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IMPLEMENTATION COMPLETION REPORT
(IDA-36860; TF-50806)

ON A

CREDIT

IN THE AMOUNT OF SDR 79.1 MILLION
(US$100 Million Equivalent)

TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR A

STRUCTURAL ADJUSTMENT CREDIT FOR THE

GOVERNMENT OF SINDH PROVINCE

June 19, 2003

Poverty Reduction and Economic Management
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective)

Currency Unit = Pak Rupees (PKRs)
US$ 1.00 = PKR 57.70

FISCAL YEAR
July 1- June 30

ABBREVIATIONS AND ACRONYMS

AIT	Agriculture Income Tax
AERC	Applied Economic Research Center
ADB	Asian Development Bank
CAS	Country Assistance Strategy
CBR	Central Board of Revenue
CFAA	Country Financial Accountability Assessment
CGA	Comptroller General of Accounts
DAO	District Accounts Office
DFID	United Kingdom Department for International Development
DOE	Department of Education
EPI	Expanded Program of Immunization
FMC	Fiscal Monitoring Committee
GOP	Governtment of Pakistan
GOS	Government of Sindh
GST	General Sales Tax
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
KESC	Karachi Electric Supply Corporation
KPP	Khushal Pakistan Program
LGO	Local Government Ordinances
LHW	Lady Health Worker
MDGs	Millennium Development Goals
MTFRP	Medium-Term Fiscal Restructuring Plan
MTBF	Medium-Term Budget Framework
NGOs	Non-Government Organizations
NSS	National Saving Schemes
NWFP	North West Frontier Province
PAC	Public Accounts Committee
PAD	Pakistan Audit Department
PCA	Provincial Controller of Accounts
PD	Project Document
PHRD	Policy and Human Resource Development
PIFRA	Improvement to Financial Reporting & Auditing Project
PRGF	Poverty Reduction Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
SAC	Structural Adjustment Credit
SAP	Social Action Program
SBP	State Bank of Pakistan
SMEDA	Small and Medium Enterprise Development Authority
SPSC	Sindh Public Service Commission
SPC	Sindh Privatization Commission
SSAC	Sindh Structural Adjustment Credit
UNDP	United Nation Development Program
WAPDA	Water and Power Development Authority

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PAKISTAN
Sindh Structural Adjustment Credit

CONTENTS

Project ID: P075810	*Project Name:* Sindh Structural Adjustment Credit
Team Leader: Ahmad Ahsan	*TL Unit:* SASPR
ICR Type: Core ICR	*Report Date: June 20, 2003*

1. Project Data

Name: Sindh Structural Adjustment Credit
L/C/TF Number: IDA-36860; TF-50806
Country/Department: PAKISTAN
Region: South Asia Regional Office

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Theme: Other economic management (P); Administrative and civil service reform (P); Public expenditure, financial management and procurement (P); Regulation and competition policy (S); Tax policy and administration (S)

KEY DATES

			Original	*Revised/Actual*
PCD:	03/21/2002	*Effective:*		07/17/2002
Appraisal:	04/26/2002	*MTR:*		
Approval:	07/09/2002	*Closing:*	12/31/2002	12/31/2002

Borrower/Implementing Agency: GOVERNMENT OF PAKISTAN/DEPARTMENT OF FINANCE; GOVERNMENT OF PAKISTAN/GOVERNMENT OF SINDH
Other Partners:

STAFF	Current	At Appraisal
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2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: S
Sustainability: L
Institutional Development Impact: M
Bank Performance: S
Borrower Performance: S

	QAG (if available)	ICR
Quality at Entry:		S
Project at Risk at Any Time:	No	

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

Background

National context. The Sindh Structural Adjustment Credit (SSAC) was launched following a period of disappointing economic growth and social development. In the 1980s, Pakistan's per capita growth averaged a respectable 3 percent, but in the 1990s, average per capita growth fell to only 1.2 percent. At the same time, there was little reduction of poverty. Social indicators generally stagnated and did not compare well with indicators in other countries that had similar growth rates and incomes, particularly child mortality, female literacy, primary enrollment as well as other social indicators. The 1990s also witnessed a large accumulation of public debt as annual fiscal deficits averaged 6 percent of GDP. At the end of the 1990s, Pakistan faced a financial crisis, domestic tensions, and an unsustainable level of debt with interest payments consuming half of total tax revenue.

A military government came into power in October 1999, and designed a reform program to modernize Pakistan and its institutions. This government learned lessons from the Social Action Program that was launched in the 1990s, but did not fulfill expectations. A key lesson that emerged was that if the social gap were to be closed, Pakistan would have to improve economic management and governance at the sub-national government level in order to deliver basic social services effectively.

Provincial context. Leading up to the SSAC, the Sindh Province (SP) faced rising poverty, which accounted for up to 35 percent of Pakistan's poor. Eighty-five percent of the population in the five southern districts earned an income of $1 per day or less. A weak and constricting tax base, rising provincial debt, a large inventory of unpaid liabilities, weak financial discipline and a mismatch between the Government of Sindh's (GOS) expenditure priorities and its investment portfolio made it difficult to reduce poverty. A bloated, poorly trained and unaccountable civil service contributed to poor quality of health, education and water supply and sanitation services, as well as inadequate provision of roads and irrigation and drainage.

The SSAC followed a programmatic approach to reform in which subsequent SACs would support broader and deeper reforms. Therefore, this ICR focuses on the achievements through the fulfillment of Board conditions, but also reviews the follow-on program up to the the current date.

Objective

The SSAC focused on the paramount need to improve service delivery and supported the SP's economic reform program to reduce human and income poverty. This program has three pillars: (i) fiscal restructuring and financial management reforms; (ii) improving public service delivery through civil service reforms, decentralization, and reforms in health, education, drinking water and urban services; and (iii) regulatory reforms, privatization and infrastructure improvements. These objectives were responsive to the province's main problems as expressed above.

The SSAC also supports the program expressed in the Interim Poverty Reduction Strategy (IPRSP) that was discussed by the World Bank and IMF Boards in December 2001. The Sindh Province qualified for a provincial SAC based on its commitment to carry out necessary reforms, and thus has demonstrated "client pull." This focus on client pull and the SSAC's fit with other features of the Country Assistance Strategy (CAS) for Pakistan is discussed below.

3.2 Revised Objective:

No revisions.

3.3 Original Components:

The components of the SSAC were consistent with the main goal of the Bank Group's Assistance Strategy for FY2003-2005 which was to support the Government reform program for a transition to a modern Islamic state through a program of analytical services, institutional capacity building, and demand-pull lending. The prior actions that triggered the SSAC were based on the four criteria that the reforms: (i) are complementary in their impact on reducing poverty; (ii) focus on achieving quick, visible improvements in public services (e.g., enrollment, schools, immunization, road maintenance, project implementation, reduction in the number of factory inspections); (iii) have strong champions and reflect actions that are already underway; and (iv) are sustainable. The components of the SSAC that followed these criteria were:

1. Fiscal and Financial Management Reforms
1.1 Fiscal Restructuring
1.2 Fiscal Decentralization
1.3 Improve Financial Management

2. Improving Governance of Civil Service and Public Service Delivery
2.1. Civil Service Reforms
2.2. Public Service Delivery for Education
2.3. Public Service Delivery for Health
2.4. Public Service Delivery for Rural Water and Sanitation
2.5. Public Service Delivery for Urban Services

3. Promoting Private Sector Development and Economic Revival
3.1. Regulatory Reforms
3.2. Building Infrastructure: The Roads Sector
3.3. Agriculture and Irrigation

Each component was a key to a reform program that aimed to reduce human and income poverty. Fiscal management was essential because the budget provides the resources by which the government addresses poverty. For the reform program to be credible, the budget had to reflect the reform program's priorities and ensure sustainable expenditures. Thus, debt restructuring and revenue enhancement were necessarily part of the program. Service delivery was essential to the reform goals and this component required sound targets and monitoring and evaluation to improve governance, another important goal of the program. Thirdly, it was important that the program contribute to growth, without which human and income poverty could not be reduced. In this regard, the SSAC supported improvements to the regulatory environment. To further enhance private sector development (PSD), the SSAC also supported much needed increased public expenditures in operations and maintenance for infrastructure, including rural infrastructure.

The approach of the SSAC embodied the CAS' three strategic engagement principles: 1. Strong client pull to reform and selectivity; 2. A programmatic approach focused on transfer of knowledge and capacity building first, and resources second, in a flexible pursuit of key development outcomes; and 3. Partnerships and outreach.

The SSAC was part of a programmatic approach, which is a sequence of similar credits (three are anticipated) and is consistent with the process of long-term reform laid out in the IPRSP. The programmatic approach offers the flexibility to adapt the program to changing circumstances as well as the multi-year commitment of a reasonable level of budgetary support in order for fiscal and governance reforms to yield results. The triggers for the Bank's assistance strategy are based on measurable outcomes derived from the Millennium Development Goals (MDGs).

3.4 Revised Components:

No revisions.

