

POVERTY REDUCTION STRATEGY PAPER:

**MID YEAR PROGRESS REPORT
(July-December)
FY 2008/09**

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

List of Acronyms

AJ&K	Azad Jammu & Kashmir	KPF	Khushal Pakistan Fund
BCC	Behaviour Change Communication	KPP	Khushal Pakistan Programme
BHU	Basic Health Units	LFS	Labour Force Survey
BISP	Benazir Income Support Programme	LHWs	Lady Health Workers
CAMELS	Capital adequacy, Assets quality, Management quality, Earnings and Liquidity and Sensitivity to market risk	LSM	Large Scale Manufacturing
CAR	Capital Adequacy Ratio	MCH	Maternal and Child Health
CDA	Capital Development Authority	MDGs	Millennium Development Goals
CFIs	Commercial Financial Institutions	MIS	Management Information System
CPI	Consumer Price Index	MNH	Maternal and Newborn Health
CWIQ	Core Welfare Indicators Questionnaire	MSP	Macroeconomic Stabilization Programme
DOT	Directly Observed Treatment	M&E	Monitoring and Evaluation
DPT	Diphtheria Pertusis Tetanus	NCRCL	National Centre for Rehabilitation of Child Labour
EmONC	Emergency Obstetrical and Neonatal Care	NEAS	National Education Assessment System
EOBI	Employees Old Age Benefit Institution	NEC	National Education Census
FANA	Federally Administered Northern Areas	NEP	National Education Policy
FATA	Federally Administered Tribal Areas	NER	Net Enrolment Rate
FBS	Federal Bureau of Statistics	NGO	Non-Governmental Organization
FRDLA	Fiscal Responsibility and Debt Limitation Act	NPLs	Non Performing Loans
FSP	Food Support Programme	NWFP	North Western Frontier Province
GER	Gross Enrolment Rate	PBM	Pakistan Bait-ul-Mal
GIS	Geographical Information System	PIFRA	Project for Improvement of Financial Reporting and Auditing
HIES	Household Integrated Economic Survey	PIHS	Pakistan Integrated Household Survey
ICT	Islamabad Capital Territory	PPAF	Pakistan Poverty Alleviation Fund
IFA	Individual Finance Assistance	PSDP	Public Sector Development Programme
IMNCI	Integrated Management of Neonatal and Childhood Illnesses	PSLM	Pakistan Social and Living Standards Measurement Survey
KB	Khushali Bank	RHC	Rural Health Centers
		ROA	Return on Assets
		RWA	Risk Weighted Assets
		VAT	Value Added Tax

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1 Introduction

1.1 This Quarterly Progress Report provides a framework for the systematic review of the poverty reduction programmes and projects implementation and their impacts on the socio-economic development of the country for the quarter. In order to measure the progress attained by using data and information related to intermediate indicators from the MIS' of sectoral agencies, the government has been continuously monitoring the progress of the Poverty Reduction Strategy. This report, therefore, is the second in the series of quarterly reports since finalization of Poverty Reduction Strategy Paper (PRSP)-II, and presents a mid year progress review of the poverty reduction strategy. However, due to the absence of data on intermediate indicators in Education sector, the progress made in this respect has been difficult to report. Efforts will be made to include the same in the reports in future.

1.2 The report has been organized into 6 sections. It begins with the introduction of the report followed by Section 2 that presents an assessment of the economy and examines performance of major sectors of the economy in addition to the initiatives taken by the government under the Macroeconomic Stabilization Programme. Section 3 highlights the government's efforts to mobilize revenue and prioritize public expenditure management in support of the pro-poor spending. Section 4 focuses on people living in poverty and are extremely vulnerable to crises and provides detailed discussion of direct transfers under a comprehensive Social safety nets programme to help people through inflationary pressures and calamities. Section 5 reviews performance in the social sector, particularly in education, health and financial sector followed by concluding remarks to the report.

2 Trends in Macroeconomic Indicators

2.1 Since fiscal year 2007/08, Pakistan economy is facing deterioration on the back of rising inflation, high food and commodity prices, acute power and water shortages, decelerating growth in agriculture, manufacturing, and services sectors, a sharp increase in interest rates, widening current account deficit and a volatile capital market.

2.2 The Macroeconomic Stabilization Programme (MSP) of the government aimed at reversal of the situation to promote a stable macroeconomic environment generated visible signs of recovery in the first half of FY 2008/09. Evident improvements in fiscal and current account deficits, stabilization of exchange rate stemming depreciation which was at 16-18 percent in the previous months, modest recovery in inflation, and a rebuild of foreign exchange reserves are some manifestation of progress. A brief review of the key macroeconomic indicators during the first half of the current FY 2008/09 is given below:

2.1 Agriculture

2.3 The agriculture sector is continuously facing issues related to resource management e.g. water shortage, rising input prices and crop pricing. Therefore, water intensive Kharif crops like sugarcane and maize fell short of the target and depicted negative growth of 18.5 and 7.5 percent, respectively in FY 2008/09 as against the production in FY 2007/08 (Table 2.1). In contrast, two other major crops, cotton and rice have registered positive growth of 7.3 and 13.5 percent, respectively. The Rabi season also witnessed some water shortages; however, almost all Rabi crops depicted positive growth. Wheat with its 12.7 percent weight in overall agriculture is expected to post 15.7 percent growth over the last year's production. Fertilizer usage of both Urea and Di-Ammonium Phosphate (DAP) decreased by almost 6 percent during the first half of FY 2008/09, showing weak demand due to higher prices. Despite issues related to water shortage and pricing, the crop sub sector is projected to surpass the growth target of 2.6 percent for FY 2008/09. The livestock sub sector also witnessed growth at its normal pace during the first half of FY 2008/09. With this positive growth trend in the two major sub sectors, the target of 3.3 percent growth for Agriculture sector in FY 2008/09 is expected to be achieved.

	Share in Agriculture	FY 2007/08	FY 2008/09	% Change
Kharif Crops Production in (000 Tonnes)				
Cotton	7.48	11.6	12.1	7.3
Sugarcane	4.55	63.9	52.1	-18.5
Rice	5.47	5.6	6.5	13.5
Maize	1.63	3.6	3.33	-7.5
Rabi Crops Production in (000 Tonnes)				
Wheat	12.68	21.6	25	15.7
Gram	1.19	0.475	0.65	36.2

Source: Economic Adviser's Wing, Finance Division, 2009.

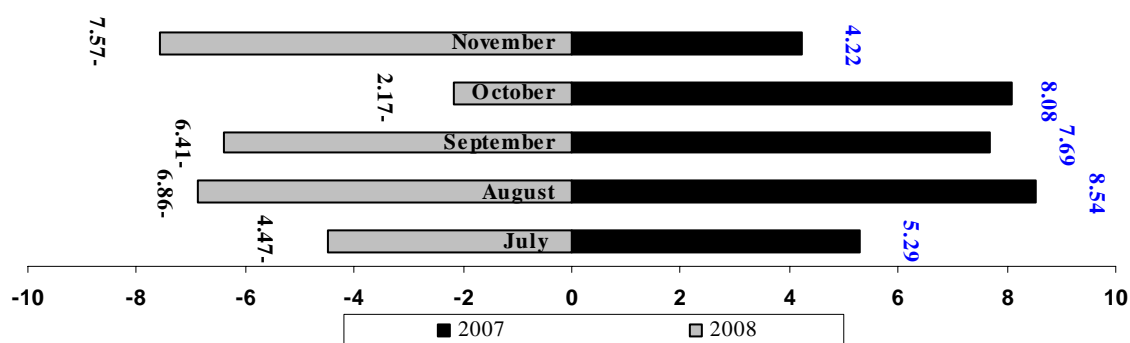
2.2 Industry

2.4 Large scale manufacturing registered a negative growth of 5.6 percent in the first half of FY 2008/09 as against reasonable growth of 6.9 percent in the comparable period last year (Figure 2.1). The growth deceleration in large scale manufacturing sector is mainly due to moderation in domestic demand, on the one hand and capacity and input constraints e.g. acute power shortages, on the other.

2.3 Services

2.5 Services sector, while maintaining the past trend of several years, exhibited robust growth in the first of half of FY 2008/09. Foreign direct investment (FDI) has reached US\$ 2327 million during July-December 2008 as against US\$ 2066 million in the comparable period last year, thereby registering an increase of 12.6 percent. If privatization proceeds of US\$ 133 million received in the same period last year are excluded, then FDI inflows witnessed an increase of 20.4 percent. The FDI inflows in telecommunications, financial businesses and personal services are up by 6.7; 75.3; and 3.0 percent, respectively in the first half (July-December) of the current fiscal year. The growth patterns of other sub sectors like wholesale and retail trade points towards reasonable growth in the services sector.

Figure 2.1: Growth rate of Large Scale Manufacturing during July–December, FY 2007 & FY 2008



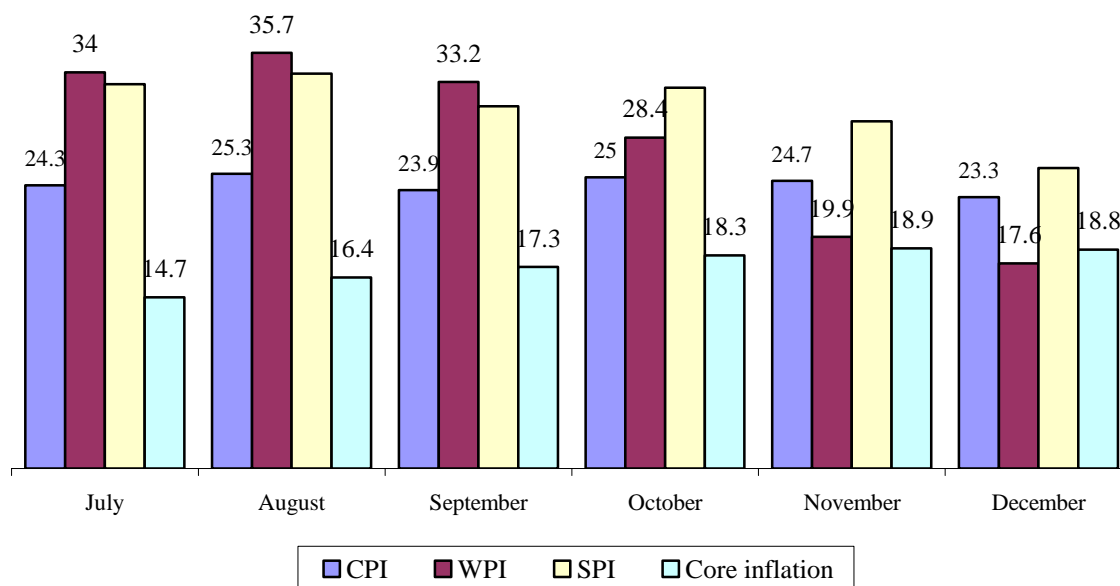
Source: Economic Adviser's Wing, Finance Division.

