

Report No.

PAKISTAN Sindh: Public Expenditure Review

SOUTH ASIAN REGION
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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank	NGOs	Non-Governmental Organization
ADP	Annual Development Plan	NMR	Neonatal Mortality Rate
AG	Accountant General	NPPI	Norway-Pakistan Partnership Initiative
AIT	Agriculture Income Tax	NSER	National Socio-Economic Registry
ARV	Annual Rental Value	OOP	Out-of-Pocket
ASER	Annual Status of Education Report	OOSC	Out-of-School Children
ASPIRE	Atlas of Social Protection Indicators of Resilience & Equity	OPEC	Organization of Petroleum Exporting Countries
BBSYDP	Benazir Bhutto Shaheed Youth Development Program	OSR	Own-Source Revenues
BCG	Bacille Calmette Guerin	P&DD	Planning and Development Department
BHU	Basic Health Unit	PDMA	Provincial Disaster Management Authority
BISP	Benazir Income Support Program	PEFA	Public Expenditure and Financial Assessment
BOR	Board of Revenue	PER	Public Expenditure Review
BPS	Basic Pay Scale	PFM	Public Financial Management
BSP	Budget Strategy Paper	PGDP	Provincial Gross Domestic Product
CCT	Conditional Cash Transfers	PHC	Primary Health Care
CDL	Cash Development Loans	PIFRA	Project for Improving Financial Reporting and Auditing
CIF	Community Investment Fund	PIM	Public Investment Management
CIP	Costed Implementation Plan	PIMIS	Public Investment Management Information System
CPI	Consumer Price Index	PITE	Provincial Institute of Teacher Education
DE	Development Expenditure	PMIU	Project Management Implementation Units
DGM&E	Director General Monitoring and Evaluation	PMT	Proxy Means Test
DGSE	Directorate General of School Education	POL	Petroleum, Oil and Lubricants
DMIC	Development and Maintenance of Infrastructure Cess	PPHI	President's Primary Health Care Initiative
DOTS	Directly Observed Treatment, Short-course	PPP	Public-Private Partnership
DUHS	Dow University of Health Science	PSLMS	Pakistan Social and Living Standards Measurement Survey
E&LD	Education and Literacy Department	PST	Problem Solving Teams
ECE	Early Childhood Education	RE	Recurrent Expenditure
EFF	Extended Fund Facility	RFA	Revolving Fund Account
FATA	Federally Administrated Tribal Area	RSU	Reform Support Units
FBR	Federal Board of Revenue	SA	Situation Analysis
FD	Finance Department	SAT	Standardized Achievement Test /Student Achievement Test
FMF	Fiscal Management Framework	SBA	Shaheed Benazir Abad
FY	Fiscal Year	SCARP	Salinity Control and Reclamation Program
GDP	Gross Domestic Product	SED	School Education Department
GER	Gross Enrolment Rate	SEDD	
GFMIS	Government Financial Management Information System	SEF	Sindh Education Foundation
GoS	Government of Sindh	SEMIS	Sindh Education Management Information System

GPF	General Provident Fund	SERP	Sindh Education Reform Program
GPs	General Practitioners	SESP	Sindh Education Sector Plan
GST	General Sales Tax	SGPIF	Sindh General Provident Investment Fund
HD	Health Department	SGRRP	Sindh Growth & Rural Revitalization Program
HEC	Higher Education Commission	SMC	School Management Committee
HED	Higher Education Department	SN-DeMPA	Subnational Debt Management Performance Assessment
HIES	Household Income & Expenditure Survey	SOE	State-Owned Enterprises
HIV	human immunodeficiency virus	SP	Social Protection
HR	Human Resource	SPL	Social Protection and Labor
IBRD	International Bank for Reconstruction and Development	SRB	Sindh Revenue Board
ICT	Information and Communication Technology	SSB	School Specific Non-Salary Budget
IDA	International Development Agency	SSSD	Sindh Strategy for Sustainable Development
IFAD	International Fund for Agriculture Development	SSTSA	Sindh Sales Tax on Services Act
IMR	Infant Mortality Rate	STEDA	Sindh Teacher Education Development Authority
KP	Khyber Pakhtunkhwa	STEVTA	Sindh Technical Education and Vocational Training Authority
LCHS	Low cost housing schemes	STIs	Sexually Transmitted Infection
LHW	Lady Health Worker	STR	Student-Teacher Ratio
M&E	Monitoring and Evaluation	STS	Sales Tax on Services
MCH	Maternal and Child Health	SUSSESS	Sindh Union Council and Community Economic Strengthening Support Program
MDA	Ministries/Department/Autonomous Institutions	SWD	Social Welfare Department
MDG	Millennium Development Goals	TB	Tuberculosis
MHI	Micro Health insurance	TFR	Total Fertility Rate
MICS	Multi-Indicator Cluster Survey	TRF	Technical Resource Facility
MMR	Maternal Mortality Rate	TSA	Treasury Single Account
MTBF	Medium-Term Budgetary Framework	UCBPRP	Union Council-based Poverty Reduction Program
NAM	New Accounting Model	UIPT	Urban Immovable Property Tax
NCD	Non-Communicable Diseases	US	United States
NEC	National Economic Council	VTPs	Vocational training programs
NER	Net Enrolment Rate	W&SD	Works & Services Department
NFC	National Finance Commission	WAPDA	Water and Power Development Authority

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This “Sindh: Public Expenditure Review” focuses on provincial finances and their utilization with the objective of identifying possible reforms to expand the resource envelope and ensure better value for money by improving the management and efficiency of public spending. It includes two important components: (i) a detailed analysis of the major revenue challenges and the various expenditures, including development spending and; (ii) an in-depth assessment of how some of the key government priorities are undertaken, such as education, health, and social protection. The review looked at the issues of allocative and operational efficiencies of public finances. In addition, report also observed the element of equity in the expenditures.

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Executive Summary

1. Sindh Province: Unleashing Its Potential

Sindh has the potential to become a high middle-income province, but it lags far behind in terms of economic, social and development indicators. Sindh is the most urbanized of Pakistan's four provinces, with a large population of about 49 million—roughly one-quarter of the population of Pakistan—and is strategically located on the coast with access to the Arabian Sea. Karachi, the largest city and port in Pakistan, is the main financial and commercial hub of the country, and the main contributor to national GDP. Sindh is also the most industrialized province in Pakistan, resource-rich and endowed with the country's largest natural gas and coal reserves. In sum, it has the potential to become a high-growth and high-income region.

Nonetheless, Sindh has yet to translate this potential into commensurate economic and social development. Instead of becoming an economic powerhouse, Sindh's rate of growth has decelerated and is no longer the fastest-growing province in Pakistan. While still contributing 28 percent¹ to national GDP—higher than its share of the total population, at 24 percent—economic growth in Sindh over the past 7 years has fallen behind both Punjab and Khyber Pakhtunkhwa (KP). Although some social indicators in Sindh have improved over the past decade, they lag behind those of comparable countries and even other provinces in Pakistan.

Sindh faces major developmental challenges. Sindh's weak social indicators are partly the result of the inadequate reach and low quality of public service delivery. This in turn points to inefficiencies in provincial government expenditures on both physical infrastructure and public services. While there are many reasons behind poor public sector performance in the province, two key issues stand out: first, the total resource envelope of the Sindh province needs to be increased to meet the financing needs and, second, the quality of public spending both in terms of allocative and operational efficiency could be significantly improved.

This Public Expenditure Review focuses on provincial finances and their utilization with the objective of identifying possible reforms to expand the resource envelope and ensure better value for money by improving the management and efficiency of public spending. It includes two important components: (i) a detailed analysis of the major revenue challenges and the various expenditures, including development spending and; (ii) and in-depth assessment of how some of the key government priorities are undertaken, such as education, health, and social protection. The hope is that by better understanding the constraints, reforms can be designed and implemented to maximize Sindh's potential and promote a more equitable and productive path.²

2. Expanding the Resource Envelope

Significant additional resources are now available from the federal government but these should be complemented with increased revenue from Sindh's own-source revenues (OSR). The resource envelope from the federal government increased significantly following the 7th NFC award in 2010, adding about one-third to Sindh's total previous revenue. While this is a welcome and much needed

¹ World Bank staff estimates.

² The public expenditures, which are analyzed in this report, only cover registered outlays in the budget.

development, on its own, it may not be enough to increase the quantity and quality of provincial infrastructure and public services required to make Sindh a fast growing province.

The Sindh government's total expenditure averaged 6.7 percent of provincial GDP in the period FY08-15, which is insufficient given the multiple service-delivery responsibilities and infrastructure gaps at the provincial level. The Ninth NFC Award is not expected to make any large-scale increase in transfers for provinces. As such, the Sindh government needs to focus on maximizing its own-source revenue (both tax and non-tax revenue) collection. Up to now, own-source revenue (OSR) remains very low despite huge potential for generating income from property taxes and general service taxes (GST) on services. Improved collection of OSR will help to generate much needed additional resources to plug social sector and infrastructure gaps.

There is considerable potential to expand OSR, starting with the Sales Tax on Services. Now that the Sales Tax on Services (STS) is collected by the province, STS revenues have soared, from just PRs 1.1 billion in the FY11 collection to PRs 64 billion in FY16. This is a very positive step and shows the way forward for other potential sources of OSR. However, more can be collected from STS, as the services brought under the STS umbrella so far are only those that have well-defined bases and are easy to tax and collect. Although the Sindh government has now imposed STS on construction, personal care, and professional services, the wholesale, retail, and transport sectors, remain almost entirely outside the tax net. This is because they comprise a large number of small units that are difficult to identify and where access to accurate sales records is problematic. Expansion of the STS tax base to include more challenging sources of revenue will require innovative thinking and management, which in turn will call for attention to be given to improving the Sindh Revenue Board's manpower capacity and technology.

In addition, there are opportunities for increased revenues from other provincial taxes. First among these is the Urban Immovable Property Tax (UIPT), which has significant untapped revenue potential. This tax is levied on property owners but the tax base is badly eroded by numerous exemptions. For example, all government property is exempt from payment of UIPT, as are the properties of religious, charitable and educational institutions. In addition to this erosion of the tax base, UIPT is marred with a large number of structural and administrative issues. These include the gross under-valuation of the annual rental value (ARV) of properties, on which the UIPT is based, and the way in which owner-occupied properties can pay just 10 percent of the normal tax liability. Both these issues create incentives for rampant tax evasion, including commercial properties pretending to be residential and thus paying just 10 percent of the normal commercial property tax rate. Second, Agriculture Income Tax (AIT) also has huge potential, although up to now revenue collection has remained woefully low. If AIT were to be properly applied on all farmers using its "income mode", the potential revenue would be about PRs 4 billion, or 12.5 times the revenue collected at present. If the "land mode" were used the revenue potential would be even higher.

There is also potential to tap user charges to enhance the resource envelope. The Sindh government has not exploited user charges to enhance the resource envelope. User charges as a share of OSR declined from 14 percent in FY97 to less than 1 percent in FY16, which means that the government is effectively giving an "untargeted subsidy" to services that should normally be charged some tax or a fee. An argument could be made to keep user charges on services low (or even at zero) for those services used by the poor, such as primary and secondary education, primary health care, rural water supply and sanitation. However, economic services (such as irrigation, roads, etc.), and tertiary level social and community services could be more adequately charged.

3. Improving the Efficiency of Public Spending

Although the Sindh government has increased its allocations for the key priority sectors in recent years, much of this additional funding has gone towards increased pay, allowances, and pensions of government employees. This means that while total allocations may seem to be increasing handsomely, in fact spending on key inputs into the social sectors remains roughly the same and, as a result, there is little, if any, impact on service quality or coverage. In addition, there are instances where the spending is not on the right kinds of human resources. For example, while there is sizeable pool of secondary school teachers, there continues to be significant shortages of subject specialists, particularly for mathematics and science (see Section 3.7). The large and frequent wage increases led to a sharp increase in wage (and other employee-related) expenditure, which can erroneously be interpreted as adequate spending on high-priority sectors such as provincial infrastructure and service delivery. The reality, however, is that not only significant gaps remain, but also that much higher level of budgetary resources be required in the future to narrow these gaps.

Fiscal rigidities have increased. These wage increases heighten budgetary rigidities, as both wage bill and pension payment increase sharply. This makes future budgetary adjustments even more difficult. While the government acknowledges the inadequacy of allocations for operational and maintenance (O&M) expenditures, the common solution adopted to remedy this budgetary shortcoming is to allocate, every now and then, a block allocation earmarked for O&M. The inadequate allocation of O&M budgets leads to public infrastructure erosion at a much faster rate than if adequate O&M allocations were made on time. As such, much higher level of fiscal resources (provided through block allocations) are required to restore the quality and efficiency of infrastructure.

3.1 The Allocative Efficiency at the Macro Level Is Good

The Sindh “Vision 2030” outlines the priorities of the Sindh government. It is organized according to the thematic areas of poverty, health, education, employment, effective governance, land, water, and infrastructure. This PER analyzes the extent to which the allocation of funds is in accordance with the priorities set out in the “Vision 2030”.

With a significant increase in resources, both from federal transfers and OSR, the Sindh government has had extra fiscal space to enhance expenditure. While a significant portion of this increased fiscal space was consumed by government employee-related spending, the Sindh government was nonetheless able to increase spending on development as well. Government development expenditures grew 2.5 times in real terms in the 6 years from FY09 to FY15, while recurrent expenditures increased 1.7 times in real terms in the same period. This meant that development expenditures as a share of total expenditures increased from 13 to 30 percent in this period.

Nonetheless, government employee-related salaries and allowances have become the largest component of recurrent expenditures, rising from 33 percent in FY12 to 46 percent in FY15. Similarly, government employees’ pensions increased from 7 percent of recurrent expenditures in FY12 to 10 percent in FY15. These increases, which are of a permanent nature, imply that employee-related expenditures will continue to take a sizeable portion of provincial fiscal space in foreseeable future, limiting the room for new developmental initiatives that the provincial government may wish to undertake. In addition, data reveal that these increases in employee-related expenditures have had little or no impact on the quality or quantity of service delivery, or on developmental outcomes.

Despite these increasing budget rigidities, the government was able to increase its operating expenditures. The Sindh government has made progress in its policy goal of increasing spending on operating expenditures, which grew by an annual average of 16 percent from FY09 to FY15, only

marginally lower than the annual rate of increase in overall recurrent expenditures, at 18 percent. These expenditures were allocated to provide better communications, transportation, office consumables, and utilities—expenditure that is generally associated with the quality of public services.

Spending on repairs and maintenance has increased, but levels are still very low. Repair and maintenance funds were used mainly for roads and buildings, plant and machinery, especially in hospitals, vehicles, and furniture and fixtures. The share of these expenditures in overall recurrent expenditure increased from 1 percent in FY09 to 3 percent in FY15. Despite this increase, repairs and maintenance spending remains far below what is needed and the international benchmarks. This implies that the provincial infrastructure and other assets continue to be eroded at a rate faster than optimal. This adversely affects the operational life of public infrastructure and undermines the efficiency of public services.

Expenditure on all the social sectors averaged about one-third of total recurrent expenditures in the 6-year period between FY09 and FY15, but the share is subject to volatility because of the ad-hoc nature of much social protection spending. Recurrent expenditures on education and health increased, while recurrent expenditures on social protection decreased during this period. Over the period, recurrent expenditures on the social sectors increased 3.3 times in nominal terms and 1.9 times in real terms, with the highest increase in health, followed by education.

Education now consumes about one-quarter of total recurrent expenditures. In real terms, public spending on education grew at an average rate of 11 percent per annum between FY09 and FY15, slightly faster than overall real recurrent expenditures, at 9.5 percent annually over the same period. This increase in education sector spending has not been uniform over time. After the passage of 18th Constitutional Amendment, the Sindh government started to increase resources for education and health. Expenditure on education was just 17 percent of total recurrent expenditures in FY12, but this share jumped to 25 percent in FY13, and has remained more or less at this level subsequently.

The health sector is ranked fifth in terms of average resource allocation by the Sindh government over the 6-year period between FY09 and FY15. Health recurrent expenditures increased from 7 percent of total recurrent expenditures in FY09 to 9 percent in FY15. Much of this spending was allocated to health operating expenses, including spending on medicine, repairs and maintenance, and petroleum, oil and lubricants (POL) for generators.

3.2 There Are Issues of Allocative and Operational Efficiency within the Sectoral Level

As mentioned above, in terms of the macro-level allocations for the key social sectors, the Sindh government has increased spending on education and health, but a closer look at disaggregated data reveals issues in regional and needs-based allocations. In addition, further analysis reveals no, or a very weak, relationship between public expenditures and sector outcomes, pointing to low levels of operational efficiency. The following sections provide a brief overview of the operational efficiency issues as they affect the three main social sectors.

3.2.1 Education Spending Inefficiencies

There is considerable inefficiency in primary school distribution. Ideally, there should be a strong positive relationship between the number of schools in a district and the number of students, but in Sindh, this is not the case. For instance, Mitthi ranks first in terms of the number of schools in a district (4,008 schools), but ranks 15th in terms of the number of students in the district (with an average of 37 students per school). Larkana, on the other hand, has the highest number of students per school (187). This suggests that schools are not optimally located to cater to demand. Furthermore, an analysis of

primary school proximity indicates that 48 percent of boys' primary schools and 41 percent of girls' primary schools are located within 1 kilometer of the nearest neighboring primary school of the same gender.

Per-student expenditure is skewed towards relatively wealthier urban districts due to more teachers being located in those districts. Analysis shows that annual per-student expenditure is relatively skewed towards few districts in Karachi Division and Hyderabad district, explaining why the two cities have the lowest student-teacher ratios (STRs), of 18 and 19, respectively. In contrast, annual per-student expenditure in relatively poorer districts, such as Ghotki, Badin and Tando Allah Yar, is less than one-quarter of the expenditure in Karachi. Ghotki, with the lowest per-student expenditure in the province at just PRs 14,673 per student per year, also happens to have the highest STR in the province, at 40 students per teacher. This clearly highlights the inter-district misallocation of teaching staff, which has a negative effect on education sector expenditure, as STR at the two extreme of the developmental distribution of districts is definitely sub-optimal.

Most primary schools lack basic facilities. Despite a strong focus and commitment over the last many years to “complete” primary schools in the province by providing them with basic facilities, the analysis suggests poor state of basic facilities in many primary schools in Sindh. For example, in the Tharparkar (Mitthi) district only 2 percent of primary schools have all four basic facilities,³ followed by the district of Thatta (3 percent). Urban districts such as Karachi and Hyderabad have the largest share of primary schools with all four basic facilities, at 50 and 47 percent, respectively. Overall, there are 12 districts in Sindh where more than 75 percent of primary schools do not have all four basic facilities.

While most teachers have at least a bachelor's degree, far too few teachers have science backgrounds. With the introduction of merit-based teacher recruitment in Sindh, the average qualification of teachers has improved. Eighty percent of teachers now have a bachelor's or higher academic degree. However, only 5 percent of public school teachers have sufficient science or mathematics qualification to teach these subjects to primary school students. The education system spends a large share of its budget on the salaries of teachers with higher qualifications. This shortage of qualified teachers to teach the two compulsory and critically important courses implies that the students may not be getting the adequate level and mix of primary school education for these expenditures.

There is no, or at best a weak, relationship between learning outcomes and public expenditures at the district level. Analysis of total expenditures by district and the learning outcomes of Grade 5 and 7 students on the Standardized Achievement Test (SAT) indicate that there is no apparent relationship between the two. For instance, the overall score for Grade 7 in Mirpurkhas is 28 percent with annual per-student expenditure of PRs 15,000, and in Sukkur, the score is 21 with annual per-student expenditure of PRs 21,000. Even in Karachi, which has the highest per-student expenditure on education, the average SAT score is only 24.

Most importantly, the effectiveness of education expenditure appears to be on a decline. Analysis of the effectiveness of public education expenditure (the relationship between inputs and outputs) achieved by matching data from household surveys at the district level also points towards declining levels of efficiency in public education spending. This analysis indicates that average enrolment in public schools in different districts over time has failed to improve, despite a four to fivefold increase in per-capita expenditures. This provides the clearest evidence that the effective utilization of resources is

³ The four basic facilities required by schools: (i) a fully enclosed boundary wall, (ii) functional toilets, (iii) electricity, and (iv) drinking water.

failing to have an impact on educational outcomes and that the education sector is facing huge challenges in improving quality despite higher levels of funding.

3.2.2 Health Spending Inefficiencies

The pace and breadth of improvements in health indicators have fallen short of expectations, due to operational inefficiencies and unresponsiveness to public health needs. The challenges facing the health sector in Sindh are already daunting, with its high rate of population growth overshadowing the capacity and ability of public health infrastructure to provide quality services and guaranteed access.

Despite being a main target of government policy, and rapid increase in sectoral expenditure, the health sector has not fully succeeded in reducing the urban-rural disparity in access to health services. As such, the huge urban-rural disparity in health indicators in Sindh continues to be a major concern that requires immediate attention in order to improve the health outcomes across the province. Failure to achieve that will imply continue adverse health outcomes, especially for rural households, which comprise more than half the population of the province.

A part of the problem is the inability of the health sector to appropriate deploys and retains human resources of acceptable quality and capacity in rural areas, particularly female health staff. There is a chronic shortage of all categories of female staff and specialists in rural areas, while at the same time the overall sectoral employment is excessively bloated with staff belonging to general cadre and support staff at all levels. This imbalanced staff recruitment and deployment is a prime factor for low efficiency of provincial health sector.

There are major gaps in primary health care coverage even for the urban poor. Karachi has the highest population growth rate in Pakistan, at 3.2 percent per year. The poor living standards in slums need publically financed support if they are to have access to primary health care. With increasing urbanization (and burgeoning urban slums) and an ever increasing pressure on existing health infrastructure and services, major gaps in the coverage of primary health care services have developed, resulting in poor health indicators and repeated outbreaks of infectious disease, including polio.

Weak governance and management is the one underlying issue behind all the ills that plague the health sector. The Health Department in Sindh is faced with an over-centralization of authority, too many vertical programs, and a lack of mechanisms to enhance accountability and transparency. There is also weak oversight of service delivery and no clear M&E framework. Improving sector governance is now all the more important in the post-devolution environment, given that the focus of the mandate has shifted from purely one of service delivery to include the new challenge of the stewardship of the entire health sector.

Real health sector spending is low, resulting in high out-of-pocket (OOP) expenditure, which generally is very regressive. Although primary health care provides a cost-efficient means for disease control and management, this has not been the focus of increases made in health sector financing. There are also serious inefficiencies within the public sector, due to the proliferation of parallel vertical programs, redundant posts, an overly ambitious but sub-optimal district health system, and an input-based financial system. Meanwhile, about 66 percent of total health spending in Sindh is financed through out-of-pocket expenditure made by households with the rest mainly accounted for by public sector sources. Based on households' ability to pay, OOP spending is highly regressively, with the bottom income quintile spending on average 7 percent of monthly household income on health care, compared with the provincial average of 5.2 percent across all quintiles. Medicines account for the largest share of OOP spending, mainly due to their inappropriate prescription by the private sector and their low availability in the public sector outlets.

Within the public sector, the non-salary operational budget at the district level is particularly inadequate, ranging between 17 to 25 percent. Meanwhile, allocations for development expenditures at both the provincial and district levels are heavily skewed towards facility construction, which has high operational cost implications for coming years.

3.2.3 Social Protection and Labor Spending Inefficiencies

While the government seems aims at protecting the poorest of the poor through social protection interventions, there is a no coherent strategy or a targeting mechanism. Currently, Sindh SPL initiatives are conceived, planned, and executed in a piecemeal fashion, scattered across several line departments and autonomous governing bodies. There is no central entity to plan, consolidate, coordinate, and monitor these SPL interventions. Consequently, the SPL sector is replete with duplication, including between federal and provincial programs, inadequate coverage, and major programmatic inefficiencies. There is little or no meaningful consideration of pre-identified SP risks and vulnerabilities, nor are the SPL programs sustainable at current levels of funding. Therefore, a coherent social protection and labor strategy and implementation program is urgently called for.

SPL programs have a limited outreach focussed on a few geographical areas, and cover only a fraction of Sindh’s vulnerable and at-risk population. The number of beneficiaries and services/benefits being offered are too few or too small to have any meaningful impact. In FY15, the most recent year for which data are available, at most only 1.3 million people benefited from SPL interventions, a meager 2.5 percent of Sindh’s population and only 7.5 percent of Sindh’s poor population.

Sindh’s SPL sector is primarily driven by untargeted regressive subsidies, benefiting the non-poor more than the poor due to the former’s greater purchasing power. Most SPL programs either do not target the poor at all, or rely on very loosely defined community-targeting mechanisms. The absence of a central coordinating agency and robust analysis of SP-related risks and vulnerabilities has resulted in a weak understanding of the role of SP interventions. This in turn has led to a plethora of inadequate and inequitable SP programs that have little impact.

Besides its low budgetary allocation, the SPL sector has been further weakened by poor utilization due to weak institutional and administrative capacities. The overall budget utilization pattern against yearly allocations for SP shows regular underspending. The lowest utilization was just 29.7 percent in FY13, although there was a subsequent gradual improvement to 51.8 percent in FY14 and 81.7 percent in FY16.

There is a lack of a long-term focus on SPL policy. The absence of any long-term SPL vision clearly articulated through SPL policy, together with the absence of a resultant strategy, has led to short-termism with regard to issues such as human capital development that in fact require long-term investment. This in turn has resulted in a piecemeal, ad-hoc, and “needs-based” budgetary allocation process and, despite the benefits being insufficient in the first place, allocations have remained largely under-utilized due to low capacity.

3.3 Budget Credibility and Fiscal Risks

The credibility of the budget is low. In addition to the inadequacy of some allocations and the low overall efficiency of public spending, one additional challenge—impacting the transparency of the government’s fiscal operations and the implementation of government policies and programs—is the questionable credibility of the budget. Budget credibility in Sindh is severely undermined by the misuse of contingency budgetary instruments. Pakistan’s budgetary system does not allow any allocation for contingency expenditures. Instead, it allows central and line departments to change the approved budget allocations in response to “emerging situations” provided these changes are to “enhance the efficiency of public spending”. The line departments are allowed to re-appropriate funds from items in their approved

budgets for allocation to other items if there is a sound reason to do so. Similarly, if any line department feels that the budget allocated to it is insufficient to meet its ongoing or emerging expenditure needs, it can ask for a supplementary budgetary grant, which can be granted if approved by the Finance Department (and if approved by the Planning and Development Department [P&DD] in the case of the development budget). Excessive use of budget re-appropriations and supplementary grants reduce fiscal discipline, thwart efficiency, cloud the transparency of the budget, and undermine the right of the provincial assembly to approve budgetary allocations.

There are significant downstream fiscal risks for the government emanating from large scale increase in employee-related expenditure and servicing liabilities of provincial debt. The significant increase in government employee-related expenditure on salaries, allowances, and pensions, has also increased rigidities and fiscal risk. The rapid increase in pension liabilities of the Sindh government over the 6 years from FY09 to FY15 has meant that spending on pensions almost doubled, both in absolute terms and as a ratio of total recurrent expenditures. If the current rate of increase in pension spending continues, which is likely, it will rise from 22 percent of employee-related spending to about 48 percent in 15 years' time.

Besides pensions, the General Provident Fund⁴ has become another significant liability of the Sindh government, as it is now the second-largest component of the government's total debt. The General Provident Fund (GPF) liability that was PRs 12 million in FY72, PRs 836 million in FY87, and PRs 6.5 billion in FY97, and jumped to over PRs 100 billion in FY14. The GPF liability of the Sindh government increased fivefold from FY02 to FY15. Moreover, in FY07, GPF liability was about one-quarter of the total debt of the Sindh government and, in FY15, this liability increased to 35 percent of total debt. If this trend continues, which can be expected, GPF liability will reach PRs 228 billion by 2030. This unfunded nature of the GPF poses another significant risk to the sustainability of public finances in Sindh.

3.4 Development Expenditures: Getting Better Value for Money

While development expenditures have increased, so have the inefficiencies in development budget and expenditure. With a significant increase in resources, both from OSR and federal transfers, the Sindh government has used the extra fiscal space to enhance development expenditures. Government development expenditures grew by 2.5 times in real terms in the 6 years from FY09 to FY15. However, systemic and transitional inefficiencies have also increased, as the system's capacity to adequately plan, program, execute and monitor has not increased in line with the large increase in the development portfolio. Moreover, there is growing political interference in the identification, preparation, approval and execution of development projects, further weakening the Public Investment Management (PIM) System and undermining the efficiency of development expenditure.

In particular, planning and execution of development projects have been found wanting, with major time and cost overruns. Weak planning and implementation of development projects have led to a significantly lower spending than envisaged in budget allocations. Higher allocations indicate that the Sindh government wants to focus resources on major infrastructure, with the goal of spurring economic growth and creating jobs. However, these allocations do not guarantee the desired outcomes, especially in the absence of improvements in the management of these investments, such as the efficiency of allocations and operations through better project selection and implementation. As a result, budget utilization has been very weak. Budget execution is also weak and, in some years, only half of the planned expenditures are undertaken. Therefore, a complete assessment of public investment management (PIM) is required as a prerequisite to focusing on getting better value for money from these investments.

⁴ GPF, or the General Provident Fund account, is a provident fund account that is available for government employees. A government employee can become a member of the GPF by contributing a certain percentage of their salary to the account.

4. Recommendations

Sindh's developmental challenges are undoubtedly huge, but so are the opportunities. The benefits of achieving success in using public funds to help turn Sindh into a regional economic powerhouse that can offer employment and support to all its citizens are huge. Sindh is the most urbanized province in Pakistan and is already a hub of economic activities. In order to achieve its full potential, the Sindh government will need to focus on resource mobilization and enhancing the efficiency of expenditures. The following are some recommendations and policy measures for achieving this goal. The chapters discuss these recommendations in more detail.

Key Areas to be strengthened	Reform/measure in the short term (within 12 months)	Reform/measure in the medium to long term (12 months to 3 years)	Expected Results
Fiscal and Financial Management			
Revenues	<p>Property Tax</p> <ol style="list-style-type: none"> Improving policy and administration by having more realistic valuation rolls, Rationalization of exemptions and tax rates, levying tax on vacant properties, Indexing the tax base, and reducing the differential in rates between owner-occupied and rented properties, and between residential and commercial properties. <p>Agriculture income Tax</p> <ol style="list-style-type: none"> Rationalize exemptions, Indexing the tax base (especially of land tax) Enhancing capacity of the BOR to enable it to better assess tax from the income mode, <p>GST</p> <ol style="list-style-type: none"> Gradually bring commercial and transportation services into the tax net, Merging the professional tax into the GST on services, together with as many stamp duties as possible. 	<ol style="list-style-type: none"> Each level of government to take a much broader and longer-term view of revenue needs and potential collections at the 9th NFC Award. 	<ol style="list-style-type: none"> Bring fiscal transfer mechanism into line with the needs of both levels of government. Expand the own source revenues of the provinces Revamp property tax to raise collection Enhance revenue yields of agricultural income and equity in the tax system. Broaden the base of GST on services
Recurrent Expenditures		<ol style="list-style-type: none"> Undertaking a complete stock-take of public physical assets and infrastructure, noting attributes such as age and usage, and updating this database annually. Drawn up a district-level requirement for repair and maintenance expenditures and link it with between development expenditures and recurrent budgeting to better understand the future spending needs for repairs and maintenance. 	<ol style="list-style-type: none"> It is to ensure that sufficient resources are available for maintaining existing infrastructure so that it pays off in the longer term.
		<ol style="list-style-type: none"> Prepare an HR assessment of the public sector to better understand the skills available, the future HR needs, and 	<ol style="list-style-type: none"> It is to make public sector remuneration system more transparent and improve the

		<p>the skills required to fill those jobs.</p> <p>5. Undertake an actuarial analysis of the pension system to better understand pension costs in the medium to longer term, and use this analysis in the medium-term budget framework to improve its credibility.</p>	credibility of budgetary framework.
	<p>9. Prepare sector strategies and budgets according to required outputs and outcomes of sectors,</p> <p>10. Strengthen the coordination mechanism between recurrent and development budgets i.e. allocate a one-line budget to line departments without hard distinctions between two, and allow reallocation between recurrent and development budgets based on the approved sector strategy.</p>		8. Align budget allocations with medium- to long-term sectoral goals.
	<p>11. Establishment of a Fiscal Management Framework (FMF) to undertake an evaluation of fiscal cost of PPPs.</p> <p>12. Strengthening the SOE monitoring mechanism and establishing an up-to-date database.</p>		9. Assess, monitor, forecast, and report the whole range of fiscal commitments and contingent liabilities ⁵ that can be created by PPPs.
		<p>6. Prepare development framework establishing broad fiscal parameters, development objectives, and priority programs. Carry out consultations with the legislature and the public dissemination of a draft document for public feedback within a given timeline;</p> <p>7. Update and approve a development framework from the Cabinet;</p> <p>8. Develop sector strategies in line with the development framework; and identify priority projects and prepare a consolidated portfolio of pipeline projects.</p>	10. Translate ambitious objectives and targets of Vision 2030 into actions.
	<p>13. Prepare development budgets using the New Accounting Model (NAM) chart of accounts for all public investment projects.</p> <p>14. Development budgets should be appropriated across all relevant elements of the chart of accounts⁶.</p> <p>15. Implement a “Revised accounting procedure for Revolving Fund Accounts (RFA)” for both development partner- and GoS-funded projects. The rules require that project authorities must reconcile and report expenditure to the Accountant General’s (AG) office on a monthly basis,</p>		11. Ensure transparency and completeness of budgets relating to all public investment projects

⁵ We refer to the explicit contingent liabilities, namely those that are subject to a contractual engagement.

⁶ Currently budgets for most projects are lumped into only two items: salaries and operating expenses.

	<p>thus enabling detailed accounting of the RFA funds in the GFMIS.⁷</p> <p>16. Develop an integrated database for public investment projects to have a consolidated view of the progress of public investment projects within the DG M&E in the P&DD.</p> <p>17. Prepare an asset safeguard policy and plan to develop a comprehensive non-financial-asset register at the P&DD.</p> <p>18. Develop an integrated PIM information system (PIMIS) and implemented, with an interfaced created with the PIFRA system for financial data and a PIM reporting framework developed. A PIM monitoring committee should also be established within the P&DD to review development progress and to issue directives for project authorities.</p>		
		<p>9. Use a criteria-based approach for project screening and project approvals.</p> <p>10. P&DD to issue an evaluation framework that will serve all decision nodes in the project screening process.</p> <p>11. Develop protocol for early and extensive engagement of various stakeholders in development budgeting. The stakeholder spectrum will include legislatures, civil society members, media, etc.</p> <p>12. At the project level, P&DD should review the “Manual for Development Project” in light of emerging requirements for projects.</p> <p>13. Develop guidelines to comply with PC-1 requirements.</p> <p>14. Provide legal cover (P&DD notification) so that DG M&E⁸ can ensure compliance with PC-III (cash flow projections), PC IV (project completion) and PC-V (monitoring project outcomes).</p>	<p>12. Ensure systematic decision-making, planned selection and enable policy makers to evaluate the opportunity costs of projects.</p>
Education	<p>19. Rationalize the recruitment policy</p> <p>20. Ensure outcome-based education expenditures; and</p> <p>21. Review school specific non-salary budgets (SSB) and school management committee (SMC) interventions</p>		<p>13. An adequate and equitable distribution of teachers, particularly at the primary level</p> <p>14. Ensure that funds are available in a timely manner and are effectively utilized.</p>
Health	<p>22. There are several positive programs underway, including the introduction of subsidized user charges, and results-based financing in disadvantaged districts, with</p>		

⁷ RFA is a designated bank account (notional) under the Treasury Single Account (TSA) concept generally used for large projects, where single line transfer is made into the RFA and, thus, no break downs of the budget or expenditure are available in the GFMIS. The detailed accounting is undertaken by the project authorities.

⁸ DG M&E is part of P&DD responsible for project monitoring

	<p>support from independent monitors.</p> <p>23. Successful evidenced-based pilots of the LHW program to provide neonatal care, childcare, and nutritional support have been implemented in rural Sindh, but the lessons learned have yet to be mainstreamed. Moreover, alternative outreach strategies are needed for remote areas not covered by LHWs.</p> <p>24. Pilot programs using GPs in urban areas have been launched by NGOs covering NCDs, TB DOTS, family planning, and STIs and have proved successful. However, once again the lessons learned from these pilots have yet to be scaled up into a systematic strategy.</p> <p>25. Develop a comprehensive pharma strategy to avoid issue like proliferation of shadow pharmacies, inappropriate prescriptions by medical practitioners, and the relatively low use of recommended and cost-effective generic medication, as well as the supply management issues, such as a high frequency of stock-outs, low quality parameters in purchasing, and a lack of transparent checks in the management of inventories.</p> <p>26. Regulatory work has been initiated by the Sindh Blood Transfusion Authority in the area of registering blood banks. Similar work also needs to be extended to diagnostic facilities, private health service providers, and shadow pharmacies, and will require the setting-up of a new regulatory authority.</p>		
<p>Social Protection</p>	<p>27. Existing SP programs/interventions need to be reviewed for an increased focus on the marginalized groups (i.e., rural poor, women) and alignment with key policy objectives.</p> <p>28. New interventions aimed at reducing inequality and promoting equity, such as CCTs for health and education, and labor-market programs designed for the most marginalized, should be introduced with a particular focus on human capital development.</p> <p>29. All cash-based SP interventions should be brought under a unified targeting and disbursement mechanism.</p> <p>30. Review the distributional impact of untargeted subsidies across economic group quintiles. Develop an action plan to phase out untargeted subsidies based on outcomes of the analytical review.</p> <p>31. Develop mechanisms for better targeting of subsidies that cannot be</p>	<p>15. Under an appropriate legal framework, establish a central SP entity, such as an SP Authority or Board, entrusted to consolidate, coordinate and monitor SP portfolio in Sindh.</p> <p>16. Initiate the evidence based SP policy formulation process, either through the newly formed SP entity, or in the interim, under the P&DD, ensuring adequate stakeholder consultation, analysis of risks and vulnerabilities, clear articulation of SP vision; identification of key policy objectives (such as equity, resilience, social cohesion, gender equity and opportunity) and prioritized intervening areas.</p>	<p>15. Consolidate and coordinate the SP sector under a unified policy framework, duly supported by a responsive institutional and implementation arrangement.</p> <p>16. Equitable growth (lessening the capability deprivation) should be the focus of Sindh SP policy reform agenda.</p> <p>17. Rationalization of general subsidies and, possibly provide targeted subsidies to the most vulnerable, while using the freed-up resources towards core SP programs.</p> <p>18. Increase coverage to the poorest of the province.</p>

	<p>phased out. Explore possibilities for targeting through the PMT score database (NSER)</p> <p>32. Review and analyse the targeting mechanisms of existing SP interventions and introduce unified targeting through the national poverty database (NSER).</p> <p>33. Develop data-sharing and coordination mechanisms between the provincial and federal governments and, subsequently, with provincial line departments.</p>		
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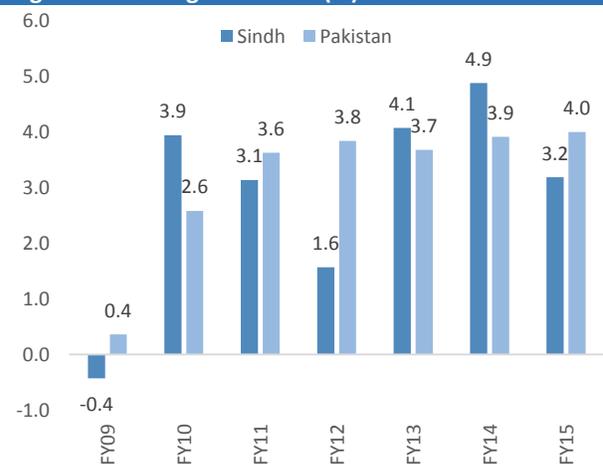
Chapter 1: Macroeconomic and Fiscal Trends

1.1 The Socioeconomic Profile of Sindh

Sindh Province is the most urbanized of the four provinces that comprise Pakistan and is endowed with many of the characteristics of a high-growth region. The province has a large population of about 49 million—roughly one-quarter of the population of Pakistan—and is strategically located on the coast with access to the Arabian Sea. This means that Sindh has the potential to become one of the largest logistical and business hubs in South Asia, with its two major ports of Karachi and Bin Qasim. Karachi, the largest city in Pakistan, is the main financial and commercial hub of the country, and the city therefore makes the largest contribution of all Pakistani cities towards national GDP. While Sindh is the most industrialized province in Pakistan, it is also resource-rich and endowed with Pakistan’s largest natural gas and coal reserves.

However, despite these attributes, Sindh has yet to succeed in converting its potential into commensurate economic and social development. In fact, over time Sindh has ceded its status of the fastest-growing province in Pakistan to Punjab. While still contributing 28 percent⁹ to national GDP—higher than its share in the country’s total population, at 24 percent—economic growth in Sindh over the past 7 years has fallen behind that of Punjab and Khyber Pakhtunkhwa (KP). Over the past 10 years, the provincial GDP of Sindh has increased at an annual average of 3.7 percent. This partly reflects the general slowdown of the national economy (which grew at an average rate of 3.8 percent during 2009-15), and partly the result of natural disasters that the province has had to endure, including devastating floods in 2009-10 and 2010-11 (Figure 1.1).

Figure 1.1: GDP growth rate (%): Sindh and Pakistan

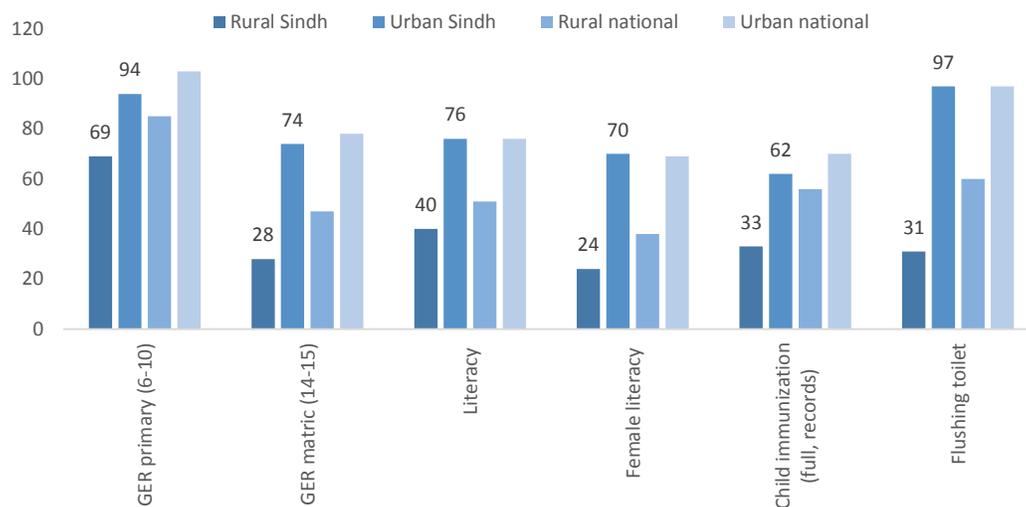


Source: Data from the Government of Sindh.

Social indicators in Sindh, as in the rest of Pakistan, have improved over the past decade, but still lag behind those of comparable countries and regions. In many cases, Sindh performs below the national average and the rate of improvement has almost stalled. Being the most urbanized province in Pakistan, Sindh has relatively better access to piped tap water and better access to assisted births for expectant mothers, but other development indicators are not so positive. Urban Sindh is similar to the urban national levels for most indicators but, in contrast, rural Sindh is well below rural national levels across all indicators.

⁹ World Bank staff estimates.

Figure 1.2: Selected social indicators, 2014-15



Source: PSLMS 2014-15

For example, the percentage of births handled by a skilled health worker is highest in Sindh, at 60.5 percent compared with 52.1 percent for Pakistan as a whole. However, the infant mortality rate, at 82 per 1,000 live births, is also the highest in Pakistan (average 74 per 1,000 births), indicating the poor performance of mother and infant health services in the province. The literacy rate (for the population of 10 years old or older) was only 60 percent in 2015, lower than 63 percent for Punjab, but higher than 53 percent for Khyber Pakhtunkhwa and 44 percent for Baluchistan. The gross enrolment rate of Sindh is below the national average and is the lowest among all of Pakistan's provinces. The ratio of out-of-school children aged 6-15 has also failed to decline from a level of above 35 percent over the past decade. Meanwhile, the contraceptive prevalence rate is only 30 percent compared with 35 percent for Pakistan as a whole (Figure 1.2).

In addition, gender and urban-rural disparities continue to be very wide, with huge gaps in social indicators between urban males and rural females, and little improvement seen over the past decade.

For example, in FY05, the primary school gross enrolment rate (GER) for urban males was 103 percent, while that for rural females was just 54 percent—a huge gap of 59 percentage points. Similarly, the literacy rate varies from 62 percent for urban males to just 28 percent for rural females. To better understand these wide gaps, we have disaggregated them into their regional (urban-rural) and gender components (Figure 1.3a). This breakdown indicates that regional disparities are more pronounced than gender disparities. For example, from a total gap of 59 percentage points in primary school GERs between urban males and rural females, 40 percentage points are due to regional inequalities, while the remaining 19 percentage points are accounted for by gender disparities. A similar weighting towards regional inequalities holds true for other social indicators.

Figure 1.3a: Sindh social disparities, FY05

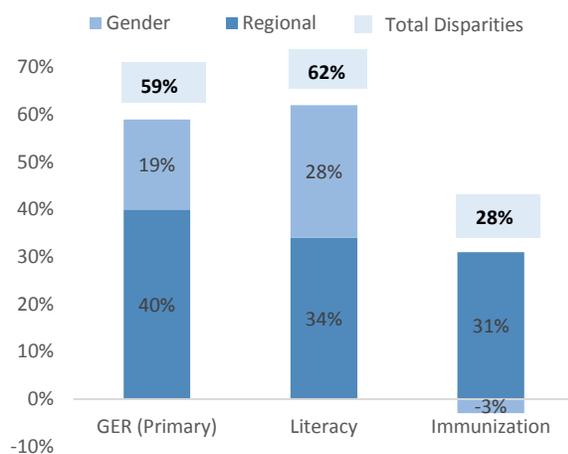
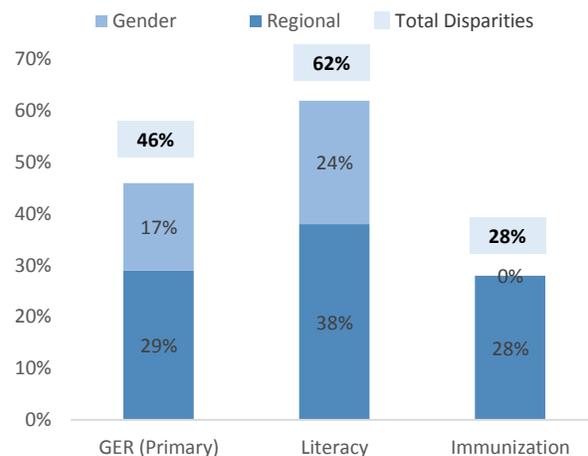


Figure 1.3b: Sindh social disparities, FY15



Source: World Bank staff calculations based on PSLMS data.

The regional and gender disparities have narrowed over time, but not to the desired level. Over the past 25 years, public policy has focused specifically on reducing regional and gender inequalities, with some success. Although there has been significant variation in the progress made in narrowing regional and gender disparities across social indicators, on average regional disparities have narrowed more than gender disparities. By FY15, for example, the overall gap between urban males and rural females dropped from 59 percent in FY05 to 46 percent, i.e., by 14 percentage points. The regional disparity in primary school GER narrowed by 11 percentage points, whereas the gender disparity declined by only 2 percentage points (Figure 1.3b), while there was no change in the gaps in the literacy rate and the immunization rate. However, the components of the gaps have changed: for the literacy rate, the regional gap increased, while gender inequalities declined, whereas for the immunization rate the situation was reversed.

Despite the poor performance in social indicators, significant progress has been made in poverty reduction over the past 12 years. Based on the FY14 Household Income and Expenditure Survey (HIES), the poverty line for Pakistan was estimated at PRs 3,030.32 per adult equivalent per month, which translated into a national poverty incidence of 29.5 percent in 2014. In absolute numbers, and based on population estimates of 180 to 200 million in FY14, some 6.8 to 7.6 million households (or 53 to 59 million individuals) were classified as poor. Based on these new poverty metrics, about 34.2 percent of the population in Sindh lives in poverty.

Sindh's poor social indicators are both an outcome of, and contributor to, high poverty levels in the province. The high incidence of poverty and low private-sector participation in service delivery together give rise to poor social indicators, as a result of the inadequate reach and low quality of public service delivery in Sindh. This in turn points to inefficiencies in provincial government expenditure on both physical infrastructure and public services.

The poor quality of public expenditure contributes to poor service delivery. There are three constraints to improving public-sector efficiency, loosely categorized as follows: (i) the inadequacy of laws, rules, procedures and processes governing the running of the provincial government; (ii) the weak administrative and technical capacity of public-sector institutions; and (iii) these two weaknesses then combine to manifest themselves in the poor utilization of public funds in terms of value for money. This Public Expenditure Review focuses primarily on the issue of provincial finances and their utilization, while

recognizing that the other two constraints have a strong bearing on the management and efficiency of public finances.

1.2 Macro-Fiscal Outcomes

While there may now be additional resources, the efficiency of public spending remains suboptimal, and in some cases is actually declining. In addition to the recent natural disasters, Sindh has been prevented from achieving higher development outcomes by relatively low quantity and poor quality public expenditure, improved fiscal space notwithstanding following the 7th National Finance Commission (NFC) Award.¹⁰ Increased federal transfers, along with improved own-source revenues, especially from general sales taxes (GST) on services, provided additional resources to the Sindh government to meet the minimal investment needs of the province, and to adequately allocate resources for high-priority sectors and areas. Nonetheless, huge infrastructure gaps continue to exist and social outcomes are far below desirable levels. In addition, on top of this, in some cases the efficiency of public spending has also declined.

Sindh's fiscal management has been prudent, and on average the province has maintained a marginal fiscal surplus. On average, Sindh maintained a positive fiscal balance between FY09 and FY15. Total revenues as a percentage of provincial GDP increased to 7.1 percent in FY15, compared with only 5.6 percent in FY09. With the federal government assigned most of the broad-based taxes, Sindh's finances are heavily dependent upon revenue transfers from the federal government. Currently, these transfers constitute about 80 percent of overall revenue available to the provincial government. With provincial own-source revenue (OSR), barely enough to meet 20 percent of provincial expenditure (Table 1.1), any shortfall in revenue adds directly to the level of fiscal stress at the provincial level.

There is added pressure from the federal government on Sindh to ensure that it posts a surplus. This implies that most provincial-level fiscal management boils down to managing provincial expenditure in an environment in which revenue transfers from the federal government are uncertain. In addition, performance in collecting OSR is not working very well. Under the IMF's Extended Fund Facility (EFF), the federal government is required to maintain a certain level of consolidated fiscal deficit. In order to achieve this, an agreement between the federal government and the provinces has been reached whereby the provinces should maintain a certain level of overall budget surplus.

PRs million	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Total revenues	5.6	5.7	6.2	6.8	6.9	7.2	7.1
Federal transfers	4.8	4.8	5.4	5.4	5.5	5.9	5.7
Revenue assignment	3.3	3.5	4.0	4.3	4.4	4.6	4.7
Straight transfers	1.3	1.1	1.3	0.9	0.9	1.2	0.9
Development grants	0.2	0.2	0.1	0.2	0.2	0.1	0.1
Provincial revenues	0.8	0.9	0.9	1.3	1.4	1.3	1.4
Sales tax on services	0.0	0.0	0.1	0.4	0.6	0.6	0.7
Other tax receipts	0.6	0.6	0.5	0.7	0.6	0.6	0.6
Non-tax	0.2	0.3	0.2	0.2	0.2	0.1	0.1
Total expenditures	6.0	5.8	5.7	6.7	7.0	7.1	7.3
Recurrent expenditures	3.9	3.6	4.1	4.8	5.3	5.1	5.4
General administration	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Law and order	0.7	0.7	0.7	0.8	0.8	0.8	0.9

¹⁰ The National Finance Commission (NFC) Award is a series of planned economic programs enacted since 1951. Constituted under Article 160 of the Constitution, the Awards manage financial resources to Pakistan's four provinces to meet their expenditure liabilities, while alleviating horizontal fiscal imbalances. In 2010, the 7th NFC Award was enacted, which included a revision of the distribution formula.

Social services	1.5	1.5	1.8	2.3	2.2	2.1	2.1
Economic services	0.3	0.4	0.5	0.5	0.5	0.4	0.6
Community services	0.2	0.1	0.2	0.1	0.1	0.2	0.2
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Interest payments	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Others	0.1	0.0	0.0	0.1	0.7	0.6	0.6
Development expenditures	2.2	2.2	1.6	1.8	1.7	1.9	1.9
Social services	0.9	0.8	0.6	0.9	0.9	1.0	1.1
Economic services	0.4	0.5	0.3	0.6	0.5	0.6	0.5
Community services	0.8	0.6	0.5	0.4	0.3	0.3	0.3
Others	0.1	0.2	0.2	0.0	0.0	0.0	0.0
Overall balance	(0.4)	(0.1)	0.6	0.1	(0.0)	0.2	(0.2)

Source: Data from Office of Accountant General, the Government of Sindh.

Combined with these limited resources, the spending patterns in terms of allocations and the weak capacity of line departments to spend according to budget allocations all contribute towards unsatisfactory low outcomes. Moreover, the rigidity of current expenditures and the Sindh government's limited efforts to increase province OSR have resulted in low spending on physical and social infrastructure. Public spending on key services remains low. An inter-provincial comparison indicates that Sindh underspends in education and health, and its share of these critical expenditures is even lower when compared with other developing countries (Figure 1.6).

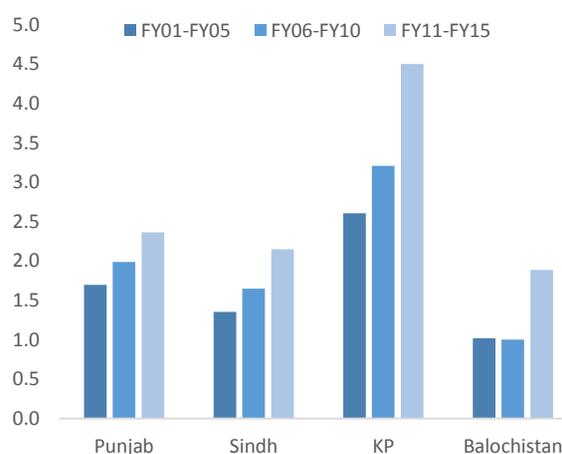
In the past few years, sizeable increases have been made in the allocations for some key public services. However, most of these were prompted

by significant and frequent increases in the salaries of government employees. As elaborated in detail in the Section 1.3.1, the 7th NFC Award led to a significant increase in the fiscal resources available to Sindh, whereas the 18th Constitutional Amendment devolved additional functions from the federal to the provincial governments. These two developments led to sizeable increases in the allocations to some key public services, including both health and education. However, the bulk of these increases went towards salaries, allowances, and pensions of government employees. In real terms, the inputs for public services, such as qualified teachers and doctors, hardly changed with the increased funding. As such, large infrastructure and service-delivery gaps have continued and, in some cases, worsened due to the inadequate maintenance of roads, water supplies, irrigation and other infrastructure, leading in turn to an erosion in the productivity of the provincial economy.

