage of GDP, these expenditures increased by 0.43 percentage points to 3.35%. Increase was also witnessed in micro-credit disbursement, a non-budgetary head of pro-poor expenditure.

1.4 PRSP-I, which was started in 2003, has completed its 3-year duration in June 2006. Despite the success of PRSP in revival of economic growth, increase in pro-poor expenditures and reduction in unemployment and poverty, many challenges are ahead e.g. sustainability of higher economic growth, persistence of rural poverty, inequality, gender gap in health and education, high youth unemployment, and achievement of Millennium Development Goals (MDGs). To address these challenges, Ministry of Finance has planned to prepare PRSP-II for 2006-09 period. Based on the experience of PRSP-I and extensive consultation with all stakeholders, PRSP-II aims to present a strategy to ensure the sustainability of growth and to include the poor in the growth process, so they can improve their well being.

1.5 This report is divided into 8 sections. An overview of Pakistan's economy is given in section 2. An analysis of pro-poor budgetary expenditures is presented in section 3. Non-budgetary transfers are discussed in section 4. Section 5 comprises of monitoring the PRSP intermediate indicators. Section 6 consists of monitoring the two outcome indicators, unemployment and poverty. The PRSP-II process is discussed briefly in section 7 and the last section presents the concluding remarks.

2 Overview of Pakistan's Economy¹

2.1 Real GDP grew at 6.6% in FY06 against the 7% target for the year. The performance of the economy has been impressive, considering the rising and volatile energy prices and the extensive damage caused by the earthquake of October 8, 2005. The key drivers of growth have been the services sectors and industry. Pakistan's economy has grown at an average rate of almost 7% per annum during the last four years and over 7.5% in the last three years. Growth performance of components of GDP is given in table 1.

Table 1: Growth Performance of Components of GDP (% Growth at Constant Factor Cost)

	2004-05	2005-06
Commodity Producing Sector	9.2	4.3
1. Agriculture	6.7	2.5
Major Crops	17.8	-3.6
Minor Crops	3.0	1.6
Livestock	2.3	8.0
Fishing	2.2	1.9
Forestry	-30.4	-9.7
2. Mining and Quarrying	9.6	3.8
3. Manufacturing	12.6	8.6
Large Scale	15.6	9.0
Small Scale	7.5	9.3
4. Construction	18.6	9.2
5. Electricity & Gas Distribution	3.5	-8.4
Services Sector	8.0	8.8
6. Transport, Storage and Communication	3.6	7.2
7. Wholesale & Retail Trade	11.1	9.9
8. Finance & Insurance	29.7	23.0
9. Ownership of Dwellings	3.5	3.5
10. Public Administration & Defence	0.6	4.7
11. Services	5.9	6.5
12. GDP (Constant Factor Cost)	8.6	6.6

Source: Economic Survey 2005-06

2.1 Agriculture

2.2 Agriculture sector grew by only 2.5% during FY06, against 6.7% growth of last year and the 4.2% target for the year. Major crops and forestry registered a negative growth of 3.6% and 9.7% respectively. Major crops, accounting for 32.5% of agricultural value added, grew by 17.8% in FY05. Besides measuring

¹ This section comprises of excerpts from Economic Survey 2005-06.

from a high base of last year, major crops registered a decline primarily on account of a 13% less production of cotton owing to adverse weather conditions. Sugarcane is another major crop, which registered a negative growth of 6.2%. Rice and maize, performed well with rice production increasing by 10.4% and maize production was up by 27.3%. Wheat production remained more or less at last year's level with a marginal increase of 0.4%. Livestock with almost 50% contribution in agriculture grew by 8% as against 2.3% last year and hence took the overall agricultural growth to a positive side.

2.2 Manufacturing

2.3 Manufacturing is the second largest sector of the economy, accounting for 18.2% of GDP, registered a growth of 8.6% as against 12.6% last year. Large scale manufacturing accounting for 69.9% of overall manufacturing, registered weaker than expected growth at 9% as against the target of 14.5% and a growth of 15.6% in FY05. This perhaps exhibits signs of moderation on account of higher capacity utilization on the one hand and a strong base effect on the other. Other factors, which contributed to slower pace of expansion of large-scale manufacturing, are as follows: a 13% decline in cotton production subdued the performance of textile and apparel sector, which has large weight in large scale manufacturing. Sugar production also has large weight in large scale manufacturing, which registered a decline of 2.4%. Basic metal industries registered a sharp contraction of almost 59% because two coke oven batteries of the Pakistan Steel Mill went out of order in July 2005 and the mill was operating at around one third of its capacity. The petroleum group also registered a decline in growth to 2.3%, as compared to 9.4% in FY05.

2.3 Services

2.4 The services sector grew by 8.8% in FY06 as compared to 8% in FY05. This growth is attributed to strong growth in the finance and insurance sector, better performance of wholesale and retail trade, as well as transport and communication sector. Finance and insurance sector grew by 23% during FY06, as compared to 29.7% in FY05. Value added in the whole sale and retail trade sector has increased by 9.9%, compared to 11.1% in FY05. The transport and storage and communications sector grew by 7.1% during FY06, as against 3.5% growth in FY05.

2.4 Current Account Balance

2.5 The current account deficit, excluding official transfers stood at US\$4696 million during July-March FY06, as compared to US\$1181 million during the same period in FY05. This current account deficit stood at 3.7% of GDP as against 1.1% of GDP in FY05. Trade deficit almost doubled over the last year, due to high global crude prices and rise in non-oil imports. The services balance deteriorated by 27.5%. Strong inflows under private transfers fueled by rising

worker's remittances and resident foreign currency accounts, prevented further deterioration of current account deficit.

2.5 Inflation

2.6 Inflation during July-April FY06 is estimated at 8%, as compared to 9.3% during the same period in FY05. During the same period, food inflation stood at 7% against 12.8% in FY05. Non-food inflation estimated at 8.8% is on higher side compared with 6.9% in the same period in FY05. The core inflation, non-food and non-energy inflation stood at 7.7% as against 7% in the same period last year. With the second largest weight in the CPI (23.4%) after food (40.3%), the house rent component of the CPI registered a marginal decline to 10.3% as against 11.1% in the same period in FY05.

2.7 Both demand and supply side pressures have resulted in high inflation over the past two years. Strong economic growth over the past four years has increased income levels and hence domestic demand and put upward pressure on prices of essential commodities. Supply side pressures include: increase in support price of wheat for three years in a row, shortage of wheat owing to less than the targeted production, mismanagement in wheat operation in one of the wheat deficit province, inter-provincial ban on the movement of wheat resulting in sharp increase in prices of wheat and wheat flour. The prices of other food item such as beef, mutton, chicken, milk etc also recorded increase both due to demand and supply side pressures. Lower production of sugar due to relatively lower production of sugarcane and a sharp increase in the international prices of sugar brought about by a significant diversion of sugarcane into ethanol (petroleum substitute) by the largest producer Brazil, also contributed in building inflationary pressure in Pakistan. In recent months, prices of various kinds of pulses also registered sharp increase owing to a significant decline in domestic production as well as shortages in international markets. An unprecedented rise in the international oil prices also contributed to the build up in inflationary pressure in Pakistan.

