
Health Budget & Expenditure Analysis

(2008-09 to 2010-11)

Health Department (Government of Azad & Jammu Kashmir)
District Governments in Azad & Jammu Kashmir

May 2012



Acknowledgement

TRF acknowledges the cooperation and support of Mr. Hammad Yunis, Health Financing Expert who worked on the assignment and authored the report.

Disclaimer

This document is issued for the party which commissioned it and for specific purposes connected with the above-captioned project only. It should not be relied upon by any other party or used for any other purpose.

We accept no responsibility for the consequences of this document being relied upon by any other party, or being used for any other purpose, or containing any error or omission which is due to an error or omission in data supplied to us by other parties.

Abbreviations & Acronyms

ADP	Annual Development Plan
AJK	Azad & Jammy Kashmir
DHO	District Health Offices
FY	Financial Year
GB	Gilgit-Baltistan
MTBF	Medium Term Budgetary Framework
K-GB Ministry	Ministry of Kashmir Affairs and Gilgit-Baltistan
NFC	National Financial Commission
PIFRA	Project to Improve Financial Reporting and Auditing
TRF	Technical Resource Facility

Table of Contents

Abbreviations & Acronyms	3
List of Figures	5
List of Tables	5
Executive Summary	6
Introduction	9
Section I - Macro-Fiscal Context of Azad & Jammu Kashmir.....	11
Section II – Analysis of Budgets and Expenditure trends	14
Federal Allocations.....	14
Overall Azad & Jammu Kashmir Budget.....	15
Health vs. Overall Budget.....	17
Development vs. Non-development Health Budget.....	19
Non-development Budget – Salaries vs. Non-salaries component.....	20
Development Budget.....	22
Medium Term Budgetary Framework (MTBF).....	24
Section III – Key Findings & Recommendations.....	24
Annex I.....	26
Annex – II.....	29

List of Figures

Figure 1: Funds Flow Process for AJK.....	12
Figure 2: Federal Funding Share for AJK.....	14
Figure 3: Distribution of Funds for Ministry of Kashmir & Gilgit-Baltistan.....	15
Figure 4: Sources of Funds for AJK Government.....	16
Figure 5: Development vs. Non-development Expenditure Share.....	17
Figure 6: Budget Utilization.....	19
Figure 7: Percentage Health Budget.....	19
Figure 8: Development vs. Non-development Health Budget.....	20
Figure 9: Non-development Health Budget & Actual Expenditure for FY2008-09.....	21
Figure 10: Non-development Health Budget & Actual Expenditure for FY2010-11.....	21
Figure 11: Facility-wise Non-development Health Budget Allocations.....	22
Figure 12: Health Development Budget vs. Actual Expenditure.....	22
Figure 13: Development Health Budget & Actual Expenditure for FY2008-09.....	23
Figure 14: D development Health Budget & Actual Expenditure for FY2010-11.....	24

List of Tables

Table 1: AJK Development vs. Non-development Budget for FYs 2008-11.....	15
Table 2: Development vs. Non-development Budget of AJK & Health for FYs 2008-11.....	18
Table 3: Federal and K-GB Ministry Revised Estimates.....	26
Table 4: AJK Non-Development Budget for FY2008-11.....	26
Table 5: AJK Development Budget for FY2008-11.....	27
Table 6: Development vs. Non-development Budget for AJK and Health for FY 2008-11 ...	27
Table 7: AJK Non-development Budget Estimates.....	28

Executive Summary

1. The constitutional status of Azad & Jammu Kashmir as a designated special area permits self-governance for the region with an elected prime-minister and legislative assembly. However, AJK relies heavily on federal transfers to meet the fiscal deficit. During the period of the FY2008-11, the federal transfers under the heads of water user charges (for Mangla), income from Kashmir Council (collected by the Federal Government and transferred to AJK), Federal Tax Share and Revenue Deficit (deficit financed by the Federal Government) increased from 58 percent in the FY2008-09 to 63 percent in the FY2010-11.
2. After the approval of the 7th NFC Award 2009, the actual transfers from the Federal Government to the provinces have increased, however this implies otherwise for the AJK government. The current on-going fiscal crisis along with an increased provincial share in the NFC Awards means lesser funds are at the Federal Government's disposal for further disbursements.
3. The federal funding for AJK and Gilgit-Baltistan are channelled through the Ministry of Kashmir Affairs and Gilgit-Baltistan to their respective governments. The federal budget has increased steadily over the past three years, reaching to a record level of total budget at Rs. 2.3 trillion in the FY2010-11 with the total K-GB Ministry funding rising to Rs. 23 billion (1.01 percent of the total budget). This implies that more funds are being made available to the ministry on a yearly basis however the funding for AJK has decreased at a percentage basis from 0.63 percent of the current federal budget in the FY2008-09 to 0.59 percent in the FY2010-11. This could be accounted to the increase in Gilgit-Baltistan's funding share, from 25 percent to 40 percent of total ministry funds, mainly due to an increase in expenditure associated to its newly granted provincial status.
4. The total health spending in AJK has increased by 41 percent between the FY2008-09 and the FY2010-1, which is mainly due to an increase in recurrent budget increasing by 55 percent. It is important to note that the non-development budget is majorly salary-focused. In the FY2010-11 salaries & allowances accounted for 64 percent of the non-development budget, followed by the Operating Expenses at 34 percent. This left only 1 percent of the budget allocated for repair and maintenance and 1 percent for other activities such as the purchase of physical assets, transfers of store & stocks.

5. The classification of the development budget spending reveals that 56 percent of the development funds are received by the hospitals (new constructions/up-gradations), followed by targeted projects/health programs initiated in the region (13 percent) and education/training of the medical staff (12 percent).
6. The two fold increase in salaries, as announced by the federal government in the FY2008 and the FY2011 has over-burdened the budget, as the aggregate budget has not increased in the same proportion. This resulted in funds being frequently re-appropriated from other heads hence having an impact on the overall soundness and credibility of the budget. It was reported that the health ministry has already sent a requisition for 4,000 to 5,000 additional health staff (71 percent increase in the existing health workforce).
7. After the 2005 earthquake international donors have taken an active part in the reconstruction of damaged health facilities supporting the slogan of '*Built Back Better*'. Currently due to an acute shortage of funds, it is not possible to provide operational funds to these health facilities reconstructed by funded/operated by the donors. The current policy of the AJK government of free of charge or low fee health services for the public is not aiding the situation and is highly unsustainable in the long-term. There is a need to revisit this policy with specific focus on targeted interventions for the poor and vulnerable population.
8. The heavy emphasis on the new constructions and up-gradation of hospitals without analyzing the forward expenditure has already resulted in an unsustainable level of operating costs. This trend has continued and the added costs of beds and facilities currently under construction coupled with inflation will make it highly unlikely to be met through the current funding pattern. This will probably lead to health facilities being under-utilized.
9. The delegation of powers to provinces, specifically the devolution of the Ministry of Health at the federal level has led to the question of the future funding for vertical programs currently funded by the federal government till 2015, with funding levels frozen at the FY2010-11. The AJK government needs to devise a strategy for program/project funding, to fill the gaps in the funding of the programme (if any) and policy decision with regard to the expansion of programmes or otherwise.

