
Health Budget & Expenditure Analysis

(2008-09 to 2010-11)

Health Department (Government of Balochistan)
District Governments in Balochistan

January 2012



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Acknowledgment

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Abbreviations

ADP	Annual Development Plan
A.E	Actual Expenditure
BCC	Budget Call Circular
bcf	Billion Cubic Feet
B.E	Budget Estimates
BHU	Basic Health Unit
bn	Rupees in Billion
CAS	Central Asian States
DG	Director General
FD	Finance Department
FY	Fiscal Year
GoP	Government of Pakistan
GDP	Gross Domestic Product
GDS	Gas Development Surcharge
HD	Health Department
LG	Local Government
mn	Rupees in Million
MTBF	Medium Term Budgetary Framework
NFC	National Finance Commission
O&M	Operation and Maintenance
P&DD	Planning & Development Department
PIFRA	Project to improve Financial Reporting and Auditing
Rs.	Pakistan Rupees
R.E	Revised Estimates
TRF	Technical Resource Facility
Wef	With effect from
YoY	Year on Year basis

Executive Summary

- **The overall state of public finances in Balochistan is showing a marked improvement during the last three years (FY's 2008-11).** This is primarily due to the 7th NFC Award which provides favorable and sympathetic consideration to provinces that are affected by the war against terror and generally suffer from backwardness. Of all the provinces, it appears that Balochistan has benefitted the most from the new revenue sharing arrangement between the Provincial Governments and the Federation;
- **During the last three years (FY's 2008-11) Balochistan has shown a budgetary surplus.** This is unprecedented when compared with the budgets of other Provincial Governments and even the Federal Government budget. During FY's 2008-11, receipts from Federal Divisible Pool have shown an average growth rate of more than 100% whereas during the same period current expenditure have shown an average growth of 28%. This has led to a consistent rise (growth rate of 24%) in 'net revenue surplus' which stands at Rs 58.7bn in FY 2010-11.
- **Law and order situation has been particularly alarming over the last few years and presents serious challenges to the political and bureaucratic administration of the Province.** Interestingly, that does not seem to have had much bearing on development spending. On the contrary, analysis of **development expenditure during the same period revealed that actual expenditure has consistently been over and above budget allocation;**
- **With effect from May 2010, the Provincial Assembly has enacted Local Government Act 2010 which, in essence, has reversed prior devolution efforts.** The administration and financial authority for the management of District Government set up under the District under Balochistan Local Government Ordinance 2001 has now been entrusted to the Provincial Administrative Departments. Consequently, with effect from FY 2010-11, there has been no health budget allocation appearing under the Districts;
- **Consolidated health expenditure (province and aggregate districts) of Balochistan for FY 2010-11 has been Rs 6.74bn (against budget allocation of Rs8.4bn).** Current expenditure overshadows the entire spending and comprises around 85% of the consolidated health expenditure. More than 66% of actual expenditure is for 'employee related expenses' and 33% for operating expenses. From FY 2010-11, all such expenditures are taking place at a provincial level since the district budgets are being allocated to the Health Department of Province;

- **Last three years witnessed a clear shift of budget allocations (and expenditures) from Districts to Provincial Governments.** The composition of health expenditure between Provincial Government and that of Districts has changed from 46:54 in FY 2008-09 to 60:40 in FY 2010-11;
- **Provincial health budget allocations have grown by more than 148% over the last three years, though much of this increase took place in FY 2010-11.** Large part of the health budget increase can be attributed to the overall increase in allocations for the current health budget which has continued to dominate the health budget allocation. Despite this, health development budget (200%) has shown a better growth rate than current budget;
- **Within provincial health current budget, salary budget is growing much faster non-salary budget.** Ratio of current health budget allocation between salary to non-salary budget has moved from 67:33 (FY 2008-09) to 72:28 (FY 2010-11);
- **Health development budget, though relatively modest in size, has grown by 200% in the last three years.** All such increments are taking place under the single classification of 'operating expenses'. For the last three years there has been no allocation for typical development budget object heads like 'physical assets' and 'civil works'
- **In terms of sectoral allocation of health development budget, over FY's 2008-11, there is clearly a shift towards allocating more development budget to curative rather than primary health care.** In FY 2008-09, more than 90% of the schemes were for curative health care whereas in FY's 2009-10 and 2010-11, there is an almost equal distribution of development budget between primary and curative health care. This is mainly because more schemes have been introduced for primary health care;
- The health development budget for FY 2008-09 comprised ONLY of approved schemes but this trend seems to be changing quite radically. **In FY's 2009-10 and 2010-11 more than 60% of the health development budget comprised of un-approved schemes.** Large part of such unapproved schemes relates to primary health care;
- **While analyzing, the development schemes of the Provincial Government one also gets a sense that these schemes largely relate to work being done in District Governments.** For example, such typical schemes comprise of upgradation and establishment of BHU's, upgradation of civil dispensaries, etc. It seems Provincial Government is undertaking development work on behalf of the District Governments;

- **The provincial consolidated health budget represents fairly good budget execution rates over the period of analysis – all over 75% in nominal terms.** The actual expenditure for FY 2010-11 is Rs. 4.04bn showing rise of more than 125% from that of FY 2008-09;
- **Provincial current health expenditure for FY 2010-11 is 3.04bn showing an increase of more than 100% since FY 2008-09.** Non-salary budgetary expenditure is growing at a rate double than that of salary budgetary expenditure. Budget execution for non-salary budget has consistently surpassed 100% of allocation in all three years of this analysis;
- **Except for FY 2009-10 where it was 23%, development budget execution rate for last three years has been well over 110%.** Actual expenditure for FY 2010-11 was Rs. 997mn showing growth of 167% (nominal terms) over FY 2008-09;
- **Health budget allocations for aggregate districts for FY 2010-11 are Rs 3.6bn showing a healthy rising growth trajectory.** On YoY basis, it grew by 14% and 37% (nominal terms) in FY 2009-10 and FY 2010-11 respectively. FY 2010-11 has been a particularly good year showing growth of 34% in real terms;
- **In terms of non-salary expenditure of aggregate Districts, FY 2010-11 has not been a very good year.** The actual expenditure has been very low (and almost NIL in certain cases) despite large allocation to ‘drugs and medicines’, ‘grants and subsidies’ and ‘physical assets’. Barkhan, Bolan, Chaghi, Harnai, Khara, Mastung, Mosa Khel, Quetta, Sherani, Washuk and Ziarat have not been able to utilize budget allocations for ‘drugs and medicines’ in FY 2010-11;
- **Use of functional classification to classify health budget and expenditures needs to be made more informative and in line with policy objectives.** This would facilitate users and policy makers; for example, users will be able to distinguish and better identify expenditure between primary and secondary health services. The existing use of functional classification prohibits any basic analysis that may facilitate decision makers to assess the purpose and qualitative aspects of expenditure and to make informed policy choices;
- **While analyzing the current health expenditure one also gets a sense of disparity between Districts.** The current per-capita health expenditure in each District brings out interesting dimensions. Districts with highest population appear to be showing particularly low per-capita health current expenditures;

- **PIFRA (SAP-R3) is fully operational in only two Districts of the Provinces.** This made collection of data to carry out budget and expenditure analysis an arduous task. Law and order has been cited as the key reason for lack of PIFRA implementation;
- **Moving forward, the challenge for political and bureaucratic administration would be to effectively channelize this ‘precious fiscal space’** to ensure optimal utilization which would lead to better social outcomes and contribute towards economic growth of the Province amidst poor law and order. Due to difficult terrain it would also be useful come up with innovative approaches to improve service delivery and hence, economic conditions of Balochistan

Government of Balochistan and Aggregate Districts-Budget and Actual Expenditure

(Rs in Million)

