

Chapter

5

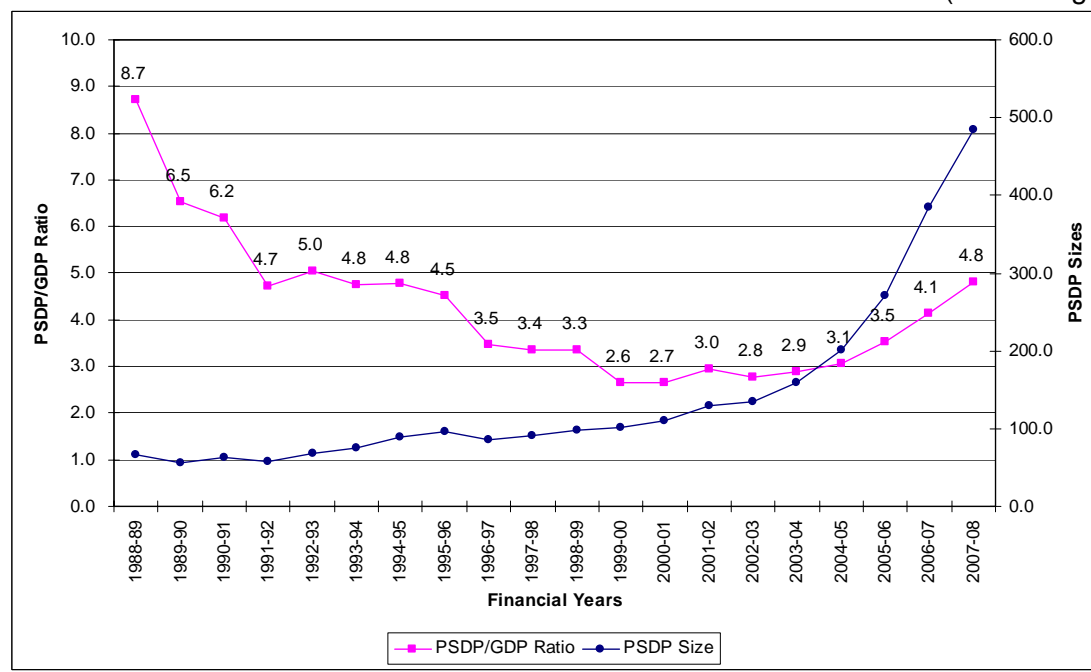
Public Sector Development Program (PSDP)

Public investment is made for provision, expansion and modernization of socio-economic infrastructure, employment generation, poverty reduction, good governance, removing regional disparities and improving quality of life of the people both by the Government entities and public sector corporations. For this purpose, the funds are allocated by the federal, provincial and local governments to development projects and programs, as per fiscal space available with the government, in the national budgets. The public sector corporations mobilize their own resources.

The Public Sector Development Program (PSDP) is the main instrument for providing budgetary resources for development projects and programs. As a percentage of GDP, the PSDP has declined sharply from 7.5 percent in 1991-92 to 2.5 percent in 1999-2000 (Figure 5.1). By continued efforts of the government through strong economic management, sufficient fiscal space has emerged which led to the stability of macro-economic framework. Through consistent increase in the PSDP size, a level of 4.3 percent of GDP has been achieved in the year 2006-07. The MTDF emphasizes greatly on PSDP and seeks to increase the PSDP as a percentage of the GDP from 3.1 percent in 2004-05 to 6.3 percent by 2009-10.

Figure 5.1 PSDP/GDP Ratio

(Percentage)



Review of the PSDP 2006-07

The PSDP 2006-07 was approved by the National Economic Council (NEC) in its meeting held on May 31, 2006 at Rs 385 billion (4.3 percent of GDP) with a Federal Program of Rs 270 billion, including foreign assistance component of Rs 36.5 billion

and an operational shortfall of Rs 20 billion thus reducing the PSDP/GDP ratio from 4.3 percent to 4.1 percent.

