

PAKISTAN

Public Sector Development Program Review

(Fiscal Year 1995/96)

The World Bank
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PAKISTAN

PUBLIC SECTOR DEVELOPMENT PROGRAM REVIEW

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TABLE OF CONTENTS

	<u>Page No.</u>
SUMMARY OF RECOMMENDATIONS	i
I. OVERALL ASSESSMENT OF PSDP AND PROPOSED CORE PROGRAM	1
A. Background	1
B. Fiscal Adjustment and Development Expenditure	2
C. Assessment of 1995/96 PSDP and Core Program	8
D. Multi-Sectoral Programs	16
II. EVALUATION OF SECTORAL PROGRAMS	23
A. Energy	23
A1. Power	23
A2. Oil and Gas	26
B. Agriculture and Environment	29
B1. Agriculture	29
B2. Environment	31
C. Irrigation and Drainage	32
D. Industry, Minerals, and Telecommunications	39
D1. Industry and Minerals	39
D2. Telecommunications	39
E. Transportation	40
F. Social Sectors	45
F1. Education and Training	46
F2. Health and Nutrition	47
F3. Population Welfare	48
ANNEX: Statistical Tables on PSDP and Core Program	Pages 1 to 18

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SUMMARY OF RECOMMENDATIONS

1. This review of the Public Sector Development Program (PSDP), intended to assist the Government of Pakistan in the preparation of its 1995/96 PSDP, is the fifth in a series of such annual exercises. Its main tasks are (1) to provide analysis and suggestions relating to the size of the total PSDP and budgetary PSDP in the context of the overall macroeconomic framework and fiscal deficit target; (2) to propose a Core Development Program (CDP) consisting of high-priority activities whose allocations should be protected from fiscal cutbacks; (3) to assess the funding needs of individual projects and programs on a technical basis, particularly those receiving donor assistance; and (4) to recommend upward or downward adjustments in proposed allocations for projects and programs as necessary. Possible adjustments in non-Core projects and programs, sectoral issues, generic issues related to programming and implementation, etc. also are discussed. In addition, the review evaluates the final outcome for 1993/94 and likely outcome in 1994/95, in particular to assess whether the CDP has been adequately protected from budgetary cutbacks. Reliable estimates of the 1994/95 outcome are not yet available, however, so a firm assessment of whether this fiscal year's Core Program has been protected will be provided at a later date. As in 1994/95, this review is being conducted jointly with the Asian Development Bank and Japanese Overseas Economic Cooperation Fund.

Issues Related to PSDP Size and Composition

2. Despite some success in reducing the fiscal deficit as a share of GDP during the past several years, fiscal adjustment in Pakistan is still far from complete, and as a result resource availability for the public sector remains severely constrained. The Government recognizes that fiscal adjustment must be based on a comprehensive, solid tax reform program to broaden the tax base, rationalize rates, improve tax administration, and enhance resource mobilization on a sustainable basis. In particular, **major reductions in all kinds of tax exemptions and concessions will be required**. Unless reversed quickly, the generous tax exemptions currently being provided, as well as new tax incentives being granted for various activities, will seriously undermine resource mobilization. Continuing efforts to increase cost recovery for publicly provided services also are needed to raise revenues and improve the quality of the public services provided.

3. The Government's objective of reducing the fiscal deficit to 4% of GDP in 1995/96 imposes a tight limit on growth of expenditure. Fiscal projections indicate that a budgetary PSDP size of about Rs 95 billion and an overall PSDP (including the non-budgetary investments of WAPDA, OGDC, and PTC) of Rs 140 billion would be consistent with macroeconomic stability and the fiscal deficit target. **The budgetary PSDP ceiling is very low**, in relation to past levels (as a share of GDP), in view of Pakistan's enormous development-related needs in infrastructure and social sectors, and in relation to the large program of foreign development assistance envisaged for next year as well as the funding needs of ongoing projects and programs. The Government's target for total disbursements of project aid in 1995/96, endorsed at the recent Consortium meeting, is US\$2.2 billion (Rs 68 billion--not all of which is in the PSDP), whereas the total proposed allocation of foreign assistance in the budgetary PSDP is only Rs 40 billion. The estimated budgetary PSDP requirements generated by the foreign assistance program (including domestic counterpart funding) is in the range of Rs 85 billion. This implies that the bulk of the budgetary PSDP would be taken up by donor-assisted activities, leaving little scope for carrying out domestically financed projects and programs.



4. Moreover, the review of funding needs for the Core Program and the Social Action Program (SAP--development account only), as well as shortfalls in funding for certain high-priority non-Core projects, indicates that **estimated requirements for the budgetary PSDP exceed the allocations proposed by the Planning and Development Division by an aggregate net margin of about Rs 8 billion**. This substantial identified shortfall in funding of the Core and SAP means that, in the absence of any other adjustments, the budgetary PSDP would exceed the ceiling of Rs 95 billion by a considerable margin. There are several possible approaches (not mutually exclusive) to resolving this problem:

(1) **institute cutbacks in domestically-financed non-Core expenditures** to stay within the Rs 95 billion ceiling;

(2) **revisit the broad allocation of budgetary expenditure between the PSDP and other categories, as well as possibilities for additional resource mobilization** (e.g. through further curtailing of tax exemptions), with the objective of achieving a modest increase in the size of the budgetary PSDP within the existing macroeconomic framework; and

(3) **reassess the program of foreign development assistance for 1995/96**, targeting for possible cutbacks low-priority new projects for which delaying start-up would be feasible and not too costly, and ongoing projects with severe nonfinancial implementation problems, or which no longer are of high priority given changes in the Government's reform strategy and its sectoral priorities for public investment.

5. This report looks only at Option (1), since a systematic review of other alternatives is beyond the scope of the PSDP Review, but the Government can also explore Options (2) and (3), in combination with Option (1).

The Core Development Program (CDP)

6. Based on specified criteria for inclusion of projects and programs in the CDP, this review proposes a Federal Core Program for 1995/96 with total recommended allocations of Rs 62.4 billion, whose budgetary portion is Rs 43.1 billion. **The proposed allocation of budgetary funds for the Core falls short of the estimated requirement by Rs 4.2 billion**. This shortfall needs to be corrected. Transport accounts for 44%, Irrigation and Drainage for 33%, and the Power sector for 14% of this shortfall, with the remaining gap scattered among the other Core sectors (see the table below). Five projects--the ADB-supported Pat Feeder Canal project, the Fourth Highway Project, the Transport Sector project, Pavement Strengthening/Rehabilitation, and Ghazi Barotha--account for more three-quarters of the aggregate net shortfall in the budgetary portion of the CDP.

Adjustments in the SAP and Non-Core Programs

7. The PSDP Review team, in consultation with the SAP mission currently in the field, has assessed the needs of the SAP project and other SAP-related provincial projects in the social sectors. **The proposed level of foreign assistance for these activities falls short of the estimated requirements by a margin of Rs 2.3 billion**. In addition, shortfalls for other high-priority projects (in the Oil and Gas and Transport Sectors) total about Rs 1.5 billion. **Hence the total identified shortfall that needs to be accommodated in the PSDP is about Rs 8 billion** (see the table below).



SHORTFALLS IN PROPOSED ALLOCATIONS FOR 1995/96 BUDGETARY PSDP
(Rs Million)

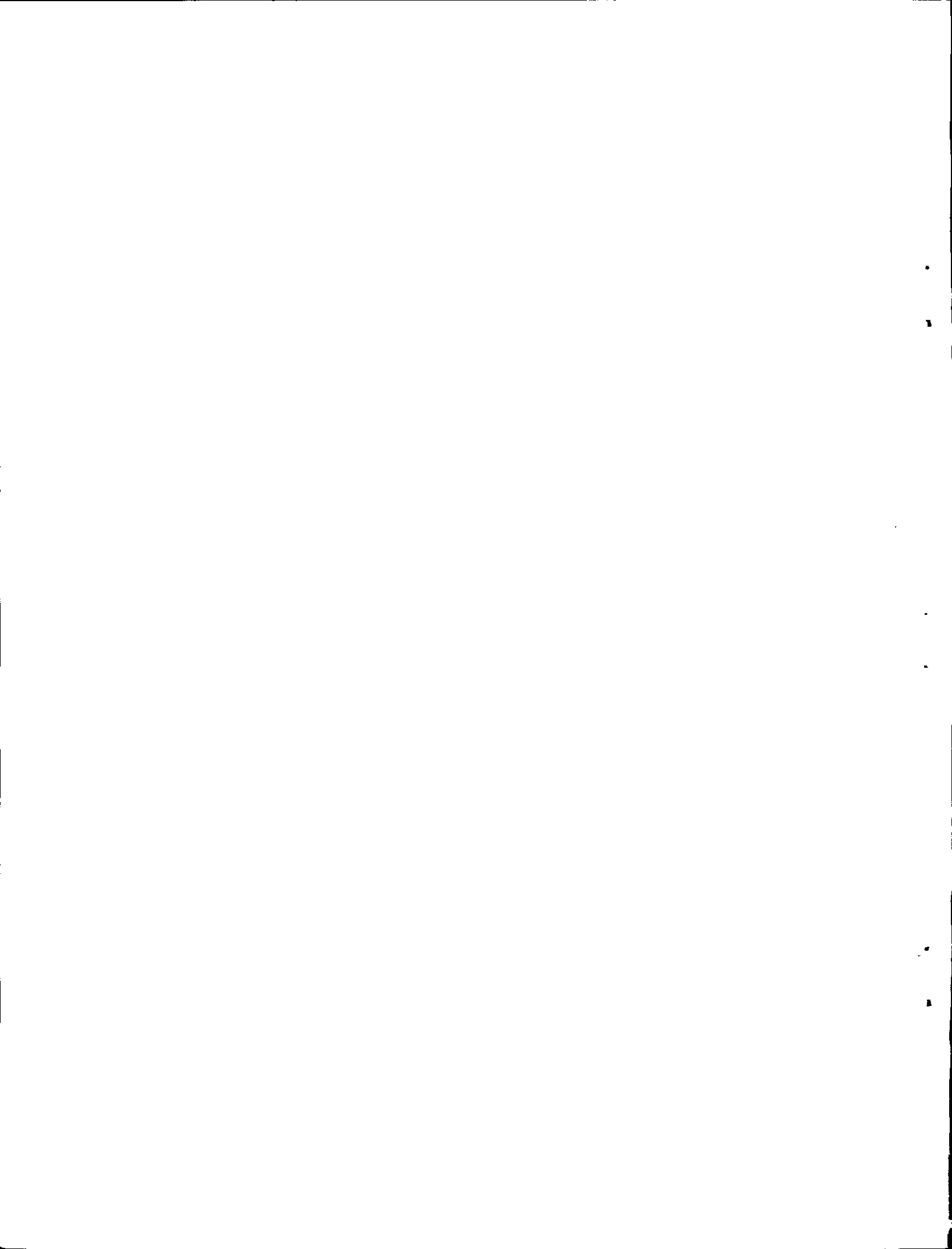
	Review Team's Suggestions			Proposed PSDP Allocations			Difference (Shortfall)		
	Total	Local	Foreign Aid	Total	Local	Foreign Aid	Total	Local	Foreign Aid
CORE DEVELOPMENT PROGRAM:	43,064	14,196	28,869	38,864	12,156	26,709	4,200	2,040	2,161
Transportation	13,184	6,932	6,252	11,339	6,012	5,327	1,846	920	926
Agriculture	644	146	498	493	78	415	151	68	83
Irrigation and Drainage	12,659	4,733	7,926	11,284	3,887	7,397	1,375	846	529
Power (WAPDA)	12,542	0	12,542	11,936	0	11,936	606	0	606
Education	532	84	449	532	84	449	0	0	0
Health and Nutrition	1,915	1,406	509	1,847	1,406	441	68	0	68
Population Welfare	1,588	895	693	1,433	689	744	155	206	(51)
SAP (Provinces)	12,784	7,500	5,284	10,500	7,500	3,000	2,284	0	2,284
TRANSPORT NON-CORE (NHA)	5,351	5,351	0	4,643	4,643	0	708	708	0
OGDC (Non-Core)	1,300	0	1,300	500	0	500	800	0	800
TOTAL:	62,499	27,046	35,453	54,507	24,299	30,209	7,992	2,748	5,245
OTHER (Residual)	Not reviewed in detail.			41,043	31,126	9,916	n.a.	n.a.	n.a.
TOTAL PSDP:	n.a.	n.a.	n.a.	95,550	55,425	40,125	7,992	2,748	5,245

8. This review presents an indicative list of possible cutbacks in allocations for non-Core projects and programs, which would be sufficient to accommodate the needed increases in the Core and SAP within the Rs 95 billion resource envelope for the budgetary PSDP. A few major programs and projects, accounting for a large share of the non-Core, non-SAP development program, deserve scrutiny in this regard.

9. Among the Special Programs, the **People's Program** (formerly Tameer-i-Wattan), has a proposed 1995/96 allocation of Rs 4 billion, 33% higher than in 1994/95. There are serious doubts about the effectiveness and economic returns of this program. Hence its allocation could be cut to Rs 2 billion. A systematic review of costs and benefits needs to be conducted in order to assess whether continued allocation of resources to this program is justified.

10. The **Tameer-i-Sindh** is a special development grant to Sindh, introduced as a temporary (four year) measure in 1991/92. The economic rationale for a separate block development grant to a particular province is unclear. This program should be phased out and Sindh's needs addressed through the normal channels (Federal Development Grants/Cash Development Loans, National Finance Commission, etc.). In this context the proposed allocation for 1995/96 could be reduced from Rs 2.5 billion to Rs 1.5 billion.

11. The largest individual project in the non-Core development program is the **Chashma Nuclear Power Project** (total estimated cost of Rs 31 billion), with a proposed allocation of Rs 4.8 billion in 1995/96. This project is not part of the least-cost solution for meeting Pakistan's electricity needs. Moreover, with the success in attracting private power investments and the initiation of the Ghazi Barotha hydel project, Chashma is likely to face demand constraints which may render it commercially unviable.



aside from the delays, cost overruns, and environmental and safety implications commonly associated with such plants. In view of these issues, dropping this project from the PSDP should be considered, or at least suspension pending a reassessment of its viability.

12. In addition to the above major items, a number of smaller possible cutbacks were identified, totalling Rs 0.7 billion. **Overall, the indicative list of possible reductions totals Rs 8.5 billion, more than sufficient to offset the required increases in high-priority items within the budgetary PSDP ceiling.**

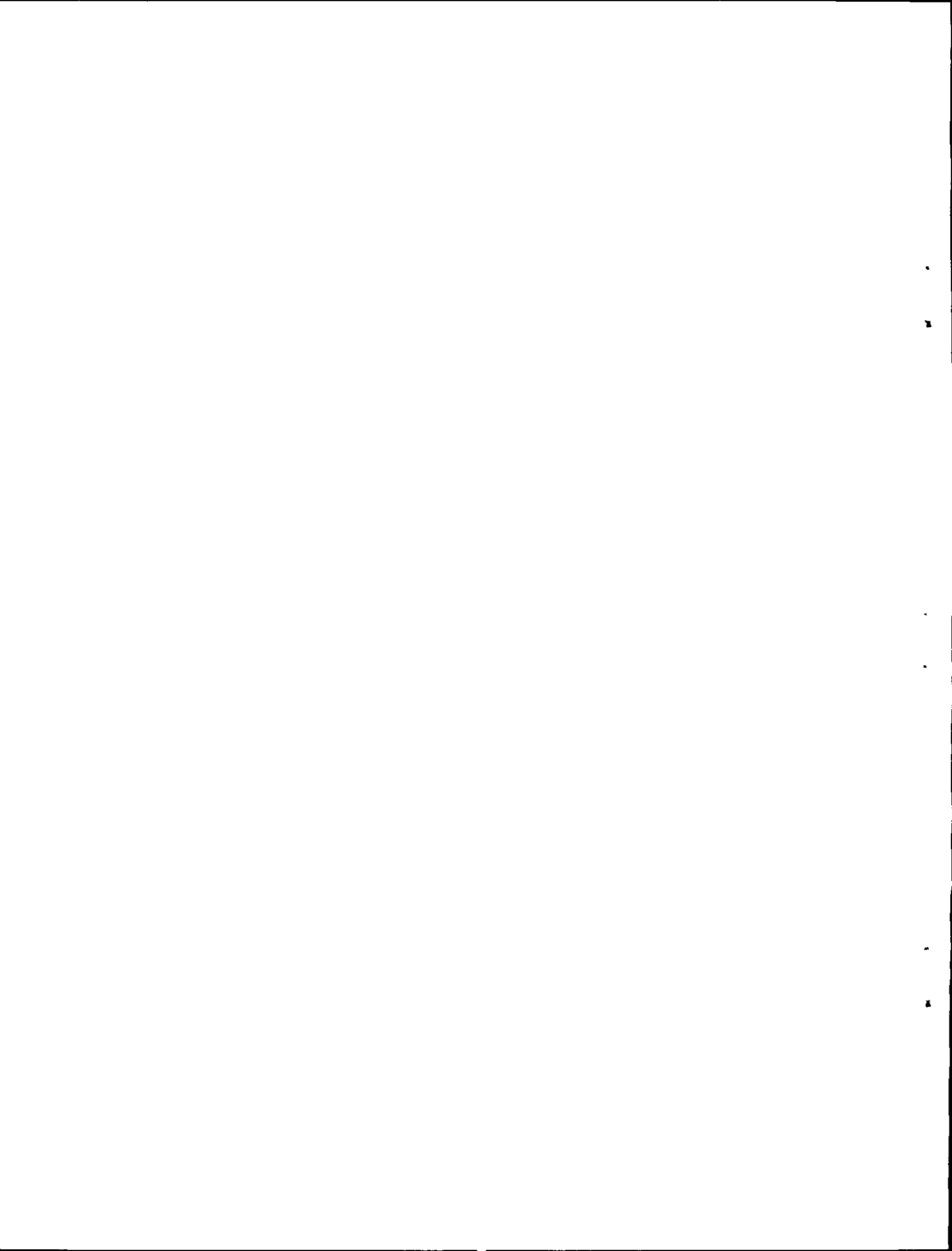
Key Sectoral and Project-specific Recommendations

13. **Energy.** The ability of WAPDA to mobilize sufficient resources from internal cash generation and borrowing to cover the domestic counterpart funding requirements for its investment program in 1995/96 is a matter of concern, particularly in view of the initiation of the Ghazi Barotha hydel project. Tariff increases, better collections, improvements in operational efficiency, and lower transmission and distribution losses are needed to improve WAPDA's internal cash generation and creditworthiness. On the budgetary side (i.e. foreign aid component), there are significant shortfalls in proposed allocations as compared with estimated needs for Ghazi Barotha (Rs 431 m) and the Third 500 KV Jamshoro-Lahore transmission line (Rs 350 m), as well as smaller shortfalls for some other projects. The proposed budgetary allocation to OGDC, related to the foreign components of one World Bank and several ADB projects, is only Rs 500 m, whereas the estimated requirement is Rs 1,300 m. This shortfall needs to be corrected.

14. **Agriculture and Environment.** The Federal development program in Agriculture is relatively small (proposed allocation of Rs 643 m for 1995/96) and declining. Two Core projects--the National Oilseed Development Project and the Cotton Virus Control Project--are significantly underfunded by a total of Rs 135 m. Given these needs, new projects should be closely scrutinized, and in particular seven of the ten new projects in the proposed PSDP could be considered for dropping. The proposed 1995/96 allocation for the Environment Sector at Rs 361 m represents a 56% increase over the revised allocation in 1994/95. The 34% shortfall in the proposed allocation for the World Bank-supported Environmental Protection and Resource Conservation Project needs to be corrected.

15. **Irrigation and Drainage.** In this sector the proposed allocations for Core projects in 1995/96 are about Rs 1.4 billion below the estimated requirements. The bulk of this discrepancy is accounted for by one project--the ADB-supported Pat Feeder Canal (Rs 1.1 billion shortfall). This project is expected to be implemented rapidly (based on a number of ongoing and new contracts), provided that the local security situation remains stable. The proposed 1995/96 allocation for this project (Rs 800 m) is considerably less than this year's approved allocation and needs to be sharply increased. Other projects with significant shortfalls include the Flood Sector Program, the non-aided portion of the Fordwah Eastern Sadiqia Project, the Swabi SCARP Project, and the new National Drainage Program.

16. **Transport.** There is serious underfunding of the road subsector, especially NHA's program (in terms of both investment--Rs 2 billion--and maintenance), in view of the predominance of this mode in the overall provision of freight and passenger transport in Pakistan. The proposed allocations for several Core projects in NHA's program fall short of requirements by significant margins, including the Fourth Highway Project (Rs 618 m), Transport Sector Project (Rs 500 m), and Pavement Strengthening/Rehabilitation (Rs 500 m); these need to be corrected. In addition, certain large non-Core



projects have sizable minimum funding requirements which if not met could lead to default on international contracts and substantial penalties. The railway subsector needs drastic restructuring and where possible greater private sector involvement so that it can recapture long-distance transport of bulk freight, which is most economically carried by rail.

17. Social Sectors. The bulk of public expenditure on social sectors (both recurrent and development) occurs at the provincial level. The major exception is the Population Welfare Program, spending on which is entirely in the Federal Ministries program. Population Welfare's proposed allocation in 1995/96 falls short of the estimated requirement by a margin of Rs 155 m (10%). (The requirement is based on agreements reached as part of the recently approved Population Project.) This shortfall, which could have a significant impact on program implementation, needs to be rectified. As noted earlier, there is also a shortfall of Rs 2.3 billion in the proposed allocations in the provincial Annual Development Programs for the SAP Project and SAP-related projects, which needs to be made up.

General Recommendations

18. The experience of the past few years indicates that reallocations of PSDP funds during the year are rather difficult, particularly in the case of upward adjustments and when there is a fiscal crunch toward the end of the year. Slow-moving projects do not fully use their allocations whereas fast-moving projects are constrained by lack of funds, resulting in chronic underutilization of allocated funds. **It is recommended, therefore, that possible means of facilitating the reallocation of development funds among Core projects, and from non-Core to Core projects (but not vice versa) be explored**, at least within the main ministries responsible for implementing the Federal PSDP. Any such modification, however, should not erode fiscal discipline or generate incentives to overspend. Over the longer term, innovations like program budgeting and even a modest degree of overprogramming within priority areas of the PSDP could be considered.

19. This year's review encountered the issue of the consistency between the macroeconomic framework (especially the fiscal deficit target), which constrains the size of the budgetary PSDP, and the program of ongoing and new foreign development assistance, which generates large associated demands for budgetary expenditure (both foreign and counterpart funding). The danger of a conflict in this area will become greater in the future if the size of the PSDP continues to be severely constrained while foreign assistance programs increase their disbursement targets. **This consistency issue needs to be addressed by both the Government and aid donors when devising the PSDP and programming foreign aid.**

20. In the case of donor-assisted projects that have both Federal and provincial components, the placement of funding requirements in the Federal Ministries Program or the provincial Annual Development Programs (ADPs) appears to be somewhat arbitrary and varies between sectors and projects. This leads to confusion in budgeting. Hence **it is recommended that clear and consistent guidelines be developed and implemented for determining the placement of project components in Federal and provincial development programs.**

21. Related to this, concerns have arisen during this year's review that foreign aided provincial projects should be provided adequate allocations in the provincial ADPs. Therefore **it is recommended that in coming years the PSDP Review should also include an assessment of the needs of donor-**

assisted provincial projects and programs. Such an assessment would provide an input for the provinces in preparing their ADPs.

22. More generally, given the importance of donor-assisted projects in the provinces' Annual Development Programs and the major role played by the provinces in development efforts in a number of sectors, **it is recommended that, with the agreement of the provinces concerned, reviews should be conducted of their Annual Development Programs starting from next year.** Such reviews could be conducted immediately after completion of the Federal PSDP Review.

23. During this review, several issues related to quantitative data arose, including, among others, significant differences between the data on 1993/94 investment spending in the power sector supplied by the Planning and Development Division and by WAPDA; a large change in the expected/estimated aggregate level of expenditure on the 1993/94 CDP between the time of last year's review (April-May 1994) and November 1994; and inability to obtain a project-wise or sector-wise breakdown of estimated 1994/95 PSDP expenditures reflecting the latest fiscal cutbacks. These problems suggest that **greater efforts are needed to ensure that reliable data on actual (or provisional) PSDP expenditures is available on a timely basis.**

24. In a number of sectors (particularly Transport and Irrigation and Drainage), substantial shortfalls in spending on operation and maintenance (O&M) in relation to requirements have been identified. This issue urgently needs to be addressed through higher spending on O&M, enhanced cost recovery to help fund O&M, and other measures. Public investment in these sectors makes little sense if the resulting services and facilities are inadequately operated and maintained.

THE ISLAMIC REPUBLIC OF PAKISTAN
PUBLIC SECTOR DEVELOPMENT EXPENDITURE REVIEW

(Fiscal Year 1995/96)

I. OVERALL ASSESSMENT OF PSDP AND PROPOSED CORE PROGRAM

A. Background

1.1 In preparing its Public Sector Development Program (PSDP) for 1995/96, Pakistan faces the serious challenge of adequately funding high-priority development projects and programs while limiting overall PSDP expenditure in the interest of fiscal adjustment. The quality of the PSDP also needs to be improved, by reducing spending on lower-priority activities and sectors as well as by improving implementation performance. This review is intended to assist the Government in the preparation of the 1995/96 PSDP, by

- (1) providing analysis and suggestions regarding the overall size of the PSDP, the budgetary PSDP, adjustments in non-Core allocations, sectoral allocations, programming and implementation, and other generic issues;
- (2) proposing a Core Development Program (CDP) within the PSDP, which consists of high-priority Federal projects and programs whose allocations should be protected from fiscal cutbacks;
- (3) providing technical assessments of the funding needs of individual projects and programs in the PSDP, particularly those receiving donor assistance; and
- (4) recommending upward or downward adjustments in project-wise and program-wise allocations as necessary.

1.2 In addition, the PSDP Review evaluates the final outcome for 1993/94 and likely outcome in 1994/95, in particular assessing whether the CDP has been adequately protected in terms of financial resources provided. While the 1993/94 outcome, which differs significantly from the expected position at the time of last year's PSDP Review, is discussed in this report, reliable estimates of the likely outcome in 1994/95 are not yet available. Hence, although this review includes some comments on PSDP implementation in 1994/95, it cannot provide a firm assessment of whether and to what extent the Core Program has been protected from fiscal cutbacks. Such an assessment will be provided at a later date.

1.3 As in 1994/95, this review is being conducted jointly with the Asian Development Bank and the Overseas Economic Cooperation Fund of Japan. The cooperation of the Planning and Development Division of the Government of Pakistan, other Federal ministries and agencies, and project authorities,

as well as WAPDA, OGDC, PTC, and NHA, and of the individuals involved, in facilitating the preparation of the PSDP Review is gratefully acknowledged.

