
Health Budget & Expenditure Analysis

(2008-09 to 2010-11)

Health Department (Government of Gilgit-Baltistan)

District Governments in Gilgit-Baltistan

May 2012



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ABBREVIATIONS & ACRONYMS

ADP	Annual Development Plan
AJK	Azad & Jammy Kashmir
DHO	District Health Offices
FANA	Federally Administered Northern Areas
FY	Financial Year
GB	Gilgit-Baltistan
ESGO	Gilgit-Baltistan Empowerment and Self-Governance Order
GDP	Gross Domestic Product
MTBF	Medium Term Budgetary Framework
K-GB Ministry	Ministry of Kashmir Affairs and Gilgit-Baltistan
NFC	National Financial Commission
PIFRA	Project to Improve Financial Reporting and Auditing
PSDP	Public Sector Development Programmes
TRF	Technical Resource Facility

EXECUTIVE SUMMARY

1. The Gilgit-Baltistan region (formerly Federally Administrated Northern Areas) was a designated special area under the Federal Government, until the Gilgit-Baltistan Empowerment and Self-Governance Order (ESGO) 2009 was passed by the National Assembly of Pakistan, granting the status of a province to the region. Practically, however, Gilgit-Baltistan operates under a Federal Ministry i.e. Ministry of Kashmir Affairs & Gilgit-Baltistan, unlike any other provincial government in the country. Gilgit-Baltistan's government set-up consists of the G-B Council, Legislative Assembly and a Governor. The devolution of powers to the Gilgit-Baltistan government is limited under the Third & Fourth Schedule of ESGO.
2. To date, Gilgit-Baltistan does not have its own sources of income and hence, the region's government relies solely on federal transfers for funding of its expenditures. Recently, however, it was announced that the GB government would levy income tax and corporate tax in order to raise its own revenue.
3. After the approval of the 7th National Finance Commission (NFC) Award 2009, the actual transfers from the Federal Government to provinces have increased, however this implies otherwise for the G-B government due to its non-participation in the NFC Award. The currently ongoing fiscal crisis along with the increased provincial share in NFC Awards means lesser funds are at the Federal Government's disposal for other disbursements including for Gilgit-Baltistan.
4. The federal funding for AJK and Gilgit-Baltistan are channeled through the Ministry of Kashmir Affairs and Gilgit-Baltistan to their respective governments. The federal budget has increased steadily over the past three years, reaching to a record level of total budget at Rs. 2.3 trillion in the FY2010-11 with total K-GB Ministry funding rising to Rs. 23 billion (1.01 percent of the total budget). This has meant that more funds have been made available to the ministry on a yearly basis. Consequently, this has also meant an increased funding available to Gilgit-Baltistan due to GB's increased share in the K-GB Ministry's funding since 2008.
5. The total Budget for Gilgit-Baltistan has grown at a faster pace than the combined health allocation for GB, in recent years. This has meant that the share of health in the total GB budget has decreased. The development budget is 38 percent of the total health budget in Gilgit-Baltistan.
6. Currently, the Gilgit-Baltistan government is not using the MTBF for budgeting and planning.

INTRODUCTION

1. This Report on the health budget and expenditure analysis of the Provincial Government (GB Government) has been prepared by the Consultant at the request of Technical Resource Facility (TRF);
2. The analysis covers the FY2008-09, FY2009-10 and FY2010-11. Actual figures were utilized for the analysis as long as they were available. On some occasions, estimates had to be incorporated due to a lack of actual data. Such occasions are marked under the 'Revised Estimates' heading.
3. The source of budget data has been attained from the annual budget documents and federal appropriation accounts whereas, all other data i.e. provincial expenditures, budget and expenditure of Districts are obtained from the Health Department, Gilgit-Baltistan or DHOs.
4. The flow of this document has been organized in such a manner so as to make it more informative. It commences by explaining the situation from a macro-perspective and then hones down into the details. . It analyses budget and expenditure trends separately. In order to provide clarity and a reasonably good understanding for readers, the report is divided into the following sections:

Section I Macro-fiscal context of Gilgit-Baltistan

Section II Analysis of Budgets and Expenditure trends

Section III Key Findings & Recommendations

5. **Section I** lays down, in brief, the overall macro-fiscal situation facing the Province including the implications of the 18th amendment. This was considered necessary so that readers are able to appreciate the overall fiscal realities facing Gilgit Baltistan against which the budget is formulated and executed each year.
6. **Section II** attempts to analyze budgetary allocations and actual expenditure. The expenditure and budget allocations were reviewed against various dimensions at individual and aggregate levels from an economic and functional classification perspective.
7. **Section III** summarizes the key findings of the reports and accordingly provides recommendations for improvement.

8. For the convenience of readers, data tables forming the basis of the analysis have been included as Annex - I of this Report which have been referred to while appreciating the budget analysis;
9. During the course of the assignment, the consultant met with a wide range of people in order to extract information and to better understand the workings of the GB government.