1.2.1 Sindh Debt: Overview of Costs and Risks to the Current Portfolio

At end-June 2016, Sindh's total debt was PRs 267 billion, or only 1.3 percent of total public debt held by the Government of Pakistan.¹¹ Given the historic constraints on borrowing, it is not surprising that Sindh's debt as a share of federal borrowing is small (Table 1.2).¹² In terms of PGDP (estimates), Sindh's

Figure 1.6: Health and education public expenditures (% of provincial GDP)



Source: Data from Accountant General of Pakistan and Author calculations.

¹¹ At end-June 2016, Pakistan's public debt stood at PRs 19.97 trillion, or 67.5 percent of GDP.

¹² Provinces in Pakistan, in principle, face hard budget constraints. Clause 3, Article 167 of the Constitution prohibits provinces from borrowing without the consent of the federal government if there is any outstanding loan to the federal government. Since

debt is also modest, at only 3.2 percent. Financing costs are also meager, amounting to just PRs 4 billion in FY16, and debt service constitutes under 2.0 percent of total provincial revenues (including federal transfers).

Table 1.2: Sindh debt profile, June 30, 2016 (FY16)

	Stock Indicators		Flow Indicators	
	PRs billion	Percent	PRs billion	Percent
Foreign Debt	51.4	94	Debt Service	12.4
Domestic Debt	16.4	6	Of which: Interest Payments	4.3
Total Debt	267.8	100	Debt Service/Revenue	1.9
Total Debt/PGDP		3.2	Debt Service/Current Expenditure	2.7

Source: Provincial authorities and World Bank staff calculations.

Note: PGDP is a World Bank estimate for FY15/16 and not the official government figure.

Sindh's debt is highly concentrated in external debt. Foreign debt accounts for PRs 251 billion, with the World Bank being the principal creditor in FY16, holding 58 percent of Sindh's total foreign debt (Table 1.3), followed by the Asian Development Bank (ADB, 37 percent), and the Government of Japan (5 percent).

Meanwhile, Sindh's domestic debt is very small, accounting for just 6 percent of total provincial debt (or PRs 16 billion) at end-June 2016. The domestic debt portfolio of Sindh in FY16 was composed mainly of Cash Development Loans (CDLs) with long-term maturities, lent by the federal government to finance irrigation needs. These loans are now being repaid, which is drawing down the share of domestic debt in the total debt portfolio. The most recent domestic loan was received in FY16 as part of the ongoing Pakistan Water and Power Development Authority (WAPDA) Salinity Control and Reclamation Program (SCARP).

External debt is highly concessional and has long maturities. Almost 95 percent of the total foreign debt portfolio of the Sindh government is held by the World Bank and the ADB. IDA lending to Sindh amounts to around PRs 146 billion at an average interest rate of 1.08 percent and an average remaining maturity of 20 years. ADB lending to Sindh carries an average interest rate of 1.3 percent and an average remaining maturity of 17 years (Table 1.3).

However, foreign currency denominated debt is exposed to exchange rate risk. The main exposure of this exchange rate risk comes from US dollar-denominated loans (93 percent of total external debt), followed by those in Japanese yen (5 percent). A depreciation of the Pakistani rupee would affect both the stock of government debt and debt-servicing flows. For example, a 10-percent depreciation of the Pakistani rupee against both foreign currencies would lead to an increase in debt stock of about PRs 25 billion (or 0.3 percent of PGDP and 3.8 percent of total provincial revenues).

Table 1.3: Sindh outstanding debt portfolio, June 30, 2016 (FY16)

	Stock PRs (billion)	Avg. interest rate (%)	Avg. remaining maturity (no. of yrs)	Percent (of total)
Foreign debt				
IDA*	146.3	1.08	20	58
ADB	92.3	1.30	17	37
Japan	11.7	1.70	15	5
IBRD*	0.3	0.75	9	0
IFAD	0.2	1.00	13	0
OPEC	0.5	2.50	5	0
Total	251.4	1.39	13	100
Domestic debt				
CDL	14.6	12.62	11	89
CDL	1.8	11.35	8	11
Total	16.4	12.48	11	100

* IDA & IBRD are World Bank lending arms.

Source: Provincial authorities and World Bank staff calculations.

all foreign borrowing is on-lent by the federal government to the provincial governments, this means that provinces are constantly indebted to the federal government, requiring explicit consent of the federal government to initiate any other form of borrowing.

The Sindh government is fully cognizant of the recent changes to the federal landscape on borrowing.

Pakistan's fiscal architecture underwent a fundamental change with the adoption of the 18th Constitutional Amendment in 2010. The 18th Amendment permits borrowing, both domestic and external, by provinces, subject to limitations imposed by the National Economic Council (NEC).¹³ On July 1, 2015, the NEC set new limits for sub-national domestic borrowing.¹⁴

Sindh Province has identified debt management as one of the three pillars of the Sindh PFM Strategy.

In FY13, a Public Expenditure and Financial Assessment (PEFA) were undertaken for Sindh Province. In light of the PEFA findings, provincial authorities were keen to develop an integrated PFM reform strategy and decided to prepare a detailed reform action plan in three areas: (i) financial management; (ii) procurement; and (iii) debt management. In FY14, the World Bank undertook an assessment of Sindh's debt management functions and practices (using the World Bank's Subnational Debt Management Performance Assessment tool, SN-DeMPA). Based on this diagnostic, Sindh has developed a reform plan with a matrix of reform activities with a mix of short-, medium- and long-term horizons.

¹³ Clause (4) of Article 167, of the Constitution (a new clause inserted by the 18th Constitutional Amendment) reads: "A province may raise domestic or international loan, or give guarantees on the security of the Provincial Consolidated Fund within such limits and subject to such conditions as may be specified by the National Economic Council."

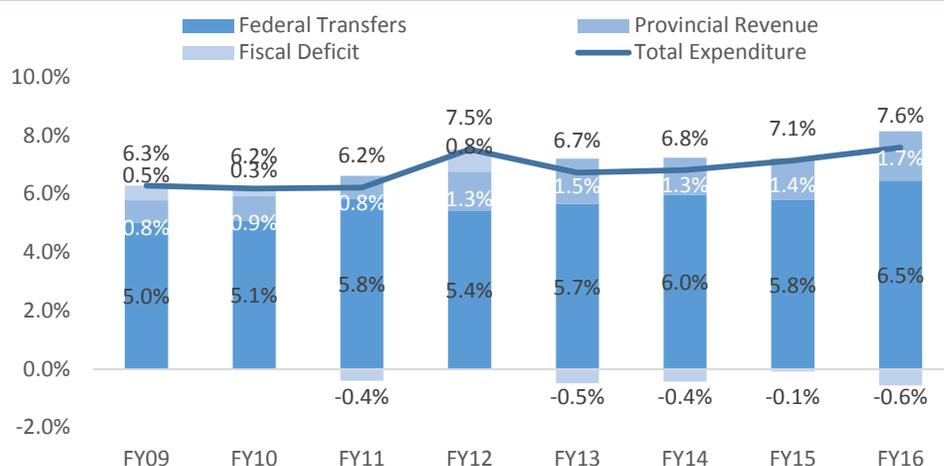
¹⁴ On July, 1, 2015, the NEC took a decision to allow the provinces to borrow in the domestic market. This in FY16 translated into a gross borrowing limit of 0.5 percent of GDP (or PRs 153.4 billion) for the provinces or *net* domestic borrowing limit of PRs 61.75 billion for Punjab, PRs 20.05 billion for Sindh, PRs 16.88 for KP and PRs 13.91 billion for Baluchistan.

Chapter 2: Revenues and Expenditures

2.1 Revenues: The Revenue Challenge and Fiscal Space

Fiscal space between provincially collected revenues and provincial expenditures is plugged by an elaborate system of fiscal transfers from the federal government, for which the Constitution has a dedicated institution, the National Finance Commission (NFC). The NFC, which has representation from the federal and all four provincial governments, is tasked with designing a new formula for sharing federal-collected revenue—the NFC Award—every five years. However, in many previous instances, the NFC has failed to deliver its awards on time.

Figure 2.1: Sindh government's expenditure and its mode of financing (FY09 to FY16)



Source: Data from Accountant General of Pakistan and Author calculations.

The Sindh government's total expenditure averaged 6.8 percent of provincial GDP (PGDP) annually during the period FY09 to FY16 (Figure 2.1), seemingly insufficient given the multiple service-delivery responsibilities at the provincial level. A significant portion of provincial expenditure goes towards the payment of salaries, allowances, and pensions of government employees, leaving only a small share for improving the quality of public services and infrastructure (see Section 2.2.2 on recurrent expenditures). The main reason for this relatively low level of public expenditure is the paucity of fiscal resources. During the 7-year period from FY09 to FY16), Sindh received transfers worth 3.4 percent of PGDP, financing 50 percent of total expenditure. Meanwhile, Sindh mobilized only 0.6 percent of PGDP from its OSR, which funded the remaining 8 percent of provincial spending.

Competing demands by the federal government, limited borrowing options, and constitutional provisions, have limited the fiscal space available to the provinces to increase provincial spending. While in some years in the period FY09 to FY16, Sindh did run relatively small fiscal deficits to finance its expenditure, these were more than counterbalanced by fiscal surpluses in other years of the period. Deficits are limited partly because of constraints on provincial borrowing by the Constitution.¹⁵ During 5 of the past 6 years,¹⁶ Sindh has posted modest fiscal surpluses, further limiting the envelope available for

¹⁵ Prior to the 18th Amendment to the Constitution of Pakistan (Article 167c) allowed a province to borrow only with prior consent of the federal government (if it owes any debt to the federal government). The 18th Amendment (through insertion of Article 167d) allowed the provinces to borrow as per terms and conditions imposed by the National Economic Council. However, as Article 167c was not removed, the consent of the federal government remains as a prohibiting factor.

¹⁶ These 6 years are covered under the 7th NFC Award.

provincial spending. These provincial surpluses have been negotiated by all provinces with the federal government, in light of the large increases in fiscal transfers made to the provinces under the 7th NFC Award, in order to keep the consolidated (federal and provincial) fiscal deficit low.

2.1.1 The 7th NFC Award

The provincial share of federally collected revenue has been increasing over time. Over the past decade, the transfer of resources to the provinces has increased. Through a Presidential Order revision in 2006, the 6th NFC Award was able to give provinces a larger share of the federal divisible pool (Figure 2.2). To carry this momentum forward, a new equilibrium was achieved under the 7th NFC Award, which, in FY11, increased the share going to the provinces from 46.25 percent (under the revised 6th NFC Award) to 56 percent, and subsequently to 57.5 percent for the remaining 4 years of the Award. This caused a sharp increase in federal transfers to Sindh. Between FY09 and FY16, transfers from the divisible pool increased by 20 percent per year. Although energy-related straight transfers (with an average annual growth of only 2 percent) more or less stagnated, overall federal transfers to Sindh increased at a healthy rate of 16 percent annually, implying an almost tripling of these transfers over the period FY09 to FY16 (Figure 2.3).

Figure 2.2: Provincial share of divisible pool (percent)

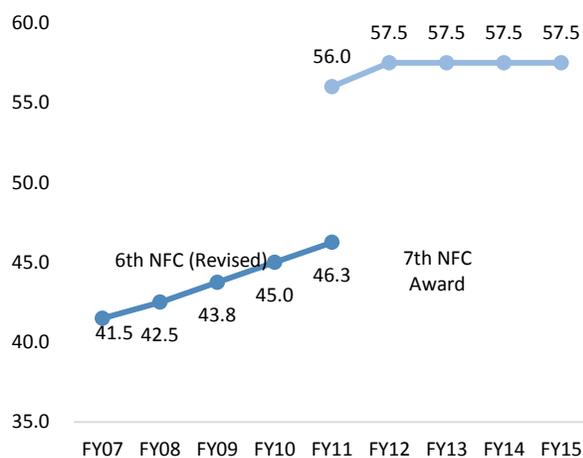
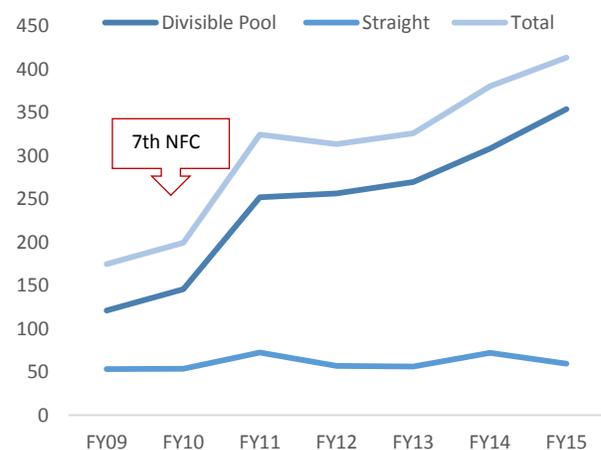


Figure 2.3: Federal revenue transfers to Sindh (PRs billion)



Source: Data from the Government of Sindh.

The annual increase of 20 percent in divisible pool transfers was the cumulative effect of various changes made by the 7th NFC in the revenue-sharing arrangement. As indicated in Figure 2.2, the most important change was the reduction in the federal government share in the vertical distribution of divisible pool revenue. Under the 6th NFC Award, the federal government received 53.7 percent of divisible pool revenue, while the 7th NFC Award reduced this to just over 44 percent.

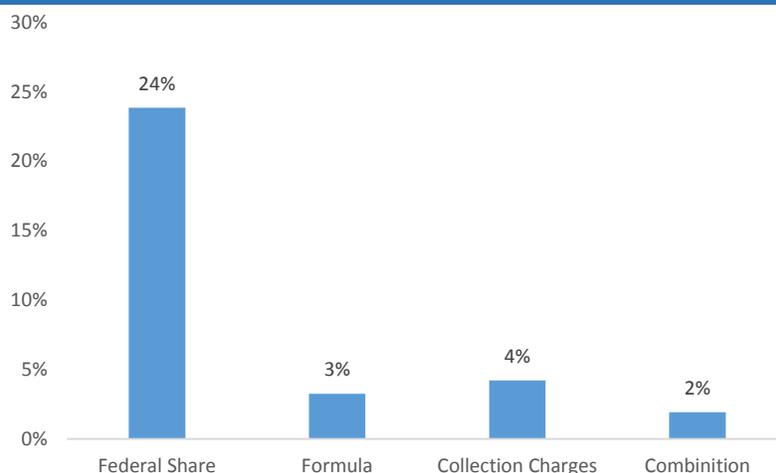
2.1.2 Provincial Fiscal Space

The impact of the 7th NFC Award on the revenue transfers to Sindh can be better understood if the individual impacts of each of the three major changes brought about by 7th NFC Award are explicitly quantified.¹⁷ In addition to this, a comparison is made between the revenue transfers under the 7th NFC

¹⁷ For horizontal distribution, all previous NFCs had relied on population shares as the sole criterion. The 7th NFC made a bold deviation from this past practice to include other criteria in the revenue-sharing formula. Population shares continued to command the largest weight (82 percent), but inverse population density (with a weight of 2.7 percent), and a backwardness index (10.3 percent) were added to the formula. Sindh's demand that revenue collection be included in the formula was also

Award and the amount that could have been transferred if the 6th NFC Award had continued to be valid for the duration of the 7th NFC Award period (FY11 to FY15). The comparison shows that during this 5-year period, Sindh received an additional sum of PRs 342 billion in federal revenue transfers, solely due to the changes effected in the revenue-sharing formula by the 7th NFC Award. As expected, the bulk of this increase (24 percent out of the 33 percent increase) was due to a reduction in the federal government's share, while the reduction in collection charges contributed an additional 4 percent to this increase. Despite all the positive proclamations, changes in the formula (for the horizontal distribution of revenue) added only 3 percent in revenue for Sindh. Another 2 percent of revenue was contributed by the interplay of the above-mentioned three changes (Figure 2.4).

Figure 2.4: Composition on revenue increase for Sindh under the 7th NFC Award



Source: Data from the Government of Sindh.

Although the increase in federal-revenue transfers significantly expanded the province's fiscal space, there were some unwarranted consequences. First, with 80 percent of provincial expenditure financed from revenue collected at the federal level, the accountability of provincial expenditure is brought into question. Not only does the province have a rather weak record in public financial management,¹⁸ but stakeholder accountability is compromised, as the provincial government does not have to raise taxes to finance its own expenditure and therefore may not feel answerable to its own citizens regarding the best possible use of these resources. More importantly, with the large increase in revenue transfers, provincial political will to raise more revenue was further diluted.

2.1.3 Sindh Province's Own-Source Revenue (OSR)

The main contribution to Sindh government's taxes came from GST on services, followed by taxes on the development and maintenance of infrastructure cess (DMIC). These two sources of OSR contributed more than three-quarters (78 percent) of total provincial tax revenues in FY15 (60 percent in FY09). The remaining one-quarter (22 percent) was collected through six sources, namely stamp duty, motor vehicle tax, provincial excise duty, capital value tax, urban immovable property tax, and property transfer tax (Figure 2.5).

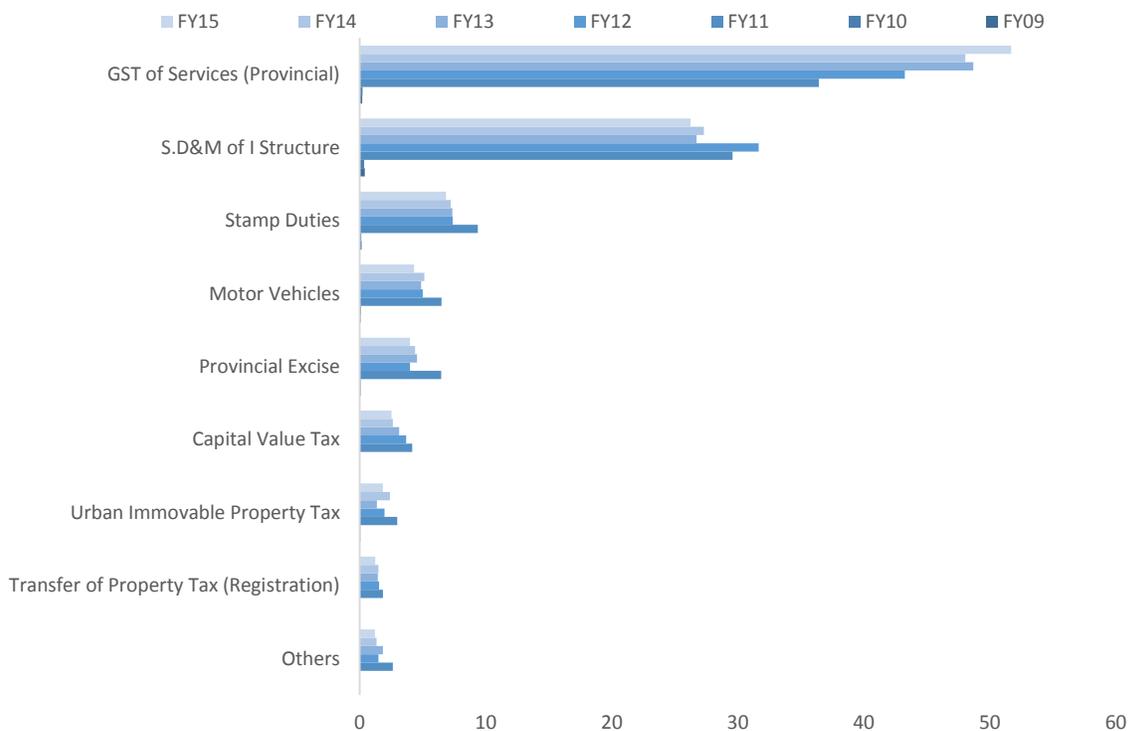
agreed to (giving it a weight of 5 percent). However, the combined impact of all these changes on horizontal distribution was that the revenue share of Baluchistan increased, while that of the other three provinces declined. Nonetheless, due to the large reduction in vertical share of federal government, all provinces saw a substantial increase in overall revenue transfers. Finally, the collection charge on divisible pool taxes was reduced from 5 to 1 percent, implying a marginal expansion in the divisible pool.

¹⁸ World Bank (2013), *Public Financial Management and Accountability Assessment – Pakistan Sindh Province*.

Sindh has simplified its tax structure and yet it retains a number of taxes with low revenue yields and significant economic costs. Some of the taxes that Sindh levies yield negligible amounts of revenue, but they still impose significant non-monetary costs on taxpayers. Early in the past decade, the provincial tax regime was greatly simplified by reducing the number of provincial taxes from 23 to only 10.¹⁹ However, further simplification may be required, as some of the taxes currently levied still have low revenue yields and continue to impose significant economic costs on taxpayers, thereby stifling economic activity. Some of these taxes could be merged with other taxes (e.g., lumping profession and calling tax into sales tax on services), others could be modernized, and still others could be devolved to local (district) governments.

In terms of revenue yield, the Sales Tax on Services (STS) provides almost half of the revenue collected from provincial OSR (Figure 2.5). This is followed by the DMIC, which resembles a surcharge on all (non-liquid) imports passing through Sindh. The DMIC provides another one-quarter of provincial OSR. All other taxes combine to provide the remaining one-quarter of OSR and indicate the relatively low yields of most provincial taxes.

Figure 2.5: Revenues from different sources (% province OSR)



Source: Data from the Government of Sindh.

Despite the unfavorable assignment of revenue authority, provinces must do a greater effort to mobilize revenue. This, along with lack of tax policy and extremely weak tax administration, defines a revenue system that is neither prepared, motivated, nor even used for mobilizing additional revenue. As such, Sindh's OSR has always remained at less than 2 percent of provincial GDP, falling far short of the province's needs. On one hand, this perpetuates and strengthens the province's dependence of fiscal transfers from the federal government, and on the other it undermines the Sindh government's ability to undertake initiatives to accelerate growth and development in the province.

¹⁹ Sales tax on services (STS) and capital value tax (CVT) were added to the list of provincial taxes in 2010 as the federal government devolved these taxes to provinces.

The remainder of the revenue section in this chapter describes some of the major provincial taxes, identifying their limitations and indicating possible ways to make them more efficient and productive.

2.1.4 Sales Tax on Services (STS)

Under the Constitution, the Sales Tax on Services (STS) is a provincial tax. However, as the Sales Tax on Goods (STG) is collected by the Federal Board of Revenue (FBR), it was considered appropriate that STS should also be collected by the FBR, with the collected revenue then returned to the provinces.²⁰ By FY10, the FBR was taxing 10 services under the STS regime. However, in 2010, during the 7th NFC Award discussions, provinces (especially Sindh) asked for, and received, the right to collect STS themselves. As a result, in 2011, Sindh promulgated the Sindh Sales Tax on Services Act (SSTSA), and established the Sindh Revenue Board (SRB) to collect the tax.

Compared with the FY10 STS-related revenue transfers of PRs 1.1 billion, the FY11 collection by the SRB was 200 percent higher. This was mainly because, in promulgating SSTSA, the Sindh government brought some additional services under the STS umbrella.²¹ This base-broadening of STS continued in subsequent years and, as a result, Sindh's STS revenue has increased exponentially, reaching PRs 64 billion in FY16.²²

Despite this phenomenal progress in STS revenue collection, significant challenges remain. The services brought under STS to date are those that have relatively well-defined bases and are easy to tax. Although the Sindh government has imposed STS on some construction, personal care, and professional services, the wholesale, retail, and transport sectors remain almost entirely outside the tax net.²³ These sectors are composed of a large number of small units that are difficult to identify and where access to accurate sales records is problematic. Adding income from services²⁴ given in the estimated provincial accounts, the present effective tax rate of STS is still very low (1.7 percent in FY15). Expansion of the STS base to more challenging bases (e.g., commerce and transport) would require some innovative thinking and management, which in turn would require considerable improvement in the SRB's manpower capacity and technology.

2.1.5 Urban Immovable Property Tax (UIPT)

This is the oldest form of provincial taxation, providing revenue for provincial governments and tehsil municipal administrations (TMAs).²⁵ This tax is levied on property owners, but is limited to buildings and land located within the limits of urban areas.²⁶ The tax base is the assessed (imputed) rent in the case of (owned) rented buildings. The tax base is badly eroded by numerous exemptions. For example, all government property is exempt from payment of UIPT, and so are the properties of religious, charitable and educational institutions. Similarly, cantonment properties are also exempt from the tax. Other exemptions include: (i) all properties commanding annual rent of less than a specified value; (ii) single

²⁰ With federal government retaining 2 percent of revenue as collection charges.

²¹ Some of these additional services were taxed by the federal government under the Federal Excise Duty (FED) regime, but vacated these bases for the provincial governments to tax in FY10.

²² This increase was despite a reduction in standard STS rate from 15 to 14 percent in FY15. The rate was further reduced to 13 percent in FY17.

²³ There is a positive list of services sub-sectors that are taxed under SST regime. There is a need to issue a negative list of sub-sectors, which are exempted instead of positive list.

²⁴ These however exclude value-added in gas distribution and ownership of dwellings. Taxation of former is a federal subject, while the latter is taxed by the provincial government under Urban Immovable Property Tax (UIPT).

²⁵ TMAs are district governments and district councils created by the Local Government Ordinances (LGO) of 2001.

²⁶ The Local Government Ordinances (LGO) of 2001 abolished the distinction between urban and rural municipalities, making it possible for the local governments to levy the tax on all properties in the province. However, no local government decided to tax rural properties. With the lapsing of 2001 LGO, the former distinction of rural and urban properties was reinstated with tax levied only on urban properties.

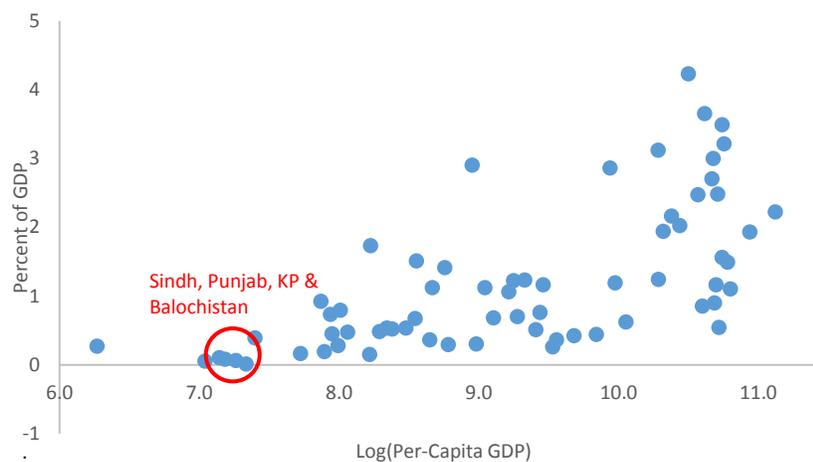
homes owned by a widow, an orphan, or a disabled person with an assessed annual rental value of below PRs 5,000; (iii) all new residential buildings for a period of 3 years; and (iv) single-owner occupied houses with assessed rental value of less than a specified limit.

In addition to this erosion of the tax base, the tax is marred with a large number of structural and administrative problems. First, there is gross under-valuation of annual rental value (ARV) of properties. The provincial excise and taxation department conducts a periodic survey of properties, last conducted in 2001, and the results are used to prepare valuation tables for properties in different localities (zones) of an urban area. Anecdotal evidence suggests that assessed ARV of a property is 5 to 10 percent of actual market rent of the same or similar property. Second, owner-occupied properties are assessed in a way that the imputed ARV is about 10 percent of the ARV of a comparable rented unit. This means that owner-occupiers pay 10 percent of the normal tax liability. As a large proportion of properties are owner-occupied, this concession to owner-occupied properties erodes the tax base substantially. In addition, this concession opens up the possibility for tax evasion by declaring rented properties to be owner-occupied. The same tax-evasion opportunity exists for commercial properties, given the 10-times-higher tax rate on commercial properties compared with the tax rate on residential properties.

The tax base is too low. There are problems of under-assessment and an incomplete valuation roll. There are five urban areas in Sindh, namely Karachi, Hyderabad, Mirpurkhas, Nawabshah and Sukkur, but only three levy and collect property tax, namely Karachi (90 percent), Hyderabad (5 percent) and Sukkur (5 percent). The number of tax-base residential properties in Karachi of about 700,000 appears incompatible with a population of 22 million. The numbers for Hyderabad and Sukkur also appear to be significantly underestimated.

These structural issues with UIPT, coupled with weak tax administration, result in extremely poor collection of UIPT. Figure 2.6 provides an international comparison of revenue collection from property tax. Sindh, similar to other provinces in Pakistan, compares unfavorably with other countries in terms of collection rates.²⁷

Figure 2.6: Cross-country comparison of property tax collection



Source: World Bank staff calculations based on IMF and provincial data

²⁷ In 2014-14, UIPT collection from Karachi was less than PRs 2.5 billion. In the same years, property tax collection in Indian cities was many times larger (e.g., Mumbai collected an equivalent of PRs 45 billion, Delhi, PRs 110 billion and Bangalore PRs 15 billion).

2.1.6 Agriculture Income Tax (AIT)

Under the Constitution, all personal and corporate incomes can be taxed by the federal government, with one notable exception, namely income from agriculture, which can only be taxed by provincial governments. In Sindh, the Agriculture Income Tax (AIT) is collected by the Board of Revenue (BOR) by levying a presumptive tax on agricultural land. The Sindh Agricultural Income Tax Act of 2000 provides two alternative calculations of the tax. The first is based on land area (area sown), while the second is based on agricultural income. However, hardly any tax is collected on the basis of income. AIT is levied at the rates shown in Box 2.1.

Box 2.1: Tax rates of the Agricultural Income Tax (AIT)

Annual rates of tax on land tax

Irrigated land	PRs 200/- per acre
Unirrigated land	PRs 100/ per acre
Matured orchards, banana and betal leaf:	
a) Irrigated	PRs 700/- per acre
b) Unirrigated	PRs 350/- per acre

Exemptions

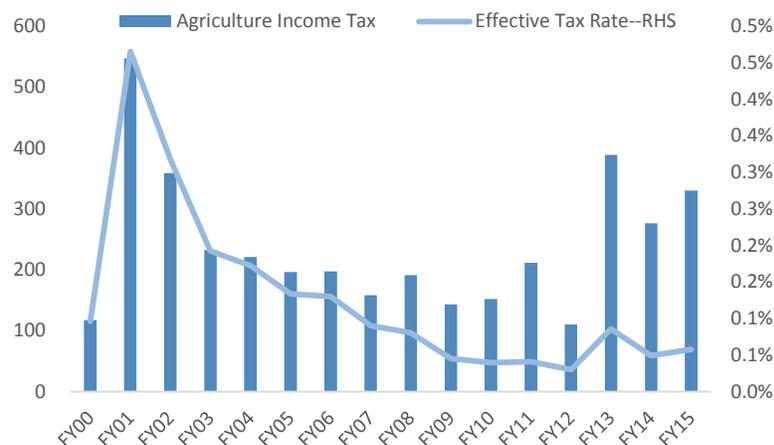
- No land tax is levied on holdings up to 4-0 acres irrigated and 8-0 acres unirrigated. This exemption does not apply to matured orchards, banana and betal leaf.
- No land tax is levied in the Thar Desert and the Kohistan areas.

Rates of tax on total agricultural income

(1) Where the total income does not exceed PRs 100,000	5% of the total income.
(2) Where the total income exceeds PRs 100,000 but does not exceed PRs, 200,000	PRs 5,000 plus 7.5% of the amount exceeding PRs 100,000
(3) Where the total income exceeds PRs 200,000 but does not exceed PRs 300,000	PRs 12,500 plus 10% of amount exceeding PRs 200,000
(4) Where the total income exceeds PRs 300,000	PRs 22,500/- plus 15% of the amount exceeding PRs 300,000

Revenue collection has remained woefully low, with the highest tax collected in FY01, when the BOR collected PRs 547 million (Figure 2.7). Since then, collection has been on a declining trend until FY12. The inadequacy of collection can be gauged from the “effective tax rate”, which provides the ratio of AIT collection to value-added in cropped agriculture (in Sindh). This has never exceeded 0.5 percent and is currently (FY15) below 0.1 percent.

Figure 2.7: Trend in AIT collection (PRs million and percent)



Source: Data from the Government of Sindh.

One reason given for the poor revenue collection of AIT is the low revenue potential of the tax. However, using data for cropped acreage under every crop from the Sindh Agricultural Census 2010, per-acre yield of every crop from agriculture statistics, and farm-gate prices and production cost of crops from various research studies, the tax revenue from agricultural income is estimated to be PRs 35 billion in FY16. Table 2.1 estimates the potential of AIT if it were applied on all farmers in the income mode. However, if all farms were taxed under the land-tax mode, the revenue potential drops to PRs 4 billion. This is one-ninth of the revenue potential under the income-tax mode, but still 12.5 times the revenue collected at the moment.

Table 2.1: Estimates of agriculture income tax revenue potential

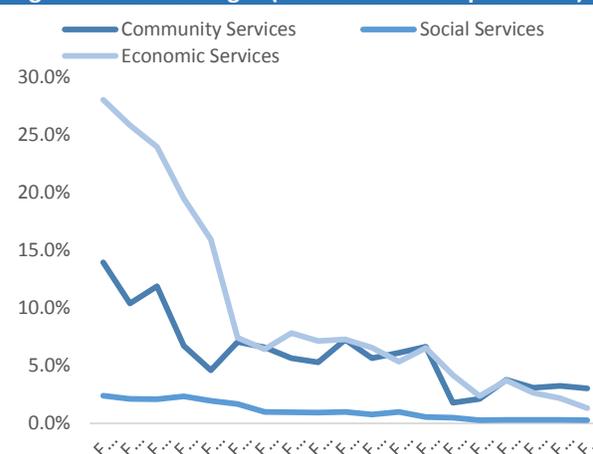
Farm size in acres	Estimated income per farm (PRs p.a.)			Potential tax revenue (PRs billion)			
	Owners	Owner-Tenants	Tenants	Owners	Owner-Tenants	Tenants	Total
Under 1.0	15,280	7,930	2,508	0.0	0.0	0.0	0.0
1.0 to under 2.5	49,447	39,094	29,953	0.0	0.0	0.0	0.0
2.5 to under 5.0	107,961	81,268	64,091	0.1	0.0	0.0	0.1
5.0 to under 7.5	158,977	134,037	101,386	0.8	0.0	0.0	0.9
7.5 to under 12.5	268,750	203,945	153,146	2.2	0.2	0.1	2.5
12.5 to under 25.0	461,591	335,548	282,073	5.8	0.2	0.2	6.2
25.0 to under 50.0	752,393	597,150	395,158	9.7	0.4	0.1	10.2
50.0 to under 100.0	1,377,261	821,004	797,256	9.6	0.4	0.1	10.1
100.0 to under 150.0	2,090,973	1,487,860	780,871	2.0	0.3	0.0	2.3
150.0 and above	3,439,837	2,617,138	1,207,992	2.3	0.4	0.1	2.8
Total				32.4	1.9	0.7	35.0

Source: WB staff estimates.

2.1.7 User Charges

Sindh government has made little effort to use user charges to enhance the resource envelope. A large share of provincial services is financed from general purpose revenue and reliance on user charges has declined sharply over time. User charges as a share of OSR declined from 14 percent in FY97 to less than 1 percent in FY16.²⁸ This lack of exploitation of user charges to finance public services implies giving an “untargeted subsidy” to these services. User charges currently finance only 4 percent of Sindh government’s recurrent expenditures on community services (13 percent in FY97), 1 percent of recurrent expenditures on economic services (down from 28 percent in FY97), and 0.4 percent of recurrent expenditures in the social sectors (Figure 2.8). An argument could be made on equity grounds to keep user charges on services low (or even at zero) on those services used by the poor and vulnerable segments of the population, including primary and secondary education, primary health care, rural water supply and sanitation. However, there is

Figure 2.8: Use charges (% of recurrent expenditure)



Source: Data from the Government of Sindh.

²⁸ A part of this decline, however, is due to administrative reforms undertaken by the province in irrigation and health sectors. In irrigation sector, the government established autonomous Farmers’ Associations (FOs) and Area Water Boards (AWBs) to collect irrigation user-charges from the farmers in order to manage and maintain non-trunk water courses. Similarly, larger hospitals in the province had been made administratively and financially autonomous. These hospitals now retain the user-charges that they collect to part finance their operations.

hardly any rationale for keeping user charges low for economic services (such as irrigation, roads, etc.), and tertiary level social and community services.²⁹

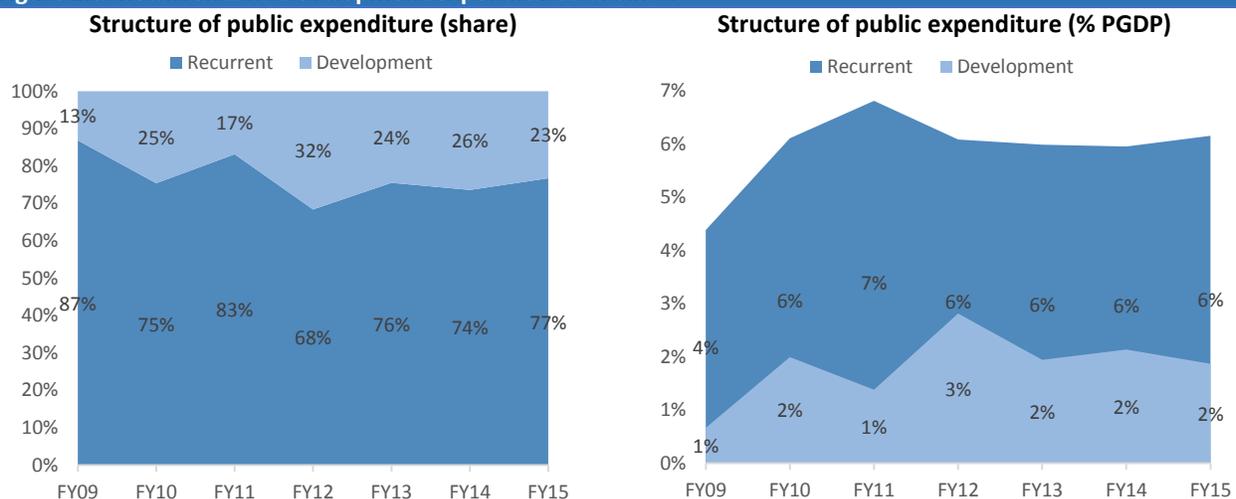
2.2 Expenditures: The Challenge of Funding Development Priorities

2.2.1 Allocation of Fiscal Resources: Recurrent vs Development

The long-term development plan of the Government of Sindh, “Sindh Vision 2030”, envisages working towards the creation of an educated, healthy, productive and prosperous Sindh. The Sindh Vision 2030 was structured to be aligned with the pillars of the national poverty reduction strategy, the Millennium Development Goals, and the Global Competitiveness Index by devising an integrated framework. The document highlights the overall vision as: “A united, just, resilient, productive, innovative, industrialized, and prosperous Sindh with a disciplined, caring society comprising of healthy, happy and educated people and built upon the enduring pillars of self-reliance, respect, tolerance, equity and integrity”. The Sindh Vision 2030 document is organized according to the thematic areas of poverty, health, education, employment, effective governance, land, water, and infrastructure. This PER analyzes the extent to which the allocation of funds is actually in accordance with the priorities set out in the Vision 2030.

With a significant increase in resources, both from OSR and federal transfers, the Sindh government has been able to use this extra fiscal space to enhance investment expenditure. While recurrent expenditures grew significantly due to increased employee-related spending and consumed a significant portion of the available fiscal space, the Sindh government was able to increase spending on development as well. Government development expenditures grew 3.3 times in nominal terms (2.5 times in real terms) in the 6 years from FY09 to FY15, while recurrent expenditures increased 2.3 times in nominal terms (1.7 times in real terms). Development expenditures as a share of total expenditure increased from 13 to 23 percent (Figure 2.9).

Figure 2.9: Recurrent and development expenditures of Sindh



Source: Data from Accountant General of Pakistan and Author calculations.

Around half of the recurrent expenditures are consumed by employee-related expenses (salaries, allowances, and pensions). Following the 7th NFC Award, provinces received larger shares from the

²⁹ Especially designed and well-targeted cash transfer programs can mitigate the ill-effects of such a policy on poor.

federal collection of taxes, which the Sindh government largely spent on increasing compensation for government employees, or in the development sector. Since FY13, government employee-related benefits (salaries and allowances) have become the largest component of recurrent expenditures, rising from 33 percent in FY12 to 46 percent in FY15. Similarly, government employees' retirement benefits (pensions) increased from 7 percent of recurrent expenditures in FY12 to 10 percent in FY15. These increases in employee-related expenses may pose fiscal risks for the future, as committed expenditures increase fiscal rigidity and reduce fiscal space. In addition, as discussed in other chapters, increases in government employee-related expenditures have no impact on the quality and quantity of service delivery, or sector outcomes.

2.2.2 Trends and Composition of Recurrent Expenditures

Recurrent expenditures, which constitute a large portion of total public expenditure, have increased threefold since FY09. On average, recurrent expenditures constitute about three-quarters of all Sindh government outlays. Partly due to the additional fiscal space provided by the 7th NFC Award and partly because of large and frequent increases made in Sindh government's employee-related spending, recurrent expenditures increased at a rapid rate (at an average of 19.4 percent per year) between FY09 and FY15.

In real terms, recurrent expenditures on average grew by 10 percent over the period. This caused recurrent expenditures to increase from about 4 percent of PGDP in FY09 to 6 percent in FY15 (Figure 2.10a/b). Despite this large increase, the share of recurrent expenditures in overall public spending has been declining (falling from 86 percent in FY09 to 74 percent in FY15).³⁰ This implies an even faster increase in development spending, as an increasing portion of additional fiscal resources available to the province under the 7th NFC Award and from its OSR was channeled towards development spending.

Figure 2.10a: Recurrent expenditures (% of total expenditure and GDP)

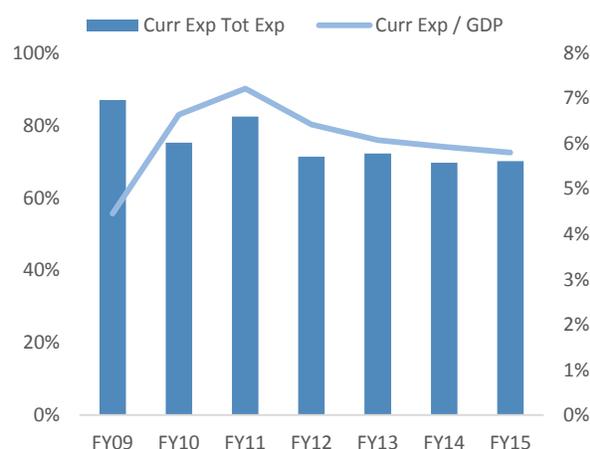
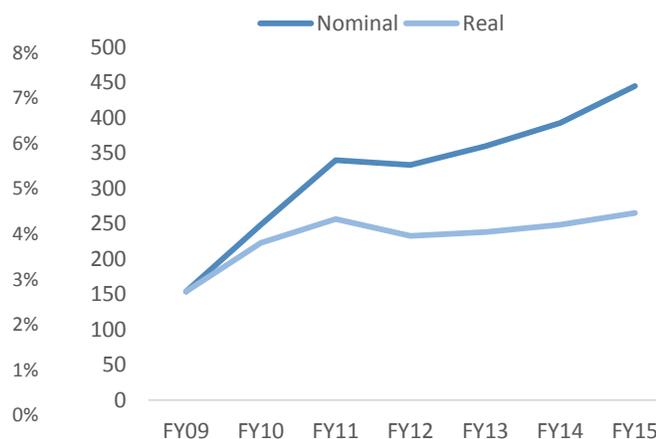


Figure 2.10b: Recurrent expenditures (PRs billion)



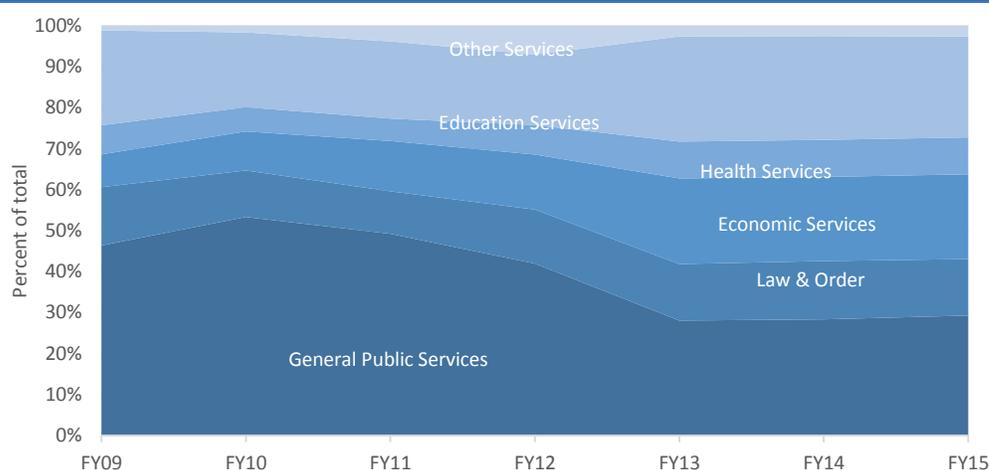
Source: Data from Accountant General of Pakistan and Author calculations

According to the functional classification, only five sectors take almost all (96 percent) of the recurrent budget. These are the sectors that the government has identified as priorities, namely: general public services (38 percent); education (22 percent); economic services (16 percent); law and order (13 percent); and health (7 percent).

³⁰ The sharp increase in the share of recurrent expenditures (in total expenditure) in FY11 were due to a roughly 50 percent increase in employees' salaries.

There has been an apparent shift in spending from general public services towards economic and social services. In the 6-year period from FY09 to FY15, the share of general public services, which includes general administration and other expenditure items, declined sharply from 46 percent of overall recurrent expenditures in FY09 to just 29 percent in FY15. The bulk of this decline instead went towards economic services (e.g., irrigation, roads, etc.), the share of which increased by 13 percentage points, while the share of health services increased by 2 percentage points, and that of education and other services increased by 1 percentage point each (Figure 2.11). The share of recurrent expenditures on law and order remained unchanged. As mentioned earlier, to better understand these changes, they should be seen in the context of the rolling back of devolution. General public services include grants and transfers to district governments. Hence, the 17-percentage-point decline in this share was mainly due to the decline in grants as a result of the rolling back of devolution. Similarly, the increase in the shares of other sectors is partly the result of this roll-back.³¹ In short, the changes in sectoral composition of recurrent expenditures may not be a sound indicator of shifts in government priorities.

Figure 2.11: Sectoral composition of recurrent expenditures



Source: Data from Accountant General of Pakistan and Author calculations.

On average, education consumes about one-quarter of total recurrent expenditures. In real terms, public spending on education grew on average by 11 percent annually in the 6 years between FY09 and FY15. In the same period, overall real recurrent expenditures grew by about 9.5 percent annually. In the first 2 years of the 7th NFC Award, expenditure on education did not increase significantly and therefore decreased as a percentage of total recurrent expenditures. However, after the passage of 18th Constitutional Amendment, education and health fell under provincial responsibility, and the Sindh government therefore started to increase resources to both sectors. Expenditure on education was just 17 percent of total recurrent expenditures in FY12, but this jumped to 25 percent the following year, and remained almost at the same level thereafter. For a more detailed discussion on public expenditure on education and its impact on outputs and outcomes, see Chapter 3 on education. The crux of the analysis in Chapter 3 highlights the paucity of resources, together with the very poor effectiveness and efficiency of public expenditure.

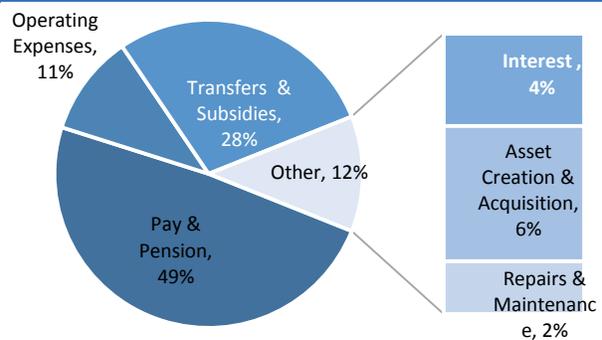
³¹ This is because the salaries of employees of various sectors that were previously paid from district budgets (but that expenditure was classified in the provincial budget under grants, i.e., general public services), are now being paid from the sector allocations in the provincial budget. In other words, the larger the employment in the sector and the greater the roll-back in devolution, so the greater will be the increase in sector expenditure, although little or no real change may have occurred on the ground or in the Sindh government's priorities.

The health sector is ranked fifth in terms of average resource allocation by the Sindh government over the 6-year period between FY09 and FY15, but it is the fastest growing sector. Health recurrent expenditures increased from 7 percent of total recurrent expenditures in FY09 to 9 percent in FY15. Most of these expenditures were allocated to health operating expenses, including spending on drugs and medicines, repairs and maintenance, and petroleum, oil and lubricants (POL) for generators. A more detailed discussion on public health expenditures can be found in Chapter 4 on health.

During the 6 years between FY09 and FY15, expenditure on the social sectors averaged about one-third of total recurrent expenditures, but the share remained volatile. Expenditures on education and health increased, while expenditures on social protection decreased during this period. Over this 6-year period, expenditures on the social sector increased 3.3 times in nominal terms and 1.9 times in real terms. The highest increase was seen in the health sector, followed by the education sector.

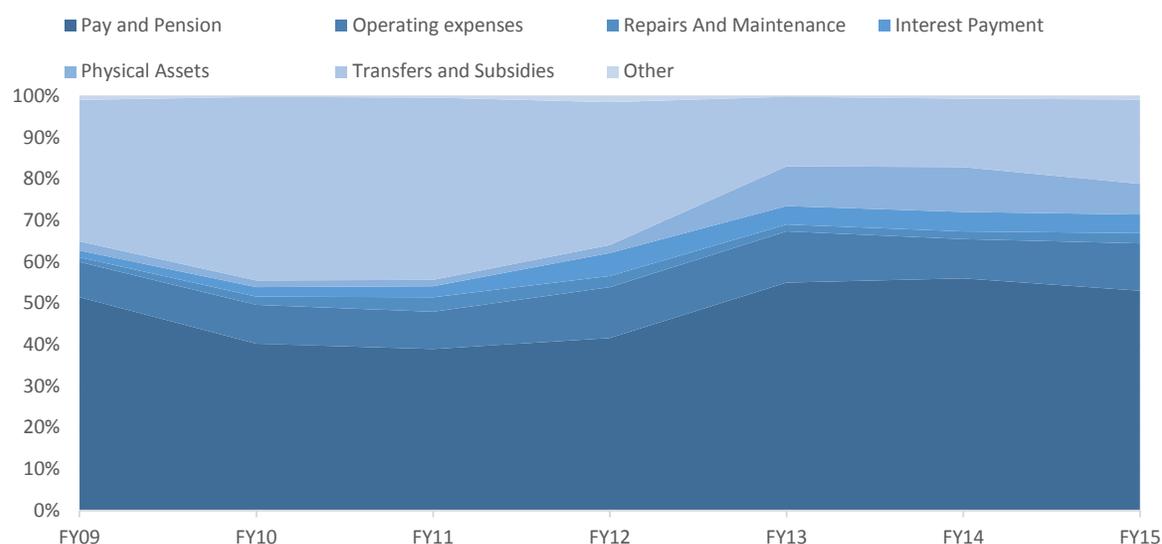
With such a large portion of recurrent expenditures going towards employees' salaries and pensions, this will tend to increase the rigidity of the recurrent budget. Over 88 percent of the recurrent budget is spent on three items, with salaries and pensions alone taking almost half of the recurrent budget, another 28 percent going in grants, transfers and subsidies, while operating expenses (including utility charges) account for about 11 percent of recurrent spending (Figure 2.12). The remaining 12 percent of recurrent expenditures are spent on interest payments (4 percent), and asset acquisitions (i.e., furniture, vehicles, etc., 6 percent), while a grossly inadequate 2 percent is spent on repairs and maintenance. The high proportion of salaries and pensions expenditure indicates strong rigidities in the recurrent budget. Low spending on asset acquisitions, and repairs and maintenance, signifies the tight controls that the Finance Department has applied on non-salary spending. As a result, a significant portion of asset acquisitions and repairs that are needed by the line departments is met through the development budget (Figure 2.13).

Figure 2.12: Composition of recurrent expenditures, FY09-FY15



Source: Data from Accountant General of Pakistan and Author calculations.

Figure 2.13: Trends in various economic components of recurrent expenditures



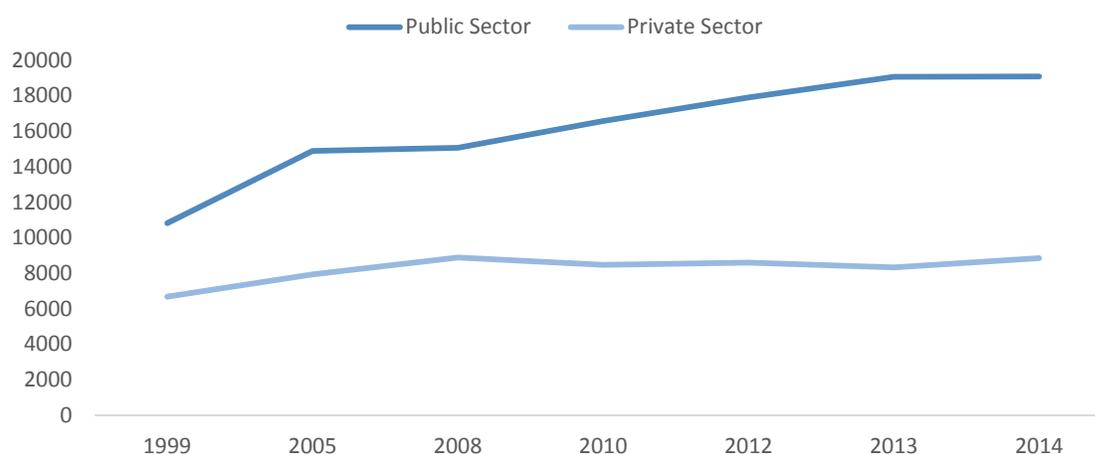
Source: Data from Accountant General of Pakistan and Author calculations.

Not only are recurrent budget rigidities high, they appear to have grown sharply over the 6 years to FY15. Government employee-related spending is not only the largest component in recurrent spending, but it has been growing at a disturbingly high average annual rate of 23 percent. Although interest payments constitute only about 4 percent of recurrent expenditures, these have grown more, at an average annual rate of 49 percent over the 6 years to FY15. As such, the share of “rigid expenditures” (i.e., the sum of salaries, allowances, pensions and interest payments) in total recurrent spending increased by 5 percentage points (from 53 to 58 percent) between FY09 and FY15 (Figure 2.12).

The increase in budgetary rigidities is, at least in part, self-inflicted. While the rapid increase in interest payments is real, the increase in government employee-related spending is partly due to large increases in salaries and pensions that the Sindh government has effected and partly the outcome of the sharp increase in the number of retiring employees. It is also interesting to observe that the gap between public sector and private sector employees’ wages is widening (Figure 2.14).

This situation implies that the Sindh government lacks the fiscal space to allocate funds to much needed priority areas. While the number of government employees and their salaries are increasing, expenditure on operations, and repairs and maintenance has failed to keep pace with spending on salaries, eroding the quality of service delivery.

Figure 2.14: Monthly wages of paid employees, age 15-64, CPI adjusted



Source: Labor Force Surveys, Pakistan Bureau of Statistics.

