

POVERTY REDUCTION STRATEGY PAPER:

ANNUAL PROGRESS REPORT FY 2007/08

**PRSP Secretariat - Finance Division
Government of Pakistan**

List of Acronyms

AJK	Azad Jammu & Kashmir	LCVs	Light Commercial Vehicles
BCC	Behaviour Change Communication	LFS	Labour Force Survey
BELA	Basic Education and Literacy Authority	LHWs	Lady Health Workers
BHU	Basic Health Units	LSM	Large Scale Manufacturing
BOP	Balance of Payment	MCH	Maternal and Child Health
CDA	Capital Development Authority	MDGs	Millennium Development Goals
CPI	Consumer Price Index	MF	Microfinance
CRPRID	Center for Research on Poverty Reduction and Income Distribution	MIS	Management Information System
CSW	Civil Society Wing	MNH	Maternal and Newborn Health
CWIQ	Core Welfare Indicators Questionnaire	NCHD	National Commission for Human Development
DOT	Directly Observed Treatment	NCRCL	National Center for Rehabilitation of Child Labour
DPT	Diphtheria Pertusis Tetanus	NEAS	National Education Assessment System
EFA	Education for All	NEC	National Education Census
EmONC	Emergency Obstetrical and Neonatal Care	NEP	National Education Policy
EOBI	Employees' Old Age Benefit Institution	NER	Net Enrolment Rate
ESR	Education Sector Reforms	NGO	Non-Governmental Organization
FANA	Federally Administered Northern Areas	NHPU	National Health Policy Unit
FATA	Federally Administered Tribal Areas	PBM	Pakistan Bait-ul-Mal
FBS	Federal Bureau of Statistics	PIFRA	Project for Improvement of Financial Reporting and Auditing
FP	Family Planning	PIHS	Pakistan Integrated Household Survey
FRDLA	Fiscal Responsibility and Debt Limitation Act	PPAF	Pakistan Poverty Alleviation Fund
FSP	Food Support Programme	PSDP	Public Sector Development Programme
FY	Fiscal Year	PSLM	Pakistan Social and Living Standards Measurement Survey
GER	Gross Enrolment Rate	RCC	Reinforced Cement Concrete
GIS	Geographical Information System	RHC	Rural Health Centres
HIES	Household Integrated Economic Survey	SBP	State Bank of Pakistan
ICT	Islamabad Capital Territory	TBA	Trained Birth Attendants
IFA	Individual Finance Assistance	TT-1	Tetanus Toxoid-1
IMF	International Monetary Fund	TT-2+	Tetanus Toxoid-2+
IMNCI	Integrated Management of Neonatal and Childhood Illnesses	TCP	Trading Corporation of Pakistan
KB	Khushali Bank	VTI	Vocational Training Institute
KPF	Khushal Pakistan Fund	ZTBL	Zarai Taraqiati Bank Limited

Table of Contents

1	Introduction.....	5
2	Trends in Macroeconomic Indicators	7
2.1	Agriculture	8
2.2	Industry	9
2.3	Current Account Balance	11
2.4	Trade Balance	11
2.5	Savings and Investment	12
2.6	Per Capita Income.....	12
2.7	Inflation.....	12
2.8	Macroeconomic Stabilization Programme.....	13
3	An Analysis of Pro-Poor Budgetary Expenditures	14
3.1	Federal and Provincial Patterns of PRSP Expenditures.....	16
3.2	Sector Analysis of PRSP Expenditures.....	18
3.2.1	Education.....	19
3.2.2	Health.....	23
4	Direct Transfers	27
4.1	Zakat	28
4.2	Pakistan Bait-ul-Mal (PBM)	29
4.3	Micro-credit	30
4.4	Employees' Old Age Benefit Institution (EOBI).....	32
5	Monitoring the PRSP Intermediate Indicators.....	33
5.1	Education sector.....	33
5.1.1	Performance of Intermediate indicators.....	33
5.1.2	Functional Schools.....	33
5.1.3	Actual Posts Filled in Public Schools and Number of Trained Teachers	34
5.1.4	Basic Facilities in Public Schools.....	35
5.2	Health sector	37
5.2.1	Performance of Intermediate Indicators	37
5.2.2	Immunization Coverage of Pregnant Women	37
5.3	Land Distribution	39
6	Conclusion	40
	Annex I.....	42
	Annex II.....	44
	Annex III	45
	Annex IV	50

List of Tables and Figures

Table 2.1	Growth in Key Macroeconomic Indicators (Projected vs Actual) FY 2003/04 – FY 2007/08.....	8
Figure 2.1	Agriculture Growth Rate (Actual vs Projected).....	9
Figure 2.2	Fiscal Deficit as a Percentage of GDP.....	11
Table 3.1	Total PRSP Expenditures (Current and Development) as Percentage of GDP FY 2001/02 – FY 2007/08.....	14
Table 3.2	PRSP Pro-Poor Expenditure FY 2007/08.....	15
Table 3.3:	Budgetary Poverty Related Expenditures by Sectors as Percent of GDP.....	16
Table 3.4:	Budgetary Poverty Related Expenditures by Sectors FY 2001/02 – FY 2007/08.....	17
Table 3.5:	PRSP Percentage Change in Expenditures between FY 2007/08 and FY 2006/07 by Sector and Province.....	18
Table 3.6:	Percentage Change in PRSP Education Expenditure by Sectors FY 2001/02 to FY 2007/08.....	19
Table 3.7:	Percentage Distribution of Education Expenditures by Province and Level of Education FY 2001/02 to FY 2007/08.....	21
Figure: 3.1	Development Expenditure as Percentage of Total Expenditure in Education.....	23
Table 3.8:	Percentage Change in PRSP Health Expenditures by Sectors FY 2001/02 to FY 2007/08.....	23
Table 3.9:	Percentage Distribution of Health Expenditure by Province FY 2001/02 to FY 2007/08.....	24
Figure: 3.2	Development Expenditure as Percentage of Total Expenditure in Health.....	26
Table 4.1:	Direct Transfers and Beneficiaries (Rs Million).....	27
Table 4.2:	Comparison of <i>Zakat</i> Programmes between FY 2006/07 and FY 2007/08 (Rs Million).....	28
Table 4.3:	Programmes of Pakistan <i>Bait-ul-Mal</i> FY 2006/07 – FY 2007/08 (Rs Million).....	29
Table 4.4:	Micro-credit Disbursement FY 2006/07 – FY 2007/08 (Rs Million).....	30
Figure 4.1	Share of Micro-credit Disbursement FY 2007/08.....	31
Table 5.1:	Number of Functional Public Schools.....	33
Table 5.2:	Actual Posts Filled Against Sanctioned Posts.....	34
Table 5.3:	Percentage of Trained Teachers.....	35
Table 5.4:	Proportion of Public Schools with Basic Facilities.....	36
Table 5.5:	TT- Immunization Coverage for Pregnant Women.....	38
Table 5.6:	Number of Lady Health Workers.....	39
Table 5.7:	Resumed Land Distribution by Number of Beneficiaries in Each Province.....	39

1 Introduction

1.1 The Poverty Reduction Strategy Paper (PRSP) Annual Progress Report for FY 2007/08 is seventh in line in the on-going process which was initiated ever since the establishment of the PRSP Secretariat in the Ministry of Finance in 2000. The PRSP Secretariat regularly reports budgeted and non-budgeted spending in selected pro-poor sectors followed by monitoring of key social sector indicators. The purpose of the PRSP quarterly and annual reports is to keep track of progress in all efforts directed towards poverty reduction.

1.2 The process of PRSP-II compilation for the period between FY 2008/09 – FY 2010/11 started towards the end of the PRSP-I period (2006), the final draft of which has been uploaded on Finance Division's website. The list of 17 pro-poor sectors for which budgetary expenditures have been regularly tracked by the PRSP Secretariat since its inception stands revised and will be reflected in the PRSP-II and the subsequent Quarterly and Annual Progress Reports for FY 2008/09.

1.3 In the meantime, the PRSP Annual Progress Report for FY 2007/08 will begin with an overview of the macroeconomic framework of the year. After attaining an understanding of the economic context in which recent PRSP expenditures and indicators were tracked, the subsequent sections 3 and 4 will illustrate a detailed analysis of the data on pro-poor budgetary expenditures; and direct cash transfer programmes including *Zakat*, Pakistan *Bait-ul-Mal* (PBM), Employees' Old Age Benefit Institution (EOBI) and Micro-credit, respectively. In accordance with the pattern of PRSP Annual Progress Reports, the chapter on tracking performance of social sectors: education; health and water supply & sanitation has been omitted in this year's Progress Report since results of the PSLM Survey for FY 2007/08 on related indicators is yet to be released details of which are mentioned at the end of this section's discussion. Finally, performance of PRSP intermediate indicators will be discussed in section 5. As per previous practice, this year's PRSP Annual Progress Report also includes boxes highlighting recent achievements of selected small-scale government achievements including a bird's eye view of the institutional setup of micro-credit in Pakistan; and labour productive efforts through *Aik Hunar Aik Nagar*¹ (AHAN).

1.4 Pro-poor expenditure targets set for FY 2007/08 have been achieved in accordance with the Fiscal Responsibility and Debt Limitation Act, 2005. The Act stipulates that 'social and poverty' related expenditures would be not less than 4.5 percent of GDP in any given year and that allocations for health and education would double as a percentage of GDP over the next 10 years ending in FY 2012/13. During FY 2007/08, total budgetary expenditure on pro-poor sectors amounted to Rs 572, 620 million, representing 5.46 percent of the GDP.

¹ One Craft, One Village.

1.5 In addition, disbursements for PRSP cash transfers during FY 2007/08, which focus on social protection by providing direct assistance to the most vulnerable segments of society through the Pakistan *Bait-ul-Mal* (PBM), Employees' Old Age Benefits Institution (EOBI), *Zakat* and provision of Micro-credit was Rs 27,985 million, representing 0.27 percent of the GDP.

1.6 Last year's Annual Progress Report stated that the poverty headcount had reduced from 34.4 percent in FY 2001/02 to 23.9 percent by FY 2004/05. It further decreased marginally to 22.3 percent in FY 2005/06. In absolute numbers, the count of the poor fell from 49.23 million in 2001 to 36.45 million in FY 2004/05. Rural areas of the country witnessed a higher fall in poverty, where the percentage of population living below the poverty line declined from 39.3 percent in FY 2000/01 to 28.1 percent by FY 2004/05 while urban poverty fell from 22.7 percent to 14.9 percent during this period. Estimate of poverty trend is awaited from the Planning Commission based on the Pakistan Social and Living Standards Measurement (PSLM) Survey data for FY 2007/08 of the Federal Bureau of Statistics. In the meantime, the Planning Commission has provided a preliminary estimate of poverty based on informed judgment for FY 2008/09 that indicates an addition of 6 percentage points to poverty incidence since FY 2004/05.

2 Trends in Macroeconomic Indicators

2.1 A combination of unfavourable domestic and international developments led a broad deterioration in key macroeconomic indicators in FY 2007/08. Pakistan's economic growth slowed down to 5.8 percent in FY 2007/08, as against 6.8 percent last year and remained well below this year's target of 7.2 percent due to a combination of domestic (e.g. energy shortages, some unsatisfactory crop harvests, and rising political uncertainty) and external shocks (i.e. a steep rise in international oil and commodity prices and lower capital inflows). Fiscal deficit remained 7.4 percent of GDP in FY 2007/08 against 4.3 percent in FY 2006/07 while, missing the target of 4.0 percent by a large margin. Pakistan's balance of payment (BOP) crisis in FY 2007/08, which occurred as a consequence of US\$ 147-a-barrel of oil and a commodity prices hike, led to a fast depletion of foreign exchange reserves, down to an import cover of less than three months. Inflation, meanwhile, shot up to over 12 percent imposing a regressive and arbitrary tax, the burden of which is typically borne disproportionately by those in lower income brackets. The contribution of commodity producing sector to overall GDP growth in FY 2007/08 remained the lowest in the last six years. Energy shortages, capacity and input constraints, critical water shortages, inconsistent rise in fertilizer prices and political disturbance severely impeded the performance of industrial and agriculture sector. Another important contributor to the slowdown in GDP growth was the weak investment demand in the country reflecting domestic and foreign investors' pre-cautious response to political ambiguity, law and order situation and inflation.

2.2 The broad macroeconomic framework formulated under PRSP-I (2003), ensured continuity in macroeconomic stability through a comprehensive reforms agenda in all sectors of the economy including financial sector; capital market, reform of the tax administration; fiscal transparency; reforms in the privatization programme; governance reforms particularly with respect to devolution and capacity building; and agricultural reforms mainly with regard to agriculture pricing, movement of commodities and introducing private sector in wheat operations. Economic liberalization and reforms have helped Pakistan emerge as an open and liberal economy. Economic trends of the country can be judged based on fairly good progress observed in all critical economic variables ranging from real GDP growth that averaged above 6 percent over the last six years (FY 2001/02 – FY 2006/07) to the narrowing of macroeconomic imbalances. Table 2.1 shows the performance of key economic indicators against the targets as projected in PRSP-I. Performance remained on track in almost all sectors and exceeded targets for growth in GDP in the Manufacturing and Services sectors; and Investment, etc. till FY 2006/07.

2.3 However, despite the deterioration, it is also important to note that the economy has grown at an average rate of 6.1 percent per annum since FY 2001/02, which provides a source of optimism that the economy has fundamentally gained resilience due to persistent structural reforms. This also suggests that a policy focus on regaining macroeconomic stability through further reforms and corrective measures is mandatory for rapid revival of the growth momentum of the economy.

	FY 2003/04		FY 2004/05		FY 2005/06		FY 2006/07		FY 2007/08	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
Agriculture	4	2.4	4.3	6.5	4.4	6.3	4.5	3.7	4.5	1.5
Manufacturing	7.8	14.0	7.6	15.5	7.6	8.7	7.6	8.2	7.6	5.4
Large Scale Manufacturing	8.8	18.1	8.5	19.9	8.5	8.3	8.5	8.6	8.8	4.8
Small Scale Manufacturing	5.3	-20.0	5.3	7.5	5.3	8.7	5.3	8.1	5.3	7.5
Services	5.0	5.8	5.8	8.5	6.1	6.5	6.2	7.6	6.3	8.2
Real GDP Growth	5.3	7.5	5.8	9.0	6.0	5.8	6.2	6.8	6.3	5.8
Inflation (GDP Deflator)	4.0	7.7	4.0	7.0	4.0	10.5	4.0	7.8	4.0	12.0
GDP (mp) in Rs billion ²	5,458	5,640	6,547	6,499	7,864	7,623	8,706	8,723	10,478	-
As Percentage of GDP										
Investment	16.5	16.6	17.0	19.1	17.5	22.1	18.0	22.9	18.5	21.6
-Fixed Investment	14.5	15.0	15.5	17.5	16.0	20.5	16.5	21.3	17.0	19.9
-Public Investment	5.5	4.0	6.0	4.3	6.3	4.8	6.5	5.7	6.7	5.7
-Private Investment	9.0	10.9	9.5	13.1	9.7	15.7	10.0	15.6	10.3	14.2
National Savings	20.0	17.9	19.5	17.5	19.0	18.2	18.5	17.8	18.0	13.3
Foreign Savings	3.5	-1.3	2.5	1.6	1.5	4.5	0.5	5.1	-0.5	8.4

Source: Pakistan Economic Survey FY 2007/08 & Annual Report 2007/08, State Bank of Pakistan.
Projections for FY 2003/04 – FY 2007/08 are from PRSP-I (2003).