10. It was observed that the existing budget classifications is not informative besides which, the available functional classification has not been adequately used and most of the allocation has been made and expenditure booked in General Hospital Services. There is a need to improve recording mechanisms.

11. The AJK government budgeting at the moment is input based which is in accordance with the conventional budgeting system. It has not endorsed the Medium Term Budgetary Framework (MTBF) for budgeting and planning yet which may increase the predictability of the budget for the medium term and helps in setting targets for the future. In this sense AJK is lagging behind the rest of Pakistan. There is a need for capacity building in budgeting and planning for the AJK government to fully embrace MTBF.

Introduction

12. This Report on the health budget and expenditure analysis of the Provincial Government (AJK Government) has been prepared by the consultant at the request of Technical Resource Facility (TRF);
13. The analysis covers the FY2008-09, FY2009-10 and FY2010-11. Actual figures were utilized for the analysis as long as they were available. On some occasions, estimates were to be incorporated due to a lack of actual data. Such occasions are marked under the 'Revised Estimates' heading.
14. The source of the budget data is taken from the annual budget documents and appropriation accounts whereas, all other data i.e. provincial expenditures, budget and expenditure of Districts are taken from the PIFRA System.
15. The flow of this document has been organized in such a manner as to make it more informative. It commences by explaining the situation from a macro-perspective and then hones down to the details. It analyses budget and expenditure trends separately. In order to provide clarity and a reasonably good understanding for readers, the report is divided into the following sections:
 - Section I Macro-fiscal context of Azad & Jammu Kashmir
 - Section II Analysis of Budgets and Expenditure trends
 - Section III Key Findings & Recommendations
16. **Section I** lays down, in brief, the overall macro-fiscal situation facing the Province including the implications of the 18th amendment. This was considered necessary so that readers are able to appreciate the overall fiscal realities facing Azad & Jammu Kashmir against which the budget is formulated and executed each year.
17. **Section II** attempts to analyze budgetary allocations and actual expenditure. The expenditure and budget allocations were reviewed against various dimensions at individual and aggregate levels from an economic and functional classification perspective.

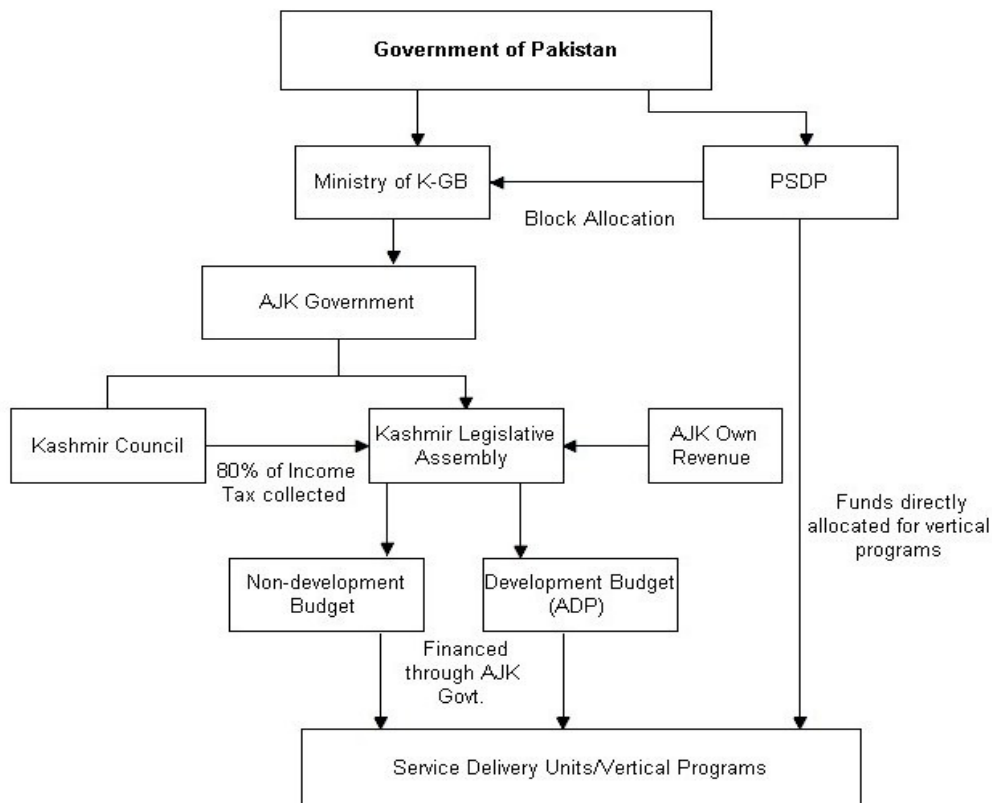
18. **Section III** summarizes the key findings of the reports and accordingly provides recommendations for improvement.
19. For the convenience of readers, data tables forming the basis of the analysis have been included as Annex - I of this Report which have been referred to while appreciating the budget analysis;
20. During the course of the assignment, the consultant met with a range of people in order to extract information and to better understand the workings of the AJK government. The list of such individuals is attached as Annex – II.

Section I - Macro-Fiscal Context of Azad & Jammu Kashmir

21. Azad Jammu and Kashmir (AJK) is a self-governing state under Pakistani control that was once part of the larger princely state of Kashmir and Jammu. Following the 1949 ceasefire, Pakistan divided areas under its administration into two parts: Federally Administered Northern Areas and Azad Jammu and Kashmir. In 2009, the Federally Administered Northern Areas were given autonomy and renamed Gilgit-Baltistan. AJK is not considered part of Pakistan constitutionally and instead has been given the status of a self-governing state within Pakistan. For this reason, AJK has its own elected president, prime minister, legislature, and high court.
22. The population of AJK is estimated to be about 3.9 million. Being a mountainous area, the population density in AJK is far lower than other regions in Pakistan at 258 persons per square kilometre. Just 12% of the AJK population is settled in urban areas compared to the national rate of 36%. The literacy rate of AJK is slightly better with 62%, compared with the national rate of 58%. The per capita income of the people in the region ranges from \$600 to \$5000 while the unemployment rate hovers around the 35% mark.
23. Azad Kashmir is divided into three divisions (Muzaffarabad, Mirpur & Poonch) and ten administrative districts with Muzaffarabad as the capital of the state. The Muzaffarabad Division comprises of Muzaffarabad and Neelum, Rawalakot Division comprises of Bagh, Poonch & Sudhnuti districts whereas districts of Mirpur Division are Mirpur, Kotli & Bhimber. These ten districts are further divided into 29 subdivisions. The people's participation in political and socio economic development is ensured through the elected institutions of the AJ&K Legislative Assembly comprising 41 directly and 8 indirectly elected members and the AJ&K Council with six elected members.
24. Due to the AJK government's unique constitutional status in the country, it has separate procedures and mechanisms as opposed to the other provincial governments. The Federal Government looks over Azad & Jammu Kashmir and Gilgit-Baltistan via the Ministry of Kashmir Affairs and Gilgit-Baltistan (K-GB). The K-GB Ministry is responsible of looking after the affairs of both regions and all federal funding for both regions are transferred through the K-GB Ministry.