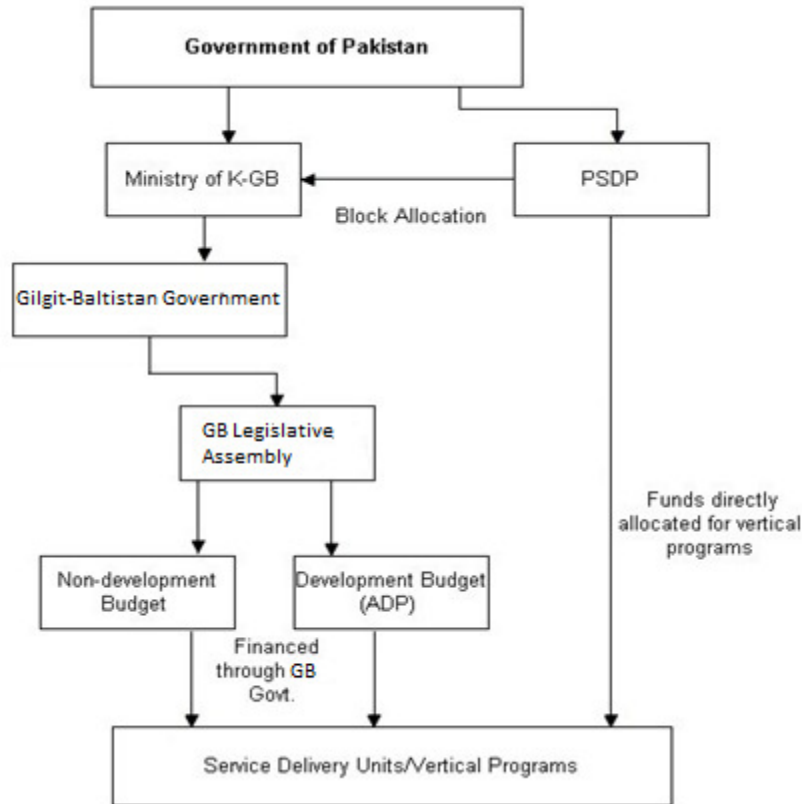
Section I - Macro-Fiscal Context of Gilgit-Baltistan

1. Gilgit-Baltistan is an autonomous territory that has been under Pakistani administration since the 1949 ceasefire. Gilgit-Baltistan along with Azad Jammu and Kashmir and Indian Administered Kashmir, formed the princely state of Kashmir and Jammu in pre-partition India. Following the hasty partition of the subcontinent in 1947, a dispute over the princely state of Kashmir arose between India and Pakistan and as a result both countries went to war. A ceasefire was reached in 1949, where Pakistan was left with a minor portion of Kashmir. Over time, Pakistani administered Kashmir was divided into two parts: Federally Administered Northern Areas (FANA) and Azad Jammu and Kashmir (AJK). In 2009, a Bill was passed by Pakistan's Legislative Assembly which brought greater autonomy to the Federally Administered Northern Areas and they renamed the region as Gilgit-Baltistan. The reforms brought a governance structure to the region that is closer to a provincial set-up by bringing judicial reforms and appointing a Governor and Chief Minister. It would be important to note here that although Gilgit-Baltistan has been given autonomy, it does not have the status of a province. This can be ascertained from the fact that the Legislative Assembly of GB does not have as much authority as that of a Provincial Legislative Assembly and from the fact that while the inhabitants of provinces have a say in the National Assembly through their voting rights, the inhabitants of Gilgit-Baltistan do not have this right.
2. The population of Gilgit-Baltistan is ethnically, linguistically, and religiously diverse and is estimated to be about 1.2 million. Compared to the national level, socio-economic conditions in Gilgit-Baltistan are poor. Gilgit-Baltistan has a GDP per capita of \$350 compared to the national rate of \$1046. The literacy rate in the region is 38% compared to the national rate of 56%. Compared to the national rate of 1 doctor per 1183 people, Gilgit-Baltistan has a doctor to population ratio of 1:4100.

Correspondingly, the GB region has a far higher maternal mortality rate than the national average with 600 per 100000 births compared to 272 per 100000 nationally. Furthermore, according to an Asian Development Bank report, Gilgit-Baltistan has a higher incidence of poverty compared with the rest of Pakistan.