3 An Analysis of Pro-Poor Budgetary Expenditures

3.1 PRSP budgetary expenditures increased by 34.3% during July-March FY06 relative to the same period in FY05 to Rs 258 billion (table 2). During the same period, PRSP expenditures as percentage of GDP increased by 0.43 percentage points to 3.35% of the full year GDP.

3.2 Education sector is given the highest priority in terms of distribution of pro-poor expenditures as 37.4% of total PRSP expenditures were used for this sector during Q3 FY06. Law and order stands second in priority, as expenditures made on this sector account for 15% of total pro-poor expenditures. Share of pro-poor expenditures made on irrigation increased from 11.1% during Q3 FY05 to 14.0% in Q3 FY06, indicating that Government is giving due importance to this sector, as irrigation plays a vital role in agricultural growth. Expenditures made on health and roads, highways & bridges account for 8.9% and 8%, respectively of the total PRSP expenditures during Q3 FY06.

Table 2: PRSP budgetary expenditures and % change between Q3 FY06 and Q3 FY05

Sectors	Expenditures Q3* (million Rs)		% Change
	FY2004-05	FY2005-06	
Roads, highways & bridges	16,614	20,554	23.7
Water supply and sanitation	3,375	5,279	56.4
Education	74,430	96,782	30.0
Health	19,312	23,029	19.2
Population Planning	2,516	4,963	97.3
Social security & welfare	3,167	2,340	-26.1
Natural Calamities	408	12,132	2873.5
Irrigation	21,322	36,127	69.4
Land reclamation	1,688	1,699	0.7
Rural development	9,164	10,004	9.2
Rural electrification	2,055	990	-51.8
Food subsidies	1,220	1,281	5.0
Food Support Programme	2,652	2,097	-20.9
Tawana Pakistan	30	0	-100.0
Low cost housing	243	199	-18.1
Administration of justice	2,148	2,325	8.2
Law and order	32,164	38,650	20.2
Total	192,508	258,451	34.3
% of GDP	2.93	3.35	

* These expenditures are cumulative i.e. for July-March FY05 and July-March FY06

3.3 Largest increase in pro-poor expenditures was seen in natural calamities during Q3 FY06 to Rs 12 billion. As discussed in the previous quarterly report, this expenditure was made mainly in NWFP province for relief work in earthquake-affected areas² of October 8, 2005 earthquake.

3.4 There was an increase of 97% to Rs 4.96 billion on population planning expenditure during Q3 FY06. Development expenditure on population planning stood at 95% during the same period. There was an increase of 0.02 percentage points to 0.06% on expenditure made on population planning as percentage of GDP during Q3 FY06. Expenditure on irrigation increased by 69% to Rs 36 billion of which 78% comprises of development expenditure. Increase in expenditure made on water supply and sanitation stood at 56% to Rs 5.3 billion, of which 72% consisted of development expenditure. Share of expenditure in GDP, on irrigation increased from 0.32% in Q3 FY05 to 0.47% in Q3 FY06. Expenditure on law and order increased by 20% to Rs 38.65 billion of which 98% is current expenditure. Expenditure made on law and order, in terms of share in GDP increased by 0.01 percentage point to 0.5% in Q3 FY06 relative to Q3 FY05. The only sectors, which experienced a decline in expenditures during Q3 FY06 relative to Q3 FY05, were social security & welfare, rural electrification, food support program and low cost housing.

3.5 The implementation of Tawana Pakistan project was slow and incomplete as compared to the envisaged targets. It is being redesigned and has been temporarily suspended. It is a nutrition target program, which includes serving of meals and micro nutrient supplementation to schoolgirls. The program has been launched in 5300 schools of 29 poor districts of Pakistan.

3.2 Budgetary Expenditures by Federal and Provincial Governments

3.6 Percentage change in PRSP budgetary expenditures by the federal and provincial governments during Q3 FY06 over Q3 FY05 is given in table 3. Details of these expenditures and their classification as current and development expenditures are given in the annex. The largest proportion of expenditures was made by Punjab (34.5%), followed by Federal Government (28.4%), Sindh (17.5%), NWFP (13.5%) and Balochistan (6.1%) during Q3 FY06.

3.7 Largest change in PRSP expenditures was observed in NWFP province (79.7%) in Q3 FY06 over Q3 FY05, due to increase in expenditures made on natural calamities, owing to October 8, 2005 earthquake, as was the case in the previous quarter. Increase in PRSP expenditures during Q3 FY06 as compared to Q3 FY05 by Federal Government stood at 61.0%, Punjab at 14.4%, Sindh at 27% and Balochistan at 12.9%.

² Expenditures on earthquake-affected areas in AJK are not included here.

Table 3: Percentage change in PRSP expenditures between Q3 FY06 and Q3 FY05 by sector and region

Sectors	Federal	Punjab	Sindh	NWFP	Balochistan	Pakistan
Roads, highways & bridges	6.3	18.5	38.8	63.8	17.2	23.7
Water supply and sanitation	-66.7	459.1	-27.1	29.5	-31.4	56.4
Education	124.6	6.5	29.0	30.3	10.4	30.0
Health	41.8	10.0	23.9	5.2	14.3	19.2
Population Planning	141.3	23.2	15.4	-25.0	47.1	97.3
Social security & welfare	-78.8	4.4	528.8	38.5	-13.0	-26.1
Natural Calamities	235.6	72.2	667.5	-	-13.0	2873.5
Irrigation	94.3	37.7	59.4	52.9	22.7	69.4
Land reclamation	-86.8	-78.6	11.8	-12.7	-	0.7
Rural development	-56.3	9.0	-82.7	93.2	83.5	9.2
Rural electrification	-51.8	-	-	-	-	-
Food subsidies	-90.0	-	-29.8	-36.0	-	5.0
Food Support Programme	767.1	-67.5	-55.5	-88.7	-17.2	-20.9
Tawana Pakistan	-100.0	-	-	-	-	-
Low cost housing	-	-19.3	-	-	-	-18.1
Administration of justice	-26.4	19.2	24.4	-6.4	8.1	8.2
Law and order	30.1	15.0	15.4	16.7	17.6	20.2
Total	61.0	14.4	27.0	79.7	12.9	34.3

* Budgetary expenditures are cumulative for July-March FY05 and July-March FY06

3.8 Substantial increase in expenditures made by the Federal Government was seen in irrigation during the same period, of which 99.8% expenditure was development, which recorded an increase of 96%. Important PSDP projects on water run by Federal Government are as follows: Raising of Mangla Dam, Kurram Tangi Dam, Kachhi Flood canal project (phase 1), Left Bank Outfall Drain Stage-I, National Drainage Programme, Irrigation System Channels in Punjab (Phase I) and Lining of Irrigation Channels in Punjab. Expenditure on roads, highways and bridges made by the Federal Government also recorded some increase in the Q3 of FY06 as compared to the same period in FY05, however all of this expenditure was current. Important ongoing development projects under National Highway authority are Makran Coastal Road Balochistan, Islamabad Peshawar Motorway (M-I), NWFP Road Development Sector & Sub Regional Connectivity, N-5 Highway Rehabilitation Project and National Highway Development Sector Project. Large increase on expenditure made on law and order by Federal Government took place during Q3 FY06 over Q3FY05, of which 96% expenditure was current.