On the positive side, despite these increasing rigidities, the government has been able to make some positive changes in budget allocations. As a policy, the Sindh government has increased its spending on operating expenditures. These expenditures grew by an average annual 16 percent from FY09 to FY15, marginally lower than the rate of increase in overall recurrent expenditures, at 18 percent. These expenditures are allocated to provide better communications, transportation, office consumables, and utilities—expenditure that is generally associated with the quality of public services. The significant increase in the allocations to these operational items, while less than overall recurrent expenditures growth, is mainly due higher spending on medicine and lump-sum provisions kept in the budget for specific purposes of non-salary expenditures in health, education, and the maintenance of law and order. The Sindh government plans to continue this trend of higher allocations for these items.

Spending on repairs and maintenance is increasingly aligned with the government’s objective to better maintain public infrastructure, but levels are still very low. The funds were allocated for repairs and maintenance of roads and buildings, plant and machinery, especially in hospitals, vehicles, and furniture and fixtures. These expenditures increased from 1 percent of current expenditures in FY09 to 3 percent in FY15. Despite the increase, repairs and maintenance spending remains far below what is needed and the international benchmarks, adversely affecting the overall life of public infrastructure and undermining the efficiency of public services.

2.2.2.1 Budget Credibility

In addition to the inadequacy of some allocations and the low overall efficiency of public spending, one additional problem—impacting the transparency of the government’s fiscal operations and the implementation of government policies and programs—is the questionable credibility of the budget. Budget credibility in Sindh is severely undermined by the misuse of contingency budgetary instruments. Pakistan’s budgetary system does not allow any allocation for contingency expenditure. Instead, it allows line and central departments to effect changes in the approved budget in cases where these are necessitated by “emerging situations” and where they can “enhance the efficiency of public spending”. The line departments are allowed to re-appropriate funds from items in their approved budgets for allocation to other items if there is a sound reason to do so. Similarly, if any line department does not consider that the budget allocation is adequate, it can request for a supplementary budgetary grant, which can be granted if approved by the Finance Department (and if approved by the Planning and Development Department [P&DD] in the case of the development budget).

Excessive use of budget re-appropriations and supplementary grants have the potential to greatly reduce fiscal discipline, thwart efficiency, cloud the transparency of the budget, and undermine the right of the provincial assembly to approve budgetary allocations. Re-appropriations are generally affected by drawing and disbursing officers (DDOs) at the spending unit level, with DDOs able to change the composition but not the size of the budget. However, supplementary grants impact both the composition and the size of the budget. Grants range from 10 percent to almost 100 percent of the budget (Table 2.2) and, as such, can severely undermine budget credibility. A Sindh Public Financial Management and Accountability Assessment undertaken in 2013 give poor scores (D/C) to the Sindh government on budget credibility. Since this 2013 assessment, matters have improved somewhat, but budget credibility remains a major concern.

Table 2.2: Post-approval changes in the budget (PRs billion and percent)

PRs billion	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Original budget	51.5	59.0	84.2	85.1	194.4	223.5	255.6
Plus supplementary grants	5.2	14.4	10.9	81.3	46.0	44.1	33.1
Plus net re-appropriations	0.1	0.7	0.1	0.5	-0.2	-0.1	0.1
Final budget	56.8	74.2	95.2	167.0	240.2	267.5	288.9
Releases	49.0	68.0	82.4	126.9	197.3	215.3	245.0
Expenditure	42.8	56.2	73.0	140.0	197.8	219.8	236.0
Memo items:							
Final budget as a % of original budget	110	126	113	196	124	120	113
Supplementary as a % of original budget	10	24	13	96	24	20	13
Releases as a % of final budget	86	92	87	76	82	81	85
Expenditure as a % of releases	87	83	89	110	100	102	96

Source: Data from Accountant General of Pakistan, Author's calculations

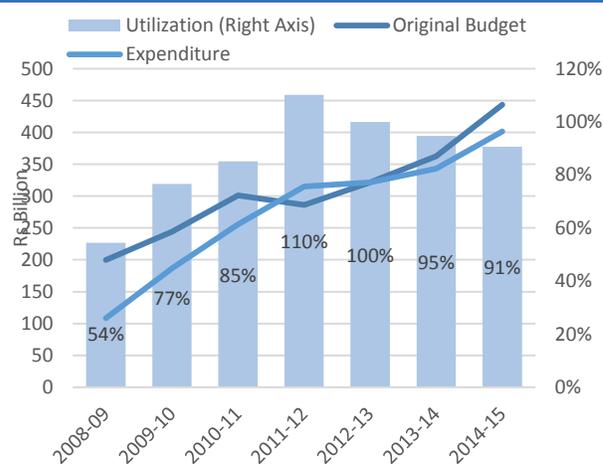
Despite budget-enhancing provisions, overall expenditure generally tends to fall short of the budget.

Control measures have been effective in maintaining the budget, but perhaps at the expense of efficient public spending.

While the re-appropriation provision and especially supplementary grants create a situation in which expenditure could significantly exceed the approved budget, various control measures adopted by the Finance Department (FD), together with the weak absorptive capacity of line departments, have avoided substantial breaches in the overall budget. In general, expenditure falls short of the approved budget (Figure 2.15). The main tool adopted by the FD to avoid any breach of fiscal discipline is the control of budgetary releases. Budgetary funds, also for recurrent expenditures, are released in multiple tranches and on the basis of line departments meeting certain criteria and the availability of funds. As can

be seen in Table 2.2, the release of funds falls short of the revised budget (original budget plus approved supplementary grants) by as much as one-quarter. Nevertheless, this still does not show the overall impact of budgetary “control” measures. Generally, a large portion of budgetary funds is released to the line departments late in the fiscal year, making its full use by the line departments almost impossible. Although this helps to keep overall expenditure within budget limits, it may also undermine the objectives for which these budgetary allocations are made.

Figure 2.15: Budget and utilization (PRs billion and percent)

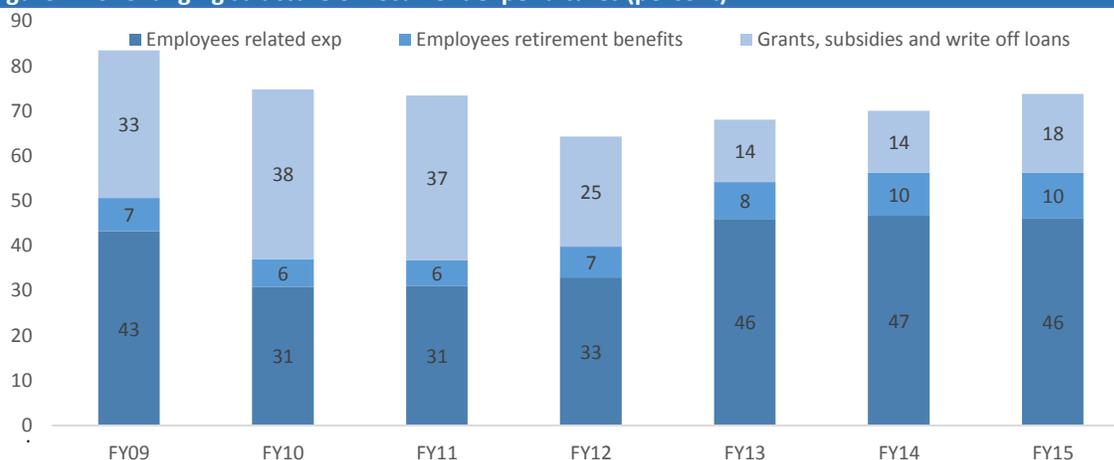


Source: Data from FD & Accountant General of Pakistan, Authors calculations.

2.2.2.2 Fiscal Risk

Much of the recurrent budget is already committed to government employee-related spending and the servicing of provincial debt, while on top of these commitments there are significant potential downstream fiscal risks for the government. Following the 7th NFC Award, there has been a significant increase in government employees-related expenditure on salaries, allowances, and pensions, and this has also increased rigidities and fiscal risk. An important issue in this regard is the rapid increase in pension liabilities of the Sindh government. Over the 6 years from FY09 to FY15, spending on pensions has almost doubled, both in absolute terms and as a ratio of total recurrent expenditures (Figure 2.16).

Figure 2.16: Changing structure of recurrent expenditures (percent)

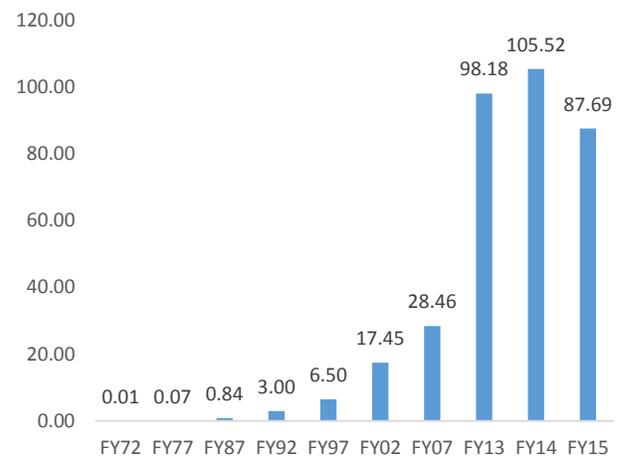


Source: Data from Accountant General of Pakistan and author's calculations

Looking forward, pension liabilities are expected to remain on a rapidly rising trend, limiting fiscal space to increase allocations for other needs. The age profile of government employees in Sindh is such that pension liabilities will increase significantly over the coming 15 years. Currently, there are more than 140,000 pensioners of the Sindh government and more than 480,000 government employees with a median age of 45 years. This implies that if the government retirement age remains at 60 years, more than 240,000 additional government employees will join the pool of pensioners over the next 15 years. Moreover, a significant number of government employees retire before the age of 60. Assuming that half of the current beneficiaries survive, the total number of beneficiaries will be about 310,000 after 15 years. Pension spending that used to be about PRs 42 billion could increase to PRs 93 billion (in constant Pakistani rupees of FY15). If the present rate of increase in pension spending remains at the current level, it will rise from 22 percent of government employee-related expenditure currently to about 48 percent in 15 years' time.

Besides pensions, the General Provident Fund³² has become another significant liability of the Sindh government, as it is now the second-largest component of the provincial government's total debt. The General Provident Fund (GPF) liability that was PRs 12 million in FY72, PRs 836 million in FY87, and PRs 6.5 billion in FY97, jumped to over PRs 100 billion in FY14 (Figure 2.17). The GPF liability of the Sindh government increased fivefold from FY02 to FY15. Moreover, in FY07, GPF liability was about one-quarter of the total debt of the Sindh government and, in FY15, this liability increased to 35 percent of total debt. If this trend continues, which is highly likely, GPF liability will reach PRs 228 billion by 2030.³³

Figure 2.17: GPF liabilities of GoS (PRs billion)



Source: Finance Department, GoS

This unfunded nature of the GPF poses another significant risk to the sustainability of public finances in Sindh. The Sindh government has long been aware of the fiscal risk emanating from the GPF liability and, in order to cover the risk, established the Sindh General Provident Investment Fund (SGPIF) in 2007. The Sindh government has been building up the assets of the SGPIF to meet future liabilities than it could incur from the GPF. The SGPIF was established with seed money of PRs 2 billion in the FY08. The main objective of the SGPIF was to use the returns earned to pay off, including profits, which is generally fixed at a rate determined by the government on an annual basis. The closing balance of the SGPIF was PRs 28 billion on June 30, 2013, and PRs 37.6 billion on June 30, 2015, or 43 percent of the GPF liabilities at that time. There is a need to accelerate the funding of this vehicle.

Private-public partnerships, although a definite opportunity, may also pose some actual and contingent fiscal risks. The Sindh government is relying increasingly on public-private partnership (PPP) schemes to develop infrastructure, with the goal of increasing the efficiency of investments and asset management.

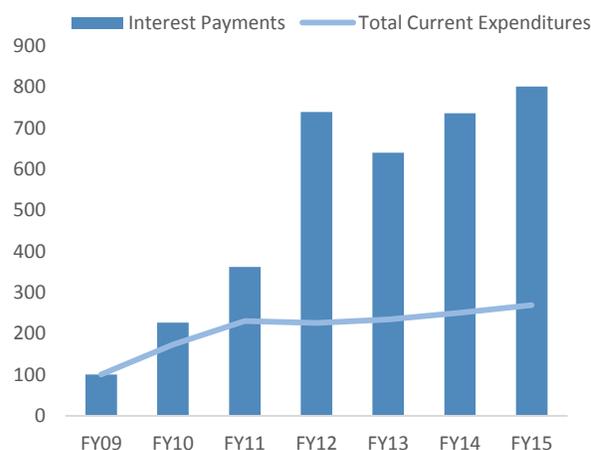
³² GPF, or the General Provident Fund account, is a provident fund account that is available for government employees. A government employee can become a member of the GPF by contributing a certain percentage of their salary to the account.

³³ The rapid increase in GPF liability is attributable to a higher-than-market rate of interest applied to the amount contributed by employees as a mandatory deduction from their salaries, despite the fact that no asset is actually created. The government-determined interest rate paid on the GP Fund amounted was 9 percent in the 1970s, 20 percent in the mid-1980s to mid-1990s, 21 percent in second half of 1990s, and 13 percent in the first half of the 2000s.

However, PPPs can also create challenges for provincial finances, given that PPP projects entail long-term fiscal implications and can be contingent on risks. These could impose fiscal risks for provincial financial management in the form of direct liabilities (commitments not dependent on the occurrence of an uncertain future event) and contingent liabilities (commitments whose occurrence, timing and magnitude depend on uncertain future events outside the government's control). Through PPP projects, the Sindh government is acquiring a series of fiscal commitments that may constitute a significant fraction of the provincial budget in future. Six PPP projects with a total cost of PRs 45 billion have already been signed by the Sindh government, adding to its liabilities. Analysis shows that these direct and contingent liabilities from PPP projects will add to gross debt, equivalent to an additional 1 to 2 percent of provincial GDP.

Any deterioration in overall macroeconomic stability could pose fiscal challenges to the Sindh government through higher interest rates or a depreciating currency. Either of these external events could significantly increase debt servicing in domestic currency terms. Increased interest payments on foreign loans would reduce fiscal space available to the Sindh government and development expenditure would be badly affected (Figure 2.18).

Figure 2.18: Trend in interest payments, standardized base, FY09 to FY15



Source: Data from Accountant General of Pakistan and Author calculations

2.2.3 Development Expenditures: Poor Planning and Implementation

Sindh's current Vision 2030 was derived from Pakistan's Vision 2025 document at the federal level, published in 2014. The Chief Minister of the province has officially approved and presented the Sindh Vision 2030 to the province, as its own version of the national vision for development. However, Sindh's Vision 2030 has neither been debated nor ratified by the assembly. The Vision 2030 specifically includes the following six themes: (i) self-sufficiency in energy; (ii) quality education, health and safe drinking water; (iii) conservation of irrigation water, agriculture development and food security; (iv) an effective communications system; (v) industrial development through both the public and private sectors; and (vi) women's empowerment and equal opportunities.

The Sindh government does not have any all-encompassing provincial development strategy. There is, however, a Sindh Strategy for Sustainable Development (SSSD), which was prepared in 2007. Currently, the Sindh government is planning to develop a "Provincial Growth Strategy" with the help of the World Bank. Sector plans have been developed for education, health, agriculture, irrigation, energy, communications and mass transit.³⁴ For education and health, plans were prepared in 2014 and 2012, respectively, but have not been updated since then, and the link between the sector plans and the budget preparation process remains weak.

No district plans exist from a policy/financing perspective. District administrations are considered to be the executive arm of the provincial government and, as a result, no separate planning exercises are conducted. For the purpose of regional planning and infrastructure planning, the Government of Sindh passed legislation in February 2014 requiring every district to have a Master Development Plan.

³⁴ Budget Strategy Paper 2016-19, Government of Sindh.

The Budget Strategy Paper (BSP) presents projections for aggregate development spending, but the linkages with other budget documents are unclear. The BSP does not break down the forecasts of total development spending, either with respect to ministry/department/autonomous institution (MDA), or in terms of functional classifications as defined in the annual budget document. Therefore, it is not possible to compare the BSP forecasts of development spending with the numbers published in the annual budget appropriations, the PC-1, or other project documents.

2.2.3.1 Investment priorities

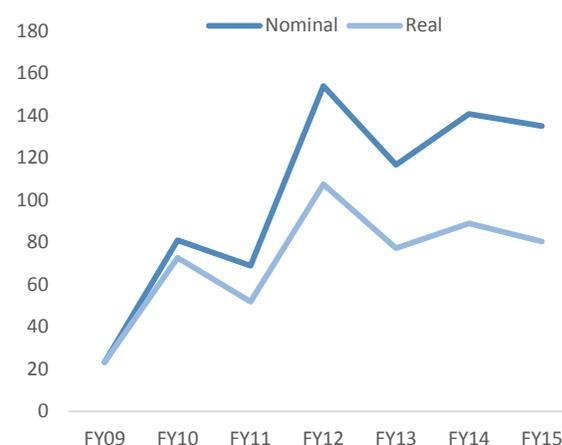
A brief overview of sector plans presented in the BSP is based on the Sindh Vision 2030. However, the linkage between these two documents is not clearly established in the BSP. The priority sectors identified for the next 3 years are: (i) energy; (ii) communications; (iii) agriculture and irrigation; and (iv) health and (v) education. However, it is unclear how project costs in the sector plans are incorporated into the expenditure forecast.

The Medium-Term Budgetary Framework (MTBF) only covers recurring budget estimates with expenditure ceilings that are usually incremental, but with no formal negotiation process occurring between individual departments and the Finance Department. The MTBF has been implemented in eight (out of 33) departments since its inception in 2009.³⁵ Core budget committees have been established in each department in which the MTBF has been implemented. These are the primary decision-making groups within each department for all budget-related matters (target-setting, output indicators and strategic direction). Except for education and health, no other sector plans or costed strategies have been developed.

In recent years, the composition of public expenditure has tilted towards development expenditures. Development expenditures, which were only PRs 23 billion in FY09, increased to PRs 179 billion in FY15, an average increase of 40 percent per year (Figure 2.19). In real terms, development expenditures grew on average by 23 percent per year during this period. This is a significant increase compared with real recurrent expenditures, which grew on average by about 9.5 percent per year (Figure 2.20).

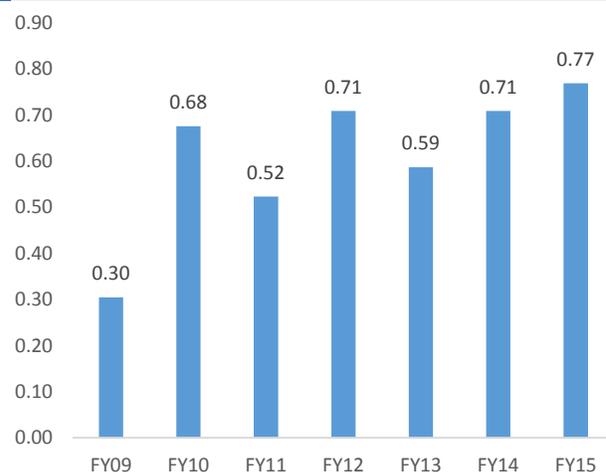
Nevertheless, weak planning and implementation have led to significantly lower spending than envisaged in the budget (Figure 2.21a/b). Higher allocations in the budget indicate the Sindh government's desire to focus resources on major infrastructure, with the goal of spurring growth

Figure 2.19: Development expenditures (PRs billion)



Source: Data from Accountant General of Pakistan and Author calculations.

Figure 2.20: Development budget execution (percent)



Source: Data from Accountant General of Pakistan & Author calculations.

³⁵ Education and literacy, health, irrigation, agriculture, livestock and fisheries, social welfare, special education, and energy.

and creating jobs. However, these allocations do not guarantee the desired outcomes, especially in the absence of improvements in the soft aspects of investment, such as the efficiency of allocations and operations through better project selection and implementation. As a result, budget utilization is very weak. Budget execution is also weak and, in some years, only half of the planned expenditures are undertaken (Figure 2.20).

There is a major difference between budgeted allocations and actual development spending. Economic affairs and general public services have seen significant increases in their respective shares over the past few years. The challenging law-and-order situation has also resulted in more allocations and spending on law and order. It is also clear from Figure 2.21a/b that spending patterns reflect ad-hoc decision-making, with actual expenditures varying considerably from year to year. Figure 2.21a/b also illustrates a significant difference between budgeted and actual expenditures.

Figure 2.21a: Share in development budget

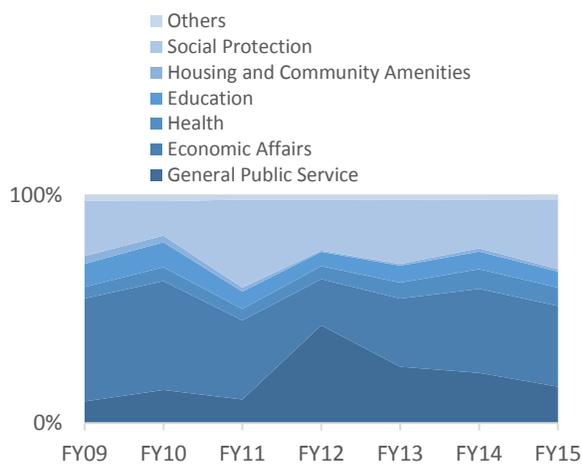
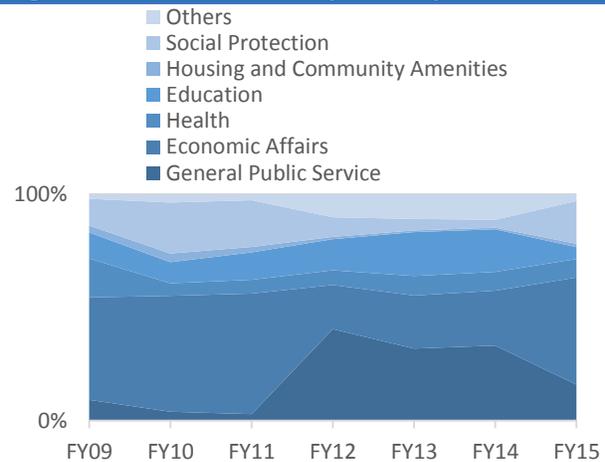


Figure 2.21b: Share in development expenditures



Source: Data from Finance Department & Accountant General of Pakistan and the author's calculations.

2.2.3.2 Performance of Sindh Annual Development Plan (ADP) Portfolio

The Sindh government has earmarked PRs 196.2 billion for development in FY17, a massive increase of 38 percent on the previous year (Figure 2.22). The Annual Development Plan (ADP) for FY17 places a major emphasis on projects that are aligned to the Sindh government's development priorities. The major thrust of the ADP is towards irrigation, the improvement of infrastructure, and investments in the energy sector, with special emphasis on Thar coal infrastructure development. The education, health, nutrition, and youth affairs sectors were also prioritized. In addition, focus has been given to making agriculture and industry more economically viable. Moreover, special schemes have received an allocation of PRs 29 billion, while PRs 24.3 billion has been allocated to the Local Government Department (Figure 2.23).

Figure 2.22: Annual growth in ADP collection, FY11-FY17

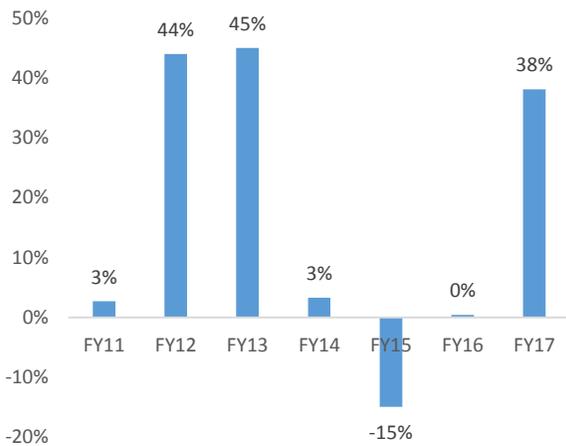
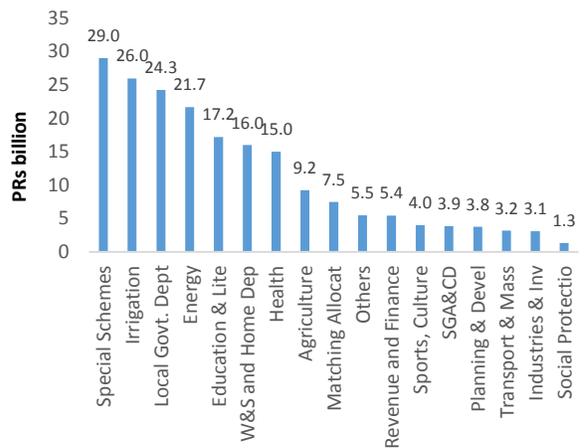


Figure 2.23: Sector wise ADP allocation in FY17



Source: Planning and Development Department, GoS.

The size of the development portfolio has increased due to the inclusion of many new projects. The total number of projects has now reached to 2,686, including 934 new schemes added in the ADP FY17, compared with 2,352 projects including new 592 schemes in the previous year (Figure 2.24a).³⁶ At the same time, the share of new projects in the ADP allocation has also increased, jumping from 25 percent to 41 percent in the past 2 years, while allocations to ongoing projects have significantly declined from 75 percent to 59 percent in the total allocations for FY17 (Figure 2.24b). This decline in allocations could result in time and cost overruns.

Figure 2.24a: ADP composition - New vs ongoing projects (% of total projects, RHS)

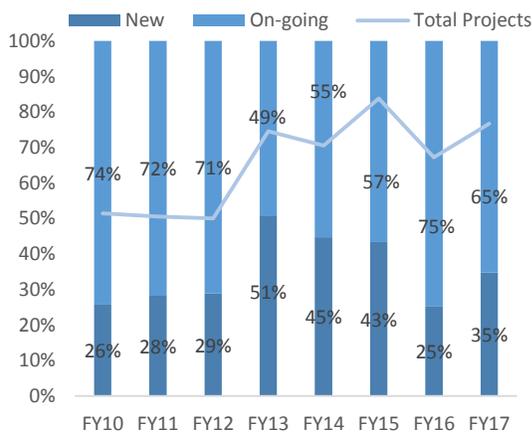
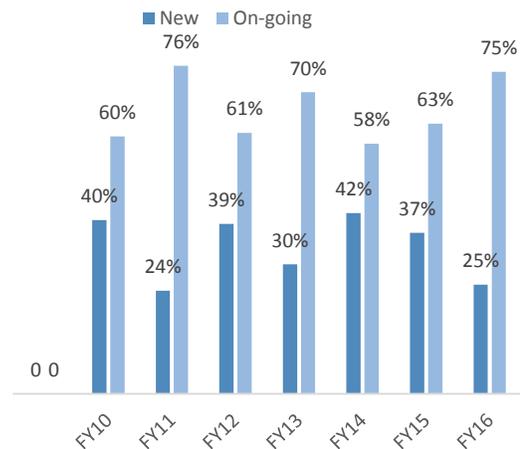


Figure 2.24b: ADP allocation - New vs ongoing projects (% of total allocation, RHS)



Source: Planning and Development Department, GoS.

In contrast to the principles of good budgeting, the Sindh ADP contains a significant number of unapproved projects. This practice creates a concern that some of the projects included in the portfolio may not have been adequately prepared. Many new projects enter the portfolio without prior approval with, for example, almost 34 percent of projects in the ADP FY17 being unapproved (Figure 2.25a).

³⁶ A separate sector is called the “Thar-Coal Infrastructure Development”, including ongoing schemes in the Thar Desert with an allocation of PRs 11.53 billion.

Moreover, these unapproved projects command a significant share of the development budget, a share that has been on an upward trajectory in recent years. For instance, these projects have been allocated about 35 percent of the development budget in FY17, a significant increase on the 24 percent allocated in FY14 (Figure 2.25b). The large number of unapproved projects indicates inadequate capacity to prepare projects, likely leading to low implementation readiness and a limited pipeline of worthwhile projects. The result is likely to be delays and wastage.

Figure 2.25a: ADP composition - Approved vs unapproved projects (% of total projects)

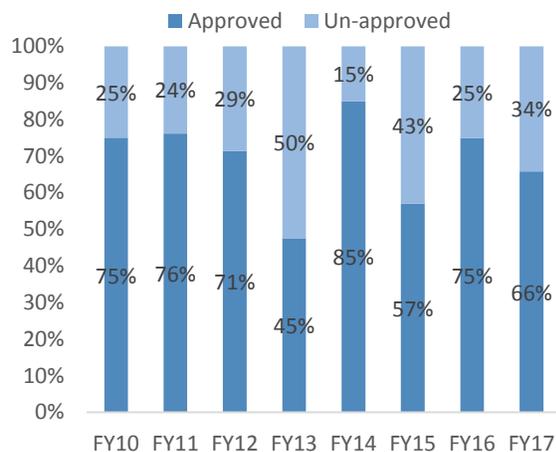
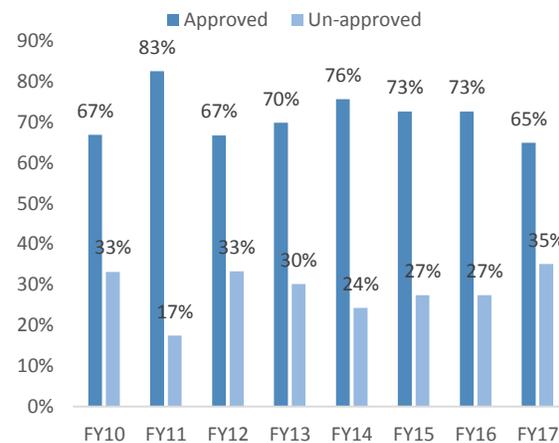


Figure 2.25b: ADP allocation - Approved vs unapproved projects (% of total allocation)



Source: Planning and Development Department, GoS.

Projects are selected for the ADP without having to go through an appraisal process, which is instead undertaken after a project has been selected (Box 2.2). New projects within the current year's (FY17) ADP do not have an underlying feasibility study (PC-II), or a project planning document (PC-1) at the time the ADP is approved.³⁷ Instead, the appraisal is done after selection. The reason for this is that the estimated costs of a project vis-à-vis the annual allocations in the ADP are unreliable and change significantly over time. It also leads to delays in starting the project, as the best part of the first year of execution is consumed in preparing the project documents (PC-II and PC-I). However, anecdotal evidence from other provinces suggests that projects that enter the ADP unapproved are prepared and implemented to lower standards than projects that undergo proper preparation before entering the ADP.

Box 2.2: Project appraisal

It is not possible to trace individual projects to the provincial strategy, because there is no single document that can be viewed as a long-term provincial strategy. While the Sindh government has prepared the Sindh Vision 2030, no medium- to long-term plan has been developed to translate this strategic vision into a definite public investment management plan. Thus, as a broad outline of strategic direction, the Sindh Vision 2030 may be a good reference point. The Sindh Vision was developed as part of the National Vision 2025 exercise in 2014. The Sindh government, with assistance from the World Bank, is currently developing a provincial growth strategy that would serve as a foundation for a public investment management program/development action plan.

For those sectors where sector plans have been developed, the annual schemes are generally in line with sector policies. However, sector plans do not identify the actual projects and the funding requirements are provided at the policy level (aggregated). Sector plans have now been prepared for education, health, energy, agriculture, irrigation and drainage, communications and mass transit.

The project appraisal process is centralized at the Planning and Development Department (P&DD) and

³⁷ The provincial ADP is the approved (by the legislature) in the development budget for the year. The ADP contains a list of development schemes, along with the estimated total costs and allocations for the year.

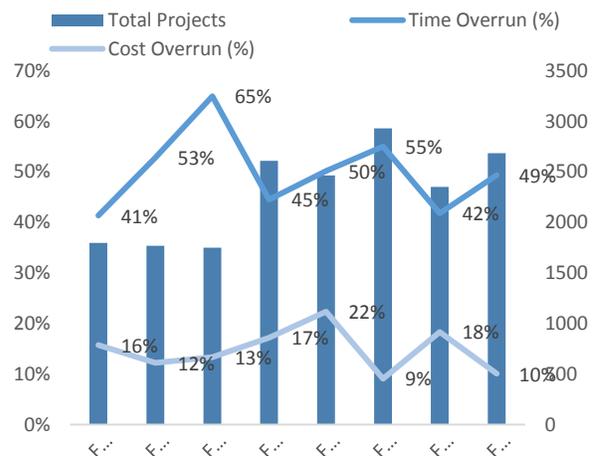
undergoes various stages of screening before final approval is granted. Each project passes through multiple reviews at different forums depending upon their size and complexity. Before a project can be submitted for approval, it has to be cleared by a technical group comprising officials from P&DD and the relevant line department. For large and more complex projects, such as those in the energy or communications (multi-billion-dollar mass transit projects) sectors, a feasibility study or survey is mandatory before a PC-1 can be prepared. Large projects with high visibility tend to have greater political backing and more support during the project appraisal and approval process.

There are no formal guidelines/checklist for appraisal, but a PC-1 requires that project objectives should be clearly traceable to the sector plan with proper justification being provided. However, during the project appraisal process very few queries are raised on the justification and its relevance to the sector plan. Although the approved unit cost rates are available for infrastructure projects, these are not updated in a timely manner, often resulting in significant under-budgeting of the project cost. There is also a lack of national guidelines for planning capital projects, which is an essential requirement. Compliance with PC-1 requirements pertaining to financial and economic analysis is weak. Due to the lack of capacity within line departments, compliance is limited to stating economic assumptions and future cash flows.

Development projects are either identified by the line department (bottom up), or instructions can come directly from chief ministers (top down). For line departments, the P&DD annually issues guidelines for ADP preparation, which set out the criteria for project selection. While these guidelines are generally adhered to by the line departments, they are limited in their timeframe (to 1 year) and focus on annual budget allocation instructions (between new and old projects), rather than on establishing preliminary screening criteria for project selection. After the approval of the relevant minister, the project proposal/concept is submitted to the P&DD for review and finalization for inclusion in the ADP.³⁸

There are significant time and cost overruns in the development portfolio. The ADP portfolio is highly fragmented, with a large number of small projects. The number of new projects has increased over the past 2 years, after a trend towards consolidation in FY15. By adding new projects while also continuing with all existing projects, this tends to dilute scarce resources for the existing projects in the portfolio. Consequently, around 50 percent of projects take longer than envisaged at the planning stage. In addition, cost overruns have occurred in about 10 percent of projects that should be completed according to the ADP plan in FY17 (Figure 2.26). These delays and cost overruns together result in lower economic returns to investment and the deferral of projected benefits into the future, in turn eroding the efficiency of the overall investment portfolio.

Figure 2.26: Operational efficiency (no. of projects, RHS)



Source: Planning and Development Department, GoS.

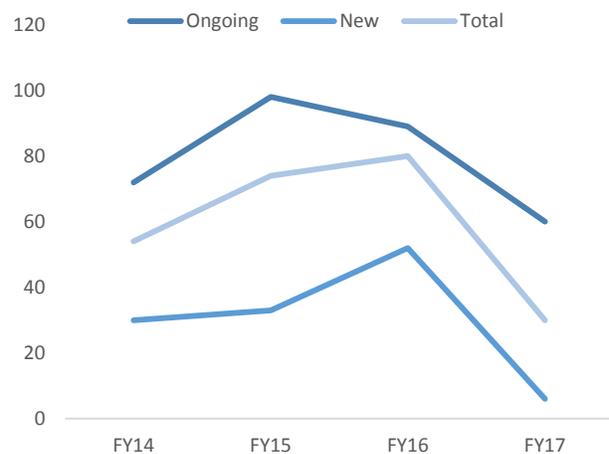
³⁸ Those projects selected on the basis of instructions from the chief minister automatically qualify for the ADP. They do not go through the preliminary screening process for selection, but instead have very strong political ownership. A block allocation in the ADP is made for such projects and, similar to others, the detailed concept and project planning documents are prepared after the ADP approval. These projects not only receive preference on allocation and releases, but their execution is also monitored closely. There are instances where these projects are not part of the original ADP and have been conceived and approved during the financial year. In such cases, they are classified as a non-ADP project.

Part of the problem is due to low capacity in the line departments. The departmental staff responsible for preparing projects often does not have the required skills or the information needed to prepare high-quality projects. This results in continuous revisions in the timeframe and the costs of the projects. As a result, it is difficult to manage the overall ADP portfolio, resulting in significant throw forward of the portfolio. In addition, line departments tend to under-cost projects so they can be included in the ADP.

Project authorities do not have reliable information for committing expenditure to capital projects and, in most cases, the commitments are much more than the funds available. Once the ADP is approved, the line departments have no discretion regarding prioritization. The release of funds for development expenditure is at the discretion of the P&DD, which releases funds for projects based on numerous variables. In the current year, FY17, the Sindh government has issued a release strategy splitting funds between ongoing and new projects, where ongoing projects are given priority. The strategy also takes into account the size and stage of completion of capital projects.

In the current year, releases for development projects are once again suffering from an inconsistent release pattern. Annual releases are skewed towards the final quarter of the fiscal year, as evident in the current year, FY17. In this fiscal year, after 6 months only 30 percent of the total allocations had been released. In addition, the release of funding for new development projects suffers from the consistently late approval of the PC-1 documents, which is one of the key factors in the delayed start of projects. The process for PC-1 preparation takes around 3-6 months after the start of the fiscal year.

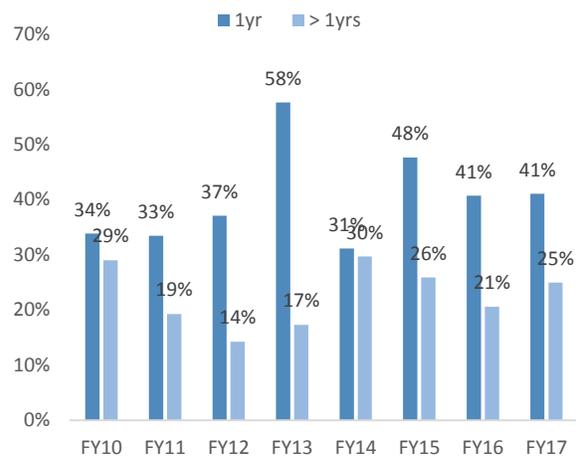
Figure 2.27: Release pattern across fiscal years (% of the original budget)



Source: Finance Department, GoS.

All of these issues result in significant delays in the actual execution of projects. For instance, during FY13, about 58 percent of projects were present in the portfolio for 1 year but no spending occurred, while 17 percent of projects were present for more than 1 year, but no spending occurred. This situation has deteriorated subsequently, as about 25 percent of projects in FY17 have remained inactive for more than 1 year after their inclusion in the ADP (Figure 2.28). Interestingly, some of these projects have been in the portfolio for more than 5 years, implying that the portfolio would benefit from a major “cleaning out”, with the removal of all those projects that are no longer economically viable.

Figure 2.28: Projects with no expenditures (% of total projects)



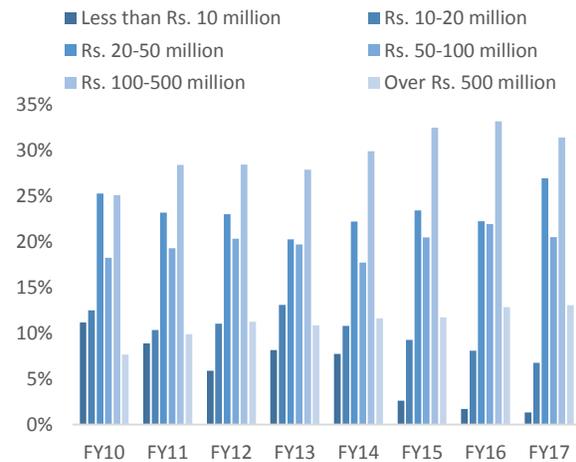
Source: Planning and Development Department, GoS.

Over the years, the proportion of relatively large projects has remained high. About 65 percent of the projects in the FY17 ADP have a total estimated cost of more than PRs 50 million, of which 44 percent of total projects have an estimated cost of more than PRs 100 million, while only 8

percent of all projects in the FY17 ADP have a cost below PRs 20 million (Figure 2.29). There may be a need to consolidate small projects, as smaller projects still require significant administrative resources. This implies higher implementation costs and greater resources at the P&DD for monitoring and implementing projects, resulting in lower economic or social returns.

Meanwhile, the average allocation is increasing at a far slower pace than the average project size. ADP allocations averaged around 20 percent of project costs (Figure 2.30a).

Figure 2.29: Portfolio distribution in terms of cost, FY10 to FY17 (% of total projects)

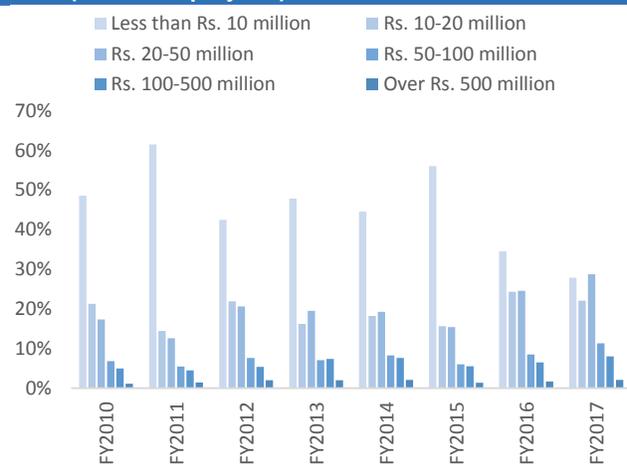


Source: Planning and Development Department, GoS.

Figure 2.30a: Ratio of average allocation to average cost, FY10 to FY17



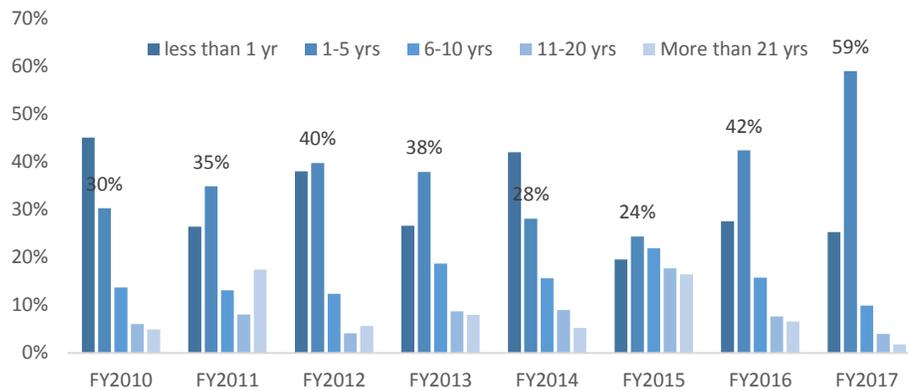
Figure 2.30b: Distribution of portfolio allocation, FY10 to FY17 (% of total projects)



Source: Planning and Development Department, GoS.

Despite a higher average cost than average allocation ratio, projects are likely to be completed within 5 years. For instance, almost 84 percent of projects in the ADP portfolio (59 percent of them are ongoing) are expected to be completed within 5 years. Nevertheless, the current level of allocations for some projects is clearly insufficient to ensure timely completion. Around 154 projects (6 percent of all projects) in the FY17 ADP portfolio will require between 11 and 100 years completing at the current levels of allocation (Figure 2.31). Some of these projects may not be receiving their required allocations due to changes in priorities. Therefore, a complete review and overhaul of the portfolio should be undertaken.

Figure 2.31: Project completion time with current level of allocation

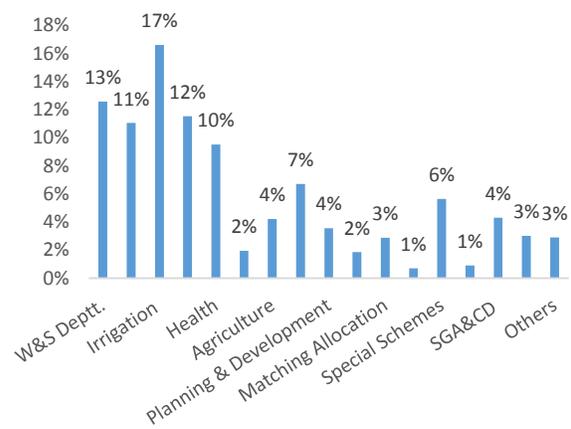


Source: P&DD, GoS.

Source: Planning and Development Department, GoS.

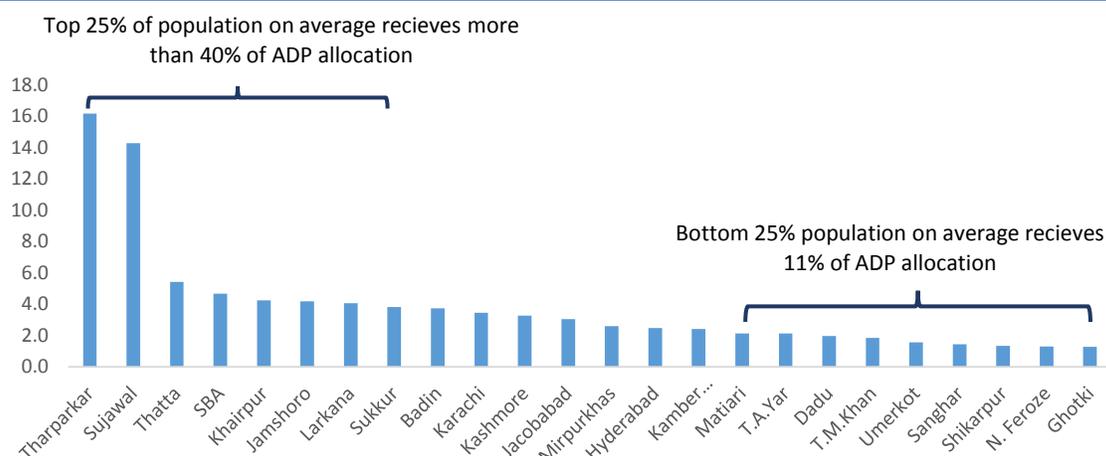
As a consequence of implementation delays and the dilution of overall development spending, throw forward of the development portfolio is significant. The inclusion of new projects every year, coupled with the slow implementation of the existing portfolio, adds to substantial throw forward of commitments—funds needed to complete existing development projects—which has increased by 13 percent compared with FY16. During FY17, around 83 percent of projects have throw-forward of over PRs 20 million. Much of the throw forward is found in the Irrigation Department, followed by the Works and Services Department, the Local Government Department and the Education Department (Figure 2.32). The Sindh government needs to focus on efficient completion, as well as rationalizing the size of the portfolio by eliminating non-performing and unapproved projects.

Figure 2.32: Throw forward by sector, FY17



Source: Planning and Development Department, GoS.

District analysis shows that per-capita ADP allocations vary significantly across districts. Per capita average allocation over the past 3 years shows that Tharparkar and Sujawal districts are the top recipients, with PRs 16,184 and PRs 14,796 per capita allocations, respectively, followed by Thatta, SBA, Khairpur, and Jamshoro. The districts receiving the lowest per capita allocations include Ghotki, N. Feroze, Shikarpur, Sanghar, and Umerkot. Moreover, a review of the past 3 years’ average per capita allocations shows that the top 25 percent of provincial population districts received around 40 percent of total ADP allocations, whereas the bottom 25 percent received only 11 percent of total ADP funds (Figure 2.33). It is important to review these allocations to ensure that the disparities correspond to explicit policy objectives.

Figure 2.33: Per capita ADP allocation, average FY15 to FY17 (PRs billion)

Source: Planning and Development Department, GoS.

Note: This analysis excludes the allocation for province-based projects amounted PRs 48 billion, PRs 45.6 billion and PRs 68 billion for FY15, FY16 and FY17, respectively.

2.2.3.3 Management of project implementation

The P&DD carries out centralized monitoring through its M&E section, which regularly submits its reports to the secretary of the P&D. The M&E section has a network district monitoring officer, who visits each project once a month within his/her respective district. These reports include issues regarding the project's financial and physical progress, quality, and reasons for any delays. The major focus of M&E is on infrastructure projects and very few reports are issued in respect of social sector reform programs. Similarly, there is no consolidated view of physical or financial progress of capital investment projects. In addition, it is not evident just how these reports are used or discussed in monitoring committee meetings for effective monitoring and mid-course correction.

For all mega infrastructure projects, Project Management Implementation Units (PMIU) are established with a project director directly appointed by the Sindh government. The project director is selected by the Chief Minister or the minister of the relevant line department from an existing pool of government officers, who may or may not have the relevant qualifications or experience for project management. The turnover of project directors is low and generally the senior staff does not change during the life of the project. For technical expertise, consultants are hired on short-term contracts. Project authorities find it difficult to appoint consultants on a market-based salary due to existing government hiring policies, which offers remuneration significantly lower than that of the market. As a result, consultant turnover is high, disrupting efficient work flows vis-à-vis project management.

Owing to weak contract management capacity, delays occur due to frequent disagreements between contractors, consultants and the PMIU. For mega infrastructure projects, there is a three-way contract agreement between the government (PMIU), the contractor and the consultant (engineer/supervision). The roles and responsibilities shared between the PMIU and consultants/firms are demarcated into the contract, but there is no standard practise of carefully vetting or seeking legal opinions before awarding a contract. This has resulted into many contracts being open to interpretation and, as a result, at risk of being abused.

The payment process is smooth and efficient, as the PMIU is provided with a dedicated special bank account, a Revolving Fund Account (RFA). An RFA is part of the Treasury Single Account (TSA), where funds are earmarked for the project in the form of a release. This arrangement allows project authorities

to make direct payments from the RFA to the contractor.³⁹ The contractor's bills are verified by an independent consultant for work done, which is subsequently approved by the project director prior to payment being made.⁴⁰ The Sindh government has issued clear guidelines for payment processing and the maintenance of underlying records, which include a "measurement book"—a core document that forms the basis of a contractor invoice and payment system.

No project planning is carried out and throughout the project life the PC-1 remains the only document used as a reference for planning. The PC-1 contains a high-level project implementation schedule, but without any details or step-by-step implementation process. Project authorities do not use any project planning tools to identify critical activities and flag potential bottlenecks (network analysis). Most importantly, for small infrastructure projects executed by the Works and Services Department (W&SD)⁴¹ most of the project management is carried out via informal communication and documentation.

2.3 Recommendations

Revenues

Review the fiscal transfer mechanism to bring it more into line with the needs of both levels of government and make it more "tax friendly". This requires each level of government to take a much broader and longer-term view of revenue needs and potential collections at the 9th NFC Award.

Revamp property tax to raise collection by improving policy and administration. This requires having more realistic valuation rolls, rationalization of exemptions and tax rates, levying tax on vacant properties, indexing the tax base, and reducing the differential in rates between owner-occupied and rented properties, and between residential and commercial properties.

Enhancing revenue yields of agricultural income to enhance equity in the tax system. This can be done by rationalizing exemptions, indexing the tax base (especially of land tax), and enhancing capacity of the BOR to enable it to better assess tax from the income mode.

Broaden the base of GST on services. It is important to gradually bring commercial and transportation services into the tax net, merging the professional tax into the GST on services, together with as many stamp duties as possible.

Recurrent Expenditures

There is need to ensure that sufficient resources are available for maintaining existing infrastructure so that it pays off in the longer term. This requires undertaking a complete stock-take of public physical assets, noting attributes such as age and usage, and updating this database annually. In addition, a district-level requirement for repair and maintenance expenditures should be drawn up, together with a link between development expenditures and recurrent budgeting to better understand the future spending needs for repairs and maintenance.

A complete review of public-sector remuneration and the pension system is required. It is proposed that the Sindh government undertake a medium-term assessment of the skills required to provide its services and to publish this for complete transparency. This should then be followed by the preparation

³⁹ In Pakistan, the accounting and payments are centralized with Controller General of Accounts (CGA) who works through network of district account officer to record and process payments. All bills are sent to DAO for payments but in case of RFA, the project authorities can make payments directly to the contractor.

⁴⁰ The project director has financial management team for accounting reporting and processing of the payments.

⁴¹ Each project under the W&SD is headed by an executive engineer (XEN). An XEN can have more than one project.

of an HR assessment of the public sector to better understand the skills available, the future HR needs, and the skills required to fill those jobs. The Sindh government should also consider undertaking an actuarial analysis of the pension system to better understand pension costs in the medium to longer term, and use this analysis in the medium-term budget framework to improve its credibility.

A better forecast of the resource envelope should be considered to improve budgetary accuracy, together with a complete evaluation of the release mechanism. This requires capacity building at the Finance and P&D Departments, strengthening the medium-term budget framework by including the development budget in the medium-term budget strategy paper and making it a part of the MTBF. This would help the government to link future operating costs with current investment decisions and establish fiscal discipline over the medium term. The government should also consider introducing a rules-based release mechanism in case of fiscal constraints, while also enforcing a ceiling for supplementary grants above which ex-ante parliamentary approval is mandatory.

There is a need to align budget allocations with medium- to long-term sectoral goals. At present, Sindh prepares its budget on an incremental basis that does not allow a complete re-evaluation of future requirements. There is a need to prepare sector strategies and budget these according to required outputs and outcomes, together with a need to strengthen the coordination mechanism between recurrent and development budgets. Ideally, this would allocate a one-line budget to line departments without hard distinctions between two, and allow reallocation between recurrent and development budgets based on the approved sector strategy.

Undertake an evaluation of the fiscal costs of different fiscal arrangements, such as SOEs and PPPs. This requires the establishment of a Fiscal Management Framework (FMF) for PPPs. The objective of the FMF is to assess, monitor, forecast, and report the whole range of fiscal commitments and contingent liabilities⁴² that can be created by PPPs, as well as strengthening the SOE monitoring mechanism and establishing an up-to-date database.

Development Expenditures

The Sindh government has developed a Vision 2030 that should be followed by the development strategy to translate aspirations into actions. This will require the preparation of a development framework establishing broad fiscal parameters, development objectives, and priority programs. There is also a need to carry out consultations with the legislature and the public dissemination of a draft document for public feedback within a given timeline; update and approve a development framework from the Cabinet; develop sector strategies in line with the development framework; and identify priority projects and prepare a consolidated portfolio of pipeline projects.

Budgets relating to all public investment projects should be entered into the government's financial management information system (GFMIS). There is need to prepare development budgets using the New Accounting Model (NAM) chart of accounts for all public investment projects to ensure transparency and completeness. Development budgets should be appropriated across all relevant elements of the chart of accounts. Currently budgets for most projects are lumped into only two items: salaries and operating expenses. A "Revised accounting procedure for Revolving Fund Accounts (RFA)" should be implemented for both development partner- and GoS-funded projects. The rules require that project

⁴² We refer to the explicit contingent liabilities, namely those that are subject to a contractual engagement.

authorities must reconcile and report expenditure to the Accountant General's (AG) office on a monthly basis, thus enabling detailed accounting of the RFA funds in the GFMIS.⁴³

An integrated database for public investment projects should be developed. There is a need to have a consolidated view of the progress of public investment projects within the DG M&E in the P&DD. Currently, this view is restricted to individual progress reports. Similarly, there is a need to prepare an asset safeguard policy and plan to develop a comprehensive non-financial-asset register at the P&DD. An integrated PIM information system (PIMIS) should also be developed and implemented, with an interfaced created with the PIFRA system for financial data and a PIM reporting framework developed. A PIM monitoring committee should also be established within the P&DD to review development progress and to issue directives for project authorities.