3. Major sources of income for the people of Gilgit-Baltistan are agriculture, horticulture, livestock, forestry, trade, mining, tourism, and remittances. The rate of migration from Gilgit-Baltistan is perhaps higher than any other region in Pakistan. People who migrate often send remittances home and this has become an important source of household income. Agriculture is another important income source and is earned by growing wheat, buckwheat, maize, millet, barley, vegetables, and fruits. Major fruits produced include pear, apricot, grape, peach, pomegranate, cheery, mulberry, apple, walnut, and almond. Vegetables grown include potato, spinach, cabbage, cauliflower, carrots, watermelon, onion, and tomato. Mining is yet another important income source and is carried out mainly for gemstones, gravel, and rock.
4. Gilgit-Baltistan is divided into two divisions – Gilgit and Baltistan. These divisions are then further divided into seven districts – of these districts, Skardu and Ghanche lie in the Baltistan division while Gilgit, Ghizar, Hunza Nagar, Diamer, and Astore lie in the Gilgit division. The administrative centre of Gilgit-Baltistan is Gilgit. People's participation in the political and socio-economic development of Gilgit-Baltistan is ensured through representation on the Gilgit-Baltistan council and elections of 24 members directly and 9 members indirectly in the Gilgit-Baltistan Legislative Assembly.
5. Due to the unique status of Gilgit-Baltistan in the Pakistani constitution, Gilgit-Baltistan has a separate and unique set of procedures and mechanisms compared with other Provinces. At the federal level, the affairs of GB are looked over via the Ministry of Kashmir Affairs and Gilgit-Baltistan (K-GB). All federal transfers for Gilgit-Baltistan are also transferred through the Ministry of Kashmir Affairs and Gilgit-Baltistan.
6. Funding for Gilgit-Baltistan is sourced from federal contributions in the form of development and non-development funds via the Ministry of Kashmir Affairs and Gilgit-Baltistan. Development funds are transferred as block payments under federal PSDP or as financing through vertical programs. Federal contributions to GB are discussed further in this report under the section of GB Budget.

Figure 1: Funds Flow Process for GB



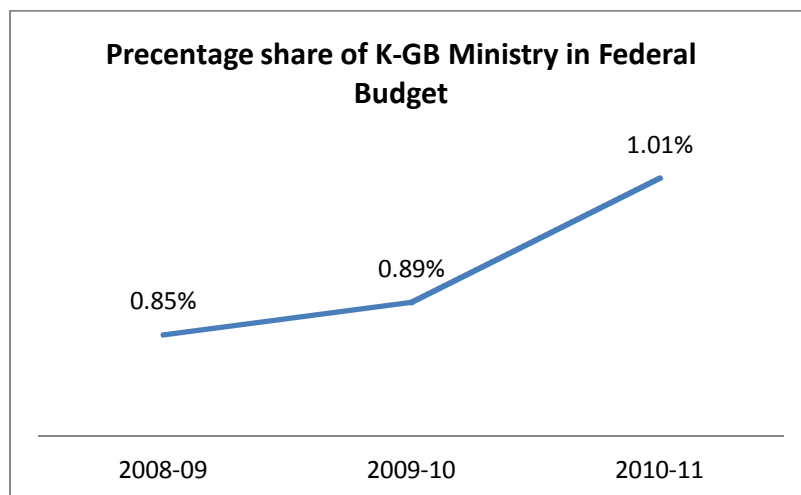
7. The 18th Constitutional Amendment (passed on 18th April 2010) promises to bring provincial autonomy, and was implemented in three phases. Under each Phase, a certain number of line ministries (total of 18) were devolved to Provinces. Phase I (5 ministries) was completed in December 2010, Phase II (5 ministries), in April 2011 and Phase III (8 ministries) was completed by June 2011.
8. This Constitutional Amendment adds to fiscal challenges faced by Gilgit-Baltistan due to its exclusion from the National Financial Commission (NFC) Award. The four provinces of Pakistan are being compensated through an increased share in NFC Award to fund the devolved ministries at the provincial level. However, no similar initiative has been taken to increase the revenue share of Gilgit-Baltistan.
9. Although the Health Ministry was devolved in 2011, the Federal Government agreed to continue its financial support of vertical programs till the next NFC Award (i.e. FY2014-15), in order to ease financial pressure from provincial governments. No clear framework has been presented on how the governments such as that of Gilgit-Baltistan will execute vertical programs at current funding levels beyond 2015, as the fiscal situation of the region is already strained.

Section II – Analysis of Budgets and Expenditure Trends

Federal Allocations

1. The federal budget has increased steadily in the past three years, with a yearly growth of 22% in the FY2009-10 and 14% in the FY2010-11. During the FY2010-11 the federal budget stood at a record level of Rs. 2.3 trillion.
2. The funds for AJK and GB are channeled through the Ministry of Kashmir Affairs and Gilgit-Baltistan to the specially designated areas. The funding for the K-GB Ministry has increased by 65 percent between the FY2008-09 and the FY2010-11, at a higher growth rate than the federal budget. In the FY2010-11, the total funding made available to the Ministry of Kashmir Affairs and Gilgit-Baltistan was Rs. 23 billion.
3. The share of funding for the Ministry of Kashmir Affairs and Gilgit-Baltistan has increased progressively as a proportion of the federal budget – while the share of the K-GB Ministry was 0.85% in FY2008-09, this had increased to 1.01 percent by the FY2010-11. With this continuing increase in the federal budget, the rise in the proportional share of the K-GB Ministry funds has meant that more funds have been made available to the ministry on a yearly basis.