	Budget Estimate 2008-09	Actual Expenditure 2008-09	Budget Estimate 2009-10	Actual Expenditure 2009-10	Budget Estimate 2010-11	Actual Expenditure 2010-11
Government of Balochistan	1,890	1,806	2,191	1,663	4,695	4,041
District Governments	2,314	2,109	2,639	2,504	3,617	2,700
Total	4,203	3,915	4,830	4,167	8,312	6,740
Government of Balochistan & District Governments						
Current budget	3,913	3,542	4,289	4,043	7,443	5,743
Development budget	290	373	541	124	869	997
Total	4,203	3,915	4,830	4,167	8,312	6,740
Government of Balochistan						
Current budget	1,600	1,433	1,650	1,539	3,826	3,044
Development budget	290	373	541	124	869	997
Total	1,890	1,806	2,191	1,663	4,695	4,041
District Governments						
Current budget	2,314	2,109	2,639	2,504	3,617	2,700
Development budget	-	-	-	-	-	-
Total	2,314	2,109	2,639	2,504	3,617	2,700
% Share in Budget and Actual Expenditure						
Consolidated Health	100%	100%	100%	100%	100%	100%
Government of Balochistan	45%	46%	45%	40%	56%	60%
District Governments	55%	54%	55%	60%	44%	40%
Government of Balochistan & District Governments	100%	100%	100%	100%	100%	100%
Current budget	93%	90%	89%	97%	90%	85%
Development budget	7%	10%	11%	3%	10%	15%
Current budget	100%	100%	100%	100%	100%	100%
Government of Balochistan	41%	40%	38%	38%	51%	53%
District Governments	59%	60%	62%	62%	49%	47%
Development budget	100%	100%	100%	100%	100%	100%
Government of Balochistan	100%	100%	100%	100%	100%	100%
District Governments	0%	0%	0%	0%	0%	0%
Per Capita Expenditure (Government of Balochistan & District Governments)						
Population of Balochistan (in Million)*		8,549		8,687		8,827
Per Capita Expenditure – Total – PKR		458		480		764
Per Capita Expenditure - Current - PKR		414		465		651
Per Capita Expenditure – Development-PKR		44		14		113

*Source: PSDP – Government of Balochistan

Introduction

1. This report on health budget and expenditure analysis of the Provincial Government (Government of Balochistan) and the District Governments in Balochistan has been prepared by the consultant at the request of Technical Resource Facility;
2. Analysis covers FYs 2008-09, 2009-10 and 2010-11. Budget and expenditure data collection for these years has been an arduous task for the consultant. This is because of following key reasons:
 - ¹More than half (17 out 30) Districts are not on PIFRA system;
 - Around 11 Districts are using PIFRA system on 'partial basis';
 - Only 2 Districts are fully using PIFRA System; and
 - Following reversal of devolution (Balochistan Local Government Act 2010) budget and expenditure allocation of Districts has been grouped with Provincial Government's health budget and expenditure. However, for the purpose of this Report and to create consistency in time series aspects of this analysis, health allocations and expenditure (FY 2010-11) for Districts have been segregated from health budget of the Province and are being shown separately (under respective Districts)
3. In light of above circumstances, the consultant based his data collection upon a number of means. For example, budget data has been obtained from published budget documents and in Districts where there is no PIFRA or PIFRA is only being used partially, data relating expenditure has been collected from 'appropriation registers'. To this end, the Consultant visited 17 Districts. The PIFRA system (SAP R/3) was used to collect data in Districts where it is fully functional.
4. This document has been organized in such a manner as to make it more informative by explaining situations from a macro perspective and then drilling down into details. It analyzes budget and expenditure trends separately. In order to provide readers with clarity and a reasonably good understanding from a critical point of view, this report is divided into following sections:

Section I Macro-fiscal context of province

Section II Budgets and budgetary trends

¹ Law and order cited as the main reason for lack of PIFRA (SAP-R3) implementation

Section III Budget execution and expenditure trends

5. Section I lays down, in brief, the overall macro-fiscal situation facing the Province. This was deemed necessary so that readers are able to appreciate overall fiscal realities prevalent in Balochistan that are taken into account when the budget is formulated and executed each year;
6. Section II attempts to analyze budgetary allocations and trends in budget growth over the years in aggregate and detailed terms;
7. Section III reviews the expenditure against budget allocations against various dimensions at aggregate to detailed levels from economic and functional classification perspectives;
8. As one would expect, the above analysis could only be performed after extracting and carefully reformulating budget and expenditure data for the last three years (FY's 2008-11). For the convenience of readers all such data tables forming the basis of analysis have been included as Appendices of this Report which can be referred to while appreciating the budget analysis;
9. Key assumptions – the budget and expenditure analysis following sections does not:
 - comment on budgetary processes and flows, basis of budgeting and budget priorities used formulating budget estimates and their revision;
 - comment on causes and reasons for low budget execution (spending);
 - comment about the qualitative impact and aspects of expenditure;
 - provide commentary on budget and budget execution processes and institutions.

I Macro-fiscal context of the Province

10. Balochistan is the largest Province of Pakistan. It constitutes more than 44% of the landmass of country but houses only 5.6% of the population. Balochistan is blessed with abundant natural resources. Over the last four decades, it has supplied cheap natural gas to Pakistan's economic centers, supporting the country's industrialization and domestic consumption. The province also claims large deposits of coal, copper, lead, gold and other minerals;
11. Quite contrary to being so well endowed with natural resources, the province is very backward in an economic and social context. It has the lowest literacy rate and the weakest long-term growth performance when compared to those of other provinces. From 1972 to 2005, the economy expanded 2.7 times in Balochistan, 3.6 times in Khyber Pakhtunkhwa and Sindh, and 4.0 times in Punjab.
12. Agriculture is the main source of income for the rural population which employs around 65% of the total labor force. Agriculture yield makes around 60% of the provincial GDP, however, only a third of the land area is productive for agriculture or grazing purposes. Balochistan has not yet been able to exploit its geological and situational potential adequately (790km coastline ie. around 69% of country's over-all coast line and close proximity to Strait of Hormuz). Balochistan has more than half of the national prospective geology for minerals, yet it contributes to only a little over one-fifth of national mining GDP, and leads only in the production of coal;
13. Balochistan's mining and mineral sector is gearing up as its natural gas sector is wearing down. In 1994-95, Balochistan produced 355 billion cubic feet (bcf) of natural gas and accounted for nearly 56 percent of Pakistan's total output. A decade later, the province produced 336 bcf and contributed only 25 percent to national output. As Balochistan's gas supplies are exhausting, Pakistan is also running out of usable energy which has been the backbone of sustainable source of energy;
14. Balochistan is also fortunate to have the country's only deep sea port 'Gwadar' which was envisioned to become a transshipment hub for the landlocked Central Asian States (CAS), Afghanistan and Western China. But the port is yet to become fully functional and continues to depend only on Government cargo. It's full potential is yet to be realized;