Use a criteria-based approach for project screening and project approvals. International experience suggests that political considerations trump objective evaluations when it comes to making choices for public spending.⁴⁴ There is a growing realization that the issue of unsystematic decision-making and ad-hoc selection can only be addressed if appropriate information/analysis is presented to decision-makers, enabling them to evaluate the opportunity costs of their decisions.⁴⁵ Therefore, there is a strong case for the P&DD to establish project appraisal criteria. Such a framework would provide basic guidelines to differentiate projects with respect to the government's development priority ladder. The criteria should be simple and easy to use. The P&DD should issue an evaluation framework that will serve all decision nodes in the project screening process (development strategy → approved pipeline projects → sector plans → proposed project) and should develop a protocol for early and extensive engagement of various stakeholders in development budgeting. The stakeholder spectrum would likely include legislatures, civil society members, media, etc. At the project level, the P&DD should review the "Manual for Development Project" in light of emerging requirements for projects. The two chapters in the manual that will specifically require updating are Chapter 4: Project Preparation and Chapter 5: Project Appraisal.⁴⁶ (Project preparation covers defining project objectives, scope, stakeholders, justification, geographical information, resource requirements and outcomes.) The government should develop guidelines to comply with PC-1 requirements and also provide legal cover (P&DD notification) so that the DG M&E⁴⁷ can ensure compliance with PC-III (cash flow projections), PC-IV (project completion), and PC-V (monitoring project outcomes).

⁴³ RFA is a designated bank account (notional) under the Treasury Single Account (TSA) concept generally used for large projects, where single line transfer is made into the RFA and, thus, no break downs of the budget or expenditure are available in the GFMIS. The detailed accounting is undertaken by the project authorities.

⁴⁴ Public Project Selection and Evaluation, Alex Mosesova and Sudhakar Kota.

⁴⁵ An Alternative Approach to Project Selection: The Infrastructure Prioritization Framework Darwin Marcelo, Cledean Mandri-Perrott, Schuyler House, Jordan Z. Schwartz World Bank PPP Group April 14, 2016.

⁴⁶ Currently, PC-1 form has 14 different formats as per specific requirements of each sector. "Manual for Development Project 2010"- Ministry of Planning Development and Reforms is also adopted and used by the provincial government.

⁴⁷ DG M&E is part of the P&DD's responsibility for project monitoring

Chapter 3: Are we getting the value for money? Sindh Education Sector

3.1 Introduction

This chapter presents a Public Expenditure Review (PER) of the education sector in Sindh Province.

The main objective of the chapter is to analyze the performance and adequacy of public expenditure in meeting the education policy objectives of Sindh Province. The chapter provides three analyses in order to achieve this goal: (i) a profile and trend analysis of service delivery statistics to present a profile of education sector expenditure and also comment on their adequacy; (ii) a profile and trend analysis of education sector expenditure in relation to the economic, functional, and objective classifications of that expenditure and its allocative efficiency; and (iii) an analysis of the effectiveness and equity of education sector expenditure by linking the expenditure to educational outcomes. This third analysis also highlights regional (urban/rural) and gender-based inequalities of expenditure, together with the absorptive capacity of schools to cater for the enrolment of additional children into the education system. Finally, conclusions and recommendations are provided at the end of the chapter for improving the effectiveness of fund utilization in the education sector. The analyses utilize secondary data from the following sources: the Project for Improving Financial Reporting and Auditing (PIFRA), the Sindh Education Management Information System (SEMIS), the Pakistan Social and Living Standards Measurement (PSLM) survey, and Student Achievement Test (SAT). The first two sources provide data on education sector inputs, while the second two sources provide information on educational outcomes.

3.2 Sindh Education Sector Overview

The education sector of Sindh comprises of three major departments responsible for six sub-sectors as identified in Table 3.1 below.⁴⁸ Mainly due to its relative importance in the Sindh government's development vision, the scope of this PER includes expenditure from the pre-primary through to higher secondary education levels.⁴⁹

Table 3.1: Public education sector overview

Department/ Responsible agency	Education sub-sectors ⁵⁰	Grade levels/years of education
School Education Department (SED)	<i>Katchi</i> / Early childhood education (ECE)	<i>Katchi</i> and pre-primary
	Primary education	Grades 1-5
	Middle/ Elementary education	Grades 6-8
	Secondary education	Grades 9-10
College Education Department Sindh Technical Education and Vocational Training Authority	Higher secondary education	Grades 11-12
	Technical/ Vocational education	

⁴⁸ Sindh Education Sector Plan 2014-2018.

⁴⁹ Throughout this chapter the "education sector" refers to primary, middle and secondary education (Grades K-10) unless stated otherwise.

⁵⁰ Pakistan's education system is divided into the following levels: primary school, or Grades 1-5 and middle school, or Grades 6-8. Primary and middle school combined are often referred to as elementary school (i.e., Grades 1-8). Secondary school is divided into two levels, namely high school, or Grades 9-10, and higher secondary school, or Grades 11-12. Grades 13+ are classified as tertiary education.

(STEVTA) Higher Education Department (HED) and Higher Education Commission (HEC)	Tertiary education	13-years of education and above
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Source: Staff exposition

The public sector remains the primary service provider of education in Sindh, catering to 60 percent of enrolled children (ages 5-16) in the province. However, the private provision of education services is sizable and growing, although data are lacking.⁵¹ Currently, there are more than 45,000 public schools in Sindh with a total enrolment of about 4 million students and a teaching force of about 150,000 spread across the province.

Overall, the education system is highly centralized, with administrative powers concentrated at the provincial level within the Education and Literacy Department. The Education and Literacy Department (E&LD) consists of two main branches: a secretariat and the allied institutions. The latter include various directorates, including the Directorate General of School Education (DGSE), which has a wide presence at the provincial and district levels, and is responsible for the implementation and management of education service delivery. Other institutions that play a critical role in the implementation of basic education reforms include the Reform Support Units (RSU), the Sindh Education Foundation (SEF), which is the conduit for public-private partnerships (PPPs) in education, the Sindh Textbook Board, the Curriculum Wing, Provincial Institute of Teacher Education (PITE), Sindh Teacher Education Development Authority (STEDA) and the Directorate General of Monitoring and Evaluation (DGM&E).

3.3 Context and Policy Framework

The Sindh government, in accordance with the National Education Policy 2009, passed the Sindh Right of Children to Free and Compulsory Education Act in 2013, as envisaged in Article 25A of the Constitution. This 2013 law on the right to free education stipulates that it will be provided to children from the age of 3 onwards until their completion of secondary education. Education is a priority that is also reflected in the province's Budget Strategy Paper (FY17 to FY19). The Budget Strategy Paper (BSP) of the Sindh Finance Department (GoS) declares that education is a priority and aims to address three challenging areas highlighted in the Sindh Education Sector Plan 2014-2018 (SESP), namely: (i) access; (ii) quality; and (iii) governance with a focus on eliminating social exclusion.

The Sindh government has implemented two phases of the Sindh Education Reform Program (SERP), SERP I and II, beginning in 2009. The objectives of SERP are to increase school participation, retention, and completion rates by improving sector governance and accountability, strengthening administrative systems, and providing direct incentives to students to enroll in education. To support these objectives, the program has introduced various reforms, including merit- and needs-based teacher recruitment; teacher education and development reforms; increasing access to schooling through public-private partnerships; establishing an assessment regime to conduct Grade 5 and 8 assessments; providing school specific non-salary budgets (SSB) directly to schools; and school consolidation.

The SESP serves as a guiding document to achieve education sector goals. In order to implement the SERP reform agenda, the RSUs together with development partners and the E&LD have developed a wide ranging SESP 2014-2018 that represents the input of 12 technical groups. Education has a critical role to play in achieving the provincial objectives of reducing poverty and regional inequality, and the

⁵¹ The share of enrolled children is derived from PSLM FY15 household survey. Data on private school enrolment are not available. The service delivery statistics on public schools are made available annually through the Annual School Census (ASC).

SESP serves as a guiding document to help achieve the education goals in the sector. The priorities highlighted in the SESP are:⁵²

- (i) Increasing equitable access to early childhood education (ECE), primary, middle/elementary and secondary education;
- (ii) Improving the curriculum and learning outcomes;
- (iii) Improving teacher quality;
- (iv) Strengthening governance and service delivery;
- (v) Improving resource allocation;
- (vi) Addressing adult literacy and non-formal basic education; and
- (vii) Addressing cross-cutting areas, such as ICT, education in emergencies, gender equity, social cohesion, and PPPs for education.

3.4 Education Sector Profile Analysis

The School Education Department (SED) provides education services to more than 4 million students through its 46,000 schools and 144,170 teachers (SEMIS, FY15). The Sindh E&LD's responsibilities include catering for school education, technical education, incentive programs, and development schemes to promote education in Sindh.

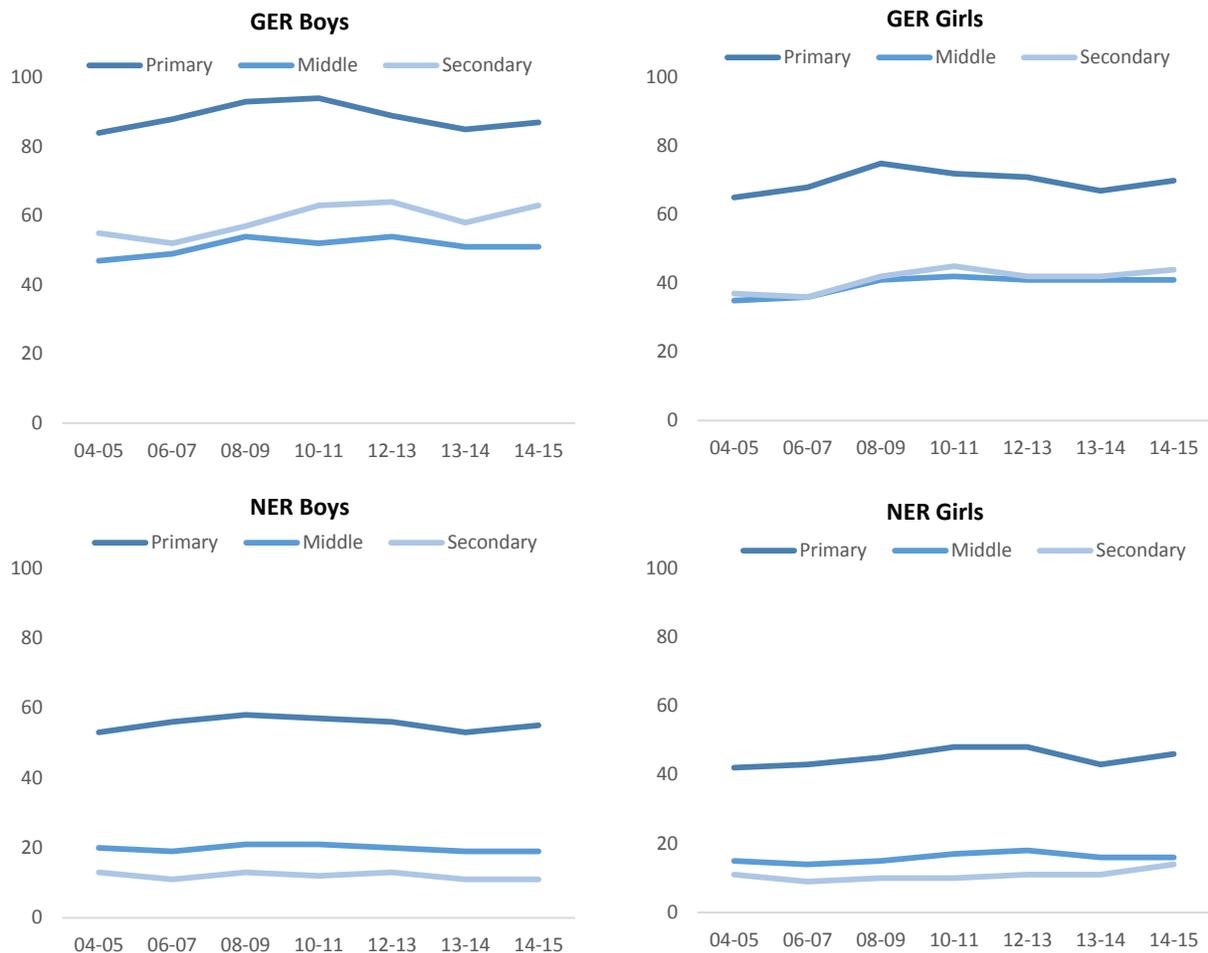
3.4.1 Sindh Enrolment and Learning Outcome Trends

Enrolment rates have registered minimal growth over the past decade. Figure 3.1 highlights school enrolment rate trends over the past 10 years utilizing data from the nationally and provincially representative Pakistan Social and Living Standard Measurement (PSLM) survey. Compared with FY05, there was a modest annual increase of 0.5 of a percentage point across almost all enrolment rates. Overall, enrolment rates increased until FY09. However, after FY11, they fell marginally until FY13. The reason for this more recent decline in enrolment as cited in the PSLM report was the devastating impact of the floods that occurred in 2010 and in subsequent years. However, over the 2 years from FY13 to FY15, marginal improvements in primary education net enrolment rates (NER) were evident for both boys and girls (2- to 3-percentage-point increases), indicating that NERs are back on a positive track.

The middle-school level NER for both genders stagnated over the 2 years from FY13 to FY15, while the gender gap in enrolment narrowed at the secondary level. Interestingly, the secondary (matriculate) level NER for girls showed an improvement and was 3 percentage points higher than for boys, revealing a reduction in the gender gap at this level.

⁵² Sindh Education Sector Plan 2014-18, E&LD, Government of Sindh (Page 16).

Figure 3.1: Net enrolment trends by gender and level, 2005 to 2015



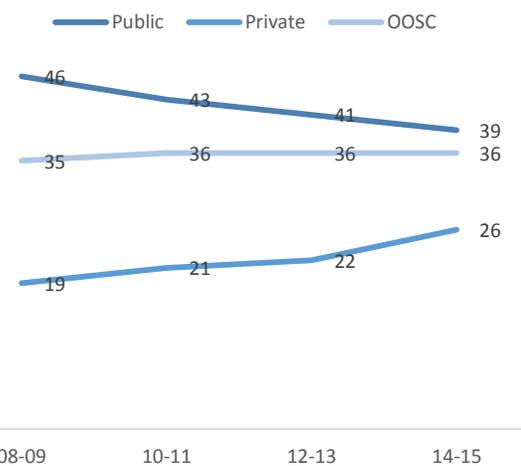
Source: PSLM Survey Reports.

There was no reduction in the percentage of out-of-school children in the period since FY09 to FY15. The proportion of out-of-school children (OOSC) remained stagnant from FY11 to FY15. This is shown in Figure 3.2, with the overall trends of school participation in Sindh for children between the ages of 5 and 16. However, the share of private school participation increased by 7 percentage points, while public school participation decreased by the same proportion from FY09 to FY15.

At the district level, school participation rates for children between the ages of 5 and 16 vary, and were low for most districts in the province.

Only three districts—Karachi, Dadu and Naushahro Feroz—had more than 70 percent of children enrolled in school. Fourteen districts of the

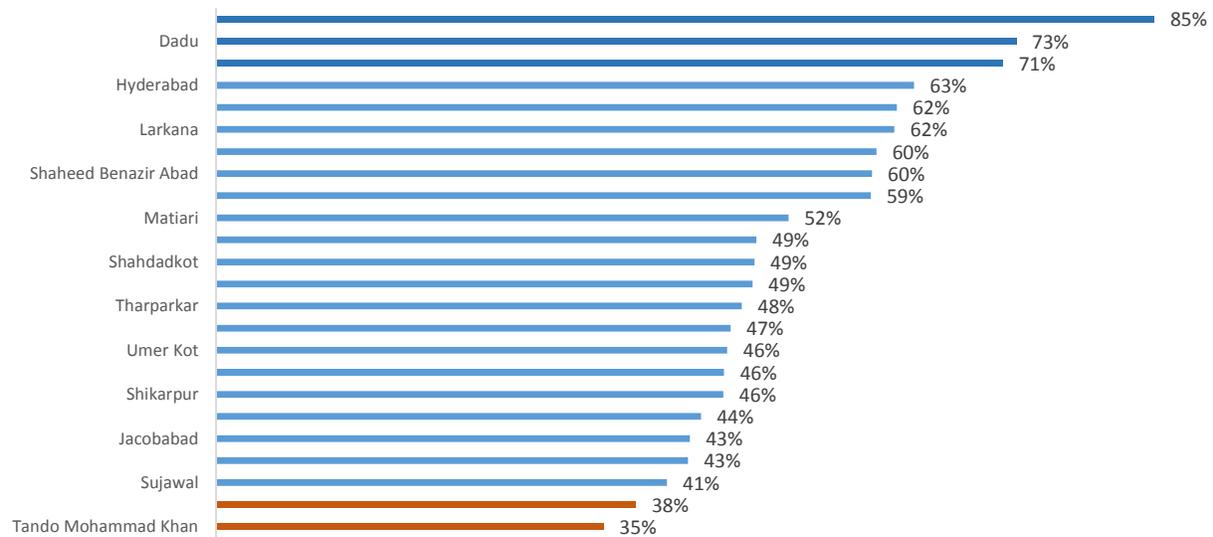
Figure 3.2: School participation trends by schooling status



Source: PSLMS Household data.

total 24 districts⁵³ in the province have less than half the school age population enrolled in school, and two of these districts (Tando Mohammad Khan and Kashmore) have overall participation rates of below 40 percent.

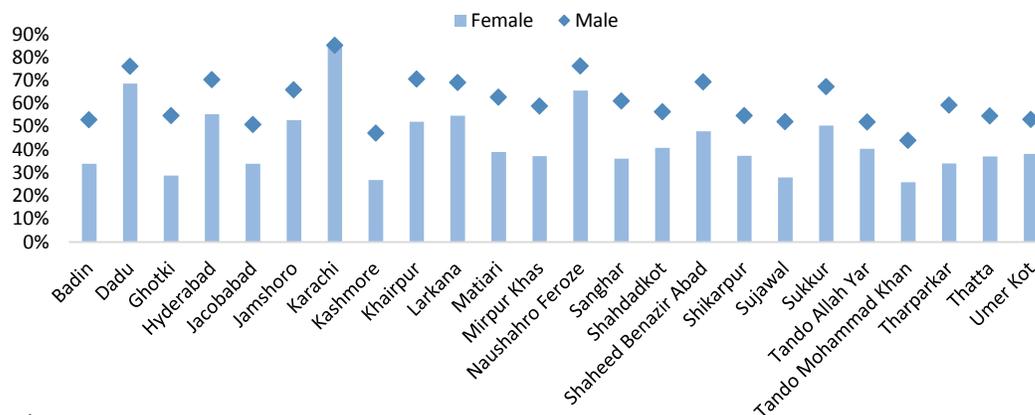
Figure 3.3: School participation rates by district, FY15



Source: PSLMS data FY15

There is a large differential in gender participation rates for children between age 5 and 16 across Sindh. As reflected in Figure 3.4, across all districts (with the exception of Karachi) female participation rates are lower than male participation rates. The districts of Ghotki, Tharparkar, and Sanghar have the greatest gender differential in participation rates, at more than 25 percentage points. Conversely, Karachi and Dadu districts have the closest gender parity.⁵⁴

Figure 3.4: Female and male participation rates, by district



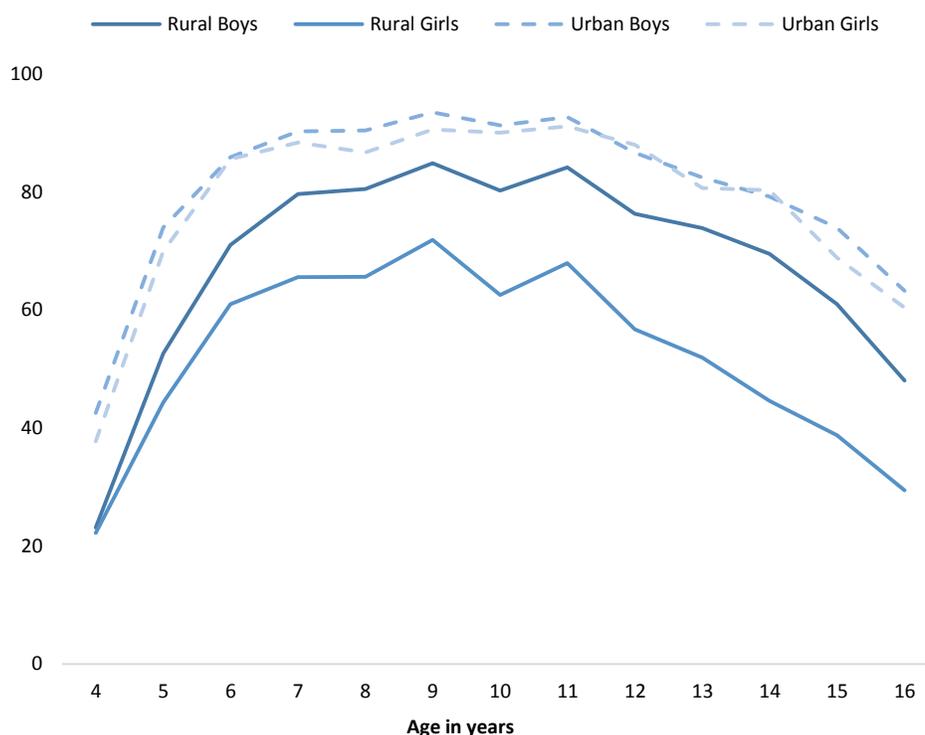
Source: PSLMS data FY15

⁵³ In fact, there are 29 districts in Sindh, as there are several individual districts in the urban areas of Karachi, Hyderabad and Larkana. However, in this research the districts in urban areas are combined, hence the appearance of 24 districts instead of 29.

⁵⁴ Source: PSLM data FY15.

There are a high percentage of out-of-school children, particularly in the early years and at the secondary level of schooling, with a persistent gender gap (across all age levels) in rural areas of Sindh. In Pakistan in general, but in Sindh in particular, there is a growing concern about out-of-school-children (OOSC) and early dropouts. Figure 3.5 shows school participation rates in both public and private schools by age, urban/rural location, and gender from household survey data. Most notably, urban girls are on a par with urban boys and the gender gap in school enrolment is eliminated at all ages in the urban areas of Sindh. However, in rural areas the story is very different, with school participation much lower than in urban areas, and the gender gap far more apparent. Rural girls are less likely than rural boys to be enrolled in school are and the gender gap increases with age, particularly when girls reach the age of 11 and beyond.⁵⁵

Figure 3.5: School participation rates by age, gender and urban/rural



Source: PSLMS data FY15

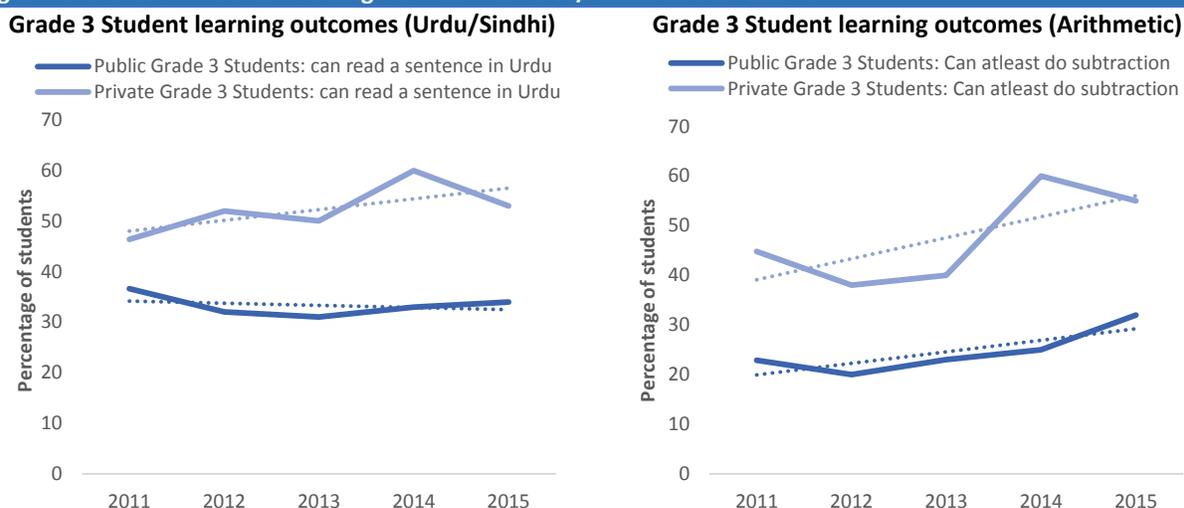
Late entry into the schooling system is a major challenge in expanding early childhood education (ECE) coverage in Sindh. Although boys fare better than girls at all ages in terms of enrolment outcomes, it is clear that early childhood enrolment (ages 4 and 5 years) is much lower than desired for both boys and girls. Children in urban areas are more likely than rural children to enroll in school at earlier grades. However, parents in both rural and urban areas appear to have no apparent bias against girls when it comes to early childhood enrolment, suggesting that age and urban/rural location affect girls' enrolment only at a later age.

Student learning outcomes are poor particularly in public schools. However, there has been some improvement in learning outcomes over the 5 years to 2015. Figure 3.6 shows Grade 3 student learning outcomes for public and private school students for Urdu/Sindhi and arithmetic in rural Sindh, as reported in the Annual Status of Education Report (ASER). It is evident that private school students on

⁵⁵ Statistics derived from PSLM FY15.

average perform better than public school students in both language and arithmetic. For public school students, there was significant improvement in Urdu/Sindhi learning outcomes between 2011 and 2015, and a 9-percentage-point increase in Grade 3 arithmetic learning outcomes during the same period. Despite this positive trend, only 32 percent of Grade 3 students can perform subtraction—one of the expected Grade 3 student learning outcomes.

Figure 3.6: Grade 3 student learning outcomes in Urdu/Sindhi and arithmetic



Source: Data from Annual Status of Education Report.

3.4.2 Public School Education Trends

The number of public schools has declined over the past five years, although the Sindh government has taken some steps to address the issue of closed schools. The service delivery profile of the education sector in Sindh between FY11 and FY15 is shown in Table 3.2. As expected, public education service delivery is dominated by primary schools. The number of primary schools declined continuously over the period of this review (from 48,914 to 46,039). This decline, however, was mainly due the government's efforts to consolidate primary schools, close non-functioning schools, and eliminate ghost schools. Similarly, middle schools also declined (from 2,505 to 2,316). However, high and higher-secondary schools increased from 1,887 to 1,999. The Sindh government has taken steps to address the issue of closed schools: in 2012, the government identified those schools that had been closed due to a lack of teachers but that still had potential for enrollment. These schools were then re-staffed with teachers and subsequently reopened.

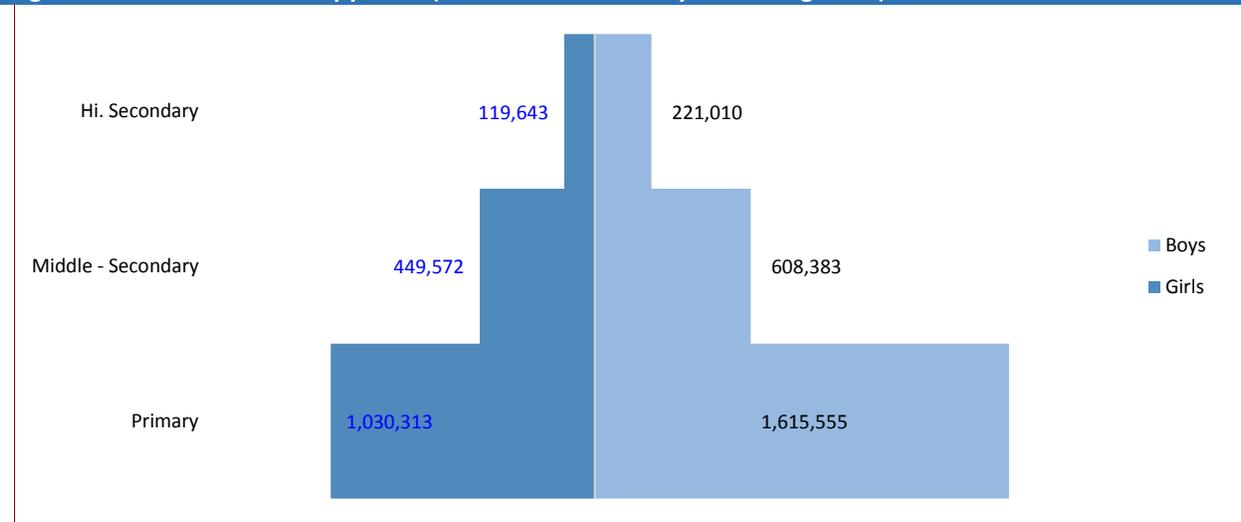
Student enrolment in public primary schools decreased by about 0.5 million over the 5 years to 2015.

Of particular concern is the fact that enrolment in public primary schools declined by 15 percent between 2010 and 2015, although there was a marginal improvement in enrolment at the elementary (primary and middle) level, with an 8-percentage-point increase in enrolment over the same period. At the secondary level, there was a sustained increase in enrolment, with a 31 percent increase in enrolment following FY11. This trend suggests that even if the transition rate from primary to middle levels is low, a large portion of students who do manage to progress to middle school continue their education to higher (secondary) grades.

There is a huge gender gap in the public education system and also a significant number of students (both boys and girls) who do not transition to the secondary level. The enrolment of boys in Sindh far outnumbers girls across all levels of the public education system (Figure 3.7). Gender parity is relatively higher at the middle-secondary level: data show that for every 100 boys, 64 girls are enrolled at the

primary level, 74 girls are at middle-secondary level, and 54 girls are attending higher secondary school. Annual School Census data from FY15 also show that enrolled girls fare better than boys in the transition from the primary to the middle-secondary level, but face higher drop-out rates than boys at the post-secondary level.

Figure 3.7: School enrolment pyramid (number of students by level and gender)



Source: Data from SEMIS FY15, and staff exposition

Table 3.2: Education profile by year and level of public sector schools

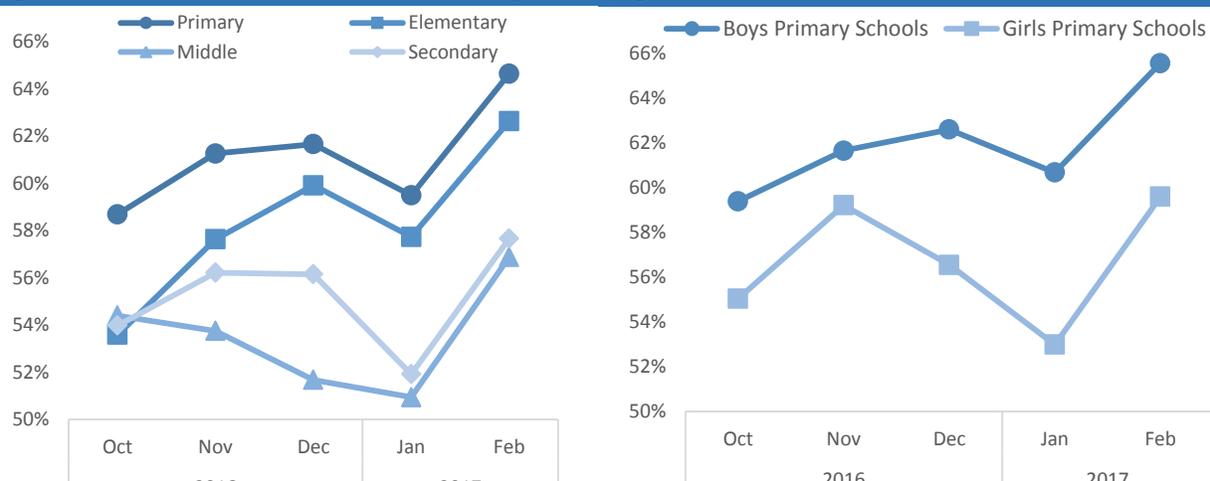
Description (Unit)	EMIS Survey Year					Trend
	2010-11	2011-12	2012-13	2013-14	2014-15	
Total School (numbers)	48,914	47,557	47,394	46,724	46,039	
Primary	44,522	43,089	42,900	42,342	41,724	
Middle/ Elementary	2,505	2,554	2,429	2,336	2,316	
Secondary/ Hi Secondary	1,887	1,914	2,065	2,046	1,999	
Total enrollment (numbers)	4,215,076	4,222,160	4,249,033	4,085,415	4,044,476	
In primary school	3,108,274	2,980,446	2,963,622	2,802,824	2,645,868	
In middle/ elementary schools	233,279	280,128	263,910	246,893	252,824	
In secondary/ Hi. Secondary schools	873,523	961,586	1,021,501	1,035,698	1,145,784	
Total teachers (numbers)	144,610	146,103	142,639	145,438	144,170	
In primary school	102,061	99,254	96,401	92,521	87,085	
In middle/ elementary schools	9,959	12,063	10,755	11,980	12,278	
In secondary/ Hi. Secondary schools	32,590	34,786	35,483	40,937	44,807	
Overall student per teacher (ratio)	29.1	28.9	29.8	28.1	28.1	
In primary school	30.5	30.0	30.7	30.3	30.4	
In middle/ elementary schools	23.4	23.2	24.5	20.6	20.6	
In secondary/ Hi. Secondary schools	26.8	27.6	28.8	25.3	25.6	

Source: Data from SEMIS FY15, and staff exposition

Four out of every 10 public primary school children were found to be absent in Sindh, and student absenteeism in girls' primary schools is higher than in boys' primary schools. Even those children who

are enrolled in public schools do not necessarily regularly attend school, as illustrated in Figure 3.8. An analysis of the Sindh Schools Monitoring System data collected by the DGM&E⁵⁶ finds that for primary schools that were visited by monitors over the past 5 months, student presence ranged from 59 to 68 percent. Student presence was lowest for middle schools (ranging between 51 and 57 percent), followed by high schools (52 to 58 percent). Across all levels of schooling (except primary and middle schools), student absenteeism was lowest in the month of January, which could be attributed to the fact that the winter break was extended to the second week of January 2017 due to a cold wave in Sindh. For primary schools, student absenteeism in girls' schools is consistently higher than in boys' schools, ranging between 3 and 8 percentage points during the FY11 to FY15 period.

Figure 3.8: Public school student attendance, by level and gender



Source: DG Monitoring and Evaluation, Oct 2016 to Feb 2017.

Student-teacher ratios have remained constant at the primary level and declined at higher levels, as both the numbers of teachers and students at the primary level have decreased. The number of teachers at the primary level has decreased substantially over the 4 years to 2014-15, falling by 15 percent. Given that primary enrolment also decreased over the same period, student-teacher ratios (STR) were relatively stable at the primary level. At the middle to higher secondary levels, the number of teachers actually increased substantially, by 34 percent and, as a result, the STR in these school levels declined.

Teacher recruitment has been unable to keep pace with the demand for primary school teachers. It is estimated that about 12,000 teachers retired between FY11 and FY16 (Table 3.3). This reduction in the teaching force was only partially compensated for by the recruitment of 9,444 teachers during the period from FY15 to FY16. During the same period, the biometric verification system resulted in 6,000 education sector employees being removed from the payroll.⁵⁷ In addition, another explanation for the decline in the number of primary school teachers is the change of levels of some schools: with the introduction of the school consolidation policy some primary schools were designated “campus” schools and are now included with high schools. The result is that 1,144 primary schools have now been consolidated with nearby high schools. As a result, it seems that with the decreasing supply of teachers and the lack of teacher recruitment, there is now a growing need to recruit additional teachers in the province.

⁵⁶ DGME data are collected by monitors who visit schools unannounced on a monthly basis in 15 districts (out of 24) in the province.

⁵⁷ The biometric verification was initiated by the DL&E to develop an HR database of all employees in the system. The biometric data have become a platform for developing a HRMIS and for developing the Sindh Schools Monitoring system. Source: RSU.

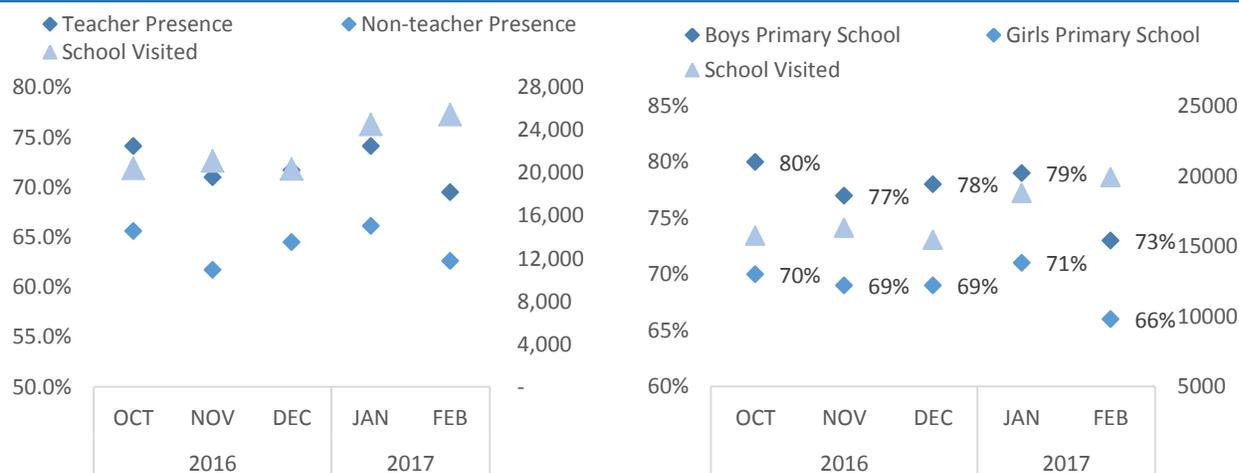
Table 3.3: Numbers of teachers by fiscal year

Description (Unit)	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Teachers in primary school (A+B)	102,061	99,254	96,401	92,521	87,085	92,942
A- Government teachers in primary schools	96,433	94,015	91,552	88,437	83,141	89,060
B- Non-government teachers in primary schools	5,628	5,239	4,849	4,084	3,944	3,882
Annual retirement (assumed)	2,000	2,000	2,000	2,000	2,000	2,000
New PST inducted in Round-III	N/A	N/A	N/A	N/A	1,003	8,441

Source: RSU staff calculations.

Teacher absenteeism is a chronic problem across Sindh, with teacher absenteeism in girls' primary schools consistently higher than in boys' primary schools. Many public school teachers are not regularly present at their schools in Sindh, as preliminary data collected by the DGME show that teacher presence ranged at around 70 to 74 percent during the 5-month period of the monitoring (Figure 3.9). Stated differently, on average, 3 out of 10 teachers were found to be absent during the monitors' visits. Non-teaching staff are even more likely to be absent than teaching staff, with attendance rates ranging between 62 and 66 percent.⁵⁸ When comparing teacher presence by school gender, it is apparent that girls' primary school teachers are consistently more likely to be absent than boys' primary school teachers. In fact, the difference in teacher presence between the two types of school ranged from 7 to 8 percent in the first 2 months of 2017 (Figure 3.9).

Figure 3.9: Teaching and non-teaching staff presence



Source: DG Monitoring and Evaluation, October 2016 to February 2017.

3.5 Profile and Trend Analysis of Education Sector Expenditure

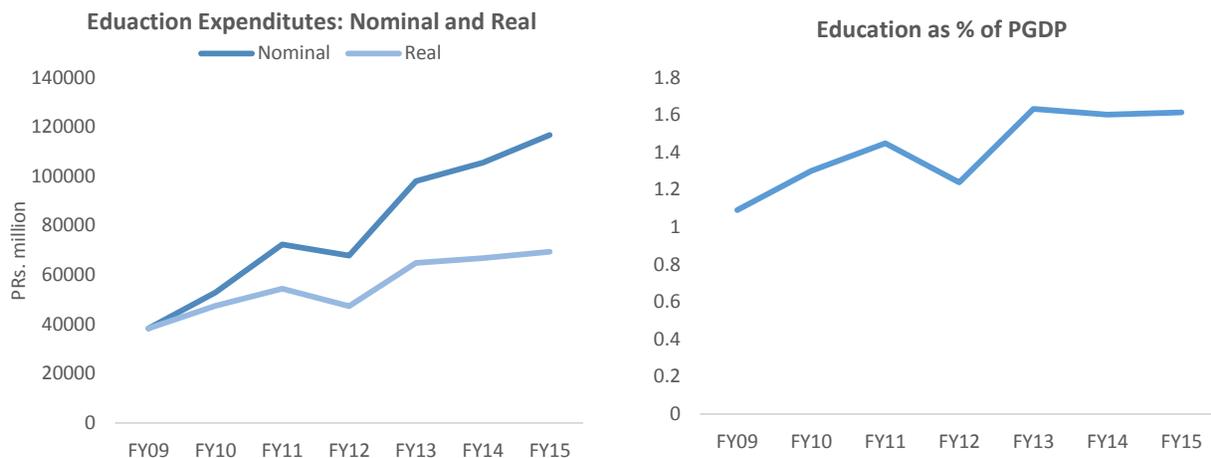
This section presents the public financial landscape of the SEDD. Sindh's Provincial Public Financial Management Reform Strategy FY15 to FY20 paper is a policy document that identifies priority areas for accelerated development. Its primary aim is to enhance efficiency and effectiveness of expenditure to

⁵⁸ Non-teachers include *watchmen*, sweepers, gardeners and attendants.

improve the quality of services. The E&LD is one of the pilot departments that follow the Medium-Term Budgetary Framework (MTBF).

The education sector is a priority sector for the Sindh government, as demonstrated through increased education expenditure in the province. Overall, fiscal space has improved substantially with the increase in transfers from the federal government following the 7th NFC Award. Following the General Public Services’ budget, the education sector has received the second-highest budgetary allocation in the province. Between FY09 and FY15, nominal education spending grew on average by about 20 percent annually, while in real terms education expenditure increased by 10 percent annually during the same period (Figure 3.10). As a percentage of provincial GDP, education expenditures are growing steadily, and amounted to 1.6 percent of provincial GDP in FY15.

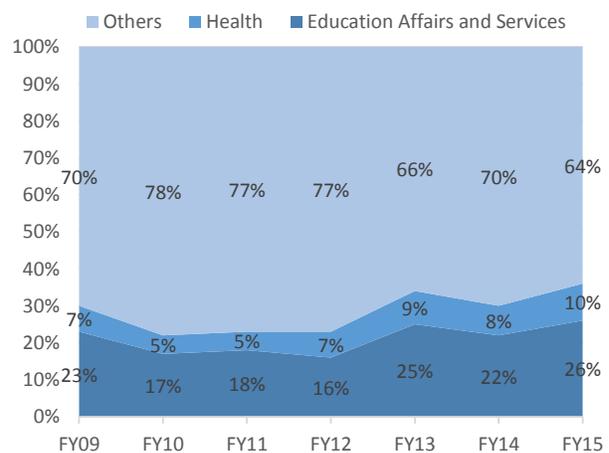
Figure 3.10: Annual expenditure on education and share of provincial GDP



Source: Data from Accountant General of Pakistan.

Over the 2 years from FY13 to FY15, education sector expenditure accounted for about one-quarter of total provincial expenditure. The education sector budget and expenditure incurred over a 7-year period as a share of overall provincial government expenditure is shown in Figure 3.11. Over the 3 fiscal years, FY13, FY14 and FY15, the education budget accounted for about 25 percent of total provincial expenditure. The share has increased substantially following SERP-II, with a substantial increase in education spending from FY12 onwards. The Sindh Education Sector Reform Program is also integrated into the Sindh government’s Medium-Term Development Framework (MTDF) to ensure the financial sustainability of resource allocations to the education sector.⁵⁹

Figure 3.11: Share of education and health spending



Source: Data from Accountant General of Pakistan.

⁵⁹ Source: PIRFA.

3.6 Expenditure Composition Analysis

Recurrent expenditures continue to dominate overall expenditure in the education sector. Education service delivery involves significant human resources and, as a result, recurrent expenditures vastly exceed capital expenditures. Until FY05, development expenditures were very low and remained below 3 percent of total education spending. However, between FY09 and FY15, development expenditures started to increase their share and reached a peak in FY12 (when they accounted for 15 percent of total education spending). Since FY13, development expenditures have remained at around 6 percent of total education expenditure (Figure 3.12).⁶⁰

Personnel costs continue to account for the largest share of total education expenditure, while repairs and maintenance remain neglected.

The distribution of expenditures by object classification. The main expenditure of the education sector is related to staff salaries and pensions is shown in Table 3.5. In addition, a very small share of total expenditure is attributed to repairs and maintenance, which remained below 2 percent. Expenditure figures on employee salaries and pensions show that due to strengthened teacher recruitment processes in recent years and the reduction in ghost teachers, the share of employee costs fell from 83 to 79 percent in FY15. This has created fiscal space for increased spending on asset creation and school development.

Figure 3.12: Actual education expenditures by spending classification



Source: Data from Accountant General of Pakistan.

Table 3.5: Actual expenditures by object classification of expenditure (PRs million)

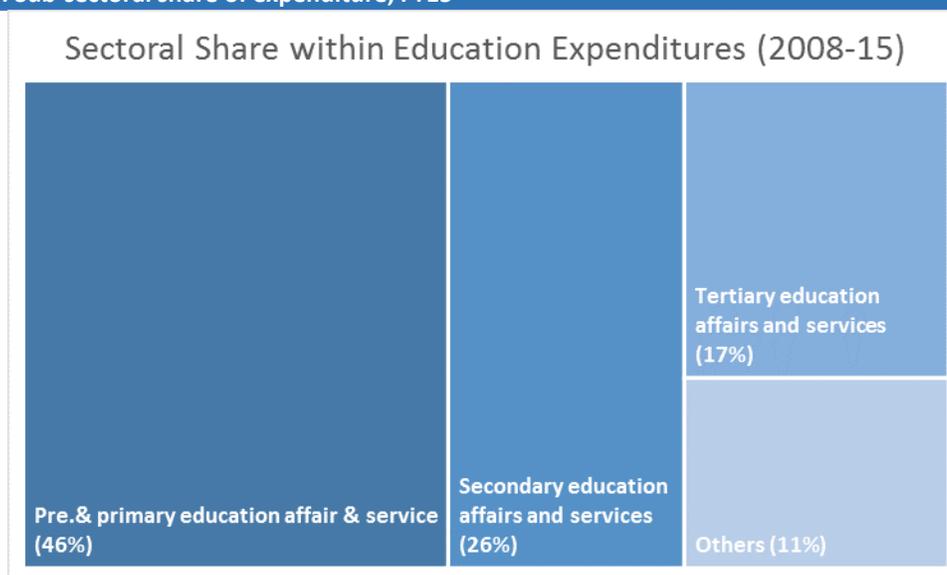
	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Employee costs (salaries and pensions)	32,546	38,981	53,443	47,711	80,693	86,919	92,433
Asset creation	1,688	4,038	5,241	8,951	4,957	5,701	7,066
Repairs and maintenance	459	337	444	325	220	235	439
Others	3,596	9,515	13,1664	10,577	12,181	12,664	16,754
Total	38,289	52,870	72,295	67,564	98,051	105,518	116,692

Source: Accountant General of Pakistan.

The bulk of expenditure in the education sector is for pre-primary and primary education services, followed by secondary education. An overview of the distribution of education expenditure by sub-sector is shown in Figure 3.13. Almost three-quarters of total education spending is attributable to pre-primary, primary, and secondary schools, with universities, colleges and other professional institutes accounting for only 17 percent of expenditure.

⁶⁰ Source: Accountant General of Pakistan.

Figure 3.13: Sub-sectoral share of expenditure, FY15



Source: Data from Accountant General of Pakistan, FY15.

There has been no major shift in the various shares of expenditure in the sub-sectors over the 3 fiscal years to FY15. Table 3.6 shows a time-series analysis of the sub-sectoral distribution of budget allocations and expenditures. Sub-sectors vary in terms of the share of budget that they are actually able to spend. In FY15, 98 percent of the primary education budget and 81 percent of the secondary education budget were utilized. The main reason for the high budget execution rate is that teachers' salaries account for the major share of the overall education budget.

Table 3.6: Original budget and expenditure by sub-sectors (PRs million)⁶¹

		FY08-09	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15
Pre- & primary education affairs & service	Budget	17,855	22,305	26,956	1,509	42,644	55,450	57,512
	Expenditure	17,618	22,468	31,734	29,262	45,698	49,671	56,691
	<i>Percent utilized (%)</i>	99	101	118	1,939	106	89	98
Secondary education	Budget	11,977	15,749	17,755	628	27,228	31,811	36,973
	Expenditure	10,965	13,743	17,896	14,355	25,777	27,478	29,987
	<i>Percent utilized (%)</i>	92	87	78	2,286	95	86	81
General universities/ Colleges/ Prof. institutes	Budget	8,978	16,449	16,427	22,492	25,358	25,894	23,825
	Expenditure	6,342	9,611	11,950	14,547	15,860	17,953	18,591
	<i>Percent utilized (%)</i>	71	58	73	65	63	69	78
Education & subsidiary education services level non-definable	Budget	821	593	501	581	1,743	1,800	2,398
	Expenditure	457	403	422	942	987	1,666	1,467
	<i>Percent utilized (%)</i>	56	68	84	162	57	93	61
Sindh Education Reform Program + Administration	Budget	11,369	15,150	14,167	12,822	14,741	18,521	25,083
	Expenditure	2,900	6,617	9,971	7,918	8,863	7,852	9,026
	<i>Percent utilized (%)</i>	26	44	70	62	60	42	36

Source: Data from Accountant General of Pakistan.

Overall, budget execution rates have varied over the past few years. In the 2 years to FY15, budget execution rates for the Sindh Education Reform Program and Administration were particularly low, which carries the potential to seriously weaken governance and monitoring oversight of the E&LD.

Budget utilization rates by economic classification of expenditure show unspent development budget, particularly at the higher education level. Table 3.7 provides additional details on budget utilization rates by economic classification and sub-sector. The high utilization rate in FY13 was at the primary level, with 108 percent utilization of the current budget. Notably, in FY15, the secondary education sub-sector spent only 30 percent of its development budget, while 59 percent of the tertiary education development budget was utilized. The education budget allocated to administration and SERP remained largely unutilized for FY15. This could be due to the late release of the school specific non-salary component of the budget (SSBs).

Table 3.7: Budget utilization by level of education and economic classification (percent)				
Sub-sector		FY13	FY14	FY15
Pre- and primary education affairs and service	CE	108	95	100
	DE	98	42	82
Secondary education	RE	97	87	83
	DE	30	58	30
General universities/ colleges/ prof. institutes	RE	77	80	85
	DE	35	45	59
Education and subsidiary education services level non-definable	RE	72	115	85
	DE	0	0	0
Administration + SERP	RE	63	43	36
	DE	39	31	6
Overall education sector	RE	93	82	81
	DE	43	43	60

Source: Data from Accountant General of Pakistan.

RE = recurrent expenditure, DE = development expenditure.

Education projects under the Annual Development Plan (ADP) are typically small in size, and often unapproved at the time of ADP preparation. Data on missing-facilities projects⁶² from the ADP show that in FY17 most projects were small-value schemes with estimated costs of less than PRs 100 million (Figure 3.14). Over time, the proportion of projects that were approved at the time of ADP submission has decreased, suggesting a lack of sufficient project appraisal, for example in FY17 when only 9 percent of projects were approved (Figure 3.15).⁶³

⁶² These are development projects focused on the provision of basic school facilities, such as drinking water, boundary walls, toilets, and electricity.

⁶³ Note: Statistics derived from ADP data, Planning and Development.

Figure 3.14: ADP project costs FY17

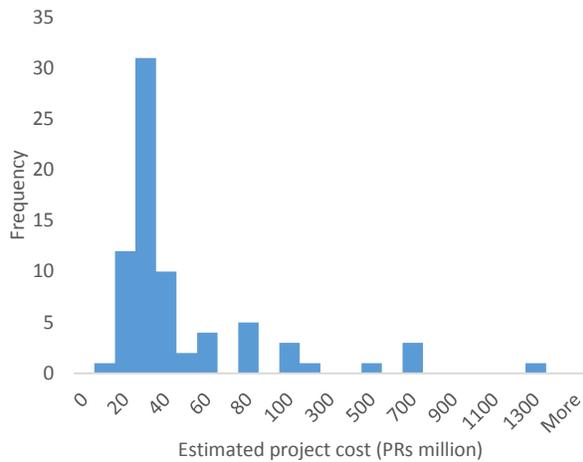
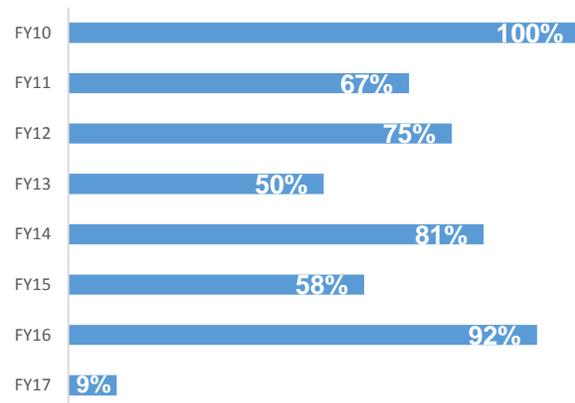


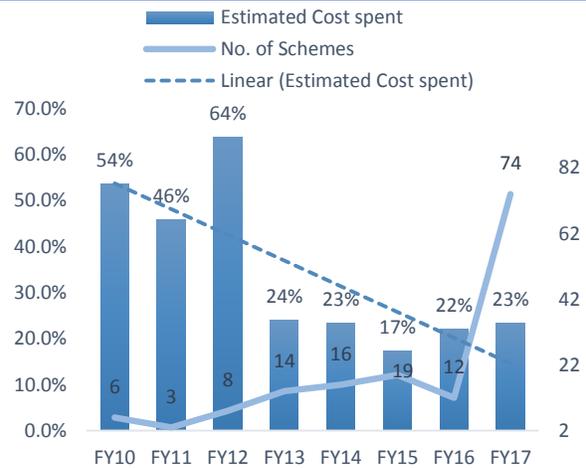
Figure 3.15: Percentage of ADP projects approved



Source: Data from Accountant General of Pakistan.

Since FY10, the number of missing facilities-related projects has increased more than tenfold, while the share of projects that are close to completion has decreased. The analysis in Figure 3.16 estimates project completion for ADP schemes by utilizing total project cost and expenditure information. It is evident that with relatively fewer projects to manage in FY12, the project completion rate was relatively higher than in subsequent years. Over the past 4 years, project completion has ranged from 17 to 23 percent, indicating that the utilization of the development budget is low.

Figure 3.16: ADP project completion



Source: Data from Accountant General of Pakistan.

In terms of recurrent expenditures, there are two interventions that directly transfer funds to schools: school management committee (SMC) grants and the school specific non-salary budget (SSB) reforms. Boxes 3.1 and 3.2 present an overview of both reforms, along with their implementation challenges.

Box 3.1: School management committee grants

What are they?

School management committee (SMC) grants are school-level grants that are directly transferred to public schools and are utilized at the discretion of the SMC. SMC grants are allocated to schools based on a formula that consists of three components: (i) school enrolment, (ii) classroom student ratio, and (iii) school level. The SMC is fully empowered to withdraw funds as and when needed, without seeking any authorization from education management authorities.

How do they work?

To receive a SMC grant, a functional public school has to submit an application to the Reform Support Unit (RSU) with the SMC's bank account information, including details on the co-signatories (school head/teacher who serves as the SMC's secretary and one parent who serves as the SMC's chairperson) to the account. The SMC typically has three additional members who are parents or notable members of the community. A summary of the allocation process is outlined in the diagram below. SMC applications are received by the RSU and processed on a rolling basis; funds are released in batches as soon as approval and processing are complete.

What can the funds be spent on?

SMC guidelines dictate that expenditure should be according to three major categories and in accordance with the School Improvement Plan: (i) minor repairs and maintenance, (ii) cleanliness (including hiring of sweepers), and (iii) transportation and fares.