3.5 Quality at Entry:

ICR – Satisfactory. The SSAC objectives were fully consistent with the CAS, in particular the need for improving governance in the delivery of a wide variety of social services. The improvement in fiscal management and private sector promotion were also key to the success of the reform program. The selection of the Sindh Province as a recipient for a SAC was appropriate given the Province's demonstrated commitment to critical reforms. As a single tranche operation, SSAC conditions were completed prior to disbursement. Section 4 reviews these achievements. One area where the SSAC design was questioned was its broadness. Although they were not part of the core conditionality (and not required for Board approval), there was a wide range of reform actions that included agricultural pricing policy and irrigation rehabilitation, and road construction standards and maintenance. The Bank, however, felt that it was important to present a big picture that included all the key economic sectors, particularly in the case of a first-time, provincial SAC. In this way, Bank management could more fully appreciate the economic priorities of the Sindh province.

The Program Document cited three types of risk: continuity, implementation capacity, and exogenous shocks. Continuity was correctly cited as the greatest risk because the reform effort would face resistance from politicians and civil servants who saw their rent-seeking opportunities disappearing. Consensus building around the reform program from a variety of stakeholders helped to mitigate this risk. The consensus building was part of the one and a half year dialog leading up to the SSAC. While it was identified and partially mitigated, the continuity risk associated with a change in government was somewhat underestimated. Continuity risk, combined with the risks associated with devolution and the new capacity demands it has brought, and the political party conflicts that have arisen, have posed significant threats to sustainability which are discussed below. Conflicts between provincial and district governments have arisen over power sharing, though not as seriously as some other provinces. Another risk was the inadequate implementation capacity at the District level. The reforms outpaced District capacity building and resulted in delays in implementation (see Institutional Development Impact).

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

The achievement of objectives is rated **satisfactory**. This ICR assesses achievements leading up to the fulfillment of Board conditions and the tranche release (July 2001 to July 2002), and reviews the continuation of the Sindh reform program (July 2002 until the date of this ICR). In both phases, the government reform program made significant progress with respect to its three pillars/objectives: (i) Fiscal restructuring and financial management reforms; (ii) Improving public service delivery through civil service reforms, decentralization, and reforms in health, education, drinking water and urban services; and (iii)

Regulatory reforms, privatization and infrastructure improvements. The monitoring indicators under the Sindh reform program derive mainly from the IPRSP and are targets for FY06 (Table 2). These indicators measure long-term improvements and were not expected to be fully achieved with the help of a single SAC, but rather with a series of SSACs. Annex 1 Tables A and B present the achievements as actions prior to Board, which are the core conditions, and the follow-on actions.

Pillar 1: Fiscal and Financial Management Reforms (Satisfactory)

Probably the single most important impact of the SSAC-supported reform program was in halting the decline of and engineering a turnaround in the financial management of the Sindh Province. Before the preparation of the SSAC, the GOS was accumulating large arrears to utilities, and was in heavy debt to the State Bank of Pakistan and to the Water and Power Development Authority (WAPDA). Since the SSAC, much of these debts have been paid off and there is new confidence in the business community that the GOS is capable of effective financial management. Reform champions and an effective public information campaign were key success factors in gaining the needed support for the reforms and achieving the turnaround.

Table 1: Summary Fiscal Accounts of the Government of Sindh

	2000/01	2001/02	2002/03		
	Actual	R. Estimate	MTFRP Adj. Budget	Original MTFRP Target	Revised Projections
Total Revenues and Grants	**61,560**	**72,618**	**83,958**	**81,870**	**80,473**
Federal Transfers	40,103	43,286	47,985	50,519	50,143
Provincial Revenues	15,981	18,375	26,952	23,800	21,605
Tax Revenues	7,523	8,308	10,398	9,512	9,567
Non-Tax Revenues	8,459	10,067	16,554	14,288	12,038
o/w Abiana	633	448		788	567
Federal grants	5,476	10,957	9,000	7,551	8,726
of which KPP grants	948	2,601	2,000	3,000	
OZT grants	4,528	4,286	7,000	4,551	7,019
Others		4,070			1,706
Total Expenditures	**62,895**	**73,866**	**86,933**	**85,703**	**80,741**
Current Expenditures	54,880	65,181	72,318	69,767	69,413
Wages [1/]	23,327	31,787	36,210	36,210	32,589
Pension	3,970	4,591	6,400	5,250	4,000
Operations and Maintenance	5,676	10,778	9,217	8,843	10,885
Interest Payments	10,440	11,028	11,515	12,015	11,643
Subsidies (Food)	3,178	1,504	910	985	1,700
Grants to LG and Investments	7,562	5,493	8,066	6,464	8,596
Development Expenditures & Invest.	**8,015**	**8,685**	**14,615**	**15,937**	**11,328**
Annual Development Program	4,585	3,990	7,000	7,060	4,500
Fiscal Balance	**-1,335**	**-1,248**	**-2,974**	**-3,833**	**-267**
Net Financing	**1,335**	**1,248**	**2,974**	**3,833**	**267**

[1/] Starting FY03, wage controls have improved as province does not allow extra monies to go to districts

Source: Department of Finance, GoS and Bank Staff Estimates

TABLE 2: Monitoring Indicators for the Sindh SAC Supported Program

Indicators	Appraisal	Latest-May 2003	Targets FY06
Macro			
Growth* per annum	3.3%	New Data Not Available	5.2 %
Poverty (Urban Basic Needs)*	19% (1998 PIHS)		16% (FY04)
Rural	37%		31% (FY04)
Public Finance			
Provincial Annual Tax Revenue Growth	-	17% (FY02) 13% (FY03)	15.2%
AIT and irrigation charges collection	-	Static	20%
Share of education and health in current expenditures* (functional classification)	28% (FY 01)	28% (FY02) 30.0% (FY03 budget)	39%
Operations and Maintenance % of all expenditures (economic classification)	9% (FY 01)	14% (FY02 RE) 13.4% (FY03 mission est.)	16%
Development Expenditures of all expenditures (economic classification)	9% (FY 01)	11.8% (FY02) 14% (FY03 budget)	18%
Timely, comprehensive, reconciled fiscal data eventually using modern chart of public accounts (Identification and reconciliation of all expenditures and public accounts)	80% .	90% (FY02) 95% (FY03)	95%
Education and, Health			
Gross primary enrollment rate*	60%	100,000 newly enrolled FY03	80% (FY 05)
Gross Female Primary enrollment rate*	41%		60%
Number of Schools Made* Functional	88%	95% of schools functional by 02	100%.
Teacher Competency Testing and Training*	.	3,901 teachers trained in FY02	101,000 teachers tested, 12,000 trained 60
Infant Mortality Rate*	95		80%
12 to 23 month Immunization *	49%	TB Control access now at 60%	100%
TB Control Access	8%		40%
Births Attended By Trained Personnel*	28%		80%
Population with Access to Safe Drinking Water*	61%		90%
Notified Katcha Abadis (Urban Slums) Regularized*	80%		50%
<u>Infrastructure</u>			
Proportion of Roads Classified in Poor Conditions	70%		15200 km by FY 05
Kilometers of All Weather Farm to Market Roads*	14000 km to		1500 Km channels
Rehabilitation of Irrigation Infrastructure*			0.4 million
Temporary Employment* Generated through KPP civil works.	0.25 million		

Source: GOS and World Bank Mission estimates (May 2003).

The medium term fiscal restructuring plan envisages that provincial tax revenues will increase by 15 percent on average (to 1.0 percent of provincial GDP from 0.6 percent of provincial GDP and remain steady). Though the share of GDP may seem small, this increase is significant over the levels achieved during 1998/99-1999/2000 when tax revenue was a little over 0.6 percent, and is considered favorable because one goal of fiscal policy reform was improved revenue mobilization. Non-tax revenues are expected to increase from 1.0 percent of provincial GDP to 1.4 percent for 2002/03. Despite problems in tax collection in the first months of 2003, tax revenue growth is expected to grow by 15 percent and closely in line the the Medium Term Fiscal Plan's targets (see Table 1). Overall, provincial revenues will increase by around 17 percent, further driven by higher oil and gas royalties.

Expenditures are expected to keep pace with revenues with an initial increase in the deficit and fiscal balance by 2005/06. The largest expenditure category increase over 2001/02 is expected in the areas of development and investment expenditures. These are budget figures, however, and there are implementation difficulties relating to decentralization to the District level, with the Districts having trouble channeling the development funds (which are transferred resources, now 70 percent of the total Provincial expenditures) to development activities in a timely fashion. Overall the picture is mixed with shortfalls in development expenditures compared to the budget, (but still representing an increase in the share of total expenditures). It is essentially a capacity building issue that is addressed below. Nevertheless, the overall provincial development expenditures and investments (including pension fund building) is expected to grow by around 13 percent, i.e. close to 10 percent in real terms. The share of education and health in current expenditures has also increased from 28 percent to 30 percent, with the increase in share taking place in non-salary expenditures.