1.4 This report consists of two parts. Part I discusses general topics, including fiscal adjustment and its effect on resource availability for development expenditure; implementation of the PSDP and Core Program in recent years; the resource envelope for the 1995/96 PSDP and other issues affecting PSDP size and composition; the proposed Core Development Program for 1995/96; and brief assessments of multi-sectoral programs in the PSDP--the Social Action Program, the Special Programs, and the provincial Annual Development Programs. Part II contains detailed reviews of the main sectoral development programs and individual projects and programs. The sectors covered include: Energy; Agriculture and Environment; Irrigation and Drainage; Industry, Minerals, and Telecommunications; Transportation; and Social Sectors. Detailed data on the proposed 1995/96 CDP, the 1993/94 CDP (final outcome), the 1994/95 CDP (expected outcome), and other quantitative information are provided in the Annex.

B. Fiscal Adjustment and Development Expenditure

1.5 In recent years Pakistan's development expenditure has been constrained by the overriding need to achieve macroeconomic stability. Serious fiscal and balance of payments imbalances in 1992/93 necessitated strong measures starting in 1993/94 to reduce the fiscal deficit, reverse adverse trends in trade and the balance of payments, and accelerate structural reforms to improve the efficiency and growth prospects of the economy. These efforts have achieved considerable success, but fiscal adjustment is still far from complete and needs to be continued, deepened, and put on a sustainable basis.

Overview of Recent Trends

1.6 Pakistan's ambitious program of fiscal adjustment has succeeded in reducing the fiscal deficit as a share of GDP from 7.9% in 1992/93 to an estimated 5.6% in 1994/95 (see Table I). Fiscal adjustment has resulted entirely from a substantial decline in the GDP share of total expenditure (from 25.9% of GDP to an estimated 22.8%). There has been a modest increase in Federal tax revenue (despite losses due to reductions in tariff rates), but this was more than offset by a decline in the GDP share of non-tax receipts.

1.7 Although defense and other non-developmental categories have accounted for part of the reduction in expenditure as a share of GDP over the past two years, the PSDP was adversely affected--it declined from 5.6% of GDP in 1992/93 to an estimated 4.4% in 1994/95. The broader measure of total development expenditure, including nonbudgetary investment spending of the major Federal public sector corporations (WAPDA, OGDC, PTC, and NHA), declined from 8.6% of GDP to 6.4%. The level of public investment in Pakistan, which was already low as a share of GDP in comparison with other developing countries, has been further depressed as a result of these trends. Although to some extent this reflects the growing role of the private sector in various energy and infrastructural activities¹ as well as the phasing out of public sector investment in manufacturing and certain other activities, it is mainly the

¹ In activities like power generation, although major private sector investments are getting underway, completion of existing public sector thermal power projects is an urgent priority, and the public sector will continue to invest heavily in hydel facilities. Moreover, transmission and distribution will remain in the public sector to a greater extent than generation.

Table 1: Macroeconomic Framework for the PSDP, 1992/93 - 1995/96

	Actual 1992/93	Actual 1993/94	Budget 1994/95	Estimates 1994/95	Projected 1995/96
Amounts (Rs. Billion)					
Budget Deficit	-107.7	-92.0	71.8	-105.3	-87.0
Revenue	244.4	272.3	364.3	320.0	405.7
Tax Revenue	179.9	208.7	297.8	253.7	324.3
Non-Tax Revenue ¹¹	64.5	63.6	66.5	66.3	81.4
Current Expenditure	268.9	292.6	346.2	425.3	397.7
Budgetary PSDP Expenditure	75.4	71.7	90.2	81.9	95.0
Non-budgetary Development Spending of Corporations ¹²	41.1	38.3	34.6	38.2	44.5
Current Surplus	20.0	23.3	10.6	14.3	10.6
Additional Borrowing	21.1	15.0	24.0	23.9	33.9
Total PSDP (Budgetary and Non-Budgetary)	116.5	110.0	124.8	120.1	139.5
GDP mp	1,359.3	1,565.0	1,785.0	1,869.0	2,174.8
Percent of GDP					
Budget Deficit	-7.9	-5.9	4.0	-5.6	-4.0
Revenue	18.0	17.4	20.4	17.1	18.7
Current Expenditure	19.8	18.7	19.4	22.8	18.3
Budgetary PSDP Expenditure	5.5	4.6	5.1	4.4	4.4
Non-budgetary Development Spending of Corporations ¹³	3.0	2.4	1.9	2.0	2.0
Current Surplus	(1.5)	(1.5)	(0.6)	(0.8)	(0.5)
Additional Borrowing	(1.6)	(1.0)	(1.3)	(1.3)	(1.6)
Total PSDP (Budgetary and Non-Budgetary)	8.6	7.0	7.0	6.4	6.4

¹¹ Including privatization proceeds treated as revenue and used to fund SAP and other expenditures.

¹² OGDC, PTC, NHA and WAPDA

Source: Government of Pakistan and IMF and World Bank staff estimates.

result of funding constraints both in the Federal budget and in the major public sector corporations. The latter reflect weak internal resource generation capacity related both to public sector pricing issues and to inefficient operations and/or collections.

1.8 In view of these trends, there would appear to be no scope for further cutbacks in the PSDP to support fiscal adjustment. On the contrary, Pakistan's obvious needs for public investment in energy and infrastructure and for large increases in expenditures on basic social services under the Social Action Program (a significant proportion of which consist of development spending) call for at least some recovery of the PSDP, provided that spending is directed at high-priority activities remaining in the public sector. The need to increase PSDP spending was recognized in the 1994/95 budget, which included a PSDP of Rs 90 billion (nearly 5% of projected GDP), representing a substantial increase over the 1993/94 outcome (about Rs 72 billion). Unfortunately, due to weaker-than-expected adjustment on the revenue side, a 9% cutback in the PSDP had to be imposed late in 1994/95. Nevertheless, the need to avoid further cutbacks in development expenditure and to bolster the PSDP so as to increase spending on high-priority public sector activities is clear.

1.9 The Government recognizes that fiscal adjustment must be based on a comprehensive, solid tax reform program to broaden the tax base and enhance resource mobilization on a sustainable basis. This would permit more adequate funding of Pakistan's high-priority development needs. Although progress was made with tax reform in 1993/94 and 1994/95, the expected revenue yield did not materialize to the extent anticipated particularly in the 1994/95 budget. Tax reform aims to improve the structure and elasticity of tax revenue by shifting from more distortionary to less distortionary taxes, broadening the taxable base by eliminating exemptions, extending the tax system to cover hitherto untaxed products and sectors, and strengthening and improving tax administration.

1.10 Fiscal developments in 1994/95. Following the success achieved with fiscal adjustment in 1993/94, the 1994/95 Federal Budget called for a sharp further reduction in the fiscal deficit from 5.9% of GDP in 1993/94 to 4.0% of GDP. Federally-collected tax revenues were budgeted to increase by an unprecedented 43%, and total Federal and Provincial tax and non-tax revenues were targeted to rise by 3% of GDP. The ambitious revenue target created scope for budgeting substantial increases in the PSDP (24%) and in non-interest, non-defense recurrent expenditures (27%), in line with development needs.

1.11 Due to serious implementation difficulties, the revenue target turned out to be overly optimistic. Growth of Federal tax revenues during the first nine months of 1994/95 has been at a 25% p.a. pace, well below what is required to achieve the budget target. As a result the fiscal deficit will be considerably higher than programmed--roughly the same in terms of GDP share as in 1993/94, if use of privatization proceeds to fund development expenditure is not taken into account. Moreover, in order to contain the fiscal deficit even within this much higher revised target, it was considered necessary to impose substantial expenditure cutbacks, including a reduction of Rs 5 billion in the PSDP.²

1.12 The fiscal agenda for 1995/96. In 1995/96 the Government is again committed to reduce the fiscal deficit to 4% of GDP (from an estimated 5.6% of GDP in 1994/95). This will require both a large increase in tax revenue and continued prudence on the expenditure side. It is expected that, as budgeted

² Mid-year estimates indicated that the overall budgetary PSDP size in 1994/95 would have been in the range of Rs 87.5 billion, reflecting the pace of implementation of projects and programs. The further cutback imposed subsequently is expected to result in a PSDP of about Rs 82 billion.

in 1994/95 (but not achieved), the revenue side should account for virtually the entire projected decline in the fiscal deficit as a share of GDP. Initial projections indicate that total revenue will need to grow by nearly 27% in nominal terms, including a 28% increase in Federally-collected tax receipts. It will require a major tax effort to achieve these targets. In particular, significant reductions in all kinds of tax exemptions and concessions will be essential. Unless reversed quickly, the generous tax exemptions currently being provided as well as new tax incentives being granted for various activities will seriously undermine resource mobilization. Continuing efforts to increase cost recovery for publicly provided services also are needed to raise revenues and improve the quality of these services.

1.13 On the expenditure side, nominal growth of total consolidated Federal and Provincial budgetary spending needs to be held down to below 16%. Hence overall budgetary expenditure is expected to stay about the same as a share of GDP in 1995/96 as in 1994/95, but it should be noted that the 1994/95 revised PSDP expenditure target represents a level that is significantly depressed in relation to development needs. Moreover, non-wage recurrent spending on operation and maintenance (O&M) in key development-related sectors like primary education, public health services, irrigation, roads, etc. needs to be given high priority in view of past neglect and the high economic returns to such expenditures. Adequately funding high-priority development needs while preventing overall expenditure from rising as a share of GDP is a major challenge.

The 1993/94 PSDP (Final Outcome)

1.14 Overall level. The final outcome for the PSDP in 1993/94 turned out to be somewhat different from what was expected at the time of last year's PSDP Review, mainly reflecting additional budgetary cutbacks imposed toward the end of the fiscal year. The budgetary PSDP was no more than Rs 72.5 billion (Rs 71.7 according to the latest data provided by the Finance Division--see Table 1), a shortfall of nearly 8% in relation to the 1993/94 Budget target and an even larger shortfall as compared with the outcome expected at the time of last year's review. The largest shortfall in relation to the 1993/94 Budget (Rs 3.4 billion) was in the provincial development programs, whereas the Federal Ministries programs exceeded the budgeted level by Rs 2.5 billion. There was also a shortfall of Rs 1.7 billion in the Special Programs (People's Program and Tameer-i-Sindh), while the rest of the shortfall occurred in the budgetary spending of the large public sector corporations.

1.15 Core Program. In 1993/94 the CDP was not very well protected from fiscal cutbacks imposed toward the end of the fiscal year. The latest available data indicate that, as compared with the approved PSDP figure of Rs 50.6 billion and earlier expectations that actual spending would be as high as Rs 52.4 billion, actual expenditure on the CDP in 1993/94 was only Rs 46.3 billion. This represents a shortfall of 8.5% in relation to the PSDP allocation and nearly 12% compared with the expected outcome a year ago (see Annex Table A3). There were substantial shortfalls in Energy, Irrigation and Drainage, and Population Welfare. The share of the Core Program in the total PSDP, which had been targeted at 43.2%, turned out to be only 39.6%, indicating that the Core was protected neither in absolute nor in relative terms in 1993/94. Although project-specific delays and other factors contributed to underspending, fiscal cutbacks probably also had an adverse effect on the Core.

The 1994/95 PSDP: Targets and Trends

1.16 Overall level. The 1994/95 Budget included a budgetary PSDP of Rs 90 billion, representing a sizable increase over the 1993/94 revised estimate and an even larger increase as compared with the actual outcome. The overall PSDP, however, was projected at Rs 124.8 billion, only a small increase

over the previous year's outcome. After mid-year, it was expected that budgetary development expenditure would be Rs 87.5 billion, a relatively small shortfall (see Table 2). Correspondingly, the overall PSDP was expected to fall short of the target by Rs 3.4 billion. Continuing poor revenue mobilization performance and the worsening scenario for the fiscal deficit led to a further cutback in the budgetary PSDP, which was intended to bring it down to about Rs 82 billion. It is not yet apparent whether the PSDP will be contained within this revised ceiling and how the cutback is being distributed across sectors and projects/programs.

1.17 Core Program. The CDP was budgeted at Rs 49.6 billion in 1994/95, somewhat lower than the level recommended in last year's PSDP Review. The latest available estimates indicate that total Core expenditures will be Rs 48.6 billion, slightly below the budget target. The expected outcome exceeds the budget targets by significant margins in the irrigation and agriculture sectors, whereas shortfalls were expected in power, transportation (except railways and ports), education, health, and population (see Annex Table A4). Although these estimates are broadly consistent with the Government's stated commitment to protect the Core (as well as the SAP) from fiscal cutbacks, the figures do not reflect the further Rs 5 billion cutback in the PSDP imposed in March 1995. Hence an evaluation of whether the Core and SAP were effectively protected from fiscal cutbacks in 1994/95 must await availability of more up-to-date and reliable estimates for the year as a whole.

Resource Envelope for 1995/96 PSDP

1.18 The fiscal projections for 1995/96 discussed earlier generate a resource envelope for the budgetary PSDP in the neighborhood of Rs 95 billion and for the overall PSDP of Rs 140 billion, which would be compatible with achieving the fiscal deficit target of 4% of GDP (see Table 1). The former represents an increase of less than 6% in nominal terms as compared with the 1994/95 budgeted level, the latter an increase of 11.7%. These resource envelope projections are not precise; nevertheless, they represent a consistent macroeconomic framework agreed by the Government and IMF.

1.19 The Planning and Development Division's recommended budgetary PSDP level of Rs. 95.5 billion conforms with this overall macroeconomic scenario, but the proposed total PSDP size of Rs 147.8 billion exceeds the indicative resource envelope for the total budgetary and non-budgetary PSDP (Table 2). Whether total PSDP expenditure actually surpasses the indicative resource envelope depends on the investment, borrowing capability, and financial performance of WAPDA, OGDC, and PTC, which in turn depend partly on public sector pricing policies as well as the efficiency of operations of these entities. There is some doubt as to whether WAPDA in particular would be able to achieve the level of internal resource generation and market borrowing required to fund its non-budgetary investment program in 1995/96.

1.20 The Rs 95 billion resource envelope for the budgetary PSDP (only 4.4% of projected GDP) is very low in relation to Pakistan's development requirements. There is thus a great need to restore the budgetary PSDP to the level originally targeted in 1994/95 (close to 5% of GDP) in order to more adequately meet high-priority development needs. If the size of the budgetary PSDP cannot be increased, then a diligent effort to reduce expenditures on low-priority Non-Core projects and programs while protecting the Core and SAP will be essential.

Table 2: BROAD STRUCTURE OF PSDP, 1993/94-1995/96

(Rs Million)

	1993/94		1994/95		1994/95		1995/96	
	Actual		Budget		Revised		GOP Proposed Allocations	
	Outlays	Share of Budgetary PSDP	Outlays	Share of Budgetary PSDP	Outlays	Share of Budgetary PSDP	Outlays	Share of Budgetary PSDP
Federal Ministries	26,652.8	36.4	36,591.2	40.5	34,722.5	39.7	37,383.0	39.1
Special Programs	2,871.4	3.9	5,530.0	6.1	5,530.0	6.3	9,730.0	10.2
Special Areas ADPs	NA	--	NA	--	NA	--	3,200.0	--
Other	2,871.4	3.9	5,530.0	6.1	5,530.0	6.3	6,530.0	6.8
Fertilizer Subsidy	804.5	1.1	78.8	0.1	78.8	0.1	46.7	0.0
Total Direct Federal	30,328.7	41.4	42,200.0	46.7	40,331.3	46.1	47,159.7	49.4
Corporations/Agencies (Budgetary)	21,391.0	29.2	23,120.0	25.6	22,237.2	25.4	22,890.0	24.0
Provincial Development Programs	21,598.6	29.5	25,000.0	27.7	25,000.0	28.5	25,500.0	26.7
Budgetary PSDP(GOP)	73,318.3	100.0	90,320.0	100.0	87,568.4	100.0	95,549.7	100.0
Corporations/Agencies (Non-Budgetary)	43,508.8	--	34,573.6	--	34,934.4	--	52,262.5	--
WAPDA Hook-up Charges	3,633.0	--	0.0	--	0.0	--	0.0	--
Total PSDP GOP	116,827.1	--	124,893.6	--	122,502.8	--	147,812.2	--
Total PSDP IMF	119,655.6	--	124,814.8	--	122,424.1	--	147,765.5	--

Source: Government of Pakistan and IMF staff estimates.



C. Assessment of 1995/96 PSDP and Core Program

PSDP Size and Broad Structure

1.21 As discussed in Section B, the overall resource envelope for the budgetary PSDP in 1995/96 that emerges from the macroeconomic framework is about Rs 95 billion. Pakistan's development needs, however, are enormous and translate into large public sector development funding requirements for energy/infrastructure and social sectors. Moreover, failure to adequately fund the ongoing investment program will lead to delays and higher costs of projects, continuing bottlenecks in the sectors concerned, and likely stronger supply-side inflationary pressures as a result, partly defeating the purpose of budgetary cutbacks.

1.22 Another important consideration is the need to absorb efficiently and effectively the available foreign assistance for Pakistan. At the most recent Consortium meeting in April, the Government presented an aid request to the Consortium for new commitments totalling US \$2.3 billion and estimated that disbursements would total US \$1.95 billion, targets which were endorsed by the donors. The Government's projection of total disbursements of project aid from both Consortium members and other donors is nearly \$2.2 billion, a figure which is broadly in line with recent trends (\$1.96 billion of disbursements in 1993/94 and \$1.09 billion in the first half of 1995/96). Some of these disbursements (e.g. for financial intermediation loans) are not in the development budget, but the bulk of them do need to be adequately provided for in the PSDP.

1.23 Rough calculations indicate the magnitude of the effect of foreign development assistance on the budgetary PSDP. Assuming that \$2 billion of the disbursement target consists of projects and programs in the PSDP and using an exchange rate of Rs 32 per dollar, this translates into a total budgetary requirement for the foreign assistance component alone of Rs 64 billion. Using a conservative ratio of domestic counterpart funding to foreign aid of 40% and taking into account the fact that Rs 10.5 billion consists of foreign aid to WAPDA and OGDC (whose counterpart funding comes from non-budgetary sources), this results in a total funding requirement for the foreign assistance program of more than Rs 85 billion.³ Although these calculations are not precise and are subject to refinement, it is clear that, if the Rs 95 billion resource envelope and the agreed program of foreign development assistance are both adhered to, the bulk of available resources for the budgetary PSDP will be taken up by donor-assisted projects and programs.

1.24 P&D's proposed 1995/96 PSDP allocations include a total foreign aid component of Rs 40.1 billion (see Table 2), which falls far short of the Government's own target for foreign aid disbursements. Hence the foreign assistance component of the budgetary PSDP appears to be significantly underbudgeted. The detailed review of individual projects and programs also suggests there is significant underbudgeting in aggregate, albeit of a smaller magnitude than the above calculations would indicate. Particularly since the projected disbursement figure is in line with recent trends, this is a serious inconsistency which needs to be dealt with. There are several possible approaches (not mutually exclusive):

- (1) Institute substantial cutbacks in the domestically-financed part of the PSDP, in order to stay within the Rs 95 billion ceiling.

³ $(64 - 10.5) \times 0.4 + 64 = 85.4$.

- (2) Revisit the broad allocation of budgetary expenditure between the PSDP and other categories, as well as possibilities for greater revenue mobilization, with the objective of achieving a modest increase in the size of the budgetary PSDP within the existing macroeconomic framework.
- (3) Reassess the program of foreign development assistance for 1995/96. The primary targets of such a reassessment would be (a) new projects, for which delaying start-up would be feasible and not too costly; (b) ongoing projects facing severe nonfinancial implementation problems; and (c) ongoing projects, particularly those still at a relatively early stage of implementation, which are no longer of the highest priority given changes in the Government's reform strategy and sectoral priorities for public investment.

1.25 This report looks only at Option (1), as a systematic consideration of Options (2) and (3) is beyond the scope of the PSDP Review. The Government could, however, explore Options (2) and (3), in combination with Option (1). In this review, levels of funding required for the CDP and SAP have been carefully assessed and put forward as recommendations. This leaves a certain residual of budgetary funding available for the non-Core projects and programs. A set of indicative recommendations for non-Core cutbacks is presented, which would allow the budgetary PSDP to be contained within the Rs 95 billion resource envelope while adequately protecting the Core and SAP. However, the exact distribution of cutbacks in the non-Core, non-SAP portion of the PSDP needs to be determined by the Government.

Proposed Core Development Program

1.26 The PSDP Review team has put together a suggested Core Development Program (CDP) for 1995/96, consisting of projects and programs selected on the basis of the following criteria:

- (1) The sector/subsector concerned is assigned high national priority in view of its contribution to growth or other national development objectives, and the public sector is expected to continue to play a major role in the sector/subsector. Based on this criterion, projects and programs in the following sectors were considered for inclusion in the Core: Transport (roads, railways, and ports), Agriculture, Environment, Irrigation and Drainage, Power, Education, Health and Nutrition, and Population Welfare.
- (2) The project or program fits well into the agreed sectoral/subsectoral development strategy.
- (3) The expected economic return of the project or program is high relative to that of other activities in the same sector or subsector.
- (4) Implementation problems other than funding constraints are manageable.
- (5) Priority is given to ongoing projects relatively near completion, whose benefits would be realized sooner with adequate funding.
- (6) Availability of foreign assistance for the project or program is an important consideration in view of Pakistan's need for balance of payments support and foreign savings.

1.27 Since this is a review of the Federal PSDP, the proposed Core Program consists exclusively of projects and programs implemented by the Federal Government--provincial projects and provincial

components of projects implemented at both levels of government are not included in the CDP. Such projects need to be adequately budgeted for in the provincial ADPs, however. Provincial development spending on SAP also is not in the Core, although it has been assigned high priority by the Federal and Provincial governments.

1.28 Size and broad composition of the CDP. The proposed allocations by the Planning and Development Division (P&D) for projects and programs in the suggested broad (budgetary and non-budgetary) CDP for 1995/96 total Rs 62.7 billion, whereas the PSDP Review team's recommended allocation is Rs 62.4 billion (see Table 3, and also Annex Table A5 for a full list of Core projects and programs). This relatively small difference hides substantial deviations for both the local and foreign aid components. The proposed allocations for local costs exceed the needs as assessed by the PSDP Review team by a margin of Rs 2.6 billion, entirely on account of Ghazi Barotha, for which the allocation for the local component (which is to be funded from WAPDA's nonbudgetary resources) exceeds the estimated funding requirement by Rs 4.9 billion. This large difference results from an optimistic scenario for the pace of Ghazi Barotha's implementation, whereas the requirement shown in this report is based on a more conservative scenario (see Section IIA). On the other hand, there is a large shortfall in the proposed allocations for the foreign aid components of Core projects and programs, amounting to Rs 2.2 billion in aggregate. This results from substantial shortfalls for the power (Rs 658 m), transport (Rs 926 m), and water (Rs 529 m) sectors, mainly reflecting significant gaps for a few projects rather than underfunding across the board.

1.29 The budgetary CDP, also shown in Table 3, differs from the full Core only in the case of WAPDA, for whose projects the domestic components and part of foreign costs are funded from outside the budget. With domestic funding of Ghazi Barotha out of the picture, the proposed allocations in aggregate fall well short of the PSDP Review team's recommendations for both local and foreign aid components (also see Annex Table A6). The total shortfall is Rs 4.2 billion, nearly 10% of the recommended budgetary Core allocation (Rs 43.1 billion). The bulk of the shortfall in the local currency component of the budgetary CDP is accounted for by transport and water, which together with power account for the bulk of underbudgeting of the foreign aid component as well.

1.30 Selected issues related to project- and program-wise allocations. Part II contains detailed discussions of the CDP in major sectors.⁴ Here only a few projects with large deviations are highlighted. In the **transport sector**, the World Bank-supported Fourth Highway Project and Transport Sector Project need additional allocations totalling Rs 1,118 m in order to complete them by their closing dates in 1995/96. Rs 500 m is urgently needed for pavement strengthening and rehabilitation work, for which no allocation was provided in P&D's proposals. In the railways subsector, the telecommunications systems component of the World Bank project (with a proposed allocation of Rs 335 m) can be dropped because it will be impossible to implement by the closing date for the Transport Sector Project. Finally, the OECF-supported project to rehabilitate 101 locomotives is expected to require Rs 230 m more than the proposed allocation.

1.31 In the **irrigation and drainage** sector, the ADB-supported Pat Feeder Canal in Balochistan has the largest estimated shortfall of any project in the CDP, amounting to Rs 1,138 m. Implementation has been delayed due to security problems at the project site, but the Government has provided assurances

⁴ Also see Annex Table A7 for comments on Core projects with significant differences between P&D's proposed allocations and the PSDP Review team's recommendations.

Table 3: Proposed Core Development Program 1995/96

(Rs Million)

	Review Team's Suggestions (May 1995)			Proposed PSDP Allocations (April 1995)			Difference Review Team vs. PSDP		
	Total	Local	Foreign Aid	Total	Local	Foreign Aid	Total	Local	Foreign Aid
	TRANSPORTATION	13,184	6,932	6,252	11,339	6,012	5,327	-1,846	-920
AGRICULTURE & ENVIRONMENT	644	146	498	493	78	415	-151	-68	-83
IRRIGATION & DRAINAGE (WATER)	12,659	4,733	7,926	11,284	3,887	7,397	-1,375	-846	-529
POWER (WAPDA)	31,860	14,611	17,249	35,811	19,220	16,591	3,951	4,609	-658
Budgetary Portion	12,542	0	12,542	11,936	0	11,936	-606	0	-606
Non-Budgetary Portion	19,318	14,611	4,707	23,875	19,220	4,655	4,557	4,609	-52
EDUCATION	532	84	449	532	84	449	0	0	0
HEALTH AND NUTRITION	1,915	1,406	509	1,847	1,406	441	-68	0	-68
POPULATION WELFARE	1,588	895	693	1,433	689	744	-155	-206	51
TOTAL CORE PROGRAM	62,382	28,806	33,576	62,739	31,376	31,363	357	2,570	-2,213
BUDGETARY CORE PROGRAM	43,064	14,195	28,869	38,864	12,156	26,708	-4,200	-2,039	-2,161

Note: A minus difference indicates a shortfall in P&D's proposed allocation as compared with the PSDP Review Team's recommendation.

that the situation has improved. A much higher allocation than proposed by P&D is needed to keep the six ongoing contracts and four new contracts expected to be awarded on schedule. A higher allocation is also needed for the ADB-supported Flood Sector Program to take into account the recent reformulation of this project. The On-Farm Water Management-III project, also supported by ADB, became effective in August 1994, and ADB's estimate of total expenditure in 1995/96 is Rs 277 m lower than the proposed allocation.

1.32 In the **power sector**, the proposed allocation for Ghazi Barotha's foreign aid component falls short of estimated requirements under the conservative implementation scenario by Rs 431 m. On the domestic (non-budgetary) side, the proposed allocation exceeds the estimated requirement by Rs 4.9 billion. However, the ability of WAPDA to raise the non-budgetary resources it needs for its investment program through internal resource generation is in doubt. Moreover, some reimbursements from foreign donors for Ghazi Barotha activities in 1995/96 may be delayed beyond the end of the fiscal year, necessitating some form of bridge financing.