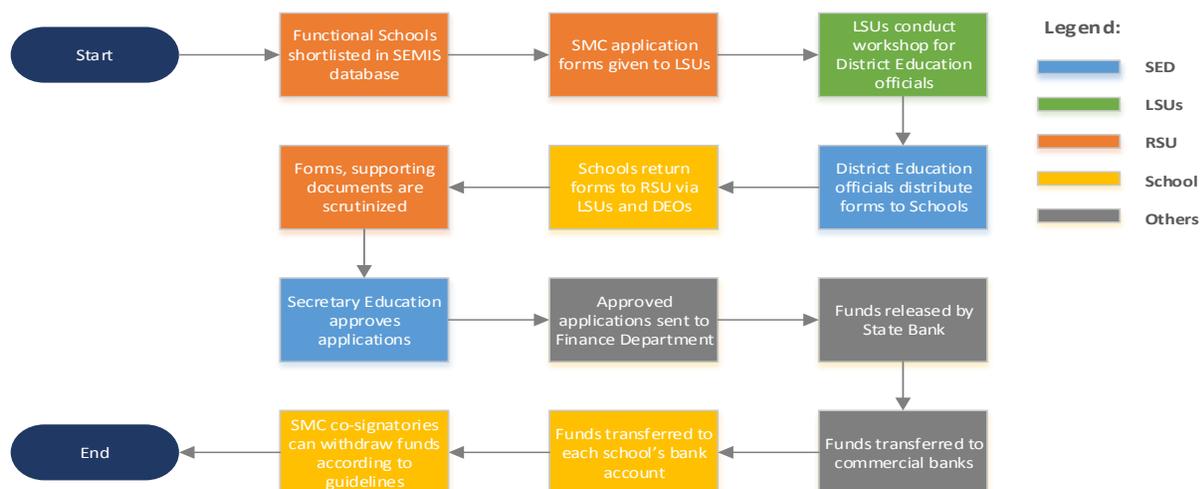
What are the main positive and negative aspects of the program?

The positives include:

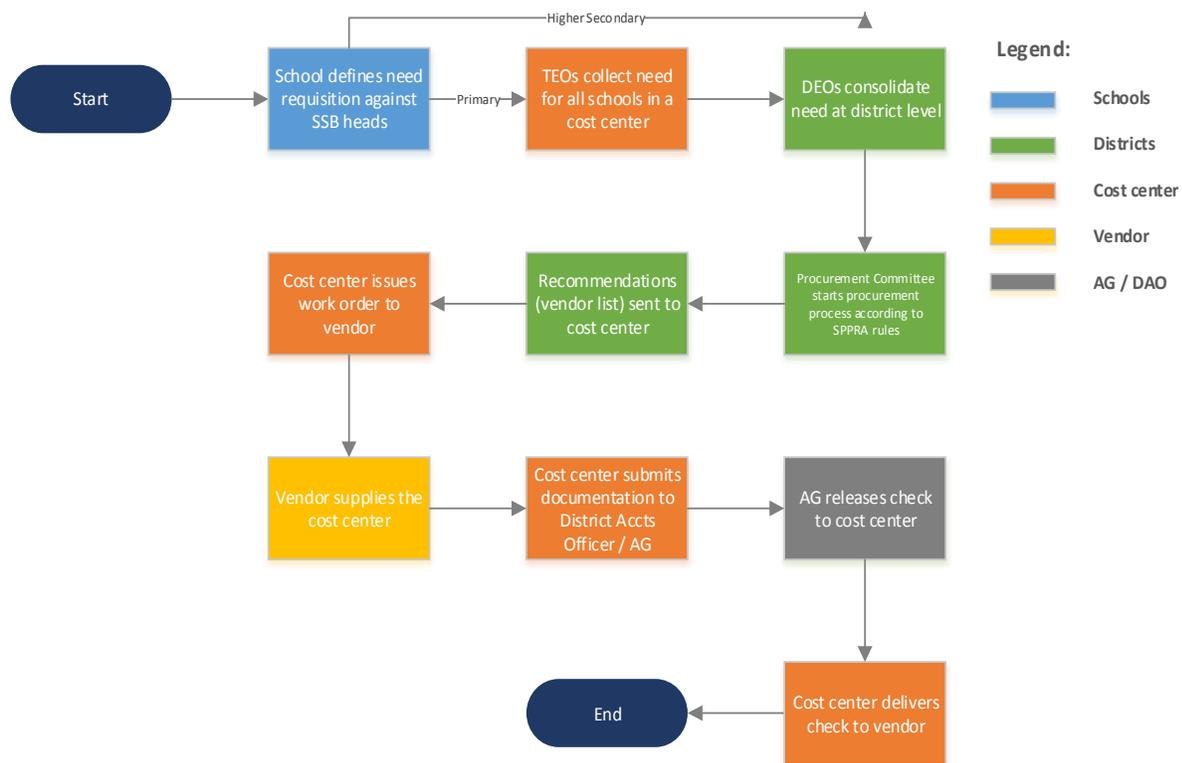
- Easy to comprehend the allocation formula.
- SMC is empowered to withdraw funds when required without going through administrative hurdles.
- Generally high utilization of SMC grant.
- Ensures community involvement in financial management and school improvement.

The negatives include:

- School Improvement Plans can be more developed.
- Lack of monitoring oversight of fund utilization.



SSB disbursement Overview



What are the main positive and negative aspects of the program?

The positives include:

- formula-based budgeting approach based upon a school specific formula.
- greater oversight in school level expenditures.
- less potential for political interference in fund allocation process.

The negatives include:

- highly restrictive in terms of fixed allocations against budget items.
- delay in release of funds from finance department.
- quarterly disbursement of funds leads to less money available for schools for expenditures in the beginning of the year.
- funds are lapsable and cannot be reallocated between budget heads.
- low levels of SSB utilization, reportedly due to limited procurement capacity of DDOs and complicated audit compliance processes at the district level. DDOs also experience difficulty in processing the expenditures through audit departments and at times allow the funds to lapse
- AG documentation requirements are paper based and tedious.

Box 3.2: School specific budgets

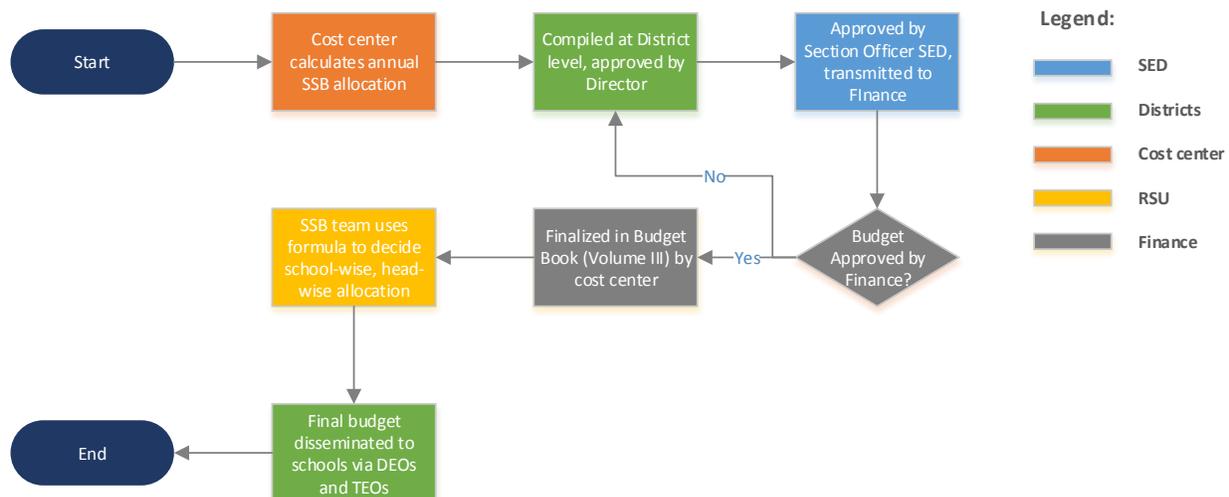
What are they?

The school specific budget (SSB) is a non-salary, operational budget that is allocated to each public school every fiscal year. The SSB can be utilized by schools for day-to-day expenses based on specific budget items as defined in the SSB guidelines.

How are funds allocated and what can the funds be spent on?

The figure below outlines the allocation process for the SSB for each fiscal year. The SSB for each fiscal year is initially calculated by the cost centres by applying an incremental multiplier provided for the year by the Finance Department to the SSB for the previous fiscal year. The cost centre (or Drawing and Disbursing Officer [DDO]) is required to be a Grade 17 officer. For primary schools, the cost centre is typically the Taluka Education Officer, while for secondary schools, the school principal is the cost centre for his/her school. Once approved by the FD, this cost-centre SBB is broken down by the RSU's SSB team to a school-level budget using a school specific allocation formula. Next, the budget for each school is then split down to seven expenditure categories. A basic outline of the formula used for splitting cost-centre allocation by school and budget item is outlined in the following tables:

School-specific calculation		Budget items breakdown	
Component	Weightage	Budget item	Allocation percentage
School category	20%	Stationery	10%
School enrolment	45%	Travelling allowance	5%
School size	35%	In-class material and supplies	25%
		Library/lab/computer material	Up to 15%
		Sports items	Up to 10%
		Co-curricular activities	15%
		Furniture purchase	20%



How are funds disbursed?

Schools can request disbursement against their allocated SSBs. School budgets are allocated and can be disbursed against any of the following budget heads: (i) in-class materials and supplies, (ii) library/laboratory, (iii) co-curricular activities, (iv) sports, (v) travelling allowance, (vi) stationery, and (vii) furniture. Need requisitions for spending are processed and approved by procurement committees at the regional, district or school levels (depending on the nature of procurement taking place). The following chart shows an overview of the SSB

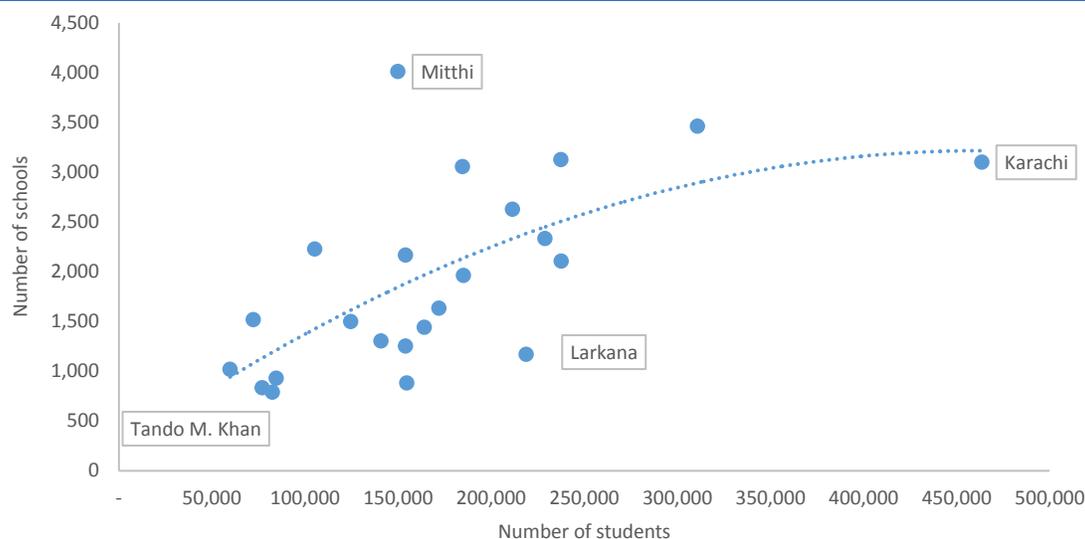
disbursement process.

How does expenditure: Schools can request disbursement against their allocated SSBs for specific budget heads. School budgets are allocated and can be disbursed according to any of the following budget heads: (1) in-class materials and supplies, (2) library/laboratory, (3) co-curricular activities, (4) sports, (5) travelling allowance, (6) stationery, and (7) furniture. Need requisitions for any spending are processed and approved by Procurement Committees at the regional, district or school level (based on school level or type of procurement). The following chart shows an overview of the SSB disbursement process.

3.7 Allocative Efficiency of Education Expenditures

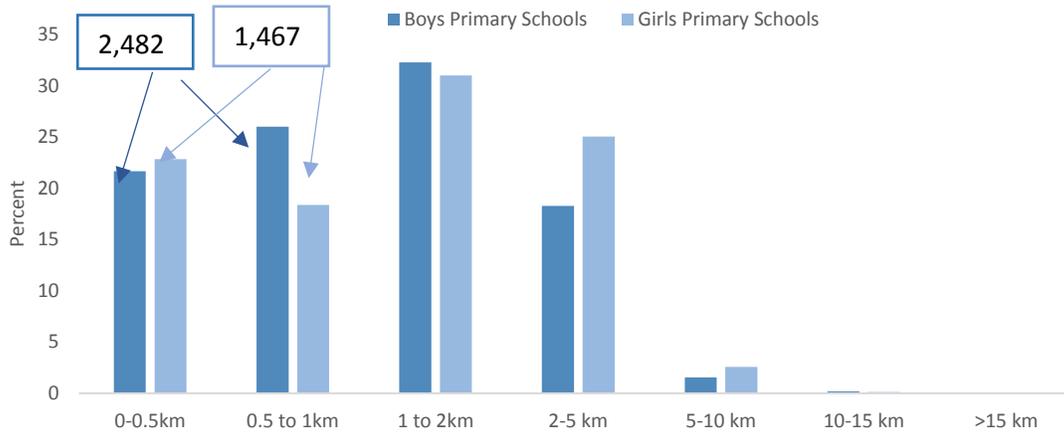
There is considerable inefficiency in primary school distribution. Figure 3.17 shows the total number of schools in a district by the total number of students in a district. Under an ideal scenario, there should be a strong positive relationship between the number of schools in a district and the number of students, reflecting that the establishment of schools is driven by the demand for schooling. In Sindh, this is not necessarily the case, as Mitthi ranks first in terms of the number of schools in a district (4,008 schools), but ranks 15th in terms of the number of students in the district (with an average of 37 students per school). Larkana, on the other hand, has the highest number of students per school (187). This suggests that there is a weak relationship between the number of schools and the number of students in a district, suggesting that schools are not optimally located to cater to demand. In fact, primary school placement in Sindh appears to be highly problematic. An analysis of primary school proximity indicates that 48 percent of boys' primary schools and 41 percent of girls' primary schools are located within 1 kilometer of the nearest neighboring primary school of the same gender (Figure 3.18).

Figure 3.17: Number of enrolled students by number of schools in a district (FY15)



Source: SEMIS

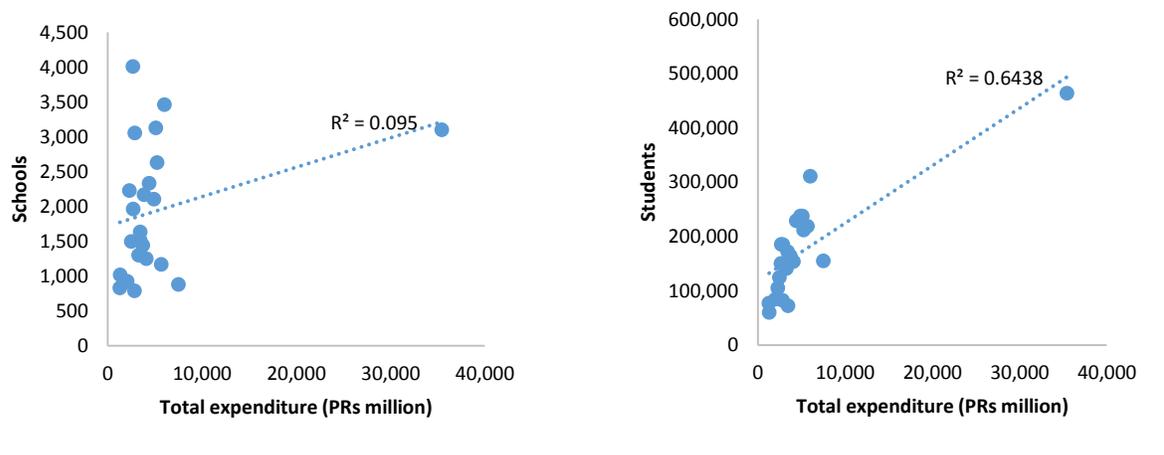
Figure 3.18: Primary school proximity to the nearest primary school



Source: Statistics derived from SEMIS 2014

The relationship between the number of schools at the district level and per-student expenditure is weak, suggesting that many districts are operating under-capacity. Figure 3.19 shows the relationship between total expenditure in a district and student enrolment (all levels). Overall, there is a moderately positive relationship between the number of students and expenditure, whereas the relationship between the number of schools (all levels) and per-student expenditure in a district is weak (if the outlier is excluded it is evident that there is no apparent pattern that emerges with respect to the number of schools and per-student expenditure). This finding indicates that there is significant inefficiency in school placement across the province. Looking at individual districts, it appears that districts are being allocated funds in line with enrolment. However, there are a few notable exceptions: the districts of Sanghar, Khairpur, Dadu, Ghotki, Naushahro Feroz and Shaheed Benazir Abad have a relatively higher share of student enrolments compared with their annual expenditures.

Figure 3.19: Number of schools and students (all levels) by total expenditure in a district

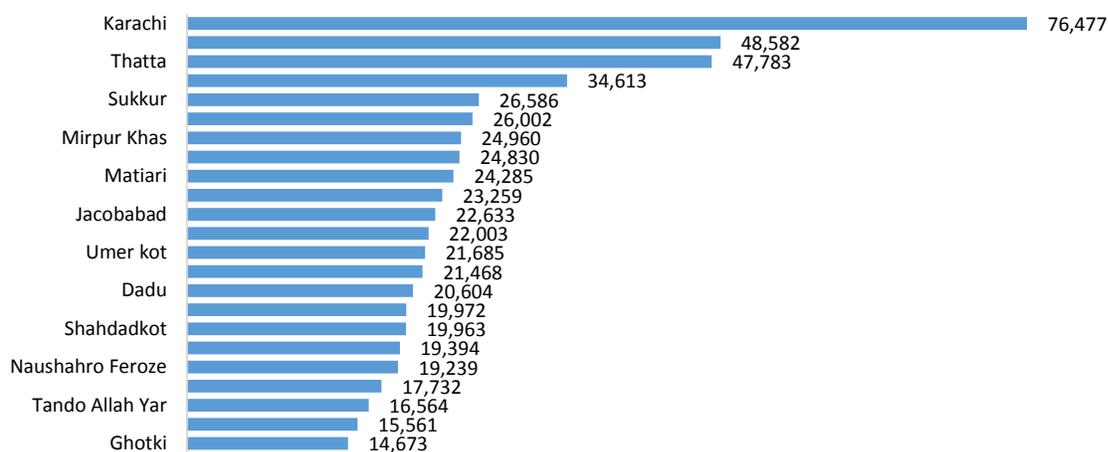


Source Data from PSLMS and Accountant General of Pakistan.

Per-student expenditure is skewed towards more urban, economically advantaged, districts due to higher numbers of teachers in these regions. Figure 3.20 shows per-student expenditure by district to evaluate the equity of expenditures in education. The data reflect that annual per-student expenditure

is skewed towards relatively few districts. Per-student expenditure is highest in the districts of Karachi⁶⁴ and Hyderabad, due to the fact that the districts in these two cities have the lowest student-teacher ratios (STRs), at 18 and 19 students per teacher, respectively.⁶⁵ In contrast, annual per-student expenditure in the districts of Ghotki, Badin and Tando Allah Yar is less than one-quarter of the per-student expenditure in Karachi. The district of Ghotki, for example, where education and other socioeconomic outcomes are poor, has the lowest per-student expenditure in the province, at just PRs 14,673 per student per year. This is reflected in Ghotki's STR, which is the highest in the province, at 40 students per teacher.

Figure 3.20: Annual per student expenditures pre-primary to higher secondary levels FY15 (PRs)



Source: Data from Accountant General of Pakistan and SEMIS FY15.

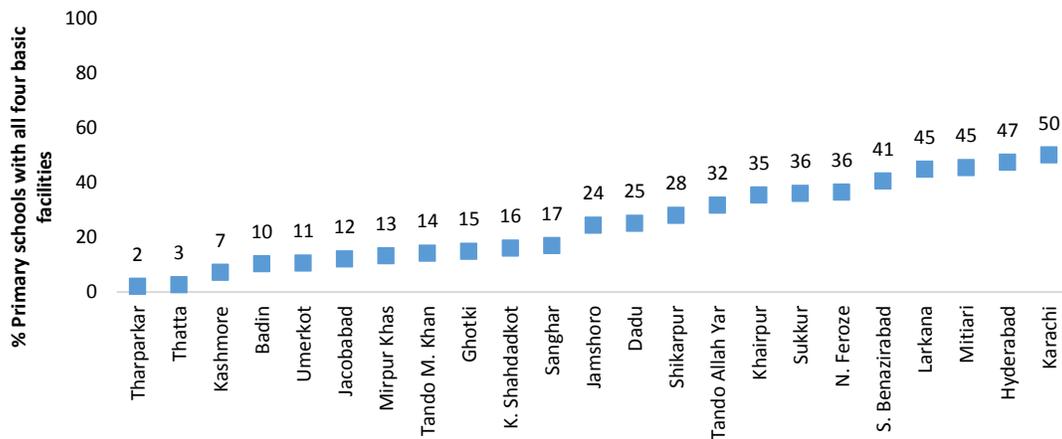
The majority of primary schools lack basic facilities, and there is an urgent need to increase expenditure for the provision of essential facilities. Schools in all districts across Sindh lack basic facilities. Figure 3.21 shows the percentage of primary schools with all four basic facilities.⁶⁶ In the district of Tharparkar (Mitthi), only 2 percent of primary schools have all four basic facilities, followed by the district of Thatta (3 percent). Karachi and Hyderabad have the largest share of primary schools with all basic facilities, at 50 and 47 percent, respectively. Overall, there are 12 districts in Sindh where more than 75 percent of primary schools do not have all four basic facilities.

⁶⁴ This includes all five districts of Karachi.

⁶⁵ Much of the administrative structure of the E&LD is located in Karachi. Therefore, some of the expenditures reflect this. It is difficult to distill these expenditures from the overall spending.

⁶⁶ The four basic facilities required by schools: (i) a fully enclosed boundary wall, (ii) functional toilets, (iii) electricity, and (iv) drinking water.

Figure 3.21: Availability of the four basic facilities in primary schools



Source: Data from Accountant General of Pakistan and SEMIS FY15.

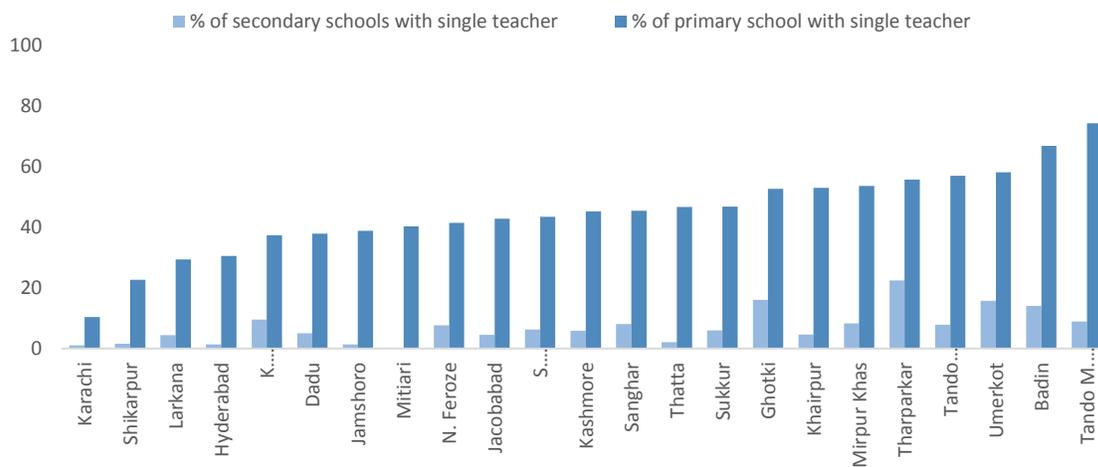
There is inefficient allocation of teachers both across and within districts. Given the low STR in Sindh, it is evident that the allocation of teaching resources across schools is inefficient. The share of single-teacher schools varies from 10 to 75 percent by district (Figure 3.22). As observed in Table 3.2 early, the STR in primary schools is 30:1 and has been stable for the last 5 years data are available. However, at the middle to higher school levels, the STR is low and has been declining over time. Given that there are a large number of schools with single teachers, this indicates a significant misallocation of teaching resources. Low STRs in urban districts indicate that many of these teaching resources could be shifted to rural areas. In the districts of Tharparkar, Ghotki and Umerkot, there are also a significant number of secondary schools that have only a single teacher per school. As explained in Box 3.3, even within the same union council there is scope for reallocating teachers from areas where there is a teacher surplus to areas where schools have a shortage of teachers.

Box 3.3: Teacher allocation in Central Karachi

UC 8-Faisal in the Central Karachi District is one example of a union council where teacher allocation is inefficient: KMC Markaz-e-Taleem-e-Balghan Boys Primary School has a total student enrolment of 36, with four teachers and an STR of 9:1. Within the same union council, there is another boys' primary school, GBPS, J/M Siddqui-e-Akbar, which has a total enrolment of 83 students and only one teacher. Clearly, there is potential for teacher to be re-allocated to ensure a more equitable distribution of teachers within the same union council.

Source: SEMIS FY15.

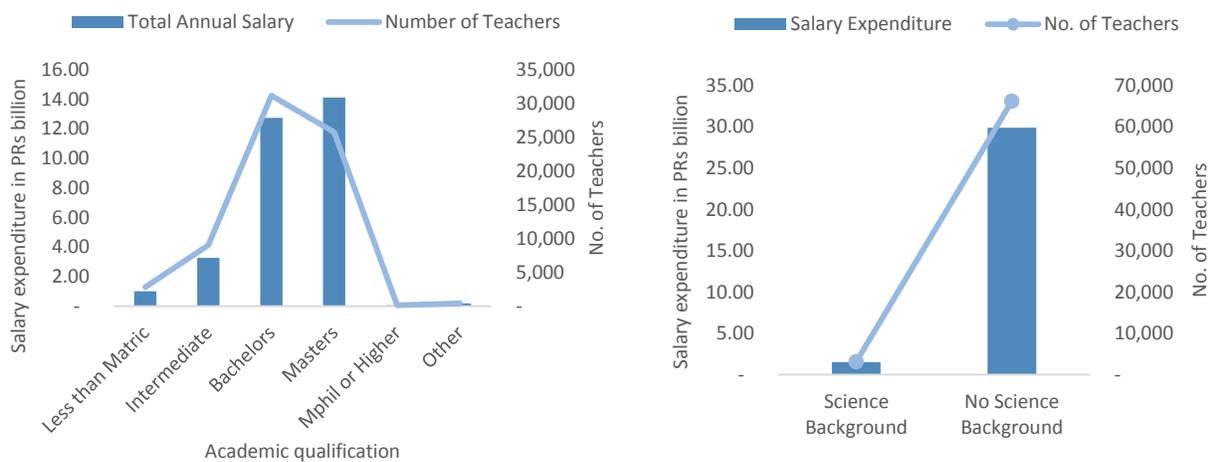
Figure 3.22: Percent of schools with single teacher, by school level



Source: SEMIS data FY15

The majority of teachers have a bachelor’s degree or higher, but the number of teachers with science backgrounds is extremely low. With the introduction of merit-based teacher recruitment in Sindh, it is evident that the average qualification of teachers has improved. Currently, 80 percent of teachers have a bachelor’s degree or higher. Figure 3.23 shows the distribution of teachers by academic qualification and by salary expenditure. As reflected below, the education system is spending a large portion of its budget on the salaries of teachers with higher qualifications. However, when this information is further disaggregated into teachers with science qualifications (i.e., bachelor’s or master’s degree in science), it is evident that there is a shortage of such teachers. Only 5 percent of public school teachers have a science qualification at the bachelor’s degree level or higher, and 5 percent of total teacher salary expenditures go towards paying the salaries of these science teachers.⁶⁷

Figure 3.23: Total annual wage bill by academic qualification of teachers, FY14



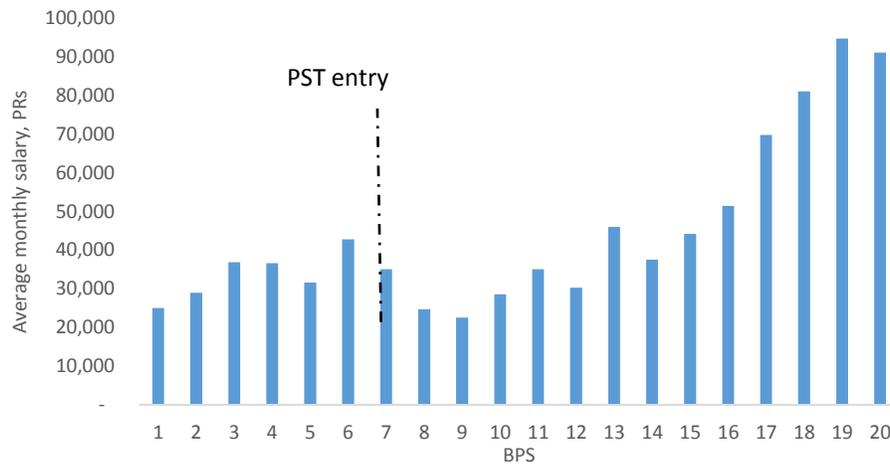
Source: SEMIS FY14, AG FY14

Average monthly teacher salaries range from PRs 35,000 to as high as PRs 95,000, depending on the pay scale. Teacher salaries by basic pay scale for public school teachers in Sindh are shown in Figure

⁶⁷ This also includes teachers with MPhil and PhD degrees. The analysis is restricted to a sample of 69,248 teachers for which payroll data and teacher qualification data were available.

3.24. As expected, average salaries increase at higher pay scales, with the sharpest increase between Scales 16 and 17.

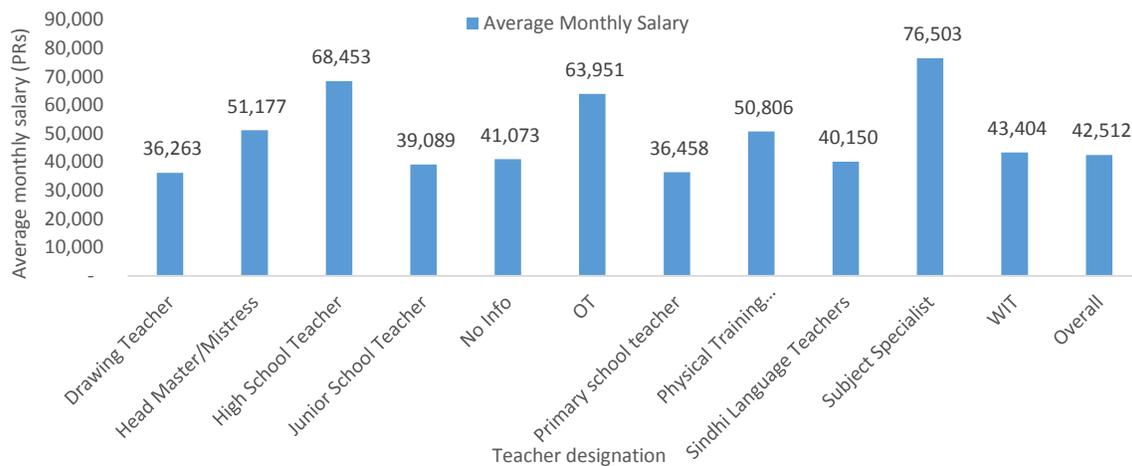
Figure 3.24: Average monthly teacher salary by basic pay scale⁶⁸



Source: SEMIS FY14, AG FY14

Subject-specialist teachers, on average, are the highest paid teachers. Overall, the average teacher salary in Sindh is about PRs 43,000 per month, while for just primary school teachers the average salary is PRs 36,000 per month. The average monthly salary of subject-specialist teachers is PRs 77,000. Overall, 60 percent of teachers' salaries go towards primary school teachers, while 21 percent goes to high school teachers, indicating a relatively equitable distribution given that 65 percent of the total student enrolment is at the primary level.

Figure 3.25: Average teacher monthly salary by designation



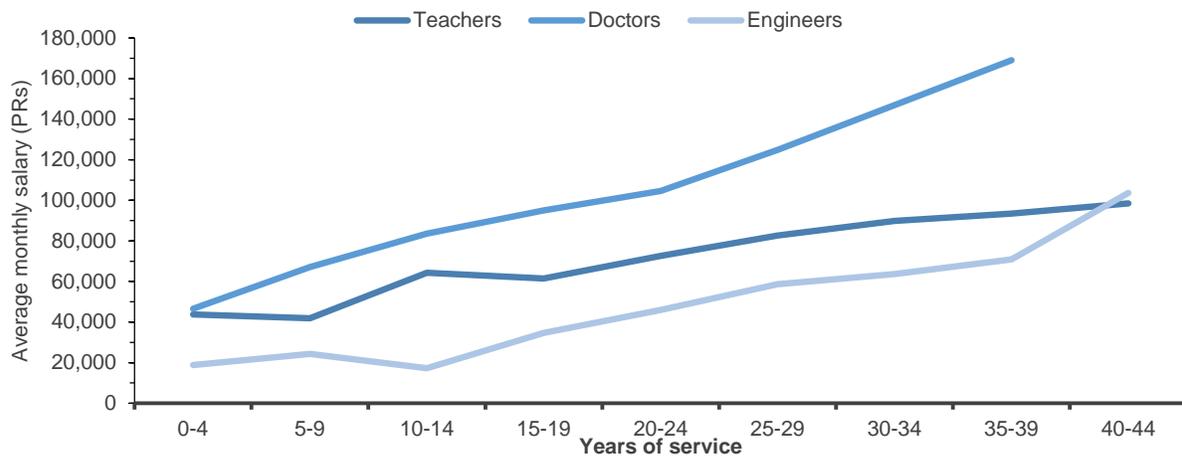
Source: Statistics derived from SEMIS FY15 and Accountant General of Pakistan.

Public school teachers are generally well paid, even compared with other public sector professions. The average monthly salary for teachers starts at the same level as doctors, but at a higher level than engineers. However, it is also true that, on average, doctors work far longer hours with more working

⁶⁸ PST Entry BPS has changed and is no longer BPS 7.

days per year than teachers. Figure 3.26 shows a comparison of the average monthly salary by the three public sector occupations by years of service.

Figure 3.26: Average monthly salary by public sector occupation

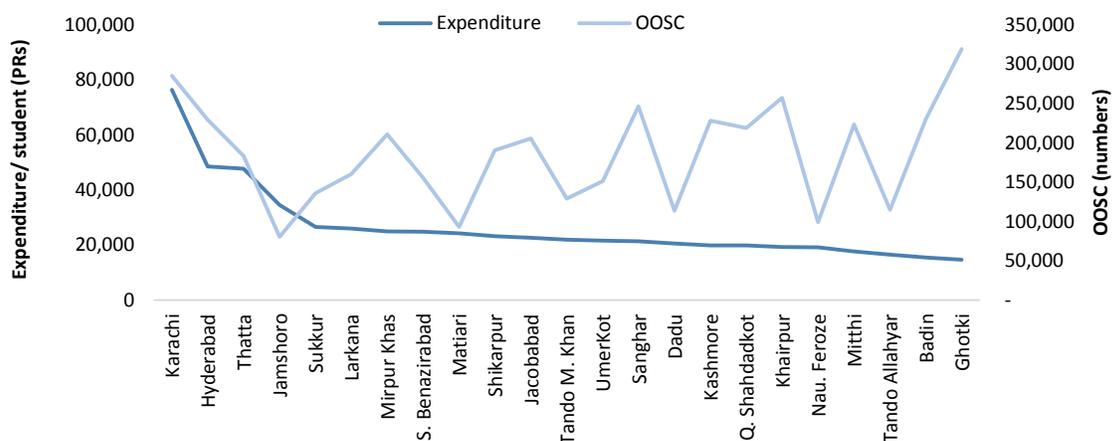


Source: Sindh AG Payroll data FY15.

Note: The analysis includes, Doctors – Medical Officers; Teachers – BPS 17-20; Engineers – all job specifications.

The presence of out-of-school children is not taken into account when expenditure allocations are made. The budget allocation is based on the number and level of schools, and the number of “in-school children”. Figure 3.27 show that the districts with the highest out-of-school children (OOSC) receive the lowest expenditures. For example, the district of Ghotki, which has the highest estimated OOSC population, has an average expenditure per student of less than PRs 15,000, while the district of Jamshoro has a low estimated OOSC population of less than 81,000 and a per-student expenditure of about PRs 35,000 per student.

Figure 3.27: Regional variation in OOSC children and education expenditure per student, FY15



Source: Data from Accountant General of Pakistan and PSLMS FY15.

Given the existing number of teachers and school infrastructure, an additional 373,543 children could be accommodated in primary schools in Sindh. Another example of inefficiency in the sector is the sub-optimal utilization of school infrastructure and teaching resources. A school is classified as underutilized

if it has sufficient classrooms and also available teachers.⁶⁹ This rather simplistic example shows how many additional students could be accommodated in existing schools to reach the E&LD's STR limit of 40:1. Table 3.8 illustrates that with the existing level of teachers and available classrooms, the education system could accommodate an additional 317,000 students in primary schools at no extra cost. There is also the space and available teaching resources to accommodate an additional 56,487 students in higher level schools.

Table 3.8: Estimated unutilized capacity in public schools by level and type of school

		Number of vacant capacity to accommodate these many students
Primary	Boys	74,727
	Girls	51,544
	Mixed	190,785
	Total	317,056
Above primary	Boys	18,122
	Girls	17,326
	Mixed	21,039
	Total	56,487
Total		373,543

Source: Estimates based on SEMIS FY15.

3.8 Sector Effectiveness and Equity Analysis of Expenditure

This section presents the results on the effectiveness and equity of public expenditure in the education sector. This is achieved by evaluating the relationship between public expenditure on education, education enrolment, and learning outcomes.

Children from poor households are more likely to be out of school and this situation is more acute for girls. Data show that girls from the poorest income quintiles are the least likely to be enrolled in a public school (Table 3.9). The differentials between boys and girls are persistent across all income quintiles. The benefit of public schooling increases for students from higher income quintiles.

Table 3.9: Public school attendance among 5 to 16-year population by gender and wealth quintile

		Public	Private	OOSC	Total
		%	%	%	%
Bottom 01-20%	Male	38.3	5.5	56.2	100.0
	Female	24.5	3.8	71.7	100.0
21-40%	Male	46.8	21.2	31.9	100.0
	Female	33.7	19.4	46.9	100.0
41-60%	Male	49.1	32.1	18.7	100.0
	Female	41.7	26.6	31.7	100.0
61-80%	Male	44.5	34.2	21.3	100.0
	Female	34.8	31.0	34.3	100.0

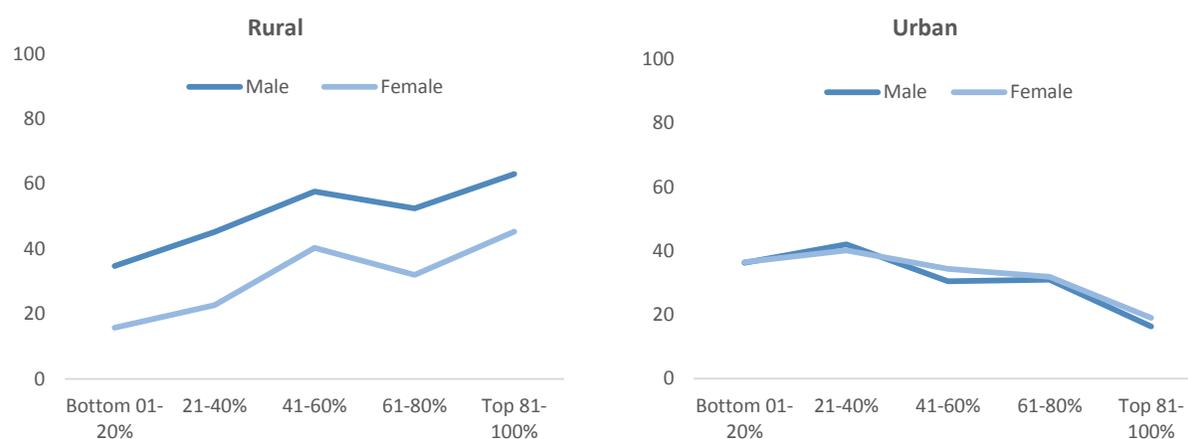
⁶⁹ It is assumed that an average-sized classroom can hold a maximum of 40 students. Similarly, a teacher can teach 40 students. Only those schools are used in the analysis that has both fewer than 40 students per classroom and per teacher at the same time. Once such a school is identified, the difference from 40 is added up to derive the aggregate figure of unutilized capacity.

Top 81-100%	Male	45.4	43.3	11.3	100.0
	Female	34.6	45.6	19.8	100.0

Source: PSLM 2014-15.

Public school attendance varies by household income and urban/rural location. The share of children enrolled in public schools increases with income in rural areas and falls with respect to income in urban areas, both for boys and girls. This is due to the availability of more private schooling in urban cities for higher-income groups. However, girls are at most disadvantage in rural areas. Both poverty and location play a part in preventing girls from going to school, but the combination of both is certainly more detrimental to girls' schooling than for boys. Figure 3.28 shows that gender differentials in public school attendance are higher in rural areas and virtually eliminated in urban areas.

Figure 3.28: Public school participation among 5-16 year old, by urban/rural location, gender & wealth quintile

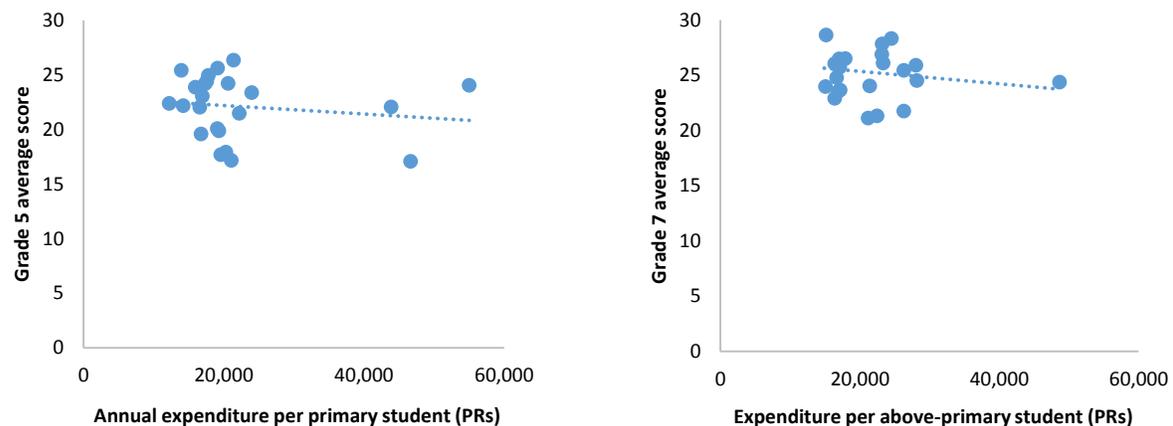


Source: PSLMS FY15.

There is no relationship between learning outcomes and public expenditure at the district level. Figure 3.29 shows total expenditure by district and learning outcomes of Grade 5 and 7 students on the Standardized Achievement Test (SAT).⁷⁰ When combined with expenditure on education, SAT scores show no apparent relationship with education expenditure. For instance, the overall score for Grade 7 in Mirpur Khas is 28 percent with annual per-student expenditure of PRs 15,000, and in Sukkur the score is 21 with annual per-student expenditure of PRs 21,000. Even in Karachi, with highest per-student expenditure on education, the average score is 24 in the SAT FY15.

⁷⁰ The Standardized Achievement Test (SAT) was initiated by RSUs of the E&LD in Sindh. The test is carried out annually at public schools to assess achievement of students in language, math, and science at Grades 5 and 7.

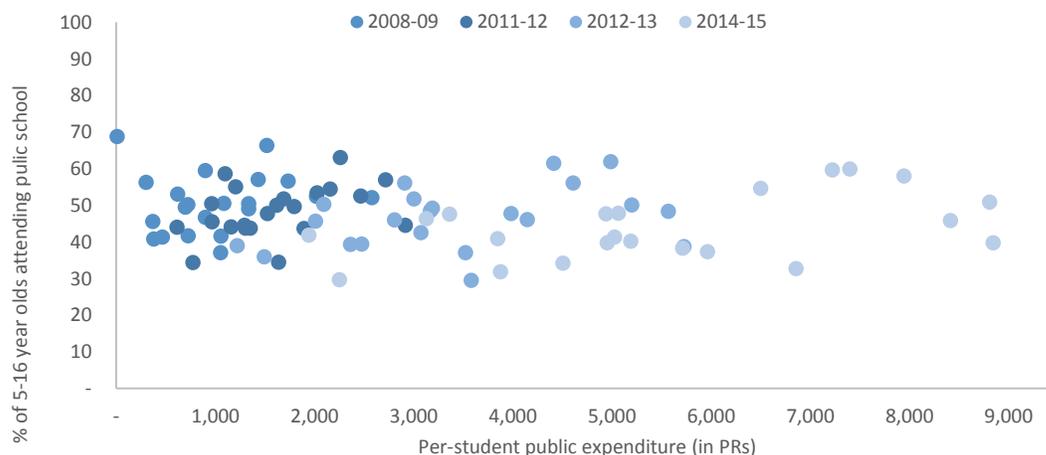
Figure 3.29: Average SAT score of districts for Grades 5 and 7, by expenditure per student



Source: Data from SAT and Accountant General of Pakistan.

The efficiency of education expenditure is declining. Figure 3.30 shows the effectiveness of public education expenditure by matching data from household surveys at the district level. It measures primary to higher secondary enrolment in public schools across four rounds of household surveys, and compares this with per-student annual public expenditure during the same time periods. Figure 2.30 clearly indicates that average enrolment in public schools in different districts has not improved over time, despite a four to fivefold increase in per-capita expenditures. This suggests that the real challenge in the education sector is the effective utilization of the available resources.

Figure 3.30: Spatial distribution of public school attendance by annual per-student expenditure (aged 5-16)



Source: PSLMS and Accountant General of Pakistan.

3.9 Recommendations

Based on the preceding analysis of public expenditure on education and education sector outcomes, the following recommendations are made with a view to improving the efficiency and effectiveness of spending in the education sector:

There is a need to strengthen the existing governance reforms in education to ensure more effective service delivery in the sector. The Sindh Schools Monitoring System initiative by the DGM&E is a critical initiative that should be strengthened and expanded across the province to ensure that there are

reliable and timely data to foster greater accountability and evidenced-based decision-making. The data that are generated from the monitoring system should be utilized at the district and sub-district levels, so that corrective actions can be taken in a uniform and timely manner.

There is a need to focus on the effective utilization of the development budget. Given such low development budget execution rates, development projects should be actively monitored to ensure that work is taking place and meets certain standards, particularly given the poor state of school infrastructure and facilities in Sindh. There should be active follow-up on development projects at the provincial and district levels to ensure that problems are identified and addressed early on.

There is a need to recruit teachers with science and math qualifications in both primary and secondary schools. The recruitment policy should continue to prioritize the recruitment of teachers with science and math backgrounds in order to keep up with the pace of teacher retirement. Teachers could be placed in schools where there is a shortage of teachers.

Teacher rationalization could be implemented to ensure an adequate and equitable distribution of teachers, particularly at the primary level. Although at the macro level STRs seem adequate, within districts there is inequity in teacher placement. This warrants the re-allocation of teachers based on a needs-based formula.

There may be additional scope for school consolidation. Given the fact that many primary schools are located within close proximity of each other, and that there is excess capacity in many primary schools in the province, there may be additional scope to consolidate schools, particularly in areas where there is an inequitable distribution of teachers.

There is a need to ensure that education expenditure is outcome-based. This means investing greater resources in districts and areas where education outcomes are particularly poor, and where there is potential for additional enrolment gains.

There is a need to strengthen budget planning in the education sector. In the past 2 years, there has been a reduction in the original budget, while prior to that there was an increase. Similarly, a large share of missing facilities ADP projects were included in the budget unapproved at the time of ADP submission, this indicates that the project appraisal process needs strengthening.

There is a need to review the SSB and SMC interventions to ensure that funds are available in a timely manner and are effectively utilized. Both the SSB and SMC are important initiatives that need continued support moving forward. However, the SSB reform, as currently designed, may be overly prescriptive. While school-level allocations can and should be formula-based, there should be greater flexibility for school leaders to utilize funds across budget items based on the needs of the school.

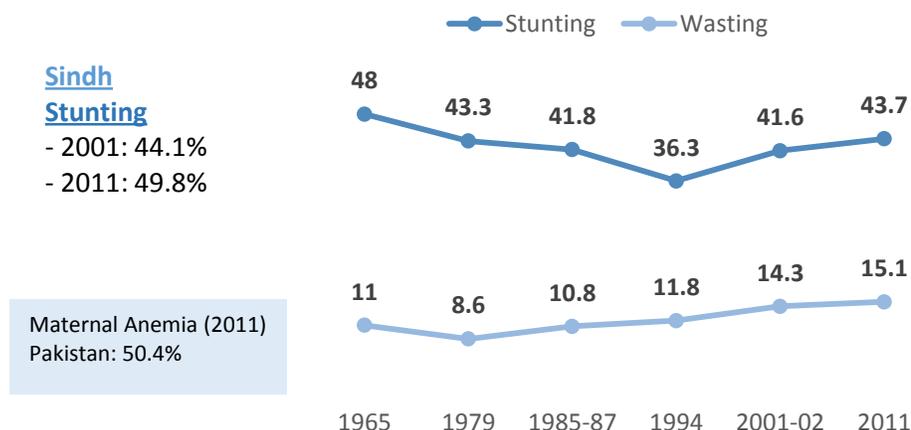
Chapter 4: How to accelerate improvement in public health sector outputs and outcomes?

4.1 Introduction

Health outcomes in Sindh have not improved as much as hoped in recent years and there is serious concern over the particularly poor health indicators among the rural population. At just over 55 million, Sindh is the second-most-populous province of Pakistan after Punjab. Its annual population growth rate of 2.8 percent is slightly higher than the average national growth rate of 2.6 percent. Just over half of Sindh's population is rural, at 53.1 percent, with 43.7 percent urban. This large urban share of the province's population, together with the political climate in Sindh, directly affects health systems in terms of needs and administrative requirements. However, while it is necessary to consider average provincial health indicators, it should be remembered that these data tend to conceal the needs of rural areas and the very large urban-rural disparity. On closer scrutiny, it is apparent that rural health indicators are far worse than those for urban areas, in some cases worse by a factor of two.

Health outcomes relating to infant and maternal mortality for Sindh have seen little progress over the past few years. There has been no reduction in the infant mortality rate (IMR) of 81 deaths per 1,000 live births, while the neonatal mortality rate (NMR) has actually increased from 44 to 53 deaths per 1,000 live births since 2000. The under-5 mortality rate has also seen scant progress, remaining at about 105 deaths per 1,000 since 2000. Although there has been a slight decline in the maternal mortality rate (MMR) in Sindh, the province's MMR of 314 per 100,000 is still far higher than the national average of 170. Meanwhile, the total fertility rate (TFR) in Sindh declined from 5.1 live births in FY91 to 3.9 in FY13, although the steep initial rate of decline shows signs of tapering off.

Figure 4.1: Stunting and malnutrition are at crisis levels in Sindh, and getting worse



Source: Data from various rounds of MICS.

Under-nutrition is a serious issue in Sindh, with higher levels of maternal anemia and underweight children than seen in other provinces. Among under-5 children, 42 percent are underweight, while stunting accounts for 49.8 percent (2011). The incidence of low weight at birth is 30 percent, indicating

serious nutritional problems affecting expectant mothers. This is confirmed by the incidence of maternal anemia, at 62.0 percent in 2011, significantly higher than the national average of 50.4 percent. These indicators are worrying and indicate that emergency levels of poor health standards are already prevalent.

Similar to the rest of Pakistan, Sindh is undergoing a demographic transition. This means that there are increasing levels of non-communicable diseases (NCDs), particularly in the urban areas, in addition to more traditional communicable diseases. These NCD diseases can also strike at an earlier age, undermining the economically productive population. At present, there is no strategy to address NCDs and most NCD interventions are concentrated at the costly tertiary level of health care.

While Sindh has made some progress in improving a small number of health outcomes, in general its performance is far from adequate. The performance of the health sector remains broadly inadequate, with unacceptably low indicators in several areas, such as the level of institutional deliveries (64 percent); immunization coverage (35 percent); the use of contraceptives (29 percent); and the high unmet needs for contraception (21.7 percent⁷¹). Indeed, estimates suggest that 88 percent of induced abortions are due to unmet needs for contraception. Use of public sector services in Sindh is 22 percent, compared with 29 percent in rest of the country. The level is low because the population predominantly chooses to use private health providers in both urban and rural areas, including for promotive services, such as maternal and childcare. Immunization coverage has seen a modest increase, with existing BCG coverage at 76 percent, measles at 51 percent, and polio 3 at 84 percent. However, a gap of 20 percentage points exists between the survey data and administrative data levels. Contraceptive prevalence remains very low and sub-optimal at 26.7 percent, and this low level has remained largely stagnant since 2005.

Communicable diseases are still prevalent. Malaria incidence is on the rise and has coincided with outbreaks of dengue fever, a situation that calls for a comprehensive vector control strategy. Tuberculosis is believed to be endemic. However, the precise caseload of TB for Sindh is unavailable, and case detection of 57 percent needs further improvement, although the treatment success rate of 87 percent is above the national target. Blood-borne diseases such as Hepatitis B and C have a high prevalence of 3 to 4 percent. However, vaccination coverage is at best 14 to 15 percent in the best-performing districts. HIV has a low overall prevalence of just 0.1 percent, but it is highly concentrated at 28.2 percent among injectable drug users.

Out-of-pocket health spending is high, accounting for two-thirds of all health expenditure. Out-of-pocket (OOP) expenditure on health is 66 percent of total health expenditure. It is also regressively distributed, with poorer income quintiles spending a higher proportion of household income on health expenses. Medicines account for the largest share of OOP, while consultation fees account for the second-largest component across both public and private sector facilities.

This PER of the health sector analyzes the performance and adequacy of public health expenditure in Sindh. This chapter presents a Public Expenditure Review of the health sector in Sindh. The main objective is to analyze the performance and adequacy of public expenditure to meet the health policy objectives of the province. Data are derived from the public accounts system, the Project to Improve Financial Reporting and Auditing (PIFRA), the Multiple Indicator Cluster Survey (MICS) 2014, and the Pakistan Social and Living Standards Measurement Survey (PSLSM, 2015). As private sector institutions are not part of the reporting system, analysis of the private health sector is excluded from this analysis. Furthermore, given the data limitations of the financial system in Sindh, it is not possible to adequately analyze the extent and the efficiency of public service provision.