2.4 Inflation

2.6 Inflation rate as measured by the changes in Consumer Price Index (CPI) stood at 24.4 percent during the period July-December 2008 as against 8.0 percent in the same period last year. Food inflation is estimated at 31.2 percent while non-food inflation 19.2 percent, against 11.6 and 5.4 percent in the corresponding period last year. Despite recent downward trends, food inflation is still quite high due to increase in prices of edible oil, pulses, rice, milk, sugar, poultry, meat, wheat, wheat flour, fresh vegetables and fruits. Non-food inflation also remained high because of increase in petroleum and electricity prices. On current trends, it is expected that the average inflation for FY 2008/09 as measured by CPI will remain close to 20 percent. Month-wise trends

of CPI, Wholesale Price Index (WPI)¹, Sensitive Price Indicator (SPI)², and Core inflation are shown in Figure 2.2. Core inflation, which represents the rate of increase in cost of goods and services excluding food and energy prices, recorded an increase from 5.7 to 18.4 percent in this period. The WPI during the first half of FY 2008/09 increased by 28.0 percent, as against 10.3 percent last year reflecting a marked downward improvement in December 2008. Since August 2008, a significant deceleration in WPI inflation was witnessed. The SPI also recorded an increase of 26.7 percent during this period as against 11.0 percent in the same period last year.

Figure 2.2: Inflation Rate during July-December, 2008



Source: Economic Adviser's Wing, Finance Division.

2.5 Fiscal Balance

2.7 To accomplish the aim of the government's MSP stringent measures have been taken to check the ever widening fiscal deficit. The government is determined to adhere to the fiscal deficit target of 4.2 percent for FY 2008/09 while during the first half the fiscal deficit lingered around 1.9 percent of the projected GDP for FY 2008/09 and is consistent with annual fiscal deficit target of 4.2 percent. Major reasons for fiscal improvement in the first half were due to reduction in oil subsidies and a downward revision in development spending.

	Target	July-December		Change
	FY 2008/09	2007	2008	in %
Direct Taxes	496	164.6	210.3	27.8
Indirect Taxes	754	270.5	342.8	26.8
Sales Tax	472	169.3	217.2	28.3

¹ Wholesale Price Index (WPI) is the price of a representative basket of wholesale goods.

² SPI is computed to assess the price movement of essential commodities at short interval of time to review the price situation in the country.

Federal excise	112	39.5	52.9	32.5
Customs	170	61.6	72.8	18
Total Net Collection	1250	435.1	552.5	27

Source: Federal Bureau of Revenue, Government of Pakistan, 2008.

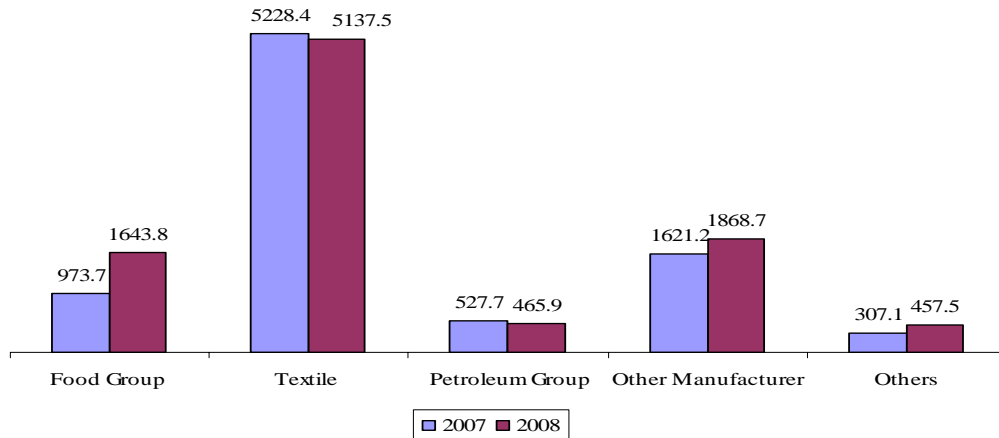
2.8 Tax Revenue collected by the Federal Board of Revenue (FBR) stood at Rs. 552.5 billion (net) during the first six months (July-December) of the current fiscal year (FY 2008/09) as compared to Rs 435.1 billion in July-December, 2007 registering a healthy increase of 27.0 percent. Direct taxes, which account for 38.1 percent of total tax collection of the FBR, have registered a growth of 27.8 percent i.e., Rs 45.7 billion more than during the same period last year. Indirect taxes, exhibited impressive growth of 26.8 percent i.e. Rs 71.7 billion more than during the same period last year (see table 2.2 for details). The FBR has so far achieved 95 percent of the revised target in the period.

2.6 Trade Balance

2.9 Exports grew by 10.6 percent during first half of FY 2008/09 and stood at US\$ 9.6 billion as against US\$ 8.7 billion in the corresponding period last year. Export growth of 10.6 percent can be regarded as a good performance in prevailing difficult international and domestic environment (see figure 2.3). Textile industry, which has remained the major driver of the export growth registered negative growth at 1.7 percent during July-December, 2008. Exports in Food and Other Manufacturer posted healthy trend on the back of strong performance in sub-groups like chemicals and pharmaceutical (31.5 percent), engineering goods (89.4 percent), and cement (91.7 percent). Export of petroleum products declined by 11.7 percent in the first half of FY 2008/09 as compared to the same period of FY 2007/08, on the back of a decrease in global petroleum prices.

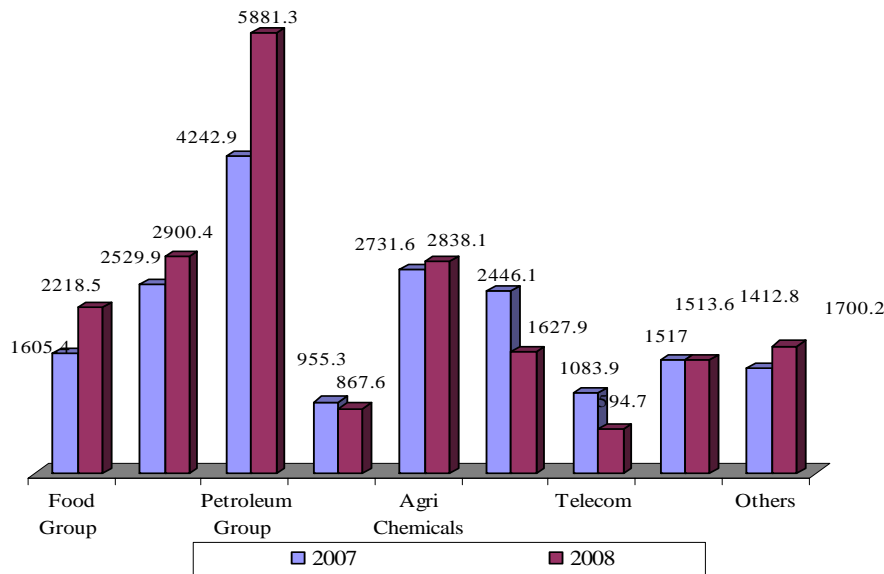
2.10 Imports reached to US\$ 19.1 billion as against US\$ 17.0 billion in the comparable period last year thereby depicting a growth of 12.9 percent (see figure 2.4). Despite the recent decrease in the prices of crude oil in the international markets, petroleum is still driving tremendous rise in the import growth and accounted for 75 percent of additional import bill during the first half of FY 2008/09. Non-food and non-oil imports showed negative growth of 0.6 percent which implies drastic import compression due to contraction in domestic demand. Substantial increase of 12.9 percent in imports outstripped export growth of 10.6 percent and trade deficit grew by 15.3 percent during July-December, 2008.

Figure 2.3: Structure of Exports July-December 2007 & 2008 (in US\$ Million)



Source: Economic Adviser's Wing, Finance Division.

Figure 2.4: Structure of Imports July-December 2007 & 2008 (in US\$ Million)



Source: Economic Adviser's Wing, Finance Division.

2.7 Current Account Balance

2.11 Pakistan's current account deficit increased by 20.1 percent during July-December 2008. Current account deficit widened to US\$ 7.3 billion as against US\$ 6.1 billion last year. Drastic reduction in import growth as well as better performance of the private inflows is contributing to improvement in the current account deficit. Workers' remittances totaled US\$ 3.6 billion in July-December 2008 as against US\$ 3.1 billion in the comparable period last year, depicting an increase of 18.7 percent.

2.12 Analyses of key macroeconomic indicators suggest that Pakistan is showing modest signs of recovery. For the FY 2008/09, Pakistan needs concrete efforts to meet the gigantic gaps of its

twin deficits of budget and current account. The worsening outlook for the global economy and dearth in international capital markets mean that Pakistan's economic revival strategy must focus on fostering domestic and regional demand. The government has accelerated its efforts to generate resources for the much needed stabilization of the economy by adopting key reforms in revenue collection, such as the integration of income tax and sales tax departments and replacement of the current general sales tax with a broad-based Value Added Tax (VAT). The government has also adopted stringent measures to shield the poor against rising inflation and the subsequently eroding purchasing power through Benazir Income Support Programme (BISP) at the federal level and Food Support Programmes in Punjab and North Western Frontier Province (NWFP), to provide targeted relief to the poor households.

3 Pro-Poor Budgetary Expenditures

3.1 Table 3.1 illustrates a comparison of PRSP budgetary expenditures incurred in 17 pro-poor sectors between mid FY 2007/08 and mid FY 2008/09. As mentioned in the first PRSP Quarterly Progress Report, the 17 sectors have been revisited for the PRSP-II period. In FY 2007/08 only expenditures for Q2 were tracked, therefore, a comparison of figures was not possible in the Q1 FY 2008/09 PRSP Progress Report. However, during Q2 FY 2008/09 an attempt has been made to fit last year's expenditures into the new categories as appropriate for purposes of comparison. A detailed list of 17 pro-poor sectors tracked during the PRSP-I period is placed at Annex III.