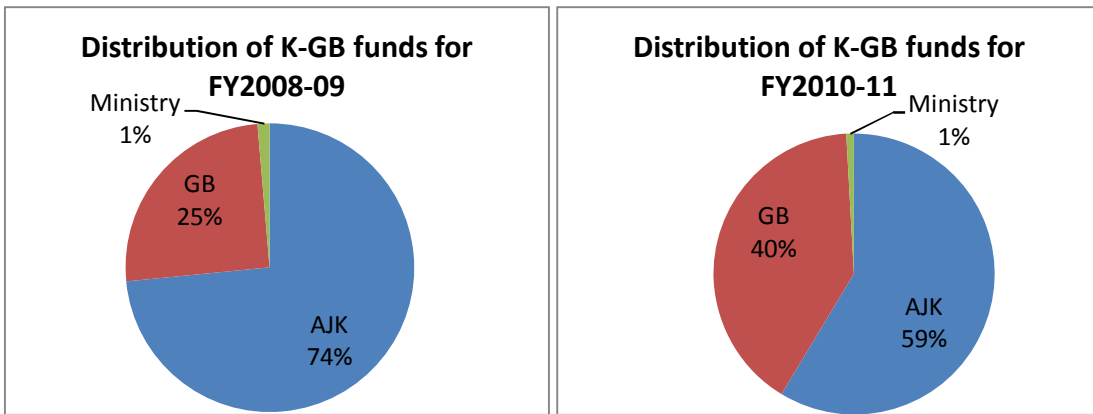
Figure 2: Share of Ministry of K-GB in Federal Budget



4. The funds transferred to the K-GB Ministry from the Federal Government are divided into three streams, namely Kashmir funds, Gilgit-Baltistan funds and the ministry's own share. The figures below represent the distribution of the ministry's fund into the

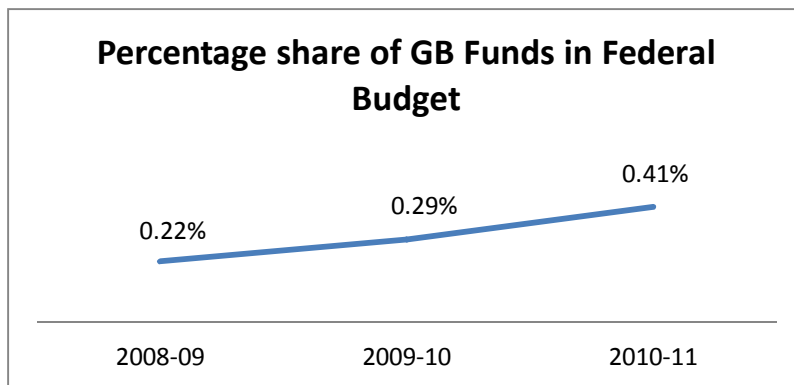
three streams. Gilgit-Baltistan's funding share of the K-GB Ministry has increased from 25 percent to 40 percent. This has meant that an increased share of funds is available to the region. This can be ascertained by the fact that funding for Gilgit-Baltistan, as a proportion of the federal budget, has also increased from the FY2008-09 to FY2010-11. This is detailed in the figure below. It should be noted, however, that the increase in Gilgit-Baltistan's funding is expected to coincide with increased expenditures due to change in the region's status.

Figure 3: Distribution of Ministry of K-GB Funds



- The percentage share of the Gilgit-Baltistan funds in respect to the federal budget has steadily increased over the period from 0.22 percent to 0.41 percent. The increase in the funds availability can be attributed to the provincial status bestowed by the federal government.

Figure 4: Share of the Gilgit-Baltistan Fund in the Federal Budget



Overall Gilgit-Baltistan Budget

1. This sub-section of the report analyses the Gilgit-Baltistan budget in its totality vis-a-vis development and non-development budgets.
2. The table below provides an overview of the budget over the last three years:

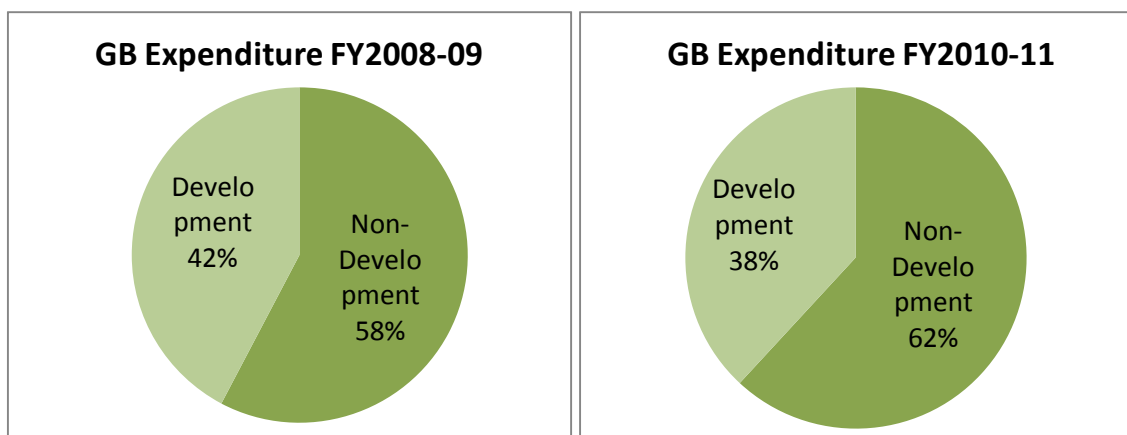
Figure 5: GB Development vs. Non-development Budget for the FY 2008-11