25. The funding pool of the AJK government consists of its own revenue, contribution from Kashmir Council, and development & non-development funds from the Federal Government (discussed in detail under the AJK Budget). The revenue raised by the AJK consists of revenue raised through taxes and charges as levied by the legislative assembly and collected through its own means. The Kashmir Council oversees the income tax collection in AJK, and is responsible for making 80 percent of the collections available to the legislative assembly for inclusion in the AJK budget.
26. The development and non-development funds from the Federal Government are transferred through the K-GB Ministry. Development funds are transferred either as a block payment under the federal PSDP to the AJK government, which later forms AJK's Annual Development Plan (ADP) or as financing for vertical programs.

Figure 1: Funds Flow Process for AJK



27. The 18th Constitutional Amendment (passed on 18th April 2010) promises to bring provincial autonomy, and was implemented in three phases. Under each Phase, a certain number of line ministries (total of 18) were devolved to Provinces. Phase I (5 ministries) was completed in December 2010, Phase II (5 ministries), in April 2011 and Phase III (8 ministries) was completed by June 2011.

28. This Constitutional Amendment adds to fiscal challenges faced by the AJK due to its exclusion from the National Financial Commission (NFC) Award. The four provinces of Pakistan are being compensated through an increased share in the NFC Award to fund the devolved ministries at the provincial level. However, no such initiative has been seen to relieve the financial difficulties of AJK. Although the Health Ministry was devolved last year, however the Federal Government agreed to finance the vertical programs to ease financial pressure from provincial governments, till the next NFC Award (till FY2014-15). The financing of these vertical programs beyond 2015 by the AJK at the current funding level is still a question mark due to an already constrained fiscal situation and the limited ability to raise additional own revenues.

Section II – Analysis of Budgets and Expenditure trends

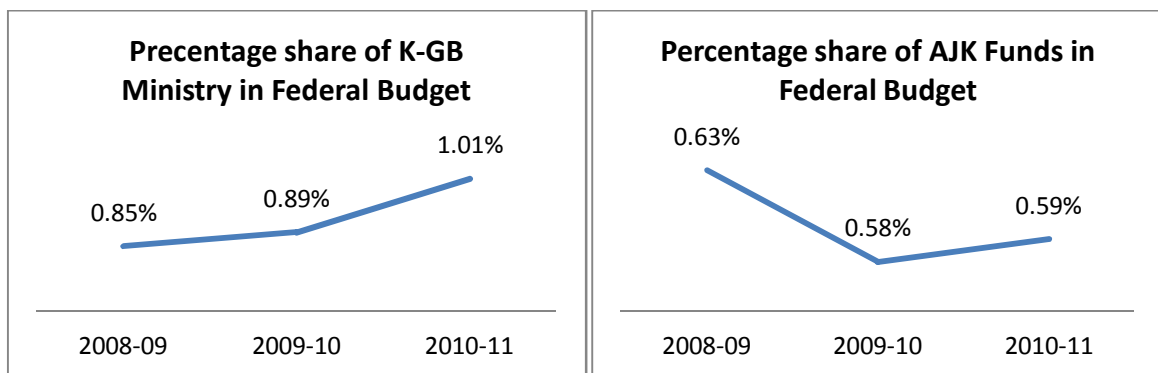
Federal Allocations

29. The federal budget has increased steadily over the past three years, reaching to a record level of total budget at Rs. 2.3 trillion in the FY2010-11. The funds for AJK and GB are channelled through the Ministry of Kashmir Affairs and Gilgit-Baltistan to the specially designated areas. The funding for the K-GB Ministry has increased by 65 percent between the FY2008-09 and the FY2010-11. Total funding made available to the ministry was Rs. 23 billion in the FY2010-11.

30. The percentage share of K-GB Ministry funding in the federal budget has increased from 0.85 percent in the FY2008-09 to 1.01 percent in the FY2010-11. This implies that more funds are being made available to the ministry on a yearly basis and this increase in funds is higher in proportion than the increase in the annual Federal budget. The size of the Federal budget has increased by 22 percent in the FY2009-10 and by 14 percent in the FY2010-11 at a year-on-year basis. In the same timeframe, the K-GB Ministry funding increased by 27 percent and 30 percent, respectively.

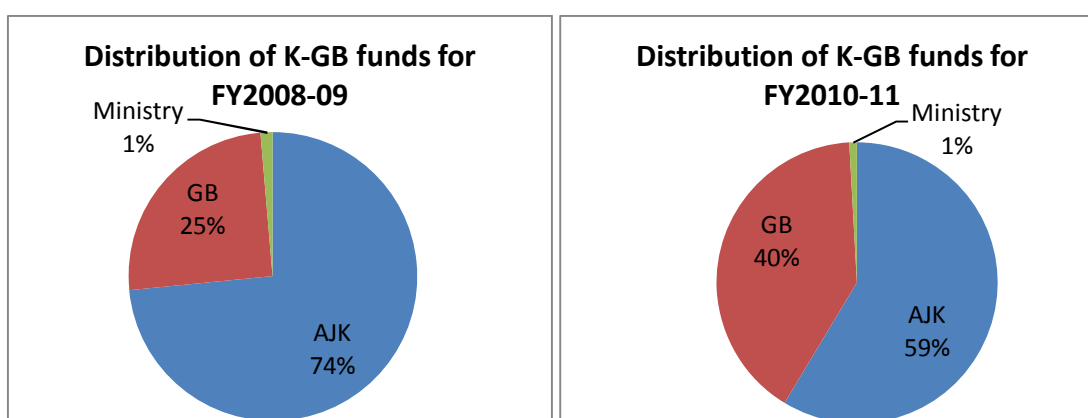
31. The figures below depict the percentage share of the K-GB Ministry and AJK funds in respect to the Federal budget. The funding for AJK has decreased at a percentage basis from 0.63 percent of total Federal budget in the FY2008-09 to 0.59 percent in the FY2010-11. This decrease is due to the lower rate of increase of AJK funds in comparison to the Federal budget (22 percent in the FY2009-10 and 14 percent in the FY2010-11).