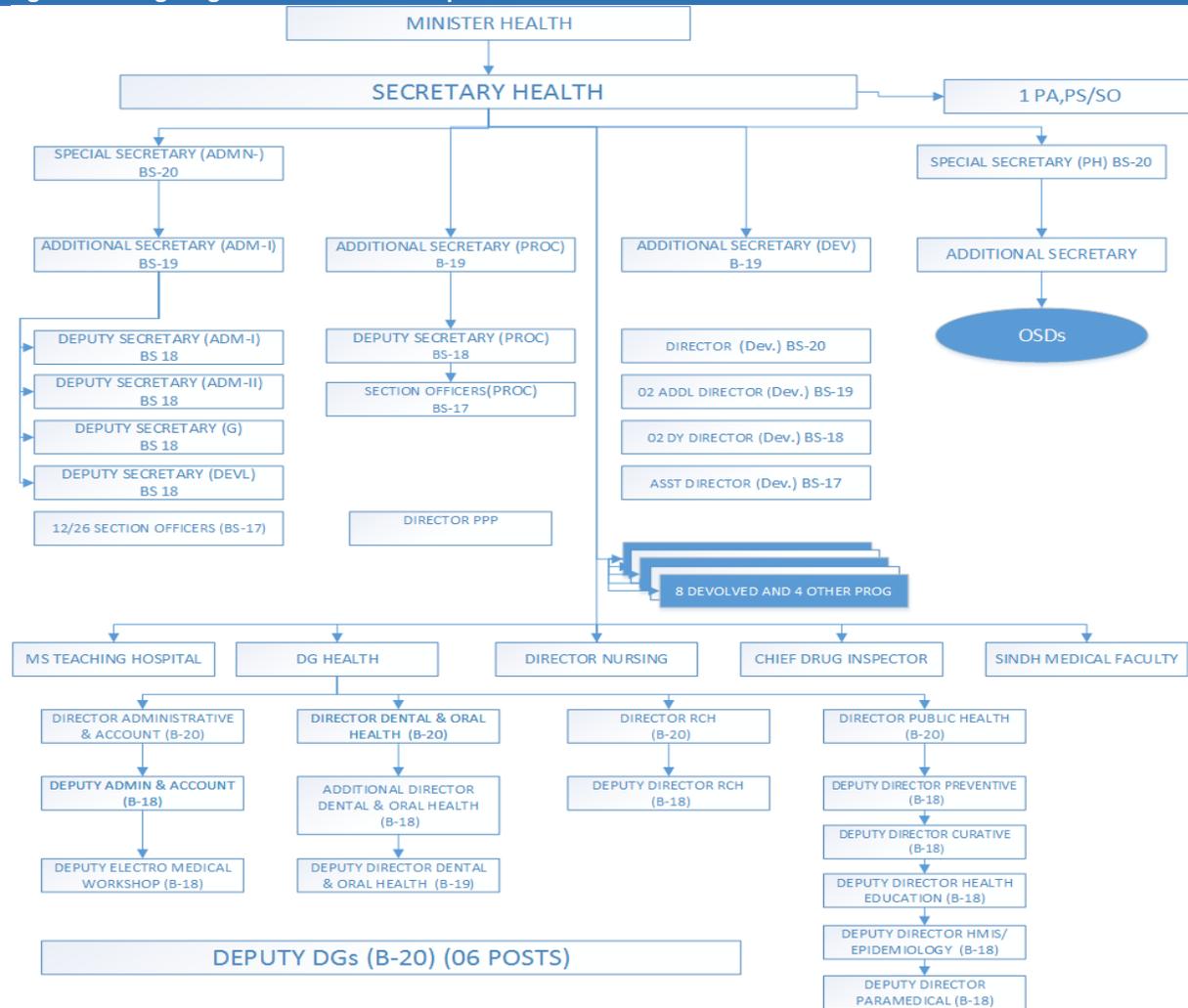
⁷¹ Sindh MICS FY14.

This chapter presents three analyses to meet the main objective: (i) a profile and trend analysis of health indicators to present a health sector profile and understand the adequacy of expenditures; (ii) a profile and trend analysis of health sector expenditure, particularly in relation to the economic, functional, and objective classifications of health expenditure and allocative efficiency; and (iii) an analysis of the effectiveness and equity of expenditure by linking expenditure to health outcomes. This analysis also highlights geographic and gender-based inequalities of health expenditure.

4.2 Sindh Health Sector Overview

The public health sector of Sindh comprises of four tiers of service delivery and related ancillary institutions. The four tiers are: (i) medical education and tertiary or specialized hospitals; (ii) secondary care hospitals (district/Taluka headquarters); (iii) primary healthcare institutions (rural health centers/basic health units/maternal and child-care health centers); and (iv) community level services (female health workers [the Lady Health Worker (LHW) program]/community midwives/vaccinators). The Health Department (HD) follows a centralized administrative structure, with as many as 29 subordinate/attached offices directly reporting to the secretary of health, excluding the district health offices (Figure 4.2).

Figure 4.2: Organogram of the Health Department



4.3 Context and Policy Framework

4.3.1 Sindh Government's Sector Strategy and Reform Plans

A situation analysis was undertaken in 2011, leading to the development of a provincial health strategy. In the post-devolution environment, as the administrative and fiscal space of provinces increased, there was a need to adjust healthcare delivery systems, governance structures, and financial allocations in the provinces to improve health outcomes, while maintaining the equity, quality, and efficiency of health care. With the assistance of the Technical Resource Facility (TRF), the Sindh government conducted an evidence-based situation analysis (SA) of the health sector in 2011. This was followed by the development of a health strategy that picked up on the key areas identified in the SA report and also made use of feedback from consultative sharing with the Sindh HD and development partners.

The subsequent Sindh Health Sector Strategy is a broad-based long-term strategic plan (2012-20) accompanied by an M&E framework and a financial framework. The strategy calls for a total outlay of US\$169.271 million over the 5-year implementation period from FY15 to FY20. These funds will be required over and above the existing funds made available to the Sindh government for the health sector. The 5-year plan in turn is the basis for detailed annual plans that link to the Annual Development Plan (ADP) and Operational Expenditure Forecast for the Sindh HD. The strategy focuses on three major areas as a way forward: (i) prioritized health responses; (ii) cross-cutting sectoral measures; and (iii) stewardship and re-structuring.

The Sindh Health Sector Strategy is based on eight strategic directions: (i) strengthening district health systems; (ii) strengthening urban primary health care; (iii) regulating the private sector; (iv) streamlining human resources; (v) special areas of emphasis; (vi) integrated action on drugs; (vii) improving governance and accountability; and (viii) increased and more efficient funding. The HD had also prepared a detailed implementation plan for the strategy. However, for various reasons the implementation of the strategy has remained patchy. While there has been progress in some areas, other areas have yet to be addressed.

The Sindh government has already initiated several reforms and others are being prepared. There is an initiative for large-scale contracting to be carried out that includes contracting out management of primary health care (PHC) and the contracting of district and Tehsil hospitals. Reforms in the district health system are under consideration and a revised policy direction regarding health insurance and regulation is being prepared. Nutrition has received special attention and the province has prepared an action plan that will be led by a high-level nutrition task force. The nutrition plan is multi-sectoral in nature. The province has also prepared a Costed Implementation Plan (CIP) for Family Planning (i.e., provision of contraception), and steps are currently being undertaken to implement the CIP. However, a lack of leadership or administrative structure for taking reforms forward, the absence of a mechanism to ensure the continuity of new initiatives and reforms, and the current reporting arrangements, are all hindering the smooth functioning of the HD. The frequent changes of the secretary of health necessitate the creation of a mechanism whereby reforms are carried forward and reporting arrangements are simplified in order to enable the efficient utilization of administrative resources.

While the direction of reforms is sound, there are doubts over implementation. The underlying basis of the direction of the reforms is sound and identifies the critical areas in which changes are required if progress is to be made. However, implementation is the key challenge, as the conversion of plans into actual results will require regular follow-up and close monitoring, along with strong strategic leadership.

4.3.2 Issues and Challenges in the Health Sector in Sindh

4.3.2.1 Sector Performance

While Sindh has made some progress in improving health outcomes, the pace of change has been slow and disappointing. The yawning rural-urban divide is illustrated by the poverty headcount ratio in rural areas being almost double that of urban areas. As a result of political and ethnic frictions, the overall socioeconomic environment has deteriorated over the past 20 years, leading to increasing disparities, sharpening economic and social differentials between urban and rural areas, and slowing down much needed improvements in education, health, and family planning outcomes.

The Lady Health Worker (LHW) program is the flagship program of the HD for community interventions. Despite its prominence, the LHW program's coverage was found to be only between 20 and 43 percent in at six districts.⁷² The LHW program is also in urgent need of new leadership and strategic direction, in addition to tighter field-based supervision across all districts. At present, there is no comprehensive strategy for technical training, such as laboratory or operating theater skills for assistants, nurses, and other ancillary staff. With regards to authority within the public health sector, there are paradoxical instances of undue decentralization over budgeting issues and undue centralization over staffing issues.

There is a lack of investment in disaster preparedness systems to mitigate morbidity and mortality. Sectoral planning, regulation, public private partnerships, and M&E are new areas that are neither structurally reflected, nor for which prior training and experience have been imparted to HD staff.

4.3.2.2 Key Health Issues and Challenges in Sindh

High rates of population growth: One of the key challenges facing Pakistan is unbridled population growth. For Sindh the effect of its own internal population growth with migration from rural areas is multiplied by migration from other provinces. The high rate of population growth overshadows the capacity and ability of public health infrastructure in Sindh to provide services and creates issues of access. In areas where the private sector has stepped in to provide health services this also leads to issues of financial access for the poor. In the absence of a comprehensive social safety net program, the availability of public health services for the poor has become more constrained over time.

Increasing rural-urban divide: As a result of political and ethnic frictions, the overall socioeconomic environment has gradually deteriorated. With a poverty headcount ratio in rural areas almost double that of urban areas, the healthcare delivery system urgently needs strengthening to increase coverage, especially in high-risk districts.

Governance issues: Compared with neighbouring provinces, Sindh faces more frequent transfers of personnel, political interference in decision-making, a lack of accountability, a lack of transparency in procurement processes, and inadequate M&E systems. All of these issues impact adversely on staff motivation and the provision of incentives for staff to perform. This poor performance and low level dynamism in the health sector are factors behind the diminishing share of development-partner support for health funding in Sindh.

Weak stewardship functions: Provincial departments lack much of the structure, the skilled staff, adequate resources, and even the time, to carry out their core stewardship functions. These functions include: financing health care; regulation and accreditation; M&E, including public health surveillance; strategy-setting and choosing priorities; and human resource planning for the sector.

⁷² USAID/JSI baseline study. Mid-term Evaluation of the USAID Deliver Project, February 2013.

Major gaps in PHC coverage for the urban poor: Sindh has an unusual composition compared with the rest of Pakistan, with 47 percent of the population residing in urban areas. Karachi has the highest population growth rate in Pakistan, at 3.2 percent per year, mainly driven by a constant influx of poor rural migrants. While wealthy households living in urban areas can afford private health care, the poor living in slums need publically-financed support if they are to have access to primary health care. With increasing urbanization (and burgeoning urban slums) and a disproportionate dilution of existing health infrastructure and services, major gaps in the coverage of primary health care services have developed, resulting in poor MDG indicators and polio outbreaks in low-income (i.e., slum) urban areas.

Human-resource deployment, retention, and capacity are sub-optimal in rural areas, particularly for female health staff: At present, there is no comprehensive strategy for the basic training of technical and ancillary staff. There is also a chronic shortage of all categories of female staff and specialists in rural districts, and several “ghost” providers, while there are an excessively large general cadre and support staff at all levels, resulting in efficiency losses.

4.4 Sindh Health Sector Profile

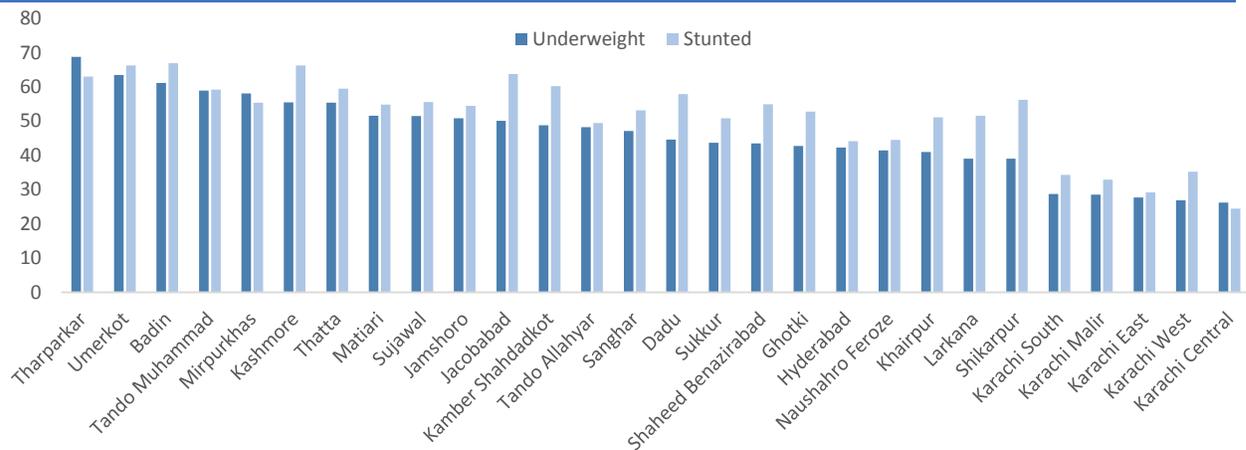
Sindh reported a total 642,848 inpatients in 2015. The HD oversees tertiary hospitals (9), secondary care facilities (91), and primary care facilities (1,791), and provided healthcare services to about 40 million clients in 2015. There are about 16,000 beds in the public sector and 11,000 beds in 362 private hospitals. The Bureau of Statistics in Sindh reports that in 2015 the total number of inpatients was 642,848, of which 47 percent were male, while there were 39.22 million outpatients, of which 44 percent were male, who were provided with services at health institutions across the province.

Young children from poor households are particularly exposed to Sindh’s poor performance in health indicators. Table 4.1 and Figures 4.1, 4.3 and 4.4 below show the dire state of health indicators affecting young children in Sindh. Average infant mortality in the province is 82 per 1,000 live births, but 117 in the poorest income quintile, while average under-5 mortalities is higher, at 104 per 1,000 live births, and 139 in rural areas. This means that the chances of a child from a poor household in a rural area not surviving to its fifth birthday is 14 percent. Meanwhile, stunting affects 42 percent of children across the province on average, but 60 percent in the poorest income quintile, while the share of underweight children has remained almost static, from 40 percent FY04 to 42 percent in FY14. Full immunization coverage for 12-23 month old infants is low, especially in rural districts, with the average for the province at 43 percent, and 32 percent for rural areas. The total fertility rate (TFR) declined from 5.25 in FY04 to 4.0 in FY04, while skilled birth attendance rose from just 38 percent in FY04 to 65 percent in FY04.

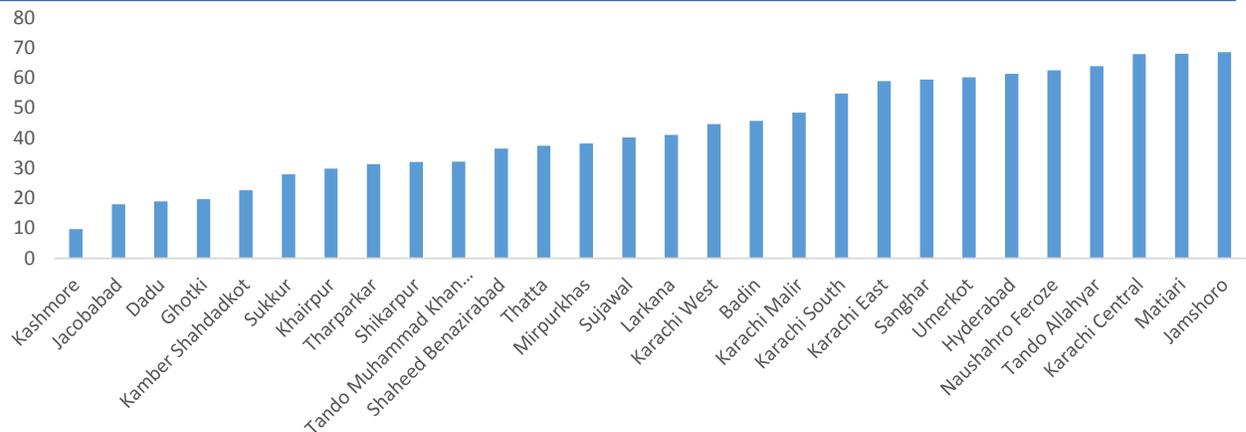
Table 4.1: Sindh health indicators

	Total	Urban	Rural	Richest	Poorest	Karachi Division	Larakana Division
Infant mortality rate (per 1,000 live births)	82	57	106	30	117	52	109
Under-5 mortality rate (per 1,000 live births)	104	69	139	34	154	62	104
Under-5 stunting (%)	42	33	50	23	60	27	46

Source: MICS 2014.

Figure 4.3: Nutrition status of under-5 children in Sindh

Source: Data from MICS.

Figure 4.4: Immunization coverage of 12-23 month old children for full immunization

Source: Data from MICS.

4.5 Public Health Expenditure

Public health expenditure in Sindh has been increasing over the years, both in nominal and real terms.

In nominal terms the health budget rose from PRs 14.9 million in FY09 to PRs 51.1 million in FY15 (a 350 percent increase), while in real terms the budget increased about 200 percent to PRs 30.4 million over the same period. As a percentage of provincial GDP, the health budget has increased from 0.47 percent to 0.98 percent, almost doubling from FY09 to FY15. This increase in health expenditure was also affected by the 2010 devolution following the 7th NFC Award, whereby the financing of vertical programs was booked at the provincial level.

The budget execution rate for health is around 80 percent, with the blip seen in FY11 due to the federal grants for the vertical programs being budgeted at the federal level and expenditure booked at the provincial level. Although development expenditures remained about the same—except for an increase seen in the federal transfer of programs—recurrent expenditures maintained annual growth of about 30

percent, only slowing somewhat in the 2 years from FY14 to FY15 to around 10 percent. Per capita expenditure increased from PRs 388 to PRs 1,135 in nominal terms, and to PRs 676 in real terms, during the period FY09 to FY15.

Figure 4.5a: Sindh’s health budget (PRs million and percent)

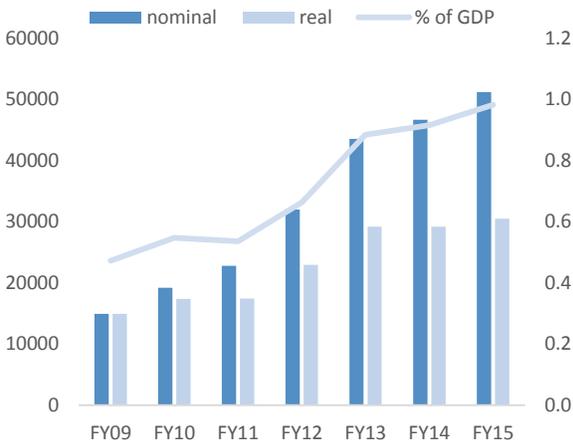
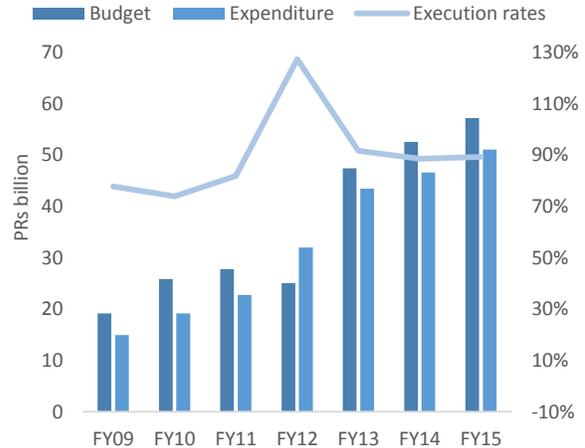


Figure 4.5b: Sindh health budget execution rates (PRs million and percent)



Source: Finance Department, GoS.

Figure 4.6a: Recurrent and development expenditures (PRs million)

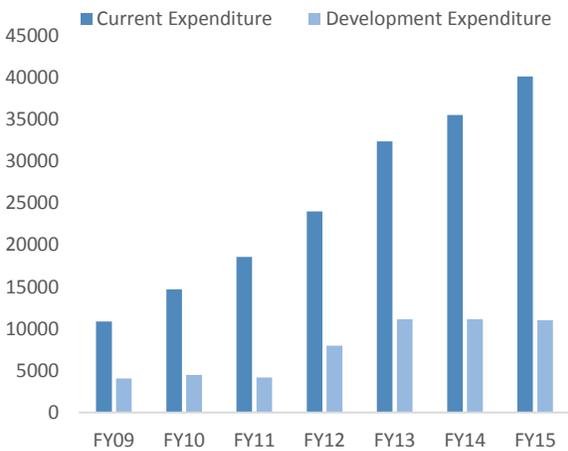
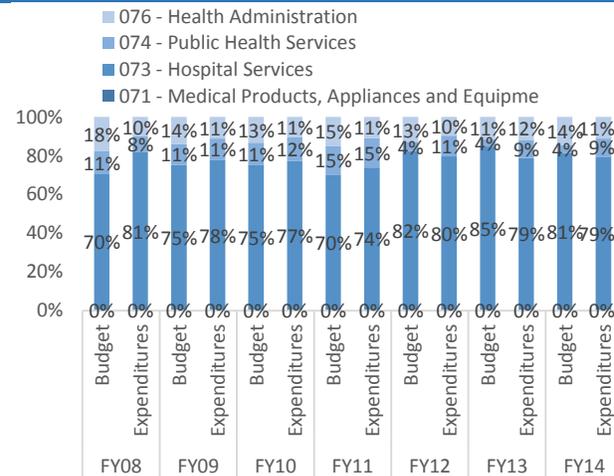


Figure 4.6b: Distribution of health budget and spending by minor functional classification (percent)



Source: Data from Accountant General of Pakistan.

An analysis of the budget by salary and non-salary components exposes an important caveat. Most basic health units (BHUs) in Sindh are contracted out to the President’s Primary Health Care Initiative (PPHI). Therefore, the salary component of these BHUs is reflected as provincial grants, thereby inflating the non-salary budget. This means that the non-salary component of expenditure, after accounting for the grants, increased from 35 to about 40 percent during the review period. Meanwhile, the repair and maintenance budget remained at around 1 percent throughout the period.

Figure 4.7a: Expenditure share by sub-sector (percent)

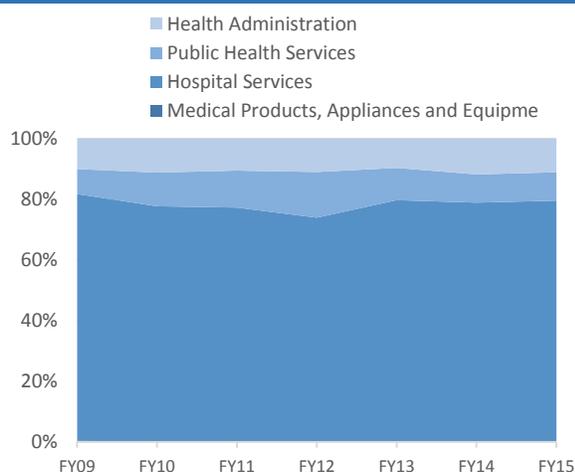
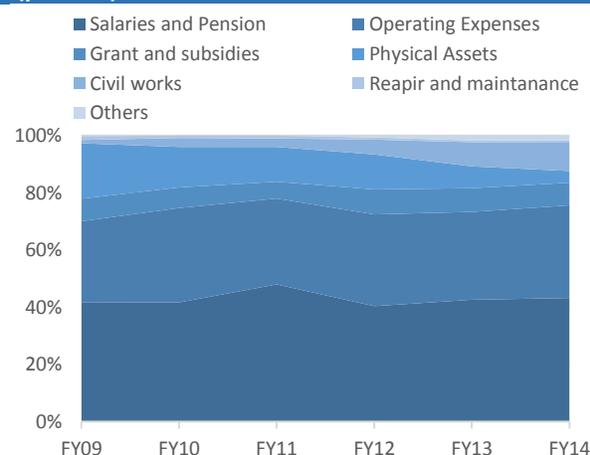


Figure 4.7b: Distribution health expenditure by inputs (percent)



Source: Data from Accountant General of Pakistan.

4.5.1 Sindh's Health Sector Budget FY17

The BSP for the current fiscal year, FY17, notes the weak performance of the health sector. The Budget Strategy Paper (BSP) for the current fiscal year, FY17, with regard to the health sector states that the “health system faces many challenges that are generally crosscutting in nature. Health-poverty-illiteracy nexus, coupled with gender inequality and regional disparities, results in uneven health coverage; inadequate supply of pure drinking water and sanitation services trigger the spread of communicable diseases”. While Sindh’s major health indicators have shown some improvement since FY07, they still remain well short of the MDG targets set for 2015: the infant mortality rate stood at 82 per 1,000 live births (Brass Method, MICS 2014), compared with an MDG target of 40; and the maternal mortality rate stood at 314 per 100,000 live births in the same year vis-à-vis the MDG target of 140.

The BSP identifies four key challenges: (i) system challenges, including high out-of-pocket expenditures; (ii) governance challenges, including inadequate M&E, a shortage of female staff, and low levels of accountability; (iii) service delivery challenges, including slow progress in health service delivery indicators, for example low coverage of LHWs and the inadequate availability of drugs; and (iv) financial constraints, including the capping of federal transfers for vertical programs.

The BPS then identifies three key principles for the health development program. These three key principles are identified as: (i) prioritizing the completion of ongoing projects, while non-performing projects may be terminated; (ii) making 20 percent of the available resources from the ADP for allocation to new projects; and (iii) making 12 to 14 percent of the available resources from the ADP for allocation to projects at the district level, while the remaining resources will be allocated for projects at the provincial level.

Health and population welfare sector financing. The original estimate for health and population welfare for FY16 was 12.18 percent of the total recurrent budget, although this was later revised up to 12.42 percent (PRs 62.29 billion). For the current fiscal year, FY2016-17, the recurrent budget is PRs 68.55 billion, or 12.2 percent of the total recurrent expenditures budget. This means that while the allocation for health in the recurrent budget increased by about 10 percent in nominal terms, it has seen no significant increase as a share of the overall recurrent budget. For development expenditures, the original ADP was revised down by 16 percent, from PRs 142 billion to PRs 119.37 billion, in FY16. Health

and population welfare comprised 9.5 percent (PRs 11.44 billion) of the total ADP. For FY17, 8.9 percent (PRs 14.12 billion) of the total ADP has been allocated to health and population welfare. Although this represents a 23 percent increase on FY16 as a share of total development expenditures, in nominal terms it is less by 0.6 percent. This is somewhat mitigated by the fact that the Sindh government has identified nutrition as a special initiative and allocated PRs 1.0 billion in the FY17 budget (or PRs 3.0 billion over the next 3 years). With this proposed allocation, the total allocation for health, nutrition, and population welfare has increased to 9.6 percent of the ADP, which represents an increase of almost 32 percent of the revised allocation in FY16.

4.5.2 Performance of the Health Sector ADP

Composition of the Health ADP. The Health ADP consists of 147 projects out of which 89 (60.5 percent) are ongoing and the remaining 58 projects (39.5 percent) are new. Of the total 147 projects, 16 projects (PRs 4.9 billion and 31 percent of the allocation) are for primary health and preventive care, excluding infrastructure. The total allocation for infrastructure is PRs 7.5 billion, which is about 55 percent of the total ADP. The focus is on upgrading existing health facilities in the province and adding required capacity to hospitals, in addition to the construction of 27 new BHUs and four new maternal and child health (MCH) centers.

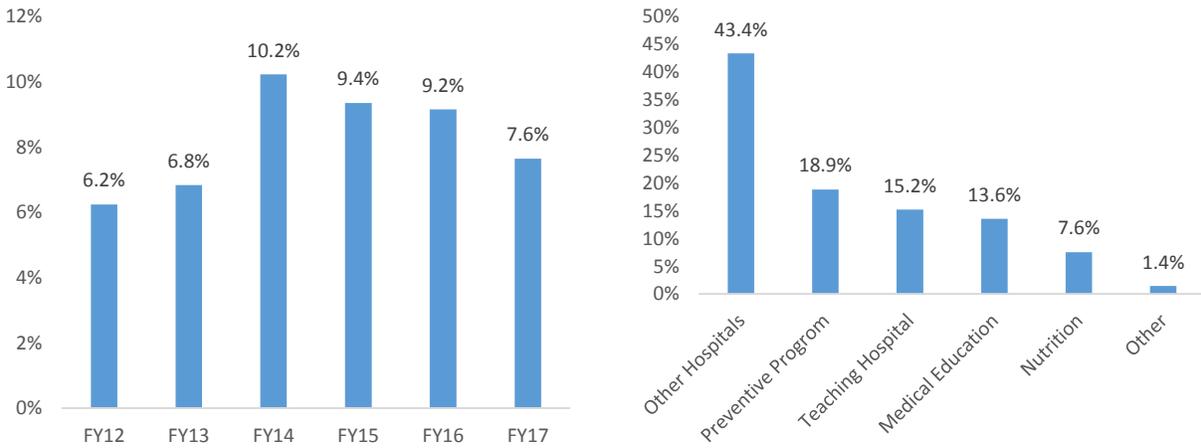
Preventative priorities of the ADP include the LHW program and surveillance of communicable diseases, together with immunization. The LHW program has been shifted from the Health ADP to the regular budget, such that LHW expenditure is no longer included in the ADP. The preventive priorities include: (i) expanding the LHW program with an allocation of PRs 250 million; and (ii) strengthening surveillance of malaria; and (iii) immunization activities, which are included as new ADP projects. There is also a special allocation of PRs 1.0 billion shown under special initiatives for nutrition activities.

The population welfare ADP consists of a total of six projects, two ongoing and four new. One project is to implement the Costed Implementation Plan (CIP) for Family Planning and another to establish an m-Health initiative (using mobile/smart phones to collect data). There are no new projects to address private sector involvement or innovations to increase contraceptive utilization in the province.

The health sector was allocated PRs 15.0 billion for the annual development program in FY17,⁷³ an increase of 15.4 percent on the previous year. However, despite the government's claims of prioritizing the health sector, the share of the health sector in the ADP has declined from 10.2 percent in FY14 to 7.6 percent in FY17. Within the HD, the Sindh government has allocated about 43.4 percent of the health sector annual development program financing for the renovation, modernization, and addition of facilities at various hospitals across the province for the coming fiscal year. Meanwhile, the provisions for the preventive care program stand out, with a 19 percent share of the Health ADP. In addition, around PRs 4.3 billion was allocated to teaching hospitals and for medical education, an increase of 15.2 and 13.6 percent, respectively.

⁷³ Including PRs 145 million of a foreign-aided project.

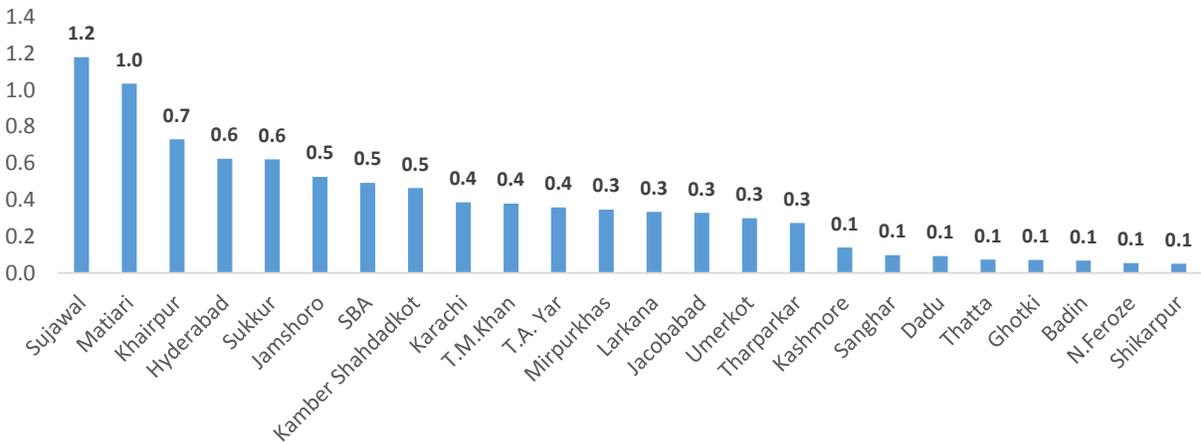
Figure 4.8a: Share of the health sector in the ADP, FY12-FY17 (percent) **Figure 4.8b: ADP Allocation to the health sector, FY17 (percent)**



Source: P&DD, GoS.

Analysis of the provincial share of the Health ADP shows high regional disparities. Per capita ADP allocations for FY17 show that the largest share of health sector projects goes to Sujawal and Matiari, which stand out at PRs 1.2 billion and PRs 1 billion per capita allocations, respectively, followed by Kahirpur, Jamshoro, Hyderabad, and SBA. In contrast, districts including Kashmore, Thatta, Badin, Ghotki, Sanghar, and Shikarpur receive the lowest per capita allocations. The top 22 percent of provincial population districts receive around 40 percent of total Health ADP allocations, whereas the bottom 25 percent receive only 6 percent of the ADP allocations.

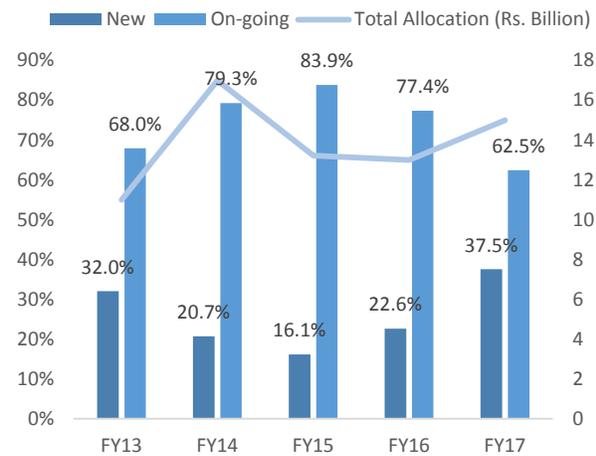
Figure 4.9: Per capita ADP allocations, FY17 (PRs billion)



Source: Planning and Development Department, GoS

The size of the health sector portfolio has declined over the past 3 years. For instance, there were a total of 147 health sector projects in FY17, down from 210 projects in FY15, with 58 new projects. However, the share of new projects in the ADP allocation has increased from 16 to 37.5 percent in the past 2 years, while allocations to ongoing projects have declined significantly, from 84 to 62.5 percent in the total allocations for FY17. This expansion of the portfolio—adding new projects while continuing with all existing projects—dilutes scarce resources from existing projects in the portfolio, contributing to increased costs and time overruns. As a result, more than 78 percent of projects take more time than envisaged at the planning stage, while cost overruns affect 4.1 percent of completed projects.

Figure 4.10: Allocations to health sector projects (percent and PRs billion)



Source: Planning and Development Department, GoS

The average cost of projects increased faster than the average allocation size, although projects are still expected to be completed within 5 years. For instance, projects were allocated only 17.7 percent of the average project cost in FY17. Moreover, 45.6 percent of projects were allocated less than PRs 50 million in FY17. However, this percentage has improved over the previous 2 years, from 71.4 percent in FY15. In addition, 25 percent of total projects had allocations of PRs 100 million or above in FY17 up from just 13.3 percent in FY15. Consequently, almost 82 percent of the health projects in the ADP portfolio should be completed within 5 years, while 14 percent (21 projects) are expected to take 6 to 10 years to complete based on current levels of allocation.

Figure 4.11A: Distribution of portfolio allocation (% of total projects)

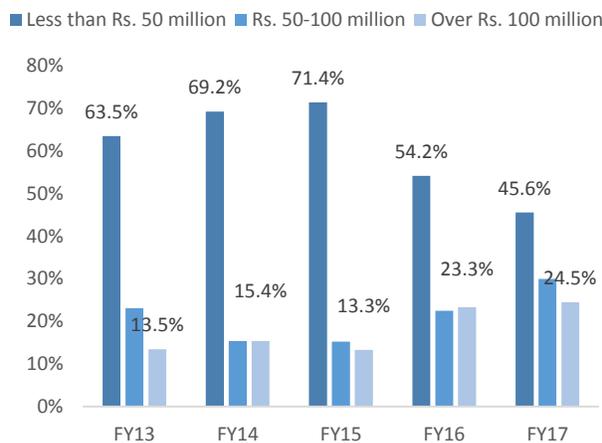
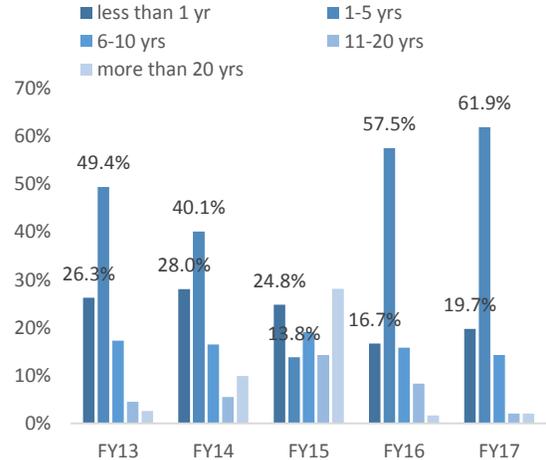


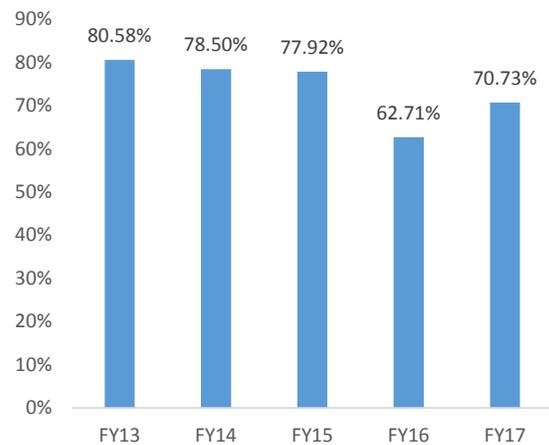
Figure 4.11B: Project completion time at current levels of allocation (percent)



Source: Planning and Development Department, GoS.

The decline in overall allocations to the health sector, coupled with fragmentation of the ADP diluting resources for existing projects, has contributed to substantial throw forward of commitments. For instance, the throw forward in the health sector for the current fiscal year, FY17, has increased by 27 percent compared with FY16. Throw-forward in FY17 has reached PRs 59 billion (71 percent of total project costs) compared with PRs 46 billion in FY16, placing resource liabilities on future development programs. The Sindh government needs to focus on the efficient completion of projects, as well as rationalizing the size of the portfolio by eliminating non-performing projects.

Figure 4.12: Throw forward FY13 to FY17 (percent of total project cost)

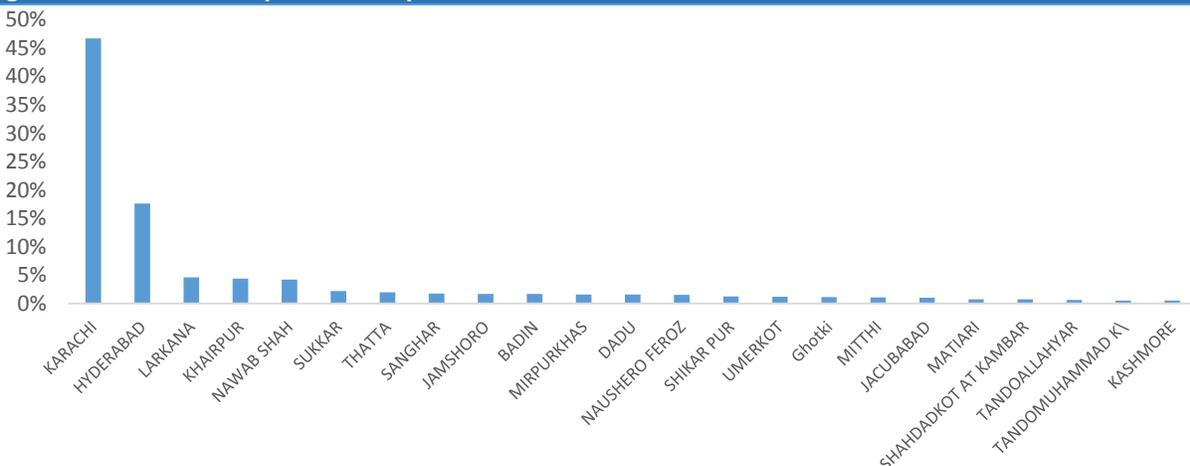


Source: Planning and Development Department, GoS

4.6 Allocative Efficiency of Health Expenditures

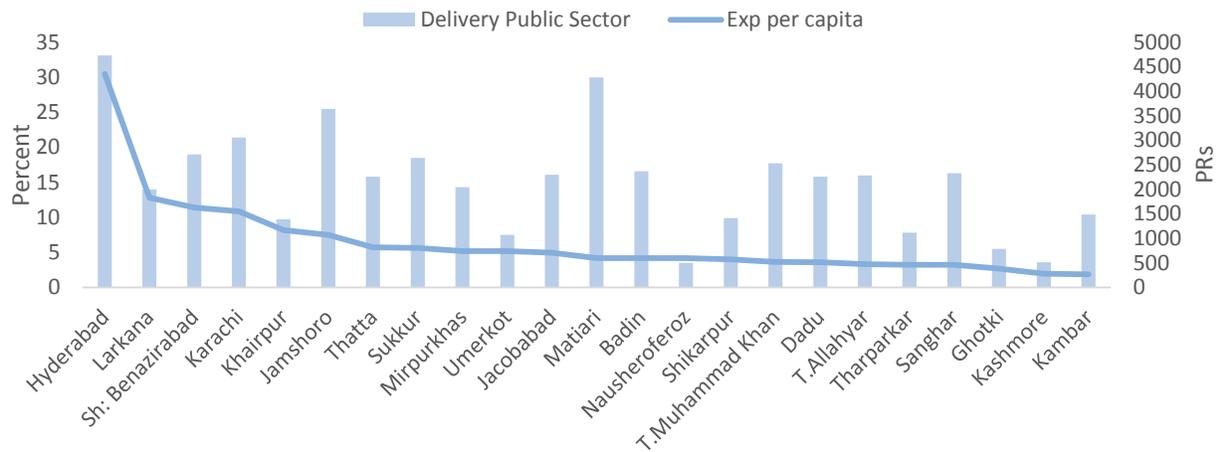
The total allocation for health on the current budget is PRs 61.759 billion, of which about 50 percent is for Karachi, and 54 percent of the total is allocated to non-salary spending. The non-salary allocation varies from highs of 69 percent, 64 percent and 63 percent for Karachi, Sujawal, and Khairpur, respectively, to lows of 13 percent and 17 percent for Kashmore and Naushero Feroze, respectively. Excluding Karachi, Sujawal and Khairpur, the average allocation of non-salary spending is 35 percent. The current budget allocation for medical education is PRs 4.129 billion, of which 79 percent is non-salary and includes grants to autonomous medical institutions. For population welfare, the current budget allocation is PRs 3.7 billion, of which 57 percent is for non-salary allocations. There is an allocation of PRs 1.026 billion under a code A03970, which is most likely for logistics, which includes contraceptives.

Figure 4.13: Recurrent expenditures by district



Source: Data from Accountant General of Pakistan.

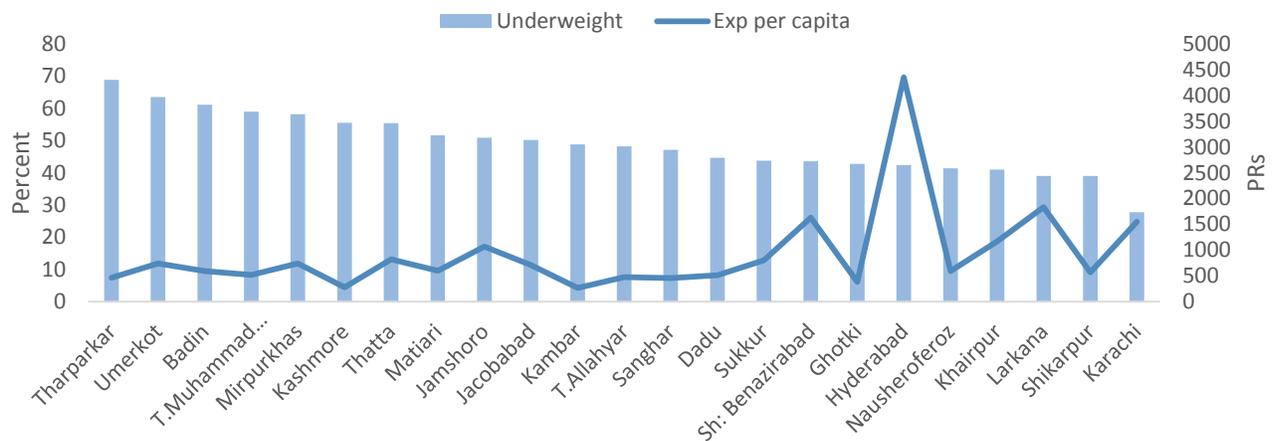
Figure 4.14: Childbirth at public health facility and per-capita expenditure, by district (percent and PRs)



Source: Data from Accountant General of Pakistan.

In Figure 4.14, by plotting childbirth in a public health facility and per capita expenditure by district we see that there is no discernable relationship between expenditures and the utilization of public facilities. For instance, if we look at the relationship between underweight children and per capita health expenditure, we find that allocations by district do not match population needs (Figure 4.15). In view of this, the HD should consider undertaking a serious rethink of the focus of health expenditure and whether spending is achieving the government’s health-related goals.

Figure 4.15: Malnutrition and health expenditure, by district, FY15 (percent and PRs)

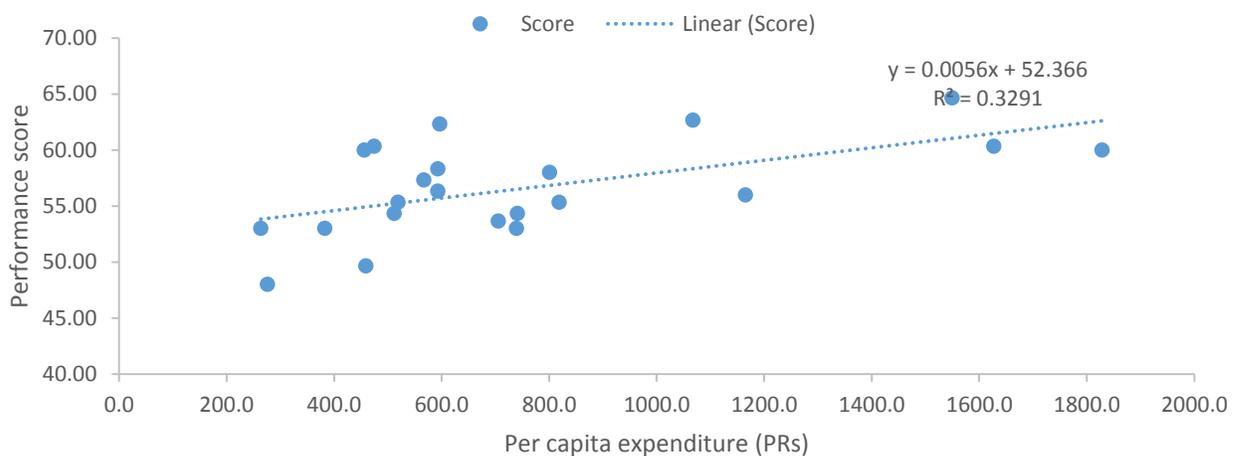


Source: Data from MICS and Accountant General of Pakistan.

The relationship between health expenditure and indicators is confounded by many other factors, such as education and social norms. As such, an examination of whether expenditure is being directed appropriately is warranted. We do this by plotting per capita expenditure against an aggregate score developed from three health indicators: (i) the share of deliveries at a public health institution, (ii) the share of fully immunized children aged 12 to 23 months, and (iii) the share of underweight under-5 children. Excluding the outlier, Hyderabad, we find that the score increases by 0.005 for every PRs 1.0 increase in per capita expenditure. However, the R-squared value reflects that this relationship only explains 32 percent of the variation.

Scoring: Districts were ranked based on the following indicators: (low to high) the share of deliveries at a public health institution; the share of fully immunization of children aged 12 to 23 months; and (high to low) the share of underweight children under-5. The maximum possible score was 69 and districts were ranked by per aggregate achievement. This score was then plotted against per capita expenditure to offset the effect of population size.

Figure 4.16: Per capita expenditure and health outcome performance score



Source: Data from MICS and Accountant General of Pakistan.

4.7 Recommendations

While a small number of health indicators in Sindh may have seen some modest improvement in recent years, the pace and breadth of that improvement is disappointing. This slow pace and narrow breadth of improvement has been further exacerbated by inefficiencies in budget allocations for health spending, which are not responsive to public health needs. The huge urban-rural disparity in health indicators in Sindh is also a major concern and one that requires immediate attention, as it adversely affects roughly half the population of the province.

While the Sindh Health Sector Strategy is certainly a step in the right direction, its success will depend largely on its implementation. The Sindh government is currently considering restructuring of the HD and this could offer a unique opportunity to address some of the inequities in the sector by improving the effective implementation of the provincial health strategy.

Sindh's high population growth rate needs to be curbed if the provision of basic health services is to keep up with demand. The current rate of population growth is unsustainable and creates continual pressure on the health service delivery system to expand its capacity. Without concurrent growth in spending this leads to the system being unable to provide basic requirements to the entire population. The focus provided by the Costed Implementation Plan (CIP) on Family Planning is one first step to

address unsustainable population growth. However, whether the requisite prioritization and financing will be forthcoming to make the CIP effective remains to be seen.

Stunting is a major issue and one that in the longer term will have an adverse impact on economic growth of the province. A plan to address the issue of stunting has been initiated by the Sindh government, but once again it remains to be seen whether the plan can gain the necessary size and momentum to have a significant impact.

Governance is another serious issue that needs to be addressed if health outcomes are to improve. The HD in Sindh is faced with the key issues of the over-centralization of authority, too many vertical programs, and the lack of mechanisms to enhance accountability and transparency. There is also weak oversight of service delivery and no clear M&E framework. This is now all the more important in the post-devolution environment, given that the focus of the mandate has shifted from just service delivery to include the new challenge of the stewardship of the entire health sector. One key problem is the lack of strong and stable leadership in the HD, which would benefit from reducing the frequency of staff transfers and the building of capacity in sectoral governance.

Public sector spending on the health sector is low in real terms, and there are major inefficiencies and highly regressive OOP expenditures. About 66 percent of total health expenditure in Sindh comes from households' out-of-pocket (OOP) expenditures, with the rest mainly accounted for by public sector sources. OOP spending is regressively distributed, with lowest income quintile spending on average 7 percent of monthly household income on health care, compared with the provincial average of 5.2 percent across all quintiles. Medicines account for largest share of OOP, mainly due to their inappropriate use by the private sector and low availability in the public sector. Within the public sector, the non-salary operational budget at the district level is particularly inadequate, ranging from 17 to 25 percent. Meanwhile, allocations for development expenditure at both the provincial and district levels are heavily tilted towards facility construction, which has high operational cost implications for coming years. Although primary health care provides a cost-efficient means for disease control and management, this has not been the focus of funding increases. There are also serious inefficiencies within the public sector, due to the proliferation of parallel vertical programs, redundant posts, an overly ambitious but sub-optimal district health system, and an input-based financial system.

There are several positive programs underway. The introduction of subsidized user charges has been successfully piloted by the Dow University of Health Sciences (DUHS), drawing in large numbers of patients. Results-based financing has been introduced through the Norway-Pakistan Partnership Initiative (NPPI) in the form of two pilot schemes each using vouchers and contracting in disadvantaged districts, with support from independent monitors. However, these pilots have been slow to roll out and as a result the evaluation results are still awaited.

Progress by PPHI in terms of BHU infrastructure and functionality have been seen. However, there is little difference in terms of preventive and promotive services, and the technical aspects of the services supplied are questionable. Contracting needs modification in terms of focusing the scope on low-performing facilities, rather than blanket contracting of both weak and better-performing facilities. The opening up of the bidding process would draw in more NGOs with expertise in health and also encourage the introduction of performance indicators.

The LHW program has been successful but needs to be expanded. Successful evidenced-based pilots of the LHW program to provide neonatal care, childcare, and nutritional support have been implemented in rural Sindh, but the lessons learned have yet to be mainstreamed. Moreover, alternative outreach strategies are needed for remote areas not covered by LHWs.

There have also been successful pilot programs run by GPs in urban areas. Pilot programs using GPs in urban areas have been launched by NGOs covering NCDs, TB DOTS, family planning, and STIs and have proved successful. However, once again the lessons learned from these pilots have yet to be scaled up into a systematic strategy.

Private sector participation needs to be encouraged but also better regulated. Sindh has the highest concentration of private sector health facilities and the highest utilization of the private sector for health in Pakistan. However, the care provided is largely unregulated. This unregulated health sector manages over 80 percent of the province's health infrastructure and is utilized by 78 percent of households, including the poor. There are uneven standards of care within the private sector and reports of widely practiced quackery, shadow pharmacies, sub-standard diagnostics, and a lack of reporting linkages, with the poor most at risk of abuse. There has been little effort to increase consumer awareness and, although comprehensive consumer protection exists in Sindh, this needs to be reinforced in the case health care. Although regulatory needs are considerable across the sector, there is an absence of a regulatory authority or framework. A shift in approach is also needed to move away from a traditional punitive government-dominated approach to regulation towards a mix of incentives and legislation implemented in coordination with multiple stakeholders.

The important issue of regulating pharmaceuticals is overlooked. Sindh currently lacks a comprehensive pharma strategy and this sub-sector has traditionally been overlooked in planning for health systems and health financing. Pressing regulatory issues include the proliferation of shadow pharmacies, inappropriate prescriptions by medical practitioners, and the relatively low use of recommended and cost-effective generic medication. There are also dire supply management issues, such as a high frequency of stock-outs, low quality parameters in purchasing, and a lack of transparent checks in the management of inventories. Health financing measures are also needed to reduce the high OOP expenditures on medication. Above all, there is a lack of adequate and skilled human resources, together with the absence of a central regulatory body to act as the hub for pharma issues and functions.

Blood banks should be developed, with effective monitoring by the regulator, while a new regulator will need to be established to monitoring other uncovered facilities. Regulatory work has been initiated by the Sindh Blood Transfusion Authority in the area of registering blood banks and this is a promising first step. Similar work also needs to be extended to diagnostic facilities, private health service providers, and shadow pharmacies, and will require the setting-up of a new regulatory authority.

Human resource deployment, retention and capacity are sub-optimal in rural areas, particularly among female health staff. At present, there is no comprehensive strategy for staff training and improvement. The annual increase in the number of doctors in Sindh is about 2,500, compared with 900 nurses and public health nurses) (LHVs), while at the same time there is unplanned growth of medical colleges in the province, which now number 19. There is a chronic shortage of all categories of female staff and specialists in rural districts, and several "ghost" providers, creating an urgent need to develop alternative staffing plans. Meanwhile, the excessive size of the general cadre and support staff at all levels results in efficiency losses. Existing administrative posts at both district and provincial levels lack mandatory management qualifications and there are frequent staff transfers and politicized postings that undermine performance.

Chapter 5: Need for a coherent policy: protecting the poor and vulnerable through social protection

5.1 Introduction

While Sindh has made progress in poverty reduction, in recent years it has only fared better than one other province, namely Baluchistan. Although Sindh reported a 7.4 percent decrease in its poverty incidence rate over the 3-year period FY11-14, if this improvement is compared nationally the province only fares better than Baluchistan. It is less than one-third the decline seen in Punjab and almost one-fifth of the decline in Khyber Pakhtunkhwa (KP). In addition, Sindh still has high levels of inequality across various dimensions of human capital development, such as education, health, and labor opportunities. Based on the Sindh government's social protection (SP) expenditure classification, on average SP spending has grown significantly since FY09. However, scrutiny of the data reveals a significant misclassification of expenditures, rendering real SP spending much lower. In addition, the analysis suggests that Sindh social protection and labor (SPL) initiatives are conceived, planned, and executed in a piecemeal fashion across several line departments, with little or no consideration of pre-identified SP risks and vulnerabilities. In the case of Sindh, SPL initiatives are characterized by a lack of careful program design and prudent resource allocation.