<i>In millions Rs.</i>						
	2008-09		2009-10		2010-11	
	Budget	Actual	Budget	Actual	Budget	Actual
Non-Development	3,546.08	5,248.26	5,900.69	8,366.11	6,404.89	9,447.92
Development	5,617.84	3,839.96	8,375.15	5,339.45	6,584.87	5,818.03
Total	9,163.92	9,088.22	14,275.84	13,705.56	12,989.76	15,265.95

3. In the fiscal year 2010-11, Gilgit Baltistan's budget stood at Rs. 15.26 billion. The total budget has shown a considerable increase since 2008. Since 2008, GB's overall budget has grown by 80% and had shown a yearly growth of 50.8% in 2009 and 11.3% in 2010. GB's non-development Budget grew at an even higher pace with an overall growth of 80% and yearly growth of 59.4% in 2009 and 12.9% in 2010. The development budget also grew albeit at a relatively slower pace, with an overall growth of 51.5% and yearly growth of 39% in 2009 and 8.9% in 2010.
4. Gilgit-Baltistan relies entirely upon federal contributions for its funding. The contributions by the Federal Government are given in the form of development and non-development funds via the Ministry of Kashmir Affairs and Gilgit-Baltistan. At the moment, Gilgit-Baltistan does not have its own means of revenue generation. However, in March 2012, it was announced that the GB government would impose corporate tax and income tax as a means of generating its own income.
5. The primary reason for the drastic increase in the total budget of Gilgit-Baltistan in the FY 2009-10 was the change in the region's status as an independent region. Similarly, this change in the regions status was also the main cause for rapid increase in development and non-development budgets.

6. A contributing reason for the increase in non-development spending in the FY2008-09 and the FY2010-11 was the increase of government employee salaries in 2008 and 2011. On both occasion, salaries were increased exuberantly resulting in additional constraint on the already burdened budget. The increase in resource availability for funding the government operations was not at par with the salaries, hence creating an artificial situation of fiscal constraint, resulting in decreased funds flow to other areas of the budget.
7. One factor for the slowing down of total, development, and non-development budgets in the FY2010-11 would be the devastating floods in Punjab and Sindh provinces that occurred in July 2010. The relief activities for the flood affected areas forced the Federal Government to divert funds from other sources to relief activities. This led to the unavailability of funds for other areas.
8. The combination of higher reliance on the Federal Government, increased salaries expense and re-appropriation of funds, had a negative effect on the development budget. Where the development budget was estimated at Rs. 6.58 billion in the beginning of the fiscal year 2010-11, the actual budget turned out to be 11.6% less. The actual budget in the FY2010-11, however, did show an increase of 8.9% from the previous year.
9. Due to the relatively slow growth of development expenditures as opposed to non-development expenditures since 2008, the share of development spending has decreased while the share of non-development spending has increased. The share of development and non-development spending was 42% and 58% respectively in the FY2008-09, 39% and 61% respectively in the FY2009-10, and 38% and 62% respectively in the FY2010-11. This shows a gradual increase in the share of non-development budget and gradual decrease in development budget in relation to the total GB budget, since 2008.

Figure 6: Gilgit-Baltistan Expenditure



Health vs. Overall Budget

1. This section will examine Gilgit-Baltistan's budget estimates and actual spending against the region's health allocation and spending for the period of FY2008-11. The table below provides a perspective of the GB health and total budgets by segregating them into development and non-development budgets.

Figure 7: GB & Health Development vs. Non-development Budgets for FYs 2008-11

	<i>In millions Rs</i>					
	2008-09		2009-10		2010-11	
	Budget	Actual	Budget	Actual	Budget	Revised
Non-Development	3,546.08	5,248.26	5,900.69	8,366.11	6,404.89	9,447.92
Health	<i>292.107</i>	<i>289.32</i>	<i>300.149</i>	<i>293.32</i>	*	*
Development	5,617.84	3,839.96	8,375.15	5,339.45	6,584.87	5,818.03
Health	<i>25</i>	<i>3.68</i>	<i>128</i>	<i>16.92</i>	<i>81.49</i>	<i>81.49</i>
GB Total	9,163.92	9,088.22	14,275.84	13,705.56	12,989.76	15,265.95
Total Health	<i>317.11</i>	<i>293.00</i>	<i>428.15</i>	<i>310.24</i>		