Pillar 2: Improving Public Service Delivery Through Civil Service Reforms, Decentralization, and Reforms in Health, Education, Drinking Water and Urban Services (Satisfactory)

Early outcome indicators suggest a **satisfactory** performance under this objective. The SSAC supported a program that has been headed in the right direction as generally shown by the monitoring indicators in Table 2. Budget allocations to social sectors and for development expenditures are increasing. In education, improved service delivery is indicated by the enrollment of over 100,000 new students in the province, and reaching the 95 percent level of schools that are functional. In health, TB immunization coverage has reached 60 percent compared with 28 percent before the program. Data on other health outcomes including drinking water and urban services have not been updated since the start of the program. Measures carried out under these areas as well as the details of civil service reforms are provided in section 4.2. Capacity development to support devolution will be key to most areas of program success for the next few years (See Annex Table 1A for more details).

Pillar 3: Regulatory Reforms, Privatization and Infrastructure Improvements (Satisfactory)

Impact under this pillar is difficult to assess because of the lack of recent data on outcomes, though it is probably not very significant as yet. Probably the most important impact however, comes from the streamlining of factory inspections from 23 to 7, thus drastically reducing one of businesses' important nuisances. Infrastructure priorities have been set and represent significant upgrading, are are achievable if the fiscal situation remains sound. In the roads sector, the Communications and Works Department CWD) has allocated 70 percent of its share of the FY 2001-02 maintenance budget to priority roads, and has prepared a larger prioritized list of roads with associated required maintenance. CWD has sent the PPRMS plan (road prioritization plan) to district governments to use this plan to prioritize. CWD is also rationalizing its roads portfolio (budgeted and abandoned) with the aim of prioritizing road expenditures,

rapid completion of on-going works, and managing the throw-forward. CWD is focusing on completion of 350 on-going schemes. Section 4.2 provides a more detailed record of activities under this reform pillar.

4.2 Outputs by components:

Outputs are identified as the actions taken prior to Board presentation and subsequent or follow-on actions as described in the SSAC supervision reports (See Annex Table 1B for more details). Outputs are organized according to the components as they appeared in the policy matrix of the Program Document. These components are almost identical to the reform pillars in the previous section. The overall rating of achievement of outputs is **satisfactory**.

Component 1: Fiscal and Financial Management Reforms

Satisfactory. As part of the SSAC program, the GOS has carried out a number of important measures to improve its fiscal condition and quality of financial management. GOS expanded the tax base and increased provincial tax revenues by 18 percent in FY01 and by an average of 13 percent in FY02 and FY 03 (Table 2). The GOS retired arrears of Rs. 21 billion owed to the Federal Government, private contractors and utilities. A Medium Term Fiscal Restructuring Plan has been adopted to increase provincial revenues, pro-poor expenditures, reduce future expenditure obligations such as debt servicing, and pension obligations. The GOS has provided Fiscal Monitoring Reports to the public that were based on accounts that were more than 90 percent reconciled (FY02) with the Accountant General. The GOS has also set up the Provincial ad-hoc Public Accounts Committee (PAC), made review of audit reports current and opened PAC sessions to the press. GOS has appointed a Provincial Finance Controller to lead financial management reforms. The GOS streamlined financing procedures to ensure timely release of budgetary funds for development expenditures and non-salary health and education expenditures.

Follow-on program (Satisfactory). Agriculture Income Tax (AIT) reforms are under implementation and a Policy and Human Resources Development (PHRD) grant is supporting automation of revenue records, assessment and collection. Overall Medium Term Fiscal Restructuring Program (MTFRP) revenue targets for the province have been achieved, although AIT and abiana (irrigation) charges have been lower than target. Non-salary health and education budgets increased though less than projected. Fiscal decentralization has been proceeding as well under the approved Provincial Finance Commission's Interim formula-based transfers which allow for distributions of funds for recurrent expenditures in a ratio of 60:40, and for development expenditures in a ratio of 30:70, between provinces and local governments, respectively. All district staff salaries have been transferred to district governments. While decentralization is going through start-up difficulties, the GOS has taken important initial steps to make it effective.

Fiscal management has improved in terms of clarifying accounts and audit preparation rules and roles of Provincial and District Accounts Committees (PACs and DACs), though capacity development has been slow because of the shortage of skilled staff for the District Accounting Offices (DAOs). The provincial development portfolio has been mostly devolved and has been streamlined. .

Component 2: Improving Governance of Civil Service and Public Service Delivery

Satisfactory. The GOS implemented the Sindh Public Service Commission Ordinance, which gives the Commission administrative and financial autonomy, tenure and control over all appointments of officials above Grade 11 (previously Grade 17). In education, the GOS increased accountability, access and quality

by (i) expanding the role of the School Management Committees, chaired by parents/Citizens community Board members, to monitor teacher performance and school budget implementation; and (ii) redeploying and recruiting teachers to make viable schools functional; and (iii) setting up the M, R&E cell of the Department of Education and initiating monitoring of schools. In health, the GOS has increased the Expanded Program of Immunization from 39 to 50 percent, set up provincial M&E programs, and strengthened capacity in district health management.

Follow-on program (Satisfactory). The PSC Ordinance was promulgated providing for tenure of commissioners and the tenure of senior officers is publicly available on the GOS website. To give greater credibility to the Sindh Public Service Commission (SPSC), the GoS is now revising procedures so as not to allow the Governor to overrule the SPSC's decisions. In terms of local accountability, all appointment, promotion, and transfer authority of staff in grades 16 and under and their performance evaluation functions have been transferred to the Districts, though it needs to be noted that in practice the provincial Government continues to wield considerable powers. The GOS has given School Management Committees (SMCs) the power to contract teachers in primary and secondary schools. In human resource management, GOS has moved forward with the civil service head count, and there has been some use of contracts along with a successful recruitment freeze.

Education (satisfactory) delivery is improving and is expected to continue to yield significant improvements. Some of the promising developments in the education sector include:

- Enrollment drives have increased primary enrollment by 100,000.
- Free textbooks are provided for all students, increasing from 340,000 books in 2001 to 1,100,000 books in 2002.
- Greater funds to SMCs and the power to recruit teachers.
- Focus on hiring of only female teachers at the primary level (of which one benefit is demonstrating that educating girls can lead to worthwhile employment).
- Major facility/human resource rationalization exercise
- Reduced Teacher absenteeism.

The **health (satisfactory)** sector has also witnessed concrete achievements under the program:

- Immunization program has expanded, including the recruitment of 700 vaccinators.
- Hepatitis B vaccination program has been introduced to cover the entire province.
- Supplementary TT campaign has achieved 86 percent coverage as reported by TPV.
- TB DOTS program coverage has reached 60 percent and the program to cover the remaining eight Districts is underway.
- GOS has substantially increased budget allocations for upgrading Taluka hospitals, as well as district hospitals.
- Incentives have been improved for doctors and paramedics staff who work in rural areas.

The weaknesses were few, but included slow implementation of contracting out health facilities. Communication between the provincial and district governments was also rather slow. District government participation in the design and preparation of the component needs to be strengthened. The weaknesses underscore some of the difficulties in rapid devolution and the importance of capacity building at the District level.

Component 3: Promoting Private Sector Development and Economic Revival

Satisfactory. GOS has streamlined factory inspections by reducing them from 23 to 7 and conducting them in two days. Supervision reports suggest that this reform has been effective and credible. Monitoring of this condition is important to ensure additional hindrances to factories' operations do not arise. The GOS has implemented the Sindh Privatization Commission Ordinance providing a clear mandate to the Commission to privatize a clearly defined list of assets. However, after some initial privatization, progress on additional privatizations has been held up by the absence of the Chairman of the Commission since the new Government has taken over. The GOS is about to appoint a new Chairman though. The establishment of a Road Sector Development Directorate, updating a five-year rolling plan for road maintenance, and developing manuals for design standards and specifications and environmental management has led to a more strategic approach to road development and maintenance. The next Budget will set up a non-lapsable Roads Fund to ensure adequate maintenance resources. In Agriculture, program implementation included increasing farmer/user association involvement in irrigation management and cost recovery, closing the Sindh Agriculture Supply Organization, and promoting private sector seed production by improving its access to public sector produced breeder seeds.

Follow-on Program (Moderately Satisfactory). The reduction of inspections has had the greatest impact on improving the business climate, which has been further improved by establishing a one window facility for paying all provincial taxes in the SITE industrial area. Portfolio rationalization in the roads sector has been reflected in the 2002-2007 Rolling plan. Five new Area Water Boards and 50 farmer organizations have been introduced to improve irrigation management. PR1.4 billion has been allocated for irrigation system rehabilitation.

4.3 Net Present Value/Economic rate of return:

Not applicable.

4.4 Financial rate of return:

Not applicable.