To achieve its goals, a unified policy framework supported by institutional and implementation arrangements is essential. In order to achieve the SPL strategic goals of increasing resilience, equity, and opportunity, the Sindh government needs to consolidate, coordinate, and monitor SPL activities across government departments and line agencies. To this end, a unified policy framework duly supported by responsive institutional and implementation arrangements is essential. Furthermore, more equitable economic growth should be the focus of Sindh's SP policy reform agenda going forward. Programs and schemes that aim to improve access to social services and productive inclusion, such as CCT for health, nutrition, and education, and better access to skills training, financial markets, job networks, and life skills (basic numeracy, negotiating skills, and work ethics for those without formal education) for the bottom 40 percent—especially women among the bottom 40 percent—should all be prioritized.

This chapter presents a Public Expenditure Review of the social protection and labor (SPL) sector. For the purposes of the analysis in this chapter, SP initiatives are broadly categorized as: (i) social assistance (cash and in-kind transfers); (ii) social insurance (primarily workers' welfare initiatives, excluding formal sector pensions that are covered separately under the World Bank's analytical work on pensions); (iii) labor-market programs (skills and entrepreneurship development, e.g., vocational training); (iv) social care services (programs for widows, orphans, the elderly, free medical treatment, etc.); and (v) subsidies (covering only provincial spending on subsidies aimed at providing relief to the poor and vulnerable, such as subsidies for transport, agricultural inputs, etc.).

This PER is limited to public sector expenditure, and so excludes private sector expenditure where beneficiary contributions are included in the benefits. Similarly, expenditure on the contributory Government Provident Fund (GPF) of government employees is also excluded. Thus, the scope of this PER is limited to non-contributory benefit transfers.

The primary aim of this chapter is to enhance the efficiency and effectiveness of public spending in the SPL sector. The ultimate goal of the analysis in this PER is to explore and reveal the reasons behind low efficiency in the public sector SPL initiatives, and suggest ways forward to improve service delivery and obtain better value for money from SPL spending.

Box 5.1: Definition and goals of SPL systems

SPL systems are defined in the World Bank's 2012-22 Social Protection and Labor Strategy as policies and programs that help individuals and societies to manage risk and volatility, and protect them from poverty and destitution, through instruments that improve resilience, equity, and opportunity. SPL systems have three intertwined goals:

- a. **Resilience** for the vulnerable through insuring against the adverse impacts to wellbeing from a range of shocks;
- b. **Equity** for the poor through protecting against destitution and promoting equality of opportunity; and
- c. **Opportunity** for all through promoting human capital in children and adults.

5.2 Social Protection Policy in Sindh

There is a lack of long-term planning for social protection policy in Sindh. There is an absence of any long-term SP vision clearly articulated through an SP policy, with a resultant SP strategy for Sindh. This has had the effect of leading to short-termism with regards to issues such as human capital development, when in fact such complex fields require long-term investment and, therefore, a long-term strategy and planning. This has resulted in piecemeal and “needs-based” budgetary allocations that, while being insufficient in the first place, have remained largely under-utilized due to weak institutional and administrative capacities.

The Sindh government does not have an overarching body entrusted to coordinate, consolidate, and oversee the provision of SPL programs and services in the province. In the absence of a policy framework, Sindh's SPL interventions are mostly ad hoc, and are managed under several stand-alone, uncoordinated, and poorly targeted programs.⁷⁴ These programs include *zakat*, livelihood and educational stipends, healthcare assistance, general subsidies, social welfare activities, the Rural Support Program for Poverty Reduction, grants of state land to landless peasants, the Benazir Bhutto Shaheed Youth Development Program (BBSYDP), and the Employees Social Security schemes aimed at mitigating income shocks and reducing vulnerability among the destitution. While there are several national SPL interventions in the province, such as pension schemes and minimum wages, the federal

⁷⁴ Several analyses have concluded that SP programs in Pakistan are generally poorly targeted. The following are some examples:

Zakat targeting efficiency: https://www.microfinancegateway.org/sites/default/files/mfg-en-paper-targeting-efficiency-of-poverty-reduction-programs-in-pakistan-2006_0.pdf

The paper comments on the nuances in targeting efficiency of *zakat* programs and concludes that there are leakages in targeting and, in at least one-fifth of cases, *zakat* funds go to third and fourth quintile households.

A lack of targeting is the main concern in all social assistance programs. *Zakat* distribution and Baitul Maal schemes do not have any transparent and accountable method of targeting. In fact, these programs are aimed to target the “deserving needy”, but no objective targeting tool (e.g., proxy means testing) is used. According to the World Bank (2007), “around 27 percent of *guzara* (monthly cash allowance) beneficiaries and 37 percent of those receiving rehabilitation grants are not poor, accounting for 32 and 45 percent of the resources distributed under each modality”.

Source < <http://www.spdc.org.pk/Data/Publication/PDF/RR81.pdf>>

“Targeting Problems: Targeting based on means-testing is the prevalent form of social welfare schemes in the case of *zakat* distribution, as well as Baitul Maal schemes. Both these schemes do not have any transparent and accountable method for targeting.” Source < http://www.researchcollective.org/Documents/Social_Protection_Way_Forward.pdf>

zakat and Baitul Maal programs, and the national flagship social safety net program, the Benazir Income Support Program (BISP), there is little coordination between federal and provincial programs.

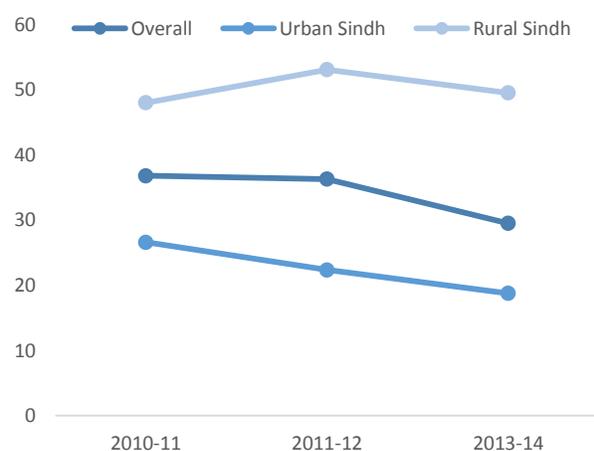
5.3 Impact of the 18th Constitutional Amendment and the Role of the Province in Social Protection

Following the 18th Amendment to the Constitution in 2010,⁷⁵ SP service delivery has largely become a provincial responsibility. The added obligations necessitate major policy and institutional reforms in an otherwise weak and, in some cases, non-operational SP sector at the provincial level that is characterized by limited planning, coordination, execution, and monitoring capacities. Currently, the Sindh government's SPL initiatives aim at managing risks and vulnerabilities, mitigating the worst effects of poverty, avoiding detrimental coping strategies, and helping the poor and vulnerable to increase their resilience. However, the SPL initiatives that have so far been undertaken have largely proved ineffective. Instead, the non-existent policy framework and inappropriate budgetary allocations have created a de facto policy of regressive general subsidies, inadequate coverage, and inefficient and non-inclusive SPL interventions, as explained in more detail in the latter half of this chapter.

5.4 Poverty, Inequality and Vulnerability in Sindh Province

Between 2001 and 2014, Sindh witnessed a considerable reduction in poverty incidence and vulnerability. However, despite this improvement, Sindh still has the second-highest poverty rate in Pakistan after Baluchistan, based on the newly adopted poverty line in 2016.⁷⁶ While roughly half of Sindh's population is urban, urban areas host only 28 percent of the poor. As a result, Sindh also has the highest gap between rural and urban poverty rates (Figure 5.1). Within the rural poor there is a sub-group of ultra-poor, particularly in the southern districts of Sindh. This ultra-poor subgroup faces additional hardships as a result of recent natural disasters due to devastating flooding and adverse soil conditions, such as waterlogging and high soil salinity. In urban areas, growing peri-urban communities that have migrated from rural parts of Sindh and other regions of the country (including Khyber Pakhtunkhwa [KP] and the Federally Administrated Tribal Area [FATA]) in search of livelihood opportunities, make up the bulk of the poor population. In addition, there are high levels of inequality across various dimensions of human capital development, such as education, health, and labor-force participation.

Figure 5.1: Poverty rates comparison across provinces (percent)



Source: HIES and World Bank staff calculations.

⁷⁵ The 18th Amendment of the Constitution, among others, has abolished the concurrent legislative list, thus giving provinces more power over several subjects of public interest and service delivery, including social sector service delivery.

⁷⁶ World Bank Poverty Team calculations using the new poverty line.

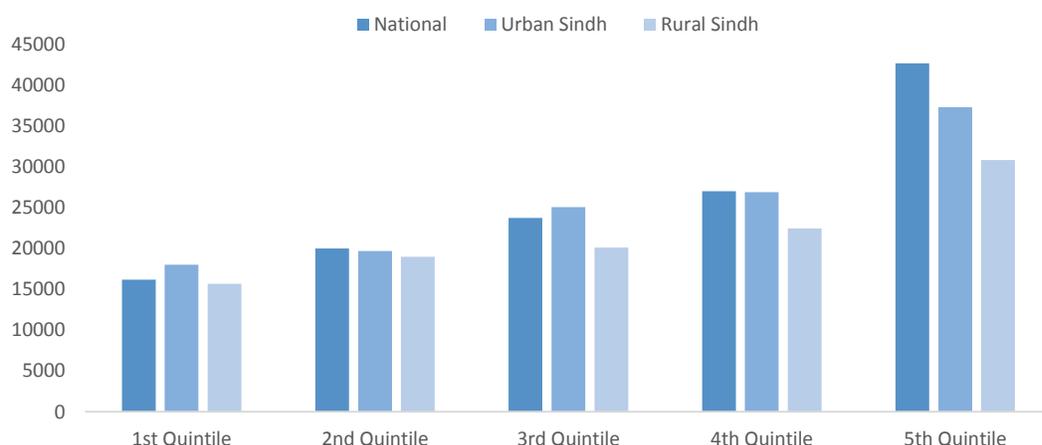
While there have been important gains in shared prosperity, in relative terms the progress in Sindh has been slower than in Punjab or KP. Sindh reported a 7.4 percent (FY11 to FY14) decrease in overall poverty incidence, but this is disappointing when measured against Punjab’s impressive poverty decrease of 25.5 percent and KP’s even more striking reduction of 34.7 percent. Sindh’s share of the national bottom 40 percent actually increased as a result of these varying relative reductions in poverty by province. The devastating floods of recent years, followed by droughts and the loss of livestock, together with the dependency of the rural population on agriculture, livestock, and fishing along the coastal belt, mean that the rural population is far more vulnerable than the urban population.

Given that Sindh is so vulnerable to natural disasters (particularly floods and droughts), there is a high risk of shocks stemming from these events pushing near-poor and vulnerable households into poverty. According to Sindh’s Provincial Disaster Management Authority (PDMA) Multi-Hazards Contingency Plan 2013, 12 out of the 29 districts in Sindh are vulnerable to natural disasters owing to a “very high” to “high” risk of drought, while 14 districts are in the category of “very high” to “high” risk of flooding/severe rainfall. In addition, Karachi, Thatta, and Badin are in the “very high” to “high” risk category for cyclones and tsunamis (Annex Table 1).⁷⁷

The rural population is also more vulnerable to changes in the cost of basic needs. When a vulnerability analysis is conducted using the new poverty line, a 20-percent increase in the cost of basic needs almost doubles the poverty rate in rural Sindh. From the 3.1 million individuals in FY14 in rural Sindh who were below the poverty line, this figure increased to 5.2 million after resetting the poverty line—an increase of 1.7 times.

There is a sizeable difference in consumption between households in urban and rural areas in Sindh. Rural Sindh fares very poorly compared with both national and, to a lesser extent, urban Sindh consumption numbers. Figure 5.2 shows the differential in consumption expenditure across regions and between income quintiles. On a national basis, a household in the bottom quintile consumes on average only one-third as much as a household in the top quintile. In Sindh, the difference between rural and urban consumption is slightly less than nationally, with both the wealthiest urban and rural quintiles consuming double the poorest urban and rural quintiles.

Figure 5.2: Average monthly consumption expenditure (PRs)

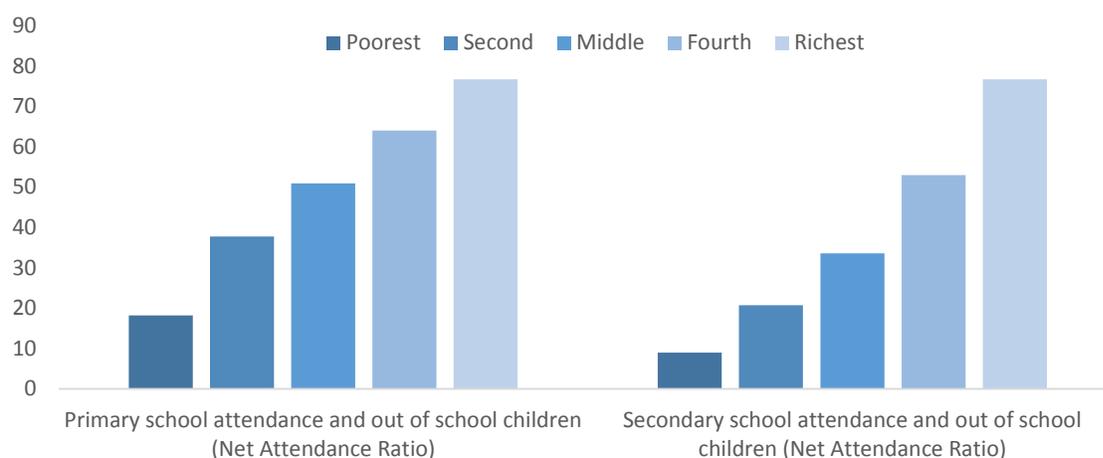


Source: HIES and World Bank staff calculations.

⁷⁷ See Annex Table 1 for detailed table of risks from the PDMA Multi-Hazards Contingency Plan 2013, Government of Sindh.

Access to social services, particularly education, is highly unequal between urban and rural Sindh. This leaves individuals in rural areas at a huge disadvantage in terms of human capital development and their resultant opportunities to share in growth and prosperity (for a detailed analysis see Chapter 2 on education and Chapter 3 on health). Figure 5.3 shows that the difference in attendance ratios between primary school children in the first and fifth quintiles is almost four times, while for children in secondary school the difference is almost eight times. These huge differentials between primary and secondary school attendance signal very high levels of educational inequality, which in turn is a precursor for the transmission of intergenerational poverty. In addition, with such huge inequalities of opportunity, the poorest are destined to remain at a perpetual disadvantage in accessing the benefits of economic growth and new job opportunities.

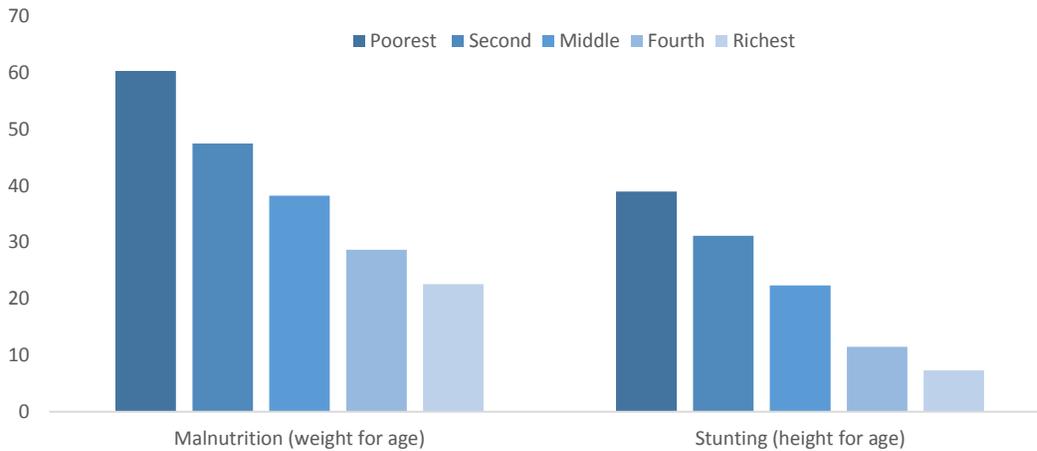
Figure 5.3: Primary and secondary school attendance ratios, by income quintile



Source: SEMIS

According to the Sindh Multiple Indicator Cluster Survey (MICS) conducted in 2014, almost 42 percent of under-5 children are underweight and 17 percent are severely underweight. About 48 percent of children under 5 are stunted or short for their age, and one-quarter are severely stunted. The differential in rates of stunting and malnutrition is magnified across quintiles in each category. Almost three times as many children under 5 are malnourished in the poorest quintile compared with the richest quintile, while for stunting the difference between the richest and poorest quintiles is more than five times. Likewise, a comparison of full vaccination rates based on income quintiles shows a marked difference between the first and fifth quintiles. A child born into a poor household (bottom quintile) is one-third as likely to receive full vaccinations compared with a child born into a wealthy household (top quintile).

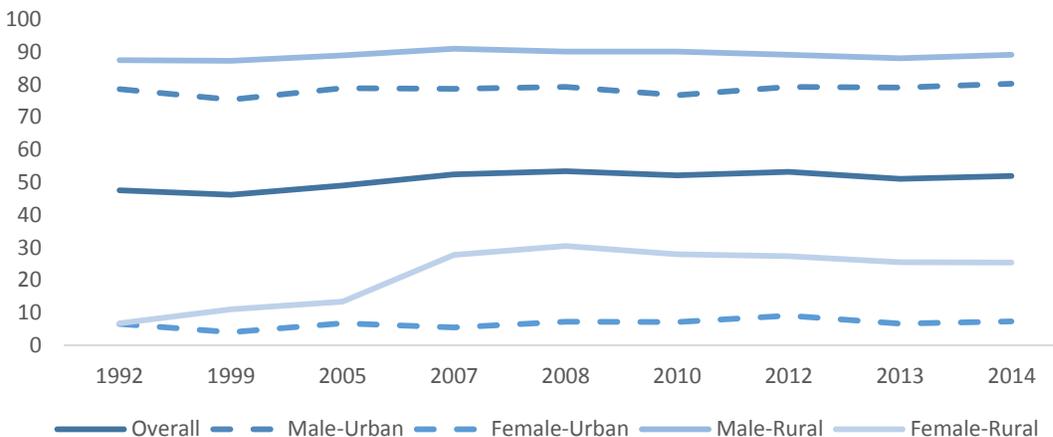
Figure 5.4: Percentage of children under 5 by nutritional status and income quintile



Source: Multiple Indicator Cluster Survey 2014.

5.5 Labor-Force Participation in Sindh

Participation in the labor force in Sindh has remained at about 45 percent for almost a decade. Despite the stagnation in the overall level of labor participation, there has nonetheless been an encouraging increase in rural female labor-force participation, rising to almost 20 percent since 2005. However, this is in stark contrast to the participation of urban women in the labor force: urban female labor-force participation has remained stagnant at less than 2 percent, despite an overall increase in female education in the past 10-15 years (Figure 5.5).

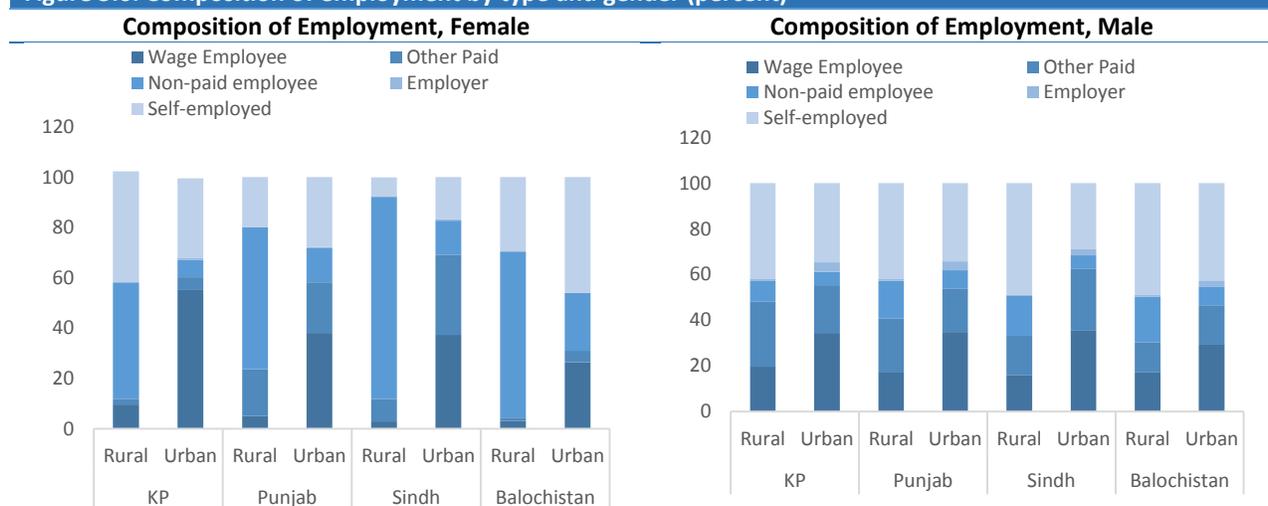
Figure 5.5: Labor-force participation in Sindh⁷⁸ (percent)

Source: Pakistan Labor Force Surveys.

⁷⁸ Pakistan Social and Living Standards Measurement < <http://www.pbs.gov.pk/content/pakistan-social-and-living-standards-measurement>>

However, despite the modest progress in the rural areas, female labor-force participation in general is still extremely low in Sindh. Increasing labor-force participation, especially among women, is key to alleviating poverty and improving the prospects for economic growth. In Sindh, with more than 50 percent of its working age population out of work primarily due to very low female labor-force participation, eliminating the risks and vulnerabilities associated with poverty and achieving growth targets will remain a huge challenge. In addition, as shown in Figure 5.6, a considerable proportion of those rural women who do work are unpaid employees (80 percent). This share is higher than the share of rural women in unpaid employment in any other province in Pakistan.

Figure 5.6: Composition of employment by type and gender (percent)



Source: Pakistan Labor Force Survey, LFS 2014/2015

Similar to Pakistan as a whole, Sindh is currently experiencing a youth bulge, with a large number of young people reaching working age and entering the labor force. This demographic dividend could represent a major opportunity for economic growth in Sindh if it can be harnessed effectively. Almost 27 percent of the entire population of Sindh is between 15 and 29 years of age.⁷⁹ However, owing to limited investment in human capital, labor-market initiatives to harness this potential—especially aimed at addressing the gender gap and critical supply-side issues—should be undertaken as an urgent priority. These initiatives include: pre-natal and early childhood interventions aimed at reducing stunting and boosting cognitive development; pre-school learning and development and family support for schooling for the extremely poor; skills training programs for vulnerable youth; entrepreneurship programs promoting access to finance; and job placement for vulnerable groups.

Besides the number of individuals in work, the quality and productivity of jobs is another important factor in boosting economic growth and helping to reduce poverty-related risks and vulnerabilities. The employment-to-population ratio in Sindh was 42.7 percent in FY11, implying that only 42.7 percent of the working-age population in the province (10 years and older)⁸⁰ was actually employed.⁸¹ Currently,

⁷⁹ Sindh Youth Policy 2016 < http://www.youthaffairs.gos.pk/wp-content/uploads/2016/03/YOUTH_POLICY_FRESH_TITLE_FINAL-9-12-2015.pdf>

⁸⁰ In Sindh government surveys the working age is defined as 10 years and older. Child labor is allowed in some instances where stringent conditions (number of working hours, breaks, the nature of work, etc.) are followed.

⁸¹ Sindh Employment Trends 2013 < http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-islamabad/documents/publication/wcms_222494.pdf>

a large share of the working population in Sindh (about 85 percent) is employed in jobs in the informal sector, with consequently lower levels of earnings and productivity relative to formal sector jobs. Among employed women, unpaid work is the norm and many are employed in farm household enterprises. Among employed men, a minority are employed as formal sector wage workers, while the majority is self-employed in informal jobs. Despite an increase in overall educational attainment, there has only been very slow improvement in the quality of jobs over time, while the pace of the structural transformation (workers moving out of agriculture and going into services and industry) has also been sluggish.

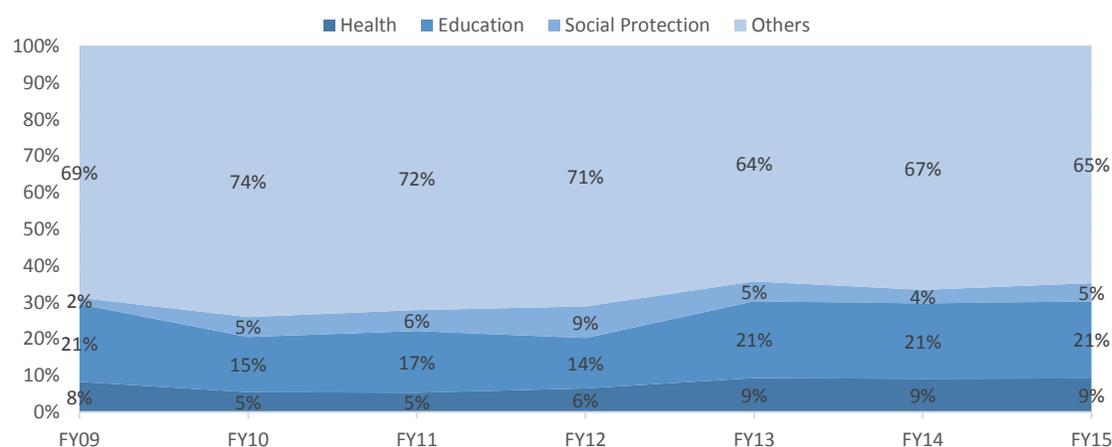
5.6 Social Protection Expenditure in Sindh

The Sindh government's budget analysis of the previous fiscal year, FY16, focuses on the improvement of overall social sector service delivery and on increasing the share of budget allocations going towards priority policy areas.

5.6.1 Social Protection Spending in Sindh

Social protection spending has seen significant variations in recent years, indicating ad hoc policy interventions. Although the share of SP expenditure in overall spending remained, on average, about 5 percent of Sindh's budget in the period FY09 to FY15, there was significant variation between years. While education and health expenditures have both seen persistent increases in their shares since FY12, the overall share of SP expenditure declined from a high of 9 percent in FY12 to 5 percent in FY15. The large variations are indicative of incoherent and ad hoc SP interventions. Despite the volatile nature of the share of SP expenditures over the years, the overall share of SP expenditure grew significantly in the period from FY09 to FY15, expanding by about 32 percent on average in real terms (Figure 5.7).

Figure 5.7: Share of total expenditures, FY09 to FY15 (percent)



Source: Data from Accountant General of Pakistan.

However, disaggregated data of this SP expenditure paint a very different picture. Disaggregated spending on SP components listed in Table 5.1 shows the department data of expenditures that are classified under SP. There appears to be a significant misclassification of these expenditures under the SP functional classification, while several departments listed have data showing SP spending, without having any SP-related activities.

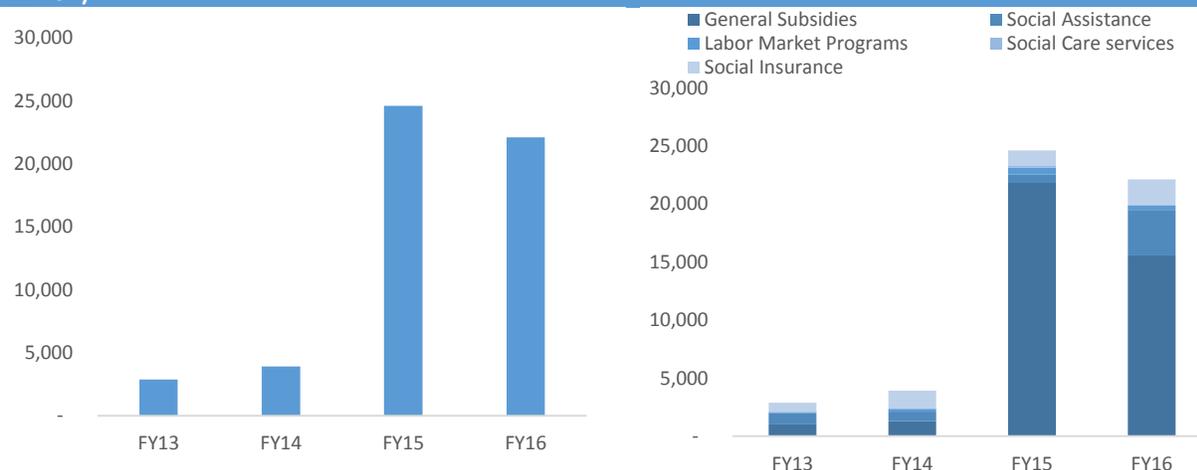
Table 5.1: Disaggregated social protection spending (PRs)

PRs million	FY12	FY13	FY14	FY15
S26 - GOVERNOR'S SECRETARIAT/HOUSE	-	570	-	-
S31 - FINANCE DEPARTMENT & COOPERATION DEPART	268	216	948	961
S33 - BOARD OF REVENUE	20,097	6,628	2,132	1,611
S35 - AUQAF, RELIGIOUS AND MINORITIES AFFAIRS	213	782	602	711
S36 - PLANNING & DEVELOPMENT DEPARTMENT	42	521	112	2
S38 - C & W (WORKS AND SERVICES) DEPTT.	9,873	6,535	4,277	15,145
S39 - LOCAL GOVERNMENT DEPTT.	9,334	6,526	6,644	5,098
S40 - EDUCATION & LITERACY DEPARTMENT	70	210	298	349
S41 - CULTURE & TOURISM	1,338	2,109	2,386	1,854
S42 - HEALTH DEPRATMENT	3	97	100	206
S43 - POPULATION WELFARE	1,137	1,409	1,966	2,437
S44 - LABOUR, TRANSPORT, INDUS. & COMMERCE	168	12	13	15
S46 - ENVIRONMENT & ALTERNATE ENERGY DEPARTMENT	-	-	-	-
S49 - IRRIGATION & POWER DEPTT.	-	67	130	13
S53 - MINES & MINERAL DEVELOPMENT	8	9	9	11
S54 - LIVESTOCK AND FISHERIES DEPARTMENT	-	-	-	-
Total	42,551	25,691	19,617	28,413

Source: Data from Accountant General of Pakistan.

In view of this discrepancy, the World Bank collected data from FY13 to FY16 from Sindh government departments under the ASPIRE⁸² classification. The analysis below is based on the data collected from different line departments with active SP roles and interventions. There was a nominal increase in SPL spending from FY13 to FY14. However, a sharp increase in SPL spending is witnessed in FY15, owing to massive subsidies to the transport sector. Figure 5.8a shows overall SPL spending from FY13 to FY16. Figure 5.8b shows individual trend lines representing the rest of the SPL categories (social assistance, social care services, labor-market programs and social insurance), and highlights the negligible expenditure increases if general subsidies are stripped out.

Figure 5.8a: SP spending over FY13 to FY16 (PRs million) **Figure 5.8b: SP spending disaggregated (PRs million)**



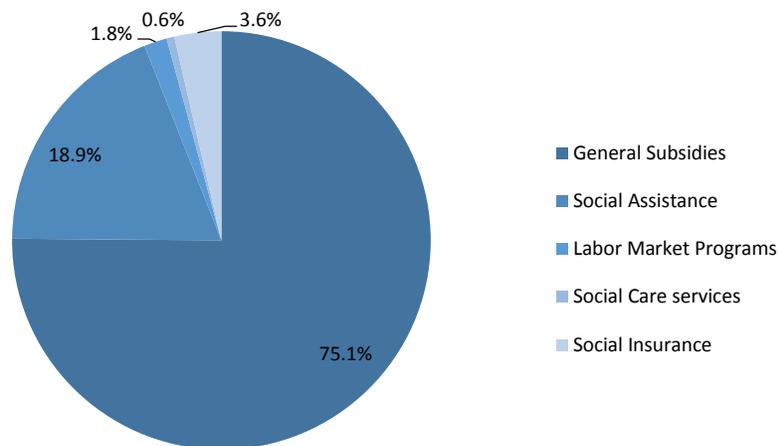
Source: Data from the Government of Sindh.

⁸² The Atlas of Social Protection Indicators of Resilience and Equity: A database of comparable indicators to monitor SPL performance over time and across countries

5.6.2 Share of SP Sub-categories in Overall SP Spending in FY16

In FY16, the bulk of SP spending went towards untargeted or weakly targeted subsidies, which consumed almost 70 percent of total SP spending, followed by social assistance spending, at 18 percent. The lowest spending areas were labor-market programs, social care services, and social insurance. Most significantly, the spending on social-care services constituted less than 1 percent of overall SP spending in FY16.

Figure 5.9: Social protection sub-categories of spending in FY16 (percent)



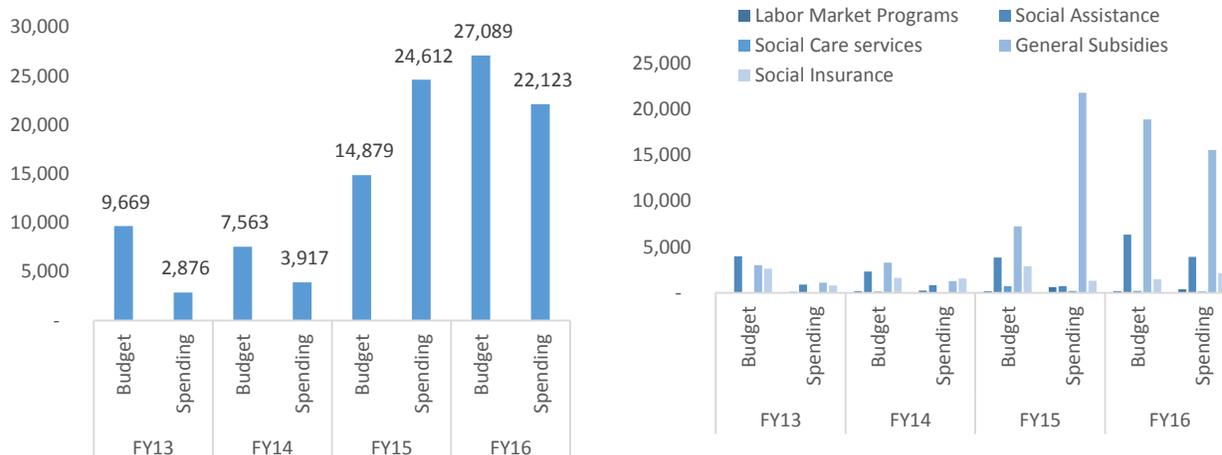
Source: Data from the Government of Sindh.

5.6.3 Budget Utilization Pattern in SP over 5 years from FY13 to FY16

Besides its low budgetary allocation, the SPL sector has been further weakened by poor utilization over the past few years due to weak institutional and administrative capacities. The overall budget utilization pattern against yearly allocations for social protection is shown in Figure 5.10. The lowest spending was 29.7 percent in FY13, which gradually improved in subsequent years to 51.8 percent in FY14 and 81.7 percent in FY16. In FY15, overspending of 165.4 percent was witnessed against the allocated budget, due to an unprecedented increase in transport subsidies. In addition, other than the year of overspending due to transport subsidies, there is a consistent pattern underspending in SP sub-categories. Figure 5.11 shows the disaggregated budget allocations and spending for the same period.

Figure 5.10: Social protection budget allocations and spending

Figure 5.11: Budget allocations and spending in SP sub-categories



Source: Data from the Government of Sindh.

5.6.4 Social Protection Expenditure Summary

Both in budget allocations and actual spending, general subsidies far outweigh all other items. The budget allocations in the various SP areas and actual spending over the years are shown in Table 5.2. This confirms that there is very low utilization of allocated funds (apart from the overspending in FY15) and those general subsidies far outweigh all other items.

Table 5.2: Analysis of budgeted and actual spending (PRs million)

SP areas	FY13		FY14		FY15		FY16	
	Budget	Spending	Budget	Spending	Budget	Spending	Budget	Spending
General subsidies	3,000	1,090	3,300	1,293	7,237	21,805	18,888	15,581
Labor-market programs		104	150	239	150	605	174	368
Social assistance	3,981	903	2,330	837	3,857	718	6,351	3,918
Social care services	52	3	147	0	738	188	192	124
Social insurance	2,636	776	1,636	1,547	2,896	1,296	1,484	2,133
Grand total	9,669	2,876	7,563	3,917	14,879	24,612	27,089	22,123

Source: Data collected from GoS departments.

5.7 Institutional Arrangements for Social Protection in Sindh

Currently, Sindh SPL initiatives are conceived, planned, and executed in a piecemeal fashion across several line departments. There is no central entity to plan, consolidate, coordinate, and monitor these SPL interventions. As a result, the SPL sector is replete with duplication, inadequate coverage, and programmatic inefficiencies. There is little or no meaningful consideration of pre-identified SP risks and vulnerabilities, nor are the SPL programs sustainable at current levels of funding.

Sindh's SPL initiatives are scattered across a host of different departments and autonomous governing bodies. The focus departments include the Community Development Department, the Social Welfare Department, the Department of Zakat and Ushr, the Department of Food and Agriculture, the Health Department, the Sindh Education Foundation, the Education Department's Endowment Fund, the Benazir Bhutto Shaheed Youth Development Program (BBYSDP), and the Provincial Disaster Management Authority. In addition, SP interventions are also being carried out through different institutional arrangements, such as the Sindh Province Pension Fund, the Sindh Social Relief Fund, the

Viability Gap Fund, the People’s Housing Cell Fund, the Sindh Government Employees Group Insurance Fund, the Sindh Agriculture Supplies Organization Pensioner’s Fund, the Sindh Flood Relief Fund, Endowment Fund for Peoples’ Primary Healthcare Initiative, and the Investment Fund for Sindh Civil Servant Housing Foundation.

5.8 Inventory and Analysis of Sindh SPL Programs

Besides untargeted general subsidies that account for the lion’s share of Sindh’s SPL spending, the Sindh government has also initiated several SPL programs to address the needs of vulnerable and at-risk segments of the population. These programs are generally aimed at poverty alleviation, women’s development and empowerment, improvements in socioeconomic conditions and welfare, skills development, the protection of children, and emergency responses, particularly in flood-affected areas of Sindh.

However, closer scrutiny of these programs reveals that only a fraction of Sindh’s vulnerable and at-risk population, in a few geographical areas, is actually covered under these programs. In addition, the selection of beneficiaries is too few and the services/benefits offered are too little to have any meaningful impact. In FY15, the most recent year for which data are available, about 1.0 to 1.3 million beneficiaries benefited from SPL interventions. This is a mere 2.5 percent of Sindh’s population and only 7.5 percent of Sindh’s poor population living below the poverty line (34 percent of the population of Sindh). Sindh’s overall SPL undercoverage notwithstanding, owing to non-objective targeting and poor coordination, it is difficult to estimate the percentage of the bottom two quintiles (bottom 40 percent) of the population that benefits from these programs, or the movement of eligible beneficiaries from one program to others based on their specific needs. Table 5.3 summarizes the major SPL interventions, the line departments involved, the funding sources, and the stated goal of the programs.

Table 5.3: Major social protection programs in Sindh

Program	Department	Funding source	Overall goal of program
Social Assistance			
<i>Guzara allowance</i>	Zakat and Ushr Department	Provincial budget	Provision of assistance to deserving families having destitute, widowed and old-aged persons for daily dietary needs.
Education stipend	Zakat and Ushr Department	Provincial budget	Provision of educational stipends to deserving students.
Stipend to <i>madrassas</i>	Zakat and Ushr Department	Provincial budget	Monthly scholarships to students of Deeni Madaris for religious education.
Marriage assistance	Zakat and Ushr Department	Provincial budget	Financial assistance to deserving girls for marriage purposes.
Healthcare Assistance	Zakat and Ushr Department	Provincial budget	Funds provided to 7 government hospitals in the district to facilitate the poor patients. Support limit per patient is PRs 3,000 for outdoor and PRs 5,000 for indoor treatment.
Rehabilitation Allowance	Zakat and Ushr Department	Provincial budget	One-time support of PRs 5,000 to rehabilitate businesses.
Provision and Installation of Hand Pumps in Kohistan area	Agriculture Department	Provincial budget	Hand pumps were provided to the drought-affected area of Kohistan for water supply.
UCBPRP - Community Investment Fund (CIF)	P&DD - SGRRP	Provincial budget	Construction of low cost housing, water schemes, education and health facilities for women.

Scholarships to workers children	Worker's Welfare Board	Non-government funds	Provision of merit-based scholarships to worker's children to continue their education at college and university level.
Financial aid for daughter marriage	Worker's Welfare Board	Non-government funds	Financial assistance to workers for daughter's marriage by providing an amount of PRs 100,000 per daughter.
Death grant to widows of workers	Worker's Welfare Board	Non-government funds	Financial assistance to the heirs of deceased workers by providing PRs 500,000 in case of his/her death.
Sindh Social Relief Fund	Finance Department	Provincial budget	Provide relief to the vulnerable and disadvantaged people of Sindh.
Social Insurance			
UCBPRP - Micro Health insurance (MHI)	P&DD - SGRRP	Provincial budget	UCBPRP is a women targeted program providing income-generating grants, interest free loans, construction of low cost housing, training, water schemes, and education and health facilities.
Sindh Govt. Employee Group insurance	All Govt. Departments	Provincial budget	GoS has started this fund for the provision of insurance facility to its employees.
Government contribution to health insurance	All Govt. Departments	Provincial budget	A service for GoS employees to avail themselves of medical facilities from private hospitals in case of the need for specialized medical treatment.
Labor Market Programs			
Sindh Skills Development Project, component-I	BBSYDP	Provincial budget	Addresses poverty and unemployment through youth-based human resource development.
Benazir Bhutto Shaheed Youth Development Program (BBSYDP)	BBSYDP	Provincial budget	Addresses poverty and unemployment through youth-based human resource development in the province.
UCBPRP - Vocational training programs (VTP)	P&DD - SGRRP	Provincial budget	Provides vocational training to women.
UCBPRP - Income generating grant	P&DD - SGRRP	Provincial budget	Provides income-generating grants and interest-free loans to women.
Social Care services			
Strengthening of Darul Atfal and Rehabilitation of Street Children	Social Welfare Department	Provincial budget	Rehabilitation of street children.
Strengthening of Darul Aman at Mirpurkhas and Jacobabad	Social Welfare Department	Provincial budget	To give shelter to the women victims of violence.
Strengthening of 17 existing rehabilitation center for physically handicapped persons	Social Welfare Department	Provincial budget	The centers rehabilitate disabled persons such as the blind, the deaf and dumb, crippled and polio affected.
Establishment of Women Development Complex at Shaheed Benazir Abad and Sukkur	Women's Development Department	Provincial budget	To initiate social protection programs/ activities for women for their sustenance.
3 Day care centers in Karachi: one each at Divisional level	Women's Development Department	Provincial budget	To support working women.
Mediation for women in	Women's	Provincial	To help women in settling their marital disputes.

all Divisional HQs in Sindh through institutionalized Alternate Dispute	Development Department	budget	
General Subsidies			
Wheat subsidy	Agriculture Department	Provincial budget	
Subsidy to sugarcane growers	Agriculture Department	Provincial budget	Support small sugarcane growers.
Subsidy on fertilizers	Agriculture Department	Federal and provincial budget	Subsidy on urea fertilizer to farmers.
Provision of Assistance to Farmers on Purchase of 11,000 Wheel Type Tractors	Agriculture Department	Provincial budget	A facility for farmers to buy tractors at subsidized rates to improve the agricultural production.
Provision of Solar Pumps Subsidy to Farmers (50%)	Agriculture Department	Provincial budget	Provision of solar water pumps/ tube wells on subsidized rates to farmers in Sindh.
Provision of Power Sprayer Subsidy to Farmers (50%)	Agriculture Department	Provincial budget	To enhance agriculture production by provision of machinery at subsidized rate.
UCBPRP - Low cost housing scheme (LCHS)	P&DD - SGRRP	Provincial budget	UCBPRP is a woman targeted Program providing income-generating grants, interest free loans, construction of low cost housing, training, water schemes, education and health facilities.
Food Subsidies	Food Department	Provincial budget	Provide wheat to the flour mills at low cost to maintain an affordable price of flour for consumers.
Transport Subsidies	Transport Department	Provincial budget	Provide low cost transport services to the general public.

5.9 Efficacy of Sindh Social Protection Initiatives

Sindh's SPL sector is primarily driven by untargeted regressive subsidies (i.e., benefiting the rich more than the poor, due to the former's greater purchasing power). Unfortunately, the SPL sector is not guided by any umbrella policy or supported by auxiliary social sector policies in a coherent manner. Most SPL programs either do not target the poor at all, or they rely on very loosely defined community-targeting mechanisms. The absence of a central coordinating agency and robust analysis of SP-related risks and vulnerabilities has resulted in a weak understanding of the role of SP interventions. This in turn has led to a plethora of inadequate and inequitable SP programs that have little impact. Below is a brief synopsis of Sindh's SP sectoral effectiveness.

5.9.1 Program Objectives, Target Populations and Adequacy

SPL sector program objectives and target populations are not clearly defined under a coherent risk and vulnerability assessment framework. The lack of any fundamental clarity on SPL goals in promoting resilience, equity, and opportunity, and the limited objective comprehension of the composition and needs of target populations, have resulted in ad hoc SPL programs that make little if any meaningful contribution in reducing risks and vulnerabilities among the poor. With the exception of *zakat*, which does have a semblance of community targeting, most SPL interventions in Sindh are not specifically targeted towards the poor and involve extremely low coverage.

5.9.2 Inequity and the Lack of Consideration of Risks and Vulnerabilities

The coverage of most SPL programs is limited to a few districts, Union Councils, and areas or groups without any objective classification. In addition, despite very poor indicators, concerted efforts to promote gender equity, in particular through female-targeted SPL programs, are lacking. Due to the limited number of beneficiaries and the inadequate level of the benefits, even in targeted areas, both horizontal and vertical equity is compromised.

5.9.3 Delivery Mechanisms and Coordination

Most SPL programs in Sindh are implemented through government departments. Other than government departments, a few programs are implemented through NGOs/civil society organizations (CSOs), but these usually have even more limited reach and capacity than government programs. The delivery mechanisms vary between programs and geographical areas. For example, *zakat* is delivered through the provincial Zakat and Usher Department, whereby beneficiaries are selected by local *zakat* committees. In addition, most social care services, such as women’s crisis centers and childcare centers, etc., are available only in a handful of districts. The lack of institutional capacity to consolidate, coordinate, and monitor SP programs has resulted in additional programmatic and service delivery inefficiencies.

5.9.4 Sustainability

The absence of any long-term SPL vision clearly articulated through SPL policy, together with the lack of a resultant strategy, has led to short-termism with regard to issues such as human capital development that in fact require long-term investment. This has resulted in a piecemeal, ad-hoc, and “needs-based” budgetary allocation process and, despite the benefits being insufficient in the first place, allocations have remained largely under-utilized due to low capacity.

5.10 Recommendations

In order to achieve improved allocative and distributive efficiencies and to achieve SPL goals of increasing resilience, equity, and opportunity, the Sindh government needs to consolidate, coordinate, and monitor SPL activities across government departments and line agencies. Only in this way can it help to control the duplication of effort and the fragmentation of interventions, thereby saving precious financial resources. Some of specific recommendations and policy actions for achieving this are presented in the matrix below.

For strategic steering, program design and oversight, consolidate and coordinate the SP sector under a unified policy framework, duly supported by a responsive institutional and implementation arrangement. Under an appropriate legal framework, establish a central SP entity, such as an SP Authority or Board, entrusted to consolidate, coordinate and monitor SP portfolio in Sindh. Initiate the SP policy formulation process, either through the newly formed SP entity, or in the interim, under the P&DD. The policy formulation process needs to be evidence-based, ensuring adequate stakeholder consultation, analysis of risks and vulnerabilities, clear articulation of SP vision; identification of key policy objectives (such as equity, resilience, social cohesion, gender equity and opportunity) and prioritized intervening areas.

Equitable growth (lessening the capability deprivation) should be the focus of Sindh SP policy reform agenda. Existing SP programs/interventions should be reviewed for an increased focus on the marginalized groups (i.e., rural poor, women) and alignment with key policy objectives. New interventions aimed at reducing inequality and promoting equity, such as CCTs for health and education,

and labor-market programs designed for the most marginalized, should be introduced with a particular focus on human capital development. All cash-based SP interventions should be brought under a unified targeting and disbursement mechanism.

Review and gradually rationalize general subsidies and, in time, possibly provide ONLY targeted subsidies to the most vulnerable, while using the freed-up resources towards core SP programs. Review the distributional impact of untargeted subsidies across economic group quintiles. Develop an action plan to phase out untargeted subsidies based on outcomes of the analytical review. Develop mechanisms for better targeting of subsidies that cannot be phased out, as mentioned in point 1. Explore possibilities for targeting through the PMT score database (NSER).

Fully utilize existing national poverty database to steer provincial programs towards increasing coverage to the poorest of the province. There is need to review and analyze the targeting mechanisms of existing SP interventions and introduce unified targeting through the national poverty database (NSER) Moreover, develop data-sharing and coordination mechanisms between the provincial and federal governments and, subsequently, with provincial line departments.

Annexes

Annexes-I: Vulnerability in Sindh Province

S.NO	DISTRICT	DROUGHT	FLOODS / RAINS	CYCLONES	TSUNAMI	EARTHQUAKE	LANDSLIDES	COMMUNICABLE DISEASES	FIRE	LOCUSTS / PESTS	CRISIS SITUATION	INDUSTRIAL & MINES	REFUGEES & IDP
1.	Karachi	4	3	4	4	3	1	3	5	--	5	5	3
2.	Thatta	4	4	4	4	2	--	4	2	--	2	1	3
3.	Badin	4	5	5	4	3	--	4	1	1	2	1	4
4.	Tharparkar	5	3	3	3	4	--	4	2	4	3	1	1
5.	Umerkot	5	3	2	1	2	--	3	2	3	1	1	2
6.	Mirpurkhas	4	3	2	2	2	--	3	3	1	1	1	1
7.	Tando Allahyar	3	4	2	1	2	--	3	3	1	1	1	1
8.	Tando M.K.	3	4	2	1	2	--	4	2	1	1	1	1
9.	Hyderabad	3	3	1	1	1	--	3	3	1	3	3	3
10.	Mitiari	3	4	1	1	1	--	3	1	1	1	1	1
11.	Nawabshah	4	4	1	1	1	--	3	2	3	1	2	3
12.	Naushahro Feroze	3	4	1	1	1	--	4	1	1	1	1	1
13.	Khairpur	4	4	1	1	1	--	3	2	4	1	2	1
14.	Sukkur	3	3	1	1	1	--	4	2	4	2	2	1
15.	Ghotki	3	4	1	1	1	--	3	3	4	1	3	3
16.	Shikarpur	2	3	1	1	1	--	3	2	1	3	1	2
17.	Kashmore	2	5	1	1	1	--	4	1	1	3	1	3
18.	Jacobabad	3	5	1	1	2	--	4	1	1	4	1	3
19.	Larkana	3	3	1	1	2	--	3	1	1	3	1	2
20.	Kambar-Shahdad kot	5	5	1	1	3	--	3	1	1	3	1	3
21.	Dadu	5	4	1	1	3	--	4	1	1	3	2	3
22.	Jamshoro	5	3	1	1	3	--	2	2	1	1	2	1
23.	Sanghar	4	4	2	1	1	--	2	1	3	1	1	3

Source: PDMA Multi-Hazards Contingency Plan 2013, Government of Sindh.

Scoring keys: I. Very High 5; II. High 4; III. Medium 3; IV. Low 2; V. Very Low 1; VI. Dots NA.

Annexes-II: Salient Social Protection Initiatives in Sindh

A brief review of some of the major SPL programs in Sindh is presented below.

The Union Council-based Poverty Reduction Program (UCBPRP)

The Union Council-based Poverty Reduction Program (UCBPRP) was initially started in four districts of Sindh for an estimated cost of PRs 3.0 billion. The second phase called the Sindh Union Council and Community Economic Strengthening Support Program (SUCCESS) was expanded in another 216 Union Councils (out of about 1,400 Union Councils in Sindh) of eight additional districts for a total cost of PRs 4.9 billion. Major program components include: social mobilization; income-generating grants; community investment funds; technical and vocational skills training; and micro health insurance covering emergency expenses in case of hospitalization.

The Benazir Bhutto Shaheed Youth Development Program (BBSYDP)

The Benazir Bhutto Shaheed Youth Development Program (BBSYDP) was started in FY08 to address poverty and unemployment in Sindh, in particular by providing skills training to youth. To date, the BBSYDP program has trained about 292,000 youth in 389 trades covering 89 employment sectors. The program was started at an estimated cost of PRs 1,724.2 million over a period of 3 years from FY11 to FY14.

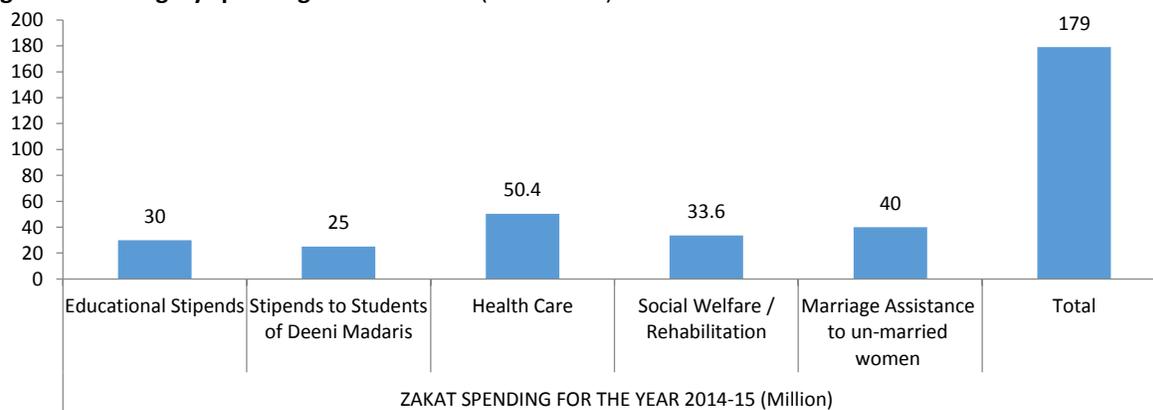
The Sindh Technical and Vocational Training Authority (STEVTA)

Besides the BBSYDP, STEVTA is implementing different programs under the Sindh Skills Development Project. These include: the introduction of special training programs for marginalized and vulnerable groups; the introduction of 70 market-driven courses; and improvements in the infrastructure of 50 institutions. Incomplete projects from the E&LD have been transferred to STEVTA with an allocated amount of PRs 5440.0 million, of which spending was PRs 1,229.9 as of June 2015.

Zakat

Zakat has traditionally been the flagship social assistance program of the Sindh government for the poor and destitute, particularly orphans and widows, the handicapped, and the disabled. In Sindh, *zakat* alms are disbursed directly through direct cash assistance and also indirectly through educational institutions, public hospitals, charitable institutions, Deeni Madras, and healthcare institutions. About 85,000 beneficiaries receive *zakat* allowances. Figure 5.12 shows the ways in which *zakat* is spent, by category.

Figure A.1: Category spending of *zakat* funds (PRs million)



Source: http://www.sindh.gov.pk/dpt/Zakar_Usher/detailrelease.htm

The Shaheed Benazir Housing Scheme

The Shaheed Benazir Housing Fund was established in FY08 to facilitate the construction of 6,000 low cost houses across Sindh. Besides completing the initial 6,000 houses in September 2015, an additional PRs 2,966 million has been released for the construction of a further 6,000 houses.