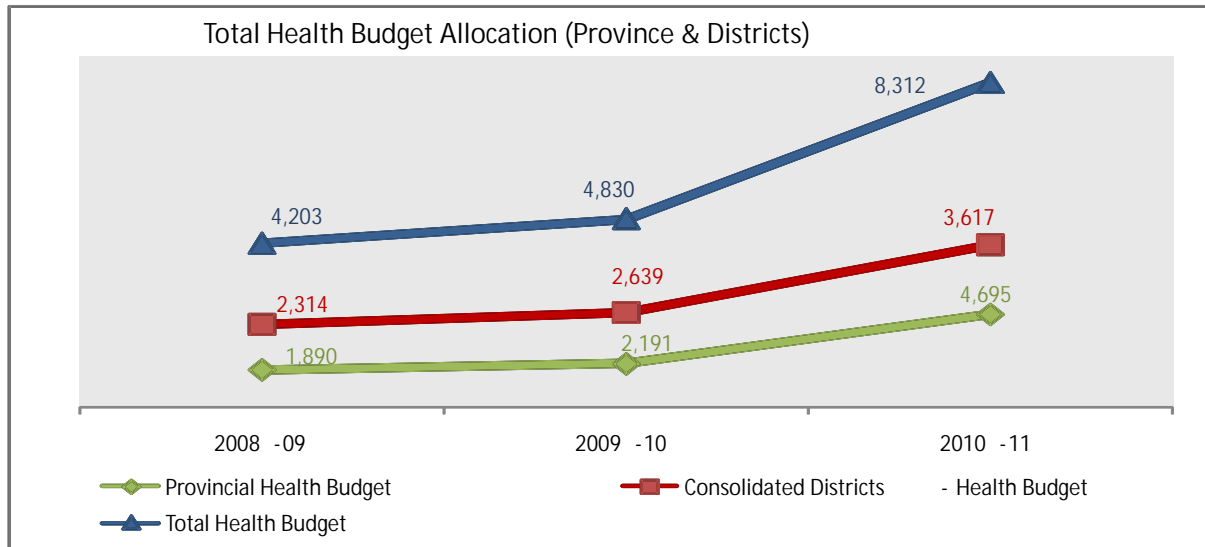
15. Balochistan has run fiscal deficits since FY 2002-03 as the rise in expenditures exceeds the rise in revenues. The province failed to reign in spending as federal transfers declined due to low gas-related payments. Balochistan covered the shortfall mostly through expensive borrowing from the State Bank of Pakistan, which in turn compromised its public debt management strategy by increasing debt servicing costs. Fortunately, the province in FY 2006-07 began to take a number of bold steps to exit the fiscal crisis;
16. The overall law and order situation in the Province has deteriorated over the past years due to intermittent disturbances. These are being largely referred to as Baloch militancy', 'insurgency', sectarian violence, and 'uprising' or 'resurgent nationalism'. Ethnic Balochs always demanded greater autonomy and more control over revenues from their gas fields and other mineral resources, whereas Pakistani government in response launched four military operations and the fifth one, that began in 2003, is in progress, primarily against hard line Baloch separatists operating from hills and remote areas;
17. Though this has ended in recent years, Balochistan has also been suffering from a prolonged drought that has significantly affected agriculture and livelihoods. Rainfall had been below normal from 2000-2007. This has had a number of consequences including reduction in household income, greater dependence on other income resources and migration to other areas for work;
18. With effect from May 2010, Provincial Assembly has enacted Local Government Act 2010 which in effect has reversed prior devolution efforts. The administration and financial authority for the management of officers of District Government set up in a District under Balochistan Local Government Ordinance 2010 has been entrusted to the Provincial Administrative Departments;
19. Despite being faced with hard circumstances, the overall state of public finances of the Province over last few years is looking quite encouraging. During last three years (FY's 2008-11) Balochistan has shown a budgetary surplus. This is unprecedented when compared with other Provincial Governments and even the Federal Government;
20. One of the main reason for improved public finances has been the 7th NFC Award. The 7th NFC Award has had quite a favorable impact on the fiscal health of the Province. Unquestionably, it stands out as the Province that appears to have benefited the most;

21. Due to sizeable increase in 'federal transfers' (approximately 90% of revenue resource base) the overall resources available to the Province have increased drastically especially with effect from FY 2010-11. With in 'federal transfers', 'federal divisible pool' and 'straight transfers' (GDS and federal excise on natural gas) have increased by more than 250% and 68% respectively since FY 2008-09. However, transfers from 'federal grants' have reduced to 50% at Rs 26.1bn in FY 2010-11;
22. Provincial receipts are shrinking ie. from Rs 8bn in FY 2008-09 to Rs 7.5bn in FY 2010-11. This is mainly due to decrease in non-tax revenues. Interestingly, the tax receipts are growing but this is due to indirect tax receipts (provincial excise, stamp duty and motor vehicles) rather than direct tax receipts;
23. During FY's 2008-11, receipts from Federal Divisible Pool have shown an average growth rate of more than 100% whereas during the same period current expenditures show an average growth rate of 28%. This has led to a consistent rise (growth rate of 24%) in 'net revenue surplus' which stands at Rs 58.7bn in FY 2010-11;
24. Within current expenditures 'public law and order' and 'education' are the two sectors that have shown most growth at a rate of 42% and 31% respectively;
25. Early repayment of expensive loans (for e.g. Cash Development Loans from Federal Government from 1970 to 2003) has also been a key contributory factor in improving the fiscal health of the Province. More than Rs. 40bn worth of debt was retired by Balochistan during FY's 2008-11. Balochistan stands out as the only Province that has retired Cash Development Loans;
26. Since FY 2008-09, the actual development expenditure has grown by more than 60%. During all these three years, actual development expenditure has consistently exceeded budget allocation. In FY 2010-11, actual development expenditure was Rs. 37.2bn which is 139% over the budget allocation;
27. From the above discussion, it is quite clear that Balochistan's fiscal health has improved sharply and is likely to be so till the 8th NFC Award (due in 2015). Moving forwards, the challenge for political and bureaucratic administration would be to effectively channelize this precious fiscal space to ensure optimal utilization which would lead to better social outcomes and contribute towards economic growth of the Province amidst a poor law and order situation. Due to difficult and harsh terrain it would also be useful to come up with innovative approaches to service delivery that would lead to economic uplift of the people of Balochistan.

II Analysis of Budgets and Budgetary Trends

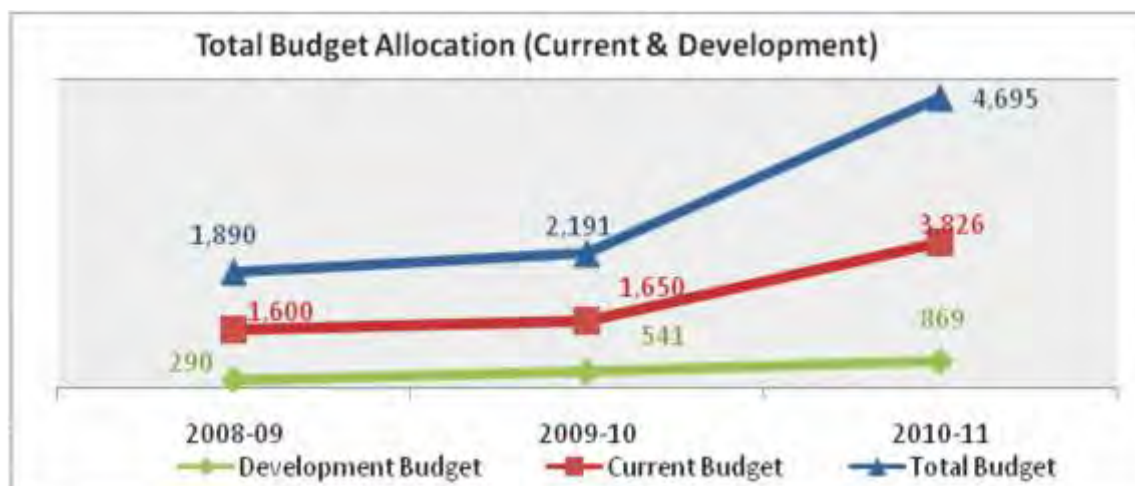
28. This section of the report analyzes the budget allocation and its historical trends during FY's 2008-09, 2009-10 and 2010-11 for (a) Health Department in Government of Balochistan, and (b) Districts Governments. It starts by analyzing the total budget allocation (current and development of Provincial Government and aggregate Districts) ie. providing the macro perspective, then describing typical composition of current and development budget and finally, drilling down separately into allocations for current and development budget for each level of Government;
29. Balochistan comprises 30 Districts with each District having its own current and development budget like that of a Provincial Government till FY 2010-11 that is when Balochistan Local Government Act 2010 was enacted. This has had a far reaching impact on the government machinery at the District level and as a result Departments that were devolved (under Balochistan Local Government Ordinance, 2001) are being financed through respective administrative departments;
30. Therefore, from FY 2010-11, following the Government's decision to reverse devolution, health budget allocations for Districts (shown as NIL) have been merged with the health budget of the Provincial Government. But for the purposes of this report and to create consistency in time series aspects of this analysis, health allocations for Districts have been segregated from health budget of the Province and are shown separately.