4.5 Institutional development impact:

Modest. With the strong emphasis on fiscal management and public service delivery, the SSAC was heavily geared to institutional development. The program has initiated a major transformation in provincial and district government operations, with higher levels of accountability and transparency at both levels and a major shift of responsibility for government service delivery to the Districts. However, it is still too early in the program to characterize the impact as substantial. The nature of many of the reforms is "top down" consisting of rules changes, reallocations of budget and responsibilities. The necessary capacity to take on primary responsibility for basic social services is still in its early stages of development. The difficulty the Districts are having in simply channeling development expenditures to the appropriate departments is one example. The reforms in financial management will also require capacity building before the institutional impact is secured, as the shortage of skilled District accounting officers (DAOs) demonstrated. The new powers of the SMCs will translate into better management only if SMC training is successful and if their allocated funding reaches them in time. In health, as in education, the Districts do need to be more fully involved and take greater ownership of the course of reform. The next two to three years will be critical to determining whether these changes will lead to substantial institutional development impact. The Bank

supervision matrix reflects the priority of building the necessary implementation capacity.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

Several major factors impeded the economic recovery of the province. There was a drought during 2001-02 that reduced agricultural production and revenue from the AIT. Regional tensions diminished investor confidence and slowed recovery as well. In addition, the elections in October 2002 and the unexpectedly long period for Government formation led to a slowdown in the implementation of the program. Lingering uncertainties with respect to the continuity of the reform program persisted, but these uncertainties are expected to be resolved pending the settling in of the new government.

5.2 Factors generally subject to government control:

Despite the uncertainties, indications are that the GOS is committed to the reform program. The SSAC benefited from the national reform agenda led by the President. Other reform champions included, but were not limited to, the Governor of Sindh, the Minister of Finance and the Minister of Education. The Government was particularly helpful in the success of the SSAC by pushing for larger budget allocations for education and health. The SSAC also benefited from a strong M&E unit and coordination intensified after tranche release.

5.3 Factors generally subject to implementing agency control:

The newness of the SSAC posed a challenge for the Sindh provincial authorities. In the past, operations had been conducted through the central government or by provincial sector departments. Sindh authorities responded well to the opportunities offered by the SSAC and took charge of their own program. The dialog between the Bank and the Sindh provincial Government leading up to the SSAC was essential to a successful operation, especially the sustained dialog at the technical level. The main weak spot in this first SSAC was that the District Governments, which had only recently been formed, were not fully on board, or at least not fully involved in some areas of the program such as the education reforms

5.4 Costs and financing:

The total original credit amount was SDR 79.1 million (US$100 million equivalent). The entire credit amount was disbursed in a single tranche upon effectiveness. The credit was made on standard IDA terms with a term of 35 years, a 10-year grace period, and an IDA service charge of 75 basis points. The borrower was the Islamic Republic of Pakistan which then lent the funds in PAK rupees (also on IDA terms) to the Province of Sindh. The credit proceeds were for general budget support. In addition to increasing social and rural infrastructure expenditures, the GOS invested US$50 million for the prepayment of Federal debt (which carried expensive terms) and the capitalization of the General Provident Fund/Pension Fund.

6. Sustainability

6.1 Rationale for sustainability rating:

The sustainability of the SSAC is rated **likely**, but with some important qualifications. An uncertain rating might be more appropriate, but is not an official rating available to the ICR. The GOS fully completed tranche release conditions and continued its reform program in fiscal and financial management, civil service, education, health sector reforms, rural infrastructure development and regulatory reforms and privatization. As a result, the World Bank Board endorsed, in principle, a program of three SACs for Sindh. Subsequently, the preparation for the second (out of three planned) SAC for the Sindh Province started in FY03. The new Government formally endorsed the Sindh Reform Program in their first Cabinet Meeting in March 2003 and has reiterated this support to visiting Bank staff members and supervision missions. Some highly motivated civil servants have used the SSAC policy matrix as an instrument for continued change in their areas. This suggests some resiliency of the GOS commitment to reform to political changes. Visible, positive outcomes, especially in fiscal and financial management, helped generate considerable goodwill for the reform program within the provincial business community and, indeed, the society as a whole. Government commitment combined with support from the business community suggests that reforms are likely to be sustained.

The qualifications to this rating mean that sustainability is by no means assured. As stated, the program document for the Sindh SAC correctly identified the political risk to the continuity of the program, but underestimated it as well. Political conflicts between parties have arisen as part of the devolution of power to the district level. Although there was a detailed briefing to the provincial cabinet on the reform program, and general agreement with going forward, and Cabinet members and Governors have stated their strong support for the program in discussions with a recent Bank mission, implementation has slowed between January and May. It is not clear that leadership is sufficiently organized to take some of the important and difficult steps in the reform program, though they have stated that the new Government will build record of implementation and important decisions starting from their first budget. There is concern that civil service reforms may not hold as pressure builds on a democratically elected government to deliver tangible benefits to its constituents. The fiscal situation, while substantially improved is still fragile and could deteriorate. Sustainability will require a continued dialogue with the GOS that helps policy-makers view the reform program as a political asset to them. On the positive side, however, the GOS's budget for FY 2003-04, announced a few days ago, broadly follows the Medium Term Fiscal Restructuring Targets of the program. This applies to both aggregate fiscal parameters and in the priority the budget has provided to the social sectors, maintenance, and rationalization of the development portfolio through completing projects. The budget will need closer analysis though.

6.2 Transition arrangement to regular operations:

The types of reforms supported by the SSAC, such as those promoting sub-national governance require years to achieve, but are also expected to be sustained as a new way of doing business. Transparency, and accountability will be ingrained in processes of social service delivery. These processes will require continued support for at least the remaining two years of the plan period. As stated in the section on institutional development impact, building capacity at the District level will be the key to program success and sustainability for the next few years. The Bank and the Government recognize this priority, which is reflected in the policy matrix for the follow-on program and the pre-SSAC2 activities. With the greater degree of democracy in Pakistan, implementation may become more challenging because supporting constituencies for the reforms must be built. However, the reforms are popular and have received favorable reports in the press. A key to sustainability, perhaps the most important one, is that the leading

politicians have started to view the program as beneficial to their political future. This will require continued tangible benefits sooner than later and progress in social service delivery may be the best way to achieve these benefits.

7. Bank and Borrower Performance

Bank

7.1 Lending:

Satisfactory. The Bank conducted a sustained policy dialog with the GOS, which resulted in a meaningful reform program. The program was consistent with the national reform priorities, the Government IPRSP and the CAS. The credit amount was appropriate to a province of Sindh's economic size and the proceeds allowed the GOS the flexbiity to acclerate its pay down of expensive federal debt and a bolstering of social expenditures and the pension system.

7.2 Supervision:

Satisfactory. The supervision process went smoothly before and after tranche release, with regular updates to the policy matrix of the follow-on program. The Bank conducted a major supervision mission in September 2002, just prior to the elections. The supervision report laid out in detail the strengths and weaknesses of the program to date and identified priority actions for continued reform. A further supervision mission was carried out in December 2002 during which the new Chief Minister was briefed on the Sindh Reform Program (SRP). The cabinet endorsed the SRP on March 3, 2003. Senior management also held discussions with the GOS in March 2003 to guage the new government's commitment to the SRP. Finally, a full fledged supervision mission has just concluded their mission and agreed on quarterly implementation benchmarks with the Government

7.3 Overall Bank performance:

The Bank worked effectively with the GOS to carry out a significant reform program that continues to move forward and its overall performance is, therefore, rated as **satisfactory**.

Borrower

7.4 Preparation:

Satisfactory. The GOS was deeply involved in the dialog leading up to SSAC. This technical level dialog combined with the reform support at the top levels of the Government helped produce a strong program. District level officials, however, could have been more involved during the dialog and developed greater ownership.

7.5 Government implementation performance:

Satisfactory. The GOS carried out the Board Conditions expeditiously for a timely tranche release. During the main supervision mission in September, the concerned ministries and agencies showed that they were well-prepared and demonstrated ownership of their provincial reform program. The GOS went beyond core conditions to implement a broader reform program. There have been some shortcomings in the broader program, with concerns raised about the strength of civil service reforms and the fiscal situation.

The GOS maintained an implementation and monitoring unit within the Finance Department, which

functioned well. Monitoring and evaluation arrangements were set up as part of the Federal Government's Poverty Reduction Strategy to track public expenditures, outputs and outcomes. In terms of the flow of SSAC financing, the Central Bank carried out its role of efficiently transferring the credit proceeds to the Sindh provincial government. The auditor also reviewed the conversion of the US$ credit into Pak Rupees at the Province level to ensure full value to the province.

7.6 Implementing Agency:

Satisfactory. All implementing agencies carried out meaningful reform agendas as the achievement of a broad range of objectives has shown. The main areas that need strengthening are in the capacity of and reform ownership by the District personnel.

7.7 Overall Borrower performance:

The Borrower fulfilled all tranche conditions and pursued a strong follow-on program. Despite several negative external factors, the Borrower recommitted to the SRP and all major elements of borrower performance were satisfactory or better, thus, overall borrower performance is **satisfactory**.

8. Lessons Learned

A strong dialog between the Bank and the provincial government at the technical as well as the cabinet level is a key to success for a reform program. The Bank had been in a policy dialogue with the Sindh province for about one and one half years before a lending operation was formally discussed. This approach also maximizes borrower ownership of the reform program.

A high level champion of the policy dialog is needed to win the commitment of technical level civil servants. The provincial Minister of Finance and the provincial Governor all sent signals to the lower levels of government which secured their cooperation with the Bank at the technical level.