3.9 Punjab made enormous increase in expenditure made on water supply and sanitation during Q3 FY06 over Q3 FY05, of which 88% expenditure was development. During the same period Punjab witnessed increase in expenditures made on roads, highways & bridges, education, health, population planning, social security & welfare, natural calamities, irrigation, rural development, food support programme, administration of justice and law and order.

3.10 Sindh observed substantially large increase in expenditures made on natural calamities and social security & welfare. NWFP spent only Rs 3 million on population planning, compared to Rs 3.8 billion by Federal Government, Rs 569 million by Punjab, Rs 420 million by Sindh and Rs 153 million by Balochistan during Q3 FY06. Even this small expenditure made on population planning by NWFP witnessed a decline of 25% in Q3 FY06 when compared with Q3 FY05. NWFP observed more than 50% increase on expenditures made on natural calamities (as discussed earlier), roads high way & bridges (of which 94% expenditure was development) and rural development, of which 94% was development expenditure, during third quarter of FY06 as compared to the third quarter of FY05. Balochistan is giving due importance to rural development, which recorded an increase of 83.5% in Q3 FY06 relative to Q3 FY05 to Rs 956 million, of which 91% comprised of development expenditure. Balochistan observed large increase in expenditure made on population planning, which entirely comprised of current expenditure during Q3 FY06 over Q3 FY05.

3.3 PRSP Expenditures on Sub-Sectors of Education and Health

3.11 Pakistan has entered into demographic bonus phase, as the fertility decline, which started in the late 1980s, has been proceeding rapidly. Because of the likely declining trends in child dependency during the next two to three decades, there will be relatively low burden on the working-age population. If we equip children with good quality education and provide them good health facilities, they can contribute in economic growth during their adulthood.

3.3.1 Education

3.12 As discussed earlier largest proportion of PRSP expenditures were made on education sector (37.4% in Q3 FY06) and in education sector largest proportion was spent on primary education (39% in Q3 FY06 table 4), indicating that Government gives top priority to primary education. Second priority was given to secondary education, as 25% of education expenditure was made on it during Q3 FY06. Proportion of expenditure made on university/college education, professional/technical universities, teacher and vocational training and other educational institutions stood at 21.2%, 4.4%, 1.6% and 8.9%, respectively during Q3 FY06.

3.13 Overall education expenditures increased by 30% to Rs 96.8 billion during Q3 FY06 over Q3 FY05 and accounted for 1.25% of GDP in Q3 FY06. Primary education is the top priority of provinces in terms of education expenditures. However, distribution of education expenditure made by the Federal Government were different, as it spent largest proportion of expenditure on university/college education in Q3 FY06, which was the result of large expenditures made by the Higher Education Commission (HEC).

Table 4: Percentage distribution of PRSP education expenditure by sector and region

Province/ region	All sectors of education	Primary Education	Secondary Education	University/ College Education	Professional/Technical Universities	Teacher and Vocational Training	Other Educational Institutions
Q3 FY2004-05							
Federal	100	10.2	17.2	52.5	0.0	1.8	18.2
Punjab	100	60.6	21.6	7.8	1.0	2.6	6.4
Sindh	100	44.9	34.5	8.7	5.0	0.5	6.4
NWFP	100	46.4	41.0	10.4	0.0	0.2	2.0
Balochistan	100	34.2	29.4	6.8	5.8	2.1	21.7
Pakistan	100	47.7	26.5	14.2	1.7	1.7	8.1
Q3 FY2005-06							
Federal	100	6.0	8.7	65.1	7.7	0.1	12.4
Punjab	100	54.4	24.2	8.6	1.6	3.2	7.9
Sindh	100	41.2	33.8	8.5	5.8	0.5	10.2
NWFP	100	47.7	40.7	5.9	4.4	0.0	1.3
Balochistan	100	34.8	30.1	7.7	6.4	3.7	17.4
Pakistan	100	39.0	25.0	21.2	4.4	1.6	8.9

* PRSP budgetary expenditure are cumulative, for July-March FY05 and July-March FY06

Table 5: Percentage change in PRSP education expenditure between Q3 FY06 and Q3 FY05 by region and sector

Province/ region	All sectors of education	Primary Education	Secondary Education	University/ College Education	Professional/Technical Universities	Teacher and Vocational Training	Other Educational Institutions
Federal	124.6	32.5	13.7	178.4	-	-88.0	52.5
Punjab	6.5	-4.4	19.7	18.5	74.6	30.1	31.0
Sindh	29.0	18.3	26.3	25.7	50.2	36.5	104.3
NWFP	30.3	34.1	29.5	-26.8	56700	-100.0	-14.7
Balochistan	10.4	12.3	12.8	24.2	23.2	94.6	-11.8
Pakistan	30.0	6.5	22.6	93.6	227.9	15.6	41.9

* PRSP budgetary expenditure are cumulative, for July-March FY05 and July-March FY06

3.3.2 Health

3.14 Table 6 shows distribution of health expenditures in Q3 FY06 and Q3FY05. Largest proportion of health expenditures is made on general hospital and clinics, followed by health facilities and preventive measures, other health facilities and mother & child. Federal and Sindh governments made hardly any expenditure under the head of mother & child, whereas proportion of expenditure made under this head by other provinces is negligible, except Balochistan, which spent 7.8% of health expenditure on mother & child in Q3 FY06.

3.15 PRSP health expenditure increased by 19.2% to Rs 23 billion, in Q3 FY06 over Q3 FY05, which accounted for 0.3% of GDP. An increase was seen in

health expenditure in all categories of health during the same period (table 7). Largest increase of 58.7% to Rs 3 billion was seen in expenditure on general hospital by Federal Government, followed by Sindh, NWFP and Balochistan. Punjab made largest expenditure under this head, of Rs 7 billion during Q3 FY06, as compared to the other regions. A decline in health expenditures made on health facilities and preventive measures, was seen in Punjab, NWFP and Balochistan. Under other health facilities, all provinces witnessed an increase in expenditures during Q3 FY06 over Q3 FY05. Mother and child is generally a neglected sector as Sindh made absolutely no expenditure on this sector, Federal Government spent Rs 2 million, Punjab spent Rs 40 million and NWFP spent Rs 13 million, whereas Balochistan made some relatively reasonable expenditure of Rs 100 million during Q3 FY06.