2.4 A brief discussion on the growth trends in various sectors of the economy is presented below:

2.1 Agriculture

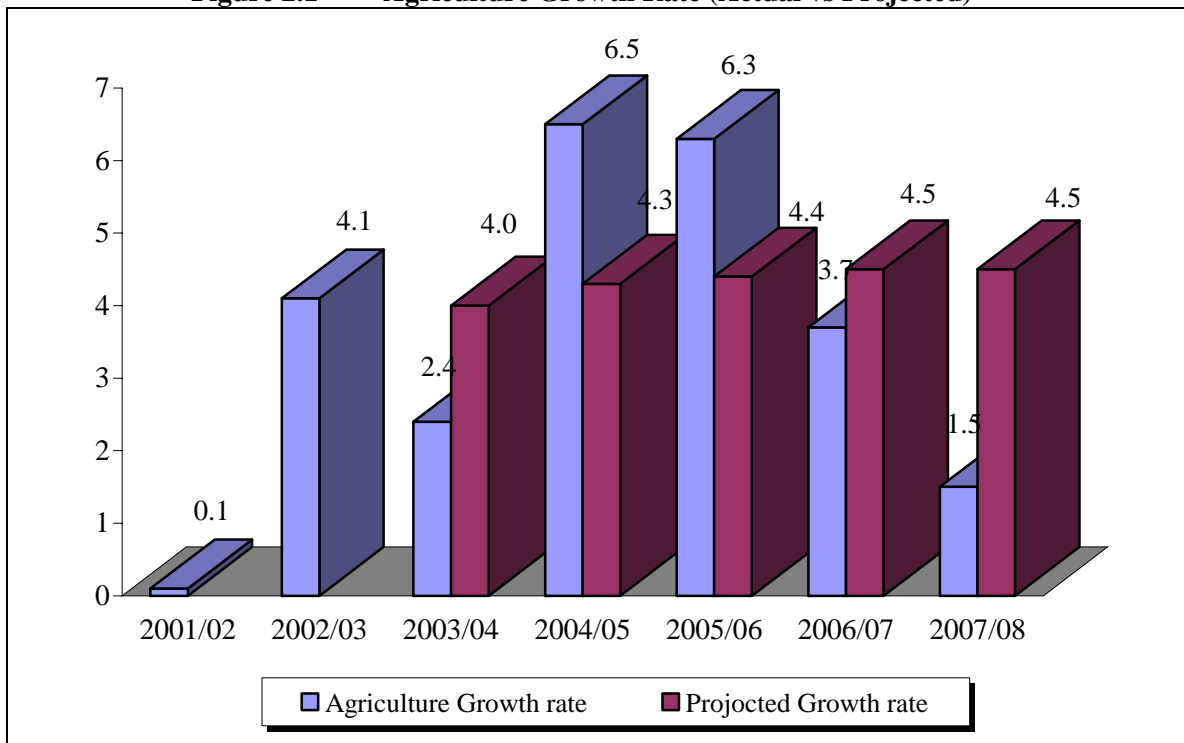
2.5 The agriculture sector in Pakistan consists of crops, livestock, fishing and forestry sub-sectors. A majority of the population depends directly or indirectly on income streams generated by the agriculture sector and provide work for 44 percent of the country's labour force. Agriculture is witnessing a persistent decrease in its share in GDP since 2001- from 24.1 percent in FY 2001/02 to 20.9 percent in FY 2007/08. Agriculture sector growth fell to record lows of 1.5 percent during FY 2007/08 – significantly lower than the 3.7 percent last year and the 4.8 percent target for this year, and is the lowest growth since FY 2002/03 (see Figure 2.1).

2.6 Major crops sub-sector performance in FY 2007/08 was disappointing because of issues related to resource management and pricing policy for crops. Water shortage at sowing time of cotton and rice led to under-cultivation of these crops. Persistently high prices of fertilizers and pesticides also led to lower usage of these inputs, resulting in depressed yields. Rice, sugarcane and maize registered positive growth while major decrease over last year's production has been observed in wheat (from 23.3 in FY 2006/07 to 21.7 million tonnes in FY 2007/08), cotton (from

² Projections for GDP at market prices are provisional figures according to re-based GDP figures of FY 1999/00.

12.9 in FY 2006/07 to 11.7 million bales in FY 2007/08). Shortfalls in wheat, and cotton output eclipsed the record sugarcane harvest and relatively improved performance of minor crops, livestock and fishing sub-sectors during FY 2007/08. Major crops sub-sector witnessed a reduction of 3.0 percent in growth as against a positive growth of 8.3 percent last year and a target of 4.5 percent for FY 2007/08. Minor crops grew by 4.9 percent against the negative growth of 1.3 percent last year and growth target of 2.3 percent this year.

Figure 2.1 Agriculture Growth Rate (Actual vs Projected)



Source: Annual Report FY 2007/08, State Bank of Pakistan.

2.7 Reversing the disappointing growth trends in agriculture sector is critical to escape the trap of slow economic growth and poverty. Making the transition to a more diversified and faster growing Agri-sector requires a careful analysis of issues haunting this sector and needed policy interventions. Key issues requiring policy intervention in Agriculture sector include the transmission of price gains through establishment of futures markets, risk mitigation while providing crop insurance and storage facilities, increasing investment in agriculture sector infrastructure to improve water management, electricity, farm-to-market roads, and value-addition chains (e.g. through processing and cold storages).

2.2 Industry

2.8 The industrial sector muddled through a mix of economic, political and structural impediments throughout FY 2007/08. Decreased domestic demand due to record high food prices in the FY 2006/07, rising fuel and commodity prices and intensifying energy shortages in the country further thwarted industrial activity in FY 2007/08.

2.9 The provisional estimates place the FY 2007/08 industrial growth at 4.6 percent compared with 8.0 percent in FY 2006/07. All industrial sub-sectors except Construction performed below their past trend in FY 2007/08. The construction sector witnessed a robust growth as a result of increased public sector development spending on infrastructure and strong demand for commercial and residential properties. The Manufacturing sector recorded its weakest growth in a decade during FY 2007/08. Most of the slowdown was seen in large scale manufacturing (LSM), as growth in small scale manufacturing decelerated only slightly. Similar to FY 2006/07, the deceleration in LSM was due to a relative moderation in domestic demand, power and gas outages, and capacity and input constraints in certain industries. For instance the deceleration was mainly evident in cotton ginning and yarn manufacturing as these sub sectors rely more on agro-based inputs and are prone to volatile growth patterns.

2.10 In order to achieve and sustain a high growth trajectory, it is increasingly important for the industrial sector to focus on removing structural constraints that hinder its path of high growth in the longer term. Effectiveness of government's measures to tackle the ongoing power crisis remains indeed vital in this regard.

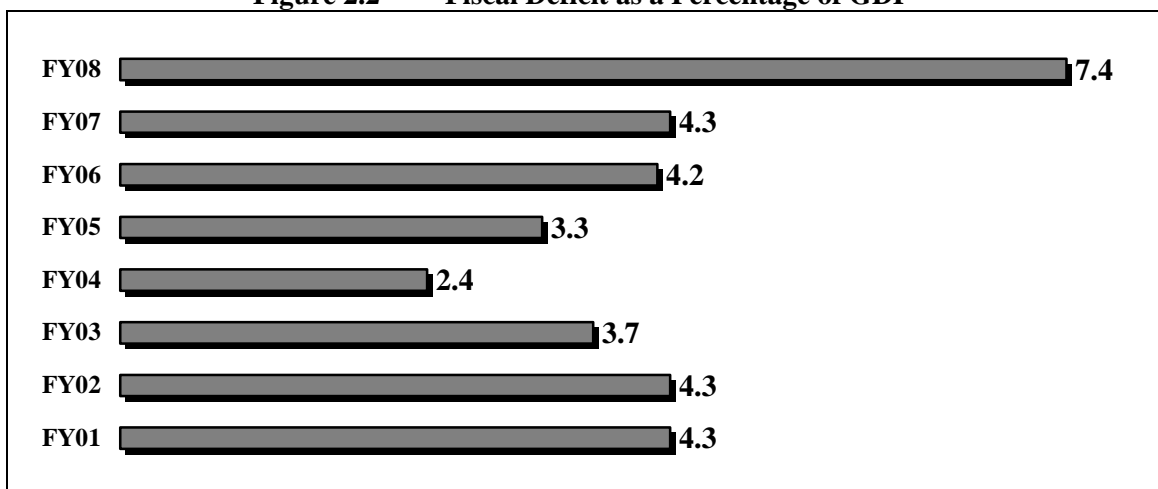
2.3 Services

2.11 The services sector showed above-target growth for the sixth time during the last seven years in sharp contrast to the weak performance by agriculture and industrial sectors. The sector grew by 8.2 percent in FY 2007/08, significantly higher than the 7.2 percent annual target for the year, as well as the 7.6 percent growth realized in FY 2006/07. The resilience exhibited by the services sector helped in maintaining GDP growth to a respectable level by contributing about three-fourth of the total value addition during FY 2007/08. The major reasons for this robust performance are significant growth in imports, increasing cost of lending coupled with higher government and private sector credit, and impact of election spending during the year.

2.4 Fiscal Balance

2.12 During the last seven years, Pakistan's fiscal position improved considerably averaging 4 percent during FY 2000/01 – FY 2007/08. The underlying fiscal deficit, targeted at 4 percent of GDP for FY 2007/08, has been missed by a wide margin to 7.4 percent owing to a variety of domestic and external factors. The year 2007/08 has, however, been an extraordinary year in which several domestic and external shocks along with policy inaction during the year worsened the fiscal balance of the country as against the target of 4 percent of GDP, the overall fiscal deficit ended with 7.4 percent in FY 2007/08 (see Figure 2.2).

Figure 2.2 Fiscal Deficit as a Percentage of GDP



Source: Annual Report FY 2007/08, State Bank of Pakistan.

2.3 Current Account Balance

2.13 The worsening of current account deficit continued for the fourth successive year in FY 2007/08, touching the level of 8.4 percent - the highest in the last thirty years. The current account deficit was 5.1 percent in FY 2006/07. In the year under discussion, a host of domestic and external factors contributed towards deterioration of current account deficit. Pakistan faced an unprecedented rise in global oil and other commodity prices, as well as a slowdown in major textile export markets. At the same time, import demand was fueled by lower production growth in the real sector mainly due to input and capacity constraints. The only factor, which provided some recovery, was the constant rise in workers' remittances which increased by 17.4 percent during this year. Importantly, remittances appear to have shown resilience to the weakening macroeconomic indicators. On the financing side, as the global financial crisis unfolded in FY 2007/08, the country's ability to tap international capital markets was severely impaired due to peculiar political developments. Planned privatization transactions had to be deferred, sovereign debt issues postponed, and portfolio investment was decreased. The fall in capital inflows also resulted in depletion of foreign exchange reserves and mounted pressure on exchange rate during the period.

2.4 Trade Balance

2.14 Trade deficit touched the unprecedented level of US\$ 20.7 billion during FY 2007/08 significantly higher than US\$ 13.5 billion in FY 2006/07. This extraordinary surge in the deficit is attributed to a sharp rise in imports, which outshined sound growth in exports during this period. Overall exports posted a strong recovery, reaching an all time high of US\$ 19.2 billion, was led by the non-textile sector, whereas textile sector witnessed a declining trend during the year. The strong growth in imports was an outcome of higher international commodity prices, domestic shortages of wheat and cotton crops, and revival in demand in some sectors e.g. power generation, chemicals, etc. In particular, a significant part of total increase in imports was caused by rising international oil prices.

2.5 Savings and Investment

2.15 Investment as percentage of GDP declined to 21.6 percent in FY 2007/08 registering a decline of 1.3 percentage points as compared to 23 percent of GDP in FY 2006/07. Fixed investment decreased by 1.4 percent this year. While, public sector investment as percentage of GDP remained at 5.7 percent and private sector investment registered a decline of 1.4 percentage points – declining from 15.6 percent in FY 2006/07 to 14.2 percent in FY 2007/08.

2.16 The total investment has increased to 5 percent of GDP, rising from 16.6 percent in FY 2003/04 to 21.6 percent in FY 2007/08, reflecting the buoyant mood of domestic as well as foreign investors. National savings as percentage of GDP decelerated to 13.3 percent in FY 2007/08, compared to 18 percent in FY 2006/07.

2.6 Per Capita Income

2.17 The per capita income - one of the leading indicators of growth and general well being of any country in dollar terms has grown at an average rate of above 13 percent per annum during the last five years - rising from US\$ 586 in FY 2002/03 to US\$ 926 in FY 2006/07 and further to US\$ 1085 in 2007/08. Per capita income in dollar terms rose from US\$ 925 in FY 2006/07 to US\$ 1085 in FY 2007/08, depicting an increase of 18.4 percent. Real per capita income in Rupee has also increased by 4.2 percent in this year as compared to 4.8 percent during last year. This sharp rise in per capita income over the last few years stems from acceleration in real GDP growth; a stable exchange rate and a more than five fold increase in inflow of workers' remittances.

2.7 Inflation

2.18 Inflationary pressures heightened around the world in FY 2007/08 due to soaring food and oil prices. According to global commodity price indices, world food and fuel prices during FY 2007/08 increased by 42.3 and 79.8 percent, respectively.³ Inflationary pressures in Pakistan's economy remained strong throughout FY 2007/08. The intensification of inflation during this year was mainly driven by domestic food & non-food inflation, high global commodity prices and domestic market imperfections (e.g. artificial shortage of wheat and sugar in some parts of the country). A sharp depreciation of rupee also fueled inflationary expectations in the economy pushing inflation to levels not seen in the last three decades. Food inflation witnessed acceleration throughout FY08. In particular, a quick surge in CPI food inflation was witnessed since March 2008 as a result of a steep rise in the prices of some essential food staples such as wheat, rice, *ghee*,⁴ cooking oil, milk, and milk products.

2.19 Non-food inflation showed upward trend in the second half of FY 2007/08 on account of pass on of petroleum products prices to domestic consumers, rising fares, and gas & electricity charges. Given the gravity of situation and to minimize the second round impacts of sustained high food inflation, the State Bank tightened monetary policy during May 2008 through interim

³ Global Commodity Price Indices, IMF.

⁴ Traditional cooking oil.

monetary policy measures. As a result of the tight monetary stance, inflationary pressures are likely to ease from second quarter of FY 2008/09.

2.8 Macroeconomic Stabilization Programme

2.20 It is evident from the above analysis that one year of fiscal indiscipline triggered by domestic and international events caused severe macroeconomic imbalances in Pakistan. Consequently, FY 2007/08 witnessed low levels of economic growth and investment; soaring fiscal and current account deficits and the subsequent rise in public and external debt burden; depletion of foreign exchange reserves with heightened pressures on exchange rate; and higher inflation along with the associated rise in unemployment and poverty.

2.21 The government realized the need for restoring macroeconomic stability both by taking short term measures and by developing a coherent macroeconomic framework for the medium term. The government took some concrete actions to check worsening macroeconomic imbalances. These actions ranged from passing on of the price increase of wheat and oil products to the consumers, reduction in recurrent expenditures, and prioritization of development expenditures. Some of these actions are mentioned in Box 2.1 below.