Figure 2: Federal Funding Share for AJK



32. The funds transferred to the K-GB Ministry from the Federal Government are divided into three streams, namely Kashmir funds, Gilgit-Baltistan funds and the ministry's own share. When inquired about the formula of distribution of funds to various streams, no satisfactory answer was provided. The figures below represent the distribution of the ministry's fund into the three streams. In the FY2008-09, AJK funds constituted 74 percent of the total K-GB Ministry funds however its share has decreased over the period to 59 percent, as Gilgit-Baltistan's funding share increased from 25 percent to 40 percent. The increase in GB's share coincides with the expected increase in its expenditure due to the change in its status to a newly constituted province.

Figure 3: Distribution of Funds for the Ministry of Kashmir & Gilgit-Baltistan



Overall Azad & Jammu Kashmir Budget

33. This sub-section of the report analyses the AJK budget in its totality vis-a-vis development and non-development budgets.

34. The table below provides an overview of the budget over the last three years:

Table 1: AJK Development vs. Non-development Budget for FYs 2008-11

	<i>In millions Rs.</i>					
	2008-09		2009-10		2010-11	
	Budget	Actual	Budget	Actual	Budget	Revised
Non-Development	20,417.0	21,283.6	24,654.0	25,341.7	29,157.2	31,265.2
Development	9,555.0	9,676.2	10,592.5	5,959.3	6,175.0	6,282.8

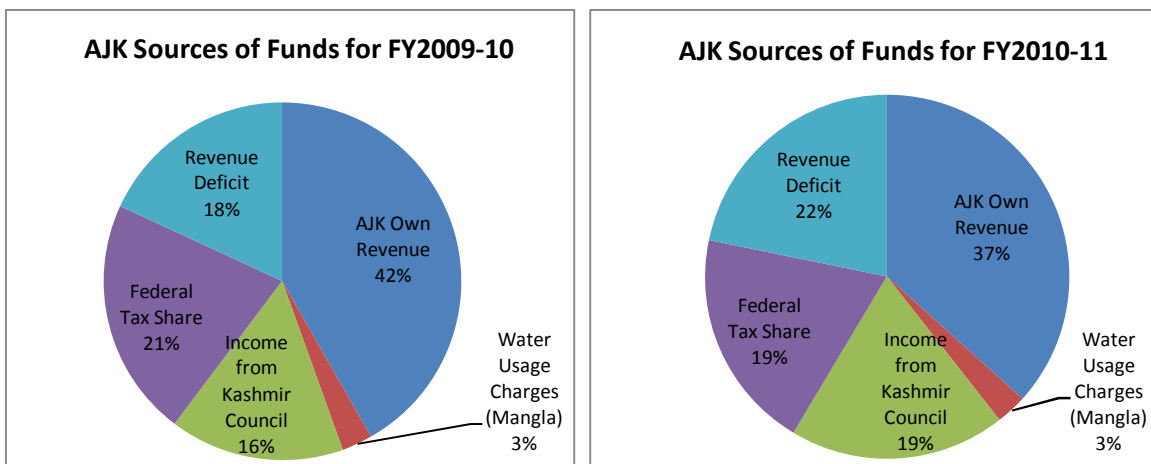
Total	29,972.0	30,959.8	35,246.5	31,301.0	35,332.1	37,548.0
--------------	----------	----------	----------	----------	----------	----------

Source: Government of AJK, Appropriation Accounts for FY2008-09, FY2009-10 & FY2010-11

35. The non-development budget has increased steadily over the period, 47 percent increase in non-development spending was observed (year-on-year basis: 19 percent between the FY2008-09 & the FY2009-10 and 23 percent between the FY2009-10 & 2010-11).

36. The figures below track the proportional changes in the funding sources for AJK between the FY2008-09 and the FY2010-11:

Figure 4: Sources of Funds for the AJK Government



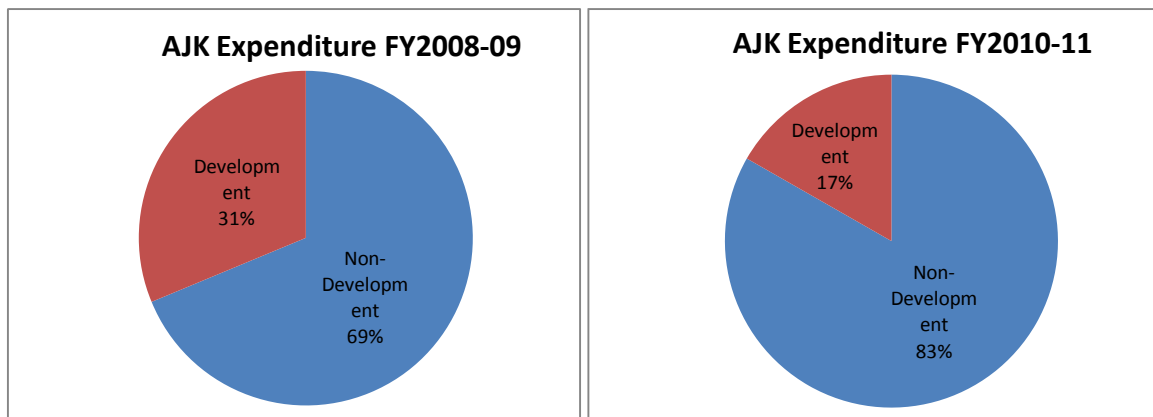
37. AJK government receives funds from the Federal Government under the following transfers: water user charges (for Mangla), Income from Kashmir Council (collected by the Federal Government and transferred to AJK), Federal Tax Share and Revenue Deficit (deficit financed by the federal government). The total share of overall federal transfers has increased from 58 percent in the FY2008-09 to 63 percent in the FY2010-11.

38. The main factor behind the increase in non-development spending is the two fold increase in salaries, as announced by the Federal Government in the FY2008 and FY2011. This salary increase coupled with an increase in operating costs due to inflation has narrowed the fiscal space for AJK. The situation of fiscal constraint has resulted in a decreased flow of funds to other areas of the budget.

39. Another factor causing the reduced funding is the devastating floods in Punjab and Sindh provinces, which forced the Federal Government to divert funds from other sources to relief activities. The diversion of funds to relief activities along with the high burden of debt servicing, led to the unavailability of funds for the Federal Government. The Federal Government relied heavily on austerity measures and re-appropriation of funds to somehow fulfil its obligations.

40. The combination of higher reliance on the Federal Government, increased salaries expense and re-appropriation of funds, drastically impacted the development budget where spending decreased by 35 percent over the period. The development spending decreased from Rs. 9.7 billion in the FY2008-09 to Rs. 6.0 billion in the subsequent year alone, a decrease of over 38 percent.