Aggregate (Provinces and Districts) and Consolidated Health Budget (current and development) Allocation



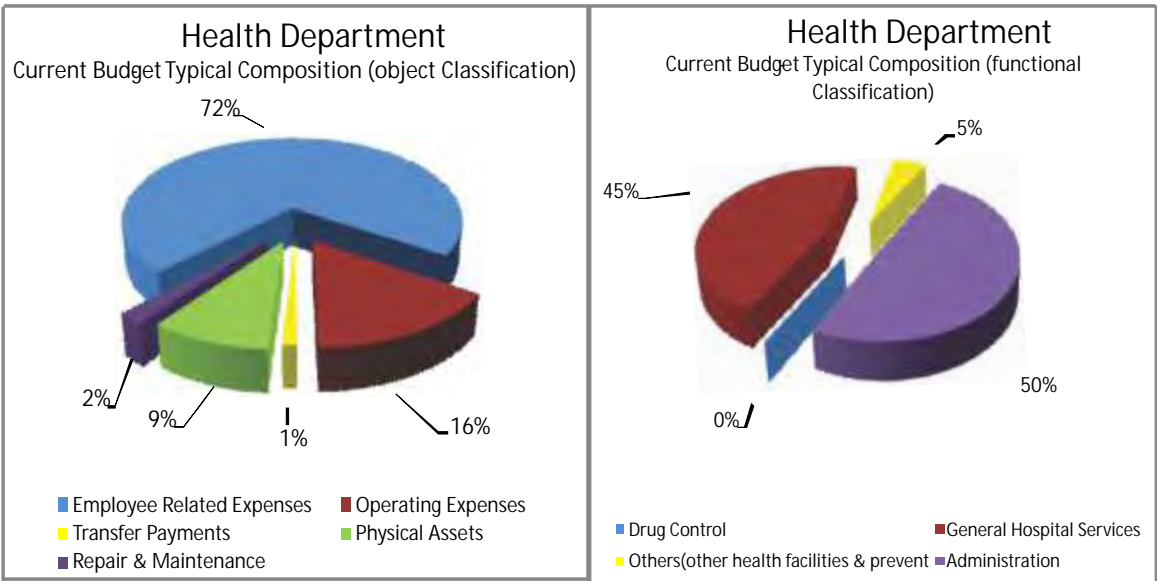
31. The aggregate and consolidated health budget allocations doubled in FY 2010-11 when compared to last two years ie. FY's 2008-09 and 2009-10. For FY 2010-11 consolidated health budget allocation is Rs. 8.3bn. Large part of this increase is attributable to the health allocations for the Provincial Government which has risen by more than 145% over FY's 2008-09 to FY 2010-11. Much of this growth took place in FY 2010-11 (Table 1, Appendix C & Table 1, Appendix D);
32. Relative to the Provincial Government, the District Government is exhibiting a rather steady rise over the years of analysis. On YoY, health budget allocations grew by 14% and 37% in FY 2009-10 and FY 2010-11 (Table 1, Appendix E);
33. Districts have not received any allocation for development budget during the period of analysis. It appears all development budget allocations are routed through the Provincial health budget. Over the three years, one cannot help noticing a clear shift in balance of health budget allocations from District Governments to Provincial Government. Ratio of consolidated (current and development) health budget allocation between Provincial and District Government has moved from 45:55 to 56:44 (Table 1, Appendix C)

Health Department Government of Balochistan

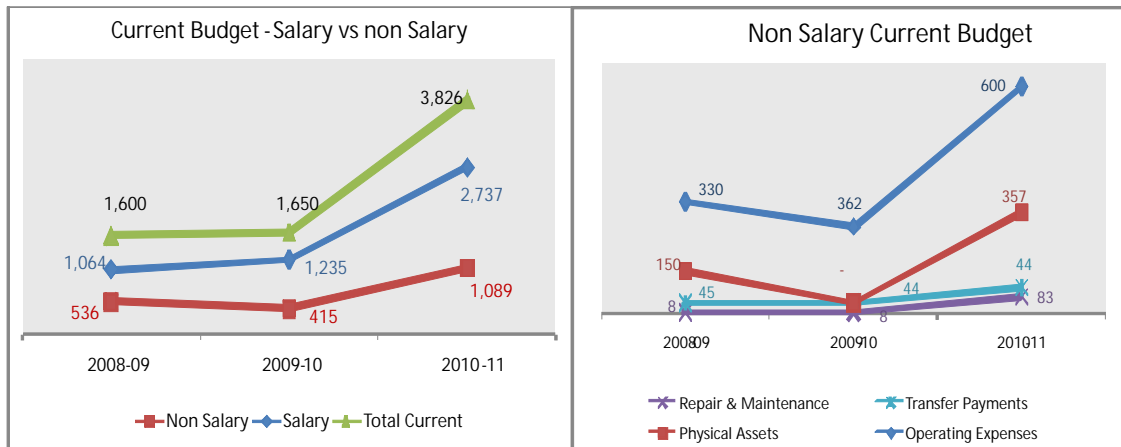


34. Provincial health budget allocation for FY 2010-11 stands at Rs. 4.69bn showing an increase of over 148% from FY 2008-09. Large part of this increase is due to YoY increase in FY 2010-11 which witnessed an increase of around 114% in real terms (Table 1, Appendix D)
35. Quite clearly, health budget allocation is beginning to gain more prominence when compared with the overall budget outlay. In FY 2010-11, health budget allocation comprised of around 4% of the overall provincial outlay as compared to around 3% in FY's 2008-09 and 2009-10. Health budget allocations are growing at a rate faster than that of the overall provincial outlays (Table 2, Appendix D);
36. Large part of the health budget increase can be attributed towards increase in allocations for health current budget which continues to dominate the overall health budget allocation. Ratio of composition between current and development budget stands at 81:19 in FY 2010-11 after showing slight improvements in FY 2009-10 at 75:25 but performing rather negatively when compared with FY 2008-09 which was 85:15 (Table 3, Appendix D);