Table 6: Percentage distribution of health expenditure by sectors*

Province/ region	Total Health	General Hospitals and Clinics	Mother & Child	Health Facilities and Preventive Measures	Other Health Facilities
Q3 FY2004-05					
Federal	100	45.6	0.0	46.1	8.2
Punjab	100	85.8	0.5	1.1	12.6
Sindh	100	83.4	0.0	8.6	7.9
NWFP	100	79.8	0.4	5.1	14.7
Balochistan	100	41.5	0.1	22.9	35.6
Pakistan	100	72.8	0.2	14.5	12.4
Q3 FY2005-06					
Federal	100	51.1	0.0	43.5	5.4
Punjab	100	84.2	0.5	0.7	14.6
Sindh	100	81.7	0.0	8.5	9.9
NWFP	100	79.8	0.5	4.6	15.1
Balochistan	100	39.2	7.8	12.8	40.1
Pakistan	100	71.7	0.7	14.9	12.8

* PRSP budgetary expenditure are cumulative, for July-March FY05 and July-March FY06

Table 7: Percentage change in PRSP health expenditure between Q3 FY06 and Q3 FY05 by sectors*

Provinces/ federal	Total Health	General Hospitals and Clinics	Mother & Child	Health Facilities and Preventive Measures	Other Health Facilities
Federal	41.8	58.7	-	33.6	-7.1
Punjab	10.0	7.8	11.1	-24.7	27.3
Sindh	23.9	21.3	-	21.6	53.8
NWFP	5.2	5.2	30.0	-6.2	8.3
Baloch	14.3	8.2	9900.0	-35.9	28.9
Total	19.2	17.4	229.8	22.4	22.3

* PRSP budgetary expenditure are cumulative, for July-March FY05 and July-March FY06

4 Non-Budgetary Transfers

4.1 Non-budgetary transfers, as monitored in the PRSP progress reports, consist of transfers through Zakat, Employees' Old Age Benefit Institution (EOBI) and micro credit. However, for Q3 FY06, data only on micro-credit are available.

4.1 Micro Credit

4.2 Micro credit disbursement increased by 4.7% to Rs 1.6 billion during January-March 2006 as compared to the same period in 2005 (table 8). Total beneficiaries during the same period increased by 3.6% to 130,681, indicating that average credit disbursement stood at Rs 12,045. Increase in beneficiaries is attributed to increase in female beneficiaries by 35% to 50,244, whereas male beneficiaries declined by 9.6% to 80,437. This decline in overall male beneficiaries of micro credit occurred due to large decline in male beneficiaries of Pakistan Poverty Alleviation Fund (PPAF), whereas number of female beneficiaries doubled by its partner organizations. Khushali bank observed increase in male beneficiaries and decline in female beneficiaries, where as both male and female beneficiaries increased in Zarai Taraqati Bank Limited (ZTBL).

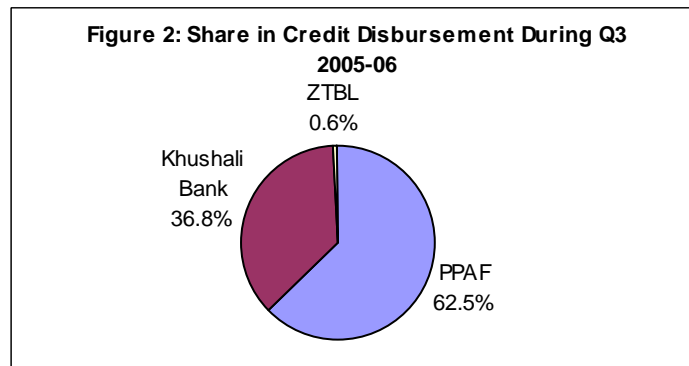
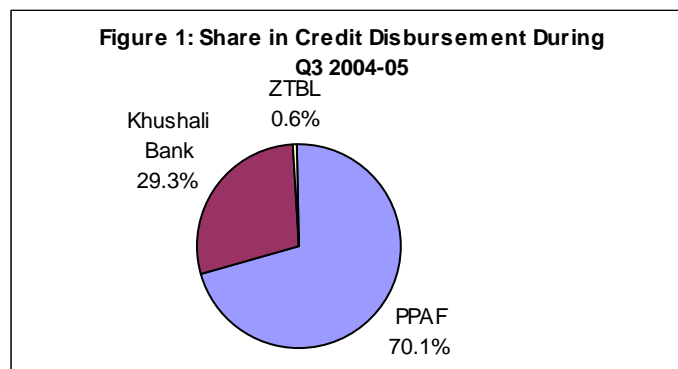
Table 8: Micro Credit Disbursement during Q3 (January-March)

Program	Disbursement/beneficiaries	Q3 FY05	Q3 FY06	% Change
PPAF	-amount disbursed (million Rs)	1,054	984	-6.6
	- No of districts	79	79	0.0
	- No of male beneficiaries	56,353	36,797	-34.7
	- No of female beneficiaries	27,311	41,040	50.3
	- Total beneficiaries	83,664	77,837	-7.0
Khushali Bank	-amount disbursed (million Rs)	441	580	31.5
	- No of districts	-	-	-
	- No of male beneficiaries	32,388	43,389	34.0
	- No of female beneficiaries	9,704	9,014	-7.1
	- Total beneficiaries	42,092	52,403	24.5
ZTBL	-amount disbursed (million Rs)	9	10	8.9
	- No of districts*	75	32	-57.3
	- No of male beneficiaries	221	251	13.6
	- No of female beneficiaries	168	190	13.1
	- Total beneficiaries	389	441	13.4
Total	-amount disbursed (million Rs)	1,504	1,574	4.7
	- No of male beneficiaries	88,962	80,437	-9.6
	- No of female beneficiaries	37,183	50,244	35.1
	- Total beneficiaries	126,145	130,681	3.6

* Micro credit loans though admissible in whole of the counting/all districts, yet disbursement affected in potential districts only. Data for number of actual districts in which disbursements affected during January-March 2005 is not available

4.3 Credit disbursed through partner organizations of PPAF during Q3 FY06 declined by 6.6% to Rs 984 million. During the same period amount disbursed by Khushali bank increased by 31.5% to Rs 580 million. ZTBL disbursed Rs 10 million, recording an increase of 8.9% in Q3 FY06 over Q3 FY05.

4.4 Share in credit disbursement during Q3 FY06 and Q3 FY05 can be seen in figures 1 and 2, respectively. Credit disbursed through partner organizations of PPAF has the largest share in micro credit, however, share of PPAF declined from 70.1% in Q3 FY05 to 62.5% in Q3 FY06. During the same period share of Khushali bank increased by 7.5 percentage points to 36.8%. The share of ZTBL remained at 0.6% in Q3 FY05 as well as Q3 FY06.