Box 2.1: Short Term Macroeconomic Stabilization Programme (FY 2007/08)

The government took the following set of policy measures in FY 2007/08:

- Fiscal deficit was scaled to 4.3 percent of GDP (an adjustment of 2.7 percent of GDP). To facilitate adherence to this, current expenditure growth has been scaled back and cuts are being envisaged in development expenditures.
- Reiterated its commitment to curb recourse to central bank financing to zero and adhered to this on a quarterly basis too. In addition, there were efforts to mobilize funding through the privatization programme.
- Efforts to limit subsidies by allowing a significant pass-through. The government allowed the regulators to move to a formula-based approach to pricing adjustments.
- Efforts to raise tax revenue through increase in the sales tax rate, duty on import of mobile phones, and rationalization of withholding tax rate on imports, etc.
- Recognizing the growing needs of the economy and to save the nation from the cost of rising food imports, launched efforts to promote agriculture production. The SBP enhanced credit availability to the sector to Rs 250 billion with more accommodation while the government provided input subsidies on fertilizer at - close to Rs 32 billion (Rs 1000 per 50 kg bag).
- To rein in mounting demand pressures and inflation, SBP incrementally tightened monetary policy. Some of the measures included: frequent and timely adjustments in the policy interest rate that resulted in a cumulative increase of 500 bps during 2008; kept the aggregate demand and inflation expectations from spiraling out of control; and an inevitable and market driven adjustment in the exchange rate helped in putting a dent in an otherwise unsustainable growth rate of imports.
- Measures were also taken to address issues of the foreign exchange market.

Source: Finance Division and State Bank of Pakistan.

3 An Analysis of Pro-Poor Budgetary Expenditures

3.1 Monitoring and evaluation of qualitative and quantitative aspects of PRSP expenditures are central to the PRSP process. The government has attached critical importance towards their regular monitoring, analysis and transparency. Since the initiation of I-PRSP in 2001, pro-poor expenditures on 17 sectors have been reported regularly on a quarterly and annual basis. This section gives an overview of the expenditures incurred since FY 2001/02 and Table 3.1 presents data on PRSP current, development and total expenditures, as well as, a percentage of GDP. These 17 pro-poor sectors will be revisited during the process of PRSP-II compilation in the light of changing socio-economic conditions of the country. The sectors will be rearranged in a way that will reflect new poverty reduction programmes of the government.

3.2 Total PRSP expenditures (both current and development) have increased over time in nominal terms as well as in terms of percentage to GDP. The PRSP development expenditures as percentage of GDP increased from 2.24 percent in FY 2005/06 to 2.58 percent during FY 2007/08. During the same period, the PRSP current expenditures as percentage of GDP increased from 2.69 percent in FY 2005/06 to 2.88 percent in FY 2007/08.

Fiscal Year	PRSP Expenditures (Rs Million)			PRSP Expenditures as percent of GDP		
	Current	Development	Total	Current	Development	Total
2001/02	-	-	166,074	-	-	3.77
2002/03	160,528	48,515	209,043	3.33	1.0	4.33
2003/04	182,318	78,983	261,301	3.23	1.40	4.63
2004/05	203,608	112,635	316,243	3.09	1.71	4.80
2005/06*	205,345	170,794	376,139	2.69	2.24	4.93
2006/07*	215,712	210,967	426,680	2.47	2.42	4.89
2007/08*	301,935	270,685	572,620	2.88	2.58	5.46

Source: Civil Accounts provided by Accountant General's office.

*Based on actual expenditure.

Note 1: GDP (market price) for FY 2001/02, FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06, FY 2006/07 and FY 2007/08 in Rs million amounts to 4401699, 4822842, 5640580, 6581103, 7623205, 8723215 and 10478194 respectively.

Note 2: For GDP data of FY 2001/02 to FY 2004/05, the source is PRSP Annual Report FY 2005/06. For GDP data of FY 2005/06 to FY 2007/08, the source is Economic Adviser's Wing, Finance Division, 2008.

3.3 The highest amount of spending during FY 2007/08 was incurred in education; followed by irrigation, health and food subsidies. Total expenditure incurred on pro-poor sectors during the year amounted to Rs 572,620 million. Share of total expenditure as percentage of GDP was 5.46, which is in line with the Fiscal Responsibility and Debt Limitation Act, 2005, stipulating that expenditures on social sectors should not be less than 4.5 percent of GDP in any given year and that allocations for health and education should double as a percentage of GDP over the next 10 years ending in FY 2012/13.

Sectors	Expenditure	Expenditure as percentage of GDP
Roads, highways & bridges	84,825	0.81
Water supply & sanitation	19,817	0.19
Education	182,646	1.74
Health	61,127	0.58
Population planning	13,322	0.13
Social security and welfare	18,942	0.18
Natural calamities	7,728	0.07
Irrigation	83,493	0.80
Land reclamation	3,130	0.03
Rural development	23,334	0.22
Rural electrification	2,748	0.03
Food subsidies	54,872	0.52
Food support programme	4,370	0.04
<i>Khushal</i> Pakistan Fund ⁵	1,420	0.01
Low cost housing	597	0.01
Justice Administration	7,820	0.07
Law & order	2,429	0.02
Total	572,620	5.46

Source: Civil Accounts provided by Accountant General's office.

Note: GDP (market price) for FY 2007/08 in Rs million amounts to 10478194. Source: Economic Adviser's Wing, Finance Division, 2008.

3.4 The PRSP expenditures as percentage of GDP have shown an upward trend over the past seven years (3.77 percent in FY 2001/02; 4.33 percent in FY 2002/03; 4.63 percent in FY 2003/04; 4.81 percent in FY 2004/05; 4.93 percent in FY 2005/06; 4.89 percent in FY 2006/07; and 5.46 percent in FY 2007/08). A decline during FY 2006/07 was an exception due to amendments in the PRSP pro-poor sector 'law & order'; only development expenditure was taken into account during FY 2005/06, FY 2006/07 and FY 2007/08 in accordance with the Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005. However, since the Act stipulates that expenditures may be re-specified in the national PRSP from time to time, both current and development expenditures will be incorporated once again from the PRSP-II period onwards. The sectors where PRSP expenditures as percentage of GDP in FY 2007/08 surpassed those in FY 2006/07 include roads, highways & bridges; population planning; natural calamities; low cost housing; and *Khushal* Pakistan Fund (Table 3.3). For water supply & sanitation; land reclamation; law & order; food support programme; and rural electrification the PRSP expenditures as percentage of GDP remained the same in FY 2007/08 as in FY 2006/07. In the remaining sectors PRSP expenditures as percentage of GDP declined marginally in FY 2007/08 as compared to FY 2006/07 (see Table 3.4 for a detailed comparison).

⁵ Expenditure incurred under the *Khushal* (Prosperous) Pakistan Fund replaced the '*Tawana* (Strong) Pakistan Programme' in FY 2007/08.

Table 3.3: Budgetary Poverty Related Expenditures by Sectors as Percent of GDP							
	FY 2001/ 02	FY 2002/ 03	FY 2003/ 04	FY 2004/ 05	FY 2005/ 06	FY 2006/ 07	FY 2007/ 08
Roads, highways & bridges	0.14	0.27	0.40	0.53	0.70	0.69	0.81
Water supply & sanitation	0.11	0.07	0.10	0.10	0.14	0.19	0.19
Education	1.51	1.63	1.73	1.78	1.86	1.86	1.74
Health	0.44	0.46	0.48	0.48	0.51	0.61	0.58
Population planning	0.03	0.06	0.08	0.07	0.13	0.08	0.13
Social security & welfare	0.08	0.03	0.07	0.03	0.10	0.05	0.18
Natural calamities	0.00	0.01	0.01	0.01	0.25	0.06	0.07
Irrigation	0.23	0.32	0.40	0.58	0.78	0.86	0.80
Land reclamation	0.04	0.04	0.04	0.03	0.04	0.03	0.03
Rural development	0.28	0.35	0.33	0.23	0.20	0.25	0.22
Law & order	0.70	0.76	0.70	0.72	0.01	0.02	0.02
Low cost housing	0.00	0.00	0.01	0.00	0.00	0.00	0.01
Justice administration	0.05	0.05	0.04	0.05	0.07	0.06	0.07
Food subsidies	0.10	0.23	0.15	0.08	0.08	0.06	0.52
Food Support Programme	0.05	0.04	0.05	0.04	0.04	0.04	0.04
<i>Khushal</i> Pakistan Fund	0.02	0.02	0.01	0.00	0.00	0.00	0.01
Village electrification	0.00	0.00	0.03	0.07	0.01	0.03	0.03
Total	3.77	4.33	4.63	4.81	4.93	4.89	5.46

Source: PRSP Secretariat, Finance Division, Islamabad.

3.5 The overall PRSP expenditures have shown a respectable increase of 25.87 percent in FY 2002/03 over FY 2001/02; 25.0 percent in FY 2003/04 over FY 2002/03; 21.03 percent in FY 2004/05 over FY 2003/04; 18.94 percent in FY 2005/06 over FY 2004/05; 13.44 percent in FY 2006/07 over FY 2005/06; and 34.20 percent during FY 2007/08 over FY 2006/07 (Table 3.4 overleaf). During FY 2007/08 PRSP expenditures stood at Rs 572,620 million recording an increase of Rs 145,940 million compared to FY 2006/07. Remarkably, a positive increase in expenditures occurred in all pro-poor sectors between FY 2006/07 and FY 2007/08 with the highest percentage increase registered in *Khushal* Pakistan Fund, followed by food subsidies; and social security & welfare.

3.1 Federal and Provincial Patterns of PRSP Expenditures

3.6 The highest provincial increase in expenditures (Table 3.5) was observed in the Sindh province at 46.31 percent, which is over 20 percent percentage points higher compared to the overall increase in the pro-poor expenditures in FY 2007/08. Second highest expenditure was registered in Punjab i.e. 21.02 percent, as opposed to last year where Punjab had incurred the highest increase compared to all provinces. Expenditures in NWFP increased by 14.94 percent in FY 2007/08 relative to FY 2006/07 while expenditures incurred in Balochistan increased by 11.36 percent. The largest increase in PRSP expenditures in Sindh was registered in the social security & welfare sector; law & order in Punjab; in food subsidies in NWFP; and natural calamities in Balochistan.

**Table 3.4: Budgetary Poverty Related Expenditures by Sectors
FY 2001/02 – FY 2007/08**

Sectors	Expenditure (Rs million)							Percentage change					
	FY 2001/02	FY 2002/03	FY 2003/04	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08	FY 2002/03 - FY 2001/02	FY 2003/04 - FY 2002/03	FY 2004/05 - FY 2003/04	FY 2005/06 - FY 2004/05	FY 2006/07 - FY 2005/06	FY 2007/08 - FY 2006/07
Roads, highways & bridges	6340	13145	22746	35181	53248	60003	84825	107.33	73.04	54.67	51.35	12.69	41.37
Water supply & sanitation	4644	3421	5799	6538	10338	16619	19817	-26.34	69.51	12.74	58.12	60.76	19.24
Education	66290	78447	97697	116873	141702	162084	182646	18.34	24.54	19.63	21.24	14.38	12.69
Health	19211	22368	27009	31426	39203	53166	61127	16.43	20.75	16.35	24.75	35.62	14.97
Population planning	1331	3120	4689	4578	10229	7002	13322	134.41	50.29	-2.37	123.44	-31.55	90.26
Social security & welfare	3664	1301	4144	2030	7575	4513	18942	-64.49	218.52	-51.01	273.15	-40.42	319.72
Natural calamities & disasters	189	410	529	922	19148	5008	7728	116.93	29.02	74.29	1976.79	-73.85	54.31
Irrigation	10133	15535	22506	37871	59819	74771	83493	53.31	44.87	68.27	57.95	25.00	11.66
Land reclamation	1860	1759	2016	2111	2673	2348	3130	-5.43	14.61	4.71	26.62	-12.16	33.30
Rural development	12325	16883	18607	15369	15040	22175	23334	36.98	10.21	-17.40	-2.14	47.44	5.23
Law & order	31004	36717	39370	47416	1115	2088	2429	18.43	7.23	20.44	-97.65	87.26	16.33
Low cost housing	0	14	423	318	305	299	597	0.00	2921.43	-24.82	-4.09	-1.97	99.67
Justice administration	1981	2247	2437	3116	5642	5081	7820	13.43	8.46	27.86	81.07	-9.94	53.91
Food subsidies	4285	10859	8513	5359	6021	5455	54872	153.42	-21.60	-37.05	12.35	-9.40	905.90
Food Support Programme	2017	2017	2804	2703	3081	3549	4370	0.00	39.02	-3.60	13.98	15.19	23.13
<i>Khushal</i> Pakistan Fund	800	800	590	78	0	20	1420	0.00	-26.25	-86.78	-100.00	0.00	7000.00
Village electrification	0	0	1422	4354	1000	2499	2748	0.00	0.00	206.19	-77.03	149.90	9.96
Total	166074	209043	261301	316243	376139	426680	572620						
Total percentage change								25.87	25.00	21.03	18.94	13.44	34.20

Source: PRSP Secretariat, Finance Division, Islamabad.

3.7 Federal expenditure also depicted an outstanding increase in expenditure i.e. 51.28 percent with the largest change/increase in FY 2007/08 compared to FY 2006/07 observed in *Khushal* Pakistan Fund.

Sectors	Federal	Punjab	Sindh	NWFP	Balochistan	Pakistan
Roads, highways & bridges	-6.81	76.11	16.21	19.59	-1.87	41.37
Water supply & sanitation	-47.34	11.75	-6.49	115.02	63.13	19.24
Education	-0.21	2.91	63.43	18.33	3.78	12.69
Health	0.00	0.00	32.71	-2.07	6.20	14.97
Population planning	77.27	227.22	-81.98	199.15	12.38	90.26
Social security & welfare	631.06	154.00	758.41	-81.34	18.47	319.72
Natural calamities	19.33	195.55	218.41	-63.37	713.33	54.31
Irrigation	8.36	-0.36	22.64	31.29	42.20	11.66
Land reclamation	0.00	6.93	34.49	0.00	0.00	-
Rural development	26.35	4.61	-1.92	-2.15	10.12	5.23
Law & order	124.08	6400.00	0.00	-100.00	-100.00	16.33
Low cost housing	0.00	261.82	0.00	-100.00	0.00	99.67
Justice administration	138.10	35.52	33.59	16.45	-1.33	53.91
Food subsidies	1059.81	4375.00	165.78	300.00	0.00	905.90
Food Support Programme	110.83	26.10	30.70	-11.13	53.44	23.13
<i>Khushal</i> Pakistan Fund	7000.00	0.00	0.00	0.00	0.00	7000.00
Rural electrification	9.96	0.00	0.00	0.00	0.00	9.96
Percentage change in total amount between FY07 and FY08	51.28	21.02	46.31	14.94	11.36	34.95

Source: PRSP Secretariat, Finance Division, Islamabad

3.2 Sector Analysis of PRSP Expenditures

3.8 Investment in the sectors of education; health; and water supply & sanitation is critical to assist poor people to get out of the vicious circle of poverty. Table 3.5 above showed that whereas total expenditure on water supply & sanitation between FY 2006/07 and FY 2007/08 increased, expenditure incurred at the federal level and in Sindh decreased. Sindh also witnessed a decrease in expenditure incurred in population planning alongside rural development, while expenditure on roads, highways & bridges; law & order; and justice administration decreased in Balochistan. There was a considerable decrease in spending in NWFP in the sectors of health; social security & welfare; natural calamities; law & order; low cost housing; and Food Support Programme during the same period. Change in education expenditure incurred by the Federal Government between FY 2007/08 and FY 2006/07 depicted a marginal decrease, while all provinces displayed an increase in education expenditure with the largest increase in Sindh standing at 63.43 percent. This is in contrast to last year's results i.e. FY 2006/07 relative to FY 2005/06 which had witnessed a decrease in education expenditure in Sindh. An increase in education expenditure in NWFP by 18.33 percent is also a positive change. Change in health expenditures in FY 2007/08 relative to FY 2006/07 was the highest in Sindh which stood at 32.71 percent, followed by Balochistan at 6.20 percent. Punjab witnessed no change, while health expenditure in NWFP

decreased by 2.07 percent. A detailed account of education and health expenditures over the years are stated below.