Current budget

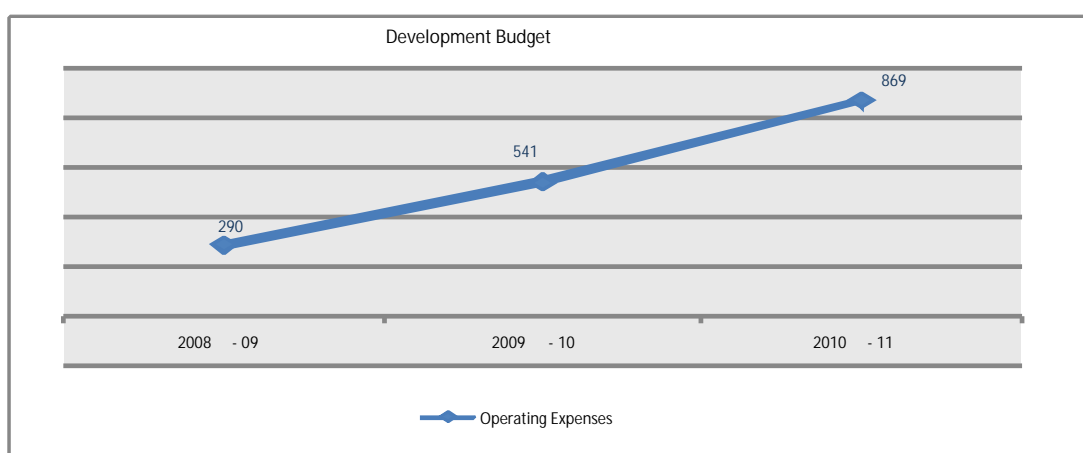


37. Before going any further, it would be useful to appreciate the typical composition of provincial health current budget ie. what it actually contains. Employee related expenses (70% approximately) and operating expenses (20% approximately) comprise more than 90% of the average budget allocations. Functional classification heads of ‘general hospital services’ and ‘administration’ (DG Health Services, etc) take up around 90% of overall health budget allocation. Surprisingly, a hospital (Muhtarma Benazir Shaheed Hospital, etc) also features under ‘administration’ though it could possibly have been more suitably classified under ‘general hospital services’ (Table 6 & 7, Appendix D);
38. After showing a minimal rise (3% in nominal terms) in FY 2009-10 on YoY basis, health current budget grew by more than 132% in FY 2010-11 and stands at Rs. 3.83bn. In real terms, the health current budget allocations have doubled since FY 2008-09 (Table 4&5, Appendix D);



39. Salary budget is growing much faster than non-salary budget. For FY 2010-11, ratio between salary and non-salary budget is around 72:28 which is more or less as it was in FY 2009-10 but 67:33 in FY 2008-09. Non-salary budget registered negative growth (-23% on YoY and nominal basis) in FY 2009-10 before taking a leap in FY 2010-11 (Table 8 & 9, Appendix D);
40. Salary budget is showing an extraordinary increase of 122% (YoY basis) in FY 2010-11. Much of this increase is being shown at the office of the DG as a 'lump-sum' provision (Table 9, Appendix D);
41. Non-salary budget is showing roller coaster trends. After showing negative growth in FY 2009-10 (nominal and real terms) it grew by more than 100% in FY 2010-11 (Table 9, Appendix D). There are basically three reasons that best explain such a phenomenal increase in non-salary budget for FY 2010-11:
- Increase in allocation of budget towards 'drugs and medicines' by 91% (YoY basis) in nominal terms (Table 11, Appendix D);
 - Unusually high budget allocation of Rs. 357m to physical asset (Table 10, Appendix D);
 - Sizeable growth in allocations for repairs and maintenance by 900% (YoY basis) in nominal terms (Table 10, Appendix D).
42. Budget allocation for drugs and medicines is grouped under 'operating expenses' of non-salary expenditures and has increased by more than 90% in FY 2010-11 (YoY basis). These stand at Rs 445mn which comprises around 74% of 'operating expenses' (Table 11 & 12, Appendix D);

Development Budget



43. Composition of development budget has invariably been consistent during the last three years of analysis. In terms of economic classification, very surprisingly, ALL allocation has been towards 'operating expenses' rather than civil works of fixed assets as one would expect (Table 15, Appendix D). On the otherhand, in terms of functional classification ALL development budget allocation has been classified as 'others (other health facilities and preventive measures)' (Table 16, Appendix D). These largely comprise of preventive programs like TB, AIDS, etc;
44. Overall development budget, though relatively modest in size, is showing fairly steady growth rates on YoY basis (87% in FY 2009-10 and 61% in FY 2010-11) - all in nominal terms (Table 13, Appendix D). As explained above, all such increments are taking place under a single head of object classification ie. operating expenses. Since last three years there has been no allocation for typical development budget object heads like 'physical assets' and 'civil works';
45. During FY's 2009-10 and 2010-11, there is more emphasis in allocating development budget for 'new schemes' (trend apparently turning around in FY 2011-12). Such new schemes consist of more than 60% of development budget. Interestingly, no development budget for new scheme was allocated in FY 2008-09 (Table 17, Appendix D);
46. In terms of sectoral allocation, over FY's 2008-11, there is clearly a shift towards allocating more development budget from curative to primary health care. In FY 2008-09, more than 90% of the schemes were focused

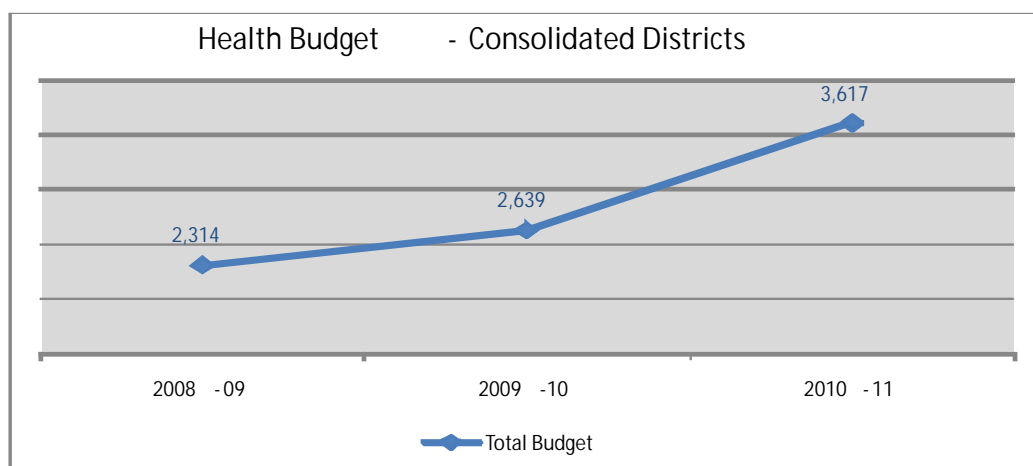
on curative health care whereas in FY's 2009-10 and 2010-11 there is an almost equal distribution of development budget between primary and curative health care. This is mainly because more schemes have been introduced for primary health care (Table 18, Appendix D);

47. The health development budget for FY 2008-09 comprised ONLY of approved schemes but this trend seems to be changing quite radically. For example, in FY's 2009-10 and 2010-11 more than 60% of the health development budget comprised of unapproved schemes (Table 20 & 21, Appendix D). Large part of such unapproved schemes relates to primary health care (Table 18A, Appendix D);
48. While analyzing the development schemes of the Provincial Government, one also gets a sense that these schemes largely relate to work being done in District Governments. For example, such typical schemes comprise of upgradation and establishment of BHU's, up-gradation of civil dispensaries, etc. It seems Provincial Government is undertaking execution development budget on behalf of the District Governments (Table 23, Appendix D);