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

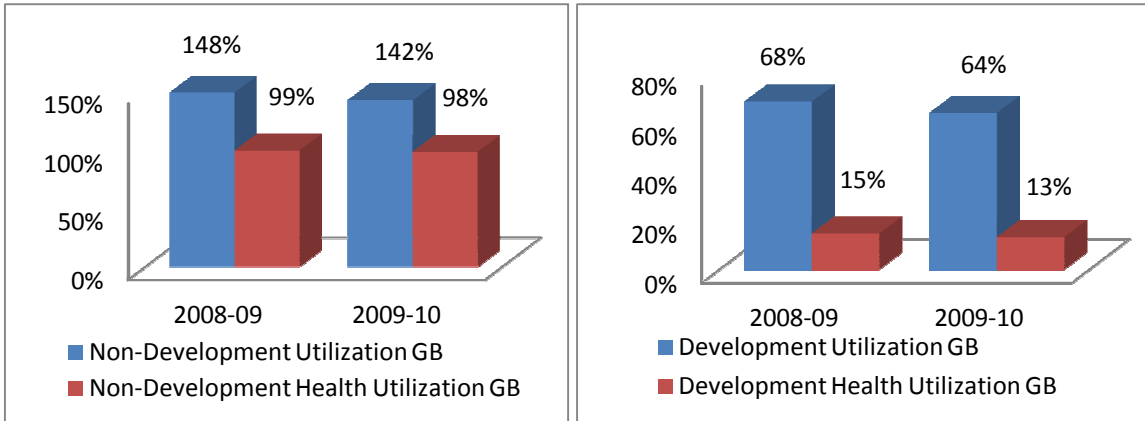
*No non-development health data available for FY2010-11

2. The allocation for health was 3.46% and 2.26% of the total Gilgit-Baltistan budget in the FY2008-09 and the FY2009-10.
3. The health budget did not follow a similar pattern as observed for the total GB budget in the FY2008-10. While the total budget for GB increased by 50.8% between 2008 and 2010, the increase in the combined health budget during the same period was

only 5.8%. Similarly, the non-development aspect of the health budget only increased by 1.28% during this time. The development health budget showed a very different trend compared with the total development budget for GB, by growing by almost 360% over the previous year to 16.92 million.

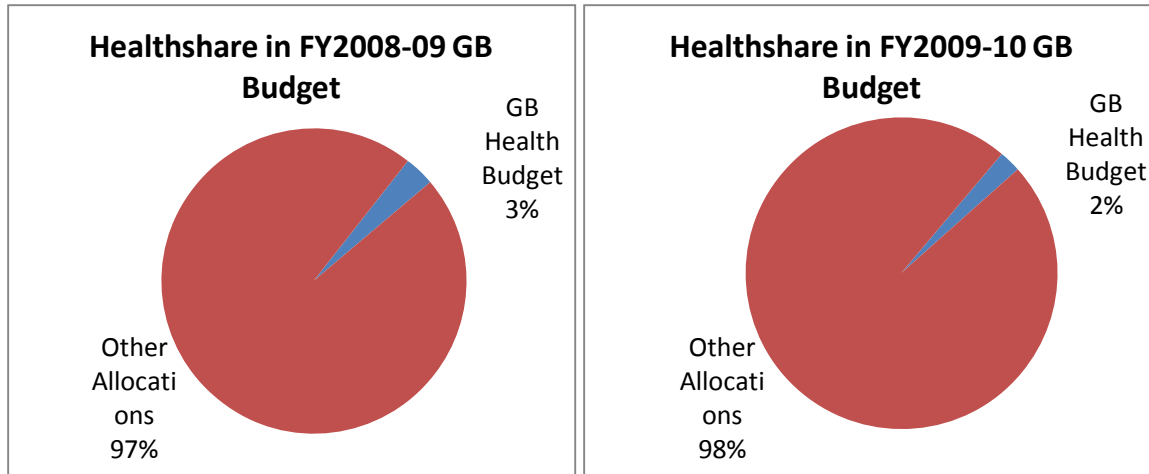
- Another trend observed is the under- utilization of all health funds. Utilization of development health funds, however, is significantly lower with 15% in the FY2008-09 and 13% in the FY2009-10.

Figure 8: Budget Utilization



- The slow rate of growth of the combined GB health budget compared with the rapid growth rate of the GB total budget, has reduced the share of health allocation in the total budget from 3% in the FY2008-09 to 2% in the FY 2009-10. Similarly, the non-development health budget showed a decrease in the share of the total GB budget while non-development health expenditure showed a slight increase in the share of the GB budget.