3.2.1 Education

3.9 As was the case last year, total expenditure on primary education decreased by 3.74 percent between FY 2006/07 and FY 2007/08 owing to decrease in education expenditure in Sindh (Table 3.6). Total expenditure on secondary education also decreased by 3.43 percent between FY 2006/07 and FY 2007/08 for the same reason. Spending on general university and college education has fluctuated over the years having increased considerably by 57.73 percent during FY 2002/03 over FY 2001/02; by 15.77 percent in FY04 over FY 2002/03; by 16.93 percent in FY 2004/05 over FY 2003/04; 23.49 percent in FY 2005/06 over FY 2004/05; marginally by 1.65 percent during FY 2006/07 over FY 2005/06; and finally decreasing by 3.43 percent in FY 2007/08 over FY 2006/07. Spending on professional/technical universities increased considerably in FY08 by 19.08 percent during this period as opposed to a decrease by 11 percent last year. Expenditure on teacher and vocational training decreased by 86.50 percent during FY 2007/08 due to nil expenditure incurred in NWFP and Sindh. There was an overall increase of 12.69 percent in expenditure incurred in the education sector during FY 2007/08 over FY 2006/07.

Sectors	Fiscal Year	Federal	Punjab	Sindh	NWFP	Balochistan	Pakistan
Primary Education	2002/03-2001/02	-52.36	18.05	-4.85	26.49	-4.77	6.24
	2003/04-2002/03	5.92	47.40	9.47	8.37	13.85	30.19
	2004/05-2003/04	111.25	8.32	13.00	22.86	-1.43	13.84
	2005/06-2004/05	-36.62	5.64	23.80	27.12	3.41	9.20
	2006/07-2005/06	15.93	3.22	-28.91	2.57	30.67	-2.04
	2007/08-2006/07	10.99	10.07	-86.48	15.14	1.32	-3.74
Secondary Education	2002/03-2001/02	23.22	10.51	52.59	19.42	-3.53	21.17
	2003/04-2002/03	2.09	24.10	12.07	8.17	25.61	15.77
	2004/05-2003/04	24.11	14.18	16.21	28.98	-7.57	16.93
	2005/06-2004/05	17.87	18.82	31.55	26.99	14.43	23.49
	2006/07-2005/06	11.82	14.42	-31.08	11.69	19.28	1.65
	2007/08-2006/07	15.11	17.46	-87.35	12.35	10.47	-3.43
General University/ College Education	2002/03-2001/02	106.27	22.67	5.75	59.93	20.00	57.73
	2003/04-2002/03	27.55	3.22	15.17	0.00	-2.73	17.49
	2004/05-2003/04	-18.43	22.01	22.62	4.80	4.21	-3.57
	2005/06-2004/05	173.60	22.43	54.04	26.48	13.75	103.13
	2006/07-2005/06	32.67	14.59	-6.97	-11.31	11.61	23.79
	2007/08-2006/07	-4.54	24.07	29.19	44.22	37.58	4.24
Professional/ Technical Universities	2002/03-2001/02	10.06	-20.75	6.50	17.74	47.52	6.07
	2003/04-2002/03	28.39	4.90	11.30	7.63	35.58	19.18
	2004/05-2003/04	320.30	-0.72	31.57	24.36	23.76	170.85

Annual Progress Report FY 2007/08
Poverty Reduction Strategy Paper (PRSP)

	2005/06-2004/05	-56.05	82.28	19.14	42.54	5.73	-35.61
	2006/07-2005/06	-15.64	3.97	-18.52	-6.05	20.33	-11.06
	2007/08-2006/07	9.41	20.99	8.03	88.65	-17.12	19.08
Teacher and Vocational Training							
	2002/03-2001/02	-69.99	-17.60	-43.66	26.32	54.27	-43.07
	2003/04-2002/03	-90.49	98.44	5.83	66.67	-66.78	7.41
	2004/05-2003/04	591.49	12.66	-7.09	-22.50	3.92	24.84
	2005/06-2004/05	-86.15	9.61	25.42	-100.00	114.15	0.22
	2006/07-2005/06	40.00	36.34	14.19	-	-36.12	38.40
	2007/08-2006/07	41.27	-100.00	11.24	-100.00	5.52	-86.50
Other Educational Institutions							
	2002/03-2001/02	265.03	50.23	-22.20	218.31	74.73	89.40
	2003/04-2002/03	28.19	124.85	101.56	-58.89	74.06	44.40
	2004/05-2003/04	-12.59	46.08	-9.85	-55.62	62.33	12.47
	2005/06-2004/05	83.46	2.57	85.95	27.39	-11.96	33.79
	2006/07-2005/06	12.79	253.97	68.43	-20.52	13.40	98.59
	2007/08-2006/07	1.16	-17.43	-54.32	84.84	-4.01	-18.73
Total⁶							
	2002/03-2001/02	28.24	15.43	8.57	34.18	9.67	18.34
	2003/04-2002/03	18.8	41.05	16.17	0.34	19.94	24.54
	2004/05-2003/04	44.44	13.08	13.44	20.29	12.15	19.63
	2005/06-2004/05	38.84	10.52	33.71	27.49	4.18	21.24
	2006/07-2005/06	20.98	27.64	-15.87	5.95	18.68	14.38
	2007/08-2006/07	-0.21	2.91	63.43	18.33	3.78	12.69

Source: Civil Accounts.

3.10 The share of expenditure on primary schooling over total education expenditure during FY 2001/02, FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06, FY 2006/07 and FY 2007/08 was 47 percent, 42 percent, 44 percent, 42 percent, 38 percent, 33 percent and 28 percent, respectively, illustrating the largest proportion of expenditures incurred in education in Pakistan (Table 3.7). The second largest proportion of expenditures was incurred under the heading of general university/college education during FY 2006/07 and FY 2007/08 in contrast to previous years where secondary education was the runner-up. During FY 2001/02 to FY 2007/08 the smallest proportion of education expenditure has been spent on teacher and vocational training, with only 0.24 percent contribution during FY 2007/08. Distribution of education expenditure by provinces is almost similar to the pattern of overall expenditures with the exception of expenditure incurred under the heading of other educational institutions following the lead of primary education in some provinces over the years. At the federal level, the largest proportion of education expenditure was allocated for general university/colleges during FY 2001/02 to FY 2006/07, with the exception of FY 2004/05 where federal expenditure on professional, technical and university education was the highest.

⁶ District expenditures during FY 2007/08 were incorporated in the total amount rather than in the respective provinces due to which the provincial break-up for this year does not reflect district spending.

Table 3.7: Percentage Distribution of Education Expenditures by Province and Level of Education FY 2001/02 to FY 2007/08						
	Federal	Punjab	Sindh	NWFP	Balochistan	Pakistan
FY 2001/02						
Primary Education	23.66	56.27	52.17	44.08	42.32	47.23
Secondary Education	12.43	25.35	24.05	40.15	32.20	25.21
General University/College Education	29.44	9.39	8.55	6.01	7.70	12.15
Professional/Technical Universities	14.56	2.44	5.76	4.88	3.56	5.67
Teacher and Vocational Training	14.26	3.39	1.48	0.21	5.03	4.54
Other Educational Institutions	5.65	3.16	7.99	4.67	9.19	5.21
Total	100	100	100	100	100	100
FY 2002/03						
Primary Education	8.79	57.54	45.72	41.55	36.75	42.40
Secondary Education	11.94	24.27	33.81	35.73	28.32	25.81
General University/College Education	47.36	9.98	8.33	7.16	8.43	16.19
Professional/Technical Universities	12.49	1.67	5.65	4.28	4.79	5.08
Teacher and Vocational Training	3.34	2.42	0.77	0.20	7.07	2.18
Other Educational Institutions	16.08	4.11	5.73	11.07	14.64	8.33
Total	100	100	100	100	100	100
FY 2003/04						
Primary Education	7.83	60.14	43.08	44.88	34.88	44.32
Secondary Education	10.25	21.35	32.61	38.52	29.66	24
General University/College Education	50.81	7.3	8.26	7.14	6.83	15.27
Professional/Technical Universities	13.49	1.25	5.41	4.60	5.41	4.86
Teacher and Vocational Training	0.27	3.41	0.70	0.33	1.96	1.88
Other Educational Institutions	17.34	6.56	9.94	4.54	21.25	9.66
Total	100	100	100	100	100	100
FY 2004/05						
Primary Education	11.46	57.6	42.91	45.84	30.66	42.18
Secondary Education	8.81	21.56	33.41	41.30	24.44	23.46
General University/College Education	28.7	7.88	8.93	6.22	6.35	12.31
Professional/Technical Universities	39.26	1.09	6.28	4.75	5.97	11
Teacher and Vocational Training	1.28	3.39	0.57	0.22	1.81	1.97
Other Educational Institutions	10.5	8.47	7.90	1.67	30.76	9.09
Total	100	100	100	100	100	100
FY 2005/06						
Primary Education	5.47	55.06	39.73	45.71	30.43	37.99
Secondary Education	7.82	23.18	32.87	41.14	26.85	23.89

Annual Progress Report FY 2007/08
Poverty Reduction Strategy Paper (PRSP)

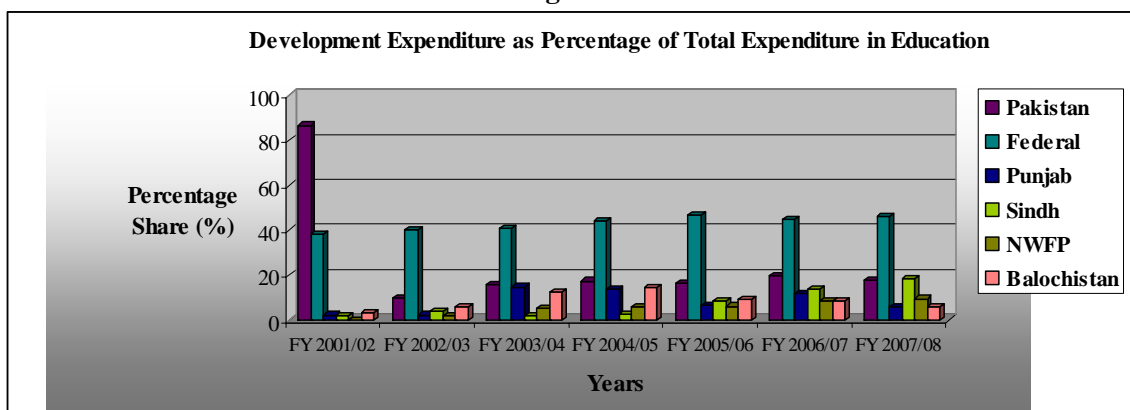
General University/College Education	59.1	8.73	10.29	6.17	6.93	20.62
Professional/Technical Universities	12.99	1.80	5.59	5.31	6.06	5.84
Teacher and Vocational Training	0.13	3.37	0.54	0	3.73	1.62
Other Educational Institutions	14.49	7.86	10.98	1.67	25.99	10.03
Total	100	100	100	100	100	100
FY 2006/07						
Primary Education	5.24	44.53	33.57	44.25	33.50	32.53
Secondary Education	7.23	20.78	26.92	43.37	26.98	21.23
General University/College Education	64.81	7.84	11.37	5.16	6.52	22.32
Professional/Technical Universities	9.06	1.47	5.42	4.71	6.15	4.54
Teacher and Vocational Training	0.15	3.60	0.73	1.25	2.01	1.97
Other Educational Institutions	13.51	21.79	21.98	1.25	24.84	17.41
Total	100	100	100	100	100	100
FY 2007/08⁷						
Primary Education	5.82	47.63	2.78	43.06	32.71	27.79
Secondary Education	8.33	23.71	2.08	41.18	28.72	18.19
General University/College Education	61.99	9.45	8.99	6.29	8.64	20.65
Professional/Technical Universities	9.93	1.73	3.58	7.51	4.91	4.80
Teacher and Vocational Training	0.22	0.00	0.50	0.00	2.04	0.24
Other Educational Institutions	13.70	17.48	6.14	1.96	22.97	12.55
Total	100	100	24.07	100	100	84.22

Source: Civil Accounts.

3.11 Development expenditure as percentage of total education expenditure increased every year during the past six years. During FY 2005/06, FY 2006/07 and FY 2007/08 overall development education expenditure stood at 16.53 percent, 19.60 and 17.69 percent of the total education expenditure, respectively (Figure 1). The Federal Government spent the largest proportion of education expenditure on development (46.03 percent) in FY 2007/08 followed by Sindh (18.13 percent). There was a slight increase in development expenditure in NWFP province from 8.19 percent during FY 2006/07 to 9.46 percent in FY 2007/08. Also holding the lowest share, development expenditure as a percentage of total education expenditure in Punjab and Balochistan dropped from 11.51 percent and 8.49 percent during FY 2006/07 to 5.54 percent and 5.66 percent in FY 2007/08, respectively.

⁷ Since district expenditures during FY 2007/08 were incorporated in the total amount, the federal and provincial expenditures as percentage of total amount do not sum up to 100.

Figure: 3.1



Source: PRSP Secretariat, Finance Division, Islamabad

3.2.2 Health

3.12 Expenditure in health shows that while FY 2006/07 relative to FY 2005/06 witnessed an overall remarkable increase in mother and childcare except for Balochistan; the situation during FY 2007/08 relative to FY 2006/07 reflected a decrease in expenditure under this heading particularly in Sindh, NWFP and generally throughout Pakistan and a huge increase in Balochistan (Table 3.8). An increase in expenditure by 40 percent under the heading general hospitals & clinics was incurred by the NWFP province during FY 2007/08 relative to FY 2006/07, in contrast to the highest expenditure increase (53 percent) incurred in this sector by Punjab last year. This year, maximum increase in expenditure (49 percent) incurred in Punjab was in the area of health facilities and preventive measures. The same is the case for Sindh having witnessed an increase of 20 percent.

**Table 3.8: Percentage Change in PRSP Health Expenditures by Sectors
FY 2001/02 to FY 2007/08**

	Fiscal Year	Federal	Punjab	Sindh	NWFP	Balochistan	Pakistan ⁸
General Hospitals & Clinics	2002/03-2001/02	7.28	24.97	4.87	10.82	-8.72	14.53
	2003/04-2002/03	34.07	23.49	24.22	0.87	-5.68	21.01
	2004/05-2003/04	9.64	7.35	2.67	44.73	48.75	11.99
	2005/06-2004/05	55.90	14.32	56.08	9.03	-11.94	26.06
	2006/07-2005/06	23.09	53.36	17.43	23.47	7.85	34.97
	2007/08-2006/07	6.34	11.48	-31.70	39.50	15.28	5.21
Mother & Child	2002/03-2001/02	0	41.94	0	-8.33	-71.43	3.39
	2003/04-2002/03	0	11.36	0	9.09	-50	6.56
	2004/05-2003/04	0	-97.96	-	8.33	1450	-23.08
	2005/06-2004/05	50	6300	4300	15.38	-93.55	332
	2006/07-2005/06	0	25	84.09	7046.67	-50	547.69

⁸ District expenditures during FY 2007/08 were incorporated in the total amount rather than in the respective provinces due to which the provincial break-up for this year does not reflect district spending.