1.33 The **Population Welfare** program's proposed allocation falls short of the estimated requirement by Rs 155 m, which should be made up to ensure that funding constraints do not hinder implementation of the recently approved Population Project, supported by the World Bank and other donors.

Adjustments in the SAP and Non-Core Development Program

1.34 **Social Action Program (Non-Core)**. In addition to the Federal Ministries programs which in the social sectors include SAP components as part of the CDP, considerable spending on SAP also occurs in the provincial development budgets (see Section D for a more detailed discussion). Part of this consists of the Federal transfers to the provinces on account of SAP (Development Grants and Cash Development Loans). In addition, there is a substantial pass-through to the provinces of foreign development assistance for the World Bank/ADB/Netherlands/UK financed SAP Project and for other SAP-related projects in the social sectors. P&D's proposed allocations for development transfers and SAP-related projects in 1995/96 are Rs 7.5 billion and Rs 3 billion, respectively (Table 4).⁵

Table 4: SAP Development Funding, 1995/96 (Rs Mmillion)

	Federal			Province			National		
	SAP Related			SAP Related			SAP Related		
	Local	Projects	Total	Local	Projects	Total	Local	Projects	Total
Proposed Allocations	2,687	1,225	3,912	7,500	3,000	10,500	10,187	4,225	14,412
Estimated Requirements	3,157	993	4,151	7,500	5,284	12,784	10,657	6,277	16,935
Shortfall	470	-232	239	0	2,284	2,284	470	2,052	2,523

Source: Planning and Development Division and PSDP Review Team and SAP supervision mission estimates.

⁵ It should be noted that out of total reimbursements of foreign assistance to the provinces on account of the SAP Project, only 25% is being budgeted in the PSDP. Reimbursements are against both recurrent and development expenditure, with roughly a 75:25 ratio between the two. This means that the remaining 75% of SAP Project reimbursements should be adequately budgeted for in the provinces' recurrent budgets.

1.35 The PSDP Review team, in consultation with the SAP supervision mission currently in the field, has assessed the 1995/96 funding needs of the SAP Project (on development account) and for SAP-related projects. There is considerable underbudgeting of disbursements for SAP-related provincial projects. Their funding requirements (foreign aid component) are estimated at Rs 4.24 billion, Rs 1.24 billion more than the proposed PSDP allocation. In addition, donor assistance to the provinces under the SAP Project needs to be budgeted separately from the Rs 7.5 billion transfer of domestic development resources for SAP. This results in a further shortfall of Rs 1.05 billion. Thus overall, **the shortfall in funding of Non-Core spending on SAP in the PSDP is about Rs 2.3 billion.** This needs to be rectified when the PSDP is finalized.

1.36 Adjustments required in the non-Core, non-SAP development program. The aggregate net shortfall in proposed allocations as compared with the PSDP Review team's estimated requirements is Rs 4.1 billion for the CDP and Rs. 2.3 billion for SAP. In addition, shortfalls in the proposed allocations for certain other high-priority projects outside the Core (in the oil and gas and transport sectors), discussed in Part II, total Rs 1.5 billion. Thus the aggregate amount by which the World Bank's recommendations exceed the proposed PSDP allocations (on a net basis) is about Rs 8 billion (Table 5). In order to remain within P&D's proposed total allocation for the budgetary PSDP (Rs 95.5 billion), therefore, reductions in the Non-Core Development Program on the order of Rs 8 billion are required. An indicative set of possible cutbacks in the NCDP to stay within the resource envelope for the budgetary PSDP has been prepared (see Table 6). A few major programs and projects account for a large share of the non-Core, non-SAP development program and hence should be targeted for cutbacks.

Table 5: Estimated Shortfalls in PSDP Allocations, 1995/96

	Proposed Allocation	Estimated Requirements	Difference
Budgetary Core	38,864	43,064	-4,200
Non-core SAP	10,500	12,784	-2,284
Transport Non-core (NHA)	4,643	5,351	-708
OGDC	500	1,300	-800
Total	54,507	62,499	-7,992

Source: Planning and Development Division and PSDP Review Team estimates.

1.37 Among the Special Programs, the **People's Program** (formerly Tameer-i-Wattan) has a proposed allocation in 1995/96 of Rs 4 billion, a 33% increase compared to 1994/95's allocation of Rs 3 billion. Serious doubts can be raised about the economic benefits of this program on various grounds (see Section D), including the multitude of small, scattered projects funded without overall direction or prioritization; (2) overlap with other development programs; (3) possible politicization of funding decisions; (4) little or no monitoring and accounting; and (5) the apparent lack of a systematic evaluation so far. Given the severe fiscal resource constraint faced by Pakistan, and pending a thorough evaluation, it should be possible to reduce funding of the People's Program to Rs 2 billion in 1995/96, for a saving of Rs 2 billion.



Table 6: Indicative List of Possible Cutbacks in Non-Core Projects/Programs 1995/96

	<i>(Rs Million)</i>		
	Proposed Allocation	Recommended Level	Possible Saving
Peoples Program	4,000	2,000	2,000
Tameer-i-Sindh	2,500	1,500	1,000
Chashma Nuclear Power Project	4,807	-- \1	-- \1
Irrigation and Drainage (approx.)	1,900	1,700	200
Physical Planning and Housing \2	1,071	971	100
Rural Electrification (Non-Core)	500	250	250
Education and Training	670	620	50
Tourism Development (PTDC)	67	20	47
Fertilizer Subsidy	47	20	27
Total	15,561	7,081 \3	8,480 \3

Memo item:

Total Non-Core Non-Provincial Budgetary PSDP (Proposed Allocation Less Recommended Core and SAP\1 and Non-SAP Provincial ADP	24,521
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\1 If this project were halted there would be some costs in 1995/96 associated with closing it down, but information on the likely level of such costs was not available to the PSDP Review Team.

\2 Not including water supply and sanitation schemes.

\3 Not including costs associated with closing down the Chashma Nuclear Power Project.

Source: PSDP Review Team estimates.

1.38 The **Tameer-i-Sindh** is a development grant to Sindh Province, which was initiated as a time-bound four-year program in 1991/92. The proposed PSDP allocation for 1995/96 is Rs 2.5 billion, same as in 1994/95. There would seem to be little economic rationale for a separate block development grant to Sindh Province or any other province; instead, Sindh's overall development needs should be taken into account and provided for by Federal Plan transfers, or possibly the resource needs of Sindh and other provinces could be evaluated and addressed by the National Finance Commission. In this context, it is recommended that the 1995/96 allocation for Tameer-i-Sindh be reduced to Rs 1.5 billion as an initial step in phasing it out, saving Rs 1 billion.

1.39 The largest individual project in the NCDP is the **Chashma Nuclear Power Project**. Just over one-third of the total estimated cost of the project (Rs 31 billion) will have been spent through 1994/95, and a further allocation of Rs 4.8 billion is proposed for 1995/96. As in the case of other nuclear power projects, the capital cost of the Chashma facility is very high in relation to its capacity. Such projects have frequently been prone to delays, cost overruns, and subsequent environmental and safety problems. Moreover, given the success in attracting private investment in thermal power generation and the initiation of the Ghazi Barotha hydel project, demand constraints may be a problem. This project is not considered part of the least-cost solution for meeting Pakistan's electricity needs, and it may not be commercially viable even on a sunk-cost basis. Although some costs would be incurred in 1995/96 if the project is stopped, it should be possible to save the bulk of the proposed allocation.

1.40 In the **Irrigation and Drainage** sector, the non-aided projects generally have been moving very slowly due to lack of funds. Potentially viable projects may be included in the proposed World Bank-supported National Drainage Program, but cancellation of projects which are not potentially viable should be considered, with minimal further investments to cover existing liabilities and to permit utilization of facilities already created. The Upper Rechna Deg Basin and other projects in Punjab may fall in this category. Total savings from such a reconsideration of ongoing projects in the sector might amount to Rs 200 m or more in 1995/96.

1.41 In the **physical planning and housing** sector the proposed allocations for a number of projects could be reduced in view of the severely constrained fiscal resource position and higher-priority needs. Many of the projects serve the Islamabad area, which already is better off than the rest of the country. It should be possible to save at least Rs 100 m through reductions in allocations for lower-priority domestically-funded projects. There are close to a score of new projects, which should be reviewed particularly closely.

1.42 Portions of the **Rural Electrification Program**, which do not form part of the World Bank and OECF rural electrification projects included in the Core, may not have a strong economic justification and hence could be stopped or at least delayed. Moreover, many of the concrete activities involved are divisible; hence the extra costs resulting from delays would not be great. It may be possible to reduce the Rs 500 m proposed non-Core allocation for rural electrification by as much as half if necessary to help contain the size of the PSDP.

1.43 The **Education and Training** sector has a huge number of mostly very small projects/activities (a total of 173, whose average proposed allocation in 1995/96 is less than Rs 4 m). About 30 of these projects are new and not yet approved and hence could be stopped or delayed. A number of other projects would appear to be more appropriately funded as part of the recurrent budget rather than in the development program. Certain overseas scholarship programs may also be good candidates for reductions. Overall, it should be possible to prune at least Rs 50 m in this sector.

1.44 Twenty-five small projects in **tourism development** under the aegis of the Pakistan Tourism Development Corporation, with a total proposed allocation of Rs 67 m, could be considered for development by the private sector or on a commercial basis by PTDC.

1.45 The possibility of eliminating the **fertilizer subsidy** (proposed allocation of Rs 47 m) in a manner that avoids incursion of significant costs in 1995/96 could be explored.

1.46 These possible reductions in the NCDP described above total Rs 8.5 billion (Table 6), slightly more than what is required to stay within the resource envelope for the budgetary PSDP while protecting the Core and SAP at the recommended levels. A more detailed review probably could identify other options for cutbacks as well, if required.

D. Multi-Sectoral Programs

Social Action Program

1.47 In order to redress past neglect of the social sectors, the Government in 1992 initiated the Social Action Program (SAP) with strong support from the international donor community. This program aims at expanding the coverage and improving the quality of basic social services in Primary Education, Primary Health Care, Population Welfare, and Rural Water Supply and Sanitation, by substantially increasing public sector expenditures (both capital and recurrent) as well as bringing about key policy changes so as to solve the quality and capacity related problems of these sectors.

1.48 Although most SAP-related current expenditures are made through the provincial budgets, SAP-related development expenditures all pass through the Federal PSDP since they form part of the provincial Annual Development Programs (ADPs). The proposed 1995/96 PSDP allocates Rs 14.4 billion for SAP: Rs 3.9 billion at the Federal level including Federal Areas and AJK (of which Rs 1,401 m are projected to be reimbursed by the SAP Project) and Rs 10.5 billion at the provincial level--Rs 7.5 billion as SAP-tied Cash Development Loan (CDL)/Grant and Rs 3 billion as donor financing of ongoing SAP related projects (excluding Rs 872 m in SAP Project reimbursements).

1.49 The PSDP Review team, in consultation with the SAP supervision mission currently in the field, estimates the SAP sectors' requirement for development funds at about Rs 16.9 billion--Rs 4.1 billion for the Federal program (including Federal Areas and AJK) and Rs 12.8 billion for the provinces (see Table 7). These calculations are based on some strong assumptions and incomplete information regarding SAP-related development programs of the Special Areas (FATA, FANA & AJK). Nevertheless, it is clear that the proposed SAP allocation falls short of the needs of the program by around Rs 2.5 billion, more in the case of provincial programs (Rs 2.3 billion) than for the Federal SAP (Rs 239 m).

1.50 There is some ambiguity regarding the estimation and budgeting of SAP Project reimbursables. These reimbursables appear to be double-counted for some heads of the Federal program, most notably in the case of the Federal Areas program.⁶ Hence the figures for SAP Project reimbursables should be reviewed and if necessary appropriately adjusted.

⁶ Although the estimate of local funding for the Federal Areas SAP is quite tentative, the excess of SAP Project reimbursables over total local funding warrants a review of the estimated figure.

Table 7: SAP Funding Requirements, Proposed Allocations, and Shortfall, 1995/96

(Rs Million)

	Proposed Allocation			Requirement			Shortfall		
	SAP Related			SAP Related			SAP Related		
	Local	Projects	Total	Local\1	Projects\2	Total	Local	Projects	Total
Federal	2,687	1,225	3,912	3,157	993	4,151	470	-232	239
Vertical Health Programs	1,318	212	1,529	1,449	163	1,612	131	-49	83
Population	699	744	1,443	898	700	1,598	199	-44	155
Participatory Development Program	0	0	0	81	0	81	81	0	81
SAP Monitoring & Evaluation	0	0	0	63	0	63	63	0	63
Federal Areas & AJK \3 \4	671	269	940	667	130	798	-3	-139	-142
Provinces	7,500	3,000	10,500	7,500	5,284	12,784	0	2,284	2,284
TOTAL	10,187	4,225	14,412	10,657	6,278	16,935	470	2,053	2,523

\1 For the Federal Areas the requirement figure is derived by assuming that only 25% of total SAP funding requirement (development and current) relates to development funds. For the provinces the Federal development transfer is taken to be the same as that in the proposed PSDP (Rs 7.5 billion), while donor assistance for SAP related projects include SAPP reimbursables (i.e. Rs 4,240 m for SAP related projects plus 25% of the total projected SAPP reimbursables).

\2 The most conservative estimate of the mission.

\3 The estimates of local funds (for SAP sectors) are obtained by assuming that the share of these funds in total local funds for FATA, FANA, and AJK would be the same as during last the last year's budget. Figures for ICT were obtained from the proposed PSDP. Funding for SAP-related (on-going) donor projects are obtained from the Operational Plans of Federal areas and AJK.

\4 SAPP reimbursables include all reimbursable on Education, RWSS and that mentioned as block expenditures for Special Areas.

SAPP Reimbursables, 1995/96

(Rs million)

	P&D's Estimates		Review Team's Estimates	Shortfall (4)=(3)-(2)
	PSDP	Total\1	Total	
	(1)	(2)	(3)	
Federal	528	1,599	547	-1,052
Vertical Health Programs	171	171	147	-24
Population	0	0	0	0
Participatory Development Program	0	0	81	81
SAP Monitoring & Evaluation	0	0	63	63
Federal Areas & AJK	357	1,428	257	-1,171
Provinces	873	3,490	4,206	716
TOTAL	1,401	5,089	4,754	-336

\1 For the Federal Areas and AJK, and the provinces, total reimbursables are calculated as four times the PSDP reimbursables.

1.51 Given that SAP is a top priority program, the PSDP Review team strongly recommends that additional funds be provided to SAP, both for the Federal programs and for the provincial SAP. Adequate funding of the latter requires a substantially higher allocation to cover the foreign components of SAP-related projects and expenditures in the provinces' ADPs covered by SAPP reimbursables.

Allocations to Special Programs

1.52 This category of the PSDP comprises four programs, as shown in Table 8. The Special Areas programs comprise the entire ADPs of those parts of Pakistan which are under direct Federal rather than provincial administration (Azad Jammu and Kashmir, Federally Administered Northern Areas, and Federally Administered Tribal Areas). The 1995/96 ADPs of the Special Areas, like those of the four provinces, have not yet been formulated in detail and hence cannot be evaluated at this time. Therefore, after briefly reviewing recent trends in the Special Areas Programs, this discussion will focus on the People's Program (formerly Tameer-i-Wattan) and Tameer-i-Sindh.

1.53 ADPs of the Special Areas. Total development outlays of the Special Areas have grown slowly in recent years--at an average rate of only 4% p.a. in nominal terms from 1988/89 to 1993/94, which translates into negative real growth of spending. The allocation for 1994/95, however, exceeded the previous year's outlay by 27%, perhaps reflecting greater priority being assigned to development of Special Areas.⁷ The 1995/96 proposed allocation is for no increase over this year's allocation in nominal terms. This trend of declining expenditure in real terms (not fully offset in 1994/95 even if the allocations are fully utilized) suggests that the development needs of the Special Areas may be underbudgeted.

1.54 People's Program (formerly Tameer-i-Wattan). This program was instituted in 1988/89 with the objective of permitting elected representatives at the national level (Senators and Members of the National Assembly) to participate in local economic development. The funds allocated to this program are divided among representatives and members of the Cabinet, who then designate amounts to be used for specific development schemes, primarily in their own constituencies. Allocations totalled Rs 17.6 billion between 1988/89 and 1993/94, averaging slightly less than Rs 3 billion per year. In 1993/94 funding of the Tameer-i-Wattan initially was sharply cut back by the interim government but subsequently was restored by the new elected government, which renamed it the People's Program (PP). In 1994/95 Rs 3 billion was allocated to the PP, whereas the allocation proposed for 1995/96 is Rs 4 billion, representing a substantial increase in real terms and as a share of the total budgetary PSDP. A wide variety of development schemes, most of them tiny, are funded by the PP, including drinking water and sanitation, schools, health units, rural roads, Public Call Offices (PCOs), and partial funding of rural electrification and gas supply projects. Data are not available on spending by sectors or broad project categories.

1.55 Funding decisions are made in a simple but not very transparent manner. Each representative or Cabinet member designates the specific schemes that he/she wishes to be financed on a form. The projects are then approved by the Federal Development Committee and are implemented by provincial line departments. The Federal Development Committee is located in the Ministry of Local Government and Rural Development (MLGRD); deliberations are reportedly brief for the most part. Once schemes are approved, funds are transferred to the provincial departments concerned under special sealed authorities. There appears to be very little accounting and monitoring of spending under the PP, and

⁷ It is possible that the higher allocation to Special Areas also reflects growth of SAP spending.

Table 8: Expenditure on Special Programs, 1988/89 - 1995/96

	<i>(Rs Million)</i>								
	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	
								Allocations	
Peoples Program/TIW	2,050	3,000	3,000	2,590	3,016	1,228	3,000	4,000	
Tameer-e-Sindh	--	--	--	2,500	2,500	1,500	2,500	2,500	
Special Areas	2,123	2,362	2,497	2,284	2,458	2,488	3,162	3,162	
AJK	932	1,018	1,030	906	905	1,079	1,622	1,622	
FANA	424	475	599	526	793	573	653	653	
FATA	681	772	771	767	682	696	769	769	
FATA DC	87	97	98	85	79	140	118	118	
Afghan Rehabilitation	--	--	--	200	200	143	30	30	
TOTAL	4,173	5,362	5,497	7,574	8,174	5,359	8,692	9,692	

Note: For Special Areas, the aggregate figure for 1995/96 (Rs 3,230 m) does not tally with the figure shown here (Rs3,162 m) which is the sum of the proposed allocations for these Areas.

Source: Planning and Development Division.

accountability is weak and fragmented. MLGRD has no monitoring arrangements, and the implementing agencies and provincial governments also do not seem to have any real "ownership" of the schemes or spending.

The following problematic issues related to the PP can be identified:

- (1) a multitude of small, scattered projects are funded, without overall direction or prioritization of activities;
- (2) there would appear to be great overlap and little coordination with other development programs funding similar types of activities;
- (3) decisionmaking is not based on economic and technical considerations but rather may be politicized in many cases;
- (4) there is little or no monitoring and accounting, leaving scope for diversion of funds and leakages; and
- (5) the PP appears not to have been subjected to a thorough evaluation.

1.56 In view of these issues there is no justification for the substantial increase proposed for the PP in 1995/96. On the contrary, a significant reduction could be considered, which would not disproportionately affect any benefits provided by the PP in view of the fact that it is a highly divisible program consisting of numerous small activities. A thorough evaluation of the PP is needed, which would provide a basis for deciding whether to continue with the program.

1.57 Tameer-i-Sindh (TIS). TIS was instituted as a four-year, Rs 13.5 billion program in 1991/92, with the objective of combating social problems that had contributed to deterioration of the law and order situation in rural Sindh. A total of Rs 9 billion has been allocated for TIS up 1994/95, and a further allocation of Rs 2.5 billion is proposed for 1995/96. TIS is effectively a block grant to Sindh and serves as a source of additional funding for the province's ADP. Expenditures funded by TIS are part of the provincial ADP and are vetted through a Committee including representatives of the Federal and Sindh governments. As in the case of the PP, no systematic evaluation of TIS appears to have been conducted. There would seem to be little economic rationale for a separate block development grant to Sindh Province; instead, Sindh's overall development needs should be taken into account and provided for by Federal Plan transfers (Cash Development Loans and Grants). Another option would be for the resource needs of provinces like Sindh to be reviewed and addressed by the National Finance Commission (NFC). These considerations suggest that TIS should be phased out over time.

Provincial Annual Development Programs (ADPs)

1.58 Given the provinces' important responsibilities for human resource development and certain types of infrastructure, the provincial ADPs play an important role in the overall development strategy and include expenditure programs for key sectors like primary and secondary education, health, water supply

and sanitation, agriculture, etc. The provincial ADPs for 1995/96 are still under preparation, and not enough information is yet available to make technical assessment of their composition.⁸

1.59 The provinces' dependence on Federal fiscal resources meant that their ADPs historically were financed through Federal development transfers and foreign assistance provided through the Federal PSDP. Therefore the size of the aggregate provincial development program was always indicated in the Federal PSDP. After the 1991 NFC award the provinces were asked to fund part of their development programs from their own revenue surpluses. In 1992/93, out of provincial development spending of Rs 24.8 billion, Rs 4.8 billion was contributed by the provinces from their own resources (Table 9). With the worsening fiscal situation, no revenue surplus was available for provincial development activities in 1993/94. In 1994/95, however, with the structural shift in Federally collected taxes away from import duties and in favor of domestic sales and direct taxes, the revenue balance tilted in favor of the provinces, who were asked to contribute Rs 5 billion to the overall provincial development program (of Rs 25 billion), with an equivalent reduction in non-SAP federal development transfers.

1.60 The 1995/96 proposed PSDP indicates a provincial program of Rs 25.5 billion--a mere 2% increase in nominal terms over 1994/95's level. The aggregate 1995/96 provincial development program includes Rs 10.5 billion for SAP--Rs 7.5 billion as CDL/Grant to the provinces and Rs 3 billion as disbursements from donor assisted project aid. While Rs 6 billion of the total non-SAP provincial development program (Rs 15 billion) consists of disbursements of project aid from donors, the local component of Rs 9 billion will probably be funded by asking the provinces to contribute a large amount from their own surpluses (perhaps the entire amount). Federal funding of the non-SAP component of the provincial development programs hence would continue to decline both in absolute terms and as a proportion of overall Federal assistance to the provinces, perhaps leading to severe financing problems for some provincial sectors/projects.

⁸ There generally is about a one month gap between the finalization of the Federal PSDP and completion of the provincial ADPs.

Table 9: Provincial Annual Development Programs (ADPs), 1992/93-1994/95

(Rs Billion)

	ADP Net (Budget)	Financing			
		Federal Contribution 1/	Provincial Surplus 2/	Foreign Aid	Others 3/
Balochistan					
1992/93	3.6	1.4	1.7	0.2	-0.9
1993/94	3.0	1.5	0.9	1.5	-0.9
1994/95	2.2	0.7	0.4	2.1	-1.0
N.W.F.P					
1992/93	4.5	2.8	1.4	1.3	-0.9
1993/94	4.3	2.7	1.1	0.3	0.3
1994/95	5.5	1.3	1.6	1.4	1.3
Punjab					
1992/93	12.0	7.5	1.4	1.9	1.2
1993/94	8.1	8.1	-0.6	0.5	0.1
1994/95	10.3	3.9	-0.5	2.1	4.8
Sindh					
1992/93	4.7	3.0	0.3	0.1	1.3
1993/94	3.3	3.2	-1.7	3.2	-1.4
1994/95	2.3	1.6	-0.8	3.7	-2.2
Total					
1992/93	24.8	14.7	4.8	3.4	1.9
1993/94	18.6	15.5	-0.3	5.4	-2.0
1994/95	20.3	7.4	0.7	9.3	2.9

1/ The Development Grants and the Cash Development Loans provided by the Federal Government.

2/ The current account surplus of the Province.

3/ Represents the sum of net capital receipts, net public account receipts and utilization of cash balances.

Source: Provincial Budgets.

II. EVALUATION OF SECTORAL PROGRAMS

2.1 Detailed reviews have been conducted of the proposed 1995/96 PSDP allocations for different sectors and for individual projects and programs. The sectoral write-ups in this report include brief discussions on sector background, evaluations of the 1993/94 outcome and 1994/95 expected outcome, assessments of the 1995/96 PSDP proposals with recommended adjustments where necessary, and presentation of proposed sectoral Core Development Programs (CDPs) for 1995/96. The sectors covered include Energy, Transport, Agriculture and Environment, Irrigation and Drainage, Industry and Telecommunications, and Social Sectors. The evaluations of the 1994/95 likely outcome in the sectoral reviews should be considered provisional because they are based on available data, which reflect more-or-less full utilization of funds available and an overall budgetary PSDP level more than Rs 5 billion higher than the latest estimate/ceiling of about Rs 82 billion.

A. Energy

2.2 While energy supplies have grown by 7% per annum, demand for energy has expanded at a faster rate. To address supply constraints which have hindered the growth of the sector and of the economy as a whole, the emphasis of Government policy is on (1) better investment programming to ensure that scarce public funds are allocated to priority projects; (2) greater involvement of the private sector through privatization of selected entities and mobilization of private sector investment; and (3) reducing consumption inefficiencies through tariff adjustments and greater cost recovery. The Government's public expenditure strategy for the energy sector calls for increasing reliance on private investment to meet longer-term needs. Public sector resources are being focussed on completing the large portfolio of projects under implementation to help alleviate bottlenecks in the short run, as well as continuing substantial investments in areas where the public sector will continue to play a major role (e.g. large hydel facilities).

A1. Power

1993/94 and 1994/95 Outcomes

2.3 Total investment by the Water and Power Development Authority (WAPDA) in 1993/94, according to P&D's estimates from November 1994, amounted to Rs 30.2 billion, of which Rs 7.1 billion represented expenditures through the budget.⁹ The latest available data from WAPDA, however, indicate that total investments during 1993/94 were Rs 26.9 billion (about 10% lower than the P&D figure), though foreign currency expenditures amounted to Rs 14.4 billion, substantially larger than the P&D figure. This discrepancy needs to be sorted out.

⁹ The budgetary portion includes only the foreign exchange components of loans for which GOP is the borrower and passes on the funds to WAPDA. Direct foreign borrowing by WAPDA is not included in the budget. Even after direct loans to WAPDA are subtracted from WAPDA's investment data, total foreign currency expenditures included in the budget amounted to Rs 10.1 billion, which is larger than P&D's estimate. A reconciliation of the budgetary and non-budgetary portions of WAPDA's investment program in 1993/94 is still required.

2.4 Expenditures on Core projects, according to the latest information, were Rs 26.6 billion. Most of the increase over 1992/93 (Rs 2.4 billion) was for thermal generation, particularly Kot Addu Units 11-12, Muzaffargarh units 1-3 and units 5-6, and Thermal Power Plants Rehabilitation including Kotri/Faisalabad CC. Expenditures on the transmission program also rose significantly and reflect higher spending on the Jamshoro-Lahore (Second and Third) transmission lines. All of these are high-priority projects; thus the increased expenditures on them are consistent with priorities agreed with the World Bank. It is also evident that almost all of WAPDA's investments in 1993/94 were for priority projects, and implementation of projects not included in the Core Program was (rightly) deferred.