5 Monitoring the PRSP Intermediate Indicators

5.1 TT-Immunization Coverage

5.2 TT-1 immunization coverage of pregnant women of target population increased by 5 percentage points to 42% and TT-2 immunization coverage increased by 4 percentage points to 45% in Q3 FY06 over the same period in FY05 (table 9). Regional variations of TT-immunization coverage are very large, as TT-1 immunization coverage during Q3 FY06 in regions varies between 18% to 55% and TT-2 immunization coverage in the regions during the same period varies between 20% to 64%. Largest coverage of both types of immunization occurred in FATA in Q3 FY05. Increase in coverage of both types of immunization was observed in Punjab, Sindh, NWFP, FATA, FANA, ICT and CDA during Q3 FY06 over Q3 FY05. During the same period decline in coverage of both types of immunization occurred in Balochistan and AJK.

Table 9: TT- Immunization Coverage for Pregnant Women

Province/Region	Q3 FY05			Q3 FY06		
	Target Population (+4.1% Pop)	TT-Immunization		Target Population (+4.1% Pop)	TT-Immunization	
		TT-1 Cov%	TT2+ Cov%		TT-1 Cov%	TT2+ Cov%
Punjab	886,713	44	45	906,222	46	47
Sindh	360,426	38	42	368,631	42	49
NWFP	225,366	17	19	230,324	35	35
FATA	34,602	49	60	35,363	55	64
Balochistan	84,240	21	34	86,094	19	20
AJK	36,012	50	48	36,803	32	37
FANA	10,533	9	11	10,765	27	38
ICT	3,279	39	30	3,352	48	37
CDA	9,252	16	58	9,455	18	61
Pakistan	1,650,423	37	41	1,687,009	42	45

5.2 Lady Health Workers

5.3 Lady Health Workers (LHWs) are community based female health workers. The LHWs Program started in 1994, aiming to provide basic health care services to the communities at their doorstep. By March 2006, population covered by LHWs stood at 90.2 million (table 10). Of the total population covered by LHWs, about 23.9% is urban population and remaining 76% is rural population, which is justified as 67% of the population resides in rural areas and access and quality of health services is much poorer there compared to the urban areas. Total number of LHWs working and under training, together stood at 90,822 (including national programme and rural health programme) of which 17% are deployed in urban areas and remaining 83% in rural areas, by March

2006³. About 54% of LHWs are appointed in Punjab, 21% in Sindh, 13% in NWFP, 6% in Balochistan and 3% in AJK by March 2006.

Table 10: Lady Health Workers Programme (March 2006)

Province	No of LHWS						Population Covered by LHWS		
	Working			Under Training			Urban	Rural	Total
	Urban	Rural	Total	Urban	Rural	Total			
Punjab	7,385	37,981	45,366	0	3,282	3,282	10,616,213	41,047,963	51,664,176
Sindh	5,369	13,020	18,389	0	716	716	7,512,969	10,676,919	18,189,888
NWFP	1,504	9,684	11,188	52	925	977	1,618,699	9,962,381	11,581,080
Balochistan	838	4,711	5,549	0	115	115	1,053,216	3,041,856	4,095,072
AJK	175	2,206	2,381	0	37	37	242,114	1,825,276	2,067,390
FANA	130	980	1,110	13	41	54	411,056	584,164	995,220
FATA	0	1,245	1,245	0	133	133	0	1,311,856	1,311,856
ICT	46	234	280	0	0	0	58,747	212,853	271,600
Total	15,447	70,061	85,508	65	5,249	5,314	21,513,014	68,663,268	90,176,282

5.3 Khushal Pakistan Programme-1

5.4 Total number of schemes under KPP-1 increased by 47% to 1,790 during Q3 FY06 over Q3 FY05 (table 11). During the same period largest increase in number of schemes was observed in FATA (136%) to 177 schemes. Increase in number of schemes in Punjab, Sindh, NWFP, Balochistan and ICT was 16%, 36%, 80%, 64% and 23%, respectively. Largest proportion of KPP schemes i.e. 33.8% is approved for Punjab. Largest number (685) of KPP schemes is approved for electrification, which comprises 38% of total schemes in Q3 FY06. About 32% schemes are for roads, 17% for water supply and 5% for education.

5.5 Temporary employment generated by KPP-1 during Q3 FY06 stood at 89,836, which benefited a population of 834,369.

³ According to the Economic Survey 2005-06, 95,600 LHWs were working by November 2005, this number is higher as it also includes workers in women health project, along with national programme and rural health programme.

Table 11: Khushal Pakistan Programme-I: Number of schemes approved under each category for Q3 FY2005-06 and Q3 FY 2004-05

Province	Road	Electrification	Gas	Telephone	Education	Health	Water supply	Sanitation	Bld.Dzr Hours	Total Schemes
FY2005-06										
Punjab	267	290	18	-	9	1	6	15	-	606
Sindh	56	75	2	-	63	7	7	3	62	275
NWFP	211	252	3	-	6	4	90	6	-	572
Balochistan	17	62	-	-	4	-	53	1	7	144
FATA	10	3	-	-	8	7	149	-	-	177
ICT	9	3	-	-	-	-	4	-	-	16
Total	570	685	23	-	90	19	309	25	69	1,790
FY2004-05										
Punjab	112	344	23	-	10	7	4	23	-	523
Sindh	31	133	3	1	20	5	3	6	-	202
NWFP	73	189	1	-	3	-	39	6	7	318
Balochistan	12	36	-	-	6	2	31	1	-	88
FATA	6	12	-	-	4	8	45	-	-	75
ICT	6	1	-	-	6	-	-	-	-	13
Total	240	715	27	1	49	22	122	36	7	1,219

6 Monitoring Outcome Indicators

6.1 Progress in social indicators, as shown by the 2004-05 Pakistan Social and Living Standards Measurement Survey (PSLM), was discussed in previous PRSP progress reports. Recent data on two important outcome indicators, unemployment rate and incidence of poverty, has been made available by the Federal Bureau of Statistics (FBS) and reported in the Economic Survey 2005-06. These two indicators are discussed in this section.

6.1 Unemployment rate

6.2 Labour Force Survey (LFS) contains data on different aspects of the Pakistan's labour force. Since its initiation in 1963-64, it has been a major source on labour market indicators for the whole survey year. Now from 2005-06, FBS has increased the sample size to make the LFS representative for each quarter as well as the whole survey year. Unemployment⁴ data for the July-December of 2005-06 are given in the Economic Survey 2005-06.

6.3 Unemployment level during July-December 2005-06 has declined by 1.2 percentage points to 6.5% as compared to 2003-04 (table 12), which can be attributed to high economic growth rates over the past four years. During July-December 2005-06, unemployed labour force stood at 3.32 million, of which 2 million unemployed were situated in rural areas and 1.32 million in urban areas. Unemployment rates declined among male as well as female during the periods under consideration. Though levels of unemployment have been higher for females during both periods, decline of unemployment among female has been larger (3.1 percentage points) than males (0.9 percentage point). Larger decline in female unemployment rate can be partly the result of employment opportunities in private sector; for example, private schools, which have grown rapidly during the last decade, prefer females for teaching primary school children. It can be partly due to increased access to micro credit for female to engage them in economic activities.