Figure 5: Development vs. Non-development Expenditure Share



41. The share of development spending has substantially decreased over the period from 31 percent in the FY2008-09 to 17 percent of total spending in the FY2010-11. These correspond with the reported decrease in the share of development budget in the total health budget for AJK.

Health vs. Overall Budget

42. This section will examine the AJK budget and spending against the health allocation and spending for the period of the FY2008-11. The table below provides the segregated development vs. non-development perspective of the AJK and health budgets:

Table 2: Development vs. Non-development Budget of AJK & Health for FYs 2008-11

<i>In millions Rs</i>						
	2008-09		2009-10		2010-11	
	Budget	Actual	Budget	Actual	Budget	Revised
Non-Development	20,417.0	21,283.6	24,654.0	25,341.7	29,157.2	31,265.2
<i>Health</i>	<i>1,379.9</i>	<i>1,613.7</i>	<i>1,623.8</i>	<i>1,827.6</i>	<i>1,823.6</i>	<i>2,494.6</i>
Development	9,555.0	9,676.2	10,592.5	5,959.3	6,175.0	6,282.8
<i>Health</i>	<i>400.0</i>	<i>261.0</i>	<i>402.0</i>	<i>146.3</i>	<i>170.3</i>	<i>147.0</i>
AJK Total	29,972.0	30,959.8	35,246.5	31,301.0	35,332.1	37,548.0
Total Health	1,779.9	1,874.7	2,025.8	1,973.9	1,993.8	2,641.5

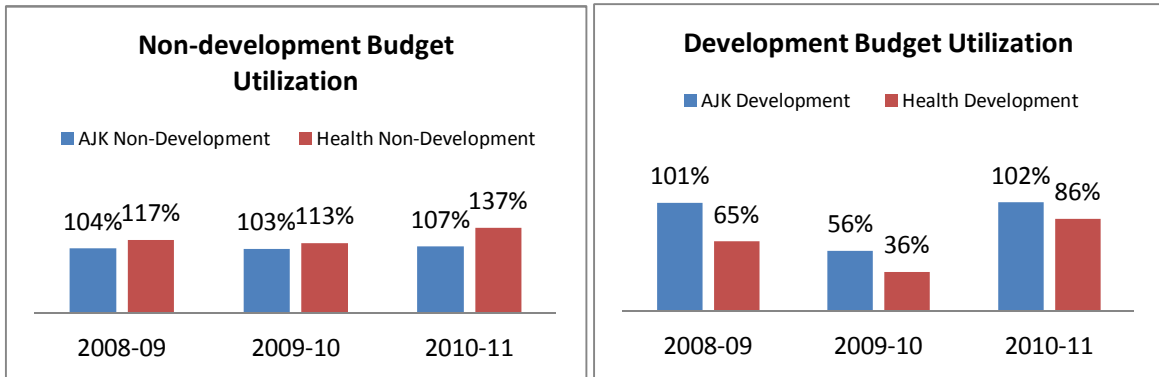
Source: AJK Government, Appropriation Accounts for FY2008-09, FY2009-10 & FY2010-

11

43. The health budget follows the similar pattern as observed for the AJK budget. Over the observed period, the non-development budget and spending has increased, however the development budget has witnessed a downward trend. The combined health spending has increased by 41 percent over the period, however in reality the development budget reduced by 44 percent and this decline was off-set by the non-development budget increasing by 55 percent to represent an overall increase in the health budget.

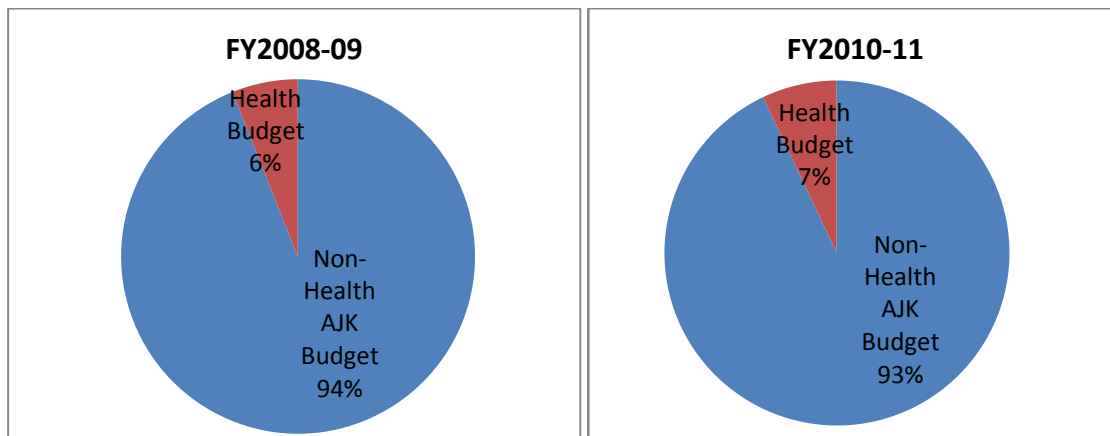
44. Another trend found common between both levels of budgets is the over-utilization of funds for the non-development budget and under-utilization in development spending against the original budget estimates. In the period, it was observed that non-development spending exceeded the original budget for total AJK and health budgets in every single year. The figures below compare the funds utilization in development and non-development budgets:

Figure 6: Budget Utilization



45. However, despite observing a downward trend in the health budget, the ratio of health-to-total AJK budget remains the same. The figure below illustrates the period comparison of total AJK-to-health budget ratio, which has increased from 6 percent to 7 percent. This trend confirms the notion that movements in the health budget are in accordance with the overall budget trends for AJK. Similarly, the non-development budgets comparison yielded no change in the ratio, which stood at the health budget being 8 percent of the total non-development AJK budget. However, the ratio for development budgets declined from 3 percent to 2 percent in the same time period.

Figure 7: Percentage Health Budget

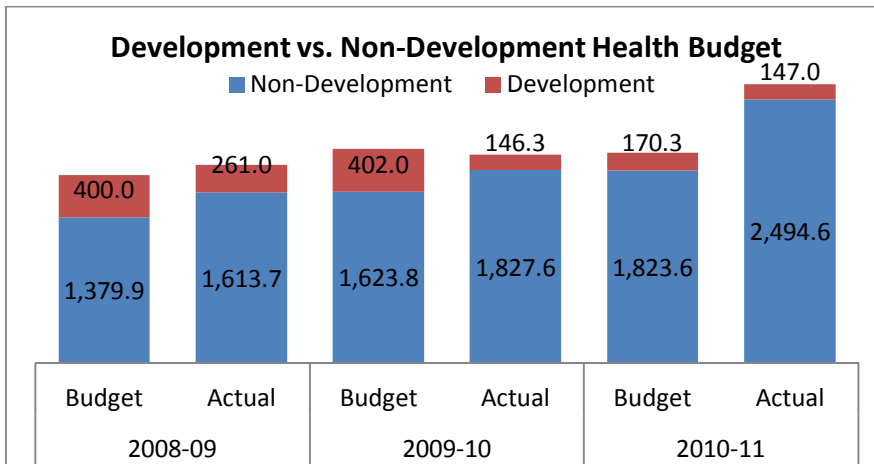


Development vs. Non-development Health Budget

46. The non-development budget being overstrained with the salaries expense, development-to-non-development, health budget and expenditure ratio is an important tool to measure the government's priorities and sincerity towards the health

sector and improvement in health indicators. The figure below provides the disaggregated health budget for AJK for the period of the FY2008-11.