2.5 WAPDA estimates that its total investments in 1994/95 will amount to about Rs 26 billion. This assumes that expenditures for Ghazi Barotha will only be around Rs 500 m and that the bulk of funds originally requested for 1994/95 (for land acquisition and other preliminary works) will not be required this year. Expenditures on Core projects would amount to about Rs 24.7 billion, compared to Rs 26.4 billion in the approved PSDP (see Annex Table A4). The budgetary portion of the CDP is estimated at about Rs 10.5 billion, slightly above the budget target.

2.6 There is likely to be a shortfall of about Rs 1.9 billion in the thermal generation component of the Core Program and Rs 1.5 billion in the transmission component, while the Hydel, Secondary Transmission and Grid (STG), and Rural Electrification components are likely to exceed their budget allocations by about Rs 500 m each. The shortfall in the thermal program is a cause for concern, since these projects are being implemented on a priority basis by WAPDA in order to augment power generation capacity. Expenditures on several thermal projects have been lower than expected: Kot Addu units 11-12 (Rs 1,150 m) and units 13-15 (Rs 350 m) and Muzaffargarh unit 4 (Rs 400 m) and units 5-6 (Rs 530 m). In the case of Kot Addu units 11-12 and Muzaffargarh units 5-6, it is possible that accelerated implementation (and higher expenditures) during 1993/94 may have advanced the completion dates for these projects. If the revised expenditures reflect the latest implementation status and funding required, the reduction can be justified; reduced expenditures for other reasons (lack of funds, delays in equipment deliveries or works, etc.) need to be avoided. As regards Hydel generation, most of the increase is for the Chashma hydel project and is probably in line with contract schedules. For the STG program, with funding provided by the World Bank (under the Power Sector Development Project) and by ADB under the Eleventh Power Project, the requirements are likely to be fully covered.

1995/96 Investment Program

2.7 It is difficult to assess the level of WAPDA's investment program for 1995/96 since the requirements for the Ghazi Barotha Hydropower Project (GBHP) could range from about Rs 8 billion to Rs 13.5 billion. The lower estimate includes all remaining land acquisition and preparatory works, consultancy services, and down payments for the three civil works contracts that have been issued by WAPDA. If it is assumed that the procurement process will be sufficiently advanced to require 2-3 monthly progress payments for these contracts (on the order of Rs 2 billion per month), the funding requirement could rise by as much as 50%. Consequently, estimates of WAPDA's 1995/96 investment funding needs range from about Rs 35 billion, if GBHP is assumed to require Rs 8 billion, to Rs 40.5 billion under the more optimistic scenario.

2.8 Thermal generation investments in 1995/96 would fall by about 25% relative to 1994/95 (to Rs 8 billion, including Rs 4.7 billion in foreign currency). This would cover completion of ongoing projects, mainly Muzaffargarh unit 4 (Rs 3.3 billion); Kot Addu Units 13-15 (Rs 1.9 billion); Kot Addu units 11-12 and Guddu (Rs 1.3 billion); and other projects (about Rs 1.5 billion). The hydel program,

apart from GBHP, is estimated at Rs 2.5 billion and includes mainly expenditures for the Chashma project (Rs 2 billion), start of work on the Warsak rehabilitation project, and completion of the Tarbela and Mangla extensions.¹⁰ A substantial increase to about Rs 5.8 billion (compared to Rs 3.1 billion in 1994/95) is envisaged for the transmission program. Almost all the transmission investments proposed for 1995/96 are of high priority, but at present there are no identified sources for funding the foreign currency portion of the Fourth Jamshoro-Lahore line, which has been designated for private sector investment (and therefore is not included in the PSDP) and the interconnections for private power plants. In the absence of financing, expenditures for these two components would need to be funded by WAPDA, and spending would likely be lower than WAPDA's estimates. The remaining items in the investment program include STG (Rs 4 billion); Rural Electrification (RE--Rs 3 billion); Distribution Expansion and Rehabilitation (Rs 1.3 billion); and Energy Loss Reduction, Load Management, etc. (Rs 1.3 billion). The allocation for STG adequately covers disbursements projected under ADB's Eleventh Power Loan and the World Bank's Power Sector Development Project, and the foreign currency allocation for RE (Rs 2.2 billion) is considered more than adequate to cover expected disbursements under the ongoing OECF and World Bank loans.

2.9 The PSDP Review team assumes that total funding required for GBHP during 1995/96 will be Rs 8 billion, including about Rs 4.5 billion in foreign currency.¹¹ The overall investment program is thus likely to be about Rs 35 billion: Thermal generation Rs 7.7 billion; Hydel generation Rs 10.5 billion (including Rs 8 billion for Ghazi Barotha); Transmission Rs 5.9 billion; STG Rs 4 billion; RE Rs 3 billion; and other projects about Rs 3 billion. The Core Program would amount to about Rs 31.9 billion, with a budgetary (i.e. foreign aid) component of about Rs 12.5 billion. Annex Table A5 provides a list of Core projects for 1995/96 along with estimated funding requirements.

2.10 The foreign currency requirements for WAPDA's 1995/96 investment program are estimated at over Rs 17 billion. Excluding projects for which WAPDA is the direct borrower, the budgetary requirement is estimated at about Rs 12.5 billion, including RE. P&D's estimate of the budgetary component of WAPDA's investment program (not including RE) is Rs 10 billion. Since foreign currency disbursements for RE are estimated at about Rs 1.9 billion, the budgetary portion of the investment program has a relatively small gap of Rs 606 m. As regards the local currency portion, WAPDA has to generate from internal sources about Rs 14.5 billion, in line with agreements reached with the World Bank; this depends on approval of appropriate increases in electricity tariffs. Consumer contributions and security deposits would provide an additional Rs 4 billion during 1995/96. In addition, WAPDA's local borrowing requirement for 1995/96 is around Rs 4-5 billion. Given WAPDA's experience in recent years, it is difficult to envisage that this level of resources could be mobilized without Government guarantees for the bonds. If this borrowing does not materialize, the Government would need to provide WAPDA adequate resources for executing the investment program to avoid delays in implementation.

¹⁰ As regards Chashma, WAPDA projects foreign currency expenditures of Rs 900 m; however, ADB estimates indicate that total disbursements under the Twelfth Power Project, the only known source of financing for this project, are likely to be about Rs 550-600 m. In case the ADB loan is the only foreign funding source for Chashma, expenditures for this project may be around Rs 300 m lower.

¹¹ The processing schedules of almost all of the donors indicate that their respective loans are not likely to be effective before the end of the fiscal year. Hence GOP would need to make available the full funding for 1995/96 from its own resources, requiring some form of bridge financing. While some expenditures could subsequently be reimbursed from donor funds (through retroactive financing arrangements) once the loans are declared effective, this would be contingent on approval by the respective donors.

2.11 It appears that the budgetary component of WAPDA's investment program does not include one World Bank Loan. The foreign currency portion of the Hub-Jamshoro and the Third Jamshoro-Lahore 500 KV transmission line appear not to be included in the budget. While the majority of the funding for these lines is through direct loans to WAPDA, part of the financing (specifically, one of the packages for towers for the Third Jamshoro-Lahore line) is financed out of the Power Sector Development Project, for which GOP is the borrower. As a result, adequate provision for disbursements out of this loan (around Rs 350 m) needs to be made in the budgetary portion of WAPDA's investment program.

Non-WAPDA Power Program

2.12 The 1995/96 proposed PSDP includes Rs 4.8 billion for the Chashma Nuclear Power Project, Rs 20 m for exploration of uranium, Rs 25 m for the Reshun Hydro Project, and Rs 3 billion for RE. The Chashma Nuclear Project is not part of the least-cost solution for meeting Pakistan's electricity requirements. Moreover, the prospective demand environment for this project has changed with the success in attracting new private power investments and the initiation of GBHP, raising doubts about its commercial viability, even on a sunk-cost basis (about one-third of the estimated total project cost will have been expended by the end of 1994/95). There are also environmental and safety concerns which need to be taken into account. The two small projects also are not considered high-priority investments and therefore should not be included in the Core Program.

2.13 Although it is implemented by WAPDA, the Government's definition includes RE in the program of the Ministry of Water and Power. P&D's proposed budgetary PSDP allocation for RE is Rs 3 billion, of which Rs 2.2 billion is in foreign exchange. A reduction of Rs 300 m in the foreign currency portion would still leave adequate provisions to cover expected disbursements under the World Bank and OECF Loans. Furthermore, these loans cover almost all of the financing required for the RE program (100% for equipment and consultant services and 80% for works contracts), the local currency allocation could also be reduced somewhat. It is, therefore, recommended that RE in the Core Program be allocated Rs 2500 m (including Rs 1900 m in foreign currency). A provision of about Rs 500 m (including Rs 300 m in foreign currency) should be made in the non-Core program for the power sector, to allow for the possibility that implementation of the program may be further expedited and as a result funding needs exceed the minimum (Core) amount.

A2. Oil and Gas

1994/95 Outcome

2.14 The revised estimate of OGDC's 1994/95 investment program is Rs 7,834 m (including Rs 3,775 m in foreign currency), which is close to the PSDP allocation (Rs 7,712 m). Development activities accounted for over 80% of total investments, while exploration activities were correspondingly reduced. This change was warranted since it allows GOP and OGDC to limit the use of scarce public sector resources for relatively risky investments while mobilizing private funds for such activities. Investments in Joint Ventures (JVs) amounted to Rs 5.5 billion, almost 70% of OGDC's total investment during this year. A major portion of JV expenditures was for the Qadirpur project, which is funded by the World Bank under the Domestic Energy Resources Development Project (DERDP). The remaining JV investments represent OGDC's shares of the costs of projects in which foreign private investors are the

operators. Since JV projects enable the Government and OGDC to mobilize private foreign capital, these are high-priority investments for OGDC, and the large share of such investments in the overall investment program is justified. The other major component of 1994/95 investments (about Rs 1.3 billion) was for development of discovered oil and gas fields, mainly Dhodak, Missa Keswal, Fimkassar and Uch. Exploration expenditures amounted to about Rs 870 m (12.5% of total investment).

1995/96 Proposed Allocations and Investment Needs

2.15 OGDC's investment program is expected to decline in 1995/96 since some large projects will have been completed. The proposed program (Rs 7.1 billion, of which Rs 4.2 billion is in foreign exchange) is thus about 10% lower than in 1994/95. Table 10 presents the proposed investment program and financing plan for 1995/96 (along with the 1994/95 program). The largest share of investment still goes for JV projects, but the proposed amount (Rs 2.5 billion) is less than half the 1994/95 level. This in part reflects lower requirements for the Qadirpur project (scheduled for completion in the first quarter of 1995/96). Another large project planned to be implemented in 1995/96 is the ADB-financed Oil and Gas Development-II project (OGDP-II), for which OGDC estimates an expenditure of Rs 1 billion, whereas ADB's estimate is that only about Rs 100 m will be required in 1995/96. About Rs 2 billion is proposed to be spent on a number of development schemes--Uch, Missa Keswal, Fimkassar, Nandpur, Kunner, and "Development of New Discoveries". While these projects to enhance domestic energy supplies are of high priority, the proposed allocation may be overly ambitious, since preparation and approval of the PC-I for some projects (especially Development of New Discoveries) is not yet completed. Similarly, there does not appear to be any identified foreign source of financing for some projects (Fimkassar, Development of New Discoveries). Hence the requirement for these projects could be substantially lower than proposed by OGDC.

2.16 As regards the financing plan, OGDC plans to raise Rs 3.1 billion (about 45% of the investment program) from internal sources. This includes the entire local currency requirement and Rs 415 m for foreign currency for the exploration project. Foreign currency financing involves funds from approved World Bank loans totalling about Rs 1.5 billion (mainly DERDP); Rs 636 m provided under the ADB's OGDP-II; about Rs 300 m for other ADB-financed projects; and the balance (about Rs 1.2 billion) from commercial loans, suppliers credits, etc.

2.17 The PSDP Review team's estimate of the size, composition, and financing of OGDC's 1995/96 investment program reflects the status of ongoing projects, likely disbursements from existing (mainly World Bank and ADB) loans, and financing sources (see Table 10). The investment program could be as much as Rs 2 billion lower than OGDC's estimate (including a reduction of up to Rs 1 billion in foreign component). This reduced estimate is based on the following considerations:

- ADB's estimate of expenditures for OGDP-II is around Rs 100 m, which would imply a reduction of about Rs 900 m in the program (Rs 550 m in foreign currency).
- ADB's estimate of disbursements under other projects is Rs 65-70 m only, which would imply a reduction of Rs 400 m.
- For a number of projects (Fimkassar, Kunner, Rajian) the PC-I has not been prepared/approved as yet; hence the phasing of expenditures for some of them could be 8-12 months later than envisaged by OGDC, implying a reduction of Rs 700-800 m in expenditures during 1995/96. The status of tendering is also an important consideration:

Table 10: OGDC's Investment Program and Financing Plan, 1994/95-1995/96

(Rs Million)

Project	1994/95	1994/95		1995/96			1995/96			
	Allocation	Revised Estimates		Proposed Allocation			Review Team's			
	Total	Total	FE	Local	Total	FE	Local	Total	FE	Local
INVESTMENT PROGRAM										
Exploration										
Development of Oil and Gas	876	870	0	870	956	415	540	955	415	540
Development										
Joint Ventures	4,591	5,555	3,159	2,396	2,516	1,582	933	2,200	1,300	900
Uch Phase III	400	212	96	115	476	269	207	476	269	207
OGDP II	70	70	44	26	1,020	637	383	100	65	35
Kunner					598	406	193	550	375	175
Missa Keswal	388	388	271	117	213	171	43	213	171	43
Other Development Projects ¹¹	1,278	660	206	454	1,211	733	478	600	400	200
OGDC Head Office Building	111	80	0	80	115	5	110	115	5	110
Total	7,713	7,835	3,776	4,059	7,104	4,217	2,887	5,209	2,999	2,210
FINANCING PLAN										
Internal Generation					3,095	415	2,680	2,625	415	2,210
Commercial & Other Foreign Loans ¹²					2,510	1,499	1,292	1,284	1,284	0
Foreign Borrowing through Budget ¹³					1,499	1,292	207	1,300	1,300	0
Total					7,104	3,206	4,179	5,209	2,999	2,210

¹¹ Lumpsum allocation for other development projects, for some of which foreign financing source is not defined.

(including Nandpur, Panipir, Development of New Discoveries, Finkassar etc.).

¹² Commercial borrowings, supplier credits for Missa Keswal, Kunner, etc.

¹³ Projected disbursements under World bank and ADB loans, for which the Government is the borrower, and the funds are on-lent to OGDC.

information provided by OGDC does not indicate that the tendering process is sufficiently advanced to envisage contract awards by early 1995/96.

2.18 P&D's proposed PSDP allocations include Rs 500 m for the portion of OGDC's investment program funded through the budget. This is not sufficient to cover expected disbursements of about US\$ 35 m under DERDP plus expected disbursements under ADB's OGDPII project. The budgetary portion of OGDC's investment program is thus estimated to require about Rs 1300 m during 1995/96, Rs 800 m more than the proposed allocation.

B. Agriculture and Environment

B1. Agriculture

Sectoral Background, Strategies, and Priorities

2.19 Sectoral Issues. Agriculture, which accounts for more than 20 percent of GDP and more than 50 percent of employment, is the backbone of Pakistan's economy. The performance of the sector has been variable, and there are signs of stagnation in production. Irrigation water has become a critical constraint, while fertilizer use is levelling off. Future growth must rely almost entirely on efficiency gains, the potential for which is considerable.

2.20 Turning to specific sectoral issues, soil erosion has afflicted about 16 m ha of land and is the cause of flooding in the Indus plain and sedimentation of upstream reservoirs. About 8% of soil in Punjab and 15% in Sindh is severely saline, resulting in reduced productivity. Waterlogging has affected about one-eighth of the irrigated land. Skewed land distribution also adversely affects productivity, but land reforms have not worked in the past and under present circumstances are politically infeasible. Another pressing problem is inadequate operation and maintenance (O&M) expenditures and insufficient cost recovery to fund O&M. Research and extension are particularly weak. Extension is perhaps the weakest link in the chain and seems to be the key factor in explaining stagnating productivity in most crops other than cotton. Public sector expenditure is dominated by subsidies, which are designed to help the consumer at the expense of the producer.

2.21 Sectoral Strategies. A medium-term strategy for agriculture has been developed by the World Bank, whose main elements include: (i) correcting distortions in incentives by further deregulating markets for agricultural inputs and outputs; (ii) further trade reform to remove remaining discrimination against agriculture; (iii) irrigation sector reform including greater cost recovery, better management of irrigation systems, and beneficiary participation; (iv) redirecting agricultural public expenditure in favor of O&M and growth-inducing public goods such as agricultural research and rural infrastructure; (v) removing distortions in rural land markets; and (vi) streamlining and reforming the extension system. Specifically, the Government should remove remaining price supports and controls, because these distort market signals and have large fiscal costs. The subsidy on wheat imports needs to be phased out. It would also be desirable to remove protection of sugarcane through high support prices and sugar import restrictions, allowing scarce water and land resources to be shifted to more efficient uses. Taxes on cotton exports, duties on sugar imports, and quantitative restrictions on both need to be removed. All

special agricultural tax exemptions should be phased out. The National Fertilizer Corporation should be transformed into a commercially oriented organization. Privatizing the import of phosphatic fertilizer needs to be speeded up. Government seed corporations should be run along strict commercial lines and privatized as soon as possible. Quality control will have to remain in the public sector, and the Seed Certification Department should be fully funded and strengthened.

2.22 Public Expenditure Priorities. Support to research should continue. Research institutions should be made more autonomous and other funding sources mobilized. Coordination between different research institutions will have to be improved and unnecessary duplication avoided. In the extension services, fewer, better trained, and mobile extension agents will be more effective than the existing large number of agents with inadequate training and motivation. NGOs should be encouraged to engage in extension. There is a need for closer links between extension and research. Mass media and other group approaches should be extensively used for basic messages about available technology and better farming systems. Farm to village roads will improve the distribution of inputs and marketability of outputs. Greater public spending is also needed to improve rural communications and increase the provision of energy for agriculture on an unsubsidized basis.

PSDP Implementation in 1993/94 and 1994/95

2.23 The 1993/94 PSDP in agriculture totalled Rs 955 m for 48 projects. After imposition of an across-the-board cut of 26.7%, this was reduced to Rs 700 m. Overall utilization of funds was satisfactory. The two Core projects were the National Oilseed Development Project (NODP) and Agricultural Research Project II (ARP-II). Both utilized almost their entire budgetary allocations (see Annex Table A3). Utilization of funds by other externally-aided projects appears to have been fairly satisfactory except for three USAID projects, perhaps because USAID was winding down its activities in Pakistan. Eighteen projects were completed during the year while 30 continued into 1994/95.

2.24 The allocation to the Agriculture Sector in the 1994/95 PSDP was Rs 1,055 m for 42 projects (30 continuing ones and 12 new ones). There are four Core projects (which are continuing in 1995/96), namely NODP, ARP-II, Cotton Development (ADB), and Livestock Development (also ADB), with a total allocation of Rs 241 m (see Annex Table A4).¹² Utilization of funds by the Core projects is expected to be satisfactory at Rs 245 m. The Cotton project (ADB) has been reformulated to concentrate on research on cotton leaf curl virus. Of the 42 projects, 18 will be completed during the year and the remaining 24 continued into the next year.

Analysis of 1995/96 PSDP and Core Program

2.25 The 1995/96 proposed PSDP consists of 34 projects (24 continuing from 1994/95 and 10 new ones) with a total proposed allocation of Rs 643 m. This is considerably less than in 1993/94 and 1994/95, due to termination of USAID and of the Productivity Enhancement Program. The 10 new projects, valued at Rs 80 m, include two projects--the Pilot Farmer Network for Sunflower and Rapeseed (Rs 15 m) and Strengthening of Soil Survey of Pakistan (Rs 14 m)--for which assistance from EU and the Netherlands, respectively, is expected. The rest of the new program is domestically funded and includes only two major projects, namely "Improvement of Crop Estimation Systems" (Rs 24 m) and

¹² The Management of Agricultural Research and Technology Project and Transformation and Integration of Provincial Agricultural Networks Project (both USAID) are also shown as Core projects, but these are not being continued in 1995/96 due to termination of USAID activities.

"Improvement of Existing Facilities at University of Agriculture, Faisalabad" (Rs 10 m). The broad composition of agricultural PSDP expenditure has changed because of the closure of USAID. The forestry subsector (Rs 2 m) has suffered--its only major (USAID-supported) project, with an allocation of Rs 45 m in 1994/95, has been discontinued.¹³

2.26 The 1995/96 PSDP is small compared to previous years. There is, therefore, little scope for any adjustments. Old projects need to be continued until completion; among the new projects, however, except for the two for which external aid is expected and the self-funded Improvement of Crop Estimation Systems project, all can be considered for dropping. In this manner, up to Rs 27 m could be saved to partly offset the shortfall in Core projects (see below).

2.27 The 1995/96 PSDP has a proposed allocation of Rs 46.7 m for the fertilizer subsidy, compared with a revised estimate of Rs 66.6 m in 1994/95. This is meant for potassic fertilizer, on which the subsidy is scheduled to be phased out by October 1995.

2.28 The proposed Core Program for 1995/96 consists of the four projects that were included in the 1994/95 Core and are being continued in 1995/96 (see Annex Table A5). The proposed PSDP allocations for these projects fall short of estimated requirements by Rs 135 m, of which Rs 64 m consists of rupee component and the remaining Rs 71 m foreign aid. These shortfalls need to be made up. There are two World Bank-assisted projects in the Core Program, NODP and ARP-II. Both have been problem projects but have been reformulated and subsequently have made good progress. It should also be noted that there are a number of provincial agricultural projects and provincial components of projects, whose donor assistance funding requirements need to be reflected in the provincial Annual Development Programs, under the line item for Federal transfers to provinces on account of donor-assisted projects.

B2. Environment

2.29 Pakistan has prepared a National Conservation Strategy (NCS) which lists 14 Core areas in which priority investments should be made. As required by IDA, an Environmental Action Plan also has been prepared, which prioritizes the various programs. Recently, the Chairman of the Pakistan Environmental Protection Council prepared a list of 46 projects, estimated to cost about Rs 2 billion, and has asked the Ministry to seek foreign assistance for these projects. Future environmental programs will flow from these three documents.

Performance in 1993/94 and 1994/95

2.30 The 1993/94 PSDP consisted of 30 projects costing Rs 60 m. Three of them are subprojects of the World Bank-assisted Environmental Protection and Resource Conservation Project (EPRC). Although the allocation for these three projects was Rs 20 m, utilization was very poor and totalled only Rs 1.989 m. The project had a very slow start because no progress could be made in recruiting consultants, who were crucial for the start-up, during the year. The other two major projects, "Karachi Clean Development Program" (Rs 10 m) and "Consumer Power Factor Improvement Program" (Rs 10 m), never got started. Overall, the list of 30 projects included 18 projects for which no allocation was made.

¹³ Forestry being a provincial subject, two forestry projects, one for NWFP supported by ADB (appraisal stage) and the other in Punjab by the World Bank (negotiated), are in the pipeline.

At the end of the year, 20 projects were dropped and only 10 continued into 1994/95. The revised estimates of 1993/94 amounted to Rs 203 m, including Rs 157 m for the Tarbela Watershed Management Project (but actual expenditure incurred on the project, as communicated by the NWFP Forestry Department, was Rs 41 m) and Rs 13 m on EPRC (also wrong because the actual expenditure was only Rs 2 m), which means that only Rs 25 m were spent on the remaining 27 projects.

2.31 The 1994/95 PSDP consists of 20 projects with a total allocation of Rs 138 m, including 10 continuing from 1993/94 and 10 new ones. There are six significant projects: the three subprojects of EPRC (Rs 20 m), "Tarbela Watershed Management Project" (Rs 41 m), "Mangla Watershed Management Project" (Rs 9 m), and "Development of Bagh Quaid-e-Azam Karachi" (Rs 23 m). The last mentioned project never got started. Five projects are proposed to be dropped and 15 will continue into the next fiscal year. The Core Program consists of EPRC and the Tarbela Watershed Management Project. Spending on the three EPRC subprojects is expected to be only Rs 9.5 m, less than half of the allocation, whereas the allocation for the Tarbela project was increased to Rs 112 m during the year, which is expected to be spent. As a result, total expenditure on the Core Program is expected to be Rs 121 m, double the original allocation and only 8% short of the much higher revised allocation.

Analysis of 1995/96 PSDP

2.32 The 1995/96 PSDP consists of 25 projects with a total proposed allocation of Rs 361 m, 15 continuing projects and 10 new ones. The only new project worth mentioning is the "Lump Sum Provision for NCS/Environmental Projects" (Rs 150 m). This is meant for the list of 46 projects developed by the Environmental Protection Council. Among the ongoing projects, the three subprojects of EPRC (proposed allocation of Rs 28.5 m) and the Tarbela Watershed Management Project (Rs 110 m), are part of the proposed Core Program. The PSDP Review team's estimates indicate that EPRC requires a higher allocation of Rs 44 m, whereas the Tarbela project's allocation appears to be adequate.

C. Irrigation and Drainage

Sector Background

2.33 Irrigation is central to Pakistan's economy. Because of the semi-arid climate, around 90% of agricultural output is dependent on irrigation. Pakistan's water sector faces a number of serious problems:

- Waterlogging and salinity are caused by the flat topography of the Indus Basin, poor natural drainage, the semi-arid climate with high evaporation, and development of irrigation without adequate drainage. About 30% of the irrigated area is waterlogged and soil salinity reduces yields of major crops by an estimated 25%.
- Efficiency of water delivery (35%-40%), although comparable with that in many countries, is lower than in others (e.g. Gezira, Sudan). The main causes of high losses are the age of the irrigation system, utilization above designed capacity, and poor maintenance.

- The unreliability and inequity of water delivery stem from the supply-based run of the river nature of the system; lack of farmer participation in O&M; absence of well-defined water rights; and inefficient pricing of water.
- While rapid development of private tubewells over the last 20 years has raised agricultural production, uncontrolled and rapid exploitation is leading to deterioration of aquifers in some areas.
- O&M funding shortfalls in 1994/95 ranged from 14% in Punjab to 37% in Sindh. A major portion of the O&M budget is pre-empted by wages of government employees and heavy O&M spending on the highly subsidized government-owned SCARP Tubewells. Lack of maintenance has made the irrigation system fragile and vulnerable to breaching of canals and poor delivery efficiencies.
- Until the mid-1970s, recoveries from water charges funded O&M and also a portion of investment costs in irrigation. Now, however, recoveries fall short of O&M costs, in 1993/94 by a margin of 64% in Punjab, 74% in Sindh, and over 85% in NWFP and Balochistan.