The allocations of the federal program included Rs136.6 billion (50.6 percent) for infrastructure development sectors i.e. highways, railways and ports (Rs 43.1 billion), energy i.e. power, generation, distribution and fuel (Rs32.0 billion) and augmentation of water resources (Rs 50.0 billion). Social sectors were allocated Rs 126.4 billion (46.8 percent) including Rs 34.4 billion for Special Development Programs and Rs16.2 billion for Special Areas Development Program. An amount of Rs 7.3 billion (2.7 percent) was allocated to production sectors (agriculture, industry and minerals).

Realizing the development needs of the provinces, it was assessed that the provinces would spend Rs 115 billion through their ADPs. However, in view of additional resource availability with provinces, the actual size of their ADPs was somewhat higher.

Khushhal Pakistan Program (KPP-I & II) initiated in 2002-03 also continued during 2006-07 with higher allocations. KPP-I received an allocation of Rs 4.4 billion during 2006-07. The schemes under this program are spread over all the provinces and in FATA to supplement government's efforts towards poverty reduction. Development projects, identified by the legislators such as roads, electricity, gas, telecommunications, education, health, tractor hours, water supply and sanitation schemes were financed through the Program. Purchase of land for development schemes was not allowed to be financed from this program. No non-development expenditure such as payment of salaries, hosting of functions was financed from this program.

Similarly, to improve the quality of the life and create employment opportunities especially in the rural areas, additional fast maturing schemes relating to roads, gas supply, water supply and electrification were financed under Khushhal Pakistan Program –II. The allocations for this program were enhanced to Rs 20 billion during the current year. The government is committed to reduce the sufferings of the common man therefore, Khushhal Pakistan Fund was enhanced to Rs 10 billion to be spent through District Governments on schemes relating to roads, water supply, sanitation, income generating activities, health and education for the betterment of the poor.

The NEC authorized the Planning Commission to make adjustment, if needed, within the approved size of the program to accommodate important projects on the basis of quarterly reviews. The NEC also approved that these adjustments would be exempted from complicated procedural formalities and funds released expeditiously to reach the project directors.

In pursuance of the above decision, the Planning Commission carried out quarterly reviews of the development projects included in the PSDP 2006-07, in October, 2006 (1st quarter), January, 2007 (2nd quarter) and April, 2007 (third quarter) with the Principal Accounting Officers (PAOs) of all the Ministries/Divisions. It was emphasized in such meetings that the Ministries/Divisions and executing agencies must ensure that projects are completed on time, within the approved cost and project objectives are fulfilled to avoid cost and time overruns to achieve maximum benefits from the public investment.

A properly streamlined system of releases linked with the approved cash plan introduced during 2004-05 also continued during 2006-07. This resulted in speedy utilization of allocated/released amount and pro-active involvement of PAOs in the development process. The allocations were re-adjusted from the slower to comparatively fast moving projects after each quarterly review. The sectoral allocations remained more or less the same because as a matter of policy, readjustments were invariably made to the fast moving projects within the same sector.

The actual PSDP expenditure during July 2006-April, 2007 was Rs 170 billion (68 percent) of the total federal allocation including foreign aid of Rs 21.5 billion. This compares favorably utilization of Rs 149 billion for the same period of 2005-06. The expenditure is likely to further pick up in the last quarter of the current financial year. The project authorities have indicated that Rs 246 billion (98 percent) of the total federal allocations, after taking into account the operational shortfall, would be spent upto June, 2007. Furthermore, additional allocations made to the fast moving projects after the 3rd quarter would result in a speedy utilization of funds.

PSDP 2007-08

The PSDP 2007-08 has laid due emphasis on maintaining momentum of growth, realization of core MTF objectives, such as reducing poverty, achieving the MDGs, ensuring equitable distribution of development funds across regions and various social groups, empowering women and minimizing wastages. The PSDP 2007-08 has been formulated with a view to avoiding a thin distribution of resources and the following principles have guided the resource allocation in the PSDP:

- completion of on-going projects;
- initiation of important new approved projects;
- initiation of un-approved but crucial projects;
- implementation of public commitments made by the President and the Prime Minister;
- equitable/fair distribution of funds among the provinces; and
- preparation of projects conducive to creating environment of knowledge economy.