Sectors	Expenditures up to second quarter (Rs million)		Percentage Change
	FY 2007/08	FY 2008/09	
Roads, highways & bridges	46275	22343	-51.72
Water supply & sanitation	5248	6495	23.76
Education	85504	83949	-1.82
Health	23355	26819	14.83
Population planning	5110	2238	-56.20
Agriculture ³	49226	31135	-36.75
Land Reclamation	1096	1011	-7.76
Rural Development	14711	2119	-85.60
Subsidies ⁴	1361	118713	8622.48
Social Security & Welfare	4116	9541	131.80
Food Support Programme	3748	3429	-8.51
Natural Calamities	3022	2553	-15.52
Low Cost Housing	544	106	-80.51
Justice Administration	2674	4020	50.34
Law & Order ⁵	38111	42175	10.66
Peoples' Works Programme-I ⁶	1420	407	-71.34
Peoples' Works Programme-II ⁷	1975	15183	668.76
Total	287496	372236	29.48

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

3.2 Total expenditure incurred in pro-poor budgetary sectors up till the second quarter of FY 2008/09 amounted to Rs 372,236 million marking an increase of 29.48 percent compared to the

³ In FY 2007/08, the sector solely included Irrigation, whereas expenditure tracked up till the Second Quarter of FY 2008/09 also includes fisheries, forestry & livestock.

⁴ Only food subsidies were tracked up till FY 2007/08, whereas the PRSP-II period incorporates all subsidies including financial & fiscal affairs; and commercial affairs in addition to food.

⁵ Expenditures in the Second Quarters of FY 2007/08 and FY 2008/09 include both current and development.

⁶ Expenditure was incurred under the *Khushal* Pakistan Fund during FY 2007/08.

⁷ In FY 2007/08 the sector included Rural Electrification only, while FY 2008/09 onwards includes schemes in the area of electricity, gas, water supply & sanitation and roads.

same period during FY 2007/08. The largest increase in PRSP budgetary expenditures during the first half of FY 2008/09 over the same period in FY 2007/08 was witnessed in subsidies (8622.48 percent), with the total amount incurred in this sector during the period being Rs 118,713 million. However, it is difficult to determine the exact comparison between subsidies during the two years since, in contrast to last year, this sector now encompasses all subsidies including financial & fiscal affairs; and commercial affairs in addition to food items during FY 2008/09 and beyond. The second and third highest expenditure incurred during the first half of FY 2008/09 was in Peoples' Works Programme-II (668.76 percent) and social security & welfare (131.80) with Rs 15,183 million and Rs 9,541 million spent in these sectors, respectively.

3.3 During the same period, expenditures incurred in water supply & sanitation; health; and law & order increased by 23.76; 14.83; and 10.66 percent, respectively amounting to Rs 6,495; 26,819; and 42,175 million during the first half of FY 2008/09, respectively.

3.4 Sectors, which observed a large decline in expenditures during the first half of FY 2008/09 over the same period in FY 2007/08, include rural development (85.60 percent); low cost housing (76.47 percent); Peoples' Works Programme-I (71.34 percent); population planning (56.20 percent); and roads, highways & bridges (51.72 percent). Surprisingly, expenditure in agriculture during the first half of FY 2008/09 decreased by 36.75 percent despite containing more sub categories including fisheries, forestry & livestock compared to last year, which only tracked irrigation. Marginal decreases in expenditure were witnessed in the sectors of natural calamities (15.52 percent); Food Support Programme (8.51 percent);⁸ land reclamation (7.76 percent); and education (1.82 percent), respectively.

Sectors	Up to Second Quarter FY 2007/08 (Rs million)		Up to Second Quarter FY 2008/09 (Rs million)	
	Expenditures	Proportion/percent of total expenditure	Expenditures	Proportion/percent of total expenditure
Roads, highways & bridges	46275	16.10	22343	6.00
Water supply & sanitation	5248	1.83	6495	1.74
Education	85504	29.74	83949	22.55
Health	23355	8.12	26819	7.20
Population planning	5110	1.78	2238	0.60
Agriculture	49226	17.12	31135	8.36
Land Reclamation	1096	0.38	1011	0.27

⁸ Once again, this comparison with last year's expenditure needs to be analysed cautiously due to the same reason given for subsidies given in para 3.2. While previous practice regarding the latter sector involved solely tracking the Food Support Programme of Pakistan *Bait-ul-Mal*, as of FY 2008/09 this sector incorporates province specific programmes in NWFP (figure currently unavailable; will be incorporated in PRSP Annual Progress Report for FY 2008/09) and Punjab.

Rural Development	14711	5.12	2119	0.57
Subsidies	1361	0.47	118713	31.89
Social Security & Welfare	4116	1.43	9541	2.56
Food Support Programme	3748	1.30	3429	0.92
Natural Calamities	3022	1.05	2553	0.69
Low Cost Housing	544	0.19	106	0.03
Justice Administration	2674	0.93	4020	1.08
Law & Order	38111	13.26	42175	11.33
Peoples' Works Programme-I	1420	0.49	407	0.11
People Works Programme-II	1975	0.69	15183	4.08
Total	287496	100	372236	100

Source: PRSP Secretariat, Finance Division, Islamabad.

3.5 Table 3.2 above depicts that the largest proportion of PRSP budgetary expenditures relative to total expenditure during the year was in subsidies (31.89 percent) followed by education (22.55 percent) compared to last year's trend during which the highest expenditure was incurred in education (29.74 percent) followed by irrigation/agriculture (17.12 percent). However, as mentioned above overall spending in education decreased marginally by 1.82 percent during the first half of FY 2008/09 relative to last year (Table 3.1). Up till Q2 FY 2008/09 agriculture only made up 8.36 percent of the total expenditure reflecting the current decline in agricultural growth mentioned in section 2. Health expenditure as a percentage of total PRSP budgetary expenditures in the first half of FY 2008/09 was 7.20 as opposed to 8.12 percent in FY 2007/08 during the same period.

Table 3.3: Total Current and Development PRSP Expenditure up to Q 2 (FY 2007/08 – FY 2008/09)			
Fiscal Year Q 2	PRSP Expenditures (Rs Million)		
	Current	Development	Total
FY 2007/08	148,153	139,343	287,496
FY 2008/09	295,852	76,384	372,236

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

3.6 While comparing trends in current and development expenditures during the years under discussion it can be seen that current expenditure increased by 49.92 percent during the first half of FY 2008/09 whereas development spending decreased by 82.42 percent. The decrease in development expenditure can be accounted for mainly due to a huge drop in development spending in the roads, highways and bridges sector, from Rs 43,294 million in the first half of FY 2007/08 to Rs 18,948 million during the same period in FY 2008/09. Current expenditure in this sector remained more or less constant, from Rs 2,981 million to Rs 3,395 million during the same periods of FY 2007/08 and FY 2008/09, respectively.

3.7 A huge increase in current expenditure during the first half of FY 2008/09 can be credited to the subsidies sector amounting to Rs 118,713 million, which encompasses more than just food subsidies relative to last year in which the total figure was Rs 1,361 million. After subsidies, the

highest current expenditure incurred in the first half of FY 2008/09 was in education totaling Rs 77,959 million; followed by law & order i.e. Rs 41,822 million. In contrast, the roads, highways & bridges sector incurred the highest development expenditure totaling Rs 18,948 million, followed by agriculture (Rs 17,258 million); and Peoples' Works Programme-II (Rs 15,183 million).

3.1 PRSP Budgetary Expenditures by Province and Sectors

3.8 Percentage change in PRSP budgetary expenditures made by the Federal Government and provinces between the first halves of FY 2008/09 and FY 2007/08 is given in Table 3.4. There was an increase of 122.42 percent in pro-poor budgetary expenditure incurred at the federal level. Largest proportion of PRSP budgetary expenditures in the provinces were made by NWFP (7.88 percent), whereas Punjab, Sindh and Balochistan recorded a decrease of 13.16; 6.94 and 6.01 percent, respectively.

Sectors	Federal	Punjab	Sindh	NWFP	Balochistan	Pakistan
Roads, Highways & Bridges	80.69	-65.01	-17.81	-37.68	-2.15	-51.72
Water Supply & Sanitation	-12.79	155.34	-33.42	-16.49	17.39	23.76
Education	-45.34	15.62	-2.70	26.70	-12.77	-1.82
Health	-7.18	6.92	16.29	110.52	-8.75	14.83
Population Planning	-34.97	-65.06	-73.20	-84.06	-48.70	-56.20
Agriculture	-63.38	113.82	-22.46	49.64	18.64	-36.75
Land Reclamation	0.00	22.39	-9.72	0.00	0.00	-7.76
Rural Development	-88.32	-91.58	1.49	-84.60	-62.69	-85.60
Subsidies	12351.02	366.48	-60.00	882.00	0.00	8622.48
Social Security & Welfare	1859.05	-55.88	11.78	-14.56	6.32	131.80
Food Support Programme	993.09	-32.51	-100.00	-100.00	-100.00	-8.51
Natural Calamities	-74.32	11.52	-98.13	7.96	443.06	-15.52
Low Cost Housing	0.00	-80.51	0.00	0	0	-80.51
Justice Administration	7.54	95.00	20.22	60.92	9.00	50.34
Law & Order	15.63	11.94	8.78	19.93	-20.46	10.66
Peoples' Works Programme-I	-71.34	0	0	0	0	-71.34
People Works Programme-II	668.76	0	0	0	0	668.76
Total	122.42	-13.16	-6.94	7.88	-6.01	29.48

Source: PRSP Secretariat, Finance Division, Islamabad.

3.9 The most prominent increase in expenditure during the first half of FY 2008/09 over the same period in FY 2007/08 was witnessed in the subsidies sector at the federal level, as well as, in Punjab and NWFP. An increase of 20.22 percent under justice administration was incurred in Sindh, while the largest percentage increase in expenditure in Balochistan was in natural calamities. As mentioned above, hugely visible increases in subsidies are a result of incorporation of additional categories in the sector. As for a considerably huge increase in Balochistan's

expenditure in natural calamities, this was mainly due to the major earthquake that devastated the region in FY 2007/08.

3.2 PRSP Expenditures in Sub Sector of Education

3.10 During the first half of FY 2008/09 education expenditure decreased by 1.82 percent to Rs 83,949 million over the same period in FY 2007/08 (Table 3.5). Overall increase in education sector expenditure was observed in NWFP (26.70 percent) and Punjab (15.62 percent), whereas there was a decrease at the federal level, Balochistan and Sindh by 45.34; 12.77; and 2.70 percent, respectively.