If solid borrower ownership of the reform program can be established, then it is advisable to provide financial support (an IDA credit) even considering the risks of lending to a sub-national government preceding an election. The Bank could have waited until after the elections to provide assistance, however, it is clear that the right decision was made to proceed prior to the elections. The advantages were that (i) reform progress was already underway; (ii) the new government would have an already established reform framework to guide them and reduce the likelihood of ill-conceived policies; and (iii) there was an element of obligation to continue a program that had already born fruit.

An accompanying TA project enhances the effectiveness of subsequent SACs. The Sindh province reform program is comprehensive and complex and there were a number of areas where sustained expertise and capacity building were provided by a PHRD grant. This PHRD grant was designed specifically for the SSAC and financed key consultancies and equipment in most areas of the reform program. There was also access to expertise for the financial management area through PIFRA. One area where additional TA will be needed is in the privatization subcomponent, as well as in establishing M&E. It would be preferable if the TA were supported by grant funding.

For projects that support decentralization, it is important to assess beforehand the limits to which laws can be reformed without approval from the central government. For example, the provincial Government agreed to streamlining labor laws, but the approval of eliminating some of the more

burdensome labor protections requires approval from the federal government on which the Sindh province cannot place a timetable.

Subsequent provincial SACs would benefit from greater donor coordination. Improved coordination will help leverage funding for priority activities in future phases of the reform program.

Initially, structural adjustment programs at the provincial level should be broad-based, with increasing focus over time. In Sindh, it was important at the outset to appreciate the larger economic situation and address the key constraints, even if these measures were not part of the core conditionality. Subsequent operations may be more focused.

9. Partner Comments

(a) Borrower/implementing agency:

Additional Chief Secretary
(Finance & Cooperation)

GOVERNMENT OF SINDH
FINANCE & COOPERATION
DEPARTMENT

D. O. No. FD SRP-1(4)/2002

Dated: June 5 2003.

Subject: **SSAC-1 Implementation Completion Report**

Dear John,

Government of Sindh remained under a reform framework for last more than two years, however the pace and direction of the reforms picked up significantly subsequent to the initiation of a dialogue with the World Bank on the possibility of a Structural Adjustment lending by the Bank to support the reforms. Government of Sindh's reform program aimed to gradually improve the government's fiscal position through restructuring and better financial management in order to enable it to finance pro poor expenditures for facilitating poverty reduction in the province. The program also focused on various economic revival activities including infrastructure building, deregulation and privatization for boosting investment in the province.

2. GoS completed all prior actions before the SSAC-1 was presented before the Board and the single tranche disbursement was credited a few days later (July 19, 2002). This credit in the beginning of the financial year enabled the provincial government to begin with a strong cash balance position which in turn provided the space to under take the fiscal restructuring activities such as debt repayment and building of pension fund etc. quite confidently. This also helped the government to make adequate financial releases for various development and non-development priority sectors.

3. Prior to the signing of the credit GoS was able to undertake a number of prior actions in various reform sectors, which facilitated the Government's eligibility for a single tranche adjustment credit. In this context the provincial government was able to undertake some unprecediented reform measures under fiscal restructuring. GoS was able to begin with a tax reform program under which it over hauled atleast two major taxes namely the Property tax and the Stamp duties. The revenue impact of these measures was reflected in the revenues collected in the last two years. The provincial taxes grew by more than 50% from Rs.5.3 billion in FY 00 to Rs. 8.2 billion by FY 02. In addition government was able to reduce multiple liabilities. Debt and deferred liability obligations were lowered by Rs.21 billion in 2 years. Most important was the Government's ability to retire some of the expensive federal loans under the accelerated debt strategy agreed with the federal government through SAC-1

4. Another critical dimension of the reforms was improvements in the allocation and utilization of priority budgets in Sindh, which had not happened with such spotlight before. Based on a year long dialogue with the Bank and within GoS itself the Government was able to finalize a reprioritization program envisaging higher allocations for poverty reducing sectors, such as the non-salary provision for the elementary education, medicine and x-rays, M&R of roads and operational expenditure for water and sanitation. The provincial development program was not only raised but the utilization was improved to 49% over previous year through better focus and attention. And again the ADP allocation for FY03 was increased by 21% and 75% of the budget was allocated for completion of on-going schemes for ensuring expedient completion and operationalization of new facilities.

5. GoS was able to announce the first formula driven revenue distribution award between the province and the districts by end June 02 as an interim award, which was subsequently extended for the entire year. Despite some data constraints the PFC was able to announce an award envisaging transfer of 40% dvisible pool transfers for the current revenue needs of the District Governments and 70% of divisible pool transfers for the development portfolio. The award in a way made the needed funds available to the new district governments for enabling them to carry forward their mandates on the basis of a formula driven revenue distribution mechanism.

6. While the government has to still go a long way for improving the overall quality of accounting and reporting in the province and in the districts however some beginnings have been made under the reforms in the areas of reconciliation of accounts which has improved to over 80% on an average, communication of fiscal reports based on improved accounts, improvements in release procedures etc. It is expected that after the roll out of PIFRA sites in Sindh the quality and reliability of accounts would improve further.

7. The Government has all along recognized the critical importance of civil service reform for improving the overall governance in the province. It has also been admitted that the restructuring of services and reforms pertaining to improving the overall composition and incentive and skills of civil servants would not happen in the short term however in the meanwhile government must initiate reforms where possible. The major high point covered by GoS was promulgation of the Sindh Public Service Commission Ordinance 2001, which amends the Sindh Public Service Commission Act (1989) and provides Members of the Commission with fixed term tenure. Government has also begun some work on data entry of civil servants, capacity development and a better accountability of officers.

8. In education sector the Government was able to assign greater financial and administrative powers to the school management committees including powers to recruit staff on contract for moving towards a decentralized school management system. The allocations for SMCs have been significantly enhanced and the Government plans to strengthen these agencies further through a focused training and skill development program. The Government was able to open approximately 3800 closed schools through indigenous efforts by redeployment of teachers and by recruiting school specific contract staff. The department of education has lately drawn out a strategy paper for moving forward on education reforms in full collaboration with the district governments. Similarly

the Government kept focus on reforms under other public service delivery sectors including health, water sanitation and M&R of roads through better financing, and improvements in budget utilization In the meanwhile GoS plans to undertake capacity development of the finance and planning officers in the district for improving their financial management skills for ensuring a better implementation of the pro poor programs, which have to be now primarily implemented at the local government level.

9. Subsequent to the October elections and till the new government took over the power there was a slight slow down in implementation due to some staff changes etc. By this time the new Government in Sindh has been fully briefed on the program goals and features and it has committed to carry it forward with previous force and where possible even go beyond targets in education and health sectors. The district governments are now fully on board on the program features and despite some initial implementation delays it is expected that the overall targets for FY 03 will be achieved. In this background the Government agrees with the overall analysis of SSAC-1 as well as the observations regarding the continuity risks. However these risks must be evaluated in the background of the fact that this is the first time that provincial governments in Pakistan are working under an intensively debated and packaged reform regime and while there are many difficulties in implementation there are many milestones that have been crossed for the first time.

10. GoS plans to exhibit its commitment through multiple strong actions in the area of fiscal reform including creation of a revenue authority and unification of fiscal functions under the unified command of a finance minister. The PFC is expected to refine the revenue distribution award and the government is committed to better release mechanism by transferring salary funds through Account # 4. These plus many other envisaged activities are expected to cover up some of the earlier delays and restore the Government's commitment to move ahead on the set framework. A framework, which is recognized to be for the good of the people of this province.

11. Government of Sindh acknowledges the support and assistance of the World Bank for making this framework possible and for its focused packaging which can facilitate this government to take it up as its agenda for development and prosperity of its people. We look forward to a strong relationship with the Bank for carrying this agenda forward.