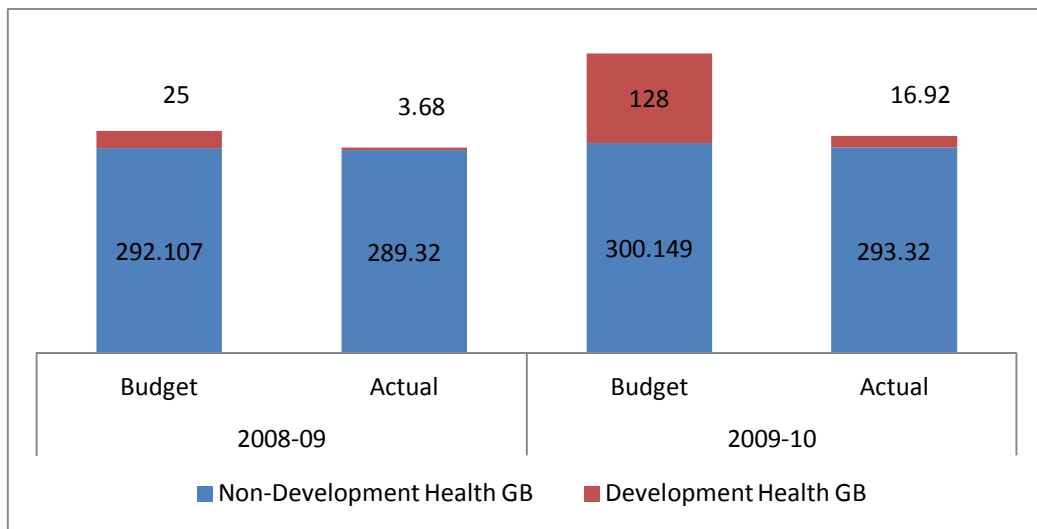
Figure 9: Health Share in Total Gilgit-Baltistan Budget



Development vs. Non-development Health Budget

1. The non-development budget being overstrained with the salaries expense, development-to-non-development health budget and expenditure ratio is an important tool to measure the government’s priorities and sincerity towards the health sector and improvement in health indicators. The figure below provides the disaggregated health budget for GB for the period of the FY2008-10.

Figure 10: Development vs. Non-development Health Budget for Gilgit-Baltistan

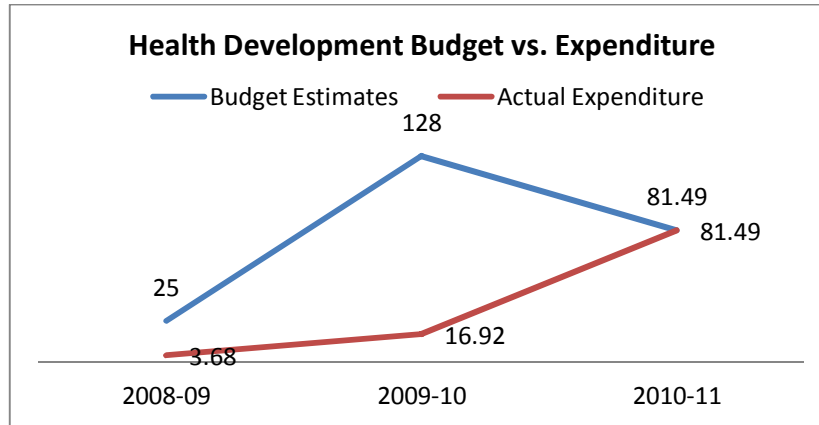


2. The overall budget and expenditure increased as well the non-development health allocation and spending. However, development funding saw a major decrease over the period. This significantly tilted the health allocations and spending in the favor of non-development. Over the period, the percentage of budget allocations for

development has sharply increased from 7.8 percent to 29.9 percent of the total health budget for GB. However, in the same period, the actual spending on development increased from 1.2 percent to 5.5 percent (i.e. non-development constitutes 93.5 percent of the total public health expenditure).

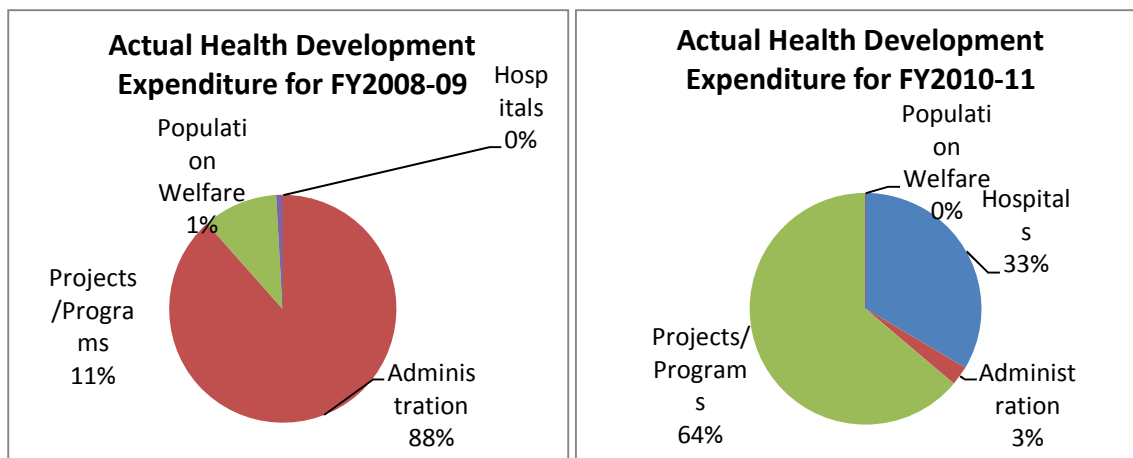
Development Budget

Figure 11: Health Development Budget vs. Actual Expenditure



1. The development budget for Gilgit-Baltistan has seen a mix of activities in recent years. The allocations for the health sector increased four times to Rs. 128 million in the FY2009-10, however a significant decrease was observed in the following year and allocation was reduced to Rs. 81.49.
2. The actual spending increased by twenty-one times over the same period from Rs. 3.68 million to Rs. 81.49 million. However, it is to be mentioned here that the utilization of funds are observed to be low at 15 percent (FY2008-09) and 13 percent (FY2009-10) except in the last year (100 percent funds utilization).