Table 12: Unemployment Rates by gender

	2003-04	2005-06*
Total	7.7	6.5
Male	6.6	5.7
Female	12.8	9.7

Source: Economic Survey 2005-06

⁴ According to the LFS, the unemployed comprise all persons ten years of age and above who during the reference period were a) without work i.e. were not in paid employment or self employment b) currently available for work i.e. were available for paid employment or self-employment and c) seeking work i.e. had taken specific steps in a specified recent period to seek paid employment or self employment.

* July to Dec

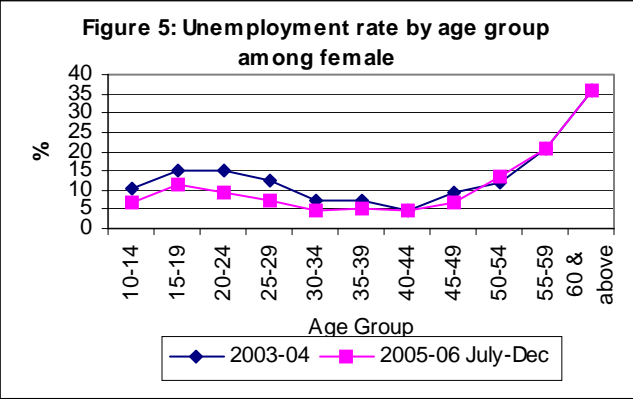
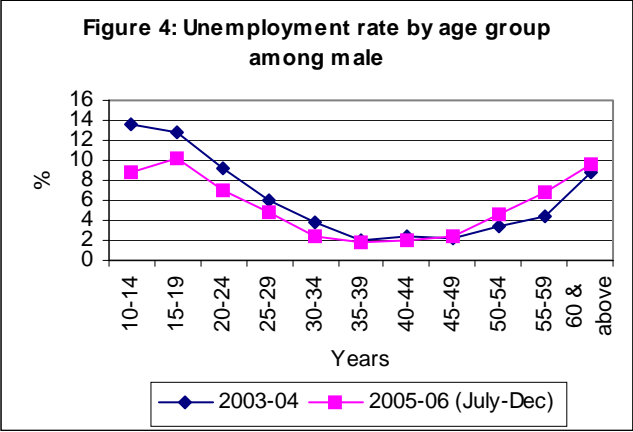
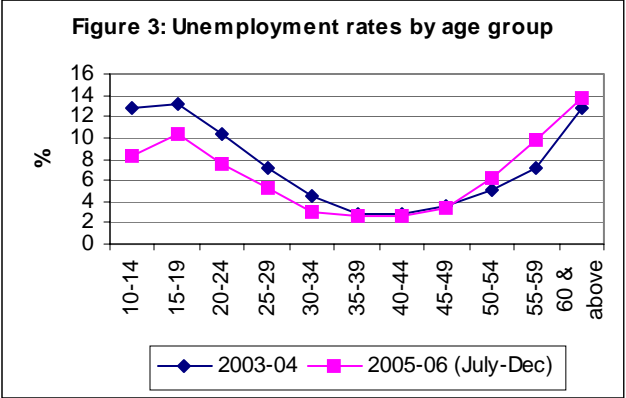
6.4 An analysis of unemployment rates by age group shows that unemployment levels increased and were high for the age group 50 years and above during 2003-04 and July-December 2005-06, whereas unemployment rates declined for all other age groups (figure 3). Unemployment rates were low for 25 to 49 years old labour force. It shows the availability of employment opportunities for individuals in prime working age.

6.5 The highest level of unemployment at 13.8% stood for the age group 60 years and above, of which a large proportion has never been previously employed. Poverty and high dependency burden on working age population has probably compelled the elderly population to struggle for family support and their higher proportion is still in the labour market. Family remains the most important source of support for elderly, but two types of changes are undermining this traditional support, first, the declining fertility and increasing life expectancy resulting in fewer family members to care for more elderly members and secondly, the shift from extended family system to a more nucleated system which appears to have limited the decision making power of elderly persons regarding the use of household resources.

6.6 Unemployment rates were also high for the youth population, 10-24 years old, during the first half of 2005-06, as people of these age groups are usually new entrants and lack skills to adjust in the labour market. To address the issue of educated unemployed 'Rozgar Scheme' has been announced in the budget 2006-07. It is planned to be launched later in July 2006 by National Bank of Pakistan. Educated persons in the age bracket of 18-40 years will get loans for self-employment under this scheme, which will create 400,000 jobs. The upper limit of the credit is announced at Rs 100,000. Under the scheme people could establish public call offices, mobile utility store, get franchise for utility stores and own transport (taxi etc).

6.6 Examining unemployment rate by gender shows that unemployment rates among male decreased considerably for 10-34 age groups (figure 4). Again this pattern indicates an increase in employment opportunities during the last three years.

6.7 Unemployment rates declined considerably among females 10 to 49 years old between the first half of 2005-06 and 2003-04 (figure 5). However, the highest unemployment rate exists for women of age 60 years and above. The unemployment level among elderly women is much higher than unemployment level found among male of the same age group. It clearly indicates that unemployment problem of elderly population is primarily related to women. There is a need to probe into the causes of such high unemployment rates among females of this age group.



6.2 Poverty and Inequality Trends

6.8 In Q2 FY06 progress report of PRSP, poverty trends were reported and discussed briefly. Poverty estimates have recently been revised by the Planning Commission (CPRID) and new estimates are reported in Economic Survey 2005-06, with a discussion on consumption inequality trends. Both poverty and inequality estimates are based on PSLM 2004-05. A summary of main findings is given below.

6.2.1 Poverty Trends

6.9 The poverty line after adjusting for inflation has increased from Rs 723.4 per adult equivalent in 2000-01 to Rs 878.64 in 2004-05. The poverty estimate for the 2000-01 period has been revised from 32.1% to 34.5% whereas the overall poverty level for 2004-05 has been estimated as 23.9%. This indicates that percentage of population living below the poverty line has declined by 10.6 percentage points between the 2000/01 and 2004/05 period. In absolute numbers the count of poor persons has fallen from 49.23 million in 2000/01 to 36.45 million in 2004/05.

6.10 Decline in poverty level has been witnessed in both urban and rural areas. However, this decline is more pronounced in rural areas than in urban areas, which is very encouraging as poverty in Pakistan is considered primarily a rural phenomenon (table 13).

Table 13: Incidence of poverty (headcount ratios) by rural and urban areas, 2000-01 and 2004-05

Region	2000-01	2004-05
Pakistan	34.46	23.9
Urban	22.69	14.9
Rural	39.26	28.1

Source: Economic Survey 2005-06

6.11 The poverty gap declined from 7.03 in 2000-01 to 4.76 in 2004-05 and severity of poverty declined from 2.13 in 2000-01 to 1.48 in 2004-05, indicating that most of the poor are bunched around the poverty line. Poverty gap and severity of poverty declined in urban as well as rural areas.