With profound regards

Yours sincerely

Fazal-ur Rehman

Mr. John Wall
Country Director Pakistan & Afghanistan
World Bank
Islamabad

(b) Cofinanciers:

(c) Other partners (NGOs/private sector):

10. Additional Information

NA

Annex 1. Key Performance Indicators/Log Frame Matrix

TABLE A: Outcome Indicators

Outcome Indicator/Matrix	Projected in last PSR	Actual/Latest Estimate
A. Fiscal and Financial Management Reforms		
Objective/Subcomponent	**Prior Actions (SSAC conditions in bold)**	**Post Board Actions (triggers in italics)**
Implement fiscal restructuring to create more fiscal space for poverty reducing expenditures and improve quality of expenditures	**GoS has expanded the provincial tax base by (i) introducing agriculture income tax; (ii) rationalizing stamp taxes by reducing their number and making them ad-valorem; and (iii) enlarging property tax base by increasing rating areas and adding 100,000 units to the base.** Done FY 02. Provincial tax revenues increased by 27% in FY01 and are expected to increase by 14% in FY02. Expenditures were increased for social sectors and infrastructure in FY 01 and FY 02 budget. Non-salary expenditures for key education sector activities were doubled in FY 02 budget from last year. The current budget allocation for health has increased by 16%. The ADP is giving priority to completing on-going schemes by allocating 75% of the ADP. *GoS has retired its arrears and over-drafts (2% of GDP) accumulated over the past decade.*	Deepening of expenditure prioritization based on well-targeted and costed sector strategies and a medium-term expenditure framework. *Provincial revenue collections, AIT and Abiana collections* *Ceilings on wage expenditures* *75% allocation of ADP to completing priority expenditures* *Capitalization of G.P. fund/pension funds and use of G.P. fund* *Net receipts for G.P. Fund capitalization* *Accelerated repayment of expensive debt;* *Provision for severance packages for a VRS.*
B. Strengthening Governance: Civil Service and Public Service Delivery Reforms		
Promoting Professionalism and Merit	Reducing Transfers: GoS has been reducing transfers and the average tenure for senior officers has increased to 15 months, compared to less than 12 months before. Strengthening Discipline: GoS has enforced the Sindh Civil Service Act (1973), the associated Government Rules of Business (1986), and using the new Removal from Service (Special Powers) Ordinance, 2000 to strengthen disciplinary powers. These powers have been used to take actions against more than 600 senior officers including doctors for absenteeism and other charges.	Introduce merit promotion arrangements at district government level (equivalent of the Public Service Commission for recruitment and promotion within district government). (FY03 and 04)
Strengthening Local Accountability	District Governments have been formed, Provincial and District Departments reorganized, and GoS has transferred 270,000 staff to the district Governments (though they continue to be paid by provincial budgets). Contractual Employment and Reducing Absenteeism: The Department of Education has instituted the use of school-specific contracts in recruiting teachers to ensure greater accountability. The Health Department has implemented measures to stop absenteeism. Some 1500 doctors have been served notice and more than 350 doctors removed from service.	GoS will set up the district civil service cadre to work directly under local Governments (FY 03 and FY 04) who will have the authority to hire and fire them. Powers of School Management Committees to be enhanced to increase their role in hiring and removal of teachers, based on vetting by the appropriate local Government (FY 03).

Outcome Indicator/Matrix	Projected in last PSR	Actual/Latest Estimate
Objective/Subcomponent	**Prior Actions (SSAC conditions in bold)**	**Post Board Actions (triggers in italics)**
Improvements in Human Resource Management and Rightsizing the Government	GoS has frozen vacant positions and abolished 12,000 vacant positions in FY 01.	GoS to take actions to eliminate ghost workers, and to develop a VRS scheme, subject to adequate safeguards to prevent adverse selection and rehiring of retrenched staff as per the medium term fiscal plan (FY 03 to 06).
	Rationalizing Provincial Departments and Agencies: The number of provincial Departments has been reduced from 29 to 23. Three departments have been carrying out some right-sizing exercises under which around 831 staff from six departments were moved to the Surplus Pool for redeployment. Around a dozen provincial enterprises and autonomous bodies have been closed down or merged.	Right sizing exercises will be undertaken in all remaining provincial departments as per Cabinet instructions issued earlier (FY 03).
Improving Public Service Delivery: Education		
Improving Access to Education	GoS has launched two enrollment drives in primary education that will raise enrollment by 5%. It has introduced Free & Compulsory Education in 16 talukas in FY02, and will cover all 102 talukas by FY04. **The GoS has made 3,796 schools functional– with 1,858 still closed and to be made functional in FY03-FY04, through teacher re-deployment and new facility-based teacher recruitment.** GoS is providing free textbooks to all rural and urban slum female primary students in government schools. For the 2002 School Year, GoS provided free textbooks to all boys as well as girls in primary schools.	Annual and bi-annual district wide drives to increase enrollment and retention in FY03/FY04. Provide the missing physical facilities to schools as per targets. Extend free textbook program in 2003 school year to all government primary schools. Expand the Free & Compulsory Education policy to all 102 talukas by FY04. Primary net enrollment rates will be increased from 60% to 80% by 2005. The number of out of school children will be reduced from 2.2 million to 1.1 million by 2005. All remaining closed schools to be made functional by 2004 (1,858 remaining will be made functional).
Prepare a good actionable health sector strategy with clear targets		Implement strategy and track progress towards achieving goals and targets as presented in (FY03- FY04).
Strengthen and expand immunization and TB programs	**Strengthen the routine immunization program with GAVI support and expand the EPI coverage of 12 to 23 months of children from 39 percent to 50 percent.** Program for Hepatitis B vaccination initiated in 2 districts and NIDS and SNIDS undertaken with a number of confirmed Polio cases decreasing from 65 in 2000 to 23 in 2001. Supplementary immunization to be undertaken in 16 districts in high-risk areas. EPI directorate strengthening for monitoring & supervision	Annual District Assessment of Immunization Coverage using third party. Expansion of DOTS in NGO/private sector in urban areas in FY03 and FY04. Capacity building of LHWs Malaria Supervisors to provide immunization services (FY03 and FY04). Continue supplementary TT immunization campaigns annually. *Target an increase in immunization coverage of 12-23 months children and two doses of TT* **FY03 - 55%* **FY04 - 65%* **FY05 - 80%* *Expansion of TB DOTS strategy in all districts by 2004 with annual targets--FY03 - 75%; FY04 100%.*

Outcome Indicator/Matrix	Projected in last PSR	Actual/Latest Estimate
Objective/Subcomponent	**Prior Actions (SSAC conditions in bold)**	**Post Board Actions (triggers in italics)**
Improve Health Sector Governance and District Management	DoH is conducting monitoring of absenteeism and 350 doctors have been dismissed. All transfers have been made transparent. Procurement process is being made more transparent and put under scrutiny.	
Improving Public Service Delivery: Rural Water and Sanitation		
Expand and Rehabilitate Rural Drinking Water and Sanitation Schemes on a Sustainable Basis	Adopt/reinforce uniform policy of community participation, involvement and cost sharing as the guiding principle for all RWSS schemes. Provide Taluka Governments adequate and timely funds for the rehabilitation of existing and maintenance of recently built RWSS schemes.	Implement all RWSS schemes with community participation and maintenance arrangements. Mobilize communities to share costs of provision and O&M. Implement five year rolling plan prepared for RWSS schemes that doubles the allocation by FY 04, which is feasible. Improvement in Coverage of Drinking Water from 61% to 80%.
Improving Public Service Delivery: Urban Services		
Improve livability of urban areas through improved efficiency, coverage, and quality of basic infrastructure services in a sustainable manner		Continue improvement of urban slums for the shelter-less urban poor based on recently approved National Policy on Katchi Abadis, Urban Renewal and Slum Upgradation (ongoing). Empowered LGs in place, pursuing high priority development programs (FY 04 – FY 05). Urban areas more livable and better managed (FY 04 – FY 05).
C. Promoting Private Sector Development and Economic Revival		
Regulatory Reforms		
Implement Regulatory Reforms to Improve the Business Climate	Streamline Factory Inspections: **The number of inspections reduced from 23 to 7 for factories (and to 4 for shops) with all visits to take place in two days.** The number of items checked in inspections has been reduced. Regulations limiting opening hours for shops have been repealed. Taking Action Against Harassment and Corruption: Internal management has been strengthened. Disciplinary actions have been taken against staff for harassment against the private sector. Streamlining Labor Laws: The number of labor laws is in the process of being reduced from over 27 laws, regulations and ordinances to 6 laws. These laws which have been jointly developed by the GOS and the Federal Government all require federal ratification	Over the next six month period to develop a monitoring and evaluation system of regulatory reform impact in partnership with Transparency International (FY 03). Further rationalization of regulatory activities and evaluation of the impact of the new regulatory regime (FY 03). Institutional strengthening of regulatory bodies: (i) Building human resources, professionalizing the operating environment, and introducing technology in all aspects of operations; (ii) introducing user fees for regulatory services; and (iii) developing an independent and autonomous regulatory capacity inclusive of all businesses (FY 04).
Promoting public-private partnerships		*Completion of privatization in the following categories of assets (i) lands and other unutilized assets; (ii) state corporations which in many cases are no longer operating; (iii) large enterprises (KWSB assets and sugar mills.*