The demand for development funds has to be rationalized keeping in view the total resource availability and financial commitments of the Government. The size of federal development program approved by the NEC on the recommendations of the Planning Commission is Rs 335 billion (including foreign loans of Rs 32.0 billion) with an increase of 20 percent over the size of PSDP 2006-07. In addition, Rs 35 billion would be spent on the reconstruction and rehabilitation of earthquake areas. The provinces are expected to spend Rs 150 billion through their ADPs. The total gross size of PSDP 2007-08 is Rs 520 billion. Any increase beyond this level was deemed fiscally untenable. Despite this constraint, almost all the on-going projects and programs have been protected and the commitments for major projects such as the Chashma Nuclear Power Plant, Raising of Mangla Dam, Lining of Canals, Water Courses and Highways and other major new initiatives have been financed. In addition, projects in water, power, communications and social sectors have been fully funded. Sufficient funds have been provided for ongoing and new initiatives relating to clean drinking water, prevention and control of blindness and hepatitis,

improvement of transport facilities through public-private partnership, skills development and vocational training programs, and strengthening of Science & Technology. However, while allocating resources the above principles were strictly followed. Detail of type of projects to be financed through PSDP 2007-08 is given in Table 5.1. It reflects 86 percent of the available resources have been allocated to the ongoing projects.

Tale 5.1 Projects Financed Through PSDP 2007-08

(Rs Billion)

Type of Projects	Nos.	Amount Allocated
On-going	1444	290
New	667	45
Total	2111	335

The total PSDP size of Rs 485 billion for 2007-08 excluding ERRAs expenditure represents 4.8 percent of GDP. The 2007-08 PSDP has an operational shortfall of Rs 35 billion. This will reduce PSDP/GDP ratio from 4.8 percent to 4.5 percent which is still higher than the last year PSDP/GDP ratio of 4.1 percent. The PSDP/GDP ratio would be gradually increased and at the end of terminal year of MTFD 2009-10 it would reach 6.3 percent of the GDP. The summary of PSDP 2007-08 is presented at Annex 5.1, whereas the over all position is given in Table 5.2. The broad sector-wise distribution of Federal PSDP is also presented in Table 5.3.

Table 5.2 Size of PSDP 2007-08

(Rs Billion)

A. Federal PSDP	335
• Federal Ministries	232
• Special Areas	20
• Special Programs	34
• Corporations	49
○ Operational Shortfall	(35)
B. Provinces	150
PSDP size (A+B)	485
C. Earthquake Reconstruction	35
D. Outside PSDP	204
Total	724

Table 5.3 Sectoral Distribution and Share of PSDP

Sector	PSDP (Rs Billion)	Percent Share
• Infrastructure	166.5	49.7
• Social sectors	156.2	46.6
• Others	12.3	3.7
Total Federal	335.0	100
Operational Short-fall	(35.0)	
Net Federal	300.0	

Non-Budgetary Financing by WAPDA and NHA

The budgetary corporations i.e. WAPDA and NHA will finance their development activities through non-budgetary sources (self-financing, bank borrowing and foreign loan / equity). The estimated financing of WAPDA and NHA will be Rs 73.0 billion and Rs 6.0 billion respectively. These estimates are indicative and will depend on the extent to which these corporations will be able to generate self-financing and mobilize resources through bank borrowing and foreign loans/equity. The idea is that revenue generating corporations which were being financed from the budget should stand on their own feet like other corporations and finance development projects from their own resources.

Non-Budgetary Financing by other Corporations

The non-budgetary corporations in the Fuel, Transport and Communications, Industry and Physical Planning and Housing Sectors are planning an investment program of Rs 125.0 billion. The investment of these corporations is purely indicative at this stage and will depend upon the extent to which they will be able to generate self-financing and harness through bank borrowing and foreign loans/equity.