Province/ Region	All Sectors of Education	Primary Education	Secondary Education	University /College Education	Professional /Tech Universities	Teacher & Vocational Training	Others
Federal	-45.34	15.95	9.55	-57.20	-48.98	-35.29	-47.51
Punjab	15.62	5.26	18.93	16.07	37.02	-	21.63
Sindh	-2.70	8.54	-1.16	14.62	-32.46	33.33	-35.80
NWFP	26.70	27.61	16.12	60.63	24.55	-	156.70
Balochistan	-12.77	-14.35	-11.91	15.04	24.39	5.97	-29.18
Pakistan	-1.82	8.71	11.00	-33.99	-20.56	606.49	-7.07

Source: PRSP Secretariat, Finance Division, Islamabad.

3.11 Despite an overall decrease in education expenditure at the federal level during the first half of FY 2008/09, there was a positive increase in primary (15.95 percent) and secondary (9.55 percent) spending. The highest increase in education expenditures was incurred in the sub sectors of others/administration/miscellaneous in NWFP (156.70 percent); in professional/technical universities in Punjab (37.02 percent); in teacher & vocational training in Sindh (33.33 percent) and Balochistan (24.39 percent).

Province/ Region	All Sectors of Education	Primary Education	Secondary Education	University /College Education	Professional /Tech Universities	Teacher & Vocational Training	Others
Q2 FY 2007/08							
Federal	100.00	5.78	8.16	62.17	10.02	0.17	13.70
Punjab	100.00	51.04	23.89	7.75	1.59	0.00	15.73
Sindh	100.00	38.85	30.33	9.44	7.97	0.50	12.90
NWFP	100.00	41.85	43.64	5.93	6.77	0.00	1.81
Balochistan	100.00	35.78	30.03	6.61	4.41	1.80	21.37
Pakistan	100.00	36.44	24.28	20.31	5.55	0.22	13.21
Q2 FY 2008/09							
Federal	100.00	12.26	16.35	48.68	9.35	0.20	13.16
Punjab	100.00	46.47	24.58	7.78	1.88	2.74	16.55

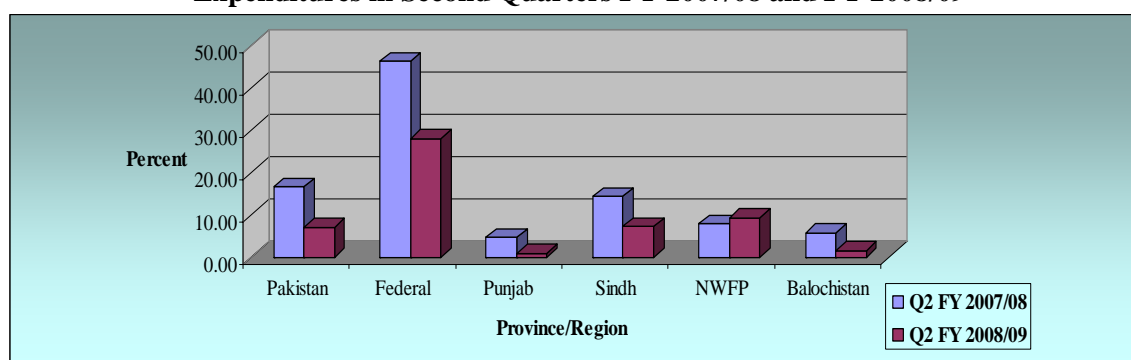
Sindh	100.00	43.33	30.81	11.12	5.53	0.69	8.51
NWFP	100.00	42.15	40.00	7.52	6.66	0.01	3.67
Balochistan	100.00	35.13	30.32	8.72	6.29	2.19	17.35
Pakistan	100.00	40.35	27.45	13.65	4.49	1.56	12.51

Source: PRSP Secretariat, Finance Division, Islamabad.

3.12 Table 3.6 shows that during the first half of FY 2008/09, the largest proportion of education expenditures at the federal level was spent in the university/college education sub sector (48.68 percent), followed by secondary education (16.35 percent). The case was different in the provinces, in which all followed the usual pattern (with the exception of NWFP last year in which the pattern was reversed of spending the largest proportion of education expenditures in the primary sub sector (41.77 percent on average) followed by the second largest proportion of education expenditures being expended in the secondary sub sector. The proportion of expenditure in secondary education as a percentage of the total expense incurred in education in NWFP stood at 40 percent; at roughly 30 percent in both Balochistan and Sindh; and at 24.58 percent in Punjab.

3.13 The minimum proportion of total education expenditure during the first half of FY 2008/09 was incurred in the sub sectors of professional/technical universities in Punjab (1.88 percent); and teacher & vocational training in Balochistan, Sindh and NWFP (2.19, 0.69 and 0.01 percent, respectively). Minimum expenditure at the federal level during the same period was also incurred in teacher & vocational training (0.20 percent), followed by professional/technical universities (9.35 percent). In comparison with FY 2007/08, the least expenditure was incurred in teacher & vocational training at both the federal and provincial levels, highlighting a gap in this sub sector.

Figure 3.1: Education Development Expenditure as Percentage of Total Education Expenditures in Second Quarters FY 2007/08 and FY 2008/09



Source: PRSP Secretariat, Finance Division, Islamabad.

3.14 Figure 3.1 shows that overall education development expenditure as of percentage of total education expenditure decreased by 9.49 percentage points from 16.63 percent during the first half of FY 2007/08 to 7.14 percent during the same period in FY 2008/09. During the first half of FY 2008/09 compared to the same period in the previous year, proportion of education

development expenditure as percentage of total education expenditure decreased by 18.25 percentage points to 28.03 percent at the federal level; by 3.66 percentage points to 1.12 percent in Punjab; 7.08 percentage points to 7.31 percent in Sindh; and 4.34 percentage points to 1.60 percent in Balochistan. The only province that witnessed an increase (1.59 percentage points) in the proportion of development expenditure in education over the total amount spent was NWFP having incurred 9.49 percent of development expenditure. Total development expenditure incurred during the first half of FY 2008/09 was Rs 5,990 million out of the total amount spent on education, which was Rs 83,949 million. The largest proportion of development expenditure in education compared to all provinces was spent in NWFP amounting to Rs 1,287 million.

3.3 PRSP Expenditures in Sub Sector of Health

3.15 Table 3.7 reflects an increase of 14.83 percent in health expenditure, i.e. to Rs 26,819 million during the first half of FY 2008/09. During the same period a tremendous increase in overall health expenditure was recorded in NWFP (110.52 percent) over last year. Whereas, health expenditure in Sindh and Punjab also increased by 16.29 and 6.92 percent, respectively, there was a decrease of 8.75 percent in spending in Balochistan and 7.18 percent at the federal level.

Province/ Region	All Sectors of Health	General Hospitals & Clinics	Mother & Child Health	Health Facilities & Preventive Measures	Others
Federal	-7.18	-8.05	200.00	-3.52	-36.93
Punjab	6.92	7.56	-2.13	0.00	3.87
Sindh	16.29	7.61	-96.63	720.31	35.88
NWFP	110.52	46.58	14.29	165.63	353.88
Balochistan	-8.75	-2.22	685.71	-14.94	-23.39
Pakistan	14.83	9.96	-55.93	12.44	23.01

Source: PRSP Secretariat, Finance Division, Islamabad.

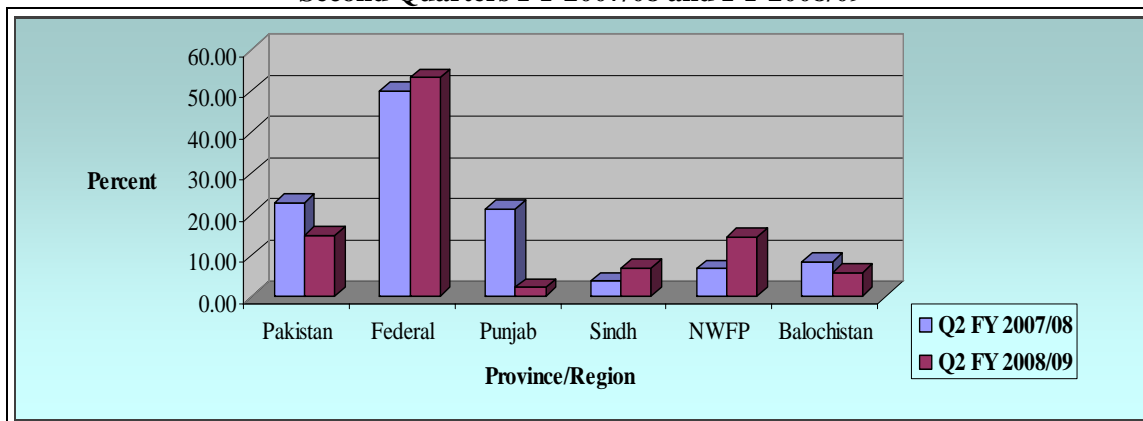
3.16 In terms of sub sectors, the largest increase in expenditure was conspicuously witnessed in mother & child health at the federal level (200.00 percent) and in Balochistan (685.71 percent). A huge increase in expenditure was incurred by Sindh in health facilities & preventive measures (720.31 percent) during the first half of FY 2008/09 relative to the same period in FY 2007/08 as compared to a marginal increase in Punjab (7.56 percent) in the sector of general hospitals.

Table 3.8: Percentage distribution of health expenditures in Q2 FY 2007/08 and Q2 FY 2008/09 by province and sectors of health					
Province/Region	All Sectors of Health	General Hospitals & Clinics	Mother & Child Health	Health Facilities & Preventive Measures	Others
Q2 FY 2007/08					
Federal	100.00	42.42	0.02	52.24	5.33
Punjab	100.00	84.47	0.45	0.81	14.28
Sindh	100.00	83.54	5.15	1.58	9.73
NWFP	100.00	89.44	0.30	1.38	8.88
Balochistan	100.00	40.70	0.63	13.90	44.77
Pakistan	100.00	73.02	1.16	13.49	12.34
Q2 FY 2008/09					
Federal	100.00	42.02	0.06	54.30	3.62
Punjab	100.00	84.96	0.41	0.76	13.87
Sindh	100.00	77.31	0.15	11.17	11.37
NWFP	100.00	62.27	0.16	1.74	19.15
Balochistan	100.00	43.62	5.44	12.96	37.98
Pakistan	100.00	69.42	0.44	13.21	13.39

Source: PRSP Secretariat, Finance Division, Islamabad.