6.12 The percentage of population classified as extremely poor remained almost identical in the two periods, the proportion of ultra poor and poor and vulnerable poor have declined. At the higher end, the percentage of quasi non-poor and non-poor has increased in 2004-05 relative to 2000-01 (table 14). A strong growth in economy, rise in per capita income, a large inflow of remittances, increase in spending on poverty-related and social sector

programmes were the factors behind reducing poverty between 2001 and 2005 period.

Table 14: Comparative poverty profile (% of population)

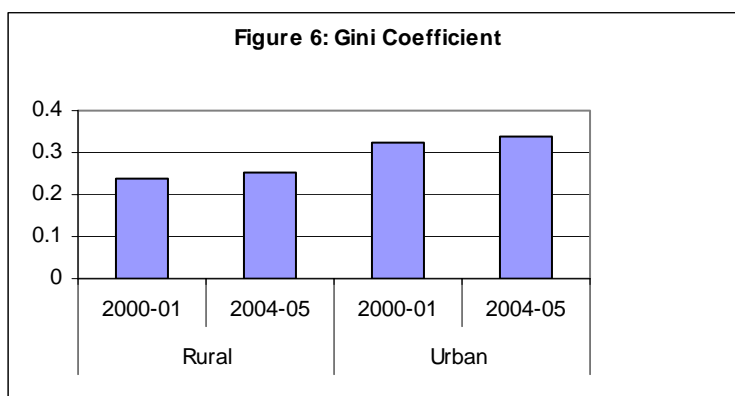
Poor/non-poor categories	2000-01	2004-05
Extremely Poor	1.1	1.0
Ultra Poor	10.8	6.5
Poor	22.5	16.4
Vulnerable	22.5	20.5
Quasi Non-poor	30.1	35.0
Non-Poor	13.0	20.5
All	100.0	100.0

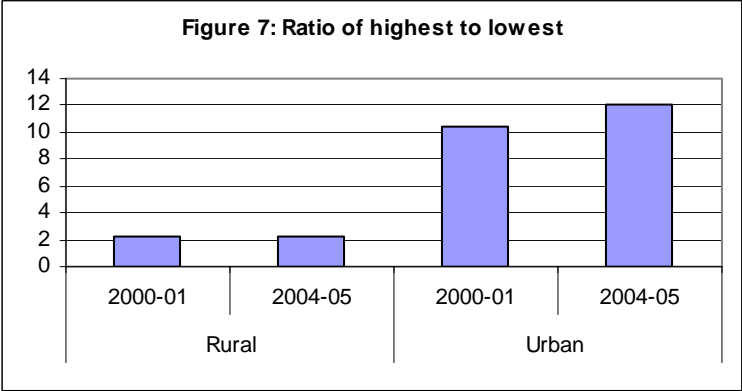
Source: Economic Survey 2005-06

6.2.2 Inequality Trends

6.13 Gini coefficient is commonly used to determine the inequality levels in a society. This measure was applied on the household consumption data of PSLM 2004-05. Results show that consumption inequality has increased marginally in Pakistan between 2000-01 and 2004-05 (figure 6). Consumption inequality increased in urban areas as well as rural areas during this period. However, the inequality in urban Pakistan is marginally higher than in rural areas, probably due to diversification of urban workforce in terms of skill and education, leading to differentials in household earnings and consumptions.

6.14 Another measure of inequality is the ratio of highest to the lowest quintile, which measures the gap between the rich and the poor. This ratio has also increased marginally from 3.76 in 2000-01 to 4.15 in 2004-05 (figure 7). In urban areas gap between the rich and the poor has widened relatively more from 10.40 in 2000-01 to 12.02 in 2004-05, compared to the rural areas, where the gap between the rich and the poor remained more or less unchanged, 2.22 in 2000-01 and 2.19 in 2004-05. The government is fully aware of this widening gap, and the PRSP aims to design policies to narrow this gap.





7 Formulation of PRSP II

7.1 As noted earlier, PRSP-I has completed its 3-years duration in June 2006. Despite the success of PRSP in unemployment and poverty reduction, there are many challenges ahead including sustainability in high economic growth, high levels of rural poverty, rise in inequality, gender gap in health and education indicators, youth unemployment, and the achievement of Millennium Development Goals (MDGs). To address these challenges Ministry of Finance has planned to prepare PRSP-II for 2006-09 period.

7.2 The strategy is being enriched by the ongoing process of dialogue with civil society and the poor. In February 2006, 54 dialogues were held in 21 districts, with a total of 1,214 participants. The dialogues were held separately with a total of 646 male and 568 female participants. An effort was made to include diverse groups of participants including small farmers, daily wage labourers, employees of public and private sectors, unemployed, '*Mustahiq*' of zakat, people engaged in small enterprise, students etc. PRSP secretariat also held workshops with researchers, stakeholders including development partners, provincial governments and civil society organizations. More workshops will also be held in provinces to get feedback on the proposed strategy for the PRSP-II.

The main considerations for PRSP II are as follows:

- Building upon lessons learnt in PRSP – I.
- Continuing to ensure macro-economic stability and sustained high and broad based economic growth by taking advantage of the opportunities offered by globalization, while at the same time unleashing the potential of domestic commerce, reducing inequalities and maximizing employment generation.
- Direct public policy debate towards the needs of the poor.
- Bringing about an effective transformation of society, by forging partnerships and alliances with civil society and the private sector.
- Understanding the nature of poverty and using that as a guide for all public actions.
- Empowering the people, especially the women and the most deprived, by increasing access to factors of production, particularly land and credit.

7.3 The ongoing PRSP process aims for a complete alignment with the Millennium Development Goals and the Medium Term Development Framework (MTDF). While the MTDF provides a framework for translating the 'Vision 2030' into action during 2005-10; its emphasis is on sustained long-term growth. The PRSP on the other hand presents the strategy to ensure that the growth is broad based and leads to effective poverty reduction.

8 Concluding Remarks

8.1 Pakistan has been able to sustain high growth, while maintaining macroeconomic sustainability over the past four years, which is one of the core elements of PRSP. To sustain this growth momentum, more efforts and more 'growth critical reforms', would be required. Over the next five years the Government's reform agenda include: strengthening institutions, improving the competitiveness of industry, building a robust financial system in an environment of global financial restructuring, further strengthening of tax administration, promoting transparency in economic policy-making, further reform in capital market and strengthening the country's physical and human infrastructure.

8.2 The recent economic growth has translated into lowering unemployment rates and reducing poverty levels. However, Pakistan faces the challenge of further reducing the poverty levels and bringing the marginalized people and backward regions into the main stream of development. This challenge will be addressed in PRSP-II, which has started a dialogue process with the poor, development partners, provincial governments and civil society representatives. This process will lead to ownership of PRSP-II by all segments of society and will also help implementing the strategy.