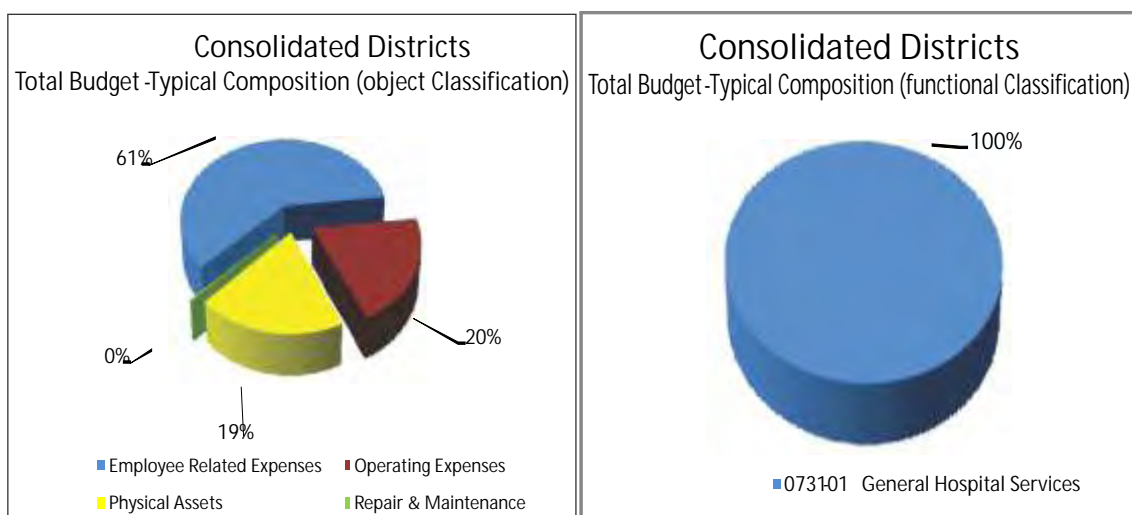
Medium Term Budgetary Framework (MTBF)

49. Health Department in the Provincial Government and at Districts do not prepare budgets on MTBF basis;

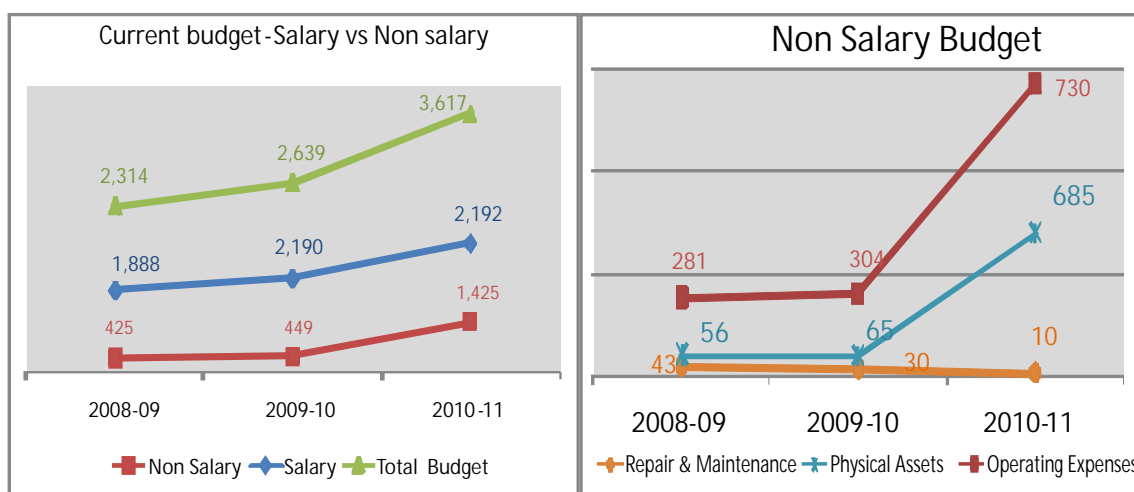
District Governments



50. Over the period of the analysis, District Governments have not received any allocation for development budgets. It appears that Provincial Governments are carrying out schemes for development budget on behalf of the District Governments. Hence, the focus of discussion in this section has been limited to current budget allocations for District Governments;
51. Health budget allocation for consolidated Districts for FY 2010-11 is Rs 3.6bn, showing a healthy rising growth trajectory. On YoY basis, it grew by 14% and 37% (nominal terms) in FY 2009-10 and FY 2010-11 respectively. FY 2010-11 has been a particularly good year showing growth of 34% in real terms (Table 1 & 2, Appendix E);



52. While analyzing the overall composition of health budget allocation, in terms of economic classification, employee related expenses account (61%) for large part of budget allocation followed by operating expenses (20%) and physical assets (19%). Share of employee related expenses has gone down sharply in FY 2010-11 from around 80%. This is not because the employee related budget has grown in financial terms but because Rs. 686mn was allocated for physical assets in FY 2010-11 which had major impact on the overall composition of health budget (Table 3, Appendix E);
53. The above extraordinarily large allocation to physical assets also had an impact on the ratio between salary and non-salary part of current budget. During FY's 2008-10, ratio between salary and non-salary budget has been around 82:18 but this leaned more towards non-salary budget in FY 2010-11 showing ratio of 61:39 (Table 5, Appendix E);
54. FY 2010-11 has been a peculiar year in terms of functional classification as well. Focus of budget allocation has shifted from 'administration' to 'general hospital services' in FY 2010-11. During FY's 2008-10, more than 75% of allocation used to be towards 'administration', 23% towards 'general hospital services' and around 4% towards 'anti-malaria'. But the situation has changed in FY 2010-11 with 'general hospital services' representing 100% of budget allocation (Table 4, Appendix E);

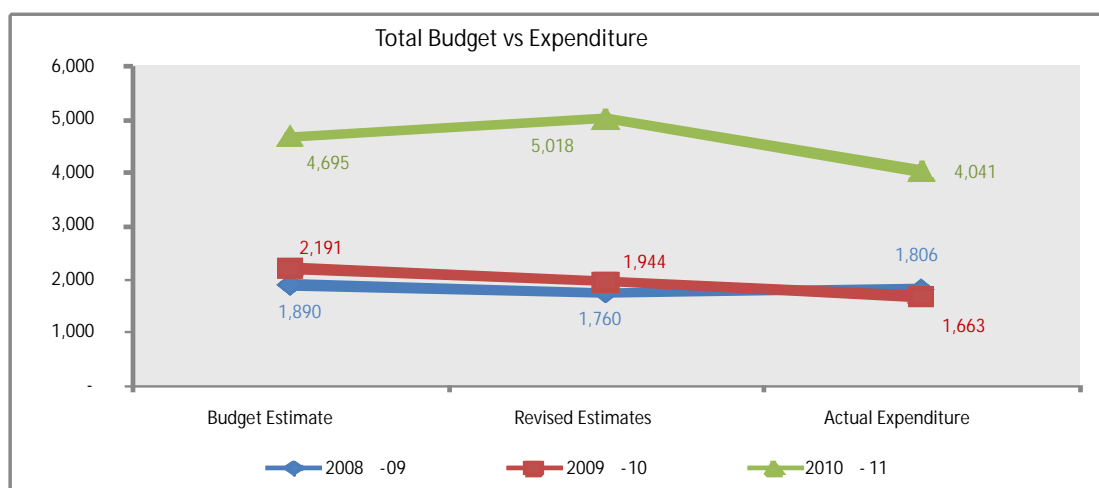


55. Salary budget after showing an increase of 16% in FY 2009-10 (YoY basis) has remained pretty much constant in FY 2010-11 ie. Rs 2.19bn whereas the non-salary budget shows a sharp increase in nominal terms (217%) in FY 2010-11 after remaining stagnant during FY's 2008-10 (Table 6, Appendix E);
56. On the face of it 'operating expenses' is showing extraordinary growth though this is a apparently a bit artificial in nature, This is because almost the entire increase in non-salary budget for FY 2010-11 can be attributed to the increase in two areas ie. 'drugs and medicines' and 'physical assets'. In effect budget for 'operating expenses less drugs and medicines' has gone down by more than 80% in FY 2010-11 (YoY basis) (Table 8A, Appendix E)
57. Within non-salary budget, budget allocation for 'repairs and maintenance' has gone down sharply over the period of this analysis. It is showing negative growth of 31% and 67% in FY 2009-10 and FY 2010-11 respectively. In FY 2010-11, 'repairs and maintenance' comprises of less than 1% of non-salary budget allocations (Table 7, Appendix E);
58. Awaran has no budget allocation in 'drugs and medicine' in FY 2009-10;
59. Awaran (253%), Harnai (235%) and Sherani (158%) stand out as the Districts that have witnessed the most budget growth in FY 2010-11 whereas Sibi (-18%), Turbat (-10%) and Lasbela (-10%) stand out as Districts showing negative budget growth rate in FY 2010-11 (Table 10&11, Appendix E).