2.34 Sector strategy. The above issues can only be addressed in a sustainable manner by commercializing and ultimately privatizing water services that are not public goods. Elements of this strategy include:

- Limiting the role of the public sector and expanding the role of the private sector in management of the irrigation system. Public sector involvement should be limited to planning, development, and O&M of main reservoirs, inter- and intra-provincial link canals, canal water capture and delivery at the provincial level, off-farm drainage, and flood protection. The private sector (public utilities, farmer organizations, etc.) would eventually become responsible for all investment, O&M, and cost recovery at and below main canal command levels.
- Removing barriers to a free market in water by legalizing sale of water.
- Introducing enforceable water rights to promote equity in distribution and to make the opportunity cost of water transparent, with appropriate enabling legislation on water rights, markets, and institutions.
- Establishing Provincial Regulatory Commissions to oversee operations of the public utilities so as to prevent development of monopolies and to settle disputes about water rights.
- Fostering viable former organizations at the distributory canal level to carry out O&M, distribute water in accordance with water rights, monitor groundwater use, undertake on-farm drainage development, and collect water delivery and drainage charges.

Implementation of the 1994/95 PSDP

2.35 Based on the information provided by P&D, PSDP expenditures for the Water Sector as a whole in 1993/94 were Rs 8,537 m. Estimated expenditures in 1994/95 are Rs 11,991 m according to P&D

(Rs 11,584 m according to WAPDA and other implementing agencies). The difference of Rs 407 m between P&D estimates and those from project sources arises mainly from the following projects:

1994/95 Expenditure Estimates (Rs Million)

Project	P&D estimate	Project estimate	Difference
LBOD	4,600	3,886	714
CRBC	700	900	(200)
Fordwah Eastern	160	180	(20)
Private tubewell	100	145	(45)
Subtotal	5,560	5,111	449
Total	11,991	11,584	407

For LBOD, 1994/95 expenditures are expected to be less than the budget allocation because of a higher than requested supplementary budget allocation, slow start-up on major contracts such as Chotiari Reservoir, delay in awards of ADB assisted contracts due to a financing gap, slow release of funds, and slow processing of land compensation payments.

2.36 Based on P&D's figures for 1994/95 expenditures, the nominal increase in spending over 1994/95 is 36%. This is probably an overestimate because it assumes full utilization of the allocated budget, but in general, utilization of allocated funds (90%) appears to be reasonably satisfactory.

Analysis of the Proposed 1995/96 PSDP

2.37 The total Water Sector PSDP for 1995/96, including the Ministries of Water and Power (MWP), Food, Agriculture and Cooperatives (MFAC), and Defense (MOD)/Survey of Pakistan, has a proposed allocation of Rs 13,816 m (including Rs 12,669 m for MWP, Rs 1,142 m for MFAC, and Rs 4 m for the Ministry of Defense/Survey of Pakistan). This represents a nominal increase of 22% (or 8% in real terms) compared to the 1994/95 budget allocation but only 15% in nominal terms (1% in real terms) as compared to estimated expenditures in 1994/95. The overall size of the proposed program is lower than the estimated requirement, however, and will need to be increased by about Rs 1,375 m to meet the requirements of the proposed 1995/96 CDP (see Annex Table A5).

2.38 **Surface Water Development Schemes** account for 17% of the total proposed allocation for the Water Sector. Although funding for this subsector is proposed to increase from Rs 1,900 m to Rs 2,303 m in 1995/96, this is insufficient to meet the projected requirements of the ADB-assisted Pat Feeder project (Rs 1,938 m). The Government's local currency allocation for Pat Feeder (Rs 100 m) would not even meet the requirement for interest during construction. The deficit of Rs 1,138 m (the largest for any project in the proposed 1995/96 CDP) should be made up. However, a sharply higher allocation for Pat Feeder would be justified only if adequate measures are taken to improve and stabilize the security situation in the project area, which has slowed down implementation.

2.39 **Drainage and Reclamation (Accelerated Program)** is the largest subsector, accounting for 64% of the total proposed budget for the Water Sector. The overall allocation for this subsector is proposed to increase from Rs 7,382 m expected in 1994/95 to Rs 8,835 m in 1995/96 (20%), which is nevertheless inadequate to meet the projected requirements.

2.40 For non-aided projects in this subsector, Punjab has a proposed allocation of Rs 1,357 m. Not all of these projects are viable or of high priority. Similarly, Rs 284 m has been proposed for the Larkana Shikarpur and Kotri surface drainage projects in Sindh. In general, the non-aided projects have been moving very slowly due to shortage of funds. Viable projects for which major procurements have yet to take place may be included under the proposed National Drainage Program (NDP); other projects that do not qualify for inclusion in the NDP should be considered for closure, with minimum further investments to pay for existing liabilities and to help utilize facilities already constructed. The Upper Rechna Deg Basin and other projects in Punjab may be possible candidates for such scrutiny. Some projects in Punjab have been substantially completed (SCARP VI, Drainage IV, Hadali Sub-unit), but a budgetary allocation has been proposed for 1995/96 to meet the cost of land acquisition and O&M. It would be appropriate to shift these projects to the non-development budget of the concerned Irrigation Departments after one year of operation, although adequate funding should be assured for O&M.

2.41 Annex Table A5 shows the estimated requirements (amounts requested by WAPDA/MWP and World Bank/ADB estimates) and P&D's proposed allocations for projects included in the proposed 1995/96 CDP. The following projects have shortfalls which should be made up:

- Second SCARP Transition Project: There is an overall shortfall of Rs 18 m in the proposed allocation. While the donor share is Rs 10 more than the requirement, the Government share is short by Rs 28 m and would barely cover fixed charges (Rs 34 m, comprising IDC and WAPDA overheads), leaving only Rs 6 m for tubewell subsidy and watercourse improvements, which is highly inadequate. This project was restructured in July 1994, and since then its implementation performance has improved markedly.¹⁴
- Fordwah Eastern Sadiqia South Project (IDA) and Fordwah Eastern Remaining Project (FESR)(non-aided): Different parts of the same surface drainage system are being constructed under these projects, which need to proceed in parallel--otherwise neither one can be made operational. While the proposed allocation for the IDA-assisted project is adequate, it is inadequate for the FESR project. After accounting for fixed charges and consultants, only Rs 25 m would be available for land acquisition and works.¹⁵
- Swabi SCARP: The proposed allocation for this project is Rs 185 m short of the requirement and should be increased to the estimated requirement of Rs 1,200 m. After meeting fixed costs, the remaining amount in the proposed allocation would be inadequate for ongoing contracts, meaning that award of future contracts would have to be postponed.

2.42 **The Flood Subsector** has a proposed allocation of Rs 1,368 m, or 10.5% of the total sectoral allocation. It includes the ADB assisted Flood Protection Sector Project; the IDA/ADB/KFW assisted 1992 Flood Damage Restoration Project; and the "Normal Flood Schemes". The total allocation for the sector (minus the allocation for ISRP-II which for some reason was included in this subsector in P&D's

¹⁴ Although the project is funded from the Accelerated Program, it is not a conventional SCARP construction-type project. WAPDA has no role in its implementation except acting as a conduit for funds. It therefore seems inappropriate for WAPDA to charge overheads for this project. The Government should consider waiving these charges.

¹⁵ Apparently one reason for the low allocation is that the original PC-I cost of the FESR project would be exceeded if the allocation is increased beyond the proposed level. WAPDA has submitted a revised PC-I for approval.

proposals) remains the same as last year. The allocation for the ADB assisted Flood Protection Sector project is Rs 250 m less than the projected requirement, apparently because even with the proposed allocation, total expenditures would exceed the PC-I cost by more than 15%, the limit allowed for cost overruns. MWP should expedite revision of the PC-I, while P&D should increase the allocation in anticipation of PC-I approval.

2.43 **The On-Farm Water Management Subsector** has a proposed allocation of Rs 1,143 m, accounting for 8% of the total Water Sector allocation. The proposed allocations for the three ongoing projects assisted by IDA, ADB, and OECF are adequate or more than the requirements (there is a surplus of Rs 277 m for the ADB-assisted project). If the IDA assisted project is not extended beyond the current closing date of December 1995, the allocation should be reduced to about half the present proposal of Rs 436 m.¹⁶

2.44 Two new high-priority projects (both likely to be donor-financed) are expected to be started in 1995/96:

- National Drainage Program (NDP): This project is expected to be appraised by the World Bank (with ADB, and OECF as observers) in June 1995; physical implementation would commence in the second half of 1995/96. GOP has requested the World Bank for an advance of US\$ 3 m from its Project Preparation Facility (PPF) to carry out essential preparation and project start-up activities. The proposed allocation should be increased to Rs 120 m to reflect the PPF advance and counter-part funds.
- Privatization of Groundwater Development (PGWD--Formerly Third SCARP Transition Project): This high-priority project would privatize the remaining SCARP tubewells in the fresh groundwater areas of Punjab. It would yield major reductions in the fiscal burden of the Government of Punjab for O&M and also introduce a regulatory framework for the long term sustainability of fresh groundwater resources. Preappraisal was completed in August 1994 and appraisal is scheduled for June 1995. Implementation would commence in the second half of 1995/96. An initial allocation of Rs 55 m should be made to cover start-up expenditures.

Core Development Program (CDP) for 1995/96

2.45 Annex Table A5 presents a list of projects proposed to be included in the 1995/96 CDP, together with proposed allocations and estimated requirements for each project. Some changes are proposed in the 1995/96 CDP as compared with the 1994/95 CDP.

2.46 1994/95 Core Projects excluded from the proposed 1995/96 CDP:

- Private Tubewells Development (IDA): This Credit has already closed. Some Village electrification works may continue in 1995/96, but no allocation has been proposed in the

¹⁶ It is noteworthy that the full requirements for donor funds for these projects (as well as for some other projects having provincial components, e.g. Punjab and Sindh Second SCARP Transition Projects, ISRP-II) are shown in the Federal Ministries PSDP. Therefore donor funding for these projects should not be included in the provincial Annual Development Programs.

Water Sector PSDP. The project may be included in the Power Sector under Rural Electrification.

- **OFWM-II (ADB) and Chashma Command Area Development (ADB):** The ADB loans have already closed. No allocation has been recommended for the latter project in 1995/96, but OFWM-II, whose loan account is still open, requires an allocation of Rs 74.4 m, of which Rs 62 m consists of the foreign component and needs to be budgeted in the Federal PSDP. (The remaining Rs 12.4 m represents Punjab Province's contribution.)
- **ISRP-II (IDA):** This project is in its final year of implementation, and December 31, 1995 is the closing date. All works are planned to be completed by September 30, 1995. Due to the divisible nature of the project works a shortfall in funding (should budget cuts take place) would not have a major effect on the overall project objectives. The project should, however, remain in the PSDP.

2.47 Two new projects, NDP and PGWD (described above), are proposed to be included in the 1995/96 CDP. Both are accorded high priority by GOP and the donors, as they are fully in line with the agreed sector strategy.

2.48 The total estimated funding requirement of the proposed 1995/96 Core Program for the Water Sector is Rs 12,659 m. This is somewhat bigger than the CDP that the World Bank had proposed for 1994/95 (Rs 11,737 m). The total allocation proposed by P&D for the projects in the proposed 1995/96 CDP is Rs 1,375 m less than the estimated requirement. If this deficiency, the Rs 19.5 m surplus allocation for the ISRP-II, and the Rs 62 m deficit for OFWM-II are taken into account, the total Water Sector allocation will need to be increased by Rs 1,417.5 m (12.6%) over the proposed allocation.

Requirements of Provincial Annual Development Programs and O&M Funding

2.49 Table 11 shows the total budgetary requirements for major donor-assisted water projects, including provincial as well as Federal budgets. The estimated requirements for provincial projects and components should be adequately provided for in the provincial ADPs.

2.50 The issue of inadequate O&M funding has been mentioned earlier. For the sustainability of the irrigation system it is critical that provincial governments provide adequate funds for O&M in 1995/96. Preliminary estimates of funding requirements are shown below:

Preliminary Estimates of O&M Funding Needs for 1995/96 (Rs m)

Province	1994/95 O&M Funding Target	Allocated O&M Budget 1994/95	Preliminary 3/ Estimate for 1995/96 Target
Punjab ^{1/}	3,814	3,347	4,386
Sindh ^{2/}	1,354	985	1,557
NWFP ^{2/}	329	468	378
Balochistan ^{2/}	203	159	233

^{1/} For the total irrigation system as defined under the Fordwah Eastern Sadiqia Project.

^{2/} For the irrigation system as defined under the ISRP-II project.

^{3/} Does not include requirements of newly completed projects that may be handed over to the Irrigation Departments upon completion by WAPDA.

Table 11: Estimated 1995/96 Budget Requirements (Federal and Provincial) for Major Water Sector Projects

Project Name	PSDP Review Team's Estimates																		(Rs Million)		
	1995/96 Federal Expenditure (Project Estimates)			1995/96 Funding Requirement						1995/96 Counterpart Funding						1995/96 Proposed Allocations			Difference between		
				Total		Of which		1995/96 Requirement From		Requirement From						(Federal Part Only)			Proposed Allocations and		
	Total	Donor	Local	(Federal+ Provincial)	Federal	Total	Federal	Provincial	Total	Federal	Punjab	Sindh	NWFP	Balochistan	AJK	Total	Donor	Local	Federal	Federal	Federal
WORLD BANK PROJECTS																					
LBOD	3,886	1,686	2,200	5,218	4,032	2,514	1,706	808	2,704	2,326	378			4,100	1,800	2,300	68	94	-26		
Second SCARP Transition Punjab	112	54	58	186	148	80	80 (Included in Fed.	106	68	38 (includes Punjab's share of subsidy)			130	90	40	-18	10	-28			
SCARP Transition N. Rohri	17	NA	NA	48	35	23	23 (Included in Fed.	25	12	13			35	23	12	0	0	0			
Fordwah Eastern Sadiqia	180	100	80	591	400	341	200	141	250	200	50			400	200	200	0	0	0		
Fordwah Remaining (non-aided)	250	0	250	350	350	0	0		350	350				200	0	200	-150	0	-150		
ISRP-II	507	505	2	329	269	263	263 (Included in Fed.	66	6	30	18	8	5	288	280	8	20	18	2		
1992 Flood Damage Restn. I/	118	NA	NA	2,306	120	2,095	90	2,005	211	30	85	60	9	6	21	118	93	25	-2	3	-5
OFWM-III	444	NA	NA	600	437	429	429 (Included in Fed.	171	8	92	35	18	18	437	429	8	0	0	0		
New Projects																					
National Drainage Program (New)	0	0	0	120	120	100	100		20	20	NA	NA	NA	NA	5	4	1	-115	-96	-19	
Private Sector Groundwater (New)	0	0	0	61	55	55	50	5	6	5	1			0	0	0	-55	-50	-5		
Total (World Bank)	5,514	2,345	2,590	9,809	5,966	5,900	2,941	2,959	3,909	3,025	296	504	35	29	21	5,713	2,919	2,794	-253	-22	-231
ADB PROJECTS																					
Pat Feeder Canal Rehab	1,200	NA	NA	1,938	1,938	1,432	1,432	NA	506	506				800	700	100	-1,138	-732	-406		
Flood Protection Sector	850	NA	NA	1,100	1,100	900	900	0	200	200				850	720	130	-250	-180	-70		
CRBC III	900	NA	NA	1,334	1,309	802	802 (Included in Fed.	532	507	12	12			1,500	1,000	500	191	198	-7		
Khushab SCARP	300	NA	NA	1,320	1,000	1,040	800	240	280	200	80			1,000	800	200	0	0	0		
Swabi SCARP	550	NA	NA	1,330	1,180	900	850	50	430	330	100			1,015	850	165	-165	0	-165		
OFWM-II	62	62	0	74	62	62	62	0	12	0	12			0	0	0	-62	-62	0		
Third Punjab OFWM	325	NA	NA	148	124	124	124 (Included in Fed.	24	0	24			401	401	0	277	277	0			
Total (ADB)	4,187	62	0	7,361	6,713	5,260	4,970	290	1,984	1,743	129	0	112	0	0	5,566	4,471	1,095	-1,147	-499	-648
OFWM (OECE)	289	NA	NA	365	299	293	293 (Included in Fed.	72	6	36	12	10	8	293	287	6	-6	-6	0		
GRAND TOTAL	9,990	2,407	2,590	17,534	12,978	11,453	8,204	3,249	5,965	4,774	461	516	157	37	21	11,572	7,677	3,895	-1,406	-527	-879

1. Does not include NHA

Source: Planning and Development Division and PSDP Review Team estimates

D. Industry, Minerals, and Telecommunications

D1. Industry and Minerals

2.51 The Government's strategy for the industrial sector is to phase out the public sector's direct involvement in productive activities, related investments, and their financing. Progress has already been made in this regard. Eighty-three industrial units were privatized by February 1995, efforts are underway to privatize another 47 units by June 1995, and all of the remaining industrial units are potential candidates of privatization. Budgetary PSDP investment in industries has declined and is restricted to completion of ongoing projects, balancing, and modernization of existing industries, with some exceptions (e.g. expansion of Pakistan Steel Mill). Based on the existing policy framework of reducing the Government's involvement in production and other activities that are best performed by the private sector, PSDP allocations for industry and minerals should continue to decline.

2.52 The 1994/95 PSDP allocation for industry (Rs 663 m) included three major projects: expansion of Pakistan Steel Mill (Rs 453 m), Pak-American Fertilizer Modernization and Expansion Project (Rs 91 m), and Heavy Electrical Complex (Rs 38 m). Approval for expansion of the Steel Mill did not materialize, and expenditure on the Electrical Complex was as budgeted. However, spending on the Fertilizer project (Rs 367 m) far exceeded the allocation. Total spending is expected to be Rs 427 m, 64% of the PSDP allocation.

2.53 The proposed PSDP allocation for industry in 1995/96 (Rs 132 m) is much lower than in 1994/95.¹⁷ Investment in the Pak-American Fertilizer Project, whose continued funding is proposed by P&D, would be justified only if gains in productivity are substantial, financial arrangements are beneficial, and the project is restructured for privatization in the medium term. The setting up of the Heavy Electrical Complex in the public sector goes against the existing policy framework; proposed expenditure on this project is justified only if the project is being restructured and planned for privatization. The remaining small expenditures in the sector are for support of technology and skill development.

2.54 Development expenditure on minerals continues to be dominated by investment in the Saindak Copper/gold Project. With the Saindak Project nearing completion (scheduled in August 1995), the allocation for this sector has been sharply reduced to Rs 307 m, of which Rs 300 m is for Saindak. The allocation for the project should be reassessed with a view to scaling it down without endangering its timely completion. No new mineral projects in the public sector should be started.

D2. Telecommunications

2.55 In line with the general policy framework, the Government has decided to privatize Pakistan Telecommunications Corporation (PTC). Twelve percent of PTC's share capital has already been divested in the form of PTC vouchers, and a financial advisor has been selected for sale of 26% of the

¹⁷ Included in the proposed allocation is Rs 100 m for the OECF-supported Pak-American Fertilizer Project. OECF estimates that the project will disburse Rs 4 billion in 1995/96.

shares to a strategic investor by December 1995. PTC has been heavily investing in the last couple of years and will have about 2.7 m lines by the end of June 1995, with hardly any pending demand.

2.56 PTC is one of the few profitable public sector entities and finances its entire development program from non-budgetary resources. PTC is still compiling its projected revenues and cash flows for 1995/96, but according to tentative indications it will propose a development program of Rs 17.5 billion, of which Rs 9 billion will be for rural communications. This would be 45% higher than 1994/95 and 3% lower than the revised estimate for 1993/94. PTC will finance Rs 14-15 billion worth of investment from its own revenues (estimated at Rs 30 billion) and the remainder from foreign loans. Foreign loans already in the pipeline include:

1. OEFC Yen 5 billion: The remaining balance of about Rs 800 m for this project will be spent during 1995/96 on gateway exchange, earth station, and marine communications;
2. Kfw DM 87 million: Of the balance of DM 7 m, about DM 5 m will be spent during 1995/96, mostly on maintenance services;
3. French Protocols FF 45.6 million (1993) and FF 122 million (1994): These are likely to be utilized during 1995/96 on rural communications; and
4. ADB's Third Telecommunications loan: Rs 248 m is proposed to be spent during 1995/96, which will complete this on-going project.

E. Transportation

Sectoral Background

2.57 The Transport and Communications Sector has traditionally received one of the largest shares of PSDP allocations (second only to the energy sector). During the 1980s demand for infrastructure grew more rapidly than GDP or population, while public investment in infrastructure declined due to budgetary constraints. The adverse impact of past underinvestment has been accentuated by inadequate recurrent expenditures on maintenance. As a result, severe bottlenecks have developed in the transportation system, and levels of service remain low. It is estimated that inadequate infrastructure increases transport costs in Pakistan by up to 50% and costs the economy about US\$ 500 m per year. Key sectoral issues include:

- Institutional weakness of transport sector agencies leading to poor management and inefficient utilization of assets.
- Increasing congestion on the inter-city highway network due to uncontrolled ribbon development.
- Inappropriate modal split between road and rail (i.e. the low and declining share of the latter), leading to higher transportation costs.

- An archaic trade facilitation system.
- Inadequate levels of resource mobilization from users.
- Lack of a commercial approach in public sector entities, chronic overstaffing, and inadequate tariff increases, resulting in low service levels and burgeoning deficits.
- Lack of specialized cargo handling equipment at ports.
- An inadequate level of private sector participation except in the provision of passenger bus services and freight transport by road.
- Inadequate enforcement of legislation relating to traffic safety, highway axle-load control, and public right-of-way preservation.

2.58 It is now widely recognized that, given resource constraints and conflicting demands for investment faced by the public sector, significant improvements in the provision of transport services can be achieved through greater private sector participation, if the Government provides a supportive policy, legal, and regulatory framework. This is particularly true in subsectors where established markets and explicit revenue streams are available. Examples include cargo handling at ports, dedicated container and oil terminals, railway freight movements, selected high-volume limited access highways, etc.

2.59 Transport sector investments need to concentrate primarily on the high-density north-south (Peshawar-Islamabad-Lahore-Karachi) corridor which accounts for the bulk of national economic activity. High priority needs to be accorded to the highways/roads subsector which accounts for over 85% of total domestic passenger and freight movements. The Government (through the National Highways Authority) has entered into a number of major international contracts since 1991/92, which are still under implementation and need to be expeditiously completed. At the same time, a substantial increase in Railway investments is needed to enable the Railway to regain part of its lost long-distance freight market. Pakistan Railways should be restructured to transform it into an efficient, commercially-oriented autonomous body fully responsive to consumer needs. The private sector can play a significant role, for example in transport of petroleum products for new private power plants by rail.

Implementation of 1994/95 PSDP

2.60 1993/94 final outcome. For the National Highway Authority (NHA), the actual release of funds during 1993/94 was Rs 10,131 m, which was 14% or Rs 1,668 m below the budgetary allocation.¹⁸ Total expenditure on the Core Program, at Rs 7,785 m, was very close to the original allocation. Expenditures of the Ministry of Local Government and Rural Development (MLGRD) on the Core Program were substantially higher (87% or Rs 552 m) than the original allocation, largely on account of higher spending on the ADB-assisted Second Farm to Market (FMR-II) project. Core expenditures of the Ministry of Railways (MOR) were 18% or Rs 436 m below the original allocations. Slow progress of the IBRD-assisted Transport Sector Project was partly offset by greater than planned payments on track rehabilitation and procurement/rehabilitation of locomotives. Core expenditures in the ports subsector

¹⁸ Contract expenditures related to contractor financing for the Lahore-Islamabad Motorway project (40% of costs) are not included in these figures.

were substantially below (75% or Rs 469 m) PSDP targets, partly on account of slow implementation of the Jinnah Bridge Phase II project and the Ports Master Plan Study.

2.61 1994/95 PSDP estimates. The revised figures available to the PSDP Review team indicate that overall expenditures on the transport sector (Ministry of Communications, MOR, MLGRD, and NHA) in 1994/95 will be Rs 536 m (3.6%) lower than planned. Compared with the PSDP targets, NHA's allocations are likely to be lower by Rs 883 m or 7.8%, MOR's allocations lower by Rs 574 m (21%), and MLGRD's expenditures higher by Rs 759 m.

2.62 Implementation of the 1994/95 Core Program in the transport sector is expected to be in line with PSDP targets, but there is wide variation between subsectors. NHA's Core expenditures are expected to fall short by Rs 1,279 m (15%) on account of resource constraints and cash flow problems. Spending on NHA's donor-assisted projects is expected to be lower than planned, whereas expenditures on dualization of N-5 and pavement strengthening/rehabilitation have been curtailed to offset higher than planned payments needed for the two large ongoing non-Core contracts (Lahore-Islamabad Motorway and Lahore Bypass). MLGRD's Core expenditures are expected to increase substantially by Rs 592 m (114%) on account of good progress with the ADB-assisted FMR-II Project. MOR's Core expenditures are likely to be close to target, albeit with considerable variation among individual projects. Core expenditures in the ports subsector are expected to exceed the target by Rs 228 m (150%) on account of higher than planned spending on the Port Qasim Authority Bulk Water Pipeline.

Analysis of 1995/96 Proposed PSDP Allocations

2.63 The Government has proposed a small increase in the overall share of the transport sector in the PSDP in 1995/96 (from the present 15.1% to 16.2%). The proposed increase is about Rs 2,118 m or 14% in nominal terms compared with the original 1994/95 budget target. The PSDP Review team recommends that the transport sector's PSDP allocation be increased by a further Rs 2,336 m, primarily because a significant increase in funding is required for NHA to enable it to continue uninterrupted implementation of its sizable portfolio of ongoing contracts. Proposed adjustments for the transport sector and subsectoral allocations are as follows:

Sector/Sub-sector	1994/95 PSDP Budget Target	Proposed 1995/96 PSDP		Review Team's Recommendations	
		Amount (Rs m)	% increase	Amount (Rs m)	% increase
TRANSPORT	15,054	17,172	14.0	19,834	31.6
- NHA	11,320	12,390	9.4	14,721	30.0
- MLGRD	522	930	78.2	963	84.5
- MOR	2,725	3,306	21.3	3,604	32.2
- MOC	465	544	17.0	544	17.0
- Other	22	2		2	

2.64 NHA requires approximately Rs 35 billion from budgetary sources to complete works on ongoing contracts included in the Core Program plus two large non-Core international contracts (Lahore Motorway and Lahore Bypass). A number of these contracts were awarded during 1991-93, and implementation has been very slow due to lack of funds. These contracts need to be completed as soon as possible to minimize contractor claims relating to payment delays or employer's default, and to realize benefits to road users and to the national economy. A possible revised 1995/96 PSDP for NHA is shown in Table 12, which includes full funding of the Core Program plus certain minimum allocations needed for continuing work on the Lahore Motorway and the Lahore Bypass. Even with this enhanced level of funding, completion of the Lahore Bypass will likely be delayed to end-1996 and that of the Lahore-Islamabad Motorway to mid-1997.