Girls' Stipend

The Sindh government provides educational stipends to girls going the secondary schools in rural and unprivileged areas of the province. A total of PRs 1,132 million has been disbursed across 415,868 beneficiaries in FY12, while PRs 947 million was disbursed against an allocated budget of PRs 1,200 million in FY14. In addition, free textbooks are provided to students at primary and secondary schools. The spending on free textbooks was PRs 1.6 billion in FY16 and PRs 1.8 billion has been allocated for free textbook distribution in the current fiscal year, FY17.

Centers for the Physically Handicapped, Street Children and Women Victims of Violence

The Social Welfare Department (SWD) allocated RPs 314.5 million for strengthening of Darul Atfal and Rehabilitation of Street Children in FY11, out of which PRs 93.5 million had been spent by FY15. In FY13, spending on the strengthening of Darul Aman in Mirpurkhas and Jacobabad stood at PRs 69.8 million, against an allocated sum of PRs 89.0 million. The major initiative of SWD in social care services was the strengthening of 17 existing rehabilitation centers for physically handicapped people, with an allocation of PRs 199.9 million in FY15. However, spending as of June 2015 remained at zero.

The Sindh Tractor Scheme

The Sindh government provides a subsidy to farmers for the purchase of a total of 11,000 tractors. Under the scheme, a subsidy of PRs 200,000 and PRs 300,000 is provided for small and large tractors, respectively. In the period FY14 to FY16, PRs 1,502 million was spent on this scheme. However, the true nature of the relationship between the tractor scheme and social protection remains unclear.

Wheat Subsidies

The Sindh government Food Department provided a wheat subsidy of PRs 4.7 billion in FY16 and RPs 1.5 billion in FY15. The wheat subsidy is provided to maintain the price and reduce price fluctuations. The Sindh government provides wheat to flour mills at a subsidized low cost to maintain below-market flour prices for consumers, poor and rich alike. As such, the wheat subsidy is a poorly targeted and therefore regressive government program.

Annexure III: Sindh - Provincial GDP Estimates

Background

Sindh is the second largest province of Pakistan in terms of size of population, but geographically significantly smaller province than Punjab and Baluchistan. According to 1998 census, Sindh comprises of 23 percent of Pakistan's population, 18 percent of the land area and generates about 33 percent of its economic activity. With almost half of its population living in urban areas, Sindh is the most urbanized province in Pakistan. The provincial capital, Karachi, is not only the largest city in the country; it is country's industrial, commercial and financial hub, along with being the major seaport. As such, Karachi contributes heavily to the province and country's GDP.

Table A.1: Basic characteristics of provinces in Pakistan

	Area Sq. Km	Population		Population Density	Percentage	
		Number	Proportion		Urban	Rural
Pakistan	796,096	132,352,279	100.00	166.3	32.5	67.5
Punjab (incl. Islamabad)	206,251	74,426,525	56.23	360.9	31.7	68.3
Punjab	205,345	73,621,290	55.63	358.5	31.3	68.7
Islamabad	906	805,235	0.61	888.8	65.7	34.3
Sindh	140,914	30,439,893	23.00	216	48.8	51.2
Khyber Pakhtunkhwa (incl. FATA)	101,741	20,919,976	15.81	205.6	14.7	85.3
Khyber Pakhtunkhwa	74,521	17,743,645	13.41	238.1	16.9	83.1
FATA	27,220	3,176,331	2.40	116.7	2.7	97.3
Balochistan	347,190	6,565,885	4.96	18.9	23.9	76.1

Source: Pakistan Bureau of Statistics.

Note: Population is that of the 1998 Population Census.

Some key characteristics of Sindh's economy are as follows:

The concentration of Sindh's economy in one city: As mentioned above, Sindh represents a standard dual economy with distinct areas of modern and traditional economies. The ethnic configuration reinforces this duality as there are very few and weak linkages between the urban and rural economies. This has not only created social and political friction but has also constrained growth in the provincial economy. Our GDP estimates shows that during FY06 to FY15, for most years Sindh's economy grew at a faster rate than the national economy, but this did not benefit the poor in the province's slums and rural areas, thus creating social and economic inequality.

Urbanization and labor force: Sindh has the most urbanized population in Pakistan. Half of the Sindh population is urban and most of it resides in the provincial capital Karachi. The businesses are intense in Karachi, leaving rural of Sindh with a scanty labor force for production and development of the area.

Investor Confidence: Prolonged political and sectarian unrest has badly impacted investors' confidence, and Karachi has seen some of the lowest levels of new investment over the past two decades. Some businesses have reportedly relocated themselves to other areas within the country and even outside the country. However, some of government's recent actions have led to a noticeable improvement in Karachi's law and order situation. As a result, foreign direct investment (FDI) has grown positive from

Table A.2: Provincial labor force participation and unemployment rates in Pakistan (Percent)

	Labor Force Participation Rate	Unemployment Rate
Pakistan	45.70	6.24
Punjab	48.33	6.38
Sindh	45.30	5.26
Khyber-Pakhtunkhwa	36.85	8.57
Balochistan	42.34	3.93

Source: Pakistan Bureau of Statistics, "Pakistan Labor Force Survey, 2010-11".

negative from 2015 and onwards. With China's investment under China Pakistan Economic Corridor (CPEC) – US\$213.4 million, and Netherland's investment of 51 percent shares in Engro Foods (produces dairy products, beverages, frozen desserts) or US\$467.4 million, has increased the FDI to US\$1080 million during July-December FY17 as compared to US\$979 million in the same period last year. Though the CPEC investment in the first six months of FY17 is less than the last six months of the year by half, China has become the biggest bilateral donor by providing US\$847 million in loan to Pakistan.

The size, growth and composition of the economy: Economic analysis of, and as such economic planning, at provincial level is hampered by the lack of official regional accounts. While the preparation of sub-national accounts has been a key element of the work plan of Pakistan Bureau of Statistics, to date there has been no apparent progress in this direction. As such, to analyze the provincial economies and to help the provincial governments to plan better, different agencies and researchers have attempted to estimate Gross Domestic Product (GDP) at provincial level. For the purpose of this note, an attempt is made to update and improve the World Bank methodology to estimate GDP for Sindh.

The Methodology for Estimation of the Provincial GDP, 1999/00-2014/15

As in most other developing countries of the world, in Pakistan too, the calculation of Gross Domestic Product (GDP) contains some methodological weaknesses. Two of the most obvious shortcomings are the periodicity (the national accounts are compiled on annual basis only) and aggregate nature of these accounts. While the National Strategy for Development of Statistics calls for preparation of quarterly GDP at the national level and of annual regional accounts at provincial level, it would be quite some time when the work on these initiatives would start. Until such time, these shortcomings would continue to hamper monitoring of national aggregates at national level and regional planning in the country.

Until 1971 Pakistan had a centralized system of administration—the “one unit” system—under which no distinction was made between the various geographical and cultural entities within the region called West Pakistan, which later came to be known post-1971 as Pakistan. Hence, no need was felt to estimate Regional Accounts. In 1971, the “one unit” was broken into four separate administrative units or provinces of Punjab, Sindh, Khyber Pakhtunkhwa (NWFP at that time) and Balochistan. However, even under this new system relatively little autonomy was given to the provinces, as major decision-making authority de-facto remained at the Federal level. Until the early eighties, Pakistan's GDP was estimated with the base year of FY60. In the early 1980s, the base year was changed to FY81, and in early 2000's the base was again changed to FY00, which had continued until 2013 when the base year changed to FY06.

Economic analysis of the Sindh, as that of any other province, is seriously compromised by the non-availability of regional accounts. While the Pakistan Bureau of Statistics (PBS) computes, on annual basis, the national accounts of Pakistan, only cursory efforts have been made to estimate the regional accounts. Most of the attempts made at official levels were aborted because lack of interest at the relevant segments of the government and weak technical capacity of the provincial Bureaus of Statistics to undertake this exercise. On the other hand, exercises undertaken by autonomous researchers failed to get the required recognition from the government.

The construction of provincial GDP series is a large and complex undertaking; as disaggregated data are needed for a very large number of province-specific variables. Moreover, the exercise is also extremely time intensive, as a large volume of data needs to be analyzed to derive consistent and robust estimates. In the past, the World Bank has endeavored to estimate provincial GDPs by using some broad “allocators” to derive the shares of each province in sectoral value added and the national income. In doing this, provincial GDP was estimated using a combination of the three traditional approaches—production, expenditure, or income. More specifically, wherever detailed provincial data

were available, for example, agriculture, mining and quarrying, manufacturing, and wholesale and retail trade, sectoral value-added were estimated using the production approach. The expenditure approach was used to compute value-added of the construction, ownership of dwellings, electricity and gas distribution, and public administration and defense sub-sectors, whereas a variant of the income approach was applied to estimate value-added in the transport, storage, and communication, banking and insurance, and services sub-sectors. In almost all of these instances, the direct and indirect methods were combined to compute sectoral value-added by apportioning the national income to the province using appropriate allocators. While these allocators were applied only where disaggregated data at the provincial level were not available, clearly the present exercise represents a “second-best” approach to estimate sectoral value-added at the provincial level.

While these estimates give a fairly good idea of the trends and composition of economic activity at provincial level, lack of government ownership undermines their importance as it makes it very difficult to build a case for their use as an instrument for sub-national policy and planning. More importantly, these estimates were calculated to meet the need of a specific task and were therefore “time specific” no attempt was made to regularly maintain and update these estimates. The present estimation of regional accounts is also undertaken to make use in the Sindh Public Expenditure Review 2017.

Estimation Methodology: In order to estimate provincial GDPs, the following data sources have been used.

- Agricultural Statistics of Pakistan, of various years;
- Pakistan Statistical Yearbook 2015;
- Economic Survey of Pakistan various editions;
- Labor Force Survey 2015;
- Household Integrated Economic Surveys (HIESs) various issues
- Pakistan Energy Year Book, 2015;
- National Institute of Population Studies; Estimates/forecast of annual provincial population; and
- Livestock Census of 1996 and 2006.

The Agricultural Statistics of Pakistan was used as the main source for actual production of the major and minor crops. The crops have been selected in compliance with the national rebasing exercise of 1999/00 done by the then Pakistan Bureau of Statistics (Pakistan Bureau of Statistics as of now). The Pakistan Statistical Year Book of 2011 along with its previous years’ publications, and the Household Integrated Economic Surveys (HIESs) for FY06, FY08 and FY11 were used as the main databases. While the Statistical Year Books provides most of the actual data in the analysis, the HIES provides sectoral sources of household income. The Labor Force Surveys was useful to extract data on labor force and sectoral employment etc. The Energy Year Book provides information on the Energy sector production and the prices/cost of generation. Information on National GDP, its deflators, Consumer Prices, etc. is pulled together from the Economic Survey of Pakistan. The National Institute of Populations Studies provided the Bank few years back, the estimates of provincial population and it forecast for the future years, based on the 1998 population census. On requesting the newer set of data on Population estimates, it was stated that since there is no new census after 1998, the same estimates are being used for various analyses.

The sector wise methodology is discussed below:

Agriculture:

Crop sector: Value-added in agriculture in all provinces has been estimated by applying provincial allocators to the national value-added estimate for this sub-sector. Overall, the computation of value-added in crop agriculture is based on 12 major crops and 8 groups of minor crops. The groups are

classified as pulses, vegetable, fruits, condiments, oilseed, flower and foliage, fodder, and other miscellaneous crops. The crop output data for the provinces and for Pakistan was obtained from published sources. Due to the non-availability of input costs of agriculture, production allocators were used to estimate value-added for the crop sub-sector. Every province share of total crop production in national output was assumed to remain the same as its share of total national value-added. These output shares (allocators) were used to estimate value-added of wheat, rice, cottonseed, sugarcane, maize, gram, barley, *jawar*, *bajra*, rapeseed and mustard, sesame seed and tobacco for major crops for the years 1999/00 to 2010/11. The simple addition of the value-added of each crop represents the total value-added of major crops. Similarly, value-added of minor crops was estimated using lentils (*mash*, *moong*, *masoor*), potatoes and onions, oilseeds, fruits etc. as the main minor crops.

Livestock: The livestock sub-sector includes the value-added of actual livestock population, including the newborn. The census of livestock population was available for 1996 and 2006 while the other years were estimated by the provincial share of livestock value of the national value of livestock in the census year under consideration. Actual data on slaughtering, poultry and milk, was also taken into account while calculating Livestock value of each province. The weight of each product in total value-added was derived from the national accounts data.

Fishery: The provincial value added in the fishery sector is derived from the national value-added in the sector by using the provincial share in total fish production as weight.

Forestry: The major component of forestry is timber and firewood production. The value added of this sector was assumed to be proportionate to the timber and firewood productions shares of Pakistan production of timber and firewood. The constant share of FY00 is used to draw the final estimates. In other words, the provincial value-added in the forestry sector was derived from the national (sectoral) value-added by using the production share of Timber and firewood to the national shares multiply with the 1999/00 prices of these productions.

Manufacturing:

The manufacturing sub-sector is sub-divided into large-scale and small-scale manufacturing. Large-scale manufacturing includes units that employ 20 or more workers on any working day during the year and use power, while the small-scale manufacturing includes those units that employ 10-19 workers in any day of the year.

Value-added in the provincial large scale manufacturing sub-sector is estimated on the pattern of national GDP calculations by PBS based on the Census of Manufacturing Industries data and the Quantum Index of Manufacturing (QIM) estimates. The provincial Bureau of Statistics conducts monthly surveys of industrial production and employment in their respective provinces and estimate QIM based on these data. The survey reports cover about 90 percent of the total industrial units. The methodology used to estimate the monthly index was to measure the percentage increase in the current month's production of any item from the average monthly production of FY00. The weighted percentage increase was calculated with the assigned weights based on FY00 CMI data for each item.

The benchmark estimates (FY00) of large scale manufacturing value-added are derived on the basis of the provincial shares of value-added from the CMI for the census years. The CMI data have their deficiencies of time lag, considerable non-response, under-reporting of output value and over-reporting of input cost (supposedly due to fear of taxation), and under-coverage of non-registered companies. However, despite these shortcomings the CMI data were used assuming that data problems in the all provinces were no different to those at the national level. The benchmark data points obtained from the CMI were then interpolated for the years where the CMI was not conducted using the annual percentage increase in the provincial QIMs.

The small scale value-added, which includes value added on Slaughtering, has been estimated based on the Census of Small Household Manufacturing Industries (SHMI). The growth for the next year was given in the survey as 5.31 percent at the national level. The subsequent study by the Quaidian Economic Consultants Quaid-i-Azam University, Islamabad in FY00 estimated the growth rates of 6.86 and 7.51 percent for the years FY99 and FY00, respectively. Due to unavailability of such surveys at provincial levels, the current analysis of SSM is based on estimating employed labor force shares of each province to the national employed labor force. The slaughtering is estimated using provincial shares of monthly expenditures on milk, all kind of meat, and eggs. The data on percentage distribution of consumption of these products has been obtained from HIES of various year.

Construction: Ideally, the construction sub-sector's value-added should be calculated through the expenditure approach, as is done by PBS at the national level. However, since the provincial expenditure data on construction was not available, the provincial share of construction workers was used instead to derive estimates for FY00 to FY15. The construction worker's data was missing for some years, which were then interpolated to get the full series. The data on percentage distribution of employment in construction industry in Pakistan and the provinces were obtained from PBS's Labor Force Surveys of various years.

Electricity and Gas: In the Electricity and Gas sub-sector, value-added was estimated on the basis of electricity generation, electricity consumption, and natural gas consumption. The data were taken from various Energy Year Books (FY00 to FY15) published annually by the Hydrocarbon Development Institute of Pakistan. Data were obtained for electricity generation for hydel and thermal electricity; these figures were multiplied with a single year (i.e., constant) price to get constant rupee value of electricity generation. The value of electricity consumption was then taken a proxy for value of electricity transmission and distribution. Similarly, the value of gas consumption was taken as a proxy for the value of gas distribution. These three constant (i.e., at a single year price) values of the three components were then added for both Pakistan and the provinces to get constant value generated in the sub-sector at the national and provincial level. Finally, the provincial value-added in electricity and gas was derived by applying to the national value-added estimate the derived ratio of the provincial value to national value.

To estimate the value added for all other sectors (Transport and Storage, Finance and Insurance, and, Community, Social and Personal Services), the income approach has been used. The average household income from each sector and the number of surveyed household were used to get an estimate of total sample income derived from each sector in each province. The HIES uses a stratified random sampling methodology. However, in order to get more robust estimates, the survey over-samples the two smaller provinces (SINDH and Balochistan) and under-samples Punjab and Sindh. As such, the total household income derived from HIES needs to be adjusted by "raising" factors to make sample estimates in line with national population shares.

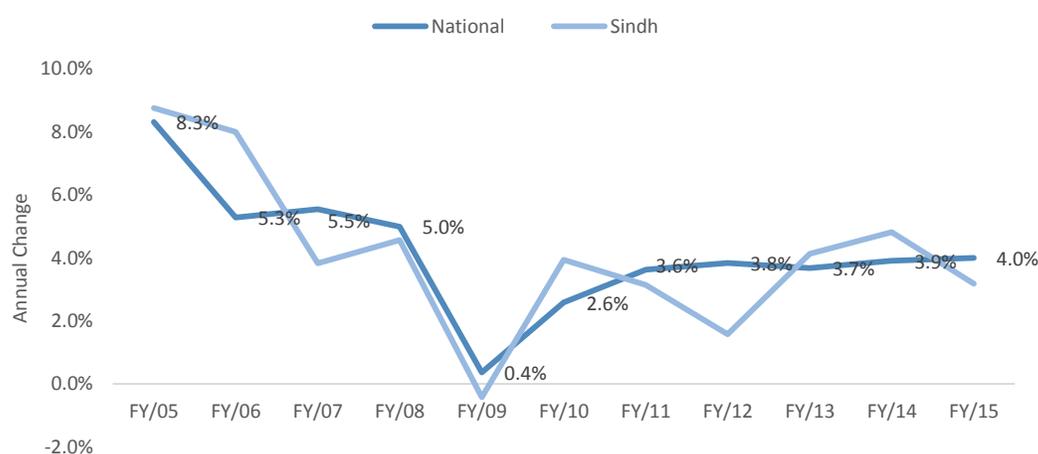
To make these estimates more meaningful, two additional factors have to be kept in mind. First, the HIES distinguishes between "earned" and "unearned" income. While the former includes income that a household receive as an employer, employee of through self-employment, whereas the latter includes income from housing (i.e., rent), and as transfer payments. Rents, both actual and imputed, are incomes from "ownership of dwellings" and is a part of Pakistan's national accounts classification. Transfers payments could be discarded for calculation of provincial GDP because if these payments originate from outside the province (i.e. from other provinces or abroad) they can be considered as "factor income from abroad", which is part of GNP and not GDP. If these payments originate from within the province, it would imply "double counting" of income, as the source of these payments is already accounted in earned or rental income.

Second, as some of the earned income could be originating from outside the province (i.e. from other provinces), there is a need to make necessary adjustments. It is assumed that earned income originating outside the province is likely to be small on the net basis and therefore could be ignored for the purpose of calculating provincial GDP.

The adjusted total household income (derived from each sector) for each province, and for the country, was used to derive provincial shares in each income-generating sector. These shares are then applied to the national value-added in each sector to get the valued-added estimates for each province, which total up to give an estimate of provincial GDP.

On the basis of this estimation, it is clear that Sindh's economy has been very volatile over the last decade. There have been wide fluctuations in GDP growth (Figure A.2), which although is a reflection of happenings in the national economy, but also shows the reaction of the provincial economy some key local developments.

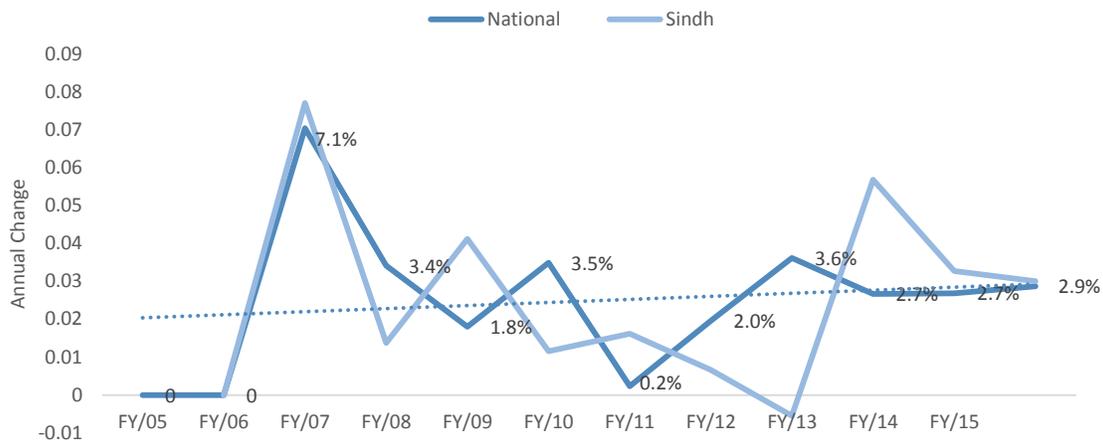
Figure A.2: Trends in GDP growth, Pakistan and Sindh



These trends, point to three important features of the provincial economy. First, there is a strong correlation (correlation coefficient of 0.84) between provincial and national growth supporting the fact that the national economy is dependent upon the growth of Sindh, as most of the commercial and industrial growth comes from the metropolitan city of Karachi.

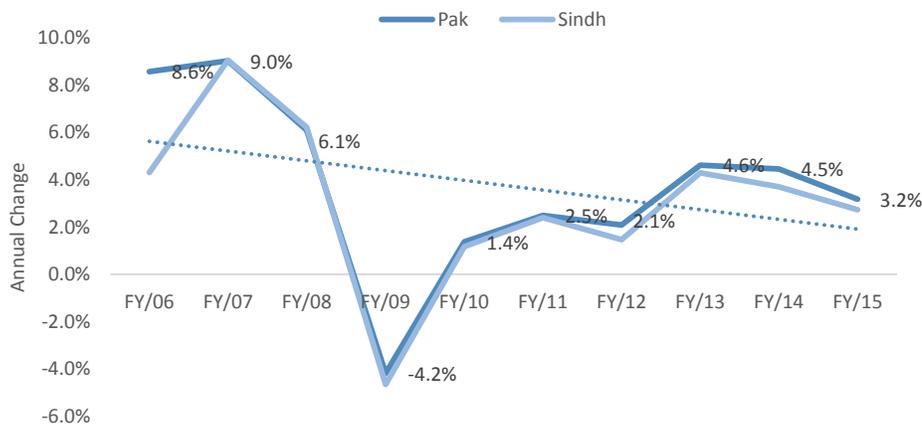
Second, Sindh's diversified economy also comprises of a well-developed agricultural sector that has an effective irrigation system. Around 14 percent wheat, 30 percent rice, 30 percent sugar cane, 25 percent cotton and 30 percent vegetable crops grown in Pakistan are from Sindh. This provides immense opportunity for setting up export based agri-processing industry in the province. Reasonably strong agriculture growth in Sindh is evident in the last three years (FY13, FY14, and FY15), which depicts higher growth of agriculture at the provincial level than national growth. Growth is attributed to sugarcane and cotton for having adequate water availability, more fertilizer off take, and relief in the prices of input. This is also clear from the spikes in growth in FY13, and FY14, where a good performance by provincial agriculture sector, which subsequently have a positive impact on value added of the wholesale and retail trade and transport and storage sectors, drive the Sindh GDP growth to more than twice the national average.

Figure A.3: Trends in agriculture growth, Pakistan and Sindh



Steps to improve the business environment in Sindh, say by maintaining law and order situation, overcome energy crises, and reducing bureaucratic hurdles in exports, will not only encourage conducive local market, it will also improve access to the international markets. It will have a major impact on GDP growth of provincial economy by earning from local production as well as from exports markets. Having a 37 percent of provincial share of manufacturing in national growth, Sindh has a strong manufacturing correlation of 0.94 with the manufacturing growth of national GDP and the provincial value added growth is more or less the same as national value added of this sector for the last decade.

Figure A.4: Trends in industrial growth, Pakistan and Sindh



Although the national and Sindh’s employed labor has marginally declined in FY14 (-4 percent, in Sindh, according to Labor Force Survey), the percentage distribution of construction workers has increased from 5.3 percent in FY13 to 7.3 percent in the following year in Sindh. This led to an increase in Sindh’s construction value added by 40 percent in FY14. (According to HIES and Labor force Survey, Balochistan’s construction value added also increased by 45% in the same period due to a significant increase in the percentage distribution of construction workers in Balochistan).

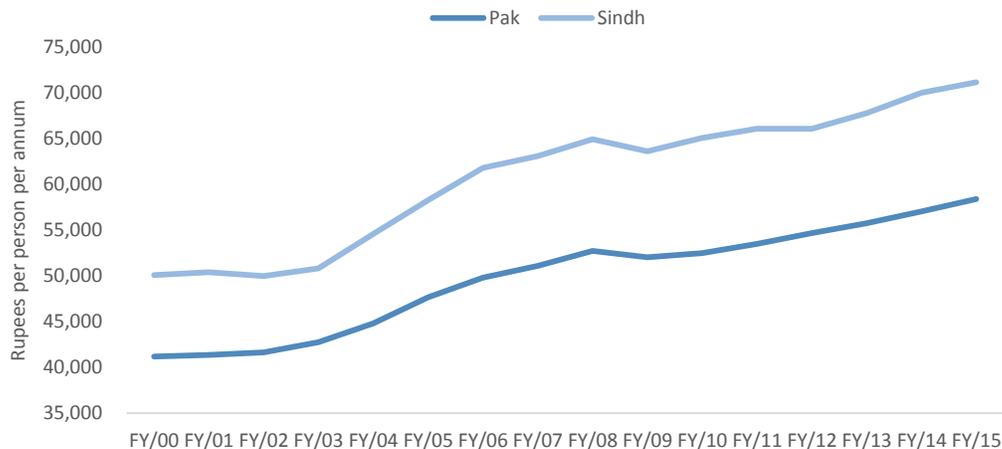
In FY11, a favorable NFC Award provided Sindh (and other provinces) with a substantial increase in federal government’s fiscal transfers. This was accompanied by a 50 percent increase in salaries of government employees (much larger increase than inflation). This led to a 12 percent growth in real value-added of the community and social services sector. Similarly, the increase in fiscal resources led to

a 30 percent increase in provincial development expenditure, which prompted a 36 percent increase in (real) value added in construction sector. A 30 percent increase in value-added in mineral sector was primarily due to large increase in gas production from three gas fields (Nashpa showed a growth of 1,016 percent in production, Manzalai 67 percent and Makori 124 percent; production of Mela gas fields declined by 23 percent but the production was too small to have a significant impact on overall production). This extra production of gas, coupled with coming of line of small hydel power plants (set up the Sindh government), caused an 89 percent increase in value added of electricity and gas distribution sector.

Finally, unlike the overall national economy, which shows a downward trend in economic growth; the underlying growth in Sindh has an upward trend until FY14. The underlying growth over the last twelve years has increased from 3.7 percent in FY02 to 4.8 percent in FY14. However, it came down to 3.2 percent in FY15. The concern however is that this escalation is not fast enough to absorb the increase in population in the province.

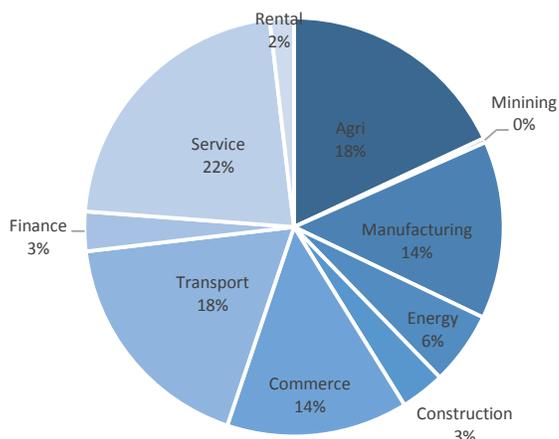
The per capita GDP of the province (at constant prices) has been more than the national average and the gap has somewhat been increasing overtime (Figure A.5).

Figure A.5: Trends in per capita GDP, Pakistan and Sindh



Moreover, the GDP growth of 3.2 percent in FY15 is significantly less than a sustained growth of 7- 7.5 percent required by the province to absorb all the persons entering the labor force in future. Given the slow acceleration in trend growth, it will take the province 30 more years to achieve the growth rate, which is consistent with full employment levels.

Figure A.6A: The Composition of Sindh's GDP in FY01



The composition of the Sindh’s economy is changing, although very gradually (Figures A.6A and A.6B). Figure A.6A reflects the composition of the economy in FY01 and Figure 5B presents the composition 15 years later (i.e., in FY15). It is quite apparent that while the share of agriculture has been stagnant, the manufacturing sector has been increasing due to the government’s various measures to increase the industrial base of the country.

Figure A.6B: The composition of Sindh's economy in FY15

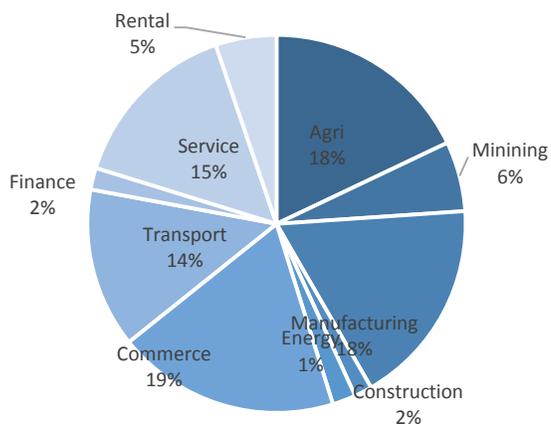


Table A.1: Gross provincial value-added at constant factor cost, at 1999/00 prices (PRs million)

	Agriculture, Fishing & Forestry	Mining & Quarrying	Manufacturing	Electricity, Gas, Water	Construction	Whole Sale & related trade	Transport & Storage	Finance, Real Estate etc.	Community, Social, Personal, Serv.	Ownership of Dwellings	TOTAL
PAKISTAN											
2005/06	1,775,346	254,345	1,065,323	110,109	186,380	1,523,067	959,499	282,912	1,054,046	504,743	7,715,770
2006/07	1,836,125	273,032	1,161,551	96,066	210,436	1,612,086	1,025,694	308,673	1,094,377	524,929	8,142,969
2007/08	1,869,310	281,635	1,232,430	131,767	242,768	1,703,741	1,082,452	328,071	1,131,024	545,950	8,549,148
2008/09	1,934,691	274,710	1,180,964	115,812	218,777	1,652,874	1,137,003	296,427	1,200,815	567,947	8,580,020
2009/10	1,939,132	282,269	1,197,164	135,098	237,034	1,682,466	1,170,627	286,775	1,280,143	590,725	8,801,433
2010/11	1,977,178	269,798	1,227,091	221,379	216,754	1,718,014	1,198,896	274,674	1,402,092	614,460	9,120,336
2011/12	2,048,794	283,727	1,252,670	224,490	223,429	1,746,511	1,254,126	279,171	1,518,334	639,003	9,470,255
2012/13	2,103,600	294,727	1,310,522	165,275	225,840	1,808,124	1,304,697	304,252	1,636,493	664,542	9,818,072
2013/14	2,160,223	299,588	1,369,003	174,482	242,203	1,880,004	1,355,575	315,032	1,714,669	691,095	10,201,875
2014/15	2,222,337	311,095	1,412,453	177,866	259,271	1,943,499	1,421,242	334,513	1,808,597	718,662	10,609,535
PUNJAB											
2005/06	976,107	32,021	487,125	50,114	102,258	784,533	521,868	124,218	546,108	291,604	3,915,958
2006/07	1,007,737	32,129	532,281	45,003	122,068	828,188	560,947	143,447	580,851	305,457	4,158,108
2007/08	1,001,605	32,998	563,254	61,619	150,567	859,555	594,657	160,771	613,890	319,515	4,358,431
2008/09	1,032,162	31,235	540,177	53,644	133,084	834,135	625,718	152,617	653,855	326,358	4,382,985
2009/10	1,028,212	30,973	549,586	62,056	149,851	846,410	645,314	154,558	698,907	333,097	4,498,963
2010/11	1,062,537	29,749	563,907	95,423	125,577	872,041	661,982	154,416	767,147	339,802	4,672,580
2011/12	1,137,425	31,418	575,363	99,976	131,209	906,084	699,385	163,144	782,481	370,122	4,896,609
2012/13	1,172,399	31,573	603,600	76,812	135,390	940,572	714,086	184,215	864,712	398,990	5,122,351
2013/14	1,203,858	30,680	634,690	83,736	130,254	979,386	730,659	196,999	928,610	426,895	5,345,768
2014/15	1,230,001	29,877	655,829	83,527	140,904	1,008,341	752,136	215,398	1,002,548	455,073	5,573,635
SINDH											
2005/06	389,543	164,003	407,281	30,648	41,638	427,229	254,672	51,917	305,502	162,188	2,234,619
2006/07	397,804	175,004	444,212	24,260	41,424	452,818	260,079	55,546	305,560	163,403	2,320,110
2007/08	416,656	180,013	471,847	34,390	46,368	488,042	262,842	57,987	303,287	164,537	2,425,969
2008/09	427,110	179,139	449,875	29,979	38,316	465,246	276,465	51,556	323,286	174,692	2,415,663
2009/10	451,140	179,204	455,171	35,598	38,071	486,191	285,015	49,177	345,834	185,336	2,510,737
2010/11	454,256	162,637	466,070	59,624	38,153	493,446	292,265	46,535	379,900	196,527	2,589,414
2011/12	442,906	168,057	472,925	60,894	40,136	484,485	301,781	46,827	422,230	189,815	2,630,055
2012/13	479,671	174,781	493,264	37,396	39,675	515,268	336,130	50,631	434,111	176,160	2,737,087
2013/14	514,997	173,519	511,513	42,588	57,942	546,817	367,808	52,117	438,019	165,238	2,870,559
2014/15	531,292	177,251	525,475	45,022	59,046	565,047	404,906	55,119	444,321	154,424	2,961,903
K.P.											
2005/06	129,593	9,089	94,989	19,847	35,281	120,413	132,724	77,377	134,294	34,724	788,329
2006/07	137,428	15,920	102,234	16,880	37,689	128,886	136,452	79,410	136,373	38,321	829,593
2007/08	126,778	18,669	109,153	22,005	36,404	129,594	136,511	79,087	135,966	42,095	836,263
2008/09	132,835	17,223	105,529	18,731	38,957	126,454	144,191	66,709	147,721	46,282	844,631
2009/10	127,689	27,189	105,783	21,524	41,782	125,246	149,276	60,025	161,063	50,847	870,425
2010/11	134,582	35,222	108,226	40,045	45,419	130,185	153,718	53,281	180,332	55,834	936,844
2011/12	138,750	39,956	110,680	38,766	43,703	131,951	150,886	50,013	192,059	55,994	952,757
2012/13	143,434	45,216	116,346	31,237	41,679	137,580	167,174	50,171	222,966	63,690	1,019,494
2013/14	153,894	51,694	121,465	30,618	40,909	146,683	181,680	47,668	238,860	70,956	1,084,425
2014/15	164,015	55,226	126,667	30,919	46,892	155,426	198,640	46,306	257,251	78,759	1,160,100
BALUCHISTAN											
2005/06	280,104	49,233	75,929	9,500	7,202	190,892	50,235	29,399	68,142	16,227	776,864
2006/07	293,155	49,978	82,824	9,923	9,255	202,194	68,216	30,270	71,593	17,748	835,158
2007/08	324,270	49,955	88,175	13,753	9,429	226,550	88,443	30,226	77,881	19,803	928,485
2008/09	342,585	47,113	85,383	13,458	8,421	227,040	90,629	25,545	75,954	20,615	936,741
2009/10	332,090	44,903	86,623	15,921	7,330	224,619	91,022	23,015	74,339	21,445	921,307
2010/11	325,803	42,190	88,888	26,287	7,605	222,342	90,931	20,442	74,713	22,296	921,498
2011/12	329,713	44,296	93,702	24,854	8,381	223,991	102,073	19,188	121,564	23,072	990,833
2012/13	308,096	43,157	97,312	19,830	9,095	214,705	87,307	19,234	114,704	25,702	939,141
2013/14	287,475	43,694	101,335	17,540	13,098	207,118	75,428	18,248	109,180	28,006	901,123
2014/15	297,030	48,741	104,482	18,398	12,429	214,686	65,560	17,689	104,477	30,406	913,897

Source: World Bank staff calculations.

Table A.2: Gross provincial value-added at current prices (PRs million)

	Agriculture, Fishing & Forestry	Mining and Quarrying	Manufacturing	Electricity, Gas, Water	Construction	Whole Sale and related trade	Transport and Storage	Finance, Real Estate etc.	Community, Social, Personal Srv.	Ownership of Dwellings	TOTAL
PAKISTAN											
2005/06	1,775,346	254,345	1,065,323	110,109	186,380	1,523,067	959,499	282,919	1,054,046	504,743	7,715,777
2006/07	2,014,317	297,183	1,226,012	101,231	221,791	1,720,385	1,080,163	342,757	1,171,971	559,956	8,735,766
2007/08	2,393,527	324,258	1,572,886	146,125	269,106	2,201,667	1,065,682	401,060	1,343,970	636,974	10,355,255
2008/09	2,998,651	413,260	1,679,088	146,985	293,910	2,479,782	1,693,864	481,308	1,648,265	707,268	12,542,380
2009/10	3,461,311	475,371	1,943,862	209,938	302,555	2,824,169	1,834,496	474,733	1,933,034	789,229	14,248,697
2010/11	4,592,720	494,739	2,527,651	406,156	318,451	3,568,178	1,923,433	536,345	2,393,510	886,370	17,647,553
2011/12	4,753,075	642,205	2,809,684	439,637	378,140	4,006,835	1,905,704	570,503	2,871,580	984,148	19,361,511
2012/13	5,334,975	696,976	3,030,650	368,040	423,367	4,369,465	2,311,796	522,327	3,346,334	1,092,749	21,496,679
2013/14	5,984,046	743,088	3,333,007	429,214	490,260	4,809,962	2,474,826	600,731	3,800,129	1,229,113	23,894,376
2014/15	6,575,204	709,850	3,188,746	456,478	548,911	4,873,913	3,105,727	626,418	4,191,238	1,371,421	25,647,906
PUNJAB											
2005/06	976,003	32,021	487,125	50,114	102,258	784,533	521,868	124,221	546,108	291,604	3,915,857
2006/07	1,103,614	34,971	561,276	47,423	128,655	883,826	590,736	159,287	622,035	325,839	4,457,661
2007/08	1,308,335	37,992	719,586	68,333	166,902	1,110,763	585,444	196,540	729,471	372,787	5,296,152
2008/09	1,653,846	46,989	767,614	68,083	178,788	1,251,441	932,171	247,804	897,496	406,415	6,450,648
2009/10	1,883,401	52,162	888,239	96,432	191,272	1,420,775	1,011,275	255,859	1,055,360	445,029	7,299,805
2010/11	2,578,308	54,551	1,152,793	175,069	184,496	1,811,159	1,062,043	301,521	1,309,596	490,171	9,119,705
2011/12	2,650,440	71,114	1,277,865	195,791	222,063	2,078,733	1,062,749	333,395	1,479,883	570,036	10,005,425
2012/13	2,995,302	74,666	1,380,718	171,048	253,807	2,272,961	1,265,291	316,252	1,768,181	656,086	10,977,168
2013/14	3,379,075	76,099	1,527,716	205,986	263,656	2,505,745	1,333,938	375,655	2,058,026	759,233	12,043,288
2014/15	3,664,398	68,174	1,467,158	214,366	298,313	2,528,721	1,643,585	403,361	2,323,304	868,414	13,212,951
SINDH											
2005/06	389,578	164,003	407,281	30,648	41,638	427,229	254,672	51,919	305,502	162,188	2,234,656
2006/07	435,517	190,484	468,602	25,564	43,659	483,238	273,890	61,680	327,224	174,307	2,484,166
2007/08	527,255	207,257	605,860	38,137	51,398	630,675	258,770	70,888	360,389	191,969	2,942,598
2008/09	650,540	269,488	643,395	38,048	51,474	698,001	411,868	83,712	443,749	217,545	3,507,820
2009/10	799,151	301,799	744,595	55,318	48,595	816,115	446,648	81,408	522,214	247,615	4,063,457
2010/11	1,038,694	298,234	971,044	109,391	56,054	1,024,848	468,891	90,868	648,527	283,494	4,990,045
2011/12	1,013,946	380,390	1,073,019	119,253	67,927	1,111,502	458,570	95,693	798,551	292,340	5,474,685
2012/13	1,202,747	413,325	1,149,722	83,274	74,377	1,245,182	595,590	86,922	887,678	289,671	6,006,395
2013/14	1,408,928	430,391	1,255,781	104,764	117,284	1,399,024	671,495	99,381	970,759	293,876	6,589,746
2014/15	1,555,424	404,448	1,183,868	115,544	125,009	1,417,026	884,808	103,218	1,029,666	294,688	7,229,752
K.P.											
2005/06	129,606	9,089	94,989	19,847	35,281	120,413	132,724	77,379	134,294	34,724	788,344
2006/07	151,596	17,328	108,345	17,788	39,722	137,544	143,698	88,178	146,042	40,878	891,120
2007/08	162,235	21,494	136,570	24,403	40,353	167,468	134,396	96,682	161,566	49,114	994,280
2008/09	203,862	25,909	147,781	23,773	52,335	189,715	214,810	108,315	202,764	57,635	1,226,902
2009/10	225,203	45,789	170,088	33,448	53,332	210,237	233,931	99,366	243,208	67,934	1,382,535
2010/11	302,860	64,588	219,762	73,468	66,729	270,384	246,616	104,039	307,845	80,542	1,736,833
2011/12	324,925	90,440	245,898	75,919	73,965	302,721	229,279	102,204	363,236	86,238	1,905,517
2012/13	367,346	106,928	269,643	69,560	78,134	332,472	296,216	86,132	455,926	104,730	2,090,583
2013/14	426,869	128,220	297,157	75,318	82,806	375,285	331,687	90,897	529,373	126,194	2,293,624
2014/15	487,431	126,013	293,311	79,352	99,276	389,777	434,071	86,714	596,154	150,295	2,516,384
BALUCHISTAN											
2005/06	280,159	49,233	75,929	9,500	7,202	190,892	50,235	29,400	68,142	16,227	776,919
2006/07	323,590	54,399	87,789	10,457	9,755	215,777	71,839	33,612	76,669	18,932	902,820
2007/08	395,703	57,515	110,871	15,252	10,452	292,761	87,073	36,950	92,545	23,104	1,122,225
2008/09	490,402	70,874	120,297	17,080	11,312	340,624	135,015	41,477	104,256	25,672	1,357,010
2009/10	553,556	75,621	140,940	24,740	9,356	377,043	142,641	38,100	112,252	28,651	1,502,901
2010/11	672,858	77,366	184,052	48,228	11,173	461,787	145,884	39,917	127,543	32,163	1,800,970
2011/12	763,764	100,262	212,903	48,673	14,185	513,879	155,105	39,211	229,910	35,533	1,975,884
2012/13	769,580	102,058	230,566	44,157	17,050	518,849	154,699	33,021	234,549	42,263	2,167,784
2013/14	769,175	108,378	252,352	43,147	26,513	529,907	137,707	34,798	241,970	49,809	2,378,323
2014/15	867,951	111,215	244,409	47,216	26,313	538,390	143,263	33,125	242,113	58,023	2,609,309

Source: World Bank staff calculations.

Table A.3: Annual growth in gross provincial value-added at constant factor cost, at 1999/00 prices (percent)

	Agriculture, Fishing & Forestry	Mining and Quarrying	Manufacturing	Electricity, Gas, Water	Construction	Whole Sale and related trade	Transport and Storage	Finance, Real Estate etc.	community, Social, Personal Srv.	Ownership of Dwellings	TOTAL
PAKISTAN											
2005/06	7.05	4.62	8.57	-26.55	10.19	-2.36	3.96	42.89	9.94	3.51	5.28
2006/07	3.42	7.35	9.03	-12.75	12.91	5.84	6.90	9.11	3.83	4.00	5.54
2007/08	1.81	3.15	6.10	37.16	15.36	5.69	5.53	6.28	3.35	4.00	4.99
2008/09	3.50	-2.46	-4.18	-12.11	-9.88	-2.99	5.04	-9.65	6.17	4.03	0.36
2009/10	0.23	2.75	1.37	16.65	8.35	1.79	2.96	-3.26	6.61	4.01	2.58
2010/11	1.96	-4.42	2.50	63.87	-8.56	2.11	2.41	-4.22	9.53	4.02	3.62
2011/12	3.62	5.16	2.08	1.41	3.08	1.66	4.61	1.64	8.29	3.99	3.84
2012/13	2.68	3.88	4.62	-26.38	1.08	3.53	4.03	8.98	7.78	4.00	3.67
2013/14	2.69	1.65	4.46	5.57	7.25	3.98	3.90	3.54	4.78	4.00	3.91
2014/15	2.88	3.84	3.17	1.94	7.05	3.38	4.84	6.18	5.48	3.99	4.00
PUNJAB											
2005/06	6.98	10.66	9.74	-24.61	0.77	-2.12	9.28	31.62	12.81	4.37	6.12
2006/07	3.24	0.34	9.27	-10.20	19.37	5.56	7.49	15.48	6.36	4.75	6.18
2007/08	-0.61	2.70	5.82	36.92	23.35	3.79	6.01	12.08	5.69	4.60	4.82
2008/09	3.05	-5.34	-4.10	-12.94	-11.61	-2.96	5.22	-5.07	6.51	2.14	0.56
2009/10	-0.38	-0.84	1.74	15.68	12.60	1.47	3.13	1.27	6.89	2.07	2.65
2010/11	3.34	-3.95	2.61	53.77	-16.20	3.03	2.58	-0.09	9.76	2.01	3.86
2011/12	7.05	5.61	2.03	4.77	4.48	3.90	5.65	5.65	2.00	8.92	4.79
2012/13	3.07	0.49	4.91	-23.17	3.19	3.81	2.10	12.92	10.51	7.80	4.61
2013/14	2.68	-2.83	5.15	9.01	-3.79	4.13	2.32	6.94	7.39	6.99	4.36
2014/15	2.17	-2.62	3.33	-0.25	8.18	2.96	2.94	9.34	7.96	6.60	4.26
SINDH											
2005/06	12.50	3.44	4.32	-29.02	37.07	-1.87	19.53	44.50	17.61	3.70	7.99
2006/07	2.12	6.71	9.07	-20.84	-0.52	5.99	2.12	6.99	0.02	0.75	3.83
2007/08	4.74	2.86	6.22	41.76	11.94	7.78	1.06	4.39	-0.74	0.69	4.56
2008/09	2.51	-0.49	-4.66	-12.83	-17.37	-4.67	5.18	-11.09	6.59	6.17	-0.42
2009/10	5.63	0.04	1.18	18.74	-0.64	4.50	3.09	-4.62	6.97	6.09	3.94
2010/11	0.69	-9.24	2.39	67.49	0.22	1.49	2.54	-5.37	9.85	6.04	3.13
2011/12	-2.50	3.33	1.47	2.13	5.20	-1.82	3.26	0.63	11.14	-3.42	1.57
2012/13	8.30	4.00	4.30	-38.59	-1.15	6.35	11.38	8.12	2.81	-7.19	4.07
2013/14	7.36	-0.72	3.70	13.88	46.04	6.12	9.42	2.93	0.90	-6.20	4.88
2014/15	3.16	2.15	2.73	5.71	1.91	3.33	10.09	5.76	1.44	-6.54	3.18
K.P.											
2005/06	10.99	52.71	12.74	-29.24	23.99	1.36	-19.74	57.98	0.55	3.63	3.23
2006/07	6.05	75.17	7.63	-14.95	6.82	7.04	2.81	2.63	1.55	10.36	5.23
2007/08	-7.75	17.27	6.77	30.36	-3.41	0.55	0.04	-0.41	-0.30	9.85	0.80
2008/09	4.78	-7.75	-3.32	-14.88	7.01	-2.42	5.63	-15.65	8.64	9.95	1.00
2009/10	-3.87	57.87	0.24	14.91	7.25	-0.95	3.53	-10.02	9.03	9.86	3.05
2010/11	5.40	29.55	2.31	86.05	8.70	3.94	2.98	-11.24	11.96	9.81	7.63
2011/12	3.10	13.44	2.27	-3.19	-3.78	1.36	-1.84	-6.13	6.50	0.29	1.70
2012/13	3.38	13.16	5.12	-19.42	-4.63	4.27	10.79	0.32	16.09	13.75	7.00
2013/14	7.29	14.33	4.40	-1.98	-1.85	6.62	8.68	-4.99	7.13	11.41	6.37
2014/15	6.58	6.83	4.28	0.98	14.63	5.96	9.33	-2.86	7.70	11.00	6.98
BALUCHISTAN											
2005/06	-1.01	-0.89	21.25	-22.25	-18.49	-6.53	-24.98	57.11	-16.20	-11.38	-3.59
2006/07	4.66	1.51	9.08	4.46	28.51	5.92	35.80	2.96	5.07	9.37	7.50
2007/08	10.61	-0.05	6.46	38.59	1.88	12.05	29.65	-0.15	8.78	11.58	11.17
2008/09	5.65	-5.69	-3.17	-2.15	-10.70	0.22	2.47	-15.49	-2.47	4.10	0.89
2009/10	-3.06	-4.69	1.45	18.30	-12.95	-1.07	0.43	-9.90	-2.13	4.02	-1.65
2010/11	-1.89	-6.04	2.61	65.11	3.75	-1.01	-0.10	-11.18	0.50	3.97	0.02
2011/12	1.20	4.99	5.42	-5.45	10.21	0.74	12.25	-6.14	62.71	3.48	7.52
2012/13	-6.56	-2.57	3.85	-20.22	8.51	-4.15	-14.47	0.24	-5.64	11.40	-5.22
2013/14	-6.69	1.25	4.13	-11.55	44.02	-3.53	-13.61	-5.13	-4.82	8.97	-4.05
2014/15	3.32	11.55	3.11	4.89	-5.11	3.65	-13.08	-3.06	-4.31	8.57	1.42

Source: World Bank staff calculations.

Table A.4: Annual shares of gross provincial value-added to national value-added using estimates at current prices (percent)

	Agriculture, Fishing & Forestry	Mining and Quarrying	Manufacturing	Electricity, Gas, Water	Construction	Whole Sale and related trade	Transport and Storage	Finance, Real Estate etc.	Community, Social, Personal Srv.	Ownership of Dwellings	TOTAL
PAKISTAN											
2005/06	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2006/07	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2007/08	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2008/09	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2009/10	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2010/11	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2011/12	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2012/13	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2013/14	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2014/15	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
PUNJAB											
2005/06	54.98	12.59	45.73	45.51	54.87	51.51	54.39	43.91	51.81	57.77	50.75
2006/07	54.79	11.77	45.78	46.85	58.01	51.37	54.69	46.47	53.08	58.19	51.03
2007/08	54.66	11.72	45.75	46.76	62.02	50.45	54.94	49.01	54.28	58.52	51.14
2008/09	55.15	11.37	45.72	46.32	60.83	50.47	55.03	51.49	54.45	57.46	51.43
2009/10	54.41	10.97	45.69	45.93	63.22	50.31	55.13	53.90	54.60	56.39	51.23
2010/11	56.14	11.03	45.61	43.10	57.94	50.76	55.22	56.22	54.71	55.30	51.68
2011/12	55.76	11.07	45.48	44.53	58.73	51.88	55.77	58.44	51.54	57.92	51.68
2012/13	56.14	10.71	45.56	46.48	59.95	52.02	54.73	60.55	52.84	60.04	51.06
2013/14	56.47	10.24	45.84	47.99	53.78	52.09	53.90	62.53	54.16	61.77	50.40
2014/15	55.73	9.60	46.01	46.96	54.35	51.88	52.92	64.39	55.43	63.32	51.52
SINDH											
2005/06	21.94	64.48	38.23	27.83	22.34	28.05	26.54	18.35	28.98	32.13	28.96
2006/07	21.62	64.10	38.22	25.25	19.68	28.09	25.36	18.00	27.92	31.13	28.44
2007/08	22.03	63.92	38.52	26.10	19.10	28.65	24.28	17.68	26.82	30.14	28.42
2008/09	21.69	65.21	38.32	25.89	17.51	28.15	24.32	17.39	26.92	30.76	27.97
2009/10	23.09	63.49	38.30	26.35	16.06	28.90	24.35	17.15	27.02	31.37	28.52
2010/11	22.62	60.28	38.42	26.93	17.60	28.72	24.38	16.94	27.10	31.98	28.28
2011/12	21.33	59.23	38.19	27.13	17.96	27.74	24.06	16.77	27.81	29.70	28.28
2012/13	22.54	59.30	37.94	22.63	17.57	28.50	25.76	16.64	26.53	26.51	27.94
2013/14	23.54	57.92	37.68	24.41	23.92	29.09	27.13	16.54	25.55	23.91	27.58
2014/15	23.66	56.98	37.13	25.31	22.77	29.07	28.49	16.48	24.57	21.49	28.19
K.P.											
2005/06	7.30	3.57	8.92	18.02	18.93	7.91	13.83	27.35	12.74	6.88	10.22
2006/07	7.53	5.83	8.84	17.57	17.91	7.99	13.30	25.73	12.46	7.30	10.20
2007/08	6.78	6.63	8.68	16.70	15.00	7.61	12.61	24.11	12.02	7.71	9.60
2008/09	6.80	6.27	8.80	16.17	17.81	7.65	12.68	22.50	12.30	8.15	9.78
2009/10	6.51	9.63	8.75	15.93	17.63	7.44	12.75	20.93	12.58	8.61	9.70
2010/11	6.59	13.05	8.69	18.09	20.95	7.58	12.82	19.40	12.86	9.09	9.84
2011/12	6.84	14.08	8.75	17.27	19.56	7.56	12.03	17.91	12.65	8.76	9.84
2012/13	6.89	15.34	8.90	18.90	18.46	7.61	12.81	16.49	13.62	9.58	9.73
2013/14	7.13	17.26	8.92	17.55	16.89	7.80	13.40	15.13	13.93	10.27	9.60
2014/15	7.41	17.75	9.20	17.38	18.09	8.00	13.98	13.84	14.22	10.96	9.81
BALUCHISTAN											
2005/06	15.78	19.36	7.13	8.63	3.86	12.53	5.24	10.39	6.46	3.21	10.07
2006/07	16.06	18.30	7.16	10.33	4.40	12.54	6.65	9.81	6.54	3.38	10.33
2007/08	16.53	17.74	7.05	10.44	3.88	13.30	8.17	9.21	6.89	3.63	10.84
2008/09	16.35	17.15	7.16	11.62	3.85	13.74	7.97	8.62	6.33	3.63	10.82
2009/10	15.99	15.91	7.25	11.78	3.09	13.35	7.78	8.03	5.81	3.63	10.55
2010/11	14.65	15.64	7.28	11.87	3.51	12.94	7.58	7.44	5.33	3.63	10.21
2011/12	16.07	15.61	7.58	11.07	3.75	12.83	8.14	6.87	8.01	3.61	10.21
2012/13	14.43	14.64	7.61	12.00	4.03	11.87	6.69	6.32	7.01	3.87	10.08
2013/14	12.85	14.58	7.57	10.05	5.41	11.02	5.56	5.79	6.37	4.05	9.95
2014/15	13.20	15.67	7.66	10.34	4.79	11.05	4.61	5.29	5.78	4.23	10.17

Source: World Bank staff calculations.