III Analysis of Budget Execution and Expenditure trends

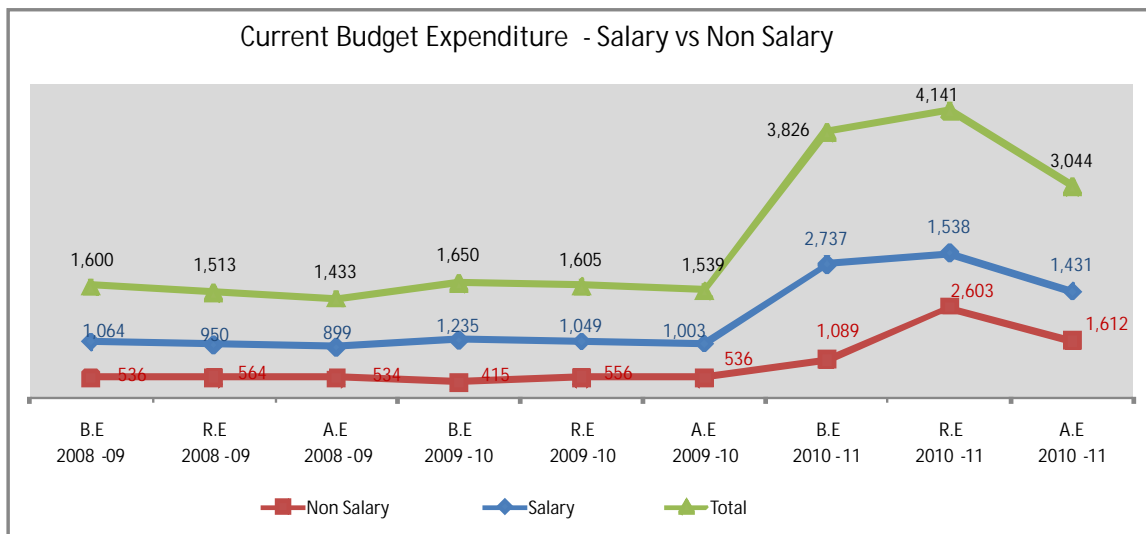
60. This section of the report provides analysis on expenditure trends over the last three years for (a) Health Department in Government of Balochistan, and (b) Districts Governments. It starts by providing analysis on total expenditures (current and development) against budget allocation i.e. providing the macro perspective and then finally drilling down into assessing how expenditures have performed against current and development budget allocation for each Government;
61. Discussion on District budget in proceeding paragraphs starts by discussing consolidated (meaning ALL Districts) budget allocation but also provides a light commentary on particular Districts showing unusual movements in budget expenditure trends;
62. Before going into a detailed discussion, it is worth reiterating the fact that since FY 2010-11 and following the enactment of Balochistan Local Government Act 2010 there has been budget allocation to Districts. These allocations are being made to respective administrative Departments i.e. the Health Department in this case. Therefore, for FY 2010-11, health allocations to Districts have been merged into budget allocations for Provincial Government. For the purpose of this report and in order to carry out a meaningful analysis (and appreciate time series analytics), the figures for Districts have been separated from the expenditure (and budget allocations) of Provincial Government;

Health Department Government of Balochistan



63. The provincial health budget represents fairly good budget execution rates over the period of analysis – a total of 75% in nominal terms. The actual expenditure for FY 2010-11 is Rs. 4.04bn showing rise of more than 140% (nominal terms) from FY 2009-10. In FY 2009-10, the expenditure registered a negative growth of 19% in real terms (Table 1, Appendix F);
64. During the period of analysis, development budget is showing better budget execution rate than current budget. In FY's 2008-09 and 2010-11 the health development budget execution rate has been 129% and 115% respectively (Table 3, Appendix F);
65. The above budget execution rates can also be witnessed when one analyzes the overall budget execution for the entire Province. In all three years, the actual expenditure has been more than 100% of the budget allocation. This is being observed more in the case of development rather than current expenditure (Table 2, Appendix F);

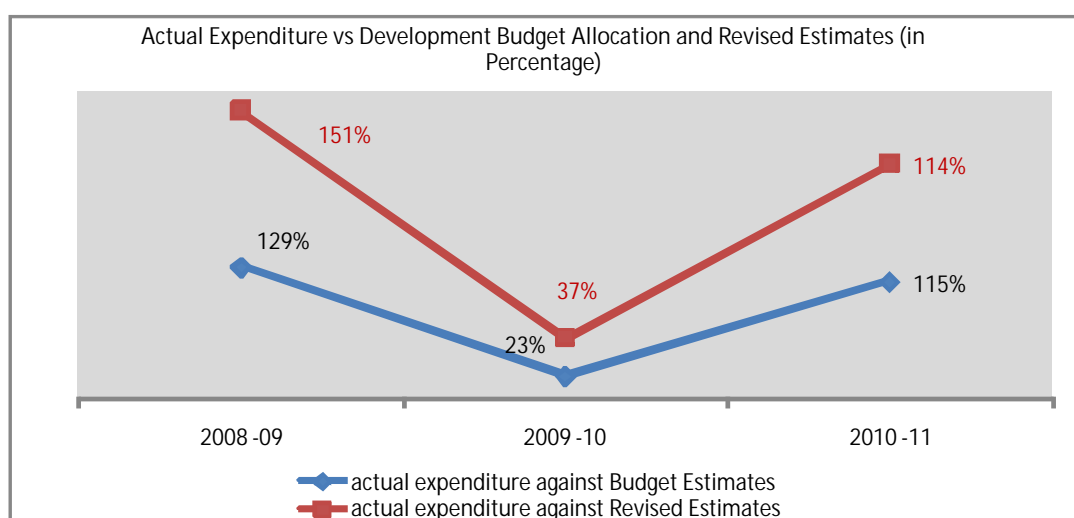
Health Current Expenditure



66. The health current expenditure for FY 2010-11 is 3.04bn. This shows an increase of more than 100% when compared to those of FY 2008-09. In all three years, budget execution rates has been more than 80% though FY's 2008-09 and 2009-10 have been slightly better and show budget execution rates of 90% and 93% respectively (Table 4, Appendix F);
67. The increase in real terms registered negative growth of 5% (YoY basis) in FY 2009-10. But FY 2010-11 has been a very good year registering budget growth rate of 92%, in real terms (YoY basis) (Table 4, Appendix F);
68. Non-salary budgetary expenditure is growing at a rate double than that of salary budgetary expenditure. Budget execution for non-salary budget has consistently surpassed 100% of allocation in all three years (100% in FY 2008-09, 129% in FY 2009-10 and 148% in FY 2010-11) whereas the salary budget after registering fairly good execution rates in FY's 2008-09 (84%) and 2009-10 (81%) has gone down to 52% in FY 2010-11 (Table 6, Appendix F). This slow down in budget execution is due to a lump sum budgetary provision to DG Health (Rs 1.5bn) in FY 2010-11 which has remained largely unspent;
69. Actual expenditure for non-salary budget has remained more or less consistent in FY's 2008-09 and 2009-10 ie. around Rs. 534mn. But the situation changed sharply in FY 2010-11 when the actual expenditure grew (287%) to Rs 1.61bn (Table 6, Appendix F);
70. The ratio between salary and non-salary expenditure within current expenditure is also showing significant shifts from FY 2009-10 to FY 2010-11. In FY 2010-11, this critical ratio has changed to 47:53 from 65:35 in FY 2009-10 focusing more on salary related expenditure (Table 6A, Appendix F);