Thus the total non-budgetary investment financing by the budgetary and non-budgetary corporations stands at Rs 204 billion. The sectoral position is given in Table 5.4.

Table 5.4 Non-Budgetary Investment

(Rs Billion)		
S.No	Sector	Financing
1	Power	72.8
2	Fuel	72.8
3	Transport and Communication	42.0
4	Industry	1.4
5	PP & H	15.0
	Total	204.0

Sectoral Priorities and Salient Features of PSDP 2007-08

In line with vision 2030 to promote knowledge based economy, high priority has been accorded to human resource development and a sound infrastructure, which will fuel future growth and development. Salient features of PSDP are succinctly outlined as under:

- Water sector continues to receive Government attention, as the highest allocation has been made during 2007-08. The proposed allocation comes to 22 percent of the total federal program, showing 48 percent increase over the allocations of 2006-07. This will help reduce poverty, accelerate agricultural growth and create construction-related additional jobs.
- Major investment of Rs 20 billion is made for completion of Mangla Dam Raising project which will make available additional 2.88 MAF water to increase agricultural productivity.
- Adequate funds have been provided to develop basic infrastructure at Gwadar which will contribute to a better investment climate and trade in the area. This will also promote national integration and harmony. Similarly,

sufficient provision has been made to develop basic infrastructure for building oil city (cities) and export processing zones in the country.

- The NHA has been allocated Rs 29 billion. They have also been advised to raise at least Rs 6 billion through securitization of its toll receipts and other revenues to complete the development projects in time. The total NHA outlay of Rs 35 billion during 2007-08 would facilitate speedier completion of projects. The Islamabad Peshawar Highway would be completed by September, 2007.
- For mega dams and related infrastructure, a substantial investment of Rs 40 billion is being made during 2007-08. Likewise, to commence work on Neelum Jhelum Project, WAPDA has been advised to arrange resources either through bonds or supplier credit outside PSDP arrangements. The Committee under the Chairmanship of Advisor to Prime Minister is working to find innovative financing mechanisms outside budget for these projects. A sum of Rs 5 billion has been released from the budget during 2006-07 to Neelum Jhelum Hydro Project.
- Allocations for education and training have been increased by 17 percent to ensure availability of qualified human resources to match the needs of a highly competitive world market.
- The allocations for the health sector have been increased by 33 percent from Rs 12 billion to Rs 16 billion, reflecting continuous emphasis on improving the productivity of human capital and general quality of life.
- Sufficient allocations have been made for reforms relating to governance including Access to Justice Program.
- Allocations for Special Areas (AJK, NA & FATA) have been enhanced by 22 percent with a view to accelerating development in less developed areas.
- In order to alleviate poverty, generate employment and undertake quick maturing projects, Rs 34.4 billion would be spent under Khushhal Pakistan Program/Fund with the involvement of Provincial and District Governments.
- An investment of at least Rs 6.6 billion will be made during the next financial year to provide safe drinking water down to the union council level.
- The National Trade Corridor (NTC) is the major initiative launched by the Government during 2006-07. To implement projects under NTC, feasibility studies would be initiated during 2007-08 which would help facilitate trade flows and reduce cost of doing business.
- An amount of Rs 500 million has been allocated for Dairy Industries during 2007-08. In order to enhance competitiveness and quality of industrial products, a number of projects in the areas of Ceramic Development, Glass Production, Foundry Services, Gems and Jewelry and Marble and Granite are being started with involvement of private sector during the next year at a total cost of Rs 3.9 billion.
- An amount of Rs 500 million has been proposed during 2007-08 for exports promotion plan/measures.
- For textile sector, three Garment Cities at Karachi, Lahore and Faisalabad would be set up with a cost of Rs 2.9 billion.
- Requirements/Demands of Provincial Governments, FATA, NA and AJK have been catered for as far as possible.
- Directives of President and Prime Minister based on reports of Provincial Governments and other elected representatives have been accommodated.

The above priorities of Government in its development spending will not only support the long term objective of sustained economic growth but will also help achieve the goals of employment generation and poverty reduction.