3.17 Following last year's trend, the largest proportion of health expenditure, i.e. 69.42 was made in the sub sector of general hospitals and clinics during the first half of FY 2008/09. Around 13 percent of the proportion of health expenditures was incurred in both health facilities & preventive measures and in other miscellaneous expenses up till the second quarter of FY 2008/09. A negligible proportion of 0.44 percent was spent on mother & child health. The distribution of health expenditure was somewhat similar during the first half of FY 2007/08. The largest proportion of health expenditure was spent on general hospitals & clinics at both the federal and provincial levels.

Figure 3.2: Health Development Expenditure as Percentage of Total Health Expenditures in Second Quarters FY 2007/08 and FY 2008/09



Source: PRSP Secretariat, Finance Division, Islamabad.

3.18 Figure 3.2 shows that health development expenditure decreased slightly by 7.92 percentage points from 22.82 percent during the first half of FY 2007/08 to 14.90 percent of total health expenditure in the first half of FY 2008/09. During the first half of FY 2008/09 there was a considerable drop of 19.10 percentage points in development expenditure on health as a proportion of total health expenditure in Punjab bringing the amount to Rs 245 million or 2.18 percent of the total health expenditure incurred in the province. Proportion of development expenditure compared to the total expenditure in health also decreased by 2.65 percentage points in Balochistan with only 5.84 percent of the total expended in this category. However, on an encouraging note, there was an increase of 3.31 percentage points in health development expenditure at the federal level, amounting to Rs 2,665 million, i.e. 53.28 percent of the total. The provinces of NWFP and Sindh also witnessed an increase of 7.65 and 3.14 percentage points, respectively, having incurred 14.42 and 6.88 percent of the development expenditure spent on health in the respective provinces.

4 Protecting the Poor and the Vulnerable

4.1 This section analyzes direct transfers to the poor and the vulnerable through the programmes, both budgetary and non-budgetary, of *Zakat*, Pakistan *Bait-ul-Mal* (PBM), Micro-credit and Employees' Old Age Benefits Institution (EOBI) during the period under consideration. Comparison has been drawn with performance and impact of the above programmes during the same period FY 2007/08.

4.2 Table 4.1 presents disbursement and number of beneficiaries in all programmes. Total transfers through *Zakat*, PBM and EOBI showed a net decline of 15 percent between 1st halves of FY 2008/09 and FY 2007/08. During 1st half of FY 2008/09, a large proportion of it, about 41 percent was disbursed through EOBI; followed by 37 percent through PBM and 22 percent through *Zakat*. These disbursements were made to 2,345,000 beneficiaries.

Table 4.1: Direct Transfers and Beneficiaries			
Programme	Disbursement/Beneficiaries	Q 2 FY 2007/08	Q 2 FY 2008/09
Budgetary Transfers			
Pakistan <i>Bait-ul-Mal</i> (all Programmes)	Amount disbursed (Rs. million)	4,163	2,441
	Total beneficiaries (000)	1,447	1,242
Non-Budgetary Transfers			
<i>Zakat</i>	Amount disbursed (Rs. million)	1,425	1,420
	Total beneficiaries (000)	989	554
Employees' Old Age Benefits Institution	Amount disbursed (Rs. million)	2,174	2,724
	Total beneficiaries (000)	136	549
All Programmes	Amount disbursed (Rs. million)	7,762	6,585
	Total beneficiaries (000)	2,572	2,345

Source: Ministry of *Zakat* and *Ushr*, Pakistan *Bait-ul-Mal* and Employees' Old Age Benefits Institution.

4.1 *Zakat*

4.3 Table 4.4 illustrates disbursement and beneficiaries of *Zakat* Programmes. The overall disbursement through *Zakat* decreased marginally by 0.2 percent to Rs 1,420 million in the 1st half of FY 2008/09 as compared to Rs 1,423 million in 1st half the previous year. During the same period, number of beneficiaries decreased by 44 percent to 553,604. A total of 50 percent of *Zakat* was disbursed through Regular *Zakat* Programmes whereas 29 percent was channelled through National Level Schemes and 21 percent through Other *Zakat* Programmes.

4.4 Under Regular *Zakat* programme, disbursement declined by 31 percent to Rs 708 million in the 1st half of this year as compared to Rs 1,024 million in the 1st half last year reflecting a decrease of 56 percent in the number of beneficiaries. An amount of Rs 297 million was disbursed among 191,778 beneficiaries marking an increase of 38 percent in disbursement through Other *Zakat* Programmes. There was a substantial increase of 126 percent in

disbursement under National Level Schemes of Rs 415 million denoting an increase of 34 percent i.e. 108,396 beneficiaries.

Table 4.2: Programmes of Zakat								
Q 2 FY 2008/09								
	Punjab	Sindh	NWFP	Balochistan	ICT	Northern Areas	FATA	Total
Regular Zakat Programmes								
Disbursement (Rs million)	3	475	202	2	7.7	18	0	708
Beneficiaries	1,425	184,304	52,831	511	2,387	11,972	0	253,430
Other Zakat Programmes								
Disbursement (Rs million)	114	70	110	0.043	1	2	0	297
Beneficiaries	14,766	99,696	70,272	87	3,277	3,680	0	191,778
National Level Schemes								
Disbursement (Rs million)	206	95	58	34	22	0	0	415
Beneficiaries	39,045	17,552	16,354	6,124	29,321	0	0	108,396
Total Amount Disbursed (Rs Million)	323	640	370	36.043	30.7	20	0	1,420
Total beneficiaries	55,236	301,552	139,457	6,722	34,985	15,652	0	553,604
Q 2 FY 2007/08								
	Punjab	Sindh	NWFP	Balochistan	ICT	Northern Areas	FATA	Total
Regular Zakat Programmes								
Disbursement (Rs million)	684	115	188	12	6	19	0	1,024
Beneficiaries	444,880	58,034	54,551	6305	1,921	15,810	0	581,501
Other Zakat Programmes								
Disbursement (Rs million)	132	0	72	3	3	5	0	215
Beneficiaries	237,012	0	69,860	4998	5,306	10,000	0	327,176
National Level Schemes								
Disbursement (Rs million)	94	38	20	14	18	0	0	184
Beneficiaries	35,266	23,116	8,588	5,858	7,792	0	0	80,620
Total Amount Disbursed (Rs Million)	910	153	280	29	27	24	0	1,423
Total beneficiaries	717,158	81,150	132,999	17,161	15,019	25,810	0	989,297

Source: Ministry of Zakat and Ushr.

4.2 Employees' Old Age Benefits Institution (EOBI)

4.5 Employees' Old Age Benefits Institution (EOBI) provides monetary benefits through different programmes including Old Age Pension, Invalidity Pension, Survivors Pension and Old Age Grants. Amount disbursed by EOBI increased by 25 percent to Rs 2,724 million in the 1st half of FY 2008/09 compared to Rs 2,174 million during the same period in FY 2007/08. Number of beneficiaries increased to 549,449 during the period (Table 4.3).

4.6 Disbursement under Old Age Pension increased by 26 percent to Rs 1,772 million during 1st half of FY 2008/09 as compared to Rs 1,407 million during same period in FY 2007/08. An amount of Rs 40 million was disbursed under Invalidity Pension among 8,595 beneficiaries,

indicating an increase of 21 percent in disbursement. In Survivors Pension programme, disbursement increased by 25 percent to Rs 895 million reaching 185,610 beneficiaries. Disbursement under Old Age Grants increased by 6 percent from Rs 17 million to Rs 18 million while the number of beneficiaries decreased from 899 to 740.⁹

Programmes	Q 2 FY 2007/08		Q 2 FY 2008/09	
	No. of Beneficiaries	Disbursement (Rs Million)	No. of Beneficiaries	Disbursement (Rs Million)
Old Age Pension	88,227	1,407	354,504	1,772
Invalidity Pension	2,082	33	8,595	40
Survivors Pension	45,037	717	185,610	895
Old-age Grants	899	17	740	18
Total	136,245	2,174	549,449	2,724

Source: Employees' Old Age Benefits Institution

4.3 Pakistan Bait-ul-Mal

4.7 Pakistan *Bait-ul-Mal* (PBM) disbursed an amount of Rs 2,441 million in 1st half of FY 2008/09 as compared to Rs 4,163 million during the same period last fiscal year indicating a decline of 41 percent in total disbursement which reflected a decrease of 14 percent in the number of beneficiaries. This is the budgetary part of PRSP expenditures. The PBM makes disbursement through different programmes. About 84 percent was disbursed under Food Support Programme (FSP) whereas 9 percent under Individual Financial Assistance (IFA), 4 percent under National Centre for Rehabilitation of Child Labour (NCRCL), 2 percent under Vocational Training Centers, 0.6 percent under Institutional Rehabilitation and 0.5 percent under Child Support Programme.

4.8 In FSP, disbursement declined by 45 percent from Rs 3,748 million to Rs 2,055 million between the 1st half of FY 2007/08 and FY 2008/09 and benefited 685,080 households. Disbursement under IFA decreased by 22 percent which benefited 7,753 households. However, an amount of Rs 87 million was disbursed among 315,724 households under National Center for Rehabilitation of Child showing a remarkable increase of 235 percent in disbursement. Disbursement under Institutional Rehabilitation decreased by 33 percent to Rs 14 million which benefited 109,646 households. Under the Child Support Programme, an amount of Rs 11 million was disbursed among 10,674 households.

⁹ Old Age Grants depend on the number of years of service of the beneficiary as the number of years of service increases the grant amount also increases and vice versa.

Programmes	Q 2 FY 2007/08		Q 2 FY 2008/09	
	Households	Amount disbursed (Rs Million)	Households	Amount disbursed (Rs Million)
Food Support Programme	1,249,434	3,748	685,080	2,055
Individual Financial Assistance	17,819	296	7,753	231
National Centre for Rehabilitation of Child Labour	24,604	26	315,724	87
Vocational Training Centers	34,931	72	113,044	43
Institutional Rehabilitation (Grant-In-Aid to NGOs)	120,619	21	109,646	14
Child Support Programme*	-	-	10,674	11
Total Disbursement Under all Programmes	1,447,407	4,163	1,241,921	2,441

*Data regarding disbursement and beneficiaries of Child Support Programme up till 2nd quarter of FY 2007/08 is not available for comparison.

Source: Pakistan *Bait-ul-Mal*, Pakistan.