Figure 8: Development vs. Non-development Health Budget

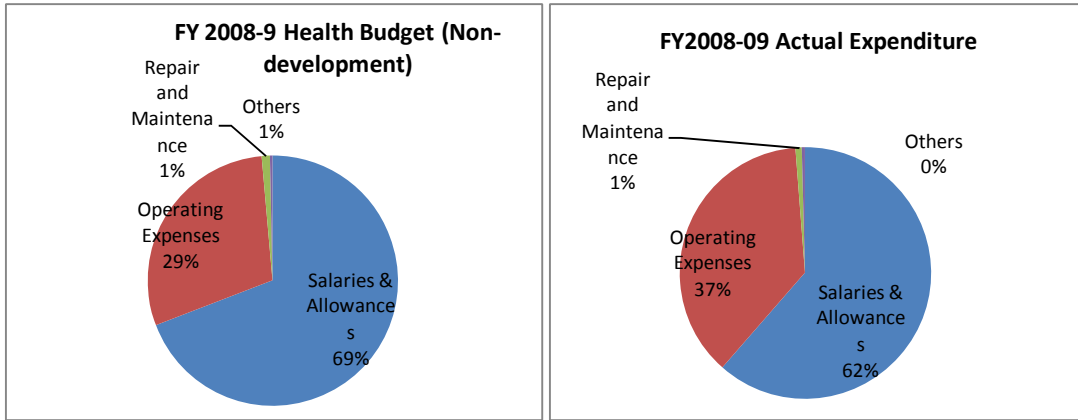


47. The overall budget and expenditure increased as well as the non-development health allocation and spending. However, development funding saw a major decrease over the period. This significantly tilted the health allocations and spending in favour of non-development. Over the period, the budget allocations for development dramatically reduced from 22 percent to 9 percent of the total health budget for AJK. In the same period, actual spending on development was reduced from 14 percent to 6 percent (i.e. non-development constitutes 94 percent of the total health budget).

Non-development Budget – Salaries vs. Non-salaries component

48. As discussed above, the non-development budget is majorly salary-focused. In accordance with this trend, in the FY2008-09 salaries & allowances accounted for 69 percent of the non-development budget, followed by the Operating Expenses at 29 percent. The actual spending for the year also reflected a similar trend with salaries & allowances constituting 62 percent and the proportion of operating expenses increasing to 37 percent. The figures below present the budget and actual spending trend in the non-development health budget.

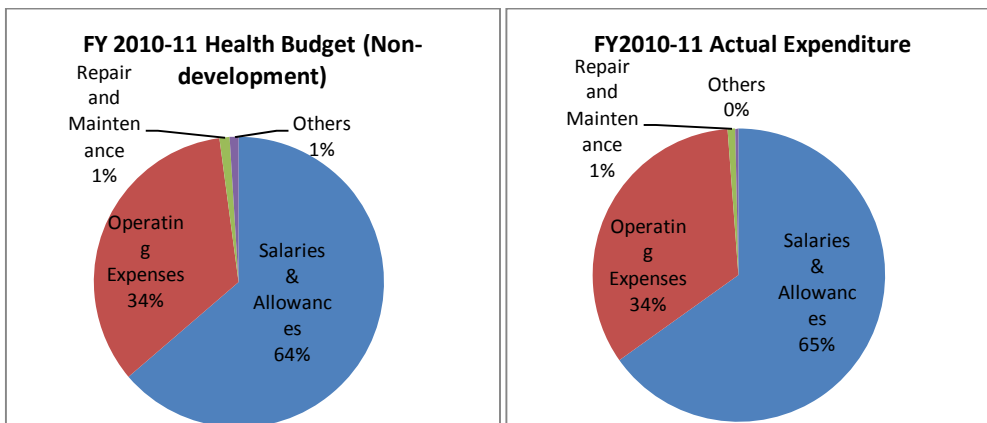
Figure 9: Non-development Health Budget & Actual Expenditure for FY2008-09



49. The salaries & allowances and operating expenses receive 98 percent of the allocated non-development funds (99 percent of the actual non-development health spending), which left fewer resources for other repair and maintenance or medical equipments.

50. Similar trends were observed in the FY2010-11 as well (see the figures below). The budget allocated to salaries & allowances and operation expenses was 64 percent and 34 percent, respectively i.e. 98 percent of the total non-development budget. This left only 1 percent of the budget allocated for repair and maintenance and 1 percent for other activities such as the purchase of physical assets, transfers of store & stocks.

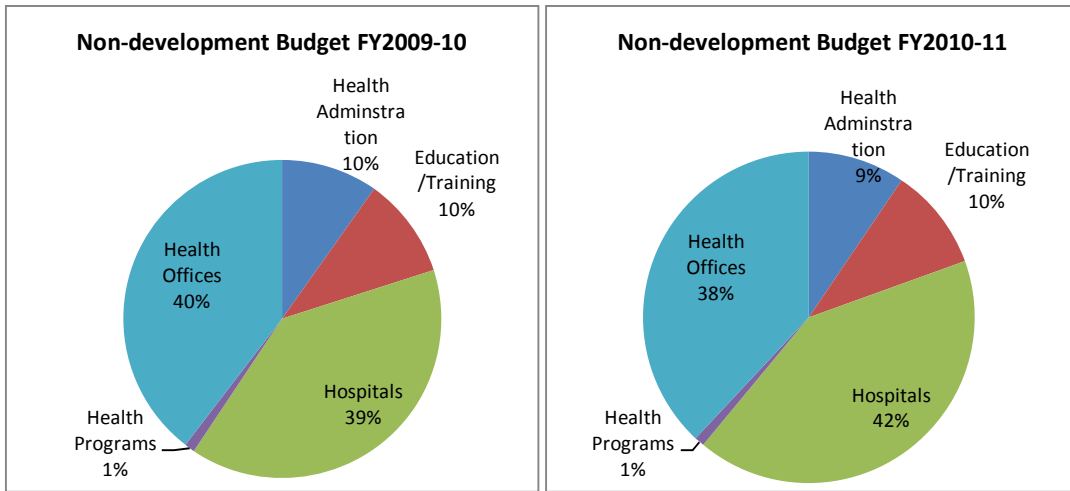
Figure 10: Non-development Health Budget & Actual Expenditure for the FY2010-11



51. The administrative-wise break-down of the non-development budget provides insight into the distribution of funds in accordance to the nature of the facility. In the FY2008-09, District Health Offices and Hospitals were the major recipients of the allocated

budget with 40 percent and 39 percent of the funds allocated, respectively. Funds allocated to health administration and education/training of health staff were 10 percent each. Various health programs/projects in the AJK were allocated only 1 percent of the budget.