Annual Progress Report FY 2007/08
Poverty Reduction Strategy Paper (PRSP)

	2007/08-2006/07	0	60	-56.38	-98.51	700	-81.34
Health Facilities & Preventive Measures	2002/03-2001/02	30.42	92.86	6.28	9.30	84.68	28.43
	2003/04-2002/03	23.05	146.30	-61.71	18.09	117.07	18.23
	2004/05-2003/04	38.27	-18.05	187.23	47.75	2.47	39.69
	2005/06-2004/05	34.24	6.42	-5.56	239.63	-36.62	30.06
	2006/07-2005/06	23.90	29.31	-55.49	54.76	23.88	20.75
	2007/08-2006/07	27.38	49.33	19.82	-84.34	2.79	15.47
Other Health Facilities	2002/03-2001/02	43.91	15.32	-16.92	23.35	5.11	14.91
	2003/04-2002/03	7.35	10.59	25.00	47.57	48.63	22.55
	2004/05-2003/04	-4.46	33.20	141.48	22.7	-32.00	14.96
	2005/06-2004/05	3.27	12.80	-14.72	-16.35	26.17	6.24
	2006/07-2005/06	20.97	56.02	78.24	-36.22	17.52	38.97
	2007/08-2006/07	11.47	12.64	-59.43	70.35	-2.13	-0.22
Total	2002/03-2001/02	21.03	24.05	3.51	11.67	3.05	16.43
	2003/04-2002/03	25.71	22.61	13.18	5.86	32.54	20.75
	2004/05-2003/04	21.44	9.38	19.49	41.90	2.80	16.35
	2005/06-2004/05	40.35	14.55	43.13	17.38	-6.61	24.75
	2006/07-2005/06	23.37	53.38	18.17	49.51	14.09	35.62
	2007/08-2006/07	17.25	12.06	32.17	-2.07	6.20	14.97

Source: Civil Accounts.

3.13 While Table 3.8 above illustrated a comparison of sector-wise health expenditure incurred over the years, Table 3.9 below highlights province-wise trends in expenditure since FY 2001/02. The largest share of education expenditure spent at the federal level during FY 2007/08 was in the area of health facilities and preventive measures, whereas all provinces spent their largest share of health expenditure on general hospitals and clinics during the same year.

Table 3.9: Percentage Distribution of Health Expenditure by Province FY 2001/02 to FY 2007/08						
	Federal	Punjab	Sindh	NWFP	Balochistan	Total
FY 2001/02						
General Hospitals and Clinics	46.28	86.45	80.38	86.95	51.30	73.33
Mother & Child	0.05	0.41	0.00	0.59	0.91	0.31
Health Facilities and Preventive Measures	43.77	0.37	12.56	4.23	7.20	13.59
Other Health Facilities	9.90	12.77	7.07	8.22	40.60	12.77
Total	100	100	100	100	100	100
FY 2002/03						
General Hospitals and Clinics	41.02	87.09	81.43	86.29	45.44	72.1
Mother & Child	0.04	0.47	0	0.49	0.25	0.27
Health Facilities and Preventive Measures	47.17	0.58	12.83	4.14	12.90	14.99

Annual Progress Report FY 2007/08
Poverty Reduction Strategy Paper (PRSP)

Other Health Facilities	11.77	1187	5.67	9.08	41.41	12.61
Total	100	100	100	100	100	100
FY 2003/04						
General Hospitals and Clinics	43.75	87.71	89.37	82.22	32.34	72.29
Mother & Child	0.03	0.43	0	0.50	0.09	0.24
Health Facilities and Preventive Measures	46.17	1.16	4.36	4.62	21.13	14.67
Other Health Facilities	10.05	10.71	6.26	12.66	46.44	12.8
Total	100	100	100	100	100	100
FY 2004/05						
General Hospitals and Clinics	39.50	86.09	76.8	83.86	46.79	69.58
Mother & Child	0.02	0.01	0.06	0.38	1.43	0.16
Health Facilities and Preventive Measures	52.57	0.87	10.49	4.81	21.06	17.62
Other Health Facilities	7.91	13.04	12.66	10.95	30.72	12.64
Total	100	100	100	100	100	100
FY 2005/06						
General Hospitals and Clinics	43.87	85.91	83.75	77.89	44.11	70.32
Mother & Child	0.03	0.44	1.79	0.38	0.1	0.55
Health Facilities and Preventive Measures	50.28	0.80	6.92	13.93	14.29	18.37
Other Health Facilities	5.82	12.84	7.54	7.8	41.49	10.77
Total	100	100	100	100	100	100
FY 2006/07						
General Hospitals and Clinics	43.77	85.9	83.23	64.32	41.70	69.98
Mother & Child	0.02	0.36	2.79	17.93	0.04	2.63
Health Facilities and Preventive Measures	50.50	0.68	2.61	14.42	15.52	16.35
Other Health Facilities	5.71	13.06	11.38	3.33	42.74	11.03
Total	100	100	100	100	100	100
FY 2007/08						
General Hospitals and Clinics	39.70	85.45	42.83	91.63	45.27	64.04
Mother & Child	0.02	0.52	0.92	0.27	0.33	0.43
Health Facilities and Preventive Measures	54.86	0.90	2.35	2.31	15.02	16.42
Other Health Facilities	5.43	13.13	3.48	5.79	39.39	9.58
Total	100	100	100	100	100	90.47⁹

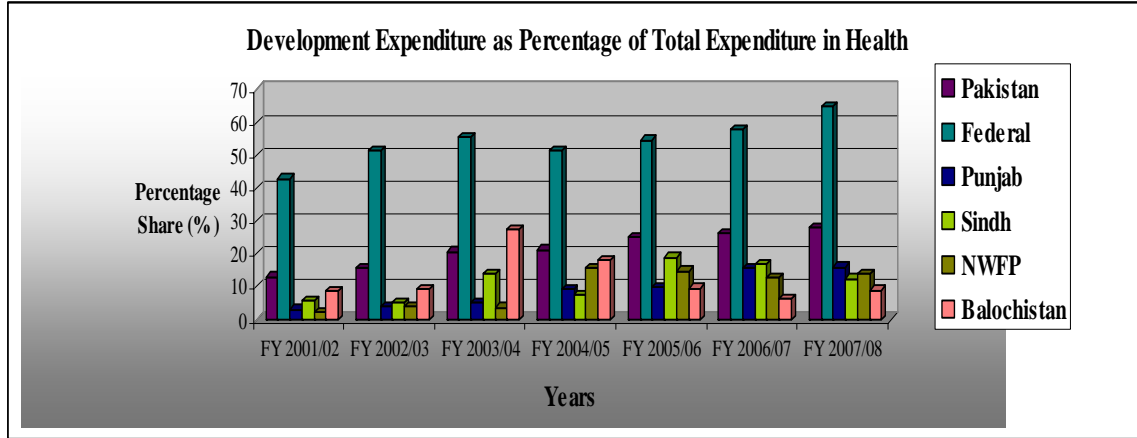
Source: Civil Accounts, Government of Pakistan.

3.14 Figure 3.2 shows that overall development expenditure in health as percentage of total health expenditure in Pakistan during FY 2001/02, FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06, FY 2006/07 and FY 2007/08 stood at 12.98 percent, 15.74 percent, 20.62 percent, 21.16 percent, 24.98 percent, 26.14 percent and 28.07 percent, respectively, showing a considerable increase over time. The Federal Government spent a substantial amount i.e. 54.58 percent, 57.68 percent and 65.07 percent on health development expenditure relative to total health expenditure during FY 2005/06, FY 2006/07 and FY 2007/08, respectively. The share of development health expenditure as a percentage of total health expenditure during FY08 was the highest in Punjab

⁹ See footnote 4.

standing at 15.96 percent; followed by NWFP at 14.04 percent; 12.42 percent in Sindh; and 8.94 percent in Balochistan. Last year's figures i.e. during FY 2006/07, stood at 16.72 percent in the case of Sindh; 15.52 percent in Punjab; 12.71 percent in NWFP; and 6.20 percent in Balochistan.

Figure: 3.2



Source: PRSP Secretariat, Finance Division, Islamabad.

4 Direct Transfers

4.1 Social safety nets in the form of direct cash transfers, both budgetary and non-budgetary, through *Zakat*, Pakistan *Bait-ul-Mal* (PBM), Employees' Old Age Benefit Institution (EOBI) and provision of Micro-credit are deeply rooted in Pakistan's Poverty Reduction Strategy Paper (PRSP) as a part of one of its core pillars, namely 'Targeting the Poor and the Vulnerable.' Expenditure on human development is a long-term investment by the government to reduce chronic poverty and weaken the transmission of inter-generational poverty. Government expenditures under safety nets aim to supplement meager incomes of the most vulnerable segments of society. The amount of direct transfers and number of beneficiaries by type of transfers are illustrated in Table 4.1. Total direct transfers in FY 2007/08 stood at Rs 26,974 million, which were transferred to 5.6 million beneficiaries. Both disbursements and number of beneficiaries have increased considerably since FY 2001/02. The largest increase, just as in FY 2006/07, has been witnessed in Micro-credit, followed by EOBI. Micro-credit disbursement increased almost tenfold from Rs 1,049 million in FY 2001/02 to Rs 13,138 million in FY 2007/08, with number of beneficiaries having increased from less than 100,000 in FY 2001/02 to over 1000,000 in FY 2007/08.

Table 4.1: Direct Transfers and Beneficiaries		(Rs Million)						
Programme	Disbursement/ beneficiaries	FY 2001/ 02	FY 2002/ 03	FY 2003/ 04	FY 2004/ 05	FY 2005/ 06	FY 2006/ 07	FY 2007/ 08
Zakat	Amount disbursed (million Rs)	5254	8009	5330	3692	4520 ®	4612	4090
	Total beneficiaries (000)	1710	1754	1639	1370	2373 ®	2494	2007
Pakistan Bait- Ul-Mal (all programmes)*	Amount disbursed (million Rs)	-	-	3159	3270	3838	3911 ®	5521
	Total beneficiaries (000)	-	-	1614	1671	3130	1460 ®	2129
Micro-credit**	Amount disbursed (million Rs)	1049	2337	2979	5158	6655	9947	13138
	Total beneficiaries (000)	76	249	286	470	606	906	1154
EOBI	Amount disbursed (million Rs)	1366	1592	1742	1929	2899 ®	3446 ®	4227
	Total beneficiaries (000)	NA	108	115	121	281 ®	260®	273
All Programmes	Amount disbursed (million Rs)	7669	12119	13265	14322	17912 ®	21916 ®	26974
	Total beneficiaries (000)	1810	2078	3654	3632	6390 ®	5120®	5563

Source: For *Zakat*: Ministry of Religious Affairs, *Zakat* and *Ushr*; for Pakistan *Bait-ul-Mal*: Ministry of Social Welfare and Special Education; for EOBI: Employees' Old Age Benefits Institution, Head Office, Karachi.

* Includes Food Support Programme as given in budgetary expenditure

**Comprise ZTBL (up till FY 2005/06 only), Pakistan Poverty Alleviation Fund (PPAF) and *Khushali* Bank.

® Indicates revised figures for the given year.

4.1 Zakat

4.2 As shown in Table 4.1, *Zakat* disbursements for FY 2006/07 totaled Rs 4,612 million and Rs 4,088 million in FY 2007/08. Table 4.2 illustrates a comparison of the total amount disbursed through *Zakat* at the federal and provincial levels during FY 2006/07 and FY 2007/08.

	Punjab		Sindh		NWFP		Balochistan		ICT ¹⁰		Northern Areas	
	FY 2006 / 07	FY 2007 / 08	FY 2006 / 07	FY 2007 / 08	FY 2006 / 07	FY 2007 / 08	FY 2006 / 07	FY 2007 / 08	FY 2006 / 07	FY 2007 / 08	FY 2006 / 07	FY 2007 / 08
Regular <i>Zakat</i> programmes	1972	1857	581	395	491	411	180	41	22	23	38	38
Total beneficiaries (000)	1104	995	286	205	156	94.2	128	31	9	12	30	32
Other <i>Zakat</i> programmes	716	738	37	16	191	148.9	12	5	3	3	5	5
Total beneficiaries (000)	289	288	73	38	70	69.9	15	9	5	5	10	10
National Level Schemes	185	196	76	83	41	62.5	27	30	35	35	0	0
Total beneficiaries (000)	130	93	94	60	26	31.1	15	19	52	14	0	0
Total amount disbursed	2873	2791	694	494	723	623	219	76	60	61	43	43
Total beneficiaries (000)	1524	1376	453	304	252	195	158	59	67	31	40	42
Grand Total Amount Disbursed (Rs Million) in FY 2006/07:	4612											
Grand Total Beneficiaries (Thousand) in FY 2006/07:	2494											
Grand Total Amount Disbursed (Rs Million) in FY 2007/08:	4088											
Grand Total Beneficiaries (Thousand) in FY 2007/08:	2007											

Source: Ministry of Religious Affairs, *Zakat* and *Ushr*.

4.3 The number of beneficiaries amounted to 2.01 million in FY 2007/08. *Zakat* disbursements were as high as Rs 8,009 million in FY 2002/03. *Zakat* is disbursed under different programmes. During FY 2007/08, a large proportion i.e. 43.5 percent was disbursed through *Guzara* allowance, just as in the case in FY 2006/07 where the percentage disbursed amounted to 44.9. Proportion of

¹⁰ Islamabad Capital Territory (ICT) includes surrounding areas of Islamabad.

Zakat disbursed through overall educational stipends (both technical and non-technical) and stipends to students of *Deeni Madaris*¹¹ during FY 2007/08 amounted to the same percentage share as last year i.e. 28.7 percent and 5.2 percent, respectively. Disbursement under healthcare amounted to Rs 171 million in FY 2007/08, constituting 4.2 percent of the total *Zakat* disbursement, which in FY 2006/07 stood at 3.9 percent. About 1.9 percent of *Zakat* was disbursed under Social Welfare/Rehabilitation in FY 2007/08, in contrast to 2.6 percent in FY 2006/07; whereas 2.2 percent of *Zakat* was spent on marriage assistance in FY 2007/08, which stood at 2.8 percent in FY 2006/07. About 68.2 percent of *Zakat* disbursements were made in Punjab, 12.1 percent in Sindh, 15.2 percent in NWFP, 1.9 percent in Balochistan, 1.5 percent in Islamabad Capital Territory (ICT) and 1.1 percent in Northern areas in FY 2006/07. Disbursements in Punjab and in the Northern areas increased compared to last year, i.e. FY 2006/07 (62.3 percent and 0.9 percent respectively) but decreased in Sindh (15.1 percent) and Balochistan (4.7 percent). Disbursements have remained almost the same in NWFP (15.7 percent) and in ICT (1.3 percent) this year since FY 2006/07.

4.2 Pakistan Bait-ul-Mal (PBM)

4.4 Amount disbursed by PBM increased from Rs 3,911 million in FY 2006/07 to Rs 5,521 million in FY 2007/08, benefiting around 2.1 million households (Table 4.3). The PBM disburses to the needy under the following schemes: Food Support Programme (FSP), Individual Financial Assistance (IFA), Institutional Rehabilitation through Civil Society Wing (CSW), National Centres for Rehabilitation of Child Labour (NCRCL), Vocational Training Institutes (VTIs)/*Dastakari*¹² Schools and Management Information System (MIS) and Child Support Programme.

Programme	FY 2006/07		FY 2007/08	
	Households	Amount disbursed (Rs million)	Households	Amount disbursed (Rs million)
Food Support Programme*	1,060,383®	3,181®	1,456,886	4,371
Individual Financial Assistance	20,202	382	43,310	754
National Centres for Rehabilitation of Child Labour	121,284®	203®	116,293	244
Vocational Training Centres	63,648®	94®	57,318	102
Institutional Rehabilitation (Grant-In-Aid to NGOs)	193,991®	50®	442,197	39
Child Support Programme	660 ®	1®	13,273	11
Total Disbursement Under All Programmes	1,460,168®	3,911®	2,129,277	5,521

Source: Ministry of Social Welfare and Special Education.

* Food Support Programme is included in PRSP budgetary expenditures also.

® Indicates revised figures for the given year.

¹¹ Islamic schools.

¹² Vocational/skills.