Figure 12: Health Development Spending Priorities



3. The figures above depict the shift in the health development sector priorities for the government. The projects/programs gained the maximum benefit, increasing its share from 11 percent of the health development budget to 64 percent. The increase in project/program spending is due to Rs. 113 million being spent for the Gilgit-Baltistan Health Project (Phase-II) in the FY2010-11.
4. Construction of new hospitals or up-gradation of existing facilities is the second largest spending area in the health development budget. It is to be mentioned here that increased spending on the increasing number of beds, will require a major shift in operating expenses from the non-development budget once the development is complete.

Section III – Key Findings & Recommendation

1. The only source of revenue for the Gilgit-Baltistan province is federal funding, which is provided through two channels; PSDP and block payment to the Ministry of KGB. The funds transferred via the Ministry of KGB are on the discretion of the ministry to be divided between Gilgit-Baltistan and Azad & Jammu Kashmir. The long-term sustainability of this funding mechanism is uncertain.
2. There exists an unpredictable stream of revenue for the GB Government due to a lack of participation in the NFC Award by the newly constituted province which impacts the utilization and credibility of the budget.

3. The Gilgit-Baltistan government is currently not employing Medium Term Budgetary Framework (MTBF) for budgeting and planning. There is a dire need for the policy-making to shift from a single-year to multi-year (medium-term framework) perspective to efficiently and effectively utilize the available funds in coordinated efforts.
4. For successful adoption of MTBF, capacity-building efforts are required, particularly for budgeting & planning personnel in the ministries.
5. It was widely observed that the existing budget classification is not informative beside which it was observed that the functional classification has not been properly utilized in recording and reporting of financial data.. There is a need to improve and encourage the use of recording and reporting mechanisms.
6. A major portion of the operational budget focuses on salaried expenses, hence leaving fewer funds for non-salaried expenses like drugs & medicines and equipment.
7. The increased proportion of funding for the construction of new hospitals or up-gradation of existing facilities in the development budget will increase the salaries and operating expenditure for Gilgit-Baltistan. There is a need to carefully plan the new projects, and map the increase in expenditure with the revenue for sustainability of the project.

ANNEX I

Table 1: Federal and K-GB Ministry Revised Estimates

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

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

Table 2: Gilgit-Baltistan Non-development Budget

Description	Budget Estimate 2008-09	Actual Expenditure 2008-09	Budget Estimate 2009-10	Actual Expenditure 2009-10	Budget Estimate 2010-11	Actual Expenditure 2010-11
General						
Public Service	3,546,083,000	3,696,185,200	5,900,691,000	8,366,111,428	6,404,889,000	9,447,919,115
Social Protection		27,643,963				
Public Order and Safety Affairs		588,346,956				
Economic Affairs		173,084,873				
Housing and Community Amenities		34,369,774				
Health		728,631,737				
Total Non-development for GB	3,546,083,000	5,248,262,503	5,900,691,000	8,366,111,428	6,404,889,000	9,447,919,115

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

Table 3: GB Development Budget

	2007-08		2008-09		2009-10	
	Allocatio n	Expenditu re	Allocatio n	Expenditu re	Allocatio n	Expenditu re
Gilgit						
<i>Development</i>	53.98	52.8	37.76	35.6	47.64	45.4
Diamer						
<i>Development</i>	0	0	0	0	0	0
Astore						
<i>Development</i>	0.29	0.26	8.84	8.84	0.94	0.92
Ganche						
<i>Development</i>	4.365	4.22	2.892	2.2	5.672	5.22
Ghizer						
<i>Development</i>	2.8	2.1	1.94	1.54	2.44	2.24
Hunza						
<i>Development</i>	0	0	0	0	0.2	0.2
Skardu						
<i>Development</i>	0	0	0	0	0	0
Gilgit-Baltistan						
<i>Development</i>	61.435	59.38	51.432	48.18	56.892	53.98

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

Table 4: GB Development vs. Non-development Budget for FY 2008-11

	<i>In millions Rs.</i>					
	2008-09		2009-10		2010-11	
	Budget	Actual	Budget	Actual	Budget	Actual
Non-Development	3,546.08	5,248.26	5,900.69	8,366.11	6,404.89	9,447.92
Development	5,617.84	3,839.96	8,375.15	5,339.45	6,584.87	5,818.03
Total	9,163.92	9,088.22	14,275.84	13,705.56	12,989.76	15,265.95

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



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