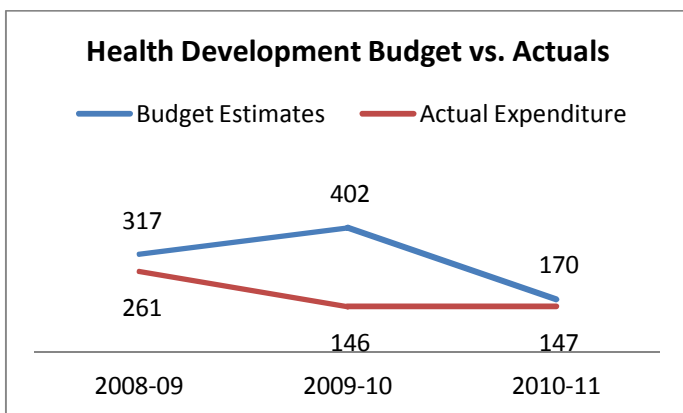
Figure 11: Facility-wise Non-development Health Budget Allocations



52. The non-development budget for the FY2010-11 provides a similar facility-wise breakdown as for FY2008-09. Hospitals and Health offices remain the higher beneficiaries of the allocated budget. This trend has remained the same for the last three years.

Development Budget

Figure 12: Health Development Budget vs. Actual Expenditure

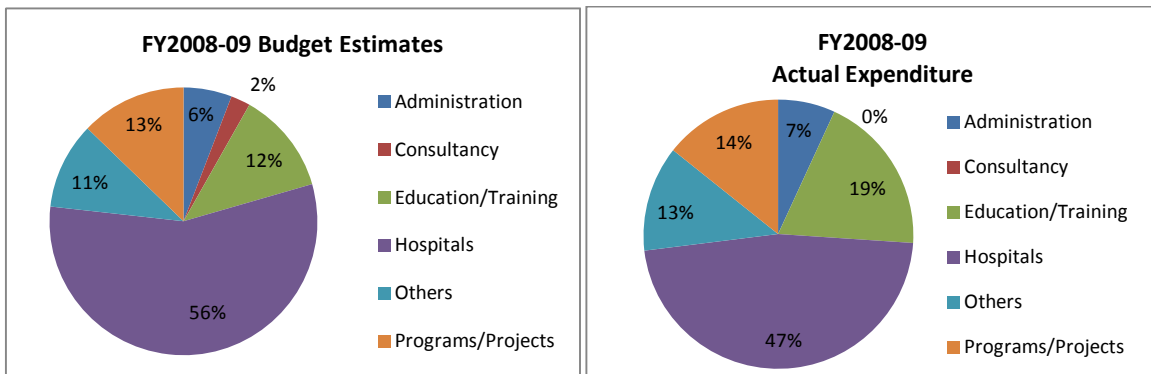


53. As discussed above, the budget allocation for the health development budget has seen a dramatic decrease in the last year, it plunged by more than 42 percent from Rs. 402 million to Rs. 170 million. However, due to lower utilization in the health

development sector actual expenditure increased marginally in the same year from Rs. 146 million to Rs. 147 million.

54. The function-wise classification of the development budget reveals hospitals are the leading recipient of the development allocation, mainly due to increased construction of new hospitals and renovations of existing ones. AJK is still reeling through the devastations of the earthquake of 2005, hence a major portion of the funds is still proportioned for up-gradation/construction of the hospitals. In the FY2008-09, hospitals were allocated 56 percent of the development funds, followed by targeted projects/health programs initiated in the region (13 percent) and education/training of the medical staff (12 percent).

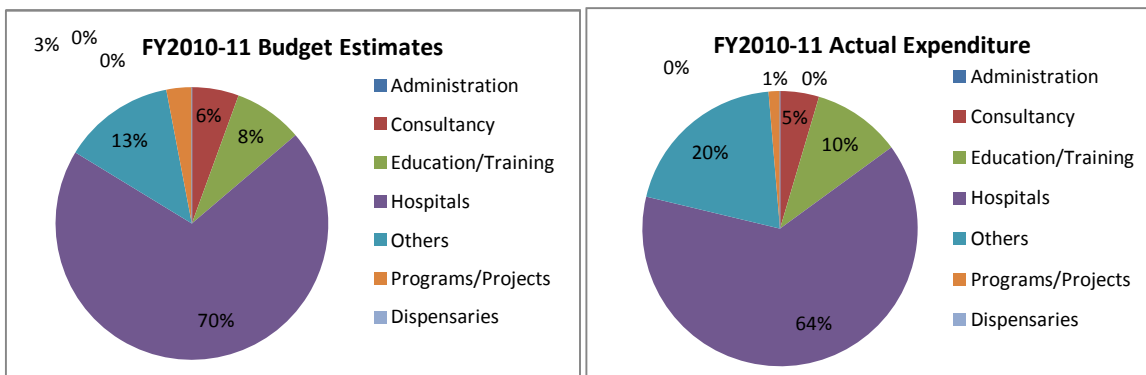
Figure 13: Development Health Budget & Actual Expenditure for the FY2008-09



55. The actual expenditure in the FY2008-09 depicts a marginal shift in priorities, as hospitals received 47 percent of the funds, whereas the education/training head spent 19 percent of the total development budget. Also, administration and programs/projects attained proportionally higher funding in comparison to budget allocation.

56. However, with fiscal constraints being realised and budget allocation decreasing drastically, in the FY2010-11, the allocation proportion of hospitals increased to 70 percent (actual expenditure 64 percent of the total health development spending in AJK). Allocations reduced for programs/projects to a mere 3 percent and for education/training to 8 percent of the total health development budget.

Figure 14: D development Health Budget & Actual Expenditure for the FY2010-11



Medium Term Budgetary Framework (MTBF)

57. Although fully endorsed by the federal government, and already adopted by other provinces, the AJK government is currently not using the MTBF framework for its budgeting & allocating process.