4.4 Microfinance

4.9 Microfinance services as microcredit, micro-savings and micro-insurance for Q2 FY 2008/09 are presented in table 4.5. However, data for the previous year is not available for comparison. During Q2 FY 2008/09, microcredit was provided to 1,732,879 active borrowers which in terms of value stood at 18,752 million. Under micro-savings, an amount of Rs 5,384 million was disbursed to 1,743,609 active savers. However, a large sum i.e. 34,340 million was insured for 2,241,552 policy holders during Q2 FY 2008/09.

Details	Microcredit		Micro-Savings		Micro-Insurance	
	Active Borrowers	Value (PKR Million)	Active Savers	Value (PKR Million)	Policy Holders	Sum insured (PKR Million)
Q2 FY FY 2008/09	1,732,879	18,752	1,743,609	5,384	2,241,552	34,340

Source: Pakistan Microfinance Network (PMN), Islamabad.

4.4.1 Active Borrowers, Active Savers and Active Policy Holders by Peer Groups¹⁰

4.10 Market shares captured by peer groups in terms of active borrowers, active savers and active policy holders are shown in table 4.6. Rural Support Programmes (RSPs) remained market leader in terms of active borrowers, active savers and also as active policy holders by capturing

¹⁰ Peer groups have been reclassified into four categories, with NGOs and CFIs being combined to form "others". The remaining categories (MFBs, MFIs and RSPs) remain unchanged.

market shares of 34, 80 and 38 percent, respectively as compared to other microfinance providers during Q2 FY 2008/09. However, Microfinance Banks (MFBs) and others including Non-Government Organizations (NGOs) and Commercial Financial Institutions (CFIs) captured the highest market share of 34 and 5 percent in terms of active borrowers whereas Microfinance Institutions (MFIs) captured 33 percent share in terms of active policy holders during the period.

Details	Peer Groups			
	MFBs	MFIs	RSPs	Others
Active Borrowers	34%	27%	34%	5%
Active Savers	14%	2%	80%	4%
Active Policy holders	26%	33%	38%	3%

Source: Pakistan Microfinance Network (PMN), Islamabad.

Figure 4.1: Active Borrowers Q2 FY 2008/09

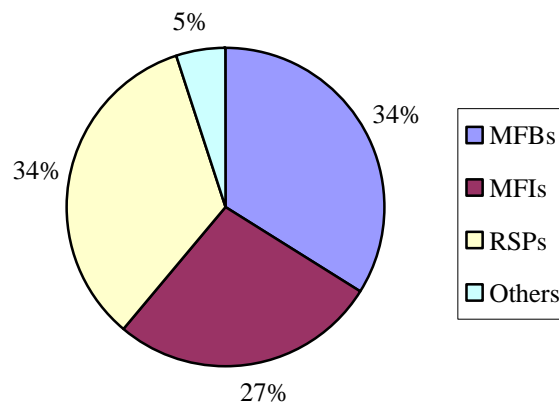


Figure 4.2: Active Savers Q2 FY 2008/09

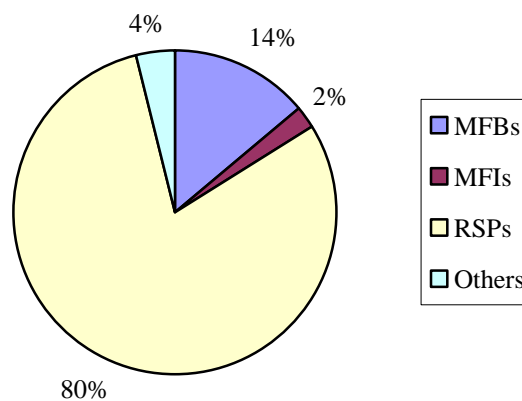
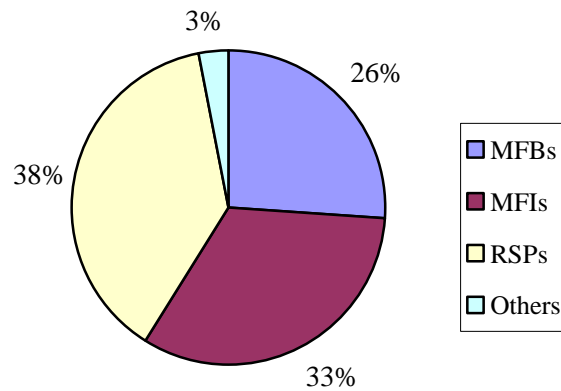


Figure 4.3: Active Policy Holders Q2 FY 2008/09



Source: Pakistan Microfinance Network (PMN), Islamabad.

4.4.2 Summary of Microcredit Indicators

4.11 Table 4.7 shows summary of microcredit indicators during Q2 FY 2008/09. A total of 1,552 branches provided microcredit services. Out of these, 53 percent of services were provided by RSPs through 820 branches, the highest amongst all. However, outreach of MFBs, MFIs and others was 24; 16 and 7 percent respectively of the total. During the period, average loan balance of Rs 10,821 is mainly attributed to others including NGOs and CFIs.

4.12 Out of a total 576,943 loans, 34 percent were disbursed through MFIs followed by 32 percent through RSPs, 30 percent through MFBs and only 4 percent through others. Average loan size was Rs 14,487 during Q2 FY 2008/09. Credit disbursement amounting Rs 8,358 million was made during Q2 FY 2008/09. Large proportion of credit i.e. 35 percent was disbursed through RSPs whereas 31 and 30 percent was distributed through MFIs and MFBs respectively. However a small share of 4 percent was disbursed through others including NGOs and CFIs.

Table 4.7: Summary of Microcredit Provision		
Peer Group		Q2 FY 2008/09
MFBs	Number of branches/Units	366
	Gross Loan Portfolio (Rs million)	6,801
	Average Loan Balance (Rs)	11,238
	Number of Loans disbursed	174,979
	Credit Disbursements (Rs million)	2,535
	Average Loan Size (Rs)	14,488
MFIs	Number of branches/Units	256
	Gross Loan Portfolio (Rs millions)	4,594
	Average Loan Balance (Rs)	9,919

	Number of Loans disbursed	195,882
	Credit Disbursements (Rs million)	2,558
	Average Loan Size (Rs)	13,058
RSPs	Number of branches/Units	820
	Gross Loan Portfolio (Rs million)	6,084
	Average Loan Balance (Rs)	10,462
	Number of Loans disbursed	185,107
	Credit Disbursements (Rs million)	2,930
	Average Loan Size (Rs)	15,829
Others	Number of branches/Units	110
	Gross Loan Portfolio (Rs million)	1,274
	Average Loan Balance (Rs)	15,334
	Number of Loans disbursed	20,975
	Credit Disbursements (Rs million)	335
	Average Loan Size (Rs)	15,983
Total	Number of branches/Units	1,552
	Gross Loan Portfolio (Rs million)	18,752
	Average Loan Balance (Rs)	10,821
	Number of Loans disbursed	576,943
	Credit Disbursements (Rs million)	8,358
	Average Loan Size (Rs)	14,487

Source: Pakistan Microfinance Network (PMN), Islamabad.

5 Monitoring of Output (Intermediate) Indicators

5.1 Progress of intermediate indicators regarding health and employment sectors in the 1st half of FY 2008/09 has been analyzed in this section. Information on education sector intermediate indicators is not available as National Education Management Information System (NEMIS) provides information on an annual basis. Schemes approved under People Works Programme (PWP)-I also form a part of this section.

5.1 Immunization

5.2 Table 5.1 reports the Tetanus Toxoid (TT) immunization coverage for pregnant women. Population targeted for the immunization coverage of pregnant women increased by 4 percent to 1.83 million in the 1st half of FY 2008/09 relative to 1.76 million in the same period last year. TT-1 and TT-2 immunization coverage stood at 51 and 55 percent respectively in the 1st half of FY 2008/09 as compared to 38 percent for both TT-1 and TT-2 immunization in the 1st half of FY 2007/08. There has been an increase of 13 and 17 percentage points in both TT-1 and TT-2 immunization coverage, respectively during the period.

5.3 Largest TT immunization coverage was observed in Federally Administered Tribal Area (FATA) as TT-1 immunization coverage increased by 29 percentage points while TT-2 immunization coverage improved by 36 percentage points. Punjab, Sindh, NWFP and AJK witnessed an increase whereas a decline in the TT immunization was registered in Balochistan, Federally Administered Northern Areas (FANA), Islamabad Capital Territory (ICT)¹¹ and Capital Development Authority (CDA)¹² during the 1st half of this year as compared to the same period last year.

Province/Region	Q 2 FY 2007/08			Q 2 FY 2008/09		
	TT-Immunization			TT-Immunization		
	Target Population	TT-1	TT2+	Target Population	TT-1	TT2+
	(+4.1% Pop)	Cov %	Cov %	(+4.1% Pop)	Cov %	Cov %
Punjab	946,560	41	40	981,427	57	59
Sindh	396,900	35	38	413,524	43	54
NWFP	232,065	34	31	242,456	44	43
FATA	36,378	29	34	40,466	58	70
Balochistan	82,635	38	33	87,697	34	34
AJK	36,663	64	59	38,770	63	65
FANA	14,187	26	38	11,266	26	34
ICT	4,446	41	30	4,675	39	29

¹¹ Islamabad Capital Territory (ICT) includes the surrounding areas of Islamabad.

¹² Capital Development Authority (CDA) only covers the geographical area of Islamabad city.

CDA	8,523	24	25	8,962	28	17
Others	-	-	-	-	-	-
Pakistan	1,758,357	38	38	1,829,243	51	55

Source: Federal EPI Cell, National Institute of Health.

5.2 Lady Health Workers (LHWs)

5.4 At the national level, Lady Health Workers (LHWs) covered 51 percent of the total population and 64 percent of the target population in 1st half of FY 2008/09 (Table 5.2). Population covered by LHWs in urban areas was 32 percent; whereas 59 percent of the rural population was covered during 1st half of FY 2008/09.

	Projection Q 2 FY 2008/09	Population Covered by LHWs in Q 2 FY 2008/09 (%)
Total Population	163,000,000	51
Urban Population	48,900,000	32
Rural Population	114,100,000	59
Target Population	128,770,000	64

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

5.5 Out of total 89,494 LHWs, 84 percent were deployed in rural areas and 16 percent in urban areas during the 1st half of FY 2008/09 (Table 5.3). Proportion of LHWs located in Punjab, Sindh, NWFP and Balochistan stood at 51, 22, 14 and 6 percent, respectively.