4.5 Food Support Programme is the largest programme of PBM and is also part of PRSP budgetary expenditures. Its total disbursement increased from Rs 3,181 million in FY 2006/07 to Rs 4,371 million in FY 2007/08, benefiting 1.5 million households. Disbursement under Individual Financial Assistance was Rs 754 million during FY 2007/08, while disbursements under National Centres for Rehabilitation of Child Labour increased to Rs 244 million. Disbursement under Vocational Training Centres amounted to Rs 102 million, and Rs 39 million under Institutional Rehabilitation in FY 2007/08.

4.3 Micro-credit

4.6 Micro-credit is rapidly gaining importance in Pakistan as a valuable source of social mobilization and poverty alleviation. Since FY 2001/02, as shown above in Table 4.1, micro-credit disbursement has increased consistently from Rs 1,049 million in FY 2001/02 to Rs 6,655 million in FY 2005/06, and further from Rs 9,947 million in FY 2006/07 to Rs 13,138 million during FY 2007/08. During the same period, number of beneficiaries increased from 76,000 in FY 2001/02; 606,000 in FY 2005/06; 906,000 in FY 2006/07; and finally to 1,154,000 during FY 2007/08.

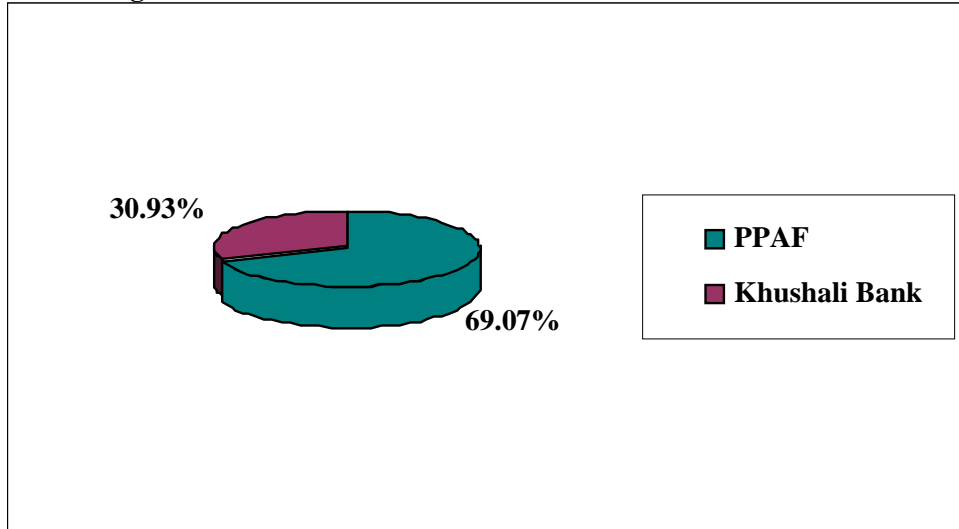
		FY 2005/06	FY 2006/07	FY 2007/08
Pakistan Poverty Alleviation Fund (PPAF)	Amount disbursed	3706	6228	9075
	No of districts	79	85	84
	No of male beneficiaries (000)	202	302	414
	No of female beneficiaries (000)	130	267	375
	Total beneficiaries (000)	332	569	789
<i>Khushali</i> Bank	Amount disbursed	2922	3719	4063
	No of male beneficiaries (000)	229	286	306
	No of female beneficiaries (000)	44	51	59
	Total beneficiaries (000)	273	337	365
ZTBL*	Amount disbursed	28	-	-
	No of male beneficiaries (000)	0.7	-	-
	No of female beneficiaries (000)	0.4	-	-
	Total beneficiaries (000)	1.2	-	-
Micro-credit	Total credit	6655	9947	13138
	Total male beneficiaries (000)	433	588	720
	Total female beneficiaries (000)	174	318	434
	Total beneficiaries (000)	606	906	1154

Source: Pakistan Poverty Alleviation Fund; *Khushali* Bank & *Zarai Taraqati* Bank (ZTBL).

* Loan disbursements under micro-credit schemes for self-employment purposes under ZTBL have been stopped wef FY2006/07 since a number of other banks/organizations are already looking after such credit needs throughout the country.

4.7 In FY 2007/08, 69.07 percent of the total micro-credit disbursement reported in PRSP was through the PPAF while the share of *Khushali* Bank was around 30.93 percent compared to the figures of FY 2006/07, which were 62.6 percent and 37.4 percent, respectively. Almost half (47.5 percent) of the borrowers in the PPAF disbursement during FY 2007/08 were females while the percentage was 16.2 percent in the case of *Khushali* Bank.

Figure 4.1 Share of Micro-credit Disbursement FY 2007/08



Source: PRSP Secretariat, Finance Division, Islamabad.

4.8 Immense progress has been made in the expansion of micro-credit through specialized and private banks as explained in Annex 1. Despite the fact that the microfinance sector in Pakistan has the largest potential clientele base, this sector is still young and underdeveloped. A Poverty and Social Impact Assessment (PSIA) was carried out on microfinance during 2006 through funding by DFID.¹³ Results of this study reflect that there is insufficient evidence of a high enough quality to objectively determine whether recent microfinance provisions have enabled greater access amongst the poor and whether these changes have improved the living standards of the poor. On the other hand, however, even though microfinance cannot be extended to the extremely poor communities, studies have highlighted that when relatively better off members of a community are provided MF services to increase their household income, they are in a position to lend to other needy people. Hence, the expansion of MF can further lead to indirect benefits.

4.9 According to the ‘Voices of the poor’, which obtained firsthand feedback from poor communities during a process of 54 consultations in February, 2006 regarding their opinion on the impact of PRSP-I initiatives,¹⁴ the respondents laid out the following recommendations in micro-credit provision; (i) greater expansion of geographical coverage of micro-credit institutions, (ii) upward revision of loan ceilings in keeping with people’s needs, (iii) repayment schedules to be consistent with client business cash flows, and (iv) credit products to cater to client needs, such as, consumption loans, etc. Results from this dialogue indicate that while there has been an improvement in the welfare of the poor across the board, there is great variation across regions and sections of society.

¹³ Poverty and Social Impact Assessment: Pakistan Microfinance Policy, May 2006, (Oxford Policy Management: 2006).

¹⁴ An exercise carried out by the Rural Support Programme Network (RSPN), along with financial support from DFID.

4.4 Employees' Old Age Benefits Institution (EOBI)

4.10 The Employees' Old Age Benefits Institution (EOBI) provides subsistence pension to Pakistani workers who retire after completing a minimum number of years of insurable employment. The institution was established in 1976 and is funded by 5 percent employers' contribution of wages and any other payments made by the employers income that provide pension to old aged and disabled workers of registered industrial and commercial private establishments. An insured person with 15 years of contribution is entitled to a monthly old-age pension – over 60 years for men and over 55 years for women. Disbursement through EOBI increased from Rs 2,899 million during FY 2005/06, to Rs 3,446 million in FY 2006/07, and finally to Rs 4,227 million in FY 2007/08 with the number of beneficiaries increasing from 281,000 to 260,000 to 273,000, during the three years, respectively.

5 Monitoring the PRSP Indicators

5.1 This section of the Report analyzes the performance of intermediate indicators regarding education and health sectors and recent information on land distributed among poor households.

5.1 Education sector

5.1.1 Performance of Intermediate Indicators

5.2 Education sector intermediate indicators include functional public schools, basic facilities in public schools, actual posts filled against sanctioned posts in public schools and percentage of trained teachers in these schools. Progress in each indicator is discussed below.

5.1.2 Functional Schools

5.3 Number of functional public primary (including mosque schools) and middle schools in Pakistan are reported in Table 5.1. Total number of functional schools showed an upward trend as they increased by 988 in number from 144,558 in FY 2006/07 to 145,546 in FY 2007/08. During the same period both the primary and middle functional schools have increased by 0.6 percent and 1.7 percent, respectively.

5.4 Punjab being the most populous province also has the largest number of functional schools totaling 56,287 in FY 2007/08. It is encouraging to see an increase of 2 percent, 0.6 percent, 5 percent, 0.7 percent, 1 percent, 4 percent and 7 percent in number of functional schools in Sindh, NWFP, Balochistan, AJK, FANA, FATA and the federal capital, respectively in FY 2007/08 relative to FY 2006/07, which will assist in improving education sector outcome indicators. Only Punjab witnessed a decline of 1 percent in total number of functional schools in FY 2007/08 as compared to FY 2006/07.

Region/Province	Year	Primary	Middle	Total
Pakistan	FY 2006/07 (A)	129,803	14,755	144,558
	FY 2007/08 (E)	130,546	15,000	145,546
Punjab	FY 2006/07 (A)	49,659	7,382	57,041
	FY 2007/08 (E)	48,880	7,407	56,287
Sindh	FY 2006/07 (A)	37,360	2,301	39,661
	FY 2007/08 (E)	38,071	2,359	40,430
NWFP	FY 2006/07 (A)	22,281	2,456	24,737
	FY 2007/08 (E)	22,379	2,497	24,876
Balochistan	FY 2006/07 (A)	10,341	862	11,203
	FY 2007/08 (E)	10,791	953	11,744

AJK	FY 2006/07 (A)	4,109	1,032	5,141
	FY 2007/08 (E)	4,144	1,034	5,178
FANA	FY 2006/07 (A)	1,292	245	1,537
	FY 2007/08 (E)	1,307	247	1,554
FATA	FY 2006/07 (A)	4,534	423	4,957
	FY 2007/08 (E)	4,726	450	5,176
Federal	FY 2006/07 (A)	227	54	281
	FY 2007/08 (E)	247	54	301

A= Actual data, E= Estimated data.

Source: National Education Management Information System (NEMIS), Academy of Educational Planning and Management, Ministry of Education, Government of Pakistan.

Note: Mosque schools are included in primary schools.

5.1.3 Actual Posts Filled Against Sanctioned Posts in Public Schools

5.5 Table 5.2 represents the actual posts filled against sanctioned posts. Actual posts filled in Pakistan decreased by 2.3 percent to 341,184 at the primary level while increased by 3.5 percent to 118,859 at the middle level in the FY 2007/08 relative to last fiscal year. Actual posts filled against sanctioned posts were higher in FATA both at the primary and the middle level i.e, 98 percent and 95 percent, showed an increase of 1 percentage points and 2 percentage points whereas 72 percent and 55 percent positions were filled at the primary and the middle level respectively in FANA. At the primary level in Punjab, actual posts filled reached 94 percent depicting an increase of 5 percentage points while posts decreased by 2 percentage points to 79 percent at the middle level. In NWFP and ICT, 79 percent and 85 percent positions were filled at the primary level and 90 percent and 93 percent at the middle level, respectively.

Provinces / Regions	Level	FY 2006/07			FY 2007/08		
		No. of sanctioned posts	Actual posts filled by teachers	Actual posts filled against sanctioned posts (%)	No. of sanctioned posts	Actual posts filled by teachers	Actual posts filled against sanctioned posts (%)
Punjab	Primary	162,343	145,073	89	141,231	132,839	94
	Middle	84,242	68,144	81	88,861	70,561	79
Sindh	Primary	NA	96,243	-	NA	95,852	-
	Middle	NA	9,498	-	NA	10,192	-
NWFP	Primary	NA	67,299	-	90,116	71,039	79
	Middle	NA	14,741	-	17,169	15,388	90
Balochistan	Primary	17,916	17,293	97	NA	17,443	-
	Middle	10,576	9,465	89	NA	9,635	-
FATA	Primary	11,540	11,136	96	11,540	11,318	98
	Middle	4,096	3,788	92	4,199	3,970	95
FANA	Primary	NA	2,411	-	3,575	2,585	72

	Middle	NA	1,353	-	2,601	1,434	55
AJK	Primary	NA	7,406	-	NA	8,013	-
	Middle	NA	7,107	-	NA	6,992	-
ICT	Primary	NA	2,363	-	2,478	2,095	85
	Middle	NA	751	-	736	687	93
Total	Primary	191,799	349,224	-	248,940	341,184	-
	Middle	98,914	114,847	-	113,566	118,859	-

NA= Not Available

Source: National Educational Management Information System (NEMIS), Academy of Educational Planning and Management (AEPAM), Ministry of Education, Government of Pakistan.

5.1.4 Percentage of Trained Teachers

5.6 Trained teachers increased by 1 percentage points at the primary level and 3 percentage points at the middle level during the FY 2007/08 as compared to FY 2006/07 (Table 5.3). In NWFP, 100 percent teachers were trained at the primary and the middle level during this year. At the primary level, trained teachers increased by 16 percentage points in FANA followed by 5 percentage points in Punjab; 4 percentage points in AJK; whereas they declined by 3 and 2 percentage points in Sindh and ICT, respectively. Punjab, AJK, FATA, FANA and Balochistan showed an improvement of 5, 3, 2, 2 and 1 percentage points in the percentage of trained teachers at the middle level. However, this declined in Sindh by 2 percentage points and in ICT by 1 percentage points during the same period.

Region / Province	FY 2006/07		FY 2007/08	
	Primary	Middle	Primary	Middle
Pakistan	96	95	97	98
Punjab	94	94	99	99
Sindh	97	97	94	95
NWFP	100	100	100	100
Balochistan	99	93	99	94
FATA	97	98	97	100
FANA	58	86	74	88
AJK	88	94	92	97
ICT	96	98	94	97

Source: National Educational Management Information System (NEMIS), Academy of Educational Planning and Management (AEPAM), Ministry of Education, Government of Pakistan.

5.1.5 Basic Facilities in Public Schools

5.7 Table 5.4 illustrates proportion of basic facilities in public schools in all provinces. At the national level, public schools containing facilities including access to water, latrines and boundary walls increased in FY 2007/08 as compared to FY 2006/07. A total of 65 percent schools contained the facility of water and latrines in FY 2007/08 relative to 63 percent and 56 percent in FY 2006/07, respectively. However, the proportion of public schools with boundary walls increased by 58 percent in FY 2007/08 relative to 55 percent in FY 2006/07. The proportion of public schools having electricity remained the same in both years.

5.8 The federal capital was the only region where the proportion of public schools with all four basic facilities was above 87 percent in FY 2007/08. The FANA showed the largest increase of 24 percentage points in the proportion of public schools having water and electricity facilities during FY 2007/08 as compared to FY 2006/07. The proportion of schools with water and latrine facilities increased by 18 percentage points and 7 percentage points in Balochistan, while Punjab witnessed an increase of 11 and 12 percentage points, respectively. Similarly in NWFP, there was an increase of 15 percentage points in the proportion of public schools with latrine facilities this year as compared to last year. However, facilities like water and electricity decreased by 10 and 6 percentage points in Sindh during FY 2007/08 relative to FY 2006/07. The situation in FATA and AJK was dismal with proportion of schools with four basic facilities showing a declining trend in FY 2007/08 as compared to FY 2006/07.