2.65 Small increases are also needed to adequately fund several ongoing donor-assisted projects being implemented by MGLRD and MOR. Among the non-Core projects of MOR, the allocation for the OECF-financed production of 18 (2000 HP) locomotives needs to be increased to Rs 580 m. of which Rs 450 m will be donor financing.

Proposed 1995/96 Core Program with Suggested Allocations

2.66 Annex Table A5 contains the proposed 1995/96 CDP allocations for the transport sector and the PSDP Review team's recommendations. The proposed 1995/96 Core Program for NHA is along the lines of last year's Core, consisting of investments for improvement and capacity expansion along the N-5 and N-55 highways and reduction of the capital maintenance backlog. P&D's proposed allocations for the IBRD-assisted Fourth Highway and Transport Sector Projects are inadequate and need to be increased (by a total of Rs 1,118 m), since both of these projects are scheduled to close during 1995/96. Rs 500 m needs to be allocated for urgent pavement/structural strengthening and rehabilitation works, particularly on the heavily utilized N-5, which form part of a high-priority three year program of pavement/structural restoration and renewal initiated by NHA during 1994/95. Adjustments are suggested for some other NHA projects based on current implementation status and overall resource constraints. An additional allocation of Rs 150 m needs to be provided for the ongoing ADB assisted FMR-II project being implemented by MLGRD, for which fund utilization during the current year has been higher than planned. The project is scheduled to be closed by the end of 1996.¹⁹ In the MOR program, increased allocations are required for the OECF-funded track circuiting of 94 stations project and the rehabilitation of 101 locomotives. Proposed allocations for the IBRD-assisted VHF/UHF communications system can be cancelled, as this component cannot be implemented by the mid-1996 loan closing date for the Transport Sector Project. In the ports subsector, the proposed 1995/96 allocation for Jinnah Bridge Phase II reflects the residual Federal contribution to Karachi Port Trust for covering 40% of the project cost. Contractor performance has been slow, and project completion may be delayed beyond mid-1996. Appropriate allocations need to be provided for the ADB-assisted National Ports Master Plan Study expected to be completed by end-1995.

¹⁹ The recommended revisions to the Core Program reflect the understanding that all 1995/96 allocations for the ADB-assisted Provincial Highways Project, are part of the provincial development programs, with foreign assistance and domestic funding included in the respective parts of the provincial ADPs.

Table 12: Development Program (Core and Non-Core) of NHA, 1994/95-1995/96

(Rs Million)

Sr. Project No.	Revised 1994/95 PSDP Target		Actual Estimated 1994/95 Expenditure		Proposed GOP 1995/96 Targets		Review Team's Recommendations for 1995/96	
	Total	F.Aid	Total	F.Aid	Total	F.Aid	Total	F. Aid
	NHA PSDP	11,323	3,291	10,697	3,142	12,390	2,925	14,721
Core Investment Program	7,923	3,291	7,089	3,142	7,747	2,925	9,370	3,518
1 Fourth Highway Project	994	696	980	682	100	0	718	124
2 Transport Sector	800	350	1,142	651	500	310	1,000	540
3 1992 Flood Rehabilitation	250	225	106	47	370	270	375	259
4 Indus Highway N-55 V1	2,500	2,000	2,173	1,762	2,900	2,100	2,900	2,350
4a N-35 Hasanabdal-Abottabad	30	20	14	0	0	0 n.c.	0 n.c.	0
5 Pavement Strength/Rehab.	500	0	70	0	0	0	500	0
6 Dualization of N-5	2,849	0	2,584	0	3,527	0	3,527	0
12 Sukkur Bridge V2	0		20		350	245	350	245
Non-Core Program	3,400	0	3,608	0	4,643	0	5,351	330
3a 1992 Fld Rehab(New awards)					c	c	366	330
7 Lahore Islamabad Motorway	1,800		2,498		3,036	0	3,420	
7a Lahore Bypass	300		600		0	0	800	
8 N-25	200		105		200		160	
9 N-40	250		144		200		200	
10 Chiniot Bridge	75		38		187		75	
11 Ratodero-Khuzdar	250		22		300		50	
13 N-35 Improvement of KKH	0		0		500		200	
14 Barian-Nath-Abbotabad	125		4		100		0	
15 Tal Parichinar	100		40		40		0	
16 Feasibility Studies	50		43		50		50	
17 Keti Bunder Road	150		32		30		30	
18 Miscellaneous	100		82		0		0	

n.c. Not in Core.

The 1995/96 PSDP includes the following new projects in the core:

- V1 Kohat Tunnel: a new component of the OECF assisted Indus Highway project (N-55)
 V2 Sukkur Bridge: a new ADB assisted project.

Donor Assisted works outside the core program:

- V3 1992 Flood Rehab: IDA/ADB assisted new contracts for upgraded facilities.

Allocations from the Recurrent Budget for Maintenance

2.67 The PSDP Review team understands that funds allocated for maintenance in NHA's 1995/96 budget are once again likely to fall far short of requirements. NHA requested Rs 1,554 m on this account based on the results of the latest field surveys carried out as part of its Maintenance Management System. However, allocations of only Rs 475 m have been indicated, barely 30% of requirements and only 5% higher than in 1994/95 in nominal terms. The gap between National Highway maintenance requirements and available funding has continued to widen, as is shown by the data presented below. Unless immediately reversed, this trend will seriously jeopardize Pakistan's efforts to develop a modern, efficient, and well maintained National Highway network, neutralize the benefits of major ongoing and completed capital investments in the subsector, and lead to a further increase in highway transportation costs for the economy. Similarly, Pakistan Railways' freight carrying capacity remains severely constrained on account of insufficient locomotive power, caused to a large extent by inadequate and declining recurrent expenditures on locomotive spares. As compared with the estimated requirement of Rs 30 m per year, only Rs 18 m was spent for this purpose in 1993/94 and an estimated Rs 16.6 m in 1994/95. The indicated allocation for 1995/96 is only Rs 16.5 m.

NHA Maintenance Funding Requirements and Expenditures (Rs Million)								
Year	Demand		Allocation	%	Expenditure			Total
	Field Est.	MH.			RM,PM	RSP	Cap.Rehab	
1	2	3	4	5	6	7	8	9
87-88	317.0	-	180.0	52%	180.0			180.0
88-89	422.8	-	200.7	47%	200.7			200.7
89-90	474.5	-	268.9	57%	268.9			268.9
90-91	-	600.0	281.6	47%	281.6			281.6
91-92	-	795.5	378.0	48%	378.0	140.7		518.7
92-93	-	930.0	410.0	44%	410.0	125.5		535.5
93-94	-	1,097.0	430.5	39%	430.5	217.0		647.5
94-95	-	1,317.0	452.0	34%	452.0	?	70.0	?
95-96	-	1,554.0	475.0					-

F. Social Sectors

2.68 Although access to basic social services has expanded considerably over the past 15 years, Pakistan remains behind many Asian countries, and low income countries in general, in terms of social indicators. Poor social indicators are an outcome of inherent weaknesses in the social services delivery system which in turn reflect, to a great extent, lack of political commitment, inadequate funding, and poor implementation capacity. Traditionally the social sectors have received only a small share of public sector resources--well below that in other Asian countries. Moreover, the utilization of these funds invariably was less than the allocated amounts, reflecting not only weak implementation capacity but also the low priority accorded to these sectors. In this report, the social sectors are defined to include: Education and

Training, Health and Nutrition, and Population Welfare. The Federal budget also includes funding for water supply in the Islamabad Capital Territory and Rawalpindi areas.²⁰

F1. Education and Training

2.69 Despite substantial expansion in access to basic education over the past decade, indicators of educational achievement such as literacy and enrollment rates remain low. Furthermore, the quality of education is poor, there is strong urban and male bias in the system, and the limited funds allocated to the sector have not been utilized in the most efficient manner. Historically the education sector has been underfunded, with a disproportionately large share of the funds provided going to higher education. Both the Sixth and the Seventh Plans gave more emphasis to primary and secondary education, however; 95% of the Seventh Plan allocation to the Education sector went to these two subsectors. Both the Federal and provincial budgets provide funds for various types and levels of education, with the Federal government focusing more on higher education and the provinces funding primary and secondary education.

The 1993/94 and 1994/95 Education PSDP and CDP

2.70 The 1993/94 PSDP allocation for Education and Training was Rs 782 m²¹ (1% of the total PSDP). Total utilization was only 86% of this allocation, presumably because of the severe fiscal difficulties faced during the last three months of the fiscal year. The World Bank suggested a CDP of Rs 347 m for the Education and Manpower sectors in 1993/94, but the PSDP allocation was only Rs 127 m, with all of this underfunding attributed to the National Vocational Training Project. The latest figures indicate that against the recommended allocation of Rs 346 m, only Rs 92 m was actually spent on this project.

2.71 The 1994/95 PSDP allocation showed an increase of 30% to Rs 1,016 m (Rs 613 m directly through the PSDP and Rs 403 m in the budgets of the Federal Areas and AJK). The suggested CDP for the Education and Manpower sectors amounted to Rs 547 m, against which the total allocation was Rs 397 m, with most of the underfunding again attributable to the inadequate allocation for the National Vocation Training Project. The Government's latest estimates indicate a further shortfall of Rs 76 m in the CDP.

1995/96 Proposed PSDP

2.72 As the sectoral allocations for the Federal Areas and AJK are not yet available, only the Ministries program can be analyzed here. Against the revised 1994/95 figure of Rs 613 m, the 1995/96 PSDP proposes an allocation of Rs 670 m for Education and Training--an increase of only 9% in nominal terms, which is low in relation to the sector's needs.

²⁰ The Khanpur Dam and the Simly Dam projects, on completion, would supply water to Islamabad and Rawalpindi. Khanpur Dam project faced implementation problems in the past due to shortage of counterpart funds. The counterpart funds are to be provided by the Federal Government, the Capital Development Authority (CDA), and the Punjab government. The closing date of Khanpur Dam project is August 1995, while that of Simly Dam project has been extended to August 1997. Adequate funding is needed for both projects in order to ensure timely execution and to avoid further delays.

²¹ The total allocation in the PSDP document was given as Rs 422 m, but this excludes the Federal Areas and AJK which are also funded from the Federal development budget.

2.73 As in previous years, the university subsector is given a large share (36%) of the total proposed sectoral allocation. Most of this money is planned to be spent on brick and mortar type investments. Despite the urgent need for increased resources for research and quality improvements, the Federal budgets have been concentrating heavily on expansion of physical infrastructure in the past, and the suggested 1995/96 program follows the same pattern. Similarly, Federal Government financing of elite institutions like the cadet colleges cannot be justified on equity grounds, yet the proposed 1995/96 PSDP provides for yet another cadet college in NWFP. This issue needs to be reviewed and if possible these funds reallocated to higher-priority subsectors and activities.

2.74 Proposed allocations for the primary and secondary education subsectors are more than double of those in 1994/95. This increase, though a step in right direction, falls considerably short of the needs of the sector, particularly for rural schools of the Islamabad Capital Territory. The Federal EMIS (FEDEMIS), which is an important component of the SAP Project, was provided a meager amount of only Rs 0.9 m during 1994/95, of which only half was actually released. The 1995/96 proposed outlay for this component of Rs 8.64 m is adequate. Keeping in view the unmet basic needs of the education sector, the large increase of over Rs 100 m (400%) for scholarships cannot be justified. An allocation of Rs 20 m 1995/96 has been indicated for the proposed Youth Literacy Corps, a new initiative by the Government to improve adult literacy in the country. Given the poor past track record of adult literacy programs, prospects for the success of this new program, whose total estimated cost is Rs 2 billion, are doubtful. It is, therefore, recommended that the 1995/96 PSDP allocation be used to develop some workable prototypes through reputed NGOs with accumulated experience in nonformal education.

F2. Health and Nutrition

2.75 Despite some progress during the last decade, Pakistan's health and demographic indicators have remained poor. Although it has declined by about 40%, the crude death rate remains high at around 12 per thousand. Correspondingly, life expectancy at birth has improved only to 55 years for females and 56 years for males. Similarly, infant mortality is still at about 100 per thousand. High prenatal and post natal deaths due to excessive, early, frequent, and late pregnancies has resulted in a higher death rate among females. Diarrhea, malaria, and other infectious diseases are the main cause of child morbidity and mortality. Malnutrition is a major problem among children and pregnant/lactating women.

2.76 Total health and population spending represents only a small proportion of public sector expenditure. Aside from being inadequate, public spending on health has been inefficient and inequitably distributed. In the 1960s and 1970s a very high proportion was spent on urban hospitals and medical training, whereas less than 10% was spent on rural health. Since the start of the Seventh Five Year Plan, the Government's development strategy has been to encourage a structural shift in the health service delivery system toward primary health care and away from secondary and tertiary health care, and toward preventive and promotional health and away from curative health services. Recent Government policies have therefore focused on: (i) health services becoming more effective, efficient, affordable and acceptable, (ii) greater emphasis on disease prevention, health promotion, and maternal and child health (MCH), (iii) better balance between urban and rural health services, and (iv) enhanced community and private sector participation. With the start of the rural health infrastructure construction program in the 1980s, the proportion of the health development budget spent on rural and preventive programs reached in excess of 60%. Unfortunately, this increase in development expenditures has been more or less

ineffective in improving health standards in the rural areas due to the lack of corresponding increases in recurrent (O&M) expenditures.

The 1993/94 and 1994/95 PSDP and CDP

2.77 The 1993/94 PSDP allocated Rs 683 m to the Health and Nutrition sector (including the Federal areas and AJK). Actual expenditure during the year was Rs 733 m, 7.3% higher than the budget allocation. The World Bank suggested a CDP amounting to Rs 225 m, and allocations to Core projects and programs in the health sector were in accordance with Bank proposals. However, total expenditure on the health sector CDP fell short of the allocation by more than half (Rs 118 m). This large shortfall, in the face of higher overall sectoral spending, demonstrates that the Core was not protected and suggests that the quality of Health expenditure was poor.

2.78 The 1994/95 PSDP allocation for the Health sector amounted to Rs 1,724 m (an increase of 135% over the 1993/94 PSDP allocation). Against the World Bank's suggestion of Rs 742 m for the 1994/95 sectoral CDP, the Federal Government allocated Rs 544 m, with the bulk of the underfunding related to the Immunization Program (EPI). Health sector and CDP expenditures are likely to fall short of the budget allocations by a considerable margin.

The 1995/96 PSDP

2.79 The 1995/96 proposed PSDP shows an increase of 29% in the Ministry of Health (MOH) program (not including Federal Areas and AJK). A number of projects have been included in MOH's development budget under the Prime Minister's directive, although MOH is not expected to be the implementing agency for these projects. As these are basically grants to various institutions channeled through the provinces, they should not be in MOH's program because they inappropriately inflate MOH's PSDP.

2.80 Some of the donor-funded projects do not appear in MOH's PSDP. These include the Health Systems Research Project, the Islamabad Capital Territory component (whose funding requirement is about Rs 12 m) of the Second Family Health Project, and the Federal part of the Health Care Development project for health education (Rs 4 m). All of these subprojects form part of the sectoral CDP and should be provided with adequate allocations in the 1995/96 PSDP. The entire Health PSDP falls under the CDP, except for the Rs 43.507 m of grant allocations discussed above.

2.81 A project for improvement of rural health infrastructure (provision of water, electricity, gas, telephones, etc.) was allocated Rs 6.29 m during 1994/95; another Rs 1.4 m is required to complete the project. However, the project has been dropped from the proposed PSDP. Furthermore, against the estimated requirement of Rs 1.406 m to complete the ongoing project for upgradation of Rural Health Centers (RHCs), only Rs 0.5 m has been proposed, thereby unnecessarily delaying project completion.

F3. Population Welfare

2.82 Pakistan has a population of about 120 m persons (ninth in the world), and its present rate of population growth of about 3% p.a. is among the highest in Asia, with no sign of a decline in fertility. Despite the socio-cultural barriers to population control, there is evidence of considerable unmet demand

for family planning services. In the past Government efforts lacked the will and intensity to resolve the complicated issues that plague the sector. Problems include: (i) frequent changes in policy direction, administration, and organization; (ii) a family planning supply orientation with weak demand creation; (iii) inadequate evaluation; (iv) unrealistic target setting leading to low staff morale; and (v) poor quality of services delivered. Another problem was the separation of population services from the health service delivery system. Recent Government policies, including SAP, aim to improve the effectiveness of population services by (a) improving the operation and utilization of existing services through better planning, management, and logistics and decentralization of more services to the provinces; (b) sharply expanding access to quality family planning services, particularly through government-sponsored, community-based outreach programs; (c) creating a better demand environment through information and education programs to increase public understanding of contraception and its link to maternal and child health; and (d) sharply increasing public sector expenditures to meet the needs of the sector.

The 1993/94 and 1994/95 PSDP

2.83 Population Welfare is entirely funded through the development budget and is included in the CDP in its entirety. The 1993/94 PSDP allocated Rs 939 m to Population Welfare, against the World Bank's suggestion of Rs 1,163 m. Expenditures during the year fell substantially below even the allocated amount (by 24%), reflecting in part the limited implementation capacity of the Ministry of Population Welfare (MPW), as well as cutbacks due to fiscal difficulties.

2.84 Against the World Bank's suggestion of Rs 1,200 m, the 1994/95 PSDP initially allocated Rs 996 m for Population Welfare. This was reviewed and was increased to Rs 1,200 m early in the year. Recent estimates of expenditures, however, indicate that there may be a 10% shortfall in utilization of allocated funds.

The 1995/96 PSDP

2.85 The proposed allocation of Rs 1,433 m for 1995/96 raises two major issues:

(1) Underfunding. The proposed allocation falls short by Rs 155 m when compared with the first year phasing (1995/96) of the recently approved Population Project. The agreed projected needs for this project are based on the implementation capacity of MPW and the provincial Population Welfare Departments as assessed by World Bank missions in consultation with the implementing agencies. Starting from a low base in the first year would jeopardize both processes and output targets planned to be achieved through the project; furthermore, the additional funds proposed in the project are to support quality inputs. Hence the shortfall needs to be rectified.

(2) Program approach. Distribution of the proposed allocation is on an activity/task or sub-program basis for each province as well as for MPW. This is based on historical patterns and does not allow shifting of resources by the implementing departments among program activities. Shifting of resources on a need basis is a key element of the program approach under which the Government negotiated this project with the World Bank. Therefore, agency-wise allocations should be shown as undifferentiated or "lump" allocations. Implementing agencies should be given the power to allocate internally for each task, and it should be possible to change the internal distribution during the year, in line with progress of implementation.

PAKISTAN

Public Sector Development Program Review

(Fiscal Year 1995/96)

A N N E X

Statistical Tables on PSDP and Core Program

Table A1: Public Sector Development Program 1993/94-1995/96

	(Rs Million)									
	1993/94		1994/95		1994/95		1995/96		1995/96	
	Outcome		Budget Estimates		Revised Estimates VI		Proposed Allocation		Budget Estimates	
	(November 1994) VI		(June 1994)		(April 1995)		(GOP)		(Mission)	
	Budgetary	Total	Budgetary	Total	Budgetary	Total	Budgetary	Total	Budgetary	Total
	PSDP	Outlays	PSDP	Outlays	PSDP	Outlays	PSDP	Outlays	PSDP	Outlays
A. FEDERAL MINISTRIES										
Agriculture	814	814	1,261	1,261	401	401	643	643	800	800
Industry	167	167	721	721	427	427	132	132	132	132
Minerals	1,283	1,283	2,094	2,094	1,700	1,700	307	307	307	307
Water	8,537	8,537	11,404	11,404	11,991	11,991	13,816	13,816	15,134	15,134
Power	5,865	5,865	7,015	7,015	7,860	7,860	7,854	7,854	7,854	7,854
Fuels	755	755	1,436	1,436	1,396	1,396	1,299	1,299	1,299	1,299
Transport & Communications	3,848	3,848	3,875	3,875	3,200	3,200	3,852	3,852	4,150	4,150
Physical Planning & Housing	1,298	1,298	2,359	2,359	2,313	2,313	2,766	2,766	2,766	2,766
Rural Development	1,050	1,050	900	900	1,631	1,631	757	757	790	790
Education & Training	744	744	1,016	1,016	333	333	670	670	670	670
Science & Technology	130	130	296	296	212	212	269	269	269	269
Health & Nutrition	735	735	1,724	1,724	1,096	1,096	1,890	1,890	1,958	1,958
Mass Media	90	90	130	130	104	104	220	220	220	220
Culture, Sports & Tourism	151	151	253	253	181	181	265	265	265	265
Manpower & Employment	149	149	425	425	343	343	535	535	535	535
Women's Development	62	62	141	141	142	142	125	125	125	125
Population Welfare	711	711	996	996	1,077	1,077	1,433	1,433	1,588	1,588
Social Welfare	45	45	80	80	72	72	135	135	135	135
Statistics & Planning	66	66	83	83	71	71	55	55	55	55
Others/Environment	155	155	380	380	172	172	361	361	377	377
TOTAL FEDERAL MINISTRIES	26,653	26,653	36,591	36,591	34,722	34,722	37,383	37,383	39,427	39,427
B. SPECIAL PROGRAMS										
Tameer-i-Sindh	1,500	1,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Refugees Rehab. NWFP	143	143	30	30	30	30	30	30	30	30
Tameer-i Watan	1,228	1,228	3,000	3,000	3,000	3,000	4,000	4,000	4,000	4,000
Funding for Special Areas VI	NA	NA	NA	NA	NA	NA	3,200	3,200	3,200	3,200
TOTAL SPECIAL PROGRAMS	2,871	2,871	5,530	5,530	5,530	5,530	9,730	9,730	9,730	9,730
C. FERTILIZER SUBSIDY										
	805	805	79	79	79	79	47	47	47	47
TOTAL DIRECT FEDERAL (A+B+C)	30,329	30,329	42,200	42,200	40,331	40,331	47,160	47,160	49,204	49,204
D. CORPORATIONS/AGENCIES										
WAPDA	7,103	30,207	10,000	26,561	10,000	26,800	10,000	38,158	10,938	35,454
OGDC ¹²	926	5,852	800	7,713	800	7,835	500	7,104	1,300	2,210
NHA	10,714	10,800	11,320	11,320	10,437	10,437	12,390	12,390	14,397	14,397
PTC ¹³	2,648	18,041	1,000	12,100	1,000	12,100	0	17,500	0	17,500
SUB-TOTAL CORPORATIONS	21,391	64,900	23,120	57,694	22,237	57,172	22,890	75,152	26,635	69,561
TOTAL FEDERAL & CORPORATION	51,720	95,229	65,320	99,894	62,568	97,503	70,050	122,312	75,839	118,764
E. WAPDA HOOK-UP CHARGES										
	0	3,633	0	0	0	0	0	0	0	0
TOTAL (A+B+D+E)	50,915	98,057	65,241	99,815	62,490	97,424	70,003	122,266	75,792	118,718
F. PROVINCIAL DEVELOPMENT PROGRAM										
Federal Contribution	13,399	13,399	11,000	11,000	11,000	11,000	16,500	16,500	17,500	17,500
Provincial Contribution	2,000	2,000	5,000	5,000	5,000	5,000	-	-	-	-
Foreign Loans & Grants	6,200	6,200	9,000	9,000	9,000	9,000	9,000	9,000	12,886	12,886
TOTAL PROVINCIAL PROGRAM	21,599	21,599	25,000	25,000	25,000	25,000	25,500	25,500	30,386	30,386
TOTAL PSDP GOP	73,318	116,827	90,320	124,894	87,568	122,503	95,550	147,812	106,225	149,150
TOTAL PSDP IMF	72,514	119,656	90,241	124,815	87,490	122,424	95,503	147,766	106,178	149,104

VI The sectoral allocation in the budgeted program and the revised estimates are not comparable as they include the allocation made for the Special Areas.

12 The 1994/95 revised estimates for the budgetary program could not be separated from the overall program, budget estimates are used as revised estimates also.

13 The 1994/95 revised estimates are the same as the budget estimates. The 1995/96 non-budgetary program is as indicated by PTC and not based on Planning Commission's recommendation (which is awaited)

Table A2: Sectoral Shares of Federal Development Outlays

	(Percent)						
	-----Actuals-----				Approved	Revised	Proposed
	1990/91	1991/92	1992/93	1993/94	PSDP 1994/95	Estimates 1994/95	Allocation 1995/96
Agriculture	2.11	2.88	2.00	0.85	1.26	1.50	0.53
Fertilizer Subsidy	2.32	2.08	0.95	0.84	0.08	0.08	0.04
Industry	0.20	0.13	0.12	0.18	0.72	0.70	0.11
Minerals	0.29	0.47	2.53	1.35	2.10	2.11	0.25
Water	10.85	6.87	7.81	8.96	11.42	11.35	11.30
Power ²²	40.16	42.89	36.52	37.88	33.61	33.63	37.62
WAPDA	31.14	37.04	29.48	31.72	26.59	26.67	31.20
Fuels	5.95	6.78	6.86	6.94	9.16	9.18	6.87
OGDC	4.37	5.86	5.97	6.14	7.72	7.74	5.81
Transport & Communications	18.66	22.79	33.23	34.33	27.32	27.10	27.59
NHA	3.53	10.53	12.55	11.34	11.33	11.04	10.13
T&T/PTC	10.46	7.66	16.70	18.94	12.11	12.15	14.31
Social Sectors	5.52	3.53	2.19	2.30	3.74	3.76	3.26
Education & Training	2.62	1.49	0.79	0.79	1.02	1.02	0.55
Health	1.68	0.74	0.58	0.77	1.73	1.74	1.55
Population Welfare	1.21	1.30	0.82	0.75	1.00	1.00	1.17
Physical Planing & Housing	5.50	1.54	1.30	1.36	2.36	2.35	2.26
Mass Media	1.11	0.43	0.13	0.09	0.13	0.13	0.18
Rural Development	1.62	1.42	0.85	1.10	0.90	0.87	0.62
Science & Technology	0.79	0.59	0.33	0.14	0.30	0.30	0.22
Culture Sports & Tourism	0.16	0.12	0.21	0.16	0.25	0.25	0.22
Manpower & Employment	0.95	0.46	0.37	0.16	0.43	0.43	0.44
Women's Development	0.39	0.33	0.16	0.07	0.14	0.14	0.10
Social Welfare	0.22	0.16	0.10	0.05	0.08	0.08	0.11
Research Statistics & Planning	0.11	0.07	0.06	0.07	0.08	0.08	0.04
Block Allocations (Incl. PP/TIW)	3.10	4.58	3.59	1.44	3.03	3.32	5.91
Miscellaneous/Environment	0.00	0.00	0.09	0.16	0.38	0.14	0.30
Tameer-i-Sindh	0.00	1.87	0.58	1.58	2.50	2.51	2.04
Total Development Expenditures	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Note: Data for 1990/91 - 1993/94 on development expenditures are taken from the Planning Commission's "Detailed Annual Program" (various issues), while those for 1994/95 and 1995/96 are the proposed PSDP figures. There may be some definitional discrepancies because of different sources of data between the years.