Province / Region	Q 2 FY 2008/09		
	Urban	Rural	Total
Punjab	7,043	38,955	45,998
Sindh	3,603	15,640	19,243
NWFP	1,417	11,428	12,845
Balochistan	1,819	3,904	5,723
AJK	179	2,643	2,822
FANA	158	1,038	1,196
FATA	0	1,380	1,380
ICT	36	251	287
Total	14,255	75,239	89,494

* Includes under training LHWs.

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

5.3 Employment

5.6 Total Labour force and percentage of employed labour force is presented in the Table 5.4 during the 1st half of FY 2008/09, which stood at 26.61 million representing 20.68 million males and 5.94 million females. About 95 percent of the total labour force was employed up to 2nd quarter of FY 2008/09 including 74 percent males and 20 percent females.

Table 5.4: Labour Force Population and Employed Labour Force			
	Q 2 FY 2008/09		
	Total	Male	Female
Labour Force (million)	26.61	20.68	5.94
Employed Labour Force (%)	95	74	20

Note: Estimated labour force for the FY 2008/09 is based on the Labour Force Survey FY 2007/08 and average population growth rate of 1.73 percent per annum.

Source: Ministry of Labour and Manpower.

5.4 People Works Programme (PWP)-I

5.7 The number of schemes approved under PWP-I are reported in Table 5.5. The development schemes focus on roads, electrification, gas, telephone, education, health, water supply and sanitation and bulldozer hours. During the 1st half of FY 2008/09, 473 schemes were approved as compared to the approval of 2,020 schemes in the same period last fiscal year with 30 percent schemes approved for FATA, 29 percent for Punjab, 28 percent for NWFP, 6 percent for Sindh, 5 percent for Balochistan, and 2 percent for ICT.

5.8 During the 1st half of FY 2008/09, main focus was to provide clean drinking water facility in rural areas and about 202 schemes were approved for FATA, NWFP, Balochistan, Punjab and ICT while 148 schemes were approved for development of roads in rural areas. A small number of schemes including 43 for sanitation, 33 for electrification, 29 for health facilities and 16 for education were approved during this period. One scheme was approved for gas facility in Punjab and one for bulldozer hours in Balochistan, However, no scheme was approved for provision of telephone facility to rural poor.

Table 5.5: Number of Schemes approved under each category										
Q2 FY 2008/09										
Province	Road	Electrification	Gas	Telephone	Education	Health	Water Supply	Sanitation	Bulldozers hours	Total Schemes
Punjab	84	31	1	-	3	4	3	10	-	136
Sindh	7	1	-	-	6	5	-	10	-	29
NWFP	39	-	-	-	5	18	49	22	-	133
Balochistan	6	-	-	-	2	2	12	1	1	24
FATA	8	-	-	-	-	-	135	-	-	143
ICT	4	1	-	-	-	-	3	-	-	8
Total	148	33	1	-	16	29	202	43	1	473
Q1 FY 2007/08										
Province	Road	Electrification	Gas	Telephone	Education	Health	Water Supply	Sanitation	Bulldozers hours	Total Schemes
Punjab	293	599	34	-	18	5	15	96	2	1062
Sindh	163	78	1	-	24	8	12	6	1	293
NWFP	84	138	-	-	2	-	37	-	-	261
Balochistan	16	28	1	-	20	3	28	1	5	102
FATA	76	5	-	-	9	18	175	-	-	283
ICT	8	3	1	-	-	3	3	1	-	19
Total	640	851	37	-	73	37	270	104	8	2020

Source: Ministry of Local Government and Rural Development.

5.5 Capital and Finance for Development

5.9 Financial development may exert a positive impact, directly or indirectly, upon the income of the poor. First, because it boosts economic growth and growth is one of the key determinants of poverty reduction. Secondly, even if access to financial services for the poor is actually more limited than the access for the rest of the population, it may nevertheless be improved by financial development. Keeping in view the positive impact supported strongly by empirical evidence, PRSP-II recognizes financial sector development as a key area of Poverty Reduction Strategy. Therefore, the analyses of five groups of indicators reflecting the health of financial institutions were added into the M&E framework of the PRSP-II. These indicators are being used as the output indicators for Pillar 8: **Capital and Finance for Development** of PRSP-II. Supervisory framework of the State Bank of Pakistan (SBP), consistent with international norms, covers these risk-monitoring indicators for evaluating the performance of banks. More specifically, these indicators are called CAMELS framework (Capital adequacy, Assets quality, Management quality, Earnings and Liquidity and Sensitivity to market risk, “CAMELS” is a common method for evaluating the soundness of Financial Institutions) and are in place since end December 1997 for on-site and off-site surveillance.

5.6 Capital Adequacy Ratio (CAR)

5.10 Capital base of financial institutions facilitates depositors in forming their risk perception about the institutions. Also, it is the key parameter for financial managers to maintain adequate levels of capitalization. Moreover, besides absorbing unanticipated shocks, it signals that the institution will continue to honour its obligations. Due to the increase in lending portfolio and the resultant shift in asset mix from less riskier investments in government papers to loans and advances, risk weighted assets (RWA) of the banking system registered significant increase. Resultantly, the risk based capital adequacy ratio (CAR) of the banking system under Basel-II framework deteriorated to 11.6 percent during the July-December period of FY 2008/09, which though still remained well above the minimum standard of 8.0 percent. The trend analysis of CAR shows that it achieved the peak of 13.2 percent in 2007, while it was 12.7 percent in 2006. These are the years which saw execution of some of the largest Merger and Acquisition transactions in the banking sector, increasing capital and improving solvency indicators of the banking system to extraordinary levels. Further, effective from Jan-08 banks have been maintaining CAR under Basel-II framework, requiring additional capital charge. Given the above developments and the high seasonal demand for credit during July-December, 2008, the existing CAR of 11.6 percent can be considered at quite a stable level.

Sr. No.	Output (Intermediate) Indicators	Q1 FY 2008/09	Q2 FY 2008/09
1	Capital Adequacy		
	Capital to Liability Ratio	11.4	11.6
2	Asset Quality		
	NPLs to Gross Advances Ratio	8.4	9.1
3	Management Soundness		
	Cost/ Income Ratio	46.8	49.1

4	Earnings and Profitability		
	Before Tax	2	1.7
	After Tax	1.4	1.2
5	Liquidity		
	Loans to Deposit Ratio	76.0	75.9

Source: Banking Surveillance Department State Bank of Pakistan, 2009.

5.7 Asset Quality

5.11 Asset quality determines the robustness of financial institutions against loss of value in the assets. The deteriorating value of assets, being prime source of banking problems, directly pour into other areas as losses are eventually written-off against capital, which ultimately jeopardizes the earning capacity of the institution. With this backdrop, the asset quality is gauged in relation to the level and severity of non-performing assets, adequacy of provisions, recoveries, distribution of assets etc. Gross Non Performing Loans (NPLs) to gross advances of the all banks arrived at 9.1 percent at the end of December 2008. A quarter earlier this ratio was 7.7 percent, while a year earlier it was at 6.9 percent. The overall assets quality of the banking system has started deteriorating during the 1st and 2nd quarter of FY 2008/09. Aggressive loan growth during the past few years as well as emerging vulnerabilities in the macro-economic environment viz. slowdown in economic activities, rising interest rates, and high inflation has contributed to this trend. The pressure arising due to rising NPL necessitates strict adherence to provisioning requirements so that transparency is not compromised. Efforts for timely recoveries are to be heightened and internal controls to be installed to ensure better credit risk management.

5.8 Management Soundness

5.12 Management of financial institution is generally evaluated in terms of capital adequacy, asset quality, earnings and profitability, liquidity and risk sensitivity ratings. In addition, performance evaluation includes compliance with set norms, ability to plan and react to changing circumstances, technical competence, leadership and administrative ability. Management Soundness is the key to bank performance but is difficult to measure. Furthermore, given the qualitative nature of management, it is difficult to judge its soundness just by looking at financial accounts of the banks. Total expense to total income ratio stood almost 2.5 percentage points higher at 49.1 percent in the second quarter of FY 2008/09 as compared to the first quarter, owing to half year impact of SBP's regulation requiring the banks to give minimum 5 percent on saving accounts deposits. . Increasing interest and non-interest expenses and higher provision charges are impacting the profitability of the system.

5.9 Earnings and Profitability

5.13 Earnings and profitability, the prime source of increase in capital base, is examined with regards to interest rate policies and adequacy of provisioning. In addition, it also helps to support present and future operations of the institutions. The single best indicator used to gauge earnings is the Return on Assets (ROA), which is net income after taxes to total asset ratio. The profitability of the banking system remained steady during the 2nd quarter, FY 2008/09 though the indicators slightly declined due to higher provisioning and operating expenses (see table). The positive earnings can be traced to increase in interest income following a surge in lending. The

banking sector in Pakistan has been maintaining their profitability trend though it slowed down to some extent during July-December, 2008. Further, the ensuing economic slowdown in global economy as well as domestic economic scenario threatens to impact the profitability of the banking sector. The banks need adjustments in their business strategies and re-profiling of their assets to curtail risk, as well as, ensure continued returns for the banking system.

5.10 Liquidity

5.14 An adequate liquidity position refers to a situation, where an institution can obtain sufficient funds, either by increasing liabilities or by converting its assets quickly at a reasonable cost. It is, therefore, generally assessed in terms of overall assets and liability management as mismatching gives rise to liquidity risk. The banking system has been experiencing volatile liquidity position particularly over the last two quarters under higher liquidity requirements which tightened surplus liquidity. The liquidity of the banking system witnessed strains during the first half of 2008⁰⁹ which was corroborated by almost all of the liquidity indicators. These pressures mainly emanated from strong growth in loan portfolio and the passive to negative growth in deposit base that emerged in the backdrop of global financial crisis. Resultantly, Advances to Deposit ratio, a key liquidity indicator, moved up to 75.9 percent in December, 2008. The ratio was at 67.1 percent in 2007.

5.11 Sensitivity to Market Risk

5.15 The diversified nature of bank operations makes them vulnerable to various kinds of financial risks. Sensitivity analysis reflects institution's exposure to interest rate risk, foreign exchange volatility and equity price risks (these risks are summed up in market risk). Risk sensitivity is mostly evaluated in terms of management's ability to monitor and control market risk.

5.16 Notably, factors such as SBP's new requirements for enhancing the minimum capital base to Rs 23 billion (US\$ 300 million) by end 2013, and the introduction of variable CAR based on banks' CAMELS-rating, are likely to provide fresh impetus to the process of consolidation in the financial sector, which would create strong market participants and further strengthen banks' capacity to withstand any potential decline in profits.