71. Within non-salary budget, except for repairs and maintenance and physical assets all other heads show extraordinary growth in budget execution rates. Operating expenses have grown by more than three times over the last three years (Table 8, Appendix F). This is largely due to exponential growth rate in actual expenditure for 'drugs and medicines' which is classified under 'operating expenses'. Though the budget allocation has doubled during the last three years (from 203mn in FY 2008-09 to Rs 445mn in FY 2010-11), the actual expenditure for 'drugs and medicines' has grown by almost 5 times during the period of analysis (Table 7, Appendix F);
72. While analyzing 'operating expenses minus drugs and medicines', the overall growth rate has been pretty nominal. As pointed in the above paragraph (and visible from Table 8A, Appendix F) the actual growth of 'operating expenses minus drugs and medicines' has been 57% in nominal terms over the last three years;
73. The high growth in non-salary expenditure for FY 2010-11 (Table 6 & 8, Appendix F) is due to two other notable reasons i.e. increase in;
- expenditure for grants, subsidies, and write-offs (for Health Department Head Quarters); and
 - transfer payments to Bolan Medical Complex (Rs 69mn);

Health Development Expenditure

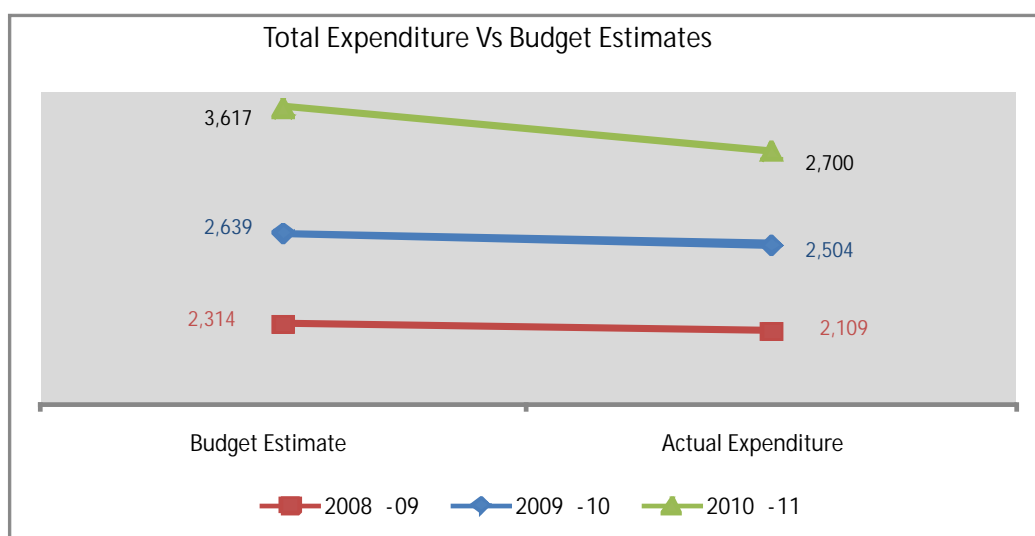


74. Except for FY 2009-10 (23%), development budget execution rate for last three years has been well over 110%. Actual expenditure for FY 2010-11 was Rs. 997mn showing growth of 167% (nominal terms) over FY 2008-09. FY 2009-10 has been a particularly bad year for development budget in terms of budget execution where actual spending showed negative growth of 67% (nominal terms) (Table 9, Appendix F);
75. Development budget has been consistently revised downwards in FY's 2008-09 and 2009-10 by 15% and 37% respectively. But the actual expenditure for FY's 2008-09 and 2010-11 have been way above the revised estimates (Table 10, Appendix F);
76. Operating expenses account for around 90% of the development expenditure (Table 12, Appendix F);

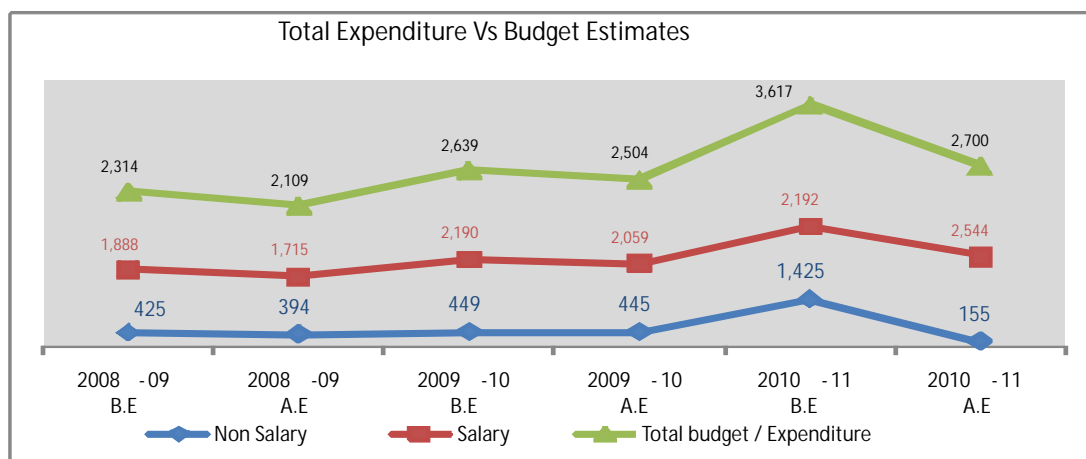
District Governments

77. As explained in paragraph 61, District Governments received budget allocations for current budget only, therefore, discussion in this section of report has been limited to current expenditure;

Health Current Expenditure



78. The budget execution rate for FY's 2008-09 and 2009-10 has been over 90% but this has fallen down to 75% in FY 2010-11. The current health expenditure for FY 2010-11 is Rs. 2.7bn showing a consistent growth of 5% (in real terms) over the last two years (Table 1, Appendix G);



79. Salary and non-salary budgets are showing consistently good budget execution rates FY's 2008-09 and 2009-10. But the situation has changed drastically in FY 2010-11 where like in previous years salary budget shows execution rate of 116% but the non-salary budget is showing budget execution rate of only 11% (Table 4, Appendix G).
80. Consequently, the above has also impacted the ratio between salary and non-salary expenditure. With in health current expenditure, ratio between salary and non-salary expenditure has also changed significantly in FY 2010-11. In FY 2009-10 this ratio stood at 81:19 as opposed to 94:6 in FY 2010-11 (Table 3, Appendix G);
81. In terms of non-salary expenditure, FY 2010-11 has not been a very good year. The actual expenditure has been very low (and almost NIL in certain cases) despite having large allocation in 'drugs and medicines' and 'physical assets'. (Please refer to Table 5 & 6, Appendix G);
82. In FY 2010-11, certain Districts have not been able to spend allocations for 'drugs and medicines'. These include Barkhan, Bolan, Chaghi, Harnai, Kharan, Mastung, Mosa Khel, Quetta, Sherani, Washuk and Ziarat;
83. Khuzdar, Lasbela and Turbat stand out as districts showing high budget execution rates for FY 2010-11 (Table 7, Appendix G). On the other hand, Sherani, Washuk and Harnai stand out as districts showing poor budget execution rates for FY 2010-11 (Table 8, Appendix G). This is despite the fact that Sherani and Harnai received the most budget growth for FY 2010-11;
84. There is also something to be said about equitable health expenditure in Districts. To this end, an analysis was performed on showing per-capita health current expenditure in each District which brings forth certain interesting statistics. Quetta, with the highest population, is showing lowest current per-capita health expenditure and Ziarat with lowest population shows highest current per-capita health expenditure (Table 9&10, Appendix G).