Source: "Detailed Annual Plan" (various issues) and Planning and Development Division.

Table A3: Core Investment Program 1993/94: World Bank's Suggestions and PSDP Expenditures

	<i>(Rs Million)</i>					
	Bank's	PSDP	PSDP	PSDP	Difference	
	Suggestions (PSAL)	Allocation (Sept. 1993)	Expenditures (June 1994)	Expenditures (May 1995)	Review Team Amount	vs. May 91 Percent
TRANSPORTATION	10,220	11,675	10,250	11,105	885	8.66
National Highway Authority (NHA)	6,735	8,002	7,702	7,785	1,050	15.59
Fourth Highway Project	910	910	910	1,271	361	39.69
Indus Highway	3,450	3,450	3,450	1,420	-2,030	-58.84
MBRP and RSP	1,125	1,125	1,125	965	-160	-14.22
1992 Flood Rehabilitation	250	265	265	167	-83	-33.01
Additional Upgrading/Rehab. of N-5	1,000	2,252	1,952	3,961	2,961	296.11
Local Government & Rural Development	637	637	448	1,189	552	86.70
Farm-to-Market Phase-I (ADB)	135	135	13	124	-11	-7.85
Farm-to-Market Phase-II (ADB)	435	435	435	1,010	575	132.27
Road Resources Management Project	67	67	0	55	-13	-18.66
Railways	2,223	2,411	1,615	1,975	-248	-11.17
Track Maintenance	300	402	409	494	194	64.77
Traction Motors	180	180	104	24	-156	-86.84
Rehab. of 46 Locomotives	30	30	31	32	2	8.31
Unit Exchange Spares	501	501	459	332	-169	-33.80
Institutional Development	78	78	45	3	-75	-96.14
Roller Bearing Conversion	298	298	263	148	-150	-50.21
Procurement and Rehab. of Loco.s etc.	734	820	264	928	194	26.49
Signals & Telecom.	22	22	20	2	-20	-90.25
Maintenance Equipment	80	80	20	11	-69	-86.85
Ports	625	625	484	156	-469	-75.06
KPT (Jinnah Bridge Phase-II)	275	275	254	90	-185	-67.45
PQA--Phase-I Development	25	25	161	25	0	0.00
PQA--Oil Terminals (Temporary)	115	115	0	7	-108	-93.49
Gwader Fish Harbour	191	191	50	34	-157	-82.26
Port Master Plan Study	19	19	19	0	-19	-100.00
AGRICULTURE	288	288	288	279	-10	-3.30
National Oilseed Development Project	76	76	76	75	-2	-1.97
Agriculture Research Project	212	212	212	204	-8	-3.77

Table A3 (Contd.): Core Investment Program 1993/94: World Bank's Suggestions and PSDP Expenditures

	(Rs Million)					
	Bank's Suggestions (PSA1.)	PSDP Allocation (Sept. 1993)	PSDP Expenditures (June 1994)	PSDP Expenditures (May 1995)	Difference Review Team vs. May 1995	
					Amount	Percent
IRRIGATION & DRAINAGE (WATER)	8,916	7,830	8,618	7,352	-1,564	-17.54
Chasma Right Bank Canal	620	620	620	598	-22	-3.51
Pat Feeder Canal	1,350	1,350	1,350	1,149	-201	-14.87
Lower Rachna Remaining Drainage	179	179	228	183	4	2.26
Khushab Sub-Unit	180	180	205	112	-68	-37.79
Private Tubewell Development Project	235	235	235	231	-4	-1.87
Second SCARP Transition Project	184	184	184	21	-163	-88.77
Fordwah Eastern Sadiqia Project	140	140	140	118	-22	-15.89
LBOF	3,400	3,114	3,114	2,647	-753	-22.14
SCARP Transition North Rohri	38	38	32	12	-26	-69.26
ISRP-II	428	428	428	255	-173	-40.40
1992 Flood Damages Restoration	800		800	800	0	0.00
Flood Sector Program	700	700	700	541	-159	-22.72
On Farm Water Management-II, DG Khan	80	80	0	104	24	30.09
On Farm Water Management-III, (IDA)	432	432	432	432	0	0.00
On Farm Water Management-III, (Japan)	150	150	150	150	0	0.00
POWER (WAPDA)	27,400	29,108	31,970	26,586	-814	-2.97
Thermal	13,298	14,021	15,311	16,446	3,148	23.67
3x210 MW OFPS Muzaffargarh Unit 1-3	1,480	1,550	1,562	1,840	360	24.32
224 MW CCP Kot Addu Unit 9-10	214	260	260	258	44	20.56
250 MW OFPS Jamshoro Unit 1	60	26	76	76	16	26.67
3x210 MW OFPS Jamshoro Units 2-4	200	120	202	202	2	0.80
Additional 415 MW CCP Guddu	705	815	903	668	-37	-5.25
Rehabilitation of Thermal Power Plant	676	770	160	857	181	26.78
3x50 MW FBC Lakhra 1-3	1,070	780	800	898	-172	-16.07
224 MW CCP Kot Addu Unit 11-12	1,618	1,600	2,000	3,820	2,202	136.09
300 MW CCP Kot Addu Unit 13-15	3,000	3,600	4,758	4,185	1,185	39.50
210 MW OFPS Muzaffargarh Unit 4	1,700	1,700	1,560	511	-1,189	-69.94
2x210 MW OFPS Muzaffargarh Unit 5-6	2,575	2,800	3,030	3,131	556	21.59
Hydel	1,895	2,104	2,800	1,199	-696	-36.73
Tarbela HEPS 11-14	520	570	1,269	719	199	38.27
200MW MEPS Mangla Unit 9-10	299	185	321	304	5	1.67
Chasma Hydro Power Project	502	730	684	74	-428	-85.26
Rehabilitation of Warsak	258	286	139	4	-254	-98.45
Basha Dam Project	116	133	78	22	-94	-81.03
Ghazi Brotha	200	200	310	76	-124	-62.00

Table A3 (Contd.): Core Investment Program 1993/94: World Bank's Suggestions and PSDP Expenditures

	<i>(Rs Million)</i>					
	Bank's	PSDP	PSDP	PSDP	Difference	
	Suggestions (PSA1.)	Allocation (Sept. 1993)	Expenditures (June 1994)	Expenditures (May 1995)	Review Team vs. May 1995 Amount	Percent
Transmission	4,786	5,634	4,162	2,273	-2,513	-52.51
3rd 500 KV Trabela-Lahore	335	330	238	105	-230	-68.66
500 KV Tarbela-Peshawar	417	470	360	85	-332	-79.62
220 KV Guddu-Sibi Quetta	248	190	288	289	41	16.53
Second 500 KV Lahore-Multan-Jamshoro	868	920	720	693	-175	-20.16
500 KV Hub Chowki-Jamshoro	377	346	573	29	-348	-92.31
Third 500 KV Jamshor-Lahore	1,920	2,900	1,444	991	-929	-48.39
Modernization of Load Dispatch Centres	140	120	196	47	-93	-66.43
National Power Plan Project	54	0	0	0	-54	-100.00
Upgradation of S/Station at Rewat	343	270	343	34	-309	-90.09
Upgradation of Ghakkar Grid Station	84	88	0	0	-84	-100.00
Secondary Transmission Lines and Grid Stations	3,227	2,999	4,008	2,876	-351	-10.88
Rural Electrification	1,500	2,000	2,765	2,012	512	34.13
Distribution	902	798	975	803	-99	-10.98
Energy Loss Reduction Load Rehab. Program	1,792	1,552	1,950	977	-815	-45.48
EDUCATION	347	347	127	127	-220	-63.37
Third Primary Education Project	1	1	1	1	0	0.00
National Vocational Training Project	346	346	126	126	-220	-63.56
HEALTH AND NUTRITION	225	225	225	107	-118	-52.24
Malaria Control Program	100	100	100	62	-38	-38.00
Program for Prevention of AIDS	20	20	20	10	-10	-47.65
Extended Program of Immunization (EPI)	105	105	105	35	-70	-66.67
POPULATION WELFARE	1,163	1,100	939	711	-452	-38.91
GRAND TOTAL	48,559	50,573	52,417	46,266	-2,293	-4.72

1/ Bank's suggested amount less the May 1995 estimate of expenditure.

Table A4: The Core Investment Program 1994/95: Review Team's Suggestions, PSDP Allocations and Estimated Expenditures

(Rs Million)

	Review Team's Suggestions	PSDP Allocation (Oct. 1994)	Estimated Expenditures (May 1995)	Difference	
				Review Team vs. Expenditures Amount	Percent
TRANSPORTATION	11,948	11,154	10,765	-1,183	-9.90
National Highway Authority (NHAA)	8,315	8,348	7,069	-1,246	-14.98
Fourth Highway Project	1,350	994	980	-370	-27.41
Transport Sector	1,100	525	1,142	42	3.82
1992 Flood Rehabilitation	520	250	106	-414	-79.62
Indus Highway	2,250	2,500	2,173	-77	-3.42
N-35 Hasanabdal-Abhotabad	90	30	14	-76	-84.44
Additional Upgrading/Rehab. of N-5	2,505	3,774	2,584	79	3.15
Pavement Strengthening/Rehabilitation	500	275	70	-430	-86.00
Local Government & Rural Development	751	519	1,111	360	47.94
Farm-to-Market Phase-I (ADB)	10	0	0	-10	-100.00
Farm-to-Market Phase-II (ADB)	500	500	1,092	592	118.40
Provincial Highways	150	18	18	-132	-88.00
Rural Road Construction	91	1	1	-90	-98.90
Railways	2,714	2,136	2,206	-508	-18.72
Electrical Works	15	2	7	-8	-53.33
Maintenance Equipment	83	96	52	-31	-37.35
Rehabilitation of Tracks	340	340	630	290	85.29
Recommissioning of 46 Locos	70	80	19	-51	-72.86
Rehab. and Procurement of Traction Motors	167	267	239	72	43.11
Spare for Unit Exchange & Inventory	401	250	248	-153	-38.15
Fitment of Roller Bearings	222	77	159	-63	-28.38
Air Brake Set for 125 Locos	20	19	0	-20	-100.00
Telecommunications	25	0	0	-25	-100.00
VHF & UHF Communications Systems	220	12	2	-218	-99.09
Consultancies/Training	90	23	33	-57	-63.33
MIS	36	12	0	-36	-100.00
High Capacity Wagons	200	200	0	-200	-100.00
Purchase of Wagon Movers	100	29	0	-100	-100.00
Recommissioning of 2 Locos	25	20	0	-25	-100.00
Track Circuiting of 94 Stations	350	350	450	100	28.57
Rehabilitation of 101 Locos	250	250	259	9	3.60
Manufacture of Passenger Coaches	100	109	108	8	8.00

Table A4 (Contd.): The Core Investment Program 1994/95: Review Team's Suggestions, PSDP Allocations and Estimated Expenditures

	(Rs Million)				
	Review Team's Suggestions	PSDP	Estimated	Difference	
		Allocation (Oct. 1994)	Expenditures (May 1995)	Review Team vs. Amount	Expenditures Percent
Ports	168	151	379	211	125.60
KPT (Jinnah Bridge Phase-II)	59	53	53	-6	-10.17
National Ports Master Plan	19	17	0	-19	-100.00
Gwader Fish Harbour	40	36	0	-40	-100.00
PQA--Bulk Water Supply Pipeline	50	45	326	276	552.00
AGRICULTURE & ENVIRONMENT	506	393	457	-49	-9.67
National Oilseed Development Project	68	62	62	-6	-8.82
Agriculture Research Project	194	153	153	-41	-21.13
Cotton Development	31	5	12	-19	-61.29
Livestock Development	24	21	18	-6	-25.00
Tarbela Watershed Management II	59	41	112	53	89.12
Agricultural Network, Peshawar	62	72	72	10	16.13
Management of Agri. Research & Technology	20	19	19	-1	-5.00
EPRC	48	20	10	-39	-80.21
IRRIGATION & DRAINAGE (WATER)	11,737	9,564	10,877	-860	-7.33
Chasma Right Bank Canal	756	700	900	144	19.05
Pat Feeder Canal	2,012	1,200	1,200	-812	-40.36
Khushab Sub-Unit	563	300	300	-263	-46.71
Private Tubewell Development, D.G. Khan	211	100	145	-66	-31.28
Second SCARP Transition project	191	100	112	-79	-41.36
I.BOD	4,135	3,600	4,600	465	11.25
SCARP Transition North Rohri	26	40	17	-9	-34.62
ISRP-II	275	457	507	232	84.36
1992 Flood Damage Restoration	115	118	118	3	2.61
Flood Sector Program	1,050	850	850	-200	-19.05
On Farm Water Management-II, DG Khan	78	0	0	-78	-100.00
On Farm Water Management-III, (IDA)	444	435	444	0	0.00
On Farm Water Management-III, (Japan)	78	289	289	211	270.51
On Farm Water Management-III, (ADB)	463	325	325	-138	-29.81
Fordwah Eastern Sadiqia Project	250	160	180	-70	-28.00
Fordwah Eastern Sadiqia Project (non-aided)	250	250	250	0	0.00
Swabi SCARP	603	550	550	-53	-8.79
Chasma Command Area	237	90	90	-147	-62.03

Table A4 (Contd.): The Core Investment Program 1994/95: Review Team's Suggestions, PSDP Allocations and Estimated Expenditures

	(Rs Million)				
	Review Team's Suggestions	PSDP Allocation (Oct. 1994)	Estimated Expenditures (May 1995)	Difference Review Team vs. Expenditures Amount Percent	
POWER (WAPDA)	26,701	26,393	24,698	-2,003	-7.50
Thermal	13,080	12,781	10,864	-2,216	-16.94
3x210 MW OFPS Muzaffargarh Unit 1-3	800	800	820	20	2.53
224 MW CCP Kot Addu Unit 9-10	153	153	153	0	0.00
1x350 MW OFPS Jamshoro (OECF)	10	0	46	36	360.00
Rehab. of Thermal Power Plant (incl. Kotri & F.Abad)	572	347	388	-184	-32.17
3x50 MW FBC Lakhra 1-3	522	522	657	135	25.86
Additional 415 MW CCP Guddu	572	572	676	104	18.18
224 MW CCP Kot Addu Unit 11-12	2,500	2,500	1,344	-1,156	-46.24
300 MW CCP Kot Addu Unit 13-15	4,500	4,500	4,150	-350	-7.78
2x210 MW OFPS Muzaffargarh Unit 5-6	1,650	1,650	1,119	-531	-32.18
210 MW OFPS Muzaffargarh Unit 4	1,650	1,650	1,250	-400	-24.24
Others	151	87	261	110	72.85
Hydel	3,030	3,021	3,487	457	15.07
200MW MEPS Mangla Unit 9-10	293	293	169	-125	-42.49
Tarbela HEPS 11-14	1,159	1,159	844	-315	-27.18
Chasma Hydro Power Project	809	800	1,964	1,155	142.77
Basha Dam Project	10	10	4	-6	-60.00
Rehabilitation of Warsak	109	109	6	-103	-94.50
Ghazi Barotha	650	650	500	-150	-23.08
Transmission	4,591	4,591	3,106	-1,485	-32.35
3rd 500 KV Tarbela-Lahore	44	44	109	65	147.50
500 KV Tarbela-Peshawar	355	355	155	-200	-56.34
220 KV Guddu-Sibi Quetta	247	247	247	0	0.00
Second 500 KV Lahore-Multan-Jamshoro	375	375	375	0	0.00
500 KV Hub Chowki-Jamshoro	1,000	1,000	850	-150	-15.00
Third 500 KV Jamshoro-Lahore	2,000	2,000	950	-1,050	-52.50
Upgradation of S/Station at Rewat	570	570	420	-150	-26.32
Secondary Transmission Lines and Grid Stations	3,000	3,000	3,541	541	18.03
Rural Electrification	2,000	2,000	2,500	500	25.00
Distribution	1,000	1,000	1,200	200	20.00

Table A4 (Contd.): The Core Investment Program 1994/95: Review Team's Suggestion, PSDP Allocations and Estimated Expenditures

	<i>(Rs Million)</i>				
	Review Team's Suggestions	PSDP Allocation (Oct. 1994)	Estimated Expenditures (May 1995)	Difference	
				Review Team vs. Amount	Expenditures Percent
EDUCATION	547	397	321	-226	-41.26
National Vocational Training Project	500	380	304	-196	-39.17
Science Education for Secondary Schools	6	0	0	-6	-100.00
Primary Education (Girls) Project	25	2	2	-23	-90.94
Teacher Training	7	14	14	7	94.06
Middle Schools	9	1	1	-8	-85.91
HEALTH AND NUTRITION	742	544	426	-316	-42.59
Malaria Control Program	140	150	250	110	78.57
Program for Prevention of AIDS	60	60	35	-25	-41.67
Extended Program of Immunization (EPI)	486	300	105	-381	-78.40
Health Education Program	10	10	12	2	20.00
Family Health II	14	14	14	0	0.00
Third Health Project	13	0	0	-13	-100.00
Health Care Development Project	19	10	10	-9	-47.37
POPULATION WELFARE	1,200	1,196	1,077	-123	-10.23
GRAND TOTAL	53,381	49,642	48,621	-4,760	-8.92

Note: The estimated expenditures, in most cases, are based on assessment of expenditures for the entire year by the executing agencies/ministries, and therefore could be different from the P&D's estimates

Table A5: Core Development Program 1995/96: Review Team's Suggestions and PSDP Proposals

(Rs Million)

	Review Team's Suggestions			Proposed PSDP Allocations			Difference		
	(May 1995)			(April 1995)			Review Team vs. PSDP		
	Total	Local	Foreign Aid	Total	Local	Foreign Aid	Total	Local	Foreign Aid
TRANSPORTATION	13,184	6,932	6,252	11,339	6,012	5,327	-1,846	-920	-926
Highways									
National Highway Authority (NHIA)	9,370	5,852	3,518	7,747	4,822	2,925	-1,623	-1,030	-593
Fourth Highway Project	718	594	124	100	100	0	-618	-494	-124
Transport Sector Project	1,000	460	540	500	190	310	-500	-270	-230
1992 Flood Rehabilitation	375	116	259	370	100	270	-5	-16	11
Indus Highway (OECE)	2,900	550	2,350	2,900	800	2,100	0	250	-250
Additional Upgrading/Rehab. of N-5	3,527	3,527	0	3,527	3,527	0	0	0	0
Pavement Strengthening/Rehabilitation	500	500	0	0	0	0	-500	-500	0
Sukkar Bridge (New)	350	105	245	350	105	245	0	0	0
Local Government & Rural Development	1,140	181	959	925	71	854	-215	-110	-105
Farm-to-Market Phase-II (ADB)	750	180	570	600	70	530	-150	-110	-40
Provincial Highways	90	0	90	25	0	25	-65	0	-65
Rural Road Construction (OECE)	300	1	299	300	1	299	0	0	0
Railways	2,521	825	1,696	2,531	1,046	1,485	10	221	-211
Electrical Works	5	5	0	5	5	0	0	0	0
Maintenance Equipment	28	12	16	28	12	16	0	0	0
Rehabilitation of Tracks	400	150	250	400	150	250	0	0	0
Recommissioning of 46 Locomotives	116	41	75	116	41	75	0	0	0
Rehab. and Procurement of Traction Motors	239	71	168	239	71	168	0	0	0
Spares for Unit Exchange & Inventory	563	232	331	563	232	331	0	0	0
Fitment of Roller Bearings	120	100	20	120	100	20	0	0	0
Air Brake Set for 125 Locomotives	22	10	12	22	10	12	0	0	0
VHF & UHF Communications Systems	0	0	0	335	256	79	335	256	79
Consultancies/Training	50	10	40	20	5	15	-30	-5	-25
Purchase of Wagon Movers	58	20	38	58	20	38	0	0	0
Track Circuiting of 94 Stations (OECE)	290	44	246	225	14	211	-65	-30	-35
Rehabilitation of 101 Locomotives (OECE)	630	130	500	400	130	270	-230	0	-230
Ports	153	74	79	136	73	63	-17	-1	-16
KPT (Jinnah Bridge Phase-II)	63	0	63	63	0	63	0	0	0
National Ports Master Plan	17	1	16	0	0	0	-17	-1	-16
Port Qasim Phase-I	73	73	0	73	73	0	0	0	0

VI The Ministry of Railways has submitted to the P&D a revised PC-I of the project to account for the cost escalation of the project. The team's estimates are based on the project needs as described in the revised PC-I

Table A5 (Contd.) : Core Development Program 1995/96: Review Team's Suggestions and PSDP Proposals

(Rs Million)

	Review Team's Suggestions (May 1995)			Proposed PSDP Allocations (April 1995)			Difference Review Team vs. PSDP		
	Total	Local	Foreign Aid	Total	Local	Foreign Aid	Total	Local	Foreign Aid
	AGRICULTURE & ENVIRONMENT	644	146	498	493	78	415	-151	-68
National Oilseed Development Project	120	38	82	51	0	51	-69	-38	-31
Agriculture Research Project	176	55	121	176	55	121	0	0	0
Cotton Curl Leaf Virus Control	166	26	140	100	0	100	-66	-26	-40
Livestock Development	28	4	24	28	4	24	0	0	0
Tarbela Watershed Management II	110	14	96	110	14	96	0	0	0
EPRC	44	9	35	29	5	23	-15	-4	-12
IRRIGATION & DRAINAGE (WATER)	12,659	4,733	7,926	11,284	3,887	7,397	-1,375	-846	-529
Chasma Right Bank Canal	1,309	507	802	1,500	500	1,000	191	-7	198
Pat Feeder Canal	1,938	506	1,432	800	100	700	-1,138	-406	-732
Khushab Sub-Unit	1,000	200	800	1,000	200	800	0	0	0
Second SCARP Transition Project	148	68	80	130	40	90	-18	-28	10
LBOD	4,032	2,326	1,706	4,100	2,300	1,800	68	-26	94
SCARP Transition North Rohri	35	12	23	35	12	23	0	0	0
1992 Flood Damage Restoration	118	25	93	118	25	93	0	0	0
Flood Sector Program	1,100	200	900	850	130	720	-250	-70	-180
On Farm Water Management-III, (IDA)	437	8	429	437	8	429	0	0	0
On Farm Water Management-III, (Japan)	293	6	287	293	6	287	0	0	0
On Farm Water Management-III, (ADB)	124	0	124	401	0	401	277	0	277
Fordwah Eastern Sadiqia Project	400	200	200	400	200	200	0	0	0
Fordwah Eastern Sadiqia Project (non-aided)	350	350	0	200	200	0	-150	-150	0
Swabi SCARP	1,200	300	900	1,015	165	850	-185	-135	-50
National Drainage Program (New)	120	20	100	5	1	4	-115	-19	-96
Private Ground Water (New)	55	5	50	0	0	0	-55	-5	-50

Table A5 (Contd.) : Core Development Program 1995/96: Review Team's Suggestions and PSDP Proposals

(Rs Million)

	Review Team's Suggestions (May 1995)			Proposed PSDP Allocations (April 1995)			Difference Review Team vs. PSDP		
	Total	Local	Foreign Aid	Total	Local	Foreign Aid	Total	Local	Foreign Aid
	POWER (WAPDA)	31,860	14,611	17,249	35,811	19,220	16,591	3,951	4,609
Thermal	7,727	3,305	4,422	7,416	3,156	4,260	-311	-149	-162
3x210 MW OFPS Muzaffargarh Units 1-3	145	145	0	145	145	0	0	0	0
Rehab. of Power Plant (incl. Kotri & F.Abad)	67	67	0	67	67	0	0	0	0
3x50 MW FBC Lakhra 1-3	485	480	5	485	480	5	0	0	0
Additional 415 MW CCP Guddu	642	85	557	500	65	435	-142	-20	-122
224 MW CCP Kot Addu Units 11-12	649	425	224	520	296	224	-129	-129	0
300 MW CCP Kot Addu Units 13-15	1,864	700	1,164	1,864	700	1,164	0	0	0
2x210 MW OFPS Muzaffargarh Units 5-6	532	500	32	532	500	32	0	0	0
210 MW OFPS Muzaffargarh Unit 4	3,300	900	2,400	3,300	900	2,400	0	0	0
Others 12	43	3	40	3	3	0	-40	0	-40
Hydel	10,469	4,760	5,709	14,932	9,654	5,278	4,463	4,894	-431
200MW MEPS Mangla Units 9-10	40	40	0	40	40	0	0	0	0
Tarbela HEPS 11-14	326	70	256	326	70	256	0	0	0
Chasma Hydro Power Project	2,000	1,100	900	2,000	1,100	900	0	0	0
Rehabilitation of Warsak	103	50	53	103	50	53	0	0	0
Ghazi Barotha (New)13	8,000	3,500	4,500	12,463	8,394	4,069	4,463	4,894	-431
Transmission	5,864	2,846	3,018	5,763	2,810	2,953	-101	-36	-65
500 KV Tarbela-Peshawar	163	95	68	163	95	68	0	0	0
220 KV Guddu-Sibi Quetta	196	21	175	295	65	230	99	44	55
Second 500 KV Lahore-Multan-Jamshoro	155	150	5	155	150	5	0	0	0
500 KV Hub Chowki-Jamshoro	1,750	600	1,150	1,750	600	1,150	0	0	0
Third 500 KV Jamshoro-Lahore	2,600	1,500	1,100	2,600	1,600	1,000	0	100	-100
Upgradation of S/Station at Rewat	800	300	500	800	300	500	0	0	0
Private Power Interconnections	200	180	20	0	0	0	-200	-180	-20
Secondary Transmission Lines and Grid Stations	4,000	2,200	1,800	4,000	2,200	1,800	0	0	0
Rural Electrification 15	2,500	600	1,900	2,500	600	1,900	0	0	0
Distribution	1,300	900	400	1,200	800	400	-100	-100	0

12 The Review team's recommendation is only for WPP0.

13 The Government's proposed allocation also includes the unallocated excess of foreign aid flowing through the budget (i.e. the difference between the total shown in the PSDP and the sum of allocations for individual projects).

14 No allocation is shown as the project is expected to be implemented in the private sector.

15 Rs 500 million allocation of domestically funded spending on Rural Electrification has been included in the non-Core program.