Region/Province	Years	Level	Water (percent)	Latrine (percent)	Electricity (percent)	B-Wall (percent)
Pakistan	FY 2006/07 [®]	Primary	61.36	54.05	32.12	52.87
		Middle	78.20	75.93	66.73	72.00
		Total	63.08	56.28	35.65	54.82
	FY 2007/08	Primary	63.91	62.50	31.65	56.20
		Middle	77.92	83.68	66.41	74.10
		Total	65.35	64.69	35.23	58.04
Punjab	FY 2006/07	Primary	80.56	61.71	37.34	62.25
		Middle	96.76	86.64	83.70	83.47
		Total	82.65	64.94	43.34	65.00
	FY 2007/08	Primary	92.47	73.81	39.91	65.94
		Middle	99.76	95.42	85.41	84.99
		Total	93.42	76.65	45.90	68.45
Sindh	FY 2006/07	Primary	48.95	53.21	26.43	47.73
		Middle	60.89	70.01	46.11	66.84
		Total	49.64	54.18	27.57	48.84
	FY 2007/08	Primary	38.71	56.14	20.41	50.04
		Middle	56.04	75.24	43.32	72.66
		Total	39.72	57.25	21.74	51.36
NWFP	FY 2006/07	Primary	54.67	62.94	39.78	60.83
		Middle	67.43	78.42	60.22	69.50
		Total	55.93	64.47	41.81	61.69
	FY 2007/08	Primary	54.39	77.56	41.36	66.50
		Middle	68.84	98.12	61.43	73.61
		Total	55.84	79.63	43.38	67.21
Balochistan	FY 2006/07	Primary	61.00	23.45	13.89	28.51
		Middle	68.10	54.06	40.60	62.06
		Total	61.55	25.81	15.94	31.09
	FY 2007/08	Primary	80.71	29.96	15.44	33.82
		Middle	68.10	59.50	40.92	64.64
		Total	79.68	32.36	17.51	36.32
AJK	FY	Primary	14.63	15.84	9.27	6.89

	2006/07	Middle	31.49	28.88	28.10	12.50
		Total	18.01	18.46	13.05	8.01
	FY 2007/08	Primary	8.04	11.87	6.20	5.28
		Middle	20.79	18.09	20.89	7.74
Total		10.58	13.11	9.13	5.77	
FANA	FY 2006/07	Primary	35.76	35.68	35.37	35.45
		Middle	53.47	56.33	59.59	49.39
		Total	38.58	38.97	39.23	37.67
	FY 2007/08	Primary	63.58	54.02	62.20	47.74
		Middle	54.66	52.23	66.40	50.61
		Total	62.16	53.73	62.87	48.20
FATA	FY 2006/07	Primary	35.22	41.29	42.13	53.31
		Middle	57.68	76.36	67.85	90.07
		Total	37.14	44.28	44.32	56.45
	FY 2007/08	Primary	25.90	45.05	38.24	52.26
		Middle	48.00	76.44	59.11	90.44
		Total	27.82	47.78	40.05	55.58
Federal	FY 2006/07	Primary	90.31	89.43	97.80	95.59
		Middle	96.30	85.19	100.00	94.44
		Total	91.46	88.61	98.22	95.37
	FY 2007/08	Primary	92.31	92.31	97.57	95.55
		Middle	85.19	64.81	85.19	79.63
		Total	91.03	87.38	95.35	92.69

Note: Mosque schools are included in primary schools.

Source: National Education Management Information System (NEMIS), Academy of Educational Planning and Management, Ministry of Education, Government of Pakistan.

5.2 Health sector

5.2.1 Performance of Intermediate Indicators

5.9 Health sector intermediate indicators comprise immunization coverage of children (aged 12-23 months); immunization coverage for pregnant women; number of lady health workers; and coverage of lady health workers. However, progress in immunization coverage of pregnant women; and number and coverage of lady health workers has been discussed in this section. Information regarding immunization coverage of children is obtained from the Pakistan Social and Living Standards Measurement (PSLM) Survey, the results for FY 2007/08 of which were awaited at the time of finalization of this Report.

5.2.2 Immunization Coverage of Pregnant Women

5.10 Coverage of Tetanus Toxoid-1 (TT-1) and Tetanus Toxoid-2+ (TT-2+) immunization for pregnant women in every region is reported in Table 5.5. At the national level, 7.03 million pregnant women were targeted for immunization in FY 2007/08 as compared to 6.9 million during FY 2006/07. However, 45 percent and 47 percent women were immunized relative to 49 percent and 51 percent under TT-1 and TT-2, respectively during the same period. Both TT-1 and TT-2 immunization coverage were reduced by 4 percentage points in FY 2007/08.

5.11 Among all regions, AJK had the highest coverage of 61 percent and 56 percent under TT-1 and TT-2 immunization; whereas FANA had the lowest coverage of 23 percent in TT-1 immunization while Balochistan had the lowest TT-2 immunization coverage of 29 percent in FY 2007/08. Capital Development Authority (CDA)¹⁵ and Balochistan both witnessed an increase in the immunization coverage. The coverage in CDA increased by 18 percentage points in TT-1 immunization and 11 percentage points in TT-2 immunization during FY 2007/08 compared to FY 2006/07. Similarly, TT-1 immunization coverage in Balochistan increased by 6 percentage points in FY 2007/08 compared to FY 2006/07, whereas TT-2 immunization coverage remained same in both years. During FY 2007/08, a decline of 8 percentage points and 14 percentage points was observed in FATA under TT-1 and TT-2 immunization respectively. Punjab, Sindh, NWFP, AJK, ICT and FANA also showed a decline in immunization coverage.

Province/Region	FY 2006/07			FY 2007/08		
	TT-Immunization			TT-Immunization		
	Target Population	TT-1	TT2+	Target Population	TT-1	TT2+
	(+4.1 percent Pop)	Cov percent	Cov percent	(+4.1 percent Pop)	Cov percent	Cov percent
Punjab	3,705,564	54	56	3,786,240	49	51
Sindh	1,531,062	47	49	1,587,600	40	45
NWFP	924,780	43	42	928,260	41	40
FATA	143,486	51	68	145,512	43	54
Balochistan	337,458	24	29	330,540	30	29
AJK	149,256	61	58	146,652	61	56
FANA	49,902	27	36	56,748	23	37
ICT	15,594	41	33	17,784	41	31
CDA	37,824	16	39	34,092	34	50
Others	-	-	-	-	-	-
Pakistan	6,894,924	49	51	7,033,428	45	47

Source: Federal EPI/CDD Cell, National Institute of Health, Pakistan.

5.12 The number of LHWs increased by 1.3 percent to 92,577 in FY2007/08 compared to 91,355 in FY2006/07. During the same period, the number of LHWs in urban areas increased by 8 percent i.e. 16,627 and by 3 percent i.e. 75,950 in rural areas (Table 5.6). A total of 82 percent LHWs were deployed in rural areas and 18 percent in urban areas. Proportion of LHWs deployed in Punjab was 51 percent; followed by 22 percent in Sindh; 15 percent in NWFP; and 6 percent in Balochistan.

¹⁵ CDA only covers the geographical area of Islamabad city.

Province	FY 2006/07			FY 2007/08		
	Urban	Rural	Total	Urban	Rural	Total
Punjab	7,701	39,054	46,755	9,241	37,882	47,123
Sindh	4,409	15,619	20,028	3,636	16,583	20,219
NWFP	1,437	11,975	13,412	1,380	12,356	13,736
Balochistan	1,476	4,448	5,924	2,001	3,879	5,880
AJK	173	2,294	2,467	179	2,512	2,691
FANA	124	918	1,042	157	1065	1,222
FATA	0	1,436	1,436	0	1,402	1,402
ICT	34	257	291	33	271	304
Total	15,354	73,729	91,355	16,627	75,950	92,577

* Includes LHWs under training.

Source: National Programme for Family Planning and Primary Health Care, Ministry of Health, Government of Pakistan.

5.3 Land Distribution

5.13 During FY 2007/08, 2,557 acres of resumed land¹⁶ was distributed in Punjab as compared to 1,704 acres of land in FY 2006/07 (Table 5.7). This benefited 290 people as compared to 171 beneficiaries last year but no state land¹⁷ was distributed in the subject year. In Sindh, NWFP and Balochistan no resumed and state land was distributed during the year.

Province	FY 2006/07		FY 2007/08	
	Land distributed (Acres)	Beneficiaries (Number)	Land distributed (Acres)	Beneficiaries (Number)
Punjab	1,704	171	2,557	290
Sindh	-	-	-	-
NWFP	-	-	-	-
Balochistan	-	-	-	-
Total	1,704	171	2,557	290

Source: Federal Land Commission, Pakistan.

¹⁶ Under land reforms, land which in access of prescribed limits is resumed from landowner.

¹⁷ State land is land which is owned by Provincial Governments.

6 Conclusion

6.1 The PRSP Annual Report for FY 2007/08 marks the end of the PRSP-I period. Efforts to track pro-poor expenditures and relevant intermediate outcome and output indicators originally initiated during the Interim PRSP have been consistently followed over the years. Expenditures have shown a constant positive increase throughout, whereas monitoring indicators have also registered steady progress.

6.2 The broad macroeconomic framework formulated under PRSP-I ensured continuity in macroeconomic stability through a comprehensive reform agenda in all sectors of the economy including financial sector; capital market, reform of the tax administration; fiscal transparency; reforms in the privatization programme; governance reforms particularly with respect to devolution and capacity building; and agricultural reforms mainly with regard to agriculture pricing, movement of commodities and introducing private sector in wheat operations. Pakistan's economic growth slowed down to 5.8 percent in 2007/08, as against 6.8 percent last year and remained well below this year's target of 7.2 percent due to a combination of domestic and external shocks. Energy shortages, capacity and input constraints, critical water shortages, inconsistent rise in fertilizer prices, low investment demand and political disturbance adversely affected the industrial and agriculture sectors, in particular. However, on a positive note, the economy has grown at an average rate of 6.1 percent per annum since FY 2001/02, suggesting strong resilience of the economy focusing on regaining macroeconomic stability through related reforms.

6.3 Expenditures incurred in pro-poor sectors during FY 2007/08 were well above 4.5 percent of the GDP in line with the FRDLA Act (2005). During FY 2007/08, PRSP expenditures stood at Rs 572,620 million recording an increase of Rs 145,940 million (34.20 percent) compared to FY 2006/07. A positive increase was witnessed in all pro-poor sectors between FY 2006/07 and FY 2007/08 particularly in food subsidies; and social security & welfare. The highest provincial increase in expenditures was observed in the Sindh province at 46.31 percent, which is over 20 percentage points higher compared to the overall increase in the pro-poor expenditures in FY 2007/08.

6.4 Total direct transfers, both budgetary and non-budgetary, provided through *Zakat*, Pakistan *Bait-ul-Mal* (PBM), Employees' Old Age Benefit Institution (EOBI) and Micro-credit in FY 2007/08 stood at Rs 27 billion, which were transferred to 5.6 million beneficiaries. The largest increase, just as in FY 2006/07, was witnessed in Micro-credit, followed by EOBI.

6.5 Tracking of indicators in the education sector reflects an overall increase in the number of actual posts filled by teachers and provision of basic facilities in public schools like access to water, latrines and boundary walls at the national level which increased in FY 2007/08 relative to FY 2006/07. Health sector intermediate indicators that are regularly tracked in PRSP comprise immunization coverage of children (aged 12-23 months); immunization coverage for pregnant

women; number of lady health workers; and coverage of lady health workers. Information regarding immunization coverage of children was however, not covered in the year's Report due to the unreleased PSLM Survey (FY 2007/08). As for results of the other indicators, 7.03 million pregnant women were targeted for immunization in FY 2007/08 at the national level as compared to 6.9 million during FY 2006/07; while the number of LHWs increased fairly largely by 8 percent in urban areas and by 3 percent in rural areas.

6.6 With the process of revision and analysis of pro-sectors identified six years ago, next year's Annual Report will consist of changes that will reflect the revised macroeconomic framework and new priorities of the government strongly linking poverty reduction with economic growth.

Annex I

Box 1: Microfinance in Pakistan at a glance: Institutional set-up and issues

MICROFINANCE (MF) SECTOR POLICY

Efforts taken by the government to develop a legislative and regulatory framework for licensed microfinance institutions and to expand the reach of sustainable MF to the poor include:

- The government launched the **Microfinance Sector Development Programme (MSDP)** with the assistance of Asian Development Bank (ADB) in 2000. The main aims include increased public-private partnerships and involvement of all stakeholders, developing appropriate financial infrastructure and mitigating risks faced by poor households.
- The **Microfinance Institutions (MFI) Ordinance 2001** was promulgated by the government to provide a separate regulatory framework exclusively for microfinance. The Ordinance specifies terms and conditions for establishment (capital requirements, ownership structure, etc.) and winding up procedures for MFIs in accordance with the State Bank's prudential regulations.
- Along with the Ministry of Finance, the State Bank of Pakistan (SBP) has played a key role in the evolution of MF Policy in Pakistan since 1999, and has adopted a regulatory regime as a facilitator and problem solver. For this purpose, SBP has established a Microfinance Support Division.
- The government has established two endowment funds/safety nets at the State Bank of Pakistan:
 - **Risk Mitigating Fund (RMF):** to protect and replace income generating assets of the poor in the case of a natural calamity
 - **Deposit Protection Fund (DPF):** to ensure the savings of small depositors in the event of bank liquidation
- 6 specialized microfinance banks are operating in the country, with the major share of their advances contributing to the livestock sector, followed by micro-enterprises and agricultural inputs. These include Khushali Bank (first specialized microfinance bank, established in 2001 under the MFI Ordinance), First Microfinance Bank Ltd. (FMFBL), Tameer Microfinance Bank, *Rozgar* Microfinance Bank, Network Microfinance Bank and Pak Oman Microfinance Bank. *Khushali* Bank is also providing community infrastructure development services and skill development support to its client communities.
- 4 commercial banks providing microfinance include: Habib Bank Ltd., First Women's Bank, Bank of Khyber and *Zarai Taraqiyati* Bank (up till FY 2006/07).
- Several NGOs are providing MF services to marginalized communities. These include: Orangi Pilot Project (OPP), which is exclusively focusing on urban low-income areas in Karachi; and other organizations such as KASHF, SUNGI, BUNYAD, etc.

PRIVATE SECTOR MICROFINANCE IN PAKISTAN

- The **Pakistan Microfinance Network (PMN)**, funded by DFID, Aga Khan Foundation and Swiss Agency for Development Cooperation (SDC), is a network of organizations engaged in retail MF and committed to improving the outreach and sustainability of microfinance alongside establishing performance measures, enhancing the capacity of retail MF institutions through specialized training and promoting their financial transparency.
- **Rural Support Programmes:** Various Rural Support Programmes are implementing integrated rural and urban development initiatives (including micro-credit) around the country. Most of them work on a participatory basis with local communities. Amongst the more well known are: Aga Khan Rural Support Programme (AKRSP), National Rural Support Programme (NRSP), Punjab Rural Support Programme (PRSP), Sarhad Rural Support Programme (SRSP), Balochistan Rural Support Programme and Thardeep Rural Development Programme. The **NRSP** has been working for the development of poor rural communities (and partially in urban areas) since 1995. It has the second largest credit programme in the country after ADB, having disbursed more than Rs 7 billion in loans with a recovery rate of 100 percent.¹⁸
- **Pakistan Poverty Alleviation Fund (PPAF):** PPAF was established in 2000 as a not-for-profit private company, and funded by the government and World Bank, to provide loans to partner organizations or

¹⁸ Poverty and Social Impact Assessment, Op. Cit., pg: 98.

NGOs for further lending to poor individuals or groups. PPAF also provides grants for the development of small-scale community infrastructure. Beneficiaries of credit include more than 6 million people, with a considerable percentage of PPAF loans disbursed exclusively to women.

WHAT MORE NEEDS TO BE DONE: THE ROAD AHEAD

- There is still immense scope for systematic microfinance schemes in Pakistan where friends and relatives are the major sources of loans (45.4 percent), followed by shopkeepers (35.9 percent) and landlords (7 percent).¹⁹
- The 'right conditions' for expansion of the MF sector and to maximize its social and poverty impact include macroeconomic stability and continued integration into the country's mainstream financial system with banks taking a keen interest in MF services so that maximum number of poor clients can benefit.
- Currently, MF providers are regulated according to what kind of institution they are (bank, MFI, NGO etc.). Consideration should be given to regulating MF providers according to the kind of service provided (MF loans, deposits, transfers etc), to avoid using burdensome Prudential Regulations for purposes other than protecting depositors' safety and the overall soundness of the financial sector.
- Microfinance works best when it measures and discloses. Accurate, standardized performance information is imperative. Information needs to be both financial (interest rates, loan repayment, cost recovery, etc.) and social (number of clients reached and their poverty level). Development partners, investors, banking supervisors and customers need this information to judge their cost, risk and return.