Outcome Indicator/Matrix	Projected in last PSR	Actual/Latest Estimate
Objective/Subcomponent	**Prior Actions (SSAC conditions in bold)**	**Post Board Actions (triggers in italics)**
Building Infrastructure: The Roads Sector		
Improve returns to investment through (i) better road asset inventory; (ii) better maintenance of roads on a prioritized basis; (iii) updating cost estimates; and (iv) better budgeting to reducing throw forward.	Expenditure Prioritization: CWD has allocated 70% of its share of the FY 2001-02 maintenance budget to priority roads, and has prepared a larger prioritized list of roads with associated required maintenance. CWD has sent the PPRMS plan (road prioritization plan) to district governments to use this plan to prioritize. Rationalization of Existing Portfolio: CWD will complete the rationalization of its existing Development portfolio (budgeted and abandoned) with the aim of prioritizing the ADP road expenditures, rapid completion of on-going works, and managing the throw-forward (Mar- 02). CWD is focusing on completion of 350 on-going schemes.	Setting up of a non-lapsable road maintenance fund dedicated to routine maintenance. The potential sources of funds are expected to include fuel levies, cesses, revenues from tolls and surcharges on heavy vehicles. Its governing board will include representatives of the private sector to monitor the maintenance. (FY 04). Annual total road maintenance allocations at 65% [or more] of requirements. Annual Targets for decrease in overall road user costs based on analysis of percent of roads in Good/Fair/Poor Conditions. Share of provincial roads in poor conditions decreased from 70% to 50%.
Implement Devolution of the Roads Maintenance Program	Implementing Devolution: The CWD has devolved its share of the intra-district road network (approximately 16,020 km) and half the staff (8,475) to the district governments' works and services group of offices. The road maintenance budget has been separated and CWD has sent guidelines to district governments on how to prioritize their share of the maintenance allocation and submit their priorities to be incorporated in the medium term rolling plan for provincial road expenditures.	Prepare a restructuring plan to rationalize staff skill mix and numbers based on post devolution structure of the Works and Services department (FY 03).
Agriculture and Irrigation		
Increase Agriculture Sector Growth and Yields through improvement in Extension and Irrigation Services and Regulatory Reforms	GoS has increased effectiveness of agriculture extension services by (i) taking measures to reduce absenteeism. In the case of extension workers, monthly salary has been made contingent upon at least five farmers (who are changed every month) certifying their presence and contribution; (ii) holding field days and farmer days in villages to make a special effort to disseminate best practice.	Reduce public sector presence by closing down Sindh Agriculture Supply Organization, its Food Department, and the Sindh Seed Corporation, with the staff of these agencies to be assigned to the surplus pool or paid a severance package. Continue program of irrigation infrastructure rehabilitation with greater farmer participation in Area Water Boards under the SIDA and public sector investments. Increase access to the private sector under which private seed companies will get access to breeder seed developed by the provincial public sector research institutes. Higher growth of wheat and cotton crops. Greater private sector participation in produce, inputs, extension services and research. Higher infrastructure rehabilitation and maintenance with indicators Greater commercial viability of research institutes indicated by cost recovery.

Outcome Indicator/Matrix	Projected in last PSR	Actual/Latest Estimate
Objective/Subcomponent	**Prior Actions (SSAC conditions in bold)**	**Post Board Actions (triggers in italics)**
The GoS has increased accountability, access and quality of education through (i) expanding the role of the school management committees, chaired by parents/Citizens community Board members, to monitor teacher performance and school budget implementation; and (ii) redeploying and recruiting teachers to make viable schools functional, and (iii) set up the M, R&E cell of the DoE and initiated monitoring of schools.		(i) Done; (ii) Department of Educations has made 3,800 primary schools functional (10% of current schools) through redeploying and recruiting teachers under private sector management and community involvement; (iii) Monitoring and Evaluation Cell (MR&E) has been set up and it has initiated monitoring of schools.
GoS has (i) increased coverage of immunization services based on a well-targeted program; (ii) strengthened health sector monitoring and evaluation programs; and (iii) initiated a program of strengthening capacity in district governments.		GoS is increasing EPI coverage from 39% to 50% and TB DOTs coverage from 8% to 31%. Provincial M&E programs are being set up and district health management has been strengthened.

TABLE B: Output Indicators

Output Indicator/Matrix	Projected in last PSR	Actual/Latest Estimate
	A. Fiscal and Financial Management Reforms	
Objective/Subcomponent	**Prior Actions (SSAC conditions in bold)**	**Post Board Actions (triggers in italics)**
Implement fiscal restructuring to create more fiscal space for poverty reducing expenditures and to improve quality of expenditures.	**The GoS has adopted a Medium Term Fiscal Restructuring Plan to increase provincial revenues, pro-poor expenditures, and to reduce future expenditure obligations such as debt servicing, and pension obligations on a sustainable basis.**	*Strengthen institutional framework for provincial revenue collection (i) computerizing land and tax records; (ii) using satellite imaging to increase agriculture income tax and land revenues (by end FY 03); and (iii) integrating Excise & Taxation Departments and Board of Revenue (FY 03) into a Provincial Revenue Authority attached to the Finance Department (by end FY04).*
More reliable, comprehensive, timely and accurate information pertaining to provincial and district government financial transactions.	**Adopt a public Financial Management Reform Program** (FMRP) that includes: (a) 100% reconciled provincial and district "Public Financial Statements" (b) elimination of unidentified expenditures and financing (c) institutional strengthening of District Accounts Offices and below (d) implementation of NAM and roll out of PIFRA systems and (e) computerization of payroll. **GoS has produced fiscal monitoring reports that present quarterly statements on revenue collections, and expenditures. These reports are based on improved accounts – with 80% reconciliation of civil accounts.** **GoS has streamlined budget-financing procedures to ensure timely release of development expenditures and high priority non-salary social sector expenditures.** Done (December 2001). Disbursement of high priority expenditures has increased significantly. **Provincial Public Accounts Committee has been formed and is completing the review of the most recent FY00 accounts. The PAC sessions have been opened to the Press and other interested parties.** **Government adoption of a Financial Management Reform Program, including decision to appoint Provincial Financial Controller.**	Completion of Provincial Financial Accountability Assessment and preparation of a time bound Action Plan. *Introduction of the NAM and roll out of the PIFRA computerized system in all districts* *Carry out institutional capacity development plan, including upgrading of DAOs, recruitment and training.* *Incremental improvement in reconciliation of Provident Fund accounts, all assets and liabilities to be achieved 100% by FY2005.* Amendment/enactment of appropriate rules for timely submission of audit reports to provincial and district Public Accounts Committees and for timely review by them. Publication of the annual accounts of the Public Sector Enterprises, authorities and other autonomous bodies with the budget document from FY03. Enhanced oversight role of professionals and citizens in project planning, implementation, and delivery systems for improved efficiency and value for money (FY03). Establish Internal Audit unit for each ministry/department. Annual implementation review of PAC and DAC directives (FY03 and FY 04).
Availability of government financial statement information to the citizens. Improved internal control environment		

Output Indicator/Matrix	Projected in last PSR	Actual/Latest Estimate
Objective/Subcomponent	**Prior Actions (SSAC conditions in bold)**	**Post Board Actions (triggers in italics)**
Shortened procurement periods and reduction in irregularities and complaints	Procurement reform policy adopted under Financial Management Reform Program.	*Revision of provincial procurement rules and manuals, standardizing bidding documents, and establishing an effective mechanism to redress complaints from suppliers, to simplify the process, increase transparency and efficiency, and introduce a code of conduct and ethics for public officials handling procurement (FY03).* *Enact a Procurement Law legislating the fundamental principles of good public procurement (FY04).*
Implement fiscal decentralization	The GoS has unbundled the provincial budget into provincial and 16 district budgets. The Provincial Finance Commission has been set up and will prepare a fiscal award formula for transfers to districts based on population, fiscal efforts, and backwardness.	Provincial Finance Commission Awards have been made with a combination of untied grants and conditional grants to provide incentives to meet sectoral expenditure targets. *Prepare and implement the fiscal decentralization plan (FY 03 and FY 04).* Strengthen district level fiscal monitoring frameworks. Ensure streamlining of funding release procedures to sub-district tiers (Taluqas and Union) of Governments.
B. Strengthening Governance: Civil Service and Public Service Delivery Reforms		
Promoting Professionalism and Merit	**The GoS has promulgated the Sindh Public Service Commission Ordinance, which provides the Commission with administrative and financial autonomy, security of tenure, and associated rules which provides the PSC with control over all appointments of officials over grade 11 instead of only over Grade 17 as previously.**	Extend the autonomy of the PSC to include administrative autonomy, amending its status as an attached department and allowing it to discipline its own staff, removing the option for the governor to overturn its decisions and extending its scope to include contract-based recruitment. Introduce regular monitoring of transfers of officials to make transparent the numbers of transfers and check progress in reducing transfers. GoS will review Civil Service Act and the Rules of Business to see how these can be revised to enforce existing rules that discourage transfers of civil servants before three years (FY 03).
Improvements in Human Resource Management and Rightsizing the Government	Improved Data for Human Resource Management: The Services and General Administration Department has started an initial headcount of civil servants expected to be completed by March 2002 providing data on the order of magnitude of errors in the existing payroll data.	*Conducting a comprehensive civil service census in FY 03 and preparation of human resource data base over FY 04.* *Prepare for the greater use of contract-based employment through legal changes to prevent regularization, ensuring robust establishment and budget controls, and extending the overview provided by the PSC (FY 03).*