Section III – Key Findings & Recommendations

58. The AJK government is lagging behind the rest of Pakistan in implementing the MTBF. There is a need on behalf of the AJK government to encourage the MTBF application for the efficient and effective utilization of funds. This initiative was introduced by the Government of Pakistan, where federal ministries have adopted the MTBF, and the framework is now being rolled-out in the provinces. It is the right time for AJK to also start the proceedings.

59. A capacity building program is required to be initiated at the ministries' level to improve the budget, planning and recording at the ministries and to embrace the MTBF.

60. It was widely observed that the existing budget classification is not informative. Besides this, it was observed that the functional classification has not been adequately implemented and most of the allocation has been made and expenditure booked in General Hospital Services. There is a need to improve recording mechanisms.

61. AJK relies heavily on federal transfers to meet its financial obligation. In the long run, this approach is not viable and sustainable. The AJK government needs to find alternative avenues to slowly shift its reliance from federal transfers to its own

revenue to finance the budget deficit. The AJK government can raise its own revenue through tourism.

62. Salaries account for a major part of the non-development budget. The recent increases in the salaries by the Federal Government have over-burdened the budget, as the aggregate budget has not been increased in accordance to the salaries increase to accommodate the shift. This resulted in funds being re-allocated from other heads. Alarming, it was reported that the current health staff level in AJK totals to 7,500, however the health ministry has already sent a requisition of 4,000 to 5,000 additional health staff. If such approval is granted, it will seriously impact the other budget heads, which have to be adjusted to accommodate salaries & allowances of additional staff.
63. The uncertain future of vertical programs (currently funded by the Federal Government) and freeze funding by the Federal Government until the FY2014-15 may impact the proposed outcomes of the programs/projects. There is a need to clearly map the strategy in advance for amalgamation of the programs/projects in the AJK government in order to ensure a smooth transition.
64. It is imperative for the AJK government to increase the charges for health services provided to patients at least to cover the costs of the services provided. It was widely reported that currently health services are charged below the cost of the services, increasing the fiscal strain on the budget.
65. The heavy emphasis on the construction of new facilities in the development budget has serious implications in the long run due to the unsustainable level of operating costs in the future. The increase in the expenditure in the future due to the added costs of beds and facilities currently under construction and inflation, will make it highly unlikely to be met through the current funding pattern. This will probably lead to health facilities being under-utilized.

Table 3: Federal and K-GB Ministry Revised Estimates

<i>(In millions Rs.)</i>			
	RE	RE	RE
	2008-09	2009-10	2010-11
AJK	10,335	11,769	13,639
GB	3,546	5,901	9,405
Ministry	189	206	213
Total KGB	14,070	17,875	23,257
GoP Total	1,649,224	2,017,255	2,295,921
K-GB-to-GoP Ratio	0.85%	0.89%	1.01%
AJK-to-GoP Ratio	0.63%	0.58%	0.59%

Source: Government of Pakistan, Annual Budget Document (Pink Book for Current Expenditure) for FY2009-10, FY2010-11 & FY2011-12

Table 4: AJK Non-Development Budget for the FY2008-11

<i>(In millions Rs.)</i>						
	2008-09		2009-10		2010-11	
	Budget	Actual	Budget	Actual	Budget	Actual
Salaries & Allowances	955,564	992,289	1,056,577	1,149,181	1,161,837	1,625,028
Operating Expenses	404,491	601,306	541,040	652,594	622,668	838,903
Repair and Maintenance	15,080	13,380	17,615	18,226	21,171	21,022
Others	4,750	6,713	8,538	7,585	17,896	9,611
Total	1,379,885	1,613,689	1,623,770	1,827,587	1,823,572	2,494,565

Source: AJK Government, Appropriation Accounts for FY2008-09, FY2009-10 & FY2010-11

Table 5: AJK Development Budget for the FY2008-11

<i>(In millions Rs.)</i>						
	2008-09		2009-10		2010-11	
	Budget Estimates	Actual Expenditure	Budget Estimates	Actual Expenditure	Budget Estimates	Actual Expenditure
Administration	18,516,000	17,727,462	100,000	-	5,000	-
Consultancy	7,522,000	-	4,250,000	4,253,752	9,432,000	6,760,702
Education/Training	39,053,000	50,289,484	14,523,000	3,138,951	14,026,000	15,228,934
Hospitals	178,583,000	122,771,356	283,920,000	114,561,282	119,069,000	93,694,487
Others	33,254,000	32,884,645	80,316,000	18,481,460	22,636,000	29,278,768
Programs/Projects	40,465,000	37,356,785	18,294,000	5,838,366	5,100,000	1,996,423
Dispensaries	-	-	597,000	-	5,000	-
Total	317,393,000	261,029,732	402,000,000	146,273,811	170,273,000	146,959,314

Source: AJK Government, Appropriation Accounts for FY2008-09, FY2009-10 & FY2010-11

Table 6: Development vs. Non-development Budget for AJK and Health for the FY 2008-11

	<i>In millions Rs</i>					
	2008-09		2009-10		2010-11	
	Budget	Actual	Budget	Actual	Budget	Revised
Non-Development	20,417.0	21,283.6	24,654.0	25,341.7	29,157.2	31,265.2
Health	1,379.9	1,613.7	1,623.8	1,827.6	1,823.6	2,494.6
Development	9,555.0	9,676.2	10,592.5	5,959.3	6,175.0	6,282.8
Health	400.0	261.0	402.0	146.3	170.3	147.0
Total	29,972.0	30,959.8	35,246.5	31,301.0	35,332.1	37,548.0
Total Health	1,779.9	1,874.7	2,025.8	1,973.9	1,993.8	2,641.5

Source: AJK Government, Appropriation Accounts & Annual Budget Document for FY2008-09, FY2009-10 & FY2010-11

Table 7: AJK Non-development Budget Estimates

	<i>In millions Rs.</i>	
	BE 2009-10	BE 2010-11
Health Administration	800.83	866.14
Education/Training	166.49	182.31
Hospitals	639.79	757.29
Health Programs	16.66	17.83
Total	1,623.77	1,823.57

Source: AJK Government, Annual Budget Document for FY2010-11

Annex – II

List of Persons Met

- | | |
|-----------------------------|-------------------------------|
| 1. Qurban Mir | DG Health |
| 2. Brigadier Shahid Akbar | Commandant CMH - Muzaffarabad |
| 3. Dr. Nauman Masood | MS CMH - Muzaffarabad |
| 4. Syed Aleem Hussain Kazmi | Ast. Chief Planning |
| 5. Dr. M. Saeed Awan | Ast. Director Health Services |
| 6. Dr. Tanvir Shafeeh | A.D.H.S. (Stores) |
| 7. M. Asrar | Budget Section |
| 8. Tariq Zaman | Health Draft Man (Planning) |



TRF is funded by UKaid from the Department for International Development and AusAID, and managed by HLSP