¹⁹ NHDR/PIDE Survey 2001.

Annex II

Box 2: Income generation through greater capacity building and economic empowerment

*AIK HUNAR AIK NAGAR*²⁰ (AHAN)

Aik Hunar Aik Nagar (AHAN), a non-profit company setup by the Government of Pakistan under section 42 of the Companies Ordinance was initiated as a project under the execution of Small & Medium Enterprise Development Authority (SMEDA) in July, 2006. During a short period, it has actively started working in all the four provinces in collaboration with provincial/district governments, RSPs, Microfinance Institutions, Designers and other stakeholders. The project is based on the “One Village, One Product” concept and has adopted a two-pronged approach to implement its programmes: (i) it has started pilot projects in different geographic clusters of artisans/poor producer groups, and (ii) it has also started a research and analysis exercise to discover the potential in this area and to see how a long-term strategy can be developed for creating sustainable income generation opportunities to a large segment of our society living in rural, semi urban and small cities and towns of Pakistan. The idea is to use a holistic approach at the grassroots level by creating synergies through a network of rural enterprise initiatives. Coordination with rural support programmes and NGOs has enabled AHAN to facilitate access to enterprising communities and linkages with social interventions in education, health and small infrastructure projects. Through its interventions, AHAN caters to both supply and demand sides – the supply side aims at building the capacity of poor artisans and crafts persons by involving well-known designers to produce contemporary products while assuring quality, while the demand side aims at arranging exhibitions nationally and internationally, display setups, designers’ outlets, and developing linkages with exporters, etc.

AREAS OF INTERVENTION FOR AHAN PROJECTS

- Product Development and Quality Assurance: of crafts persons through technical assistance, and production management and product design training.
- Marketing and Enterprise Development: for poor producers including market analysis, product selection, brand development, promotional campaign, test marketing and distribution for rural non-farm products of Pakistan. Crafts persons are introduced to effective ways of enterprise/business development of their products.
- As an initiative, market linkages for developed clusters have been created with different buying houses, for example, Punjab Sillanwali lacquer work cluster, NWFP Matta Mughal Khel Chaddar and Charsadda Chappal Cluster and Balochistan leather embroidery cluster.
- Linkages with Microfinance Institutions: AHAN is in the process of developing networks between rural entrepreneurs and microfinance institutions to provide support to clusters in obtaining easy credit facilities for their growth and development.

Non-farm rural products being catered in AHAN projects include: region-specified hand embroidery work, handloom fabric, carpets, *rilli*,²¹ silver jewellery, *ajrak*,²² lacquer work, ceramics, mosaic, etc. AHAN’s objectives include ensuring substantial female participation in all projects. Primarily, women are involved in region-specific hand embroidery work. In future, AHAN intends on continuing extended services, thereby contributing to the main economic challenges faced by the country i.e. poverty reduction and employment generation.

²⁰ One Craft, One Village.

²¹ Traditional embroidered cloth.

²² Block-printed cloth.

Annex III

PRSP Budgetary Expenditures (FY 2007/08)												
(Rs million)												
	FY 2007/08 Provisional						FY 2006/07					
	Federal	Punjab	Sindh*	NWFP	Balochistan	Total	Federal	Punjab	Sindh	NWFP	Balochistan	Total
Roads highways, & Bridges	2,396	49,659	20,061	5,347	7,362	84,825	2,571	28,197	17,262	4,471	7,502	60,003
Current	2,396	3,210	1,071	1,374	508	8,559	2,333	2,383	1,193	779	120	6,808
Development	0	46,449	18,990	3,973	6,854	76,266	238	25,814	16,069	3,692	7,382	53,195
Water Supply & Sanitation	198	7,597	5,290	2,290	4,442	19,817	376	6,798	5,657	1,065	2,723	16,619
Current	198	1,956	736	1,090	1,200	5,180	247	2,285	450	997	1,099	5,078
Development	0	5,641	4,554	1,200	3,242	14,637	129	4,513	5,207	68	1,624	11,541
Education	40,756	73,431	37,951	23,012	7,496	182,646	40,840	71,353	23,221	19,447	7,223	162,084
Current	21,994	69,364	31,071	20,836	7,072	150,337	22,657	63,140	20,051	17,854	6,611	130,313
Development	18,762	4,067	6,880	2,176	424	32,309	18,183	8,213	3,170	1,593	612	31,771
Primary Education	2,374	34,973	1,054	9,909	2,452	50,762	2,139	31,772	7,796	8,606	2,420	52,733
Current	2,374	33,854	31	8,923	2,452	47,634	2,121	30,501	6,500	8,045	2,420	49,587
Development	0	1,119	1,023	986	0	3,128	18	1,271	1,296	561	0	3,146

Secondary Education	3,397	17,413	791	9,476	2,153	33,230	2,951	14,825	6,252	8,434	1,949	34,411
Current	3,280	16,647	104	8,881	2,153	31,065	2,751	14,190	5,475	8,170	1,949	32,535
Development	117	766	687	595	0	2,165	200	635	777	264	0	1,876
General Universities, Colleges, & Institutes	25,266	6,938	3,412	1,448	648	37,712	26,469	5,592	2,641	1,004	471	36,177
Current	8,960	5,385	2,315	1,326	648	18,634	11,025	4,926	2,240	592	471	19,254
Development	16,306	1,553	1,097	122	0	19,078	15,444	666	401	412	0	16,923
Professional & Technical Universities, Colleges & Institutes	4,047	1,268	1,359	1,728	368	8,770	3,699	1,048	1,258	916	444	7,365
Current	3,960	1,209	1,108	1,303	368	7,948	3,613	946	983	896	440	6,878
Development	87	59	251	425	0	822	86	102	275	20	4	487
Teacher & Vocational Training	89	0	188	0	153	430	63	2,566	169	243	145	3,186
Current	42	0	173	0	153	368	38	2,566	152	32	145	2,933
Development	47	0	15	0	0	62	25	0	17	211	0	253
Others	5,583	12,839	2,332	451	1,722	22,927	5,519	15,550	5,105	244	1,794	28,212
Current	3,378	12,269	1,844	403	1,298	19,192	3,109	10,011	4,701	119	1,186	19,126

Development	2,205	570	488	48	424	3,735	2,410	5,539	404	125	608	9,086
Health	16,479	24,784	11,559	5,855	2,450	61,127	14,054	22,116	8,710	5,979	2,307	53,166
Current	5,756	20,828	10,123	5,033	2,231	43,971	5,948	18,683	7,254	5,219	2,164	39,268
Development	10,723	3,956	1,436	822	219	17,156	8,106	3,433	1,456	760	143	13,898
General Hospitals & Clinics	6,542	21,179	4,951	5,365	1,109	39,146	6,152	18,998	7,249	3,846	962	37,207
Current	4,422	17,730	4,447	4,608	1,109	32,316	4,224	15,802	6,012	3,783	962	30,783
Development	2,120	3,449	504	757	0	6,830	1,928	3,196	1,237	63	0	6,424
Mother & Child Health	3	128	106	16	8	261	3	80	243	1,072	1	1,399
Current	3	90	106	16	8	223	3	79	217	1,071	1	1,371
Development	0	38	0	0	0	38	0	1	26	1	0	28
Health Facilities & Preventive Measures	9,040	224	272	135	368	10,039	7,097	150	227	862	358	8,694
Current	681	110	120	70	156	1,137	1,137	102	122	174	215	1,750
Development	8,359	114	152	65	212	8,902	5,960	48	105	688	143	6,944
Others	894	3,253	402	339	965	5,853	802	2,888	991	199	986	5,866
Current	650	2,898	399	339	958	5,244	584	2,700	903	191	986	5,364
Development	244	355	3	0	7	609	218	188	88	8	0	502

Population Planning	7,073	4,676	166	1,062	345	13,322	3,990	1,429	921	355	307	7,002
Current	588	1,347	107	47	69	2,158	323	30	0	42	305	700
Development	6,485	3,329	59	1,015	276	11,164	3,667	1,399	921	313	2	6,302
Social Security & Social Welfare	5,249	2,573	10,610	247	263	18,942	718	1,013	1,236	1,324	222	4,513
Current	5,001	1,860	883	197	187	8,128	491	689	776	629	153	2,738
Development	248	713	9,727	50	76	10,814	227	324	460	695	69	1,775
Natural Calamities & Other Disasters	3,241	3,118	640	363	366	7,728	2,716	1,055	201	991	45	5,008
Irrigation	49,214	11,664	13,540	3,869	5,206	83,493	45,417	11,706	11,040	2,947	3,661	74,771
Current	11	5,148	4,373	1,060	2,846	13,438	336	4,922	3,253	973	2,612	12,096
Development	49,203	6,516	9,167	2,809	2,360	70,055	45,081	6,784	7,787	1,974	1,049	62,675
Land Reclamation	0	108	3,022	0	0	3,130	0	101	2,247	0	0	2,348
Rural Development	1,808	9,933	153	6,184	5,256	23,334	1,431	9,495	156	6,320	4,773	22,175
Current	80	259	140	1,106	386	1,971	369	158	127	1,673	476	2,803
Development	1,728	9,674	13	5,078	4,870	21,363	1,062	9,337	29	4,647	4,297	19,372
Law & Order**	2,364	65	0	0	0	2,429	1,055	1	0	6	1,026	2,088
Low Cost Housing	0	597	0	0	0	597	0	165	0	134	0	299

Justice Administration	2,931	2,274	1,396	701	518	7,820	1,231	1,678	1,045	602	525	5,081
Food Subsidies	51,287	179	1,406	2,000	0	54,872	4,422	4	529	500	0	5,455
Food Support Programme	253	2,261	992	663	201	4,370	120	1,793	759	746	131	3,549
Khushal Pakistan Fund ~						1,420						20
Village Electrification^^	2,748					2,748	2,499					2,499
GRAND TOTAL	185,997	192,919	106,786	51,593	33,905	572,620	121,440	156,904	72,984	44,887	30,445	426,680

~ Expenditure for FY 2006/07 relates to *Tawana* Pakistan Programme

^^ Federal Releases to M/o Water & Power and Water & Power Development Authority (WAPDA)

*District expenditures of Sindh during FY 2007/08 were incorporated in the total amount rather than in each of the sub sectors.

**Based on actual expenditure

Annex IV

Table 1: Direct Transfers and Beneficiaries (FY 2001/02 – FY 2007/08)

(Rs million)

Programme	Disbursement/ beneficiaries	FY 2001/02	FY 2002/03	FY 2003/04	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08
Zakat	Amount disbursed (million Rs)	5254	8009	5330	3692	4520 ®	4612	4088
	Total beneficiaries (000)	1710	1754	1639	1370	2373 ®	2494	2007
Pakistan Bait- ul-Mal (all programmes)*	Amount disbursed (million Rs)	-	-	3159	3270	3838	3911®	5521
	Total beneficiaries (000)	-	-	1614	1671	3130	1460 ®	2129
Micro-credit**	Amount disbursed (million Rs)	1049	2518	3034	5431	6655	9947	13138®
	Total beneficiaries (000)	100	216	286	470	606	906	1154
EOBI	Amount disbursed (million Rs)	1366	1592	1742	1929	2899 ®	3446®	4227
	Total beneficiaries (000)	NA	108	115	121	281 ®	260®	273
All Programmes	Amount disbursed (million Rs)	7669	12119	13265	14322	17912 ®	21916®	26974
	Total beneficiaries (000)	1810	2078	3654	3632	6390 ®	5120®	5563

Source: For *Zakat*: Ministry of Religious Affairs, *Zakat* and *Ushr*, for Pakistan *Bait-ul-Mal*: Ministry of Social Welfare and Special Education, for EOBI: Employees Old Age Benefits Institution, Head Office Karachi.

* Includes Food Support Programme as given in budgetary expenditure

**Comprise of ZTBL (up till FY 2005/06 only), Pakistan Poverty Alleviation Fund (PPAF) and *Khushali* Bank.

® indicates revised figures for the given year.

Table 1a: Direct Transfers and Beneficiaries (FY 2006/07 – FY 2007/08)
(Rs million)

Programme	Disbursement/beneficiaries	FY 2006/07	FY 2007/08
Zakat	Amount disbursed (Rs million)	4,612	4,088
	Total beneficiaries (000)	2,494	2,007
Pakistan Bait-ul-Mal (All programmes)*	Amount disbursed (Rs million)	3,911®	5,521
	Total beneficiaries (000)	1,460 ®	2,129
Micro-credit**	Amount disbursed (Rs million)	9,947	13,138
	Total beneficiaries (000)	906	1,154
EOBI	Amount disbursed (Rs million)	3,446®	4,227
	Total beneficiaries (000)	260®	273
All Programmes	Amount disbursed (Rs million)	21916®	26974
	Total beneficiaries (000)	5120®	5563

Source: For *Zakat* - Ministry of Religious Affairs, *Zakat* and *Ushr*; for *Pakistan Bait-ul-Mal* - Ministry of Social Welfare and Special Education; and for *EOBI* - Employees' Old Age Benefits Institution, Head Office Karachi.

* Includes Food Support Programme as given in budgetary expenditure.e

**Comprises of Pakistan Poverty Alleviation Fund (PPAF) and *Khushali* Bank.

® indicates revised figures for the given year.

Table 1b: Micro-credit Disbursement

		FY 2006/07	FY 2007/08
PPAF	Amount disbursed (Rs million)	6228	9075®
	No of districts	85	84
	No of male beneficiaries (000)	302	414
	No of female beneficiaries (000)	267	375
	Total beneficiaries (000)	569	789
Khushhali Bank	Amount disbursed (Rs million)	3719	4063
	No of male beneficiaries (000)	286	306
	No of female beneficiaries (000)	51	59
	Total beneficiaries (000)	337	365
Micro-credit	Total micro-credit (Rs million)	9947	13138®
	Total male beneficiaries (000)	588	720
	Total female beneficiaries (000)	318	434
	Total beneficiaries (000)	906	1154

Source: Pakistan Poverty Alleviation Fund and Khushhali Bank.

Table 1c: Programmes of Pakistan Bait-ul-Mal

Programme	FY 2006/07		FY 2007/08	
	Households	Amount disbursed (million Rs)	Households	Amount disbursed (million Rs)
Food Support Programme*	1,060,383®	3,181®	1,456,886	4,371
Individual Financial Assistance	20,202	382	43,310	754
National Centres for Rehabilitation of Child Labour	121,284®	203®	116,293	244
Vocational Training Centres	63,648®	94®	57,318	102
Institutional Rehabilitation (Grant-In-Aid to NGOs)	193,991®	50®	442,197	39
Child Support Programme	660 ®	1®	13,273	11
Total Disbursement Under All Programmes	1,460,168®	3,911®	2,129,277	5,521

Source: Ministry of Social Welfare and Special Education.

* Food Support Programme is included in PRSP budgetary expenditures also.

® indicates revised figures for the given year.

Table 1d: Zakat Disbursement - Comparison between FY 2006/07 and FY 2007/08 (Rs million)

	FY 2006/07	FY 2007/08
Regular <i>Zakat</i> programmes (Rs million)	3,284	2,765
Total beneficiaries (Rs thousand)	1,713	1,369
Other <i>Zakat</i> programmes (Rs thousand)	964	916
Total beneficiaries (Rs thousand)	463	420
National Level Schemes (Rs thousand)	364	407
Total beneficiaries (Rs thousand)	318	217
Grand Total Amount Disbursed (Rs Million)	4,612	4,088
Grand Total Beneficiaries (Rs Thousand):	2,494	2,007

Source: Ministry of Religious Affairs, *Zakat* and *Ushr*.