Output Indicator/Matrix	Projected in last PSR	Actual/Latest Estimate
Improving Public Service Delivery: Education		
Objective/Subcomponent	**Prior Actions (SSAC conditions in bold)**	**Post Board Actions (triggers in italics)**
Improving Access to Education		Launch an awareness campaign for education.
Improving Quality, Accountability, and Governance	Approve the education assessment system. **School Management Committees (SMCs) have been provided enhanced powers for monitoring teacher attendance and implementation of school non-salary budgets.** All new teachers are being appointed on contracts to specific schools, so that they can be held accountable to the school management committees. Recruitments are merit based and transparent, with private sector and community involvement in carrying out competency tests and interviews. GoS has initiated intensive teacher training program for 20,000 teachers and conducting of teacher competency programs. Initiated partnership for teacher education with IED. District education management has been set up and strengthened. Manual establishing rules and procedures to clarify the functions and responsibilities of the district education staff, guidelines on accessing funds and carrying out monitoring and evaluation responsibilities issued.	Implementation of Provincial Student Assessment System. *Further expand powers of School Management Committees to include hiring and firing decisions (with arrangements for appeal) and strengthen their linkages to the Citizen Community Boards. (FY 03).* Implement teacher training and re-certification program in FY 03 and FY04 and continue partnership with IED. Introduce performance based incentives for teachers. Continue program to strengthen district education administration including setting up and monitoring performance indicators (FY 04).
Improve Monitoring and Evaluation	**Research, Monitoring and Evaluation Cell of DOE has been set up and it has initiated monitoring of schools.**	Strengthen capacity of R&M&E Cell *Third Party Validation Surveys by districts have been completed and district wise service delivery benchmarks established (FY03, FY04) and publicized.*
Improving Public Service Delivery: Health		
Prepare a good actionable health sector strategy with clear targets	Adoption of a Comprehensive Outcome Based Strategy based on National Health Policy into strategy note and implementation plan with defined targets in seven key areas.	
Improve access to health care services by contracting out newly constructed primary health care facilities to NGOs and private sector	GoS has developed policy guidelines for public private partnerships and advertised facilities for public private partnerships.	No construction of new facilities. Contract out facilities to NGOs and private sector (FY 03 and FY 04).
Improve Health sector Governance and District Management		Development of policy guidelines for District Managers. Implement in-service training program for district managers in management, planning and financial management (FY 03). Implement detailed proposal for capacity building (FY 03 and FY 04).

Output Indicator/Matrix	Projected in last PSR	Actual/Latest Estimate
Objective/Subcomponent	**Prior Actions (SSAC conditions in bold)**	**Post Board Actions (triggers in italics)**
Enhance Monitoring and Evaluation Capacity	**EPI Directorate strengthened with additional staff and new monitoring techniques.**	*Strengthen monitoring and evaluation unit at the provincial level Undertake annual district level. Third Party Validation Survey (FY 03 and FY 04).*
Improving Public Service Delivery: Urban Services		
Improve livability of urban areas through improved efficiency, coverage, and quality of basic infrastructure services in a sustainable manner	Establish empowered local government (LG) structures with clearly defined functional responsibilities. Rationalize urban service provision agencies under LGs in 15 common and one City District, remove functional overlaps; assign clear roles and responsibilities. Regularize dweller's rights in 929 slums, complete regularization work in 623, and execute development and improvement work in 486 urban slums through SKAA.	Strengthen LG capacity through staff rationalization, HRD and training; development of systems and procedures (FY 03 and FY 04).
Ensure accountable, transparent & responsive service provision institutions and LGs	Set up public-private partnership bodies for urban development in the Economic Development Council (EDC) under the chairmanship of the Governor with a 50% private sector representation, to facilitate implementation of the GoS's Program for Economic Revival of Karachi (PERK) by cutting across bureaucratic layers and bottlenecks.	Establish effective policy/regulatory oversight for LGs at provincial level; require LGs to publish & disseminate annual reports on performance (FY 03-FY 05). Take decision regarding future institutional arrangements of KWSB, and required actions towards improved service provision.
C. Promoting Private Sector Development and Economic Revival		
Regulatory Reforms		
Promoting public-private partnerships	**The Sindh Privatization Commission has been set up by promulgation with adequate funding and autonomy in partnership with the private sector and the master list of assets to be privatized has been approved**. Carry out an inventory of the assets and enterprises in order to establish the employment, financial position, and fiscal impact of privatization.	Implementation of contracting out the functions of the GOS.
Building Infrastructure: The Roads Sector		
Improve returns to investment through (i) better road asset inventory; (ii) better maintenance of roads on a prioritized basis; (iii) updating cost estimates; and (iv) better budgeting to reducing throw forward.	Communication and Works Department's (CWD)'s stocktaking of road conditions has been carried out. CWD has prepared maintenance backlog estimate and a maintenance prioritization plan. A medium term road maintenance funding plan has been approved under the Fiscal Restructuring Plan. Rationalization of Existing Portfolio: CWD will complete the rationalization of its existing Development portfolio (budgeted and abandoned) with the aim of prioritizing the ADP road expenditures, rapid completion of on-going works, and managing the throw-forward (Mar- 02). CWD is focusing on completion of 350 on-going schemes.	

Output Indicator/Matrix	Projected in last PSR	Actual/Latest Estimate
	Agriculture and Irrigation	
Objective/Subcomponent	**Prior Actions (SSAC conditions in bold)**	**Post Board Actions (triggers in italics)**
Increase Agriculture Sector Growth and Yields through improvement in Extension and Irrigation Services and Regulatory Reforms	GoS has established the Sindh Irrigation Development Authority (SIDA) under which water boards and farmers organizations are being set up to collect higher irrigation charges and then take charge of maintenance, with the technical help of SIDA. The GoS's medium term fiscal restructuring plan also includes sizeable increase in allocations for the rehabilitation of irrigation and increasing water charges to promote more efficient use of this scarce resource. GoS has removed market barriers by lifting restrictions on the internal movement of agricultural commodities.	Rationalize procurement prices by setting wheat and cotton prices at the export parity price. Procurement prices of all other crops at market prices.

Annex 2. Project Costs and Financing

Project Cost by Component (in US$ million equivalent)

Component	Appraisal Estimate US$ million	Actual/Latest Estimate US$ million	Percentage of Appraisal
Budget Support	100.00	100.00	100
Total Baseline Cost	100.00	100.00	
Total Project Costs	100.00	100.00	
Total Financing Required	100.00	100.00	

Project Financing by Component (in US$ million equivalent)

Component	Appraisal Estimate			Actual/Latest Estimate			Percentage of Appraisal		
	IDA	Govt.	CoF.	Bank	Govt.	CoF.	IDA	Govt.	CoF.
Budget Support	100.00			100.00			100.0		

Annex 3. Economic Costs and Benefits

Not applicable.

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle		No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
	Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation					
	July 2001-	*1*	Economist	S	S
	March 2002	*1*	Civil Service		
		1	Financial Mgmt. Specialist		
		1	Human Development		
		1	Private Sector Development		
Appraisal/Negotiation					
	April 2002 -	*1*	Economist	S	S
	May 2002	*1*	Financial Mgmt. Specialist		
		1	Civil Service		
		1	Public Sector Specialist		
		1	Private Sector Development		
		1	Human Development		
Supervision					
	September 2002	*7*	Economists	S	S
		1	Financial Mgmt. Specialist		
		1	Human Development		
		1	Civil Service		
	December 2002	*1*	Economist	S	S
	May 2003	*1*	Economist	S	S
		1	Public Sector Specialist		
		1	Private Sector Development		
ICR					
	December 2002 - May 2003	*1*	Economist	S	S

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US$ ('000)
Identification/Preparation	95.41	307.9
Appraisal/Negotiation	(included above)	(included above)
Supervision		
ICR	10.3	43.9
Total	105.71	*351.8

**Includes labor, travel and other costs.*

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	Rating				
☐ *Macro policies*	○ *H*	● *SU*	○ *M*	○ *N*	○ *NA*
☐ *Sector Policies*	○ *H*	● *SU*	○ *M*	○ *N*	○ *NA*
☐ *Physical*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☐ *Financial*	○ *H*	● *SU*	○ *M*	○ *N*	○ *NA*
☐ *Institutional Development*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☐ *Environmental*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
Social					
☐ *Poverty Reduction*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☐ *Gender*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☐ *Other (Please specify)*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☐ *Private sector development*	○ *H*	○ *SU*	○ *M*	● *N*	○ *NA*
☐ *Public sector management*	○ *H*	● *SU*	○ *M*	○ *N*	○ *NA*
☐ *Other (Please specify)*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance	*Rating*
☐ *Lending*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Supervision*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Overall*	○ *HS* ● *S* ○ *U* ○ *HU*

6.2 Borrower performance	*Rating*
☐ *Preparation*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Government implementation performance*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Implementation agency performance*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Overall*	○ *HS* ● *S* ○ *U* ○ *HU*

Annex 7. List of Supporting Documents

Program Document For a Proposed Credit in the Amount of SDR 79.1 million (US$100 million equivalent) to the Islamic Republic of Pakistan for a Structural Adjustment Credit for the government of Sindh Province, May 28, 2002.

Development Credit Agreement July 10, 2002.

Memorandum of the President on a Country Assistance Strategy for the Islamic Republic of Pakistan, June 24, 2002.

Project Agreement between the International Development Association and the Province of Sindh, July 10, 2002.

Project Status Reports from supervision missions (Project File)

Report and Recommendations of the Provincial Finance Commission, Government of Sindh, Provincial Finance Secretariat, June 2002.

Summary for the Cabinet: Sindh Reform Program Supported By The World Bank's Structural Adjustment Credit, January 11, 2003.