Table A5 (Contd.) : Core Development Program 1995/96: Review Team's Suggestions and PSDP Proposals

(Rs Million)

	Review Team's Suggestions (May 1995)			Proposed PSDP Allocations (April 1995)			Difference Review Team vs. PSDP		
	Total	Local	Foreign Aid	Total	Local	Foreign Aid	Total	Local	Foreign Aid
	EDUCATION	532	84	449	532	84	449	0	0
National Vocational Training Project	500	80	420	500	80	420	0	0	0
Primary Education (Girls) Project \6	12	1	12	12	1	12	0	0	0
Teacher Training \7	10	1	9	10	1	9	0	0	0
Middle Schools \8	10	2	8	10	2	8	0	0	0
HEALTH AND NUTRITION	1,915	1,406	509	1,847	1,406	441	-68	0	-68
Malaria Control Program	180	20	160	180	20	160	0	0	0
Program for Prevention of AIDS	71	71	0	71	71	0	0	0	0
Extended Program of Immunization (EPI)	602	564	38	602	564	38	0	0	0
Health Education Program	10	2	8	0	0	0	-10	-2	-8
Family Health II	35	3	32	4	1	3	-31	-2	-29
National Health Workers Program	650	650	0	650	650	0	0	0	0
Others (Incl. Third Health & Health Care) \9	367	96	271	340	100	240	-27	4	-31
POPULATION WELFARE \9	1,588	895	693	1,433	689	744	-155	-206	51
GRAND TOTAL	62,382	28,806	33,576	62,739	31,376	31,363	357	2,570	-2,213

\6 The PSDP review team's assess the need of the project at Rs 291 million (Rs 233 m foreign and Rs 58 m local). Only the requirement for the Federal component of the project is listed here.

\7 The overall financing requirement of the project is Rs 97 m (including Rs 71 as foreign aid), the amount given in the table is the requirement for the Federal component of the project only.

\8 The total funding requirement of the project is Rs 306 m (Rs 235 m as foreign aid), the table lists only the requirement of the Federal component.

\9 Derived as residual from the sectoral core program (see text) and the allocation to the projects/program listed above.

\10 The allocation for the sector is the aggregate of allocations for Administrative Organization, Population Welfare Services, Training, Research, Logistics and Supplies, Construction and Transport categories.

Table A6: Budgetary Core Development Program 1995/96: Review Team's Suggestions and PSDP Proposals

(Rs Million)

	Review Team's Suggestions (May 1995)			Proposed PSDP Allocations (April 1995)			Difference Review Team vs. PSDP		
	Total	Local	Foreign Aid	Total	Local	Foreign Aid	Total	Local	Foreign Aid
	TRANSPORTATION	13,184	6,932	6,252	11,339	6,012	5,327	-1,846	-920
AGRICULTURE & ENVIRONMENT	644	146	498	493	78	415	-151	-68	-83
IRRIGATION & DRAINAGE (WATER)	12,659	4,733	7,926	11,284	3,887	7,397	-1,375	-846	-529
POWER (WAPDA)	12,542	0	12,542	11,936	0	11,936	-606	0	-606
Thermal	1,985	0	1,985	1,755	0	1,755	-230	0	-230
3x210 MW OFPS Muzaffargarh Units 1-3	0	0	0	0	0	0	0	0	0
Rehab. of Power Plant (incl. Kotri & F. Abad)	0	0	0	0	0	0	0	0	0
3x50 MW FBC Lakhra 1-3	0	0	0	0	0	0	0	0	0
Additional 415 MW CCP Guddu	557	0	557	435	0	435	-122	0	-122
224 MW CCP Kot Addu Units 11-12	224	0	224	200	0	200	-24	0	-24
300 MW CCP Kot Addu Units 13-15	1,164	0	1,164	1,120	0	1,120	-44	0	-44
2x210 MW OFPS Muzaffargarh Units 5-6	0	0	0	0	0	0	0	0	0
210 MW OFPS Muzaffargarh Unit 4	0	0	0	0	0	0	0	0	0
Others	40	0	40	0	0	0	-40	0	-40
Hydel	5,359	0	5,359	5,278	0	5,278	-81	0	-81
200MW MEPS Mangla Units 9-10	0	0	0	0	0	0	0	0	0
Tarbela HEPS 11-14	256	0	256	256	0	256	0	0	0
Chasma Hydro Power Project	550	0	550	900	0	900	350	0	350
Rehabilitation of Warsak	53	0	53	53	0	53	0	0	0
Ghazi Brotha (New)VI	4,500	0	4,500	4,069	0	4,069	-431	0	-431
Transmission	1,098	0	1,098	803	0	803	-295	0	-295
500 KV Tarbela-Peshawar	68	0	68	68	0	68	0	0	0
220 KV Guddu-Sibi Quetta	175	0	175	230	0	230	55	0	55
Second 500 KV Lahore-Multan-Jamshoro	5	0	5	5	0	5	0	0	0
500 KV Hub Chowki-Jamshoro	0	0	0	0	0	0	0	0	0
Third 500 KV Jamshoro-Lahore	350	0	350	0	0	0	-350	0	-350
Upgradation of S/Station at Rewat	500	0	500	500	0	500	0	0	0
Private Power Interconnections	0	0	0	0	0	0	0	0	0
Secondary Transmission Lines and Grid Stations	1,800	0	1,800	1,800	0	1,800	0	0	0
Rural Electrification	1,900	0	1,900	1,900	0	1,900	0	0	0
Distribution	400	0	400	400	0	400	0	0	0
EDUCATION	532	84	449	532	84	449	0	0	0
HEALTH AND NUTRITION	1,915	1,406	509	1,847	1,406	441	-68	0	-68
POPULATION WELFARE 12	1,588	895	693	1,433	689	744	-155	-206	51
GRAND TOTAL	43,064	14,195	28,869	38,864	12,156	26,708	-4,200	-2,039	-2,161

Table A7: Comments on Selected Projects in the Proposed Core Development Program 1995/96

SECTOR/PROJECT/PROGRAM	Difference (Rs Million)			COMMENTS
	Proposed Allocations vs. Team's Suggestions			
	Total	Local	Foreign Aid	
TRANSPORT				
1. Fourth Highway Project	-618	-494	-124	This project would close during 1995/96. Additional allocation is required to complete the project.
2. Transport Sector	-500	-270	-230	Same as above.
3. Pavement Strengthening/Rehabilitation	-500	-500	0	Rs 500 million is needed for urgent pavement strengthening and rehabilitation works, particularly on the heavily used N-5.
4. Farm-to-Market Phase-II (ADB)	-150	-110	-40	Utilization of funds during the current fiscal year has been higher than planned. The project is scheduled for closure by end-1996, necessitating increased allocations to the project.
5. VHF & UHF Communications Systems	335	256	79	The proposed allocation for this component of the IBRD assisted project can be canceled, as this component is unlikely to be implemented by mid-1996--the loan closing date of the Transport Sector Project.
6. Track Circuiting of 94 Stations	65	30	35	The pre-installation work has been delayed, and the installation work of track circuits is expected to start by June 1995. For completion of the project by the closing date (1997), a higher allocation is required in 1995/96.
7. Rehabilitation of 101 Locos	-230	0	-230	OECE's view is that the proposed allocation falls short of the project's need for the year. Additional funds are therefore required.

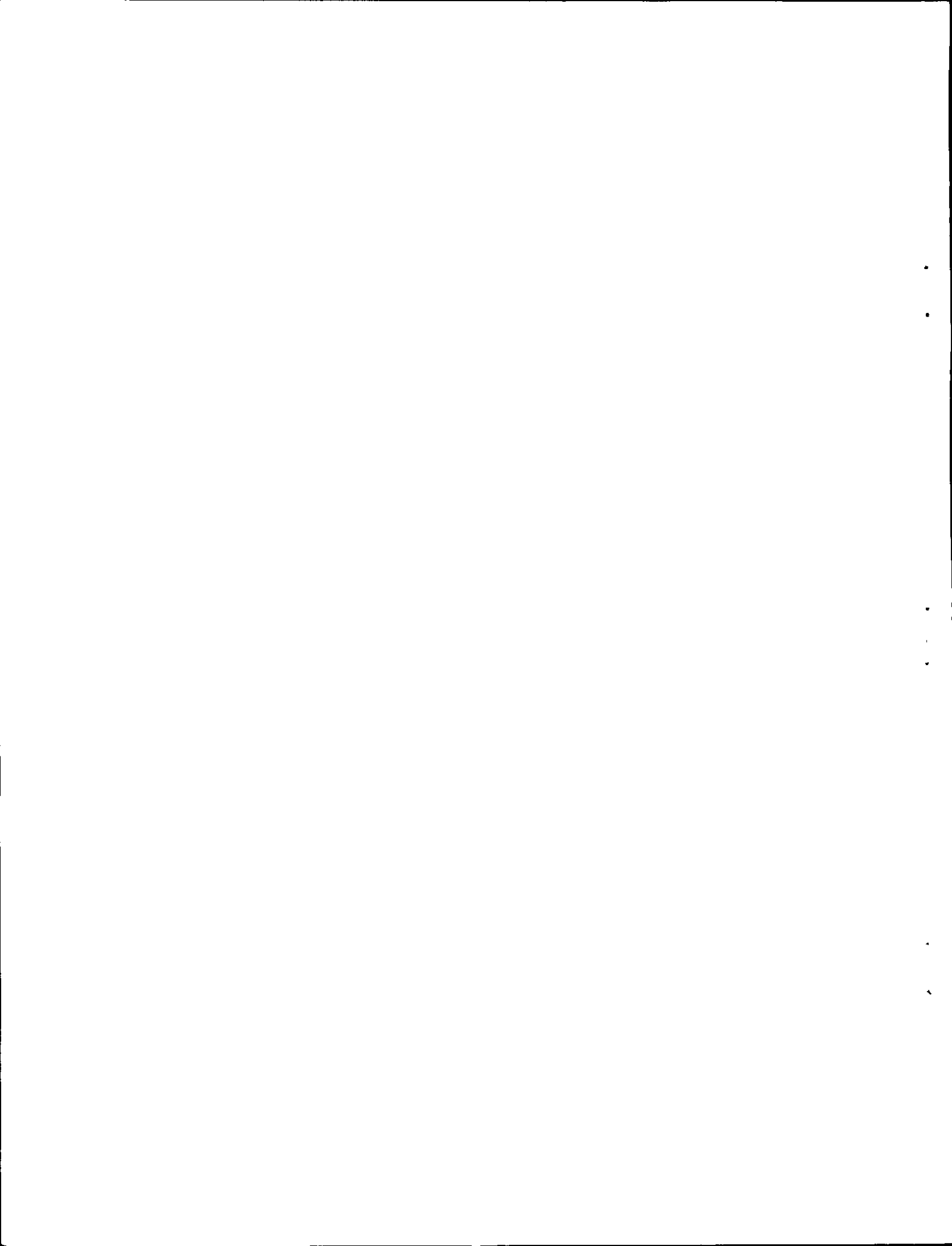


Table A7 (Contd.): Comments on Selected Projects in the Proposed Core Development Program 1995/96

SECTOR/PROJECT/PROGRAM	Difference (Rs Million)			COMMENTS
	Proposed Allocations vs. Team's Suggestions			
	Total	Local	Foreign Aid	
AGRICULTURE & ENVIRONMENT				
1. National Oilseed Development Project	-69	-38	-31	This project was reformulated. According to the project's revised phasing and implementation schedule, Rs 120 million is the total funding requirement of the project in 1995/96 (foreign aid of Rs 82 million and local component of Rs 38 m). GOP's proposed allocation does not show any local component.
2. Cotton Curl Leaf Virus Control	-66	-26	-40	Though recently started, this is a high priority project. ADB's assessment of the funding needs of the project is Rs 166 million (foreign aid of Rs 140 million) and is based on the needs of contract awards for 15 sub-projects, general administration and consultancy services. No allocation of local counterpart funding is shown in the GOP proposal despite the need for payment of duties on the imported equipment and materials.
3. EPRC	-15	-4	-12	Of the three projects included in the program, the proposed allocations for two (PEPA and DEPM) fall short of their needs (both foreign and local components).

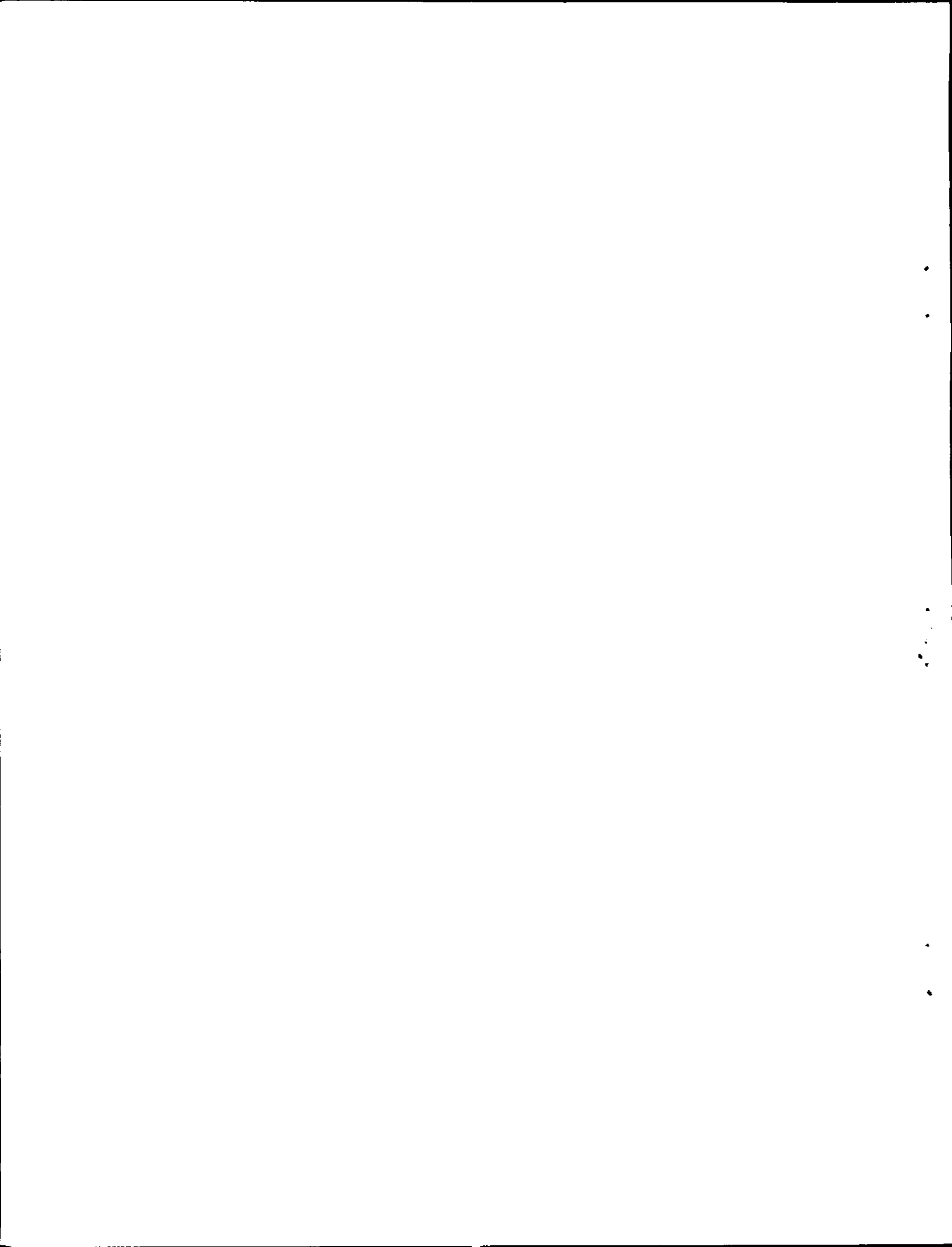


Table A7 (Contd.): Comments on Selected Projects in the Proposed Core Development Program 1995/96

SECTOR/PROJECT/PROGRAM	Difference (Rs Million)			COMMENTS
	Proposed Allocations vs. Team's Suggestions			
	Total	Local	Foreign Aid	
IRRIGATION & DRAINAGE (WATER)				
1. Pat Feeder Canal	-1.138	-406	-732	This project is to close in December 1996. Due to security problems, the project is only 42% complete. GOP has assured ADB that project implementation would improve. 1994/95 expenditures are expected to exceed the allocation. Rs 1.938 m is required to keep six ongoing contracts on schedule and for the four new contracts to be awarded during the year. Keeping the allocation at the proposed level will delay the project by about two years, which would entail substantial costs overruns.
2. Flood Sector Program	-250	-70	-180	The original closing date of the project is December 1997. However, due to recent reformulation of the project the closing date may be extended. The proposed PSDP allocation appears to be based on the original PC-I. Aside from increase in allocation, the PC-I needs to be revised. Part of the 1994 Flood damages works (US\$ 7 million equivalent) will also be funded from this project.
3. On Farm Water Management-III, (ADB)	277	0	277	This project became effective in August 1994. ADB's estimate of total expenditure is lower than the proposed allocation.
4. Swabi SCARP	-185	-135	-50	ADB's assessment shows a shortfall of Rs 185 million in funding of this project. One major contract is on-going, while three new contracts (Rs 47m, Rs 140m and Rs 101m) have recently been awarded.
5. Second SCARP Transition Project	-18	-28	10	There is an overall shortfall of Rs 18 million (Rs 28 million in the local component). The proposed GOP share of Rs 40 million would barely cover fixed charges (Rs 34 million for IDC and WAPDA overheads), leaving a very small amount for tubewell subsidy and water course improvements. ADB's assessment of funding requirement is Rs 1,300 m (Rs 1,200 m of which is to be reflected in the Federal PSDP) and would cover the award of all remaining civil works contracts, including contracts for River Diversion and Tunnel Works; all such works are expected to be completed by the end of 1995/96.
6. Fordwah Eastern Sadiqia (Unaided)	-150	-150	0	The proposed allocation is lower than the needs of the project, apparently based on the original PC-I. WAPDA has submitted a revised PC-I. The allocation should be increased in anticipation of approval of the PC-I.
7. National Drainage Program	-115	-19	-96	This project is expected to be appraised in June 1995. GOP has requested World Bank for an advance of US\$ 3 m from PPF for essential preparation of the project. Including Rs 20 m as counterpart funds, a total allocation of Rs 120 m is required.

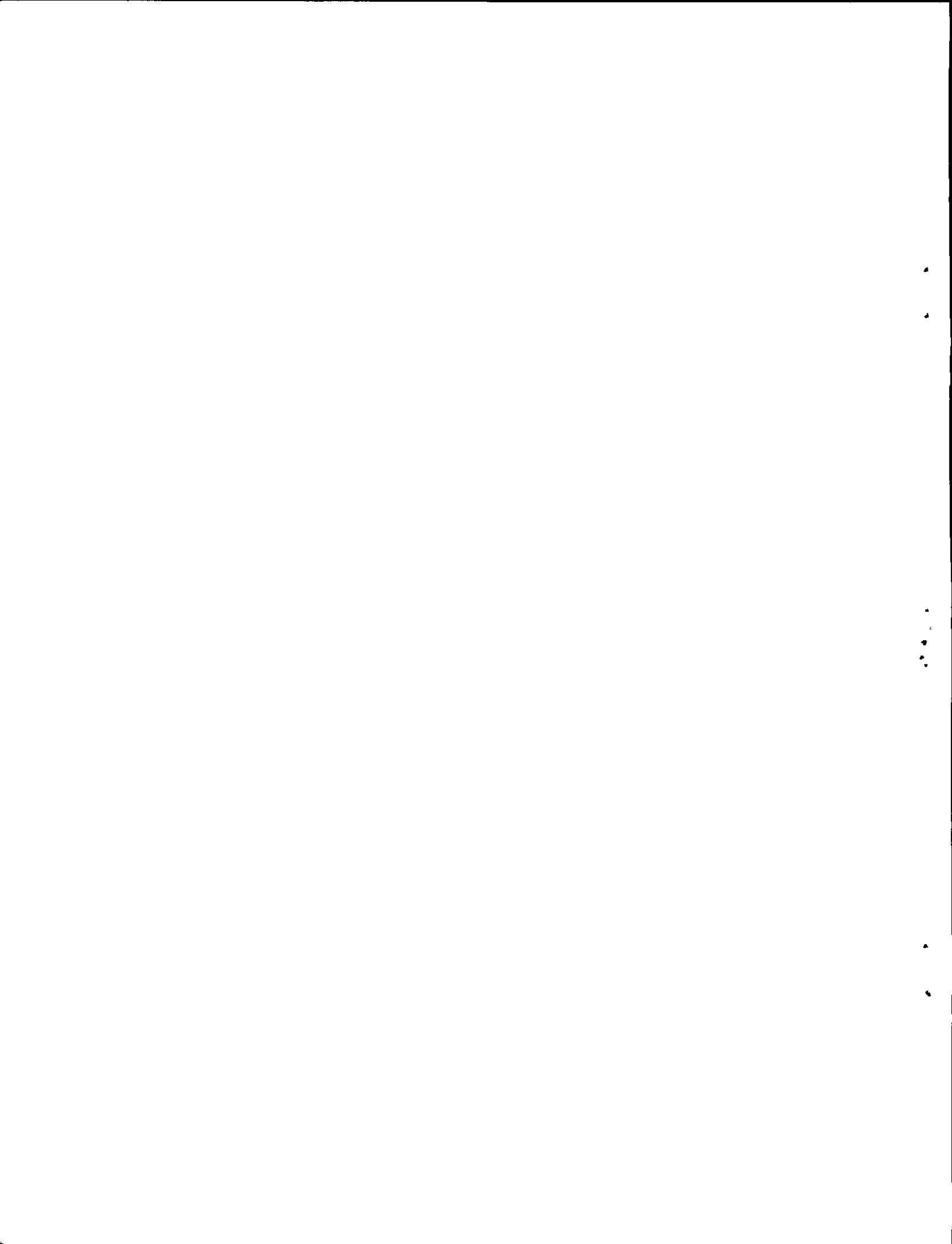
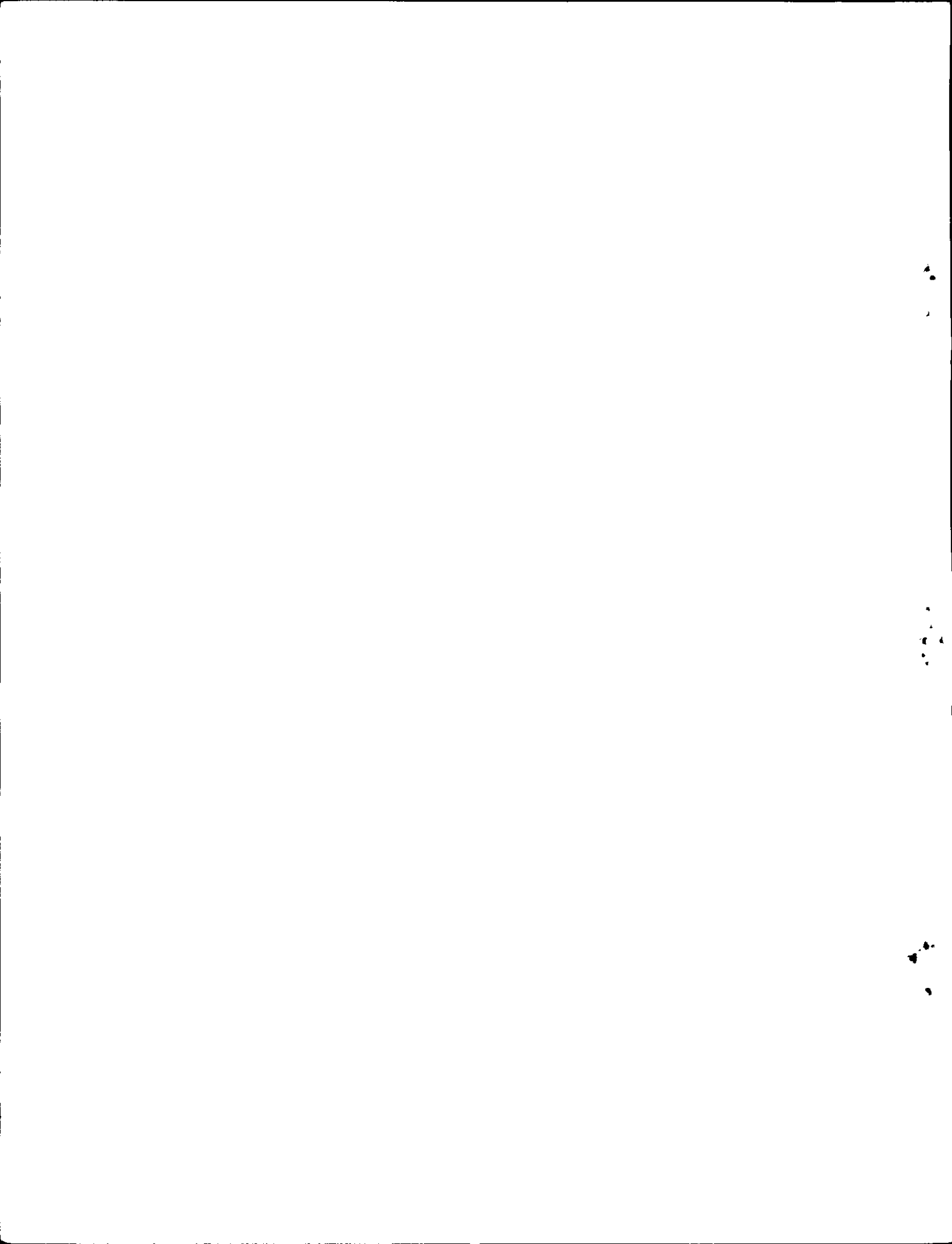


Table A7 (Contd.): Comments on Selected Projects in the Proposed Core Development Program 1995/96

SECTOR/PROJECT/PROGRAM	Difference (Rs Million)			COMMENTS
	Proposed Allocations vs. Team's Suggestions			
	Total	Local	Foreign Aid	
8. Private Ground Water	-55	-5	-50	This project is to be appraised in May/June 1995, and implementation would start during the second half of 1995/96. The project has very high priority as it would help privatize remaining SCARP tubewells in the fresh water areas and would yield a major reduction in the fiscal burden of Punjab Government.
POWER (WAPDA)				
<u>Thermal</u>				
1. Additional 415 MW CCP Guddu	-142	-20	-122	These projects are to be completed in 1995/96, and allocations of the respective amounts is required in order to avoid delays in completion.
2. 224 MW CCP Kot Addu Units 11-12	-129	-129	0	
<u>Hydel</u>				
3. Ghazi Barotha	4,463	4,894	-431	The PSDP Review team's assessment of this project's funding needs is that Rs 8 billion is the minimum requirement of the Ghazi-Barotha project for 1995/96, which includes the requirements for land acquisition and preparatory works, and payments for the three civil works contracts issued by WAPDA. The Planning Commission's proposed allocation reflects a more optimistic scenario for the implementation of the project that may include 2-3 monthly (progress) payments on the contracts.
<u>Transmission</u>				
4. Private Power Interconnections	-200	-180	-20	These transmission lines are high-priority investments for WAPDA, and adequate provision for implementation of these projects is essential in WAPDA's Core Program. Delays in completion of these transmission lines (due to funding shortfalls or other reasons) will result in large penalties for WAPDA in case some private projects are commissioned as per schedules (e.g. Uch, AES etc.) but the transmission lines are not in place. In the absence of details regarding the source of funding, it is not possible to say whether the foreign currency amounts should be included in the budgetary or non-budgetary program.
POPULATION WELFARE	-155	-206	51	On the basis of agreement reached with the donors on the recently negotiated Population Project, the sector should be allocated Rs 1,588 million in 1995/96.



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