6 Concluding Remarks

6.1 This report presented the mid-year review of Poverty Reduction Strategy for FY 2008/09. The vicious cycle of poverty has accentuated since the troubled year of FY 2007/08 as a result of deteriorated macroeconomic situation 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). Therefore, it calls for inclusive poverty reduction efforts by the government that provide a series of policy and institutional reforms, promotion of equal access to social services, and public investments specifically in rural areas and mix of formal safety nets with an aim to redistribute resources to the poor to reduce chronic poverty and to protect them against risks to their livelihoods. Notwithstanding positive developments on the economic front as mentioned in the report, Pakistan economy continues to remain exposed to vagaries of international developments as well as internal security environment.

6.2 The government to beef up spending on social sectors and strengthen social safety-net programs needs to attain a credible level of economic growth. Any acceleration in growth in the following years also may require a supportive increase in development spending, and targeted increase in spending on social safety nets. Unfortunately, this would not be possible without significant shifts in taxation and expenditure. A focus on expanding the tax base rather than raising the tax rate is required. Reforms bear fruit with time, it is important that they be initiated immediately.

6.3 One of the main purposes of the quarterly progress report is to track the progress of output and outcome indicators along with pro-poor expenditures as an input indicator. To serve this purpose, Monitoring and Evaluation (M&E) plays a key role in demonstrating effectiveness and achieving sustainability of any development related efforts. PRSP-II proposes an M&E framework that has been designed to put in place a sustainable system to deliver timely and reliable data against a set of well-defined indicators, which will feed into the policy process for efficient redressal of issues. Efforts are being made to provide deeper analysis of a number of indicators in various social and pro poor sectors based on the information distilled through this improved M&E mechanism in the future progress reports.

Annex I

PRSP Budgetary Expenditures (FY 2008/09) – Up till Q2 July 2008 to December 2008						
(Rs Millions)						
	Federal	Punjab	Sindh	NWFP~	Balochistan	Total
Roads, Highways & Bridges	1,366	11,997	5,535	1,672	1,773	22,343
Current	1,364	1,720	99	190	22	3,395
Development	2	10,277	5,436	1,482	1,751	18,948
Water Supply & Sanitation	75	3,396	1,520	775	729	6,495
Current	73	1,461	188	522	522	2,766
Development	2	1,935	1,332	253	207	3,729
Education	10,737	40,122	16,281	13,564	3,245	83,949
Current	7,727	39,671	15,091	12,277	3,193	77,959
Development	3,010	451	1,190	1,287	52	5,990
<i>Primary Education</i>	1,316	18,643	7,055	5,717	1,140	33,871
Current	1,316	18,384	6,895	5,342	1,140	33,077
Development	0	259	160	375	0	794
<i>Secondary Education</i>	1,755	9,862	5,016	5,425	984	23,042
Current	1,741	9,841	4,688	5,026	984	22,280
Development	14	21	328	399	0	762
<i>General Universities, Colleges, & Institutes</i>	5,227	3,121	1,811	1,020	283	11,462
Current	2,649	3,120	1,346	740	283	8,138
Development	2,578	1	465	280	0	3,324
<i>Professional & Technical Universities, Colleges & Institutes</i>	1,004	755	901	903	204	3,767
Current	999	749	767	708	204	3,427
Development	5	6	134	195	0	340

<i>Teacher & Vocational Training</i>	22	1,101	112	1	71	1,307
Current	20	1,101	89	0	71	1,281
Development	2	0	23	1	0	26
<i>Others</i>	1,413	6,640	1,386	498	563	10,500
Current	1,002	6,476	1,306	461	511	9,756
Development	411	164	80	37	52	744
Health	5,002	11,226	4,698	4,882	1,011	26,819
Current	2,337	10,981	4,375	4,178	952	22,823
Development	2,665	245	323	704	59	3,996
<i>General Hospitals & Clinics</i>	2,102	9,538	3,632	3,040	441	18,753
Current	1,895	9,325	3,439	2,344	441	17,444
Development	207	213	193	696	0	1,309
<i>Mother & Child Health</i>	3	46	7	8	55	119
Current	1	41	7	8	55	112
Development	2	5	0	0	0	7
<i>Health Facilities & Preventive Measures</i>	2,716	85	525	85	131	3,542
Current	279	81	396	77	76	909
Development	2,437	4	129	8	55	2,633
<i>Others</i>	181	1,557	534	935	384	3,591
Current	162	1,534	533	935	380	3,544
Development	19	23	1	0	4	47
Population Planning	1,426	544	26	183	59	2,238
Current	63	9	1	4	0	77
Development	1,363	535	25	179	59	2,161
Social Security & Social Welfare	6,171	552	2,629	88	101	9,541
Current	6,076	508	173	79	91	6,927
Development	95	44	2,456	9	10	2,614

Natural Calamities & Other Disasters	399	852	7	122	1,173	2,553
Agriculture*	13,241	9,468	4,156	1,845	2,425	31,135
Current	800	7,517	2,357	1,270	1,933	13,877
Development	12,441	1,951	1,799	575	492	17,258
Land Reclamation	0	82	929	0	0	1,011
Rural Development	115	609	68	752	575	2,119
Current	25	132	68	125	27	377
Development	90	477	0	627	548	1,742
Law and Order	12,745	15,962	8,101	3,225	2,142	42,175
Low Cost Housing	0	106	0	0	0	106
Justice Administration	556	2,028	761	457	218	4,020
Subsidies**	115,421	835	2	2,455	0	118,713
Food Support Programme^	2,055	1,374				3,429
People's Works Programme-I	407					407
People's Works Programme-II***	15,183					15,183
GRAND TOTAL	184,899	99,153	44,713	30,020	13,451	372,236

* Includes irrigation, fisheries, forestry & livestock.

** Includes subsidies on financial & fiscal affairs, commercial affairs and food.

*** Includes schemes in the area of electricity, gas, water supply & sanitation and roads.

Note: Social Security & Welfare

Total disbursement under different programmes of Pakistan *Bait-ul-Mal* was Rs 2,441 million up to 2nd quarter of FY 2008/09.

Total disbursement under Benazir Income Support Programme (BISP) was Rs 5,444 million up to 2nd quarter of FY 2008/09.

Annex II

**Table 1: Direct Transfers and Beneficiaries
Up till 2nd Quarter FY 2008/09**

Programme	Disbursement / Beneficiaries	Up till 2nd Quarter FY 2008/09
Zakat	Amount disbursed (Rs million)	1,420
	Total beneficiaries (000)	554
Pakistan <i>Bait-ul-Mal</i> (All Programmes)*	Amount disbursed (Rs million)	2,441
	Total beneficiaries (000)	1,242
Microcredit	Amount disbursed (Rs million)	18,752
	Total beneficiaries (000)	1,733
EOBI	Amount disbursed (Rs million)	2,724
	Total beneficiaries (000)	549
All Programmes	Amount disbursed (Rs million)	25,337
	Total beneficiaries (000)	4,078

Source: *Zakat* – Ministry of *Zakat* and *Ushr*, Microcredit - Pakistan Microfinance Network (PMN), EOBI – Employees' Old Age Benefits Institution.

*This is part of budgetary expenditures but is reflected here for purposes of comparison between various ongoing social protection programmes.

Table 1(a): Zakat Disbursement (Up till 2nd Quarter FY 2008/09)

(Rs Million)

	Punjab	Sindh	NWFP	Balochistan	ICT	Northern Areas	FATA
Regular Zakat Programmes							
Disbursement	3	475	202	2	7.7	18	0
Beneficiaries	1,425	184,304	52,831	511	2,387	11,972	0
Other Zakat Programmes							
Disbursement	114	70	110	0.043	1	2	0
Beneficiaries	14,766	99,696	70,272	87	3,277	3,680	0
National Level Schemes							
Disbursement	206	95	58	34	22	0	0
Beneficiaries	39,045	17,552	16,354	6,124	29,321	0	0
Total Amount Disbursed	323	640	370	36.043	30.7	20	0
Total Beneficiaries	55,236	301,552	139,457	6,722	34,985	15,652	0
Grand Total Amount Disbursed (Rs. Million):						1420	
Grand Total beneficiaries:						553,604	

Source: Ministry of Zakat and Ushr.

Table 1(b): Programmes of Pakistan Bait-ul-Mal

Programmes	Up till 2 nd Quarter FY 2008/09	
	Households	Amount disbursed (Rs million)
Food Support Programme	685,080	2,055
Individual Financial Assistance	7,753	229
National Centre for Rehabilitation of Child Labour	315,724	87
Vocational Training Centers	113,044	43
Institutional Rehabilitation (Grant-In-Aid to NGOs)	109,646	14
Child Support Programme	10,674	11
Total Disbursement Under all Programmes	1,241,921	2,439

Source: Pakistan Bait-ul-Mal; and Ministry of Social Welfare and Special Education

Table 1(c): Micro-credit Disbursement

Programmes	Up till 2 nd Quarter FY 2008/09	
	Micro-credit*	Total Disbursement (Rs. Million)
Total beneficiaries (000)		1,733

Source: Pakistan Microfinance Network (PMN).

* Includes all credit disbursements of MFBs, MBIs, RSP, NGOs and CFIs.

Table 1(d): Programmes of Employees' Old Age Benefit Institution (EOBI)

Programmes	Up till 2 nd Quarter 2008-09	
	No. of Beneficiaries	Disbursement (Rs Million)
Old Age Pension	354,504	1771.928
Invalidity Pension	8,595	39.674
Survivors Pension	185,610	895.049
Old-age Grants	740	17.547
Total	549,449	2724

Source: Employees' Old Age Benefits Institution (EOBI).

Annex III

Table: PRSP Pro-Poor Budgetary Sectors during PRSP-I Period (FY 2001/02 - FY 2007/08)
Sectors
Roads, highways & bridges
Water supply and sanitation
Education
Health
Population planning
Irrigation
Land reclamation
Rural development
Rural electrification
Food subsidies
Social security and welfare
Food support programme
<i>Tawana</i> Pakistan ¹³
Natural calamities
Low cost housing
Justice administration
Law & order

¹³ Expenditure tracking of the programme *Tawana* (strong) Pakistan was replaced by *Khushal* (prosperous) Pakistan Fund in FY 2007/08.

Poverty Reduction Strategy Paper (PRSP) Secretariat

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