ANNEX 1: PROVISIONAL

PRSP Third Quarter Budgetary Expenditures--Progressive Totals (2004-05/2005-06)

	Q3 (Rs. Millions)											
	2004-05						2005-06					
	Federal	Punjab	Sindh	NWFP	Balochist.	TOTAL	Federal	Punjab	Sindh	NWFP	Balochist.	TOTAL
Roads highways, & Bridges	1,229	8,769	3,375	804	2,437	16,614	1,306	10,391	4,684	1,317	2,856	20,554
Current	1,229	1,201	402	57	141	3,030	1,306	1,396	775	81	231	3,789
Development	0	7,568	2,973	747	2,296	13,584	0	8,995	3,909	1,236	2,625	16,765
Water Supply & Sanitation	291	579	605	329	1,571	3,375	97	3,237	441	426	1,078	5,279
Current	93	53	171	253	453	1,023	73	385	175	318	534	1,485
Development	198	526	434	76	1,118	2,352	24	2,852	266	108	544	3,794
Education	9,894	36,315	14,687	10,010	3,524	74,430	22,221	38,693	18,939	13,039	3,890	96,782
Current	8,626	30,867	14,564	9,590	3,197	66,844	11,694	36,394	18,547	12,448	3,881	82,964
Development	1,268	5,448	123	420	327	7,586	10,527	2,299	392	591	9	13,818
Primary Education	1,014	22,020	6,591	4,641	1,205	35,471	1,344	21,056	7,799	6,222	1,353	37,774
Current	1,005	17,323	6,583	4,352	1,205	30,468	1,312	19,785	7,702	5,816	1,353	35,968

Development	9	4,697	8	289	0	5,003	32	1,271	97	406	0	1,806
Secondary Education	1,698	7,827	5,064	4,102	1,037	19,728	1,931	9,367	6,397	5,312	1,170	24,177
Current	1,479	7,420	5,030	4,026	1,037	18,992	1,658	8,778	6,142	5,244	1,170	22,992
Development	219	407	34	76	0	736	273	589	255	68	0	1,185
General Universities, Colleges, & Institutes	5,197	2,817	1,278	1,043	240	10,575	14,467	3,338	1,606	763	298	20,472
Current	4,867	2,625	1,278	1,007	240	10,017	5,793	3,197	1,579	739	298	11,606
Development	330	192	0	36	0	558	8,674	141	27	24	0	8,866
Professional & Technical Universities, Colleges & Institutes	0	362	733	1	203	1,299	1,709	632	1,101	568	250	4,260
Current	0	355	687	0	203	1,245	1,456	492	1,089	507	250	3,794
Development	0	7	46	1	0	54	253	140	12	61	0	466
Teacher & Vocational Training	183	951	74	19	74	1,301	22	1,237	101	0	144	1,504
Current	180	951	74	19	74	1,298	22	1,237	100	0	139	1,498
Development	3	0	0	0	0	3	0	0	1	0	5	6
Others	1,802	2,338	947	204	765	6,056	2,748	3,063	1,935	174	675	8,595

Current	1,095	2,193	912	186	438	4,824	1,453	2,905	1,935	142	671	7,106
Development	707	145	35	18	327	1,232	1,295	158	0	32	4	1,489
Health	4,428	7,955	3,272	2,538	1,119	19,312	6,278	8,748	4,055	2,669	1,279	23,029
Current	2,646	7,371	3,220	2,107	913	16,257	3,292	7,977	3,963	2,420	1,174	18,826
Development	1,782	584	52	431	206	3,055	2,986	771	92	249	105	4,203
General Hospitals & Clinics	2,021	6,828	2,729	2,025	464	14,067	3,208	7,363	3,311	2,130	502	16,514
Current	1,869	6,284	2,709	1,769	464	13,095	2,437	6,600	3,249	2,086	502	14,874
Development	152	544	20	256	0	972	771	763	62	44	0	1,640
Mother & Child Health	0	36	0	10	1	47	2	40	0	13	100	155
Current	0	36	0	10	1	47	2	40	0	13	100	155
Development	0	0	0	0	0	0	0	0	0	0	0	0
Health Facilities & Preventive Measures	2,042	85	283	130	256	2,796	2,729	64	344	122	164	3,423
Current	483	84	252	91	50	960	554	63	321	104	59	1,101
Development	1,559	1	31	39	206	1,836	2,175	1	23	18	105	2,322
Others	365	1,006	260	373	398	2,402	339	1,281	400	404	513	2,937
Current	294	967	259	237	398	2,155	299	1,274	393	217	513	2,696

Development	71	39	1	136	0	247	40	7	7	187	0	241
Population Planning	1,582	462	364	4	104	2,516	3,818	569	420	3	153	4,963
Current	96	0	0	2	103	201	98	10	0	3	153	264
Development	1,486	462	364	2	1	2,315	3,720	559	420	0	0	4,699
Social Security & Social Welfare	2,398	384	191	117	77	3,167	509	401	1,201	162	67	2,340
Current	1,503	376	191	111	71	2,252	410	368	1,067	72	67	1,984
Development	895	8	0	6	6	915	99	33	134	90	0	356
Natural Calamities & Other Disasters	284	18	83	0	23	408	953	31	637	10,491	20	12,132
Irrigation	11,286	4,154	2,872	681	2,329	21,322	21,930	5,720	4,578	1,041	2,858	36,127
Current	123	2,534	1,560	558	1,695	6,470	45	3,172	1,944	611	2,038	7,810
Development	11,163	1,620	1,312	123	634	14,852	21,885	2,548	2,634	430	820	28,317
Land Reclamation	53	56	1,232	347	0	1,688	7	12	1,377	303	0	1,699
Courts & Justice	352	858	443	298	197	2,148	259	1,023	551	279	213	2,325
Current	330	858	443	251	157	2,039	241	1,023	551	231	194	2,240
Development	22	0	0	47	40	109	18	0	0	48	19	85
Law & Order	10,225	10,893	6,508	2,548	1,990	32,164	13,299	12,529	7,508	2,973	2,341	38,650

Current	9,999	10,893	6,508	2,530	1,923	31,853	12,780	12,529	7,508	2,973	2,232	38,022
Development	226	0	0	18	67	311	519	0	0	0	109	628
Low Cost Housing	0	243	0	0	0	243	0	196	0	3	0	199
Rural Development	769	5,976	836	1,062	521	9,164	336	6,515	145	2,052	956	10,004
Current	390	204	291	171	159	1,215	46	343	140	130	83	742
Development	379	5,772	545	891	362	7,949	290	6,172	5	1,922	873	9,262
Food Subsidies	520	0	500	200	0	1,220	52	750	351	128	0	1,281
Food Support Program	146	1,319	567	511	110	2,652	1,268	428	252	58	91	2,097
Tawana Pakistan	30					30	0					0
Village Electrification**	2,055					2,055	990					990
GRAND TOTAL	45,542	77,981	35,535	19,449	14,002	192,508	73,323	89,243	45,139	34,944	15,802	258,451

** Federal releases to Mo Water and Power and WAPDA (including small development schemes)